

## Book Review

John Komlos

*Foundations of Real-World Economics*, 3<sup>rd</sup> Edition

Cambridge, Routledge, 420 pages

ISBN 978-1032004846

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John Komlos has updated his justly-reputed book with three additional chapters which I will discuss at the end of this review. The new edition is a valuable extension that reinforces the original with reference to modern events, justifying the cost of a second copy if you already have the first; if you haven't, it's a bargain.

Komlos' persistent and well-evidenced criticism of mainstream goes to the heart of its primary failure: namely it does not describe reality. What it predicts simply doesn't occur, as, it's fair to say, is well-known. Yet in a certain sense, it's not the problem. Scientists make predictive failures all the time, and indeed, this is how science progresses: it constantly tests its theories to see if their predictions match what is observed, and when the theory doesn't match reality, they change the theory.

So while the many empirical mismatches between economic theory and reality do tell us that it's pretty foolish to rely on the theory, these failures don't actually count as evidence that it is incapable of getting anything right. In fact, perversely, this makes economics attractive as a career option: since there is so much wrong with it, a lot of money is to be made by peddling fixes. Indeed, you can even win "Nobel Prizes" for this kind of activity, which usually amounts to developing sticking plaster for gaping wounds. It is noteworthy that the demand for economists is countercyclical, which is to say, the worse the results of employing them, the greater is the demand to know why.

A rather more important point is this: economics rarely if ever changes its mind when it encounters such failures. Now, there are scientists like that, as Thomas Kuhn first pointed out. But in pretty well all true sciences, there always comes a point, no matter how strong the resistance, where a badly-performing theory is discarded and replaced by a better one. This is not so for economics.

To the contrary, as the aftermath of 2008 shows, it doubles down on the mistakes that produce the bad results, such as insisting that finance is a productive activity. This is a danger sign that something more fundamental is wrong with the way economic theory is managed, which has not only divorced it from the 'Real World' but immunised it against ever reconnecting. Komlos's revised final chapter is distinctively more pessimistic about the prospects of fixing this, as am I. But which are the mistakes that produce the bad results?

This is what Komlos—who comes from a scientific background—sets out to identify. The link to 'reality' is in the nature of these mistakes, which are not merely 'wrong' in the sense of, say,

erroneously claiming that the Icelandic economy is in a splendid state just before it collapsed, or predicting that Shock Therapy would put the Russian economy on a sound footing. The problem is the *assumptions that lead* to these mistakes. The point is that the assumptions, themselves, are *unreal*. They are built into the fabric of economics, and so cannot but lead it astray. They include ideas like the fallacy that consumers make rational choices on what to buy based on an internalised set of psychological preferences, or the Neoplatonic notion of ‘perfect competition’, which is incompatible with any observed reality. John Weekes once summed up this approach with the observation that for economics, a horse is an imperfect Unicorn. Discarding these assumptions would demand of economics such a comprehensive overhaul that it is, in its current state, incapable of so doing.

Komlos scores on this front too: he recommends remedies. He endorses what he terms ‘humanistic economics’ which “implies the vision that a kinder and more just economic system is possible, one that is embedded in a truly democratic society that not only empowers people but enables them to live their daily lives with less uncertainty, less manipulation, less taking advantage of people’s weaknesses, and less fear that their lives could collapse like a house of cards.”

The most intriguing part of the new book comes at the end, in the three new chapters which make the whole book worth rereading. The titles say it all.” Economists’ Mistakes Lead to Right-Wing Populism Plus an Insurrection”; “Hidden Racist Elements in Blackboard Economics” and “The Covid-19 Pandemic Exposed the Need for a Black-Swan-Robust Economy”. The mistakes that Economists inflict go beyond the arid world of academic theory; they not only fail to understand the Real World, but happily participate in destroying it. Every undergraduate should be made to know, before even embarking on this perilous and pernicious career, both the havoc they could wreak unless they stand up to their orthodox masters, and the good they might do by resisting.

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SUGGESTED CITATION:

Alan Freeman, “Review of John Komlos’s ‘*Foundations of Real-World Economics*’, 3<sup>rd</sup> Edition”, *real-world economics review*, issue no. 103, 31 March 2023, pp. 132-133,  
<http://www.paecon.net/PAERReview/issue103/Freeman>

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