

BOOK REVIEW

John Komlos's *Foundations of Real-World Economics: What every economics student needs to know*

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John Komlos is Professor Emeritus of Economics and Economic History at University of Munich, Germany.¹ Komlos has a respectful following of heterodox economists who warm to two essential correctives which he provides to the outpourings of the mainstream. These are, a firm grasp of the way to approach facts, and an informative and readable critique of the daunting educational material facing the modern economics undergraduate. Both aspects of his approach are woven into this text, making it a highly accessible introduction. It is primarily positioned as an alternative to introductory Econ 101 “principles” type textbooks, but can serve as an introduction for undergraduate students at any level, to critical thinking in economics. We cannot do better than him in presenting why the text is needed:

“This textbook offers students a valuable introductory text with insights into the workings of real markets, not just imaginary ones formulated by blackboard economists.”

Though it is not intended as a comprehensive introduction to economic theory, it nevertheless covers most of the terrain dealt with in, say, a standard micro and standard macro text. The whole comprises fifteen chapters that state and constructively critique most of the major concepts in economics. As such, it could serve well as required reading for introductory economics courses delivered by heterodox and/or pluralist economics departments, in order to develop in students a capacity to think critically and, especially, to reason inductively.

Komlos founded the discipline he named “anthropometric history” and has published extensively on historical, statistical and economic aspects of human stature, human biology and their relation to well-being.² Komlos’s research background may be part of the reason for his endorsement of “humanistic economics” which, he explains:

“[I]mply 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. This capitalism with a human face envisions an economy with zero unemployment, zero inflation, zero trade deficits, and zero government deficit over the business cycle” (Komlos, 2019, p. 5).

¹ For background on Professor Komlos: https://en.wikipedia.org/wiki/John_Komlos.

² Anthropometrics explores the relationship between measurable human attributes and socio-economic development.

Humanistic economics embodies a concept of a meaningful life, which “goes well beyond consumption and production. Since human beings are not simply ‘economic agents’ – the values promulgated by the mainstream – the emphasis on money often conflicts with human values”.

Komlos’s attention to issues of measurement and definition gives rise to the title of his book: his welcome focus is on “Real-World” economics. He thereby puts flesh on a yearning widely expressed by students in revolt against the arid, mathematical, and abstract theories to which a modern neoclassical education subjects them, which gained especial strength in the wake of the 2008 crash.

The phrase (“Real-World”), though popular, is in itself somewhat vague, and can mean different things to different people. It may just mean less math, which quite a few students would rejoice at; however, it’s perfectly possible to promote wrong ideas without using mathematics, as Komlos shows carefully, with minimal math and impeccable logic: for example, the idea that markets are optimal, or that free trade works. Delving more deeply, the idea that modern markets “adjust supply to demand” assumes, Komlos notes, that we live in a society of shortage rather than one of drastic oversupply, and that demand is determined “exogenously”, by our innate desires, and is unaffected by our upbringing or by advertising.

Another way of thinking about “Real-world” economics arises from the disjuncture between the predictions of economics and the actual results. This came glaringly to light in the crash of 2008, but it has been evident in many areas of social and political life, not least the huge discrepancies between incomes in the global South and those in the global North. Komlos provides an excellent critique of Ricardo’s theory of comparative advantage, the standard justification for the policies of structural adjustment imposed by the IMF, which has reduced billions of people – a clear democratic majority in the world – to conditions of abject misery which, in the light of the conditions of generalised oversupply in the North that Komlos records, are as unnecessary as they are immoral.

Komlos adds a further dimension to these two aspects of “Real-worldness”, which is arguably the most important of all. He shows that the underlying *assumptions* of mainstream economics – exogenous demand, rational consumer choice, perfect competition, efficient markets, the invisible hand, comparative advantage, and the entire panoply of thinking required of the modern undergraduate – just do not correspond to what we can observe.

These assumptions, he points out, are justified as “simplifications”. But actually, they form the basis of a doctrine – an ideological set of beliefs. It simply is not true, as anyone can individually verify, that consumers make rational choices on what to buy based on an internalised set of psychological preferences. This has not only been refuted empirically in psychological experiments, logically in Arrow’s analyses of the paradoxes of choice, and practically in the study of asymmetric information, but stands in flat contradiction to the very fact that businesses spend money on advertising. If the economics taught to its novitiates were true, they should not even have found the departments that run their courses.

Komlos exhaustively studies these basic assumptions and, in each case, demonstrates the empirical objections to accepting them as true. This requires undergraduates to re-ground the way they think about economic *facts*. It seeks to root the practice of economics in the methods of science, which are characterised primarily, as the astronomer Carl Sagan has

noted, in systematic scepticism. Komlos restates the need for an inductive approach to truth. Never has it been more necessary.

Why are undergraduates required to learn, as the basis of their craft, false assumptions? Why are they tested as “qualified” economists depending on whether or not they understand how these false assumptions give rise to a coherent system of reasoning? Because, it is traditionally argued, the *results* predicted by using the false assumptions are the true test of whether the assumptions are correct.

The problem is that, at first sight, the methods of the natural sciences are quite comparable. Any student of physics has to grapple with the theory of rigid bodies and perfect spheres, even though these are never found in nature.

There are two tiny difficulties: first, the *results* of physics conform to experience. The results of economics do not. Second, physics students are not taught that rigid bodies and perfect spheres really exist, but that these simplified assumptions abstract from, rather than distort, reality. They form, in Hegelian terms, part of its essence. The student is *taught* how to relax these assumptions and an understanding of the limitations they impose is part of her education. In economics, relaxing the assumptions is a punishable crime: a student who denies that price formation may be modelled mathematically as a constrained optimization problem is setting herself up to fail.

The process begins when false assumptions are presented to undergraduates as “simplifications”, and it is these simplifications that constitute Komlos’s target. He thus begins, explaining the method of his book, thus:

“This textbook demonstrates how misleading it can be to apply oversimplified models of perfect competition to the real world. The math works well on college blackboards but not so well on the Main Streets of America. This volume explores the realities of oligopolies, the real impact of the minimum wage, the double-edged sword of free trade, and other ways in which powerful institutions cause distortions in the mainstream models. Bringing together the work of key scholars, such as Kahneman, Minsky, and Schumpeter, this book demonstrates how we should take into account the inefficiencies that arise due to asymmetric information, mental biases, unequal distribution of wealth and power, and the manipulation of demand” (Komlos, 2019, precis).

The models are not merely simplified but *oversimplified* to the point of simplistic (however complicated the maths subsequently becomes). They don’t work, not just because the assumptions are false, but because the results are false too. As a textbook, then, the intention is to ensure that students grasp from the beginning that economics involves values, and that models and methods are not neutral: what we assume has consequences for how we think, and some ways of viewing the world involve mismatches with how the world is. Economics 101 should, therefore be an introduction to methods of critical enquiry, not an act of indoctrination. This is more compatible with the spirit of scientific method whose pedagogical significance Komlos (2019: 12) aptly summarises:

1. Half-truths hardly belong in academia at any time.
2. It is much more efficient to learn a discipline correctly the first time than to have to unlearn it and correct it subsequently.
3. The more sophisticated idea of imperfect markets (rather than fantasy models such as perfect competition) are not so complicated and can be explained easily at the 101 level.
4. Most students of Econ 101 do not continue to study economics, so they are never exposed to the more nuanced version of the discipline and are therefore indoctrinated for the rest of their lives with a picture of how markets work that is essentially no more than a catechism.

Since the contrast is with standard mainstream principles textbooks, Komlos's point is that, however diverse state of the art economics becomes (behavioural etc.), at root mainstream economic theory, as now taught, is more or less a bunch of hokum: it uses demonstrably false assumptions, incorporated into demonstrably logically deficient models, to produce demonstrably false conclusions. And yet for capitalism to have a "human face" the imperfections of the real-world must be addressed (Komlos, 2019, p. 272). The modern generation of sapient economics students is painfully aware of this and demands something better. Komlos's second economics book is an excellent start.

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