BOOK REVIEW

Foundations Of Real-World Economics: What Every Economics Student Needs To Know

AUTHOR: JOHN KOMLOS
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Abstract: In 18 chapters with a rich bibliography, the economic historian John Komlos pleads for a more just capitalism (or capitalism with human face) and the new paradigm of humanistic economics. He demonstrates that conventional policies have shown their ineffectiveness, while theoretical models of perfect competition are misleading. The author underlines that differences between humanistic and mainstream economics are considerable and they are evident in various aspects, including markets and the government's role in the economy. With pointed arguments it is illustrated that economic policy is of crucial importance nowadays and its key goal should be people's well-being and not economic growth at all costs. It is all-important to minimize anxiety, inequality, insecurity, pain, poverty, stress, unemployment as well as to maximize ethics, intellectual satisfaction, health, leisure time, social relationships, love, respect, and a moral life. It is emphasized that markets have weaknesses that detract from their ability to increase the prosperity of the population at large. The "high-pressure" "winner-take-all" economy is criticized and the emphasis is put instead on the quality-of-life indicators. The argumentation includes the 2008 financial crisis, the rise of Trumpism and the other populist movements. It is based on examples from the US economy, however the comparative analysis and general postulates are present throughout the entire work. This book is addressed not only to students who must understand the principles of economics, both at micro- and macroeconomic levels, but also to professors, researchers, practitioners of the private sector and policy-makers.

Key words: capitalism, humanistic economics, economic policy, markets, quality of life, well-being

JEL codes: E02, E10, E20, D10, D60, O10, O50, P10.

1. Introduction

The contemporary ideology of neoliberalism remains the backbone of mainstream economics, in spite of its failures. In three editions of the book "Foundations of Real-World Economics: What Every Economics Student Needs to Know", the renowned scholar, John Komlos, underscores that mainstream economists continue to assume that "markets are competitive and people are rational and can maximize their welfare" (Komlos, 2023a). Nevertheless, well-being is not uniformly distributed across society. Economic inequality in different aspects, such as the distribution of wealth, income, and privilege "has become a severe socio-economic, political, and cultural obstacle to a good life for a goodly share of the population" (Komlos, 2023b).

Especially the second and the third edition were intensely reviewed (Allen, 2019; Blackford, 2019; Cantillo, 2019; Foster, 2019; Ioan-Franc, 2019; Ash, 2020; Burnazoglu & Ostermeijer, 2020; Coclanis, 2020; Jahangir, 2020; Quinn, 2020; Tomer, 2020; Balak, 2021; Freeman, 2023; Hillebrand, 2023). Previous editions have been translated into Romanian and Hungarian, as well as in other languages. Beside reviews in academic journals, there are also valuable comments on the book on popular online platforms (Jahangir, 2022).

Ash (2020) states that "the book provides a checklist of what is wrong with contemporary economics". He points also to some weaknesses, for instance some explanations are too abridged for students in introductory courses, and some diagrams are difficult to follow for readers without a solid background. Tomer (2020) underscores also that this book is more appropriate for advanced students. Freeman (2023) discusses the three additional chapters of the 3rd edition and points to one of the most relevant strengths of the book, namely the remedies proposed under the concept of "humanistic economics".

As an antithesis to the current economic model with "few winners and many losers", the author argues for "a more *harmonious economy*, with a creative, decent, dignified, enjoyable, satisfactory, secure, sustainable, and peaceful life, one that is not based on excessive consumption, instant gratification, and cutthroat competition – one that is less materialistic" (p. 8). It is necessary "to rein in our appetite, our greed, and have a mind-set that is less concerned with success measured by money and status and be able to enjoy more of what we already possess" (p. 8). This alternative model, with the goal of well-being, is the new paradigm of *humanistic economics*. This review discusses its relevance to economic theory.

2. Humanistic economics

As Komlos emphasizes, humanistic economics should have behavioural economics as a theoretical foundation, replacing the utility-maximizing rational-agent models (p. 83).

The first chapter describes the essence of real-world economics and the new paradigm of humanistic economics. Contrary to mainstream economics, humanistic economics has as key goal the quality of life instead of consumption. Start of analysis is evidence (or facts, reality), not axioms and should begin with children, not with adults because children are part of economic life and their character is also formed by the market. Markets should be just, not completely free. Government's role should be substantial, not minimal. Basic needs are not omitted, but considered paramount. Behavioural homo sapiens is the key actor, not the rational homo oeconomicus (p. 4). In the context of various failures of the economic system, "economic policy is of paramount importance" (p. 7).

In the second chapter, "The Evidence – Markets are Neither Omniscient Nor Omnipotent", humanistic economics opposes "high-pressure economy". In the process of income generation its effects on the quality of life should not be ignored (p. 20). Hence the focus should be on a reasonable distribution of schooling, employment, income, and wealth (p. 21).

Markets are not omniscient, "they are man-made institutions with innumerable shortcomings" (p. 37). The most obvious limitations include: costly and asymmetric information, uncertainty, unequal power between counterparties, production concentrated in oligopolies or monopolies, significant transaction costs, negative externalities, manipulation of consumers, or unethical market outcomes (p. 30). Consequently, under the humanistic economics approach, laissez-faire "should not be the default model" (p. 30). Markets and governments complement each other (p. 33).

The direct goal of markets should be to improve the quality of life (p. 32). For too long the focus of economists and politicians has been GDP growth, however "*well-being is multifaceted and should be not equated with growth of GDP"* (p. 33). Referring to the United States, the author concludes that even in the country with the highest GDP in current prices, half of the population does not have an adequate quality of life and it is high time for changes.

The third chapter, "The Nature of Demand", underscore**s** that consumer sovereignty is a myth from multiple perspectives. First, income is not equally distributed, therefore there are wealthy and poor consumers, not all the consumers can buy the desired products. Second, tastes are endogenous (determined within the economic system), with the exception of basic needs (food, clothing, shelter, and health care). Advertising industry and social relations strongly influence the consumers'taste and consumers are not in control of their tastes, values, and choices (pp. 45-46). Demand is strongly influenced by persuasion techniques used in advertising, and only a minority of consumers are aware of this. Humanistic economics advocates for freeing consumers from the power of advertising and influencers working for powerful corporations (p. 51). Komlos explains that consumerism and the greed accompanying it is not consumers 'choice, but it was imposed by the powerful business interests (pp. 54-55). High indebtedness is only one of the negative consequences of consumerism and lack of consumer sovereignty.

The fourth chapter, "Homo Oeconomicus Is Extinct – The Foundations of Behavioral Economics", emphasizes that people are not always rational and they are not capable of maximizing their utility in a coherent manner (p. 67). On the one hand, customers have cognitive limitations (due to lack of complete information, constraints of time, finances etc.). On the other hand, mega-corporations devote considerable money to take advantage of those limitations (p. 69). Nobel Prize Laureate Herbert A. Simon demonstrated already in the 1950s that it is more probable that people rather aim for a satisfactory solution to their problem than the best possible one. Therefore satisficing is much more realistic than the utility-maximizing model (pp. 69-70). People often make wrong decisions, based on the fact that there are three biases of the human mind: framing, accessibility, and anchoring. First, our choices depend on the way the options are presented (or framed). Second, some pieces of information and attributes are more accessible than others. Third, people focus and rely in some information more than appropriate (anchoring), which may lead to bad decision-making (pp. 72-74). "*Intuition overrides the rules of logic*" for homo sapiens, in contrast to homo oeconomicus.

Based on the previous two sections, the fifth chapter, "Taste-Makers and Consumption", and the sixth "Oligopolies and Imperfect Competition" focus on the ethical nature of production, consumption, and income distribution. Taking into account the tremendous corporate influence, values, norms, morality should not be delegated to markets. The main objective of humanistic economics is the creation of a just economy. On the basis of various practical examples, the author demonstrates that taking advantage of market power is a rule, not an exception.

Chapter seven, "Returns to the Factors of Production" starts with a theoretical framework of payments to the factors of production, labour compensation, marginal utility, marginal cost, marginal revenue, and marginal product of labour. Taking again as a case study the US, the author emphasizes that labour compensation lags far behind productivity (pp. 125-131). He underscores that employees are not compensated adequately for their contribution to profits (p. 134), share of labour income in GDP declined considerably as compared to the 1950s (p. 135), and welfare does not grow at the same rate as the economy (p. 147).

The issues presented in the first chapters are explored further in the following sections. Practical examples and case studies are accompanied by theoretical explanations and models characterized by imperfect competition. A variety of useful conclusions are presented after the elaborated argumentation, including that of the utility of trade unions and minimum wages, which can redress the imbalance of power between mega-corporations and their employees. Instead of generating more unemployment in the real world, the minimum wage and unions can increase the living standards and lead to a more equitable distribution of income (pp. 176, 189).

The section regarding the technological change seen as a double-edge sword is also worthy of attention. Innovation in financial technology, for instance, was rent seeking and posed dangerous systemic risks, which were disregarded until the bankruptcy of Lehman Brothers (p. 218). The strategy of "planned" obsolescence of various products is profitable for mega-companies but does not bring substantial welfare improvements for consumers. The author reveals strategies of rent seeking disguised as innovations, but they do not improve living standards (pp. 219-220). Technological unemployment is seen as an "increasing threat". The spread of automation, robots, and artificial intelligence at a rapid rate influences both employment and wages. Solutions presented include: reducing the hours worked, guaranteeing a basic income for all, and the government becoming an employer of last resort (p. 355).

Finally, it is worth mentioning that the issue of GDP as a misleading indicator of well-being is present in various chapters of this book. "*GDP should not be equated with welfare*" (p. 3). There are many arguments in this regard: it does not include the cost of pollution, expenditures to remove the damages of extreme weather events are indirectly taken into account, GDP does not take into account the unpaid work (for instance, responsibilities at home such as childcare, shopping, housecleaning cooking), it disregards the distribution of income, it is based on prices "that do not reflect fundamental values during bubbles" (pp. 223-225).

3. Concluding remarks

The book in all its three editions makes a valuable contribution to the current literature. The author employs a heterodox approach, questioning the neoclassical conceptualisation in current textbooks. Empirical facts are considered as the most useful way to make students understand the working of the real economics. Each chapter ends with a "Questions for discussion" section, an invitation to further debates.

The main takeaway from this complex investigation can be synthesized as follows. The old textbooks are abstract representations of the real world, therefore students "fail to grasp essential aspects of *real-existing* markets in the hyper-globalized world of the twenty-first century". Instead, it is necessary to understand that markets do not lead automatically to well-being. Consumers are often manipulated. The perfect competition model is irrelevant, as most industries are dominated by a handful of large firms. The economic system is not always in equilibrium (supply is only rarely equal to demand), we often witness crises and bubbles. Based on a host of arguments, the author explains why neoliberalism is anachronistic, i.e. inadequate to meet the challenges of the "crisis-ridden world" of the 21st century (pp. 5-7).

Homo sapiens and not homo oeconomicus is at the centre of humanistic economics. Intuition, emotion, status seeking, all these influence human action (p. 3, p. 64). Komlos underscores that behavioural economists such as Daniel Kahneman, Amos Tversky, and Richard Thaler demonstrated decades ago that intuition is more often the engine of the decision making process than reasoning (p. 71). Rational choice is an inappropriate assumption "since genetic endowment is so influential" and there is no guarantee that human behaviour is guided by rationality (p. 58, p. 169). The human mind has extensive limitations, preventing consumers from attaining the optimal choice (pp. 69-70). Besides, some groups in society are easier to manipulate than others and "in this way, the rationality assumption provides succour for the maintenance of the status quo socio-economic order" (p. 325). Markets have to be effectively regulated with sufficient oversight, economic policy is a necessity and at the centre of all initiatives should be real people and their well-being.

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