

## **BOOK REVIEWS**

**Foundations of Real-World Economics: What Every Economics Student Needs to Know (3ed edition), by John Kolmos, published by Routledge (Taylor and Fanc Group), 2023. ISBN: 978-1-032-00484-6. Pages 396**

### **I. Introduction**

The collapse of communism diverted the world economies to a liberalization regime, where economic freedom and globalization became the most powerful and popular philosophies of economic welfare and development. Free trade, decentralization in public finance, autonomy of the central banks, market-oriented exchange rates, convertibility of the currencies, privatization, deregulation, and small and lean government are the offshoots of this liberalization regime. Neoclassical economic liberalism in American and British economies is one of the extreme versions of Anglo-Saxon capitalism, representing Adam Smith's classical economics. According to this version of liberalism, competitive markets deliver economic welfare and distributive justice through equilibrating mechanisms. The low level of regulations, low taxes, provision of few essential services by the public sector, strong private property rights, contract enforcement, overall ease of doing business, and low barriers to free trade are its main characteristics.

Contrary to this, 'Ordoliberalism' or "German Neoliberalism" emphasizes the need for the state to ensure that the free market produces results close to its theoretical benefits. According to this version, unequal powers of the stakeholders can eliminate the competition in the market. The cartels and monopolies can abolish the advantages of a free market. So, government intervention is required to maintain market competition. The philosophy of capitalism supports the assumption of trickle-down transfer of resources from top to bottom level. However, the size of the trickle-down effect and the obstacles in its process are important concerns. The obstacles in the way of liberalization by powerful interest groups for the implementation of their economic agendas are one of the extremes. The other extreme is the use of liberalization policies by powerful lobbies to achieve their benefits. This counterproductive liberalization can mislead the world economies in a harmful direction. Some analysts have highlighted the weak spots in the financial architecture of the present liberalization regime. For instance, John (2005) has mentioned some challenges for capitalism that have contributed to past financial crises. According to Ravi (2011), the growing inequality in financial

capitalism produces speculative bubbles that burst and result in depression and major political changes. Hyman Minsky (1972) established linking between the financial market fragility and speculative investment bubbles endogenous to financial markets.

According to McMurty (1999), financial crises are a symptom of a deeper systemic crisis of capitalism itself. Several financial crises including the Far East crisis in 1990s, economic recession in 1993, housing recession in the USA and Middle East in 2008, currency crisis due to high leverage in Turkiye in 2018, relocation of industrial manufacturing from industrialized to developing countries, and governments' intervention through monetary and fiscal policies to protect private businesses during Covid-19 crisis indicate weak spots in the contemporary economic system.

The "Foundations of real-world Economics: What Every Economics Student Needs to Know and Doesn't Get in the Usual Principles Text" examines mainstream economics and contemporary economic policies. The book is written by Professor John Komlos, who is a former chairman of the Department of Economic History at the University of Munich. Professor Komlos received a PhD in history in 1978 and a second PhD in economics in 1990 from the University of Chicago. He also taught as a visitor at Harvard, Duke, and the University of Vienna. He is the founder of Economics and Human Biology, an academic journal covering research on biological economics. His academic career mainly belongs to the research and study of the effect of economic development on human biology. The book "Foundations of real-world economics" can be classified as a major reference book to study the impracticality of conventional economic thought in explaining contemporary economic issues. The author argues that the Dot-Com bubble, the 2008 financial crisis, and the Covid-19 pandemic cannot be understood with conventional economic processes. He criticized globalization, deregulation, small government, and tax-cutting policies. According to this book, the contemporary global economy is eliminating perfect competition by promoting oligopolies, and the application of oversimplified mathematical models of perfect competition distorts the real world. It explores that mainstream models that are based on perfect market competition are distorted by the domination of multinational oligopolies, the double-edged sword of free trade, and the other ways adopted by powerful institutions.

The book explains complex economic processes without the use of mathematics and believes that complex social and political processes cannot be captured precisely in a few equations. The author described that economics has become an intellectual game played for its own sake and not for its practical uses to explain economic issues. The book has been translated into Chinese, German, Hungarian, Romanian, Russian and other languages.

## **II. The Contents and Approach**

The book discusses controversial topics such as minimum wage legislation, the function of unions, and healthcare expenditures in the free market economy. The inclination of the ideas in this book is reflected in its contents. The 'economics is a social

science, not a natural science’, ‘the invisible hand is often invisible because it is not there’, ‘GDP is a misleading measure of welfare’, ‘trickledown economics is bogus’, ‘the distinction between positive and normative economics is a false dichotomy’, ‘signaling in case of imperfect information’, ‘downside of a high-pressure capitalism’, ‘the government is an integral part of the economy’, ‘nationalization of the too-big-to-fail banks as pre-privatization’, ‘the best government is not the one that governs least’, ‘the influence of corporate power: economic, political and social’, ‘the liquidity trap renders monetary policy ineffective’, ‘free trade is not an engine of growth’, ‘the stupendous rise in inequality’, ‘price controls can help’, ‘the natural rate of unemployment is not natural’, ‘minimum wage is good for workers’, ‘ideology is unavoidable’, ‘morality should take precedence over markets’, ‘neuroeconomics discovers some economic secrets’, ‘genetic endowment influences human behavior’, and ‘COVID19 exposed the deep fissures’ are included in the sub topics of this book.

In discussion on critical issues, it is also suggested that economic analysis should begin with empirical evidence rather than with assumptions. Evidence should be at the core of the discipline since "economics is supposed to be an inquiry into the world, not pure thinking." Hence, it should not rely on axioms and derive theorems based on them using deductive logic. Instead, "It should start with data, and build theories based on that evidence using inductive logic. It should also be open to falsification, but it holds these axioms with such religious faith that they become doctrine and are therefore insensitive to evidence contradicting them".

### **III. The Themes and Arguments**

This book advocates for a new paradigm: Capitalism with a human face. The book provides a guide to a humanistic economy and serves as a counterweight to conventional textbooks which instill in students' full confidence in the benefits of the free-market system. The author differentiated humanistic and mainstream economics based on their basic properties. With minimal use of mathematics, humanistic economics includes sister disciplines and behavioral psychology. The start of analysis in humanistic economics is not based on axioms, it is based on evidence. It recognizes the substantial role of government. Humanistic economics uses inductive logic (not deductive as in the case of mainstream economics). Humanistic economics implies that more just capitalism is possible that enables people to live their daily lives with less anxiety, less conflict, less inequality, less insecurity, less manipulation, less pain, less poverty, less stress, less uncertainty, no unemployment, and less fear that their lives could spiral out of control in the next recession. This capitalism with a human face would also increase ethical behavior, increase educational attainment, improve the health of the population, increase intellectual satisfaction, allow more leisure time, enable people to love and respect one another, improve social relationships, and enable the attainment of a moral life easier. This is not utopian theorizing. 'It has been largely achieved in Switzerland,

in Scandinavia, and is close to the social-market economy of Germany and Austria, and to the welfare states of other Western European countries. These countries have the highest quality of life in the world.’

The book describes that abstract concepts like the GDP do not reveal how people feel about the economy. According to the author, markets are human inventions; they do not deserve our blind faith. In the words of the author, “I believe that our starting point should not be Adam Smith's *Wealth of Nations* (1776), but his *Theory of Moral Sentiments* (1759), in which Smith asserted forcefully that we possess an innate empathy toward our fellow human beings.”

#### **IV. The critique, evaluation, and recommendations**

According to some reviewers, the book draws from prominent left-wing economic thinkers including Galbraith, Minsky, Krugman, and Stiglitz. However, a deep understanding recognizes it as a prescription to reform capitalism. An integrated analysis of this book shows that it belongs to restructuring in the economics’ concepts and methodology, and the reforms in capitalism with a human face. The book does not contradict ordoliberalism; it goes beyond liberalism and considers ethics and morality. Even sometimes it seems a contemporary version of Islamic economics or ethical guidelines described by other religions. In the author's own words, “The readers should not misunderstand. I am not advocating abolishing markets or creating an immense leviathan and am resolute about protecting freedoms enunciated in the Universal Declaration of Human Rights. However, I have a wider conception of liberty than libertarians. The markets are man-made institutions and are only as good as the legal or institutional rules that govern the behavior of market participants. If markets are sub-optimal or even harmful, we must retain the right to reform them. The markets are not above moral judgment”.

The author considers a wider definition of freedom. According to him, freedom is more than the absence of legal restraint to act. It includes the ability to live without the anxiety generated by a high-stress economy, so we should not have to worry about our jobs or pensions disappearing, being defrauded, or paying medical bills or college tuition. Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing, medical care, and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. The markets should enable individuals to exercise their creativity, autonomy, and individuality without psychological manipulation or coercion. Notably, families in extreme poverty have to sacrifice various kinds of freedom: Freedom to choose a profession, freedom to live in a favorite city, and freedom to learn are included in the list of those challenges. Even freedom of speech, freedom of religion, and freedom to develop social relations are closely associated with economic status. In tribal

and rural societies and privately owned businesses, whole families are employed by the same employer. The nature of their jobs, residential status, location of work, and even political associations are associated with the employer's wishes. Such vulnerable employment is not considered unemployment in economic literature, though it affects human life miserably. Some studies define it as 'Modern Slavery'. Unfortunately, this new type of unfreedom is not recognized in economic literature and policy-making circles. The relations between inflation, health expenditures, poverty, vulnerable employment, and death by suicide attempts have been noted in economic literature. The World Health Organization has highlighted that more people die as a result of suicide than HIV, malaria, breast cancer, war, or homicide. Strangely, one in every 100 deaths is by suicide. Financial stress and job loss are included in the major factors of suicides. The poverty and financial stress may be a consequence of a flawed economic system and weak or exploiting economic policies. The consequences of a flawed economic system, ill planning, inefficiencies, and corruption of policymakers and economic managers should not be transferred to those who are not responsible for this. Though globalization has reduced the gap between the countries but enhanced the rich-poor gaps within the countries. The exorbitant concentrations of wealth and dire symptoms of poverty have been observed all over the world. The rich-poor gap is rising even in industrialized countries. The extreme wealth inequalities have been observed in Russia and the United States. This unfortunate concentration of wealth is an outcome of the uneven distribution of the benefits of globalization, cultural transformation, and free trade. Now, we have two worlds: one belongs to the affluent people who have achieved the ability of cultural adaptability because of their education, frequent traveling, migration, training, investing their monetary resources, and development of their cross-border contacts and the luck of their birth – of having been born into families with substance. The other part belongs to the people who cannot get the benefits of globalization and they will have to live in isolation without knowing the contemporary world. The creation of two worlds from the present one is more dangerous as compared to the Cold War era when the world was divided geographically. The upcoming distribution is not geographical. Every region is silently being divided into masters and slaves, and unfortunately this type of bondage is not being recognized; taking measures for its rectification is out of the question. The sentiments of people against the system, international financial institutions, and national monetary and fiscal policies are commonly observed in different countries. The situation may lead to social unrest, rebellions, and insurgencies against the system. Notably, a person cannot change his racial or ethnic identity, and change in beliefs and conversion of religion is also a near-to-impossible option, change in residence and nationality takes time, but change in political ideology due to economic coercion is always possible and relatively you do not need two is an easy option. The present economic tendency can invite strange political changes that lead to conflict of a different sort. According to the author, capitalism can probably be more efficient for attaining economic ends than any alternative system,

but that in itself is in many ways extremely objectionable. A strong and efficient government can protect the market economy. The market failure by cartelization and oligopolistic competition can damage the society, economy and even the political system. The government failure is more harmful and severe than market failure. Though the author discussed the mainstream economic theories without mathematical models and econometric techniques, however, the book should not be considered as a basic book in economics. The intermediate knowledge of micro and macroeconomics, and fundamental knowledge of trade and financial economics is required to enjoy this book.

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