PANOECONOMICUS, 2024, Vol. 71, Issue 1, pp. 153-161
Received: 24 September 2023. Book review

Alpar Lošonc
University of Novi Sad,
Faculty of Technical Sciences,
Department of Social Sciences,
Serbia
✉ alpar@uns.ac.rs

Acknowledgement: The author is grateful for the support within the project of the Department for Fundamental Sciences, Faculty of Technical Sciences (Novi Sad) under the title "Application of information and communication technologies in the teaching of general disciplines".

Foundations of Real-World Economics: What Every Student Needs to Know, Third Edition

by **John Komlos**

Routledge, 2023.

There have always been various attempts in economic theory to "humanize" the economic discourse. At the end of the 1950s, for example, the ordoliberal Wilhelm Röpke wrote a book whose title referred to "humanity" (Wilhelm Röpke 1960), and there is also "Humanistic Economics" by Mark Lutz and Kenneth Lux (1988).

We could continue with the list, but it could also be an indication that the proponents of "humanization" criticize the restrictiveness of the existing economic discourse, that is, they see the ruling patterns as limited and not taking into account the complexity of the human being. The humanization of economic reflection is not an expression of sentimentality, as one might think, but quite the opposite. Why invoke sentimentality for an idea that purports to show the dynamics of *power* in the economy? This is the context that gave rise to the opinion that economic reflexivity must change as it does not develop sufficient sensitivity towards human problems, which means that it is one-sided and that it shows certain failures in terms of articulating reality, and it is enslaved to certain ideological patterns.

John Komlos certainly reveals the mentioned tendencies: he even recommends "humanistic economics" as a possible "paradigm" for the 21st century (John Komlos 2021). Like many others, he uses the "reality" argument: the economic discourse anchored in complicated but closed models tragically loses touch with the dynamics of capitalism, that is, it shows a lack of reality. He is convinced that the economic discourse follows the wrong paths and that the same discourse cannot meet the needs of a modern man.

Komlos, who is also worthy of such efforts as economic history or anthropometric history, goes even further by elaborating on the relevant paradigm and developing critical interventions in relation to the economic discourse as a whole, that is, he offers a reconceptualization of the *entire* economic apparatus that includes both micro- and macroeconomic moments. His ambition is, accordingly, to redirect all the supporting economic categories that have become established in economic theory. His interventions, often on purpose, tackle the textbook material implying that the polemic/struggle must also be conducted in the field of pedagogy: the ideological power of textbooks must not be underestimated; they are significant forms of mediating economic discourse because they effectively guide the framing of economic categories. Komlos also develops a bottom-up reflexivity aiming to pedagogically guide students who are acquiring economic categories (Komlos 2014). We will not be wrong to claim that Komlos intends to reorient economic reflexivity, especially in the domain of pedagogy. He believes that the conventional discourse in economics conceals its own ideological background, even though economic discourse is inevitably determined by ideological schemes.

Komlos is, therefore, fighting against the scourge of reductiveness attributed to the "mainstream", which is impregnated by a combination of neoclassicism and neoliberalism. In fact, his book develops in two directions: *on the one hand*, it criticizes orthodoxy ("conventional economic theory") and the economists who prominently represent it (criticism often centers around Gregory Mankiw, but not only him), and *on the other hand*, it offers an alternative in the field of economic politics. He is shocked by the fact that orthodoxy has not recognized the necessity to change its orientations, despite the regressive dynamics in recent decades, especially taking into account the crisis of 2007/2008: the textbooks remained the same, as if nothing had happened, as if the eruption of the crisis was just a random deformation.

Komlos reproaches the orthodoxy (using terms such as "conservative economists" or "economists of market fundamentalism") that it is not ready to tackle something indispensable for the humanization of economics, namely, man's effort to cope with the fragile meaning of life. Economic discourse goes astray if it does not take into account the issues relevant to a human being. Without "humanization", economic science is doomed to be sterile.

Komlos believes that capitalism can be reformed, that is, a "capitalism with a human face" can be created that respects "quality of life" and "life satisfaction" as landmarks. At the same time, if there is any sense in economic science, it must turn towards the minimization of "pain", "suffering" and "anxiety". It must be guided by this objective. The criteria of conventional economics, such as GDP, are inadequate for the understanding of the "good life" (here the emphasis is on an Aristotelian category): the same orientation remains silent about many issues, that is, there are too many things it does not want to see justifying itself with the purism of economic argumentation.

I should point out that analytical patterns are developed here. There is Komlos' analysis of supply and demand (more precisely, the author even pays special attention to the transformation of the same pattern (Komlos 2022)), or the relationship between equilibrium and disequilibrium, but all of them gain meaning only in view of the indicated normative horizons. Komlos's book is full of analytical criticism and discussion. He changes the meaning of many economic criteria (for example, patterns for assessing poverty and inequality, the relevance of "decline of life expectancy", etc.) which he thinks will lead us astray unless they are transformed. Komlos does not disapprove of mathematics in economic reasoning, but he considers it harmful if it reduces the complexity of the reality of capitalism.

The author of this book votes for Adam Smith, but it is not the Scot who celebrates the invisible hand of the market, but the thinker who is open to ethical argumentation. Without this, the economic discourse becomes irrelevant, that is, it is left without any reference to the pulsating reality. It is an ideological assertion that the idea of man is superfluous for the economic discourse that understands itself as the bearer of strict and analytically consistent argumentation. However, orthodoxy presents, at least implicitly, a certain image of a man. Namely, it is a human-economic subject who is a "superman" involved in Darwinian competition: Komlos wants to show us the complexity of *homo sapiens* instead of the *one-dimensional homo oeconomicus*. In order to do this, the meanings of rationality in the economic domain must be changed. So the frameworks change, but not only the frameworks of the normativity of the economy but also its main orientation.

The author supports his claims with numerous data, tables and graphs, and finally with examples, i.e. different episodes of economic politics that call into question the sacrosanctity of orthodoxy. Komlos patiently works on the analytical deconstruction of the mainstream in order to present his own ideas. Price dynamics, price discriminations, and oligopoly practices are analyzed; the formation of bubbles on asset markets is explained alongside the implications of the tendencies of the last decades.

The author's most frequent topic is the dynamics of the US economy (for example, Barack Obama's economic policy is criticized as a post-crisis orientation; Donald Trump is viewed as a regression and as an offspring of the mistakes of orthodoxy; Komlos even goes back to Ronald Reagan, who is considered as a "game changer"), that is, numerous data are based on the American reality. We could even understand this book as a systematic criticism of the American economy because the author persistently returns to the American constellation. At the same time, Komlos reveals his preferences ("progressive, democratic" which involves categories such as "profit-sharing wages", and the synthesis between "full employment policy" and "income policy"), which in terms of economic policy relates him to the northern part of Europe and Switzerland. He also praises Germany's willingness to reform capitalism and especially emphasizes the strategic orientation in terms of industrial policy. He is arguing the fact that Americans work more than the citizens of Western Europe ("overworking"), despite the fact that the income situation is more favorable in the USA.

Komlos' methodology of economic analysis leans towards "empirical evidence" and induction as opposed to the axiomatic-deductive viewpoint of orthodoxy - this, of course, explains the affinity towards the relevance of the set of data found in this book. In addition, he emphasizes openness to falsification, which associates him with Karl Popper, although I cannot see any other analogies between Komlos and Popper's economic argumentations.

It is impossible, of course, to analyze all the arguments developed in this book. Not by chance, Komlos presents his critical view regarding the cult status of the market (which is also an "institution" as government) in orthodoxy. It would not be right to accuse Komlos of underestimating the relevance of the market; he only believes that the market is inherently insufficient to achieve the aspects of a "good life". At the same time, conventional reasoning either does not recognize the "Achilles Heel of Markets", or relativizes them in such a way that they become only provisional categories. Thus, the imperfection of information is recognized by neoclassicism, but its importance is reduced to such an extent that it becomes a "benign" case. After all, the claim that ethics should be primary in relation to the market clearly expresses the main idea of the author of the book.

Komlos claims that the market inherently destroys the elements of justice. There are "hidden magnification mechanisms" and the benefits are not distributed based on postulated merits, but based on such mechanisms independent of the performance of individuals. "Network effects" and "losers-lose-all" are, among others, precisely the effects that deconstruct the understanding of the market as an *a priori* fair and self-regulating mechanism. The attitude by which "justice" has priority over "efficiency" indicates not only the fact that a contradiction between "justice" and "efficiency" is possible but also the built-in weaknesses of the market to solve various issues regarding fairness. Komlos, accordingly, must treat normativity as immanent to economic reflexivity and reject the familiar dichotomy between normativity and facts.

His interest in demand implies criticism of "consumer sovereignty". Komlos' effective and sharp formulation argues that this notion is a reflection of the "pre-Freudian" and "pre-Pavlovian" levels of the mainstream. Even though none of these scientists belong to the mainstream, the concept of economic subjectivity in the theory of consumption will be deformed if they are ignored. Mainstream cannot see how tastes are formed; its weaknesses on the microeconomic level stem from the fact that it postulates an atomistic individual without intersubjectivity, that is, it is unable to observe the *interdependence* of economic subjects.

Utilitarianism is unavoidable when discussing economic issues, but we should be free from the reductive understanding of utilitarianism: it should be related to emotional factors and treated in terms of intersubjectivity. Therefore, the model for microeconomics is "interdependent utility function": it is utilitarianism that manifests itself in relationships and through the relationships of economic subjects. Microeconomics is not the realm of methodological individualism where the self-aware rational individual is the source of all economic meanings, but the terrain of interdependence where such phenomena acquire meaning as conformity, that is, mimetic relation to others, following imaginary authoritative patterns and seeking for the status.

"Consumerism" does exist in the modern economy, although it is not an expression of natural inclinations but of forced changes. Komlos even defines our "brain" as being calibrated by megacorporations (he often criticizes them) that impose themselves with the power of coercion. By attributing economic strength to the cultural industry, Komlos makes it clear that it is about social constructions, and not about the imprint of natural categories. The author who accuses the orthodox discourse of not showing serious interest in the category of power, the minorities and the disabled (Komlos *expressis verbis* claims that the mainstream is "covertly racist" (p. 317)), who is underestimating unions as a "countervailing power", a nexus between wealth and power regarding corporations is definitely someone chosing an extraordinary subject for consideration.

In terms of macroeconomics, Komlos foregrounds the legacy of John Maynard Keynes. Despite all the moves aimed at discrediting Keynes by the "monetarist counterrevolution", and despite his ideological devaluation, his star has not darkened for the economic discourse that seeks a new paradigm. The author of the book refutes the accusations against Keynes: the Englishman makes a series of innovations in economic theory and brings freshness in terms of understanding the economic-political connections between monetary and fiscal policy (fiscal policy is treated in several places, giving it special importance). Therefore, it is still a compass for economic thinking, that is, for humanistic economics aimed at imposing itself as a paradigm. Keynes makes a series of gestures that are still valid as a pattern for the humanization of economics: criticism of methodological individualism, fallacy of composition, among others.

However, in this case, his admiration for the author of *The General Theory of Employment, Interest and Money*, is not focused on the textual analysis of the author of the book in question, but on the economic and political repercussions in today's world. It is clear that Komlos dedicates a separate chapter to the 2007/2008 economic crisis, that is, to the context that shows the colossal delusions of the orthodox direction. By writing about shadow banking, "neglecting of systematic risk" in finance, structural opportunism of credit agencies, "predatory lending", "fraudulent mortgages", "excessive faiths in quantitative finance", "herd mentality", "mispricing of risk", "moral hazards", trade deficits of the USA, Komlos shows his interest in Hyman Minsky, who is a hero of post-Keynesianism and who developed a subtle theory based on the vulnerability of the financial system. This way, he directed a lot of criticism against orthodoxy-based orientation towards finance, which fails to recognize the emergence of asset bubbles, or embedded uncertainty in the financial sphere. As in other works, Komlos highlights behavioral finance as a benchmark for identifying the "mistakes of markets".

In terms of macroeconomics, the importance of monetary policy is additionally considered in a situation when a phenomenon described by Keynes, namely, liquidity trap, is presented. The theme explored here is taxation, but in a different way than in the mainstream, which often portrays taxes as a "burden" on economic agents. Consequently, tax cuts are not seen as a panacea for economic improvement, nor are they seen as trickle-down policies. In line with Keynes's ideas, Komlos reflects on the active role of government with redistributive capacities. In fact, he does not leave any important category unreflected (for example, the relationship between income and saving). Furthermore, the orientation that determined the monetary policy in recent times, namely, quantitative easing, is interpreted, as well as the reason why monetary policy based on the fact that interest rate adjustment can automatically create conditions for economic growth is phallic. The text also addresses the impossibility of "bailout capitalism", which has been developed since the 2007/2008 financial crisis. It suggests that it shall persist indefinitely. The proposal of an alternative heterodox orientation, the Modern Monetary Theory, which reflects the postulates of chartalism and emphasizes the state's ability to create money without restrictions, is met with skepticism.

As I previously mentioned, Komlos presents the criticism of standard criteria. GDP fails to capture important aspects of life and desired welfare. It is adjusted to account only for the outcomes of market actions and is insensitive to contributions from household work - which must be recognized as a legitimate economic activity. After all, dealing with GDP data is problematic because it is strictly linked to the growth dynamics. The excessive emphasis on the importance of growth must be called into question: there is a warning about deep non-synchronization between growth and "life satisfaction". Moreover, socioeconomic trends show this divergence between "life satisfaction" and growth, relentlessly.

Komlos aims at demystifying the standard source of growth, namely technological innovation. While it is seen as an unequivocal source of progress, the situation is more complex. Not all innovations are desirable, nor are technological dynamics neutral. One of the numerous examples of innovation that carry a multitude of negative external effects is innovations in the financial sector. Here, too, the concepts of "destructive innovation", "technological unemployment", "rent seeking", and "negative externalities" associated with the mentioned innovations are highlighted.

Komlos expresses dissatisfaction with the way economic discourse quantifies unemployment: his criticism is centered around the hyperbolic assertion that the American economy achieved full employment in 2019 - "hidden unemployment" is significantly more prevalent than official statistics acknowledge. Unsurprisingly, Komlos, who emphasizes the social mediation of economic categories, does not even accept the main category of macroeconomics of mainstream, namely, "natural rate of employment": what is labeled as "natural" is only a reflection of social determinations.

Certainly, I must also briefly mention the author's analytical interest in the ecological domain or feminist aspects of the economy. In addition, his involvement in the perception of globalization, the concept of comparative advantages, "protection of infant industries" and trade theory in general must also be highlighted. He does this in a manner that extends the relevance of these discussions up to the present day (they are the culmination of "bailout capitalism"), and even alluding to Covid-19, which guarantees the relevance of his opinion.

Therefore, it can be said that this is a *confrontational* book engaged in polemical discussion about the *basic issues* of economic discourse. *Komlos's criticism of the orthodox patterns of economic science is a valuable contribution and represents a significant achievement, especially taking into account the far-reaching impact of his interventions*. The readers of the book may gain a comprehensive view and are presented with criticism that is expressed transparently throughout the book. The fact that Komlos reflected on the totality of economic categories places him among the significant representatives of heterodoxy.

The representatives of orthodoxy often respond to these critical reflections by claiming that the attacks represent a kind of a scarecrow. This way, it is noted that even the modified orthodoxy is not ignorant of the complexity of, for example, the concept of the invisible hand, nor does it assign naive and unreservedly positive meanings to the idealized competition. In addition, it is believed that orthodoxy has changed under the influence of experience in the meantime, and it has not remained the same. It tries to absorb the effects of other disciplines, and it does not follow the reductive patterns of rationality as attributed to it - today there are such trends that are open to understanding the irrational preferences of people as they "are". *However*, the persistent heterodoxy does not consider it radical enough, and Komlos's book contributes to the argument for why heterodoxy is still needed *despite* all the changes initiated by orthodoxy. It is undeniable that orthodoxy itself is subject to change, but as Komlos has noted several times, standard textbooks, which concisely represent the dominant orientation, do not pay enough attention to the phenomena discussed here, or downplay them to such an extent that they lose their significance.

In any case, engagement in the totality of the economic domain places the author of this book in direct conflict with orthodoxy. If the representatives of neoclassicism/neoliberalism criticized him for including the categories that make the boundaries of economic discourse porous, and for opening up too much to non-economic disciplines, he could respond that he wanted to broaden the horizons of economic reasoning in order to be able to conduct a dialogue with the current state of capitalism. We know what this is about: the market economy/capitalism is woven into social structures. The "context" that is mentioned as an important moment for understanding the behavior of economic agents represents *social embeddedness* for economic agents who make decisions, confront the dilemmas they face and link utilitarianism to the same contexts. Komlos reports on all this from different aspects, but without ignoring the most significant problems of economic science.

Komlos indeed consulted a wide range of non-economic thinkers (besides the aforementioned, Erich Fromm, for example). The fact that he used psychoanalysis in his assessment of orthodoxy only confirms this approach. In fact, his assertion regarding the pre-Freudian constellation of the mainstream is particularly provocative. He aims to promote an economic discourse that respects the autonomy of psychological dynamics, and intends to support economic reflexivity which recognizes that people have different "cognitive endowments", and acknowledges the inescapable fact that "genetic endowment" affects the economic behavior, and that one should be open to the effects of neuroeconomics. Standard norms, such as the concept of utility maximization, are not an adequate criterion for an imperfect economic being - Komlos accepts notions like "bounded rationality", which is associated with Herbert Simon, and extensively used by behavioral economists such as D. Kahneman, A. Twersky, or R. Thaler who emphasize the exceptional importance of intuition in economic performance (a strong analogy is mentioned here: behavioral reasoning introduces a change in economic thinking as the theory of relativity introduced radical changes in physics and in the sense that intuition is not subordinated to logical reasoning).

Komlos proposes a symbiosis between economic and psychological reasoning that takes into account the "biases of the human mind" such as "framing, accessibility and anchoring". He emphasizes the importance of acknowledging the fact that when economic agents think about the future, their preferential structure develops in the form of "time inconsistent preferences". So, unlike the mainstream view, which assumes that economic agents prefer the short term to the distant future, in this case, the argument in question is transformed: while the mainstream relies on "exponential discounting", Komlos introduces the logic of "hyperbolic discounting". In other words, economic agents engage with *different* future sequences in different ways, or, to use a term that is important for the author of this book, depending on the dynamically developing "*context*".

To sum up, the concepts above change the perspective of economic reasoning in terms of the decision-making of economic agents, and they also reshape the understanding of what is considered internal or external in relation to economic argumentation. In this context, the economic discourse needs to absorb what is formally external in relation to what orthodoxy draws as a border of *internal* moments, including psychological aspects.

However, the question remains as to whether Komlos's normative ideal, namely, "capitalism with a human face" is even possible, that is, whether it is possible to humanize capitalism and its economic reflection so that it becomes sensitive to "suffering", "pain" and "anxiety" experienced by imperfect people who engage in economic activities to pursue a "good life"?

Komlos does not discuss achieving this ideal, or about accepting the desirable situation in which heterodoxy wins. Heterodoxy is expanding, as evidenced by the multiple copies of the books and magazines, but the mainstream still has sufficient institutional power. Could the transformation be achieved through self-education and self-improvement of economists who will undergo sophisticated metamorphosis? What socioeconomic changes are required?

"Post-autistic economics" emerged as a result of student protest and dissatisfaction with the cage of orthodox economics, which they claimed was deforming the reality of capitalism. So, do they force considerable changes in the economic discourse? And isn't the mainstream synchronized with "*a*human" capitalism? Therefore, it can be concluded that "humanistic" capitalism is a guiding principle - but is it attainable?

References

Komlos, John. 2014. *What Every Economics Student Needs to Know and Doesn't Get in the Usual Principles Text*. London: Routledge.

Komlos, John. 2021. "Humanistic Economics, a New Paradigm for the 21st Century." *Real-World Economics Review*, 96: 201-219.

Komlos, John. 2022. "A Probabilistic Theory of Supply and Demand." *Real-World Economics Review*, 102: 89-96.

Lutz, Mark, and Kenneth Lux. 1988. *Humanistic Economics: The New Challenge*. Lanham: Rowman & Littlefield Publishers.

Röpke, Wilhelm. 1960. *A Humane Economy: The Social Framework of the Free Market*. Washington, D. C.: Henry Regnery Company Chicago.

THIS PAGE INTENTIONALLY LEFT BLANK