Foundations of Real-World Economics: What Every Economics Student Needs to Know by John Komlos.

1. Overview

Professor John Komlos is a former chairman of the Department of Economic History at the University of Munich and also taught as a visitor at Harvard, Duke, and the University of Vienna. In his book, “Foundations of Real-World Economics: What Every Economics Student Needs to Know and Doesn’t Get in the Usual Principles Text”, he examined mainstream economics and contemporary economic policies. This book has been translated into Chinese, German, Hungarian, Romanian, Russian, and other languages are forthcoming. This can be categoriSed as a major reference book to study the hopelessness of mainstream economic thought in explaining contemporary economic issues.

Professor Komlos received a PhD in history in 1978 and a second PhD in economics in 1990, both from the University of Chicago. His academic career mainly consists of research and study of the effect of economic development on human biology. This background is reflected in the contents and sub-topics of his book in which he established the links of economics with neurology, psychology, sociology, ideology, and humanism. He advocates for a new paradigm: Capitalism with a human face by differentiating humanistic and mainstream economics based on their fundamental characteristics. Humanistic economics accepts the foundational achievements of sister disciplines as well as behavioral psychology.

Instead of using mathematical logic, he emphasises considering human sentiments and morality, which cannot be incorporated into mathematical equations. In his own words, “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.”

2. The Substances, Subjects and Approach

The book discusses the complex economic mechanisms and relations without the use of mathematics and supposes that complex social and political processes cannot be summariSed in a few equations.

Various economists and social scientists agree with the opinion that the overuse of mathematics can mislead conclusions and especially policy recommendations. The emphasis on mathematics in economics diverts the focus from real economic issues to quantitative fascination. The complicated econometric techniques with unrealistic assumptions, the use of calculus to derive the demand function through marginal rate of substitution, and even the use of topology to find the demand-supply equilibrium in a market through an intersection set of common points of quantity demand and supply are those mechanisms which can derail understanding real-world economic processes. Several terms in economics are borrowed from physics. The ‘equilibrium’ of market, price, and income ‘elasticity’, ‘velocity’ of money, ‘acceleration’ of investment, tax ‘multiplier’, and ‘quantity’ theory of money are some concepts frequently used in economics and have their origin in physics. The use of such vocabulary is not sufficient to make economics a natural science. Economics should remain a social science. The author has explained this point of view in a very interesting and scholarly way.

The author does not believe in the practicability of the ‘trickle-down effect’ and does not believe that the ‘invisible hand’ is always effective. He cites Nobelist Joseph Stiglitz who asserted that the invisible hand is often invisible because it is not there.

Surprisingly, some analysts in media and teachers in classrooms prefer to avoid political debates in discussions on economic policies. However, if we exclude political science, sociology, and psychology from economics, the remaining might be eloquent mathematical theorems without much practical value.

Some reviewers considered that the book draws from prominent left-wing economic thinkers including Galbraith, Minsky, Krugman, and Stiglitz. However, a comprehensive study of this book distinguishes it as a recommendation to reform capitalism. This suggests the revising the economics’ notions, ideas, and methodology, and emphasiSes the reforms necessary for capitalism with a human face that focuses on improving the quality of life for everyone instead of growing the economy to benefit a limited number of people in the society.

Sometimes it seems like a contemporary version of ethical guidelines described by various religions. Even the concepts of morality and humanitarianism bring it closer to Islamic economics. Another reason to consider humanistic economics as Islamic economics is its methodological approach. It is a common opinion among thought leaders of Islamic history that during the peak of Muslim civilisation and scientific development during the 8th to 13th centuries, the Muslim philosophers adopted inductive logic, contrary to the deductive approach of Greek philosophers. They preferred to reach the conclusion by observations. The subject of humanistic economics introduced by Professor Komlos urges the use of inductive logic. He suggested that economic analysis should begin with empirical evidence rather than with assumptions. According to him, “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”.

3. The Composition of Ideas and Premises

The shrinking importance of perfect competition and the dominance of oligopolies is a common development in the contemporary world. The oligopolies in oil marketing, commercial banking, insurance, telecommunication, and private schools and colleges are common in developing countries. In the regime of liberaliSation and globaliSation, the oligopolistic culture is being promoted and legitimiSed by public policies. One of the examples of the ways of such legitimiSation of oligopolies is public-private partnership (PPP) in infrastructure and supply of public utilities. The production and supply of energy, high-speed railways, motorways, and road transport companies are supported by the public-private partnership (PPP) model, where governments ensure ‘fair’ price and profitability. The strange social effects of high energy prices because of the government protection of energy-producing and supplying companies have been observed in Pakistan in the recent past. The public media has reported several suicides, family disputes, killings, the use of lifetime savings, and the sale of assets to pay the electricity bills in different cities of Pakistan. After several reports of such incidences in public media, and the influence of political parties, the government has decided to reconsider the contracts with energy producing and supplying companies. This is one of many examples of the social and human impact of protected and legitimised oligopolies.

Perfect competition among the banks is not possible in the presence of an indicative interest rate by the central banks. In this way, the banks cannot compete with each other. Lending at a rate of interest higher than an indicative rate of interest determined by monetary policy is considered illegal in some countries. This interest on lending determines the return on deposits. The low-income people and small business enterprises cannot afford the high rate of interest for starting and enhancing their businesses. Similarly, the lower return on deposits discourages small depositors. The system cannot be sustainable without considering the human aspect. Intervention is required to protect those small depositors and borrowers.

For the last 2 decades, a fast growth in super stores and chain stores in all big cities of Pakistan has been observed. These include food shops, restaurants, groceries, garments, and supply of medicines and health care products. Their ownership belongs to multinational corporations or large domestic business groups. These stores are replacing or weakening small shops, boutiques, stalls in streets, cabins, huts, and hawkers of consumer goods thereby lowering the income of their proprietors. The term '*Paan shop*' is used in Pakistan and India to describe a small shop on the corner of streets that provides cigarettes, chocolates and toffies, cookies, bread, eggs, and other items of daily usage, even over-the-counter medicines. Such small shops are considered a part of the culture and are usually open from early morning to midnight. The growing dominance of super and chain stores is a cause of disappearance such as '*Pan shop'*. The disappearance of these shops is squeeSing the size of the middle class and a source of the transfer of wealth from the middle class to big tycoons. How can the owners of small businesses obtain at least some of the benefits of such an oligopolistic culture? A usual response from financial experts is the enhancement in financial inclusion and democratisation of finance. The democratiSation of finance implies the participation of small investors in ownership of the big corporations through capital markets or financial institutions. Unfortunately, it is not a feasible solution in the presence of informational inefficiencies, signaling, state intervention to protect large investors, financial illiteracy, and lack of savings that could be used to make such investments.

Institutions like monopoly control authority and the competition commission in several countries serve to discourage monopolies and cartelisation. These institutions are responsible for breaking up monopolies if it is in a position to control an entire market. Similarly, these are responsible for breaking the monopoly of the large shareholders in a public limited company if they own a controlling share. However, the failure of market mechanisms and promotion of oligopolies in the presence of such institutions indicate the ineffectiveness of these governmental institutions. Certainly, the reform in institutions is not enough, a structural reform in the economic system is required. The author has highlighted the need for such structural reforms, while humanism is the foundation of such structural reforms.

Several institutions in various countries serve to regulate and control the prices of health products, medicines, energy, and oil products. In the determination of consumer prices, they consider the cost of production and fair profits of the investors. Despite these regulatory institutions, spending on health is considered an important cause of pushing low-income people below the poverty line because out-of-pocket payments are obviously a bigger share of their disposable income. This is another example of the shortcomings of economic regulations from a humanistic perspective.

Poverty by inheritance, health-related issues of family members, natural disasters, civil wars, and changes in climate conditions may be responsible for the economic miseries of individuals and families. However, the role of economic systems and policies may be responsible for economic miseries also. Why should the consequences of flawed economic systems and policies be transferred to those who are not responsible for such policies? The book provides a satisfactory answer to such bitter questions.

4. The Assessment and Recommendations

The author has introduced a broader concept of liberty and freedom. According to him, freedom is more than the absence of legal restraint to act. The ability to live without the anxiety generated by a high-stress economy is also a part of freedom. The worries about jobs or pensions, or paying medical bills or college tuition fees affect individual freedom. Everyone has the right to economic security in the event of unemployment, sickness, disability, widowhood, old age, or other lack of livelihood in circumstances beyond his or her control. “The markets should enable individuals to exercise their creativity, autonomy, and individuality without psychological manipulation or coercion. According to the author, 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 suboptimal or even harmful, we must retain the right to reform them. The markets are not above moral judgment”.

Particularly, families in extreme poverty are without numerous types of freedom: Freedom to select an occupation, freedom to live in a desired town, and freedom to study are included in the list of those challenges. The nature of jobs, residential status, location of work, and even political associations of workers in tribal and rural societies, and privately owned businesses are connected with the employer’s desires. Economic freedom is not possible under such vulnerable and precarious employment. Such types of market imperfections can damage society, the economy, and even the political system. Importantly, government failure is just as damaging than market failure if not more so.

Nevertheless, the author explained the economic theories without mathematical notations and econometric techniques, however, the book cannot be classified as an elementary book in economics. The transitional knowledge of micro and macroeconomics and basic knowledge of trade and financial economics is required to enjoy this book. I also recommend this book for MPhil and PhD students, and especially for business schools that are responsible for producing market leaders and business managers of the future.

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