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Komlos, John, Foundations of real-world economics: what every economics student needs to know, 3rd edition, 2023, Routledge, New York and London, 420 pp., £ 39.99 (Paperback)

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By Rainer Hillebrand.

Following the global financial crisis in 2007–2008, students in many countries started protesting at the way economics was taught in university classrooms. Their main concerns included the “dominance of narrow free-market theories”; the ignorance of “evidence from other disciplines” (Inman 2014); and the inability of the economics science to explain and predict real-world phenomena, such as the financial meltdown. Not least in response to this, many economics departments have expanded their curricula beyond the traditional neoclassical orthodoxy (The Economist 2021). Newer approaches to economics and relevant topics have been added, including behavioural and information economics, institutional economics, inequality and poverty, financial crises, climate change and sustainability, to name a few.¹ Concepts such as GDP or economic growth are nowadays discussed more critically, highlighting their limitations and presenting alternative indicators or views. Concomitantly, economics textbooks – for instance, the bestselling ones by Mankiw and Talyor (2023) or Krugman and Wells (2021) – have been revised to cover the greater width of themes and approaches.²

¹ Based on my own review of the module descriptions of introductory classes to economics – called Principles of Economics, Introduction to Microeconomics, Introduction to Macroeconomics and alike – for the top ten ranked economics and business undergraduate programmes at universities in the US, the UK and Germany, respectively. The rankings were taken online from Times Higher Education. Out of the 60 module descriptions, seven did not provide any detail on content, learning outcomes or literature beyond the module title, so that the actual number reviewed was 53.

² Komlos’s statement that “textbooks remain unchanged” (p. 13) might therefore possibly reflect the status quo in the year of the first edition, rather than that in 2023. Bowles and Carlin (2020), however, reinforce the general position of Komlos’s critique by noting that the changes made to textbook contents are “pre-

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However, for John Komlos, Professor Emeritus of Economics and Economic History at Ludwig-Maximilians University Munich, Germany, the changes have not gone far enough.³ While he acknowledges the increasing plurality and diversity of economic research and teaching in advanced courses, he criticises the fact that introductory courses are lagging behind. According to his argument, they still focus too much, or even exclusively, on an orthodox neoclassical economics that is based on unrealistic assumptions, simplistic methodologies, an overreliance on mathematics and a deductive approach to model building, which lacks (sufficient) reference to empirical evidence. In the default model, human beings are presented as rational, fully informed examples of *homo oeconomicus*, who act under conditions of certainty and cannot be tricked by others' opportunistic behaviour. Consumers are assumed to have independent preferences, ignoring the role of manipulation through advertising and the bandwagon effect. Households and firms aim at constrained optimisation of their respective objective functions; and markets are thought of as perfect competition, with a tendency towards the equilibrium, in which the role of governments and other institutions is neglected. Time and space are ignored as relevant variables and the individual is at the centre whereas cultural/social influences are basically ignored. At the macroeconomic level, introductory economics proposes ideas such as self-stabilising processes that are believed to take economies out of recession, and financial and labour markets that can be modelled on real goods markets. The focus is on highly aggregated variables such as GDP and unemployment rates, which, Komlos says, blur the 'real' picture of an unequal, dual economy such as the United States.

Further, Komlos dismisses the argument that simple neoclassical models are a necessary didactic tool in first-year courses, before assumptions can be relaxed and models made more relevant. He sees more harm than good in such an approach. He argues, for example, that many students from other disciplines⁴, such as business studies, business engineering and other social sciences take economics classes as a minor and thus never reach intermediate or advanced levels, thereby never learning about alternative, more sophisticated and realistic explanations of economic phenomena. They leave university with the idea of the existence of perfect markets. Even for students taking economic majors, Komlos says, this didactic approach means that later in their studies they have to 'unlearn' their default understanding of the discipline as acquired in introductory courses. Consequently, curricula with a basic neoclassical core have "a deep socio-cultural effect" (Laybourn-Langton and Jacobs 2018, p. 116) on students as voters, future business leaders, civil servants and potential politicians.⁵ They provide narratives and explanations to which politics, vested

sented as applications of a substantially unchanged conceptual benchmark taught in the earlier chapters" (p. 192).

³ The 2nd edition of Komlos's textbook was reviewed in this journal by Braulke (2019).

⁴ Bowles and Carlin (2020) estimate that in the United States about 2 million students per year take "some kind of introductory course" (p. 177) in economics, of which only a very small fraction continues in the discipline beyond the first year.

⁵ Mankiw (2016), for instance, says with reference to the decisions on which topics and ideas to include in his introductory textbook: "In making these decisions, I am guided by the fact that, in introductory economics, the typical student is not a future economist but is a future voter. I include the topics that I believe are essential to help produce well-informed citizens" (p. 170).

interests and the media can appeal, in order to justify business- and market-friendly economic policies, even if government interventions were warranted on theoretical grounds.

Against this background, Komlos's textbook convincingly reminds us of the high level of abstraction, the simplifying assumptions and the generalisations made from simple models in introductory economics. Using an inductive approach, he presents a wide variety of indicators and relies on a wealth of up-to-date empirical data, mainly on the United States, to show the limitations of orthodox textbooks in describing and explaining the real-world economy. In addition, he regularly invokes findings from other economics schools of thought and social science disciplines, including behavioural economics, psychology, political science and sociology. He points to the role of agreed moral values, power and institutions in the functioning of markets, and offers useful conceptualisations, such as the distinctions between basic needs, comfort goods/social necessities and luxury goods (instead of the basic assumption that all goods are equally needed and scarce). Moreover, themes such as inequality, a broader range of quality-of-life indicators, (financial) instability and environmental concerns are covered in more detail than in traditional first-year texts. Towards the end of his book (Chaps. 13 to 17), Komlos picks some of the most pressing politico-economic questions of our time, including (hyper)globalisation, the financial crisis, racism, the rise of populism and the consequences of the Covid-19 pandemic. He provides detailed accounts of the root causes of the events as well as a critical discussion of the policies implemented in response. Thus, Komlos broadens the perspective, embedding economic processes and problems within a wider political, societal and cultural context. His book offers important, nuanced insights into alternative theoretical views and approaches to economics, where real-world problems are the starting point rather than theory-driven models. It thus helps readers to challenge and clarify their own ontological and epistemological positions.

The textbook, however, also has shortcomings. Komlos's proposal of a 'Capitalism with a Human Face' is not developed into a fully consistent analytical framework to economics. The chapters on microeconomics (3 to 9) and on macroeconomics (10 to 12) do not cover the whole canon usually addressed in textbooks. At times, the explanations of models and concepts seem rather brief and difficult to understand without previous knowledge in economics, which is somewhat unsuitable for a textbook targeted at first-year students. What is more, there is an implicit claim that nearly all societal problems – from homicide rates, drug abuse, low life-expectancy, obesity to climate change and so on – can be traced back to "faulty economic theories" (p. 19) and neoliberal policies. While economics and economic policies undoubtedly play an important role, this seems to be somewhat biased, underestimating other explanatory factors such as culture, history and the natural environment. In addition, the textbook is United States-centric: most of the empirical data relates to that country and some facts are not understandable without detailed knowledge of the United States (e.g. the reference to 6th January 2021 without explicitly mentioning the attack on the US Capitol building (p. xxii) or using abbreviated forms for US presidents 'FDR' and 'LBJ' (p. 291)). While the political, economic and societal situation in the United States is described in a predominantly negative way, European countries, especially Scandinavia and the German-speaking countries, are generally

and to some extent superficially equalled to the positive image of ‘Capitalism with a Human Face’, although without sufficient detail or discussion of any problems they also face.

In the academic debate about how to widen and diversify economics introductory courses, Bowles and Carlin (2020) suggest a distinction between two variants: *pluralism-by-juxtaposition* and *pluralism-by-integration*. While the latter variant aims at integrating “insights of differing schools of thought and knowledge from other disciplines into a coherent paradigm” (Bowles and Carlin 2020, p. 208), the former variant takes a humbler approach, presenting mainstream neoclassical economics and contrasting it with alternative schools of thought or other scholarly disciplines. With its frequent reference to, and criticisms of, neoclassical thinking, this is the approach taken by Komlos. Despite the weaknesses, there is much to admire in this book: Komlos’s textbook provides a stimulating, thought-provoking read for both students and instructors who are interested in learning about different perspectives and real-world economics beyond the traditional introductory-textbook world.

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