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## Book Review

# Book review of Beker, V.A.: Economic Theory for the Real World

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# Book review of Beker, V.A.: *Economic Theory for the Real World*

Abingdon, UK and New York, NY, USA, 2024 (160 pages, Routledge, hardcover, ISBN: 978-1-032-49854-6)

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In the aftermath of the financial crisis, there has been a renewed push by student groups towards pluralism and real-world content in economics (Earle et al. 2017, Fischer et al. 2018). In this regard, several books of authors like Komlos (2023), McGuiness (2023), and Schneider (2024) have been recently published with words like ‘pluralism’ or ‘real-world’ in the title. However, not all such books are textbooks to answer the call for change in economics pedagogy, even though they address textbook content. The textbook of McGuiness (2023), which is like a supplementary reader to go with economics textbooks, has a neoclassical bent. Similarly, the work of Beker (2024), although heterodox, is not promoted as a textbook with exercises and resources. However, I was intrigued by his book as I used Komlos (2023) in my Humanistic Economics class and Komlos provided the foreword. Beker’s book reflects both seminal and recent contributions in heterodox economics and in a manner accessible to interested instructors, students, and lifelong learners. Moreover, while Komlos (2023) and Schneider (2024) are promoted as textbooks, Beker (2024) would be a supplementary reader that focuses on select topics.

Beker starts the book by emphasizing the real world and follows with a chapter each on evolutionary, complexity, and ecological economics as alternatives to mainstream neo-classical economics. Thereafter, he highlights a critical theory of the firm and addresses the pressing issues of unemployment, financial crises, economic inequality, and hyper-globalization. What seems to be missing are chapters on critical consumer theory and other pressing issues of climate change, automation, and the future of work, although he briefly touches upon them in various places in the book.

He highlights that mainstream neoclassical economics is not focused on the real world, but on the world shaped by economic theory (p. 1). Thus, it is based on the unrealistic core assumptions of rationality and perfect information (p. 2). Drawing from Komlos’ textbook, he notes that human beings do not optimize, corporations shape preferences through advertisements, and monopolies and oligopolies abound in markets (p. 4). He adds that most decisions made by households and firms are based on uncertainty and not risk, and more information is not always better (pp. 7–8). Thus, he illustrates the limitations of mainstream economics and spends the next three chapters offering alternatives to neoclassical economic theory.

Beker notes that contrary to mainstream economics, evolutionary economics recognizes that behaviour, institutions, and technology are endogenous, highlights path dependency, and focuses on dynamics (pp. 12–13). He highlights Schumpeter’s theory that illustrates economic evolution as an endogenous process, which is characterized by sudden

changes followed by equilibrium till the next abrupt change (p. 17). Moreover, he draws an interesting analogy that a country's economic failure can be explained through anarchy or dictatorship, just as a firm's failure can be attributed to disobedience in the organization or too much obedience (p. 19). Overall, he presents an alternative to standard economics based on exogenous shocks, lack of history, and static equilibrium.

Beker reiterates that mainstream economics emphasizes a unique and stable equilibrium, but real-world economies are mostly out of equilibrium (p. 33, 35). Thus, as a second alternative, he presents complexity economics, which recognizes that individuals have limited and differential cognitive capabilities (p. 25, 26). Complexity economics allows for interaction between heterogeneous individuals that yield emergent behaviour like systemic risk where the whole is greater than the sum of its parts (pp. 26–28). It explains how small initial shocks can lead to systemic disruption, how local instability can cascade through the system, and how the market generates volatility through feedback loops (p. 32). Overall, Beker offers an alternative that recognizes the instability and non-uniqueness of equilibrium, and which illustrates how a systemic crisis can emerge endogenously.

Beker highlights that mainstream economics emphasizes economic growth, proposes a carbon tax to reduce carbon emissions that is regressive, as it puts more burden on lower income groups, and supports electric vehicles that benefit higher income groups (p. 39, 41, 47). Taken together, these policies lead to a trade-off between environment and equity. Thus, as a third alternative, he presents ecological economics, which emphasizes that technology cannot help with ecological constraints and indicates that economic analysis must incorporate ecological damage (p. 39). He notes that proponents of green growth argue that economic growth can be environmentally friendly with renewable energy and shift from goods to services, but proponents of de-growth argue that there is not much evidence on decoupling GDP from material use (pp. 41–42). However, de-growth should be considered cautiously, as it means sacrificing economies of scale and because zero growth is associated with negative social outcomes and high unemployment (p. 41, 49, 50). Overall, Beker emphasizes ecological constraints and de-growth, albeit cautiously.

Having delineated the three alternatives to mainstream economics, he takes a critical look at producer theory. He highlights that while mainstream economics assumes perfect competition, the real world abounds with monopoly and oligopoly power based on higher mark-ups, higher market concentration, and lower labour share of income due to superstar firms (p. 53, 54). Thus, he argues that the default model should be based on monopoly and oligopoly, whereas perfect competition could be taught as a special case (p. 55). He notes that while mainstream economics emphasizes consumer sovereignty, large corporations shape preferences through advertisements in the real-world (p. 58). Additionally, firms do not use the  $MR = MC$  rule but use full average cost pricing, the average cost is not U shaped but constant over a large range of output, and the chief objective of the firm is to maintain its market share (p. 59).

Beker recognizes the contradiction between mainstream microeconomics and macroeconomics where the former assumes firms are price takers, but the latter assumes sticky prices to prove that money is not neutral in the short run, which implies that firms are price makers (p. 61). Highlighting asymmetric information, he notes that well-informed individuals can exploit less informed people, as illustrated by the cases of predatory lending (p. 62, 63). Finally, contrary to mainstream economics that assumes perfect information, which rules out financial contagion, he notes that financial contagion can even be based on rational expectations, as apprehensive investors readjust their portfolios to preempt any losses (p. 63). Overall, while the chapters on the three alternatives to neoclassical economics are reminiscent of the approach taken by Fischer et al. (2018), the critical look

on standard producer theory is seemingly reflective of Komlos (2023) or a less trenchant version of Keen (2011).

In subsequent chapters, Beker tackles topical issues including unemployment, inequality, and hyper-globalization. He notes that according to mainstream economics, the economy is in full employment and unemployment is the result of high real wages, but involuntary unemployment results even when workers are willing to work at existing wages as jobs are not provided (p. 69, 81). He highlights that the overarching goal of full employment was replaced by ideas that an individual chooses to be unemployed by not investing in appropriate skills and that the government promotes laziness through social security programs (p. 71). Moreover, unemployment was deemed as the cost of stabilizing inflation, which was reflected in the concepts of the natural rate of unemployment and the non-accelerating inflation rate of unemployment – NAIRU (p. 80). However, in heterodox circles, unemployment is viewed as disciplined labour to achieve the profit expectations of capitalists (p. 81).

Beker notes that in the aftermath of the Great Recession, new jobs created were often of low quality based on wages, working conditions, benefits, permanence, and promotion opportunities (p. 76). Thus, he highlights that the government can act as the employer of last resort (ELR) by hiring unemployed workers with lower skills and education at the minimum wage to eliminate involuntary unemployment (p. 82). The benefit of ELR jobs is that workers gain work experience and on-the-job training instead of being unemployed, which is associated with suicide, alcohol-related death, depression, stress, and low self-esteem (p. 83). Additionally, ELR jobs allow for environmentally sustainable activities that are less likely to be undertaken by private firms and they set a floor for wages in the private sector (p. 83, 86). Overall, in contrast to mainstream economic theory, he emphasizes ELR jobs or job guarantee based on Modern Monetary Theory.

Beker highlights that rising inequality is attributed to high compensation packages of corporate executives, winner-take-all markets that reward a few winners, and skill-biased technological change (pp. 106–108). According to Piketty, income and wealth inequality increases, as  $r > g$ , i.e., the return to capital is greater than GDP growth (p. 106). However, Beker notes that Piketty shifted his views to emphasizing power and ideology to explain inequality and proposed participatory socialism and a universal capital endowment funded by a wealth tax to combat inequality (p. 116).

Beker notes that those who argue for combating poverty but not inequality indicate that the increase in the income of high-income individuals that does not decrease the income of low-income individuals is Pareto improving (p. 110). However, income inequality negatively impacts economic growth by lowering opportunities through increased costs of education for disadvantaged individuals (p. 107). Moreover, Beker notes that automation will exacerbate inequality, which necessitates the role of the government as employer of last resort, or the provision of universal basic income funded by a progressive income tax (p. 118). Overall, in contrast to mainstream economic theory, he addresses the topic of inequality and not just poverty, as the former increases even when the latter declines.

Beker notes that according to mainstream economics, countries with similar factor endowments are expected to trade little, but in the real-world significant trade occurs between advanced economies with intra-industry trade of similar goods (p. 124). While mainstream economics assumes homogeneous goods and constant returns to scale, product differentiation and economies of scale explain intra-industry trade in the real world, which is dominated by a few large corporations (pp. 125–126). Moreover, mainstream economic theory does not indicate how comparative advantage can be shifted by sacrificing short-term efficiency to develop technologically advanced industries in the long run (p. 125). Likewise, Beker highlights that in contrast to mainstream economics, tariffs can increase

welfare by taxing gains from the capital-owning winners to compensate the losers from trade (p. 127).

Beker notes that according to Dani Rodrik, a fully interconnected hyper-globalized world would benefit capital, as wages would be set in China and tax rates in the Cayman Islands (p. 129). Such hyper-globalization implies less sovereignty or democracy and sacrificing domestic goals in the service of international markets (p. 132). Finally, Beker observes that hyper-globalization has been associated with financial vulnerability and income inequality, which has led towards de-globalization, reshoring, and nationalism (pp. 133–135). Overall, he illustrates the limitations of mainstream economic theory on trade and illustrates the negative impact of hyper-globalization compared to the rosy picture of free trade in economics textbooks.

To conclude, Beker emphasizes that mainstream economics is not value free and highlights the role of economic power that influences government to promote deregulation for corporations and lower taxes for the wealthy (p. 138, 144). He reiterates that mainstream economics prizes consistency over reality and pushes for real-world economics that features endogenous behavioural, institutional, and technological variables, individuals with limited cognitive capabilities, disequilibrium, path dependency, market power of corporations, ecological impacts of economic activity, and economic inequality (pp. 147–151). There are some editorial issues with the book such as references to figures (p. 70) or four quadrants (p. 106), for which the reader will have to follow up on references. Nonetheless, Beker offers an accessible reader on alternatives to mainstream economics, presents a critical view of producer theory, and offers heterodox perspectives on topical issues of real-world economics.

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