

FOUNDATIONS OF REAL-WORLD ECONOMICS: WHAT EVERY ECONOMICS STUDENT NEEDS TO KNOW (Routledge, 3rd edition, 2023), by John Komlos.

Review by Guy Dauncey

One of the world's hidden tragedies, happening every day in universities across the world, is that millions of students are being brainwashed to believe that economics is a real science, and that its principles explain how actual economies work.

Maybe it's not a tragedy but rather a scandal, that such falsehoods should continue to be taught. Falsehoods such as that:

- trickle-down economics, with its tax-breaks for the rich, will benefit everyone;
- globalisation will improve everyone's lives;
- economic growth will always bring human progress;
- Gross Domestic Product (GDP) is a good measure of progress;
- deregulation will increase efficiency and living standards;
- inequality is inconsequential;
- everyone is self-interested, rational, and perfectly informed;
- markets will always tend toward equilibrium;
- workers are a commodity and labour unions an unwarranted disruption of the market; and
- "simplifications" derived from deductive theorems are necessary to hide the reality that none of these things is actually true.

How can it be that such nonsense is still being taught in the world's most prestigious universities? In the new edition of his 2019 book, well-established economist and Professor Emeritus of Economics and Economic History at University of Munich, Germany, John Komlos, does not answer this question. But by writing a very thorough alternative textbook for the introductory economics course, Econ-101, subtitled *What every economics student needs to know*, he has performed a truly important service that will contribute to ending the scandal.

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"Millions of students taking Econ-101 fail to grasp the essential aspects of real-existing markets," he writes. "Rather, they learn a caricature of the economy at a level of abstraction that creates a fantasy world and distorts their vision." They learn that "free markets are infallible, pristine, and endowed with supernatural powers."

He asserts that markets ought not to take precedence over moral values. And that economics should not be taught as if it is a physical science; GDP should not be equated with welfare; power, oligopoly and monopoly should not be ignored; and the realities of our social and moral existence should not be brushed aside by the broom of methodological individualism.

"The claim that these topics cannot be studied in Econ-101 because of their complexity or because of insufficient time," he writes, "is preposterous. Without this knowledge students are indoctrinated into a fundamentalist ideology. (...) Wrong economic theories have led to defective economic policies, which in turn led to blunders of historic proportions."

Komlos also shows why mainstream economics fuels covert and systemic racism, since market fundamentalism and methodological individualism ignore prejudice and discrimination, presuming that "discrimination is benign, because competition will ultimately

overcome its deleterious effects”. “In this Alice-in-Wonderland economy,” Komlos writes, “there is no peer pressure to maintain a united front against the oppressed, no lynchings, and no KKK to enforce and perpetuate subjugation.”

For teachers of Economics 101, the new edition of his book is a gift: it will make it far easier to answer those awkward questions that some students insist on asking, such as “Why does economics treat damage to nature as an externality, when it is the pursuit of capital gain itself that is causing the damage?”

For students, his book is an equal gift, for it will enable them to ask well-informed questions of lecturers who promote a conservative Neoliberal agenda in Econ-101 with little awareness that they are in fact teaching propaganda.

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Komlos’ hope is for a paradigm shift that will generate a humanistic economics. “The goal should be to catch up to Finland in educational attainment, to Switzerland in happiness, to Norway in longevity, and to Denmark in equality, rather than growing the economy. The reformation of the economics discipline is long overdue,” he writes.

“The new paradigm must start with empirical evidence as its foundation, rather than deductive theories that appear eloquent in ivory towers but become toxic at street level. People must come before profits.”

Along the way the reader will find some gems, such as this quote from Adam Smith, written in 1776: “Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people.”

When Komlos prepares the 4th edition, I hope he will include four additions. The first would be to explain why mainstream economics systematically ignores the climate and biodiversity emergencies, and the disastrous William Nordhaus approach to climate, [whose modelling found that a 4° Celsius rise would be “optimal”, thank you very much](#). Climate gets a few mentions in Komlos’ 3rd edition, but nature and biodiversity get none. The appalling reality that, if market fundamentalism continues to operate the way mainstream economists say it should, it will destroy our entire civilisation, taking nature down with it, does not come through.

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The second desirable addition would be to explain why the paradigm of Neoclassical economics came to dominate by drawing on:

- the desire of late 19th century economists to describe the economy in a way that ignored the struggles between the owners of capital and workers; and
- a hundred years of pro-business propaganda that taught Americans to loathe government and love the free market, as Naomi Oreskes and Erik M. Conway explain so comprehensively in *The Big Myth*.

The third would be to explain why the free market approach to housing, combined with central bank profligacy, has caused the housing crisis. Students of Econ-101 will appreciate this, since so many will be either struggling to find an affordable place to rent, or living in their cars.

The fourth would be to shine a light on community economics, entirely ignored in Econ-101, which brings so many stories of hope, resilience, and local empowerment.

These shortcomings aside, this is a brilliant book which every student of Econ-101 needs to read to prepare her/himself to overthrow the false, dangerous paradigm that is mainstream economics.

Guy Dauncey

Guy Dauncey is an eco-futurist who works to develop a positive vision of a sustainable future, and to translate that vision into action. He is founder of the West Coast Climate ...

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