BOOK REVIEWS

John Komlos (2019). *Foundations of Real-World Economics: What Every Economics Student Needs to Know*. Routledge. Second edition, pp. 306. ISBN 978-1138296541

Reviewed by **John F. Tomer**

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Is it possible to transform the subject of economics, making it into a subject that depicts economic behavior much more realistically? And, if so, is it possible to write an introductory text for this subject that would be both interesting and understandable for young college students as well as being a text that could motivate these undergraduates to go further in their economic studies? John Komlos believes this is possible. Komlos' book, *Foundations of Real-World Economics: What Every Economics Student Needs to Know* (second edition, Routledge) is the result of his effort to show that it can be done.

It should be pointed out that John Komlos has proved himself to be an extremely competent scholar who has had a long distinguished career as an economist and social scientist. Komlos was born in Budapest in 1944 and came to Chicago in 1956. He did his graduate work at the University of Chicago where he received PhDs in both history and economics. Among his important accomplishments is founding the field of economics and human biology. Komlos' scholarship has defied disciplinary boundaries. Notably, he has published in major journals in five different disciplines: economics, history, statistics, statistical methodology, and mathematical population studies. In the years since the financial meltdown of 2008, a good part of Komlos' research and writing has focused on understanding the causes of the financial crisis and what it means for the economics discipline.

Unlike most contemporary writing in economics, Komlos' economics writings are explicitly based on his progressive, democratic, and humanitarian values, and his text is not based on the methods of neoclassical economics. The focus of his economics is on increasing people's life satisfaction (or well-being) as opposed to the typical economic focus of economists on growth of output and income. In essence, Komlos is concerned with the relationship of economics to the flourishing of people's lives. In Komlos view, economics needs to be based on moral values as was true to a great extent in the writings of economic thinkers in the 18th and 19th centuries. As was true with Herbert Simon, Komlos aspires to develop an economics that is entirely integrated with all the other social sciences (Augier and March 2002: 3).

There is no doubt that Komlos has written a very high quality book, but I do have doubts that his book can be successful as an introductory economic text. Let's examine this issue carefully. What is the goal of this book? Komlos' intention seems to be to write a textbook that is

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essentially an introduction to economics (or sociology, psychology). It should, however, be noted that in the book's current state, much of the writing is sophisticated; it draws on advanced research. It is loaded with noneconomic insights. Because of the latter, his text does not resemble closely an introduction to economics. Or is Komlos' aspiration to write a textbook that differs from an introductory one in that it has two main parts, the first part being an introduction to the discipline of economics. The second is a synthesis of the introductory material with research findings containing insights that are more advanced than the type of material usually included in an introductory text. These two parts would enable the reader to gain a full-fledged appreciation of what it is possible to understand about the U.S. economy. Organized in this fashion, the book includes many insights that are generally more advanced than the type of material usually found in introductory texts. This combination would no doubt enable the reader to truly gain a full-fledged appreciation of the U.S. economy. This approach, for example, certainly involves integrating behavioral economics understandings with introductory material. It also involves integrating insightful research about how well U.S. and world markets are functioning with introductory material.

Consider another possible way of organizing Komlos' text. This alternative would involve writing a book that leaves out much of the more advanced material. Presumably such an alternative introductory economic text could provide the young college student enough interdisciplinary insight and alternative values to make the book valuable to the undergraduate who wants an alternative first book in economics, but wants one that makes it possible for student readers to understand more advanced economic texts in more specialized areas in subsequent course work.

Parts of Komlos' book emphasizes his socio-economic insights, ones that he has gained over a long distinguished career as an economist and social scientist. I suspect the typical young undergraduate reader will not be able to appreciate these author insights to a great extent, unless they are more fully explained and explained in a way that makes them accessible to an undergraduate who has not had many years to allow him/her to both satisfactorily read these advanced writings or appreciate significant socio-economic occurrences. Note that the traditional Econ 101 text generally attempts to make basic economic logic the essence of the text and does little to load the book up with noneconomic aspects that would be difficult for young undergraduates to learn in a semester or two.

The book as it stands is, of course, a very valuable text. The problem as suggested above is that the typical young undergraduate will not be able to appreciate and master the nonbasic insights of the author. Relatedly, the typical undergraduate will not have lived long enough to have done much in the way of contemplating his/her philosophy of life or to have given much thought to how the philosophy and methods of the economics discipline have significant flaws and need to be changed.

Here is the essence of my critique of Komlos' book. This book or something like it could conceivably be very useful for advanced economic undergraduate or graduate students who are old enough to be able to reflect on their economic studies and begin to take a critical look at their socio-economy/society. This book might then serve to help such advanced students see the potential of a better economics in the sense of both content and values. Such a book would not be a starting text (Econ 101) nor necessarily a book used in a course. It could be a book that helps advanced students gain perspective on economics and helps them shape their economic career paths.

Note that a good part of Komlos' book involves providing information/data that is pertinent to understanding the performance of the U.S. economy, particularly its poor performance in

some respects. While valuable, that may not help the young reader understand how economies generally function or should function. While examining economic performance is no doubt important, it does not necessarily contribute to essential understanding about an alternative view of economics and how economies function.

Consider Komlos' overall views on the importance of markets as well as the poor functioning of the U.S. economy and its markets in some respects.

"According to conventional wisdom, free markets are practically flawless, acquiring an almost divine aura. However, we ought to resist the temptation to ascribe supernatural powers to them for markets are created by human beings and not by a deity. They are not natural and do not emerge spontaneously out of disorder. Rather they are man-made institutions and are only as good as the rules (moral and legal) that govern the behavior of market participants and the oversight of a higher authority that enforces the rules without which markets generally implode. [...] They are not infallible and should not be idolized. They are a means to an end and not an end in themselves" (Komlos 2019: 19).

Komlos further points out that "the common wisdom is that market capitalism 'has been an enormous success'" (2019, p. 19). What Komlos adds is that U.S. market oriented capitalism has in some ways been successful, but in many other respects it is not doing very well. He provides explanations and data indicating how, contrary to much popular opinion, the socio-economic performance of the U.S. economy has often been inferior to that of quite a few other economies. Consider a few examples:

1. In 2014, the homicide rate in the U.S. was three to eight times higher than in Western and Northern Europe.
2. Per capita drug use in the U.S. is more than three times as high as in Western Europe.
3. The U.S. in 2015 had the highest incarceration rate in the world.
4. The rate of U.S. bankruptcies varied from year to year depending on the economic cycles but was generally quite high.
5. The U.S. had the second highest poverty rate of children in advanced industrial nations during the decade starting in 2010.
6. Compared to a group of relatively rich countries, U.S. life expectancy was significantly below the median and only at the level of Cuba, Uruguay, and Costa Rica.
7. From around 1980, the growth in real wages in the U.S. has fallen very significantly below the growth in productivity for those years in contrast to what has occurred in other comparable countries (Komlos 2019).

As indicated earlier, Komlos mentions that his text is based on his personal values which he characterizes as progressive, democratic, and humanitarian. It is, however, important to note that there are other values and world views that could be the foundations of his book. A number of authors, not just Buddhist ones, have in recent decades proposed that the functioning of market oriented capitalist economies could be substantially improved if a different world view and values were adopted as the basis for the functioning of their economies instead of the values associated with capitalist market economies and mainstream economics.

The following related to Buddhist economics provides an example of my thinking. It is not, however, a recommendation to include Buddhist economics in Komlos' text. Let us consider the nature of Buddhist economics and how its adoption could lead to important improvements in an economy's functioning. Buddhist economics embodies a world view that is very different from the

world view associated with Western economies. The world views of the latter are largely based on the tenets of mainstream economics. Every society has a particular world view that reflects their people's values, especially their values concerning how their economies should function. The functioning of all economies needs to be built on an explicit set of values related to the society's economic goals. The world views associated with Western or modern capitalist economies are typically narrowly oriented and emphasize growth of output. The world view of Buddhist economics, on the other hand, emphasizes a very broad view of what contributes to well-being. They emphasize the ideal relationships that humans can develop with each other and with nature. There are good reasons to believe that a society adopting Buddhist economics can be expected to experience much less socio-economic and biophysical dysfunction than conventionally oriented capitalist societies. Relatedly, note that in contrast to Western economies, Buddhism teaches that economic activity should be a means to a good and noble life, not an end.

Human activities are increasingly having massive negative consequences for both the biosphere and socio-economic relationships. Climate change is a prominent example of biophysical dysfunction, and obesity is an important example of socio-economic dysfunction. The world view and orientation of mainstream economics does little to help us understand the causes of these large dysfunctions, nor to understand what is necessary to resolve them. Mainstream economics does not provide key insights into the socio-economic causes of the market failures involved. For example, it provides little appreciation of the tendency of businesses to be excessively self-interested, opportunistic, and exploitive in its relationships with consumers and others. The idea that businesses might embrace social responsibility and attempt to serve people's true preferences rather than their actual preferences is foreign to mainstream economics. Mainstream economics also does not help us understand the excessive growth of the Earth's economic activity and the excessive use of fossil fuel energy. Further, it does not mention that consumers' ignorance and inability to find satisfaction with their consumption are principal factors in contemporary biophysical dysfunction.

Because important, large scale dysfunctions such as climate change and obesity have been largely outside the scope of mainstream economics, the types of analysis most suitable for understanding them have not been developed. It follows that mainstream economists are unlikely to propose viable solutions for these dysfunctions. It turns out that many of the answers can be found by turning to the wisdom embodied in Buddhism. Arguably we could gain by drawing on Buddhist teachings such as the Four Noble Truths and the Noble Eightfold Path. These teachings could help us understand why dishonest businesses that are not concerned with the true well-being of its customers are part of the problem. It can also help us understand that ignorant, compulsive consumer behavior is an integral part of the dysfunctions. Ideally, people ought to consume mindfully and moderately, using intelligent reflection on their choices in order that their consumption contributes to their true well-being. If a society were to adopt Buddhist economics, and if people and businesses were to behave in accord with the ideals articulated in Buddhist teachings, there is good reason to believe that the result would be sustainable use of the Earth's resources and that both biophysical and socio-economic dysfunctions will be avoided or resolved. Note that this analysis is not meant to imply that Buddhist values are the only values that can produce favorable effects on a society's economic performance. The upshot of the above is that it would have been good if Komlos had given more attention to the role of values in determining how well economies function and had done more to include this factor in his analysis. I am, however not clear on how this aspect could be included in Komlos' current text.

John Komlos' *Foundations of Real-World Economics* explains a tremendous amount of how economies like the U.S. function in recent years. In doing so, it integrates conventional economic analysis with wide ranging socio-economic analyses and the thoughtful insights of the author on many topics related to how economies function or do not function well. At the very least, he has gone a long way in showing how economies can become a more important and different discipline than it has been. I highly recommend his text for many students of economics but somewhat less so for young college students.

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Anthony J. Makin. (2019). *The Limits of Fiscal Policy*. Palgrave Macmillan, pp. 130. ISBN 978-3-319-90158-9

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Anthony J Makin is Professor of Economics at Griffith University, Australia. He held previous positions as an International Consultant Economist with the IMF, Senior Economist in the Australian federal departments of Finance and Treasury, and a convener of the structural issues group of the Pacific Economic Co-operation Council (PECC). He is the author of a Global Finance and the Macroeconomy, Global Imbalances, Exchange Rates and Stabilization Policy, and International Macroeconomics, along with numerous journal articles on international economic issues.

Though the title of the book is clear, after reading it, one has the impression that the author's main theme is not fiscal policy per se, but the Keynesian way of implementing fiscal policy (demand-side fiscal policy), and the book is essentially a critique of this. The author's critique of Keynesian based fiscal activism can be summarized as follows. The timing of the G20 economies' fiscal response to the Global Financial Crises (GFC) was imperfect, therefore the response had no impact. Due to administrative delays the problems had already shifted by the time the policy response was implemented. The book criticizes Keynesianism for advocating government spending as the sole tool to review economic growth and ignoring future consequences of unproductive public spending and high public debt that result. The author claims that the Keynesian doctrine has politicized fiscal policy since the GFC (government spending biased towards politically motivated policies). He argues that in the case of a closed economy, high

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government spending is offset by low private sector investment. For example, an increase in government spending displaces private sector spending, with little or no increase in aggregate demand, in other words private sector investment falls in response to increases in government spending. In an open economy, the condition is applicable only if capital mobility is imperfect. Increased government spending then reduces net exports (as per the Mundell-Fleming model), and reduces households' consumption (Ricardian equivalence). These kinds of crowding out effects and their wide implications for the national income, were ignored when fiscal stimulus was implemented the after crisis. Crowding out effects overturn fiscal multipliers effects, which becomes either very low or zero, making fiscal stimulus ineffective.

Concluding from the main arguments of the book, it is clear that the author advocates for a passive fiscal policy just as the proponents of new classical theory insist. This however, does not imply a total disregard of fiscal policy, but it using fiscal policy appropriately as an economic tool. The book is not prescriptive, but acts as a guide to policy makers to understand the goals and the effects of fiscal activism. While agreeing with the author's well-presented arguments and assumptions, it is important to acknowledge that expansionary policy can be effective in boosting the economy if there is low private sector investment and a high saving ratio in the economy. Economies do accumulate debt even without fiscal stimulus. It is worth noting that Great Depression in the 1930s occurred without the help of Keynesian discretionary fiscal policy. For instance, the author makes reference to the Southern European sovereign debt crisis as one of the side effects of fiscal stimulus after the GFC. But Greece accumulated a huge debt even before GFC, when its growth was skyrocketing, at around 5% annually. Thus, Keynesianism is not the only reason for economic woes, but other policies also play a role.

Nevertheless, the author is right in pointing out that since the publication of Keynes' *General Theory of Money, Interest and Employment*, there has been no academic unanimity on the effectiveness of fiscal activism. Even with his insightful book, the disagreements will continue, because the conclusion of whether Keynesian fiscal policy is effective or not varies from country to country, therefore it should be based on and supported by empirical evidence, not theoretical interpretation and historical accounts. How effective demand side fiscal policy is, depends on the conditions at the time of implementation, thus we cannot make a blanket conclusion that Keynesian fiscal policy will always have a crowding out effect on the economy.

Overall, this is a must-read book for students specializing in public finance, specifically fiscal policy. It is also a useful reference for policy makers who remain skeptical of discretionary fiscal policy. What stands out as novelty of the book is the fashion in which the book is presented and the sequence of chapters. Although many macroeconomic books dedicate a whole chapter to fiscal policy, these books do not demonstrate in a systematic and comprehensive manner how non-Keynesian theories offset Keynesian based fiscal activism. Professor Makin acknowledges that many have written about the topic, however, there is a gap that justified the publication of this book. For example, the author insists that many studies on the effectiveness of fiscal stimulus concentrate on the fiscal multiplier, and little attention is paid to fiscal theory. He argues that, many of the studies were based on Keynesian assumptions and analyzed closed economy effects, ignoring the influence of the international economy. According to the author, three qualifications Keynes himself mentioned in his book were ignored by policy makers during the implementation of fiscal stimulus. The fiscal multiplier would be weaker if extra government spending (1) raises the interest rate, (2) reduces confidence in the market, or (3) increases imports, thereby diminishing a favorable trade balance.

The book comprises eight chapters; chapter one presents historical accounts that support the critique of the Keynesian fiscal policy doctrine. It gives account of the G20 responses to the GFC, and explains what happens to the value of the fiscal multiplier when government spending increases. It is suggested in this chapter that the Keynesian doctrine caused more harm than good for economies during the 1970s. Consequently, Monetarist and New Classical economists discredited Keynesianism in the 1980s and 1990s. At the insistence of the Obama administration and IMF, Keynesianism was revived after the global financial crisis, especially in the G20 economies in an effort to counter recession. Nevertheless, according to the author, this response created more problems for economies, especially advanced economies, which experienced large budget deficits and high public debts, leading to underperformance. In this chapter the author asserts that if fiscal stimulus had not been pursued in advanced economies post crisis, high budget deficits and the subsequent levels of public debt would have been less acute in Europe and the USA.

Chapter 2 discusses the macro foundations for fiscal policy analysis. Chapter 3 discusses budget deficit, public debt and crowding out effects. Chapter 4 presents the budget deficit and national income. Chapter 5 presents a comparison between fiscal and monetary stimulus. Chapter 6 explains fiscal policy in a dependent economy. Chapter 7 analyses the macroeconomic impact of fiscal consolidation. Fiscal consolidation can have a positive impact on the economy depending on the nature of the repair-challenging Keynesian theory that fiscal consolidation reduces aggregate demand hence national income. In this chapter, the author further distinguishes between bad and good categories of fiscal consolidation, concluding that how fiscal adjustment affects the economy depends on initial conditions and actual implemented. Chapter 8 concludes by showing the interconnection between public confidence and budgetary policy, highlights the limitations of fiscal activism and suggests goals for fiscal policy.

In summary, the book is a contribution to the ongoing debate both in academic and policy making spheres on whether re-introduction of Keynesian fiscal policy after the GFC was a smart policy action, and whether fiscal activism is an effective way of countering recession. The book critically evaluates and challenges the logic of Keynesian fiscal policy, that increasing public expenditure or decreasing taxes stimulates economic growth, while reducing government expenditure or increasing taxes slows the economy when it is overheated (what the author refers to as the Keynesian delusion). The book highlights the limitations of fiscal activism as prescribed by Keynes, and draws the reader's attention to various factors that could thwart the purpose of fiscal activism. The book also points out the connection between budgetary policy and confidence, i.e., how budgetary policy affects people's confidence and vice versa. Finally, the book discusses the macroeconomic consequences of different fiscal consolidation measures. Fiscal stimulus is ineffective and bad for the economy, while fiscal consolidation has the potential to improve national income.

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