

## *Heterodox Economics Newsletter*

FOUNDATIONS OF REAL-WORLD ECONOMICS: WHAT EVERY ECONOMICS STUDENT NEEDS TO KNOW, John Komlos, Routledge: New York 2019 pp. 292, ISBN 978-1-3515-8470-8.

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Many people in this country are dissatisfied with the outcomes of our economy and some are suggesting measures that seem socialistic. The time has come to recognize that mainstream economics as taught in our schools is not doing a service for our students. The great recession of 2008 and the current COVID-19 pandemic have revealed the flaws in an economic model long in need of revision; so, says John Komlos a prominent professor of economics at the University of North Carolina at Chapel Hill. His recent book, “What Every Student of Economics Needs to Know,” tells us that the economic model that is taught today fails to deliver universal prosperity and happiness despite what appeared to be a robust economy prior to March 2020. Now, with a ruptured economy held hostage by an invisible enemy, we look to the future with trepidation.

Those citizens kept alive for now with massive amounts of fiat money and already on the brink need a system that is sustaining, equitable and above all compassionate and relevant. That is the mission of Mr. Komlos as we aspire to build a new normal which better prepares us for the 21<sup>st</sup> century.

So, what does every student of economics need to know? Well, in Komlos’ words, economics is far too important to be left to “Blackboard Economics,” i.e. mainstream economics. The objectives of an economy are both efficiency and equality. America is a democracy in which everyone is presumed to be equal. That means the expectation of a quality of life in which the present and future are viewed without the cold, pit of the stomach fear that drives us to seek escape in drugs and embrace violence.

Current data shows that our free market capitalism, which generated \$21 trillion in GDP, fails to improve the lives of so many of our citizens. Professor Komlos’ recent book, was written to give the student a more realistic understanding than the traditional theories and models that fail to explain the inequalities and excesses of the economy. The purpose of studying economics is to learn to better allocate finite resources for the benefit of all, the next generation of leaders and managers depend on what we pass on to them.

Mainstream economics failed to alert us to the looming economic crisis of 2008. The political gridlock in which a dysfunctional congress operates prevents it from addressing the elephants in the room: global warming, sustainability and the dynamics of the global economy in which there are winners and losers.

Professor Komlos’ economic principles are humanistic in that they focus on enhancing the human experience and lead to mass flourishing. Pain also plays a role in his thinking; poor schools, lack of opportunity and discrimination are not merely statistics, they are flesh and blood human beings with dreams and hopes for the future. Mainstream economics treats some groups with indifference. Remember that averages are made up from extremes. As I remind my students an average

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temperature of 50 degrees might represent a climate in which the low temperature is zero and the high a scorching 100. So, it is with a GDP/capita of \$60,000—misleading until you dig deeper into the statistics.

A great deal of government spending are in social programs that raise spending power by aiding for food, medical care, housing, and education. To be realistic though, the government alone cannot rehabilitate the post COVID-19 economy. Individuals must have and create new wealth.

The means to income transfers alone do not build prosperity; job creation does; and that depends on educational opportunities and adequate health care. The pursuit of life, liberty and happiness is not reserved for the anointed few. Anemic GDP growth is the new normal in the 21<sup>st</sup> century with actual GDP lagging potential growth. This has been the new normal with our economy for the past thirty years. Our two-tiered economy distributes income via wages to the bottom and capital gains and dividends to the top. Education as the elevator of opportunity is expensive and out of reach for too many.

Despite the enormous amount spent on health care, we have a declining life expectancy, a huge opioid crisis and an unacceptable infant mortality rate.

There are four elements to GDP; and government, despite its limitation, is the only one that can be controlled to help the other three.

The so called peace dividend resulting from the end of the cold war never materialized and instead, since 911, we have been at war in Afghanistan and Iraq, conflicts which have cost our country trillions in money, not to mention many lost American lives. The new budgets which were proposed by the Trump administration cut funds for health and human services, education, agriculture, and energy and increased spending on defense and homeland security. Clearly pre COVID-19, this was not designed to change the American status quo. No one can argue that our system of democracy and free markets has produced an economy which, measured in GDP, is one of the world's best. But, is it perfect? No, of course not. This is where Professor Komlos tells us it must work better. Given our vast factors of production our citizens should enjoy a good quality of life, provided they play by the rules.

Before COVID-19 we had an economy in which most working people lived from paycheck to paycheck. Most people surveyed said that they could not raise \$400 if an emergency presented itself. In the excellent documentary *THE LINE* many middle-class people found themselves below the line, a feeling not only of personal failure but of a loss of faith in the system. Their being 'below the line' somehow carried a social stigma.

Based on mainstream models, one would predict that our life satisfaction or happiness would have increased substantially since World War II. After all, per capita gross national product (GNP) in real terms increased in the U.S. by a factor of 3.5. But that prediction is falsified by the fact that the share of people who report that they are either happy or incredibly happy has not changed at all in the intervening half-century. If anything, it has fallen. Hence, obviously, the importance of money is overvalued by economists.

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Yet, another example in which predictions were false is that no mainstream economists predicted the crisis of 2008. Fed chairman Ben Bernanke expected the sub-prime mortgages not to destabilize the financial system. Geologists are better at predicting earthquakes than Ben Bernanke was in predicting the Meltdown of 2008. In other words, when it comes to the major challenges of our time, economic theory has misguided us. So, the argument that economists can predict accurately even with unrealistic models has been falsified by the evidence.

Adam Smith's *Wealth of Nations* has been taught as the bible of our economic catechism for many years. If 56 percent of the population is doing fine then 145 million are not. This is of course BV (before virus).

The virtues of the laws of supply and demand and the invisible hand notwithstanding, we have seen shortages of everything from toilet tissue to masks and ventilators. While nurses and EMT risked their lives every day, one of the greatest industrial countries in the world saw infighting between states over ventilators and protective masks purchased from China, where the virus originated; apparently, *they* had sufficient supply.

My first question in Economics 101 is "why do we study economics?" The answer that I hope for is to make better use of our abundant but finite resources. We talk about the Invisible Hand that is supposed to make the system work. The events of the past few weeks have made the recession of 2008 seem modest by comparison. The lockdown of our country was forced by a modern-day plague that threatens to reverse our once-functioning, if imperfect economy and change our way of life. So, where are we now? One of the largest economic engines in the world has been decimated by an enemy too small to be seen by the naked eye. The resources needed to sustain our health care workers and first responders were in pitiful short supply and market failure reminiscent of the Soviet Union saw shortages of everything from toilet paper to bread. Clearly markets need a clearer vision of how they must operate. What do I teach come September? Well, Professor Komlos, a more realistic approach to the Who, What, and For Whom questions I will pose to my young students.