Book reviews

John Komlos · 2023

Foundations of Real-World Economics: What Every Economics Student Needs to Know.

New York: Routledge

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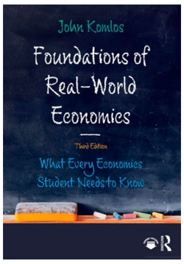

Although not necessarily well-known among sociologists, John Komlos, Professor Emeritus of Economics and Economic History at the University of Munich, uses many sociological concepts in this new edition of his *Foundations of Real-World Economics*, making it a must-read for those who would like to learn more about the workings of the real economy than the ivory-tower theorizing most mainstream textbooks have to offer. Born in Hungary, Komlos received PhDs in both history and economics from the University of Chicago, where his mentor, the Nobel laureate Robert Fogel, introduced him to the importance of biological indicators for understanding economic processes.

Komlos became a humanistic economist because his research revealed the drawbacks of using monetary indicators to assess a population's well-being. Humanistic economics focuses on how human beings thrive in the economy, rather than considering output as the true gauge of the economy's health. This book, now in its third edition, was originally conceived in the context of an urgent need for a paradigm shift in economics toward a human-centered, rather than a consumption-centered, approach. The obvious failure of neoliberal economic theories that guided the global financial system into the meltdown of 2008 was another motivation for rethinking the whole apparatus of economic theory (Wong 2021). Taking guidance from Nobelist Joseph Stiglitz's suggestion that "market fundamentalism is dead" (p. 10), Komlos introduced a new paradigm: *capitalism with a human face*, the hallmark of an inclusive economy with a thriving citizenry who feel good about their lives and do not need conspicuous consumption in order to be satiated.

Komlos' book is intended for anyone with an open mind who is interested in the way the economy works in reality rather than the way economists imagine it should work theoretically. Hence, the book will benefit readers without prior knowledge of economics. It fills a gap because its analysis does not begin with assumptions but with evidence, not with adults but with children, uses inductive rather than deductive logic, integrates analysis from sociology, political science, and psychology that are overlooked in conventional economic theory, and does not assume that people are rational, as conventional economists do, but builds upon the research results of behavioral economists.

The normative philosophical foundation of mainstream economics is that the goal of the economy is to produce as much as possible and the free market is the most efficient way of doing so. But Komlos shows that this method has led to repeated crisis and to so much social and political discontent, especially, but not exclusively, in the US, that the outcome is an economy that produces a lot of goods along with a lot of discontent. In contrast, Komlos' normative principle is that the goal of the economy should be to improve the quality of life rather than to produce as much as possible, and it should do so by minimizing pain and discontent, an overlooked issue in mainstream economics.

The foundation of Chapter 1 is the Aristotelian principle of the golden mean, namely that a good economy is built on the successful cooperation of the state and the market, similar to the social market economy, as practiced in many Western European countries. The free market ideology of neoliberalism, as advocated by the likes of Milton Friedman and Friedrich Hayek and put into practice in the Anglo-Saxon world by Ronald Reagan and Margaret Thatcher, have forced their countries into a historical dead end because of their utter failure to create an inclusive economy. While their economies produced a lot, the laissez-faire ideology created a dual economy in which nearly half the population was unable to live comfortable lives. Hence, the takeaway from this experience should be that the good economy is not one that produces a lot, but one in which the citizens feel good about themselves and their society, the way they do in the Scandinavian countries, for instance, or in Switzerland. This is the human-centered economy that Komlos advocates.

Mainstream economists make a major mistake by assuming that average money income is a decent indicator of living standards. Instead of assumptions, Komlos believes in inductive logic, and in Chapter 2 he therefore provides ample evidence that growing GDP in the US failed to improve the quality of life, as the country fell behind its peers in every single indicator of welfare, including longevity, life satisfaction, happiness, security, incarceration rate, opioid overdoses, educational performance, school shootings, and mental health.

The rest of the book builds on this evidence by highlighting the colossal mistakes in economic policy that led to the inferior quality of life for about half of the US population. These policies were based on simplifications that assumed the homo oeconomicus model would apply to real people. Mainstream economists assumed that human beings are rational and fully informed, and by relying on methodological individualism they disregarded society completely, amazingly even in macroeconomics. In other words, society was omitted from their models and they consequently did not consult the sociological literature about the effect of their neoclassical policies in the real world. These were not minor mistakes but amounted to major blunders that led to a mismanaged globalization and lax oversight of finance until it imploded, leading Queen Elizabeth II to exclaim in amazement: "Why did nobody notice the coming of such a stupendous catastrophe?" (p. xxi).

This edition includes a new Chapter 15 examining the path-dependent processes by which neoliberal theories led to a polarized society and became a breeding ground for populism. The author suggests that it all began with Reagan's trickle-down policies that failed to trickle, his tax cuts for the superrich that initiated an unconscionable increase in inequality, and deregulation that culminated in the meltdown of 2008. These policies might have been favorable to the growth of GDP in the short run, but they were devastating for the social contract and social harmony in the long run. Yet, the policies gained such momentum among voters that successive administrations – including Clinton from the opposite party – continued in Reagan's footsteps, with renewed support for both deregulation of the financial sector and hyperglobalization until the economy imploded under Bush Jr.'s watch. Hyperglobalization was so devestating that it not only exported jobs by the millions but also destroyed whole regions of the Rust Belt. Obama then poured fuel on the fire with insufficient crisis management and wasted the crisis with a policy that can be summarized after Joseph Stiglitz as "socialism for the rich and capitalism for the rest of us," meaning that the rich were bailed out while the rest of society had to fend for itself (Hundt 2019; Stiglitz 2009). This only exacerbated inequality. Consequently, the have-nots, those less skilled and less educated, and the millions of families who were evicted from their homes increased the dissatisfaction in society, which culminated in a Bastille-like attack on the Capitol on January 6, 2021 (p. xxii).

Chapter 16 reveals the racist elements hidden within "blackboard" economic theories expounded in college classrooms. Komlos underlines the importance of the covert nature of racism, since these theories were not formulated in the spirit of racial hatred but disadvantaged the descendants of slaves nonetheless simply because market fundamentalism supports the status quo among the masses and those who are born into disadvantage remain in the periphery of society. Consequently, the marginalization of minority groups becomes systemic racism as a direct consequence of neoliberal economic policies. In this connection, the author refers to Paula Rothenberg's (2022) highly influential work, now in its fifth edition. The lesson of this chapter is that intention is not a defining characteristic of racism, so we can talk about "structural," "institutionalized," or "systemic" racism, which has developed following the theories of "mainstream" economists, and which keeps most of the descendants of slaves, Hispanic people, and also indigenous people in the United States in poverty.

In the next new chapter, the author explains why the COVID-19 pandemic made it clear that economists made a mistake in neglecting the importance of basic needs and fail-safe strategies in economic theory. Komlos appreciates and renews Nassim Taleb's call for a "black swan-robust" society, a metaphor for low-probability, high-impact events that keep on recurring – as the dot.com bubble and the Russian-Ukraine war remind us – in spite of the fact that they are unexpected and, as a consequence, society is found unprepared for such events. The US was especially unprepared, with its loose safety net, convoluted health care system, and lack of private savings; hence, there was not much for it to fall back on, and it consequently experienced the second highest death rate in the world due to the pandemic (after Brazil), with life expectancy decreasing by no less than 2.7 years.

The author also shows that the supposedly booming economy, previously imagined to be stable and self-correcting according to neoliberal dogma, was at the mercy of the government to bail it out, since markets were incapable of reacting to the crises of the 21st century. Not even a quarter of the century is behind us, yet the repeated black swan events, coupled with the failure of neoliberal dogmas, mean that the US has morphed into a new form of capitalism that relies excessively on government bailouts. Indeed, it is incapable of existing without a government backstop. This also implies that Komlos has been proven right and a paradigm shift is desperately needed in economics: not the dusty, speculative theories of university auditoriums, but a humanistic economics capable of improving the quality of life for everyone as well as responding to black swan events in the real world. The book's one limitation is that the statistics are mainly from the US. Nonetheless, the concepts are applicable globally. Consequently, anyone interested in understanding the workings of the real economy would benefit greatly from reading this book from beginning to end. It is not, however, intended for those who are ideologically committed to the old ways of looking at the economy.

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Clara E. Mattei · 2022

The Capital Order: How Economists Invented Austerity and Paved the Way to Fascism.

Chicago: Chicago University Press

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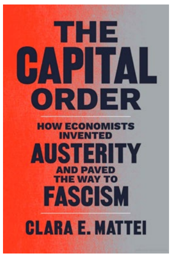

As governments in many advanced economies have rolled back the expansive fiscal spending required to cope with the COVID-19 pandemic, Clara Mattei's recently published book, *The Capital Order: How Economists Invented Austerity and Paved the Way to Fascism*, offers an important and timely reminder that the decision to implement austerity is a political choice, rather than a necessary economic imperative, and that austerity's political consequences can be severe.

The main argument of the book is that after World War I, the British and Italian governments introduced fiscal retrenchment "austerity" policies to reproduce the conditions for capital accumulation at the expense of waged labor by disciplining unionized workers who supported a socialist alternative to capitalism. According to Mattei, this offers a new way of thinking about austerity, as it is not a technocratic means of achieving fiscal responsibility and returning a struggling economy to growth, but a political choice designed to maintain the reproduction of "the capitalist order."

The archival research work on both the British and Italian cases is highly impressive and provides the basis for a rich, detailed account to support several aspects of Mattei's argument. Across four chapters, the first part of the book explores how World War I laid the foundations for the emergence of viable socialist political projects in Britain and Italy. The second part is more expansive, and in five main chapters the book describes how austerity emerged as a distinct set of economic ideas from economic technocrats across Europe, before being introduced to discipline workers in Britain and Italy to reproduce capitalism at a time when it was in crisis. The book then describes how austerity was deemed successful by limiting workers' striking power in both cases, and it concludes by extending the core argument to more contemporary austerity dynamics. Overall, the outstanding empirical analysis of these cases offers a clear and compelling argument of how political actors in both countries at this time disciplined labor using austerity to meet their main objectives.

The book makes a fantastic contribution to how domestic politics helped Britain navigate the instability of the financial system as the Gold Standard was creaking in the interwar years. That said, this has been widely examined from an international political economy perspective. It is well documented that labor was disciplined to bear the burden of adjustment in the British government's attempts to maintain the Gold Standard before it collapsed, and that attempting to balance government budgets was a key means of disciplining labor (Eichengreen and Temin 2000). So, the significance of the contribution made by Mattei's book possibly needs to be limited to the fact that the British state's attempts to maintain its position as the global financial hegemon were also supported by marginalizing worker resistance to capitalism domestically.

However, one of the shortfalls of Mattei's work is that there is a focus only on disciplinary mechanisms, leading to a largely one-sided argument. For example, there is little account of some of the incentives the British government introduced to foster widespread public support for capitalism from the 1920s onwards by widening private property ownership to workers, particularly through homeownership (Francis 2012).

I found the analysis of the Italian case fascinating, and the argument is convincingly developed. In particular, I was impressed by the detailed illustration Mattei develops to explain how austerity was linked to fascist ideals of purity through the promotion of self-control in the consumption of goods for the working class while simultaneously upholding the ideals of hard work to increase production output. This reproduced the conditions of capital accumulation while workers sacrificed in the name of meeting the objectives of the Italian state.

The main issue I have with the book is its explicit reliance on Marxist political economy as a way of understanding contemporary politics and making a general argument about austerity. The core theoretical argument is that "austerity is a response to a crisis of capitalism" (p. 2), which Mattei defines as "when its core relationship (the sale of production for profit) and its two enabling pillars (private property in the means of production and wage relations between owners and workers) are contested by the public, in particular by the workers who make capitalism run" (p. 2). Subsequently, "austerity's primary utility over the last century has been to silence such calls and foreclose alternatives to capitalism" (p. 2–3), mainly socialism in the British and Italian cases analyzed by the book. Leaving aside the lack of significant critical engagement with any other theoretical framework beyond Marxism, or another conceptualization of crisis, the focus on capital-labor relations in the interwar period is compelling. Particularly as labor's exclusion from the voting franchise meant that workers could be disciplined with austerity without any major political consequences (Eichengreen and Temin 2000).

Although this may have been the case in interwar Britain and Italy, it does beg the question as to what Mattei's book tells us about modern austerity or the politics of capitalism. To my reading, very little. From a comparative political economy perspective, it is not possible to extrapolate a general argument about the political justification for austerity in capitalism from two specific country cases in one definite time period, which ultimately is what Mattei does in this book.

The book attempts to link its central argument to modern austerity in the introduction and the concluding chapter. It does so by drawing a parallel between austerity being developed by Brussels technocrats in the 1920s, then implemented by the anti-socialist and authoritarian politics of Italy in the interwar years, and the modern European Union imposing austerity on Southern European states after the eurozone crisis. Whether austerity was implemented after the eurozone crisis because the European Union has been captured by capital interests to specifically discipline labor, as the neo-Gramscians believe (Ryner and Cafruny 2017), or because it formed a justification for further integration of the European project, as per the constructivists (Ramalho 2020), is left largely unexplored, making the parallels unconvincing.

The Marxist framework used in the book is not particularly compelling when applied to the implementation of austerity in contemporary Britain. The expansion of the democratic franchise allows workers to punish governments who make them bear the excesses and failures of capitalist markets, which led to the rise of the welfare state as characterized by Polanyi's famous "double movement" (Polanyi 2001). Yet, recent episodes of austerity in Britain have been legitimized democratically. For example, although the costs and consequences of the 2008 Global Financial Crisis were pushed onto the most vulnerable in British society through austerity, while financial firms received bailouts, austerity measures were considered a viable policy set that achieved widespread support from the voting public in the UK. Furthermore, the only explicitly Socialist candidate led the Labour Party to its worst electoral performance since the 1930s.

Either workers repeatedly voted for these capital-favoring policies because they supported them, or they were voting against their interests. If one doesn't take the false consciousness bait, then one is left asking why the majority of workers would vote for a policy set that is detrimental to them and benefits capital. The conclusion is that workers are not a coherent and consistent political constituency in and of themselves, and that there are factions of workers who, much like capital, compete with one another for their own interests that may extend beyond their material base. This allows for a wider conception of austerity politics, where governments rely on one set of political constituencies (who may well be anti-capitalist) to bear the burden of adjustment, and another pro-capitalist set for electoral success. However, a Marxist conception of power relations, as deployed in Mattei's text, is too narrow for such an analysis. It also cannot account for the political failures of socialist candidates in contemporary Britain and Italy after the implementation of austerity, and why this may have fueled the rise of right-wing populism instead in both cases.

These criticisms should not detract from the fact that Mattei has produced an excellent and detailed account of the emergence of austerity as a set of economic ideas, and its implementation in Britain and Italy in the interwar years. However, the book's contribution should be read specifically in those contexts, and limited to those contexts, rather than as a general argument about capitalism or austerity, or an understanding of contemporary austerity politics.

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Bruce G. Carruthers · 2022

The Economy of Promises: Trust, Power, and Credit in America

Princeton, NJ: Princeton University Press

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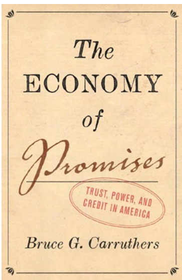

What is the value of a promise? As a marker of a particular kind of relation built on trust, a promise can enable markets to flourish. It can bind actors together for better or worse. The inherent value of a promise goes beyond a single dyad or market. In *The Economy of Promises: Trust, Power, and Credit in America*, Bruce Carruthers recounts in striking detail the unassailable sociological fact that the development of markets in the United States and beyond is built on a foundation of offering, making, evaluating, selling, and even breaking promises. As he outlines the history of the institutionalization of promises from the 18th and 19th centuries forward, he makes a further point: the relational nature of promises highlights the other side of embeddedness. Yes, markets are embedded in social relations, but these social relations also reciprocally make markets as they are performed and institutionalized. Markets are not just built on top of various forms of promises and evaluations of trustworthiness, they are interpolated through them. From trade credit and wholesalers to mortgages and credit ratings, promises have consistently been necessary for markets to work. For Carruthers, the history of US markets is the history of the promises themselves.

In the introduction, Carruthers begins by outlining the nature of a promise. Promises may seem simple, but the analysis of their effects and varieties is anything but. Quickly, the reader moves beyond the everyday interpersonal notion of promises. Carruthers expands and particularizes them. Promises can be impersonal, such as between banks, states, or other institutions. Promises are not made naively. Trustworthiness must be established. Information is key. All this is necessary background as he outlines how critical promises are to various markets. The analysis of trust is further elaborated in the second chapter, which feels especially useful in a pedagogical setting. Here, Carruthers places trust within the framework of credit. Credit necessarily requires trust to work: you do not lend to someone you do not trust. But trust is remarkably tricky. Carruthers notes the limitations of the transitive property of trust. While you might trust your friend's friend, how likely are you to trust that person's friend? Although this chapter is not as necessary to understand subsequent substantive chapters, it does a good job recounting the sociological scholarship on trust in a lucid and accessible manner by consistently using credit and debt as examples. Carruthers numerates the various ways that creditors have attempted to ascertain trustworthiness. From the personal qualities and social networks of debtors to formal contracts and intermediaries, the forms and varieties of methods to develop trust abound. It is on this foundation that Carruthers begins to tell the history of credit, trust, and promises.

In the third chapter, Carruthers tells the story of the development of credit ratings as the institutionalization of the evaluation of trustworthiness. Beginning with trade credit, he shows how trade and basic commerce required credit and promises. A store may purchase commodities from a wholesaler on credit and sell them to the public on credit as well. Without this very basic form of credit, cash crop agriculture would not have worked. Farmers might not have had the money to pay off a loan until after they sold what they had harvested. The entire market operated on the rhythms of the growing season, and it could only do so due to the power of credit. However, trust was still necessary. In this chapter, we see the beginnings of credit ratings as agencies in the North are born in the 19th century for the express purpose of evaluating, in narrative form, the trustworthiness of would-be merchants. As this business grew, so too did the legal mechanisms to regulate it as the risks of erroneously high or low ratings could engender new forms of liability. Beyond this, the emergence of ratings also led to the development of commercial paper: short-term unsecured, negotiable promissory notes. The unsecured nature of commercial paper meant that the only real means of assessing the risk of these loans was through credit ratings. Commercial paper allowed for this form of credit to be bought and sold. Eventually, the importance of ratings made credit insurance possible. Creditors were able to pool risk together, but the issuers of insurance had to rely on ratings even more.

Chapter 4 continues this story of credit ratings but does so from the perspective of bank lending. Here, Carruthers starts by providing a brief history of the uneven development of banking in the United States. As national banking emerged, banks also began to copy the information-gathering techniques of credit ratings agencies. The increased importance of credit worthiness assessments provoked organizational changes as banks had to construct new credit departments as part of this expansion. Credit departments would eventually systematize the information-gathering process, producing forms and statements with laws making it illegal to lie on these forms. The establishment of the National Association of Credit Men further cemented the institutional importance of those responsible for the safe extension of credit. As the chapter details the changing structure of banks, Carruthers also shows how the increasing importance of national banks within markets and law went hand in hand with the formalization of banks as principally credit institutions. Promises were not just the foundation of the market in general terms; the very evaluation of promises became one of the engines for the development of modern commercial banking. Still, the importance of personal ties did not disappear. Carruthers also discusses how investment banking relied on these less formal, but no less powerful, connections as banks coordinated with each other on larger and larger investments. The chapter closes with a discussion of promises broken, detailing how trust in banks faltered during the Great Depression, which led to new forms of oversight and trust-building mechanisms. The Federal Reserve, for instance, sought to manage the health of its member banks, while the Federal Deposit Insurance Corporation offered bank customers some amount of assurance that even if the bank failed, their money would not be totally lost.

The next two chapters outline individual and consumer credit and then move on to corporate credit. In both chapters, the extension of credit was a means to expand markets and to grow businesses. The chapter on individual credit serves as a useful complement for Prasad's *The Land of Too Much* (2013) as Carruthers covers various forms of consumer credit, such as book credit, department store credit, installment plans, cash loans, credit cards, and student loans, while documenting the rapid expansion in household debt. Carruthers also covers the institutionalization and increased importance of individual credit scores and the attendant stigma that bankruptcy can have. Returning to the impersonal nature of promises, his chapter on corporate finance follows the rise of corporate fictive entities in the capital-poor 19th century US, where credit became a necessary means for business to expand. The increased usage of bonds – and the broken promises that followed early 20th-century economic collapse – led to the further establishment and standardization of bond ratings. This chapter also briefly touches on the negotiability of bonds and how it made them ripe for securitization and the rise of financialization.

Perhaps nothing demonstrates how geographically specific this book is than an entire chapter dedicated to mortgages and the development of loans with real estate as collateral. Carruthers focuses on modern mortgages and dutifully engages with the dominant topics in this well-studied area, including mortgage insurance, racial discrimination, and securitization. It makes historical and logical sense to move from the expansion of securitization of mortgages and focus in chapter eight on broken promises. This chapter covers the cultural, legal, and economic consequences of breaking promises. Carruthers recounts the history of modern bankruptcy laws and the stigma that follows these legal processes from individuals to corporate bankruptcy.

The book's last substantive chapter covers sovereign borrowers, where the rules and dynamics change significantly. After the reader has been led through similar historical paths across the previous chapters, the distinctive feature of this chapter is the contrast. States have very different reasons and needs for keeping their promises. Complementing Quinn's work (2019), Carruthers shows how government debt via bonds functions as a policy tool of the state. Although Quinn highlights how the "lightness" of credit works to minimize the political challenges of various policy goals, Carruthers shows how the state can deploy public debt in explicit ways as well. This push to connect credit to public policy continues in the book's conclusion as Carruthers includes additional reflections on the power and influence of debt. He again emphasizes the relational capacity of promises to connect parties, for good and ill, in the making of everything from markets to states.

This book stands out as a thorough and novel treatment of familiar ideas and topics. The colloquial idea of a promise is not new to the reader, but Carruthers casts the promise into a new light that forces the reader to think sociologically about what promises do, what they demand of the parties involved, and the extensive network of implications that come from something as simple as a promise. Carruthers covers significant ground both conceptually and historically. And he does so with a consistent eye on inequality. As Carruthers briefly discusses, debt can be a mechanism for racialized resubordination. Although these conclusions about race and inequality certainly satisfy the standard for rigor and comprehensiveness, at times they read as being causally adjacent to the primary narrative. Of course, the causal power of race and inequality in these financial relations can be traced further than what is seen in this book. If one were to recognize the inherently racialized nature of US history and markets, it is possible to find an alternate reading of some parts of Carruthers' narrative in other pieces of scholarship. For instance, while reading about the rise of credit ratings and their foothold in the North, one can also think to Baptist's (2016) work on slavery and the development of US capitalism. Baptist shows how chattel slavery made southern slavery into a particular kind of debt market. Here, a promise functions differently when the collateral is a human being that can be raped to make more assets. Additionally, Baptist shows how information asymmetries worked differently in the South as the measurement of productivity could be measured individually slave by slave. As a result, slaves were an easily measured form of constant growing asset. In other words, slavery as a system built on collateralized and fungible investments also made it nominally easier to assess wealth. It makes sense that credit ratings would have to function differently in the US South than in the North. Another example of how race and power can be read into Carruthers' analysis as being central and causal can be seen in the work of Park (2016) where she recounts the usage of mortgage foreclosure as a means of colonial conquest. Park discusses how in British Common Law, foreclosure did not automatically result in land seizure. The legal innovation to incorporate land seizure into foreclosure made dispossession of land easier. In the colonial project, the goal was for a promise to be "broken" in order to legitimate the theft of the land in Rhode Island and Massachusetts in particular. These additional connections, and others like them, do not change the overall narrative. However, their inclusion might work to further emphasize that race was not just something that could not be ignored but was also something with critical – and independent – causal power. Even without these alternate readings, this book represents a necessary and valuable contribution to our understanding of credit, trust, and the power of a promise to shape our economic world.

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