

Şener, Ulaş

Book Review

Book review: Rodrik, Dani (2015): Economics Rules: The Rights and Wrongs of the Dismal Science, New York, NY, USA (235 pages, W.W. Norton, softcover, ISBN 978-0-393-35341-9)

European Journal of Economics and Economic Policies: Intervention (EJEEP)

Provided in Cooperation with:

Edward Elgar Publishing

Suggested Citation: Şener, Ulaş (2017) : Book review: Rodrik, Dani (2015): Economics Rules: The Rights and Wrongs of the Dismal Science, New York, NY, USA (235 pages, W.W. Norton, softcover, ISBN 978-0-393-35341-9), European Journal of Economics and Economic Policies: Intervention (EJEEP), ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 14, Iss. 3, pp. 375-377, <https://doi.org/10.4337/ejeep.2017.03.08>

This Version is available at:

<https://hdl.handle.net/10419/277400>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>

Book review

Rodrik, Dani (2015): *Economics Rules: The Rights and Wrongs of the Dismal Science*, New York, NY, USA (235 pages, W.W. Norton, softcover, ISBN 978-0-393-35341-9)

Ulaş Şener
University of Potsdam, Germany

Dani Rodrik is a political economist, who is known for his research on economic development, institutions, and globalization. Those who have followed his intellectual interventions over the past few years will also know him for his keen interest in the political development of Turkey, his country of birth. Rodrik's recent book, *Economics Rules*, is a personal tribute to his profession and a comprehensive account of its current state. The book contributes to an ongoing debate in which mainstream economics has been the subject of multiple criticisms that range from skepticism to harsh rejection. Controversy centered on the agenda, attitude, and relevance of economics, but also on *how* it is pursued. Due to the ongoing repercussion of the global crisis, public awareness on these issues has grown steadily. As a response, a multitude of recent publications addresses theoretical and political questions on economics from different angles. *Economics Rules* adds to this compilation.

The book's starting point is the claim that the distrust of economics rests mainly on a mix of misinformation and misrepresentation. Rodrik identifies the main culprit for its dismal reputation as being a widespread lack of understanding of economics' unique methodology, that is, of the central role of models for gaining scientific knowledge. Therefore, the focal point of the book is methodology and models, which cover four of the book's six chapters. The remaining two chapters are devoted to the responsibility of economists in this controversy, and how criticism can be challenged in a constructive manner. The book thus offers a summary of economics' main practices, its theoretical and empirical 'rights and wrongs,' ending with a number of 'commandments' to solve the matter. Rodrik predicts that if economists can manage to create more empathy for their discipline's methodology and act in a more modest manner with respect to their models, much of the 'outside' criticism would disappear.

The first part of the book, chapters one to four (my division), is dedicated to the basic features and practical purposes, as well as the explanatory merits and limits, of economic models. Rodrik explains in detail, and with vivid examples, why the use of abstract models, in a formal or non-formal way, is essential for the understanding of how societies work. These models are based on a reduction of the complexity of social reality. Thus, to the critics he replies that leaving certain factors and relations out of the analytical perspective is economics' strength, not its weakness. He describes hypothetical modeling as an inevitable technique to sort the subject matter and focus on economic questions with a clear explanans and explanandum. Moreover, he considers a theoretical framework that has a controllable input–output structure and a clear causal relation as essential for empirical analyses. According to heterodox critics, not every abstraction is appropriate for explaining actual patterns of capitalism – see Shaikh's distinction between 'abstraction-as-typification' and 'abstraction-as-idealization'

(Shaikh 2016: 53). Due to their purely normative assumptions and theoretical inconsistencies, idealized models bear many problems. Rodrik seems to be clearly aware of this. This is why he proposes that while abstractions should be relevant, the analysis should deal with real-world problems. In chapter three, Rodrik discusses general principles of model selection and illustrates his point with a concrete example, his model for ‘growth diagnostics’ (p. 90).

To sum up, Rodrik’s main message on methodology is that there are plenty of models, but that modeling is an effective tool only when these are rightly chosen and constructed with a clear message. Economists should not put too much emphasis on universally valid theories, because their applicability can always be restricted by social reality. Instead, he claims that models, if carefully selected, can be a better alternative to theories, because they are more modest in their explanatory capacity and promise higher empirical relevance. Rodrik makes a strong argument against universal answers to economic questions, due to the simple fact that people always have agency, which explains why no society has fundamental, timeless laws. This approach is conceptually described by the *theory of the second best*. In his book, he gives many examples for why economists should focus on how ‘markets really work,’ or vice versa, ‘fail to work’ (p. 164).

The second part, chapters five and six, deals with the mischief that can result from economic modelling and with the critics of economics. Here, Rodrik discusses the major pitfalls of the profession under the topics of ‘error of omission’ and ‘error of commission.’ He explains that past failures resulted mainly from an unjustified ‘overconfidence’ of certain preferred theoretical models, for example, the famous *Efficient Markets Hypothesis*, as well as from short-sighted policy recommendations by distinguished economists. Rodrik elaborates on why policies resulting from the *Washington Consensus* – to ‘stabilize, privatize and liberalize’ (p. 160) – which favored catching up via unfettered markets, ultimately failed. He links these policy failures mainly to the ignorance of their limitations, and thus to the underestimation of the institutional and structural barriers to economic development. He quotes China and the so-called Asian Tigers as being successful because they undertook fine-tuned industrial and trade policies rather than *laissez-faire*. But Rodrik is rather overly optimistic on this point, claiming, in a positivist way, that economists learned their lesson and certainly would be more cautious with predictions.

Economics Rules is geared towards a wider audience and so far has attracted many positive reviews. I recommend the essays by Rubinstein (2017) and Aydinonat (2015). Nevertheless, it provokes some critical questions. What does *Economics Rules* actually have to say to heterodox scholars? Since Rodrik highlights the analytical relevance of time and space, he emphasizes path dependency and historical contingencies; heterodox economists, among them post-Keynesians as well as more critical economists, can certainly sympathize with him on this level. They will probably sympathize less with Rodrik’s appreciation of neoclassical and Lucasian–New Classical theory, or even with his narrow remarks on classical political economy.

The book leaves open a number of key issues. It remains unclear why economic methodology should keep ‘hierarchies based on rank, personal connections and ideology’ (p. 47) out of the discipline. Likewise, Rubinstein (2017: 165) observed that Rodrik seems to ignore the existence of an elite in economics and downplays its consequences. Another striking point is Rodrik’s response to the debate on pluralism. His answer, ‘pluralism with respect to conclusions is one thing; pluralism with respect to methods is something else’ (p. 199), is rather unsatisfactory as a response to the criticism of widespread doctrinaire teaching. Rodrik’s further reply to the effect that pluralism and openness already exists in economics, considering his own professional acceptance, the growing popularity of behavioral economics and new empirical techniques, perpetuates the ignorance of critical and non-mainstream schools

in the curriculum of economics. These remarks apparently remind us that there are multiple perceptions of what pluralism may mean.

Rodrik describes himself as an economist with ‘unconventional thoughts’ (see his weblog). *Economics Rules* shows that Rodrik is indeed an unconventional observer, who concedes that economics has a strong propensity to indoctrinate. Furthermore, he is a thoughtful economist who does not shy away from progressive public interventions, for example, if we remember his public opposition to the handling of the economic crisis in Greece. At the same time, he is clearly part of the mainstream. His book exemplifies how to problematize economics without going too much into the ‘thorny issues’ of the neoclassical mainstream. Nevertheless, from it, we do learn a lot about economics, the sociology of economics, and its epistemological and ideological peculiarities. Unfortunately, the book offers little to overcome the problematic guild mentality of the profession. I recommend reading *Economics Rules*, not despite, but due to these critical remarks. It is an original account, which exemplifies how mainstream economics is justified today, also revealing where its main problems are. A careful read of the book will certainly help in fine-tuning while debating about the value of mainstream economics.

REFERENCES

- Aydinonat, N.E. (2015): Using and abusing models in economics: a review of Rodrik’s *Economics Rules*, URL: <http://www.neaydinonat.com/blog/?p=1046> (accessed 21 July 2017).
- Rodrik, D.: weblog, URL: http://rodrik.typepad.com/dani_rodriks_weblog/ (accessed 21 July 2017).
- Rubinstein, A. (2017): Comments on economic models, economics, and economists: remarks on *Economic Rules* by Dani Rodrik, in: *Journal of Economic Literature*, 55(1), 162–172.
- Shaikh, A. (2016): *Capitalism: Competition, Conflict, Crises*, New York: Oxford University Press.