A Review of Dani Rodrik's "Economics Rules"

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Economics has long been a field of constant debate thanks to it ever-broadening scope and its newly emerging subfields that now try to illuminate topics which were seemed to be far away from its sphere. Beside its expansion, its so-called failure to predict and foresee even the financial crisis in 2008 and its regardless-of-context and falsely written set of prescription for developing countries to uplift them are regarded by some scientists as the signs that economics with its simplified models, unfaithful assumptions and reductionist methodology is doomed to fail. Since it has already proved to be malfunctioning while answering to its core questions, it should not dare claim to illuminate issues in other disciplines.

Amid the tumultuous attacks both within the field and the outside, "Economics Rules" by Dani Rodrik is a thorough attempt to defend the discipline. However, you should not think that this attempt is just to take a position in the frontier and to accept characteristics and claims of his discipline from A to Z. Rather, as we will see later, from the beginning he gives up the claim of theory of everything and idea of uniformity both among the models and economists. Since he thinks that models are the quintessential elements of the discipline and the fundamentals where all the blames and arrows of criticism are addressed to, he elaborates largely on models with respect to their working mechanism, diversity, and their functioning depending on the social context.

According to Rodrik, if you aim to understand the social phenomena in its diversity and complexity, your toolbox also has to include diverse equipment, each working in different social settings. At this point, Rodrik reintroduces us the true functions of the models, which are the most important toolkits of economics.

> "But what are economic models? The easiest way to understand them is as simplifications designed to show how specific mechanisms work by isolating them from other, confounding effects." (p.12)

Yes, as critics suggest, they are simple, ignoring lots of details and focusing only on one causal mechanism. However, for Rodrik, it is not their weakness; on the contrary it is the only way to discern a causal mechanism from the huge and multi-faceted entity. That's why Rodrik turns models, which were so far supposed to be the source of criticism, into the very weapons of the discipline. It is also obvious that vis-à-vis the awe-inspiring and sophisticated causal mechanisms working in economic reality, you should not expect from only one model to decompose this sophisticated causal mechanisms and to have a good grasp of each causality. The example he borrows from a short story of Borges illustrates the futility of trying to reflect each single detail of reality in one single model: "… a map of the empire occupied the whole province…" (p.43)

Through such reasoning, Rodrik's most important contribution comes to the stage: Diversity of models and necessity of this diversity to answer to the questions in each setting of social reality. Throughout the book, Rodrik distinguishes between characteristics of natural sciences and social ones and highlights that in the latter there are no fundamental laws but there exist only causal mechanisms and tendencies unique to a fragment of the social entity. That is why, he suggests, models are not produced to take each other's places; rather, they are produced to respond to different social formations with different social and individual characteristics. If someone compels me to quote the part that comprises the essence of the book, I quote the followings:

> "Knowledge accumulates in economics not vertically, with better models replacing worse ones, but horizontally, with newer models explaining aspects of social outcomes that were unaddressed earlier. Fresh models don't really replace older ones. They bring in a new dimension that may be more relevant in some settings." (p.67)

Beside the fact that different models respond to different aspects at hand, Aydinonat in his review of the book also points out a similar view when he uses the idea of cluster of models to explain the issue at hand where using different models together can help increase the chance of possible explanation.

Considering the necessity of diversity of models in his book, some may think that Rodrik lets himself go under the wind of postmodernism, which is "anything goes." However, when you face the myriad of different social settings, market conditions, institutional differentiations that he puts forward as examples of diversity, you come to the conclusion that it is really simple-hearted to think about a model that responds to each context: therefore, rejecting the multiplicity is what leads usually economics to go astray in terms of capturing the dynamics of economics.

Now, you come to the heart of the book: How to choose the proper model for an explanation? What if the assumptions of the model do not fit the reality? This part is the heart of the book in terms of defense of the discipline since lots of philosopher of economics such as Sugden, Maki, Reiss and Aydinonat ponder on assumptions of models and models' explanatory power. Although Rodrik does not dive completely into the ongoing philosophical debate, he comes up with a practical solution: "what matters to the empirical relevance of a model is the realism of its *critical* assumptions." (p.94) So unlike Friedman he does not take a position disregarding the validity of assumptions in the explanation of a causal mechanism. However, at the same time, inaccuracy of non-critical assumptions does not spoil the explanatory power of the model at all. Therefore, for instance, if economists are in search of the effects of price ceiling, assumptions with regard to competitiveness of the market become critical. In a setting where monopoly exerts its monopoly power, price ceiling will lead to more output while in a setting of perfect competition this regulation will lead to lower output.

Actually, I also agree with Aydinonat's dissatisfaction regarding Rodrik's turnsole deciding which assumptions are critical and which are not. Rodrik also does not conceptualize the distinction between critical and non-critical assumptions in a philosophical transparency and determination. What he tries to convey on this issue is much more practical: Find the most relevant and important assumptions of the model with regard to the particular context and be sure that they fit the reality. Those who are more interested in the debate of explanatory power of models and assumptions should check Aydinonat's review of this book. In this paper, I aim to examine more Rodrik's selection of models.

> "Identifying which models to use means parsing and selecting-focusing on models that seem relevant and helpful to a specific setting, while discarding the rest. How this sifting is done in practitioner more important, how it should be done-is the subject of his chapter. But first a warning: these methods are as much craft as they are science. Good judgment and experience are

> indispensable, and training can get you only so far. Perhaps as a consequence, graduate programs in economics pay very little attention to craft." (p. 83)

Rodrik puts a great emphasis on the craftsmanship of economics, which, I think, distinguishes this discipline from others, and puts a huge responsibility on the shoulders of economists.

Knowing every single detail of the library of models and having a mastery over math alone does not necessarily translate into selection of the right model if the practitioner theorizes in his/her Ivory Tower – "ivory-tower academics" in Rodrik's terminology- and is disconnected from the true dynamics of social reality. That is why he has to know a little bit of sociology, politics and psychology and to stay in contact with everyday life issues. For example, it is greatly nonsense for an economist the outcome that the parents come much later after it is arranged to penalize the latecomers in the day care center in Israel if he does not internalize in his model the counter effects of morality.

Actually, I totally agree with Rodrik in the role that crafting does play in the navigation among the models: however, I found my self surprisingly reconsidering Rodrik's idea of determination of critical assumptions on which Aydinonat states dissatisfaction in his review. Indeed, determination of critical assumptions does not differ greatly from the determination of the best model fitting to the social context at stake. Although Rodrik reveals the so far ignored expertise side of economics, he really does not shed enough light how to obtain this skill, which I think the Achilles' heel of the book. Indeed, It is very hard to put a lucid methodology with respect to selection of models and determining a critical assumption among a myriad of models and possible assumptions; however, existence of diversity of models constitutes a great instrument of response to those who put all the blame to the discipline itself for the inability of economists to predict most seemingly economic issues.

Consequently, how Rodrik deals with the arrows of criticism directed to the discipline is just to turn them to those who could not grasp and cherish the diversity of models and build their theories on a single model. Those are the economists who usually "confuse a model with the model" (p.152), which finally leads to two kinds of error: Error of omission and error of commission. Therefore, when it comes to the core criticism that how come does a field that claim to be explanatory for way different phenomena could not predict even a global financial crisis in 2008, which is the one of the most fundamental issues in that field, Rodrik asserts that economics is not to be blamed. Culprits are the economists.

> "We have arrived at one of the central paradoxes of economics: uniformity amid diversity. Economists work with a plethora of models, pointing in all kinds of contradictory directions. Yet when it comes to the issues of the day, their views often converge in ways that cannot be justified by the strength of the available evidence." (p.150)

Hence, according to Rodrik, responsibility goes to the economists when he chooses to sacredly believe in EMH and to disregard other significant economic insights and models such as principle-agent problem, self-fulfilling panic, coordination failure and so on in the question of Financial Crisis 2008.

In the beginning of the review, I openly stated that Rodrik is not a devotee of what has been done so far under the discipline of economics. That is why he spares a considerable amount of space for how economists go wrong. Furthermore, he advances many examples of fallacy of stand-alone theories and set of prescriptions written with no regard to institutional differences of developing countries. He also highlights the impossibility of general, big and universally valid theories: " … Economics is a social science, which means that the search for universal theories and results is futile. A model (or theory) is at best contextually valid." (p.183) He does not deny the importance of theoretical models since they open up windows of possible explanations; however Rodrik always points out contextual limitations and singularities, which necessitate fine-tuned versions of those models that are in line with the contextual setting.

In the last part of the book, Rodrik deals with the critics of economics. Actually he does not state new criticisms in that section but he evaluates the previous ones on the basis of his vision of economics that he tells us throughout the previous chapters. He concludes that majority of these criticisms are not valid at all. He concedes that there are some valid criticisms but they should rather be directed to the economists who does not "remain true to their own discipline" (p.209) not to the discipline itself. He also points out the distinction between the behavior and academic attitude when economists discuss alone when they discuss with the outsiders. He states that they become too protective of market thereby hiding what is really going on inside the field. He suggests transparency and being trustful to others so that people know the field better and do not blame the discipline just because of lack of true information. In the end, he concludes, again, with the emphasis on humility and knowing the limitation of the discipline. As an appendix he summarizes his ideas as 20 commandments, 10 directed to economists and 10 to non-economists. If you are too lazy to read the book, just to read those commandments will surely give you the important insights of the book.

In conclusion, Rodrik in his book Economics Rules attempts to finalize the endless debate over the nature of economics. By redefining the discipline, its scope, methodology and purpose he tries to respond to lots of criticism. He also concedes that sometimes economics go wrong; however it does not source from the nature of economics. Blame should go to the economists who could not really understand the rich diversity the discipline provides to deal with the complex social reality. Therefore, in my opinion, Rodrik's distinction between economics and economists is worthy of commendation. His huge effort in defending the methodology of economics i.e.; its models, its logical lucidity and transparency thanks to use of mathematics is an unforgettable contribution, which makes a great number of criticism irrelevant. While doing that, he always supports his arguments through real world examples and presents them easy enough so that outsiders could understand. I personally think that this book widened my horizon in terms of power of economics in responding to sophisticated and unpredictable, and claim that this book must be the compulsory course pack of EC101 so that newcomers can know what they are going to deal with throughout their future life.

References

Rodrik, D. Economics Rules: The Rights and Wrongs of the Dismal Science (New York: W. W. Norton & Company, 2015).

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