Is There Any Hope for the Future of Economic Science?

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In a world where economics is criticised as not being a real science, failing at making correct predictions about economic outlook and its tools not being applicable to real world situations; and where economists are seen as selfish snobs who think too much of themselves and disregard every other social science, Dani Rodrik's Economics Rules comes to the economics profession's rescue. It is a defence of economics, that takes the form of self-critique, working its way through how and why economists use models, where and why they go wrong, and main criticisms that are pointed at economics. Rodrik pointed out that economists value the criticism that comes within the science itself, rather than one coming from outside and his review is not harsh in any sense, but it does point out the weaknesses and the failures of economics and economists while showing how economics do in fact sometimes gets it right.

The main focus of the book is economic models, as they are the foundation of economic science, and the main tool of economics in explaining real world. As models are of great importance for all economists, Rodrik builds the entire book on understanding models better. He explains how and why a model should be selected, and tackles issues such as internal and external validity, how models are created, and builds the relationship between the models and the theory. He utilizes the history of economics to give examples of various economic theories and how they are used to explain certain events.

He argues that models are often limited by the assumptions laying under them, such as all humans being perfectly rational, perfect information and perfect competition; and as these assumptions are often far from being correct, economic models may fell short in explaining real world economic phenomena and making predictions. Those who criticise economics usually criticise its models, and how they are unrealistic. But the main idea Rodrik puts forth here is that the assumptions made while building the models are necessary in order to simplify the real world which is extremely complex. Without simplification, it is impossible for the economist to create hypotheses, isolate and identify economic causes and effects; just as it is impossible for a positive scientist to conduct an experiment without manipulation and simplification of the environment. Rodrik says, “Models are never true; but there is truth in models.”, and he believes that the most important thing here is that the models should not be seen by arrogant economists as “the model” that describes the entire reality, but they should be seen as “a model” that explains certain economic phenomena that is applicable in a certain context.

For example, an advance economy can benefit from privatization and deregulation, but if a country such as Russia that lacks a strong rule of law adapts these policies, the results will be corruption and a collapse of the entire economic and political system. Or, the industrial policy that created terrible results for Latin American countries and did not do much for Europe, may thrive in Asian countries such as China, Japan and South Korea, where the tariffs are set well, the currency's stance against other currencies are protected, and the government subsidies actually work efficiently.

Therefore, Rodrik has a new understanding of models, where all models come together to create a vast, comprehensive understanding of the real world through each model explaining different outcomes in different settings. He argues, “The discipline advances by expanding its library of models and by improving the mapping between these models and the real world. The diversity of models in economics is the necessary counterpart to the flexibility of the social world. Different social settings require different models. Economists are unlikely ever to uncover universal, general-purpose models". He believes that "the correct answer to almost any question in economics is: "It depends" (Rodrik, p.16) while economists are mostly unable to answer questions with this answer although the answers actually depend on different contexts and one model cannot answer every single question. So, economics should expand its library of models and economists should have obligatory skills so as to choose, combine and apply the correct models to the correct situations. In his words, there should be more fox-like economists who have a knowledge of many different models and can move from one understanding to another, rather than hedgehog-like economists who only know of a certain comprehensive model that will most certainly fail if applied to every context.

Economists started to worry and question their assumptions especially after their assumptions and predictions failed when the 2008 crisis happened. The explanatory power of economic models were being questioned, economics and economists were the subjects of harsh criticism as they believed that a bubble was non-existent and there was nothing to worry about, before the crisis. At the chapter called "When Economists Go Wrong", Rodrik argues that the main reason why economists go wrong is because they mistake "a model" for "the model" and they are overly confident in their models. We have seen that they were unable to predict the financial crises and were wrong about the financial crises' repercussions, and also about the Washington Consensus. Economists often agree on the efficiency of the markets and place a vast amount of value on markets, which mostly leads them to go wrong. They are unable to separate values from economic science. Also, they are unable to let go of their over-confidence on what they see as "the model" and cannot stop applying the same models to various contexts. What they should realize is that through selecting the right models, they can create efficient and successful programs like Prospera in Latin America and use these programs to alleviate diverse problems of the world.

At the second chapter, Rodrik defends economics as a social science. Rodrik, as with many others, often criticise economists as being arrogant when it comes to economic models and their underlying assumptions. He also argues that calling a combination of economic models an economic theory is a bit ambitious, and as "economics is a social science, and society does not have fundamental laws" (Rodrik, p.45), they should not be called theories. Generalizing the results of economic models and behaving such as fundamental economic laws are discovered through models is not a correct approach.

Rodrik also argues that economic models are just like fables; both of them are simplified, have various characters, and tell a story. There are many of them for different contexts and they have an underlying moral. He says that "There are countless fables, and each provides a guide for action under a somewhat different set of circumstances. Taken together, they result in morals that appear contradictory." (Rodrik, p. 20). This is just the case for economic models, they often contradict with one another. Highly qualified economists also contradict with widely accepted economic models, just like we see with Mankiw's list of propositions and a large percentage of economists agreeing with them. So, economists in fact apply models that point at contradictory directions. This is because different outcomes occur in different contexts, even though the model applied is exactly the same. Diversity of models should not be seen as a weakness of economics, it is in fact a strength that makes economics so widely accepted and valued and it enables the economists to select or combine different models to create solutions for larger and diverse problems. Through the multiplicity of models, economists have "a menu to choose from" (Rodrik, p.73).

Although economic models can be seen as unrealistic, the critical assumptions of the models are of great importance according to Rodrik, as they reflect reality, although this is mostly a partial reflection. This argument is not perfectly clear as we do not know which assumptions are critical in a model. Therefore, we do not know how we can produce different outcomes through tweaking with critical assumptions and making them more realistic. As Rodrik also pointed out, abstract economic models are sometimes hard to understand even for economists, so, figuring out the critical assumptions of abstract and complex economic models is a difficult challenge that economists have to tackle with.

Rodrik not only explains what models mean to the science of economics, how they work, where they are used, how economists should treat models and select the best ones to achieve better results, create better and more efficient policies like the Prospera program in Mexico and decrease the failure rate of their predictions about the future of economic and fiscal outlook; he also conducts an in depth critique of the economics profession. In the last chapter of the book, he points at the main criticisms directed at economics, and defends his beloved profession while not holding back on his own critique. He argues that the vast diversity of economic models is of great importance in order to respond to various problems and the fact that the models are build on unrealistic assumptions and that they do not represent the real world completely can be disregarded if we focus on the benefits and the insights we can extract from the models. Economics will always have issues predicting the future as it is a social science and the factors affecting the society, such as culture, are always prone to change; but through correct usage and creation of new economic models, it is possible to comprehend the social world more and more and to make more accurate predictions in times to come.

I most certainly and completely agree with Rodrik on one subject, about how the way economics is taught is wrong. Although, as he says, his colleagues are asking him about how the "revolution" he started is going, I believe that he is doing a splendid job not following the path used by so many economics professors and teaching his students about the philosophy of economics rather than only asking them to memorize numerous economic models. As an undergraduate senior in economics, I had, and unfortunately still have, an immensely difficult time trying to comprehend the models presented to me, sometimes even the easiest ones, because I had no idea what the insight, the "moral" I had to extract from that model. I was not taught the "story" behind that model, and how to apply it to real world situations; what I taught was only the assumptions of the model and its structure. I did not even learn about different schools of thought until I was a junior, and I was only taught economics through my professors' point of view when I learned about them. Therefore, I completely agree with Rodrik on how economics professors should present their students with the "richer paradigm of human behavior" rather than "a paean to markets" (Rodrik, p.198), to increase the level of knowledge of economics students. For example, I had a major interest in behavioural economics after taking an online class from Duke professor Dan Ariely and after reading his books, but I had no interaction with behavioural economics until I was a senior. I believe, economics education fails to capture many students' interest as these areas are much more interesting when compared to learning about how markets work.

What economics needs, according to Rodrik, is humility. He argues that "Economists who remain true to their discipline are necessarily humble". Here, he quotes Keynes who said "If economists could manage to get themselves thought of as humble, competent people on a level with dentists, that would be splendid.”. If only more economists could understand the “Ten Commandments for Economists” and answer with “It depends” or “I don’t know” when asked a question and could remain humble, economics’ relationship with other social sciences could be improved and economists could comprehend the effects of culture on economic activities much better. Besides, economists should get rid of their tendency to be overly confident in certain economic ideas such as “market over everything else”, and they should expand their knowledge of different models and different ideas and add these to their toolbox.

What I enjoy the most about Rodrik’s book is that its sole purpose is not to defend economics, it offers so much more than that. Navigating through pages, I found myself learning so much about economic theories, history of economics, different views and schools of thought in economics and so many key figures that changed the economic science. Besides all these, Rodrik also draws a path for the future of economics, a future that questions the widely accepted economic beliefs such as “perfect information” and people being completely rational, and he values new economic areas such as behavioral and experimental economics. We do not know what took economists so long to arrive at this point where they can accept that humans are not rational, but if one reads a book from Duke economist Dan Ariely, or from Nobel laureate psychologist Daniel Kahneman, we can see that humans are completely far from being rational and building economic models that focuses on this idea in fact makes more sense and help us understand the real world in a better way.

Overall, Economics Rules is an excellent book that should be read by all economics students, economists and those who want an insider look at economics profession that is not biased towards favouring economists and economics as a social science. Even for those who do not want to read the book should at least read the “Twenty Commandments for Economists and Non-economists” at the end of the book as they are pure gold. I wish Rodrik elaborated on these commandments more throughout the book, but I believe that if one attended an economics seminar and listened to various economists, most of what he said about the science itself and the economists would become immensely clear. It is true that Rodrik defended economics profession successfully, but there are definitely some issues about this discipline that are open for exciting future discussions; one being why economists turn out arrogant and selfish when compared to other scientists, and why more arrogant and selfish people turn to economics as a career path or a major in the first place.

References

Rodrik, Dani. Economics Rules: The Rights and Wrongs of The Dismal Science. New York: W.W. Norton; 2015. Print.