Critical Review of *Economic Rules* by Dani Rodrik

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In Economics Rules Dani Rodrik argues that economists should accept the diversity in economic models and the wide array of results they offer because models are meant to isolate causal mechanisms within our very complex social economy. He says that models are not supposed to give universal results and a major mistake economists make is that they look for the model, rather than just a model. With this argument, he addresses two major critiques of economic models: they make too many assumptions, and they give contradictory results. This argument left me feeling completely convinced because it is impossible to give universal results and it is impossible to isolate causal mechanisms without making assumptions because of the complexity of our social economy. Although this argument is very strong, it made me question whether it was these models that made economics a social science due to their lack of testability.

Rodrik succeeds in defending economics against the common criticism that the many assumptions in economic models hinder their ability to explain. He argues that economic models are situational due to the vast amount of different settings that can occur within human society. The reference to the supply and demand chart as an example of a model that makes lots of assumptions, such as a perfectly competitive market with individuals that pursue their economic interests, but is still able to explain some of the basic aspects of a market was particularly convincing because of how widely used the model is. He also points out that it does not address price elasticity to show that even the most respected economic models are not applicable under all conditions. Through examples like this, he supports his argument that the world we live in has way too many factors to be able to make a model that does not have assumptions, writing "the social world rarely delivers clean evidence that would allow a researcher to draw clear cut inferences about the validity of an alternative hypotheses" (66). Because of this highly variable social market, Rodrik shows that economic models should be viewed individually and within the assumptions they are created under.

Rodrik excels in showing the correct way to approach economic models in Economics Rules. One of his primary points in the book is that economists too often look for the economic model that will be universally applicable, which leads them to misuse their models and make mistakes. He shows that each model has an individual purpose by comparing them to fables because "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 often appear contradictory" (20). This analogy helps the understanding of economic models because each model has a purpose, but they should not be combined.

Rodrik supports this in the book by showing how the science of economics grows with the models that are added to the subject. He writes "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" (5). This argument resonated with me because it shows reason and purpose

behind all models, even the ones that are only applicable in very specific scenarios. It also solidifies that models should be viewed on their own because when one develops a model they are adding a new aspect to the conversation, rather than directly improving on something that is already in it. So, models discussing similar topics can contradict each other, yet still be explanatory.

I did not agree with Rodrik on a statement he made in the realm of this argument later in the book. He writes,

> "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" (67).

He uses this statement to show the importance of each economic model, no matter what assumptions it makes, to the science. I do agree that each model is important, but in my opinion, it is impossible for a science to evolve without direct improvement on prior work, or vertical accumulation of knowledge. I also think it is far fetched to say that direct improvement on economic models has not garnered any accumulation of knowledge in the field of economics.

I view the accumulation of knowledge in economics as an upside-down pyramid, rather than a horizontal plane, because new ideas in economics are rarely direct evolutions of past ideas, but they do improve on one another to create a combined vertical and horizontal accumulation. As a society, humans would not have advanced from past economic systems, like Feudalism, to the globalized market that we currently have without the vertical accumulation of knowledge. An example of this is Adam Smith's improvement on the Physiocratics' views towards economic growth. In short, Adam Smith found value where the Physiocrats did not in the industrial sector through the division of labor. Smith showed that because of the division of labor there were more opportunities for advancement in industry than agriculture. If this improvement had not been made and we followed the Physiocratic plan that there more opportunities for growth in agriculture than industry, the economy would not have developed into what we have today. Improvements such as Smith's are proof that there has been vertical accumulation of knowledge in economics, and are why I disagree with Rodrik's statement above.

I also felt unconvinced with Rodrik's argument that "Models make economics a science" because they are not testable in the real world due to their many assumptions and contradictory results (45). In a way, this makes me one of the critics that I earlier said Rodrik does a great job responding to, but because of the reasoning and evidence he offers about why to approach economic models as single entities and to accept their contradictory results, I am lead to believe that economic models are a brainchild of economists that they use to make single arguments and support single statements. Because of the complexity of the social economy we have, economists have to make lots of assumptions and build economic models that are often impossible to test in the real world. Rodrik shows this issue of testability stating,

> "Even when a truly deductive, hypothesis-testing approach is followed, much of what economists produce is not really testable in any strict sense of the word…Considerable academic activity purports to provide empirical support for this or that model. But these exercises are typically brittle, their conclusions often weakened (or overturned) by subsequent empirical analysis" (65).

When a scientist releases a study other scientists in that field test the results. Because of the difficulty in doing this in economic models, I think they hurt the argument that economics is a science. An example of this is Thomas Schelling's model about segregation in neighborhoods, in which he encourages the reader to create the model themselves with different coins. Though this model does give seemingly valid results and can be easily recreated, it is not testable in real life because of the social complexities it involves, thus exemplifying the core issue in economic models. Because economic models are not testable, I disagree with Rodrik's statement that "models make economics a science" (45).

Although there are parts of *Economic Rules* that I disagree with, I think it is a must read for economists and economics students because it shows that models should be viewed on their own due to the complex social economy we have. This is very important because it is too common of a mistake to view a model as something that is applicable in situations that the model does not call for. Rodrik also does a great job explaining that models have to apply to single situations because the economy within which we operate is too complex to be able to isolate causal mechanisms without making various assumptions. Overall, I enjoyed this book very much and would suggest it to anybody who is interested in economics.

Works Cited

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