FINANCIAL TIMES

October 30, 2015 3:57 pm

'Economics Rules: Why Economics Works, When It Fails, and How To Tell The Difference', by Dani Rodrik

Review by Martin Sandbu

The economics profession lost a lot of lustre when its practitioners failed, with only a few exceptions, to foresee the global financial crisis of 2008. That failure shocked a good many non-economists (including, famously, the Queen), who may have blithely thought that economists understood the economy; it also added to the credibility of those who have long argued that economics is a deeply flawed discipline, built on a misrepresentation of people as selfish beings and ideologically constituted to conclude in favour of free-market policies.

In *Economics Rules*, Dani Rodrik, a professor of economics at Harvard, takes up the gauntlet of defending his profession. This is defence in the form of self-criticism: when economists have gone astray, he argues, it is because they have not been faithful to their own discipline. He demonstrates that economics, properly understood and properly practised, is innocent of many of the charges levelled against it.

Rodrik's central message is that economics is a collection of models with which to see the world, and that there is nothing reductionist about this so long as one does not confuse "a model" with "*the* model". The discipline advances not by improving grand theory but by accumulating different models that all explain different local phenomena depending on the relevant set of circumstances.

Rodrik convinces with his patient insistence on just how rich and versatile a library of models economists possess. Take, for example, the study of housing market regulation. While one model of the housing market (where demand and supply are competitive and there are no links with other markets) shows that rent controls make housing harder to obtain, another specifies the conditions (of insufficient competition) in which modest caps on rents would increase the supply.

The challenge is to choose which model applies to the situation at hand. This choice requires theoretical open-mindedness and empirical investigation and is, as Rodrik succinctly puts it, a craft not a science. That idea — that good economics is about good craftsmanship as much as anything else — is a hugely valuable contribution.

Rodrik is well placed to make these arguments because he is himself a master craftsman. As a policy adviser to developing countries, he helped establish "growth diagnostics", a method for identifying the relevant causes of stagnation. It is a far cry from the heyday of the "Washington Consensus", when multilateral lenders were said to cut-and-paste countries' names into an existing policy document, leaving the recommended reforms the same regardless of the destination.

This has also made him a hero of the anti-globalisation movement. But the worship is sometimes misguided, something not lost on Rodrik himself. I once sat in on the opening lecture in his advanced trade theory course at Harvard; he started it by underlining that he only used the standard methods of neoclassical economics. The sense of deflation among the students was palpable.

Rodrik's book cannot fully dispel the scepticism. In particular, he does not quite answer one question that his argument prompts: if economics itself is as ecumenical as he describes, how come economists seem so sure of their conclusions? He may be right that most economists are not: the popular perception is crowded by those relatively few who have a public profile. "Economists who remain true to their discipline", Rodrik writes, "are necessarily humble".

But Rodrik presents survey evidence that on many policy issues (such as rent control) economists overwhelmingly swing behind one view — which suggests that they all select the same model even when many others exist. And when Rodrik rightly extols economists' recent open-mindedness towards "behavioural models" in which people make irrational choices, one is allowed to ask why it took them so long to accept simple truths about human nature that all non-economists take for granted.

The answer is hinted at elsewhere in Rodrik's book, when he stresses the intertwined nature of the "positive and the normative analyses — investigations, respectively, of what is and what should be". In setting out a defence of the best in economics, Rodrik has also provided a goal for the discipline as a whole.

Economics Rules: Why Economics Works, When It Fails, and How To Tell The Difference, by Dani Rodrik, OUP, RRP£16.99 / Norton, RRP$27.95, 272 pages

Martin Sandbu writes the FT's daily newsletter on global economic policy, ft.com/freelunch. He is the author of 'Europe's Orphan: The Future of the Euro and the Politics of Debt' (Princeton)

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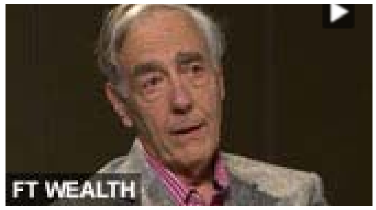

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