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ECONOMICS 101

Rebooting the Dismal Science

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Candor, humility, and a greater openness to a variety of approaches —three ways to make economics great again as a serious field of study.

At a May Day parade in Moscow, according to a Soviet joke of the 1970s, a foreign communist is standing atop Lenin's Tomb in the place of honor next to the Soviet leader, Leonid Brezhnev. Marching troops pass in front of them, followed by artillery pieces, tanks, and rockets. Bringing up the rear walks a group of middle-aged men carrying briefcases. "Comrade Brezhnev," the visitor asks, "who are those men with briefcases?" "Oh, them," Brezhnev responds, "those are our economists." This puzzles the visitor: "But what are economists doing in a parade displaying the military might of our great socialist motherland?" To which Brezhnev replies, "You'd be amazed at how much damage they can do."

Economic officials and the professional economists who supply them with ideas about economic management have considerably less power in the free-market economies that now dominate the world than they did in the centrally-planned systems of traditional communism; but what they think and what they write still matter a great deal. The promotion of economic growth has become the supreme goal of governments everywhere. Credentialed economists have become latter-day versions of the high priests of traditional societies, presumed to have special insights into the achievement of the highest social goals. Dani Rodrik is a credentialed economist—he teaches at the Kennedy School of Government at Harvard—who believes that economists have done economic and political damage, not, certainly, on the scale of powerful armed forces but in significant ways that bear identifying and correcting, all of which he discusses in his book *Straight Talk on Trade*.

Rodrik is best known for his warnings, going back two decades, that the expansion of the cross-border flow of goods, money and people known as globalization was going too far too fast to be sustained politically. The ongoing backlash against it, evident in the election of Donald Trump to the presidency in the United States and the rise in Europe of populist parties hostile to globalization, have borne out his prediction. This book, an amalgam and reworking of his occasional writings for non-specialists, does address globalization and its defects. Its title, with "straight talk" understood as unconventional or dissenting ideas, accurately reflects some of its contents. It could with equal accuracy, however, be entitled "The Trouble With Economics and Its

Practitioners."

Rodrik charges his fellow economists with acting, on occasion, in something approaching bad faith. He offers as an example the establishment of Europe's common currency, the euro. Economists understood that without a complementary set of Europe-wide political institutions the euro was unlikely to function smoothly. Rather than oppose establishing it without them, however, Europe's economic officials and their advisors largely kept silent, assuming that such institutions would ultimately be put in place and that all would be well. Europe still lacks continent-wide political institutions and the economic troubles the euro has caused have in fact generated popular resistance to creating them, leaving the Europeans with the worst of both worlds: for economic reasons they cannot afford to abandon the common currency, but for political reasons they cannot manage to take the steps necessary to make it work.

Economists have also, Rodrik says, oversold the benefits and downplayed the costs of trade. They have done so "for fear of empowering the protectionist barbarians" who favor restricting trade for their own narrow, selfish reasons. Economists do have good reasons to defend free trade. The doctrinal basis on which the case for it rests, the Englishman David Ricardo's early-nineteenth-century theory of comparative advantage, comes as close to being universally valid, like a law of physics, as any proposition in the social sciences. Moreover, in the 1930s the erection of barriers to trade, which is what protectionists seek, worsened the economic suffering that the Great Depression imposed. (While they are unlikely to lead to economic disaster, the tariffs the Trump Administration has announced are also unlikely to make America and the world better off.) Then, after World War II, the expansion of trade not only contributed to postwar prosperity but also tied the Western countries together politically, helping to end the animosities that had historically produced wars between and among them and cementing the coalition that confronted the Soviet Union and international communism during the Cold War.

Trade does bring benefits to the countries that participate in it. It seldom if ever, however, brings such benefits equally to everyone it affects. In addition, trade changes the distribution of wealth: some people gain, others lose. Trade, like other economic activities, is subject to "market failures"—distortions that lead to less-than-optimal outcomes in response to which government intervention may be warranted. Economists know this, of course, but had they been willing to say it publicly with greater force and frequency, Rodrik suggests, they might have helped to foster policies that could have minimized some of globalization's undesirable side-effects and thus mitigated the political backlash against it. In general, he believes, restraining, or at least not expanding, international trade and finance is necessary to reduce the opposition to them and preserve the economic benefits they undoubtedly bring.

Finally, Rodrik argues that the professional habits and biases of economists have encouraged the adoption of unsuitably universal, one-size-fits-all approaches to economic matters. Many roads, he believes, rather than a single golden highway, lead to the Nirvana of economic growth. Outside Europe and North America "economic growth miracles happened not where policy makers slavishly copied policies and institutional arrangements from the West but where they crafted new arrangements more appropriate to their conditions."

In countries around the world, the United States, Germany, and the International Financial Institutions imposed standard programs of "structural reform" on economically distressed countries, Greece being a prime example. The standard formula for such reform, however, tends to yield growth only over the long run, exacting politically toxic economic costs in the short term. In addition, some studies show that rapid growth is associated "with a targeted removal of key obstacles to growth," which will vary from country to country, rather than with "broad liberalization and economy-wide reforms" of the kind the proponents of structural reform invariably recommend.

This misplaced universalism has its roots in a misunderstanding of the nature of the discipline of economics. It cannot, as the physical sciences do, discover laws that are valid everywhere and at all times. "Propositions in economic science," Rodrik notes, "are typically context specific rather than universal." Economists are in the business of building models—simplified representations of the way the economic world works; but they, and the policymakers they advise, should never rely on a single model. Their task is to decide which models are most useful in particular cases, which is a matter of judgement and therefore an art rather than a science.

Rodrik certainly does not recommend that policymakers ignore economists, or that economists cease to offer their views on issues with which policymakers must grapple. From his book, however, emerge three guidelines for their engagement with public policy. The first is candor: "A more honest narrative on the world economy," he writes, might "have prepared us for the eventual backlash [against globalization] and, perhaps, even rendered it less likely."

Economists ought also to encourage, and practice, a diversity of approaches. Different policies for different circumstances, and small-scale experiments rather than the application of a single economic model, will maximize the chances of success. Mao Zedong's slogan of the 1950s (honored, like much of what the Chairman said, more in the breach)—"Let a hundred flowers bloom and a hundred schools of thought contend"—provides an appropriate rule for policymaking.

Finally, economists, like almost everyone else, could do with a greater measure of humility. Speaking in 1974 in accepting the Nobel Prize for Economics (known officially as the "Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel" to distinguish it from the other, older, Nobel awards) Friedrich von Hayek confessed his concern that "the Nobel Prize confers on an individual an authority which in economics no man ought to possess." He was, he went on, "almost inclined to suggest that you require from your laureates an oath of humility, a sort of hippocratic oath, never to exceed in public pronouncements the limits of their competence."

In the same spirit forty-four years earlier, in an essay entitled "Economic Prospects for

Our Grandchildren," Hayek's intellectual sparring partner and friend John Maynard Keynes, the greatest of all twentieth-century economists, had established a goal for his profession. "If economists could manage to get themselves thought of as humble, competent people, on a level of dentists, that would be splendid." That remains an appropriate goal for the economics profession and, according to Dani Rodrik, one that its members have not yet achieved.

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