



## **BOOK REVIEW**

### **ECONOMICS RULES: THE RIGHTS AND WRONGS OF THE DISMAL SCIENCE**

*by Dani Rodrik, W.W. Norton & Company, 2015, 272 pp., ISBN 978-0-393-24641-4*

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Economics is a part of wide range of social sciences in the world of knowledge. Economists understand their professions as productive thinkers and researchers. The main purpose of writing this book is to deliver the use of model in economics as it makes economics that becomes science. The innermost part of this book is the role of economic model and its typical framework that is purposely to create knowledge and make sense of the world.

The book is mainly based on how economic models answer complex questions. In general, regardless of context, economics as a knowledge cannot answer and solve any specific and difficult problems with universal explanations and prescriptions. In reality, the social lifecycle is too different to be wrapped into unique structures. Each economic model has uniqueness and seems likely having a small proportion map that spotlights a fragment of the economic territory. Having it together, economists and their models are the best rational guide to the endless chicken-and-eggs discussions that establish social experience.

The title of the book is rather unclear which is written “the rights and wrongs of the dismal science”. The book itself is presumably less economics science explanations than what the title states. Otherwise, the title should have really been written on modeling or model in economics.

The book comprises six chapters as preface and acknowledgements are in the first part. The introduction is more like an opening remark as it is a narrative about the author’s own personal journey. It also celebrates and critiques economics as the core of the discipline. Moreover, it is definitely interesting to know Dani Rodrik’s reflections on his personal experience and professional background.

Dani Rodrik holds a PhD in Economics (1985) from Princeton University. Currently, he is a professor of International Political Economy at the John F. Kennedy School of Government, Harvard University. He rejoined the Kennedy School in July 2015 after two years at the Institute for Advance Study as the Albert O. Hirschman Professor in the School of Social Science. He also held a visiting appointment at the London School of Economics as Centennial Professor (2013-2016). As a consultant, he was a member of the chief economist's advisory council of the World Bank (2011-2012). Being an academician, he has earned a number of honorary doctorates: from the University of Groningen, the Netherlands (2014), Pontificia Universidad Catolica del Peru, Peru (2010) and University of Antwerp, Belgium (2005). Also, he has been an editor and advisory board for a number of economics journals such as *Review of Economics and Statistics*, *Global Policy*, *Globalization and Development*, *Studies in Comparative International Development*, *Economic Literature*, *Economic Perspective*, *Development Economics*, *European Economics Review*, *Policy Reform and International Economics*.

In *Economics Rules*, Dani Rodrik obviously expresses his profession as an economist. He defends his self-criticism: when economists have gone 'out of topics', he believes it is due to their lack of faithfulness to their own discipline. He illustrated that economics should properly be understood and practiced as it is innocent of voluminous charges against its nature and content.

Model and modeling topics are widely covered in the first four chapters of this book. Rodrik's main message is that economics is a library of models that is used to discover the universe. There is nothing to deny that models have a source of pride as mathematical formalism which is attributed in economic models. The use of mathematics in formulating any models shows that "economists are not smart enough" (p. 32). Therefore, mathematics presumably plays a purely instrumental role in economic models. In principle, models do not require mathematics, and also it is not the mathematics that makes the model useful.

Moreover, one should not confuse "a model" with "the model" in terms of "economists do it with models" (p. 10). The economics discipline advances not by improving grand theory but by accumulating different models that all elaborate different local phenomena depending on the relevant set of circumstances. However, in some cases it is common for conventional economist to think immediately of simple views and to answer any question in economics

without having done any prior comprehensive studies. This predisposition is certainly misguided from the teaching of economics as Rodrik says clearly that “it depends” (p. 17) is the correct answer to almost any question in economics.

Economic models consist of clearly stated assumptions and behavioral mechanisms. In the process of economic model formulation, certain unrealistic assumptions are used to understand explanatory task at hand. In this context, Rodrik argues that despite the use of unrealistic assumptions, there should be some element of truth in economic models. On the other hand, it is additionally needed to explain where the truth exists in models. He believes that the explanatory power of economic models depends on how realistic their critical assumptions, regardless of some assumptions are not entirely clear in certain cases. Seemingly, there are assumptions relating to relevancy and objectiveness, which help economists in deciding whether the model can be utilized in a particular case. For example, a model that assumes firms which have monopoly market power cannot explain cases of those firms which do not have market power or other oligopoly system; a model that assumes perfect competition cannot answer cases of imperfect competition. Therefore, critical assumptions are essential in using and applying models.

It is arguable that in real life, some economists are relying too much on their preferred models and disagree about which model works best, but those cases are not the crucial problems. The importance on the variety of economic models is significant in order to reveal better understanding of how highly unclear those economic models are in explaining certain cases. Different models may have different answers and sometimes give contradicting answers. Henceforth, the diversity of models is needed to enable the accumulation of knowledge, by expanding the set of reasonable explanations in order to increase the ability to elaborate in depth scientific explanations. Rodrik considers the relationship among models will build the new productive dimension in knowledge:

*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 do not really replace older ones. They bring in a new dimension that may be more relevant in some settings (p. 67).*

Economics science is purely discipline intuition that is delivered transparent by logic. It is also hardened by plausible evidence. Einstein once said, “The whole of science is nothing but a modification and an improvement of everyday thinking” (p. 81). Thus, economists’ models offer some of that improvement- and not other than that. Rodrik expresses that models are continually developed until the true general model unveils correctly. Some hypotheses that fail the test are discarded, whereas those that pass are retained. It is correct to say, in the end, in the process of achieving better result, the way of thinking brings little room for the idea that economists have to carry multiple models in their heads simultaneously. Also, they should build maps between specific settings and applicable models.

In my opinion, it is necessary to tally between economics and religious values. In Islam, the source of values is coming from the Qur’ān and Sunnah of the Prophet (peace be upon him). These Islamic values can work together with the conventional economics values. Given these Islamic values working together with any traditional economics value and analysis, it will certainly bring new perspectives in economics as a social science. Islamic values in economics may not be entirely new in the world of economics. They had been used and practiced many centuries ago. Yet their application today may bring a new kind of economic knowledge which is not necessarily different or opposite from conventional economics. As we expect positively, the outcome of this ‘togetherness’ approach is perhaps simpler than those conventional economics values per se in any models that have been synthesized tremendously for ages without having clear economic explanations. In the process of economic analysis, it is not surprising to expect that these Islamic values may have been replacing and/or affecting traditional economic values in order to explain the analytical consequences in certain questionable cases.

Moreover, there is no intention to argue that the process of criticism and rational examination of economic theories itself is questionable. It only means to unveil that traditional economics does not have any core essential of exact knowledge, which may be used as a core reference and criteria of judging the truth and falsity of a number of theories. Thus, there is a necessity to include Islamic values bolted in a methodology, which can also deliver an assured knowledge and minimizes confusion of contradictory theories. Khan (1987) stated that it is unacceptable that any knowledge and its methodology depends only upon human knowledge since the mainspring of economics is divine knowledge.

However, in contrast, in any scientific discipline, scientists may disagree on purely scientific grounds about which theory to depend on. Yet, the economists frequently let economics values be taken into account, rather than economics guiding their choice of model, and pretending they have not done enough. As Rodrik explains in chapter 6, to a certain extent, economists present themselves as the physicians of the social world. Therefore, the comparison between social sciences and natural sciences is confusing. Economics is a social science, which means that the search for universal theories and results is unproductive. A model (or theory) is at best contextually valid. Expecting general empirical validation or rejection makes little sense (p. 183). Eventually, in one of Ten Commandments for economists, he highlights that “to map a model to the real world you need explicit empirical diagnostics, which is more craft than science.”

In summary, *Economics Rules* is an outstanding book on the nature of economics. The book consists of a number of examples from the history of economics and current debates in economics. It is a good reference for all students, practitioners, philosophers and academicians. Rodrik clearly emphasizes that economics is a collection of models that admit a wide diversity of possibilities, rather than a set of ‘ready meal’ conclusions. This book is also recommended as a guide for anyone, non-economists and economists, as Rodrik writes twenty commandments in the epilogue. The economists’ tenth commandment shows very clear opinions that most economists do in their profession in daily life; either passing or substituting your expertise values in favor of public interest-good and bad issues-as an element of economics theory innuendo in real life, anyway. He is right in proposing these commandments, although there are a lot more guidelines and commandments in real life economics.

#### REFERENCE

Khan, M.A. “Methodology of Islamic Economics.” *Journal of Islamic Economics* 1, no. 1 (1987): 17-33.