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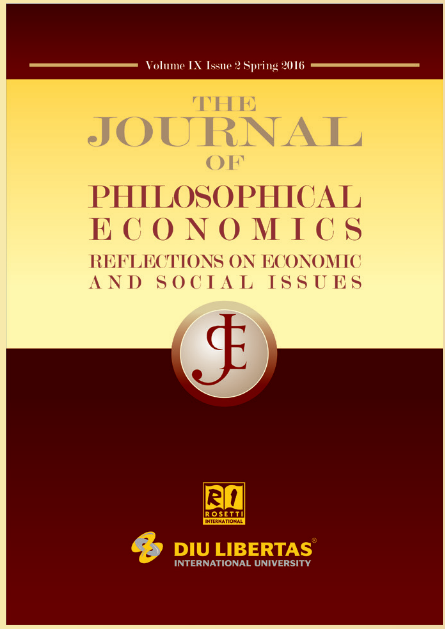

Review of Dani Rodrik, Economics Rules: Why Economics Works, When It Fails, and How to Tell the Difference, *Oxford University Press, 2015, hb, ISBN 978-0-19-873689-9, xi+253 pages*

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At the beginning of every course of economics, students are taught that free-markets are what should be aimed for. That markets have the ability to self-adjust, every intervention of the state leading to a misallocation of resources. Only later do students learn that the free-market concept may backfire by not bringing the anticipated results. Two cases are worth mentioning: (i) the one of South East Asian economies and (ii) the other of Latin America. In the first case, a pivotal role was played by the long arm of the state, which established important protectionist measures that in turn helped the countries of the region to further develop the private businesses and the well-being of labour (Lim, 1983). Those economic policies contradict the idea that free-market economic theory is the most effective way of organizing a market. In the second case, the Latin American countries applied the principles mentioned in the Washington Consensus, which mainly propose stability based on three pillars: macro-stability, liberalization, and privatisation (Williamson, 1990). However, these failed due to the fact that free markets work in the presence of healthy institutions, which were taken for granted. A malfunctioning institution cannot enforce the law, which can affect the relationship between different market actors. The problem of enforcing the contracts is one such example.

These cases represent only a few of the many situations that demonstrate the failure of mainstream economic theory to deliver the promised results. Therefore, questioning the economics discipline seems to be something normal. However, the criticism towards this science has started to increase in intensity after the 2007-financial upheaval when

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the mainstream economic theory failed to predict it. Yet, economic science is still in high demand across the world.

Often labelled as an economist that casts doubt upon the power of free market, Rodrik has brought significant contributions to political economy through his focus on growth policies, industrialization and globalization. To better understand an economic model, Rodrik analyses in his last book the way in which it is created and it can be applied within different parts of the world. In this way, the weaknesses and strengths of the discipline can be better underlined. The author wants to make economists and non-economists understand that *a* model and not *the* model is applicable in various social, political and economic contexts. The models have to be seen as a toolbox where each model can solve a specific problem within the market. As such, there is no unique tool, or universal grand theory, that can be applied in all settings.

In the first chapter of the book, Rodrik attempts to offer a description of what models do. An association is made with the fables (18-21). Fables keep reality simple by emphasizing the personalities of the characters in the introduction. The actions taken by the characters lead to the conclusion from where the moral of the fable is deduced. In economic science, the abstract environment with real companies and persons that have well-countered characteristics is described in the beginning of the model. The 'story' revolves around the cause and effect, while from the conclusion we can extract the moral or the policy recommendation.

Both fables and models need careful judgement before being applied in specific contexts because they can offer different conclusions that vary according to the cause-and-effect process of the action. In the case of the fables, the morals might differ because: you must have friends, but not that many; trust and cooperation are important, but self-reliance also plays a role; prepare, but do not over-prepare etc. In economics, the conclusion of applying one theory might offer distinct results. For example, the self-interest principle increases efficiency. However, some actions might evolve to the prisoners' dilemma, which leads to waste.

Hence, more attention needs to be paid to the construction of models and the selection of the right model, topics that are covered in the next two chapters. There is no clear way in which models can be constructed. The modelling science is just a craft because of the complexity of the world we live in and of the non-universality of models. The first emphasizes the difficulty that arises when distinct causal mechanisms have to be connected with each other. Combining social, economic, and political knowledge in one model might be possible, but it is definitely impractical. As Rodrik underlines, a model has to be kept simple in order to explain only certain occurrences within a society. Too many details could make it too hard to be understood and applied. The later shows that no universal principle exists because the context is everything. It cannot be said from the beginning whether state interventionism worsens the performance of the market or not. Hence, a model has to be constructed based on the particular setting within which it is going to be applied. As a result, economic knowledge is accumulated 'not vertically [...] but horizontally' (67). Navigating through models is not an easy task. However, each of them sheds light upon a particular problem of a setting. To choose a model, we need to analyse its assumptions, the cause-and-effect process, and its direct and indirect implications.

In chapter four, the author explains the usage of universal theories in economics. Even though these develop horizontally, events need to be explained by theories that take into account the peculiarities of the societies that are analysed. However, events cannot be explained all the time through a specific model. Rodrik uses the example of the rise of inequality in the United States. During the 1970s, the rise in income inequality was being explained through the Hecksher-Ohlin factor-endowments model. Later on, international trade and technological advancements were seen as the main culprits. Nowadays, the shrinking influence of unions and stagnation of the minimum wage are also considered to have played a vital role in the rise of income inequality.

This lack of precision provided by economic science makes it vulnerable. Nevertheless, economic science still has an essential role when it comes to policy recommendations. To enhance this role, more attention has to be paid to the common mistakes and the criticism that comes from outsiders, ideas covered in the last two chapters.

Besides the 'classical' errors of commission and omission that alter the outcome of policy in a negative manner, Rodrik emphasizes the role that is played by the psychology and sociology of the economists themselves. Some people are convinced in doing things in a certain way. In the case of economic science, scientists are taught to interpret a problem from a perspective that is highly appreciated within the group where they learnt the respective framework. Being appreciated by his group may make a researcher not pay attention to the critics that come from 'outsiders'. For example, it is really common to support free markets even though their perfect functioning requires a set of assumptions that are rarely found within a particular setting. This makes economics looks like an island within the social sciences. However, this is not true as more accent is put on behavioural economic models and how institutions influence the market. No conclusive results have been shown yet, but greater prospects lie ahead.

Due to the non-universality principle of economic theory, I agree with Rodrik when he supports the idea that the power of economics comes from the multiplicity of theoretical frameworks. The researchers hold knowledge about various models that allow them to juggle between economic models until they find the one best suited to a specific setting. Indeed, there is a risk that the theoretical framework might not bring the desired outcome when it is applied in reality. That said, Skidelsky (2010) points out that the world in which we live is not fixed. Therefore, previously unrecognised problems may become the focus of future analysis. As such, Rodrik considers economic models as merely capturing 'the most relevant aspect of reality in a given context' (11). Therefore, new models enlarge the spectrum of knowledge, enabling economists to learn along the way.

Another important point made by Rodrik is the power of psychology and sociology when it comes to the selection of an economic model. For example, is privatisation desirable in developing economies? In most cases, it is not the training that gives you an answer to this question, but the framework within which an economist has been trained. Rodrik warns that once you are trained in a certain economic framework, you tend to neglect the assumptions that make that framework work (e.g. the existence of healthy institutions and competitive markets, perfect information etc.). The argument laid out through the book highlights how the predictive role of economic science has been overestimated. The author claims that no social science should be based on the accuracy of predictions because the social life cannot be predicted. The only thing that can be done is to make conditional predictions based on a specific set of assumptions established from the beginning.

However, Rodrik does not cover the argument against the existence of a multitude of economic models derived from coherentism. Imagine two groups of researchers who come up with two different sets of assumptions for a particular setting (as happens when schools of economic thought clash). This leads to two different models and outcomes. Suppose now that the benefits outweigh the costs in both cases. How can we choose between the models? Is it possible for both models to be true at the same time? If so, which one should be applied? This is a problem that needs to be debated further.

I find the book enjoyable to read because Rodrik constructs his explanation around a multitude of analogies and examples from the real world. Moreover, this work is not only simple and well-structured, but also accessible to every person with a small degree of knowledge in micro- and macro-economics. In conclusion, this is a must-read book because it reveals some of the difficulties that have to be faced by economists when they have to choose the right model to construct sustainable economic policies. Trying to anchor economics in *the* model is a leap of faith. But the ability of economists to navigate through distinct models grants power to this field of science. Hence, economics will continue to develop horizontally, which will offer new perspectives on the current socio-economic problems of the world and the solutions to counter them.

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