BOOK REVIEWS

Economics Rules: The Rights and Wrongs of the Dismal Science. By Dani Rodrik. New York: W.W. Norton, 2015. 272 pp. ISBN 978-0393246414, $27.95 (Cloth); ISBN 978-0-393-35341-9, $16.95 (Paperback).

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This extremely thoughtful short book by Harvard policy economist Dani Rodrik examines several crucial questions about economics as a scholarly discipline and as a profession. Much of the book should be required reading of all economists and of non-economists who, even though they may be skeptical about economists' roles, recognize the importance of economic thinking. The title is a wonderful double entendre, quite descriptive of the book's aims of laying out rules for discourse in economics and pointing out why economic research is so important. Rodrik's main contribution is to stress the crucial position of model-building in economics—historically, the single activity that has separated economic scholarship from that of other social sciences.

That many of us hold overly strong beliefs in the generality of our models is a central point of the book. Rodrik notes with some dismay the too-common belief among economists that one's model describes the real world at all times and in all cases. As he makes abundantly clear, that may be true for a very few models that we construct (e.g., the optimality of competitive equilibrium; simple supply–demand analysis), but the applicability of most models is time- and/or place-specific. And those beliefs in generality have proven detrimental in numerous cases that he uses to illustrate this point, particularly in terms of policies for economic development in poorer countries, which is his own research specialty.

Rodrik points out that "economics without its critics would be like Hamlet without the prince" (p. 177). He argues, quite correctly in my view, that much of the criticism of economics by non-economists is misguided, stemming either from a misunderstanding of what economics can—and can't—do; from a mistaken view of the degree of consensus among economists on policy issues; or from beliefs that economists are merely cloaking their ideologies in mathematics. He correctly observes, however, that our devotion to and concern for the mathematical purity of our models mean that we are too often willing to claim too much for our work—we bring some of this criticism on ourselves. This tendency is especially true given our natural enjoyment in being consulted on policy and appearing in the media, even when we know deep-down but fail to articulate the limitations on the advice and opinions that we offer.

Rodrik never places a value judgment on the overall contribution of economics. That is unfortunate. Despite all its faults, and even given the woeful lack of public understanding of what economists do and what economics is about, the profession has more than justified its existence. George Stigler (*Southern Economic Journal*, January 1976) argued that, if nothing else, the absence of a severe depression after the 1930s can and should be directly attributed to the ideas of economists. (One might make the same argument for why the Great Recession did not become the Second Great Depression.) Without stating so, this volume illustrates this optimistic conclusion with several cases in which microeconomic ideas, including airline and other deregulation, have led to huge improvements in our lives.

A long review article by a leading economic theorist (Ariel Rubinstein, *Journal of Economic Literature*, March 2017) discusses Rodrik's book from a general perspective, so I refer readers to that essay for additional insights into its general contributions. What does the book say to labor economists and others studying labor and labor markets? It is worth noting that labor economists, probably more than other economists, are accused of letting their values cloud their judgments about economic policy. This accusation no doubt stems from the fact that the issues we deal with are more understandable to the layperson and impinge more directly on him/her. Doing our job correctly—following Rodrik's dicta about applying our models carefully—is the appropriate counter to such criticism. I believe that most, albeit not all, academic labor economists do separate their ideology from their research. Perhaps the best evidence that we are doing so is when others tar us with conflicting and, to them, derogatory labels. Having been called "liberal," "conservative Democrat," and "racist" in the media and in e-mails in the past few years provides me some assurance that I am not following some dogma.

Economics Rules notes with some approbation the rise of concern among applied economists, and especially labor economists, about causality. It fails, though, to observe that this newfound concentration has been accompanied, as Jeff Biddle and I show (*History of Political Economy*, forthcoming 2017), by diminished attention to model-building and to the use of models, which Rodrik rightly views as the centerpiece of economic research. He recognizes, however, that the "causation *über alles*" approach (my term, not Rodrik's) has made research in labor economics increasingly time- and place-specific. To a greater extent than in model-based research, our findings are likely to be less broadly applicable than those in the areas that Rodrik warns about. Implicit in his views is the notion that the work of labor and applied micro-economists might be more broadly relevant if the concern with causation were couched in economic modeling. If we thought a bit more about the "how" rather than paying attention solely to the "what," the geographical and temporal applicability of our research might be enhanced.

Rodrik's discussion, and my own concerns about teaching in labor economics, relate to whether we teach or we indoctrinate. I find this worry (which, to be fair, Rodrik does not seem to hold very strongly) to be minor. In one sense, in an introductory micro or undergrad labor course we are indeed indoctrinating; but we are introducing students into logical thought—the formal analysis that is the hallmark of economics and is what distinguishes the field. He discusses and weakly approves of spending more time in such courses bringing in history, political science, or sociology. Doing so, I believe, would suggest to students that they don't need to bother learning the logical edifice of economics. Of course, they should be taught care in applying economic models and research; but, as Rodrik very gently suggests, this cannot come with an abandonment of logic. He laments the widespread use of algebraic problem sets with no simultaneous thorough attempt to enhance students' economic intuition. In the end, the basic idea of the book—that models are our stock in trade—is one that we need to pay more attention to in our research, our teaching, and our public professional *personae*. Without *economic* modeling, labor and other applied economists differ little from sociologists who are adept at using STATA.

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