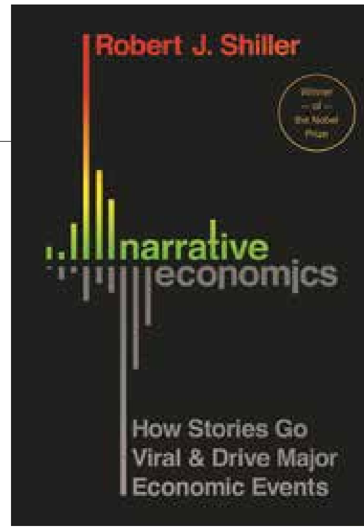
Story Time



Robert J. Shiller
Narrative Economics: How Stories Go Viral & Drive Major Economic Events
Princeton University Press, Princeton, NJ, 2019, 377 pp., $27.95

"FACTS DON'T CARE ABOUT YOUR FEELINGS" is a popular phrase on social media, ironically often used by those with at best a rudimentary grasp of history. Robert Shiller's mission in this book is to convince us of the opposite—that economic facts are indeed driven by our feelings. Those feelings are in turn driven by what he describes as economic narratives—contagious stories with the potential to change how people make economic decisions.

Recently, an extensive economic literature has looked at how perceptions can drive outcomes and vice versa.

But Shiller argues that the power of narratives is both broader and deeper than contemporary economics is prepared to accept. We cannot understand or, regarding the future, predict episodes like the Great Depression—or the 1980s move toward personal tax cuts—without understanding the narratives that underpin them. In some ways his thesis could be seen as pushback against the most recent Nobelists. These "randomistas" argue (to oversimplify, no doubt unfairly) that the discipline of science can strip away the need to "tell stories" and cleanly identify the reduced-form causal impact of particular policy interventions, without fear about expectations or beliefs.

But—and it is a big but—it is Shiller's approach to causality that trips him up. His description of

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the cult of frugality during the Great Depression, and how it led to the mass adoption of blue jeans and jigsaw puzzles, is entertaining. But the claim that "the crazed nature of the phenomena...helps to explain the length and severity of the Depression" is a stretch, to say the least. Similar examples dot the book. Art Laffer's napkin and Ronald Reagan's jokes (not to mention a short story by Astrid Lindgren) "touched off an intense public mandate for tax-cutting"; George W. Bush's post–9/11 narrative ended the 2001 recession.

But why should we believe that these stories genuinely caused their related economic events rather than being driven by them, or perhaps being usefully and interestingly illustrative of them? There's remarkably little reference to empirical evidence, and none to the recent literature on, for example, political uncertainty.

Instead, Shiller's views of the importance of narrative seem themselves to be based on his belief in a specific story about how and why people make economic decisions. "Ultimately, the mass of people whose decisions cause economic fluctuations aren't very well-informed…and yet their decisions drive aggregate economic activity. It must be the case that attention-getting narratives drive those decisions."

The "must" is assertion, not analysis. Not surprisingly, given this lack of analysis, the book does little to set out a convincing research agenda. The call for economists to draw from other disciplines, not just epidemiology but qualitative social research, among others, is welcome. But I struggle to see how Shiller's thesis can be turned into testable hypotheses and especially, as he hopes, into mechanisms for predicting and avoiding economic downturns or crises. FD

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