

# ECONOMICS AS NARRATIVES

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August 2017

# Economics and narratives

- Economic models are really stories
- Good economists understand this
  - “economists are storytellers without a clue” (D. McCloskey)
  - “we are simply the tellers of fables, but is that not wonderful?” (A. Rubinstein)
  - “[an economic] model always tells a story” (A. Gibbard and H. Varian)
  - “narrative economics” (R. Shiller)

# How economics really works

- Standard line
  - steady refinement of theories through empirical testing
- In practice
  - we rarely ever reject a theory
  - economics advances by improving its understanding of causal relationships (models) and of which model applies where/when
- Keynes: “Economics is a science of thinking in terms of models joined to the art of choosing models which are relevant...”

# Economic models as ... fables

- Fables

- are not real
- are simple, and abstract from many elements not essential to the story
- tell a very clear, unambiguous story
- contain characters that can be animals or objects
- have a moral, often conflicting across fables

- Models

- reality: stylized abstractions, simplifying assumptions
- simplicity: *ceteris paribus* assumption
- storyline: clear cause-and-effect, if-then relationships
- characters: random shocks, exogenous parameters, “nature”...
- policy implications
- context-specificity

# Models at work: what does economics have to say on the effects of

- minimum wages on employment?
- competition on innovation?
- expansionary fiscal policy on economic activity?
- capital inflows on economic growth?
- trade liberalization on economic performance?
- ....
  
- Answer in all cases is: it depends. Different models produce different results. What distinguishes good from bad economics is ability to navigate among models.

# Just like fables

- Greed
  - is good (The Fable of the Bees; invisible hand)
  - is bad (The Goose and the Golden Egg; externalities, prisoners' dilemmas, agency theory)
- Thrift
  - is good (The Ant and the Grasshopper; saving and growth )
  - is bad (The Miser and His Gold; paradox of thrift)
- How do we know which story is right?
  - economic diagnostics

# Final word

- Ultimately economic models gain acceptance more through plausibility and persuasion than through falsification
- Doesn't make economics less scientific, but changes the way we think of what we do