ECONOMICS AS NARRATIVES

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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