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Robert Shiller on “Narrative Economics”

February 17, 2017

Robert J. Shiller stood at the podium and held up a copy of the day’s *Wall Street Journal*. There on the front page, above an upward-soaring graph of stock market performance, the headline declared in large, bold type: “Dow Tops 20,000.”

The milestone was “absolutely meaningless,” Shiller explained. Journalists are trained to make stories out of moments like this, he added, because they have strong potential for human interest. But economists, who know that the Dow started at an arbitrary number in 1896 and that stock prices are only one measure of economic growth, are trained to dismiss such headlines as “so much baloney.” Yet this, Shiller continued, is precisely the problem. “Narratives drive the world that we live in,” he said. “And I have to say that my own profession is one of the weaker ones in appreciating narratives.”

Shiller, a Nobel laureate in economics and the Sterling Professor of Economics at Yale University, explored the topic of “narrative economics” at the Neubauer Collegium Director’s Lecture on January 26. In the lecture and subsequent discussion, held in the Oriental Institute’s Breasted Hall, he set out to investigate how prominent narratives develop around and influence economic phenomena, and he made a case for his fellow economists to broaden their inquiries in order to better understand how narratives affect economic activity.

Shiller's interdisciplinary approach, exemplified in his bestselling books *Irrational Exuberance* (2000) and *Animal Spirits* (2009), made him a fitting guest for the lecture. "The Neubauer Collegium exists to promote conversations and collaborations around issues so deep or complex that it is unlikely that any one perspective or area of expertise will be adequate to address them," Neubauer Collegium Roman Family Director Jonathan Lear explained in his opening remarks. "Shiller's work lays down challenges within economics that radiate out to psychology and philosophy, history, literature, sociology, anthropology and political thought."

In his lecture, Shiller walked through several chapters of modern economic history, with detours into linguistics, religious studies, sociology, and biology. The question at the core of his presentation: How do dominant economic narratives develop, and what determines how they evolve over time?

At one point Shiller gestured to a graph, explaining that he had used Google Ngrams to measure how frequently Adam Smith and Karl Marx were mentioned by other authors. The graph revealed that Smith's mentions had increased steadily, peaking 100 years after his work *The Wealth of Nations* was published. Marx's mentions, on the other hand, rose slowly for decades, then quite rapidly in the early 20th century before peaking in the 1970s.

Shiller explained that epidemiological concepts like contagion rates could help make sense of these differences. "You can have fast epidemics that last two or three days and then they're over," he said. "Or you can have slow epidemics that take 100 years." Economic trends, he posited, may follow similar trajectories.

Later, Shiller drew on religious history to examine popular responses to the Great Depression, one of the best-known but least-understood economic dramas of the twentieth century. Historical research suggests that many Americans saw the downturn as divine penance for the preceding decade of hedonism, financial fraud, and sexual liberation. "There was this sense that there was something immoral about the 1920s," said Shiller.

To test that theory, he looked back at sermons given in the days following the stock market crash of 1929. "They loved this crash," Shiller said of American pastors. "It was the day of judgment arriving." This moral narrative took root in the broader culture, Shiller added, and ultimately affected economic behavior. Skirt lengths went down, as women felt repelled by the dominant fashions of the 1920s. And as public displays of wealth were shunned amid a severe unemployment crisis, demand fell.

Following the lecture, Shiller was joined onstage by History Professor Jonathan Levy, a principal investigator on the Neubauer Collegium research project "[The Economy and Its Boundaries](https://neubauercollegium.uchicago.edu/faculty/the_economy/) (https://neubauercollegium.uchicago.edu/faculty/the_economy/)" and author of *Freaks of Fortune: The Emerging World of Capitalism and Risk in America* (2012). Levy oriented the discussion around contemporary issues like the economic narratives that dominated the 2016 presidential campaigns and the possibility that irrational exuberance accounts in part for today's surging stock prices.

In a Q&A session following the discussion, audience members asked Shiller about specific economic benchmarks, and whether economists could ever formalize narratives in mathematical terms. "I think it's not impossible," Shiller answered. "But we're not there yet."

The final question, from Lear, concerned a problem that Shiller was uniquely disposed to address: What structural changes would need to be made at research universities to help scholars of economics break out of their silos?

"The rules of the game are pushing us to specialized research at the frontiers, which is good in many ways," responded Shiller. "But I also think we should be talking to people of different disciplines."

— Jake J. Smith

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