Narrative Economics: How Stories Go Viral and Drive Major Economic Event*s* by Robert J. Shiller, 377 pp., Princeton University Press (2019), US$27.95

Behavioural economics is one of the recent dimensions of mainstream economics that combines psychological, emotional and social factors to explain economic decision making by individuals. This field of economics contests the traditionally held economic premise and argues that economic decisions are driven by emotions rather than rational calculation. The Nobel Prize-winning economist Robert J. Shiller is known for his pioneering research in the field of financial markets and accurately predicting the dot-com bubble in the year 2000 and the financial crisis of 2008-09. He observes that the fluctuations in asset prices over long periods occur in predictable patterns and that the markets are in fact irrational. His new book *Narrative Economics: How Stories Go Viral and Drive Major Economic Events* explains the role of popular narratives in driving economic behaviour of agents and their implications for the real world. The book expands on earlier works on the subject such as Daniel Kahneman's *Thinking, Fast and Slow* (2011), Richard Thaler's *Nudge* (2008) and *Misbehaving* (2015), Dan Ariely's *Predictably Irrational* (2008) and *Upside of Irrationality* (2010), Robert Shiller and Roger Akerlof's *Animal Spirits* (2009) and the former's *Irrational Exuberance* (2000).

The impact of narratives on people's behaviour is shown through controlled experiments in the field of marketing, journalism, education, health, and philanthropy. However, Shiller expands the analysis of narratives into the field of economics and argues that sometimes the most dominant reason behind economic fluctuations happens to be the spread of certain powerful stories that evoke human interest and emotion, which cannot be explained by mainstream economics. Using historical examples extensively, the book explains the impact of these 'viral' stories on individuals' economic decision-making and their contagious impact on aggregate economic variables. A careful study of these narratives can help economists perform economic forecasts better

and predict major economic events like recessions or depressions rather than relying solely on the mathematical tools and data.

The term 'narrative' means simple stories or explanations of events that goes viral and drives economic events. Economic decisions are often influenced more strongly by the manner in which information is presented to people, rather than by the underlying facts. The presentation of such information before the public forms popular narratives like 'stock prices can only go up', 'real estate prices never fall', *etc*. A common influence of these narratives across individuals affects economic behaviour at an aggregate level in the form of changes in macroeconomic variables such as investment and savings, thus making such narratives self-fulfilling prophecies. These narratives spread through word of mouth, news media and, more recently, through social media. Understanding the impact of these narratives can help us improve our ability to predict and prepare ourselves for major economic events.

Shiller's book consists of four parts. Part one elaborates on the concept of narratives, the beginning of narrative economics and the occurrence of contagion. The author begins with one of the most viral narratives of the decade, that of bitcoins, and tries to explore the reason behind the popularity of the currency that has no underlying value. He compares the rise of bitcoins to the seventeenth-century tulip mania, when the prices of tulip bulbs exceeded the prices of real estate. He argues that the rise in the value of bitcoin can be attributed to the fact that people are interested in believing the bitcoin story and they do not want to miss out on the technological advances and the possible profits they might gain, even without understanding the idea behind the creation of the cryptocurrency. The complicated and costly technology behind the bitcoin generates a perception that it has an intrinsic value. The popularity of bitcoin is also associated with anarchism as it challenges the monopoly of government over financial structure through fiat currencies.

Part two of the book explains the causality between the popular narratives and economic events and provides different propositions to help the reader identify and understand the evolution of important narratives. Shiller draws a comparison between narratives and contagious epidemics that recur after a mutation changes its contagiousness. He argues that some narratives are like viruses that die out on their own, while others mutate and recur in

new generations. Some of the perennial narratives that find themselves being repeated through time after mutation relate to the advent of industrialisation or mechanisation, automation and artificial intelligence – replacing human capital and ultimately resulting in mass unemployment. Similarly, there are many other economic theories and events that find space in the form of popular narratives, repeatedly, in slightly different formats.

In part three of the book, the author examines nine perennial narratives and their role in the occurrence of various economic phenomena. Shiller begins with a major class of narratives about confidence that has influenced economic outcomes: people's confidence in banks, in business, in one another, and in the economy. The author has linked the periods of boom and bust to a state of confidence and a state of panic in general public. A recession or depression is an outcome of confidence erosion in the future trajectory of the economy and associated unwillingness to invest in business or to hire more labour. Similarly, a bank run occurs when people lose confidence in the bank's ability to repay along with the belief that other consumers may also try to withdraw their money at once. Most of the economic theories are based on the assumption that human beings are rational agents who make well-informed decisions. However, in reality, human mind is suggestible and can be guided by irrational suggestions to display herd-like behaviour.

Another major narrative is related to the gold standard of the mid-twentieth century. Since 1971, countries around the world have abandoned the gold standard and replaced it by fiat currency. The central banks, however, still hold gold though not for backing their currency. One of the reasons why central banks still hold gold is because of the public perception that the end of the gold standard means the end of 'something traditional and honest'. This narrative is not so prominent today, but its mutations can be found in the form of the bitcoin narrative or in other forms in future.

The author uses 'Google Ngram' to understand the popularity of different narratives at any point in history. The use of the term 'technological unemployment' started in 1917 but it began its contagious swing in 1928 and reached a peak around the worst years of the Great Depression. The period preceding the Great Depression was a period of prosperity. Still, we see an upswing in the popularity of the technological unemployment narrative. This

happened after official data in the United States showed an unemployment rate of 7.4 per cent, which led people to speculate about the reasons behind such a high rate of unemployment. The Google Ngram reveals that such narratives usually become popular around the period of economic downturn and have the potential to amplify the impact of economic crisis by causing instability in expenditure and investment patterns. Shiller cites examples of viral stories about electronic brain (computers), artificial intelligence, machine learning, *etc.*, which contributed to raising the fear of unemployment. The labour-saving machines narrative has recurred several times in economic history, usually during phases of economic crisis. Under the influence of these narratives, temporary economic downturns are mistaken for technological unemployment which generate pessimistic sentiments.

The author also adumbrates speculation-based narratives where people speculated on real estate and stock prices which led to the formation of asset price bubbles. The dot-com bubble of the early 2000s was characterised by a pattern similar to that of the tulip mania of the 1630s that showed a rise in prices, without underlying financials, followed by a sharp correction. One could observe similarities between the narratives related to real estate and the stock market – both are driven by social comparison, are contagious, and are linked to investor greed and irrationality. The stock market crash story of 1929 may not have a contagious effect today but it still remains as a part of public thinking and can recur with a mutation in a changing economic environment. Such stories and legends from the past have the potential to influence people's behaviour and economic outcomes.

Shiller also talks about the narratives and perceptions that were generated during the period of the Great Depression. An environment of collective sympathy was created wherein people postponed their consumption and maintained a simple lifestyle in deference to the suffering of those who lost their jobs, thereby contributing to the prolonging of the Depression. The 'American dream' narrative, which has recurred several times in the twentieth century, originally involved the idea of a higher standard of living and prosperity for all. One aspect of this narrative was the ownership of a house which led to the housing bubble that collapsed in 2007-08.

In part four of the book, the author discusses the scope of analytical research in the area of narrative economics that can help in understanding the link between narratives and real economic variables. He argues that traditional research methods like focus groups – interviews conducted on a group of people from diverse backgrounds to elicit actual conversation on economic narratives and new technological tools like textual analysis – involving counting of words and phrases in digitised texts can be used to supplement macroeconomic models. The author emphasises the importance of collecting such data and adding it to the major economic databases for further analysis on what people are talking about during economic downturns.

Shiller challenges the basic assumption of economics that people are 'consistent optimisers of a sensible utility function' and that they are rational agents who make best choices for themselves using all the available information. He argues that human behaviour is susceptible to popular narratives or stories and people often tend to collectively make irrational decisions. He has, however, emphasised only the macroeconomic impact of these narratives, leaving microeconomic aspects untouched. The book is silent on modelling this irrational behaviour into microeconomic theories that are based on the assumption of rationality. The author has also missed the challenges that researchers may face while tracking and quantifying a set of narratives as they are sometimes conflicting in nature, largely driven by emotions and their study involves a great degree of human judgement. The practical utility of the premises advocated in the book could have been increased had the author provided some guidance on incorporating the impact of narratives into mainstream economic theories. The book gives a sense that assumption of rationality is redundant in explaining economic behaviour of agents, which may not really be the intention of the author. Also, the assertions made in the book are not backed by analytical research or empirical evidence. Nevertheless, in the era of social media where stories go viral at a click, the book offers interesting insights that may help to better understand major economic outcomes, complementing traditional mathematical models.

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