

(99)

OVERDRUK

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The storied character of economics*

What economics can learn from history is mainly that economics itself uses stories. This is not to deny that an economist could benefit from knowing more of the stories themselves.¹ The average economist, especially the average young American economist, is ignorant of what happened yesterday in the economy. In a recent survey of American graduate students in economics by David Colander and the Dutch economist Arjo Klamer only 3 per cent said that knowing something about actual economies was important for success as an economist.² The scornful attitude toward human experience is hard to understand. But the economists will not change until they recognize that history is not merely a mine for statistical data of low quality. They are going to continue resisting historical fact and historical argument until they recognize that they themselves are historians, tellers of stories.

The anti-empirical character of economics, shielded from criticism by a naively empiricist philosophy of inquiry, is startling to outsiders, and requires explanation.

Like philology in the centuries of Erasmus, Lipsius, and Heinsius, physics nowadays is at the top. Physicists have the most prestige among intellectual workers. 'Science' has come to mean 'a field of study close to what non-physicists think physics is like.'

Economists have for a century or so been enchanted by mathematical physics. Some decades ago they cast off their identities as worldly philosophers and economic historians, donning the garb of social physicists, tough and masculine and quantitative. Economists talk mathematically nowadays. They claim to be testing universal theories. They divide themselves into applied and theoretical branches. They adopt a philosophy of inquiry that they think goes along with being physicists. They follow the course of honors in physics, from big government grants to the Nobel prize.

On the face of it their claim to being the physicists of the social sciences seems credible. The *American Economic Review* contains mathematics no less imposing than in *The Physical Review*. The statistical experiments in economics cost as much

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¹ D.N. McCloskey, 'Does the past have useful economics?', *Journal of Economic Literature* 14 (1976) 434-61.

² David C. Colander and Arjo Klamer, 'The making of an economist', *Journal of Economic Perspectives* 1 (1987) 95-112, esp. 100.

as those in the less expensive branches of physics. The economists, like the physicists, announce findings with full ceremony, dating their papers to establish precedence. The analogy, in short, seems apt. As gravity or electromagnetism governs the physical world, so self-interest and competition governs the economic world.

Humanists may sneer from the sidelines, not wishing to pay homage to a human science as they would to a physical science. The humanist believes she knows a thing or two about human science. By contrast, many of the other social scientists pay homage to economics with affecting warmth, remaking their sociology and politics and geography and policy studies into versions of the lordly science. Only the anthropology tribe and the psychology laboratory hold out against the empire of economists.

Physics as understood in economics, though, is a poor model. Following the physics model has hindered economics in doing what suits their subject, namely, philosophizing and historicizing. Modern economists are untrained in philosophical argument, even though that is what most theoretical economics consists of. And modern economists are untrained in observation and storytelling, though that is what most applied economics consists of. The substitutes for philosophy and history in economics have been mathematics and statistics, since the 1940s. That is, the formal side of argument in economics has come to stand for the whole.

I do not want to be misunderstood. I am by profession a quantitative economic historian, and use mathematics and statistics with pleasure.³ No reasonable person could object to making formal what is formalizable. Perhaps formality is not the only good, but it is at least one good. The use of mathematics and statistics, and the precision that comes from them, is not a bad thing – contrary to humanistic opinion when untrained in the mysteries. The bad thing is deeper, that economics has been taken over by the intellectual values of the wrong subjects. Again, no reasonable person could object to such values flourishing deep within the departments of mathematics or statistics. Splendid. The problem comes when the economists abandon an economic question in favor of a mathematical or a statistical one, and do not return to the economics.

The excuse for not returning is that the physicists act this way. The excuse is based on a misunderstanding of physics. Physicists know more mathematics than the economists do, but do not therefore adopt the intellectual values in the department of mathematics.⁴ For instance, they do not care whether or not one can prove the existence of some solution to a problem unless one can also write down the actual solution. Economists by contrast have always loved existence theorems, as do mathematicians. Nor do the physicists adopt the values in the department of statistics.

³ D.N. McCloskey, *Econometric history* (London 1987).

⁴ See Eric Livingston, *The ethnomethodological foundations of mathematics* (London 1986) 185-189: 'In practice, when they are actually engaged in their work, physicists have a much more circumspect regard for their derivations and mathematical descriptions ... The physicists proof of the divergence theorem [for example] ... has the interesting feature that it preserves the physical interpretability of the equations throughout the derivation. ... In the philosophy, history and sociology of science, the problem of characterising the relationship between mathematics and physics ... is disengaged from consideration of physicists' actual work practices.' See also the embarrassment with which Richard Feynman introduces mathematics into his very difficult course of lectures for the California Institute of Technology, *The Feynman lectures on physics I* (Reading, Massachusetts 1963) 22: 'What is mathematics doing in a physics lecture? ... Mathematicians are mainly interested in how various mathematical facts are demonstrated ... They are not so interested in the result of what they prove.'

They do not care whether one could imagine circumstances in which such-and-such a procedure would work; they want a procedure that actually does work, in the circumstances they actually do face. Economists by contrast have always been in love with hypothetical arguments, as have statisticians. In physics the familiar spirit is Archimedes the experimenter. But in economics it is theorem-proving Euclid who paces the halls.

The grail of physics worship in economics has been 'prediction'. Economic theory is supposed by philosophers to yield 'observable predictions'. Outsiders to economics take economists to be predictors. One asks the local economist, like the local weather forecaster, to learn when the interest rate will go down. But physical prediction is a bad model of economic thinking. An economist cannot predict the interest rate. The problem is not merely the inaccuracy of the predictions – though economists are poor predictors in practice. Nor is the problem that economists are asked to make predictions about unique aggregates, as difficult to predict as the ecology of the entire earth or the history of the entire universe.⁵ Even for repeated events an economic prediction faces a more grave problem, arising from the human character of economic activity. The problem is that an economist who could predict the interest rate, or make an observable prediction that could earn him profit, would be rich. If he were so smart he would be rich. He is not rich. Therefore he is not so smart.⁶

All the human sciences share the problem. An economist examining the business world is not like a physicist examining the physical world; he is more like a critic examining the art world. A critic who knew the future of art would also be rich, because he could become at once a successful artist (or, what comes to the same thing in fame and power, the patron of any number of successful artists). The prediction of the future and the explanation of the past are symmetrical in a simple physical system. They are not in a human system, because the observer is part of the system. That he looks backward does not change the past; but that he looks forward does change the future. The part of the future he cannot predict is the part that would yield him a private advantage. Many of the predictions offered by economists, if they could be made, would yield private advantage.

Economists and other human scientists can reflect on the present and can tell stories about the past. Such philosophy and history make for wisdom, which undergirds broad, conditional predictions, giving a merely public advantage. Some are routine; some require an economist. But they are strictly limited to those that would not give the average economist unlimited wealth. The economist says: if a government shoots everyone with eye glasses the economy will not perform well. That's reasonable prediction, though unsurprising. Or again: if voluntary restrictions such as those in force a few years ago in the United States on Japanese automobile imports are reinstated, then the Japanese manufacturers will benefit by about \$1000 per car and the American auto buyers will pay about \$160,000 per year for each job saved in America, four times what the best-paid automobile worker could earn.

⁵ William Klink, 'Nature, technology, and values', paper for the Iowa Conference on Rhetoric of the Disciplines: The Next Steps, March, 1988; Mancur Olson, 'Talk to Department of Sociology', University of Iowa, April 1988.

⁶ D.N. McCloskey, 'If you're so smart: Economics and the limits of criticism', *The American Scholar* 57 (1988).

That's a surprising prediction, and another wise contribution to policy. Both predictions are useful as wisdom, justifying the economist's role as critical theorist. Neither is profitable.

Economics, in other words, is a historical science, like geology, and a human historical science, like history. It is a source of wisdom, not the Faustian power claimed by physics. We can observe the history of economies or the history of painting, and in retrospect tell a story about the results of security of commercial property or the analysis of vanishing points. An economist is an expert on the past, and about the portion of the future that can be known from the past without divine and profitable possession. Human scientists and critics of human arts, in other words, write mainly history, not prophecy. Sometimes, unhappily, the economists will take money for trying to predict in the physicists's way. But it is not their chief skill, any more than earthquake predicting is the chief skill of seismologists or election predicting the chief skill of political historians. Critics of human action become ridiculous when they confuse speaking well about the past with doing well in the future. Critics of art and literature stopped being ridiculous this way a long time ago. It would be good if the critics of society would join them in their modest sophistication.

Really, then, the economists would do better to imitate some other science—geology, say, cataloguing the rocks and strata; or evolutionary biology, explaining the flora and fauna. Or, indeed, history. There seem to be two ways of understanding things: either by way of a metaphor or by way of a story, through something like a poem or through something like a novel. When a biologist is asked to explain why the moulting glands of a crab are located just as they are he has two possibilities. Either he can call on a model—a metaphor—of rationality inside the crab, explaining that locating them just *there* will maximize the efficiency of the glands in operation; or else he can tell a story, of how crabs with badly located glands will fail to survive. If he is lucky with the modeling he will discover a mathematical model with analytic solutions, showing the good crab approaching equilibrium. If he is lucky with the storytelling he will discover a true history of some maladapted variety of crab, showing the bad crab dying out. Metaphors and stories, models and histories, are the two ways of answering 'why'.

The modes of explanation are balanced in economics. An economist explains the success of cotton farming in the antebellum South indifferently in static, modeling terms (the South in 1860 had an advantage in growing cotton) or in dynamic, storytelling terms (1860 grew from earlier successes). The best economics, indeed, combines the two. Ludwig von Mises' paper of 1920 on the impossibility of economic calculation under socialism was both a story of the failures of central planning during the recently concluded war and a model of the ignorance that would cripple any attempt whatever to replace the market.⁷ The metaphors are best adapted to making predictions of tides in the sea or of shortages in the market, simulating out into a counterfactual world. Seventeenth-century physics abandoned stories in favor of models, giving up the claim to tell in a narrative sense how the gravity reached up and pulled things down. It just did, according to thus-and-such an equation. Let me show you the model. Similarly a price control on apartments will yield shortages; don't ask how it will in sequence; it just will, according to thus-and-such an

⁷ Don Lavoie, *Rivalry and central planning: The socialist calculation debate reconsidered* (Cambridge 1985) 49.

equation. Let me show you the model.

On the other hand the storytelling is best adapted to explaining something that has already happened, like the evolution of crabs or the development of the modern corporation. The Darwinian story was notably lacking in models, and in predictions. Mendel's model, which offered to explain the descent of man by a metaphor rather than by a story, was neglected by biologists for 34 years, while evolution was telling its stories. The point is that economists resemble human beings in that they use metaphors and tell stories. They are concerned both to explain and to understand, *verklaren* and *verstaan*. Consider for example the detailed historiography of British economic 'failure' since 1870. Its choice of metaphors has had consequences. The economists Bernard Elbaum and William Lazonick, who are dubious about the health of advanced capitalism, favor medical metaphors of what went wrong: they speak of an 'affliction,' the 'British disease,' and 'diagnosis'.⁸ The historians David Landes and Martin Wiener prefer the more bourgeois metaphor of a foot race.⁹ The metaphor of 'leadership' uses it, as for example in Landes's chapter headings, 'Closing the Gap' and 'Short Breath and Second Wind' – and 'Some Reasons Why', taken from an English poem about a cavalry charge. The main question of the second half of Landes's book is, 'why did industrial *leadership* pass in the closing decades of the nineteenth century from Britain to Germany?'¹⁰

Landes notes that there is a reason in general history for speaking of footraces and leadership, namely, that the balance of power in Europe has been thought to depend on industrial leadership. Yet one might doubt it, this alleged close connection between political and economic power. A large enough alliance of straggling, winded followers, after all, could well have fielded more divisions in 1914, or even in 1917. The case of Soviet Russia in 1941 is worth reflecting on, as are North Vietnam in 1968 and Afganistan in 1988. The metaphor of a race does not seem to capture the balance of power.

It captures the economics less well. Landes is speaking a truth, but an irrelevancy true by definition, when he quotes a forwardthinking Frenchman of 1788: 'The people that last will be able to keep its forges going will perforce be the master.'¹¹ This is literally true (no forge, no bayonet), but true by chemistry and definition (in the way that H₂O is 2 of H and 1 of O, with no substitution possible), not by economic fact and military history. In economics there are substitutes, even if there are not in chemistry. The French in fact imported iron from their chief enemy throughout the Napoleonic Wars. In military history the literal extinction of forges has seldom caused defeat – notwithstanding the hardy myth that blockade and strategic bombing wins wars.

What is most wrong and inapt about the metaphor of leadership, however, is that it assumes silently that first place is greatly to be preferred to second, or sixth. It agrees with the motto of the great American football coach, Vince Lombardi: 'Winning isn't the most important thing; it's the only thing.' Landes is correct in obser-

⁸ Bernard Elbaum and William Lazonick ed., *The decline of the British economy* (Oxford 1986) 1.

⁹ David Landes, 'Technological change and development in Western Europe, 1750-1914' in: H.J. Habakkuk and M. Postan ed., *Cambridge economic history of Europe VI* (Cambridge 1965), later somewhat revised as *The unbound Prometheus* (Cambridge 1969); Martin Wiener, *English culture and the decline of the industrial spirit, 1850-1980* (Cambridge 1981).

¹⁰ Landes, 'Technological change,' 553.

¹¹ *Ibidem*, 553.

ving that 'Within fifteen years [of cheering the Prussian victory over perfidious France] ... the British awoke to the fact that the Industrial Revolution and different rates of population growth had raised Germany to Continental hegemony and left France far behind'.¹² He is correct, that is, that in fact the British in the 1880s did fret about German 'hegemony' and did speak of the necessity to 'awaken' (the metaphor of waking up is used again by Landes on page 554). The British certainly were under the spell of the Lombardi motto. It is the usual course of journalistic panic, the sort of panic we are seeing now in the United States vis à vis Japan and Europe, mixing a metaphor of cooperation by trade with a metaphor of competition by football match. But the historian should resist the enchantments he finds in his sources, not reinforce them. Landes repeatedly and unconsciously affirms the importance of coming first *and only first*: 'To be sure, it is easy to demonstrate the exaggeration of these alarms. Germany's gains still left her far *behind* Britain as a commercial power'¹³

Landes cannot be here thinking critically. The metaphors of disease, defeat, and decline are too harshly fixated on being Number One to be right. The Lombardi motto governs narrowly defined games well enough. Only one team wins the World Cup. The fixation, however, ignores the possibility that in economic affairs being Number Two, or even Number Six, may be very good indeed. The metaphor of games does not make sense when applied to the history of an economy, the unforeseen consequences of the voluntary choices of 45 million souls. The residence of the souls in Britain gave them steadily expanding choice during the century after 1870. The prize for second in the race of economic growth was not poverty. The prize was great enrichment, if rather less enrichment, and rather less attention to duty, than certain others.

By contrast with this dull if right version of what has happened in British economic history since 1870, the diseases of which the pessimists speak so colorfully are fatal; the sporting or military defeats are total; the declines from former greatness are huge and irrevocable. Stories of decline haunt the British intelligentsia. The British would do well to take note of the Dutch Republic, which has been 'declining' practically since its birth, ending nowadays as miserably small and weak, stripped of its empire, no longer a factor in world politics, a tiny linguistic island in one corner of Europe – but nonetheless fabulously rich and successful by any standard but Lombardi's.

The other metaphor, the optimistic one, sees Britain as part of the growing world. The British part of the growing field matures early, and is 'overtaken' in rate of growth by others for a time. The historian could tell the recent history of the first industrial nation as a failure, and be right from a narrow view and for a narrow slice of time. On a wider, longer view, however, the metaphor of relative failure would not be right. The way of telling stories, then, is as crucial to one's opinion about Victorian failure as the choice of metaphors. The optimists want the story to be one of 'normal' growth, in which 'maturity' is reached earlier by Britain. Elbaum and Lazonick, by contrast, want the story to be a story of the penalties of an early start, as in a more sociological vein do Landes and Wiener. The story of the tortoise and the hare has lasting appeal.

¹² *Ibidem*, 553.

¹³ *Ibidem*, 555.

The pessimistic story is the dominant one, though contradicted by the evidence. Failure to keep up in technological change, it is said, explains why British growth dropped after 1870, in comparison with its mid-century pace and in comparison with that of the new industrializing countries. The failure in turn caused British shares of world markets to fall.

Martin Wiener's pessimistic storytelling, for instance, has Britain 'surrendering a capacity for innovation and assertion' by 1901.¹⁴ Such a remark jars in the alternative and optimistic story, which tells of a necessarily less bulky Britain engaging nonetheless in such innovation and assertion as radar, the Battle of Britain, analytic philosophy, and the structure of deoxyribonucleic acid. The circle of narrative – namely, that one needs the moral to tell the story, and yet the story makes the moral – is similar to the 'hermeneutic circle' on the reader's side (that one needs to know the context to know the details, but the details to know the context). It is not breakable. The stories that Wiener – or McCloskey or Landes or Lazonick – want to tell will affect if not determine the stories they do tell.

Historians do not need to be reminded that the way of telling the story of British entrepreneurial failure matters has ideological significance. Elbaum and Lazonick are explicit: 'In historical perspective, however, state activism must be absolved from bearing primary responsibility for Britain's relatively poor economic performance' because, after all, the poor performance by their story dates far back into the age of *laissez faire*.¹⁵ They end their chapter by attacking the Thatcher government for its 'supposition that there are forces latent in Britain's 'free market' economy that will return the nation to prosperity.' They express confidence instead in 'the economic benefits of industrial planning.'¹⁶ Though Elbaum and Lazonick put part of the blame on the workers, the notion that the bosses did it is popular on both sides of the House of Commons – on the Labour side for the usual reasons and on the Conservative side because the story elevates the bosses to a heroic role. In 1943 T.H. Burnham and G.O. Hoskins put it in a way that would please all pessimists from Ayn Rand to Tony Benn: 'If a business deteriorates it is of no use blaming anyone except those at the top.'¹⁷

The optimistic story, on the other hand, is this: The failures were by international standards small even in the industries that are supposed to have been the worst cases. In many industries Britain did well. But whether it 'did well' or not keeping up with Number One was unimportant to its growth. Britain in 1890 could be expected to grow slower than the new industrial nations. The falling share of markets was no index of 'failure,' any more than a father would view his falling share of the poundage in the house relative to his growing children as a 'failure.' It was an index of maturity.

The optimistic story views capitalism as a world-wide system in which sometimes one region, sometimes another will take the lead, but in which all regions are to varying degrees brought along by market forces. The lag of those who imitate rather than invent is only a few years, as the Japanese can attest. In this set of metaphors and storytelling conventions the main event in British economic history over the

¹⁴ Wiener, *English Culture*, 158.

¹⁵ Elbaum and Lazonick, *Decline*, 11.

¹⁶ Elbaum and Lazonick, *Decline*, 16.

¹⁷ T.H. Burnham and G.O. Hoskins, *Iron and steel in Britain, 1870-1930* (London 1943) 271.

past century is *not* the 'falling behind' (no more than at present that supposed paragon of energy, the United States, is 'falling behind'). The sociological argument grossly overexplains the thing to be explained. The attitudes that Landes, Wiener, Elbaum, and Lazonick describe would have made ordinary economic life impossible. Yet the British people now have three times more housing, food, clothing, education, and innocent merriment than in 1870.

The main story is the trebling of British income as others achieved British standards of living and beyond. A 200 percent increase of income is more important than a 20 percent 'failure' to imitate German habits of attention to duty. Looked at from India, Britain is one of the developed nations. The main economic story of the century past is not the relatively minor jostling among the thoroughbreds in the lead pack of industrial nations, but the appalling distance between them and the donkeys at the rear. In other words, the trouble with the pessimistic choice of story in the literature of British failure is that it entails a choice of a relatively uninteresting thing to be explained. The economists and historians appear to have mixed up the question of why Britain's income per head is thirteen times that of the Philippines and thirty-nine times that of India – many hundreds of per cents of difference which powerful forces in sociology, politics, and culture must of course contribute to explaining – with the rather more delicate and decidedly less interesting question of why British income is 10 percent less than French.

What economics can learn from history, then, is the seriousness of telling a story well. The American economist Don Lavoie argues eloquently and persuasively that 'economics is not so much a non-interpretive science as it is an interpretive one that has been striving to be otherwise in spite of itself.'¹⁸ The economy is a story that we read. It is indicative of something happening in economics – call it growing up – that Lavoie and Arjo Klamer are founding a Society for Interpretive Economics, to encourage using all the evidence to do the reading. The 'rhetoricians of inquiry' Michael McGee and John Nelson wish to go 'beyond the formalism of narrative conceived as a mode of presentation once reason has done its work – or when reason is overcome by the desire for entertainment.'¹⁹ The best way to do so is to show a narrative running scientific argument, as in the story of British economic failure. Narrative is not merely a pretty tale. It is the way science gets done.

The question is whether one can take as seriously in economics as in, say, the criticism of novels an assertion by Peter Brooks, in his *Reading for the Plot*: 'Our lives are ceaselessly intertwined with narrative, with the stories that we tell, all of which are reworked in that story of our own lives that we narrate to ourselves ... We are immersed in narrative.'²⁰ I would say yes. As the historian J.H. Hexter put it, storytelling is 'a sort of knowledge we cannot live without.'²¹ Economists have not lived without it, ever. It is no accident that European economics and the European novel were born at the same time. We live in an age insatiate of plot.

¹⁸ Don Lavoie, 'The present status of interpretation in economics: Bad news with a glimmer of hope', Center for the Study of Market Processes, Economics Department, George Mason University (May 1986) 14.

¹⁹ Michael Calvin McGee and John S. Nelson, 'Narrative reason in public argument', *Journal of Communication* (1985) 130-155, esp. 140.

²⁰ Peter Brooks, *Reading for the plot: Design and intention in narrative* (New York 1985) 3.

²¹ J.H. Hexter, 'The problem of historical knowledge', unpublished manuscript (Washington University, St. Louis 1986) 8.

Tell me a story, Dr. Smith. Why, of course: A pension scheme is proposed for the nation, in which 'the employer will pay half.' It will say in the law and on the worker's salary check that the worker contributes 5% of his wages to the pension fund but that the employer contributes the other 5%. The example is a leading case in the old debate between lawyers and economists. A law is passed 'designed' (as the lawyers say) to have such and such an effect. The lawyerly mind goes this far, urging us therefore to limit the hours of women workers or to subsidize American flag shipping. The women, he thinks, will be made better off; as will the American ships. According to the lawyer, the workers under the pension scheme will be 5% better off on balance, getting half of their pension free.

No economist, however, will want to leave the story of the pension plan in the first act, the lawyer's and legislator's act of laws 'designed' to split the costs. She will want to go further in the drama. She will say: 'At the higher cost of labor the employers will hire fewer workers. In the second act the situation created by the law will begin to dissolve. At the old terms more workers will want to work than the employers wish to hire. Jostling queues will form outside the factory gates. The competition of the workers will drive down wages. By the third and final act a part of the "employer's" share – maybe even all of it – will sit on the workers themselves, in the form of lower wages. The intent of the law,' the economist concludes, 'will have been frustrated.'

The case illustrates a number of points about economic storytelling. It illustrates the delight that economists take in unforeseen consequences, a delight they share with other social scientists. It illustrates the selection of certain consequences for special attention: an accountant or political scientist would want to hear how the pension was funded, because the manner of funding would affect political behavior in the future; but economists usually set such irrational consequences to the side. It illustrates also the way economists draw on typical scenes – the queues in front of the factory – and typical metaphors – the workers as commodities to be bought and sold. Especially it illustrates the way storytelling supports economic argument. Since Adam Smith and David Ricardo economists have been addicted to little analytic stories, the Ricardian vice. The economist says, 'Yes, I see how the story starts; but I see dramatic possibilities here; I see how events will develop away from the situation given in the first act.'

Thus in Chicago when a tax on employment was proposed the reporters asked who would pay the tax. Alderman Thomas Keane (who later went to jail, though not for misappropriation of economics) declared that the City had been careful to draft the law so that only the employers paid it. 'The City of Chicago,' said Keane, 'will never tax the working man.' Thus too in 1987, when Senator Kennedy proposed a plan for workers and employers to share the cost of health insurance, newspapers reported Kennedy as estimating 'the overall cost at \$25 billion – \$20 billion paid by employers and \$5 billion by workers.' Senator Kennedy will never tax the working man. The manager of employee relations at the U.S. Chamber of Commerce (who apparently agreed with Senator Kennedy's economic analysis of where the tax would fall) said 'It is ridiculous to believe that every company ... can afford to provide such a generous array of health care benefits.' The U.S. Chamber of Commerce will never tax the companies.

Storytelling in economics follows the constraints of skillful fiction. The most im-

portant is the sense of an ending. Go all the way to the third act. The 5% pension gained by the worker is 'not an equilibrium', as economists will say when they do not like the ending proposed by some unsophisticated person. Any descendant of Adam Smith, whether by way of Marx or Marshall or Menger, will be happy to tell you the rest of the story.

Many of the disagreements inside economics turn on this sense of an ending. To a certain kind of Keynesian the story idea 'Oil prices went up, which caused inflation' is full of meaning, having the merits that stories are supposed to have. But to a certain kind of monetarist it seems incomplete, no story at all, a flop. As the economist A.C. Harberger likes to say, 'it doesn't make the economics sing.' It ends too soon, half-way through the second act: a rise in oil prices without some corresponding fall in prices elsewhere is 'not an equilibrium.' From the other, Keynesian side, the criticism of monetarism is likewise a criticism of the plot line, complaining of an ill-motivated beginning rather than a premature ending: where on earth does the money come from, and why?

It is not controversial, then, that an economist is a storyteller when she is telling the story of the inflation just concluded or of the industrial revolution in the 19th century. Plainly and routinely, ninety percent of what economists do is such storytelling. Yet even in the other ten percent, in the part more obviously dominated by models and metaphors, the economist tells stories. The economic theorist, for example, may be viewed as a teller of stories, though a non-realist, whose plots and characters have the same relation to truth as those in *Gulliver's Travels* or *A Midsummer Night's Dream*. Pure theory in economics, in other words, is similar to the literary genre of fantasy. Like fantasy it violates for the convenience of the tale the rules of 'reality,' and amazing results become commonplace in its world of hypothesis. That animals exhibit the foibles of human beings is unsurprising in a world in which animals talk. No blame attaches. The task of pure theory is to make up fantasies that have a point, in the way that *Animal Farm* has a point.

Good empirical work in economics, on the other hand, is like realist fiction. The applied economist can be viewed as a realistic novelist or a realistic playwright, a Multatuli or a Strindberg. Unlike fantasy, his work claims to follow all the rules of the world. (Well ... all the *important* rules.) But of course realism too is fictional. The evasion is similar in history: 'the plot of a historical narrative is always an embarrassment and has to be presented as "found" in the events rather than put there by narrative techniques.'²²

The crucial point is this. Constrained by evidence, we tell the stories; we do not find the stories ready made. John Keegan has nicely illustrated the point in his book, *The Face of Battle*. He speaks of the 'rhetoric of battle history'²³ as demanding that one cavalry regiment be portrayed as 'crashing' into another, a case of 'shock' tactics. Yet an observant witness of such an encounter at Waterloo reported that 'we fully expected to have seen a horrid crash - no such thing! Each, as if by mutual consent, opened their files on coming near, and passed rapidly through each

²² Hayden White, 'The value of narrativity in the representation of reality', 1-24 in: W.J.T. Mitchell ed. *On narrative* (Chicago 1981) 20. See also Allan Megill and D.N. McCloskey, 'The rhetoric of history' in: John Nelson, Allan Megill and D.N. McCloskey ed., *The rhetoric of the human sciences* (Madison 1987) 221-238.

²³ John Keegan, *The face of battle* (New York 1977) 36.

other.²⁴ A story is something told to each other by human beings, not something existing ready-told in the very rocks or cavalry regiments or mute facts themselves.

The story of arriving at equilibrium in economics follows the storytelling in psychology, which 'must first establish a goal state or valued endpoint ... [It must] then select and arrange events in such a way that the goal state is rendered more or less probable.'²⁵ So it is in history, most self-consciously in the great 19th-century exponents of the science. In the Preface to his mighty *History of the Conquest of Peru* William Prescott justified carrying the story beyond the adventures of Pizarro, down to the integration of Peru into the Transatlantic empire: 'fixing the eye on this remoter point, the successive steps of the narrative will be found leading to one great result, and that unity of interest [will be] preserved which is scarcely less essential to historic than dramatic composition.'²⁶ As Gergen and Gergen remark, in developmental psychology the good scientific 'narrative is likely to draw from the pool of commonly accepted narratives within the culture. To do less would fail to participate in the communal practices of making sensible accounts.'²⁷

There is more than prettiness in such matters of plot. There is moral weight. Hayden White has written that 'The demand for closure in the historical story is a demand ... for moral reasoning.'²⁸ A monetarist is not morally satisfied until she has pinned the blame on the government. The economist's plotting of the 5% pension says, in moral terms, 'Look: you're getting fooled by the politicians and lawyers if you think that specifying the 50-50 share in the law will get the workers a pension cheaper by half. Wake up; act your age; look beneath the surface; recognize the dismal ironies of life.' Stories impart meaning, which is to say worth. A *New Yorker* cartoon shows a woman looking up worried from the TV, asking her husband, 'Henry, is there a moral to *our* story?'

Economics in practice is either history or philosophy, either a telling of a plausible story or a reflection on the story's metaphors and endings.²⁹ What is chiefly to be learned from history, then, is not the Rankeanism of *wie es eigentlich gewesen*, valuable though this is. One cannot tell a story without using a governing metaphor or a convention of plotting. These are the theories that a naive version of Rankeanism would disdain. The very idea of an economy as a separate entity from society carries a theory. The very idea of investment and consumption staggers under a burden of theoretical presumption.

A long time ago the German historical school of Sombart and others, transmitted in the United States as the institutionalism of Thorstein Veblen and John Commons, said that economics was history. But these schools disdained theory. The

²⁴ Keegan, *The face of battle*, 149.

²⁵ Kenneth J. Gergen and Mary M. Gergen, 'Narrative form and the construction of psychological science', in: T.R. Sarbin, ed. *Narrative psychology: The storied nature of human conduct* (New York 1986) 22-44, esp. 25-26.

²⁶ William H. Prescott, *History of the conquest of Mexico and history of the conquest of Peru* (New York, no date [original 1843, 1847]).

²⁷ Gergen and Gergen, 'Narrative form,' 31.

²⁸ White, 'The value of narrativity,' 20.

²⁹ Arjo Klamer, 'As if economists and their subjects were rational' in: Nelson, Megill, and McCloskey, ed., *The rhetoric of the human sciences*, 163-183; D.N. McCloskey, *The rhetoric of economics* (Madison, Wisconsin 1985); McCloskey, D.N., 'The problem of audience in historical economics: Rhetorical thoughts on a text by Robert Fogel', *History and Theory* 24 (1985) 1-22.

disdain was a mistake, though a common one in scholarship. Taking history as a model for part of economics should not be misunderstood as a revival of the anti-theoretical program. Economists have overinvested in silly theorizing, but correcting the misallocation does not require abandoning theory: we overinvest in coffee shops, too, but that does not mean we should abandon coffee shops entirely.

By the 1950s to be a 'neoclassical' economist (that is, an economist of the main, bourgeois, American stream, such as myself) meant to bypass history, a route made smoother by the victory of econometric estimation over data collection. (The Netherlands played a large role in the econometric revolution of the 1950s.) But now in the 1980s we are perhaps not so sure that the structure of the economy can be recovered easily from the statistical data and that the model thus estimated can be used to manipulate the economy. Economics has rediscovered intellectual modesty.

Many things are lost in economics by its failure to see itself modestly as history. Economists are unaware that narrative standards are at stake in their quarrels. They appeal instead to the British empiricist rhetoric of 'testing', though the best economists know that the rhetoric is not sincere. The economists, strutting about as social physicists, feel superior to workers in narrative fields, who they call 'fact grubbers'. Such an attitude towards facts has lowered the scientific standard of economics well below that of the much-despised sociologists, say, or the professors of literature. The average economist under 60 has little professional commitment to telling the story of the economy correctly. He is startlingly casual about observation, devoting few resources to assuring that the statistics he manipulates make sense.

All this creates a deep cynicism about empirical work, somewhat similar to the cynicism within history about theory. Historians do not believe the phrase 'theory says that'. For a historian, theory is something laid on at the end, or a separable 'technique' like regression analysis, not a world-view. It is nothing dangerous to their self-assurance. In the same way, economists do not believe the phrase 'history says that'. For an economist the world-view is all that matters (which fact attests to the philosophical character of economics). The facts are ornaments, 'tests of the theory' that have not yet succeeded in stopping even one theory, a part of the myth of a law-erecting social physics. The cynicism will be overcome when economists recognize the poetry in their metaphor-making and the history in their storytelling. Like other scientists, economists make their world to human specifications. Niels Bohr once said that physics was not about the world but about what human beings could say about the world. Economics is not about the economy but about what human beings can say about the economy. If physics and history and poetry are self-aware on this point, can economics be far behind?

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