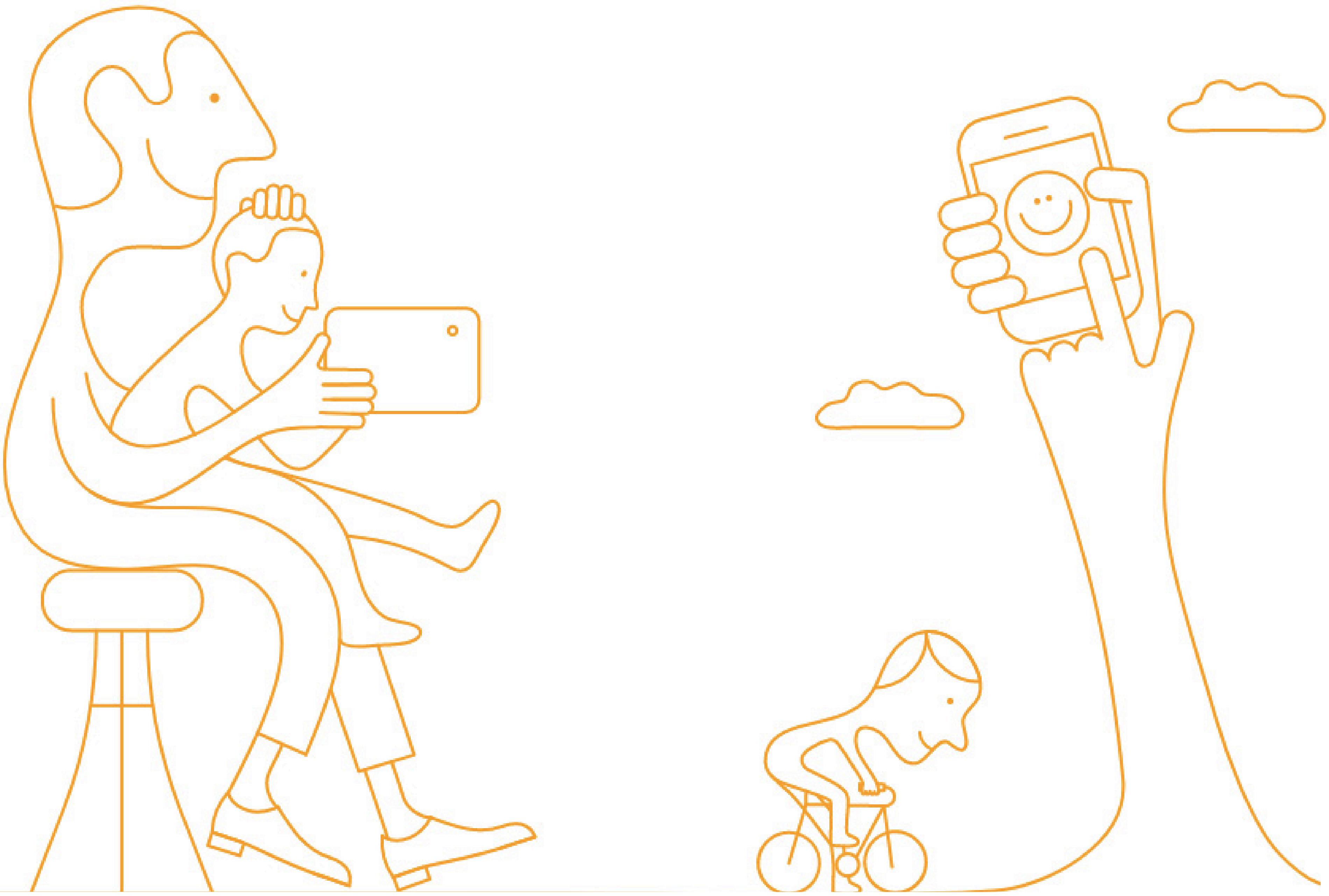
The Greatest Story Ever Told

How narratives shape the economy, and why our ability to tell stories is changing.

By Morgan Housel, The Collaborative Fund



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Imagine an alien from another planet whose job is to keep tabs on Earth's economy.

He does this from his spaceship, checking out the action below.

He circles above New York City, trying to size up how its economy changed between January 1st 2007 and January 1st 2009.

This is what he sees in Times Square on New Year's eve, 2007:

And this is what he sees in Times Square on New Year's eve, 2009:

It looks about the same. He struggles to find much difference.

He sees roughly the same number of New Yorkers hustling around the city. Those people are surrounded by the same number of office buildings, which house the same number of desks with the same number of computers, hooked up to the same number of internet connections.

Outside the city he sees the same number of factories and warehouses, connected by the same highways, carrying the same number of trucks.

He gets a little closer to the ground and sees the same universities teaching the same topics and handing out the same degrees to the same number of people.

He sees the same patents protecting the same groundbreaking ideas.

He notices that technology has improved. Everyone in 2009 carried smartphones that didn't exist in 2007. Computers were faster. Medicine was better. Cars got better gas mileage. Solar and fracking technology had advanced. Social media had grown exponentially.

As he flies around the country he sees the same. Around the globe, more of the same.

The economy is in about the same shape, maybe even better, in 2009 than it was in 2007, he concludes.

Then he looks at the numbers.

He's shocked that U.S. households are $16 trillion poorer in 2009 than they were in 2007.

He's dumbfounded that 10 million more Americans are unemployed.

He's in disbelief when he learns the stock market is worth half of what it was two years before.

He can't believe that people's forecast of their economic potential has plunged.

"I don't get it," he says. "I've seen the cities. I've looked at the factories. You guys have the same knowledge, the same tools, the same ideas. Nothing has changed! Why are you poorer? Why are you more pessimistic?"

There was one change the alien couldn't see between 2007 and 2009: The stories we told ourselves about the economy.

In 2007, we told a story about the stability of housing prices, the prudence of bankers, and the ability of financial markets to accurately price risk. In 2009 we stopped believing that story.

That's all that changed. But it made all the difference in the world.

Once the narrative that home prices will keep rising broke, mortgage defaults rose, then banks lost money, then they reduced lending to other businesses, which led to layoffs, which led to less spending, which led to more layoffs, and on and on. Other than clinging to a new narrative, we had an identical -- if not greater -- capacity for wealth and growth in 2009 as we did in 2007. Yet the economy suffered its worst hit in 80 years.

This is different from, say, Germany in 1945, whose manufacturing base had been obliterated. Or Japan in the 2000s, whose working-age population was shrinking. That's tangible economic damage. In 2009 we inflicted narrative damage on ourselves, and it was vicious. It's one of the most potent economic forces that exists.

Capitalism's success rests on a belief that, given the right incentives, people can work together to solve problems. It's the greatest story ever told.

But to wrap our heads around its potential, we have to dig into how stories are told, why we believe them, and how our ability to tell stories has changed in the last decade, as social media has turned everyone into a storyteller.

This report will argue that:

- Stories can be more powerful than tangible things.
- Stories are often wildly disconnected from our productive capacity.
- We confidently convince ourselves of absurd stories.
- We're in a new era of storytelling, which changes how all of us need to think about investing.

Like virtually every modern story about the economy, this one has its roots in World War II.

Let's start there.

Part 1: This is not a story about something happening; something is happening because there's a story.

World War II changed everything. How we thought about virtually every topic changed between 1939 and 1945. No event before or since has made such a lasting impact in as short a period of time.

One shift in thinking that came after the war was a newfound belief in a manager's ability to command massive organizations. How could it not? The U.S. military in 1939 was scrawny and ill-prepared. By 1945 it was the most well-organized and capable organization in the world.

This created a belief that smart people could solve immeasurable challenges with their ability to command sprawling groups. Dwight Eisenhower's 1952 presidential campaign rested on his ability to manage big projects. When he announced his candidacy for president on June 6th, 1952, it was pouring rain. His first words on stage were: "We're having a little Kansas shower. But there's not half as much water here as there was in the English channel eight years ago today." If he could manage 150,000 troops on D-Day, the White House was simple.

This began an era of faith in our ability to manage really big things.

We weren't intimidated by having a big military -- we could manage it. Going to the moon was feasible -- just put smart people in charge and they'd command it.

And huge, sprawling companies? No problem. Find a smart CEO and give them as many businesses as possible to run.

Conglomerates took off in the 1950s. Companies started acquiring disparate businesses under the assumption that a General-like CEO could command a regiment of companies better than an ordinary CEO with focus and expertise.

The New York Times glorified conglomerates in the early 1960s, interviewing an economist:

> He sees the avoidance of "gambler's ruin. He says that a conglomerate often can raise capital at lower cost than its subsidiaries. In addition to having a "long purse," the conglomerate can finance temporary operational losses of a subsidiary of an order that would bankrupt the subsidiary if it were an independent concern.

By the early 1960s conglomerates were one of investors' favorite business models. Some companies were making two acquisitions per month in every industry you could imagine. Take Ling-Temco-Vought, a big conglomerate of the era. At the peak of its acquisition days it sold everything from steel beams to footballs helmets to car rentals to airplane doors to pharmaceuticals.

And it worked.

Conglomerates, as a group, performed well. Not just the stocks; the companies' fundamentals boomed. Earnings per share growth was, on average, higher than what the acquired companies achieved on their own. This was seen as proof that rolling companies up under one roof, commanded by a talented CEO, was a viable strategy.

Investors loved it.

Ling-Temco-Vought stock increased from $10 to $155 from 1963 to 1968. Ogden, another conglomerate, rose from $4.5 to $50. Teledyne, from $6 to $62.

It was one of the greatest bull markets in history, backed by real, tangible earnings growth.

And then it all imploded.

The conglomerate boom ended faster than it arrived. By 1970, a group of the 10 largest conglomerates -- whose value had increased some eight-fold in the previous seven years -- fell more than 80%.

This wasn't just a market reaction. Business fundamentals that drove the boom disintegrated. Earnings per share growth among conglomerates cratered, declining more than the earnings of other industries.

It's tempting to think that stock prices fell because earnings fell. But George Soros, in one of his earliest strikes of investing genius, recognized that it was the other way around.

Conglomerates had performed well because investors thought they'd perform well, which gave them a high valuation. The high valuation gave conglomerates the currency needed to acquire companies that had similar intrinsic values but were trading at lower earnings multiples. Those valuation differences alone increased the conglomerates' earnings-per-share growth more than would be achieved if its components were standalone companies.

In short, conglomerates' actual performance was driven by investors' belief in their performance. It wasn't a story about earnings-per-share growth; Earnings per share grew because there was a story.

Once investors stopped believing that story, the whole thing unraveled.

Soros wrote in his book The Alchemy of Finance: "When stock prices started to fall, the decline fed on itself. The favorable impact on per-share earnings diminished and eventually it became impractical to make new acquisitions." The gig was up.

The growth of anything -- an economy, a company, a market, a career -- has two parts:

- A technical ability that can solve problems and add value.
- People's propensity to believe in that value.

It is intuitive to believe that most of what drives success is the first point. Real skills add real value. But the second point -- the stories we tell ourselves about those skills and values -- can play the deciding role. Stories can influence the production of real skills themselves, effectively becoming the pilot of our economy.

It comes down to this: Stories drive price, and price drives fundamentals.

Think about bitcoin in 2017.

We have seen an explosion in investment activity, not just in currencies but in exchanges, mining networks, energy infrastructure, and companies looking at blockchain as a component of their future. Bitcoin infrastructure now consumes more energy than Denmark.

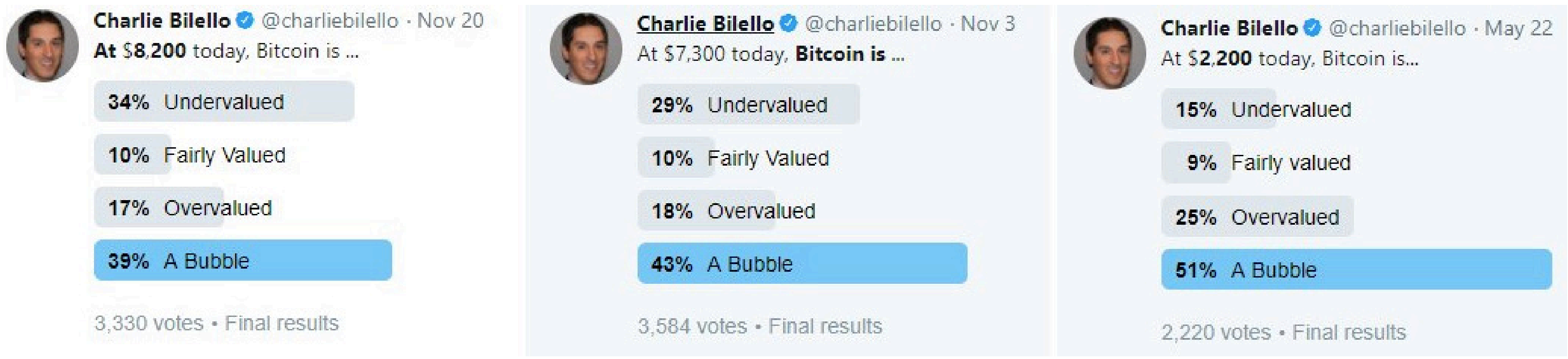
What is driving this boom?

Not actual problems being solved. Few currencies to date actually solve people's problems.

The boom is being driven by a booming belief in the boom.

Investor Charlie Bilello polled the investment community several times in 2017, asking whether bitcoin was a bubble.

He found something amazing: The higher bitcoin's price goes, the less people think it's a bubble. A four-fold price increase caused a 12 percentage point drop in those who believed it was a bubble, and a doubling of those who found it undervalued:



People have heard -- and increasingly believe -- a story about what bitcoin will become.

Maybe that story is flagrantly speculative, like, "The price will go up more." Maybe it's more fundamental, like, "Bitcoin will become the world's reserve currency."

It doesn't matter.

The price is being driven by a story -- a belief. And if crypto goes on to solve real problems in the world, it will owe its success to its current story. Belief attracts capital and infrastructure. It allows the technology to be taken seriously by businesses, regulators, and investors who have the potential to turn it into something meaningful and useful.

Crypto is an amazing example of this in action, because its current technology solves so few problems. Yet it is being taken so seriously by so many people that doors are opening up, red carpet rolled out, for it to eventually solve problems, which increases its odds of success in ways that just looking at the technology today wouldn't let you to comprehend.

The same was true for energy last decade.

We believed a story that the world was running out of oil, and whether it was true or not, my God, we believed it. Oil prices rose from $30 in 2003 to $140 in 2008.

The move, by most accounts, could not be explained by imbalances in the spot market. It was driven by a panic-laced story that we'd face oil shortages in the future. But high prices gave oil producers the financial incentive to come up with innovating drilling techniques -- mastering fracking and horizontal drilling -- which has led to the surge in oil output and cheap oil prices of the last five years. It wasn't a story about drilling technology; we got drilling technology because of a story.

Apple, Amazon, Google and Facebook created a story about changing the world with technology, which has let them attract the best engineers who can actually build that world-changing technology. The same is true for the world's biggest hedge funds.

Once we believed a story about banks being too big to fail, their cost of capital declined, which made them abnormally profitable, which kept them abnormally big, which truly has made them too big to fail.

It's like a white American male whose father is CEO of a major corporation, who goes on to Harvard and becomes managing director at Goldman Sachs. Yes, he was successful. And yes, he was skilled. But a lot of that success and skill has to do with doors opening because other people believed a story about his potential, which created above-average opportunities to acquire skills, rather than having innate skills to begin with.

We shouldn't discount his success. We should just acknowledge that stories lead to as much success as success leads to stories.

The opposite is true, too.

Think about the study showing how potential employers respond to job applications with minority-sounding names:

> Job applicants with white names needed to send about 10 resumes to get one callback; those with African-American names needed to send around 15 resumes to get one callback. This would suggest either employer prejudice or employer perception that race signals lower productivity.

The danger is how this perpetuates. If discriminating against minority names causes minorities to have fewer job opportunities, their ability to fund their children's' education is diminished, which hurts their children's employment opportunities, and so on. Real impact -- all because of a story.

Or think about the war on cancer. The healthcare community knows that prevention is one of the most important fronts in the war on cancer, because upwards of half of all cancers in America can be tied back to diet and lifestyle. But it's hard to get prevention to be taken as seriously as complex treatments. Politicians and foundations in particular are more likely to back funding for treatment than prevention. Why?

In the documentary The Emperor of All Maladies, MIT cancer researcher Robert Weinberg explains:

> If you don't get cancer, you're not going to die from it. That's a simple truth that we sometimes overlook because it's intellectually not very stimulating and exciting.
>
> Persuading somebody to quit smoking is a psychological exercise. It has nothing to do with molecules and genes and cells, and so people like me are essentially uninterested in it -- in spite of the fact that stopping people from smoking will have vastly more effect on cancer mortality than anything I could hope to do in my own lifetime.

Here again, it's not a story about a lack of prevention. We have a lack of prevention because of a story. In this case, we believe a story that prevention is boring, and that boring stuff can't be that effective compared to treatments with words like "genome" and "T cells." So we neglect what should be the center of the war on cancer, not because it's ineffective, but because we've told ourselves a story about the correlation between complexity and outcomes.

The point is that if you're trying to figure out where something is going next, you have to understand more than its technical possibilities. You have to understand the stories we tell ourselves about those possibilities, recognizing that stories aren't just the observer, but can be the actual pilot, of their subjects.

Stories create their own kind of truth. Lyndon Johnson built a political career off his storytelling ability. Many of his tales were clearly far-fetched. Doris Kearns Goodwin wrote in Johnson's biography about a question people often asked after hearing a Johnson story: "Was it true? The question had little meaning. What mattered was the story itself."

Now, let's talk about the stories we tell ourselves.

Part 2: I can't explain it because I can't describe it.

My son is two. He's curious about everything and learns so fast. He understands stuff today that he couldn't have comprehended a few weeks ago.

But sometimes I think about all the stuff he can't comprehend.

He has no idea why his parents go to work every morning. He cannot fathom the concept of a career, or money, or bills, or the need to pay bills, or being a productive member of society. Imagine trying to explain budget deficits, the Fed, or NAFTA to him. Impossible.

But his world isn't dark. He's written his own internal narrative of how everything works. Blankets keep you warm, food keeps you full, Legos are fun to play with -- and that's all there is to it.

Everything he comes across fits into one of a few dozen mental models he's learned. When I go to work, he doesn't stop in confusion, wondering what salary and bills are. He has a crystal clear explanation of the situation: Dad isn't playing with me any longer, and that makes my son mad. When I'm reading about the budget deficit, or the Fed, or NAFTA, he actually has a perfect explanation of what's going on: Dad is reading on the computer, and I want to read on the computer, so let's pull on his leg until he gives in. He thinks firetruck sirens are the funniest thing in the world. He has no idea that they signify trouble.

Even though he knows almost nothing, he doesn't realize it, because he tells himself a coherent story about what's going on based on the little he does know.

And all of us, no matter our age, do the same thing.

Just like my son, I don't know what I don't know. So I am just as susceptible to explaining the world through the limited set of mental models I have at my disposal. Like him, I look for the most understandable causes in everything I come across. And, like him, I'm wrong about a lot of them, because I know a lot less about how the world works than I think I do.

This is true for the most fact-based of subjects. Take history. It's just the recounting of stuff that already happened. It should be clear. But as B.H. Liddell Hart writes in the book Why Don't We Learn From History?:

> [History] cannot be interpreted without the aid of imagination and intuition. The sheer quantity of evidence is so overwhelming that selection is inevitable. Where there is selection there is art.
>
> Those who read history tend to look for what proves them right and confirms their personal opinions. They defend loyalties. They read with a purpose to affirm or to attack. They resist inconvenient truth since everyone wants to be on the side of the angels. Just as we start wars to end all wars.

I once interviewed Daniel Kahneman. We got to talking about the stories people tell themselves to make sense of the past. Kahneman remarked:

> Hindsight, the ability to explain the past, gives us the illusion that the world is understandable. It gives us the illusion that the world makes sense, even when it doesn't make sense. That's a big deal in producing mistakes in many fields.

The point is that most people, when confronted with something they don't understand, do not realize they don't understand it because they're able to come up with an explanation that makes sense based on their own unique perspective and experiences in the world, however limited those experiences are. We all want the world to make sense, so we tell ourselves stories to explain what are effectively blind spots.

The kinds of stories we tell ourselves are limitless. But I see three common ones pop up often, filling in the void of misunderstanding in our lives.

1. Stories that protect your ego.

These are probably the most common of all stories. Few things are harder than looking in the mirror and saying "I'm not good at this." People do it, of course. But coming up with a story about why you've been good, are good, are going to be good, or should be good at whatever you're doing is the path of least resistance.

Here's the thing: We judge others based solely on their actions, but when judging ourselves we have an internal dialogue that justifies our mistakes and bad decisions.

If you're a fund manager who earned terrible returns, I may be able to instantly point out what went wrong: Buying during a bubble, selling during a panic, not enough diversification, whatever.

But if I'm a fund manager who earns terrible returns, I can tell myself a story justifying my decisions and explaining the outcome. "The Fed distorted the economy" I might say, or "Look at my model. It's the market that's wrong!" Maybe, "It would have worked if my investors stuck around."

Ego stories are rampant because we think of ourselves as less flawed than other people, since we rarely hear the internal justifications other people have for their mistakes, but we're keenly aware of our own. Kahneman starts out his book Thinking, Fast and Slow by writing: "The premise of this book is that it is easier to recognize other people's mistakes than our own."

Ego is looked down upon because it seems self-centered and obnoxious. But its prevalence makes sense when you realize that people tell themselves stories about how the world works that other people don't hear. It is less about thinking you're better than others than it is about telling stories about your abilities that others aren't aware of.

Ego is also correlated with optimism, and optimism is essential to progress, serving as a rational form of ignorance. Tali Sharot, in her book The Optimism Bias, writes:

> Optimism protects us from accurately perceiving the pain and difficulties the future undoubtedly holds, and it may defend us from viewing our options in life as somewhat limited. As a result, stress and anxiety are reduced, physical and mental health are improved, and the motivation to act and be productive is enhanced. In order to progress, we need to be able to imagine alternative realities—not just any old realities, but better ones, and we need to believe them to be possible.

We tell ourselves stories about our potential to be amazing because if we're realistic about how common failure and pain is, we'd never get off the couch.

There's a flip side to this.

If ego-driven optimism is common at the individual level, stories about pessimism are always more popular when describing groups.

Pessimism always sounds smarter than optimism because when we're dealing with groups of people whose behaviors and incentives we're not crystal clear about, avoiding threats should be taken more seriously than achieving gains. Pessimism also sounds like someone trying to help you, while optimism -- when describing unknown groups of outsiders -- tends to be interpreted as a sales pitch.

John Stuart Mill wrote 150 years ago: "I have observed that not the man who hopes when others despair, but the man who despairs when others hope, is admired by a large class of persons as a sage."

So those are the stories we pay most attention to.

2. Stories about gaining control of your destiny.

The field of positive psychology studies what makes people happy. One of its top findings: Being in control over what you're working on makes people happy. Not having control over something you're pursuing makes people mad. Little nuance in between.

Admitting how much is out of our control is agonizingly painful. I love the quote, "History doesn't crawl; it leaps." The most important events come out of the middle of nowhere, unannounced and unforeseen, which makes their impact profound, since we have no time prepare for their arrival. Things like terrorist attacks and earthquakes fall into this category. But other day-to-day events do, too.

Think about market forecasts. Evidence that they have any actual predictive ability is hilariously bad. I once showed that if you just assume that the market goes up every year by its historic average, your error rate is lower than if you follow the average annual forecasts of the top 20 market strategists from large Wall Street institutions. Predicting recessions isn't much better. And since big events come out of nowhere, forecasts may do more harm than good, giving the illusion of predictability in a world where unforeseen events control most outcomes. Carl Richards writes: "Risk is what's left over when you think you've thought of everything."

People know this. I have not met an investor who genuinely thinks market forecasts as a whole are useful. But the number of forecasts investors pay for shows people value them.

Why?

Psychologist Philip Tetlock once wrote: "We need to believe we live in a predictable, controllable world, so we turn to authoritative-sounding people who promise to satisfy that need."

"Satisfy that need" is a great way to put it. It is an emotional itch that needs to be scratched, rather than an analytical problem to be calculated and solved. The illusion of control is stronger than the reality of uncertainty. So we cling to stories about outcomes being in our control.

Part of this has to do with confusing fields of precision with fields of uncertainty.

NASA's New Horizons spacecraft passed by Pluto two years ago. It was a three-billion mile trip that took nine and half years. According to NASA, the trip "took about one minute less than predicted when the craft was launched in January 2006."

Think about that. In an untested, decade-long journey, NASA's forecast was 99.99998% accurate. That's like forecasting a trip from New York to Boston and being accurate to within four millionths of a second.

But physics is a field of precession. It isn't impacted by the vagaries of human behavior and emotions.

Business, economics, and investing are overwhelmingly driven by decisions that can't easily be explained with clean formulas, like a trip to Pluto can. But we desperately want it to be like a trip to Pluto, because the idea of being in 99.999998% control of an outcome is beautiful. And it's an idea that forecasts let us dream about.

Daniel Kahneman once laid out the path these forecasting stories take:

- We focus on our goal, anchor on our plan, and neglect relevant base rates, exposing ourselves to the planning fallacy.
- We focus on what we want to do and can do, neglecting the plans and skills of others.
- Both in explaining the past and in predicting the future, we focus on the causal role of skill and neglect the role of luck. We are therefore prone to an illusion of control.
- We focus on what we know and neglect what we do not know, which makes us overly confident in our beliefs.

He then laid out how this applies to startups:

> I have had several occasions to ask founders and participants in innovative start-ups a question: To what extent will the outcome of your effort depend on what you do in your firm? This is evidently an easy question; the answer comes quickly and it has never been less than 80%. Even when they are not sure they will succeed, these bold people think their fate is almost entirely in their own hands. They are surely wrong: the outcome of a start-up depends as much on the achievements of its competitors and on changes in the market as on its own efforts. However, ['what you see is all there is'] plays its part, and entrepreneurs naturally focus on what they know best— their plans and actions and the most immediate threats and opportunities, such as the availability of funding. They know less about their competitors and therefore find it natural to imagine a future in which the competition plays little part.

These stories can be healthy. Like the optimism bias, we wouldn't get off the couch if we believed otherwise. But we should acknowledge that they are stories, susceptible to change and often disconnected from reality.

3. Stories that explain things that are inconsistent with our life experiences.

Everyone has their own view of how the world works. It's based on their own unique experiences in life. And those experiences are an infinitesimal fraction of what other people have experienced.

Everyone tries to make sense of the world with mental models -- broad frameworks of how stuff works that we use to contextualize events we come across. Naturally, we create those mental models based on our own experiences. I experienced X in life, and it led to Y. So now I know that when X occurs, Y should follow.

The problem is that we then cram everything we come across into the narrow view of our own experiences, often unaware of how different other people have experienced life, and how they therefore see the world and interpret the same events. We're unaware because we're like my son: Ignorant of what we're ignorant about.

I often think about the New York Times article on Chinese working conditions. Westerners were rightly outraged to learn how poorly paid workers assembling iPhones are made. The Times's expose uncovered what most of us would consider unacceptable working conditions that must be ended. But then someone in the comment section wrote this:

> My aunt worked several years in what Americans call "sweatshops." It was hard work. Long hours, "small" wage, "poor" working conditions. Do you know what my aunt did before she worked in one of these factories? She was a prostitute.
>
> The idea of working in a "sweatshop" compared to that old lifestyle is an improvement, in my opinion. I know that my aunt would rather be "exploited" by an evil capitalist boss for a couple of dollars than have her body be exploited by several men for pennies.
>
> That is why I am upset by many Americans' thinking. We do not have the same opportunities as the West. Our governmental infrastructure is different. The country is different. Yes, factory is hard labor. Could it be better? Yes, but only when you compare such to American jobs.

I still don't know what to make of this. Part of me gets it. Part of me feels that it's so far removed from my initial view -- my own mental model of what employees want and deserve -- that I can hardly comprehend it, even if it makes sense.

That's an extreme example. But we encounter stuff like this all the time.

What I've experienced as an investor is totally different than what my parents experienced when they were my age, because we were born in a different era.

What I've experienced in my career is totally different than what many of my college classmates have experienced, because we picked different industries.

The people I've learned from are totally different from the people you've learned from, because I grew up somewhere else.

And none of us are fully aware of these differences. We all intuitively assume that we see things through roughly the same lens.

Sure, we try to be open-minded and accepting of other views. But there are so many views we're not even aware of that we don't have a chance of incorporating them into our own narrative of how the world works. Like my son.

So we tell ourselves wildly different stories about what business are good or bad.

Or what products hold the most potential.

Or what policies create economic growth.

Or the best way to manage employees.

Or what's fair and noble.

It all gets back to the innate desire for the world to make sense. If everyone has seen 0.000001% of what's out there, but we all have to create a coherent narrative in our heads of how stuff works, everyone will walk around with vastly different stories about how everything works.

Ray Dalio put it well: "You don't know everything you need to know and would be wise to embrace that fact."

Part 3: Stories vs Statistics

"As a novelist, I tell stories, and people give me money. Then financial planners tell me stories, and I give them money." -- Martin Cruz Smith

We have always been storytellers. It's the main thing that sets humans apart from other species. In his book Sapiens, Yuval Harari writes:

> The most important thing to know about prehistoric humans is that they were insignificant animals with no more impact on their environment than gorillas, fireflies or jellyfish.

What pushed modern humans into the stratosphere -- literally and figuratively -- was our ability to tell stories, many of which are made up or imagined:

> The truly unique feature of our language is not its ability to transmit information about men and lions. Rather, it's the ability to transmit information about things that do not exist at all. As far as we know, only Sapiens can talk about entire kinds of entities that they have never seen, touched or smelled …
>
> In a one-on-one brawl, a Neanderthal would probably have beaten a Sapien. But in a conflict of hundreds, Neanderthals wouldn't stand a chance. Neanderthals could share information about the whereabouts of lions, but they probably could not tell – and revise – stories about tribal spirits. Without an ability to compose fiction, Neanderthals were unable to cooperate effectively in large numbers, nor could they adapt their social behaviour to rapidly changing challenges.

But our ability to tell stories has evolved over time. Two things have changed in the last few decades:

- There is a flood of publicly available data on virtually every economic topic you can think of. The Federal Reserve alone tracks 507,000 unique data sets. Most of this information either didn't exist, or wasn't easily publicly available, 20 years ago.
- The volume of news and commentary has exploded. A lot of that explosion took place in just the last five years, as Twitter and Facebook became a dominant source of information. According to Pew Research Center, two-thirds of U.S. adults get their news from social media. These are platforms that didn't exist 15 years ago.

The two of these mix together in a potentially toxic way.

More data is always preferable to less. But it has a downside: Big data takes cherry-picking and data mining to a cosmic scale. You can "prove," with reliable statistics, virtually anything you want these days. And the rise of social media gives everyone a platform to disseminate that "proof" to a huge and attentive audience.

Twitter has 310 million active users. In my experience it attracts two groups of people like magnets: Those who want their views confirmed, and those who are easily persuaded with vague and unsourced ideas. In other words, the two groups that are most interested in stories over statistics. And social medium is perhaps the most dubious source of storytelling. According to the Wall Street Journal: "About 19% of the messages viewed by Twitter users during the last month of the presidential campaign were generated by bots."

We have, in short, taken our storytelling ability to a new level, exponentially higher than just a few decades ago. For most of history, stories were limited by their ability to spread, with a few powerful voices controlling the microphone. That is no longer the case. A viral tweet can give a relative nobody an audience of tens of millions within hours.

The cult of data often underestimates that stories are more powerful than statistics. While Big Data has grown, Big Anecdotes has exploded.

Statistics are useful to the extent that we find their insights more persuasive than stories.

But we often don't.

Data takes effort to contextualize. Stories offer instant gratification.

Statistically, a company should want some of its new projects to fail. Realistically, a story about failure burns so badly that many companies never try new stuff.

Statistically, a venture portfolio can lose on most of its investments while still doing well overall. Realistically, sinking time and money into a company that goes under creates a story that can turn you into once bitten, twice shy.

Statistically, it's inevitable and OK if a few companies in the S&P 500 are failures. Realistically, watching Enron's CEO hauled off in handcuffs creates a story that shakes your faith in capitalism.

The gap between what works in a spreadsheet and what's practical in real life can be a mile wide. This usually isn't because we don't know the statistics. It's because real-life stories are so effective at showing us what certain parts of a statistic mean that we extrapolate them into something more powerful than they should be.

The ease at which stories are told these days, and the power of how persuasive stories can be, should give us pause about how we interpret the world.

While we have more data than ever, I think we're moving into a world where the soft psychology skills of empathy, open-mindedness, and humility are more important than ever. Those are the skills that help you navigate a world driven by stories, whether they're stories you tell yourself or hear from others.

That doesn't mean paying less attention to statistics. It means constantly asking what stories other people are telling themselves in an attempt to build a more complete picture of how the world works. It means expanding your own internal narrative, including recognizing that stories you may not agree with or think are bogus can have as much, if not more, impact on the economy as rock-solid statistics that you know are accurate.

If statistics have a dark side, it's the assumption that they're useful on their own, rather than as a tool to help guide gullible and story-addicted people. Since new statistics are fighting against millions of years of primal story-telling instincts, conquering the power of stories will always be harder and more rewarding than uncovering new numbers.

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