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Animal spirits. How human psychology drives the economy and why it matters for global capitalism

Animal spirits*. How human psychology drives the economy and why it matters for global capitalism helps us understand how the economic systems operate on the economic theory crisis background. The message of the book is *recognizing the importance of irrationality factors in formulating the economic theory*.

The paper calls for reconsidering the economy fundamentals and principles, *presenting a new way of understanding the significant economic phenomena* that standard economic science cannot explain or accurately interpret. In this respect, a new way to revolutionize the economic thinking which might change the approach of the economic crises, unemployment, poverty, economic fluctuations and the like, is open.

The paper highlights the fact that the chaos and the economic and financial disorder are not incidental, there's *a coherent correlation between psychology and economy* in the economic behaviour sphere, demonstrating that strong psychological forces interfere with the nation's welfare. In this respect, *the state must play an active role in elaborating the rules of the economic game*, of the economic institutions and strategies, bringing up the *animal spirits* collocation used by Keynes to describe the gloomy outlook generated by the Great

Recession and by the change of the economic subjects behavioural psychology.

The two authors, George A. Akerlof and Robert J. Shiller are famous economists, professors, researchers and practitioners in macroeconomy; the former won the Nobel Prize for Economy in 2001 for his contribution to elaborating the theory of asymmetric information markets, while the latter is an expert in the behavioural macroeconomy analysis.

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* The "animal spirits" collocation (coming from Latin *spiritus animalis*, where animus pertains to the soul or means to animate) refers to that nervous fluid presently covering the *psychological and emotional motivation factors*. In a broad sense, the animal spirits refer to vivacity, to the natural state of a healthy animal, acting as an intermediary between the body and soul. In an economic context, Keynes speaks about the people's strength and vitality determining them to make bold decisions and to invest money, effort and time in business initiatives. From an economic perspective, the animal spirits cover an element of anxiety and inconsistency present in the economy, the people's unusual ambiguity and insecurity which sometimes paralyse them, while otherwise stimulate them overcome fear and hesitation.

The book emphasizes that in order to understand the significant economic phenomena and processes, we must have in view that their ethiology is particularly psychological, therefore we need to focus on *the thoughts that feed the people's ideas and feelings*, their animal spirits (the psychological and emotional factors).

The book *mainly aims at* explaining *the role of psychology in macroeconomy*, called by the authors the people's animal spirit. In its two parts, the book addresses the role of this spirit in explaining the operation and the development of the economic systems.

The first part of the book describes *five* different *animal spirits* of the humans being affecting their behaviours and the economic decisions: *trust, equity, corruption and disloyalty (antisocial behaviour), money illusion and stories*. The authors' theory is mainly based on trust and on the reaction mechanisms that "contaminate" the economy. A fair income distribution is mainly based on equity, the tendency towards corruption and antisocial behaviour is a feature of the man's animal spirits. Money illusion is another component of the authors' theory, emphasizing the fact that people cannot make an accurate difference between inflation and deflation nor are familiar with their effects. In the end, the authors believe that the sense of reality, namely who we are and what we do, intertwines with our and others' life stories, resulting in a great national and international story which plays an important part in the economy.

The second part of the book addresses the way in which the five animal spirits affect the economic decisions and behaviours, demonstrating their crucial role in answering *the following eight questions: why do economies undergo crisis?; why do the central banks' executives hold a significant weight over the economy?; why cannot people find employment?; why is there a long-term compensation between inflation and unemployment?; why is saving arbitrary?; why are the prices and corporate investments fluctuating?; why do real estate markets experience a cyclic evolution?; why do deprived minorities permanently face poverty?*

The animal spirits theory provides proper answers to each of these questions. The questions would remain unanswered if people were seen as having exclusively economic motivations, trying to rationally meet them, in other words, if the economy operated according to the Adam Smith's invisible hand principle. The questions are fundamental in order to explain the economic fluctuations, the involuntary unemployment, as well as the way in which the monetary and fiscal strategies affect the economy.

The authors state that the animal spirits theory solves the following *dilemmas*: why couldn't the current economic crisis be foreseen, how can we understand the crisis since its underlying causes are unknown and why all the anti-crisis actions fail, while the economic authorities publicly express their concern about the insufficiency of procedures.

The authors assert that the current economic theories dwell on rational expectations and efficient markets, instead of focusing on the most important dynamics of the economic crises; the failure to integrate the animal spirits in the theory-based patterns obstructs the identification of the real cause of the problems.

The crisis couldn't be foreseen by the society at large, economists and theoretists because no conventional economic theory principles took into account the animal spirits; such a theory excludes the changing, spontaneous thinking patterns and the business behaviours which generate crises, overlooking the lost of trust in determining real, unpredictable, contagious behaviours, as well as the feeling of equity and justice paralysing the price and income flexibility, elements which might stabilize the economy.

The book militates for integrating the animal spirits into the economic theory in order to understand how the economy really operates. The economic theory from the last three decades has been heading in the wrong direction by emphasizing its quantitative dimensions; macroeconomists impose research and explanatory discussions on where would economy head if people had exclusively economic reasons and if they were perfectly rational. In order to understand the trap the conventional economic theory has fallen into, let's imagine a square divided into four sections.

Answers			
		rational	irrational
Motivations	economic	the conventional theory	
	non-economic		

The current theories and patterns fit particularly in the upper left box, answering the questions: how will the economy behave if people have solely economic motivations to be rationally met? Yet, this question immediately leads to the following questions: how does the economy behave under the non-economic motivation and rational answer conditions?; how does the economy behave under the economic motivation and rational answer conditions?; how does the economy behave under the non-economic motivation and irrational answer conditions?

The authors believe that the answers to the most important questions on how the economy behaves and the steps to be taken when heading in the wrong direction reside in filling in the empty boxes.

In order to materialize the importance of the people's non-economic motivations and irrational decisions, we can stress the fact that the capitalist system does not merely sell the people what they really want, but what they think they want, especially on the financial markets. This leads to excesses and bankruptcy generating large-scale economic failures. All these phenomena are influenced by *stories and legends* people tell about themselves, about others and even about the way in which economy, as a whole, behaves; such stories vary along time.

According to the authors, the animal spirits world *enables the state* to take action. Its role is to set the terms under which the human feelings may be creatively used to serve a general, collective, social purpose. If people acted rationally to meet economic purposes, the state's role in market regulation (financial markets, in particular) and in demand setting would be limited. On the contrary, following the animal spirits' tendency to determine the economy's direction, without any involvement from the state, the economy will experience major employment fluctuations and the financial markets are likely to face serious challenges.

Once in a while, the capitalist economies undergo major changes in point of the stories on who the people are and should be, such changes covering the stories on how the economy operates. In this respect, the book demonstrates that *"the invisible hand" story* and its consequences provide detailed recommendations on the *state's role*, even regarding extremely specific aspects. The authors argue that the economy and the state's role cannot be described solely on economic grounds, an advanced knowledge of trust, equity, opportunities, corruption, money illusion and stories is required.

To sum up, the authors state that the economic issues cannot be solved unless the animal spirits are taken into account.

From a theoretical perspective, *the globalization story* gains new, maybe more realistic dimensions, emphasizing the importance of *interdependences, interactions, polarization, anxiety and fear, panic, irrational reactions and the like* and highlighting the unpredictable behaviour of people, in general and of the economic subjects, in particular.

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