

ANIMAL SPIRITS, A CONTRIBUTION TO UNDERSTAND THE ECONOMY

“Beauty in things exists in the mind which contemplates them” David Hume

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Resumen

La teoría económica convencional se basa en el supuesto de una racionalidad de las decisiones de los agentes dentro de los modelos planeados por la ortodoxia. Este comportamiento racional no es del todo cierto ya que las personas no siempre basadas en sus motivaciones económicas. Los espíritus animales son aquellos comportamientos que dificultan los resultados de la teoría económica, creando una fuerte oposición entre racionalidad económica e irracionalidad humana. Autores como Descartes, Hume y Keynes han dado sus aportes en la definición y explicación de estos comportamientos no racionales acorde al desarrollo de sus campos de conocimiento llegando hasta George Akerloff y Robert Shiller (2009) para explicar las emociones y comportamientos humanos que inciden en la confianza de la toma de decisiones financieras y económicas. El presente documento hace una breve aproximación y desarrollo del concepto de espíritus animales en la comprensión de la economía, aclarando que existe una distinción entre lo propuesto por Keynes y la escuela comportamental actual.

Summary

The economic conventional theory is based on the assumption of rational decisions of agents within

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the models planned by orthodoxy. This rational behavior is not entirely true as people are not always based on their economic motivations. Animal spirits are those behaviors that hamper the results of the economic theory, creating a strong opposition between economic rationality and human irrationality. Authors such as Descartes, Hume and Keynes have contributed to the definition and explanation of these non-rational behaviors according to the development of their fields of knowledge, George Akerloff and Robert Shiller (2009), to explain the behaviors and human emotions that affect confidence in financial and economic decision-making. The present paper makes a brief approximation and development of the concept of animal spirits in the compression of the economy, clarifying that there is a distinction between what is proposed by Keynes and the current behavioral school.

Palabras claves: Espíritus animales, racionalidad económica, Hume, Keynes, ciclos de negocios
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Introducción

Economics is a very complicated science to understand, and for all those who do not know it they attempt to find in it, solutions to everyday problems such as, poverty and misery; but what “readers and connoisseurs” do not understand, is that

the theoretical body is limited when constructing explanations in which when trying to model this, is added human behavior, that most of the time is unpredictable and often unethical, hindering the empirical tests of the hypotheses raised; proof of it, are the markets that bring together infinite and complex interactions between different people.

In this sense, understanding the economy requires an understanding of people's motivations. People spend money, purchasing goods and services, sacrificing present consumption for future consumption, in other words, saving money, and applying for credit, seeking extra returns, all this within a framework of rational decision making. But cases such as fear (which generates mass pessimism), greed and corruption (which generate mass optimism) and "experience" affect rationality.

David Hume classified these impulses as passions in his book II of the treatise on Human Nature and later in the Dissertation of the Passions. In this case Hume refers to the serene and violent passions, from a study of morality and non-biological as Descartes did.

Keynes called animal spirits the forces behind mass movements, such as the emotional and intuitive factors that influence economic decisions. At the time that Keynes wrote on the subject there were no quantitative indicators on the behavior of agents in the markets, an issue that is favored today by the periodic analysis of indices such as consumer and business confidence. It should be noted that despite these indices, financial and economic decisions are still being intuitively taken.

This document, apart from its introduction, consists of four sections. The second takes up the ideas of Descartes and David Hume on the theory of the passions and the concept of animal spirits. The third section deals with the concept of animal spirits from the Keynesian economics; the fourth part shows the contributions made by Akerloff and Shiller; finally the conclusions are presented.

1. Descartes, David Hume and the animal spirits

In the XVII century with Rene Descartes began a period of development of science and philosophy far away from religion by successfully proposing the method of doubt as a reference of research. For this philosopher there are two different substances, the body and the soul, also known as the mind, whose function is the extension and the thought respectively. In his work the Treaty of Man, Descartes contributes to the concept of animal spirits to identify the bond union of the soul and the body of human beings, with which he manages to explain from these hypothetical beings all the physical alterations of the humans with their emotions.

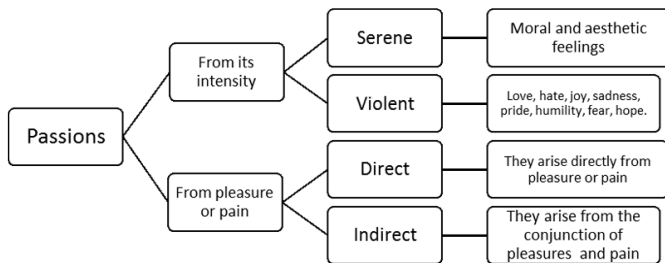
Later in the XVIII century, in the second part of the Treatise of Human Nature, with the ideas of Space and Time, Hume begins by proposing that in philosophy and thoughts, many become followers of ideas just for the simple fact that others more "capable" had already proposed them. Among these ideas is the one related to the infinity, which is that even though something is divided into infinite parts, they will always appear as an indeterminate number of these, but this can be limited by putting appropriate distinctions and pertinent separations to limit such divisibility.

In Book II of the same treatise, the theory of the passions is based on the concept of impressions, understood as "a passion or emotion of some kind, or we have the image of the external objects provided by our senses, the perception of the mind" (Cano, 2011, p.103), originated according to Hume by the constitution of the body (pains and bodily pleasures), by the animal spirits (passions and emotions) or by the impression of the objects on the external organs. At the same time, "just as perceptions of the mind can be divided into impressions and ideas, impressions admit another division into original and secondary" (Hume, 2001, p. 207) and are "livelier, more intense than ideas (Weak images of the impressions when we think and reason)" (Cano, 2011, p.103). Within the impressions all the sensations are included, passions and emotions. When one reflects on a passion or an object that is not present, this perception is called an idea. According to Cano (2011) ideas are formed

from the elements of impressions, this being the first principle of the science of human nature.

What does Hume understand by passions? For Hume they are perceptions of the mind, and classify them into serene and violent. The former interprets them as aesthetic and moral feelings, and in the second group he includes: love and hate, joy and sadness, pride and humility.

Figure 1. Classification of passions according to Hume



Source; Self-made design

In Hume’s classification, it is the moral and aesthetic feelings that present a moral balance, while love and hatred, joy and sadness, pride and humility are presented permanently with a degree of emotional violence. The well-being of man is determined by his passionate serenity, and in Cano’s words (2011) violent passions are invariably associated with misery or unhappiness, political instability and religious fanaticism. At this point David Hume and Jeremy Bentham agreed that man prefers to walk along the path of pleasure and happiness rather than pain; it is an important concept when it comes to developing the marginalist theory of economics, especially the construction of utilitarian theory.

Here the dispute between reason and passions proposed by Hume arises. The methodological problem arises when violent passions overlap with aesthetic and moral passions, commonly called “passions weigh on reason” which makes use of any means to an end. “The conflict of reason and passion is nothing but the conflict between two types of passions, the serene and violent passions” (Cano, 2011, p.107)

2. Lord Keynes Proposal

John Maynard Keynes is perhaps one of the most

important economists in history for his contributions to the construction of macroeconomics. His writings left traces in essays and in the constructions of economic models, as well as contributions to the field of economic philosophy, Keynes “is first a philosopher and secondly an economist” (Letelier, 2007, p.579). To make it clear, Keynes did not write a work of philosophy, but his writings are full of concepts of theoretical knowledge, metaphysics, ontology and logic-semantics.

The important thing in this case is to understand how he reaches the proposal of the animal spirits. Everything starts from his analysis of philosophical realism: “ontological (things exist independent of us and our knowledge), epistemological (we can know it) and logical-semantic (judgments about them are objectively true or false, regardless of our knowledge). From the realism of George E. Moore, who point out that objects have an existence independent of the observer, Keynes constructs his theory of knowledge to face the transcendental subjectivism of neoclassical theory, acknowledged in Cambridge by his teachers Robert Pigou and Alfred Marshall. Keynes is attached to the idea that economics is a science derived from statistics, which is not deterministic, that is not part of mathematics, he rather proposes that the economy has a high random component hence Chapter III of the *Treaty of Probability* by giving his justification. Additionally, he also believes that the economy is merely inductive and not deductive as proposed by the Marginalist School.

In the *General Theory of Interest, Occupation and Money*, Keynes, changes the subject of neoclassical knowledge, *laissez faire*, by animal spirits. We move from an anthropological conception that changes the particular interest for one where the disorder and the psychological disobedience of business. It thus rejects the reductionist view as the motor of the economy, being a great critic of the private vices that move capitalism, additionally rejecting the utilitarian philosophy and the Kantian ethics.

Keynes in his work referred to the confidence of the private sector (of consumers and investors) in

the following terms: “Most of our positive activities depend more on spontaneous optimism than on a mathematical expectation, whether moral, hedonistic or Economical. Perhaps most of our decisions to do something positive [...] can only be considered as the result of passion (the animal spirits), of a spontaneous response that drives action “(Keynes, p. Reference to the term that David Hume used for spontaneous motivation which derives from the Latin word animal spirits, which can be interpreted as the spirit (or liquid) that drives human thought, feeling and action. For Barends (2011, P.9) The first thing to keep in mind is that Keynes does not use the term “animal spirits” in its technical meaning, but in its literary sense.

From the perspective of Neoclassical economics, the degree of confidence towards the future is the result of a rational process, since agents use all available information to make their best forecasts, and based on them, make rational decisions. For Keynes, “animal spirits were the name that gave the impulse (psychological) to the action that explained the decisions that were made despite the uncertainty, the animal spirits for him were not rational or irrational” (Dow and Dow, 2011, P.1), this is what differentiates the Keynesian position of the existing behavioral economy.

3. The behavioral economy of Akerloff and Shiller

From Herbert Simon (1962) to Daniel Khaneman has been discussed on the assumption of economic rationality, decision-making under conditions of a “cold” rationality of agents. People make their decisions and not always their motivations are economic, also the emotions are taken into consideration, feelings and motivations, complicated how to predict the behavior of markets and the economy in general. The most recent global financial crises have shown that feelings such as trust, envy, resentment, illusions, and greed totally change deterministic decisions built from models created on rational agents.

In 2009 Professors George Akerloff and Robert Shiller published “Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism.” (Translated into English as: Animal Spirits:

How Human Psychology Influences Economics). In this book there are some recommendations to keep in mind not to make the same mistakes of the Great Depression. For these two economists, the economy is not only guided by rational factors, but also involves non-economic and non-rational decisions, thus causing economic fluctuations. For Fuentes (2010), as well as the classical theory the invisible hand of Adam Smith was the one that guided the economy, for Keynes the animal spirits are those that complement this proposal, does not exclude it.

Akerloff and Shiller propose five animal spirits. The first of these is trust. Orthodox theory assumes that economic agents, rational, take most of the information to make the best decisions. But the mistake is in confusing trust with faith (Hume had already said that religion was a violent passion that did not lead to good decisions). Accepting faith rejects a certain amount and quality of information contradicting rationality

The second animal spirit is fairness, one of the most neglected by orthodoxy but most treated by heterodoxy. Over the years there has been a debate around two concepts: equity and efficiency; The former is considered more as a subject of sociological theory, associated with three social values: fulfillment of rights, justice and equality; While the second is more linked to economic efficiency, that is, a rational behavior and adjustment of markets. From the economic point of view it is assumed that equity refers to an adjustment of prices and wages, as well as a reduction of unemployment. Also, equity can be vertical (equality for all social groups) and horizontal (equal treatment for equals), the first being the most “commercial” sold to society as an economic concept, while the second takes a more sociological that covers issues of inclusion and equality. Then, when winners and losers appears financially, a violent passion emerge like hatred and envy towards the “winners” which likely leads to a speculative attack on their profits and their ends thus creating a scenario against behavior From the market. The third is corruption, antisocial behavior (so named by Akerloff and Shiller), can arise from the previous spirit, from inequality of use and abuse of the market

(conditions in a competitive market must be the same for all), motivating that participant search areas where the economy does not exist, reminisce Bentham, man prefers to move in the path of happiness not in the path of pain and unhappiness. This situation leads companies to create large “beauty centers or make-up” that favor tax evasion, better prices of their assets, an increase in the value of shares that result in a better commission, profit or dividends for their managers, without considering the social and economic cost that this brings to the society in general. Corruption is a fight of powers between the principal and the agent, who participates as the owner of a firm and who directs it.

The fourth animal spirit is the monetary illusion, which creates in people the idea that the greater amount of money you possess, the greater the economic welfare will be, which causes an increase in consumption and therefore in prices, increasing inflation levels, leading the economy to become unattractive. Monetary illusion occurs mostly in developing countries where levels of education are low and the convincing power of inflation is high

Finally Akerloff and Shiller present histories of oral tradition or historical factors as the fifth animal spirit. History is repeated with similar circumstances, causes and/or outcomes; it is important to give the appropriate interpretation of regularities and stylized facts to economic series to understand what their new development and duration of counterproductive events.

From the point of view of publications, research papers are presented that take the concept of animal spirits to explain certain economic phenomena as mechanisms of transmission of monetary policy (Pilkington, 2014; Farmer, 2010; Bryant, 1987); Innovation (Hagedoorn, 1996; Cipollone, Glordani, 2013); Of stationary equilibrium for rational expectations in the analysis of unemployment (Howitt and McAfee, 1992); (Tae-Seok, J, Sacht, S, 2012, Marchionatti, 1999) and business cycles (Dées and Zimic, 2016 and Piroasca, 2011)

CONCLUSION

The term “animal spirits” has returned to the academic and public discourse in general. The new behavioral economics literature uses the term to refer to a range of behavior that falls outside of what is normally understood as rational

The analysis of irrationality, in the Dionysian sense, is no longer a matter actual interest, the current concern to debate the topic of Western rationality from a vitalism position can be seen in Nietzsche’s work, but this becomes stronger with the arrival of the Twentieth century supported and repowered by schools of Marxist thought and institutional descent. The rationality presented since Plato and developed since the Renaissance converge in a project of the modern, attentive to elevate the reason above the spiritual and the vital human, reaching to qualify the “non-rational” like a complement of the classic madness, in terms Of Foucault

The power of animal instincts and experience can override rational argument in decision-making. From the theory of passions proposed by Hume can be added that in our time new violent passions appear in the case of financial markets such as: speculation and corruption, informational and intergenerational inequity. These new animal spirits lead to economic theory for a path of emptiness and nonbelief towards the models and therefore their predictions.

The important question is not to criticize modeling, this is how economic theory becomes a beacon and a reference for a decision making that will be contrasted with reality in order to determine what happened, what was the deviation of the road and what amendment are proposed. This allows the economy, from the existence of the animal spirits, to continue being the engine of planning of the current economies

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