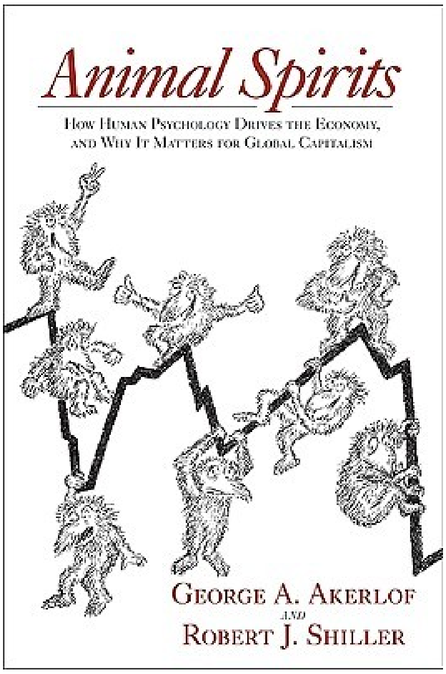

Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism

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The global financial crisis has made it painfully clear that powerful psychological forces are imperiling the wealth of nations today. From blind faith in ever-rising housing prices to plummeting confidence in capital markets, "animal spirits" are driving financial events worldwide. In this book, acclaimed economists George Akerlof and Robert Shiller challenge the economic wisdom that got us into this mess, and put forward a bold new vision that will transform economics and restore prosperity.

Akerlof and Shiller reassert the necessity of an active government role in economic policymaking by recovering the idea of animal spirits, a term John Maynard Keynes used to describe the gloom and despondence that led to the Great Depression and the changing psychology that accompanied recovery. Like Keynes, Akerlof and Shiller know that managing these animal spirits requires the steady hand of government--simply allowing markets to work won't do it. In rebuilding the case for a more robust, behaviorally informed Keynesianism, they detail the most pervasive effects of animal spirits in contemporary economic life--such as confidence, fear, bad faith, corruption, a concern for fairness, and the stories we tell ourselves about our economic fortunes--and show how Reaganomics, Thatcherism, and the rational expectations revolution failed to account for them.

Animal Spirits offers a road map for reversing the financial misfortunes besetting us today. Read it and learn how leaders can channel animal spirits--the powerful forces of human psychology that are afoot in the world economy today.

Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism Details

Date	:	Published February 1st 2009 by Princeton University Press (first published 2009)
ISBN	:	9780691142333
Author	:	George A. Akerlof , Robert J. Shiller
Format	:	Hardcover 248 pages
Genre	:	Economics, Nonfiction, Psychology, Finance, Business

From Reader Review Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism for online ebook

Joel says

This book is a qualitative/non-technical discussion about what is currently being debated in Macroeconomic theory. There have been several posts on different boards about this book taking a "liberal" position. If you're interested in Economics as a science, ignore them. If you're looking for a book that will bring redemption to Reagan-era supply side economics, this is not the book for you.

Akerlof and Shiller are notorious advocates of Keynesian thought. Not because of some underhanded desire to allow government to intrude in our lives, but because Keynes believed in taking account of the qualitative and intangible aspects of human behavior. Admittedly, (as a side note) they do refer to some of Milton Friedman's conclusions as naive. This can be irritating, if you're a strict monetarist. But they also don't go easy on some of Keynes' assumptions.

Current Economic thought is a science of optimization. Akerlof and Shiller are not suggesting an abandonment of mathematics in Economics, but advocate the inclusion of psychological probabilities. What they suggest is that humans do not have access to perfect information, nor do they act in an entirely rational matter.

Anyone who has taken a single class in sociology or psychology will instantly realize the "no duh" factor from this concept. But in Economics, the technology to quantify these probabilities on a Macroeconomic scale is relatively new. Akerlof and Shiller have stumbled upon a premise that has haunted mainstream economists for forty years and has been a driving force in Austrian Economics for even longer: Humans are not entirely rational creatures with solely economic motivations...a devastating shock to macroeconomists everywhere.

In the end, their conclusions are modern and well-thought out. Behavioral and Experimental economics appears to be the next evolution in Economic theory. You may not like their conclusions as it relates to policy, yet the premise of expanding theory to include those factors once deemed as "intangible" or "irrational" cannot be understated.

John Gurney says

Two Nobel Prize-winning economists, George Akerlof and Robert Schiller, use their version of Keynes's theory of "animal spirits" to explain past financial crises and how economies grow. They have interesting psychological ideas, such as the importance of a national "story", really a paradigm, that drives herd mentality and, thus, irrational behavior. Examples would be the recent, ill-fated real estate mania in the United States or the malaise on the part of business operators in FDR's second term who felt they were under attack.

Much work has been done in behavioral economics in recent years and this study gives excellent synopses. Akerlof and Schiller take to task 'mainstream' classical economics in certain areas, but in a very fair way, acknowledging where 'rational' theories seem to hold, while pointing out those ever-important situations where they fail. Money illusion, feedback loops, subjective societal concerns over 'fairness', and 'stories' are all part of the "Animal Spirits" (hats off to Keynes) investigated here.

I don't agree with 100% of this book's diagnoses or solutions, but the authors write intelligently and present coherent arguments. This is a recommended read for those interested in behavioral economics.

Paul, says

Animal Spirits is a cheesy name for a good book. "Animal spirits" is a Keynesian term used to describe the effects of human psychology on the market.

Akerlof correctly shows how current economic thinking, in particular the Chicago school, over-simplified mass behavior by assuming that all individuals behave as if they were rational economic actors. The truth is that humans are rational actors, but their motivations are not all economic. Akerlof examines five important psychological elements that economists should take into account: fairness, confidence, corruption, stories, and money illusion. Money illusion is how Akerlof describes the human inability to perfectly picture money in terms of real goods and services (most importantly, the effects of inflation/deflation). The examination of these psychological elements is the best part of this book. Corruption could probably be collapsed under the heading "fairness", but other than that, the explanations are well thought out. These definitely seem to be weaknesses in current economic theory.

The problem with the rest of the book is that it assumes that proving Keynes' understanding of economics necessitates using Keynes' solutions to economic problems. For example, Akerlof believes that human psychology plays an important role in human economic activity to the disadvantage of the person. But he only even mentions one solution: better government programs that take this weakness into account. But won't those programs be infected by the same diseases? If not, why isn't education of the public an option? We teach economics for 1 semester, typically the last semester of the senior year. Why not include economics/monetary thinking as a foundation of public schooling like reading, writing, math, and science? But Akerlof merely identifies problems with current theory, and then assumes that the solution is better management by the government. What about all the problems that come in with managing a super-complex system through a bureaucratic process? In addition, I think that Akerlof misses key components in his analysis of the meltdown, most notably the fact that every major western government in the world has been going deeper and deeper into debt every year for 40 years. Surely that has to have had some effect on the credit crisis. But the solution is safer, more regulated credit, not adopting business models that rely on less credit.

The other part of this book that I really liked was the discussion of the cultural values of spending and saving in the United States as opposed to East Asia. China saves 20% of GDP. United States saves 0%, and actually negative lately. Singapore was saving at %50 for decades. In Akerlof's view, this saving was crucial to their economic growth. For more own part, I imagine that this is only true if some other nation is willing to spend the money to purchase the products generated by this economy (namely, the U.S.). But wouldn't it be nice if the United States started being a saving nation again instead of walking the tightrope between too much credit and just enough credit and hoping that no "liquidity crisis" pulls the rug out from under us?

Gordon says

The phrase "animal spirits" comes from John Maynard Keynes, the great British economist, who saw the role of emotion and irrationality as looming large in economic behavior. As Akerlof and Shiller see it, Keynes had it right, but the neo-Keynesians who followed him watered his theories down to conform more closely with the "invisible hand" classical economics of Adam Smith. So what we were left with was a model of rational economic decision-making, where every consumer and businessperson carefully and logically analyzed the real value of assets, was capable of figuring out how to discount future cash flows and account for both inflation and the cost of capital, and never ever succumbed to wild manias or profound despair. This is the (somewhat caricatured) version of economic thinking that Akerlof and Shiller attack.

Adam Smith too had a theory that was mostly right, but could not explain the dysfunctions of economies – such as why unemployment rose to 25% during the Depression, and stayed there for years. Why didn't workers simply cut their wage demands to a level that employers were willing to pay? In Smith's model (created in the 18C), economies were supposed to naturally find their equilibrium point at, or very close to, full employment. Unlike Smith, Keynes had the benefit of the Great Depression staring him in the face when he wrote his book in the mid-1930's, and he knew that model didn't always work. The solution: have government step in and use heavy deficit spending to pump up demand and drive down unemployment.

Then, along came Milton Friedman in the 1970's, in the midst of the raging inflation of that decade. With his stress on bringing down inflation by controlling the money supply, and allowing markets to operate freely, and his assertion that "government was the problem", Keynesianism took a back seat. Ronald Reagan and his acolytes took Friedman's view, added a dose of supply-side "voodoo economics" – cut taxes and deficits will somehow disappear! – and became the hero of the Republican party. At least, he became the hero after the US got over its painful recession in 1981-82. Reagan was a master story-teller and his story became the dominant story. As Akerlof and Shiller see it, "Great leaders are first and foremost tellers of stories". They go further and say that, "The stories no longer merely explain the facts; they are the facts." The Reagan-Friedman story was so strong it even survived the S&L crisis that caused the failure of hundreds of S&Ls in the 1980's, brought to their knees by the de-regulation of that industry, combined with a strong dose of executive shenanigans.

Fast forward to the recession of 2008-2009. The authors look at the roots of the recessions and depressions of the previous 120 years or so, and identify the factors that they think need to be brought into a deeper understanding of economics to explain the current crisis. These are:

• Stories: Stories have great power to drive economies. In the 1990's, it was the New Economy created by the Internet, that was supposed to re-write the rules of business. Price/earnings ratios soared to 100:1 and beyond. The dot-coms took a very hard fall, most of them never to rise again. In the 2000's, it was the "you can't miss with real estate" story, followed by the great housing crash of 2008, which still continues today. It's not clear what the next great story will be – clean tech?

• Fairness: Economists use too simple a model of how people enter into buying and selling transactions exchanges. Fairness is central to how exchanges really work. Think of the classic experiment with two people who have to split $100 – with one person defining how much of the pot each of them will get, and the other person deciding if the deal is acceptable or not. If it's rejected, neither of them gets anything. In conventional economic thinking, any amount of money is better than nothing, and ought to be accepted. Yet people will routinely reject offers seen as “unfair”, even if it costs them money. We are hard-wired for a fairness ethic – at least where fair exchange is concerned. This appears to be a cultural universal.

• Corruption and Bad Faith: Anytime there is a great mania, corruption will come to light when the air starts to come out of the bubble. Or, as Warren Buffett put it, “When the tide goes out, you find out who’s been swimming without a bathing suit.” It looks like Madoff will be the pre-eminent naked swimmer of this recession, but he was in good company. Failures of government regulation can cause the effect of this kind of behavior to spin wildly out of control, so that these acts are no longer simple white-collar crimes, but threats to the system as a whole. Example: The behavior of unscrupulous mortgage originators, who sold mortgages to people they knew would be unlikely to keep up with the payments once their variable rate adjusted upward, was abetted by regulatory failure. Not only were mortgage lenders largely unsupervised, so were the near-banks (hedge funds, investment banks …) who took those sub-prime mortgages, repackaged them as derivatives to miraculously make the risk “disappear”, and peddled them to investors around the globe.

• Confidence: Why does the stock market and the real estate market overshoot on the way up … and on the way down? Akerlof and Shiller attribute a good part of this to over-confidence on the way up, when everyone feels like an investing genius, and fear on the way down, when everyone thinks the Great Depression is upon us. (Now, if only I could figure out how to time it perfectly …) Ultimately, it was a crisis of confidence that caused the entire banking system to teeter on the brink in the fall of 2008.

• The Money Illusion: Give people a choice of, on the one hand, having their salary rise 10% with prices rising 10% at the same time or, on the other hand, having their salary and prices both stay the same, people will always go for that 10% “raise”. It just makes us feel better. This same behavior, though in even more extreme form, is one key factor that prevents workers and job-seekers from lowering their wage demands during deflationary recessions.

Overall, this is the best and most comprehensive book I’ve read so far on the sea change in economics that has been taking place during and in the wake of the two great economic boom / busts of the past dozen years. Shiller’s 2008 book, The Sub-Prime Solution, is also a great read, though more narrowly focused.

Melvin Marsh, M.S. says

I was expecting a lot more psychology than there was. All of this was pretty much commonsense which even as a non-financial person, I knew several years ago even before the housing bubble burst.

D.L. Morrese says

Humans are not rational animals. That's basically the central point of this relatively short book on behavioral economics. Published in 2009, it still has some valid things to say. It argues that any theory that presumes an economy moves due to the rational responses of self-interested actors in response to reasonable amounts of valid information is working under a false premise. This observation seems so obvious to me that I wonder how anyone would have ever thought otherwise. Humans are emotional, impulsive, and seldom in possession of all the information they would need to provide certainty to their choices even in those rare instances when they stop to think things through. Because of this, economics can never be a 'hard' science that can collect relevant data, apply them to formulas, and make valid predictions. Economics is a social science and therefore far more complicated.

The authors are quite right in questioning the prevailing economic theories that have been in ascendancy since Ronald Regan. These have led to booms and busts and great wealth disparity in the U.S. Unfortunately, I think they unconsciously buy in to other assumptions that should be questioned. In one instance (I failed to note the page), they seem to go along with the story that contacting out of government services leads to cost savings. As a former employee of the U.S. Department of Defense, my experience would suggest quite the contrary.

Brian Jones says

Boy, George thinks a lot of himself.

Basically, he says the behavioral economics is true, and pretty much claims to have thought of it.

He makes a lot of good points, but here's the main problems:
1) He claims to have "explained" economics. But he makes no predictive propositions; there's nothing quantitative. He has a narrative that is consistent with historical examples, but that's a far cry from an economic theory.
2) He goes over the top for the money illusion. He claims that the existence of non-indexed contracts means that people are completely ensnared in the money illusion. Baloney. It just means that people prefer not to include an indexing scheme because it complicates negotiation of a contract. Rather, you make your inflationary expectations, I'll make mine, and we will agree on a nominal dollar amount.
3) Even if most _people_ are ensnared in the money illusion, because most regular folks don't think about discount rates and the time value of money, that doesn't mean most _money_ is ensnared by it. Most of the dollar value in contracts and exchange is done by corporations, investors, and funds, all of whom are not at all confused by the notion of inflation.
4) His criticism that natural rate theory is taken to seriously has validity. However, it is an entirely reasonable approach to a very difficult problem: make a simplified model, and see which parts of reality it seems to describe. The right next step is not to decry it, but to rigorously investigate what happens when you relax one of the assumptions.

Tuncer ?engöz says

Kitap 2008 krizi öncesinde yaz?lmaya ba?lam?? ve krizden hemen sonra, parasal tedbirler al?n?rken yay?mlanm??. Bu nedenle son geli?meleri içermiyor.

Hayvansal Güdülerin ekonomi ve finans dünyas?ndaki izdü?ümleri be? ana ba?l?kta toplanm??: Güven, adalet, yolsuzluk, para yan?lsamas? ve hikâyeler. Klasik iktisad?n bu ba?l?klar? yok sayarak, bütün varsay?mlar?n? "ekonomik beklentilerle hareket eden rasyonel insanlar" üzerine kurmas? hakl? olarak ele?tiriliyor ve iktisad?n baz? sorunlar?na, hayvansal güdüler de dikkate al?narak yeni cevaplar getiriliyor.

Yazarlar?n yakla??m? ilginç ve dikkate de?er. Ancak kitab?n konuyu yeterli derinlikte ele ald???n? dü?ünmüyorum. En az?ndan kitab? okumaya ba?lad???mda beklentilerim daha fazlayd?.

Hadrian says

Although I read this four years ago, I still remember it very clearly.

A summary of the Keynesian 'animal spirits', or non-rational economic actions which people do, sometimes contributing to later economic crises. These include, but are not limited to, Confidence, the myth of fairness, the illusion of money, corruption, and 'Stories' as past explanations of behavior.

These are applied to multiple questions, such as real estate bubbles, central banking, racial discrimination, why recessions happen at all, and so forth.

Although these ideas are not entirely revolutionary now, but they are necessary and important to consider. With money, humans are hardly rational beings, even less than usual.

Some have noted the lack of 'solutions' presented here, apart from government regulation and intervention, but I must ask — is there even a real chance of changing human nature?

John says

In The General Theory, John Maynard Keynes wrote that the switches between optimism and pessimism which drive rises/falls in investment spending which, in turn, cause rises/falls in output, were driven by "'animal spirits''. This was always one of the weaker points of Keynes' analysis, essentially a big shrug of the shoulders, removing any notion of economic actors rational responses to changing circumstances. This book is simply a longer restatement of that argument. People are crazy, so the authors say, their behaviour is irrational and, in the Keynesian way, this can cause economies to crash and stay crashed. Only the wise hand of government on economic the tiller can save us.

This leaves several questions unanswered. Why do people make the same mistake over and over? There is no learning in the model. Why is empirical evidence used so sparingly? In cases such as 1929 and 2008-2009, there were identifiable, proximate causes for people's actions which we can turn to without invoking "animal spirits". Why is it assumed that the politicians who will save us from our irrationality are any more rational than we are?

Psychology in economics is a fascinating and emerging field, but you'd never know it from this shallow and reductive book.

Ed says

As someone who trained as an economist and who has been digesting the implications of behavioural economics for economic theory, this book takes the story further: into macro-economics or how the whole economy works. Like the original work of Keynes (not the subsequent simplification), these authors (it is actually by Akerlof who won the Nobel prize for economics AND Shiller who wrote Irrational Exuberance)transform how we should see markets operating effectively. This means with intelligent government regulation to curb the effects of mass irrationality of booms and busts, and consumer insight into their own irrationality: house prices will go up for ever and always have everywhere: NOT! They never go down NOT! Like Keynes they are passionate believers in what markets can achieve, as well as advocates of the need to regulate markets to preserve them and the whole system. Free markets need saving from themselves.

This book provides a more convincing and deeper explanation of the recent credit crisis than any I have read. It does not require much prior economics study but it still has much to teach the economics specialist.

If you want to better understand the economy for the rest of your lifetime: read it early on in your career!

Lucas says

The money illusion section was very good, none of the other economics books I've read have given it as much as attention as it gets here.

I also really liked the chapter on the asymmetrical behaviour of compensation in economic down-turns vs. up-turns, again because the subject wasn't given significant text in other books. The book doesn't explore the solution space much- my first thought is that an progressive proportion of wages should be in the flexible form of stock options in the employers company heavily mixed with index funds for the employer's industry and also index funds for the entire market, with restrictions on sales or transfers within some time window of say anywhere from 5 years to retirement age of the employee. The employer would promise employees numerical unit contributions of those funds per year rather than be locked into dollar amounts, accomplishing the desired effect of reducing compensation in recessions without worker antagonism. Higher progressive income tax on dollar compensation coupled with lower taxes on options compensation might accomplish this.

The chapter on the TARP (the bank bailout) is full of unexplained jargon and not very useful, also the chapter on affirmative action doesn't cohere well with the rest of the book. The title of the book isn't well justified in the text, and each usage of the term 'animal spirits' is clunky- simply calling some undesired effect to be due to it and therefore the author's solution is the only one that will work isn't very convincing. It would lose marketability but I wish I would hear an economist talk about linearization- various economics theories of the past are actually linearized approximations of actual behaviour, but behaviour outside of the valid linear range is either undefined (and maybe undefinable) or bears more research.

Trevor says

Part of the reason why I found this book quite so interesting was because I’ve read lots of books about behavioural economics over the years, but they are much more interested in psychology than they are in economics. For instance, a book that I am constantly recommending and even buying for people is ‘Predictably Irrational’ – and it proudly refers to itself as being one set in behavioural economics, but really, you sort of have to squint to see the connection to economics most of the time. Now, don’t get me wrong – I’ve really enjoyed those books, but what this one does is to place behavioural economics squarely in the realm of economics. This is also, effectively, a re-introduction to Keynesian economics, a view of economics that went out of favour with Milton Freedman and Ronald Reagan – the consequences of which we are living with today.

One of the authors here has a Nobel prize in economics – that is, these aren't just 'some guys' with a 'new idea' about economics, but people from inside concerned with the overall direction that economics has taken.

The book comes in two parts – part one is about the various 'animal spirits' that direct the ways in which we think about and act within the economy. The reason why we need to think about animal spirits is that economics is too often presented as if everyone was the fabled 'economically rational human' – that we are all constantly considering the costs and benefits of our actions and purchases and that we only make a purchase when we know that is the best way to dispose of our money. Such an idea is so stupid it is surprising it was ever accepted as the basis of any subject that seeks to describe itself as a 'science'. The idea that unemployment is working people taking a kind of holiday is equally laughable, even if it does mean that believing such allows right-wing types can feel justified in cutting unemployment benefits from people so as to give them an incentive to find a job.

Animal spirits relate to some of the predictably irrational (if irrational they really are) ways humans set about engaging with the economy. For example, the authors make the point that people want to believe that their wages are 'fair'. They want to believe that what they are earning reflects their worth – and they don't want to see some other people be rewarded well beyond what they also deem as being fair. This feeds into one of the other animal spirit ideas – that is, that we need to trust the system, that there will be no corruption undermining the system while we are making investments in that system. A quick look back at 2008 and what has happened since shows that our current system runs afoul of both of those precepts. People's wages have stagnated for decades despite massive increases in productivity – and those at the very top have reaped undreamt of rewards, often despite their actions rather than because of them. An instance are the 'retention bonuses' that bankers gave themselves after the GFC, often out of the taxpayer funded rescue packages, despite these same bankers having nearly crashed the world economy. Given all this, it does make it hard not to think that the system is rigged.

The second part of the book focuses on eight questions that can't really be answered with conventional economic theory in ways that don't sound a little stupid, but which make much better sense when animal spirits are evoked. I'm just going to list these:

Why Do Economies Fall into Depression?
Why Do Central Bankers Have Power over the Economy?
Why Are There People Who Cannot Find a Job?
Why Is There a Trade-off between Inflation and Unemployment in the Long Run?
Why Is Saving for the Future So Arbitrary?
Why Are Financial Prices and Corporate Investments So Volatile?
Why Do Real Estate Markets Go through Cycles?
Why Is There Special Poverty among Minorities?

One of the things about economics is that it seems impossible to predict the future, which is annoying, since it does seem that virtually the whole of economics is set up to do exactly that. All the same, and as a case in point, in Australia we appear to be on the cusp of a housing collapse – something we avoided while the rest of the world was engaged in one and which we have been told for a decade is impossible to happen here because, unlike elsewhere, the fundamentals of our economy are sound and Australia has very special circumstances that made such a collapse imposssible. Now, that might even be true – but I've a feeling it is not. One of the main reasons for this feeling of mine is that ‘this is a special time and place and that is why the bubble will not burst this time’ is exactly the logic that has driven EVERY bubble. That every bubble that has ever existed has eventually popped is not proof that this one will have to pop, of course, but I still wouldn’t ‘bet my house on it’ so to speak.

What drives bubbles to pop has much less to do with the objective conditions that make looking at bubbles encourage you to want to put your hands over your eyes. It is much more about when people ‘feel it in their waters’ that the rout is on. It is these changes in belief and then the difficulty in changing those ‘once bitten, twice shy’ feelings back again that relate directly to animal spirits and that have a direct impact on the future growth in the economy. It is for this reason that the authors recommend re-regulation of the economy – as providing some sense of the system being far and not rigged is an important first step to giving people their belief back in the system, and without that belief, the system basically collapses.

Like I said, this is behavioural economics directly related to the economy at large and it makes for fascinating reading.

There were a couple of times during this when I was stopped in my tracks out of amusement and that feeling of ‘how can I not of heard of this before?’ For instance, I had no idea ‘The Wizard of Oz’ was a kind of allegory on the economy – the authors say, “The yellow brick road and Dorothy’s magical silver slippers (replaced for the 1939 movie with ruby slippers since these showed up more dramatically on color film) were metaphors for the intense conflict over the gold standard and the proposed free coinage of silver. The little people, the munchkins, represented the poor working class. The wicked witch stood for the selfish business interests. The wizard himself was the great deceiver, the U.S. president.” (page64)

Or what about this? “The nursery rhyme about Humpty Dumpty originated before children’s illustrated storybooks were common. It was a riddle. Who was Humpty Dumpty? He was an egg.” (page 90)

This was an interesting book – one I suspect I will think about more over the next few months.

Ryan Melena says

I found this book to be a significant disappointment. The only point of interest, for me, was the in-depth discussion of "money illusion" and its affects on our economy. Outside of that, the booked felt jumbled. Despite my natural proclivity to the authors' point of view I felt their arguments were poorly made. Additionally, the book seemed to stray into apologia and misinformation regarding the events that led to the current recession. It perpetuated the "Fannie & Freddie caused the crisis because politicians made them loan to poor people" myth and wall-papered over the fact that most of the major financial players were perpetrating rampant fraud (as apposed to just acting in a morally questionable way). They also failed to follow their "animal spirits" idea to its logical conclusion, that the unpredictable nature of human behavior severely limits the utility of economics as a science. They seem to imply that, given more study, "animal spirits" could be understood and incorporated into economic formulas and models. This idea seems to fly in the face of the "illogical nature of animal spirits" thesis that the book spends so much effort explaining.

Sagar Jethani says

It was with great anticipation that I looked forward to reading "Animal Spirits". If ever there were a time for a sobering analysis of how macroeconomic events actually occur, that time was surely now. Instead, what I found was a volume which took great pains to destroy a carefully-crafted straw-man: that species of academic economist who, in defiance of common-sense, insists that people behave according to the universal dictates of rational self-interest in every situation, no matter what the exogenous circumstances happen to be. In other words, the straw-man is a stand-in for Milton Friedman, or possibly Alan Greenspan.

I expected more from the authors, given their sterling credentials. George Akerlof won the Nobel Prize in economics in 2001, and Robert Shiller has long been an astute observer of the madness of crowds. Instead of a penetrating analysis which yields up new findings, the reader is left with conclusions that are obvious to anyone familiar with the way economic decisions are made in the real world. Akerlof and Shiller remind me of George Soros, who, similarly, exults in destroying a straw-man which only the most extreme worshiper of untrammeled free-market capitalism approximates.

Do we really need another missive which forcefully argues that people often act in irrational ways that harm their own self-interest? Have we not seen overwhelming evidence in the past three years that unfettered capitalism can destroy the very basis of wealth accumulation, and that there is a proper and appropriate role for government regulation to minimize the swings in consumer confidence? The authors appear to be writing for an extreme skeptic, who, even after witnessing the dynamics involved in the housing meltdown and credit crunch, remain unconvinced of these precepts. But which intelligent observers continue to need persuading?

Insofar as "Animal Spirits" takes the reader on a guided tour through some of the financial cataclysms of the 20th century, it is useful as a historical narrative. The outcome of this narrative, however, is disappointing. The book's agenda is initially described as being fairly ambitious, setting about to do no less than change the way we interpret and understand economic events. By the end, however, the reader is left scratching his head, wondering why he is left with a set of recommendations that amount to little more than the warning that people will sometimes behave irrationally, and that this behavior can often have a disproportionate effect upon macroeconomic patterns.
