Ban, Cornel (2009) 'A review of George A. Akerlof and Robert J. Shiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*', *The Journal of Philosophical Economics*, III:1, 112-114

A review of George A. Akerlof and Robert J. Shiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*, Princeton University Press, 2009, 264 pp.

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The current economic crisis calls into question most of what the neoclassical tradition knows. Although the comparisons between the fall of the Wall Street and the fall of the Berlin Wall seem excessively hyperbolic in retrospect, two questions still stand: Why did orthodox economics fail and what is to be done about it? George Akerlof and Robert Shiller argue that the neoclassical paradigm is plagued by systemic problems and that the most important of them discipline socially disembedded. Echoing Keynes, they argue that the dismissal of the importance of psychological factors led economics into the current impasse. As the current crisis proves it, the stories that people tell each other about the economy, their illusions and resentments are just as important as rational calculus.

The attempt to assimilate this anti-orthodox Keynesian charge by advocating for the inclusion of the insights of cognitive psychology into economic theory is at least as old as Herbert Simon's work on "bounded rationality" in the late 1950s. If that is the case, what is the value added of the book? First, the fact that this challenge comes from the voices of two economists as prominent as Akerlof and Shiller might trigger a more serious drive to reform a discipline in which the economic theory that is taught in top economics departments downplays the limitations of the foundational assumptions of orthodox economics. Second, the authors take this standard Keynesian critique of orthodoxy in a new, better specified direction. Thus, they narrow down the spectrum of "animal spirits" to five components: confidence, fairness, corruption, vulnerability to being misled by strictly nominal financial dynamics and reliance on stories about the economy. The specification of each of these factors is done in concise prose larded with extensive forays into psychology and compelling anecdotes that deliver devastating

"crucial case"-type arguments. For example, the plea for including fairness considerations into mainstream economics opens with the "least likely" case of a Chicago School labor economist (Albert Rees) who, after a lifetime of dedication to orthodoxy as an academic discovered, as an administrator later in life, that his entire work relied on the devastating omission of fairness in making decisions in the real world.

Third, after elaborating at length on the impact that each of these five factors could have on textbook economics, the authors address a string of questions that are both of central importance and are inadequately addressed in the mainstream: Why do economies fall into depression? Why is there unemployment? Why do central bankers have so much sway over the economy? What is to be done about the current crisis? Why is there a trade-off between inflation and unemployment in the long run? Why is saving for the future an arbitrary affair? Why are financial prices and corporate investments doomed to be volatile? Where do the cycles of real estate markets come from? Why are ethnic minorities disproportionately hit by poverty?

In the opinion of this reviewer, the authors succeed in demonstrating that the sacrifices made by mainstream economics for the sake of analytical simplicity are fraught with danger. Thus, since neoclassical economists did not find a way to fit unemployment and banking in their mathematical models, these two central facets of socio-economical life are basically left outside what the discipline defines as scientific inquiry. In other words, in the attempt to make macroeconomics more scientific, the field threw the baby with the bathwater and laid the ground for the intellectual crisis it is now faced with. The discussion of the role of stories about the economy is particularly compelling, although not thoroughly original, as political economists had been writing on this at least since Albert Hirschman's *The Passions and the Interests* (1977).

Akerlof and Shiller may be right in their diagnosis of the crisis of economics, but does their manifesto for reform chart a usable alternative direction for macroeconomic analysis? Certainly, the authors provide insightful and highly topical elements for the attention of anyone who teaches a course on macroeconomic theory while going through some honest soul-searching about the fundamentals of the field. Yet these elements are too loosely connected to amount to an alternative theory. Even assuming that mainstream economics will be jolted into internalizing the challenges formulated by *Animal Spirits*, it is doubtful that

the book indicates a clear pathway out from the problematic status quo and towards something more sensitive to the psychological factors that are so central to it. This prescriptive thinness is even more obvious if one seeks concrete policy advice about how to deal with the current economic crisis. The authors make a general plea for more government intervention in the economy, but beyond the suggestion that the government should be as concerned with credit expansion targeting as they are with keeping inflation down, there really isn't much more on the table.

Yet these problems do not detract from the overall value of Akerlof and Shiller's diagnosis of the systemic crisis of orthodox economics. Whether one agrees with them or not, they gave theoretical debate in economics a magnificent resource.

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