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Bootstrap recovery through self-belief

From Mr Daniel J. Aronoff.

Sir, I would like to elaborate on John Kay's excellent description of Keynes's contribution to the theory of probability ("The other multiplier effect, or Keynes's view of probability", August 15).

Keynes's concept of "animal spirits" derives from his belief that the possible societal outcomes several years hence either cannot be enumerated or cannot be ascribed numerical probabilities. This forces people to act on sentiment, which is changeable even as knowledge of the future, to whatever limited extent it exists, remains unchanged. This sentiment, which he called "animal spirits", affects economic decisions that are future-oriented – savings and investment – which, in turn, affect current economic activity. A dip in animal spirits depresses investment while increasing savings, which can cause a liquidity trap of low employment; an improvement in animal spirits can do the opposite. In this way, autonomous changes in animal spirits affect employment.

This insight, both at the level of the individual and society, should give hope because it implies that we can, at least to some extent, bootstrap recovery through self-belief and optimism about the future. In 1930, at the onset of what he described as "one of the greatest economic catastrophes of modern history" Keynes articulated this rational optimism:

"This is a nightmare, which will pass away with the morning. For the resources of nature and men's devices are just as fertile and productive as they were. The rate of our progress towards solving the material problems of life is not less rapid. We are as capable as before of affording for everyone a high standard of life ... and will soon learn to afford a standard higher still. We were not previously deceived."

A few years later US president Franklin Roosevelt articulated a similar belief when he told a country ravaged by the Great Depression that "all we have to fear is fear itself". What these great men expressed was true then and it is true today. If only we regain

our optimism, and the determination to see it through, our seemingly insurmountable problems will pass and we will return to prosperity.

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