Case Report

Effects of animal spirits on resource utilization and economic development: The Case of Tanzania

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Abstract

According to the Pre-Keynesian classical economics, private markets (liberalised markets), of their own accord and with no government interference, would “as if by an invisible hand” assume full employment i.e. full resource utilization. But Keynes took a more moderate approach in that he appreciated and recognised that most economic activities result from rational economic motivations and also that much of the economic activities are governed by animal spirits i.e. people who have non-economic motives and who are not always rational in pursuit of their economic interests. This paper attempts to demonstrate the existence of the animal spirits traits (theory) as related to the economic development process in Tanzania and its effect on the country’s economic development pace by using the Tanzania economic development model.

Keywords: Classical economics, animal spirits, politics, resource utilization and economic development.

INTRODUCTION

Definition of terms

Classical economics

According to the traditional economics, free markets are the base for full employment of resources. This line of thinking goes back to the error of Adam Smith

Animal spirits

According to Akerlof and Shiller (2009), the term in its ancient and medieval Latin form *spiritus animalis*, the word *animal* means “of the mind” or “animating”. It refers to a basic mental energy and life force. But in modern economics animal spirits has acquired a somewhat different meaning; it is now an economic term referring to a restless and inconsistent element in the economy and it refers to our peculiar relationship with ambiguity or uncertainty. Sometimes we are paralyzed by it. Yet at other times it refreshes and energizes us, overcoming our fears and indecisions.
Resources

Are things that a country, a state, etc. has and can make use to its advantage i.e. to produce goods and services for the society.

Economic development

Is defined as a process by which a population increases its efficiency with which it provides the desired goods and services, thereby increasing per capita levels of living and general wellbeing.

Factor scarcity

According to the Holy Bible, when God created Adam, He gave him (Adam) a free access to everything that was available in the Garden of Eden which he needed (according to his needs) except that of the fruit of the Central Tree. That status of free access ended when Adam betrayed God’s trust by consuming from the fruit of the central tree and was banished from the paradise and since then man was required to sweat in order to get his daily needs. This was the beginning of the factor scarcity in this human planet. In other words, the idea or theory of the Animal Spirits has been within mankind since the creation of this world. Since God knows how strong the power (force) of the animal spirits is in our hearts, God gave us the Ten Commandments to put limits of that force or power.

Keynes and animal spirits

According to George A. Arkerlof and Robert J. Shiller (2009), Keynes viewed the animal spirits as the main cause for why the economy fluctuates as it does and those animal spirits is also the main cause of the involuntary unemployment. To understand the economy therefore is to comprehend how it is driven by the animal spirits. Just as Adam Smith’s invisible hand is the keynote of the classical economics, Keynes’ Animal Spirits are the keynote to a different view of the economy – a view that explains the underlying instabilities of capitalism and also the different rates of economic growth within and between nations of the world.

The different aspects of the theory of animal spirits

According to Arkerlof and Shiller (2009), there are five different aspects of animal spirits theory which affect economic decisions. These are confidence, fairness, corruption and antisocial behaviour, money illusion and stories:

- The cornerstone of the theory is confidence and the feedback mechanisms between it and the economy that amplify disturbances.
- The setting of wages and prices depends largely on concerns about fairness.
- The force of temptation toward corruption and antisocial behaviour and their role in the economy.
- Money illusion is another cornerstone of their theory. The public is confused by inflation and does not reason through its effects.
- Finally our sense of reality of who we are and what we are doing, is intertwined with story of our lives and of the lives of others. The aggregate of such stories is a national or international story, which itself plays an important role in the economy.

How the five aspects of animal spirits affect economic decisions

These animal spirits play a crucial role in answering questions like why do economies fall into depression? Why do central bankers have power over the economy, insofar as they do? Why are there people who can’t find a job? Why is there a trade-off between inflation and unemployment in the long run? Why is saving for the future is so arbitrary? Why are financial prices and corporate investments so volatile? Why do real estate markets go through cycles? And why does poverty persist for generations among disadvantaged minorities?

Each of these questions is fundamental to any economy. They would occur to any person with a natural curiosity regarding the economy. In providing natural satisfactory answers to all of them, the theory of animal spirits describes how the economy works. It can be seen that animal spirits provide an easy answer to each of these questions and that, correspondingly, none of these questions can be answered if people are viewed as having only economic motivations which they pursue rationally i.e. if the economy is seen as operating according to the invisible hand of Adam Smith. The key factor with the animal spirits theory is considering man as the focal point in the making of a desirable environment. Unfortunately this man is subjected to the five aspects discussed in the animal spirits theory which may cause economies go through good and bad times depending how the human factors that make decisions are affected by the animal spirits.

Animal spirits and the Tanzania economic development model

Conceptual framework of the Tanzania model

The Tanzania economic development model assumes that economic development depends on the country’s political set up which in turn affects the type of leadership (put in power) who make policies which determine how the country resources are to be utilized and consequently attaining economic development process.

The Tanzania model

The model states that economic development depends on:
- The type/form of the State
- The leadership quality
- National policies enacted by the State Leadership
- The existing factors of production

The propositions of the model

The propositions which show the causal relationship between the development factors that determine the effective use of the resources are:
- \( D = f (R) \)
- \( R = f (P) \)
- \( P = f (L) \)
Figure 1. Organogram of Tanzania’s development model
Note: Leadership has a key role in determining pattern and pace of economic development. If the leadership is committed to development, it will adopt and implement a suitable economic policy hence offer a positive impact. If it is not committed, development won’t be achieved. The choice of leadership is therefore important in the development process.

\[ L = f(C) \]
\[ C = f(S) \]

Where:
- \( D \) = Economic development
- \( R \) = Rate of resource utilization
- \( P \) = National policies
- \( L \) = Leadership (power wielders or governance)
- \( C \) = Societal involvement (state/degree)
- \( S \) = the Status of democracy in the country (Ruling party or politics)

The effects of the animal spirits on economic development of Tanzania

Since almost all decisions pertaining to the development process have to be made by people who have been given the mandate or authority and since all people are affected by animal spirits, then animal spirits affect resource utilisation which depends on policies made by the mandated leaders and hence economic development of a given country. Figure 1 is an organogram which shows the relationship between leadership, resource utilization and resultant output. As stated in the animal spirits theory, aspects of animal spirits may have good or bad effects depending on how the specific aspects of the animal spirits dominate the leadership/system. Consequently, different regimes may be affected differently and hence have different rate(s) of resource utilization and hence economic development process (Aloyce and Mlambiti, 2014).

The Tanzanian development trend clearly demonstrates this fact. During the Nyerere regime, the society adopted the socialistic system as the sole means of production where the private sector had minimal or no role to play. The Mwinyi regime realised that the policy of Ujamaa na Kujitegemea was the hindrance to economic development of the country. Consequently he put no emphasis on its implementation, instead he adopted the laisser-faire (rukswa kufanya unachoweza ili mradha kinaletwa maendeleo ya nchi). Mr. Mkapa saw the main problem to development of the country was public ownership of economic pillars of production. He, thus, adopted the policy of privatisation of public productions units as well as assets. Mr. Kikwete on the other hand has seen that the main constraining factor to the economic development of Tanzania is increasing production and improving distribution of the created income. How to do it, is not his concern.

It can, therefore, be seen that under the existing political system, the effect of the animal spirits depends very much on the state leadership who make policies that affect the utilization of the national resources. Thus, the process of getting good leadership is of paramount importance since if the society gets poor leaders then the effects will be disastrous to the economy of the country. However, if it happens the other way round, the economy will enjoy good use of the resources and hence attain good economic development process.

Determinants of efficient use of resources

The key factors that determine the development process of a given country are the form of the country’s political system (state), the adopted leadership system and policy formulation system. All these factors can be influenced by the Animal Spirits forces positively or negatively affecting the economic development process accordingly. Unfortunately, most developing countries do not consider this fact seriously as a result their pace of development is limited.
Condition for containing the negative forces of the Animal Spirits include having a transparent mechanism of getting good leaders for the country by giving power to the people through a fair, unrigged electoral system accompanied by mass education on human rights.

CONCLUSION

According to the Tanzania economic Development model, the country is still in phase I of the model while the leadership is putting most of their development emphasis in phase II, that is they put almost all their efforts on how to use the resources efficiently neglecting the role, importance, and the effects of animal spirits in attaining efficient use of the resources in order to have the needed economic development. The theory of animal spirits calls for the necessity of having a government which is accountable to the people and committed for bringing development. Therefore what is needed by the country now is to have disciplined political leadership that is committed to national rather than party interest as has been the case up to now. Can we bring changes to the system of getting our leaders? Play your part; it can be done if we are ready to make sacrifices.

REFERENCES


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