

Economic Blues

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Psychology plays a major part in economic instability, and the current recession is no exception. Many economists believe that to understand the economy, they must take account of what John Maynard Keynes called "animal spirits", the restless, inconsistent and irrational elements that drive how people pursue their economic interests. These elements explain, in part, why the economy fluctuates as it does. Everyone knows, for example, that when consumer confidence is low, people are afraid to spend, banks are afraid to lend, and a negative spiral results. Panic leads to more panic and becomes a self-fulfilling prophecy. Stock market crashes, layoffs and home foreclosures soon follow. When confidence is high, the economy seems to have an inevitable upward swing, but is driven by psychological forces just the same. People have been spending, borrowing and speculating beyond their means. Several market observers have suggested that what the world needs besides investment analysts are clinical psychologists to provide some "economic psychotherapy". If psychologists could help people manage their expectations about the economy, there would be fewer swings between euphoria and panic and less volatility in the markets.

People have a difficult time dealing with uncertainty. They need to feel they have control over their lives and their financial futures. But the truth is that capitalism is inherently unstable and unpredictable. Market crashes and depressions are just as much a part of the capitalist reality as bull markets and boom times. As Douglas Kirsner (Free Associations, 1990) has argued, people have a strong emotional need to trust that the economic order is basically stable. When people are shocked by a stock market crash, when they refuse to believe that the future is uncertain, and when they are convinced with little or no evidence that everything will work out well in the end, they are displaying a tendency to create and maintain illusions. People prefer to deny the reality of uncertainty, powerlessness, and loss because they find it unbearable and anxiety-provoking. By replacing it with an illusion that they can predict the future and control it, they cling to a sense of security and power that is not real. Dr. Kirsner suggests that we must accept the inevitability of bad times as well as good times or we will blind ourselves to reality and act irrationally. We must not cling to what John Kenneth Galbraith called a "euphoric desire to forget" that recessions are intrinsic to the ebb and flow of capitalism. He concludes by saying that psychology can explain and warn the world about this illusion. But since the need not to know is at least as strong as the need to know, our message will likely not be heard.

Commentators on the current recession, aware of the cycles of panic and euphoria that drive the economy, argue either that fear is bad or that optimism is bad. In the Globe and Mail, for example, Ian Brown depreciated the "divas of doom" whose message is that we have a dire economic future ahead of us now. Even James Bray, the president of the American Psychological Association, wrote recently that psychologists should use their expertise to create a "confidence virus" to promote optimism in the land. On the other hand, Thomas Homer-Dixon wrote in the Globe that it isn't undue pessimism that is dangerous, but undue optimism, which over the past twenty years has produced the bubble that has now burst. In my opinion, both undue pessimism and undue optimism are dangerous. In order to manage swings in the economy from the euphoria of the tech or housing bubbles to the calamitous panic we now seem to be experiencing, people must remember and accept that fluctuations in the economy are normal. The dialectic between optimism and pessimism in human nature must be dealt with by welcoming both of them, since both the positive and the negative are important in understanding and accepting reality. It is not an either/or proposition. We must juggle our hopefulness and our fear better if we are to modulate the cycles in confidence that drive the economy. Psychologists and the use of Toronto psychotherapy can help by making people aware of their illusions about the economy, by helping them deal with uncertainty, and by helping them accept both realistic caution and realistic hopefulness about the future. A Toronto psychologist may be a cornerstone in one's quest to deal with these issues.

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