Article

The Matadors of Animal Spirits: Are Central Banks Religious Institutions?

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Introduction

Money is a funny thing. Although we measure most of our lives with it, its underlying value lies untethered from any material entity we find in reality. The central bank of the modern neo-liberal state has been given an impossible task: to create inflation. Inflation is the numeric value we put upon our money to measure its value over time. However, they do not have an effective mechanism to attempt such a thing. In lieu of this mechanism, central banks attempt to create inflation by manipulating the moods and motivations of their populations, specifically through the animation of Keynes' proverbial "animal spirits." This paper seeks to explore whether—in this attempt at the mechanistically impossible—central banks have essentially assumed the form of religious institutions in order to induce fervor among the animal spirits and achieve their mandate. We will discover by using the very formal, most empirical of all tests, that central banks walk, talk, and look like the duck of religious institutions. Central banks have been mandated to maintain stable inflation within our economies. There are two ways to do this, through a mechanical process of creating credit in the real economy; or through producing fervor in the animal spirits of marketplace participants. Because central banks are mechanically unable to create credit in the real economy, they have become matadors to provoke the

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animal spirits of the population. In donning their roles as matadors of animal spirits, the central banks have been required to take up the qualities of religious institutions to achieve their mandates.

The Wizards in Oz

Credit—the extension of a debt to be repaid—comes originally from the Latin word *credito*, meaning *I believe.*

In 1971, Nixon broke the American dollar's peg to gold, which changed US dollars into fiat credit instruments. Credit is based on trust, and in a centralized credit system, there must be an institution that takes the role of "trust-holder." There must be some institution to declare the worth of the fiat credit instrument. In order for the credit instruments to have value without the backing of a fixed asset, like in the traditional gold-backed system, an institution must fulfill the role of backer to that credit instrument.

Central banks fulfill this role. Central banks, the banks of banks, declare the worth of the fiat credit instruments we use. As we can see from their legal inception documents, these institutions have been mandated to fulfill rather specific roles in our societies; always price stability, and sometimes something about employment. Three of the largest central banks are:

Bank of Canada:

> To establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of Canada. (Bank of Canada Act 1985)

Federal Reserve Bank of America:

> An Act to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes. (Federal Reserve Official Title 2017)

European Central Bank:

> The European Central Bank (ECB) is the central bank of the 19 European Union countries which have adopted the euro. Our main task is to maintain price stability in the euro area and so preserve the purchasing power of the single currency. (European Central Bank Website 2020)

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What do I mean by price stability? Price stability is defined as the maintenance of a steady value for fiat credit instruments, which is achieved by central banks holding inflation at a 2% growth rate. How does a central bank do that? One common misconception is that they achieve this through the setting of interest rates. Despite being commonly understood as a key policy tool in the toolbox of central banks, it was not until 2017 that anyone took an empirical look at whether interest rate targeting worked as intended. The results of this empirical analysis? Interest rate setting does nothing at all. If anything, the usage of interest rate setting creates the opposite of the intended effect (Lee).

If interest rate targeting does not work, what is happening? Let us now take a closer look at inflation. Inflation is a "general increase in prices and fall in the purchasing value of money" (Oxford Languages). Many studies go into intricate detail about how these increases and falls come about (Shirakawa), but in broad strokes, it comes down to two key components: a mechanical tactic, through expansion of the credit available to the real economy; and a psychological tactic, through invoking what the economist John Maynard Keynes called animal spirits.

Interest rates were supposed to be the central bank's way of affecting changes mechanically through the expansion of credit available to the economy. However, numerous studies have shown this to not be the case (Lee; Bauman et al.). But why is that? As it turns out, it is not actually the central banks that create credit for the economy; rather, commercial banks create credit (Werner). Therefore, the belief that it is through interest rates that the central bank expands credit within the economy is a misconception. The empirical evidence shows instead that interest rate adjustment does not affect credit growth, and that commercial banks, not central banks, provide credit to the economy.

Thus, central banks have no ability to stimulate the economy through the mechanical component of the inflation equation, which is an expansion of credit available to the real economy. This leaves central bankers with only one possibility to achieve their mandate: they must don their *traje de luces*[1] and dance with the bulls. They must raise Keynes' animal spirits to prolong consumption in order to bring about inflation. See Figure 1.

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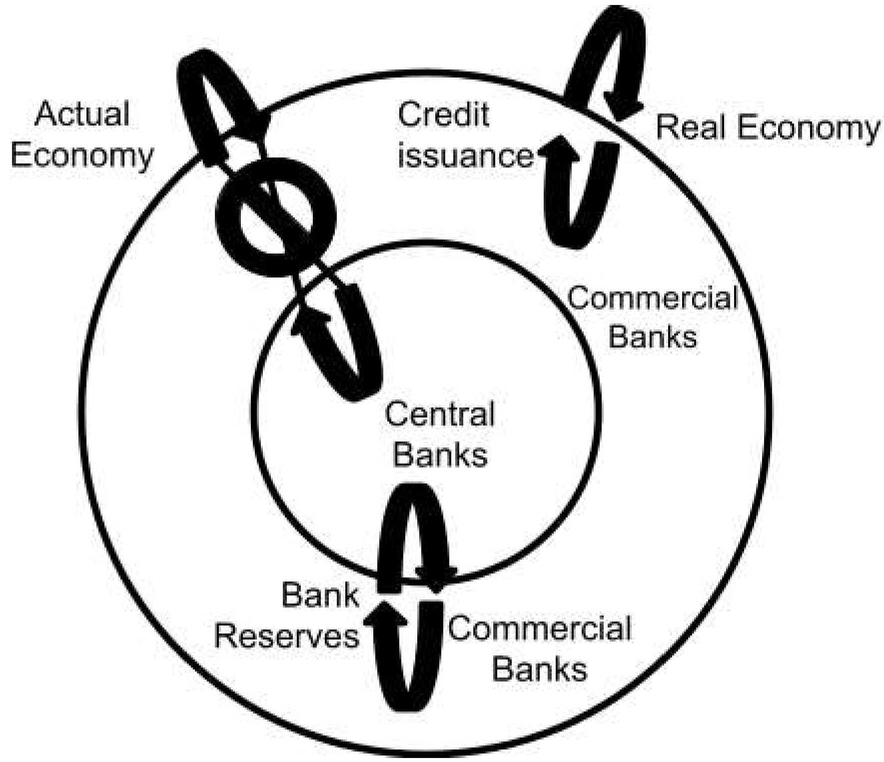

Fig. 1—The segregation of central banks from the real economy

Animating Animal Spirits

John Maynard Keynes first brought the idea of animal spirits to the world of economic thought in 1935 through his book *The General Theory of Employment, Interest, and Money*. Here he proposed:

> that a large proportion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation,whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of *animal spirits*—a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities. (Keynes, 141)

In spite of what we may tell ourselves in this age of supposed technological enlightenment, we humans are not at all the most rational of actors (Ellickson). We are prone to

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irrationality, exorbitant spending, and indefinite consumption. Since, as we have shown, central banks cannot achieve their mandates by any mechanical component at their disposal, it follows that it is through the provoking of animal spirits they can achieve their goals. The central banks must guide the moods and motivations of their populations towards one of credit-financed consumption. Is it indeed the case that unleashed animal spirits can create inflation? How would a central bank go about becoming the matador of animal spirits to guide the moods and motivations of its population?

The Fantasia of Flowers

The first time that animal spirits got out of hand was in the Netherlands in 1634. This is the time of tulip mania, a period of roughly eight years when a tulip bulb was worth the equivalent of about $600,000 in present-day Canadian dollars. Recounted excellently by Edward Chancellor (2000) in his book *Devil Take the Hindmost,* the rise of tulip mania illustrates the inflationary potential of unleashed animal spirits.

It starts with the introduction of tulip bulbs to the Dutch from the Ottoman Empire at the beginning of the 1630s. By mid-decade, tulip bulbs had become an ever more coveted commodity by the increasingly prosperous Dutch population. Tulips, however, are a fickle commodity to covet. Not only do they take years to mature from bulb to actual flower, there is also little assurance of the aesthetic beauty of the tulip, and therefore its currency value, until it has bloomed. Futures contracts—a contract which allows the bearer of the contract to purchase a product from a pre-arranged seller at an already agreed-upon price at a pre-specified point in the future—were developed for tulip bulb markets to overcome this temporal issue. Not all the bulbs would bring equally coveted flowers; but there was no way of truly knowing the underlying quality of the flower until it bloomed.

Following this arrival of speculation into the tulip markets, tulip bulb futures contracts started relatively low, less than ten guilders per bulb, but rose to a price of one thousand guilders within a year.[2] At the height of the speculative frenzy, tulip futures reached a price of over 3000 guilders per bulb. For comparison, the average yearly salary of a carpenter in the Netherlands at the time was 300 guilders (Chancellor). How does the price of a tulip bulb become the same comparative value as ten years of a carpenter's salary? Inflation. Animal spirits, when witnessing the near miraculous spike in price of something, will feel the fool to not partake in the apparent alchemy of buying an object today, with the ability to sell the same object a few months later for double the original investment. This creates, as Keynes (141) called it: "a spontaneous urge to action rather than inaction."

It took just four days to reverse the fortunes of tulip futures contracts. A bad harvest led to the devaluation of numerous contracts, which created a cascade of markdowns across the tulip market. By the following week, the going price on tulip futures had dropped by 95%.

There have been numerous bubbles in markets since the tulip bubble, and there remains a constant amongst them: people assume that if they buy something today, they will be able

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to sell it for profit tomorrow. The frenzies of animal spirits are at best flights of fancy, they go until they stop and then go the other way. They are volatile and unpredictable. They will go until they go no longer, and then drop like a rock. George Soros (1987) coined the term *reflexivity* to refer to the self-reinforcing nature of this phenomenon.

However, the question at hand is not *should* we make use of animal spirits to create inflation, but *can* unleashed animal spirits create inflation? As we can see from the example of the Dutch tulip mania all the way back in the 1630s, unleashed animal spirits have the capacity to cause a "general increase in prices and fall in the purchasing value of money" (Oxford Languages). The frenzies of the animal spirits are by their very nature inflationary. They both create inflation and require the continuance of inflation to justify their purchases of the products targeted for consumers to covet.

Powell's Money Printer

A strange thing happened at the beginning of the COVID-19 crisis. On 13 May 2020, *60 Minutes* correspondent Scott Pelley interviewed Federal Reserve Chairman Jerome Powell in the boardroom at the Federal Reserve headquarters in Washington, DC. During that interview, the first of its kind for a sitting American central bank chairman, Powell made some rather odd remarks:

> PELLEY: Fair to say you simply flooded the system with money?
> POWELL: Yes. We did. That's another way to think about it. We did.
> PELLEY: Where does it come from? Do you just print it?
> POWELL: We print it digitally.
> (Pelley 2020)

This spawned a series of memes across the internet referring to Powell's money printer.

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Philip Bauman's study of 124 countries over 18 years out of the Swiss Economic Institute found that "central bank related variables as well as political variables turn out to have the least empirical relevance in the forces that explain inflation" (1). As discussed earlier, central banks cannot affect credit growth in their economies. But if that is the case, why is the chairman of the central bank then going on television to tell the nation that he has "flooded the system with money"? This makes little sense if we think of central banks as the arbiters of the mechanical side of inflation; however, if we view central banks as the matadors of animal spirits, it makes more sense. Powell, in his speech to the nation, hoped to worry the population about inflation through excess production of the currency and, boy, did it work.[3] Over the next two weeks following the broadcast, the price of treasury inflation indexed securities, a proxy for inflation concerns in the market, rose by 18%.[4] This appearance by Powell on national television can therefore be viewed as the central banker taking the stage as a matador, attempting to provoke the proverbial bull into charging headlong once more into the inflationary escapades of animal spirits.

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Bank Full of Priests

Central bankers are not the most straightforward of speakers. Karl Brunner (5) complained that:

> Central Banking thrives on a pervasive impression that it is an esoteric art. Access to this art and its proper execution is confined to the initiated elite. The esoteric nature of the art is moreover revealed by an inherent impossibility to articulate its insights in explicit and intelligible words and sentences.

And, when we look at Michael Woodfords' presentation to the central bankers assembled at the yearly Jackson Hole Conference in 2001, we can begin to understand the central banks' true intention: "Successful monetary policy is not so much a matter of effective control of overnight interest rates as of affecting the evolution of market *expectations*" (Woodford, 307).

Central banks have begun to realize the necessity of their acting as the arbiters of the market's potentiality. They have realized the necessity of their inciting the population's animal spirits in order to achieve their mandate of slow and steady inflation. As demonstrated,central banks cannot achieve their goals through mechanical means; instead, they must work through psychological manipulation of expectations. We are now left asking: have central banks become religious institutions? This question can be answered with the application of the most empirical of tests.

Very Formal, Most Empirical of Tests

In order to answer the question of whether central banks have become religious institutions we will turn to a most empirical of tests: the duck test. If something walks, talks, and looks like a duck, it is probably a duck. Let us now examine whether central banks do indeed walk, talk, and look like ducks by applying to them definitions of religion from select noted anthropologists and sociologists. In J.G. Frazer's work *The Golden Bough: A Study in Magic and Religion*, he refers to religion as a "propitiation or conciliation of powers superior to man which are believed to direct and control the course of nature and of human life" (53).

We can see the embodiment of this ethos of conciliation to a power superior to man in the current market's apathetic stance of "Don't fight the fed," a motto heard uttered by all market participants across all markets the Federal Reserve decides to enter into. Markets function normally on the implicit assumption that participants in the market have finite resources to purchase things in that market. Powell going on national television and saying, "We print money," puts the federal reserve in a position to be viewed as something superior to the mere mortal market participant.

Thus, central banks, in their posturing as the creators of the medium of the markets, whether true or not, become endowed with the popular perception that they are to be viewed

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as superior to the average market participant. The central banker acts as though it is through their actions that the markets as we know them exist. In relation to J.G. Frazer's definition of religion, central banks certainly seem to look a little like a duck.

But that is just looking like a duck, we still must deduce whether central banks talk and walk like a duck. So let us turn to Émilie Durkheim, and his definition of religion in his work, *The Elementary Forms of Religious Life.* According to Durkheim (82):

> Religious beliefs proper are always shared by a definite group that professes them and that practices the corresponding rites. Not only are they individually accepted by all members of that group, but they also belong to the group and unify it.

Here I propose the proverbial cult of capital. For capital, currency, must by its very nature be "accepted by all members of that group" (Durkheim 42). Arguably, in a modern society as geographically dispersed as ours, the common unification method for cross cultural exchange is through the use of a common currency; take the Euro for example. It is through our shared use of a common medium of exchange that we are able to engage in the diversity of experiences that is our modern economy. Whether this is actually an empirically valid proposition of what centralbanks provide to the economy is irrelevant; what matters when we are dealing with animal spirits are perceptions, not facts. And what was the perception put forth by the central banks? That it was through the medium of exchange they created, money, that our societies are as peaceful and prosperous as they are. It is through the central banks that we have our unification. The central bank thus becomes the institutional arbiter of its creation; a religious institution that creates the means through which to practice the corresponding rites of capitalism.

Okay, so these central banks are starting to look and sound a little like ducks, but do they walk like a duck? For the last step of our most rigorous and empirical test we turn to J. Milton Yinger (1969, 22) and his work "A Structural Examination of Religion," where he states:

> Religion can be found wherever one finds awareness of an interest in continuing, recurrent, permanent, problems, of human existence—the human condition itself, as contrasted with specific problems; where one finds rites and shared beliefs relevant to that awareness which define the strategy of an ultimate victory; and where one has groups organized to heighten that awareness and to teach and maintain those rites and beliefs.

Well, few things concern more a human's existence than their livelihood, how it is they go about earning their dollars to purchase the food needed to eat to survive. Along with this shared concern comes a shared valuation of the righteous ways one can go about making their livelihood; and usually there exists a correlation between the level of compensation one receives for the expenditure of their lives and the perceptions related to that profession. Moreover, we find in our society the existence of a "group organized to heighten that awareness and to teach and maintain those rites and beliefs"—that is, the

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central banks (33). Therefore, we find in this definition of religion once again a relation to the modern central bank.

Alas, it would appear our modern central banks walk, talk, and look like the proverbial duck. Hence it would appear that central banks are indeed religious institutions. But what are we to do with this conclusion?

Conclusion and Closing Remarks

In summary, central banks have been mandated to create inflation. There are two ways to do this: through a mechanical process of creating credit in the real economy; or through producing fervor in the animal spirits of marketplace participants. Because central banks are mechanically unable to create credit in the real economy, they have become matadors to provoke the animal spirits of the population. In donning their roles as matadors of animal spirits, the central banks have been required to take up the qualities of religious institutions to achieve their mandates. In becoming religious institutions central banks have become further stratified from the economies they were once meant to serve. Once answerable to democratic parliaments, independent central banks are now the *rule d'jour* of a modern neo-liberal economy.

Richard Fisher, former President and CEO of the Federal Reserve Bank of Dallas, had this to say to his fellow central bankers at a FOMC (Federal Open Markets Committee) meeting:

> If the members of the FOMC could manage to get themselves to once again be thought of as humble, competent people on the level of dentists, that would be splendid. I would argue that the time to reassume a more humble central banker persona is upon us. (Booth 234)

I fully agree with Fisher. Our central banks should not be changing into religious institutions to affect the moods of mere market mortals in order to bring about their mandates. It is time to remove the central bank from the pedestal of the mythic and return it to the realm of the desanctified. It is time for the matador to put down his red flag and let the bull go be a bull.

Notes

1. In bullfighting, the matadors wear the *traje de luces*, or "suit of lights," consisting of a short jacket, a waistcoat, and knee-length skintight trousers of silk and satin, richly beaded and embroidered in gold, silver, or coloured silk (Britannica Definitions).
2. 1 Guilder in 1630 is equivalent to roughly $167 current Canadian dollars.
3. This is explainable by the supply and demand dynamics of currencies, if more fiat currency is "printed," the supply grows, thus moving its marginal value down the demand side of the graph.
4. Board of Governors of the Federal Reserve System (US), 10-Year Treasury

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