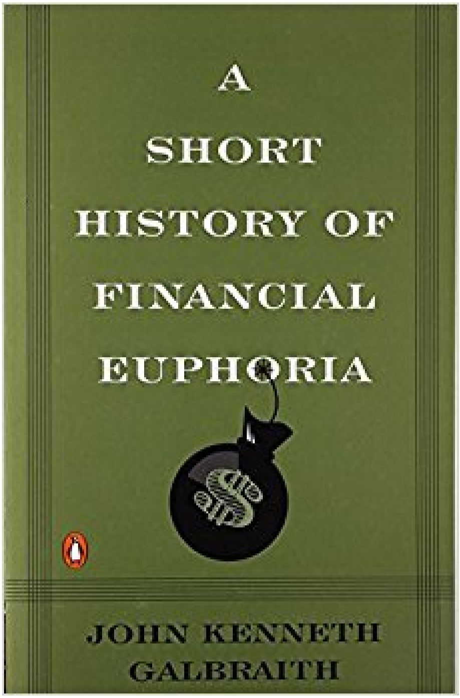
A Short History Of Financial Euphoria (Penguin Business)



Synopsis

The world-renowned economist offers "dourly irreverent analyses of financial debacle from the tulip craze of the seventeenth century to the recent plague of junk bonds."—The Atlantic.

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Customer Reviews

The renowned Harvard economist examines reckless speculative episodes in American financial history. Copyright 1994 Reed Business Information, Inc.

No matter what your political leanings or economic beliefs might be, there is no denying that Galbraith is a brilliant writer. In this humorous and thoughtful book, he traces the investor "herd" mentality from Tulipomania, which gripped Holland in the 1630s, through a variety of events and up through the 1987 stock market debacle--which he accurately predicted. Galbraith analyzes the crashes that resulted from these speculative episodes, and he points out that the "mass escape from sanity by people in pursuit of profit," which, in his opinion, is always the cause, is never blamed. A truly excellent book, this is highly recommended.- C. Christopher Pavek, Putnam, Hayes & Bartlett, Inc. Information Ctr., Washington, D.C.Copyright 1993 Reed Business Information, Inc. --This text refers to the Hardcover edition.

A Short History of Financial EuphoriaJohn Kenneth GalbraithBook ReviewBy Richard E. NobleThis book is indeed a "short" history of Financial Euphoria. I would have liked a much longer and more detailed history by Mr. Galbraith.In a previous book, "The Great Crash 1929," much of what is in this book has already been expressed. In fact, I think most of this work was excerpted directly from the "The Great Crash" verbatim.The advantages of this little book are that all these cases of speculative mania and fraud are lumped together in this one volume with updated commentary and some modern day comparisons. The author covers these type incidences up to the crash of 1987 in the later part of the Reagan administration.The author makes the point that all of these mania, panics or crashes have similar components. They are all based on speculation and leveraging.The mania is attributed to basic insanity and the misguided notion that because someone is rich he must therefore be wise."In the first forward to this volume, I told of my hope that business executives, the inhabitants of the financial world and the citizens of speculative mood, tendency or temptation might be reminded of the way that not only fools but quite a lot of other people are recurrently separated from their money in the moment of speculative euphoria. I am less certain than when I then wrote of the social and personal value of such a warning. Recurrent speculative insanity and the associated financial depravation and larger devastation are, I am persuaded, inherent in the system. Perhaps it is better that this be recognized and accepted."There are two types of speculators who invariably get involved in these troublesome episodes or "bubbles.""There are those who are persuaded that some new price-enhancing circumstance is in control, and they expect the market to stay up and go up, perhaps indefinitely. It is adjusting to a new situation, a new world of greatly, even infinitely increasing returns and resulting values. Then there are those, superficially more astute and generally fewer in number, who perceive or believe themselves to perceive the speculative mood of the moment. They are in to ride the upward wave; their particular genius, they are convinced, will allow them to get out before the speculation runs its course. They will get the maximum reward from the increase as it continues; they will be out before the eventual fall."He points out that warnings about the temperamental nature of the present boom are never heeded and those who offer them are looked upon with derision."In the winter of 1929, Paul M. Warburg, the most respected banker of his time and one of the founding parents of the Federal Reserve System spoke critically of the then current orgy ... and said that if it continued, there would ultimately be a disastrous collapse ... He was held to be obsolete in his views, `he was sandbagging American prosperity.'"This danger of speaking out against the speculative orgy as it is taking place often makes the bearer of such tidings the accused when the bubble finally bursts. It is a lose/lose situation in Mr. Galbraith's estimation. Yet he points out that he did the same himself in 1986 ... to no avail and much acrimony.So the speculative bubbles come and go and are endemic to the capitalistic system according to the Professor. He also suggests that they are cyclical. They reoccur every twenty or thirty years. They are directly proportional to the amount of time necessary for the previous fiasco to be forgotten and a new generation of semi-educated fools take their positions in the financial community."The circumstances that induce the current lapses into financial dementia have not changed in any truly operative fashion since the Tulipomania of 1636-1637. Individuals and institutions are captured by the wondrous satisfaction from accruing wealth. The associated illusion of insight is protected, in turn, by the oft noted public impression that intelligence, one's own and that of others, marches in close step with the possession of money..."The mistaken notion that since a person is rich he must be intelligent is emphasized over and over throughout the short text.So what is Mr. Galbraith's solution?"The only remedy, in fact, is an enhanced skepticism that would resolutely associate intelligence with the acquisition, the deployment, or, for that matter, the administration of large sums of money ... there is the possibility, even the likelihood, of self-approving and extravagantly error-prone behavior on the part of those closely associated with money ... a further rule is that when a mood of excitement pervades a market or surrounds an investment prospect, when there is a claim of unique opportunity based on special foresight, all sensible people should circle the wagons; it is the time for caution ... Yet beyond a better perception of the speculative tendency and process itself, there probably is not a great deal that can be done. Regulation outlawing financial incredulity or mass euphoria is not a practical possibility."This conclusion I find very interesting and extremely disappointing. After all his great insight and explanation of the circumstances precipitating these speculative fiascos he closes with: Regulation outlawing financial incredulity or mass euphoria is not a practical possibility.This conclusion appears somewhat demented also. Mr. Galbraith, it appears, has completely forgotten that in most of these cases a crime was committed and that the euphoria involved was not inclusive of the masses, as he states, but of a select group of people within the masses reigning in the financial community.The Tulipomania is rather unique. It seems to be the perfect example of innocent mass insanity. But most of the other cases involve crime and criminal personalities not simply a massive delusion. There was swamp land in the 20's in Florida involving everyone's favorite con-man, Charles Ponzi. There were gold mines that didn't exist and were never worked or mined. There were worthless stocks and bonds and real criminals involved in the various scams.During the course of the book the author mentions that some of these individuals were punished with prison sentences or ostracized, and "justifiably so" says he.Instead of fraud he now seems to be defining the criminal behavior involved in each of these scandals as "inciting financial incredulity or mass euphoria" which, I agree, would be difficult to prosecute.Where is his outrage for the crimes and criminals involved?I find it interesting to note that if a man robs a corner store with a gun and steals one hundred dollars, he will most likely end up in prison. The man or the men who rob millions of innocent people of their assets through fraud and other criminal shenanigans are given an indifferent shrug by Mr. Galbraith. "Oh dear, what to do?" seems to be the gist of it.In our last scandal that nearly collapsed the economy of the entire world we clearly had criminal fraud, falsifying of documents, false testimony, false accounting procedures and figures and basic embezzlement.Most of us were victims yet not participants in the speculative mass euphoria - just as in 1929 and in other of these big financial calamities.We bought nothing and sold nothing. Yet when the final tabulations were given we lost tens of thousands, and some of us hundreds of thousands on our home equity and life savings. Our retirement pensions were looted.A property that was estimated before the euphoria at $125,000 may now be estimated at $50,000 or less.Because of the indulgences of the speculative euphoria in the financial and real estate sector we are all made to suffer and pay dearly. And the bandits are not even being pursued by a posse.It seems that this was the mindset of those involved. They knew they were acting criminally but made the calculation that as long as the majority in their industry participated in the crime, they would be in effect "too many to be prosecuted."It now appears that they were correct. We have an obvious case here of "Crime and No Punishment."This indicates to me that this criminal behavior is far from over. The thief who is successful in his thievery is encouraged to rob again. The next massive robbery seems to me to be just a matter of time and manipulation.At the beginning of this review I pointed out that Mr. Galbraith suggested that all of this business is inherent in the capitalist system - it is not only systemic but endemic. And now we find that it is also incurable and beyond regulation and justice.So then we are to sit back and periodically - every twenty years or so - let our wealthier sector rob us of all or part of whatever it is we thought to be our little nest egg or share in this great society. Crime on the part of certain groups among us is inevitable and any type of preventative attempt on the part of us or society is futile.If that is the reality of the capitalistic system, then maybe it is time to take a closer look at this capitalist system.This is like saying: Men will rape women. So girls, ready yourselves for the event and get used to it.This is very poor logic coming from a very intelligent man.I need a better solution than what the good Professor is offering here.Unfortunately, Mr. Galbraith died before this last economic disaster. I wish he lived to tell us his thoughts on this situation.Richard Edward Noble is a writer and author of: "Bloggin’ Be My Life."

I chose to read the book since it was so short despite the topic. I also appreciated the age of the book to see how the author’s views hold after some time has passed since publishing it. And certainly those do hold. I enjoyed the insightful and entertaining history of speculation and financial crises and how the author well identified the underlying fallacies boosting speculation. If only we all would remember these learnings during "good" economic times. History repeats itself since people don’t change so much.If you are interested in the topic, but not certain do you want to read a brick-sized book about it, A Short History of Financial Euphoria is for you. Recommended.

Money makes people stupid, but other people assume the possession of money means the pessessors are smart. There’s a good deal of evidence for this proposition, which is repeated over and over in this essay, but in "A Short History of Financial Euphoria," John Galbraith was not interested in providing evidence. (You can find plenty in Edward Chancellor’s "Devil Take the Hindmost.") Galbraith was just jeering.Jeering is a worthy exercise, especially if the targets are the morons who run American and world finance. Galbraith has much fun tweaking the self-described geniuses (at Citibank, especially) for taking the deposits of the Arab sheiks after the oil shocks and handing them over to the deadbeats of Latin America. Even when he wrote this long essay, in 1990, most people had forgotten that.The bankers certainly had, since they soon repeated it.We are always being told that business should be given its head, but Galbraith is not too impressed. In his view (matched by my own experience as a news reporter covering business), most managers are more or less incompetent or stupid, and success in business is mostly a matter of luck.The underlying message of "A Short History" is unsupervised markets fail.Galbraith notes that when markets do fail, there is always a circling of the wagons to protect the myth of the market and to lay the blame on some exogenous event. This sometimes goes to absurd lengths. After the ’29 crash, exculpators tried to say that it was foretold by a mild dip in industrial production in the summer; and more recently rightwing and free-market publicists have settled on blaming the Federal Reserve for a slight increase in the discount rate, avowedly meant to curb speculation, that year.The culprit, says Galbraith, is always speculation leading to insanity. Further, he asserts that it is a feature, not a bug; it’s built in and there’s nothing that can be done about it.This is too pessimistic. Obviously, something can be done, since there were no crashes between the imposition of New Deal measures in the mid-’30s and 1987, shortly after the abandonment of New Deal circuitbreaker measures (either legally or in regulatory practice). In all the rest of American financial history, before and since, crashes have come every 20 years, which Galbraith ascribes to the forgetting time. Also, the passage of a couple of decades provides for the incursion of a new flock of ignorant fools who discover leverage and are persuaded that not only is it the way to easy riches, but that nobody ever thought of it before.My experience of 40 years watching businesses confirms all this.Another thing Galbraith and I agree about is the mystery of bubbles. History - he starts with the Tulipomania of

1736 - shows that anything can be bubblized. But what prevents some high-valued asset - think Picasso daubs - from bubblizing? Neither Galbraith nor I can say.While I find Galbraith amusing, a little goes a long way. Even the little in this volume is more than enough for me.Galbraith wrote this little book in 1990, which allowed him much fun at the expense of Michael Milken and Donald Trump. This demonstrates, I suppose, that even market skeptics are unable to predict the future. Trump is still with us.About the time Galbraith wrote, Salomon Brothers (remember them?) predicted that the overbuilding caused by the savings and loan bubble had left New York City with so much empty office space that it would not be absorbed for 46 years. Forty-six months was more like it, at the cost of, since then, three more crashes.I wouldn't care if only the plungers got hurt.

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