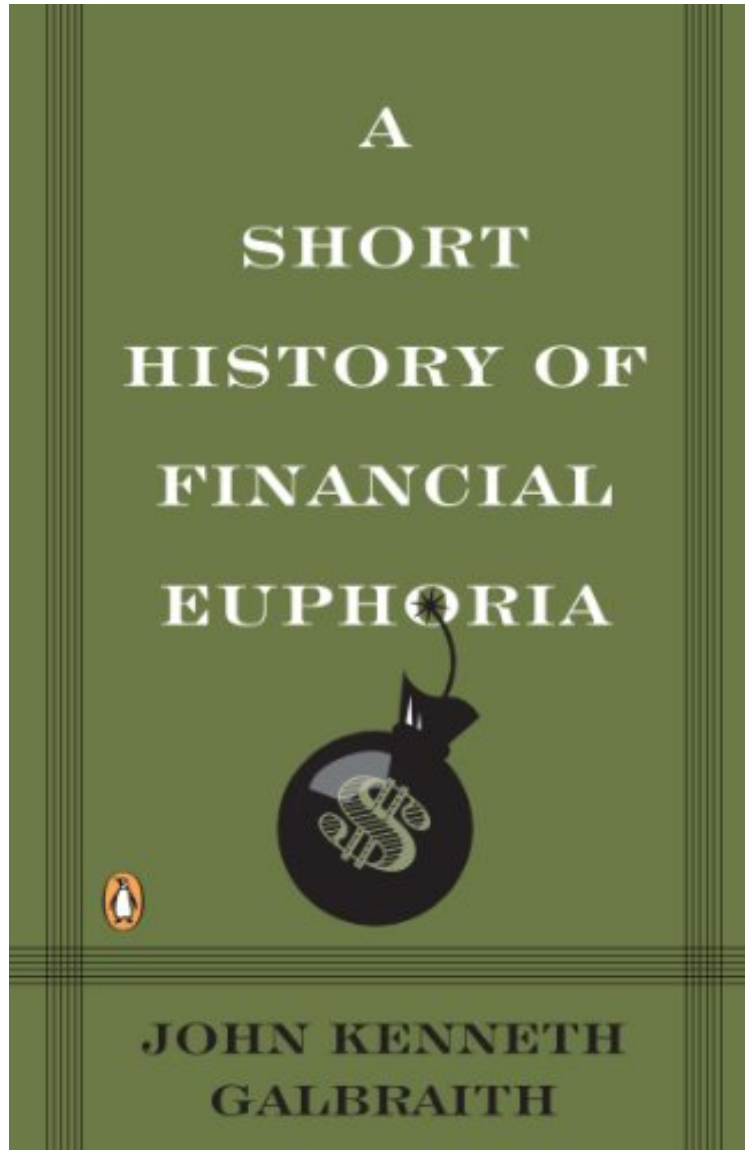


(Download) A Short History of Financial Euphoria (Penguin business)

## A Short History of Financial Euphoria (Penguin business)

*John Kenneth Galbraith*

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**John Kenneth Galbraith : A Short History of Financial Euphoria (Penguin business)** before purchasing it in order to gauge whether or not it would be worth my time, and all praised A Short History of Financial Euphoria (Penguin business):

3 of 3 people found the following review helpful. The Hobo Philosopher By Richard E. Noble A Short History of Financial Euphoria John Kenneth Galbraith Book Review By Richard E. Noble This 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 deprivation 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." 16 of 17 people found the following review helpful. Delicious Little Book on the Idiocy of the Get-Rich-Quick Mindset! By Odysseus Galbraith's wonderful little book (Only 110 pages) is a quick guided tour -- with pithy analysis interspersed throughout -- of get-rich-quick movements, and, more importantly, the foolish thinking BEHIND such phenomena. Galbraith takes the reader on brief tours of some of the more notorious financial booms-gone-bad, such as the "Tulip Craze" in Holland and the Banque Royale bust in France in the 1600's, the South Seas "Bubble" of the 1700's, and, more importantly, the numerous episodes throughout American financial history, from Colonial times through the busts of 1819, 1837, 1857, 1873, 1907, 1929 -- and 1987 (Galbraith's book was first published in 1990 -- ten years before the dot-com bust....). The source of these rush-to-riches-gone-sour, argues Galbraith, rests on several ever-consistent, historically re-occurring causes: First, the quest for leverage (i.e. generating more funds than having the means to actually support them) and lavish debt spending; Second, the pathological, recurrent inability of the financial world to learn from the past; Third, the silly notion that the possession of wealth is directly equal to a person's intelligence (Wealthy individuals, contends Galbraith, are not rich because of brains, but more often through chance and circumstance -- a fact the public ignores at their own peril); Fourth, the incessant human desire to become affluent by the easiest means possible; Fifth, the 'religious' quality Americans consistently perscribe to "the market," i.e. that free enterprise is 'perfect' -- Corruption, loss, and falling markets are due only to "outside forces" (Like 'evil CEO's' or 'government intervention') -- rather than the public's endless supply of gullibility, culpability, and simple greed. The financial world, Galbraith brilliantly contends, is rooted in a quasi-theological outlook: Successful Wall Street moguls are treated as divine shamans; dogmatic faith in the latest financial hoopla is considered a virtue; critics are readily condemned as heretics; and once the bubble bursts, there exists a curious religious playing-out of "Sin-Fall-Guilt-Punishment," whereby the men who we once revered as financial geniuses are quickly strung-up in the court of public opinion -- sacrificial lambs for the public's own short-sightedness. Galbraith warns his readers that money-making innovations in the world of finance are simply worn-out re-workings of very, very old schemes. New bubbles emerge under new guises and fanciful terminology -- but the game remains forever the same. Once one crisis has passed, a new financial rush soon emerges, and the vicious cycle of irrationality and idiocy (Galbraith's terms) begin again. In the end, Galbraith warns his readers to be very wary of those who promise you easy wealth, and should you jump on the latest money-making bandwagon -- and most likely end up losing in the end -- don't blame anyone or anything except.....YOURSELF. Excellent book!! 0 of 0 people found the following review helpful. A definitive book for finance professionals By Roman Sulzhyk A definitive study of bubbles. Must read for anyone interested in financial markets. Our generation has already experienced dotcom, derivatives and now crypto bubbles - this book helps give these historical perspective. My professor at NYU recommended it during an MBA course and it turned out to be one of the best books I've ever read. Writing this review to express my gratitude to both my professor and late Mr. Galbraith.

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."mdash;The Atlantic.

From Publishers Weekly Galbraith's entertaining, wonderfully instructive cautionary essay should be required reading for investors. His focus is "recurrent lapses into financial dementia," reckless speculative episodes fueled by greed,

euphoria and investors' delusion that their temporary good fortune is due to their own superior financial acumen. The renowned Harvard economist chronicles a series of "flights into mass insanity," from wild speculation in tulip bulbs in 17th-century Holland through the U.S. stock market crash of 1929, the 1980s mergers-and-acquisitions mania and the savings and loan scandal. Comparing these crises, he finds recurring common features, such as evasion of hard realities, new financial instruments presumed to be of stunning novelty and debt that became dangerously out of scale in relation to the underlying means of payment. His proposed remedy is "enhanced skepticism" on the part of investors and the public. Copyright 1993 Reed Business Information, Inc. From Library Journal 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 Pavsek, Putnam, Hayes Bartlett, Inc. Information Ctr., Washington, D.C. Copyright 1993 Reed Business Information, Inc. About the Author John Kenneth Galbraith was born in 1908 in Ontario, Canada. He earned a PhD at the University of California in 1934 and later took a fellowship at Cambridge, where he first encountered Keynesian economics. At different points in his life he taught at both Harvard and Princeton, and wrote more than forty books on an array of economic topics. During World War II he served as deputy head of the Office of Price Administration, charged with preventing inflation from crippling the war efforts, and also served as the US Ambassador to India during the Kennedy administration. He passed away in 2006.