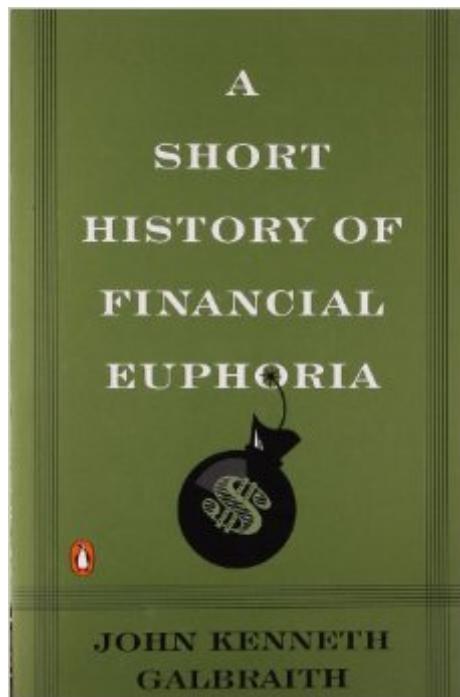


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A Short History Of Financial Euphoria (Penguin Business)



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."¹⁵¹ The Atlantic.

Book Information

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Customer Reviews

IN THIS SMALL but witty and well-crafted book, Galbraith chronicles the major speculative episodes, from the seventeenth-century tulipmania to the junk-bond follies of the eighties. The book was first published in 1990 and thus the recent dotcom-bubble burst is not covered. Nevertheless, the Harvard professor's book is still worth reading. A reason is that he claims to have identified common patterns in the history of financial euphoria. 'In small ways the history of the great speculative boom and its aftermath does change. Much, much more remains the same', he predicts. The perennial features are these. Some seemingly new and desirable artifact or development captures the financial imagination of a large number of people (say, group 1). The arrival of tulips in Western Europe, gold in Louisiana, the advent of joint-stock companies (corporations), real estate in Florida, or the economic designs of Reagan are all examples. The price of the object of speculation goes up. The object when bought today is worth more tomorrow. This attracts new buyers and assures a further price increase. Those in group 1 are persuaded that the new price-enhancing circumstance is under control, and expect the market to stay up and go up, perhaps indefinitely. The individual or institution that discovered the novelty (in group 2) is thought to be ahead of the mob. Fewer in number, individuals of group 2 perceive the speculative mood of the

moment, try to get the maximum reward from the increase as it continues, and plan to be out before the eventual crash. The affluence of group 2 is wrongly associated, by group 1, with a miraculous financial genius. When something triggers the ultimate reversal, group 2 decides now is time to get out. Group 1 finds its illusion abruptly destroyed.

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 persons' 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 prescribe 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.

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