



A Short History of Financial Euphoria

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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*.

A Short History of Financial Euphoria Details

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Author : John Kenneth Galbraith

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From Reader Review A Short History of Financial Euphoria for online ebook

Joyce Zhang says

Read this for my history extension essay and the blatant doneness gradually ceases to be subtle toward the end and that was my favourite part. I could almost hear the *sigh* emanating from its pages.

On a separate but related note. All economists I've read so far have sounded so, so annoyed?

Ross says

Bit unfair to rational choice theory, but it was a different time perhaps. It is interesting to note that Galbraith places the blame for speculative mania quite purely within crowd psychology rather than more institutional effects like easy credit, etc. Hope is an unbacked asset, and people get silly. Oh, and thought his discussion of the first two American central banks, regional politics, and the wildcat banks were quite interesting, but everything discussed is generally in passing; it is a short history after all, and basically just a long essay.

Juan Hidalgo says

Un interesantísimo libro que ayuda a comprender los entresijos y funcionamiento de los mercados, que invita a pensar y a ser precavido con tus inversiones.

Lainie says

This is not my usual style of book. My accountant husband urged me to read it (after I failed to read another book of Galbraith's--The Great Crash, I believe it was). This book was short and a fast-paced read, essential if I'm going to read some non-fiction book about financial matters.

I flew through this book and it was a big eye-opener. I knew some of the history included but Galbraith lays out the similarities of various economic crises to show how (clichéd though it may sound) history repeats itself. It was of course an extremely timely read considering recent financial upheavals, though it was published in the early '90s.

I recommend this book if you want some insight into how greed and hubris affects markets again and again.

Roger says

Most recently updated 1993. Scary. Could have been written in July 2009. Brilliantly executed descriptions

of euphorias(ae?) of the past.

Only short-coming is that it's very short on the prescriptive. Ends with a bit shrug of the shoulders.

Ravi Abhyankar says

Galbraith, John. A short history of financial euphoria, Whittle books (Viking), Viking Penguin, New York, 1993. Hardcover, 113 pages.

Rating: 7/10

Following a series of extraordinarily bad fiction books, it was a delight to turn to Galbraith, whom I had not read since my college days. A short history of financial euphoria can be read in two hours, it offers amusement as well as utility.

All of us regularly come across people who believe in earning 20-100% on stock markets, who genuinely believe the markets can go up for ever, glued to the business TV channels they are convinced of their financial wizardry, they have discovered singular mechanisms to outwit the market and make money. Galbraith in one sentence describes those people: "Financial genius is before the fall."

This book presents, in a story form, the "bubble" episodes of the past three hundred years, starting with Tulipomania, an irrational craze in Western Europe to invest in Tulip bulbs. This is followed by Britain's South Sea bubble, and the 18th century obsession with joint stock companies (which continues till today). The meaning of leverage can be truly understood on reading this book.

Financial memory is short and doesn't last for more than twenty years. Greed is an overpowering emotion as compared to caution. Galbraith's book warns us with historical evidence that the bubbles, the pyramid schemes and the scheming crooks on one hand and the gullible financial wizards have existed for more than three centuries. Euphoria is inevitably followed by bust, disgrace, even exile or suicide.

Verdict: If you believe you can make huge money in markets, you must read this book to temper your optimism.

Hariharan Rangunathan says

From Tulipomania to the 1987 crash Galbraith shares the common themes of the various financial boom and bust cycles. A very short 100 page read but definitely some great negative history we must be aware and changes your view of financial markets.

Ferhan Siddiqui says

A quick and informative (if not oversimplified) essay highlighting key moments of speculation in financial history and their inevitable reoccurrence brought on by short term memory and extreme optimism. Definitely worth picking up.

"Those who forget the past are destined to repeat it"

Daniel Clausen says

This is the second book I've read in a short time about financial manias, and it's an important one. The book was written in the early 90s at a time when the junk bond bubble had collapsed.

The book is short, simple, and intelligent. It also comes from a sensible left-of-center perspective that I feel is both wise and sadly lacking into today's landscape. I don't know everything about Mr. Galbraith's financial view, but he seems Neo-Keynesian.

The central arguments of the book are these:

- 1) The common (and especially American) tendency to associate intelligence with great wealth is often specious -- great wealth (but not moderate wealth) is probably more closely associated with luck and cheating. (See authors such as Nassim Nicholas Taleb for more on this subject).
- 2) The financial memory is short...typically financial catastrophes and their causes are forgotten in about 20 years, if not sooner.
- 3) There are no such things as really new financial innovations. When a financial innovation is new it usually means that a hype machine is forming and that a bubble is inflating.
- 4) Financial hype is addictive and can even absorb smart people.

I probably liked this book better than "The Ascent of Money" because of the coherence of its themes and how relevant they are for today. At about 100 pages, it is a book that even high schoolers could read and benefit from.

The references to Mr. Donald Trump will also seem prescient -- in 1990, Mr. Galbraith was writing about Trump as a failed businessman backed by bankers who should have known better; 20 years later, he is now a politician run amok backed by voters who should have know better.

Mr. Galbraith was right to predict that 20 years was all it took to forget...

If we're looking for the source of the next financial catastrophe, then look no further than -- the public endorsement of bullshit artists, partisanship, a growing national debt, frivolous tax cuts, frivolous tariffs, fiscal easing without end, and an abandonment of science.

I would also add an abandonment of the idea of safety nets, both the political left version that includes government support for the vulnerable and the political right version that involves a deep caring for the people in our community. I'm not sure Mr. Galbraith would agree with me here, but I think he would.

Mr. Galbraith, where is your simple, coherent wisdom when we need it most?

Francisco says

Exceptional

The author provides an easy to understand explanation of some of history's most memorable bubble bursts. Something that must always be on the mind of the enterprising investor if he wishes to succeed.

Tirath says

A simple, concise book on the euphoria of crowds.

And everytime it's the same thing - euphoria based on a mutated new event/ reality.

And the crowd catches the fever.

Wonder what this book would have said about the IT bubble

And about the Great Recession

This is a book to go to everytime prices or emotions become a little heady.

Francisco says

Short and sweet, witty, humorous, and yet informative. Galbraith shares his characterization of episodes of speculation, then gives the account of a dozen such episodes, from Holland's tulip mania to the crash of October 1987.

Some key ideas:

- a) The average person believes that people of great wealth (or who manage great wealth) are rich because of their superior intellect. When the average person becomes richer during an euphoria, he also tends to believe that the new riches are the product of his superior insight or intuition.
- b) Euphorias end at an unpredictable time, and always in a crash, never gently.
- c) Euphorias coincide with the rise of a presumed financial innovation that partly justifies the rising prices and valuations. Very few, however, true innovations ever occur, and most of these apparent innovations involve the creation of debt.
- d) Crashes are followed by anger and recrimination and scapegoating. The analysis of the crash seldom places any blame on the stupidity and greed and gullibility of the people who drove the bubble, for two reasons. First, it runs counter to the presumption that wealth is associated with intelligence. Second, the market is supposed to be always right.
- e) Besides educating people about their behavioral tendencies and the euphoria process, there's not much we can do. More regulation is not necessarily the solution.

Galbraith's essay pales in comparison with the exhaustiveness of, for instance, Kindleberger's history of panics, and it's not a substitute for those more extensive books. But it's much better written and digestible than those longer treatments, and so it's more likely that lay readers read it through.

Great quotes:

pp. 98-99:

"The aftermath of 1987 debacle saw an especially notable exercise in evasion even by the formidable

standards of the past. The first response came from a convocation of former Secretaries of the Treasury, professional public spokesmen, and chief executive officers of major corporations. They joined in sponsoring a 'New York Times' advertisement attributing the crash to the deficit in the budget of the federal government. This deficit had already persisted in what was considered by fiscal conservatives an alarming magnitude for the preceding six years of the Reagan administration. **But then, on that terrible October morning, realization was thought to have dawned. The financial markets suddenly became aware.**"

John says

Galbraith's reputation as an economist isn't what it once was. There are few takers these days for tomes such as American Capitalism, The New Industrial State, or Economics and the Public Purpose, although The Affluent Society retains a readership. But as a writer of popular, accessible economics, he is, in my view, up there with Bastiat. His The Great Crash of 1929 is an excellent bit of descriptive writing and this short book is another riff on its themes.

Are the causes of economic events such as assets bubbles and busts endogenous - originating within the economic system, such as central bank action or new innovations - or exogenous - originating outside it, such as natural disasters? Galbraith comes down very firmly for the latter, rooting his explanation entirely in group psychology. For the same reasons I didn't much like Animal Spirits, I find the total reliance on group psychology unsatisfactory. In the most recent boom and bust, that of sub prime mortgages and their derivatives, there were plenty of endogenous factors which cannot be ignored.

But Galbraith makes some good points. His focus on the repeated presence of leverage in these events is interesting and it is a shame that space does not allow for a more systematic analysis. Also, Galbraith is entirely right to castigate the quest for 'the' person to blame after the bust. For all the fuss about bankers since 2008, little popular flak has been directed at central bankers.

Laura (Kyahgirl) says

This book was referenced several times in "Juggling Dynamite" so I thought I'd check it out. Galbraith's style reminds me of the intellectuals I was always tripping over at the University but he's quite readable. In fact, the book is pretty funny in a sarcastic, cutting kind of way.

Galbraith reviews the aspects of human nature and the economy that allow us to constantly go into boom and bust cycles. He starts around the time of "Tulipomania" in the 1600s and goes right up through the 20th century with examples of euphoric times and their inevitable disasterous endings.

Definitely worth reading if you're educating yourself in the ways of finance.

Chuck says

Déjà vu all over again. That seems to be the pattern of financial boom and bust. In this slender volume, John Kenneth Galbraith selectively traces episodes of speculative excess from the Tulipomania of the mid-17th century through the Crash of '87. Why don't we ever learn? Galbraith identifies several reasons. First, collective memories of financial debacles tend to be very short; therefore, each new generation of financial

"wizards" can effectively start over with a blank slate. Second, each wave of new financial instruments is billed as unprecedented and novel (and therefore exempt from the failings of earlier ones) although in fact they are nothing but recycled ideas in new clothes. Third, people wrongly tend to equate money with intelligence: If Investor X is making all that money, he must be especially wise. Fourth, when a crash comes, the explanation tends to be located in handy scapegoats (e.g., unregulated financial institutions, corruption, insider trading) rather than in greed and speculation which are inherent to market cycles.

Although first published in 1990, this elegant little book could have been written yesterday. It doubtless won't prevent the next economic downturn, just as it failed to prevent the last one, but we can't say that no warnings have been available.
