

## NOTHING NEW UNDER THE SUN

I've been reading—not for the first time—Charles Mackay's lively book *Extraordinary Popular Delusions and the Madness of Crowds*, which I've owned for many years and which I browse through every time some episode of financial madness goes whirling across the landscape. I remember studying it very closely in 1968, when we had a lively little stock-market bubble involving companies whose names ended in “-onics,” and again in the early 1980s when our banks were gleefully lending billions of dollars to unstable Latin American dictatorships, and later that decade when the savings-and-loan companies were running wild, and again in the late 1990s when the Internet-stock boom transfixed the world with dreams of instant billions. And, of course, I gave it another run-through over the past year or two after the implosion of the subprime-mortgage fantasia and the associated collapse of all credit-related dreams.

Mackay was a Scottish lawyer and journalist with a vigorous, pungent literary style, and his book, first published in 1841 and revised and expanded eleven years later, remains entertaining and exceedingly readable more than a century and a half later. It has never gone out of print, and is available today in a variety of editions, including a free Internet version. My copy of it is the thirteenth printing of a reprint that was issued in 1932, a year which, some of you may recall, saw the global economy in a very deep doldrum indeed after the speculative excesses of the go-go 1920s.

My 1932 edition carries a foreword by Bernard Baruch, a shrewd old financier now, alas, largely forgotten, who made millions (at a time when a million dollars was a serious amount of money) by betting against the instincts of the crowds. “All economic movements, by their nature,” Baruch writes, “are motivated by crowd

psychology,” and he goes on to quote the German poet Schiller to the effect that “anyone taken as an individual is tolerably sensible and reasonable—as a member of a crowd he at once becomes a blockhead.” And in the conclusion of his preface he notes, “I have always thought that if, in the lamentable era of the ‘New Economics,’ culminating in 1929, even in the very presence of dizzily spiraling stock prices, we had all continuously repeated, ‘two and two make four,’ much of the evil might have been avoided.”

Charles Mackay was born a century too soon to have written about the great stock-market crash of 1929, and two centuries too early to have known about the Internet mania of seventy years later, but he had no shortage of other material to discuss, as the 724-page bulk of his book demonstrates. In those 724 pages he covers many of the great herd-driven delusions of history: the Dutch tulip mania, the Crusades, the witch-hunts of the middle ages, the belief in ghosts, in alchemy, and in the healing powers of magnetism, and ever so much more. Of course he deals with financial fantasies, too—in particular the Mississippi Company scheme that nearly wrecked the French economy in 1720, and the South Sea Bubble that did the same for England at about the same time.

Perhaps I should remind you, first, of what went on during our own Internet bubble of about a decade ago, for, as both Charles Mackay and Bernard Baruch take pains to remind us, we forget nothing so quickly as the financial follies of the past, and thus are always ripe for repeating them. The Internet, of course, has completely transformed the world since it exploded into our midst in the 1990s. It is hard now for most of us to imagine life without e-mail, without Google, without amazon.com, without Wikipedia, without eBay, without the myriad apps of our

smartphones. As the new medium took form, a swarm of new companies sprang up to meet its needs, and some very clever entrepreneurs made a great many billions of dollars thereby. But not every Internet startup turned out as well as amazon.com or eBay, and more than a few billions of dollars were lost by ill-advised speculation in the companies that didn't make it.

There was Webvan, for instance. Order your groceries on line, have them conveniently delivered to your door. Ideal for those snowy days, right? It raised \$375 million from investors in 1999; before long its stock value was \$1.2 billion; it expanded from one city to eight, and was aiming for eighteen more when it discovered that there really wasn't much profit to be made in selling groceries that way. By July 2001 it was bankrupt, two thousand employees were out of work, and the investors had lost every dime.

Or Boo.com, an online fashion store whose site was terribly slow to load. In six months it went through \$188 million of its investors' money before going broke in May of 2000. Another casualty of that year was Kibu.com, an on-line community for teenage girls, that lasted just 46 days before it ran short of money. August 2001 saw the demise of Flooz.com, which was supposed to provide an alternative to credit cards. You bought on-line currency called "flooz"—the Internet has always been big on baby-talk terminology—and could spend it at various retail outlets. Nobody saw any point to the use of flooz, and the collapse of the company in 2001 took out \$35 million of stockholder money. Freeinternet.com, unsurprisingly, found that free Internet service did not generate much in the way of earnings, despite having 3.2 million users, and it, too, went broke. So did dozens of other companies, some of whose stockholders were briefly billionaires before their stock plunged to zero while they held on too long. A billion dollars is a terrible thing to waste.

When we turn to Mackay's account of the South Sea Bubble, a scheme that was

supposed to pay off the British national debt, expand British commerce with Latin America by exchanging British cotton and wool for South American silver and Mexican gold, pay huge dividends to stockholders, and otherwise enrich the nation, we see one of the earliest versions of a Ponzi scheme (and how much fun Mackay would have had with Ponzi himself, or his later incarnation, Bernard Madoff!) Through a cunning public-relations program, the directors of the South Sea Company kept stirring excitement in the stock of their corporation in the London press and selling more shares to an eager populace, using the proceeds to finance the projects in hand and as collateral for ever-growing bank loans. South Sea stock rose from 130 to 300, 340, 550, 890. Dukes and princes and cabinet ministers were known to be stockholders. People clamored to buy in. "During the progress of this famous bubble, England presented a singular spectacle," Mackay tells us. "The public mind was in a state of unwholesome fermentation. Men were no longer satisfied with the slow but sure profits of cautious industry. The hope of boundless wealth for the morrow made them heedless and extravagant for today."

The inevitable collapse came when the shrewdest investors, aware that the bubble could not be inflated indefinitely, began to sell their stock, and others, belatedly catching wise, took their profits also, and then their losses, as the stock dropped swiftly back to 135. Plainly some sort of stock manipulation had taken place, and angry bilked investors demanded and got a parliamentary investigation and vengeance upon the company directors who had brought the country to the brink of ruin.

"Nobody blamed the credulity and avarice of the people," Mackay writes, "the degrading lust of gain, which had swallowed up every nobler quality in the national character, or the infatuation which had made the multitude run their heads with such frantic eagerness into the net held out for them by scheming projectors. These things were never men-

tioned. The people were a simple, honest, hard-working people, ruined by a gang of robbers, who were to be hanged, drawn, and quartered without mercy.”

Does any of this sound familiar? Does it remind anyone of the current populist anger that calls for Congress to punish the evil bankers and corporate executives who stole all our money in the 2008 economic crash? One member of Parliament suggested that the company directors be tied in sacks and thrown into the Thames to drown. Others urged remedies nearly as drastic, especially when it was revealed that criminal acts really had been involved in the speculative mania: false entries on the company books, the sale of fictitious stock, the gift of shares to influential politicians and even the king’s two mistresses, and so on. Ultimately no one was thrown into the river, but the investigation did end in severe fines for the company directors and the destruction of some political careers.

Another consequence of the South Sea Company debacle was a parliamentary act dissolving nearly a hundred other shady corporations that had sprung up at the same time, mainly for the purpose of parting unwary investors from their money. Mackay gives us a long list of them. Some seem harmless enough, though unlikely to have produced huge profits:

“40. *For carrying on a woolen manufacture in the north of England.*”

“41. *For importing walnut-trees from Virginia.*”

“81. *For a sail and packing-cloth manufactory in Ireland.*”

But how about these—?

“76. *For extracting silver from lead.*”

“36. *For a wheel for perpetual motion.*”

“86. *For the transmutation of quick-silver into a malleable fine metal.*”

And this one, my favorite of the whole lot:

“17. *For carrying on an undertaking of great advantage; but nobody to know what it is.*”

Beautiful. *Nobody to know what it is!* Would you invest in a mystery company like that? Would I? Oh, no, not you! Not I! But on a balmy spring day in 1720 a long line of Londoners signed up for stock, putting down deposits of two pounds apiece in the expectation of receiving dividends of one hundred pounds a year. Between nine in the morning and three in the afternoon a thousand shares were sold. The enterprising promoter had pocketed two thousand pounds—a fortune—in just six hours. He packed up and left for France that evening, and was never heard from again.

This seems not very different, I think, from the enthusiasm that briefly pushed the stock prices of Webvan, Boo.com, and Flooz.com to such lofty levels only about a decade ago in our own land, except that the founders of those companies actually thought they could be profitable. And very likely the next stock mania or the next Ponzi scheme is already taking form in the mind of some cunning sharpie. It does seem to keep on happening, despite the evidence of past ruinations. One can only fall back upon clichés when we consider mankind’s history of falling for such things over and over again:

*The more things change, the more they remain the same*, is the way the French journalist Alphonse Karr said it in 1849. Or, as an earlier observer of human folly, the author of the Book of Ecclesiastes, put it several thousand years before that:

*There is no new thing under the sun.* ○

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