

# The Extreme Brevity of Financial Memory

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*There can be few fields of human endeavor in which history counts for so little as in the world of finance.*

- John Kenneth Galbraith

I recently read 'A Short History of Financial Euphoria' by John Kenneth Galbraith. It is pretty short and very readable. I agree with Galbraith that those who don't know history are doomed to repeat it. Galbraith talks about past speculative episodes such as:

- The Tulipomania in Holland
- The Mississippi Scheme
- The South-Sea Bubble
- The Wall Street Crash of 1929
- The Crash of 1987

The biggest takeaway is economic amnesia and how quickly financial disaster is forgotten. Keep in mind that the United States had two major financial disasters within the past 15 years – namely the implosion of the dotcom bubble in 2000 and the real estate market in 2008.

Here are some passages from the book:

*Uniformly in all such events there is the thought that there is something new in the world.*

*For practical purposes, the financial memory should be assumed to last, at a maximum, no more than 20 years. This is normally the time it takes for the recollection of one disaster to be erased and for some variant on previous dementia to come forward to capture the financial mind. It is also the time generally required for a new generation to enter the scene, impressed, as had been its predecessors, with its own innovative genius.*

...

*There are, however, exceptions to any rule. While the 20-year cycle from illusion to disillusion and back to illusion had a superb regularity in the United States in the last century, some of the more violent episodes of irrationality – those of John*

*Law, the South Sea Bubble, and the crash of 1929 being examples – did remain more vividly in the financial as well as the general public memory. The result was a somewhat longer period of doubt, caution, and comparative sanity.*