

Manias, Panics, and Crashes

A History of Financial Crises

Fifth Edition

Charles P. Kindleberger

and

Robert Z. Aliber



WILEY

John Wiley & Sons, Inc.

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Foreword

Charlie Kindleberger (CPK from now on) was a delightful colleague: perceptive, responsive, curious about everything, full of character, and, above all, lively. Those same qualities are everywhere evident in *Manias, Panics, and Crashes*.

I think that CPK began to work on the book in the spirit of writing a natural history, rather as Darwin must have done at the stage of the *Beagle*—collecting, examining and classifying interesting specimens. Manias, panics, and crashes had the advantage over rodents, birds, and beetles that they were accompanied by the rhetoric of contemporaries, sometimes with insight, sometimes just blather. It was CPK's style as an economic historian to hunt for interesting things to learn, not to pursue a systematic agenda.

Of course, he was an economist by training and experience, and he soon found patterns and regularities, and causes and effects. What caught his eye especially were the irrationalities that seemed so often to enmesh those directly or indirectly enmeshed in the events themselves. By itself that would have been merely entertaining. The story got interesting for CPK with the interaction of behavior and institutions. The occurrence of manias, panics, and crashes, and their ultimate scope, also depended very much on the monetary and capital-market institutions of the time.

CPK could not have known at the start just how hardy a perennial financial crisis would turn out to be. The quarter-century *after* the publication of the first edition featured a whole new level of turbulence in national banking systems, exchange-rate volatility and asset-price bubbles. There was always new material to be digested in successive editions. This history cannot have been merely the result of increasing human irrationality, though CPK would have been charmed by what a German friend of ours called 'Das Gesetz der Verschlechterung aller Dinge' (the Law of the Deterioration of Everything). Increasing wealth, faster and cheaper communication, and the evolution of national and international financial systems also played an indispensable role, as sketched in Chapter 13, added to this edition by Robert Aliber. CPK's effort at economic history found a subject that does not appear to be going out of style.

The shape of a 'new financial architecture' and the possible utility of a lender of last resort—national and/or international—along with the guidelines that ought to govern it were also among CPK's preoccupations. Those who are engaged in reforming (or at least changing) the system would do well to ponder the lessons that emerge from this book.

One of those lessons is very general, and is most applicable in contexts where irrationality may trump sober calculation. CPK was a skeptic by nature, just the opposite of doctrinaire. He mistrusted iron-clad intellectual systems, whether their proponents were free marketeers or social engineers. In fact, he considered clinging to rigid beliefs in the face of disconcerting evidence to be one of the more dangerous forms of irrationality, especially when it is practiced by those in charge. The international economy would be a safer place if CPK's tolerant skepticism were more common among the powers that be. I am thinking, in particular, about current discussions of the so-called 'Washington consensus,' and the pros and cons of both freely floating exchange rates and unfettered capital markets.

Any reader of this book will come away with the distinct notion that large quantities of liquid capital sloshing around the world should raise the possibility that they will overflow the container. One issue omitted in the book—because it is well outside its scope—is the other side of the ledger: What are the social benefits of free capital flow in its various forms, the analogue of gains from trade? CPK, whose specialties as an economist included international trade, international finance and economic development, would have been sensitive to the need for some pragmatic balancing of risks and benefits. One can only hope that the continued, up-to-date availability of this book will help to spread his open-minded habit of thought.

It seems to me that the Aliber version preserves this basic Kindleberger orientation but imposes a little more order on CPK's occasionally wayward path through his specimen cabinets. More manias, panics, and crashes may plague us, but readers of this book will at least have been inoculated.

ROBERT M. SOLOW