

The Rhyme of Crisis: Speculative Euphoria, Confidence Multipliers, & Intellectual Bubbles

My title alludes to Mark Twain's apocryphal aphorism, "History does not repeat itself, but it rhymes." If Twain said it all, the economic history of the 19th century probably inspired him. He suffered through five panics, three severe recessions, and was nearly ruined at the height of his celebrity by the crash of 1893. The serialized novel which began appearing in December of that year is filled cynical financial advice, like this entry in *Pudd'nhead Wilson's Calendar*:

OCTOBER. *This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February.*

Twain's deprecatory attitude towards speculation is one of the things that endeared him to economist John Kenneth Galbraith, a talented aphorist in his own right.¹ Galbraith coined the term "speculative euphoria" to describe the collective optimism which enables financial bubbles. After even a small series of successes, investors are prone to act like compulsive gamblers. Galbraith writes, "No one wishes to believe that [their enrichment] is fortuitous or undeserved; all wish to think that it is the result of their own superior insight or intuition. The very increase in value thus captures the thoughts and minds of those being rewarded. Speculation buys up, in a very practical way, the intelligence of all involved" (*History* 5).

That wealth is neither directly proportional nor even attributable to intelligence is an essential premise of both Galbraith's work and Twain's, as well as this essay, and, one hopes, the Humanities professions. The silver lining of financial crisis is that it exposes the delusion of fiscal meritocracy. Many of those who were quickest to proclaim money the measure of their achievement are proven maladroit and counterfeit. Sometimes they lose their money, as Bill Durant did, when he attempted to "correct" the crash of 1929.² On rarer occasions, like Michael Milken or Bernie Madoff, they go to jail.

More importantly, however, crises turn the economic conversation, at least temporarily, from fleeting discussions of arbitrary financial movements to the insights, innovations, and *expressions* which underlie commercial

transactions. This is what makes Twain's rhyming metaphor so apt. Like a sonnet, the structure of macroeconomic cycles is deceptively transparent, even repetitive. Superficially, panics and crashes all look alike, but as with poetic forms, their subtle internal variations defy simple interpretations and predictions. In the wake of financial crises we are more likely to observe that what moves markets is not the numerical minutiae of stock prices and interest rates. Rather, foundational macroeconomic forces are composed, like rhymes, of words, images, metaphors, allusions, and other charged rhetorical ephemera.

To view economics this way is to deny the core disciplinary ambition of its last century, an aspiration to mathematical elegance. 20th-century economics is mostly imprecise and mislabeled measurements of transient cultural phenomena. The preponderance of economic publication and policy for the past 75 years is, at best, naive, frequently incompetent, and, occasionally, willfully deceptive. Deirdre McCloskey stated this most bluntly in 1996, arguing that "most of economics since [World War II] has to be done over again. Literally, most of the allegedly 'scientific' findings of economics have to be redone with another method before anybody should believe them" (*Vices* 14). McCloskey argues that the influential field of econometrics has yielded three generations of scholars who routinely mistake improbability for impossibility, estimates for measurements, and the unquantifiable for the irrelevant. "Statistical economists" are, as she puts it, "drunks searching for economic truth under a lamppost"(33). Econometrics is a clean, well-lighted place with a manageable set of variables and malleable margin of error. The real economy is, to borrow another term of Galbraith's, full of "bezzles," blind spots created by tax loopholes, creative accounting, black markets, and mere human fallibility. In econometrics, data which is difficult to acquire or otherwise unreliable is labeled "statistically insignificant." After which, McCloskey says, "all subsequent statistical work is wrong," and in her study of the *American Economic Review*, she finds that "fully 96% of papers misused statistical significance"(42).

This is not to say that I believe *we*, in Language and Literature, have been immune to disciplinary immodesty or disingenuousness. At the very least, we enable the sins of economists by refusing to engage them. Much of what went wrong between 1945 and 2008 originated in linguistic imprecisions, logical fallacies, hyperboles, unacknowledged biases, and confusions of causation and coincidence. Half a century of flawed theories and failed policies might have been corrected by the marginalia conventionally associated with teaching Freshman Composition. Unfortunately, what little economic analysis emerges from English departments remains entrenched in Marx and not-Marx, a *reductio ad absurdum* derivation of partisan polemics as old as Madonna and equally subtle. What economists desperately need is

nuance, which the literary scholar claims to have in surplus, yet we engage economics with a critique of labor and value which, according to its standards, was obsolete by the 1920s. As McCloskey laments, "the English professor who has neglected Adam Smith and John Stuart Mill, not to speak of Friedman, Galbraith, Samuelson, Hirschman, Heilbroner, Schelling, Coase, Becker, Fogel, Olson, Buchanan, Kirzner, or the other modern masters is missing a lot" (*Knowledge* xi). For every economist who underestimates the rhetorical imperatives of their profession, there is a literary scholar who is willfully ignorant of economic literature, who habitually misappropriates its vocabulary, and treats its basic assumptions as nothing more than capitalist hegemony. Contemporary economic scholars need a more sophisticated understanding of narrative and discursive technique, because any meaningful economics begins as exegesis. But economic arguments must be confronted and debunked on their own grounds, which means Humanities scholars need to shed their arithmophobia. Otherwise, the econometrics McCloskey blames for a century of pointless regression will continue to be used as a rhetorical sledgehammer. If you disagree with the math, the statistician says, you must be incapable of understanding it.

Rational market theory, the random walk hypothesis, econometric regression, risk arbitrage, and even something as seemingly innocuous as GDP all operate on a flawed premise, that buried beneath the politics and pragmatics of commerce is a grand equation. If only we could identify all the variables, fiscal planning and economic prognostication would be elegantly mechanical. This mathematical metaphor, like any metaphor, is insufficient. The inevitable presence of unaccountable variables means markets remain permanently opaque and unpredictable. Yet, despite two centuries of resounding failure, an empire of academics, analysts, and bureaucrats dedicated to maintaining the delusion of economic prognostication continues to grow. In 2004, when Galbraith published his last work, *The Economics of Innocent Fraud*, he repeated one of the mantras of his career, that "the sequence and duration of boom and recession cannot be foreseen. The causes and all their varied effects cannot be known in advance," yet he marveled, "no feature of the modern economy is more remarkable than the volume of corporate and personal revenue that comes from marketing these unknowns." What has since been labeled the pundit class, which includes several of Galbraith's colleagues, influences policy and personally profits from what he calls "persuasive non-knowledge" and "diverse non-talent" (59). Ironically, via passages like these, *The Economics of Innocent Fraud* can now be read as forecasting the culture which brought about The Great Recession.

Diagnosing the causes of financial crises is the work of the historian, sociologist, and, I believe, the philologist, not the statistician, the theorist, or the policy wonk. The analysis cannot revolve around stock prices, interest

rates, and revenues, which fluctuate perversely before, during, and after a crisis. It must originate from the intellectual and rhetorical trends which motivate people to engage these unstable markets in the first place. To briefly use examples from the recent subprime mortgage crisis: Lehman Brothers' stock price, the scale of Goldman Sachs executive compensation, the ratio of wealth invested in blackbox derivatives, and even the intricacies of the bailout are but symptoms and side effects. To borrow the popular critique of western medicine, these symptoms are irrelevant to diagnosis and prevention. The most useful accounts of the subprime crisis, including those by Robert Shiller, Robert Frank, and Matt Taibbi, focus on the rhetoric of real estate and the ownership society, the promotion and curriculum of business schools, the legal expansion of corporate personhood, and the popularity of the novelist Ayn Rand.

To perform such analysis, it should be obvious, you need a commitment to the methodologies of the Humanities, what Keynes calls "the animal spirits." For most of the last century economics has been spurning Adam Smith's better half, the half that wrote moral philosophy, and wondering why their elegant models are comically inadequate. When (and if) they acknowledge unreliable variables, they give them names borrowed from psychoanalysis: mania, depression, panic, speculation, delusion, regression, confidence. In other words, when the math doesn't work, economists blame it on the overlap between the market and the mind. Only rarely do they recognize that the collective mind is what they've been trying the measure all along. It's not the outliers, it's the bell curve.

The first to profit from this reconceptualization was failed philosopher turned billionaire turned blacklist economist turned eccentric self-publisher turned clairvoyant philanthropist, George Soros. He published *The Alchemy of Finance* in 1987, at the height of the Reagan Revolution. He disputed the tenets of monetarism and neoliberalism, right down to the theory of supply-and-demand equilibrium. Soros called neoclassical economics

a theoretical construction of great elegance that resembles natural science, but does not resemble reality. It relates to an ideal world in which participants act on the basis of perfect knowledge and it produces a theoretical equilibrium in which the allocation of resources is optimized. This has little relevance to the real world in which people act on the basis of imperfect understanding and equilibrium is always beyond reach. (12)

Most 20th-century economists believe price is a perfect reflection of underlying conditions and thus, to paraphrase Alan Greenspan, the magic of the market is that it is always right. But Soros claims that the foremost reason his fund rendered a 23,000% return during the 1980s was that he assumed "financial markets are always wrong," primarily because of a philosophical construct called "reflexivity." Put simply, in finance, as in any field that

studies human activity, the analyst is also a participant, and thus there is a feedback loop between observation and participation which compromises objectivity, rendering the analysis suspect. Finance, unlike physics, does not exist independent of our participation in it. Thus, market actors are always both subject and object, caught in a double-bind similar to that which Wittgenstein attributes to language. We cannot think independently of its use and we cannot use it independently of our thinking. Analysis of the market is analysis of our own, sometimes irrational, predispositions towards prudence or imprudence. The underlying fundamentals of the market are our selves.

While the dominant assumption of 20th-century economics was that macroeconomic forces worked independently of culture and politics or, at the very least, only interfered during rare “black swan” moments, Soros contends that financial crises are actually the direct consequence of intellectual trends, what he calls “fertile fallacies.” Communities of investors become fixated upon “pieces of knowledge” which have “proved useful” and “are liable to overexploit and extend them into areas where their wisdom no longer applies” (*Soros Lectures* 52). At the most rudimentary level, this is why people believed Pets.com was going to be the next Amazon and took on mortgages in remote SoCal suburbs for 100 times their annual salary. As McCloskey puts it, “Economics is something that happens between people’s ears.” Her incredible book, *Bourgeois Dignity: Why Economics Can’t Explain the Modern World*, published in 2011, traces “fertile fallacies” (though she does not use the term) through centuries of economic development in Europe, connecting every boom, every slump, and every panic to “changing forms of speech about markets and enterprise and innovation”(8).

Both McCloskey and Soros believe that the standard economic controls—money supply, interest rates, taxes, wage minimums, etc.—are inadequate to the task of responding to what are intellectual bubbles. Though Soros has found many of his policy implementations to be misguided and cynical, Obama and his administration have acquiesced, at least in part, to this characterization, building their response to the subprime crisis around the paradoxically named “confidence multiplier.” Perhaps in a tribute to the stupefying legacy of postmodern economics, Robert Shiller gave an arithmetic name to a Keynesian idea, the core of which is, some things can’t be quantified. As is revealed in Ron Suskind’s book, *Confidence Men*, Obama’s Senior Advisor, David Axelrod, concluded in 2009 that it was not the New Deal which saved the U.S. from complete economic collapse, but President Roosevelt’s ability to project assurance and faith, and thus inspire those qualities in the electorate. The confidence of the executive begets the confidence of the constituency. And confident constituents are confident consumers. Thus, by employing “the confidence multiplier”—that is, main-

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taining optimism in all public discourse—Obama generates market activity. By preaching and, more importantly, provoking confidence, he converts rhetoric to revenue.

The jury is still out on the efficacy of the confidence multiplier, but what it does suggest is that economic policy-makers now recognize the economy is not made of numbers. It is made of stories, debates, sales pitches, and memes, the things linguists and literary scholars profess to know a great deal about. Sparing you a tedious digression into the panel topics of the last two decades of MLA conventions, I will simply observe that we also know a thing or two about intellectual bubbles. We have been reluctant, however, to trace the progress of intellectual fashions and idioms into the marketplace, perhaps, again, because of our aversion to math. As scholars like McCloskey, Galbraith, Shiller, and Soros change the conception of what Economics is, besides an academic department with incredible resources and political influence, it should be rhetorical and behavioral economics that takes the active role in policy-making. For these fledgling fields to flourish, they must be nurtured not only by economists but Humanists as well.

This talk was originally presented in January of 2014 as part of the "Chronicling Financial Crisis" panel, organized by Howard Horwitz, at the Modern Language Association Convention in Chicago, IL.

NOTES

¹In his glowing review of Justin Kaplan's *Mr. Clemens & Mark Twain* for *Life* magazine in 1966, Galbraith called Twain "the greatest natural talent of any American writer."

²During the '29 crash, emboldened both by J.P. Morgan's heroic (and risky) stabilization of the market after the Panic of 1907 and his own success in manipulating stocks (by practices which have since been criminalized), Durant threw the bulk of his fortune into the market over the course of a few volatile months in a desperate attempt to manufacture confidence. He failed disastrously, so that the co-founder of General Motors and infamous "King of the Bulls" spent the final decade of his life depending on GM's charity (an ex-post-facto pension of \$10,000 a year) and working as a bowling-alley attendant.

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