

# Contents

<b>Preface to the second edition</b>	vii
<b>Preface to the first edition</b>	xiii

## **PART I PROLOGUE**

<b>Chapter 1 Introduction</b>	<b>1</b>
1 "Practical" versus "solvable" questions	1
2 A crucial step: finding regularities	3
2.1 Models need precise targets	4
2.2 In search for regularities	4
2.3 A parallel with other complex systems	5
2.4 What can we learn from the parallel with meteorology?	6
2.5 Devising quasi-experiments	7
3 Basic features of our approach	7
3.1 Comparative analysis	7
3.1 Identification of speculative episodes	8
4 Presentation of the book	10
 <b>Chapter 2 Overall view of speculative markets</b>	 <b>13</b>
1 Overview of speculative markets	14
1.1 What kind of price data do we need?	15
1.2 Grain markets	17
1.3 Commodities	20
1.4 Land and property	22
1.5 Postage stamps	28
1.6 Antiquarian books	31
1.7 Diamonds	32
1.8 Other speculative markets	35

1.9	Stock markets	35
2	Comparative perspective	43
2.1	Relative weight of various speculative markets	43
2.2	Turn over ratio	43
2.3	Price earnings ratio	45

## **PART II HIDDEN COLLECTIVE DETERMINANTS**

<b>Chapter 3</b>	<b>Rational?</b>	<b>47</b>
1	Hidden preconceptions: long-term perspective	48
1.1	The attitude toward usury	50
1.2	The attitude toward slave trade	50
1.3	The attitude toward health care	52
1.4	Nationalization versus privatization	54
1.5	A possible clue to shifts in conceptions	55
2	Hidden preconceptions in economic rationality: medium-term perspective	56
2.1	The Paris real estate market in 1990	56
2.2	Shift in accounting rules	57
3	Application to speculative trading	58
3.1	The crystal ball	59
3.2	How a mania spreads	63
3.3	Short-term phenomena	64
<b>Chapter 4</b>	<b>Joint crashes</b>	<b>65</b>
1	Is speculation in diamonds related to speculation in cobalt?	66
1.1	Other commodity bubbles which burst in 1980	67
1.2	Why it is almost impossible to build econometric models for floating stockpile markets	69
1.3	A possible clue: a hedge against inflation	70
2	Are property bubbles in Tokyo and Paris related?	72
2.1	The expulsions of Jesuits in the 18th century	72
2.2	Mississippi versus South Sea bubble	73
2.3	Property crashes	74
3	Interdependence between different speculative markets	76
3.1	The link between equity and bond markets	77

3.2	Link between crashes in equity and property markets	78
3.3	Link between crashes in equity and art markets	79
4	Conclusion	79
<b>Chapter 5</b>	<b>Contagion of speculative frenzy</b>	<b>83</b>
1	Social contagion	84
1.1	The production of books reflects the spread of bubbles	85
1.2	How the press participates in the spread of a bubble	89
1.3	Consumer confidence and stock prices	95
2	Volume of trade as an indicator of the extension of speculation	97
2.1	Qualitative evidence	98
2.2	Relationship between trading volume and price variations	99
3	Why can a bull market not last forever?	108
3.1	Is there an upper bound for the price level?	108
3.2	Is there an upper bound for the volume of transactions?	110
3.3	Applications	110
3.4	Empirical evidence about transaction costs on stock markets	112
3.5	Implications of the formula for the upper bound of trading volume	114

## **PART III    REGULARITIES IN SPECULATIVE EPISODES**

<b>Chapter 6</b>	<b>Peak amplitude: the price multiplier effect</b>	<b>117</b>
1	A case in point: property speculation in Britain	119
1.1	The price multiplier effect	120
1.2	Spatial propagation of speculative fever	120
1.3	Examination of other property bubbles	123
2	Generalization of the price multiplier effect	125
2.1	Illustrative examples	127
2.2	Postage stamps	129
2.3	Antiquarian books	132
2.4	Summary	133
3	Implications and significance of the price multiplier effect	136
3.1	Evolution of the ensemble dispersion during	

a price peak	137
3.2 Is the price multiplier effect a diffusion phenomenon?	143
4 Application of the price multiplier effect to stocks	146
<b>Chapter 7 Peak shape: the sharp peak - flat trough pattern</b>	<b>151</b>
1 Describing speculative peaks	152
1.1 Shape of wheat price peaks	152
1.2 Mathematical description of price peaks	155
1.3 Observations	157
1.4 Unified overview	165
2 Is there a pattern for stock price peaks?	167
2.1 Necessity of a taxonomy of stock crashes	168
2.2 Quantitative analysis	172
2.3 Is the existence of stock price patterns consistent with market efficiency?	176
<b>Chapter 8 Stock market bubbles</b>	<b>179</b>
1 A case in point: 1929	181
1.1 The driving force	182
1.2 The bubble's signature	185
1.3 Role of discount rate increases	186
1.4 Role of the margin debt	187
2 Comparative analysis	188
2.1 The engine	188
2.2 The bubble's signature	189
2.3 Role of discount rate increases	192
2.4 Role of the margin debt	194
2.5 What is the bottom line after a stock market crash?	194
 <b>PART IV THE TRIUMPH OF NEOLIBERALISM</b>	
<b>Chapter 9 Triumph of neoliberalism in economics</b>	<b>197</b>
1 Neoliberalism: an overview	197
1.1 Roots of the neoliberal program	198
1.2 Neoliberalism and the financial crisis	201

1.3	Neoliberal ideology and social fragmentation	203
1.4	The promotion of neoliberalism	204
2	State power and cracks at grass-root level	205
3	Income inequality: the watershed of 1975	207
4	Ownership by “absentee landlords”	211
5	Weakened national solidarity	214
6	Appendix: Possible scenario for the economic crisis	215
<b>Chapter 10</b>	<b>Triumph of neoliberalism in society</b>	<b>219</b>
1	Leveling off in education trends	220
2	Abrupt increase in the trend of incarceration rate	221
3	Change in the trend of infant mortality	221
4	Increased segmentation of the American society	221
4.1	Why should one focus on social segmentation?	221
4.2	Persistence of the Black-White divide	224
4.3	“White flight”	224
4.4	Gated communities	225
4.5	The self-sufficient world of US Armed forces	226
4.6	Deepening gap between employers and employees	226
4.7	Aging and underfunded transportation infrastructures	227
4.8	Decline in the membership of social organizations	227
<b>Chapter 11</b>	<b>Triumph of neoliberalism in finance</b>	<b>229</b>
1	Aggravating factors	230
2	Greater segmentation	234
3	How can one follow the buildup of a speculative episode?	236
3.1	Stocks	236
3.2	Real estate	236
3.3	Bonds	238
3.4	Derivatives	239
4	Spreading neoliberalism: overlords and vassals	241
4.1	Dollarization	241
4.2	Currency board	244
4.3	The aftermath of the Argentinian collapse	246
4.4	Historical roots	247
4.5	Other forms of oversight and control	247
4.6	Privatization and economic return	251

4.7	Role of the armed forces	252
4.8	The future	252
4.9	Why does privatization offer inroad opportunities to foreign companies?	253
5	Fate of absentee ownership in Eastern Europe during the next decade?	254
6	Previous speculative crises	255
6.1	Previous “subprime crises”	255
6.2	Regulation, self-regulation or no regulation at all	257
6.3	A highly profitable business	258
<b>Chapter 12</b>	<b>Is there a way out?</b>	<b>261</b>
1	Crisis of 1893-1900	262
2	1932-1933: Runs on banks and closing of the Stock Exchange	264
3	1933-1938: Opposition to New Deal policy	267
4	Anti New Deal reforms in the aftermath of World War II	268
4.1	Broken promises	268
4.2	The turning point of the Cold War	270
4.3	The Taft-Hartley Law (1947)	271
5	Will Obama’s presidency mark a turning point?	273
6	What should be expected in 2010 and 2011?	282
7	Some tests for the years to come	283
7.1	Comparison between 1929 and 2008 in terms of synchronicity	283
7.2	Comparison with the Great Depression in terms of social interactions	287
8	Supply of labor	288
8.1	In the 19th century	288
8.2	After 1945	288
8.3	Can the trend be reversed?	290
9	Insight about the future	293
9.1	Toward a new model?	293
9.2	Is there a way out?	293
<b>References</b>		<b>295</b>
<b>Index</b>		<b>309</b>