An Integral View on Money and Financial Crashes

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October 2005
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There are many ways to approach as complex a topic as money or a financial crash. An integral view would require it to be approached from both the inner and the outer viewpoints. Such inner and outer dimensions of reality are synthetically summarized in Ken Wilber's classical four quadrant analysis.[1] All fields of knowledge are classified by distinguishing between the **Interior** (the domains where the aim is the *interpretation of meaning*) *vs.* the **Exterior** dimensions (where the purpose is *description of behavior*). This approach is completed by distinguishing between the **Individual** *vs.* the **Collective** aspects (see Figure 1).

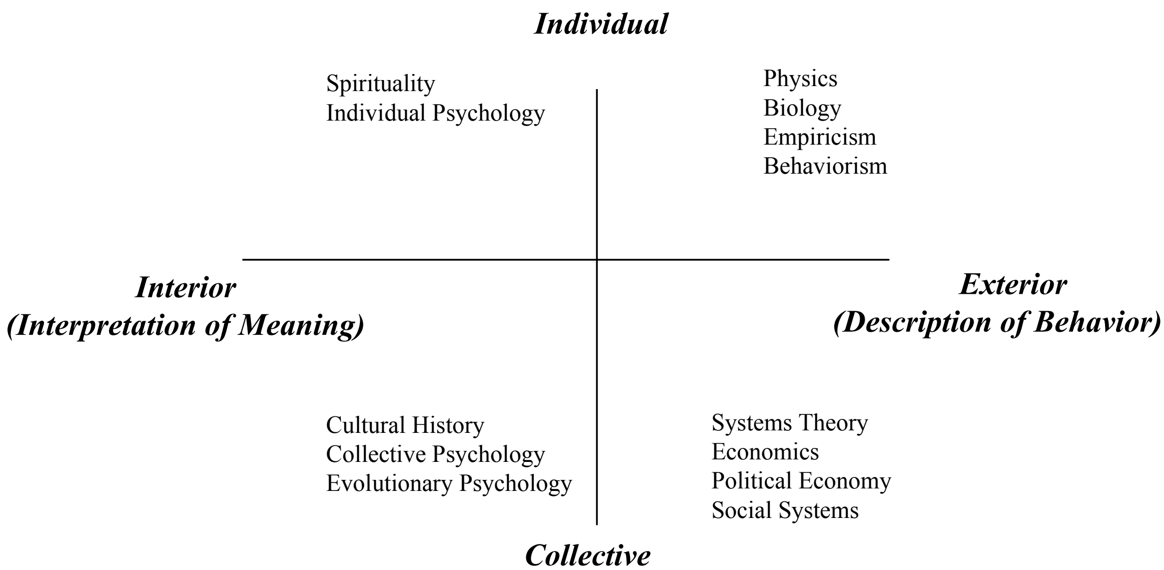

Figure 1: Ken Wilber's Four Quadrants Classifying Domains of Knowledge [2]

For instance, physics, biology, and all behavioral and empirical sciences correspond to the upper right quadrant (Exterior-Individual domains). In contrast, the domains explored by Aurobindo, Plotinus, Buddha and all other spiritual traditions fall into the upper left quadrant; as do the theories of Freud, Piaget and others focusing on individual psychology (they all correspond to Individual-Interior concerns).

Similarly, systems theory, economics, political economy or the study of social systems fall in the lower right quadrant (Exterior-Collective). Finally, Cultural History, Collective Psychology or Evolutionary Psychology would fall into the lower left quadrant (Interior-Collective).

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[1] The most synthetic version is available in Ken Wilber: *A brief history of everything* (Boston: Shambhala, 1998).
[2] Wilber, Ken: *A Brief History of Everything* (Boston: Shambala Publications, 1996) adapted from pg 71 and 84.

Using these four quadrants framework we can now capture all approaches of knowing about the money phenomenon (see Figure 2). What is key to understand is that each of these quadrants has its own epistemology, where the evidence of proof of validity is internally consistent, but different from the other quandrants.

For instance, the upper-right quadrant (Individual-Exterior) deals with how individuals can earn more money, spend, invest or give their money. This is the quadrant where 95% of all the literature of money resides. There are literally thousands of books available which address these issues.

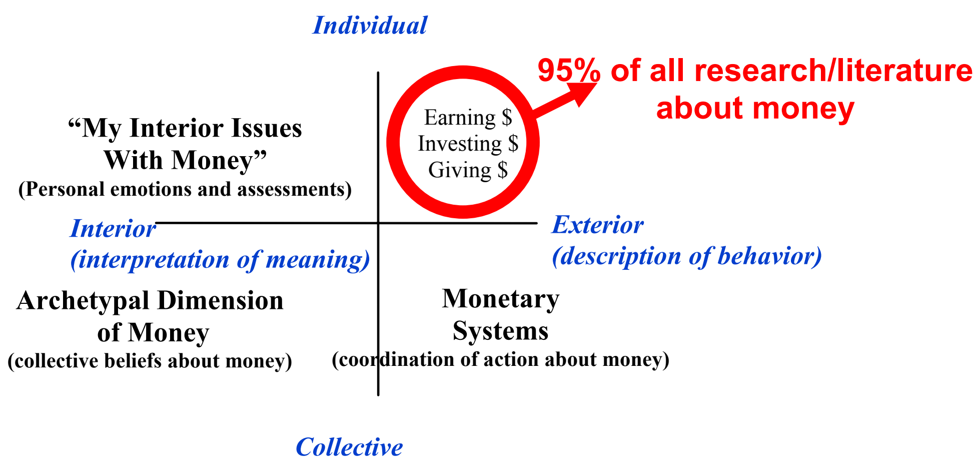

Figure 2 Understanding Money through the Four Quadrants

The book *Future of Money: Creating New Wealth, Work and a Wiser World*[3] deals with my own contribution to the collective exterior dimension, which focuses mainly on monetary systems, i.e. the lower right quadrant. The underlying epistemology that we use there is general systems theory.

Much scarcer is research and understanding about the Inner dimensions of money. But that dimension is nevertheless highly relevant because it is only in this dimension, specifically in the collective psychology of money (the lower-left quadrant), that we will find the key of why and how "irrational" crashes are generated. It is pretty sure that this topic will keep coming back in the future. Alan Greenspan famously complained already in the 1990s about the "irrational exuberance" of the financial markets. More recently he expressed again concerns that "the penchant of humans for quirky, often irrational behavior gets in the way of otherwise seamless economic logic."[4]

Figure 3 illustrates symbolically the integrated sequence by which the archetypal dimension feeds the individual emotions, which end up manifesting in the exterior world through individual actions, and at the end may affect the money system itself.

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[3] Bernard Lietaer *Future of Money: Creating New Wealth, Work and a Wiser World* (London: Random House/Century, 2001).

[4] Speech of Alan Greenspan to the Council of Foreign Relations of March 17, 2005

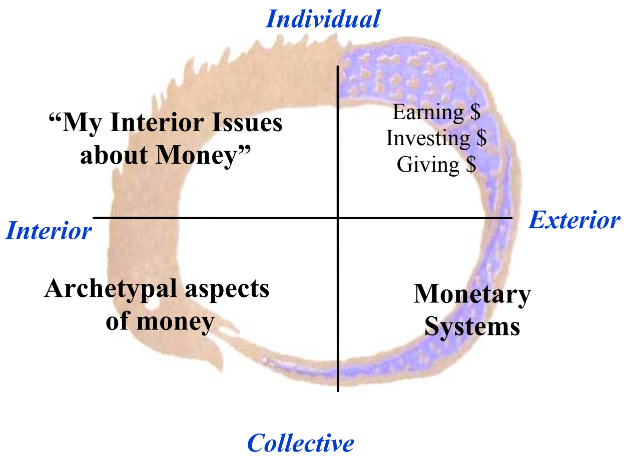

Figure 3: Integral Sequence of a Potential Monetary/Financial Crash

What follows are two texts, both unpublished in English, and extracted from two different books. The first text is extracted from *Of Human Wealth: New Currencies for a New World.* It explains why we need to deal with collective psychology to understand monetary/financial crises. This book will become available in the Winter of 2008.

The second text, entitled "Exploring Booms and Busts" is extracted from another book entitled *"Mystery of Money: Beyond Greed and Scarcity",* first published in German[5] and available in half a dozen other languages (but not in English). It explains in simple terms the collective psychological process which elucidates why and how "irrational" bubbles and crashes occur. The Japanese crash of 1990, the dotcom bubble of the late 1990s, and the real estate bubble currently on-going in the US, are only three applications of an identical collective psychological process. Any future financial crash would similarly follow the same collective psychological pattern.

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[5] Bernard Lietaer *Mysterium Geld: Emotionale Bedeutung und Wirkungsweise eines Tabus* (Munich: Riemann Verlag, 2000).

Extract from Bernard Lietaer and Stephen Belgin

Of Human Wealth: New Currencies for a New World

(Boulder: Citerra Press, Winter 2008)

We rarely hear the inward music,
but we're all dancing to it nevertheless.

Rumi

If you are sometimes confused about our money system, take some comfort in the fact that you are not alone…

The U.S. representative to the International Monetary Fund (IMF) under the Clinton administration offered this revealing definition: "Money is magic. Central bankers are magicians. Like all magicians, they don't like to show their tricks." Was she referring to real magic or simple parlor tricks? The answer is both. Magic and mystery have surrounded the money process throughout its long evolution. For millennia, the magic used to be of a religious nature; now high priests wielding impenetrable scientific equations perform it, but they still communicate in a purposefully cryptic language.

A hearing by the Chairman of the U.S. Federal Reserve in Congress has as much ritual and ambiguities as the oracles of the priests of Apollo in Delphi in Ancient Greece. A typical Alan Greenspan witticism illustrates this: "If you have understood me, then I must not have made myself clear." William Greider, in his aptly-named best-selling book on the Federal Reserve, Secrets of the Temple, writes: "Like the temple, the Fed did not answer to the people, it spoke for them. Its decrees were cast in a mysterious language people could not understand, but its voice, they knew, was powerful and important."6

There is indeed a deeper level of mystery operational in modern money; one that has even misled some of the money priests themselves. According to one implicit economic assumption dating back to Adam Smith, the architect of economics, money is supposedly "value neutral"; it is viewed as a passive instrument that doesn't affect the nature of the exchanges or the relationships between its users. Furthermore, financial markets are considered "rational". In fact, both theoretical considerations and a substantial body of empirical data reveal that Adam Smith's hypothesis about money's neutrality and the rationality of financial markets is simply not valid. Monetary systems and monetary crashes are a reflection of that society's collective unconscious. So we need to explore collective psychology to understand money and financial crashes. The best tool available to do so is archetypal psychology.

1. W. Greider, *The Secrets of the Temple* (New York: Touchstone Books, 1987) 240.

CONCEPTS OF COLLECTIVE PSYCHOLOGY

The field of Archetypal Psychology was pioneered by Carl Gustav Jung.[7] Among the better-known applications of collective psychology are the forecasts of fascism in Europe by Jung himself back in the 1920's and the dynamics behind the cold war period.

For our purposes we need to grasp only a few key concepts of that field: archetypes and their shadows. Both elucidate how it is that we have become predisposed to feel and behave in certain predictable ways. With archetypes and shadows as building blocks, a map can be sketched of the way humans tend to relate toward one another and the world around them, including the role that money plays in all of this.

Archetypes

An archetype can be defined as a recurrent image that patterns human emotions and behavior, which can be observed across time and cultures.

There are hundreds, even thousands of archetypes. Each of our mythological figures describes an archetype. All of our perennial stories stage archetypes. Joseph Campbell, for example, identified the "Hero with a Thousand Faces" as a universal and quintessential story found across the eons of time and transcending the boundaries of culture: in Sumer (Gilgamesh), in ancient Greece (Hercules), in the Middle Ages (Knights in shining armor), in Japan (the fearless Samurai in the Edo Era), or in the United States (Superman in the 20th century).

"These hero myths vary enormously in detail, but the more closely one examines them, the more one sees that structurally they are very similar. They have, that is to say, a universal pattern, even though groups and individuals developed them without any direct cultural contact with one another;, for instance, tribes in Africa… or the Incas in Peru. Over and over again one hears tales describing a hero's miraculous but humble birth, his early proof of superhuman strength, his rapid rise to prominence or power, his triumphant struggle with the forces of evil, his fallibility to the sin of pride (hubris) and his fall through betrayal or a 'heroic' sacrifice that ends with his death."[8]

Other archetypes are just as universal; the archetype of the wise Sovereign as embodied by King Solomon and the Queen of Sheba; the tragic Lover archetype as dramatized by Romeo and Juliet, Marilyn Monroe or Princess Diana.

Each of us regularly visits the archetypal realm in our dreams. Advertisers, campaign designers and Hollywood use archetypes to prompt you to feel or react a certain way. Media stories that "capture the imagination of the masses" are always rich in archetypal content. The fact that more than one billion people around the world, independently of their cultural affiliation, watched the funeral of Princess Diana reveals the archetypal nature of the princess' tragic story.

The historian Arnold Toynbee described the process by which archetypes play a role in human evolution "as part of a cultural strategy to respond to collective historical challenges, by organizing the emotional dimension of life."

Jung claimed: "All the most powerful ideas in history go back to archetypes. This is particularly true of religious ideas, but the central concepts of science, philosophy and ethics

2. Collective psychology was further developed by scholars such as Erich Neumann, Joseph Campbell, Jolande Jacobi, Christine Downing, Jean Shinoda Bolen and James Hillman.

3. Jung et al., *Man and his Symbols* (London: Picador, 1978) 101.

are no exception to this rule. In their present form they are variants of archetypal ideas, created by consciously applying these ideas to reality. For it is a function of consciousness not only to recognize and assimilate the external world through the gateway of the senses, but to translate into visible reality the world within us."[9]

The Meaning of Myths.

A work dedicated to such issues as our monetary system and financial crises might seem like a strange or inappropriate place to employ ancient mythology. However, myths are *not* untrue, pre-scientific tales about the origin of mankind—as now-popular attitudes might have us believe. Quite to the contrary, myths are valid descriptions of psychic sequences; they are favorite scenarios that illustrate how specific archetypes manifest in any society, at any time period, including ours today.

Myths, therefore, should be understood in a collective psychological sense, not as some hero or god's story. They represent "powers that have been common to the human spirit forever, and that represent the wisdom of the species by which man has weathered the millenniums."[10] Myths are the dream-thinking of a whole civilization.[11] They are revelations and expressions about the "stuff", the make-up, of our collective being.

Carl Jung pointed out that Modern rational man has tended to dismiss the power of archaic symbols and archetypes and cautioned otherwise. "It is a folly to dismiss them because, in rational terms, they seem absurd or irrelevant. They are important constituents in our mental make-up and vital forces in the building up of human society and they cannot be eradicated without serious loss. Where they are repressed or neglected, their specific energy disappears into the unconscious with unaccountable consequences."[12]

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Equipped with these concepts, we can now explore why and how "irrational crashes" recur systematically in our Modern financial system.

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4. C.G. Jung, *Collected Works Vol. 8: The Structure of the Psyche* (1927) 342.
5. Joseph Campbell, *Myths to Live By* 13.
6. . Dodds, *The Greeks and the Irrational* (Berkeley: University of California Press, 1951) 104.
7. . Jung, et al. ., *Man and his Symbols* (London: Picador, 1978) 83.

Extract from

"Mystery of Money: Beyond Greed and Scarcity" (unpublished in English)

Published as:
„Mysterium Geld:
Emotionale Bedeutung und Wirkungsweise eines Tabus"
(Munich: Riemann Verlag, February 2000)

Bernard Lietaer
May 1999

Chapter 4: Exploring Booms and Busts

"The gods have to do with emotional intensity and distance, preferences for mental acuity,... yearning for ecstatic merger or panoramic understanding, sense of time, and much more. There are gods in Everyman."

Jean Shinoda Bolen13

"Anyone taken as an individual is tolerably sensible and reasonable.
As a member of a crowd, he at once becomes a blockhead."
Schiller

"Financial manias", also called "bubbles and crashes" and "boom and bust" cycles refer to the episodic "crazes" wherein some market goes into a price frenzy only to collapse as it reaches its paroxysm. They are relatively rare - on the average there is one spectacular crash every 15-20 years somewhere in the world. But they are totally devastating to the people and country affected. Notwithstanding centuries of fine-tuning regulations and controls, financial manias have proven a remarkable "hardy perennial" in Charles Kindleberger's words.[14] They seem invariably to hit the markets at the moment when they believe they have become impervious to such "primal" or "primitive" irrational problems. Finally, they are also a bafflingly unexplainable process from the perspective of a "rational market" supposedly inhabited by hyper-rational "economic men."

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13 Shinoda Bolen, Jean Gods in Everyman: A new Psychology of Men's Lives and Loves (San Francisco: Harper & row, 1989) pg 3.
14 Kindleberger, Charles Manias, Panics and Crashes (New York: Wiley & Sons, 3d ed. 1996) pg 1.

Many authorities have openly admitted that they don't understand them, or know how to deal with them (sidebar).

Financial manias are relevant for our study on money from three perspectives:

All bubbles, whether the object is tulips, real estate, shares, Internet high-tech, or anything else is invariably a money disease. The common numerator in all boom and bust cycles is always money. The price expressed in monetary terms goes first through the ceiling, only to collapse back below the basement afterwards.

Foreign exchange markets, the market where the different national currencies are being traded daily, are notoriously vulnerable to wide swings despite sizable interventions in the market by monetary authorities.

Baffled Authorities

The periodic booms and busts, and the incapacity of the most sophisticated and powerful financial authorities to do something about them, is repeated at every generation. Some quotes illustrate the point.

"At intervals, from causes which are not the present purpose, money...seeks someone to devour, and there is 'plethora';
it finds someone, and there is 'speculation';
it is devoured, and there is 'panic'."
Walter Bagehot (1873) 15

"I can feel it coming, S.E.C. or not, a whole new round of disastrous speculation, with all the familiar stages in order - blue-chip boom, then a fad for secondary issues, then an over-the-counter play, then another garbage market in new issues, and finally the inevitable crash. I don't know when it will come, but I can feel it coming, and damn it, I don't know what to do about it."
Bernard J. Lasker
Chairman of the New York Stock Exchange (1970) 16

"The financial markets are now driven by an irrational exuberance."17
Alan Greenspan
Chairman of the US Federal Reserve in December 5, 1996

This chapter will begin by exploring what is common between all financial boom and bust cycles, and see what reactions they typically evoke among both authorities and economists. I will then show that the current theories explain how rather than why some markets go periodically "crazy." In contrast, the archetypal approach reveals that more than twenty-seven centuries ago the classical Greeks had a perfect explanation why such mysterious manias repeat themselves. I will conclude with extracting the lessons from the archetypal myths that are applicable to our contemporary situation.

The Boom-Bust phenomenon

"Every age has its peculiar folly; some scheme, project, or phantasy into which it plunges, spurred on either by the love of gain, the necessity of excitement, or the mere force of imitation. Failing in these, it has some madness, to which it is goaded by political or religious causes, or both combined."[18] This quote is from Charles Mackay's classic "*Extraordinary Popular Delusions and the Madness of Crowds"* published in 1841 and

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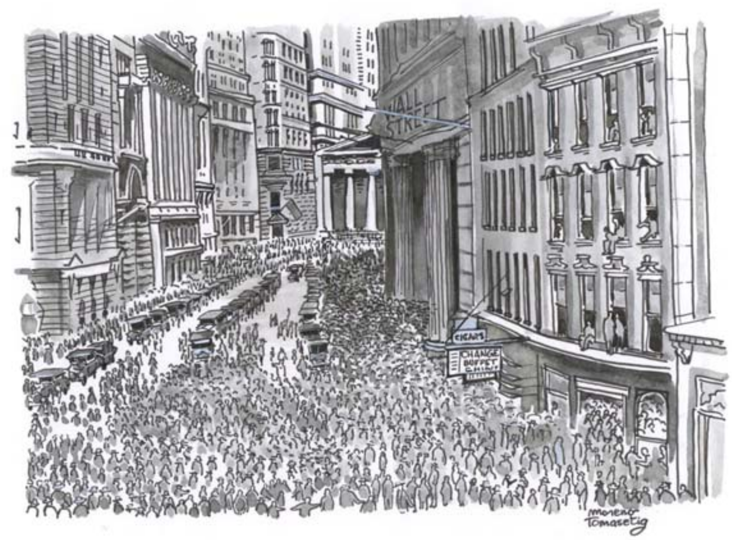
15 Bagehot, Walter Essay on Edward Gibbon.
16 quoted by Brooks, John The Go-Go Years (1972).
17 This quote was used later as title of a recent book : Shiller, Robert J. Irrational Exuberance (Princeton, NJ: Princeton University Press, 2000) which provides ample statistical evidence of irrational financial behavior today and in the past.
18 Mackay, Charles: Extraordinary Popular Delusions and the Madness of Crowds (New York: Harmony Books, 1980) pg 354.

continuously in print ever since. From Crusades to Mississippi share bubbles, MacKay shows that "crowd madness" has existed at every age.

It is interesting that *all* "crazes" reported by MacKay from the last four centuries (i.e. after the maximum repression of the feminine due to 350 years of witch hunts) were *financial* ones. Primary products, manufactured goods, land, buildings, stocks and currencies have all succumbed at some point to the fevers of destabilizing financial speculation. After each of the "financial madness" episodes, authorities try to understand what went wrong. They then introduce rules that are supposed to avoid future crashes, typically by regulating the "last kid on the block" financial innovation of the time - from futures markets in 1637 to computer trading in 1987. But the process keeps repeating itself even in the most sophisticated markets.



One of the most famous boom crashes in history: the Wall Street crash of 1929 had repercussions around the world. This is how a contemporary Italian magazine presented the panic and distress on the New York Stock Exchange on October 24, 1929. This particular crash triggered the Great Depression of the 1930s, which ended only with World War II. From Illustrazione del Popolo, November 1929.

One could even make the seemingly paradoxical argument that financial manias have a tendency to occur in *the* most sophisticated markets of their times. Holland in the 17th century was by far the most important financial market of its time: the Dutch Republic held and traded as much capital as the rest of Europe combined when the tulip mania hit it in 1637. Similarly, England in the 18th century (the South Sea Bubble of 1720); New York, Vienna and Berlin (simultaneously involved in the international panic of 1873); the US stock market in 1929; Japan in 1990; all experienced crashes when these countries and markets were near the top of their financial sophistication and glory. If this observation proves valid, it would also make predictable that the next bubble to burst should be the US stock market, and specifically the Internet and high tech components. Whatever the case, even just relying on history known as of this writing, financial booms and crashes provide those rare "perfect" cases of quantifiable psychological history.

Given the relative rarity of major boom and bust cycles, the best way to find out what is going on is to take a historical comparison and detect whether there are common patterns. After wading through all the well-documented cases of financial manias of the past three hundred and fifty years[19], there is indeed a pattern common to all of them. The illustrative

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19 Some of the best sources for studies on a variety of crashes include Charles Kindleberger's "Manias, Panics and Crashes: A history of Financial Crises"; Milton

sample in Figure 4.1 includes: the Dutch Tulip Mania of 1637 (with the price evolution of "Witte Croonen" one typical variety of tulips); the South Sea Bubble in Britain in 1720 (price of shares of the South Sea company); the Crash of 1929 (Dow Jones all shares index); and the Real Estate Crash in Japan in 1990.

Fig 4.2 Sample Financial Manias 1637 -1990

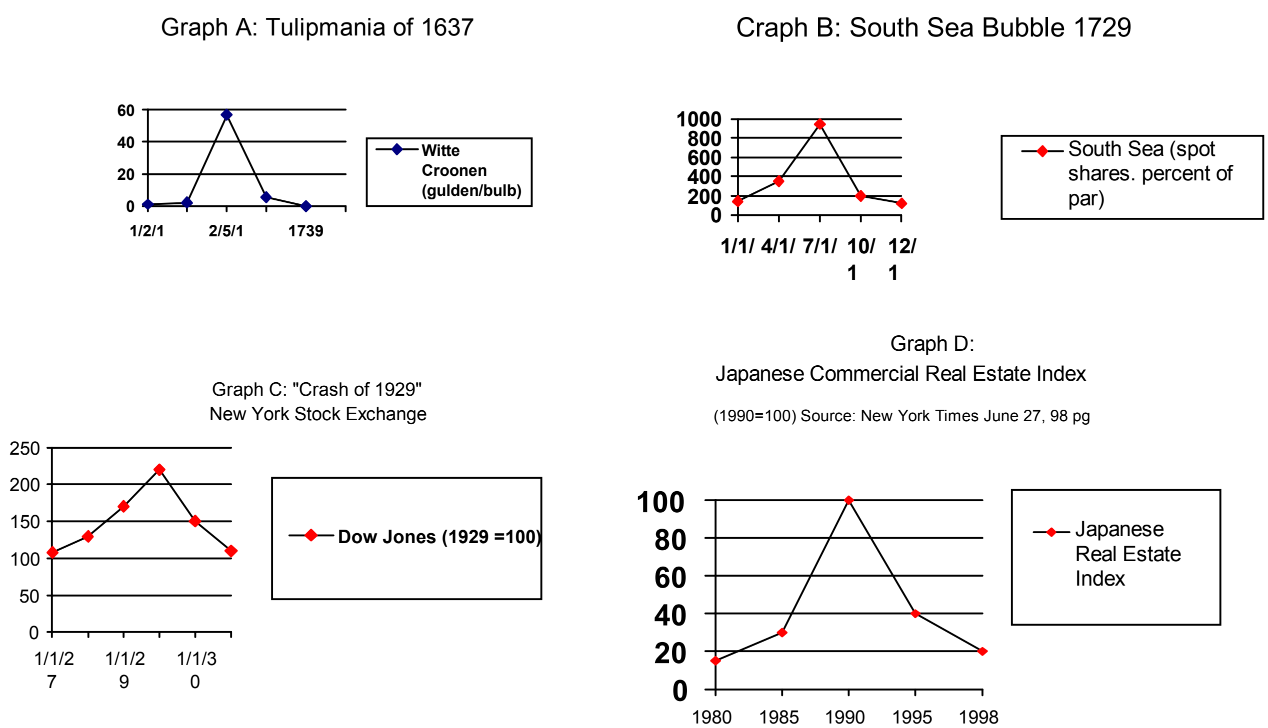

Figure 4.1 Sample Boom-Bust Cycles 1637-1995

[Editor: Prepare to add US stock market crash of 2000-2001]

Full page graph to be added???
Figure 4.2 US Stock Market Crash (1999-2001???)]

As Figure 4.2 illustrates, the US stock market - particularly the high-tech dotcom bubble - is no exception to this typical pattern.

Friedman's "Money Mischief"; Eugene White's "Crashes and Panics: the Lessons from History" and Kenneth Galbraith's "The Crash of 1929."

As can be observed in all graphs, there are four phases in any boom-bust cycle. These four phases are:

1. The Build-up: a particular market is slowly but surely rising in value. Professionals in the field take notice and buy. After a while, some market pundits start talking about great gain potential. This process can take several years during which those who follow that advice are indeed making a lot of money. This provides the backdrop for the next step.
2. The Feeding Frenzy: the market heats up. First professionals, then non-professionals and finally foreigners get involved in growing numbers. For a majority of pundits this has become "the sure thing." Markets reach "crazy" levels. Anybody not in the market feels left out, and joins the fray just in time for....
3. The Panic: Without transition, "something" happens that switches the market mood: a true or false rumor, a new piece of information. This information may or may not relate to the product involved, but is perceived at the time to be relevant. The "bubble" that has taken months or years to build up, shatters in a selling frenzy of a few hours or days. Prices plunge.
4. Picking up the Pieces: Bankruptcies, financial ruin, despair for large numbers of people. The prices settle back into "normalcy" over the next years. Authorities lament the "excesses" and try to find "what went wrong." Some new "explanation" is discovered, and regulatory measures introduced to ensure "it never happens again."

Mania Anecdotes

Each Mania has left a few anecdotes illustrating the "craziness" of the times.
In 1636 a sailor visits a merchant in Amsterdam who gives him a red herring for lunch. The sailor decides to add to his lunch an "onion" he finds on the desk. The "onion" turns out to be a *"Semper Augustus"* tulip bulb worth over 2,000 guilders, the sailors' salary for several decades! (Another basis of comparison: Rembrandt at the top of his glory got paid 1,600 guilders in 1642 for painting the famous "Night Watch")20.
In the Spring of 1720, Isaac Newton stated "I can calculate the motions of heavenly bodies, but not the madness of people." On April 20, accordingly, he sold out his shares in the South Sea Company making 100% profit (7,000 Pounds). By the Summer of 1720, the frenzy had reached such levels that he could not resist getting back in the market. He got his shares just at the top, and ended up losing 20,000 Pounds. From then on, "South Sea" became taboo words around him for the rest of his life.21

Then, the whole cycle stubbornly repeats itself in some other market in some other way. Typical anecdotes that remain in the popular folklore illustrate the craziness of the times (sidebar).

20 Schama, Simon Rembrand's Eyes (London: Penguin Books, 1999).
21 Van Vleck, George: The Panic of 1857: An Analystical Study (New York: Columbia University Press, 1953) pg 31,

Reactions by Authorities

"I permit myself to note in this connection the words said to me by a very high personage of the Republic: 'I know my country well. It is capable of supporting anything with calm except a financial crisis."[22]

Political authorities have good reasons to strongly dislike the bursting of financial bubbles. The simplest is that they will tend to be blamed for "letting it happen" in the first place. From the British government of 1720 to Suharto's in Indonesia in 1998, many political regimes have paid a hefty price for being in charge when a crash hits. It is therefore quite traditional that immediately after a crash authorities create a "Committee of Wise Men" who will make a thorough investigation into the matter, and find *the* reason for the mischief. The Brady Commission investigating the 1987 stock market crash in the US was the most recent example of such an exercise.

"Reformers typically have fixed upon the failure of some market or market mechanism for creating a boom and setting up a crash. The most likely candidates are invariably new arrivals whose appearance at the time of the boom makes them suspect. After tulip prices collapsed, authorities in the Netherlands attacked the recently developed futures markets as responsible for the 'tulipmania'. This may appear silly from our vantage point, yet the futures market in tulips was new, and its appearance coincided with the spectacular rise in tulip prices. After the 1929 crash, the US Congress readily found villains among the investment banking affiliates of commercial banks and investment trusts. The recently developed practices of programmed trading and portfolio insurance received the blame for the 1987 crash. These may be limited or outlawed, yet they represented only a small fraction of the market. Their cardinal sin seems to have been their newness."23

This "last kid on the block" analysis makes it predictable that the next crash will be blamed on space-age computer applications, derivatives and/or on Internet trading. I believe that the common denominator of all this is that it fixes the blame on the *means* rather than on the *cause* of speculative frenzies. I allege that if today someone made it illegal to use computers and telephones for trading, mail pigeons might mediate the next crash. The "Panic" might take a few days instead of a few hours, but a crash could still come to pass.

Reactions by Economists

It is revelatory that the most important books on the psychology of money invariably are those about "money madness." It is also to be expected that the community that has had a long-standing fascination with booms and crashes is economists. The reason for this interest is that the permanence of booms and crashes defies the most sacrosanct hypothesis on which economics has been built from the very beginning: that markets are *rational,* that a totally rational "Economic Man" drives them.

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22 Philippe, Raymond Un point d'histoire: Le drame financier de 1924-29.
23 Ibid. Pg 236.

Economic Man

The notion of "Economic Man" is the psychological corner stone in economics. One classical definition describes it as: "A hypothetical man supposed to be free from altruistic sentiments and motives interfering with a purely selfish pursuit of wealth and its enjoyment."[25] I like the unconscious humor of the "interfering" part.

In its essence, this definition dates back to the time of Adam Smith in 1785, a century *before* Sigmund Freud discovered the unconscious. These principles also reflect the absolute supremacy of Reason that had become the dominant conventional wisdom since Descartes (sidebar).

In all fairness, at least since Wesley Clair Mitchell, economists are aware of the oversimplifications built into "Economic Man". He pointed out that "Economics without input from psychology is similar to doing mechanics while ignoring the laws of physics" [26.] Others have since deeply questioned the applicability of this simplified view of human economic behavior[27]. Therefore, most economists today tend to treat Economic Man as nothing more than a "useful hypothesis", and do not take its assumptions literally. Nevertheless, that hypothesis is still implicitly built-in in many of the equations used in econometric analysis.

The Mythical "Economic Man"

The psychological assumptions behind the mythical "Economic Man" present substantial problems.
First of all, the definition implies that everyone is the same. Furthermore, it assumes that group behavior is of the same nature as individual behavior. In other words, there is no room for any "group" or "mob" psychology that is qualitatively different from individual ones. This entails the old "fallacy of composition" that forgets that the whole is different from the sum of its parts.
In the domain of booms and crashes, such a fallacy is critical.
Gustave Le Bon, one of the pioneers of group psychology, made the point: "Individual members however like or unlike their mode of life, occupations or intelligence, find themselves overruled by a collective mind set. This way of feeling, thinking and acting directs the individual to behave quite differently from what he would do alone."[24] Notice that Le Bon never uses the word "archetype" that his contemporary Jung was in the process of defining, but his way of defining mob psychology is totally consistent with Jung's findings about the collective unconscious.

This explains why one of the typical reactions by some economists to the issue of financial manias is simply denial.

Denial

Given that booms and crashes contradict the sacrosanct "rationality of the market", it is not surprising that there is a substantial literature by economists who try to prove that

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24 Le Bon, Gustave The Crowd: a Study in the Popular Mind (London: Unwin, 1921) pg 29.
25 Webster New International Dictionary of the English Language.
26 Mitchell, Wesley Clair :"Analysis of Economic Theory" American Economic Review 15 (March 1925) pg 1-12.
27 Just to mention two major ones: both Keynes' (1936) and Simon (1947/57) laid the foundation for the dismantling of general equilibrium concepts which assumed universal rationality. Keynes' General Theory offered a new paradigm, which emphasized the intrinsic instability of the markets and made possible periods of prolonged unemployment. Simon's work took Keynes observations further, embracing a logical analysis of the limited ability of humans to process information and compose optimal strategies in a complex environment.

financial manias do not exist.[28] Booms and busts "don't fit the model." They are therefore sometimes rejected as "anecdotal anomalies" or because they rely on "irrationalities."

Charles Kindleberger responds to these criticisms as follows: "The anecdotal charge can be dismissed quickly. Anecdotes are evidence, and what matters is whether the evidence is representative or not... I contend that the historical evidence is sufficiently representative to establish a recurrent pattern in economic life under capitalism...On rationality, the notion that asset markets are made up of, or are always and inevitably dominated by intelligent, well-informed, and well-financed speculators who calculate by rational steps is equally not the case. It may seem to work like that most of the time, but is not the way it is."

He concludes that "Economic pathology occurs. Most economies are mostly healthy, but on occasion an economy can be infected with one or another economic virus...Dismissing financial crises on the grounds that bubbles and busts cannot take place because they would imply irrationality is to ignore a condition for the sake of a theory."29

Economic Explanation

There are of course brave economists who have dared to venture into explaining this strange case of "economic pathology." Among the theories that have best resisted the criticism of both time and colleagues are Kindleberger's money creation theory, and information flow theory. Just a few words on each will suffice here.

Kindleberger's Money Creation Theory

Charles Kindleberger has spent most of his life studying economic history. His book on Manias evaluates the aspects common among 42 crises between 1618 and 1990 (including several running in parallel in different countries). His main conclusions are:

- "The word 'mania' connotes a loss of touch with reality or rationality, even something close to mass hysteria or insanity...Rationality is an a priori assumption rather than a description of the world...Manias and panics, I contend, are associated on occasion with general irrationality and mob psychology" [30]
- The appearance of the second phase - what I called the "Feeding Frenzy" earlier - is what makes the difference between a normal and a pathological market. According to Kindleberger, that frenzy starts when credit is being created on the basis of the rise in price of the goods under speculation. "Speculative manias gather speed through expansion of money and credit."[31]
- The trigger to a crisis could be just about anything real or unreal that suddenly reverses expectations. Conspiracy theories abound, but when checked usually prove

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28 Among the better quality examples of such attempts at denials are Garber, Peter M. "Who Put the Mania in the Tulipmania?" and Neal, Larry D. "How the South Sea Bubble was Blown Up and Burst: A New Look at Old Data" both in White, Eugene N. Crashes and Panics: the Lessons from History (Homewood, Ill. Dow Jones-Irwin, 1990) pg 3-56.
29 Kindleberger, Charles : Manias, Panics and Crashes (New York: John Wiley and Sons, 1996) pg 202.
30 Kindleberger Manias, Panics and Crashes pg 20, 21, 23.
31 Kindleberger, Ibid. Pg 44.

invalid. “A *panic* ‘a sudden fright without a cause’, from the god Pan, may occur in asset markets or involve a rush from less liquid to more liquid assets...The system is one of positive feedback. A fall in prices reduces the value of collateral and induces banks to call loans or refuse new ones...” causing a chain effect that snowballs into a full-size crash.

Information Flow Theory

The second approach to explain manias breaks up the market players in two different categories: “smart money” and “small investors”, known in Wall Street fauna metaphor respectively as the “*wolves*” and the “*lambs*.”

(See sidebar for other relevant fauna).

In summary, the Information Flow Theory points out that there is an asymmetry in information availability between the “smart money” and the “small investors.” The professionals get in first, after which the media starts whipping up the enthusiasm of the smaller players. The market takes off and “smart money” unloads gradually its positions onto the smaller players. When the market reaches its paroxysm, most professionals have left it, and the “lambs” end up being fleeced accordingly.

Wall Street Fauna

Everybody has heard of *Bulls* and *Bears* of Wall Street (respectively market optimists and pessimists). But fewer people know about the archetypal origin of this colorful fauna.[32]

- ***Bull :*** masculine solar symbol in Mithraism and other Indo-European traditions. Etymologically comes from the Indo-European verb *Bhel* meaning to shine, flash, burn. The ancient god *Baal* has that exact connotation. In Old English the verb *Bellan* means to bellow, to blow up, to spread a non-sensical rumor. It is from this latter form that the word *bullshit* obtained its current meaning.
- ***Bear:*** feminine North Pole symbol, which is why the Big and Small Dipper are also known as the Big and Small Bears. From the Indo-European verb *Bher* meaning to carry, to give birth. In Old English *Borian* means to bore, to pierce. The “Bear skin jobber” in Wall Street jargon is someone who sells short shares he does not have.
- ***Lambs:*** “innocent” non-professional small investors. Christopher Elias wrote the book *Fleecing the Lambs*[33] with the self-evident meaning
- ***Wolves:*** the large professional investors who engage in the “fleecing.”

Putting this entire fauna into action provides the full boom-bust cycle as follows***:*** A *shiny Bull* based on *flashy rumor* sucks the *Lambs* into the market. Then comes the *Bear* who *pierces the pregnant bubble.* Only the fastest *Wolves* escape unhurt.

One application of this theory is the anecdote that Joseph Kennedy, the father of President John F. Kennedy, overheard two shoeshine boys on Wall Street exchanging stock tips in 1929. On that basis, he decided it was time to get out of that market, a decision that saved his fortune during the 1930’s.

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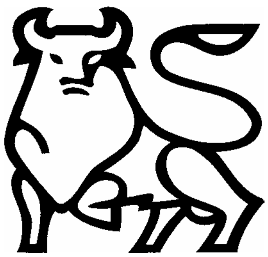
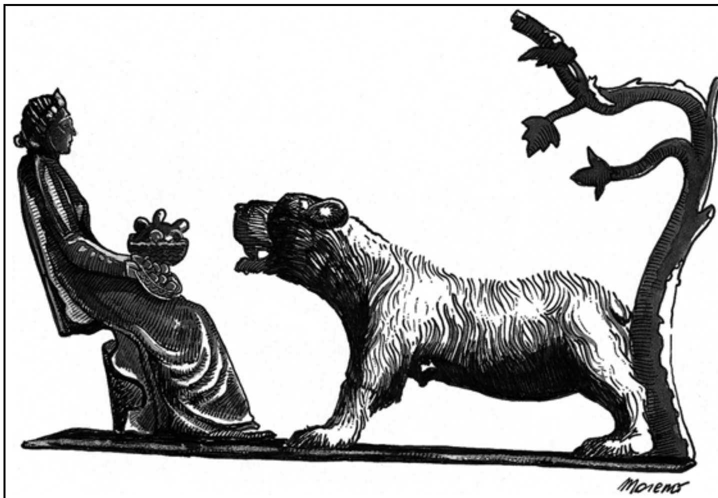
32 This analysis of the origins of the Wall Street fauna comes from Passy, Stanley The Imagination of Wall Street (Unpublished PhD thesis University of Texas, 1987).

33 Elias, Christopher: Fleecing the Lambs (Chicago: Henry Regnery Co., 1971).



The shiny bull market is represented here by the emblem of Merrill Lynch, the world's largest brokerage house. The bull is a herding animal, which appears most of the time quite domesticated, but can periodically move in irresistible and senseless stampedes.

The most recent version of this theory is called "Behavior Finance" (see box next page). It provides the theoretical framework for the application of collective psychology to real-life finance that will be described in this chapter.



Celtic bronze from the first century BC currently at the British Museum. It represents a gigantic bear mirroring the Goddess Artio (from Art = bear in Celtic) who is bearing a basket of flowers and fruits on her lap.

The bear is the largest hibernating animal. Contrary to other hibernating animals such as woodchucks, hedgehogs or squirrels, it does not drop its body temperature, but retreats into what has been described as a deep meditation-like state. A bear hibernates during five months in a cave, during which time it lives on its own flesh, literally devouring itself. This is followed by a swift rebirth at the next spring. Both the Goddess Artio and the bear symbolize the archetypal cycle of deep descent into the spirit underworld (what we would call today the collective psyche), and sudden springtime re-birth.

The Unanswered Question

All theories that have been proposed to explain the boom-bust phenomenon, including the two best ones that were presented above, have one feature in common. They explain *how* the bubble is created, and *how* it bursts.

But there is one type question that remains unanswered: ***Why*** does this happen? ***Why*** do the lambs *never* learn? ***Why*** is there always the belief that a still greater fool will pick up the asset at a still higher price? ***Why*** after centuries of growing sophistication do markets remain vulnerable to such episodic outbursts of "mass hysteria" or "insanity"?

It is to address that question that we will soon embark on an archetypal journey to Ancient Greece.

Behavior Finance as Context

"For a large part of the past 30 years, the discipline of finance has been under the aegis of the efficient market hypothesis. But in recent years, enough anomalies have piled up, cracking its dominance of the field. As a consequence, the arrival of new thinking to explain market behavior has warranted attention, and its name is behavior finance. Behavior finance proponents believe that markets reflect the thoughts, emotions and actions of normal people as opposed to the idealized economic investor underlying the efficient market school as well as fundamental analysis. Behavioral man may *intend* to be rational, but that rationality tends to be hampered by cognitive biases, emotional quirks, and social influences. Behavioral finance uses psychology, sociology and other behavioral theories to explain and predict financial markets. In addition, it recognizes the roles that varying attitudes play toward risk, framing of information, cognitive errors, self-control or lack thereof, regret in financial decision-making and the influence of mass psychology."[34]

The modern interpretation of speculative booms is therefore related to the breakdown of the "assumption of common knowledge of rationality". In other words, booms occur when market participants abandon valuing securities as the present value of the future dividend stream, and instead price securities based on the expectation of capital gain possible when an "irrational" investor purchases the security for a still higher price (also known as the "greater fool" theory). What the archetypal model shows is that this exemplifies a manifestation of group "greed", the Yang shadow built into our very money system.

Another basis for questioning the adequacy of the prevailing market equilibrium orthodoxy has been formulated by George Soros with his concepts of fallibility and reflexivity. "Fallibility means that our understanding of the world in which we live is inherently imperfect. Reflexivity means that our thinking actively influences the events in which we participate and about which we think."[35] In short, Soros points out that nobody knows the final Truth on anything, which in Archetypal language identifies the dangers of the Apollonian hyper-rationalist shadow. In contrast, classical economic theory is based on the assumption of "perfect knowledge" by all market participants and assumes hyper-rationalism as a given. Furthermore, a key difference between physical sciences and social sciences is that in the former the opinions of the observer do not affect the results, while in finance and economics, changing expectations is often *the* key force in changing reality.

The archetypal model that is presented in the current chapter explains the psychological dynamic that underlies both Behavior Finance and the combined effects of fallibility and reflexivity in the boom and bust cycles.

The Need for a Collective Psychology Approach

"Without due recognition of *crowd thinking* (which often seems crowd madness) our theories of economics leave much to be desired"[36] was Bernard Baruch's verdict. Baruch was one of the most successful American investors in the pre-World-War II era. He had lived through the 1929 crash. In another book he made an even stronger appeal. "The prehistoric eruptions from Central Asia, the Crusades, the medieval dance crazes, witch burnings, all these -right down to the Florida Boom and the 1929 madness - were phenomenon of *mass action under impulses which no science has explored...* Such impulses have power unexpectedly

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34 Pruden, Henry "Life Cycle Model of Crowd Behavior" Technical Analysis of Stocks and Commodities (San Francisco: January 1999) pg 77, See also "Behavioral Finance: What is it?" (Market Technicians Associations newsletter and MTA Journal, September 1996)

35 Soros, George The Crisis of Global Capitalism: Open Society Endangered (New York: Public Affairs, 1999) pg 4.

36 Baruch, Bernard Introduction to Charles Mackay's Extraordinary Popular Delusions and the Madness of Crowds. *Italics added.*

to affect any static condition or so-called normal trend. For that reason, they have a place in the considerations of thoughtful students of economic affairs. It always seemed to me that the periodic madness which afflicts mankind must reflect some *deep-rooted trait in human nature - a trait akin to the force that motivates the migration of birds or the rush of lemmings to the sea*."[37]

Had Baruch read his contemporary C. G. Jung, he would have identified the science that explores the "impulses" about which he was so concerned. Indeed, one of Jung's shortest definition is "Archetypes are to the soul what instincts are to the body."[38]

Another hint at how tantalizingly close people have gotten to the approach that will be proposed here comes from Peter Bernstein: "All of these [financial mania] occasions, however, conform to a recognizable sequence of events that, like *a Greek drama, plays out with easily recognizable regularities*."[39] This sentence was meant as a metaphor; I will show now that it turns out to be much more than that.

An Archetypal Approach

I will now show that the boom and bust cycles that have been haunting our economic system are none other than a direct consequence of our collective bias of interpreting the material world exclusively through the Magician archetype. It turns out that Greek mythology provides a most precise description of the dynamic at hand. But first we should clarify what myths really mean.

The Meaning of Myths

Myths are *not* untrue, pre-scientific tales about the origin of mankind as is often misunderstood. Instead, myths are valid descriptions of psychic sequences; they are favorite scenarios that illustrate how specific archetypes manifest.

Myths, therefore, should be understood in a collective psychological sense, not as some hero's or god's story. They represent "powers that have been common to the human spirit forever, and that represent that wisdom of the species by which man has weathered the millenniums."[40] Myths indeed are the dream-thinking of a whole civilization.[41]

Modern humans have tended systematically to dismiss the value of any such pre-Modern wisdom. But Joseph Campbell warned us that: "Clearly, mythology is no toy for children. Nor is it a matter of archaic, merely scholarly concern, of no moment to the modern man of action. For its symbols (whether in the tangible form of images or in the abstract form

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37 Baruch, Bernard The Public Years (New York: Holt, Rinehart and Winston) pg 228. *Italics added*
38 Carl Gustav Jung "On the Nature of the Psyche" in Collected Works Volume 8 *The Structure and Dynamics of the Psyche* pg 408.
39 Bernstein, Peter in the Foreword of Kindleberger opus cit. Pg xvi *Italics added.*
40 Campbell, Joseph Myths to Live By pg 13.
41 Dodds, E.R. The Greeks and the Irrational (Berkeley: University of California Press, 1951) pg 104.

of ideas) touch and release the deepest centers of motivation, moving literate and illiterate alike, moving mobs, moving civilizations."[42]

It is in this sense that I believe that old Greek myths are useful tools to explore contemporary issues.[43]

The Apollo-Dionysus Pair

Let me now introduce the pair that I believe has been pulling at our collective leg in every one of our "irrational" boom and bust cycles of the past three hundred years. They were among the most famous and powerful gods of the classical Pantheon, and the fact that we have forgotten about them has not made them any less powerfully operative in our midst.

Apollo and Dionysus have in common being the two favorite sons of Zeus and have always represented the two polarities of the interplay between *rationality* and *irrationality*. I will now provide a short overview of each god's own story[44], show how the two interact, and then connect that interaction with the well-established phases of a boom and bust cycle. In each of the descriptions that follow, I will add italics to the features that will end up being most relevant for that ultimate connection with the phenomenon of financial manias.

Apollo

Apollo was second only to Zeus as the most important Greek god. He was the solar God of *prophecy* and *divination,* of the arts (especially music) and of archery. "He was known to Romans and Greeks alike as Apollo with the adjective of "*Phoebus"* (the "*bright*" or "*shining*" one). He was portrayed standing or striding, as a handsome beardless youth with virile strength and flowing, golden hair..."[45] He could *provoke epidemics* in entire countries, but also heal them.

Feminine Relationships

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42 Campbell, Joseph The Mask of God Volume I pg 12 *Italics added.*
43 I am grateful to James Hillman to have drawn my attention to the thesis of Passy, Stanley The Imagination of Wall Street (Unpublished PhD thesis, University of Texas, 1987) which gave me the inspiration of this chapter.

44 The sources of this mythology (except when indicated with specific additional footnotes) are: Grant, Michael & Hazel, John *Dictionnaire de la Mythologie* (Paris: Editions Seghers, 1985); Bolen, Jean Shinoda *Gods in Everyman: A New Psychology of Men's Lives and Loves.* (San Francisco: Harper & Row, 1989); Guthrie, W.K.C. *The Greeks and their Gods (*Boston: Beacon Press, 1955); Otto, Walter F. *The Homeric Gods: the Spiritual Significance of Greek Religion* (London: Thames and Hudson, 1979); Otto, Walter F. *Dionysus: Myth and Cult (*Dallas, Texas: Spring Publications, 1965); Mayerson, Philip *Classical Mythology in Literature, Art and Music* (New York: Wiley, 1983); Fontenrose, Joseph *Python: A Study of Delphic Myth and Origins* (Berkeley: University of California Press, 1980).
45 Bolen, Jean Shinoda: *Gods in Everyman: A New Psychology of Men's Lives and Loves*. (San Francisco: Harper & Row, 1989) pg 130. Other features we will use of both Apollo and Dionysus are identified in that same book.

Apollo's mother, Leto, was persecuted by the jealousy of Hera, the official wife of Zeus. So she had suffered nine days of terrible labor on the island of Delos before she gave birth to Apollo and his older twin sister Artemis, the goddess of the moon and the hunt. Apollo grew to full adulthood in only a few days because Themis (goddess of *law and order*) fed him pure nectar and ambrosia.

Apollo never had any successful love affairs, and had *no feminine partner*. He was the worst misogynist of the entire Pantheon. Apollo went as far as claiming in the play of Euripides "*Orestia"* that the mother of a child is not really a parent, that only the father has that quality. He took over the oracle of Delphi (literally "*the Breast")*, a site with a long pre-Hellenic history of prophetic divination as a sanctuary to the Gaia Goddess, who was guarded by a giant she-snake named Python. In his mythology he slays Python and thereby gains possession of Delphi. He claimed that his *"superior knowledge*", what we would call today the *"intellectual high ground",* had given him the power to take over the functions of prophecy and music of the old goddess. Thereafter he was called the Pythian Apollo and male Apollonian priests controlled the priestesses, called Pythia, who were making the *most famous prophecies* of the Ancient world. A further confirmation is provided by Scully in his study on the Greek sacred architecture: "Apollo's most important temples tell us that he was usually invoked by the Greeks whenever the most awesome characteristics of the old Goddess of the Earth were made manifest... there the temple of the young god was placed, and generally so oriented as not only to complement but also *to oppose the chthonic forces*."[46] He was a *god of authority* in general, and of authority over the feminine in particular, as revealed by some of the precepts inscribed on his temple:

"Keep a reverent tongue.

Fear *authority.*

Bow before the divine.

Glory not in strength.

Keep women under rule."[47]

46 Scully, Vincent *The Earth, the Temple and the Gods: Greek Sacred Architecture* (New Haven: Yale University Press, 1962) pg 100. *Italics added.*
47 Bolen *Ibid.* Pg 134.

Apollo is shown in a typical self-assured position and gesture. One of his traditional attributes is missing here: the bow used to be in his left hand. He has his lyre in his right, resting on the tree stump. The giant snake Python he has vanquished has become a harmless little snake visible on the stump. Python was the symbol of the Great Mother. After Apollo took over her temple at Delphi - and her priestesses famous for predicting the future - he became Apollo Pythia "the one who sees the future unerringly". (Apollo of Belvedere, 2d century BC. Vatican Museum, Rome)

Apollo's Instruments

His two instruments were two stringed artifacts: the bow and the lyre. W.F. Otto noted that to the Greeks there was a kinship between the two: "in both they saw a dart speeding to its goal, in one case the unerring arrow, in the other the unerring song."[48] Apollo's arrow was deadly accurate; his song was precise and clear. One of his Homeric attributes was the "One who destroys from afar": his arrows *kill his victims from a distance*, as happened to Achilles, the most famous and favored Greek hero.

Apollo's Emotional Attributes

Apollo is always emotionally distant, unaffected by the damage he may create. He can *live in the future*, and keep his *objective stance* with superb indifference. Apollo rejects whatever comes too near him: he remains *remote, unemotional, hyper-rational, and has no introspection whatsoever*. His own emotional pain is always handled by *distancing himself from feelings through intellectual abstraction*.

48 Otto W.F. The Homeric Gods: the Spiritual Significance of Greek Religion (translated Moses Hadas) (London: Thames and Hudson, 1979) pg 76.

Dionysus

Dionysus (known as Bacchus to the Romans) was the god of "*ecstasy and terror*, *of wildness* and the most blessed deliverance." He was the youngest of the Olympians, and the only one with a mortal mother. Ginette Paris captures his energy graphically as follows: "It's Dionysus who makes us [in a sexual urge] tear off our clothes (or at least pop out buttons), messes up our hair, knocks over things, and disturbs the neighbors."[49] Even more specifically, "The face of a man on the edge of orgasm has piercing, enlarged eyes, congested with power, like those of an animal encountered at night. His face darkens, his veins swell, and he goes mad. Sometimes he growls, pants, cries out. Dionysus lives again!"

*Dionysus in ecstatic trance state, surrounded by dancing fauns. He is the "dissolver of all boundaries and restraints." Plant life and musical clappers are part of the scene.(*from a classical Greek ceramic.)

Not surprisingly, Dionysus did not fare well under Christian influence. "They couldn't make sense of a spirituality and an ecstasy attained through the body, so they transformed Dionysus-the-God into Dionysus-the-Devil... The Gods Pan and Priapus, who were part of the Dionysian cult, represented with legs, horns and beard of a goat and an erect phallus pointing toward the sky... became one of the most popular representations of the Devil."[50]

Contemporary Western languages have a very narrow range to describe excitement and ecstasy. In contrast, Sanskrit catalogues well over 200 forms of *ananda*[51] ("*bliss*"), and the Greeks still were familiar with several dozen. As a consequence, translators understandably have trouble finding words for Dionysian energy without falling into the vocabulary used by psychiatrist to describe pathologies.

Feminine Relationships

Dionysus was the son of Zeus and the mortal Semele. His mother, like Apollo's, was pursued by Hera's jealousy. Hera tricked Semele into making the request to see Zeus in his full majesty. When Zeus transformed himself into the God of Lighting, his power

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49 Paris, Ginette : Pagan Grace: Dionysus, Hermes and Goddess Memory in Daily Life (Dallas, Texas: Spring Publications, 1991) pg 5 and 8.
50 Paris, Ginette Pagan Grace pg 6 and 8.
51 Chaudhury, Haridas provides an extract of these in the paper "Yogic Potentials or Sidhis in Hindu and Buddhist Psychology" (San Francisco, Unpublished Paper communicated to Michael Murphy, 1978).

killed Semele but made her unborn son immortal. Zeus rescued Dionysus by sewing him into his thigh with golden clamps. Dionysus was born only two months later. One of his names is "Divine Child"—the *Puer Aeternus*[52]—because he's born straight from the god. He was initially brought up as a girl, and Cybele (the dark moon goddess) taught him her mysteries and initiation rites. As a child under the name of Iakchos, Dionysus played a critical role in the Eleusian mysteries as the guide of the initiates to the temple of the goddesses.[53] Dionysus is the only Greek god who rescues and restores women representing goddesses, who had been diminished earlier in Greek mythology. He rescues, for instance, his own mother Semele; and Ariadne who becomes his wife. *Paradoxically* for a god surrounded by sexual promiscuity, he is also the only god in Greek mythology that remained faithful to his wife Ariadne, the Goddess of vegetation. So he became associated with vegetation, the vineyard, fruit, spring renewal and sexual fertility.

Dionysus crowned by vine leaves and surrounded by Maenads ("the crazy women") dancing. The word "mania" derives from these Maenads. Chaotic music and the wildest "no-holds-barred" dances characterize anybody who comes close to Dionysus' presence. Notice the reed pipe played by the woman on the left, emblem of the god Pan from where the word "panic" derives. (Original drawing by Moreno Tomasetig from a Classical Greek ceramic)"

52 von Franz, Marie-*Louise Puer Aeternus: A Psychology Study of the Adult Struggle with the Paradise of Childhood* (Santa Monica, CA: Sigo Press, 1981).
53 Kerényi, Carl *Eleusis: Archetypal Image of Mother and Daughter* (Princeton, NJ. Princeton University Press, 1967) pg 63-65.

The worship of Dionysus was predominantly a women's cult, and was performed in the wildest part of the mountains. There, the women became *Maenads*. Maenads are those who entered ecstatic communion in an *emotional and irrational frenzy*. Such celebrations were held during the *night* and were called "*Orgia": * wild dances accompanied by wine and other sacramental psychoactive intoxicants as well as frenzied music from drums, cymbals, systrum and reed pipes (the attribute of the god *Pan*). The climax was the tearing to pieces of a sacrificial animal representing the god himself, eating its raw flesh and wearing its skin. Note that most key contemporary words relevant for our boom-bust cycle have their origin here: "*mania*" comes from the *Maenads,* "*orgy*" from these *Orgia,* and "*panic*" from *Pan.* Even modern expressions such as "Black Friday" to identify the day of the Big Crash in 1929 curiously hints back at the "dark, night-mode" of the Dionysian tradition. On a more anecdotal level, the still extant Western tradition of women wearing furs, red lips and red nails also stem from these rituals. Originally, they were respectively the skin of the sacrificial animal, and the bloodied lips and nails of the women who had killed it in an ecstatic frenzy. Women in that state were also considered sexually available, which explains that the church have always discouraged women to exhibit these symbols.

Classical Greek *tragedy*, the first consciously "*fictional*" literary works ever, was initiated with the first performances organized in Athens in 534 B.C. under the auspices of the Dionysian cult, and the yearly "theater season" would coincide thereafter with the month dedicated to that City's Dionysia.[54]

Dionysus' Attributes

Dionysus' attributes are not artifacts, but plants. His wife, Ariadne, is the ancient Cretan Goddess of vegetation and fruits, fertility and sexuality. The grape vine, the ivy, and the myrtle are particularly dear to him. His most famous contribution is of course the cultivation of grapes and their fermentation into wine. The popular image of the Roman Bacchus has focused on that attribute exclusively. But in general, all consciousness altering and psychotropic experiences are part of his preserve.

Dionysus' Emotional Attributes

There are two types of emotional attributes attached to Dionysus: the "eternal child" and the frenzied orgiastic god.

Ovid gives the title of the *Puer Aeternus* ("*eternal child*") to Dionysus in the form of the child-god Iakchos of the Eleusian mysteries.[55] As the "divine child", he caries with him a sense *of innocence* and destiny. He *naively* escapes materiality, and "*can be swayed and easily persuaded*."[56] He can easily engage on "*the stairway to the stars*." He is the *dreamer and enthusiast* without reservations, who gets so completely absorbed in his emotional space that everything else disappears from consciousness. The "flower children" of the 1960's embodied that aspect of Dionysus.

54 Otto,Walter F. *Dionysus: Myth and Cult* (Dallas, Texas: Spring Publications, 1965) pg198-199.
55 Ovid *Metamorphoses IV*, 18-20.
56 Plato quoted by Hillman, James *Puer Papers* pg 113.

In his adult form, Dionysus becomes like Pan, the *chaotic dissolution of repressions*. He forces anybody who holds on too tightly to let go, by choice or by death. It was Dionysus who granted King Midas' wish to transform anything he touches into gold. Midas ended up dying alone from starvation because everything he would touch, including his daughter or his food, would become gold. In that story like many others, Dionysus is foremost an archetype of *extremes*, of intense opposites: *ecstasy and horror*; total union and complete dissolution; *exuberant life and horrible death*. The adult Dionysus knows no boundaries, no social or other constraints. The traditional shaman is an embodiment of the adult Dionysus.

The Apollo-Dionysus Polarity

Apollo and Dionysus have some significant features in common. *They are half-brothers*; both sons of Zeus, the most powerful male god. Both also have a "damaged" mother relationship. Apollo because of his long and painful birth; and Dionysus because he has no birth-mother at all. As "mother" and "matter" have the same etymological and archetypal origin, this means in practice that *neither has a "grounded materiality*." Apollo takes refuge into abstract rationality while Dionysus is ungrounded by the *Maenads* who dissolve him into total emotionality. One consequence of this lack of grounding that they share, is that *neither has any introspection.* This relates to why *"Wall Street rarely deals with self analysis"* as was noted by Robert Sobel.[57]

With the exceptions of these common aspects, the two gods are literally at extreme ends of the spectrum as is shown by the following table.

Apollo	**Dionysus**
no childhood	eternal childhood
hating, rejecting women	loved by, and dissolving into women
excessive boundaries, distancing	no boundaries, ecstatic union
order, harmonious music	disorder, dissonant noise
sunlight, clarity, dryness	night, darkness, wetness
hyper-rationality, no emotionality	irrationality, total emotionality

Because of these polarities, Nietsche saw that "Apollo and Dionysus are two sides of the same coin."[58] Gilbert Durand uses the image of night and day to make the same point. He sees Dionysus as part of a "*night-mode*" [59] - nocturnal consciousness associated with the moon, moisture, women, sexuality, emotions, the body and the earth; as opposed to a

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57 Sobel, Robert *Inside Wall Street* (New York: Norton, 1977) pg 274.
58 Nietsche, Friedrich *The Birth of Tragedy* (New York: Doubleday, Anchor Books, 1956)
59 Durand,Gilbert Les *Structures Anthropologiques de l'Imaginaire: Introduction à l'Archéotypologie Générale* (Paris: Bordas, 1979). Durand uses the word "*régime nocturne"* which Ginette Paris translates as "night-mode."

"*day-mode*" connected to the sun, dryness all that is rational, orderly and Apollonian. Ginette Paris points out "whenever a culture receives only Apollonian sunshine, it dries up and dies; conversely, if it receives too much Dionysian moisture, it rots and becomes crazy. A hyper-technologized, hyper-rationalized society is as crazy, in a way, as is an anti-intellectual rock 'n roll subculture. We need both Dionysus and Apollo."[60] The intimate relationships between these two polarities become even more apparent when considering the myths about their interactions.

The Apollo-Dionysus Interaction

The mythological connection between Apollo and Dionysus is remarkably explicit. *"In the inner sanctuary of Apollo's temple was the grave of Dionysus*. For three winter months, Apollo handed over his temple to Dionysus, while he went far north to the fabled land of the Hyperboreans"[61] In addition, the Dionysian festival at Delphi was officially recognizing Dionysus' turn to run the place every two years. Women would start with the sacred dance reenacting the discovery and *awakening of the infant* Dionysus in a cradle. The ritual would build up to an *orgiastic frenzy, and end with the death by dismemberment* of the adult Dionysus who would return to the underworld until the next cycle.

Another revealing episode is reported by Euripides' famous drama *The Bacchae.* The story line of the play starts with the return of Dionysus to Thebes, his place of birth. Pentheus, the Apollonian ruler of the city does not "recognize his divinity" and rejects him. He bans all Dionysian rituals because he is afraid they would disturb public order. A group of women decide to disobey the ruling and take to the mountains to perform the ritual. Among them is Agave, Pentheus' own mother. Pentheus hides in a tree to spy on the women, but he is discovered. In their mad frenzy the women mistake Pentheus as the sacrificial animal, and dismember him. Agave, Pentheus' mother, ends up triumphantly holding Pentheus' severed head.

James Hillman comments on the scene as follows: "*Dionysus sends his madness,* the dark counter-image of the Dionysian, not to his devotees who give themselves to his miracle, but *to his enemies who defend themselves against him*."[62] In other words, it is those very people who cling to the Apollonian hyper-rationality that will end up victims of a Dionysian mania. In contemporary terms, "contempt of Dionysus" refers to hyper-rational attempts at control; and "Dionysian madness" is the frenzy followed by panic.

We now have in place all the pieces of the myth useful to decode financial boom and bust cycles.

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60 Paris, Ginette Ibid. Pg 10.

61 Bolen Ibid. Pg 134 *Italics added.*

62 Kerényi quoted by Hillman, James *Facing the Gods* (Dallas: Spring Publications, 1980) pg 160 *Italics added.*

Archetypal Decoding of Financial Manias

Each phase of the traditional boom and bust cycle is identifiable with its corresponding archetypal reality. The map of a classical boom and bust cycle directly can be overlaid on the archetypal myth. The following table summarizes the resulting fit.

Phase	Financial Market Story	Archetypal Story
1. The Build Up	Market pundits start talking about great gain potential.	Apollonian hyper-rationality offers prophecies of the future.
2. Feeding Frenzy	Small investors, the “lambs”, move into the market. “Stairway to the stars.”	The naive child (*“Puer Aeternus*”) is born. “Stairway to the Stars.”
3. The Panic	Buying frenzy suddenly followed by selling frenzy. The bubble shatters.	Orgiastic frenzy, extremes enacted. Mature Dionysus dismembered.
4. Picking Up the Pieces	A “Committee of Wise Men” investigates. Regulations ensuring “it will never happen again.”	Apollo returns from Hyperborea. Dionysus returns to the Underground.

By the way, the expression “Stairway to the stars” was actually used by Granville, one of the top speculators in the seventies and the eighties to describe the bubbles in the stock market. It is also the expression used to identify the *Puer* character.[63]

Some characteristics of each phase will now be presented in more detail.

Apollonian Trading

Apollo represents in economic terms the hyper-rational mind—the corner stone of economics and the only mode of operation of Economic Man.

The professional trader’s way is remote, detached, indifferent to damage done to others, unemotional, logical, hyper-rational and lacking any introspection. It is well known that professional traders are at their best when not involved in emotions.

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63 Passy, Stanley *The Imagination of Wall Street* (Unpublished PhD thesis, University of Texas, 1987)

I remember on one occasion when I came to visit one of the great and most successful traders in New York. While I was talking with him in his office, he was trading surrounded by computer screens. By the end of our talk, I had absolutely no hint as to whether he might have made a million dollars or lost it during that hour. Perfect unemotional professionalism.

Even though the Cuban crisis brought us closer to nuclear war than we have ever been, the stock market sailed undisturbed through the entire episode even as this might have been the end of civilization. During the entire period of World War II the Amsterdam stock market remained open, totally indifferent to what happened in the rest of the world.

Whenever one listens to stock market analysts, *they act as if they know the future*. To the extent that they have it all figured out, *market pundits are Apollo's speaking from Delphi.*

Puer is born

The advertisement by Incorporated Investors appeared in the Wall Street Journal on August 14, 1929. (See sidebar). It is completely self-explanatory. The Big Crash hit on October 24, 1929.

> ***Apollonian Advertisement appealing to the Puer***
> Wall Street Journal August 14, 1929
> "The richest heritage, the most precious birth right,
> is to be an American in this day and age.
> For never was a country so happy, so prosperous, and so peaceful as America today.
> Never were man's horizons wider, the opportunities for the finer things greater - because never was wealth upon which these enjoyments depend, so open to attainment as in present-day America.
> The creation of new wealth in fabulous quantities is America's special faculty.
> The wide diffusion of this wealth is her greatest discovery.
> *And anyone may participate!*
>
> Incorporated Investors provides an ideal method.
> Through its one-class, fully participating shares, Incorporated Investors, designed for this new America, passes on to its stockholders the growth and earnings of the greatest companies in America's expanding fields

Bigger and Better Crashes

Charles Kindleberger has assembled an intriguing set of quotes from newspapers, government reports and expert opinions over the past two centuries.64 They provide a perspective across time on how crashes are perceived.

Plus ça change,
Plus c'est la même chose...

Year	***Place***	***Quote***
1772	Britain	"One of the fiercest financial storms of the century"
1825	Britain	"A panic seized upon the public such had never been witnessed before"
1837	USA	"One of the most disastrous [panics] this country has ever experienced."
1847	Britain	"In the last six months more reckless and hazardous speculation than any other known in modern times"
1857	Britain	"Crisis of 1857 the most severe that England or any other nation has ever

64 Kindleberger *Manias* pg 194-195.

		encountered”
1857	Hamburg	“So complete and classic a panic has never been seen before as now in Hamburg”
1857	Hamburg	“Panic of a violence hitherto unknown”
1866	Britain	“Crisis of 1866 is the most serious in modern times”
1866	Britain	“Wilder than any since 1825”
1873	Germany	“In 56 years, no such protracted crisis”
1882	France	“Never have I seen an equal catastrophe”
1929	USA	“The greatest cycle of speculative boom and collapse in modern times - since in fact the South Sea Bubble.”
2000? ???	USA USA/the World?	Bursting of the high-tech Dot.com bubble??? Systemic Financial Crisis???

The Relevance of the Apollo-Dionysus Myth for Today

What can we learn from the wisdom built into age-old myths? What the Greeks were saying twenty-five to thirty centuries ago includes two key lessons from the way the Apollo-Dionysian pair interacts. Both lessons are paradoxes, and the contemporary mind - to the extend it is Apollonian - tends to be very uncomfortable with paradoxes. The real meta-lesson may be that we need to learn to hold paradoxes instead of rejecting them outright.

1. Manias and crashes are built into the hyper-rational way with which professionals normally approach the market.

Mythologically, the *tomb of Dionysus is in the inner sanctuary of Apollo in which he will awaken periodically.* The Ancient Greeks would not share our puzzlement about the “sudden irrationality” in supposedly rational markets. After all, they knew that *any extended Apollonian period* ***necessarily*** *would be followed by a Dionysian craze*, as predictably as night follows day.

Booms and crashes are indeed one more sign that archetypal shadows play through us. Although it may seem quite humiliating to the Apollonian ego, the illusion that we understand market events has been repeatedly proven unfounded. James Hillman put it this way: "Our lives follow mythical figures: we act, think, feel only as permitted by primary patterns established in the imaginal world."[65]

2. The more hyper-rational a market, the more likely it is to get caught in a mania.

Mythologically, as shown in the Bacchae, it is the Apollonian ruler, not those who embrace the "messiness" of the Dionysian space, who end up being dismembered.

In other words, the more we defend ourselves against the Dionysian uncertainty, the more likely that we attract his "madness." This could explain why the most sophisticated markets are the ones who get caught in manias. It is *because* of their very sophistication that the *illusion of control* is most prevailing. The more tools we accumulate to ensure a permanent Apollonian certainty, the more likely it is that we will attract a Dionysian outburst.

Stanley Passy concluded: "The idea that anyone can see the future with certitude carries within the dark and deadly shadow of panic. Dispassionate portfolio management, technical analysis and computer modeling live in parallel with merger manias, market fads and crashes."[66]

Relevance for Today

(Extract from New York Times September 6, 1998, pg 4)

What follows are *verbatim* quotes from people in charge of the official global monetary system. For the first time they are expressing publicly that the system has gotten out of hand *(italics added and bullets added)*

- "'This is an *unprecedented situation in a host of respects'* said the Treasury Secretary, who experienced several major market drops in his 26 years on Wall Street as a trader and then co-chairman of Goldman Sachs, the investment banking firm. 'The number of countries experiencing difficulties at once is something we have not seen before.' …
- 'We are in a situation which is indeed a dangerous one, by far *not fully rational'* said Michel Camdessus, the managing director of the International Monetary Fund... 'The *degree of panic going on* - that is indeed, clearly exacting an excessive and unfair pressure on a large number of countries.' For Mr. Camdessus, that is a significant change in tone. In January, he signed an agreement in Indonesia with President Suharto that he claimed would restore confidence - and within weeks he saw the country dissolve in violence, economic chaos and political upheaval. Early this summer he declared that there was no crisis in Russia, and a huge one erupted within weeks.
- 'The whole tone has changed, for everyone' said Jeffrey Garten, the dean of the Yale School of Management, a former top official in the Commerce Department. 'A few months ago, people were talking about seeing the light at the end of the tunnel. Now the only hope is keeping the world economy from total deterioration. And you get a sense that this is all now truly left to Adam Smith's invisible hand - *it's beyond any country's ability, any institution's ability, to control*."

If the findings of this chapter are valid, then we have to deal with the uncomfortable realization that the high tech U.S. stock market will burst soon.

Much more importantly still: the global foreign exchange market is now widely considered the most sophisticated market in the history of the world. The most sophisticated computerized tools ever available are now standard practice. The global currency market, the first fully integrated twenty-four hour global market ever to exist, is in an unprecedented boom as was explained in "*The Future of Money"*[67].
Supercomputers with rocket-science neuronet models are permanently monitoring the

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65 Hillman, James *Loose Ends* (Zurich: Spring Publications, 1979) pg 50.
66 Passy, Stanley The Imagination of Wall Street (Unpublished PhD thesis University of Texas, 1987) pg 115.
67 See in particular the Primer of that book.

major currencies and trading them on-line. Apollonian certainty shines within both the trading community and among regulators. Where does this leave us? (See sidebar). My personal view is that we should be aware that in the global monetary domain, we are walking on eggs - and denial may prove irresponsible in the long run.

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In contrast with the above, in the next two chapters I will explore what changes in money systems occur when the Great Mother archetype is honored in a society. Empirical historical facts testify that whenever the Great Mother/Provider archetype was honored in a society, money systems very different from our own spontaneously came into being; which in turn led to unusually generalized economic well-being.

In addition, as far as we can ascertain, there were no boom and bust cycles in such societies. As quoted earlier, Kindleberger specifies that booms and busts are “a recurrent pattern in economic life *under capitalism*”, i.e. only over the past 350 years or so. In contrast, we will see that societies where the Great Mother was honored were characterized by long periods of remarkable economic stability, whose length was measured in centuries!

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