

Five Lessons From History

Big takeaways about how, and why, people do what they do.

By Morgan Housel, The Collaborative Fund



Collaborative Fund is a leading source of capital for entrepreneurs pushing the world forward.

More at www.collaborativefund.com

“The dead outnumber the living fourteen to one, and we ignore the accumulated experience of such a huge majority of mankind at our peril.”

-- Niall Ferguson on the lessons of history.

“History never repeats itself. Man always does.”

-- Voltaire

The most important lessons from history are the takeaways that are so broad they can apply to other fields, other eras, and other people. That’s where lessons have leverage and are most likely to apply to your own life.

But those things take some digging to find, often sitting layers below the main story.

The Great Depression began with a stock market crash. October 24th, 1929. That’s the story, at least.

It makes for a good story because it’s a specific event on a specific day. But if you were to go back to October 1929, during the crash, the average American might seem unfazed. Only 2.5% of Americans owned stocks in 1929.

The huge majority of Americans watched in amazement as the market collapsed, and perhaps lost a sense of hope that they, too, might someday cash in on Wall Street. But that was all they lost: a dream. They did not lose any money because they had no money invested.

The real pain came nearly two years later, when the banks started to fail.

Just over 500 U.S. banks failed in 1929. Twenty-three hundred failed in 1931.

When banks fail, people lose their savings. When they lose their savings they stop spending. When they stop spending businesses fail. When businesses fail, banks fail. When banks fail people lose their savings. And so on endlessly.

The stock market crash wasn't a relevant lesson to the vast majority of Americans who didn't own stocks in 1929 and likely never would for the rest of their lives. But the bank failures upended the day-to-day lives of tens of millions of Americans. That's the real story of how the Depression began.

As we look back at the Depression 90 years later, you might think the main lesson is "don't let the banks fail." And it's a good lesson.

But it's also a lesson that's not useful to many people today.

I don't know.

And does it even apply to bank regulators in 2019, when things like FDIC insurance now lower the odds of repeating the kind of consumer bank runs we saw in the 1930s?

Only a little, I'd say.

The point is that the more specific a lesson of history is, the less relevant it becomes. That doesn't mean it's irrelevant. But the most important lessons from history are things that are so fundamental to the behaviors of so many people that they're likely to apply to you and situations you'll face in your own lifetime.

Let me offer one of those lessons from the Great Depression. I think it's one of the most important lessons of history:

Lesson #1: People suffering from sudden, unexpected hardship are likely to adopt views they previously thought unthinkable.

One of the most fascinating parts of the Great Depression isn't just that the economy collapsed, but how quickly and dramatically people's views changed when it did.

Americans voted Herbert Hoover into office in 1928 with one of the biggest landslides in history (444 electoral college votes). They voted him out in 1932 with a landslide in the other direction (59 electoral college votes).

Then the big changes began.

The gold standard, gone. Gold actually became [illegal to own](#).

Public works, surged.

Attempts to provide taxpayer-funded old-age pension insurance made no progress for decades, with supporters arrested on the Capitol lawn during the most serious push after World War I. The Depression practically flipped a switch: a fringe idea was suddenly embraced. The Social Security Act was passed in 1935 372 to 33 in the House of Representatives, and 77 to 6 in the Senate.

On the other side of this was an alleged coup by wealthy businessmen to overthrow Franklin Roosevelt, with a Marine General named Smedley Butler [taking his place as dictator](#), similar to fascist trends sweeping Europe at the time.

These are not the kind of things that occur when people are sleeping well and have stable jobs. It's not until your life is upended, your hopes dashed, your dreams uncertain that people begin to take ideas they'd never consider before seriously.

Nowhere was this more powerful than in Germany, where the Great Depression was preceded by a devastating hyperinflation that destroyed all paper wealth.

The book *What We Knew* interviews German civilians after World War II, seeking to understand how one of the most civilized cultures turned so sharp, so quickly, and committed the worst atrocities in history:

[Interviewer]: At the beginning of this interview, you said that most grown-ups welcomed Hitler's measures.

[German civilian]: Yes, clearly. One has to remember that in 1923 we had the inflation ... nobody had anything, everybody was unhappy. Then Adolf came to power with his new idea. For most that was indeed better. People who hadn't had a job for years had a job. And then the people were all for the system. When someone helps you get out of an emergency situation and into a better life, then you're going to give them your support. Do you think people would then say, "This is all such nonsense. I'm against that"? No. That doesn't happen. How things were done later on is something else. But the people at that time were happy, even full of enthusiasm, and they all joined in.

These are some of the most extreme examples that exist. But the idea that people who are under stress quickly embracing ideas and goals they never would during calm times has left its fingerprints all over history.

In investing, saying “I will be greedy when others are fearful” is easier said than done, because people underestimate how much their views and goals can change when markets fall apart.

The reason you may embrace ideas and goals you once thought unthinkable during a downturn is because more changes during downturns than just asset prices.

If I, today, imagine how I’d respond to stocks falling 30%, I picture a world where everything is like it is in 2019 except stock valuations, which are 30% cheaper.

But that’s not how the world works.

Downturns don’t happen in isolation. The reason stocks might fall 30% is because big groups of people, companies, and politicians screwed something up, and their screw ups might sap my confidence in our ability to recover. So my investment priorities might shift from growth to preservation. It’s difficult to contextualize this mental shift when the economy is booming. That’s why more people say they’ll be greedy when others are fearful than actually do it.

The same idea holds true for companies, careers, and relationships. Hard times make people do and think things they’d never imagine when things are calm.

Lesson #2: Reversion to the mean occurs because people persuasive enough to make something grow don’t have the kind of personalities that allow them to stop before pushing too far.

What kind of person makes their way to the top of a successful company, or a big country?

Someone who is determined, optimistic, doesn’t take “no” for an answer, and is relentlessly confident in their own abilities.

What kind of person is likely to go overboard, bite off more than they can chew, and discount risks that are blindingly obvious to others?

Someone who is determined, optimistic, doesn’t take “no” for an answer, and is relentlessly confident in their own abilities.

Reversion to the mean is one of the most common stories in history. It's the main character in economies, markets, countries, companies, careers -- everything.

Part of the reason it happens is because the same personality traits that push people to the top also increase the odds of pushing them over the edge.

This is true for countries, particularly empires. A country determined to expand by acquiring more land is unlikely to be run a person capable of saying, "OK, that's enough. Let's be thankful for what we have and stop invading other countries." They'll keep pushing until they meet their match (usually Russia).

It's true for companies. The kind of corporate culture that lets companies dominate an industry is not friendly to people who say, "I think we've grown too fast. Maybe we should scale back." They'll keep pushing until they're forced to make painful cuts.

It's true for investors. The kind of personality willing to take enough risks to earn outsized returns is generally not compatible with the kind of personality willing to shift everything into muni bonds once they've made enough money. They'll keep taking risks until those risks backfire. It's why the Forbes list of billionaires [has 60% turnover per decade](#).

Long-term success in any endeavor requires two tasks: Getting something, and keeping it. Getting rich and staying rich. Getting market share and keeping market share.

These things are not only separate tasks, but often require contradictory skills. Getting something often requires risk-taking and confidence. Keeping it often requires room for error and paranoia. Sometimes a person masters both skills -- Warren Buffett is a good example. But it's rare. Far more common is big success occurring because a person had a set of traits that also come at the direct cost of keeping their success. Which is why downside reversion to the mean is such a repeating theme in history.

Take the best current example: Elon Musk.

What kind of 32-year-old thinks they can take on GM, Ford, and NASA at the same time? The kind of person who thinks normal constraints don't apply to them -- not in an egotistical way, but in a genuine, believe-it-in-your-bones way. Which is also the kind of person who doesn't worry about, say, SEC rulings about your Twitter etiquette.

The kind of person [who says there's a 99.9999% chance](#) humanity is a computer simulation is not the kind of person worried about making untenable promises to shareholders.

A mindset that can dump a personal fortune into colonizing Mars is not the kind of mindset that worries about the downsides of hyperbole.

Musk is a visionary genius. He's an extraordinary engineer. He's a lot of amazing things. But the same traits that have fueled success have counteracting sides that make keeping that success a challenge, which partly explains Tesla's current state.

History is full of these things in varying degrees. At some level they apply to all of us because the successes we have -- at any level -- trigger behaviors that can make keeping those successes difficult. Overconfidence. Over-optimism. Cherry-picking.

Jason Zweig summed this up so well: "Being right is the enemy of staying right because it leads you to forget the way the world works."

Lesson #3: Unsustainable things can last longer than you anticipate.

There's a long history of military leaders following a logic that goes like this: "The enemy is outnumbered. They are out-gunned. We are gaining ground each day. Their morale will soon break and, accepting reality, they will surrender."

And then that outnumbered, out-gunned enemy keeps fighting, and fighting, and fighting. Sometimes to the last man.

A rational person might look at this and say, "Why are they still fighting? It's unsustainable, and they have to know it."

But wars often aren't governed by spreadsheets and clean reasoning. During the Vietnam War, Ho Chi Minh put it bluntly: "You will kill ten of us, and we will kill one of you, but it is you who will tire first."

Identifying that something is unsustainable does not provide much information on when that thing will stop. To tie this into the last lesson: Knowing there will be a reversion to the mean does not mean you know when things will revert. Unsustainable things can sustain for a long time.

There are two reasons why. One is incentives. The other is storytelling.

If you looked at the U.S. housing market in 2003 and said, “Prices are too high. Growth is being fueled by low interest rates that are going to rise soon. This is unsustainable,” you were 100% right.

But the housing market kept rising for another four years. Bankers kept lending, buyers kept buying.

Why?

Put yourself in the shoes of a subprime mortgage broker in 2003. Your job was to make loans. Feeding your family relied on you making loans. And if you didn't make those loans, someone else would, so quitting in protest just lowers your pay and hurts you more than it hurts anyone else. Plus, that pay was huge. Rule of thumb: The more unsustainable an industry gets, the more it relies on inexperienced workers pulled from less prosperous industries to expand. Exposed to pay they couldn't dream of before, those workers become more susceptible to looking the other way as their industries go off the rails.

True story about a guy I knew well: A pizza delivery man who became a subprime mortgage banker in 2005. Virtually overnight he could earn more per day than he earned per month delivering pizza. The bar for him to say, “This is unsustainable so I'm going to quit and deliver pizza again” is unbelievably high. It would be high for most of us. I didn't blame him then, and I don't blame him now. A lot of people screwed up during the financial crisis. But an unpopular view I have is that most of us underestimate the extent to which we'd act similarly if we wandered into the same incentive pool.

This goes up the food chain, from the broker to the CEO, the investors, the real estate appraiser, the realtor, the house flipper, the politician, the central banker -- incentives lean heavily towards not rocking the boat. So everyone keeps paddling, long after the market becomes unsustainable.

Then there's the storytelling.

If enough people believe something is true, unsustainable ideas can gain durable life support.

Stories are more powerful than statistics because they take less effort for your brain to contextualize complex issues.

“Housing prices in relation to median incomes are now above their historic average, and typically mean revert, but historically a lot depended on the direction of interest rates, building costs, and many other variables,” are statistics.

“Jim just made \$300,000 flipping homes and can now retire early and his wife thinks he’s amazing” is a story. And it’s way more persuasive in the moment.

It’s more persuasive because the gap between what works in a spreadsheet and what’s practical in real life can be a mile wide. This usually isn’t because we don’t know the statistics. It’s because spreadsheets are cold and rational, but real life is messy and involves all kinds of variables from different parts of the world that are easy to leave out of spreadsheets but easy to tell in stories.

On paper, or to outside observers, decisions should be made with facts. In reality, to those in the field, they’re made with facts contextualized with things like social signaling, [time horizon](#), office politics, government politics, year-end bonus targets, making up for past mistakes, massaging insecurities, and so on. There are so many moving parts that the easiest way to answer the question “What should I do?” is to be guided by a story that makes sense to you. Not a statistic, and not a fact. A good tale.

That’s not ideal. But it’s [realistic and reasonable](#). And it helps explain why people keep doing things long after they’re factually unsustainable.

The solution is knowing the difference between expectations and forecasts. The former are good, the latter should be used sparingly. The difference between “That looks unsustainable so I don’t want to be a part of it,” and “That looks unsustainable so I’m going to bet that it will end by Q1 2020” is enormous.

Lesson #4: Progress happens too slowly for people to notice; setbacks happen too fast for people to ignore.

There are lots of overnight tragedies. There are rarely overnight miracles.

On January 5th, 1889, the Detroit Free Press pushed back against the long-held dream that man could one day fly like a bird. Airplanes, the paper wrote, “appear impossible”:

The smallest possible weight of a flying machine, with the necessary fuel and engineer, could not be less than 300 or 400 pounds ... but there is a low limit of weight, certainly not much beyond fifty pounds, beyond which it is impossible for an animal to fly. Nature has reached this limit, and with her utmost effort has failed to pass it.

Six months later, Orville Wright dropped out of high school to help his brother, Wilbur, tinker in their backyard shed to build a printing press. It was the brothers’ first joint invention. It would not be their last.

If you had to make a list of the most important inventions of the 20th century, the airplane would be at least top five, if not number one. The airplane changed everything. It started world wars, it ended world wars. It connected the world, bridging gaps between cities and rural communities; oceans and countries.

But the story of the Wright Brothers’ quest to build the first plane has a fascinating twist. After they conquered flight, no one seemed to [notice](#). [Nobody seemed to care](#).

In his 1952 book on American history, Frederick Lewis Allen wrote:

Several years went by before the public grasped what the Wrights were doing; people were so convinced that flying was impossible that most of those who saw them flying about Dayton [Ohio] in 1905 decided that what they had seen must be some trick without significance – somewhat as most people today would regard a demonstration of, say, telepathy. It was not until May, 1908 – nearly four and a half years after the Wright’s first flight – that experienced reporters were sent to observe what they were doing, experienced editors gave full credence to these reporters’ excited dispatches, and the world at last woke up to the fact that human flight had been successfully accomplished.

Even after people caught on to the plane’s wonder, they underestimated it for years. First it was seen mainly as a military weapon. Then a rich person’s toy. Then, perhaps, used to transport a few people.

The *Washington Post* wrote in 1909: “There will never be such a thing as commercial aerial freighters. Freight will continue to drag its slow weight across the patient earth.” The first cargo plane took off five months later.

Now compare that slow, years-long awakening to how quickly people pay attention to a corporate bankruptcy.

Or a major war.

Or a plane crash. Some of the first mentions of the Wright’s plane came in 1908 when an Army Lieutenant named Thomas Selfridge [was killed](#) during a demonstration flight.

Growth is driven by compounding, [which always takes time](#). Destruction is driven by single points of failure, which can happen in seconds, and loss of confidence, which can happen in an instant.

The irony is that growth -- [if you can stick around](#) -- is a more powerful force, because it compounds. But setbacks capture greater attention because they happen suddenly.

If you want to measure the progress of medicine, looking at the last year will do you little good. Any single decade won’t do much better. But looking at the last 50 years will show something extraordinary -- the age-adjusted death rate per capita from heart disease [has declined](#) more than 70% since 1965, according to the National Institute of Health. A 70% decline in heart-disease death is enough to save something like half a million American lives per year. Picture the population of Atlanta saved every year. But since that progress happened so slowly, it captures less attention than quick, sudden losses like terrorism or plane crashes. We could have a Hurricane Katrina five times a week, every week -- imagine how much attention that would receive -- and it would not offset the number of annual lives saved by the decline in heart disease in the last 50 years.

This same thing applies to businesses, where it takes years to realize how important a product or company is, but failures [can happen overnight](#). And in markets, where a 40% decline that takes place in six months will draw congressional investigations, but a 140% gain that takes place over six years can go virtually unnoticed. And in careers, where reputations take a lifetime to build and a single email to destroy.

Understanding the speed differences between growth and loss explains a lot of things, from why [pessimism is seductive](#) to [why long-term thinking is so hard](#).

Lesson #5: Wounds heal, scars last.

More than thirty million people -- about the population of California -- died over four years on the Eastern Front during World War II. The dozen or so territories that made up the Soviet Republic represented about 10% of the world's population in 1940. By 1945, 13.7% of that group was dead. Forty thousand villages were completely destroyed.

But most of the physical damage was cleared away and rebuilt by 1960. There are stories of people still finding bones, bullets, and bombs today. But the physical damage of the war was cleaned up. Industries rebuilt. People reorganized. Total population surpassed its pre-war level less than a decade after the war ended.

This trend was bigger in Japan, whose economy opened up to global markets after the war. In 1946 Japan was producing enough food to provide only 1,000 calories a day for its people. By 1960 it was one of the fastest-growing economies in the world. Its GDP increased from \$91 billion in 1965 to \$1.1 trillion in 1980, with technology and manufacturing rivaling and surpassing any other region in the world.

The same is true for recessions; things heal. And markets -- things recover. And businesses -- past mistakes are forgotten.

Those who survive calamities -- an important distinction -- have a remarkable ability to adapt and rebuild. It's often far greater than you expect it to be at the end of the calamity.

But there's a big difference between a wound healing and a scar remaining.

There's a long history of people adapting and rebuilding while the scars of their ordeal remain forever, changing how they think about risk, reward, opportunities, and goals for as long as they live.

A study of 20,000 people from 13 countries who lived through World War II were 3% more likely to have diabetes as adults and 6% more likely to suffer depression. Compared to those who avoid the war, they were less likely to marry and less satisfied with their lives as older adults.

In 1952 Frederick Lewis Allen wrote about those who lived through the Great Depression:

[They] were gnawed at by a constant lurking fear of worse things yet, and in all too many cases actually went hungry; but because what was happening to them seemed without rhyme or reason.

Most of them had been brought up to feel that if you worked hard and well, and otherwise behaved yourself, you would be rewarded by good fortune. Here were failure and defeat and want visiting the energetic along with the feckless, the able along with the unable, the virtuous along with the irresponsible. They found their fortunes interlocked with those of great numbers of other people in a pattern complex beyond their understanding, and apparently developing without reason or justice.

Even if they tried to hide their dismay, their children sensed it and were marked by it. The editors of *Fortune* wrote in 1936: “The present-day college generation is fatalistic . . . it will not stick its neck out. It keeps its pants buttoned, its chin up, and its mouth shut. If we take the mean average to be the truth, it is a cautious, subdued, unadventurous generation. . . .”

As time went on there was a continuing disposition among Americans old and young to look with a cynical eye upon the old Horatio Alger formula for success; to be dubious about taking chances for ambition’s sake; to look with a favorable eye upon a safe if unadventurous job, social insurance plans, pension plans. They had learned from bitter experience to crave security.

They had learned from bitter experience to crave security. This, again, was written in the 1950s, when the U.S. economy was roaring and the unemployment rate was near a record-low of less than 3%.

It is too easy to examine history and say, “Look, if you just held on and took a long-term view, things recovered and life went on,” without realizing that mindsets are harder to repair than buildings and cash flows.

We can see and measure just about everything in the world except people’s moods, fears, hopes, grudges, goals, triggers, and expectations. That’s partly why history is such a continuous chain of baffling events, and always will be.

More on this topic:

[You Have to Live It to Believe It](#)

[The Greatest Story Ever Told](#)

[What We Said When the World Changed](#)



Collaborative Fund is a leading source of capital for entrepreneurs pushing the world forward.

More at www.collaborativefund.com