

Book Review
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The Crowd
By Gustave Le Bon

Notes from The Crowd by Gustave Le Bon

Author's Preface

Racial characteristics normally determine how a person acts. However, when gathered together in a crowd for the purposes of action, the mere fact of them being assembled results in new psychological characteristics that modify significantly their racial characteristics.

Today, Le Bon's term "racial" is definitely not politically correct. However, my reading of Le Bon's meaning is that he used the term "race" in the absence of a better one. Today I think we would describe what he meant as "cultural" in the broad sense of the inherited and learned attitudes, beliefs and opinions that each of us have as a result of the time and place of our birth and upbringing.

This note captures the fundamental thesis that Le Bon develops in the book – that a person acts differently under the influence of a group to the way that person would act as an isolated individual. The book deals with why that is so and the nature of the psychological characteristics of groups of people who make up what Le Bon calls a "psychological crowd".

The part played by the unconscious in our acts is immense and that played by reason very small.

This sentence sums up an important thrust of what Le Bon is saying - that crowds do not think logically. Instead they are driven by emotional feelings of which the individual may not be aware and which are therefore unconscious.

Introduction – The Era of Crowds

The world and civilisations are based on dogmas. These assume a tyrannical force because they come to be above discussion.

This is a fascinating insight by Le Bon. The way certain ideas that are the basis of our society and the way we live are above discussion. Hence the tyrannical force of ideas that cannot admit questions or discussion. We see this today in our own society, where certain beliefs are outside what is allowed to be discussed or questioned. Anyone who tries to inject facts or ask questions is vilified as a traitor, a racist, a sexist or whatever.

Men never shape their conduct on pure reason.

This has profound relevance to trading and investing. Emotion, feelings, unconscious influences, ego and so on all affect our actions. So, while a trading or investment approach should be based on reason and logic, it also needs to take into account the psychological pressures, which can make it difficult to follow our plan. Realisation of this is a very important step for beginners to take. Most beginners assume it is all logic and reason. Only when we understand that our personal psychology, and the effect on us of crowd psychology, is far more pervasive, have they reached the start of a realisation that leads to success.

Book 1 The Mind of Crowds

Chapter 1 General Characteristics of Crowds – Psychological Law of Their Mental Unity

Ordinary use of the word “crowd” is a gathering of individuals. However, Le Bon is concerned with a **psychological crowd**, where under certain circumstances a gathering develops new characteristics that are very different from those of the individuals composing it. The sentiments and ideas of everyone in the gathering have a single direction and their conscious personality vanishes. A collective mind is formed – he calls it a mental unity.

“The disappearance of conscious personality and the turning of feelings and thoughts in a different direction, do not always involve the simultaneous presence of a number of individuals on one spot. Thousands of isolated individuals may acquire the characteristics of a psychological crowd.”

Thus a group of six people may constitute a psychological crowd, but a collection of many hundreds may not.

These ideas are critical to the whole idea that crowd psychology applies to stock markets. Most people can accept the idea that there was a crowd on the trading floor of the old pre-computerised exchange. Similarly, it may still apply to the floor of the New York Stock Exchange or to the futures pits in Chicago. However, it is more difficult for many to accept the relevance of crowd influences on our current computerised market.

While Le Bon mentions the effect of the newspapers of his time, he could not imagine the effect of modern wireless and electronic communications. These turn the entire community into a big crowd on many issues. Just think of how the media created a crowd reaction to the death of Princess Diana or to the 11 September bombing of the World Trade Centre or to the boarding of the Tampa during the last election campaign. Clearly, certain issues can create crowd hysteria of the kind Le Bon talks about without a crowd of people being in the one place.

This is nowhere more likely than a situation where prices are rising on a stock market and people around you, or who are profiled on the media, all seem to be able to make lots of money almost effortlessly and instantly. Advertising adds to this impression once the unscrupulous come out to prey on the crowd who have been seduced by this illusion of instant wealth.

From there, the individual is going to talk frequently to others who have a similar interest, personally or in Internet chat rooms etc, and to seek out the views of advisers and experts, who will tend to reinforce the crowd characteristics.

Whoever constitutes a crowd, no matter how diverse their character, intelligence, occupation and so on, the fact that they are transformed into a crowd puts them into possession of a sort of collective mind that makes them feel, think and act differently than if they were alone. Importantly, certain ideas and feelings do not transform themselves into acts except in a crowd.

While Le Bon was to some extent a prisoner of his time in some of his chauvinistic attitudes towards women, other races and the masses, he makes the point strongly here and in other places that even highly intelligent and cultured people are just as susceptible to crowd influences. Moreover, in a crowd situation their

behaviour is difficult to distinguish from less educated people. Later we will see that the crowd takes on the character of the least educated people in it.

There has been plenty of evidence of this in the general education level of the people I have seen involved in the boom leading to the 1987 crash and again in the Internet and communications bubble of the 1990s. The more educated among us should beware of hubris in this area – I have met many who thought they were above all this, yet they could not see themselves as I saw them – fatally attracted to the bubble market like a moth to a candle.

The unconscious mind affects everything including the operations of intelligence. It is far more powerful than the conscious mind. Thus, behind what we do or think rationally are unconscious motives. Behind those are even less conscious motives, so that the greater part of our daily actions will be driven by hidden motives.

It follows that while there may be a great difference in education and intelligence between two people, the difference in character deriving from unconscious motives will be slight. It is these general qualities of character, governed by the unconscious, but possessed by most normal people, that become common elements in crowds.

Because crowds possess these common ordinary qualities, they can never accomplish acts demanding a high degree of intelligence – no matter how bright or knowledgeable some members may be, the crowd can only bring to bear in common the mediocre qualities of the average individual.

Here, Le Bon develops the idea that intelligence of some of its participants has no bearing on the attitudes and actions of the crowd. Because intelligent people, and those of lesser intellect, are all driven by the same basic motives and unconscious desires, there is no difference between them when in a crowd situation. Thus, if an intelligent person or person tries to get the crowd to take on ideas or to act based on logic, reason and intelligence, it will fail, because the crowd is not driven by these things, but by the underlying unconscious motives. When Le Bon develops the way crowds think in images, we will see how this process works.

Causes of the characteristics of crowds:

1. The crowd gives an individual numerical strength so that there is a sense of invincible power, which allows them to yield to instincts, which they would not have if acting alone. One factor here is the anonymity provided by the crowd, so that no one person is responsible as they would if acting alone.
2. Contagion – where an individual feels strongly the need to sacrifice his personal interest to the collective interest. This is rarely the case when an individual acts alone.
3. The atmosphere, that is akin to suggestibility, which acts like magnetism or hypnosis.

These are quite perceptive ideas. Some may query contagion in stock markets - the way Le Bon describes it anyway. However, I have seen enough to be very respectful of the power of contagion in the area of illusions of instant wealth. Nothing quite seems to drive people like this basic urge to become rich without effort. Having company in the crowd, with the same idea, makes it easy for most people to legitimise their selfish pursuit of wealth even by means as "evil" as speculation, when others may lose to allow them to win. Yet they would hesitate to do so if they were isolated individuals. The role of the media is very important today in fostering and legitimising these urges.

The conclusion is that the crowd is always intellectually inferior to the isolated individual, but depending upon the circumstances may be better or worse than the isolated individual depending upon the extent of submersion of personal interest to a nobler cause of the crowd. So, a crowd may be criminal, but also heroic.

This has more relevance to those interested in crowd psychology in the wider society.

Chapter 2 The Sentiments and Morality of Crowds

(1) Impulsiveness, Mobility and Irritability of Crowds

A crowd is at the mercy of all exciting external causes and is the slave of the impulses it receives. An isolated individual, by comparison, is submitted to the same causes, but will be able to control his reflex actions to them unlike the crowd, which is devoid of that capacity.

This is a critical element in Le Bon's description of the way people behave in crowds. Alone, they are able to think calmly for themselves, but in a crowd, there is a collective reaction to the images and events that are witnessed. Also, there is no time to think about the suggestions that are given to a crowd before it reacts and sweeps us along.

The exciting causes of the moment that vary incessantly and the crowd's inability to resist them, explains how it is so mobile, swinging quickly from bloodthirsty ferocity to generosity and heroism.

This is central to the application of crowd psychology to stock markets. Consider the way a stock is going up and up and then there is a minor piece of bad news. Its price plummets, even though nothing has really changed. This is the way the crowd swings from hero worship to vilification if once a hero stumbles. It is images and perceptions that drive crowds, not facts. Reason cannot change the way they react.

Because of the crowd's feeling of irresistible power from its numerical strength, it is irritable in the sense that it refuses to accept interference with realisation of its desire of the moment.

This has great relevance to physical crowds bent on violence. However, it has just as much importance in markets. I remember trying to explain to people during the Internet boom that the Internet was just the latest technology and that while it would change the world the way other technology has, it was not special. Needless to say I was ignored or derided as living in the past. How could I be right when everyone else and the media were telling them that the Internet was daily changing our world forever and that great fortunes could be made speculating on Internet stocks.

This idea of numerical strength is important. It ties in with the idea of the anonymity of crowds that Le Bon mentions elsewhere. "Everyone" cannot be wrong and even if they are, we will all be wrong together and I will not look a fool as an individual. Very powerful stuff this.

(2) The Suggestibility and Credulity of Crowds

One of the definitional characteristics of a crowd is its excessive suggestibility and that these suggestions are contagious. This explains the rapid turning of the sentiments of crowds.

A crowd can not be otherwise that extremely credulous because it is perpetually hovering on the border of unconsciousness, yields to all suggestions and has a violence of feeling peculiar to someone who cannot appeal to reason and thus deprived of all critical faculty.

The process where events are great perversions in the imagination of the crowd means that the simplest event is soon totally transformed. A crowd thinks in images and each image calls up other images having no connection with the first. The crowd accepts as real the images evoked in its mind, though they have only tenuous relation to the observed fact.

Le Bon observed that even a group of intelligent and learned people assume the characteristics of crowds with regard to matters outside their specialty. The faculty of observation and the critical spirit possessed by each individually soon vanishes.

I am sure we have all seen this in action. Within our realm of knowledge we may be rational and logical based on knowledge, research, experience etc. We make fine distinctions between different events or facts. However, once the subject moves away from our knowledge area, we become just like everyone else. We see simplicity (especially simple answers to complex problems) where there is complexity and we speak in great ignorance. We do this because, lacking knowledge ourselves, we rely upon the views of others as though they were facts and we respond to our unconscious motives and feelings.

(3) The Exaggeration and Ingenuousness of the Sentiments of Crowds

Feelings of crowds are both very simple and very exaggerated. A member of a crowd resembles primitive beings incapable of fine distinctions, seeing things as a whole and blind to their intermediate phases. Suggestion and contagion ensure that the feelings are communicated quickly and with great force.

So, a crowd knows neither doubt nor uncertainty. It goes at once to extremes. A suspicion is immediately transformed into incontrovertible evidence.

Yes. Exactly what happened to so many people during the Internet and communication bubble. They were so certain that the Internet would rule the world and bring great wealth to the true believers that they never stopped to question, examine, test or evaluate what was happening. The word Internet became a code image for a new rapidly changing world that took no prisoners. You had to go with it or be left by the wayside. Remember? It was not that long ago.

The violence of crowd feeling is increased by the absence of all sense of responsibility – the certainty of impunity, being the stronger the more numerous the crowd.

In the stock market this has relevance in the way those infected by the contagion really believe that they are not taking a risk. They borrowed money to speculate. They never stop to even consider they might lose. Isn't everyone else doing it too? I would be a mug not to get my share. They saw the Internet as a "magic pudding". I had many conversations in which people tried to tell me that speculating on the Internet was as close as you could get to a "sure thing".

In crowds, the foolish, ignorant and envious are freed from their insignificance and powerlessness and feel that they have brutal and temporary but immense strength.

This has obvious application to violent physical crowds. However, I saw it in the Internet bubble in a different way. People with no education in the markets were suddenly risking huge sums. They saw it as a game that did not require special skills or experience. Especially when they had bought a computer program from one of the snake oil salesmen. Their lack of education had always held them back from wealth. Now here it was for anyone. Didn't their mate double her money in a week on an Internet stock? Don't the advertisements tell you it can be done if you have the right software?

What it comes down to is believing what they want to hear. However, the crowd is vital. As an individual, they might look foolish if they failed. But if everyone they knew was in it too?

This tendency of crowds toward exaggeration seems to be often related to bad sentiments – instincts that fear of punishment would cause an individual to curb. So, crowds can be led into the worst excesses. However, it does often result in heroic sentiments also.

A crowd is only impressed by excessive sentiments. An orator wishing to move a crowd must exaggerate, affirm, resort to repetitions and never attempt to prove anything by reasoning.

(4) The Intolerance, Dictatorship and Conservatism of Crowds

Crowds only hold simple and extreme sentiments. The opinions, ideas and beliefs suggested to them are accepted or rejected as a whole and considered either as absolute truths or as absolute errors.

Since a crowd therefore has no doubt it is correct and at the same time has a feeling of strength, it will be intolerant and never accept contradiction or discussion.

(5) The Morality of Crowds

Taking the word morality to mean constant respect for certain social conventions and the permanent repression of selfish impulses, it is clear that crowds are too impulsive and mobile to be moral.

This is not to say that some crowds at some times do not uphold lofty ideals.

Chapter 3 The Ideas, Reasoning Power and Imagination of Crowds

(1) The ideas of Crowds

Every civilisation is the outcome of a small number of fundamental ideas that are rarely renewed. These are very powerful once implanted in the minds of crowds. They are also very hard to change.

Whatever ideas are suggested to crowds are only effective if they assume a very absolute, uncompromising and simple shape. They are presented as images and are only accessible to crowds in this form.

These image-like ideas are not connected by any logical succession. This explains how a crowd may hold contradictory ideas at the same time. The complete lack of critical spirit does not allow it to perceive these contradictions.

This phenomenon is not peculiar to crowds. It is also seen in isolated but fervent individuals.

Ideas are only accessible to crowds after having assumed a very simple shape. So most ideas have to be transformed (simplified) before they become popular. It also needs to enter the unconscious and become a sentiment. This takes time.

Through the 1980s and into the 1990s, I had read a constant flow of articles about the Internet. How it was designed for nuclear war. How the scientific community was using it for research. It was all out there for years and years. And then it was transformed into something simple – Internet browser software - and the whole thing caught fire. I guess one thing that saved me and helped me keep it in perspective was that I had read all the articles, been part of the bulletin board phase, and Telstra's early network – most people do not believe that I was placing orders on "telebroking" before I went to the office each day back in the 1980s. Internet trading a decade before the Internet!

The justness of an idea is not effective, even in cultivated minds. Although they accept the merit of the new idea, they soon revert to original conceptions by the unconscious. Crowds operate the same way – on unconscious sentiments.

It takes time to establish ideas in crowds, but it also takes a long time to eradicate them – so crowds are always well behind learned men and philosophers.

(2)The Reasoning Power of Crowds

The characteristics of the reasoning of crowds are:

- Association of dissimilar things possessing a merely apparent connection.
- The immediate generalisation of particular cases.

A chain of logical argumentation is incomprehensible to crowds.

Reading a speech often shows it to sound weak. It is not intended to appeal to a logical person, but to appeal to the crowd. It will be found to evoke images, which seduce the crowd.

Next time you hear a politician speaking on television, listen carefully to the code words that are shorthand for vague ideas – many of them believed by him or her like "motherhood". Then read the experts on investment – myself included – and see how we do the same thing. So, it is easy for unscrupulous people to defraud the unsuspecting. It is also easy for the misguided to lead the innocent to losses. The ASIC showed this with its fake April Fools Day advertisements to invest in things like left handed Mars bars!

Modern TV advertising is just this phenomenon taken to an extreme.

(3)The Imagination of Crowds

The images invoked in the minds of crowds are almost as lifelike as reality.

Since crowds are incapable of reflection and reasoning, and devoid of the notion of improbability, so it is that the improbable things are often the most striking. So it is that the legendary and the miraculous side of events are most likely to strike crowds.

And did the Internet become like a legend? Is it coincidental that The Lord of the Rings and Harry Potter and all the imitations flourish in the popular culture? Jack Schwager even called great traders "Wizards" in his best selling books of interviews.

Often, the unreal has almost as much influence on crowds as the real. Certainly the crowd cannot easily distinguish between the two.

Chapter 4 A Religious Shape Assumed by all the Convictions of Crowds

We have seen that:

- Crowds do not reason
- They accept or reject ideas as a whole
- They tolerate neither discussion nor contradiction
- Suggestions tend to dominate them and turn into acts
- Suitably influenced, they will sacrifice for an ideal
- Only entertain violent and extreme sentiments (transformed mild ideas)

Thus they take on what Le Bon chose to call a religious sentiment.

This religious sentiment has simple characteristics:

- Worship of a being supposed superior
- Fear of the power of the superior being
- Blind submission to its commands
- Inability to discuss its dogmas
- The desire to spread them
- A tendency to consider as enemies all who do not accept the dogmas

Thus, intolerance and fanaticism are the necessary accompaniments of religious sentiment.

Book 2 The Opinions and Beliefs of Crowds

Chapter 2 The Immediate Factors of the Opinions of Crowds

(1) Images, Words and Formulas

Crowds are particularly influenced by images. The power of words lies in how they evoke images and is independent of their real significance.

I had a fascinating conversation with two political apparatchiks soon after the election in which I suggested that their political leader often spoke in "code", which is the modern psychological lingo for the idea that Le Bon calls "images". They were appalled at the idea and said I was imagining things. Yet that is exactly what these codes do – open our feelings and emotions to work in place of our reason. Certain names, words, titles and jargon are loaded with meaning, even if that meaning is vague. Its very vagueness gives it its power, as we will see in Le Bon's next idea:

Words which are the most difficult to define are often evocative of images that have the most influence eg Democracy, Equality, Liberty. They possess magical power as if they contained the solution to all problems. They synthesise the most diverse and unconscious aspirations.

And as David Dreman expounds so clearly in his books, the most difficult thing of all to define exactly is the value of a stock. So, this area is wide open to the use of images by gurus and experts to have us believe that any price is reasonable in a bull market.

Reason and words are incapable of combating certain words and formulas. It is their very vagueness that that makes them impervious to reason.

Try talking to anyone who had fallen in love with an Internet stock that it had no business, made no profits, paid no dividends and so on. No matter what evidence we produce, these people come back with images and ideas that can not be pinned down, but somehow to them explain everything.

Their main function is to relieve the person who employs them of the obligation of thinking – in fact all that is necessary to traverse life without the tiring necessity of having to reflect on anything whatever.

(2) Illusions

The illusions of society today are the heaped up ruins of the past.

The masses have never thirsted after truth. They turn aside evidence that is not to their taste, preferring to deify error, if error seduce them. Whoever can supply them with illusions is easily their master and whoever attempts to destroy their illusions is their victim.

So those of us who tried to warn the lemmings heading for the Internet cliff, were cast aside by the true believers in their haste to oblivion.

(3) Experience

Experience constitutes almost the only effective process by which truth may be solidly established in the minds of the masses. To do it, experience must take place on a wide scale and be very frequently repeated – often across generations.

(4) Reason

Crowds are not influenced by reason and can only comprehend rough-and-ready associations of ideas. So, effective orators only appeal to sentiments, never to their reason. The laws of logic have no action on crowds.

Chapter 3 The Leaders of Crowds and their Means of Persuasion

(1) The Leaders of Crowds

As soon as people gather together they place themselves instinctively under the authority of a chief. He may be no more than a rig leader or agitator, but plays an important part. He will be the focus of the opinions of the crowd.

This role is often carried out by the gurus and experts in the stock market. The crowd hang on their every word. Can you think of some of them? They advertised frequently to sell you newsletters and trading systems. Others just developed a reputation for good calls on the way up. Some names will come to mind as the "high priests" (or priestesses) of the bull market.

Personally, this worried me as a magazine writer. I had people who read what they wanted into what I wrote, often in contradiction to the overall thrust of what I was saying. Still, I thought it best to try to point the way of reason and sanity for those who were still listening. And many did listen. I have had many emails from readers thanking me for warning about the dangers, which they avoided.

The leader will often start as one of the led – hypnotised by the idea whose apostle he has become.

They are more frequently men of action rather than thinkers. However absurd may be the idea they uphold, or the goal they pursue, their convictions are so strong that all reasoning is lost upon them.

This intensity of their faith gives great power of suggestion to their words. The multitude is always willing to listen to the strong-willed man, who knows how to impose himself on it. Men gathered in a crowd lose all force of will and turn instinctively to a person who possesses the quality they lack.

(2) The Means of Action of the Leaders: Affirmation, Repetition, Contagion

When it is proposed to imbue the mind of a crowd with ideas and beliefs, leaders have recourse to affirmation, repetition and contagion. Their action is slow, but its effects once produced are lasting.

Affirmation, kept free of all reasoning and all proof is one of the surest means of making an idea enter the mind of crowds. The more concise the affirmation, the more destitute of proof or demonstration, the more weight it carries.

However, it has no real weight unless it is constantly repeated, as far as possible in the same terms. With repetition, the idea becomes fixed in the mass mind as a demonstrated truth – because it becomes embedded in the unconscious.

Finally with enough repeated affirmation, contagion takes over. Physical crowd presence is not needed, so long as the influence of events give all minds the characteristics of crowds.

Imitation is in reality a mere effect of contagion. This makes fashion so powerful – it requires boldness to go counter to the fashion.

Contagion includes not only opinions, but also feelings.

(3) Prestige

Prestige is a sort of domination exercised in our minds by an individual, a work or an idea. This domination entirely paralyses our critical faculty. It is often the result of repeated affirmations.

Crowds, and individuals as a rule, stand in need of ready-made opinions on all subjects. The popularity of these opinions is independent of their truth and is solely dependent on their prestige,

Prestige is fundamental to persuasion. Consciously or not the being, idea or thing possessing prestige is immediately imitated by contagion and forces an entire generation to accept certain modes of feeling and expression.

Prestige often flows from success – forces itself into recognition and ceases to be called into question. Failure can cause it to vanish quickly. However, discussion wears it away slowly, but surely. From the moment it is called into question, prestige ceases to be prestige, which is why gods and men who have kept their prestige for long periods have never tolerated discussion.

This has great relevance to the way bubble markets end – suddenly. The idol falls from grace just a little bit, but enough to see that it is fallible. Once the mighty, all successful, Microsoft could be humbled before the courts, then there were doubts about everything to do with The Internet bubble.

On a smaller scale, it happens stock by stock. The valuations are driven so high that the slightest slip puts everyone in doubt and jeopardy. Like calling “fire” in a theatre – same result.

Chapter 4 Limitations on the Variability of the Beliefs and Opinions of Crowds

There are two types of opinions or beliefs of crowds:

- Great powerful beliefs of their civilisation that persist for centuries
- Transitory fashions that come and go in each generation

The precise moment when a great belief is doomed is when it is called into question. Being little else than a fiction, it can only survive if it is not called into question. This is why nations have always displayed intolerance in the defence of their opinions.

These great beliefs regulate all acts of our existence and the most independent spirit cannot escape their influence.

Philosophic absurdity has never been an obstacle to these great beliefs.

Statesmen do not direct these opinions, but follow them – they have a dread of other opinion that causes them to often follow an unstable line of conduct.

Book 3 The Classification and Description of the Different Kinds of Crowds

Chapter 5 Parliamentary Assemblies

The parliamentary system is the expression of the idea, psychologically erroneous, but generally agreed, that a large gathering of men is more capable of coming to wise and independent decision.

The general characteristics of crowds are present:

- Intellectual simplicity
- Irritability
- Suggestibility
- Exaggeration of sentiments
- Preponderating influence of leaders

Simplicity of opinions is most important – an invariable tendency is to solve the most complicated social problems by the simplest abstract principles and general laws applicable to all cases.

This is such a perceptive idea in the current times. This idea alone is evidence of how Le Bon's work has great relevance to today. This is the way politics is conducted in the great global village with the crowd assembled in front of the electronic media. It was, is and always be the tool of the demagogue.

It is always easy to make a crowd accept general assertions, presented in striking terms, although they have never been verified and are probably not verifiable.

In spite of the difficulties, the parliamentary system is best. There are only two serious dangers – inevitable financial waste and the progressive restriction of the liberty of the individual.

This last idea of Le Bon's also has great immediate relevance. Never before has the mood been so strong to restrict individual freedoms – not in authoritarian regimes, but in democratically elected regimes.