

The Lemmings Within

May 2010

Man has a long history of Lemming like behavior. Look back the last 400 years and you'll find the Dutch Tulip Mania in the 17th century, the South Sea Company bubble in the 18th century, the Railroad boom and bust of the 19th century and the U.S. Crash of 1929 followed by the Great Depression. Within our own recent history we have seen the 1980's Japanese equity market bubble, the 1990's New Economy bubble and now the U.S. housing and consumer debt bubbles. We may currently be in the midst of a developing China bubble as well as a bursting sovereign debt bubble.

Beyond economics you can find other societal delusions like the Salem Witch Trials and the Nazi's belief in a superior Aryan race. There was assurance of managed economy's superiority over its ugly cousin capitalism within Stalinist Soviet Union and Maoist China. Today we have people convinced humans will destroy the earth via climate change. Soon we will likely be reading more and more about the coming end of the world predicted to occur on December 21, 2012 by the Mayan calendar...in a Presidential election year no less.

How is it "sane" people, regular people, can come to believe in such Hocus Pocus? We all know how Lemmings can follow each other over the cliff, but most of us don't know this is not something Lemmings actually do. It is a myth, yet this Pied Piper phenomenon perpetuates in man's consciousness, assuring fairly regular mad rushes for tulips, railroad bonds, Japanese equities, dot.coms, real estate and whatever is next.

Where does this behavior come from? Why does it persist within us? I believe the answer lies within the most important element to understanding economics, man's natural insecurity.

Our cognitive mind inspired us out of the cave. But it is that same cognitive mind that also inspires our insecurity. The more you know, the more you know you don't know. Not knowing inspires insecurity, which inspires both our accomplishments as well as our manias. Whatever cave we have, someone else's cave always looks better.

Most of us just want to fit in while at the same time we want to "succeed"...and then we want to succeed more...than the other guy. Every time we succeed we experience a few moments of bliss, of self confidence, until we meet someone who has a better cave, a nicer car, a more attractive spouse, smarter kids, nicer clothes, better friends, more respect in the community. There's always something to be jealous of, something that pokes our fragile self esteem, our insecure mind, inspiring us to seek more and more "success".

Therein lies the foundation to our manic behavior. Virtually all of us just can't get enough. It has less to do with what we have accomplished and more to do with what others have accomplished which we have not...or at least we perceive we have not. So we work hard to fit in and then we work hard to out succeed the other guy. And when we stumble upon success we work hard to sustain and grow it.

Armchair Economic Perspective
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Just recently we learned that Goldman Sachs might have profited greatly by both enabling a bubble to be created as well as to its eventual implosion. They were playing both sides of the trade? They were betting against the U.S. economy? How could they have been so dastardly to do so?

Millions of people lost money and millions lost jobs. Some governments are on the edge of bankruptcy. There are many convinced the U.S. is as well. Taxes will have to go up and economic austerity embraced to pay for the calamity. What was Goldman Sachs thinking?

The answer likely is...they weren't...thinking that is. Everyone at Goldman was just doing...a little more each day, each week, and each month to "succeed", to make more money, to be more accomplished than the guy in the next office. They were doing what they were supposed to do, create value for themselves and their shareholders.

Many think surely someone at Goldman knew the boundary of acceptable, if not legal behavior had been crossed, but when everyone else is doing "it"...whatever "it" is...you would be viewed a fool to be the only one to stop. So we keep putting one foot in front of the other along whatever path the crowd is carrying us in.

If you were a German openly opposing the massacre of Jews, you likely would have suffered their fate. If Al Qaeda heavily populates your village, it probably is a good idea to think and act like them. If your neighbor is getting "rich" speculating on dot.com stocks or houses then you should too. "If Lehman is doing "it" we better be doing "it" as well!"

There likely was no grand conspiracy at Goldman. No more grand conspiracy than the one at Enron. What people don't seem to get is that we humans are a lot more Lemming-like than real Lemmings. The title of one of the books written about Enron seems to have described it best, "A Conspiracy of Fools". This is what we become when prosperity and the madness of crowds triangulate. If it ain't broke then don't fix it. Who wants to stop prosperity...how ever it seems to have manifested?

We are likely forever burdened with our mania nature because it is hard wired into our human nature. Buyer beware when times seem too good to be true for it is only a matter of time before they will be proven so. Adam Smith's invisible hand giveth and taketh away. It can lift you up as well as slap you down. Blame people and companies if you must, but the real culprit to economic calamity is likely when human nature encounters prosperity. We can never get enough until our glutton for success causes an economic heart attack. And for that reason, no one is taking the word "cycle" out of the dictionary any time soon.



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