

ARMCHAIR ECONOMIC PERSPECTIVE How Innovation Inspired the Bubble Economy March 2009

A few folks have suggested it was not disruptive technologies that created our current financial crisis. They believe the real reasons were poor regulation, greed or a combination of both. My position is that both poor regulation and greed were inspired by disruptive technologies. Here's how I see it.

So far, from my Lazy Boy Armchair Economic position, I have "discovered" three foundations to economics. The first one goes like this...

Human beings are by nature insecure.

A philosophical argument might suggest that if secure with our position in the universe we would not have need to believe in a superior being. We should be fighting over reproductive territory rather than religious beliefs or economic interests. Fighting over religious beliefs and/or economic interests may be all the evidence we need to confirm our insecurity. Pushing this argument likely causes some consternation in a few folks so how about a physiological argument as to why we are insecure.

Humans have the largest brain per body size of any animal on Earth. Our brain has much more computing potential than we put through it. That's why we have innovation. Somebody's brain has an "aha" moment no one had before. The moment someone has that "aha" moment, like the earth is not flat, and then proves it, we all begin to worry about the other "givens we know". Progress makes us insecure because it destroys legacy "truths". How can we be secure when at any moment some truth we know is going to be proven wrong or is going to change? Are we now not insecure because our current economic problems seem beyond our grasp?

So, human beings are by nature insecure.

Our insecurity inspires greed. In order to prove our worth we seek to have what we don't have but others whom we look up to do. And then once we have those things we find out there are others who have even more. So our desire for having increases steadily as we seek to confirm our worth, our value, especially since few of us are going out on the limb to suggest and prove the world is not flat.

Greed is real and greed is good. All capitalist economists believe man's self-interest is the foundation to economy. And it is. But our insecurity manifests itself in other ways as well.

In the constant effort to have that which we don't, many fall into the trap of self-promotion. We talk about and act like we have things we don't have. Doing so is the façade hiding our insecurity. In addition, when we finally obtain the things we seek, and almost always when we obtain things beyond our expectations, pride has a strong influence over our judgment. There lies another trap. Pride clouds our judgment. Pride inspires over confidence.

Okay...Okay...we're insecure, and with insecurity we get greed, self-promotion and pride, but what does this have to do with disruptive technologies inspiring our economic bubble?

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“Bubbles can be created when disruptive technologies run past man’s ability to understand how to efficiently use them. Having instantaneous access to every piece of financial information lured us into over confidence and complacency. The financial crisis is a derivative of the technology disruption.”

We had instantaneous information on all investments. “Everything” was disclosed, or so we thought. The rating agencies had tons of information. Regulators were overwhelmed with information. Investors had more information than ever in the history of investing. We “knew” what was going on in Tokyo, London, Munich, Paris, Beijing, Moscow, Rio and Mumbai, instantaneously. We had numerous PhD’s with their wonderful formulas constantly analyzing risk. We could spread risk out everywhere, instantaneously. We had conquered the business cycle.

Profits were rolling in. Bonuses were huge. Employment and tax receipts were growing. Wealth was being accumulated. We were proud of our accomplishment.

But, we are still insecure. We can’t forget our nature to embrace greed, self-promotion and over confidence. “Success” was so great we forgot to sweat the small stuff. Who wants to decrease employment growth, wealth accumulation, tax receipt growth and houses for the poor? If it ain’t broke, don’t fix it. Regulators, rating agencies, bankers, politicians and everyone looked the other way, or just didn’t pay attention. And the likely reason we didn’t pay attention is because we had instantaneous access to mountains of information. We were over confident but also likely overwhelmed. So we let things run and run and run until the bubble got so big we experienced a financial ‘Malthusian catastrophe’. We could no longer sustain the system. We had surpassed our cows per acre limit.

In the end it was mainly man’s insecurity that got us here. It always gets us here. It is why no one is taking the word “cycle” out of the dictionary any time soon. We had success. We got over confident and complacent. Greed inspired success and then pride clouded our judgment. We had a ‘Minsky moment’, security begets insecurity.

Man’s insecurity is the constant. But our bubble would not have happened without the influence of the current disruptive technologies. We live in an unprecedented period, having access to more information than at any point in the history of mankind. It empowered us then it overwhelmed us. That is why they call it “disruptive” technology.



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