

Notes of a Hypothesis

## What Caused the Bubble?

(Mainly in the Real Estate Market)

### “Mechanism of a New Type Emergence (in My View)”

(December 21, 2010)

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[Mechanism of emergence (from lives' perspective)]

At the base of a bubble, there are various human errors/biases. In addition, there must be a human herd behavior who acts now while looking into the future. Furthermore, there is a possibility that a program of a mania is working.

A fear of shortage induces a strong herding behavior, and amplifies the shortage by itself. It also brings alchemy. Alchemy also prompts a strong herding behavior. These two react on each other in a market of goods which have both present actual demands and speculations.

A strong herding behavior derives from emotions such as confidence, fear, and mania. Behind them, there lies an unforeseeable future and an aspiration to extend a life. Behind them, there lies a gene's survival. Behind these all, there lies a force of nature, that is, the self-organization.

What changes speculative prices is not the event itself, but the human mass reaction against it. Even tulips, stocks that had little value in hindsight, or wastelands could cause a bubble, when they bear high uncertainty, illusions of future price-hike, herding behaviors, or money.

Booming + Soaring + Shortage would not be supplied soon = Don't buy it!

For all that, humans will repeat it.

< 1. Something which looks like alchemy appears > < parallel rises occur >

Something which looks like alchemy appears, and inflationary expectations come out. It metastasizes to other goods which resemble to, but in fact, are different from the original one. People tend to respond to a label without carefully watching its contents. (Spread > Simplification > Everyone does it > Realization). This phenomenon (parallel rises) is called 'tsuredaka' in Japan which literally means 'to rise together'.

Ex.1 (in Japan in 1985)

'Marriage values' of 'land sharkings' in 'commercial areas' in 'central Tokyo' turned into the 'land price'. (Land sharking = 'Jiage' in Japanese which literally means 'land lifting')

Ex.2 (in USA in 1998)

Internet, Microsoft, etc. were booming. It turned into the 'dot-com company's stock price'. At last it finished. The speculative fever in stock market metastasized to the housing market. The rising house price, by itself, generated alchemy.

Ex.3 (in Japan in 2006)

Investment values of real estate securitizations turned into the 'price of real estate' or the 'land price'. It led to a mini bubble.

(While the lefts' values rose, the rights contained a lot of properties whose values did not rise.)

(While systems become complicated, humans' reflex actions stay comparatively simple.)

(On one hand, a feeling of want increases. On the other hand, alchemy appears.)

(This phase can be caused by other factors, too. Human irrational behaviors cause it.)

< 2. A routine of amplification by the fear of shortages or the reaction to special foods >

(Inflationary expectations diffuse. It will rise, so everyone start to want it, so it rises.

Alchemy really appears. Strong herd behavior starts.)

1. First come, first served

('Hayaimono-gachi' in Japanese, which literally means 'the sooner will win')

2. Hoarding/Cornering

Unwillingness to sell soon

Leverage (mortgage)

To spread regionally

3. Purchase for resale. Flipping

('Korogashi' in Japanese, which literally means 'to rotate something')

Profit-dividing among plotters

Profit-taking selling

Thinking out every method to increase a profit

< 3. Money invasion (Excess money) >

- A critical factor -

Excess savings + Insufficient borrowings

= Pressure for yield > High risk investments > Excessive speculations

Interest rate falls.

(Factors in the last two decades)

1. Economic globalization led to the rapid growth of the emerging countries.

They got huge trade surplus. Excess savings were invested into the advanced nations.

2. Baby boomers in the advanced nations grew near the pension ages.

3. Emergence of new financial engineering, overconfidence in them, and accumulation of the

imbalance.

4. Rapid progress of IT quickened the transmission of information and the settlement of money.  
It increased the population of the investor.

< 4. Experiences (brake pedals) do not work >

1. Generation changes.
2. Experiences are undervalued due to the existence of differences.  
New theory to justify it appears. (Ex: New economy myth, etc.)
3. Experiences sometimes accelerate speculations. (Ex: Land myth. Inflation occurred last time.)
4. A program that competes for ranks joins in amplifiers. "X billion!" "Y billion!" "XX billion!"
5. Uncontrollable strong overconfidence springs out from a series of successes, excitements, and backgrounds of the age.

< 5. Mania breaks out >

(Mania: an extremely strong enthusiasm shared by a lot of people at the same time.)

1. A feeling of want swells up.
2. Feelings of scarcity and status tone up.
3. Blindness occurs.

(Programs of mania may be working in response to some unusual situation.)

(On one hand, want increases further. On the other hand, sense of risks is paralyzed.)

(In various phases, euphoria emerges.)

< 6. Historical background >

Huge bubbles tend to occur when a nation surmounted a long term subject that carried a historical importance or an ardent desire. (Even the bubble seems to be a small problem compared with it.) The overconfidence must be amplified by it.

Ex.1 (Japan): The Postwar Reconstruction

Ex.2 (USA): The Cold War

< 7. From the long-range view >

It had not generated the economic growth corresponded with its price-hike.

There are many people who have conflicting interests.

It is a price-hike of some particular goods, not general goods.

Its influence had spread widely.

A boom will not continue forever, etc. etc.

< 8. Bubble burst >

The boom, at last, ends. Its prices start to fall.

A long term adjustment of supply and demand starts.

Real estates have a market in which a few transactions form price levels, but far more properties are mortgaged.

Bad debts increase rapidly.

The financial crisis breaks out.

Pessimistic atmosphere grows up.

Bad news comes out one by one.

They amplify the economic deterioration further.

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A feeling of crisis is a motive for us to act against the crisis. But, sometimes, it amplifies the crisis.

Ex: An expectation of future shortage often facilitates hoards that amplify the shortage further.

Ex: An expectation of future economic crisis often tightens our purse strings (investment and consumption). It amplifies the crisis further.

Figuratively speaking, we, human beings are cans of XX hundred million years' history, which contain "twists", "amplifiers", "insensibilities", etc, etc, everywhere. We need a circumstance in which we can act while being aware of them.