

Translation – Interview in BILANZ December 2004, p.19

Investment banker Thomas Signer has analyzed the consequences of collective exuberance and predicts an economic downtrend for the US similar to the one Japan has experienced since the beginning of the 1990s.

“Predictably Irrational”

Bilanz: In your book “The Harder They Fall” you forecast long lasting economic stagnation in the US. How do you arrive at this conclusion?

Thomas Signer: Similar to Japan a decade earlier the US has experienced a long, nearly identical, bull market and is now suffering from economic stagnation with deflationary tendencies. The economic parallels to Japan are so striking that I cannot arrive at any other conclusion.

This alone is not a convincing reason for the Dow Jones to fall below 6000 as you predict in your book. Do you just enjoy scaring people?

No. I think it is very important to point out how things will develop realistically. If things are unremittingly painted in a glowing light and at the same time – as is the case in the US – overall debt is growing strongly, then nobody is well served. A policy of sticking one’s head in the sand can have devastating consequences. That is why I am convinced I should bring about some good with my book even if my message is predominantly negative.

A country like Japan should serve as a reference guide to where the US is heading. Is this presumption not a bit stretched?

If you look at the reasons behind the development of the stock market bubble in the 1990s, you come across the key role played by the baby boomers. They form a large and powerful group, the experiences of which have been shaped first by the bubble period and then more recently by financial bust. I am quite sure that this group will behave similarly to its counterparts in Japan, where the baby boomer bulge arrived a decade earlier.

You bring demographic reasons into the discussion even though Japan has a shrinking population and America’s continues to grow.

You are right. By the middle of this century, the US population will grow from today’s 280 million to over 400 million while Japan’s will shrink from 130 million currently to around 100 million. Nevertheless, the baby boomer dynamics will remain the same for some time to come as an above average number of baby boomers in the US will leave the work force in coming years, putting pressure on the social security system.

Why do you think Americans will have a tough time meeting that challenge?

The immutability of human behavior.

What do you mean by that?

Isn’t it striking that in a culture as unique as Japan an economic and financial market boom could develop unlike one the country has ever previously experienced. And then, ten years later, a boom develops in a totally different part of the world, which in so many respects resembles the one in Japan. I wanted to get to the bottom of this phenomenon in my book.

In doing this, what factors did you discover?

In many circumstances human behavior is not rational. But to a large part it is at least predictably irrational. A majority of people will always behave similarly in certain situations.

Do you believe that the economic problems of the US have something to do with collective exuberance?

It is an innately human experience that we are prone to make mistakes when we are doing exceptionally well. During phases of irrational exuberance when bubbles occur in financial markets dumb behavior is rewarded while intelligent behavior is punished. When that lasts for a long enough period, you will see that it also produces long-term consequences. Americans have yet to come to terms psychologically or economically with their bubble period.

What is stopping the US learning from the mistakes of the Japanese?

Americans are very much preoccupied with domestic security and, as far as external relations are concerned, focused on the war in Iraq. That is why they will repeat the mistakes made by the Japanese. The stock market will fall and, once more, deflation will become the dominant theme.

