How Much Is Too Much?

Submitted for publication in The Economist magazine Sep 2016.

Have you ever noticed how things like real estate always keep rising in price? It doesn't matter how many times a region (or the global economy) generates a real estate bubble, sooner or later the bubbles explode and people get crushed and it starts all over again. And every time it happens along comes the talking head economists and they get into the mix and inform government leaders that solving these problems is very simple, "All you have to do is generate more real estate, build more homes, and build more high-rise condos. Once you generate more supply than the demand, problem solved."

Maybe we need to try a little reverse psychology on these professors of Economics 101.

It could be that economics doesn't drive everything. There are other variables at work in the world also. For example, there is human psychology, and sociology.

People think things are often worth more than they really are. Economists like to think in terms of macroeconomics, and microeconomics, and the laws of supply and demand, and all the other BS that they expound on in college classes and in their textbooks.

But what most of these economic theories in textbooks never try to explain is how much is something really worth in the real world? When do you end up paying more than something is really worth? **How much is too much?**

For example a car company might make 50 cars in a model year and then try to sell them for $50,000,000 each. Is any car really worth $50,000,000 (or even $1,000,000?) just because there are only 50 of them that were made? Sure, you might be able to find 50 suckers to pay $50,000,000 for 50 cars (if you cook up a great marketing plan to apply human psychology to sell the cars). But that doesn't necessarily make the cars worth that much. Nearly every economist in every college will tell you if people are paying $50,000,000 for the cars then it must be because of supply and demand… even if the real reason is because there's a short supply of brains and there are 50 idiots that got suckered into those 50 cars.

When it comes to the real estate market in places like the greater Vancouver (Canada) area, or even in cities like Toronto or places like London or New York City, the fact of the matter is, you have a heck of a lot of idiots with lots of money (at least on paper) and they want to invest it somehow. Yet it never fails. Rarely will any investor, real estate broker or economist ever explore the psychological or even intellectual side of things. Those types of variables never factor into marketing schemes or their economic models or equations (models can't factor in psychology or brains). They simply say it is supply and demand and that the prices are fair, depending on what the "market" will bear.

When you look at it from that myopic point of view, the only solution is to increase the level of output to generate more widgets, so that the price will be lowered. But what if you run out of the raw materials? Does that mean people should just keep paying a higher and higher and higher price for the exact same widget; not because it is impossible to make more widgets but because it is impossible to find more resources to make them out of? The average economist will say, "...sure, you run out of resources, so it lowers the supply and the price goes up because of the demand…" at least as long as there are suckers that buy into that theory.

That's basically what happens when people buy diamonds for example. They are told there are not very many diamonds so you have to pay more for them.

When it comes to population density (over population in any give region) and people wanting to migrate to and live in the big cities, eventually the resources run out. The land runs out. When you overbuild you saturate your capacity and pretty soon you have slums – slums which reduce government's ability to raise property tax revenue BTW – which result from too many low income people squeezing into an area with too little resource management. And you have a lack of parking, you have over congested traffic, you have a lack of resources for other things like education (too many students per class room), medical shortages (high cost and overburdened medical systems) and strained utilities (in places like California you are running out of the basics, like water).

Pretty soon your simple solution – of simply building more housing in more high-rise (and possibly lower income) buildings – begins to crumble under its own weight. When that happens sociology takes over. People hire government rulers making false promises. Then government tries to solve the problems, which simple supply and demand theory doesn't take into account. And finally, when government fails to solve the problems, then people are told to wise up and think about it differently.

But people like your average economist can't think about it differently. All they can think about is "supply and demand".

Anyway, you get the idea. I think what the average people are dealing with is that in their minds gold diggers shouldn't be driving up prices. And they are right; but some people just aren't that smart (the gold diggers profiting from stupid thinking). There's always some fool who has too much money and is too stupid to acknowledge what something is really worth. Rather than say, "Enough is enough and I'm not paying anymore.", what they say instead is, "Hey... I've got all sorts of money and I can outbid you." Easy come, easy go. To hell with what happens in the long run.

So, along comes your average economist acting like a consultant and all they can think about is we have to make more to drive the price down; otherwise the rich fat cats will just keep driving the price up.

The rich, the bidders, screw things up by bidding too much. The economists screw things up by trying to solve problems by expounding simple "supply and demand" THEORY. Neither of them ever seems to apply "common sense" theory.

My $.02,

Charles K Jessup
CEO – TMI-America.com (click for more info)