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Socio-Political and Cultural Perspectives

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Toward a Metatheory of Economic Bubbles: Socio-Political and Cultural Perspectives

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Preface

In this book we put forward a multidisciplinary metatheory of bubbles. Since the notorious ‘tulipmania’ in the Netherlands of the 17th century, bubbles have been part of our modern economic history, and, with advancing capitalism, they have become pervasive, more intensive and more frequent. In an earlier phase of our intellectual career, we became interested in bubbles not so much from financial or economic perspectives as from technological and strategic angles – the rise and bursting of the so-called ‘dotcom’ technology bubble in March 2000 fascinated us. As the new century unfolded, we realized that bubbles were becoming increasingly global in scope – the world is far different from the eager merchants bidding up tulip prices in the relatively confined geography of the pubs of Haarlem and Amsterdam; and indeed even different from the dotcom tech-bubble that affected mostly the U.S. and UK markets. We were jolted into intellectual action by the interlinked stock-market, housing, banking, and other bubbles of 2007-2009 that spread into the furthest corners of the global economy quite rapidly.

Bubbles, in the past, have been understood primarily in financial-economic terms, receiving rational explanations of individual as well as collective behaviors, with a few exceptional economists venturing out to point to the irrationality of investors caught up in bubble frenzies. Bubbles, however, are also socio-political-cultural phenomena. While we, the authors of this book, have had some background in economics and finance during our postgraduate studies, we also are in the fortunate position not to be constrained by the doctrines and dogmas of these fields. Our interests and approaches are multidisciplinary, weaving together economic as well as non-economic ideas into this metatheory of bubbles that transcends the economically-straitjacketed disciplinary frames of the past. Our metatheory of bubbles draws from many economic and social disciplines and reflects pervasive irrationality of individual as well as collective behaviors.

We embarked on this journey in the latter part of 2011. Coming from different research backgrounds, we had discovered in one of our meetings that we have had a common interest in researching bubbles. Romeo Turcan investigated in his doctoral studies how and why small high-technology firms internationalized, de-internationalized, and eventually struggled for survival during the ‘dotcom’ bubble. The analysis of his data led to the emergence of number of bubble related behaviors and concepts such as hype, vaporware, hyperbole, and delusional optimism. In 2010 Romeo presented his model of bubble emergence at a conference on ‘After the Gold Rush: Economic Crisis and Consequences’ that took place, probably with no surprise, in Iceland. The 2008 crisis and collapse of Iceland came out to be “handy” as they corroborated

to a large extent Romeo's model of bubble emergence. Further theorizing was needed to move that model to a higher level of generalizability.

In 2011-2012, Nikhilesh Dholakia – as part of his sabbatical leave from the University of Rhode Island – made multiple visits to Aalborg University, where Romeo Turcan is based. He talked during these visits of his earlier papers on the 'dotcom' bubble (work done in collaboration with Anil M. Pandya) as well as his more recent work on financialization and 'finanzkapital', aimed at understanding the ups and downs of the 2007-2009 Great Recession. These mutual discussions revealed a common ground and a common interest in studying and interpreting bubbles from a multidisciplinary frame.

In this book, we arrive inductively at our metatheory of bubbles weaving throughout the book cases and examples of bubble processes from a number of sectors such as entertainment (movies), commodities (minerals or agricultural commodities), financial stocks (especially shares of technology companies), and housing (real estate values in metro areas). These examples serve as signposts to exemplify the emerging metatheory of bubbles, a theory that can offer explanations for contemporary as well as historical bubble phenomena. We identify – in a comprehensive yet parsimonious way – the constructs of the theory, setting its temporal and contextual boundaries, as well as its underlying assumptions about economic, psychological, social, and political dynamics. Throughout the book we discuss and exemplify how the identified constructs, temporal and contextual boundaries, as well as theory assumptions are related.

While the contribution of the book is a step toward the development of a multidisciplinary metatheory of bubbles, our larger quest – perhaps quixotic in some people's view – is to nudge us all toward a saner future by laying bare the social, economic, and political factors that create and drive bubbles. At the same time, we lay a foundation to facilitate and encourage future dynamic scholarly conversations and research as well as policy debates on the sources and outcomes of bubbles as multidisciplinary – economic, social, political, and cultural – phenomena. The book also provides a partial window into the precarious nature of contemporary finance-driven capitalism, and suggests some possible ways of overcoming the wrenching ups and downs of the prevalent system. Our proposed metatheory of bubbles has far-reaching implications for the study and practice of entrepreneurship and marketing, public and corporate finance, and public policies towards innovation, economy, and finance.

The approach we took to build our theory is multidisciplinary, and therefore appeals not just to faculty and students in finance and economics, but also to faculty and students in applied and pure social sciences and to some in the humanities fields, especially history and cultural studies related fields. The language is in the form of narratives and concepts that can be understood by general intellectual audiences – no specialized knowledge of finance or economics is assumed.

A variety of cases and contexts are employed to make the concepts of bubbles relatable to the everyday lives of people.

What follows, we hope, is an exciting multidimensional journey into bubble processes; where some bubbles are playful and essentially do no social harm while other bubbles that are massively global and create pervasive dislocations, losses, and misery. If the book succeeds in promoting good debate, spurs further multidisciplinary work, and provides some guidance for sound policies, then we would consider our goals to be achieved and our project to have arrived at a new plateau on which stronger intellectual structures can be built.

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