# Asset Booms and Property Bubbles Are Bad For Economies Even If They Never Burst.

Success sews the seeds of its own demise. Adversity improves the breed. Human beings are dynamic and adaptive, which means they adapt to hardship by growing stronger, becoming more resilient and more resourceful, and they react to comfort by growing lazy, complacent and vulnerable.

A society which has won success and comfort through toil, enterprise and resourcefulness is strong. Even as success matures remnants of strength remain. Subsequent generations also observe the path to wealth and security lie in effort and enterprise.

Extended periods of success can lead subsequent generations to lose the memory of the path to success leading to lazier generations with a culture of entitlement.

When a significant proportion of a population finds success not solely by effort and enterprise, there is a significant risk that subsequent generations do not associate success with enterprise and effort but seek more comfortable factors to attribute the success.

Asset inflation is a particularly risky form of wealth creation, as opposed to accumulation of skills or capital. This is particularly acute in the case of housing booms because home ownership is likely more prevalent than other forms of asset ownership. Real estate booms result in a wide ranging and highly inclusive growth in nominal wealth. Absent multiple real estate asset ownership it is arguable if utility is improved since replacement value rises with asset value. The increase in wealth is disassociated with effort and enterprise, and this is signaled to subsequent generations. Populations which have insufficient history to observe asset busts as well as booms will have biased assessments of risk, generally underpricing the risk in the relevant asset class.

The ubiquity of the wealth effect results in a widespread accumulation of wealth which is disconnected from effort and enterprise. The impact on labour is that it discourages effort, encourages a sense of entitlement, and a sense of financial security, which together increase the propensity to shirk, since the penalties to unemployment are low.

Successful economies signal a strong causality between effort and enterprise, and success. They are sufficiently unequal in wealth to incite effort yet not so unequal that the probability of an individual moving upwards between wealth percentiles is unrealistically small. Everyone should be seen to have a fighting chance to get ahead. They have a sufficient proportion of households with sufficient accumulated equity to maintain aggregate stability in the economy and they have a sufficient proportion of households with insufficient accumulated equity to incentivize effort and enterprise. The rules of commerce and finance are sufficiently fair, and corruption is sufficiently low, to incentivize participation.