

**The Skyscraper Curse**  
**Guest: Mark Thornton**  
**November 7**

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**WOODS:** If I'm talking with Mark Thornton, I could be talking about a whole bunch of different topics. I could be talking about drug prohibition, because you have a book on that. I could be talking about your work on the housing bubble, where you were way, way out ahead even of people who are now priding themselves on how prescient they were. But you've also become known typically for your work on the skyscraper curse, and it's funny: every time there's a new world-record skyscraper planned, the mainstream media calls you for comment. First of all, exactly what is the skyscraper curse?

**THORNTON:** Well, Tom, the skyscraper curse is the eerie correlation between the building of a record-setting skyscraper anywhere in the world and an economic crisis, usually affecting most of the world. This is something I came across in a newspaper in 1999, an article by Andrew Lawrence about this eerie correlation dating back 100 years, the building of the world's tallest skyscraper and an economic crisis. And I immediately saw that the Austrian theory of the business cycle was involved here. He went back and found that the Panic of 1907, which led to the founding of the Fed in 1913, was associated with the building of the Singer Building, which was a record skyscraper, and the MetLife Building, which was another new record. When we get to the Great Depression, we see that the Chrysler Building sets a new record, the 40 Wall Street building sets a new record, and in 1931 the Empire State Building sets a new world record. So you have three records associated with the beginning of the Great Depression.

You fast forward to the early 1970s, when they were building World Trade Tower I and II as well as the Sears Building. Of course, that was associated at the end of the 1960s: you had prosperity throughout the '60s and it became a bubble, and in the 1970s we immediately went into a severe recession. Nixon took us off the gold standard. The British system failed and we had a decade, twelve years actually, of economic malaise combining high rates of unemployment with high rates of inflation and several recessions including 1981, which was really a depression because unemployment was 10 percent and inflation was 10 percent. Interest rates were 18 percent. So again these record-setting skyscrapers tell the story. It's also become more true in recent times in the UAE in Dubai. The latest record was set there by the Burj Khalifa Tower, a massively high structure that set the record in 2007. I was actually able to time out the beginning

of the breakup of the housing bubble with the help of that new record-setting skyscraper.

It was thought that the Woolworth Building, which set a record in 1913, was a mistake on the part of the skyscraper curse, but when I went back and looked at the real details in the statistics, what had happened was that right after that skyscraper record was set, the U.S. went into its worst decline ever. The worst quarterly decline for over half a century of statistics. What got us out of it was of course the beginning of World War I, when Europe was buying raw materials and products and weapons from the United States. So World War I got us out of it.

Not only are record skyscrapers associated with economic crisis, but they are also associated with other bad things like the founding of the Fed, going off the gold standard, World War I, and so on, and the Great Depression. So this is an important indicator. It's not just a fluke. And Austrian business cycle theory tells why that's the case.

**WOODS:** Exactly. That's where I want to come in here. This would be an interesting enough story if it were just a series of oddball coincidences, but what makes your work so interesting is that you actually try to explain why it makes sense that when we see these over-the-top buildings being built, we should expect a tipping point from boom into bust. So unpack for us exactly what is happening here. Make sense of this data so it's not just a series of coincidences but actually makes sense.

**THORNTON:** It fits into the Austrian theory of the business cycle perfectly well. What happens leading up to the building of the world-record skyscraper is that you have a period of prosperity and you have a period where the central bank is keeping interest rates very low, causing speculation in the economy. So you've got a boom economy going, and everybody in real estate knows that when you have low interest rates, you increase the value of land, particularly land in metropolitan areas. And so the price of land goes up. As a consequence, builders and entrepreneurs want to build a taller structure on that valuable piece of land, so the rules of real estate are that when interest rates go down, the price of land goes up but the price of building is actually low. You can borrow lots of money at very low interest rates. So those are two factors that encourage the building of high structures in the economy.

It goes beyond that. It goes beyond the price of land. It goes beyond the price of capital, which of course is very important. It's all geared up with a very speculative economy where people are building bigger structures. They're building longer-term investments, and of course a skyscraper is a very long-term investment. And then we get inside that skyscraper and what we see are all sorts of new technology—because you can't use the same elevators in a ten-story building as you do in a 200-story building. So guess what? The elevator company has to come up with a brand-new product, a brand-new manufacturing center with all sorts of new technology, and that is of course what the

Austrian theory of the business cycle is about. It's about longer, more roundabout means of production. All sorts of new technology that was sitting on the shelf now actually has to be constructed and used, and so every system within these record-setting skyscrapers has to change: plumbing, the electric, the elevators, the exhaust, the heating and cooling systems. All of that has to change, and so entrepreneurs are running around all over the economy coming up with new things. They're doing more long-range planning and capital investments. So this record-setting skyscraper is just the picture of the Austrian theory of the business cycle.

**WOODS:** I knew you had written about skyscrapers, but I never read what the rationale was. It turns out that this is just a subset of the larger picture that Mises was painting 100 years ago in *The Theory of Money and Credit*.

**THORNTON:** That's right. And I just recently learned, Tom, and this is very interesting: because of all these record-setting skyscrapers, they've come up with a brand-new way of heating and cooling rooms and floors, particularly in skyscrapers. Traditionally, what construction companies have done is to use duct work to force hot air and cold air through the building in order to heat and cool it. But every square foot of that duct work takes up space in the building. It takes up space on every single floor. So what they've come up with is, instead of using air, they pump the freon directly into the rooms, directly onto the floors, so that the heating and cooling come in a liquid form, which is very concentrated, and can carry a lot of heat or a lot of cool with it. It's not only the outside unit that's providing the cooling and heating, but actually one side of the building can actually share heating and cooling with the other side of the building. Instead of having these massive ducts going throughout the entire building, now you have these teeny-weenie little pipes where liquid heat and liquid cold are pumped. So it's an ingenious way, and that was all brought about, helped, by the record-setting skyscrapers.

**WOODS:** Now, let's say something about the economy right now, though, because it seems as if something really has gone wrong for quite some time, and no matter what they try to do to fix it, it doesn't seem to be repaired. Every little blip in the employment figures is trumpeted as the beginning of something wonderful, but we all know that the labor force participation rate keeps hitting these record lows, and that's undermining their story about employment. What do you think is actually happening in the big picture of the economy?

**THORNTON:** Tom, I'm very worried. You know that the Shard building was completed a couple of years ago in Europe as the record-setting skyscraper in Europe, and then Europe fell apart. More recently, China has completed its tallest structure and its economy is coming undone. We just recently got a new national skyscraper, although it's kind of phony because it's not actually all occupied space, and in China there's a company that's trying to build record-setting skyscraper. So this does not look good. And if the skyscraper is any indicator of the future, then things may actually get much

worse than much better as being portrayed by economists within the government and the administration. They're using what essentially amounts to phony statistics. The statistics, as you indicated with the unemployment rate, are very much phony because it's only coming down because people are being taken off the workforce. They're being deleted from the workforce because they haven't been able to get a job in so long. If the skyscraper is any indicator, we could face some severe trouble down the road.

**WOODS:** I think even some people who are sympathetic to the free market are losing patience. They're saying, "Okay, I understand that government can hold back recovery, but what exactly is the government doing that could be holding back recovery for this long? Isn't the market resilient enough to get through a few new programs coming out of Washington, D.C.? Why should it be so stagnant?"

**THORNTON:** Well, it's more than a few programs, Tom. As you probably know, of course, Obamacare is coming online, so the whole health-care sector is in disarray. The Dodd-Frank law is being implemented in the financial sector and the banking sector. They're all in complete disarray. A lot of bankers don't even know their jobs anymore because the regulations are so unclear as to what they can and cannot do, and if they make the wrong type of loans, they may end up being personally penalized down the road. And then you've got the national deficit, the national debt. Who's going to pay for that? How are they going to pay for that? Are they going to borrow money? Are they going to inflate or are they going to raise taxes? So if you look across the broad spectrum of what the government is doing, it's got this public finance problem that's enormous. It's got this regulatory problem, which is enormous, and it's got Obamacare, which is also enormous. Entrepreneurs are not willing to invest under these conditions. So the central bank is left holding the bag, and they have these ultra-low interest rates. They're buying up government debt directly. They're in charge of the entire mortgage industry practically.

So this is not a very good scenario. This is not a scenario where the U.S. economy has gotten more free market. It's a scenario in which the economy has been taken over by the government. A huge, important part of the economy, namely mortgages and banking, health care, you go across the board, and government is getting bigger everywhere and the deficits have been adding up. We've got this huge government debt, and so the uncertainty is enormous. Of course, their efforts to bail out the economy have only made it more difficult to clear away the bad investments of the past, to clear the housing market back to equilibrium and get people into lower-priced homes. They're preventing all this. They've gone down the same road that Herbert Hoover and FDR did by trying to prevent the correction in the economy, to prevent the crisis from cleaning out. They've actually done a disservice to us in the sense that they've made the recovery over a much longer period of time, a much greater level of pain. They've only added to our problems, because now we have a fiscal problem that is enormous and looks like it's getting worse. As soon as they signed that agreement a couple of weeks ago, the national debt went up by \$375 billion. They were playing

phony accounting tricks to the tune of almost \$400 billion, and in an environment like that, where the government is spying on everybody, it's just not the type of environment entrepreneurs want to invest in. Private capital, and hire labor, make products, and employ people. That's just not the environment they created. They created just the opposite.

**WOODS:** Mark, we have a few minutes left. Tell us about the work you've done on price inflation under the current circumstances. I think it's hard for a lot of people to understand how so much money can be created and yet price inflation is moderate. It seems we have nothing to fear about rising prices under the current circumstances, but you've said something like the opposite.

**THORNTON:** Yes, Tom. You know the government measures inflation with the Consumer Price Index (CPI) with the normal consumption goods that everybody buys on a weekly basis. We've got a lot of unemployed people. We've got a lot of people on food stamps. There's the wealthy doing incredibly well, but most of the rest of us are not doing so well, so we're not spending a lot of money on those consumer goods. If we look around at the broader economy we see tremendously high prices. We see an all-time high in the stock market and stock prices. Google is over a thousand dollars a share. We see all-time high prices in the bond markets, whether it's U.S. government bonds at all-time highs or even junk bonds at all-time highs, and so the bond market is in a bubble as well and the prices are very, very high. If you look at the real-estate market, prices are up across the country. All-time record prices in Manhattan, up over 25 percent, the same in the states of Florida, Arizona, California and Nevada, so housing prices have been lifted again as well. Agricultural land in the Midwest is at all-time record highs. The auction market for contemporary art in Manhattan, all-time record highs. All of the auctions are setting new records despite an increase in supply.

So if you look closely at the economy and you take seriously the Austrian understanding of inflation, you understand that eventually monetary inflation causes price inflation—but we don't know how much, we don't know when and we don't know in what markets. It all depends on who has the money. And so those prices are rising when the people have money and prices are not rising when people don't have money. That's the average Joe whose income has been reduced or is unemployed or on food stamps, so it's not surprising to me at all that what we see is the CPI just ticking up a little bit. But all-time records in all the markets where the wealthy people play and the prices are extremely high. Apartments in Manhattan in some of the better neighborhoods are now selling for close to \$100 million each, and that's just for the normal condominiums, not for one of these specialized condominiums by designers. That's just a brand-new condominium close to Wall Street and close to Central Park. A hundred million bucks. So those prices are rising out there. We can see them, it's just that the government measure, that CPI index, is being held down by the fact that the American public is not doing well at all. They're not getting this free money from the Federal Reserve. They're not getting near-zero interest rates. They're not getting loans at all. All that money is

going to hedge funds. It's buying up government bonds and things like that, and so it makes perfect sense from the Austrian point of view.

**WOODS:** Now, Mark, I know you have to run but if I can take one more minute of your time: can you say something about where gold has been in recent weeks and what you think that means, or just any thoughts at all about gold?

**THORNTON:** Well, gold has come back down from close to \$1900 into the \$1300 range. It had been bouncing at the \$1500 range and then it looks as if someone or some group of people or some organization punctured the technical support at the \$1500 level with a massive selloff in the ETFs. The paper gold, there was a massive selloff and gold came down to \$1200, but normal, average people out there started buying up record amounts of gold, so someone triggered this fall by selling the paper gold product ETF. But if you go to places that sell gold and deal in gold and Internet websites that sell gold and silver you see all-time record businesses and you see a lot of categories of products that are out of stock. This is true around the world. If you go to China, Hong Kong, India, Turkey, everybody is buying gold. I think it's a temporary phenomenon and I think it's a phenomenon that has a much greater tendency to move upward from here rather than downward, although nothing is too surprising in the gold market, but they can rig things. They can increase margin percentages and things of that nature, which they've done in the past to try to break up the market in gold and silver, but ultimately I think that those kinds of tactics by the government—central banks selling gold to keep the price down to make them look good—ultimately I think those policies, those efforts to trigger downward movements, will fail and fail badly in favor of gold.