



Prophets of Boom

GEORGE GILDER

Wealth Is the Right Thing to do

By Kevin Kelly

George Gilder is a full-time pundit of technology's promise. He immerses himself in the geekiest of details and publishes pricey newsletters forecasting marvels (gildertech.com).

Wired: Are the recent sky-high stock valuations a sign of prosperity, or madness?

Gilder: I don't think Internet valuations are crazy, I think they reflect a fundamental embrace of huge opportunities. Virtually all forecasts estimate something like a thousandfold rise in Internet traffic over the next five years. That means that if you are an Internet company today, you are dealing with only a tenth of 1 percent of your potential traffic in just a couple of years. In 10 years, at this rate, there would be a millionfold increase.

Does the Y2K glitch derail the ultraboom?

I am not terribly frightened by Y2K, to tell the truth. There may be some bad days associated with Y2K, but there are always bad days associated with computers.

What about the poor?

By all material dimensions, today's poor - the bottom fifth - live a lot better than the upper-middle class of 1950. In fact, the average American today lives better than the millionaires of the 1800s.

But will they prosper as quickly as the rich?

The gap between rich and poor is not widening. This is a claim that is usually based on myths. Dubious statistics about the poor in America leave out, among other things, pension funds, Social Security payments, the value of home ownership, and the multiplication of smaller households. The image of the rich, on the other hand, is of people spending all their income. In the first place, rich people overwhelmingly have their money invested. The way capitalism works is that the people who understand how to invest get the money to invest. That is what allows the economy to expand and create jobs of ever better quality in ever larger numbers.

Is ultraprosperty an American phenomenon?

The first impact of technology's recent progress was to bring a billion Asians into middle-class prosperity. Prosperity is closing gaps between nations.

Anything worry you about the boom?

I worry that so many people don't have any comprehension of how to create wealth by serving others. They have been taught by Marx and 50 years of kleptocracy that you get money by taking money from others, rather than by serving others, which is what capitalism is all about. Success in capitalism comes from people willing to suppress their own immediate desires and temptations so they can achieve long-term goals.

Is there any downside to the upside?

I don't think either the Internet or prosperity solves the problem of human evil. Evil people around the world will be able to conspire using new technology and may well lash out at the wealth that is being generated. This prosperity could also be subverted by some fabulous outbreak in hedonism.

Is this age of abundance inevitable?

Achieving prosperity without hedonism will entail heroic leadership. When I talk about these amazing trillions of dollars of new wealth that will be generated, I don't imagine that it will be easy. Or inevitable. It is possible to blow it.

WALTER WRISTON

The Don't-Have-to-Work Force

By Kevin Kelly

For 17 years, Walter Wriston served as chair and CEO of Citicorp/Citibank, where he revealed himself as one of the first new economists. "Information about money," he is noted for saying, "has become as important as money itself." Since retiring in 1984, he's published two books, including *The Twilight of Sovereignty: How the Information Revolution Is Transforming Our World*, which demonstrated that while he may not be as engaged in finance as he once was, he remains one of its true oracles.

Wired: Is a crash inevitable?

Wriston: Crashes are not inevitable, but as J. P. Morgan said years ago, it is inevitable that markets will fluctuate.

What will people do with all this new wealth?

I think the fastest-growing business in the next 20 years will be the administration of private foundations. We'll soon have a dozen new foundations bigger than the Ford Foundation, bigger than Carnegie. It doesn't sound difficult to give away money intelligently, but it really is. The millions of new millionaires don't have that skill. And so, to do it right, there'll be this enormous industry created.

What will be an unexpected consequence of ultraproprosperity?

One consequence is that there'll be a growing disparity between economics and politics. An economy that grows so rapidly is intractably global. On the other hand, the current political system is intractably national. So there is a growing dichotomy between a global economy and locally based politics. Half of Americans now own stock, which is an entirely new and extraordinary thing. This investor class is going to have an enormous effect on politics. Business bashing will become less and less popular as a way to get elected.

Do you think the Dow could get to 30,000 anytime soon?

Years ago, when I was working at a bank, we had a chief investment officer who would get up and plaintively predict that someday, not in his lifetime, the Dow would hit 3,000. None of us believed him.

What kind of effect would a 30K Dow have?

The wealth effect would be quite substantial. If you buy a stock for \$10 and its market price goes to \$20, you feel \$10 richer, but you don't really have that cash until you sell it. Yet you'll buy more in the meantime. On credit, like all good Americans. If you multiply that effect by all the people who have become instant millionaires, you'll see what we are seeing now - a boom. They are buying more because they think they have more, even if most of their stock is locked up, and that means profits for retailers, which creates jobs and payroll, which in turn creates wealth.

Will today's boom reach the poor?

The standard statistical picture of wages does not contain a flowchart, but it should. Workers in the lower quartile of wages keep turning over and moving up into the middle quartile. With prosperity, there is more room to move up.

What are the dangers of ultraproprosperity?

There is a generation growing up who think that markets only go up. There is a generation like mine, who grew up in the Depression, and who turn the lights out when they leave a room. If we have a prosperity boom for 10 years and the Dow reaches 30,000, we'll have a world where the lights burn very bright and there'll be no one left alive to remember to turn them off.

Will ultraproprosperity increase leisure time?

No. But one of the things a prosperity boom will create is a huge pool of talented, experienced people who have retired and want to volunteer. A large percentage of successful executives get bored after they "retire" and play all the golf they can, so they dive into something like cleaning up the rain forest or mentoring young businesspeople.

What about you? Consider yourself retired?

I've reached statutory senility, so I am retired, but I go to work every day. In fact, I work for seven different companies. It's not really correct to call my type retired, since we often work as hard as before. But this force of older, don't-have-to-work workers is going to be a great and positive force in the new economy.

HARRY DENT JR.

Happy Days

By Kevin Kelly

In 1992, the year Bush lost the presidency to Clinton in large measure because of the stupid economy, Harry Dent Jr. published *The Great Boom Ahead*, a book that made many see Dent as more of a fool than a savant. The last seven years, however, have proven his detractors the foolish ones. Now, with *The Roaring 2000s*, he says the same forces he identified in *The Great Boom Ahead* will continue to drive the economy to even more fantastic heights.

Wired: Why the "Roaring 2000s"?

Dent: We will see very strong prosperity in the short term, similar to that of the Roaring Twenties. Back then, all types of new products - cars, radios, home appliances, phones - moved into the mainstream rapidly, just as the Internet and a lot of computer products are today.

So the stock market goes sky-high?

Yes, we see the stock market, the Dow, going to 35,000 or 40,000 in the next decade.

Everyone says it can't keep going up.

For the past 10 years I have been one of the most bullish forecasters about the future, and yet even I have underestimated the market.

What did you miss?

We did not really account for the international growth - we now have 5 billion new consumers to sell to. And historically, at about the middle part in a boom, you get a transition to higher valuation levels when people understand the boom is here to stay. The investment cycle kicks in and floods the market with money. That's where we are now.

What's driving this prosperity boom?

A massive baby-boom generation that within the next decade will move into their peak years of spending and productivity, which occurs in their mid-40s. They are in the power phase of their cycle, at which point they can actually change corporations and society.

How do you figure the Dow reaches as high as 40,000?

If we take just the average annual increase that the stock market has exhibited over a hundred years, it shows a channel, and cycles of valuation in that channel. We've made a number of log charts, and you can extrapolate this channel of growth pretty darn accurately. In fact, the curve is accelerating a bit, long-term.

Say the Dow hits 100,000 by 2010. Would that surprise you?

To get to a Dow of 100,000 in 10 years, the stock market would have to continue to grow at 28 percent, which is what stocks have been averaging in recent years. I do not expect stocks to keep on averaging 20 percent - as bullish as I am on everything else.

Would it trouble you if it did?

Yes, it would. That kind of growth in a short time would be a sign of excessive valuation. It is just too much.

How about over the very long term?

We did an extrapolation that said the Dow ought to be 250,000 to 400,000 at the middle of the next century.

Yet you are not utopian. You believe that this boom will end after a decade or so.

Bull markets end when a generation stops spending and stops being more productive as workers. Our growth boom will end around 2008 or 2009, as the boomer generation begins to cut its spending. We'll see falling prices, high unemployment, and massive consolidation in industry. This depressionary economy will last for about 12 to 14 years, from approximately 2009 to 2022. By 2022, if not before, the stock market will bottom out. Then it will turn up and grow strong again when another generation takes over.

In 2020, does the Dow slide back to where it is today?

That could happen. After stocks peaked in 1929, they lost 90 percent of their value and were still down about 70 percent in 1942 before the next generation drove the economy up.

Some economists talk about a shift from an economy with a "natural" level of 2 to 2½ percent annual growth to a high tech economy with sustainable periods at 4 or 5 percent. Do you buy this?

Technology, innovation, inflation, economic booms, and growth all follow population. So yes, because of the world population explosion and the power of information technology, we may average 4, maybe 5 percent growth.

You mention booms being related to population. Do you see wealth being related to generations?

It turns out that economic revolutions happen over a two-generation cycle. Research by myself and others shows that succeeding generations alternate in their personalities. In one part of the cycle, individualistic and entrepreneurial-type generations flourish, like the Henry Ford generation or the baby boomers. In between, you get these Bob Hope-like generations that are very civic minded, conformist, systematic. Instead of inventing planes, they put jet engines on them. Instead of inventing cars, they put superhighways under them. So, every other generation - about every 80 years, approximately - you get these revolutions. And at the end of the revolution, there is a depression-like phase.

If, as you suggest, prosperity is directly linked to population, then this could mean a very dark future for the planet beyond 50 years, when every forecast predicts a global population implosion.

That is right. But certain regions of the world can use immigration to keep growing. Others will be in trouble. Long-term, Europe is in real trouble demographically unless it attracts immigration.
