Bubble Bubble, Toil and Trouble

Photo courtesy of Gloria Duffy

It's wonderful to see the Bay Area's economy prospering again. Employment is up, the housing market is competitive. Highway commute routes and public transit are full; restaurants are teeming. The stock market bulls are pawing and snorting as the Dow breaks 15,000, a thousand points up from its pre-recession high.

People are walking with a spring in their steps again, in contrast to the palpable gloom and the downward-hanging heads one saw during the depths of the recession. On CalTrain, where I often ride, my fellow passengers' conversations are once again of schemes and projects – this new technology, that company acquiring a competitor, the benefits for workers of hopping from company to company, a new tech incubator in San Jose, ground-breaking neurophysiological research at UCSF. In San Francisco, people are launching new businesses and all over the region the shutters are coming off retail spaces as new enterprises fill them up again. Folks are traveling, taking vacations. It's a relief to see the economy rise again, and the consequent lift in people's moods and confidence.

And yet, after living most of my life in the Bay Area and managing an organization through several booms and busts over the past two decades, I am wary. I have seen the dramatic upswings in our economy give way all too quickly to the opposite extreme of recession. Over the past two decades in California, we've had a dramatic energy crisis, the dot-com boom and bust, the state budget roller-coaster, employment expansion and shrinkage beyond the national average, the mad increase in housing prices and subsequent depression, and so on.

Now when I get the Zillow.com emails notifying me that the value of my modest property in San Francisco has escalated by tens of thousands of dollars in a month, hundreds of thousands of dollars over a couple of years, I begin to worry. Are we in bubble territory again, in housing, employment and spending? Have we learned the lessons of the most profound economic downturn since the Great Depression? Or are we speeding once again toward an economic cliff?

Part of the answer to this question is structural. How much has changed in the financial and regulatory environment that would prevent another dramatic downturn such as the one that began in 2008? The answer to this question is, not that much. And the recession has also led to starving some of the sources of our prosperity, such as education and infrastructure investment, which makes long-term growth tricky.

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This means that, as has always been the case, the individual citizen, business owner or worker needs to protect him- or herself against a possible economic downturn. Caveat emptor.

Among the questions a prudent citizen must ask when surveying the current surge of economic growth is, How much of the growth and innovation is real? What is its staying power to continue creating jobs and prosperity in the region? Where are the hidden weaknesses and downsides in our economy that may lead to trouble, as the housing bust was the tectonic shift that weakened the entire economy during this past recession?

Here are some factors one might look for to help make choices about where to invest, whom to partner with and where to work, to protect against negative personal consequences in a possible economic retrenchment. Look for institutions with solid business models and leadership with a strong history of ability to navigate economic ups and downs. A company that exemplifies both is Adobe Systems. Adobe was founded on a solid technical base, has managed its product lines and growth prudently, its co-founders are still involved in guiding the company after 30 years – as co-chairs of the Board - and it treats its workers well.

If there is no clear business model, if the business is insufficiently capitalized, or if leadership seems capricious, unethical or unsteady, be cautious.

Personally, be wary of debt. Keep a large reserve of savings. Limit consumer spending to what you can afford. Have a balanced approached to your personal economy. Two-paycheck families always do better than those with only one source of income. Have something going on the side that contributes to your personal economics – investments, real estate, even growing your own food or crafting something that can be sold. Diversification is the key.

We of the Bay Area have always been people comfortable with risk. Starting with the gold seekers of 1849, right up to the technology pioneers of the 1980s and forward, we exemplify the unique educational, temperamental and financial stew that drives the economy forward through innovation. While that kind of risk-taking is functional for our society over the long term, citizens in general must do more to ensure their ability to survive the inevitable downturns that will always follow the booms in our terrific regional economy.