A Colin Clark Moment Once Again

In the 1930s Colin Clark a noted economist and statistician, completed a monumental study on world economic growth since the 19th Century. One important finding was that capital grows much faster than other factors of production and so periodically it burns itself up to bring production and consumption back into balance. We have seen this recently in the spectacular market declines of the nifty-fifties 1970s, Japan 1980s, Asia 1990s, Dot.com late 1990s, and the 2008-2008 housing, bond and stock market collapse.

Clark explains that these periodic capital burns, recently roughly every ten years, are because when a factor of production grows too fast, then the law of diminishing returns forces down earnings accruing to that factor. Where capital is concerned this leads to investors taking more risk to maintain income. Eventually this accumulated risk ends badly, and investors pull back seeking capital preservation over higher returns with way more risk.

We now seem to be in a Colin Clark moment, though not as spectacular as a stock or securitized debt market crash, though that may be coming. First is the appearance of negative interest rates in a wider number of markets. This effectively consumes capital even if very slowly. Secondly, several billion-dollar unicorns such as Uber have come to market at or below the prior financing valuations. Some such as WeWork have failed to come to market at all because the projected IPO values dropped far below some pre-market valuations. These earlier investors have thus lost a lot of money. Soon we may be hearing about unicorn investors what we heard about Texas oil barons early 1980s or dot.com billionaires around 2000. “How do you make a Texas/Dot.com millionaire? You start with Texas/Dot.com billionaire.”