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Pinnacle Envy Signals a New Bubble Is Inflating: William Pesek

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By William Pesek

Jan. 31 (Bloomberg) -- It's time to revisit that economic indicator in the clouds, that architectural gauge of vanity, that quirky harbinger of doom -- the Skyscraper Curse.

I last dragged it out two years ago as Dubai, site of the world's tallest building, crashed right on cue. It was but the latest reminder of the uncanny correlation between edificial one-upmanship and crisis. Almost without fail, cities or nations that open the globe's latest record-breaking structure implode.

Dubai's turn came in 2009, as it put the finishing touches on the gleaming Burj Dubai, a 2,684-foot (818 meters) monstrosity without rival. Dubai unraveled like clockwork, as did Kuala Lumpur in 1997 with the twin Petronas Towers, Chicago in 1974 with the Sears Tower and New York in the 1930s with the Chrysler and Empire State buildings. Long before that there was the Tower of Babel of biblical legend.

Who's next? Either Japan or China -- take your pick.

Recently, Andrew Lawrence, an analyst at Barclays Plc in Hong Kong, dusted off the high-rise index with a warning about China. It's home to almost half of all skyscrapers being erected around the world, a boom that points to excessive investment that may end badly. China's bubbles deserve more attention.

Let's not forget Japan, which last week saw its credit rating slashed to the same level as China. You would think earthquake-prone Tokyo would avoid constructing the world's tallest anything. Nope, the 2,080-foot Tokyo Sky Tree tower is continuing apace. When completed this year, it will top China's Canton Tower, at 1,435 feet.

Misallocated Capital

It won't come close to challenging the supremacy of the Burj Dubai, yet the project has all the hallmarks of the economic overreach that tends to end in tears. Tokyo, remember, is zero-interest-rate central. The Bank of Japan leaving the monetary floodgates open this long inherently leads to misallocations of capital and a false sense of stability.

Look, there's nothing scientific about all this. Yet in a world as uncertain as ours, where many of the normal economic goalposts no longer apply, eccentric indicators are worth a look.

The thing about record-breaking structures is that they often say as much about arrogance as they do about wealth, ambition and technology. In Japan's case, for example, free money breeds complacency as well as bubbles. Zero rates gave politicians the idea they could issue debt forever without consequence.

Monumental Debt

Those days are over, as Standard & Poor's reminded Japan last week by cutting its rating to AA-, the fourth-highest level. Still, the fact remains that as Tokyo construction crews finish their ode to architectural excess, the government has built up a monumental debt load that smacks of hubris.

Asia, in general, has a case of skyscraper-itis. According to Frankfurt-based Emporis.com, the region is home to 3,808 of the world's 7,559 completed skyscrapers, compared with 2,586 in North America. The key is not to overdo it. Is it too late?

The waves of hot money sluicing into Asia are fueling questionable bets that may end terribly. In China, investment in real estate development reached 4.3 trillion yuan ($653 billion) in the first 11 months of last year. That's greater than Turkey's annual gross domestic product.

Politicians and developers are often both optimists and gamblers. Ambition and excess get so fused together that they forget where one ends and the other begins. Japanese politicians put their nation's future on a credit card, believing their methods of fiscal management would avert crisis. The bill is now coming due. A Greece-like crash isn't the best-case scenario, but then neither can one be ruled out.

Japan's Denial

Denial pervades in Tokyo. A day after S&P's downgrade, investors got excited about data showing deflation eased a touch in December and unemployment edged lower. It's a bit like a doctor saying: Aside from the cancer eating away at your core, your health is looking better. Aging Japan's mix of debt and demographics is nothing less than toxic.

Last week, Economy and Fiscal Policy Minister Kaoru Yosano called S&P's move "regrettable" and said Japan's "commitment to fiscal reform hasn't been fully understood." Well, that's the whole point, isn't it? Many investors don't understand that supposed commitment either.

Observing Yosano's reaction, I was reminded of what former Finance Minister Masajuro Shiokawa said in 2002, the last time S&P failed to understand and downgraded Japan. He called the credit rating company "selfish." Also in 2002, the Finance Ministry sent a letter to S&P, Moody's Investors Service and Fitch Ratings charging that their decisions on Japan "lack objective criteria."

Nine years later, the developed-market country with the world's largest debt is lucky credit rating companies have been so generous. Yes, Japan is rich, has trillions of dollars of household savings and a bond market that keeps virtually all public debt onshore. Its fiscal trajectory, though, is dismal. The only thing regrettable here is that politicians aren't getting the message.

Talk about a towering display of denial. Even if you think the logic behind the Skyscraper Curse is shaky, concerns about a Japanese debt crash are based on solid foundations.

(William Pesek is a Bloomberg News columnist. The opinions expressed are his own.)

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