

Richard II and the Skyscraper Theory of Bubbles

by William Solomon 31 May 2017

Shakespeare's Richard II

Richard II's most famous lines probably belong to John of Gaunt, [who's Sceptered Isle Speech](#) is filled with patriotism, foreshadowing, and wisdom that usually accompanies a heroic leader too late in life.

With Bolingbroke's usurpation of the throne (thrusting upon him the new name of Henry IV), a downwards spiral began: internal power struggles and bickering of the elite houses that eventually lead to the rise of, behind Queen Margaret and Iago, Shakespeare's most villainous character: Richard III.

However, if we look deeper at the Richard II the man, we can see a blindness and, sometimes misplaced, confidence that has also been the downfall of many of the world's largest companies.

Richard was a leader who could be played many ways (as is the genius of Shakespeare): a goofball, a shallow adolescent (as Ben Whishaw plays him on the BBC's 2012 production: *The Hollow Crown*), or potentially a criminally negligent nincompoop. Yet there is no debating his obsession with legitimacy and his/the divine right of kings. That is, he always believed there was something magical or other-worldly about him and his lineage: something that comes from God above and, as such, secures his place as beloved leader of the realm.

The Skyscraper Index

Andrew Lawrence's Skyscraper Index asserts that the world's tallest buildings have risen during the eve of economic downturns. Recent highly public examples (and confirmation bias incensed) include:

- The Sears and World Trade Center Towers were completed in 1973; accompanying an oil crisis and stock market crash
- The Petronas Towers in Kuala Lumpur completed just as the 1997 Asian Financial Crisis gripped the region
- The Time Inc. \$1.8B structure, with construction beginning months before the now infamous merger between Time and Warner in 2000
- The Burj Al Arab (the tallest building in the world) was started in 2004, at the height of the real estate bubble
- Four Large Publishing Towers erected in NYC in 2005: Times, Bloomberg, Random House, and Hearst (just as the floor was falling out of traditional publishing and the housing market)

Criticism of Lawrence's fantastical strategy rightly exist (confirmation bias and examples of crashes without large development projects); however, there is, [empirically a correlation between building size and GDP](#): the level of GDP can be used to predict building height (their time series' move together).

Connection

Although there are lots of decision criteria executives use to determine their office sizes and locations, all projections they are presented with carry lots of uncertainty. Putting on my Risk Management Hat, we know that all forecasted future numbers which are important in a go/no-go approach for the building of a new corporate headquarters can be wildly inaccurate (sales forecasts, market disruptions, competitor responses, macro forces, etc. can be routinely off by as much as 100%). As such, in any large project, management is essentially betting on the optimistic projects they are presented with. That is to say, there is something about their firm, leadership, or products that are magical and will propel them into the echelons that include Iger (Disney), Ellison (Oracle), Chambers (Cisco), and Welch (GE).

Richard II had this same line of thinking: that he has a divine right given by god that will be respected and propel him and his reign forward, even in uncertain and downtrodden times. CEOs, whether explicated stated or not, fall victim to this same line of thought. The idea that there is something magical or divine about their own corporate rule, which can manifest itself in many forms: an oversized and overpriced skyscraper being one of the most visible.

[I'll be watching Salesforce with great interest over the next few years.](#)