dot.con. The Greatest Story Ever Sold.

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dot.con. The Greatest Story Ever Sold.

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Review by Jeffrey Barlow <barlowj@pacificu.edu>
Editor, Interface


John Cassidy, the author of dot.con, has impeccable credentials for explaining complex economic topics in a clear and even—given the gravity of the topic—entertaining manner. He covered economics as an editor at the New Yorker, the Sunday Times (London) and the New York Post, among other venues.

This is an excellent book. It places the crash of the “New Economy” into a long-term perspective of American economic, social, and intellectual life. Cassidy argues convincingly that the dot.com mania can effectively be understood as a classical economic “bubble,” similar to the Dutch tulip mania or later crashes and panics.

This argument will not be welcome to many. Analysts are still debating the shape of the current downturn—is it a problem caused by bad accounting practices which can therefore be fixed by passing a few reassuring laws after which the party can begin again? Is it a double-dip recession, will the economy drop once more before stabilizing? Are economic fundamentals sound and we should all just strengthen our resolve and ride this correction out? But the word “bubble” is being heard more and more often.

The perspective of the work is primarily historical. After outlining our current understanding of earlier bubbles, Cassidy discusses the development of the Internet, and then covers the post-war stock market. He personalizes what might otherwise be a dry analysis by following the remarkable stories of the birth and growth of such New Economy icons as Yahoo, Netscape, AOL, Amazon.com, and many others.

His argument, much oversimplified, is that Americans were at a time in their cultural history (at the beginning of the “long boom”—the nine years ending in April of 2000) when they were peculiarly ready to believe in an unlimited future marked by both individual affluence and national
power. America would dominate the world economy doing good as they did so, and Americans themselves would do well. The symbol of power was, of course, technology, and the heart of technological progress was the development of the Internet.

A number of factors came together to spread this national fantasy. The undeniable impact of the Internet seemed to herald a new age. Those in charge of regulating the economy, most notably Alan Greenspan, wanted to believe that free market capitalism was primarily responsible for the rapid growth of the equities market. The stock market not only represented the aggregation of individual economic decisions and was thus inherently rational, but computer mediated communications, Greenspan believed, (on the basis of very weak and often contrary evidence) was raising productivity so rapidly that previous measures of equity value, such as price-earnings ratios, were perhaps no longer applicable. Journalists found a great story that could be told over and over while heroizing businessmen and cultural icons such as Gates and Bezos of Amazon.Com.

Internet financial portals, and then day trading, permitted many to suddenly become not only an expert, but gave them the tools to engage in instant speculation. Investment bankers discovered (and created) an apparently insatiable demand for the stocks of firms that had not only not made money, but also promised to not do so for the foreseeable future. And the best of all the pots of gold was the Initial Public Offering (IPO) in which firms could suddenly be capitalized for incredible sums; young entrepreneurs with no business plans, no real holdings, and no intention to turn a profit for years found their companies’ stocks worth billions.

Economists and financial analysts (many of whom are discussed in engaging detail by Cassidy) did their part by developing new criteria by which to judge firms whose finances otherwise made no sense at all. And above all, the Internet itself, as a communications tool, spread the fantasy far and wide and permitted true believers to continually reinforce their mutual delusions.

Finally, in April of 2000, a variety of factors came together to burst the New Economy bubble. Greenspan, worried about the increasing gap between supply of goods and demand for them and fearing as always the specter of inflation, acted to take some of the steam out of the market. This encouraged long-term doubters of the rationality of the market to voice their fears and to be heard. Just as irrational hopes had buoyed the market on its way up, vague anxieties now sent it into a tail spin, from which, as of this writing (July 19, 2002) it has yet to recover.

Cassidy’s overall analysis might be summarized by these words:

*The collapse of the Nasdaq was a turning point in American history. For the past five years, the stock market, particularly the Nasdaq, had been a symbol of American technological leadership and economic power. Most of all, it had been a symbol of American self-confidence. Ronald Reagan used to claim that the 1980’s represented “morning in America,” but this claim rang somewhat hollow in an age when gnarled operators like Ivan Boesky and Robert McFarlane were busy going about their business. It was during the 1990s, following*
the collapse of the Soviet Union and victory in the Gulf War, that the United States really
discovered a feeling of youth and vigor. Old restrictions seemed to slip away, and the country
stepped into the future like an animal shedding its winter coat. The rise of Silicon Valley and
the Internet was something fresh—something un tarnished by financial scandal or memories
of Vietnam. It gave new life to the most potent American myth of all: that the future is
boundless. (p. 295).

One of the many strong points of this book is that it carries the story of the New Economy not
only into social and intellectual history, but also well into the present. Cassidy believes that the
final blow to the optimism that had fueled the nine-year boom were the attacks of September
11, 2001. This was, psychologically speaking, the final blow to American omnipotence.

At present another of Cassidy’s summaries rings frighteningly prophetic:

*For capitalism to operate successfully, at least two things have to be in place: a working
system of laws, to ensure safety of person and property; and hope for the future to encourage
capital accumulation.* (p. 315)

The twin blows of the dot.com crash and the attacks of September 11, 2001, threatened hopes
for the future. The long series of recent stories on the reliability of corporate financial statements
now calls into question the system of laws as they affect the economy. Cassidy does not leave
us much hope for a shallow or short term downturn, and the hope of the soft landing, is, of
course, far behind us.

It is important to remember however, that the dot.com crash represents above all, a return to
normality, to the real world, where progress comes from hard work, and the economic verities
such as the worth of price-earnings ratios and old injunctions as primary as “buy low sell high”
once again operate. To understand the period when these truths were called into question, one
can do no better than to read John Cassidy’s *dot.con.*

Review article by
Jeffrey Barlow,
Editor, Interface

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13 THOUGHTS ON “DOT.CON. THE GREATEST STORY EVER SOLD.”

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on January 29, 2014 at 7:02 PM said:
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