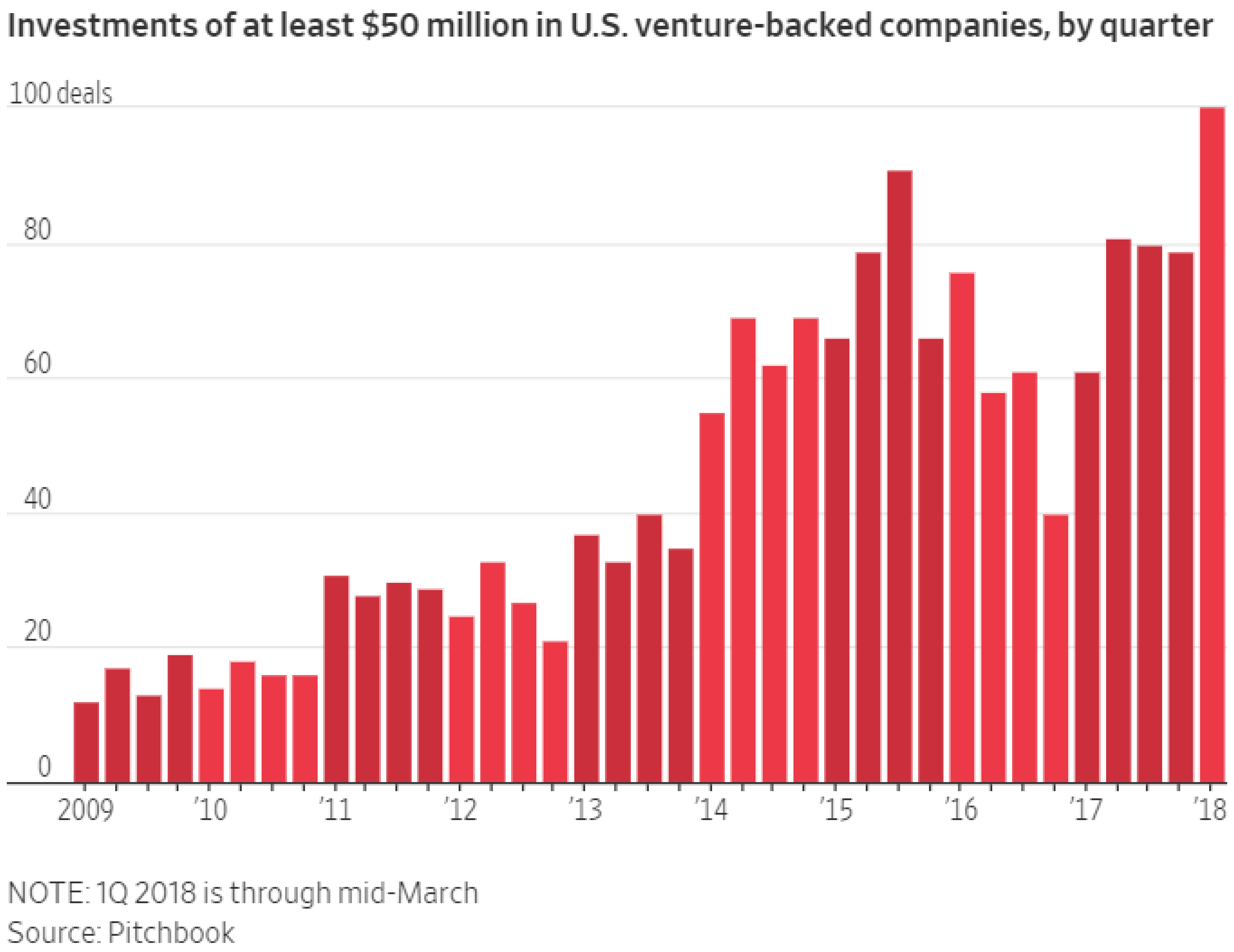
The tech startup boom has been one of the most important and visible economic "growth engines" of the past half-decade. The boom was spurred, in large part, by the success and excitement over Facebook, Uber, Airbnb, and similar companies, which led to a widespread search for the "Next Facebook" or billion dollar "unicorn" company. Unfortunately, the tech startup boom has devolved into a dangerous bubble as a result of record low interest rates and the trillions of dollars worth of liquidity that is sloshing around the globe as a result of central bank quantitative easing (QE) programs. As an Austrian economist, I believe that central bank manipulation of borrowing costs (typically by holding interest rates too low) creates *false signals* or "fool's gold" business and economic booms that trick investors into jumping into "hot" trends, only to lose their shirts when borrowing costs are inevitably increased again. These bad investments are called *malinvestments*, and occur largely as a result of central bank market distortions rather than organic market forces. I believe that a very high proportion of today's tech startups will prove to be malinvestments when the current boom turns into a bust. A recent Wall Street Journal article describes the latest phase of the startup bubble quite well -

SoftBank?s Billions Spur Global Race to Pour Money Into Startups



The Silicon Valley money machine is once again in high gear, thanks largely to SoftBank. The conglomerate is injecting billions of dollars into tech, in turn causing deep-pocketed global investors?and some U.S. venture firms?to arm up in response. A record level of late-stage money is flooding in, threatening to keep some startups out of the public markets even longer while heightening concerns that the sector is overvalued. In recent months, hotly contested companies like ride-hailing service Lyft Inc. and dog-walking app Wag Labs Inc. have received hundreds of millions of dollars more than they sought. Bidding wars are re-emerging, and some once-staid foreign investors are expanding U.S. offices and ditching their ties and suits to court talented entrepreneurs. ?The top companies have as much heat around them as ever and continue to get bid up,? said John Locke, who runs late-stage investing for venture-capital firm Accel Partners.

Also:

The big-check bug has spread to U.S. venture-capital firm Sequoia Capital, which is in the process of raising up to $13 billion, including an $8 billion fund for late-stage companies, the largest ever for a U.S. venture-capital firm. Sequoia was previously content with smaller sums; its largest fund to date is $2 billion. But it made the decision last year to go bigger, seeing an opening to keep investing in companies as they stay private longer and grow larger. This flood of private investment has heightened concerns it will create a shaky foundation for startups. When money rushes into Silicon

> Valley, startups historically have overspent by advancing into expensive new markets or battling with competitors in price wars. ?We?re encouraging the excessive use of capital,? Bill Gurley, a partner at Benchmark, said of venture capitalists at a February tech conference. ?We?re all doing it because it?s the game on the field.?

Softbank, a Japanese conglomerate, announced in October that it was planning to invest as much as [$880 billion] into tech startups. At the time of that announcement, I recoiled in horror at the idea of companies "throwing" money into tech startups just because it was a hot, heavily hyped sector:

Jesse Colombo @TheBubbleBubble · 3 Nov 2017
The #1 reason why startups fail? "**No market need**." That's what happens during a tech bubble like we're in now, when there is too much cash chasing unprofitable ideas.

Jesse Colombo @TheBubbleBubble
The Top Reasons Startups Fail: forbes.com/sites/niallmcc...

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Jesse Colombo @TheBubbleBubble · 3 Nov 2017
So, Softbank just wants to throw $880 billion into tech startups? Guess what? They're going to run into the "**no market need**" problem:

Jesse Colombo @TheBubbleBubble
SoftBank says it could invest as much as $880 billion(!) in tech: cnbc.com/2017/10/20/sof...

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Jesse Colombo @TheBubbleBubble · 20 Oct 2017
I'm sure **Japan**'s reckless **QE** mania has strongly influenced this decision. Like I've said before, startups have become "containers" for central bank bubble money that is sloshing around the globe.

Jesse Colombo @TheBubbleBubble
SoftBank says it could invest as much as $880 billion(!) in tech: cnbc.com/2017/10/20/sof...

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Sound, long-term business decisions are not made by picking an arbitrary dollar or yen figure and throwing it into a hot sector. This behavior is the hallmark of a liquidity bubble in which there is too much cash clamoring into [unprofitable investments]. Throwing ever-increasing amounts of cash at unprofitable startups won't make them profitable - it's just "throwing good money after bad." While this is common sense, many business leaders aren't seeing the obvious because they're completely drunk on the startup bubble euphoria. I have no doubt that Japan's Abenomics stimulus plan (in which over $4 trillion worth of new Japanese yen was printed) has played an important role in encouraging Softbank to jump headlong into the tech startup bubble with gobs of cash. Thanks to the tech sector hype and high tech stock valuations, VCs are looking to cash in on their tech startup investments by going public, just like during the late-1990s Dot-com bubble -

Silicon Valley Venture Capitalists Prepare for an I.P.O. Wave

> •Investors, bankers and analysts said they expected a wave of initial public offerings to bring some of the most highly valued and recognizable start-ups to the public market over the next 18 to 24 months ? and billions of dollars in returns to their executives and investors. The potential bonanza would follow years of waiting as a few dozen companies amassed valuations without precedent in the private market.
>
> Already, 2018 has gotten off to a fast start. Two of the biggest start-ups still sitting on the sidelines ?•Dropbox, an online file storage company, and•Spotify, the streaming music service based in Sweden ? successfully went public over the past month. Tech I.P.O.s have already raised more than $7 billion this year ? more than all of 2015 and 2016, and more than half the $13 billion they raised last year, according to the market-data firm Dealogic.

While the mainstream financial world sees the current tech startup boom as a legitimate technology revolution, I see it as a gigantic, liquidity-fueled malinvestment bubble. As the Fed and other central banks remove liquidity as the economic cycle matures, the stock market bubble will burst, which will spill over into tech startups. When the tech startup bubble pops in earnest, I expect thousands, if not tens of thousands, of startups to fold. While the world should have learned from the Dot-com bubble, today's tech startup bubble proves that we didn't, so we are doomed to repeat the lesson.

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