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Nothing useful has emerged from Davos. Another liquidity crisis? "Economists are stupid". Few scientists focus on energy storage. Negative returns on new oil wells. Economists and bankers' solutions: print money to goose GDP. Politicians are pawns to big business?

Nothing useful has emerged from Davos

Aren't they just a bunch of self-centred jerks? Well, so far nothing useful has emerged from Davos.... but then it never has in the past either.

Some years ago (about 2007) I lost all confidence in the world's economic gurus. They proved themselves incompetent yet they are still there and the idiots who run our countries still listen to them.....

In the fallout of the easily predicted 2008 GFC, the consequent recession of 2009 and the use of USD22 trillion of taxpayer and saver funds to protect the 22 biggest OECD banks from insolvency proceedings, my loss of faith became a sense of wonderment that politicians and bankers could be so stupid and get things so wrong at the behest of the profoundly doctrinaire economists and venal commercial interests they serve.

Now, it is likely that if, not in 2015, then in 2016, there will either need to be a continuation of massive money and credit formation (AKA QE) or the global financial system and world economy will crash. Not just a little crash, but a really, really big one that will change our lives forever. When looking for euphemisms about such things, we should listen to the bankers (after all they have massive life-style incomes to protect and they stole some of our money for their bonuses). At Davos, Mark Carney, the (Canadian) Governor of the Bank of England, did just that...lamenting that unless the US Fed does a lot more QE in 2015 then the world economy is in peril. He laments that there will be a liquidity crisis....

<http://www.telegraph.co.uk/finance/mark-carney/11367570/Mark-Carney-warns-of-liquidity-storm-as-global-currency-system-turns-upside-down.html>

So if after printing all this money (the end point for the US Fed being a balance sheet seemingly USD4trillion higher and stuffed with US treasuries), why will we once again have a liquidity crisis? It is simple accounting and mathematics that provides the answer.

Another liquidity crisis?

What has been printed has been tied up in illiquid and non performing assets. For China, just look at the property markets and for the rest of the world, just look at what QE has done for share and property prices and where certain residential property has absorbed much of the extra cash and credit. However, the QE funds given to banks have also been invested in bonds for governments (with synthetic but unreal A to AAA credit ratings) who have

absolutely no intention of repaying the money, or to other banks that really needed the extra low/zero effective interest rates to balance their insolvent balance sheets. But bank balance sheets have been balanced also by the omission of lots of deals where liabilities could be held off balance sheet (not for sound accounting reasons, but to “avoid frightening the horses”). So the money that has been printed has been poorly applied. In the USA, the government has finally eliminated most subprime mortgages, at the expense of this year building a new problem...sub-prime car lending where most new cars are financed on zero deposit and low interest loans – with often low docs (just like the bad old days of low doc sub-prime mortgages). The USA cannot fix the trillion dollar student loan problem either. Nor can we fix our equivalent. After all, the politicians love taking out loans they will never be held accountable for repaying – as if they ever could. Un-payable debt has become a global fashion statement.

By reducing interest rates for deposits in the EU, Japan, China and elsewhere from normal rates to sub 1% or even negative, savers are being asked to shoulder the burden of inducing people to spend - and thereby - goose GDP so it looks like growth has occurred. The immorality of both this and the practice of legislating bail-ins, means that people who have saved are already being milked, and will be dispossessed when the big crash eventually happens.

Economists are stupid

But at the heart of the problem is the fact that economists are stupid. They always assume that resources are infinite so as to justify the quest for infinite growth. We live in a finite world. We have used many of our easiest to access minerals and resources, including fossil fuels, fresh water aquifers and top soil. This has introduced a cost based level of true inflation that economists simply shrug off. They are solely interested in the marketplace and matching of supply and demand. The fact that GDP is a monetary measure means that monetary growth can easily be used to substitute for real growth – and it is.

Nothing happens unless we use energy to convert something into something else. Fossil fuel energy – about 84% of the energy we use to do things - is huge but there are finite limitations to ease of access and to what happens when we do use it in ever larger dollops. For oil exploration, some years ago I provided the example that between 1994 and 2004 the oil industry spent USD2.4 trillion in 10 years on finding and developing new fields (yet found less oil during that period than was extracted and consumed) and this spending led to an increase in production of 12 million bbls per day. Then between 2004 and 2010, in six years, the oil industry again spent a similar USD 2.4 trillion to yield a reduction in oil production of 100,000 barrels per day....a huge increase in capital spending, vastly greater costs of production, and despite lower output, an increased proportion of heavy, sour crude with a lower EROEI (Energy return on energy invested) and less utility for transport purposes. No-one with a PhD in economics ever questioned that this may be limiting growth. In the four years since 2010, the only increases in the volume of the stuff they have called oil is the one million barrels per day of oil sands based synthetic crude, and four million barrels per day of light tight oil (aka shale oil) which has a limited use, and natural gas condensate which has increased due to the upsurge in fracking. Elsewhere the major impact on oil production has been oilfield depletion with every barrel sucked out. Don't get me wrong oil workers are the heroes of our society, doing essential jobs that enable our economies to continue. But someone must say the obvious.

Few scientists focus on energy storage

Humanity now boasts more scientists than have ever previously lived in the 200,000 year history of homo sapiens and yet a remarkable few are focused in the energy storage space. We have grown our numbers to the point where there far more unemployed in the OECD than there were during the Great Depression of the 1930s. (..electronic banking simply makes those folk invisible). Humans and our livestock comprise more than 97% of land mammals and yet we want unrestricted growth for our species...to what? Yesterday I saw an article by that fringe group of “whacko scientists” who reckon our end of times clock now stands at 11 hours 57 minutes to midnight. Those whackos actually seem to have reality on their side as we keep pushing hundreds of other species into extinction and in pollution terms, shitting in our own nest.

There is no question in my mind that the fracking conducted in USA has been a range-extender for oil-like liquids production growth. But it is an extremely bad investment as the shale industry consumes far more cash (even at USD100/per barrel) than it receives each and every year. For this reason it shares many of the features of your standard Ponzi scheme. But more importantly, oil is just one example of a resource that costs a lot more to extract, which – given reduced quality and higher cost – and therefore is of much less utility to our society. Our society was built on 100:1 EROEI oil. The EROEI is now less than 40:1. Yet the cost is 20 times greater and the ability to find new resources that don't materially affect human habitation is falling rapidly. Just think, the oil sands have an EROEI of between 5 and 7:1 and corn fuel has about 2:1 and financially only justified by government subsidies. Yet the official agencies refer to it as oil.

Negative returns on new oil wells

For oil – as a generality - until about 2008 we were only able to extract oil from “reservoir rock” formations. But using horizontal drilling and multi-stage hydraulic fracking with various chemicals and proppants, we started drilling “source rocks” thanks to the improvements in drilling technology. But the general difference between well productivity (aside from higher cost) has been the increased depletion rates from the 4-6% p.a. for “reservoir rock “ fields to 50-80% p.a. depletion rates per annum for “source rock” fields. So 2014 taught the major oil companies two lessons. The first was that the risk and return from oil drilling is not well matched in many fields (Arctic, oil sands, shales) and by April 2014 many corporate exploration budgets had been dialled back, following the realisation that oil prices could not simply keep rising. The second lesson came towards the end of the year with reduction of drilling rigs for shales, and the oil sands projects being deferred. The reduced oil price at time of writing has led to the collapse of one shale company and one oil sands company. The financiers have yet to realise how big their losses will be from the shale industry. For industry observers, we learned the shale oil growth would not have taken place if it had not been for the low interest loans and the largesse of banks following QE. They needed somewhere to park their money and Wall Street directed them to the shales as a marvel of modern technology...(yeah right). Fracking had been used for some thirty years but only justified for large scale by high oil prices.

To be using oil sands, shale oil and conflating the utility of condensates, bio-fuels and other oil substitutes as if they were “oil” means we are at or past the time of “peak oil”. Peak oil is said to be the time at which crude oil supply peaks on the basis of daily

production. Arguably (and as acknowledged by the IEA in 2010) that time was reached in 2006.

From now on we will live in a time of limits when the amounts of many minerals as well as fossil fuels will be affected by scarcity value, cost, how deep we must dig and what ore grades we have access to. If there wasn't the impetus for growth at all costs, the modern scientific community would have a fighting chance of solving humanity's problems but we rate effort on producing a new smart phone as being far higher than getting an energy storage system that would allow us to bottle sunlight and thereby replace many fossil fuel uses.

Economists and bankers' solutions: print money to goose GDP

Yet all that the economists and bankers can see is supply and demand...and the need to goose GDP with printing more money, increasing the governments' share of total spending and hearing the checkouts ring up more sales of stuff that we don't need. If not real growth...then the illusion of growth will do. It is their homogeneous use of money that rates the importance of even life itself to humanity and avoids placing emphasis on what we need, rather than what the ignorant and unwashed crave for their social image.

To me, it simply does not seem sensible to go into a time of banking and government insolvency, burdened with greater and greater debt that is effectively frozen...because it can never ever be repaid. The charade of competitive currency devaluations between countries (that result from QE) to advantage their own exports is stupid. The charade of immigration and population growth to make monetary GDP higher is also stupid. Finite resources are simply - finite.

Politicians are pawns to big business?

We live in a world where the best you can say about politicians is that they are misguided, the worst you can say is that they are pawns to big business. For me I reckon they are just ignorant...use the word stupid, if you like.

Why? Because everyone knows, the first thing you should do when you find yourself in a hole is to stop digging J....and they just dig on.