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Oil price bottoming? Culture of opting out. Be nice to nerds. Economists lost the plot. Greece was bullied for aeons. Substitute credit for real growth. 'Business as Usual' RIP. Where to from here?

Hmm, oil, gold, silver etc. are all a little higher overnight...is this the bounce off the low point? No. I suspect it will take a lot longer. So onwards to look at trends of a longer term nature.

Culture of opting out

Over time I have grown to realise there is a widening gap between those who are intelligent and technologically proficient and those who recoil in their ignorance, to find solace in menial jobs or in their cultural or religious roots...left behind in a way that neither they nor their future offspring can overcome. For our generation in New Zealand the dawning of this realisation probably started at high school when for some of us, our Maori peers left to join the “freezing works/pub culture” due to peer pressure from whanau (extended family) members. That is not to say we were smarter than them, but it was to say that they inevitably became consigned to unpleasant low paying jobs and/or welfare dependence. Because I had a couple of mates who took that short term option, I always felt a sense of regret about it.

Nowadays we are seeing the stark difference between cultures that enjoyed the “protestant work ethic” and those that do not...whether African or Muslim.

The battles fought by ISIL are almost an attempt by activist Muslims to win back respect for their own culture and religion.

Be nice to nerds

The bright guys at school now specialise in ways the less bright can comprehend, giving rise to Bill Gates comments that, “You should be nice to the nerds because they will likely be your boss one day” (or something like that).

This widening gulf between individuals, peoples and cultures is well described here...

<http://www.stratfor.com/weekly/mind-gap#axzz3Py6b0Mnu>

Economists lost the plot

Now we get to listen to brilliant economists who fall into the same trap because they have compartmentalised their avenues of specialisation. Within a decade or two their economics specialisation could become totally discredited and yet today, they are experts on everything, listened to by the media and obeyed by our banking cabal and political masters as

omniscient. But the populations of Europe are rebelling...not just in Greece but also Spain where a whole generation will grow old to welfare dependence at the present rate...

<http://www.bbc.com/news/world-europe-31072139>

The gap between knowledge and reality is the same as the gap between atheists and religious zealots. It comes from the degree of subjectivity with which we view all information. Standard economists' training obliges them to adopt a market view of economics (and many things) in which everything and everyone obey utilitarian stimuli. Supply is infinite and affected by demand signals in the main. The only proviso is the concept of elasticity – but that tends to relate to price signals rather than natural resource limitations.

Now we are confronted by resource limitations that we have known about for years but about which polite society turns a blind eye.

This is not new...For example In the 17th century a Swedish king mandated the construction of a huge warship called the “Vasa”. It had many gun decks, a huge tonnage in armaments and was to be the most formidable ever. On its maiden voyage it capsized and sank due to the laws of ship design having been conveniently disregarded... with the consequential deaths of hundreds of sailors. So it was in turn mandated that no-one was ever to speak the name of the “Vasa” ever again in the king's presence.

If one argues against the prevalent “climate change” theories espoused by governments and the IPCC, one is a “denier” – despite evidence to support one's argument. If one argues against prevailing economic theories, one is a kook, or a “peak oil nut”.

Greece was bullied for aeons

What I am working up to is to say two things...

1. Humans are becoming very different in their approach to learning and to our belief structures. Yet globalisation tries to find one shoe that fits all.

As an example...We judge the Greeks by our short term recall. But what of the problems globalisation inflicted on the Greek community during and subsequent to WWII? This revisionist and incompetent article is a case in point... <http://www.mauldineconomics.com/the-10th-man/socialism-is-like-a-nude-beachsounds-like-a-great-idea-until-you-get-there>

The fate of Greece was handed down by the likes of Churchill and Stalin in the Yalta carve up and freedom was fought over in Greece against strong communist partisans post WWII. The USSR was just over their Northern border. The Colonels' junta was an almost fascist response, but democracy eventually prevailed. Unfortunately the currently impoverished Greece has no power left in her armed forces and her Muslim neighbour and long time enemy Turkey, is more strongly favoured by the West. The stuff stolen by Germany from Greece was never returned and it became PC for the Greeks to be told that Germany's needs in recovering from WWII were more important than their own needs.

So Greece was deliberately impoverished by design and it is no wonder the Greeks are sick of being serfs to others. The German oppression pursuant to EU rules and funding bailouts

must end, or real revolution will be the outcome. Meanwhile the international news media favours those with the money (Germany) and ridicules the PIIGS (in this case Greece). This is not going to be an auspicious start to dealing with the Greek's EU membership or future.

The losers of WWI were France, Ukraine, Poland, the Jews of Europe etc because the harsh reparations led almost directly to the hyper-inflation of the Weimar Republic and the election of Adolph Hitler – which in turn led to the horrors of WWII. But have the bankers learned their lesson this time from the lack of symmetry in negotiating power? Nope...

http://www.businessspectator.com.au/article/2015/1/29/europe/euro-crisis-has-become-game-chicken?utm_source=exact&utm_medium=email&utm_content=1113493&utm_campaign=kbg&modapt=

So we can only wonder whether common sense will prevail? <http://www.bbc.com/news/world-europe-31037592>

When the Troika came to Athens they behaved far more aggressively than a Receiver or Liquidator would in a failed company, so it is no wonder there is now a kickback...

<http://www.bbc.com/news/world-europe-31055069>

The issue for the world to deal with is that it isn't just Greece that is in strife. This year many oil producing countries may default. Some small, some bigger, but this is the present state of play in Venezuela... which one will trigger CDS defaults by random counterparties?...

<http://peakoil.com/consumption/oil-cash-waning-venezuelan-shelves-lie-bare>

2. In our modern day escapism, we also glorify toys and yet ignore reality... <http://www.caseyresearch.com/cdd/apple-delivers-monstrously-worrying-earnings>

What is disturbing is that we have no solution for an energy storage mechanism to replace oil yet we laugh at the inevitable end to it and glorify what is in effect only a useful toy. The main use of the underpinning Apple technology to humanity, is to provide the possibility of a technology enabler for something more useful. My problem is that we are stripping the earth's more rare minerals in order to build toys and perhaps by accident possible enablers.

I must be somehow demented to take such a contrarian view...mustn't I?

Substitute credit for real growth

The same thing goes for our substitution of perceived problems for real problems. We have happily continued to substitute growth in credit and money supply for real growth. Our problem is magnified by our inability to discern (due to statistical manipulation of data) what is real growth and what is nominal growth. So it is interesting to consider (as Bill Gross does in the article below) what could persuade rational investors to pay the insolvent central banks of Europe (and elsewhere) to hold their money for several years....IMHO the mattress or gold or silver is better.

http://seekingalpha.com/article/2862646-bill-gross-games-people-play?source=email_macro_view_edi_pic_0_0&ifp=0

Something has just got to give. I think Christine Lagarde of IMF put it best, when she said that this year the stakes could not be higher and 2015 will be a make-or-break year for the global economy.

<https://agenda.weforum.org/2015/01/why-2015-is-a-make-or-break-year-for-the-economy/>

To be fair, the economists and a sub-set of their profession the “environmental economists” are trying to stick band-aids on the wounds that are opening up. But at what point will they fail... which they must? It will only take one error or omission and the global debt overhang will leave many players with nowhere to go in order to solve their continued insolvency. So what if we make it through 2015? Given many more of our band-aids will have been utilised it will be even harder to get through 2016.

This year we have a tail wind in falling commodity prices. Sometime...and possibly early 2016 the direction of the wind could change and prices will return much higher. The change is not just possible. To some level it is certain, because producer revenues now do not cover the higher costs of producing energy and minerals for all marginal producers. But then, that is how supply and demand dynamics work. Just that such a change will inevitably be fatal for the global financial system loaded with a conventional debt overhang and unfunded liabilities...as well as the hundreds of trillions of derivative liabilities held by sometimes blatantly insolvent counterparties.

Wishful thinking is a possibility. We know about mineral/energy resource depletion. It was the era of fossil fuels and electricity that led to our massive gains and productivity since the advent of the industrial revolution in the mid 1800s and yet in a resource depleted world, we need a new energiser. Perhaps we could see a new energy development that uses the power locked up within the atom...not for energy generation, but fungible energy storage. The material sciences are suggesting new possibilities such as the mythological EESU for doing just that. But equally there is nothing else of substance I can find at this point.

Meantime, despite lots of surplus oil being stored on tankers, the Baltic Dry Index tells us we are in a global recession... if you can believe it?

<http://www.zerohedge.com/news/2015-01-29/wtf-chart-day-baltic-dry-index-crashes-lowest-29-years>

Where to from here?

I have a memory of being on an aeroplane in the 1990's with the global Marine Superintendent of P&O. We sat in a nice first class setting, discussing the subject of a conference he had attended as a keynote speaker, for which his team had calculated that by 2020, bunker fuel would be too scarce and expensive for much of the day's international trade. There is no sign of that today yet the oil consultancy, The Hills Group (a reputable one), considers that estimation may be accurate based on matching the need for oil

companies to recover all their costs within their selling price and the ability of the oil users to afford to buy oil at a price where they can make a profit from selling their products.

The problem they see is a huge disconnect that is not only based on the EROEI of marginal oil supplies, but also its declining economic value to humanity, as we resort to finding oil of much lesser “quality”. This is the part of their evaluation that isn’t hidden behind a paywall...

http://www.thehillsgroup.org/depletion2_022.htm

So will oil prices go back up to the sky? Or are we approaching the point at which “Business As Usual” ceases to be a viable economic model?

We know for example that 94 drilling rigs in oil shales were sidelined in the USA alone last week and most shale producers are now “upside down” based on the current oil price. This is unprecedented and the US unconventional oil industry is now in jeopardy. So where to from here?