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Compulsory superannuation: the “lucky country” gets it wrong / TPPA: more now realise it’s a big corporation con / Oil: Saudis panicking / Failed and failing states: why? / Activity on the ring of fire: dire forecasts?

Compulsory superannuation: the “lucky country” gets it wrong

The Australian Government has just explained how it plans to use Super to increase its tax take... and thereby vindicated some of the concerns expressed by Sir Robert Muldoon, when the NZ Labour Government wanted to get into the superannuation business. In Oz, they are steadily increasing their deficits so they want to get a bigger tax take – from the rich naturally.

Way back then, Sir Robert went to the polls arguing against the then proposed Labour superannuation plan, fearing that the unions, the Labour party and the Government would find ways to interfere with it.

Well he was vilified for not establishing a scheme then, like KiwiSaver ultimately was...but his issue was really with what Labour wanted to do and I, among many, voted him back in as a result. Yet I have yet to meet someone else who admits they voted for him in that election...funny that.

In NZ, if people wished to provide for their retirement, they could still do so, and most of us did. But when a government gives concessions to encourage what it believes will be a social good, it can use that largesse to later justify manipulating the system.

Of course having compulsory saving is great for those people who otherwise would not save. But there are many folk, who once having saved several thousand in KiwiSaver, eventually need to withdraw the money due to hardship. What this means is that our governments will ALWAYS need to support those who for either misfortune or absence of thrift, get to retirement age with little or no funds put by. But Kiwisaver was established on a bi-partisan basis and had superior features over what Sir Robert was objecting to many years earlier.

In Australia, huge sums have been accumulated in self managed retirement accounts, free of tax, and this has admittedly been a great tax dodge for the wealthy. This now amounts in total to in excess of AUD2 trillion and that is just too big a target to ignore.

But given the commodity crash, the Aussie government can ignore it no more. (Please forgive me if my figures are a little out...but I will do my best and if anyone can correct me, please do so...)

In Australia, three things have happened (or will likely be implemented) to vindicate Sir Robert’s stance.

1. Some union executives have been getting great salaries and allowances for serving as trustees of their industry funds. The proportion of union super funds that go to support the Australian Labour Party there is unknown (at least to me).
2. Given current government deficit, the Australian Government has decided they must get more tax so they plan to implement a lid on what they will allow to be saved tax free....the rest will be taxed.
3. They have established a ceiling of AUD1.6 million per person as the amount people can accumulate, for which contributions will not be taxed. People must therefore limit their accumulated deposits or have the excess taxed. Some may already face a large looming tax bill, when the legislation passes.

So far the details of how the government will gouge more tax appear a bit obscure, but from 1 July 2017, it could be that numerous self managed superannuation funds get a bill for tax on any excess of their current total investment balance over AUD1.6 million per person in the fund. If so, that will likely be at the top marginal tax rate of 45%. Certainly as far as annual superannuation savings are concerned, the incentive will be there to squirrel away earnings through other means. If the value of those self managed funds is in property or shares with values moving up and down regularly the calculation process would be quite fraught.

Doubtless, the devil will be in the detail.

The decision of AUD 1.6 million is a tricky figure anyway, because the RBA changes the interest rates to suit circumstances that have nothing to do with retirees. If they get into negative interest rates, the amount of money someone would need to have at retirement age to make up for the fact their income has been squeezed to less than zero and they would need to live solely on their capital until it was exhausted. Retirees can get 3% now (or AUD 48,000 p.a. before tax on 1.6 mil), but after the RBA has reduced interest rates to 1% or less, the capital sum folk will need to be able to get by, will have multiplied from 1.6 million to AUD4.8 million to yield the same pre tax annual retirement income. This week alone, the RBA squeezed the rate by 0.25%.

Unwinding what they have done with their current compulsory superannuation scheme will take a lot of care in order to avoid an electoral backlash. But it will be done to suit the government, which means more robbing from the rich to give to the poor. They will argue that the rich benefitted anyway, so why not? But however the government does it, it may also prove to be retroactive.

KiwiSaver was always a good scheme for 80% of Kiwis, but for the better off folk with a brain who could always do much better themselves. At least the current KiwiSaver legislation restricts the ability of fund managers to rip the depositors off...but with time, that will possibly come. Even now the total KiwiSaver funds under management are relatively small – but growing fast. When they hit say NZD500billion, then the NZ Treasury will also start trying to figure out how to grab a slice of that cake too.

Governments always need more tax to bribe their “loyal” voters.

A person who throughout their working life spends every night at the pub and brutalises his wife and children in the process, or even resides in jail for three decades or so, for crimes against society, will still get the living pension from government, with no thought for the fact that people were meant to provide for themselves. Those who provide for themselves will still

get to support the myriad of fund managers, civil servants and those who have never made any provision for themselves....through their taxes. My cynicism and my book “Flag KiwiSaver, there is a better way” was written because of my concern that increasingly socialist governments would be more likely to introduce compulsory superannuation and yet pay a pension to those who didn’t join anyway. So KiwiSaver was likely to help them and the funds management industry, rather than the savers...just like “Social Security Tax” paid by us old folks once upon a time. J

In HongKong, there is currently a debate between those who believe the 300,000 indigent elderly poor should be supported with a small pension (I think about \$HK280/wk), and those who think they should provide for themselves. The latter are winning hands down. They argue, we saved our money, why didn’t they?

The difference between the rational Asian system and our own, is that our religious beliefs and spirit of generosity take priority over money.

TPPA: more now realise it’s a big corporation con

We know how much interaction there is between Chinese companies and other companies in lower wage economies as Chinese manufacturers struggle to stay competitive. This article below talks about the complex inter-relationships that exist because freight rates are sufficiently low...

http://seekingalpha.com/article/3971763-non-consensus-thinking-trade?source=email_macro_view_for_0_22&ifp=0

The problem is that we will ultimately run out of cheap oil...whichever way I cut the data, this is an arrangement that cannot last for very long.... before it comes under stress.

The TPPA is being promoted in a time of plenty that is unlikely to endure past 2020. Then competition will likely get ugly.

At the end of the day, I would have preferred to see numerous inefficient manufacturing industries get protection, for our long term good...(shock, horror) Had peaking oil supplies not been a near term prospect, I would have taken the other approach ...that free trade and absolute competition is good meme...

http://www.europac.com/commentaries/make_america_great_again

It has been free trade and the loss of industry protection that has already changed us from manufacturers to importers of manufactured goods, and from house owners to renters...and the numbers of our people who no longer participate in the workforce is growing...regardless of employment stats...

We bitch about that in NZ, but it is worse elsewhere...

http://seekingalpha.com/article/3971903-chart-day-nation-renters?source=email_macro_view_dem_0_27&ifp=0

All based on the free flow of money and buying the cheapest we can. Is greed going to be so good after all?

Oil: Saudis panicking

The Saudis are now panicking...probably because they realise that to diversify from oil will take longer than they have and involve some very difficult decisions that will likely bring the al Saud dynasty into open conflict with the Wahabist clerics...

<http://peakoil.com/publicpolicy/saudi-arabias-powerful-oil-minister-ali-al-naimi-is-fired>

Russia and the Saudis are the world's two major exporters, each exporting more than twice as much as the third largest exporter. The Saudis under-pinned the petro-dollar system but with Iran now promoting use of the Euro as currency for oil purchases, a move by Russia to launch the Rouble as the platform for exports will be another major – perhaps even critical – blow to the status of the US dollar as the major currency for international exchange of goods and as the pre-eminent global reserve currency. The “exorbitant privilege” of the USA printing money from nothing to pay its debts seems slowly but surely ending...

<http://www.zerohedge.com/news/2016-05-07/de-dollarization-accelerates-russia-nears-launch-ruble-priced-oil-trading-platform>

By Christmas, perhaps my prediction that we will see the end of the industrial age of oil within the next ten years, could be coming back into focus...

<http://www.reuters.com/article/us-oil-americas-supplies-idUSKCN0XW21S>

and

http://seekingalpha.com/article/3972344-situation-update-fort-mcmurray-oil-markets-daily?source=email_macro_view_com_0_14&ifp=0

But also remember that we will likely see many up and down spikes in crude oil prices before then...as the game plays out and as alternative forms of energy storage develop.

A caution from the Hills Group analysts...

“Oil production is an energy function, not a volumetric function. It is only oil producers who care about volume; that is because they sell oil by the barrel. The economy only responds to the quantity of energy it receives, the amount of oil in barrels is irrelevant without a delivered energy per barrel figure.

That trips them up when they try to determine price/ production relationships. Oil powers the economy, and the economy is the source of demand for the oil. They are not mutually exclusive. As the energy supplied to the economy per barrel goes down, the number of barrels supplied must increase enough to maintain that economy.

That has not happened so the economy is now contracting, and with that contraction has come a weakened demand for oil. Consequently, the price fell.

The idea that there will be a balanced market, where supply becomes equal to demand requires two assumptions that are not true.

- 1) That, on a dollar bases, oil can power enough economic activity to return the price paid for it regardless of that price.
- 2) That the amount of economic activity that a barrel of oil can power is constant.

The price of oil is now far below its theoretical maximum level. The world's economy is contracting faster than is oil ability to power it:

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

This discrepancy may be resulting from the depletion of other fuel sources such as coal and NG, which is not taken into consideration by the Etp Model. It may be resulting from a skewed monetary policy that is attempting to push growth that is not fundamentally possible. Regardless, it now requires more energy to produce oil and its products than it supplies to the economy. With oil production itself now the largest user of the energy that comes from oil, a decline in production will be met by an equal decline in demand. The oil market today is like a dog chasing its tail, no matter how fast it runs it never catches up!

Meanwhile the eco-warriors who want to reduce oil consumption are on the march. What they don't yet know is that they are both wasting their time and also going to get their way. Oil is finite and as the stuff we have yet to find and bring into production will cost much more and yield much less net energy, the campaign to leave oil in the ground will just make it harder for oil companies to get funding and thereby push up oil prices.

Meantime, today may be a good time to fill our petrol tanks J.

Failed and failing states: why?

The best way to see the descent of a state into collapse, is to look at it before violence breaks out to see what drove its people to the circumstances they are in. A critical element is what external influences triggered the collapse, typically that has been the US in recent years, based on highly spurious reasons (often shot down subsequently, eg Iraq, Libya and Syria). Of course, we have the picture of Libya, Yemen, Iraq and Syria as classic failed examples. In Syria they are still committing atrocities but in Iraq they are digging up the already "ethnically cleansed"...

<http://www.bbc.com/news/world-middle-east-36234542>

But the transition of Venezuela from riches based on oil to low oil prices and a drought thrown in for good measure, points the way to revolution. Venezuela is failing...will oil prices recover in time? Who knows...

<http://www.bbc.com/news/world-latin-america-36228104>

So how goes the jihad?

https://www.stratfor.com/weekly/death-and-destruction-bin-ladens-true-legacy?utm_source=freelist-f&utm_medium=email&utm_campaign=SaturdaySend160406&_hsenc=p2ANqtz-9CYL_UUZAtgRzsIPnmt9td6vebB4UQXuoAuPQ0fhEz69kyElo1BgsVikT4jUHNHcnn8-

[zOk-nYUY3dhZNL3YohHQbgIQ& hsmi=29346704&hsCtaTracking=36385696-5ab3-4cf8-aff6-128cecd6358c%7C5ba5b129-f6f9-4384-b168-35c3f0e98065](https://www.msn.com/en-nz/news/national/crater-lake-temperatures-climb/ar-BBsJIcg?li=BBqdg4K&ocid=EIE9HP)

Activity on the ring of fire: dire forecasts?

I suppose we are all watching the news flow regarding earthquakes and volcanism around the Pacific “ring of fire”. GNS Scientists are now watching Ruapehu with renewed interest... There’s much more of concern on other websites, media etc.

<http://www.msn.com/en-nz/news/national/crater-lake-temperatures-climb/ar-BBsJIcg?li=BBqdg4K&ocid=EIE9HP>