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As Albert Einstein once said (something like): *“There are only two things that are infinite, the universe and human stupidity; and I am unsure about the universe.”*

Our direction is set by our own stupidity but many questions remain to be answered...

The economy

There are signs that the Chinese fuelled apartment property boom in Australia (where about 260,000 apartments are for sale) is coming to an abrupt end due to Australian banks suspending lending to foreigners. In London and New York, Vancouver and Toronto there are signs that high end properties are not selling as readily as before. Will it be property that leads the world into crash territory? Luxury goods are down also. Does this mean that X Jinping is stemming the leakage of private Chinese funds at last?

<http://www.bloomberg.com/news/articles/2016-09-14/richemont-hermes-slump-as-gloom-deepens-for-luxury-goods-makers>

For more than a week, one day share markets are up, one day they are down. Volatility rules.

We are all used to hearing politicians providing different degrees of “candour”. Even John Key, the NZ PM, does fib with monotonous regularity. As a former currency trader with Merrill Lynch, he knows that commodity prices are set by the marginal trades. Yet he glibly denies immigration is affecting house prices. We could say perhaps he is just being stupid. Perhaps he is ignorant. But no, it seems such a simple lie, that is even told with a straight face as befits most ex-banksters. He is prepared to risk people waking up to the lie and therefore tells folks that only a couple of thousand Auckland houses were sold to new immigrants in a year, so it had little if any, impact on home prices. Any increase in demand over supply causes house prices to rise. But in John Key’s smorgasbord of economic options, the immigrants are off the table and it is property investors who on the one hand are being invited to take over from housing Corp, that on the other hand are to be vilified for buying houses. Does that make any sense to you?

Now Abenomics is a total failure, perhaps the Japanese will try Keynesomics? After all they actually have a falling population....

<http://www.bloomberg.com/news/articles/2016-09-16/japan-looks-to-bring-in-more-foreign-workers-as-population-falls>

Meantime throughout the OECD, statistical reporting is frequently changed to provide intimations of success, rather than reality...this is an example...

http://seekingalpha.com/article/4006092-real-unemployment-rate-wrong-question?source=email_macro_view_eco_1_23&ifp=0

Don't get me wrong, immigration assists the NZ economic stats, unless we import thousands of older people to go onto our welfare system...and we do just that. So it is not the good that John Key says it is, but nor is it totally bad. Importing people has solved every real economic downturn since 1987 and both National and Labour have used it as a reliable tool. Pity about the stress it placed on Auckland growth and infrastructure.

Perhaps we will lose access to many new immigrants due to Chinese border currency restrictions...who knows? What we expect from our Government is prudent policy settings and sound fiscal and economic management – not boom and bust banker tactics. The huge numbers of Asians being imported by schools who simply want to make a buck by putting overseas students' bums on seats is obviously a form of social engineering. After 25 years Auckland now has predominantly Asian streets – like ours. The schools didn't need to lie to attract them, because every one of their students does get the right to New Zealand citizenship and passport whether they stay here or not. Every parent of a single child family (usually Chinese) directs their children here so they can retire on our super and welfare. A very rational choice- for them.

In 20 years East Auckland (and I don't know about other areas) has gone from predominantly white European, to substantially mixed immigrants. That did not happen overnight.

Wouldn't it be strange if the absence of new immigrants was to eventually be the cause for our property market to crash? I wonder what our PM would say then? Seriously, I hope it doesn't because there are a lot of young folks who have already borrowed up to the hilt.

Even more bizarre is the G20 central bankers' lies about both money printing and NIRP and ZIRP. How can rational humans expect to make money investing in bonds with negative interest rates? It is just stupid. Yet people are doing it... I have seen one article that suggests in the light of this that cash is really an investment asset because at least you will have it under your mattress in a year's time.

<http://thecrux.com/porter-stansberry-we-are-witnessing-a-true-mania-in-the-markets/>

Negative interest rates have come about because economists and central bankers have been unable to admit what is going wrong in the world. Instead of recognising the truth. Economics teaching doesn't train their aspiring PhDs that you cannot have exponential real growth in a finite world, so they continue to believe printing more money and shifting the problem from savers to spenders fixes everything. This even sounds stupid when you read those words.

The loosening of accounting standards for the TBTF global banks since 2008 has now spread and no Balance Sheets or Income Statements for the big corporates are really to be trusted. Whatever happened to Generally Accepted Accounting Practise (“GAAP”)?

http://seekingalpha.com/article/4005941-mind-gaap-gap?source=email_macro_view_edit_pic_4_6&ifp=0

When crash time comes as it inevitably must, we will once again hear the politicians wringing their hands about the raft of bubbles and Ponzi schemes that their own policies have stimulated (they will blame the usual suspects that their spin doctors finger).

The rollercoaster that is OECD share markets rolls on with minor gains in most overnight to offset part of the loss on the previous night. But frankly the global bond markets (meant to be secure) have similarly become a lottery. I have yet to hear of any of the world's vocal billionaire investors believing the central bank hype. Whether your name is Marc Faber, Bill Gross, Baron Rothschild or Carl Icahn – no one believes the world's economy can avoid a very severe correction...

Bill Bonner gives his amusing but accurate take on things...

<http://thecrux.com/bill-bonner-a-sure-sign-the-economy-is-doomed/>

Carl Icahn gave this amusing interview and put his finger on our problem as a civilisation...all previous civilisations have not only been crippled by resource constraints – just like ours is and will be, but have been eventually destroyed by the escalating cost of ever greater complexity...Carl nails how complexity is hitting him...

<http://thecrux.com/carl-icahn-i-think-its-very-dangerous-in-the-market/>

He is just one man, and gives just one example.

John Mauldin on the other hand completely misses causation and offers suggestions for tinkering around the edges. That time is over. Now John is a smart guy, but like all my business owner clients who realised the game is up and they are broke, he realises that the global economy cannot survive as it is for much longer. So what he (and they) does (do) is to try to deal with the symptoms of the looming disaster.

http://ggc-mauldin-images.s3.amazonaws.com/uploads/pdf/160914_TFTF.pdf

He lets the banksters off the hook. Whether your name is Yellen, Key, Carney, Draghi or whatever, you have probably been part of the problem so you are unlikely to be part of the solution. But the only part of that which is currently relevant is that they are still in power and therefore stopping folk who could address causation from getting control. The way my colleagues and I always dealt with that in the private sector was to sack the Managing Director and take his place. But that is unlikely to happen with banksters, PMs and central bank governors. Fortunately most of my MDs would see the light and be “salvageable”. Banksters, politicians and economists are playing with other people's money, so they have nothing to lose by defending their doctrinaire positions to the death. Lost reputation costs them dearly, but other people's money is free.

Matteo Renzi could precipitate the crash via Europe...or just about anything now could now take the markets down...in part because all oil exporters – once the source of global capital, are now on their knees...

http://seekingalpha.com/article/4006156-mamma-mia-italys-upcoming-referendum-potential-tear-apart-euro-investors-need-hedge-gold?source=email_macro_view_top_articles_2_2&ifp=0

At least one European bank is in big trouble – Deutsche Bank - and this could roll them...from Seeking Alpha...

[“Deutsche Bank has been asked](#) to pay \$14B to the DOJ to settle a set of high-profile mortgage-securities probes stemming from the financial crisis. The figure would rank among the largest of what other banks have paid to resolve similar claims and is well above what investors have been expecting. In a statement, the German lender said it had no intent to settle "anywhere near the number cited." [DB -7.1%](#) premarket. “

Perhaps this is just payback for the EU telling Apple to pay about the same amount in tax. Silly tit for tat?

Let us deal with the cause of our looming and rather inevitable tragedy

The only really authoritative work on the failure of civilisations that helps us understand what is happening, is “The Collapse of Complex Societies” by Dr Joseph Tainter.

All the older societies he looked at were geographically small and isolated. Even the Roman empire covered a relatively small portion of the earth’s surface. So growth to access other resources and find redemption were always possible for them. We don’t have that luxury...in fact all we have is the tenuous promise of new technology....and perhaps outer space? Hopium at best.

For our first 200,000 years as a species we never got more than a global human population of 200 million, but from the end of the last ice age, some 8,000 years BC, there were a number of early human civilisations for Tainter and his fellow archaeologists to study. By AD1, the global population was probably somewhere between 240-270 million. It took until AD1500 for the global population to hit 500 million and of these folk 90% were either farmers, hunter/gatherers or traders. Only around 7-8% of the world’s land mammals were comprised of humans and their livestock. By the start of the 19th century, migration to the new world was necessary to relieve population pressure in Europe and to supply many mineral resources that were being depleted by then in Europe, the Middle East and North Africa. The global population eventually hit 1 billion in about AD1810. The Scottish enclosures and the use of Irish land for beef cattle (that caused more misery during the potato famine) were early examples of reaction to over-population. Settlers and convict exiles going to the “New World” were other safety valves.

Now we are at 7.4 billion and we look forward to further growth as everyone lives longer...

<http://www.internationalman.com/articles/the-gravest-threat-to-your-retirement>

Where next? Mars?

Then in 1859 “Colonel” Edwin Drake’s contractors struck oil in Titusville, Pennsylvania and this began the practice of using techniques for drilling for salt for drilling for “rock oil”. Oil is the easiest energy source to extract energy from, so it became used for everything we transport and for industries such as fertiliser, plastics, medicine and farm fertilisers. Most major technological advances in human productivity centred around oil and electricity, that along with coal and natural gas quickly advanced technology and made labour saving devices the norm. So by 1921 the population hit 2 billion and increased ever faster to hit 7 billion in 2011. Now we inhabit every inhabitable portion of the earth and together with our livestock, comprise more than 97% of the world’s land mammals. Only 6% of us in the OECD are

focused on food and water supplies and the rest do a myriad of other - mostly unproductive - things. In 1920, no-one could have foreseen us destroying the ocean food chain or water quality..but now we are succeeding...

<http://peakoil.com/enviroment/the-illusion-and-truth-of-courage>

So there is almost nowhere for us to go. For the last two centuries we have been over-populating the planet, destroying other species' habitats and taking every mineral resource on the basis of the lowest hanging and cheapest good quality fruit first. Now most of that low hanging fruit is gone. Sure there is still plenty left – for how long? Conventional oil production has peaked (after we had used 1.2 trillion barrels of the stuff) and the unconventional stuff costs far more in energy, processing, quality and environmental cost terms. Global oil liquids EROEI has gone from 200:1 in the 1920s to 11:1 now. So while we now produce plenty of oil etc. we have lost a large part of the net energy bounty that fossil fuels provided for us even as recently as 30 years ago. Gold (and other) mines are now abandoned as huge gaping holes in the ground. Coal mines are mountains with the tops cut off and the quality of what resources are left are far costlier to get at and lower in both assay and quality.

As supplies drop, our appetites for “stuff” and the remaining finite resources just increases.

The built infrastructure of the early 20th century is now substantially past its “due by” date and increasingly more needs repair and replacement. Most nuclear power stations built in the 19 60's and 70's are overdue for de-commissioning and yet few countries have replacement energy sources to compensate. So all their operating lives are being extended. Most bridges need replacing as do many roads and buildings. Yet every replacement now faces greater scarcity of resources that need to be sourced from further away and at greater real cost. The energy surplus is now watered down so far, that in many places the built infrastructure is either obsolete or left to die.

The increased sophistication of society has led to an endless stream of legislation, such that laws are now administered by more bureaucrats than there are farmers and factory workers. The stratification of central and local governments has hamstrung growth at every turn, so now it costs far more for society to just stand still.

The usual means of dealing with an inability for government to afford services on its then current tax base, is to either import people and their money and to increase the number of services requiring “user pays”. We now accept that we will be charged separately for water and rubbish as our council rates struggle to meet the salaries and superannuation of bureaucrats. They are a protected species. Now we face ideas that police should charge for their services and become revenue collectors. In the USA this already often means that people are stopped and money taken from them until they can prove they held it for a provable legal purpose. Businesses are held to ransom (for real or trumped up breaches of one of the thousands of pages of statutes) with asset confiscations, so that relatively few cases make it to court because most are settled by payment of “ransoms” (“extortion” is such an ugly word).

Resource depletion is a foreign concept for economists. They believe that money will always be forthcoming to solve resource depletion problems and to grow. But we live in a finite world. Apart from recycling, the resources we used in 1970 are now gone and not available today. What we use today will not be available tomorrow.

One kg of diesel fuel has the equivalent of three weeks of manual labour at 11.6kwhrs. Diesel, petrol and other fossil fuels are a one-time endowment from 100 million years ago, once gone, never to return.

The loss of most of our net energy surplus has changed the game. Central bankers have lost their “multiplier principle” they cannot understand why \$4 of new debt now cannot buy \$1 of real growth. In 1980, \$1 of debt could fund \$4 of real growth via the multiplier principle. Trying to incentivise growth via the twin policies of lower borrowing costs (now at zero cost to borrowers in some places) and goosed up consumer demand is not working.

In this environment, the folly of importing people with their money is counter-productive and must be stopped as soon as possible. It won't be fatal for NZ or Australia any time soon because we have low populations. But soon the immigrants will be numerous enough to prevent future protectionist measures.

The most unsustainable feature of modern life is the exponentially increasing number of humans we share the earth with. Moreover the forces of liberal democracy pander to the rights of those who do nothing to support their offspring, and keep procreating.

This year the global human population will increase by 90 million. It will make the eventual but inevitable die back of our species all the more painful.

Sustainability policies won't save us at a societal level. Sustainability is a fad that has no practical benefit because, if or when it does find practical application, it will be too late for the majority of us. Each of us will likely be required to work out how sustainable resources will sustain our families, when TSHTF.

Our society is now so complex that we cannot afford to maintain it...let alone to grow it. We will soon see depression (deflation or hyperinflation – that distinction doesn't matter to the masses at this point) and the collapse of our highly complex society will soon follow within decades of that.

Tainter has shown that no society throughout history has had the ability to develop technological solutions to the inevitable and rapid increase in the cost of maintaining our society to our ever increasing expectations. Have we ever as a species been able to temper our greed? Never. At least not in recorded history.

The other two books worth reading to understand the scale of our predicament are “Limits to Growth” by Meadows, Randers and Meadows; and “Extracted” by Ugo Bardi. All three books referred to in this email have been mentioned in my emails before.

Quality energy is now more important for our lives than money finagling

The fall in EROEI means that energy issues are central to the survival of our society – along with implications from the availability and cost of many other resources. As oil production is boosted by unconventional oil substitutes, falling EROEI is the visible face of peak conventional oil production. Its reality bites us because of the falling net energy from the average barrel.

To have major economies such as India and China ring-fencing resources that would previously have only been available to OECD countries is also a looming problem of greater and greater proportions.

Yet investments in global energy projects dropped by 8% in 2015. Does that suggest that growth is stalling or that energy is no longer required? The most alarming thing is that people seem to be changing investment patterns due to theories about climate change...

<http://peakoil.com/production/iea-sees-8-drop-in-world-energy-investment>

This week Theresa May approved the Hinkley nuclear power project...

<http://www.mining.com/huge-shot-arm-uranium-price/>

The UK is facing possible brown-outs this and next winter and even Hinkley will not avert that due to the time to build and commission...due in 2025 but with likely deadline over-runs.

There are three nukes in Japan that are back on stream and more to follow. So given Chinese demand and many new builds, the spot price of U3O8 has arguably bottomed and will increase. People forget that uranium oxide is also a finite resource when one considers its concentrated economically extractable deposits.

We will soon (this year or next) find out that present depressed prices for many resources – including oil - will have a detrimental effect in that, while we will travel for too long without funding for exploration and development, it will become practically impossible to turn the tap on to supply when existing reserves are depleted.

<http://oilprice.com/Energy/Energy-General/The-Worst-Oil-Crisis-Ever-IEA-Sees-Unprecedented-Drop-In-Investment.html>

Lower oil prices mean reserves must be reduced in volume and value...

<http://www.zerohedge.com/sites/default/files/images/user5/imageroot/2016/09/10/writedowns.jpg>

As a point of interest, Exxon Mobil is fiddling their figures on oil reserves and unfortunately for them, it hasn't gone un-noticed by the feds...from Seeking Alpha...

[“Eric Schneiderman is investigating](#) why Exxon Mobil (NYSE:[XOM](#)) hasn't written down the value of its assets, two years into a pronounced crash in oil prices. The New York Attorney General, who has been probing the firm's past knowledge of the impact of climate change, is also examining its accounting practices, sources told *WSJ*. While a company spokesman declined to comment, he said Exxon followed all rules and regulations. [XOM -1.3%](#) premarket.

There are other “Big Oil” companies in pretty much the same boat...whether BP, Shell, Total, all are borrowing to pay dividends and none can fully replace the reserves they use up each year...

http://seekingalpha.com/article/4006397-royal-dutch-shell-unsustainable-dividend?source=email_alternative_energy_investing_top_articles_0_0&ifp=0

Conclusion

After ten years of money printing, credit creation and financial jiggery-pokery to replace falling energy EROEI and to replace real productivity with new \$\$\$\$, the game is almost up.

We live in a time when financialisation of debt instruments (whether for student debt, car loans, home mortgages or whatever) have become counter-productive and the bubbles created by loose central bank largesse and support for ultra-low interest rates will likely lead to a near-term crash. Extra debt from global QE (approx USD60 trillion since the GFC) and ridiculous policies for negative interest rates, can no longer be remedied; giving certainty that we all must soon pay for a return to reality.... by accident or design. I suspect that depression will afflict the years from 2020 to 2025...with no visibility of any respite thereafter.

Our leaders still deny (either due to the hubris of politicians, scientists, bankers or economists who claim they can fix everything) that exponential growth is not possible in a finite world. As a result when the crash comes, we won't be pushed off the cliff, we will hit the edge running, and leap/tumble into the abyss. That means societal complexity and resource scarcity will intervene to attack our civilisation - probably over an extended period during the years for, who knows how long. The industrial age of oil will almost certainly be at an end even though we will continue to use fossil fuels for a wide variety of purposes for one or two hundred years thereafter, but the use for transport of goods from one country to another will be so costly that we will enter an era of re-localisation...ushering in the inevitable end of globalisation.

Just what shape our own local economy will be in, remains to be seen.

Was I the only one who realised that interest free credit for 3 years on a new TV or washing machine from Farmers or Harvey Norman was going to have a cost that would one day bite us on the bum? Did no-one ask the question, "Who pays?"