

BY RICHARD "JERRY" HAWORTH

Zugzwang

Zugzwang (from German, meaning 'compulsion to move'; pronounced ['tsu:ktsvaŋ]) is a situation found in chess and other turn-based games wherein one player is put at a disadvantage because of their obligation to make a move; a player is said to be "in zugzwang" when any legal move will worsen their position.

I first saw this word in one of the many commentaries I read during the month.

Where it resonated with me is from the book "Immoderate Greatness: Why Civilizations Fail" by William Ophuls, who said, and I paraphrase, "When civilizations reach their peak, EVERYTHING governments attempt to do to ameliorate the situation makes it worse".

We seem to be in the Zugzwang, so to speak.

Governments' apparent predilection for unproductive yet emotive policies ensures a slow decline in a country's economy, the bigger it becomes. As the book continues, "civilizations are hardwired for self-destruction".

The West seems to be leading the charge in this respect, and it is above my paygrade to work out why. What is clear is that the workers in these countries are basically fed up. They want change. To effect such change, a move to the left or right is seemingly required.

A move to the left seems an ill-fated attempt to do more of the same i.e. if high taxes don't work to improve growth in an economy, maybe even higher taxes will?

The flawed logic has been shown up by economists again and again, no better than Henry Hazlitt's "Economics in One Lesson".

A move to the right seems to be an attempt to change what isn't working by favouring more hard-line policies; advancing the interests of the incumbent population, versus more globalist centrist policies. They too don't really want to address the real problem, which is government overreach.

So in the Zugzwang, we will remain.

The final arbiter of value, the nation's currency, will ultimately reflect the net result of a government's policies, with Argentina being the poster child in this respect.

But if all currencies depreciate at more or less the same rate, we don't feel the effects unless the price of real goods spirals upwards, which it must inevitably do in the upward spiral of money and credit. Governments can temporarily hide this inflationary effect by inducing a real economy recession by keeping interest rates high, thus lowering consumer demand. This seems to be where we are now.

The effects of government overreach are thus muted to the point where the population calls for more overreach to help those in need. Their call will be answered. One more ticket to ride on the dizzying credit and debt merry-go-round.

So, saddled with ever higher levels of debt in the system, governments, like alpine climbers on a razorback, have the harder and harder job of avoiding the perils of significant inflation on the one hand, and significant deflation on the other. Both outcomes have great consequences for investors and society at large.

I can only borrow the line from the book title by Paul Watzlawick: "The Situation Is Hopeless, But Not Serious."

Disclosure

Nothing in this document should be taken as investment advice, or an invitation to invest in any particular strategy or product. Unless otherwise stated, all commentary and views expressed in this document are solely the opinions of 36 South Capital Advisors LLP. Any facts and figures in this document have been sourced through independent reading and research, and have not been independently checked and audited. We make no representation as to their accuracy.

36 South Capital Advisors LLP is authorised and regulated by the Financial Conduct Authority (FRN: 477881).