

Right kind of energy

Much of 2022 has been focussed on energy so I thought I would metaphorise it for this month's ramblings.

We all know what energy and its classifications mean i.e. kinetic, thermodynamic etc but a much more interesting classification is that of exergy and anergy.

Exergy is the amount of energy available for useful work.

Anergy is the amount of energy NOT available for useful work.

Lightning is a good example of anergy. A lot of potential but to date no-one has been able to turn it into useful energy.

When this concept is applied to societies it provides a useful metaphor. Let's take capital and labour as our proxy for society's energy resources. One unit of capital or labour has one unit of energy.

Why do some societies thrive seemingly with a small amount of total energy available i.e. Singapore, whilst others muddle along with seemingly vast amounts of total energy available? i.e. Venezuela

Why do some countries do well consistently whilst others languish?

I sense that it is because of how their societies increase the total "exergy" available per capita to their societies.

A catalyst for turning exergy into energy for a society is cooperation. Without it most of the potential energy of a society is anergy.... disorganised or unavailable for work.

Now we can readily see through this lens which societies will thrive and which will merely survive.

No rule of law, or a rule of law unenforced, is anergy.

Corruption erodes cooperation between capital and labour therefore increases anergy.

Rigid societal structure i.e. communism, autocratic rulers increase anergy.

High government involvement in society increases anergy through bureaucracy, misallocation of capital and labour.

Western democratic systems have thrived post WW2 due to maximisation of their exergy and minimisation of their anergy compared to other societies.

However the trend is changing.

In the UK one observes increasing anergy everywhere. i.e. Brexit, high government debt, expenditure and taxes, strikes, windfall taxes etc etc.

As far as can be observed China is increasing anergy through increasing autocratic rule, Covid lockdowns etc.

In the USA we can see states which harness their energy and those who dissipate it. Texas (increased exergy) versus California (increased anergy).

In fact, as far as the eye can see, anergy is increasing at the expense of exergy which is dooming societies to a very inefficient use of their total energy potential creating anger, discontentment and resignation amongst its members especially in those societies who used to enjoy a very high prior exergy transformation. It is *Deprivat-*

Superreaction Tendency at work as elucidated by Robert Cialdini in his book 'Persuasion' which basically says we feel a loss much more keenly than a gain.

High inflation in particular deserves a special mention in terms of energy. It creates unfairness in societies which directly affects cooperation. It promotes an unwillingness to cooperate. i.e. strikes, as it hits at the heart of unfairness which is pretty much coded in our DNA.

Don't believe me?

Watch the YouTube video "Capuchin monkey fairness experiment" <https://www.youtube.com/watch?v=-KSryJXDpZo>

Given this trend it is hard to see how the economic growth we have observed over the last 50 years is able to continue in any meaningful way unless significant steps are taken to increase the efficiency with which we can translate our innate potential as a society into energy and minimise the current tendency for energy.

All that been said...it is the time of year to take a break from the grim socio-economic prognostications (well mine anyway). The holiday season is upon us, the time when goodwill amongst men is at its best and "hope springs eternal in the human heart".

It's a brief respite from reality which we will take up next year in earnest.

We therefore wish you and your loved ones a happy and joyful festive season.

HOT OFF THE PRESS

This is a report from Bank of International Settlements posted on the 5th Dec 2022.

I wrote about the potential dollar collateral problem a few months ago.

"The off-balance sheet US dollar debt of non-banks outside the United States substantially exceeds their on-balance sheet debt and has been growing faster. At end-June 2022, the missing debt amounted to as much as double the on-balance sheet component, which was estimated at "only" \$13 trillion. Moreover, the missing debt was "only" 1.6 times larger in 2016.

For their part, banks headquartered outside the United States, including some dealers in FX swaps, have even larger missing dollar obligations. These banks deserve focus because of their limited access to the Federal Reserve's discount window for dollars. Their estimated off-balance sheet dollar obligations of \$39 trillion at end-June 2022 were much higher than the \$15 trillion in on-balance sheet dollar debt and almost half as big as their combined total liabilities."ⁱⁱ

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ⁱⁱ https://www.bis.org/publ/qtrpdf/r_qt2212.pdf