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## **China, Fracking and Malthus**

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### **China**

One of the emerging risks we focus on in our annual survey is the fear of an economic hard landing for the previously fast growing Chinese economy. The entire social fabric is flimsy in China, and a so-called perfect storm is brewing with an upcoming shift in political leadership, a slowing economy, and civil unrest in rural areas. Recent reports have said that entire complexes sit empty even though they were just built, and previous purchases of commodities have cut back quite a bit. That is the connection with other countries, and those that provide the commodities like copper and coal will also fall into recession as China slows. This impacts Brazil and Australia in particular and might burst a housing bubble in Australia. Even a soft landing in China is likely to lead to slowdowns in the coal producing regions in Australia.

China has recently opened up approved investments outside China. With low interest rates worldwide, could a flurry of Chinese cash continue a bubble elsewhere? It is being reported that Chinese money is buying up Manhattan (much as Japanese money did 30 years ago) and it will be interesting to follow the cash in this scenario.

### ***Unintended consequences of Fracking***

In 2008 at the Republican National Convention, Rudy Giuliani led the chants of “Drill, baby, drill!” Given the past four years, you might think the Republicans won the White House. While Barack Obama can assure you that John McCain did indeed not win, the result has been similar. Rather than drilling in Alaska, Obama has allowed drilling in places like Ohio and Pennsylvania, convenient swing states, using the fracking technique. There are potential environmental issues regarding groundwater poisoning (likely unwarranted) as well as the fact that fracking uses a lot of water in places that could be in drought conditions and need that water for other purposes. There are also environmental concerns that the process creates small earthquakes.

As fracking is used elsewhere there will be similar questions, especially when water is scarce or the region has known seismic risks. This is true of every new process, and unintended consequences will only become understood later.

### ***Insider Trading***

It seems very obvious to everyone except politicians that insider trading is bad. If you know something that is not publicly available, you should not trade on that information. Politicians think it is okay, and battle for spots on subcommittees that meet in secret to discuss regulation of specific industries. These practices should result in the member

being censured and kicked out of Congress. Being a legislator should not be a guarantee of riches. (that's what lobbying is for ☺)

### ***Everything that Counts can't be Counted***

In July, Standard & Poor's published a report detailing how they set a rating. Wow! They have converted many subjective rankings into precise quantifications, taking fuzzy logic to a place beyond its usefulness. It will be interesting to see how others react to this detailed checklist approach. This approach focuses on You can't manage what you can't measure, but there are many components of good business practice that are either not quantifiable or provide easy opportunities to deceive. For example, many insurers rated excellent for ERM in the past have not done so well in reality because they created the ERM unit solely to impress the rating agencies and other stakeholders rather than to make better decisions. We'll see how this plays out.

### ***Malthus will have his day***

No question on the emerging risk survey has created so much consternation from respondents as the one about limited resources and the likelihood that we could face choices in the future. Many of the risk managers seem to feel that science will always keep ahead of these types of issues, much as doctors were sure that pandemics were a thing of the past when I wrote up my pandemic research ten years ago.

A recent book by David Quammen, *Spillover*, details the increased likelihood that benign infections in host animals will jump to humans (called zoonosis) given our encroachment on their natural ranges and evolving ecosystems (e.g., global warming). In *Guns, Germs, and Steel*, the Pulitzer Prize winner written by Jared Diamond, he showed how access to weapons and metals, along with close contact with domesticated animals (building up immunity to disease) gave the Europeans great advantages, especially against those in the Americas.

There are other changes coming, and some are already here. Fresh water shortages compete with population growth to drive regional conflicts. Climate change will lead to increased volatility of harvests and weather patterns. In Omaha, Nebraska, where I live, over the past two years we have gone from flooding (due to heavy precipitation upstream on the Missouri River) to drought. The warm winter of 2011-12 left little snowfall, and led to an early growing season. The corn crop was knee high by Memorial Day but it rained only once per month after that and destroyed the expected bounty. This shortfall, felt throughout the US Midwest farm belt, will impact regions all around the world over the next year. Various crops are becoming susceptible to bugs and disease that had not had to deal with these issues for decades. Antibiotics are moving closer to the end of their ability to evade the constant evolution of a wide variety of bacteria. At some point the most dangerous place in your community will become your local hospital. The use of vaccines has created unintended consequences as disease enters a region with no immunity to it or with a few who refused to take the vaccine allowing the disease to

reestablish a stronghold. It sure feels like resources are not unlimited. This debate will go on forever, but it reminds me of Pascal's Wager (Is there a God? If there isn't, it is not a big deal to believe, but if there is a God the downside to not believing is big.). There is no downside to preparing for a potential problem. If it does not occur then you are all the better off. Keep in mind that I am not predicting a specific event, just warning that preparation has its own benefits in any case.

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