

Quick Takes

I thought I would try something new this month. The idea behind this section is to take popular ideas, headlines and memes from the mass media and try to make some actual sense out of them. So often these days the media either just gets things plain wrong, doesn't cover the issues at the right level of depth or dumbs things down to the point of uselessness. With Quick Takes, my aim is to pierce through this veil and hopefully provide some actual insight now and then.



De-Globalization, Yeah Right!

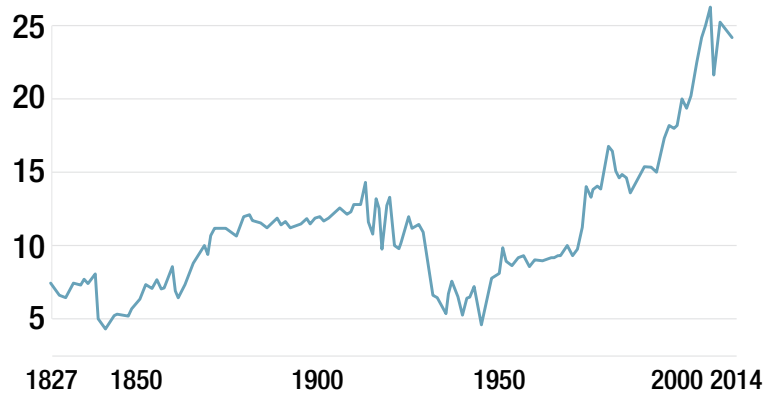
Ever since the Trump administration started introducing tariffs, there's been a lot of talk in the news about how we've entered this new era of de-globalization. The thought has been that our little mini-trade war with China coupled with COVID supply-chain fallout has set off a process of reversing one of the dominant trends in the global economy over the last 30 years. In light of everything that's happened this sounds reasonable, but of course, things are not so simple.

Indeed, countries and companies around the world today are seriously re-evaluating their supply chains. While COVID has been a much-needed wake-up call for just how dangerous aggressive just-in-time inventory management can be, at the geopolitical level, the dynamic today isn't "let's stop trade" but rather "let's make sure trade is beneficial to our country's long-term best interests" (rather than just the executives of a handful of multi-national corporations). Similarly, at the corporate level, it's not "let's re-shore all of our production" but rather "let's think a little more long-term and a little more strategically about where we are sourcing our materials and where we are producing our products and if that means less profits, then so be it." There's definitely a reshuffling happening and trade flows are going to change but trade itself is not going anywhere.

In my view, this ultimately is going to be really good for America in particular. Unlike many countries around the world, we don't have an energy problem here. So once again, we find ourselves in an enviable geopolitical position. With abundant resources, the world's best technical talent and the most dynamic capitalist economy in the world, we at least have options.

The recent era of globalization is unprecedented and has not reversed

Global merchandise trade as a share of GDP (%)



Sources: Fouquin and Hugot (CEPII 2016), Our World in Data

Anyway, one thing is for sure: the game is up for the one-way labor arbitrage play—"Hey, I have an idea on how to increase our profit margins. Let's outsource all our production to China." That and thinking it's a good idea to be almost completely dependent on the Russians for oil and gas.

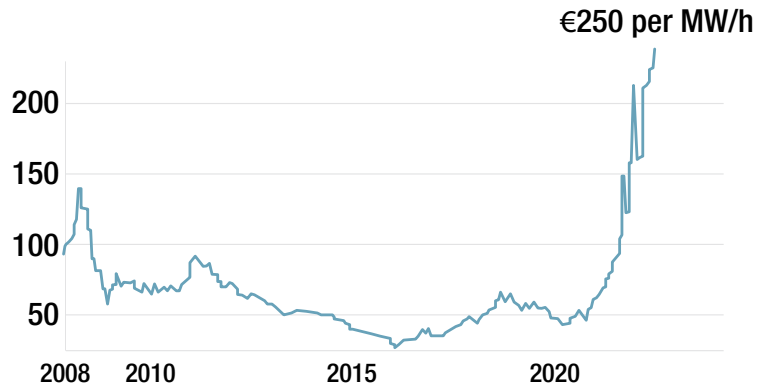
Germany's Burning Coal Again

You know the politics of climate change are messed-up when a country like Germany would rather burn coal than turn on their nuclear reactors. To be sure, nuclear power can be dangerous but, let's be honest, is it really that bad? How many bad accidents have we really had? The anti-nuclear argument just doesn't make a lot of sense to me, especially for a country so dependent on Russian oil and gas. It seems so obvious to me that nuclear power is the answer to the clean energy problem—not the “forever” answer but a bridge along the way. And it's not just about carbon emissions and climate change. Just think how much better the world would be if we weren't so dependent on oil from Russia and OPEC.

Here's a visual for how bad of a strategic decision this has been for Germany:

Sparking Prices

Germany one-year forward electricity prices surge to an all-time high



Sources: EEX and Bloomberg Note: Monthly average

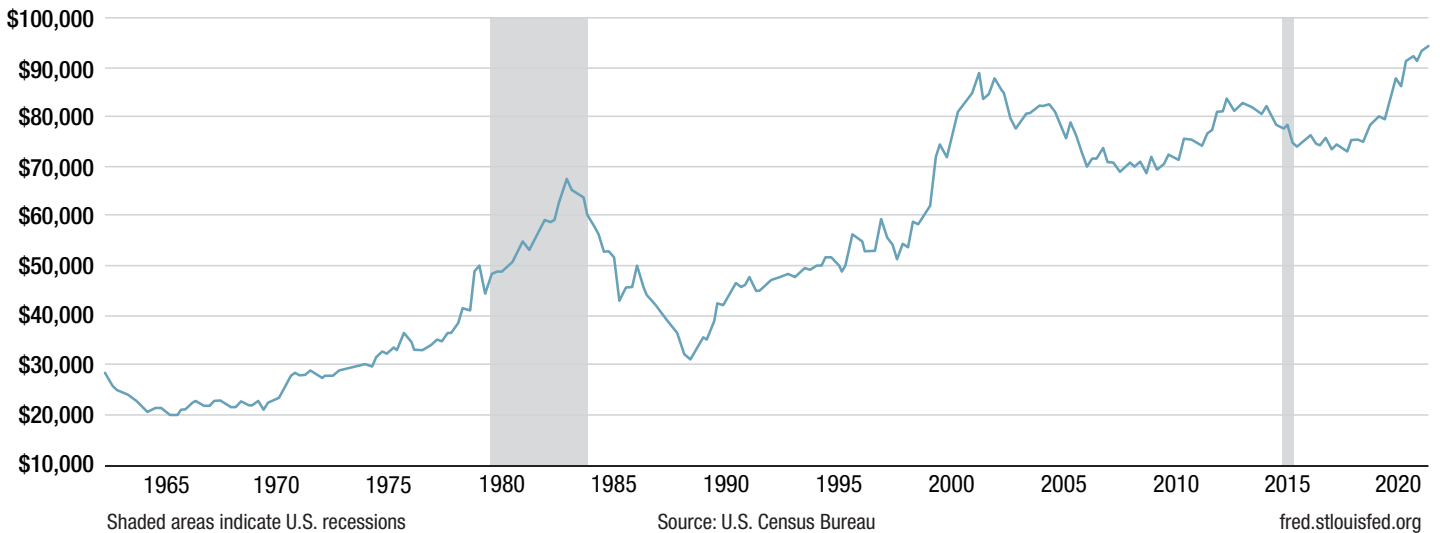
A Renaissance in US Manufacturing

Here's something to be excited about: manufacturing construction is booming in America.

This has to be the most optimistic chart I've seen this year and it might just be the start of something great for America. In a recent survey, UBS discovered that there is a massive consensus among C-Suite executives about moving production out of China—over 90% said they either already

have started moving production away from China or had plans to in the near future. Now, this trend isn't going to magically bring back the 5M manufacturing jobs we've lost in this country from outsourcing but it will be good for the economy and will bring new jobs. Ultimately, this is more a story about advanced robotics technology giving American companies the opportunity to bring back production without sacrificing much of anything in terms of profit margins.

FRED. Total construction spending: Manufacturing in the United States



The Problem with NFTs



I came across this story about Pokemon cards that I think basically illustrates the fundamental problem with

NFTs, at least to the extent that they are being treated by consumers and investors as collectibles. Apparently, there's a big market for certain rare Pokemon cards and some astute/lucky people have been making huge returns selling them on the secondary market. Well in response to this phenomenon, the company printed a mere 9B new cards last year (note: they've printed 43B printed total in the company history so this is a huge percentage of the total). Of course, prices for Pokemon cards have started to come down. By the way, this is exactly how inflation works in the economy. But we've already covered that story ad nauseum. With NFTs, while the supply of a given project is supposedly fixed, there's nothing to stop developers from just starting another project and selling more. This is exactly what's been happening. Eventually, I suspect there will be so many NFTs to choose from that none of them will have any value. The way things are going this might happen sooner rather than later.

Musk's Ill-Advised Foray into Free Speech Politics



Musk made a big mistake by wading into the waters of the free speech debate in America. It's a much trickier problem than it seems and the libertarian impulse, while perhaps intellectually appealing, falls apart when you really start to dig into things. I'm convinced that Musk is walking away from the deal not because of the bot account problem but rather because he saw how absolutely crazy things are under the hood at Twitter when it comes to free speech. From what I've seen I have to imagine there is a deluge of morally and legally questionable content hitting the platform every minute.

I think Musk must've realized that if you own a company like Twitter, you have to be prepared to block a lot of speech. These days people online are absolutely crazy. Thank you former President Trump for pouring gasoline on this dumpster fire. Imagine having to make the call about what to block and what to allow. Where do you draw the line? How do you even think about making the call? I've spoken to several very high-powered liberal politicians and even they are concerned about the environment around free speech these days. There's something rather dangerous about the combination of woke politics, extremely powerful private media platforms and cancel culture.

The Mass Shooting Crisis

I cannot get the school shooting down in Texas out of my head. I keep thinking about what it must've been like in that room for those innocent kids and teachers. It's just so soul crushing to even imagine it. In recent weeks, I've even had several bad dreams about school shootings and find myself struggling to accept the reality that I cannot really protect my kids from the risk—a rather sobering realization. I'm encouraged that Congress is finally taking action on gun control but convinced it won't even be close to enough. For what's happening with all these shootings is a manifestation of failure across multiple dimensions of society and culture. At a minimum we should make it exceedingly difficult to get guns and ammo but we also need to invest massively in things like mental health resources (to at least make an attempt at prevention) and better crisis response police training (as the Uvalde incident has shown).