Insights, Tacit Thought | Weekly Investment Insights

The Advantages of Backwardness and the Opportunities in Change

Published on: 16 July, 2021 | Author: Investment Team

In Saffron Walden, where one of our colleagues lives, there is a broken and battered old building next to the common emblazoned with the word “GASWORKS” and underneath dated 1836. Victorian England was lit by gas. Gas mantles were used in domestic houses until the late 1940s and early 1950s when the post-war slum clearances electrified inner cities.

Technological change emerges slowly then impacts quickly. Being an early adopter of technological change can sometimes be a disadvantage.

The Bridgewater canal opened on the 17th July 1761 setting the stage for the “canal mania” of the 18th century.

Yet, less than 70 years later in 1829, Robert Stephenson demonstrated his locomotive “Rocket,” inadvertently killing the local MP William Huskisson in the process but ushering in the age of steam and the “Railway mania” of the 19th century. At the same time making the expensively engineered “high-speed” canal network redundant.

Less industrially advanced economies skipped the canal stage and the associated sunk investment and went straight to rail, not least, the emerging United States of America.

In our own day, telephony is a harbinger of change; landline usage is now regarded as being in terminal decline. The number of households with a landline has fallen by four million since 2000 and 26% of them don’t even have a handset attached. 22% of consumers won’t answer a landline call at all because of the high volume of nuisance and scam calls and 35% maintain a landline simply for broadband internet usage.

As 5G begins to be rolled-out, fixed-line telcos are being left with a legacy of redundant assets. BT might offer you fibre-optics but the connection into your house is almost certainly copper particularly in non-urban settings. By contrast much of the emerging world has bypassed fixed-line investment going directly to high-speed mobile. Fixed-line telephony is going the same way as the Duke of Bridgwater’s canal.

Our children face multiple challenges that are likely to eclipse those imposed by the long-tail consequences of the industrial revolution as economies deindustrialise and perhaps, more pressingly, decarbonise.

The energy transition is fundamental. If you want a model of the impact of C02 concentrations on human life, the film of the Apollo 13 moon shot is instructive. You may remember that the three astronauts are forced to shelter in the lunar module on their return to earth. However, the “lim” was designed only for two and the excess C02 concentrations caused by the three astronauts breathing in a closed box nearly killed them. They were rescued only by some remarkable ingenuity on the part of the scientists on the ground.

Like the interior of the lunar module, the planet is a closed-system requiring great ingenuity to balance the competing requirements of all those who live on it.

Yuval Noah Harari, the distinguished historian and social scientist sees redemption in “AI,” artificial intelligence. Leaps in computing technology, “qubits?”, will lead to massive advances in problem-solving capacity.

Some of this can already be seen in the response to Covid, where AI and state of the art genetic engineering has reduced the timeline for producing effective vaccines from decades to months.

Covid itself will impose permanent changes with consequences for capital flows and investment. Healthcare is moving on-line; AI is helping with remote diagnostics. People are not going to the shops; the shops are coming to them. Travel restrictions are likely to be in place, at least semi-permanently, and the age of unrestricted international travel is possibly closing; difficult, bureaucratic, expensive, and risky.

Rapid social and economic change always produces risks with the concomitant winners and losers, the Duke versus Robert Stephenson.

However, it also offers many opportunities. Like Yuval Harari we believe in the depth of human ingenuity. We can't cling to the past; we must avoid passing manias, but we must be open and alert to the deep well of opportunity the future offers. The key is the balance that we strike in portfolios based on the prices that prevail in the equity markets at any given point.