

Equities in a Society of Control

Part I

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What was the difference between pre-Napoleonic and post-Napoleonic European societies? The French philosopher Michel Foucault once described the former as ‘Sovereign’ and the latter as ‘Disciplinary’. A Disciplinary Society builds structures of enclosure, such as prisons, schools, factories or hospitals, restraining freedom and ‘parking’ people. All this, in the name of the common good. In a ‘Disciplinary Society’, with its restraints, factories, highways, skyscrapers and Airbus A380s are smart investments.

A New World

From a ‘Disciplinary Society’
to a ‘Society of Control’

In a remarkably prescient text written in the early 90s, prior to the internet era, another French philosopher – Gilles Deleuze – foresaw our shift from a ‘Disciplinary Society’ to a ‘Society of Control’. Freed from enclosed workspaces, physical freedom would become pervasive. People would start studying and working from home, alternating learning and working periods throughout their lifetime. Even the traditional sanction of jail time would be called into question by the Court of Justice.

The illusion of freedom

A ‘Society of Control’ presents itself as a free society. One can do “whatever one wants”! These ‘free’ actions must be in line with the collectively acknowledged moral boundaries, however... It is a trade-off. On the one hand, a much-desired outcome: easy communication, no enclosures, flexibility, free or almost free access to knowledge and entertainment. On the other hand: the acceptance of personal tracking, encoding, recording of private communication, and potential supervision, be they by governments or groups of influence. In other words, a control on what is deemed acceptable or unacceptable.

Favored by the FAANGM

Thanks to Microsoft, Apple, Amazon, Alphabet, Facebook, Netflix, i.e. the FAANGM, the transition phase between a 'Disciplinary Society' and a 'Society of Control' has taken place much faster.

Companies like Alibaba, Tencent, Twitter, Baidu, Shopify, JD.com, Booking.com, Expedia, Electronic Arts, Activision Blizzard, Take-Two, Ubisoft, Nvidia, Spotify are only now exacerbating this transition.

FAANGM have hit 30% in performance per annum in the past 10 years. So why exactly do they thrive in a 'Society of Control'?

The Value of Information

Information is worth more than energy

The value of any good or asset mixes two components, energy and information, in various proportions. With the same dollar bills, one can buy oil, a house, a computer application, or a secret. The difference between energy and information lies in the multiplication effect. On the energetic side, one apple plus one apple equals two apples. On the information side, one plus one can equal 2, 3, or 10. In other words, information is intrinsically more valuable than energy, even though information cannot be treated or transmitted without energy.

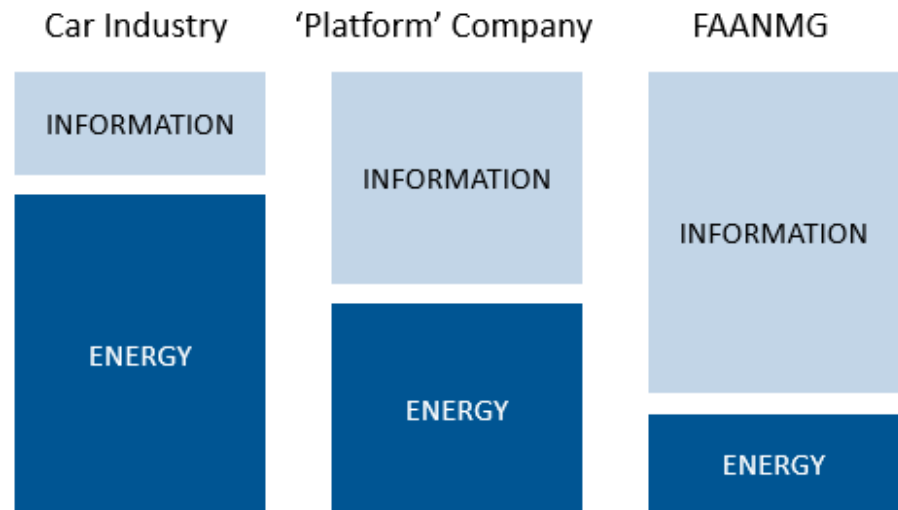
An intuitive way to estimate the multiplication effect of information is to observe our own body. We allocate 20% of the energy we capture to feed a rather small organ—weighing less than 2% of our body mass, i.e. our brain. In this example, nature considers that the treatment of information is worth 10 times the average functions of our metabolism.

A 'Society of Control' requires and therefore favours the mass treatment of information, and is rewarded by this multiplication effect.

Today, the FAANGM provide access to computing, communication, internet, social network, gaming, film, music, and e-commerce. In other words, they all leverage the intangible part of value, i.e. information.

Industrial value creation seems to follow an arrow of time, illustrated below by the evolution of the value mix. The FAANGM are at the forefront of this structural trend.

Illustration. Evolution of the value mix over time



Source: Gavekal Intelligence Software

FAANGM are delivering

An Extraordinary Performance

The FAANGM are statistical outliers:

1. In both the last five and ten years, they returned 3 times more than the S&P500.
2. Their market capitalization now stands at 22% of the S&P500's, which is higher than all MSCI country equity markets in the world, except China's.
3. They explain most of the return gap between the US equity market and the ex-US MSCI World of the last 5 years.

Conclusion

The treatment and sharing of information benefits from a huge multiplication effect on value creation. We shall see, in our next publication, that there is yet more. The FAANGM have not finished their ride.