

Implications of the 'politics of anger' Medium Term Forecasts Political Outlook

For the Hugo Group, July 2016

Two key global themes



- A growing 'politics of anger' in developed economies



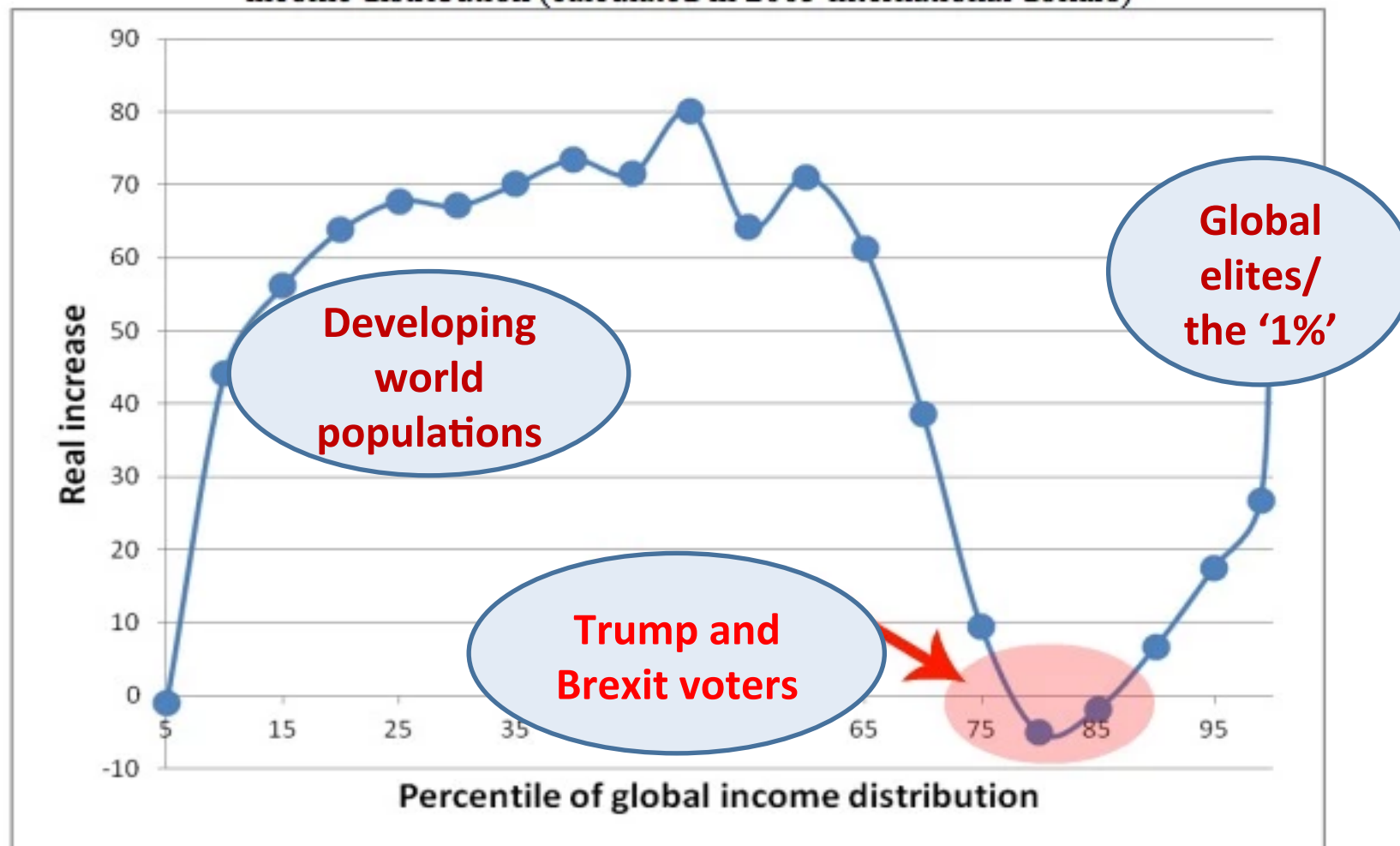
- The digitisation of everything

The 'politics of anger'

- A lurch to nationalism, protectionism and isolationism in developed economies
- Trade liberalisation no longer accepted in principle as a fundamental 'good'
- Immigration a hot-button issue, stoking acceptance of racist/separatist agendas
- Rich vs poor - income inequality demands an answer

Brexit and Trumpism



Figure 4. Change in real income between 1988 and 2008 at various percentiles of global income distribution (calculated in 2005 international dollars)

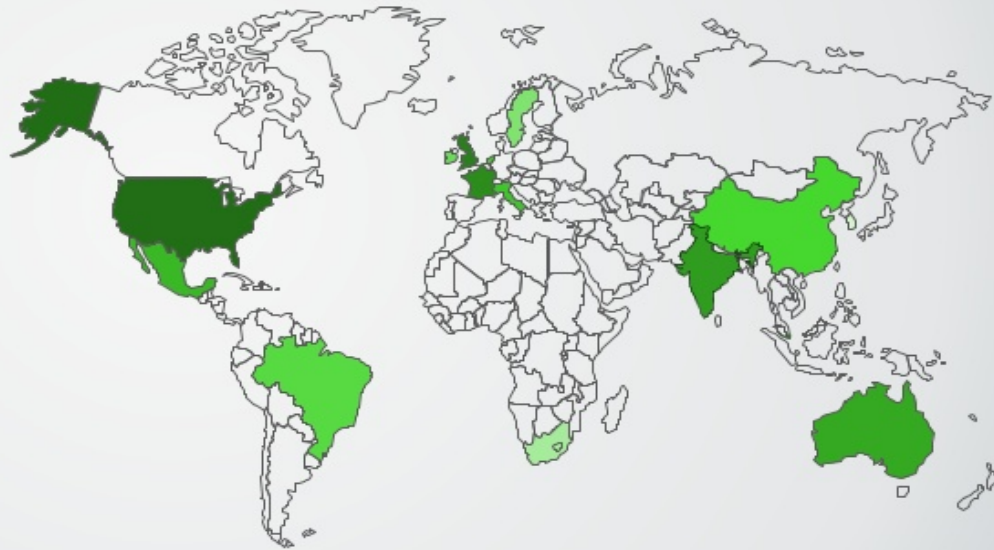


Elites gap linked to income inequality

A Global Phenomenon

Trust Index, Informed Public vs. Mass Population,
15 countries with double-digit trust gaps in 2016

Country	 Informed Public	 Mass Population	Gap
U.S.	64	45	19
U.K.	57	40	17
France	55	39	16
India	78	62	16
Australia	63	47	16
Mexico	72	57	15
Italy	58	47	11
China	82	71	11
Brazil	58	48	10
Ireland	49	39	10
Netherlands	62	52	10
Sweden	46	36	10
S. Africa	54	44	10
S. Korea	50	40	10
Singapore	72	62	10



Source: 2016 Edelman Trust Barometer. The Trust Index is an average of a country's trust in the institutions of government, business, media and NGOs, 28-country global total.

Influence inverted

The Inversion of Influence

Old Model

- Elites have access to more/better information
- Elites' interests interconnected with those of mass
- Becoming an "elite" open to all

**Influence
& Authority**

New Reality

- Peer-to-peer influence more powerful than top-down
- Increasing distrust among mass population
- Mass movements based on dissatisfaction and urgency

The Divide

- Democratization of information and more information
- High-profile revelations of greed and misbehavior
- Income inequality

Influence

Authority

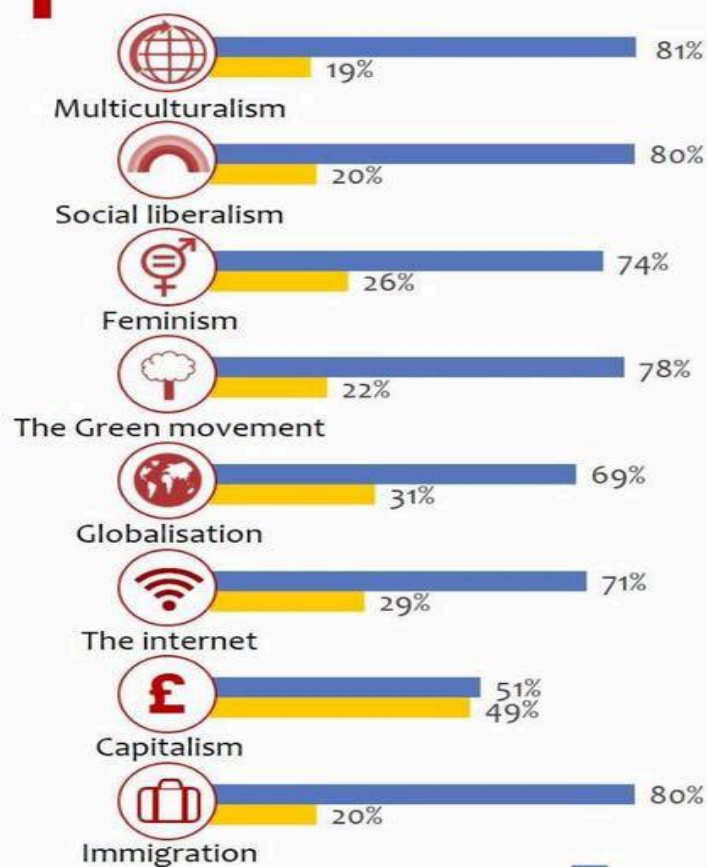
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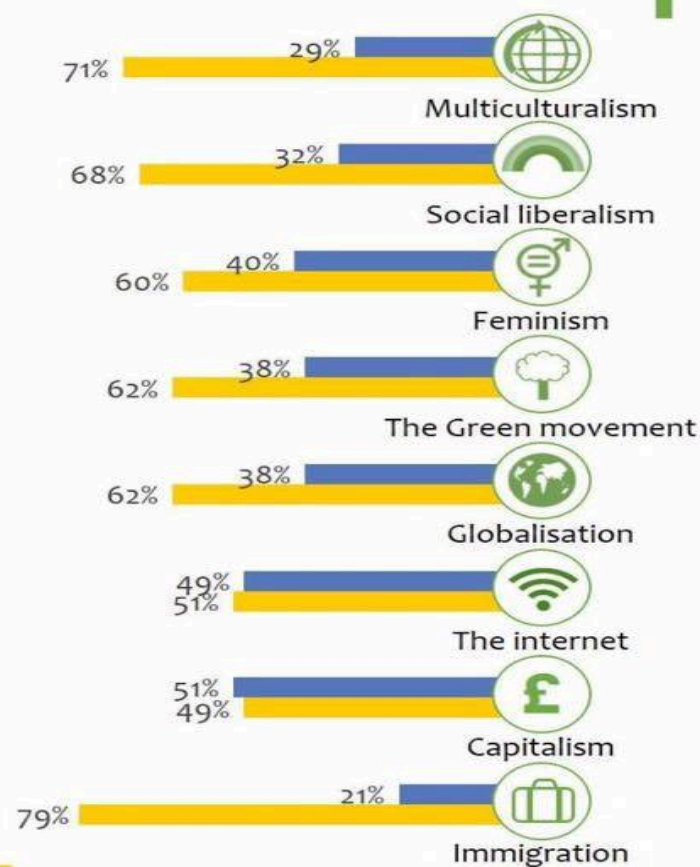
The Brexit vote

Do you think of each of the following as being a force for good, a force for ill, or a mixed-blessing?

How did the people who thought the following were a **force for ill** vote?



How did the people who thought the following were a **force for good** vote?



■ Leave ■ Remain

Lord Ashcroft Polls
@LordAshcroft

Interpreting Brexit

- Referenda are political dynamite (ask John Key)
- Reinforces the power of older voters in an ageing society
- There are big problems with the way the EU works
- But democracy works
 - A blow for ‘the little guy’
 - A bloodied nose for the ‘elites’
- A blurring of accepted versions of ‘left’ and ‘right’
 - Anti-globalisation left elite supported EU membership
 - At odds with working class constituency
 - Conservative ‘right’ also split on ‘in’ or ‘out’
 - Corbyn’s defiance – a UK version of Sanders’s refusal to quit
- A harbinger for the US presidential election?

Global political / policy implications

- Volatile electoral outcomes increase
- Free movement of people becomes more difficult, but is likely to be preserved
- Trade liberalisation becomes much more difficult to extend
 - TPP must be in doubt now
 - RCEP likely to remain stalled (esp. by India)
 - Bi-lateral trade agreements more likely to succeed
- Income inequality demands a political answer

How to respond?

- Emerging rather than clear
- A return to mercantilism over principle?
 - Well-suited to EM policy mentality
 - Long term lower growth
 - Pressure on for EU break-up as states seek to take back monetary, fiscal and border policy control
- Cross-border tax reform
- Income and wealth tax reform
 - Universal Basic Income?
- Executive (and governance?) pay regulation
- Voting system reform?
 - How would the UK, US and Australia vote if they had had MMP?

‘Responsible nationalism’ – isolationism in drag?

“The political challenge in many countries going forward is to develop a **‘responsible nationalism’**.”

“It is clear that there is a hunger on the part of electorates, if not the Davos set within countries, for approaches to policy that **privilege local interests and local people over more cosmopolitan concerns**.

“Channeling this hunger constructively rather than destructively is the challenge for the next decade.

“We now know that **neither denying the hunger, nor explaining that it is based on fallacy, is a viable strategy.**”

— Larry Summers, June 24, Washington Post

Digitisation of everything

- Internet of Things becomes ubiquitous within a decade
- AI becomes increasingly real/advances very fast
- Automation of existing jobs creates social strain
 - Esp for older workers
- NZ is behind the curve, but catching up
 - E.g., Auckland traffic management will include ‘sensing’ vehicle tech within 5 years
- But – a more balanced array of threats and opportunities

Threats

- Truism – speed of digital change is 3,000x faster than change in the Industrial Revolution
 - Even if half-true, that implies a huge societal challenge
- Traditionally ‘skilled’ but ‘routine’ jobs threatened
 - Low skill/low productivity/low wage service jobs replace existing higher paid occupations/career paths
 - Potential for widening of current income gap
- Education and skills
 - How well can we equip ourselves and our children for this future?
- Political articulation
 - Who will speak most coherently about the way to meet this challenge?

Opportunities

- Big data as an aid to solving major problems, e.g.,
 - Climate change
 - Crime
 - Traffic congestion / mobility (driverless cars)
- Greater convenience
 - Dealing with govt agencies and service providers
 - Better targeted retail experiences
 - Household management
 - Multiple channels for personal communication
 - Massive increase in media consumption
- Costs are driven down relentlessly

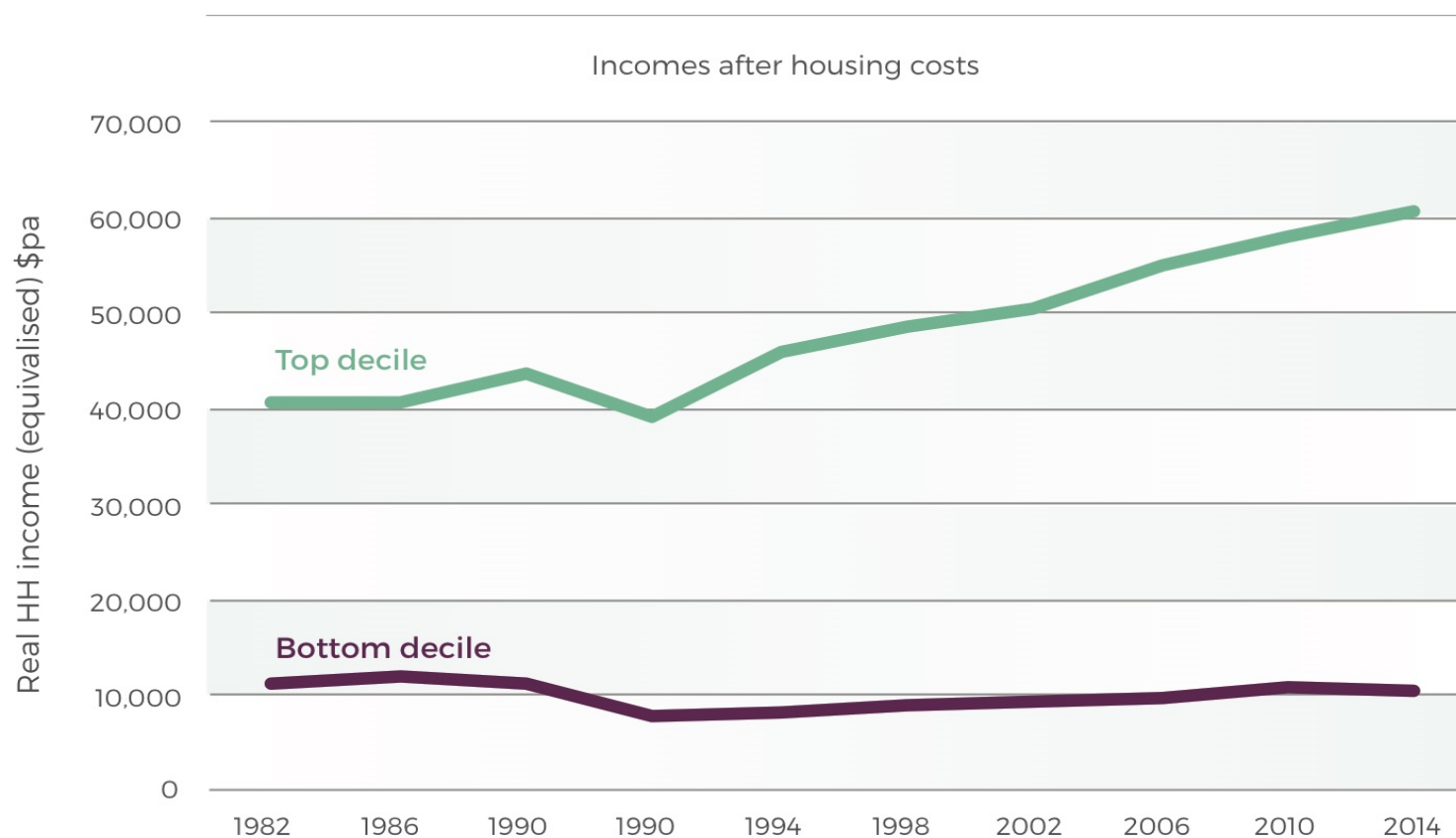
NZ POLITICS

NZ – political medium term overview

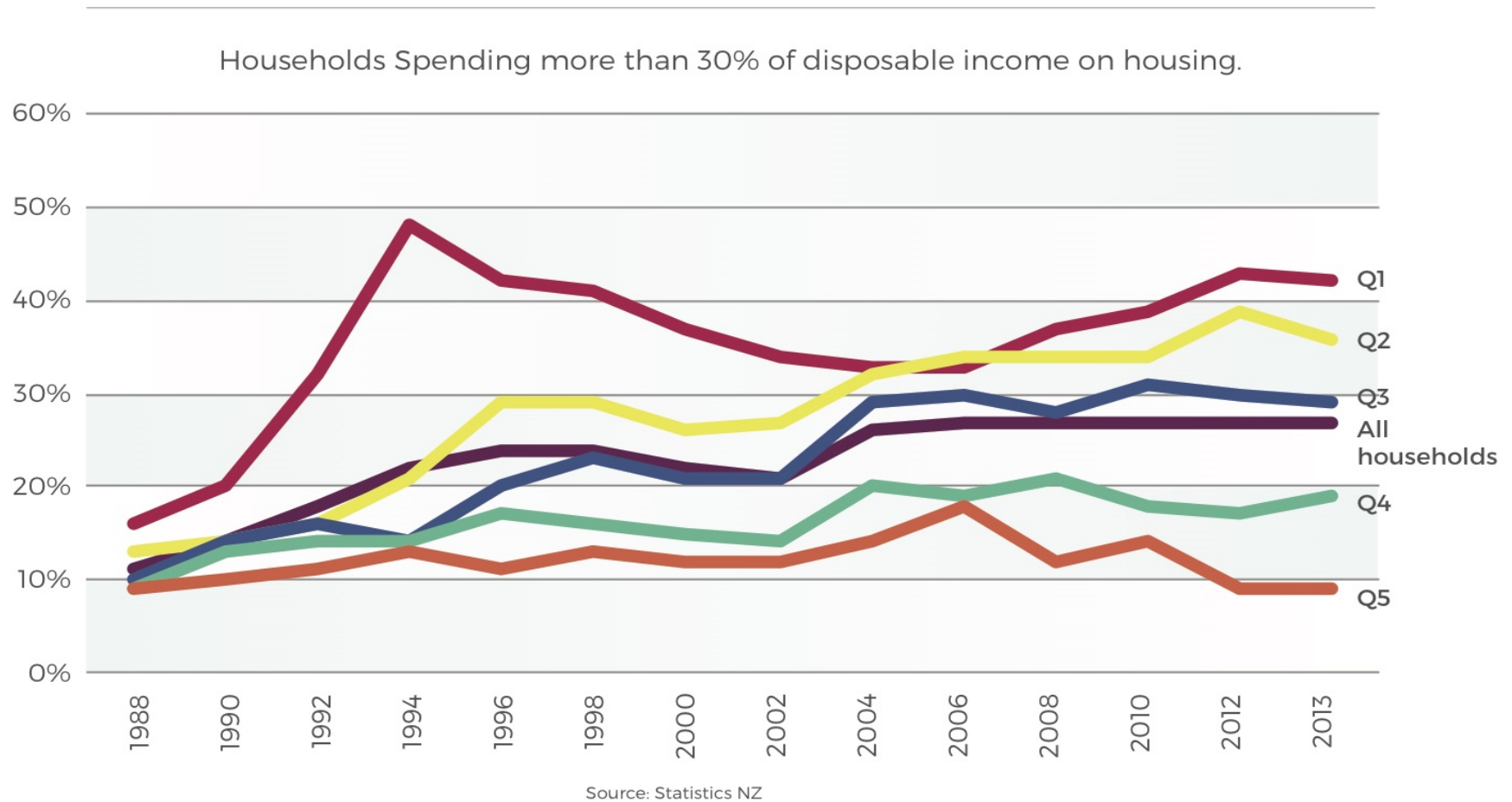
- Strong-ish growth
 - Fuelled by politically challenging levels of immigration rather than productivity gains
- Respectable, improving fiscal position
- Low govt debt, but very high household debt
- Still vulnerable to global shocks, but politically stable and peaceful
- Growing inequality erodes social cohesion
- Housing affordability remains an intractable problem

Inequality in NZ

New Zealand has growing inequality - since the 1990s the real incomes of the top 10% have risen much faster than the bottom 10% - especially after housing costs.

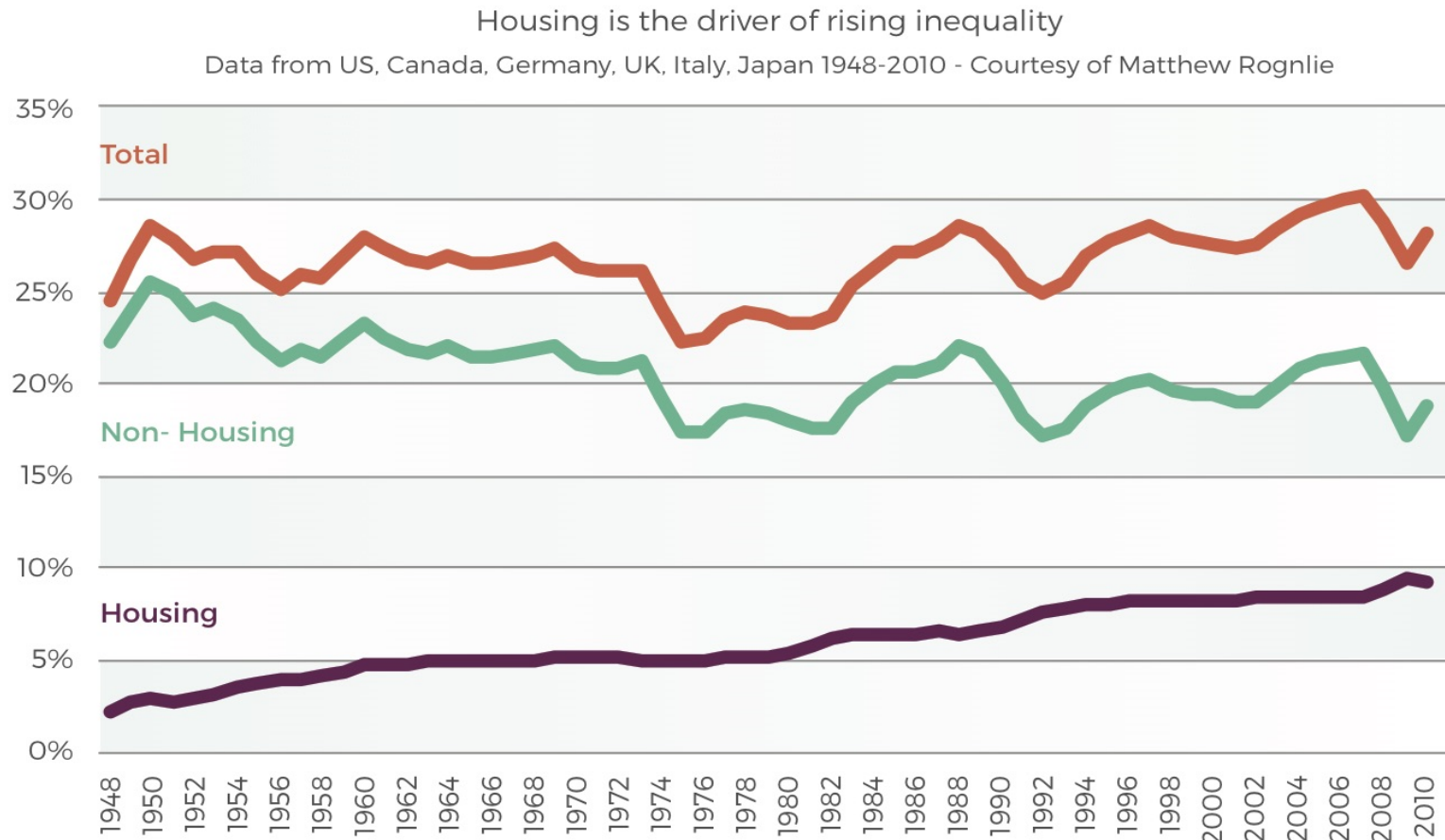


Lowest income households spend 40%+ of income on housing



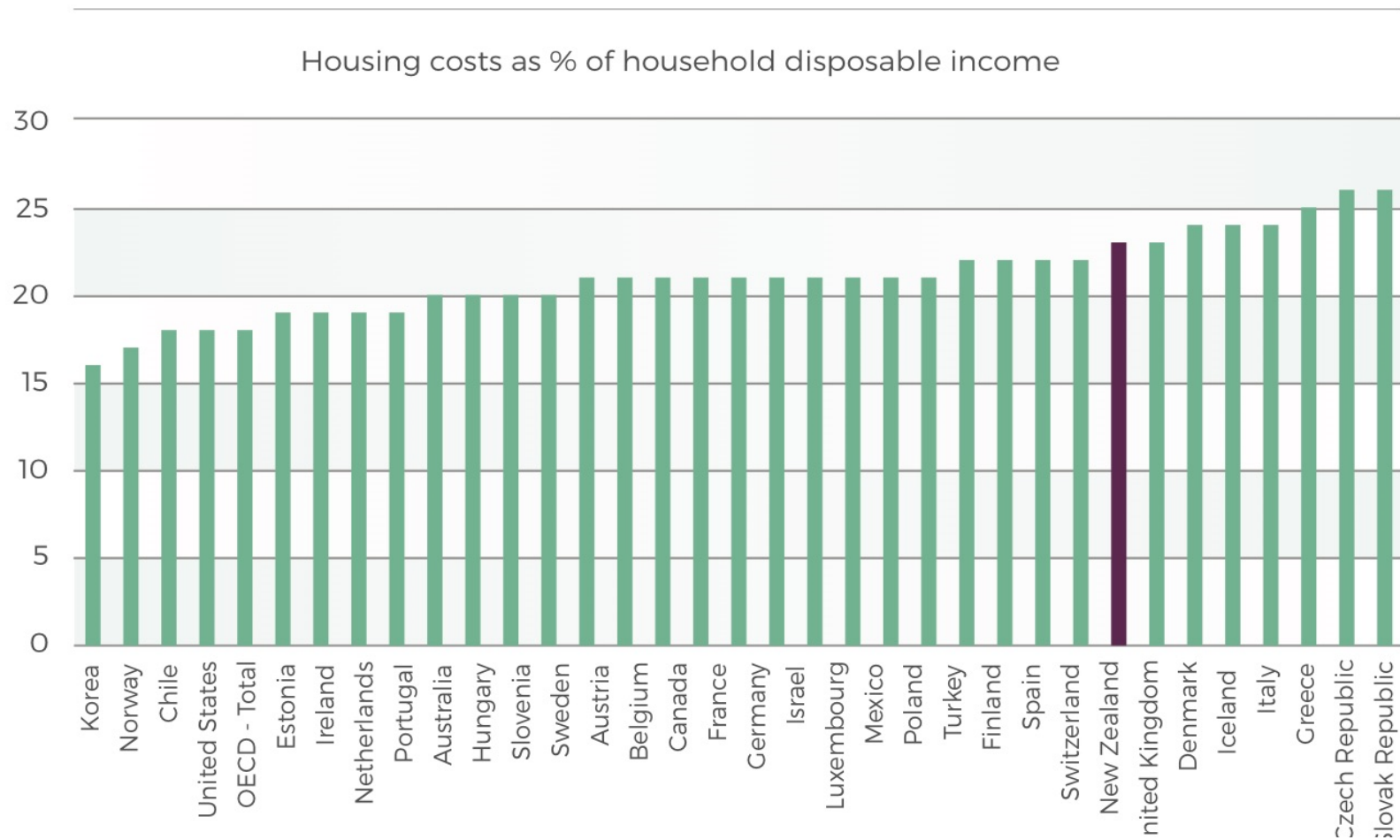
NZ is not alone, but ...

Share of Net Value Added going to Capital



Source: Move the byline from the graph to below - Data from US, Canada etc.

NZ housing costs are high relative to income



Anger vs hope

- Inequality playing out in housing affordability and homelessness debate
- But elsewhere, the economy is performing relatively well
- Inward migration is partly caused by NZ looking attractive compared to alternatives
- 'Angry' narratives not playing well to a majority of Nzers

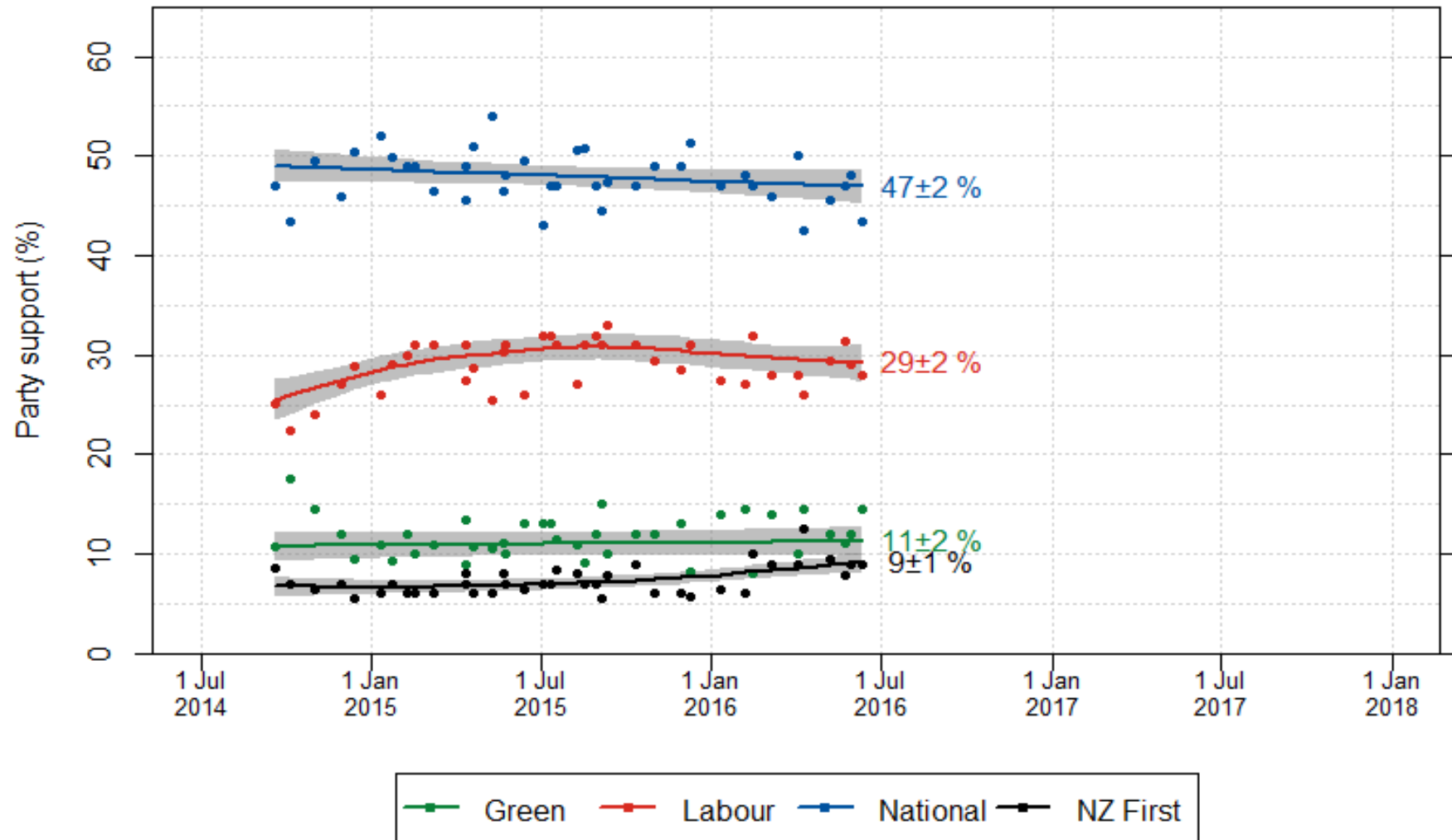
Political party responses

- National: adept responsive capacity/risk-averse
 - Billion dollar housing infrastructure fund
 - Raising benefits for the first time since 1973
 - Paddling hard, rather than getting ahead
 - So far, immune to global political wobbles - worried
- Labour: struggling for relevance/authenticity
 - Winning on some housing issues
 - Talking, not yet acting, on future of work
 - Muddled on trade
 - Still talking to itself – 100 years celebrations likely to make this painfully clear – more constitutional change?

Political party responses

- Greens: torn between single issues and full policy platform
 - E.g., strong on water
 - But struggling for cut-through elsewhere
- NZ First: banging the same drum – hard to ignore
 - Immigration bad
 - Foreign investment and TPP bad
 - Most in tune with the angry vote; hoping to profit from Brexit and Trumpism
- Maori: seeking bi-partisan acceptability
 - And a surprise result

Current state of party polling



The Labour-Green MOU

	Prior to MoU announcement	After MoU announced	Change (%-points)	Is the change statistically significant?**
National Party	47.1%	49.0%	+ 1.9	No
Labour Party	26.1%	31.3%	+ 5.2	Yes
Green Party	13.8%	10.4%	- 3.5	No
New Zealand First	10.9%	6.9%	- 4.1	Yes
Māori Party	1.2%	0.3%	- 0.9	No
ACT Party	0.4%	0.1%	- 0.3	No
Conservative Party	0.2%	1.2%	+ 1.0	Yes
Other	0.3%	0.9%	+ 0.6	No
TOTAL	100%	100%	--	--
Base (n=)	617	628	--	--

Based on probed party supporters. **Statistically significant change at the 95% confidence level (this means the change was unlikely to have occurred due to random sample variation).

One News Colmar Brunton poll, June 2 2016

Minor parties

- United Future – vulnerable
 - If Greens stood aside, Labour could take the seat
 - Count his one seat out – Nats are focused, though
- ACT – count David Seymour in
 - At just 1.26%, Act could have 2 MPs – but...
- Maori – will hold Waiariki
 - Ambitious candidate selection plans
 - Expect 2 seats, maybe more?
- No comebacks for Mana or Conservatives

Govt combinations

- Nats/NZ First
 - Requires Key and Peters to find an accommodation
 - Still the most likely outcome at this time
- Nats/Maori/Act
 - Requires Maori to poll around 4.5% (6 seats)
- Labour/Greens/NZ First
 - Requires uncomfortable choices by Labour
- Labour/Greens/Maori
 - Requires Maori to poll strongly