

# Pottinger

PERSPECTIVES

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## The Phantom Poll Booth

### 2017 SURVIVAL GUIDE: PART 1



## With Apologies to Norton Juster

*“There once was a boy named Milo who didn’t know what to do with himself – not just sometimes, but always. When he was in school he longed to be out, and when he was out he longed to be in.”*

In case you missed it, the world’s political system is broken. From the USA to Australia, via Canada, Britain, France, Germany and Austria (to name just a few), political figures are bringing new colours to the political spectrum. Election battles are no longer being fought on traditional lines of left or right. Would-be leaders are no longer defined by their devotion to improving workers’ rights or to extending competitive markets. In short, mainstream political parties no longer represent what a substantial proportion of ‘we the people’ appear to care about.

Cartoonists are delighted and the people enraged.

In the UK, both mainstream parties campaigned against Brexit and lost, despite holding 86% of the seats in parliament. This followed tumultuous political changes over the last few years. In the 2015 national UK election, the Labour party lost all but one of its 41 seats in Scotland to the Scottish National Party (who won 56), undermining

Labour’s political relevance nationally. The Liberal Democrats’ resurgence led to it forming a coalition government with the Conservatives in 2010, for the first time in 65 years. In 2015, however, it lost 49 of its 57 seats in 2015, its worst result since 1970.

In the USA, the Republican Party chose a political outsider as nominee for President whose experience lay in adding to his father’s property empire and hosting a reality TV show, despite a field that included political (and dynastic) heavyweights such as Jeb Bush. The new president has run some businesses successfully, and others that filed for bankruptcy. He’s put his name on everything: from golf courses to airlines, to steak houses and universities. But he has no prior experience as an elected official.

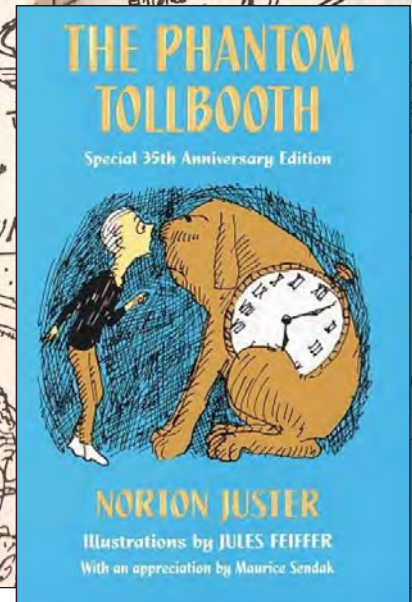
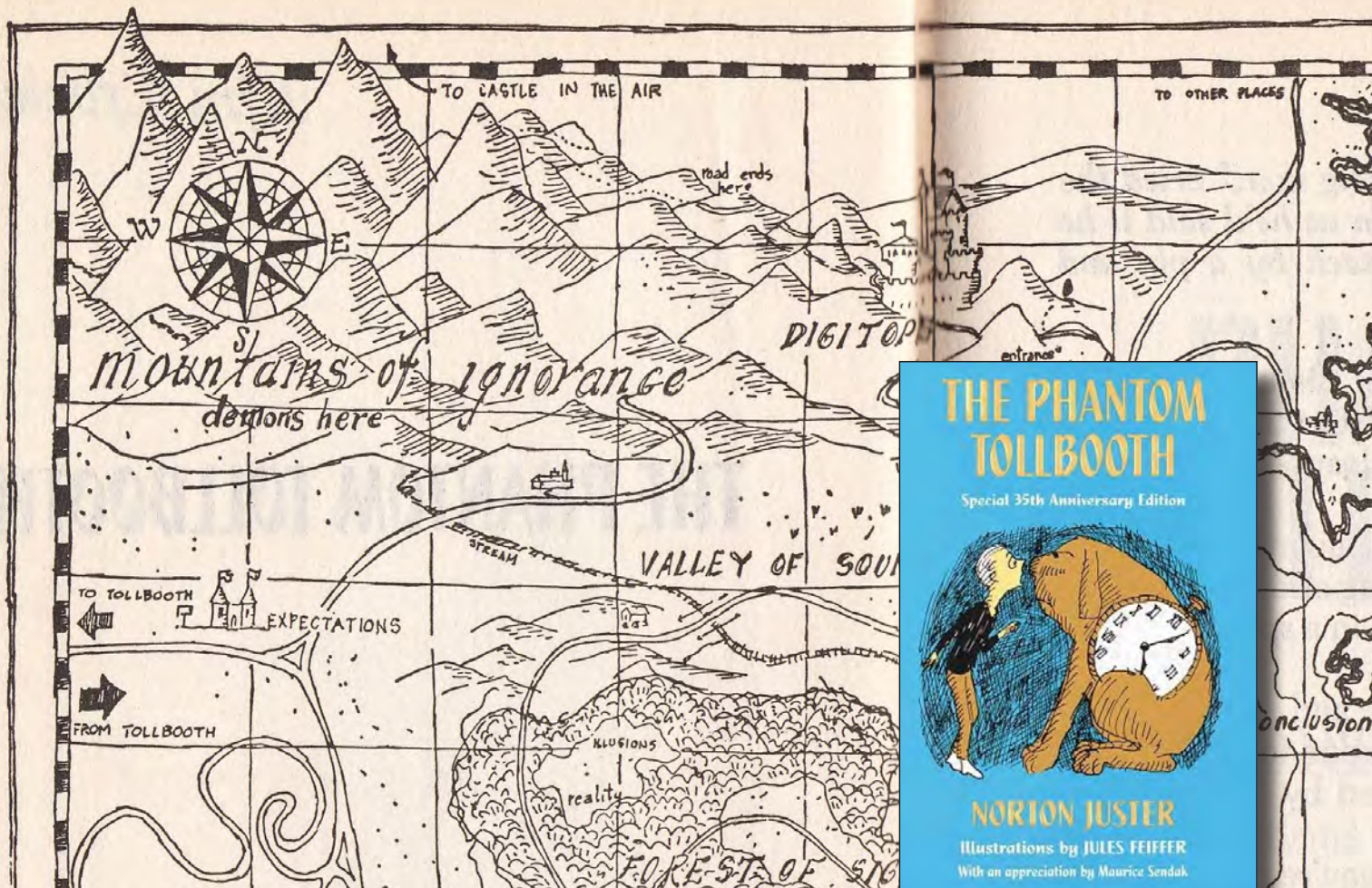
The primary season was brutal, with insults hurled casually on prime-time TV and social media that are now burned into the national psyche. Revelations during the campaign were so distasteful that many parents barred

their children from watching the news reports. On the other side of politics, one of the two Democrat candidates, Bernie Sanders, was an independent who joined the party just days before the registration deadline. And lingering in many minds was the observation that, if Clinton won, then the White House could be occupied by just three families for nine consecutive terms (Bush, Clinton, Bush, Obama, Clinton).

No wonder many felt that 2016 was an awful twelve months, and longed to start afresh in 2017.

But with six weeks now marked off in the calendar, the New Year looks like being harder to navigate than ever.

Today, in a country that has been revered globally for 70 years as the champion of a free press, individual rights and opportunities for immigrants, half the population is cheering as freedom of speech is attacked, immigration programmes are closed, and the independence of the judicial branch



of government is challenged. Much of the mainstream media has been dismissed as reporting entirely fake news. The Orwellian notion of “alternative facts” has been unleashed on the public – though arguably this could be viewed as an unusually honest approach, as it recognizes that the political discourse isn’t dealing in facts at all, but rather in something much less absolute.

In many countries, political campaigns have been sucked into short-term opportunism – a sound-bite strategy that

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gives little consideration as to whether today’s newspaper headlines can ever be translated into next year’s success stories. Thought bubbles waft into morning interviews, becoming hard-baked policy promises or denied leaks by dinner, depending mostly on the reaction of social media. Worse, truly great initiatives, developed over months or years, are dumped in the trash when the knee-jerk public reaction appears to be negative.

So, it’s no surprise that big election wins look much less like landslides than mudslides – covering everything in a dark stinking ooze

of half-truth, hyperbole and hypocrisy, not to mention an increasing number of purposeful falsehoods lies. Yes, I’m over euphemisms.

Given this grizzly environment, I was delighted when my son’s book club chose *The Phantom Tollbooth* (Juster/Feiffer, 1961, Random House Kids) as the novel for January. The risks of jumping to Conclusions, the importance of meaning what you say, and the eloquence of the Mathmagician had enchanted me when I first read the book in the 1970s. What I had

forgotten is just how nicely the author’s acerbic commentary on the human condition was bound up in the beautiful prose.

Towards the end, the hero, heroines and accomplices are racing to escape the ravaging hordes of Demons as they race for the old city of Wisdom:

“Far off on the right, his heavy bulbous body lurching dangerously on the spindly legs which barely supported him, came the Overbearing Know-it-all, talking continuously. A dismal Demon who was mostly mouth, he was ready at a moment’s notice to offer misinformation on any subject. And while he

often tumbled heavily, it was never he who was hurt, but, rather, the unfortunate person on whom he fell.

Next to him, but just a little behind, came the Gross Exaggeration, whose grotesque features and thoroughly unpleasant manners were hideous to see, and whose rows of wicked teeth were made only to mangle the truth. They hunted together, and were bad luck to anyone they caught.

Riding along on the back of anyone who’d carry him was the Threadbare Excuse, a small, pathetic figure whose clothes were worn and tattered, and who mumbled the same things again and again, in a low but piercing voice...”

Yes, *The Phantom Tollbooth* was first published in 1961.

In the book, the heroines and heroes escape the demons. Milo’s journey ends happily, having achieved the impossible rescue of Rhyme and Reason from the Castle in the Air. He returns to his day-to-day life, inspired by the wonder of what is around him, and makes the most of all that he already has.

Today, we face our own impossible journey. The superficially bloody electoral and media landscape hides a much darker set of challenges, as the universal political malaise is a symptom of a much more serious disease.

The world’s economy is broken.

Despite relentless advances of science and technology, and their huge impact on



productivity, real wage growth has been limited in many countries. Indeed, in many cases, this has been more than offset by significant increases in the cost of food and housing. Where once a single working parent could provide for a whole family, now two working parents struggle to make ends meet, despite declining average family sizes. Mortgages are larger, and take much longer to repay. For many, retirement is no longer

In the USA in particular, further education has been trumpeted as the great hope for a generation. Though I'm a huge believer in the power of education to unlock opportunity, the financial results of university education for many individuals have been terrible. US undergraduate degrees now cost well over \$100,000, an MBA degree can more than double this. Yet despite a massive increase in investment in education, average salaries

drugs. They're bringing crime". He promised to put America First, seeking to bring as many manufacturing and agricultural jobs back onshore as possible, irrespective of the impact on what these goods may cost Americans to buy, or on America's international relations. He argued for a (much-needed) trillion-dollar investment in infrastructure, to repair and replace America's crumbling transportation systems, water, electricity and telecommunications networks, and security infrastructure. And he has promised a substantial reduction in taxes, to stimulate economic activity.

Much like Tony Abbott's promises to "Stop the Boats" and tackle the "Debt and Deficit Disaster" in Australia, these resonated with enough people to win power. And his fiscal plans have echoes of Tony Abbott's too:

"No cuts to education, no cuts to health, no change to pensions, no change to the GST [sales tax] and no cuts to the ABC or SBS [national TV networks]."

But now the time for sloganeering is over, and the political and economic mountaineering starts.

Irrespective of whether you supported Trump or Clinton (or indeed another candidate), there is no doubt that the incoming president faces monumental challenges. Take-home pay remains painfully low for the median income-earner, and healthcare costs continue to increase. Foreign policy tensions are mounting. Meanwhile, the USA is seven years into an economic recovery, unemployment is below 5%, and domestic stock markets are at all-time highs. So there's plenty of near term

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a relaxed lifestyle utopia, but rather a new career as a part time Uber driver, unpaid baby-sitter or simply three decades spent watching every last cent.

Western nations have run the economic Ponzi scheme to its logical conclusion. They've borrowed endlessly from the future to pay for the present, and run up huge unfunded pension liabilities for government employees that have little realistic hope of ever being met. Western nations' credit ratings have been cut slowly but remorselessly. Absent some radical rethinking of how national economics works, the decline will continue and defaults will eventually follow. In 2010, there were 16 countries that were AAA-rated by the three major agencies. Today there are just ten – a 37.5% reduction in under a decade.

have barely changed in real terms since 1990. In economic terms, the return on investment has been negligible. The amounts involved are more than enough to buy a reasonable family house across swathes of Middle America. Many individuals would have had greater financial security and arguably a better quality of life if the money had been invested in property, and they had learned a basic trade.

The existential question for us all is this: faced with this abject failure of traditional economics to deliver an improving standard of living, what do we need to do? And how can we build support to act?

In America, Trump won the Presidency by promising to Make America Great Again, and to Build a Wall to keep Mexicans out of the country, saying "They're bringing



downside risk.

As every newly elected political leader discovers all too rapidly, it is much easier to promise nirvana on the campaign trail than it is to deliver even a modest part of those dreams once you've secured power. Indeed, the bigger and bolder the ambitions, the harder the mountain of leadership is to climb. Fall short of your self-imposed goals, and faceless trench-men will be there to cart you away, whether physically or metaphorically, and bury your political career.

Abbott discovered that it was exceptionally difficult to meet his promises to avoid government spending cuts, avoid tax increases and simultaneously reduce the annual deficit and national debt all at the same time. Elected as one of the most popular leaders since polling began, within six months or so he was one of the most unpopular, and was eventually deposed by his own party in under two years.

This is the Phantom Poll Booth. It's there as you pass by the first time into the bright lights of an election win, but gone the moment you turn around to see if your promises are keeping up with you. The evidence of history suggests that they inevitably will.

Looking forward, widespread automation – which has already eaten many jobs in manufacturing and agriculture over the last century – is now consuming blue-collar and white-collar roles with increasing speed. This is the so-called “future of work”, a misleading euphemism if ever I saw one, and arguably the single most important long term issue facing developed economies. As economic production is transferred progressively to machines, the proportion of the population able to generate their own income declines, opening the door to huge social challenges.

Unsurprisingly, wealth has become increasingly concentrated in the hands of the top 1% of society (ie those who own the machines).

But Uber can't make money if there are no passengers to ride in its cars. Nike won't survive if 99% of the population has no money to buy shoes. Kellogg's will collapse if only 1% of the population can afford Corn Flakes. This may sound bleak, but remember that nearly half of the US population now receives some form of government benefits – and this ratio continues to increase.

And let's not forget that, historically,

a leaf out of Unilever CEO Paul Polman's book, who has campaigned relentlessly for sustainability and long-term thinking in that role for nearly a decade. Though some may have doubted his judgement, he has arguably done more to build the strength and resilience of Unilever's business than anyone for decades. As a reminder, he took over the role on 1st January 2009, after a decade during which Unilever's stock price had hovered around €0. During his tenure, the stock price has doubled – not in occasional leaps, but gratifyingly steadily.

Or look at Elon Musk, who has already

“Uber can't make money if there are no passengers to ride in its cars. Nike won't survive if 99% of the population has no money to buy shoes”

the most common resolutions to such imbalances have been revolutions or wars. These typically work out badly for rich and poor alike, so what else can we do?

First, we must collectively accept that political, commercial and fiscal short-termism has failed. We've kicked the can down the road till our toes are bleeding, and the people are calling out that enough is enough. We must each act to change the way that economic, financial and commercial decisions are made, and find new decision-making methodologies that cut through the noise and result in decisions that stand the test of time. This will help us to make near term decisions that line up with very clearly defined long term goals, and we must be prepared to fight tooth and nail to explain why we've chosen them and how we are going to get there.

If you don't know where to start, take

begun to campaign openly for a price on carbon, despite the potential short-term risks to his businesses Tesla and SpaceX of conflict with the new administration. He understands as well as anyone that the longer-term outcomes are inevitable (ie a shift to renewables), driven by the pure economics of falling renewable energy prices compared to increasing fossil fuel costs (even without a carbon price).

Or consider HRH Prince Charles' Duchy Original's business, which has proved that there is money to be made in sustainable production. Dismissed by some as out of touch in the 1980s, he proved to be well ahead of the curve championing the benefits of organic food.

In politics, Mike Baird became Premier of New South Wales (Australia's largest state) overnight, following a corruption scandal involving the previous incumbent.



He immediately nailed his colours to a long-term mast, and in three short years has transformed both the fiscal position of the state and enabled substantial and economically sustainable investments in infrastructure, whilst being one of the nation's best liked and most respected politicians.

So long term thinking works, and it works surprisingly quickly.

Second, from the young, unemployed, first time voter, to the CEOs of the largest companies, we must accept our individual roles in defining our society. Indeed, this responsibility rests most heavily with the best-known individuals in business, sports, music and the arts. The more successful that

and human rights, CEOs and founders have taken it on themselves to speak out. Sergey Brin, co-founder of Google, joined demonstrations at LAX airport on Saturday night, explaining, "I'm a refugee". Apple and nearly 100 other leading tech companies have launched a combined legal action against (remember that Steve Jobs was the son of a Syrian refugee). AirBnB offered to provide accommodation to refugees for no charge. Uber's CEO has quit the president's advisory panel. Ride-sharing service Lyft promised to meet legal bills not only for affected drivers, but also for any customers that had been affected. Reed Hastings, Netflix CEO, publicly described

perspectives or be prepared to see them leave.

"The standard you walk past is the standard you accept." Lieutenant-General David Morrison, Australian Chief of Army  
If you've made it this far through the Phantom Poll Booth, thank you.

Just like Milo in Norton Juster's novel, we must all accept the landscape through which we are travelling to be truly successful. We'll need to navigate Foothills of Confusion, avoid jumping to Conclusions, and ignore many Demons in the Mountains of Ignorance, if we're to unlock a new era of economically and socially sustainable growth.

Beware introspection and isolationism. They are dangerous bedfellows, particularly when the stakes are this high. The past is a foreign country, and unless you've invented a time machine, there is no going back to a bygone age.

Make sure you have your eyes wide open, and that you have a navigator at your side who is adept at seeing around corners and over hills. Both your business and your strategy must be resilient to a changing environment – whether in technology, the political environment, or social expectations.

And don't just stare at your cards. Be prepared to play them boldly and with confidence, and encourage your friends and colleagues to do the same.

If you're 100% confident that you have chosen the right destination and are making all the right moves, we're delighted. But if you don't have that confidence, then give us a call. **P**

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## *"we must all accept the landscape through which we are travelling to be truly successful."*

you have been – and the more comfortable your life is – the more important it is that you speak up – and that you and your company acts – to support long term thinking, and to eschew short term self-interest.

This also includes speaking out on matters of social importance. If you don't, remember that your silence is an active vote in favour of the status quo. Worse, it's a gentle shove of the world ecosystem towards a bloody and painful resolution that will, quite likely, impact you. Previous generations have had the luxury of ignoring the consequences of obsession with the short term, but you do not, as the fiscal pigeons are coming home to roost.

If you're struggling to see what this looks like, learn from Silicon Valley.

Caught between the potential wrath of the new president, and attacks on both individual

the actions on refugees as "so un-American it pains us all". Not everyone will agree with these views, but the individuals and their companies have had the courage to speak up.

And it doesn't stop with Silicon Valley. Starbucks promised to recruit 10,000 refugees around the world. Companies like Goldman Sachs and Nike have spoken out too.

This is leadership.

And though the messages may be unpalatable to the new administration, they reflect the views of some of the most successful businesses of the last twenty years, who are actively involved in seeking ways to address the very challenges that we are considering. And remember too that these businesses are highly transportable to other countries, so we should heed their