



BREXIT

Initial Impressions June 24, 2016

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Version of June 24, 2016

I woke up this morning to the news that the referendum in Britain about BREXIT had resulted in an overwhelming vote for Britain to leave the European Union (EU) and that Prime Minister Cameron would be resigning.

I am British, 76 years old and resident in the United States for a little more than 50 years. I have experienced changes in the United States first hand over five decades, but the changes in the UK only at a distance. I am appalled at the way in which the financial sector in both the USA and the UK has done very well, while the other sectors of these economies have been hollowed out. I have also done consulting assignments around the world in more than 50 countries for a very long time and am disgusted at the lack of progress in making poverty history.

I was expecting that the result of the referendum would be a fairly strong vote in favor of Britain staying in the EU, and it came as something of a surprise that the vote was quite strong in favor of leaving.

My initial impression is that democracy ... people voting about important things ... is a complex idea, and the results difficult to predict. Worse, the very simple concept of voting is out of date, and an idea that really cannot work on top of a very complex system. As Churchill and others have said, it is an awful system, but better than all the rest! So this is what we have!

The BREXIT vote has been an 'anti-establishment' vote and there is a big lesson in this for Secretary Clinton. The billionaire Donald Trump and Senator Bernie Sanders have done well in the primaries of the US Presidential election process on very different anti-establishment platforms, but both arguing that the established status quo is not good enough and significant changes are needed. Clearly masses of people want change and are looking to something that is going to be better!

People at the 'top' of the economy in both the United States and Britain have done very well over the past 50 years, but ordinary people who depend on rather more mundane work to earn their living, have done much less well. A lot of people doing mundane work are actually better off now than they would have been 50 years ago, but compared to the elites they have 'flat-lined' while the elites ... the 1% ... have prospered mightily. There has been a growth in average prosperity in the UK and the USA over the past 50 years, driven by an amazing increase in

productivity, but the benefit of this productivity has accrued mainly to the wealthy, and much less to those that do mundane work.

Since the end of WWII, the biggest economic disruption for places like the UK and the USA came in the 1970s when OPEC (the Organization of Petroleum Exporting Countries) established a cartel to raise the price of crude oil in world markets. There was a huge cost-push inflation during the 1970s and financial turmoil on top of massive adjustments in the costs of almost everything. At the end of the 1970s decade interest rates were near 20% compared to the present 2% or 3%. During the 1980s Reagan in the USA and Thatcher in the UK promoted very liberal economic regimes, and technology started to enable a global economy where labor costs were reduced dramatically part in terms of hours of work for unit of output, but also money for unit of labor ... not to mention much reduced money for responsible corporate behavior (workplace conditions, environmental degradation, etc.) as manufacturing was outsourced to low wage, low regulation locations.

I remember observing in the mid 1980s that the biggest cost in the modern economy was profit. Technology enabled productivity and in turn this enabled production with less cost. At the same time the buying power of the market was strong, so prices strong, so profits strong.

Financial innovation did rather little to help with real productivity, but over the past several decades financial services have been able to profit significantly by enabling the deterioration of the balance sheets of the middle class, notably through credit cards, home equity loans, student loans, etc. which enabled increase in buying without an immediate need to have increase in income. Do this for a generation or two, and the financial situation of the 'middle class' is completely hollowed out. This has been the UK experience as well as the experience in the USA.

There are many other factors which have more or less importance, including structural change in industrial processes, changes in logistics and global trade, dysfunctional tax systems, the gaming of the rule of law, and, in the USA, the role of money in politics. Migration and demographic change is another factor.

Bottom line, where everyone gets to have a vote, as in a referendum or to some considerable extent in the US primary process, people are voting for change. People are absolutely right that the way decisions has been made for the past several decades have resulted in outcomes that are not good enough, and this is largely because elite leaderships whether in Washington or Wall Street or Brussels have not done a good enough job!

The voting process is very clumsy. The BREXIT vote is going to result in change. It is far from clear at this point in time, whether the result will be better. One thing is for sure, the future is going to be different.

The US Presidential election has a lot of the characteristics of the UK BREXIT referendum, and it is likely that there will be a big vote for change. It is not yet clear whether the change will be the one that is being advocated by 'The Donald' or the one being articulated by Bernie. The BREXIT vote is going to be a challenge for Secretary Clinton's campaign. It is going to be difficult to have electoral success in an environment where people passionately want change ... that results in better outcomes ... simply be arguing for more of the same. I would argue that the idea of putting former President Bill Clinton in charge of the economic agenda is the last thing

she needs to do ... rather this needs to be given to someone who is like Bernie Sanders but several decades younger!

Interesting times.