

Political Opinion

Is this the Year of Unintended Consequences?



Denis McMahan
Chairman of the Board with PMG

In my last column, I wrote about the rise of populism globally and some of the surprising political outcomes which had ensued as a result. Without doubt, the biggest of these was the election of Trump as President in the USA. Now, a couple of years on, it's possible to see the real effect of populist politics where it meets economic reality and his case serves as a microcosm of what can be expected in other populist regimes.

He has clearly failed to deliver on his wall and his trade war with China contains all of the classic paradoxes of rhetoric versus reality. In one of the best examinations that I have read on this subject, Howard Marks from Oaktree Capital, in the States, compares Trumps' political ideology on the subject, with the economic reality of that ideology.

Some of the consequences include U.S. consumers having to pay more for

imported goods and small American companies having to pay more for materials. This is pushing up the price of the finished product, thereby becoming uncompetitive and putting jobs at risk.

If, as he has indicated, he spreads the tariff war into the car industry, there will be so many unintended negative outcomes for the U.S. that it will almost certainly be abandoned.

At the same time, a new force is rising in the States and it is that of the Democratic Socialists, a new breed of Democrat who hold hard-left views of the world in general and Capitalism, in particular.

Marks uses the example of Alexandria Ocasia-Cortez, a 28-year-old, who won a primary in New York last year. She has introduced her Accountable Capitalism Act, which basically proposes that

“ **Big business and business in general know that to succeed they need to look after their people, customers and communities.** ”

incorporation of large companies becomes a Federal matter. These federally mandated companies would be answerable to a diverse group of stakeholders comprising investors, employees, customers, and communities; any one of which is free to sue the company if it fails in its mandate. In essence, she is proposing that owners of businesses should not actually have control of their business.

Marks believes that the Democratic Socialists will show strongly in the 2020 elections as they represent, as Trump did in 2016, a large proportion of disenchanted voters, who want a slice of the American dream, even if it means destroying the very pillars which built that dream.

To some extent, we are seeing a watered down (or cleverly concealed) version of this playing out in NZ. The coalition has taken what, at the time of the 2017 election, the OECD described as a “Rockstar Economy” and almost single-handedly stalled it. We are now looking at growth of only 2% per annum, as opposed to 3% plus. The continual assault on business through wage prescriptions, the reintroduction of collective bargaining and the recent Tax Working Group's Capital Gains Tax recommendations, has somewhat taken the wind out of the economy's sails.

Populism may be finding a voice worldwide. The world does need to provide some care for the vulnerable and greater good, but how far does the pendulum need to swing? If pressure and belief from the proponents continues to build to ultimately dismantle Capitalism, then this is something we, as investors and business people, should be acutely awake to.

In my view, big business and business in general know that to succeed they need to look after their people, customers, and communities. Think, the Vodafone Foundation, the Tindal Foundation, the Spark Foundation, to name a few. It's something I've personally subscribed to for over 26 years. I trust business will self-regulate when it comes to looking after stakeholders and the world – without either there is no business.

I suspect that 2019, far from being the ‘year of delivery’, will be more the year of unintended consequences.

“ **A new force is rising in the States.** ”

