

Brexit and Beyond: The Revenge of the Precariat over Davos Man

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Good afternoon. Let me first congratulate Cal and Cheryl for another fantastic conference. I have been asked to talk about Brexit and its implications. Some of my thoughts were recently published in a piece in P&I but to, cut to the chase, I believe that Brexit is the most spectacular case of self-harm in British diplomacy since George III lost America over a tax on tea. Both America and Britain seem to be competing for who can mess their country up the most. Britain is currently in the lead; but America has a Trump card.

Perhaps one silver lining is that both the U.K. and the U.S. could end up with female leaders.

This reminds me of the joke about the 10 men and 1 woman who were hanging under a helicopter. But the rope was fragile and could not support all of them, so they decided that one had to leave because otherwise they were all going to fall. The woman volunteered to let go then gave a very touching speech, saying

that as a woman, she was used to sacrificing for her husband, sons and mankind in general. As soon as she finished her speech, **all the men were so moved that they started clapping.**

I beg your indulgence to discuss a global phenomenon which I am calling the revenge of the Precariat vs. Davos man.

So. What on earth is the Precariat and who is Davis Man?

Some of you remember the term, Lumpenproletariat, coined by Karl Marx to describe the industrial working class. In modern times, the proletariat has morphed into a global class of people who are continually searching for work, out of work, or underemployed. They are the precarious class, or the Precariat.

Davos man is on the opposite side of the social spectrum. He is part of the global elite which congregates at the World Economic Forum to shape world policy. This exclusive forum, held every winter in the Swiss Alps in Davos, allows its participants to look down at the world from above: both because of the high-altitude, but also because of the high incomes and high status that characterize this jet-setting crowd.

The Davos tribe believes strongly that their superior intelligence has earned them the right to lord it over the Precariat. Their

thinking is best exemplified by Winston Churchill, who famously said that the best argument against democracy is to spend five minutes with the average voter.

Economically, they believe in a mode of capitalism which allows their tribe to capture the added value created by the lesser species, such as the Precariat, without taking much risk. Their operating principle is that returns should accrue to their tribe, while tax payers from inferior species pay for the losses. Certain rebellious forces which have not been co-opted, label this economic model as “crony capitalism”; but that just shows what jealousy can do.

The Remain campaign in the UK's Brexit referendum was led by quintessential Davos men. Their starting premise was that elections are decided by core middle class voters who are averse to economic risk and allergic to radical lurches towards political uncertainty. Forebodingly, this is the same operating premise for the so called establishment parties in the United States.

They thought they understood the Precariat, who after all, could be identified, profiled and targeted by professional

pollsters. The anxieties, hopes and priorities of the Precariat could be plotted on charts that would then be translated into simple messages. EU membership might thus be lodged in their simple minds as a proxy for security and continuity - the natural preference of the sensible majority.

To their astonishment, the ill-tempered Precariats began to view these presumptions with suspicion. The pro-EU camp was supported by an impressive coterie of Davos men: world leaders, economists, business leaders and even David Beckham. But Brexit leaders' clever response was to convince the Precariat that they "have had enough of experts". And in America, our orange haired counterpart is also staunchly anti-intellectual and most cogently describes his plan to make America great again by exhorting us with "believe me".

Even before the global financial crisis, prosperity had bypassed the Precariats. Today's corporate giants, such as Facebook and Apple are far less labor intensive than their counterparts in 1950's and 60's, such as GM and Xerox, which propelled millions of the Precariat into the middle class. Many of their jobs have been replaced by technology, and increasing globalization led to

a shift of income from low-skilled workers to high-skilled workers. These trends resulted in an overall decrease in the share of national income going to Precariat labor and most conveniently, a rising share of income going to the Davos men.

After the Global Financial Crisis, the Precariat were especially peeved at the apparent immunity of the elite from any consequences of their prior mismanagement that led to the financial crisis. And smoldering fears of economic vulnerability amongst the Precariat triggered a backlash against globalization, which had become an article of faith among the Davos tribe.

The Precariat had many motives to vote leave, but the most potent elements were resentment of the elite Davos politicians; rage at decades of social alienation, and a determination to reverse the tide of mass migration.

Brexit therefore provided a singular opportunity for the Precariat to collectively raise their middle finger at generations of Davos men and policies.

Brexit also symbolized internecine divisions among the Davos men. After all, Brexit leaders, such as Justice Minister Michael

Gove and former London Mayor Boris Johnson are all Oxford Men. Our orange-haired version, Mr. Trump, is hardly Precariat.

Unlike the Precariat, Davos man lacks territorial instinct and identifies as a “man of the world”. Put another way, Davos man is from nowhere and despises those who remain nostalgically attached to their birthplace. However, as a practical matter, Davos man long understood that the best way to lord over the Precariat was to manipulate their quaint attachments to their national and racial identities, using a divide-and-rule strategy. The Davos insurrectionists have perfected these tactics. As Exhibit A, witness UKIP leader Nigel Farage’s “Breaking Point” poster pointing at brown skinned refugees photo-shopped from a photo from Cosovo. Trump’s scapegoating of Mexicans, Immigrants in general, and Muslims are Exhibits B,C, and D.

So far, the doomsday scenario articulated by the Davos men has not fully played out. Brexit did cause the British pound to plunge, but we have not seen the kind of acute strains that followed the collapse of Lehman Brothers.

This relative calm probably reflects the fact that: (1) global central banks were fully prepared for Brexit, with an emergency toolkit already in place, and; (2) Most professional investment types, are assuming that UK leaders will, in true Davos tribe fashion, ignore the public and not fully abandon the EU.

Nobody really knows how Brexit will affect UK-EU relations. Technically the legal process of Brexit only begins with the UK triggering Article 50 of the Lisbon Treaty. Until it does so, its status as a member of the EU remains. My view is that Britain will remain in the EU partly because Davos men remain in charge and because both sides are at a stalemate.

Let me explain. The objective of the EU will naturally be to extract the best economic and political deal for the remaining 27 countries. But a more important objective is *self-preservation*. Therefore the EU must discourage other member nations from following in the U.K.'s footsteps, and threaten the unravelling of the union. Hence, leaving the EU must be akin to a tooth extraction, without an anesthetic.

The objective of the United Kingdom will naturally be to extract the best economic and political deal for itself.

However the trigger of Article 50 must be authorized by the UK's Parliament. This is where things could get complicated because an overwhelming majority of MPs favor Remain. While respectful of the popular vote to leave, Parliament would likely argue that it is not in the national interest to immediately embark on an expedition into the unknown without understanding the framework of the new relationship with the EU. *This is why the U.K. is trying to start informal discussions with the EU before the formal trigger of Article 50.*

The problem is that the EU has the exact opposite imperative. Its own negotiating hand is legally strengthened after the formal trigger of Article 50. This is why European Commission President, Jean-Claude Juncker, *banned commissioners from engaging in any discussions with the British government until Article 50 is invoked.*

The bottom line result of these competing positions is stalemate, which could continue for the foreseeable future.

The turmoil over the past week has purportedly prompted many people who voted to “leave” to rethink their decision. If future opinion polls show that a decisive plurality of U.K. voters favor

remaining in the EU, this would give the British government the excuse necessary to call for a second plebiscite.

Popular referendums have rejected European integration before, only to be later reversed. Prior such precedents include Denmark rejecting the Maastricht Treaty in 1992, Ireland rejecting the Treaty of Nice in 2001, and Ireland (again) rejecting the Treaty of Lisbon in 2008. A second referendum could therefore still be in the cards, particularly in light of Theresa May, the U.K.'s new Prime Minister favoring remain.

Another popularly cited scenario by both Brexiters and hopeful global investors is the so-called “Norway solution”.

Indeed the economic case for Brexit is largely based on this scenario which assumes that Britain will continue to have access to the European market on terms at least as generous as Norway and Switzerland. Without such market access, many of Britain’s most successful business sectors—finance, law, pharmaceuticals, creative industries and higher education—would be in deep trouble. These industries all depend on the easy movement of capital, people and ideas around the world’s second biggest market.

But the main reason for my skepticism over a Norway style agreement; is that while the UK would retain access to the common market— it would also mean higher budgetary contributions, no limits on immigration, and no vote on EU policies. If this was the best deal on offer after two years of negotiation, a British PM could argue to voters that it would be better to stay in the EU under the old terms.

Additionally, why on earth should Britain expect better treatment than other non-member countries if it chooses to leave the EU? To see this dynamic in action, one has only to look at the punishment meted out to Greece *to discourage* the Euroskeptics in Spain and Italy.

Therefore, when considering the motives and limitations of the various players, I assign at least a 55% probability that Brexit will not happen either because of stalemate or a redo of the referendum vote.

However, even if remain is the ultimate outcome, the U.K. will still endure a period of heightened uncertainty over the coming months. Worries that Scotland could call a fresh referendum on whether to secede from the U.K. will remain elevated. As will

concerns that the stark cleavage in voting patterns between Protestants and Catholics in Northern Ireland will revive the historic animosity between these two factions.

For me, the main threat from Brexit has always been the risk it poses to political stability in Europe. If a country as important as the U.K. can leave the EU, why can't Italy decide to abandon the common currency? If there is a meaningful chance that investors who buy Italian bonds will be paid back in liras, then they will demand a hefty premium to compensate them for this risk. This could engender a vicious circle whereby rising yields make it more difficult for Italy to service its debt.

On the economic front, a technical recession in the U.K. later this year is likely, although a weaker pound should mitigate some of the damage. Thus far, there are lots of anecdotal reports about consumers and businesses cutting their spending. UK commercial property is also under significant pressure and could bring wider pain.

Ironically, the worst things get for the UK economy, the better the prospect of holding the rest of the EU together. Politicians in

other countries are demanding similar referenda; but a UK recession would undermine them. On the other hand, If the UK economy is unscathed, the chance of a euro crisis in the next 2-3 years increases as it would be difficult to convince other euroskeptic members that they face a much worse fate.

If Brexit is a harbinger for electoral wins by Trump and his populist cohorts in Europe, emerging and developing economies, that have been able to rapidly climb the growth curve through trade, could also be challenged.

To bring things closer to home for this audience, with a Brexit, British Overseas Territories could lose EU structural funds. And while they are not technically part of the EU, a Brexit will likely require renegotiation of preferential trade partner status and greater travel restrictions within the EU.

With estimated trade of around \$1.2 trillion, the EU is CARIFORUM's second-largest trading partner after the United States. Despite EU assurances that it will continue to be a reliable partner, the other 27 EU countries have no historical relationship or sense of colonial responsibility to the English-

Speaking Caribbean. Without Britain, its strongest proponent at the EU table, the region's bargaining power could decline.

The Caribbean relies heavily on tourism as a major source of income. EU Tourism contributed 4.5% of the Caribbean region's GDP in 2014. A recession would have knock-on effects for Caribbean economies dependent on UK tourists. Moreover, a weaker British pound makes vacations to the Caribbean for British nationals more expensive and could diminish remittances, which for Jamaica, is approximately 16.7 per cent of its annual GDP.

But let me close on a positive note by positing that the Brexit vote could also prove to be a blessing in disguise, insofar as it prompts our old friends, the Davos men, to address the legitimate grievances of the Precariat.

My hope is that Brexit and other populist insurgencies might prompt the Davos men to adopt policies which raise employment and boost wages, even if only out of enlightened self interest to ward off even more radical attacks against their interests.

Yesterday, the UK's new Conservative party leader and PM Theresa May acknowledged the need to address the broad chasm between the economic plight of London and corporate executive pay and the rest of the UK. In the US, there is a growing movement to increase the minimum wage and even Jaime Diamond, CEO of JP Morgan yesterday announced significant wage increases for his lowest paid workers.

Such policies could not only satiate the Precariat, but they could also break the deflationary malaise plaguing the global economy. For example, IMF and others have found that the shift in income from poorer to richer households, along with a falling share of national income going to labor, has depressed U.S. aggregate demand by about 3% of GDP since the late 1970s.

The Davos men must also acknowledge and address the fact that globalization bypassed and increased the economic vulnerability of large swathes of their population, which I have referred to as the Precariat. Rather than their singular obsession with increasing their wealth and influence, perhaps their creativity and focus can be redirected to rethinking educational curriculum and retraining programs that facilitate integration of

the Precariat into the 21st century economic landscape.

In summary, after they have recovered from the shock of Brexit, I hope that the Davos men will understand that their obsession with growing the economic pie for themselves must be matched by an equal focus on the equity and quality of distribution of its slices to others, including and especially the Precariat.