

# POLITICS AND ECONOMICS

---

**For 40 years now, it has been orthodoxy on right and left that freer trade is good for growth and prosperity. In fact many economists who think in depth about these things argue that cutting tariffs is good for a country even if none of its trading partners cuts their tariffs too.**

The same analysts also maintain that free movement of labour is just as beneficial, because (from the world perspective) it allows labour to move to where it is most needed and most productive, and that raises incomes and living standards overall.

From the global perspective this has certainly proved true. Some countries have been big beneficiaries of globalisation: China, Brazil, India. From the global perspective, income inequalities have narrowed sharply as per capita incomes in poorer countries have risen faster than in the “west”. Billions of people have moved from grinding poverty into a sort of prosperity, even if they are still not as rich as, say, Swedes or Aussies. But this equalisation of average incomes between countries has had an odd side effect: it has led to greater inequality within countries.

This is shown by the fascinating chart below. The chart shows the rise in real (=after inflation) income in the twenty years to 2008 for the world as a whole, arranged by the level of income, as measured by percentile. So for the world as a whole, the richest people (the top one per cent) experienced a rise in real incomes (after inflation) of roughly 70% over that period. Most of these people live in wealthy countries. In fact, most of the people in the top twenty percent of the world as a whole would be residents of the “west”.

**WHY BREXIT VOTERS  
ARE THE WORLD'S  
FINANCIAL LOSERS**

# POLITICS AND ECONOMICS continued

---

Meanwhile the bottom 1/20<sup>th</sup>, the 0-5% percentile, had a rise in real incomes of just 15%. The people on average incomes (by world standards), those from the 40<sup>th</sup> to the 60<sup>th</sup> percentile, actually had larger rises (in percentage terms) than the richest 1%. These people would consist of the new middle classes in developing countries.

Within wealthy countries, though, the poorest two-thirds of the population of those countries (the 75<sup>th</sup> to 90<sup>th</sup> percentiles) had virtually no rise in real incomes.

Remember that this analysis only extends up to 2008, the first year of the GFC. Since then, studies have shown that inequality has worsened. For example, 110% of the rise in US real GDP since 2008 has accrued to the top 10% of residents of that country.

“In real terms, the median household disposable income in the US is now just 0.6% above what it was in 1989, and is about 6% below what it was just prior to the GFC hitting in 2007.” (Source: The Guardian<sup>1</sup>) To put it another way, since the GFC real US GDP has risen 11%, even as median US household income has fallen 6%.


In Europe since the GFC, growth has been tiny, while unemployment rates have increased sharply. Real GDP has risen just 0.2% per annum since the GFC. In Greece, the unemployment rate is 24% (up from

7% before the GFC), in Spain it is 20% (up from 8%), in Italy it is 12% (up from 7%). The average unemployment rate for Europe as a whole is 8.6%, still above the 7% pre-GFC. A sharp rise in the unemployment rate would normally imply an increase in inequality. There is a rising trend of anti-establishment politics in developed countries. The Brexit vote in the UK; the rise of Trump on the right in the US as well as the equally remarkable emergence from relative obscurity of Sanders on the left; the rise of the far right/anti-immigrant parties in France, Germany, and Austria; the rise of Corbyn in the UK; and the success of minor parties in Australia have been driven by increasing inequality and falling living standards. The rise and rise of non-centrist parties of left or right reflects the fact that what the establishment stands for (free trade, deregulation, immigration, and tax cuts funded by welfare cuts) has been enormously beneficial for the owners of capital. Over the last 30 years, to quote the analyst Gerard Minack, the rising tide has lifted the super yachts but sunk many of the dinghies. The rise in income inequality and stagnant income growth are the most important economic factors behind the rise of fringe politics everywhere.

In the past, the stresses and tensions of great inequality have been alleviated by rapidly rising incomes. If your real income is being lifted by 5% a year, it's not too distressing that others have incomes going up by 10% a year. But when growth is stagnant, the steady and extraordinary rise in incomes of the top 1% and the top 10% becomes a major political issue.

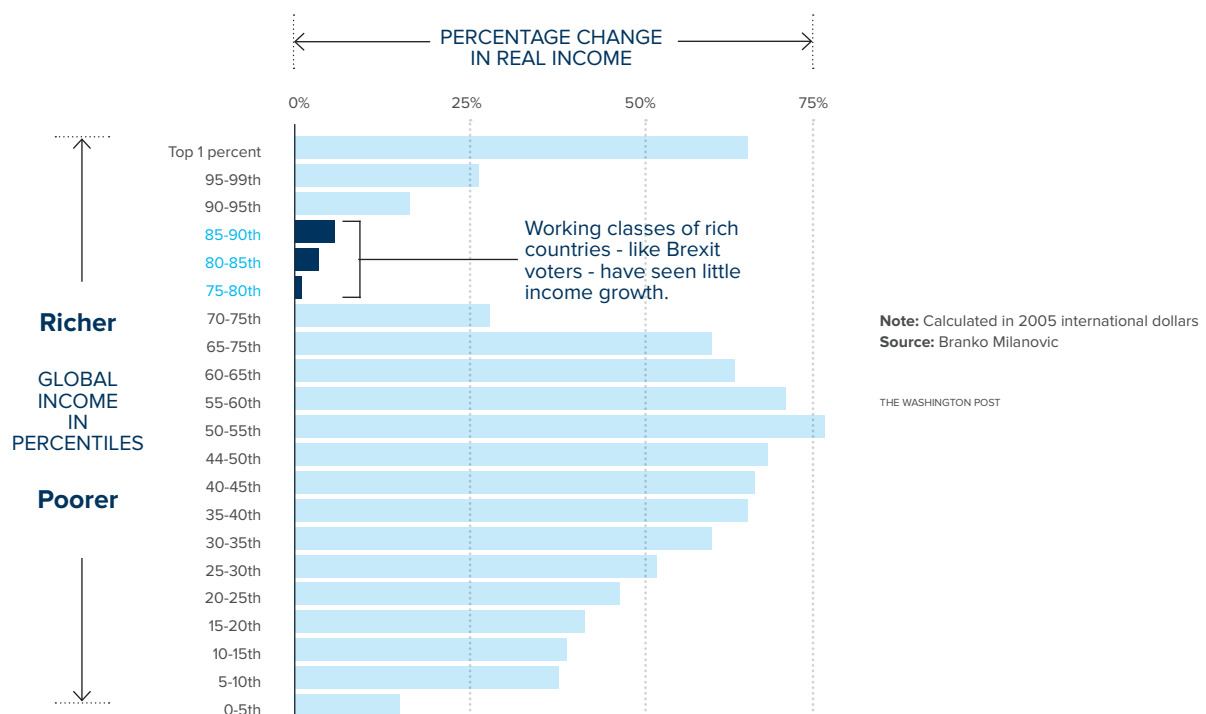
<sup>1</sup> <https://www.theguardian.com/business/grogonomics/2016/jul/21/housing-affordability-inequality-and-our-flatlining-household-incomes>

Across the developed world, it is becoming a key political imperative to expand the growth rate while simultaneously ensuring that the bottom half of the income distribution does better out of the economic system. If this isn't done, there will be more "Brexit"s and more "Trumps" and ultimately lower growth as trade barriers rise and populist politics take hold. Given the high level of private debt, which limits the spending capacity of individuals, only governments have the capacity to borrow more and to invest the proceeds in infrastructure such as high-speed rail, light rail, renewable energy, social housing and so on.

Higher growth will also help resolve the tax burden imposed by aging populations and higher unemployment. The next few years will be a very different political, economic and investment environment. If governments do move back towards the post-war consensus and raise spending, growth will pick up but the 40 year downtrend in interest rates will end. If they do not, political upheavals and higher trade barriers will lower growth and make financial markets much more volatile. Interesting times. 

### WHY BREXIT VOTERS ARE THE WORLD'S FINANCIAL LOSERS

This chart groups all the world's people into percentiles based on their income, And then shows the change in each group's income from 1988 to 2008.





SIRA GROUP'S **SMALL CAPS**  
**PORTFOLIO:** Return\*:

**20.5%**  
p.a.

\* Since March 2015, annualised — excludes dividends and fees

**CONTACT US TO RECEIVE MORE  
INFORMATION OR TO OBTAIN  
PORTFOLIO MANAGEMENT ADVICE**

**Exchange Tower**

Level 1, 530 Little Collins St, Melbourne VIC 3000

**Phone:** +61 3 9909 7018

**Fax:** +61 3 9909 7154

**Email:** [info@siragroup.com.au](mailto:info@siragroup.com.au)

**Web:** [www.siragroup.com.au](http://www.siragroup.com.au)

**VISIT SIRAVIEWS TO READ MORE  
USEFUL INFORMATION?**

—> [www.siragroup.com.au/siraviews](http://www.siragroup.com.au/siraviews)

**Important note:** While every care has been taken in the preparation of this document, SIRA Group Pty Ltd (ABN 15 106 922 641) (AFSL 278423) makes no representation or warranty as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. Past performance is not a reliable indicator of future performance. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. This document is solely for the use of the party to whom it is provided.