

## Autumn storms

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### **New Term**

What a lovely gift and diversion we enjoyed courtesy of those wonderful Olympic games and other memorable summer sporting events and achievements! Sadly it is back to reality and post-party blues, so what do we see? Whilst there is plenty of 'same-old' it is true, at home and abroad some significant trends are becoming more discernable. The new term will be anything but dull - the world is brimming with challenges, risks, and some amazing opportunities. The pace and scale of revolutionary change across politics, economics, and society just keeps on increasing - these are scary and exciting times.

### **Challenge**

Government and society – including many businesses – are overwhelmed by the speed and scale of all this change. Government is seized-up. Our coalition government does not do strategy, and therefore muddles its priorities. It has yet to do better than previous governments in delivering projects. And most of our citizens – equally overwhelmed – appear to have given up on them. Political party membership is in free fall, with voter turnout a fraction of what it should be whilst the anger is building.

The opportunity to start to turn at least some of this around could be getting closer. Sooner or later, we are hopefully approaching the British Olympics 'Atlanta moment' – the equivalent of that 1996 'enough is enough' rock-bottom moment which spurred the fight-back and triggered the long-term recovery campaign that slowly got us back up the ladder, and to stunning third medal position this summer.

Recall the essentials of our 16 year Team GB turn-around: the 'enough is enough' rock-bottom moment; the buy-in of the prime minister (John Major), subsequent enduring cross-party support, and the mobilisation of senior champions, the right coaching and long-term development, along with the necessary financial backing. It was a collaborative team-effort over 16 years - born of the essential right strategy - that delivered this success. Interestingly, it also proved that volunteering on a large scale works, and adds enormously to the collective spirit and individuals' satisfaction and sense of worth.

Can we do it again? Of course we can! As we have said before, the scale of the converging current crises requires a temporary burst of Grand Coalition government to get us on track and over the obstacle of short-term election winning and 'same-old' flip-flop party and mini-coalition politics. The alternative - more 'muddle on' to get us back to roughly where we were before 2008 is an utterly dispiriting notion.

### **Europe**

Back from the brink and risk of immediate euro collapse was the welcome consensus a few weeks ago, but we are back again to yet another new and dangerous phase of the chronic eurozone crisis. Mervyn King reminds us that traumatic euro break-up cannot be dismissed. Grexit is almost certainly now a 'when' not 'if' question ("1/3 Greeks now below poverty line" - BBC); Spain is cause for extreme concern as worsening bank and debt spirals trigger constitutional and political turmoil; Italy is far from out of the woods and heading back to 'normal politics' next Spring; and France is rising fast up the watch list with scant chance of the Hollande plan – tougher than anything Sarkozy, Chirac, or Mitterand attempted - working.

Europe is heading for recession – possibly deflation. Firms' activity figures are the worst for 39 months, French new business figures are the worst for 41 months, and even Germany has seen 5 consecutive months of decline. 10 year bond yields are back up in the danger zone.

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The issue is how to hold the markets at bay and reduce deficit and debt without exacerbating the debt-deflation spiral. Sustainable growth appears years away. Too many people and organisations are falling out with each other: Germany and France over political union, the ESM creditor nations are renegeing and backsliding, and gaps are increasing between German president, chancellor, and the bundesbank. More angry and assertive regions, electorates, and the unemployed are dangerous and unknown actors amidst increasing despair and complexity.

Something dramatic will happen at some stage, probably quite suddenly. However much euro break-up is in nobody's interest, and it is true that the technical solutions are now available in theory, there are too many moving parts that have to come together to prevent a train wreck – which train, and the severity of wreck remain to be seen. Eye-catching of late have been the Economist and non-euro-sceptic high priests such as Martin Wolf - who do not advocate euro break-up - acknowledge just how serious the possibility is. David Milliband has just said that “there are good grounds for pro-Europeans never mind sceptics – to fear that the end of the road for EMU will be a messy car crash”.

Under some surface good news – better job numbers, narrowing trade deficit, non-EU export figures up – the UK economic position is grim. Debt interest payments and borrowing up – Osborne's £120 billion borrowing target heading for £150 billion; Next year £126 billion budget deficit @ 7.8% GDP will be higher than that for Greece, Ireland, Italy, or Spain. Bond yields now at their lowest for 300 years will rise, and only 30% of public spending cuts have started. Rising debt and welfare payments mean government departments will have 12 % less cash in 2016 than now.

Fed up with Europe? There are plenty of commentators saying “its China not Greece”, Albert Edwards of Societe General reckons the most important – and bad – holiday data comes from China. Stir in US fiscal cliff uncertainties, and less than cheery figures elsewhere, including India and South Korea, and it is enough to go back home and replay the Olympic highlights!

### **Increasing violence?**

Unfortunately resentment and alienation are rising as tolerance and violence thresholds fall. The most unlikely tiny event can trigger cascading reaction around the world within hours and days – the recent film incited demonstrations and violence in some 30 countries. Serious second and third order consequences could follow from any of the following plausible events: Iran/straits of Hormuz incident, escalation and spill-over from Syria, bomb causing significant casualties in iconic mosque or church in the West, euro zone country meltdown, major deterioration in Pakistan/Afghanistan; messy hasty withdrawal from Afghanistan, Senkakus or other Asian Island incident. Ban Ki Moon warning “the door may be closing for good” on a two-state solution to the Israeli-Palestinian conflict is worrying too.

In UK short-notice domestic disorder could return and turn nasty – triggered by an event at home or abroad. After the huge security effort (and job well done) over the Olympics, the significant cuts and loss of experience in the police are causes for concern.

### **Opportunities**

Looking beyond the immediate - pretty grim- future, the good news is that there are some amazing opportunities to be grasped. As covered, there is the prospect of much better government and

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governance once we all get the seriousness of the situation we are in, and go into temporary emergency team effort mode led by a grand coalition. Over the next 20 years science should come to the rescue in many areas. We are particularly excited about fusion, artificial photosynthesis, renewables, genetic engineering, nanotechnology, medical advancements, IT, robotics, smart materials, and faster communications and warning and reporting. If we are able to harness what is on offer we should be able to mitigate climate change impacts, provide abundant and cheap energy, food and water, better health and less poverty.

It is time to grip the leadership and governance issue, and look to our human ingenuity, and especially the drive and energy of the young to overcome some of what appear today to be intractable risks and threats. We usually do get a grip just before it is too late – maybe it just gets later each time. And there is no reason to believe that when it comes to it, the decent majority will not see off the cynics, the wreckers, and the malevolent – in most societies they are a distinct minority.

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