

# The move to a new equilibrium – political change

## Economic perspective

26<sup>th</sup> May 2011

This is Part Two of a series on the shift to a new global equilibrium. This piece looks at the political movement, embodied in the Tea Party, but seen elsewhere that has the potential to play a very disruptive role in the global political economy.

It's very easy to make fun of the Tea Party. Both its leaders and members, as amorphous as they are, are prone to all sorts of linguistic and semantic gaffes, in addition to the standard description of redneck. One only has to call to mind Sarah Palin and her comment that she can see Russia from her backyard – apparently she was speaking figuratively – to arrive at such a conclusion. For many, these failings make the group's message irrelevant; they seem little more than a passing fad, incapable of upsetting the US's two party hegemony.

But I think this misses the point of whom the Tea Party, and similar movements elsewhere, represents. Their policy responses may not be appropriate, indeed, and from a personal perspective they may be dangerous, but they certainly address very real issues.

There are of course many issues associated with the Tea Party but its core message is reduced government spending, opposition to taxation in varying degrees, reduction of the national debt and federal budget deficit, and a stricter adherence to the interpretation of the United States Constitution. While these policies are undoubtedly aligned to the Republican Party there also seems to be a belief that Washington itself, Republican Party included, is part of the problem (an October 2010 poll by the Washington Post found 87% of 617 Tea Party organisers were upset with Republican Party leadership).

The Tea Party emerged in 2009. It was a response to the solutions proposed to help the US recover from the Lehman Brothers collapse. The Tea Party rejected most elements of the stimulus – the bank bailout, the large fiscal stimulus, Quantitative Easing and, later on, the healthcare reforms. Whether these rejections are invalid or not is unimportant (they've occurred anyway). Instead, the importance is in the reasons for rejection.

Who are these people? Around 15-20% of Americans identify with the Tea Party movement. While it is often perceived as a movement of 'angry white men' some polling data suggests as many as 55% of Tea Party members are women. Other data suggest the movement is generally more educated and has higher incomes than average.

I think its broad platform says a lot about the nature of its supporters. They would seem to work in the private sector for small business where the role of unions is limited. This is reflected in fiscal restraint (lower public sector employment and wages), disgust at federal government bail outs (small businesses in the US won't be bailed out, unlike the banks and car manufacturers) and aggressive attitude to unions. They don't believe in accepting government welfare and they work in jobs where their ability to can differentiate themselves make unions and collective agreements unattractive. Further, as employees and employers in small businesses they see big manufacturers booming (ISM reaching levels last seen in 1983) while small business is stuck in an unprecedented decline (two years since the recovery began small business is weaker than it has been in all but 12 months of the NFIB survey that commenced in 1974). Policy is not helping them.

Plainly, they are self-interested. They don't benefit from government spending and unions and resent their taxes being spent elsewhere in such volume. They want it to stop.

This self-interest obviously makes their appeal less broad-based. But, I believe, they represent an increasing share of the population. This is one observation from Lilies of the Field – increasingly we will work in the service industries, in small businesses, making the ability of big corporations and government to influence our lives, more and more constrained ([This article provides a nice explanation of how cities will keep growing - they support crazies - and companies will stagnate](#)). Over time they will continue to increase as share of the population and this will improve their longevity and influence.

This influence, I believe, will become more important and potentially more transformational in coming years. The emergence of this political movement is part of the shift to a new global equilibrium.

This leads me to my next piece, the outlook for Europe. The phenomenon of the Tea Party, loosely described as a political movement with little alignment to either government, unions or big business, is also manifest across Europe; note the rise of the True Finns, the return of the National Front in France, the Northern League in Italy, the Party for Freedom in the Netherlands or even the current protest, movement in Spain. These movements, despite representing only a small fraction of the total European economy, will potentially play pivotal roles in the future of the Euro-zone and contribute to the creation of a new equilibrium.

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