

Janan Ganesh:

I moved back to the UK in June after four years in America. And as I was packing up in Los Angeles making my farewell visits to people, all my American friends said, "Why are you leaving? Why are you giving up on the US?" And I had to be perfectly clear with them. I said, "I'm sick of your dysfunctional politics. You've got key governing institutions being compromised by ideological headstrong politicians. You haven't achieved a fiscal balance since the early years of the 21st century. Your right wing media seems to be obsessed with a eccentric blonde man. Your head of state is hugely admirable but is of a certain age, and I'm not convinced by the next in line all problems that the UK knows nothing about." And so I took the decision to swap American chaos for British order and good sense and stability, and so here I am.

That'll give you a sense of the quality of my judgment and I wouldn't blame you at all if you apply a discount to anything I'm about to say. I thought what I would do with this talk, rather than give you an overview of everything that's going on in Westminster and in international politics, all of which you can get from your Twitter feed, is perhaps give you an argument or even just a theme and see if you respond to it. And the theme is the difficulty, perhaps even the complete folly of prediction. Now, if I ask you to turn your minds back to January 1st, 2020, on that New Year's Day, I think almost everyone in this room will have been sure of a few things. They will have had certainties in mind. Certainty number one, land wars between states, at least in and around the western world, are a thing of the past. The enemy is terrorism and other kinds of sub-state, actors. If there's any conflict between states, it'll be at the cyber/economic espionage level.

But those kind of big European land wars are a thing of the first half of the 20th century. Certainty number two, if Britain faces an economic problem, it is Japanification, persistently low interest rates, persistently low inflation, maybe deflation, low returns, the problems that afflicted Japan from 1990 onwards, a kind of economic death through chronic rather than acute causes because that was all we knew in 2020 and it's all we had known since at least 2008. Certainty number three, because of , or at least as revealed by Brexit, the British public were incurably anti-elite, anti-expert, anti-authority.

And so for example, if the authorities taking advice from experts were to propose some kind of mass incursion into people's lives for the greater public good, it would fail. People would laugh it out of the room because they had become rebellious, irreverent, and in the jargon of my trade, populist. That is what we knew at the time. It's all we had known since at least 2016 with the Brexit referendum. And really before that, since the 2009 parliamentary expenses scandal. All three of those certainties made complete sense in 2020 and are completely laughable as we approach the end of 2022.

Now, it is not profound or shocking to anyone here that predictions sometimes do go wrong. If you're in the investment world, predictions do go wrong. If you're in my world of political punditry, we are very conscious how often prognostications are incorrect. But what intrigues me about the three certainties that I mentioned earlier is that all of them were wrong in the same way, all of them extrapolated from present information.

There are two ways of getting the future wrong. One is that you assume the future is going to be completely different. And that's what a lot of science fiction is based on; the idea that we'll have flying cars and space travel on a kind of civilian level. But the more common mistake in recent years has been to assume that the future will just be an intensification of what we already have. And this human habit is so deep that I've seen people, even when previous certainties based on extrapolations were proven wrong, come up with a new set of extrapolations that will later be proven wrong. And so the example I always think of is during the pandemic, when it was clear that the public were not that anti-elite, not that anti-expert, not that anti-authority were obeying one of the world's toughest lockdowns and overwhelmingly volunteering for vaccines.

One of the predictions that was popular in my trade, among some of my colleagues even, was that modern urban life was dead for the long-term. The streets were empty, airports were empty, that was the present. If you extrapolate from that, then modern urban life won't return or return extremely far into the future. We now live in a world where for civil aviation, both the numbers traveling and the revenue for the companies is close to 2019 levels. And the Bloomberg Pret Index, which measures the consumer inflow into Pret A Manager in London is at near 2019 levels, and in some districts above 2019 levels. So even when people had been confounded in their assumption that the public were all overwhelmingly rebellious populists, even when that extrapolation had been discredited, the first instinct was to launch a new set of extrapolations.

The reason I'm so taken with this theme or this recurring human error is that I think people in my trade are in the process of making a new predictive mistake based on extrapolating from present information. They are gripped with a particular certainty that I don't think is warranted. And the certainty is that Labour will form the next government. All the present information validates that view, Labour are 25 to 30 points ahead in the opinion polls now, the economy is in a terrible mess now, the Tories are chaotic and borderline ungovernable now. And so it's perfectly reasonable on a superficial look at the present landscape to assume not just the Labour victory, but a pretty comfortable Labour victory in 2024. But the lesson of everything I've pointed to in recent years, the incorrect predictions of around 2020 is that the present landscape is no guide at all.

And I'd like to set out a few reasons why I think Labour are hugely overpriced to form the next government in this country. The most obvious is that Rishi Sunak is the first prime minister to my mind since the middle of 2016, who is technically capable of being prime minister. I think Liz Truss, Boris Johnson and Theresa May, in their own ways, were not quite suited to that office. With Liz Truss, it was a question of policy judgment. With Boris Johnson, it was inattention to detail, a lack of executive grip, and in the final analysis, I think a lack of interest in the job once he acquired it. And with Theresa May, choosing my words carefully, I think the torrential volume of information and events that a prime minister has to deal with was beyond her. If you were watching closely, it was fairly obvious as Home Secretary that she would struggle to make that step up. So no disgrace, very few people can do it, but she was one of those who can't.

Now, I don't suggest for a minute that Rishi Sunak is some kind of Bismarck style political executive genius. I did a column last week arguing that actually we overrate his record of competence and the furlough scheme, however effective it was, was a version of something that every rich country did. It's not as if without Rishi Sunak, we would've been some kind of horrible Cormac McCarthy wasteland with no government help for anyone. So I think his competence is overstated, but relative to the bar that has been set since 2016, I think he clears that bar pretty clearly. And the best way of an incumbent long serving government to get reelected is by governing well and by at least showing that you can govern more effectively than the most likely opposition.

And I think Rishi Sunak is the first prime minister in three to give the Tories at least a plausible chance of sending that message. But that's just the beginning of it. I think another reason why the Tories are underrated as a potential winner of the next election is that recessions are different for Tory governments than for Labour governments. It's almost a mystical thing and difficult to explain, but when a recession happens under a conservative government, it can say to the opposition, what is the point of view? There's no money around anymore. If you want to do what Labour governments exist to do, which is spend more, redistribute more, you're going to either have to borrow money and debt is already high or you're going to have to tax more and the tax burden is already high. That is the recurring Tory economic message or incumbent Tory government message at every election in my lifetime.

And it works more often than it fails. There was a vicious recession in the early '80s, 3 million unemployed at a time when the total UK population was much lower than it is now. The Tories got reelected. There was a deep recession in the early '90s, lots of people in negative equity. The Tories got reelected two years later. There was a global crash in 2008. Labour did not get reelected and they fell to 29% in the vote share, which is lower than the Tories managed in 1997. The political consequences of the recession are asymmetrical for conservative *vis-a-vis* Labour governments.

Now, you don't have to accept that it's fair, but it's a sufficiently recurring pattern that even if you think the economy will be as bad in two years time as it is now, and I don't think we can assume that, it's perfectly possible we'll be at the beginnings of some kind of upturn. But even if you believe the economy will be as bad at the next election as it is now, that does not automatically equate into problems for the conservative party. There is a perverse way in which economic trouble benefits incumbent conservative governments, and that's still not the totality of the case for why Labour are slightly overpriced to win next time.

I think the single biggest problem the party has is the memory, some would say the reputational stain, of the Corbyn years. I've noticed that people talk about the Labour election of Jeremy Corbyn in the same way that you might talk about the Tories electing William Hague before he was ready electing Iain Duncan Smith in 2001. Perhaps in the same way you would talk about Labour electing Ed Miliband over his brother in 2010. It is a completely different order of mistake that Labour made when they elected Corbyn. What they did for the first time in the history of the two main parties in this country was hand the leadership to someone on the fringes of the ideological spectrum. That has never happened to either Labour or the Tories before. It is true that in the '80s, Labour were too left-wing and lost their landslide election in '83, but at no point did the far-left, the Trotskyist, Trotskyite left possess the leadership of the party or the deputy leadership or the top cabinet positions.

What they did was entryism in the jargon, they infiltrated at a grassroots level. For the first time in the history, the modern history of the two big parties in this country, and for a brief period, for five years, Labour were led by someone on the ideological fringes. The public told you in December 2019 what they thought of that. And I find it inconceivable that they will trust Labour in one parliamentary cycle. I think it might take another parliamentary cycle before the public think, "Okay, the far-left have now been sufficiently purged from grassroots organizational bureaucracy and the parliamentary party."

And it's a particular problem for Keir Starmer. I think Keir Starmer would be a successful prime minister. I quite liked him when no one else did. I was observing from America and couldn't quite get the hostility to him. But he has a problem, which is that less than three years ago, he recommended to the British public that they elect Jeremy Corbyn prime minister. And I think that reputational damage takes longer than three years to erase. So you've got relative technical competence in the new prime minister, I stress relative. You've got the weird way that recessions have a perverse benefit for Tory governments. You've got the underrated, underdiscussed brand damage to Labour that came from the Corbyn years. And that's still not it. In politics, there is something you might call the parliamentary cycle. And it reminds me a little bit of the business cycle and it goes a bit like this.

In the middle of a parliament, which is roughly where we are now, all the scrutiny is directed at the government and the average voter compares the government to the opposition of their dreams to an ideal. And that is why you have double digit poll leads typically for the opposition in midterm. As you near an election, you can almost hear or feel the guns turn on the opposition. And the average voter starts thinking, "Actually, my choice is flawed government or similarly flawed, even more flawed opposition, a contest between two realities." Now, everyone in my trade gives lip service to this. They always say midterm polls are unreliable. Wait until the last six months of the parliament. We all give lip service to it and at the same time, we get carried away by midterm opinion polls. It happened when Ed

Miliband was 10 points ahead of David Cameron 10 years ago, and it's happening now with these 20 point, 25 point leads.

Do not expect these leads to be even loosely reflective of what happens in the last six, maybe three months of this parliament. So you've got, for all those reasons: a low bar to clear for the new prime minister; often strange political consequence of recession for a Tory government; an ineradicable or yet to be eradicated brand problem for Labour that is now at the back of people's minds, but will be at the front of their minds in two years time, and the natural transfer of scrutiny from government to opposition. And I think to predict a Labour victory with any certainty is to repeat the three mistakes that I made earlier. It's to repeat the core mistake of assuming that present information is reliable as to what happens in the future.

Now, this has been a very self-righteous talk. I've been citing all these misjudgments that other people have made. But before I wrap up, I should disclose one of my own misjudgments. And again, it was based on extrapolation. I never saw Brexit coming. And the reason I didn't see Brexit coming was that all the information at the time in the preceding years suggested an overwhelming public appetite for continuity, however flawed as opposed to risk taking change.

In 2015, the public reelected David Cameron instead of choosing Ed Miliband. In 2014, the Scottish people voted to remain in the UK rather than take their chances as a sovereign nation. In 2011, a referendum everyone's forgotten, the public voted the first-past-the-post voting system and reject the alternative vote. And even in the preceding three or four general elections, there might have been changes of government, but politics took place within a small ideological range between slightly left of center and slightly right of center. So everything suggested continuity and British small "c" conservatism. I extrapolated too much from that and failed to see Brexit coming. It left me embarrassed, but it also leaves me vigilant to the possibility that some people are now going too far the other way. If I had to identify a rash prognostication doing the rounds right now, other than near certain Labour victory, it would be this, that Brexit is permanent or at least long lasting.

Again, all the present day evidence supports that claim, the Conservatives remain anti-EU. Labour don't want to discuss it to avoid alienating their own supporters. The EU itself would impose huge conditions if we were to rejoin or even just rejoin the single market. The public are increasingly of the view that Brexit was a mistake, but the majority that would actively vote to reverse it is minimal. All the present evidence, if you extrapolate from it, therefore suggests that Brexit is long lasting, perhaps even for people of my age permanent. But there is such a thing as economic reality for a country that is much poorer and getting poorer than it had expected in the first half of 2016. There is such a thing as gravitational pull from a continent of 450 million people on 60 million people. And there is such a thing as making too much of current day evidence when looking ahead. And I don't need to tell an audience of investors that present performance is no guide to future results. Thank you.