

REFLECTIONS ON BREXIT: WESTERN DEMOCRACIES AND THE THREAT OF POPULISM

Social media has swallowed the news – threatening the funding of public-interest reporting and ushering in an era when everyone has their own facts. But the consequences go far beyond journalism

Katharine Viner, editor-in-chief, Guardian, 12 July 2016

More and more people today end up seeing a version of the world that is shaped by their pre-existing beliefs. Social media by its nature is designed to give people more of what they want. What is trending on Twitter increasingly drives the news. It affects television, where people choose to follow the different versions of events as told by Fox News and MSNBC and the increase in ratings reinforce the networks' telling their viewers what they want to hear. It also affects print media, witness the differing coverage of the Daily Mail and the Telegraph versus the Guardian and the Financial Times, about the economic consequences to the UK of its momentous referendum.

Our work is to make long term investment decisions. To do that we look for information and do research that informs a view for the long term. We come up with a hypothesis and search for information that verifies or falsifies it. It is only by evaluating all such information, repeatedly, that we can be confident in our decisions.

In our globalized world, the West, the Occident, the Atlantic alliance or whatever we wish to call the great democracies in North America and Europe and those inspired by them, still stand for political, social and economic values that have been a beacon for stability, progress and prosperity in the post-war period. They also act as example for other countries to emulate or adapt as they chart their path towards development.

However, this Western world is in a period of unprecedented upheaval, with a general dissatisfaction with how the world is working. We believe the major part of that is as a consequence of globalisation and the information age. At the same time as it has brought tremendous progress to the world, delivering more than a billion people in China out of poverty in less than 20 years, globalisation has also left people behind – or left people feeling they have been left behind, throughout the Western world. The Age of Information has brought unimagined access to information and commerce, and it has been a source of profitable investments that we expect to continue for many years.

However, it has also caused profound change. Whether it is the echo chamber of social media that can lead to Donald Trump as Republican nominee in the US or Jeremy Corbyn as leader of the Labour Party in the UK, the Chinese government's attempts to defy it by building the Great Internal Wall of China, or unprecedented and unexpected facilitation of the move of more than a million Syrian refugees into Europe. It is clear the forces unleashed by the internet have overwhelmed the

abilities of our politicians or governments to deal with them.

Democracy is the worst form of government, except for all the others.

Winston Churchill, House of Commons, 11 November 1947

Markets and businesses crave stability and predictable decisions by governments and authorities. They can be myopic, and as we have seen throughout the twentieth century some markets and businesses have preferred an all-powerful demagogue or dictator, rather than democracy. We are now watching live whether democratically elected President Erdoğan's response to the coup reinforces democracy in Turkey or whether he uses it to reinforce his own power and authority.

The Western world is facing populist challenges in which parts of their populations look for redress from their real or perceived predicaments by attempting to go back to an imagined past or to create a utopia without immigration and uncertainty. They reject representative democracy as part of their repudiation of a system they object to and look to their leaders for simple answers to difficult and often unanswerable questions.

We know that democracy is fundamental to the Western World. But how it was formed differs from country to country. Through revolution and fire, like in France, through deliberation and the construction of government based on fundamental principles of separation of powers, like in the United States, or through a process of gradual evolution, like in the United Kingdom. It takes time to consolidate, to be accepted.

How Western democracy as it has evolved through the unusually long period of relative stability and absence of existential threats since the end of the Cold War leaves much to be desired. All the Western democracies have problems. In the US, the gridlock created by the separation of powers means that change often ends up being decided by judges. In the UK, the concept of Government in Parliament often means that Government controls Parliament. In the EU, the governments while making laws through the Council in private, too frequently allow the blame for the impacts of these laws to fall on the Commission and their "unelected bureaucrats". In France, the "Enarques", the graduates of the elite civil service school founded by Charles de Gaulle in 1945 immediately following the end of the war, were meant to be civil servants, but have taken over politics and the economy.

With all of these constraints, therefore, how are we to avoid the risk of "demagogues and dictators" whose use of referenda Margaret Thatcher famously decried in her criticism of the first UK referendum on Europe (herself quoting Clement Atlee).

Edmund Burke, the great conservative thinker, gave us the answer in his Reflections on the Revolution in France over 200 years ago, 15 years before Jacob Stern set up the first of the family banks in Frankfurt.

Burke considered judgment and education among the most important traits in people who presume to handle affairs of state. His ardent call for conciliation with the American colonists on historical, political and economic grounds in 1775, prior to the signing of the Declaration of Independence, was as rooted in that belief as his condemnation of the French revolution and its excesses was in 1790, prior to the horrors of the reign of terror.

When the leaders choose to make themselves bidders at an auction of popularity, their talents, in the construction of the state, will be of no service. They will become flatterers instead of legislators; the instruments, not the guides, of the people.

Your representative owes you, not his industry only, but his judgment; and he betrays instead of serving you if he sacrifices it to your opinion.

Edmund Burke, Reflections on the Revolution in France, November 1790

We agree with Burke. Decisions about the momentous issues we are facing belong in the hands of the people's representatives. We owe them our diligence and commitment in electing and supporting them. They owe us their judgment and not their flattery, and their dedication to legislate in our best interests in parliament, wherever that parliament is.

It is our fervent hope that our leaders and representatives will reassert themselves, that they will seek to understand the complex world that we live in and not just resort to simplistic 140 character tweets, and that they will articulate what they are for and not what they are against. It is up to all of us to reinforce the principle of representative democracy and not to succumb to the lure of populism, and to insist on the majority protecting the rights and interests of the minority. That is our best chance of uniting, not dividing people and of achieving the prosperity and peace we seek.

Tom Price and Christopher Rossbach

J. Stern & Co. LLP provides this document for informational purposes only. It is intended exclusively for those to whom we have provided it directly. It is not for further distribution and does not constitute investment advice nor an offer or a recommendation to purchase or sell any security or other financial instrument. The information contained herein has been obtained from sources believed to be reliable at the date of publication but no warranty of accuracy is given. The value of any investment can fall as well as rise. Any opinion expressed constitutes a judgement as of the date of publication and is subject to change without notice.

J. Stern & Co. LLP is a limited liability partnership, registered in England and Wales with registered number OC378306, and is authorised and regulated by the Financial Conduct Authority, as firm number 588344. CR 2016