

September 21, 2015

Meet Jeremy Corbyn

On September 12th, Jeremy Corbyn, a longtime Member of Parliament (MP), was elected as the new leader of the U.K.'s Labour Party. When he announced he would run in June, his candidacy for the position appeared laughable, but by the time the party election was held it was clear that Corbyn would win. Corbyn was considered a fringe member of the Labour Party; he has never controlled a major mandate (e.g., Exchequer, Defense, etc.) or held any position of responsibility in the party.

In this report, we will begin with a short biography of Corbyn followed by a description of how he won his party's leadership role. With this background, we will explore Corbyn's long held policy positions and their potential impact on U.K. policy. We will offer our reflections on Corbyn's win, including an examination within the context of other political developments in the West. As always, we will conclude with potential market ramifications.

Jeremy Corbyn

Jeremy Corbyn is a 66-year-old career politician; he has represented the constituency of Islington North since 1983. He is a self-described democratic socialist. His parents were peace campaigners who met during the Spanish Civil War. Before he was elected to Parliament, he held positions with labor unions or local government.

Corbyn is one of the most leftist members of the Labour Party and a serial rebel against party positions. According to reports, he has voted against his own party over 500 times in his 32 years in parliamentary government.¹

So, how did a perennial opponent of the establishment, including his own party's leadership, become the leader of "Her Majesty's loyal opposition?"² In May, after the Labour Party's election drubbing and resignation of former leader Ed Miliband, Corbyn decided to run for the leadership. According to party rules, an MP that wants to run needs 35 other MPs to endorse him. Corbyn had a hard time finding that many due to his history of obstreperous behavior. In fact, those who eventually decided to endorse him did so only under the idea that they wanted a broad field of candidates. By allowing Corbyn to run, the party establishment could argue it had clearly allowed a broad spectrum of views to be represented.

Perhaps the party establishment hadn't taken into account the new rules for electing party

¹ Such persistent opposition isn't all that common in parliamentary systems. Since the national executive (the prime minister) is also the leader of the party in power, the prime minister is usually in control of the legislature as well (it is possible to form a minority government, but they usually don't last long). Thus, party members that constantly vote against the leadership tend to undermine the government and lead to its dissolution and loss of power to the opposition.

² Corbyn opposes the monarchy and wants to form a republic. Recently, he refused to sing "God Save the Queen" at a ceremony honoring the anniversary of the Battle of Britain.

leaders. Miliband previously changed how his party selected its leadership. Under the new rules, anyone who paid £3 (about \$4.60) could vote for party leader. The party membership eligible to vote in the September leadership poll swelled to over 500k from approximately 187k before the May election. According to reports, union representation among these new voters was significant. In the end, Corbyn won by a landslide, capturing 59.5% of the 420k who actually voted, exceeding his nearest rival by nearly 171k. Despite this massive win, party leaders acknowledge that Corbyn probably would not have won under the Labour Party's old nominating rules.

Corbyn's Policy Positions

Corbyn is an unrepentant socialist and an ideological purist. He supports economic redistribution, high marginal tax rates on the wealthy, public ownership of major industries, free college tuition, nuclear disarmament, pacifism and large unions. He is an anti-imperialist and a republican (wants to get rid of the monarchy) who opposes NATO and the EU. In fact, he voted against the U.K. joining the European Common Market in the 1975 referendum on this issue and also defied his party by opposing the Maastricht and Lisbon Treaties. He is considered anti-American and opposes the U.S. exercise of its superpower role. This stance is consistent with Labour Party platforms, pre-Tony Blair. In fact, these policies were the backbone of Labour Party platforms after WWII. Of course, until Blair, the Labour Party had been out of office for nearly two decades, from 1979 to 1997.³

In researching his public life, he has made statements and decisions that, standing

³ For a good history of this era, see: Yergin, D. (1998). *The Commanding Heights* (Chapters 1-3). New York, NY: Touchstone Books.

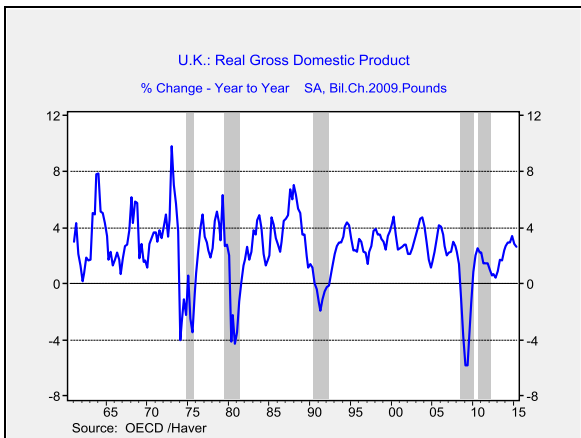
alone, are difficult to defend. Here are some of his "gaffes":

- He has called Hamas and Hezbollah "friends."
- In 1984, he invited Gerry Adams of Sinn Fein, the political wing of the Irish Republican Army (IRA), to Parliament, a few weeks after the IRA bombed the Grand Hotel in Brighton, England in an attempt to assassinate PM Thatcher.
- He called the death of Osama bin Laden "a tragedy."
- He praised the "legitimacy" of the Iraqi insurgents during the Iraq War.
- He supported Hugo Chavez.
- He has publically met with virulent anti-Semites, Dyab Abou Jahjah, a Lebanese activist, and Raed Salah, the leader of the Islamic Movement in Israel.
- He stated that the Russian incursion into Ukraine was ultimately America's fault due to its support of NATO expansion.

This list is far from complete. This lineup of statements would seem to preclude anyone from becoming a leader in a Western nation. In fact, assuming Corbyn is reasonably intelligent, anyone with aspirations to higher office would probably avoid such comments or situations. Thus, we assume that Corbyn never really anticipated he would be in his current position.⁴

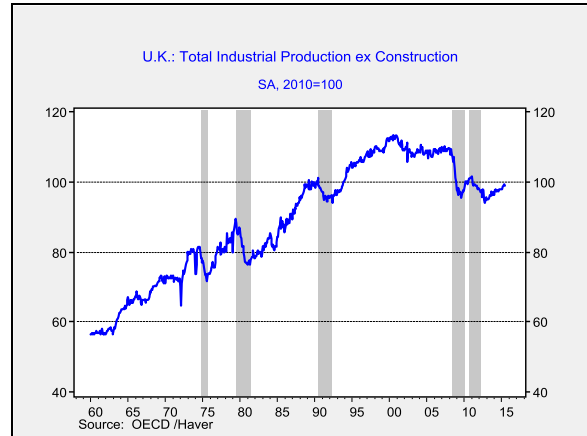
⁴ In contrast, President Bill Clinton's life shows a person who was always careful not to undermine his future political career. See his letter on the draft (<http://www.pbs.org/wgbh/pages/frontline/shows/clinton/etc/draftletter.html>) and his statement regarding his famous encounter with marijuana, "...I experimented with marijuana a time or two and I

So, how did such a figure get elected? First, the changes in voting rules likely attracted larger numbers of interested voters. Primary voters in American elections tend to be more committed to a candidate and more interested in the political process. Reports suggest that a large number of union members paid the fee to vote and that the rule change may have attracted voters who usually polled with either environmentalist parties or local fringe parties. Second, Corbyn railed against the austerity policies of the ruling Tories. Britain’s economic performance has been rather sluggish and many economists blame fiscal policy for the weakness.

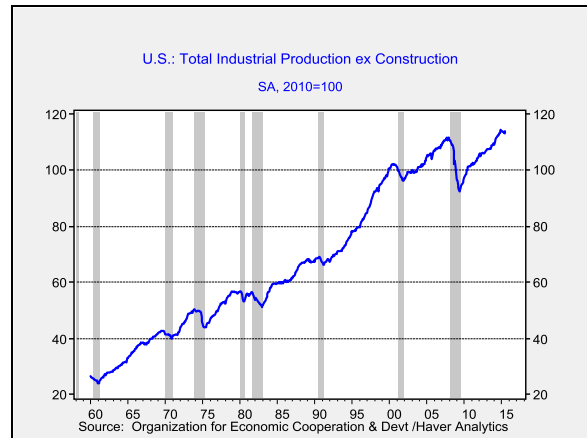


This chart shows the yearly change in the U.K.’s real GDP. Note that the country actually had a “double dip” recession, suffering a downturn with the Great Financial Crisis and a rapid second, though mild, recession. Even the current recovery has been sluggish compared to prior business cycles. The behavior of industrial production shows just how sluggish the U.K. economy has been.

didn’t like it. I didn’t inhale and never tried it again.” (<http://politicalhumor.about.com/cs/quotethis/a/Clintonquotes.htm>)



Production remains below the previous cycle peak in 2008 and is well below the overall peak made in June 2000. Compare this with the U.S. performance of industrial production.



The U.S. did not engage in the same level of austerity and has clearly outperformed the British economy.

Fiscal spending cuts have been mostly focused on support for the disadvantaged, so there is growing anger at the policies of the Cameron administration. Although the Tories did win an unexpected six-seat majority in Parliament in the last election, the party only won 36.8% of the popular vote. Because the U.K. uses a “first past the post” system, the Tories won the most seats. However, it should be noted that less than 40% of voters actually supported the Tory

policies. Another way of thinking about the last election is that virtually all the other parties opposed the Tories.

Simply put, there is a large audience that would be sympathetic to an anti-austerity message. Tony Blair won three consecutive elections by moving to the political center, a path also followed by Bill Clinton. In the process of becoming “New Labour,” Tony Blair abandoned the old Labour Party platform of nationalization, pacifism, euro-skepticism, high taxes and anti-capitalism. Blair won by pushing the Tories further right and gaining voters in the center. The traditional Labour supporters either drifted to fringe parties, voted reluctantly for Labour or simply left the political sphere. With Corbyn, they have a new champion.

The initial reaction to Corbyn’s victory among Tory pundits was joy. Corbyn will almost certainly pull the Labour Party leftward, opening the center to further gains by Conservatives. However, PM Cameron faces two serious threats from Corbyn.

1. A majority party without strong opposition usually becomes difficult to manage. Backbenchers can often decide to oppose the leadership on certain issues if they don’t fear that a legislative loss could trigger a no-confidence vote. Although the Conservatives hold power, the margin of six seats is narrow and it may be hard to keep the party in line if the fear of defying the Tory leadership is lessened by the presence of Corbyn. With an EU referendum expected in 2017, party discipline is an important issue.
2. Radical figures like Corbyn usually don’t come to power during normal circumstances. In the 1970s, if the U.K. economy had been doing well, Margaret Thatcher would not have been PM; if the

U.S. economy had been on solid footing, Ronald Reagan would not have won either. Corbyn’s unlikely victory is a warning sign to PM Cameron that there is growing opposition to his government’s management of the economy.

Corbyn’s Impact on Policy

Since Corbyn isn’t the PM, the immediate impact on policy will be low. However, he does represent the U.K.’s opposition party, so we can safely assume that he will oppose any military action that PM Cameron proposes. He will also likely oppose sanctions on Russia. That may not stop Cameron from implementing these policies but it could make it more difficult to get Parliamentary approval for such actions.

Where Corbyn’s impact may be magnified is with the EU referendum issue. The Labour Party’s traditional position on the EU is opposition. They tend to see it as a German-dominated body that is supportive of free markets.⁵ The party fears that EU labor laws will tend to be less friendly than British laws. That position softened under Tony Blair but there is a good deal of Euroscepticism among the “old guard” of Labour.⁶ Labour’s rejection of the EU, along with the U.K. Independent Party and general opposition from some Conservatives, may push Cameron to exit the EU. Such an action would be a blow to Europe and another step toward the unwinding of the European Union.

Other Observations

Corbyn’s supporters seem to be concentrated among the “old guard” and

⁵ See WGR, 10/27/2014, [The Echo of Wirtschaftswunder](#).

⁶ As noted above, Corbyn himself voted against joining the EEC in the 1975 referendum and voted against the Maastricht and Lisbon Treaties.

young people. Perhaps the best example of Labour's "old guard" is Corbyn's shadow Chancellor,⁷ John McDonnell. He is a staunch opponent of capitalism, saying it is "failing" as a system. This stance is a classic leftist critique of market economies. The average age of Corbyn's shadow government is 53, five years older than the Cameron administration's ministers. At the same time, media observers of Labour Party rallies for Corbyn noted a dearth of middle-aged attendees. Young people supporting socialism isn't a huge shock.⁸ After all, rising tuition and a sluggish economy have weighed on young people. On the other hand, for unionists, economic conditions deteriorated with Thatcher in 1979 and didn't get much better under Tony Blair. It is likely that some union members simply adapted to the new world and found jobs in the deregulated economy. For the core group, they simply remained because there was little chance for new positions to develop. The lack of representation among the middle aged (40-55) will tend to undermine Corbyn's Labour Party as this age cohort tends to have much of the proven talent and money.

Corbyn will face almost constant internal opposition from Blairites. Those who view Tony Blair's shifts as critical to the relevance of Labour are horrified by Corbyn's win, fearing (probably accurately) that the "principled stands" Corbyn represents will doom them to irrelevance in general elections. There are already reports

⁷ In the U.K. system, the opposition creates a shadow government that selects ministers with various portfolios to take over power in case there is a no-confidence vote or a snap election. This shows what the government would look like if the opposition took power.

⁸ "A man who has not been a socialist before 25 has no heart; if he remains one after 25 he has no brain." Attributed to King Oscar II of Sweden.

that major Labour donors are supporting MPs that oppose Corbyn.

Corbyn is probably not as divisive as he first appears. Although many of his statements and behaviors noted above are clearly controversial, there is some sound thinking behind his positions that were simply not handled in a way consistent with the usual actions of a professional politician (which probably adds to evidence that Corbyn never expected to be Labour's leader). Here are a few examples:

- Corbyn opposed the expansion of NATO, fearing it would provoke Russia. In fact, it should be noted that Corbyn shared this sentiment with former Senators Bill Bradley and Sam Nunn, Richard Pipes, a staunch anti-communist historian, and Edward Luttwak, a noted U.S. military strategist.⁹ Expanding NATO without expecting Russia to view it as a hostile act was foolhardy.
- Corbyn is a strong proponent of diplomacy. If one is going to engage in diplomacy, there will be times when one will talk to bad actors. Thus, speaking with the IRA or Hamas doesn't necessarily mean one is an enemy of the West. It does appear that his sympathies lie with the left but simply talking to those who oppose the West doesn't mean he is completely dotty.
- Opposing austerity is a sound economic position. Austerity in a downturn is hard to justify. A small nation can get away with it because it can export its way to prosperity and austerity supports that effort. However, in a large economy, austerity will tend to slow growth. This

⁹ See http://www.armscontrol.org/act/1997_06-07/natoleet for a list of notable policy figures who opposed NATO enlargement.

is an area of policy where Cameron is vulnerable. Corbyn gains popularity and appears less flakey by hammering the government on this issue.

Ramifications

Corbyn's win should be seen in a broader context. Populist sentiment is rising throughout the West. The rising presence of the National Front in France, Podemos in Spain, Syriza in Greece, Bernie Sanders in the U.S. and the fact that the U.K. Independence Party took nearly 12% of the popular vote in the last U.K. election are clear warning signs to Europe and the U.S. that center-left and center-right elite control of the political sphere is under threat. What do the populists want? Simply put, they oppose globalization and creative destruction. This means they oppose immigration and free trade; they are becoming increasingly disenchanted with unregulated business models that upend

industries (such as Uber). For Corbyn, reform means returning to a pre-Thatcher economy. Bernie Sanders has similar leanings.

Corbyn's win is further evidence that the elite consensus that has dominated Western political systems since 1979 is coming under growing pressure. Although investors can still prosper if this consensus unwinds, the markets will be different from what we have come to understand. This threat to the consensus is something we take very seriously, and we constantly watch for market opportunities that a change in political conditions could foster. On the other hand, until these changes become evident, we remain comfortable with our current positions.

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