
U.S. Political Economy Scenarios: 2022 - 2024

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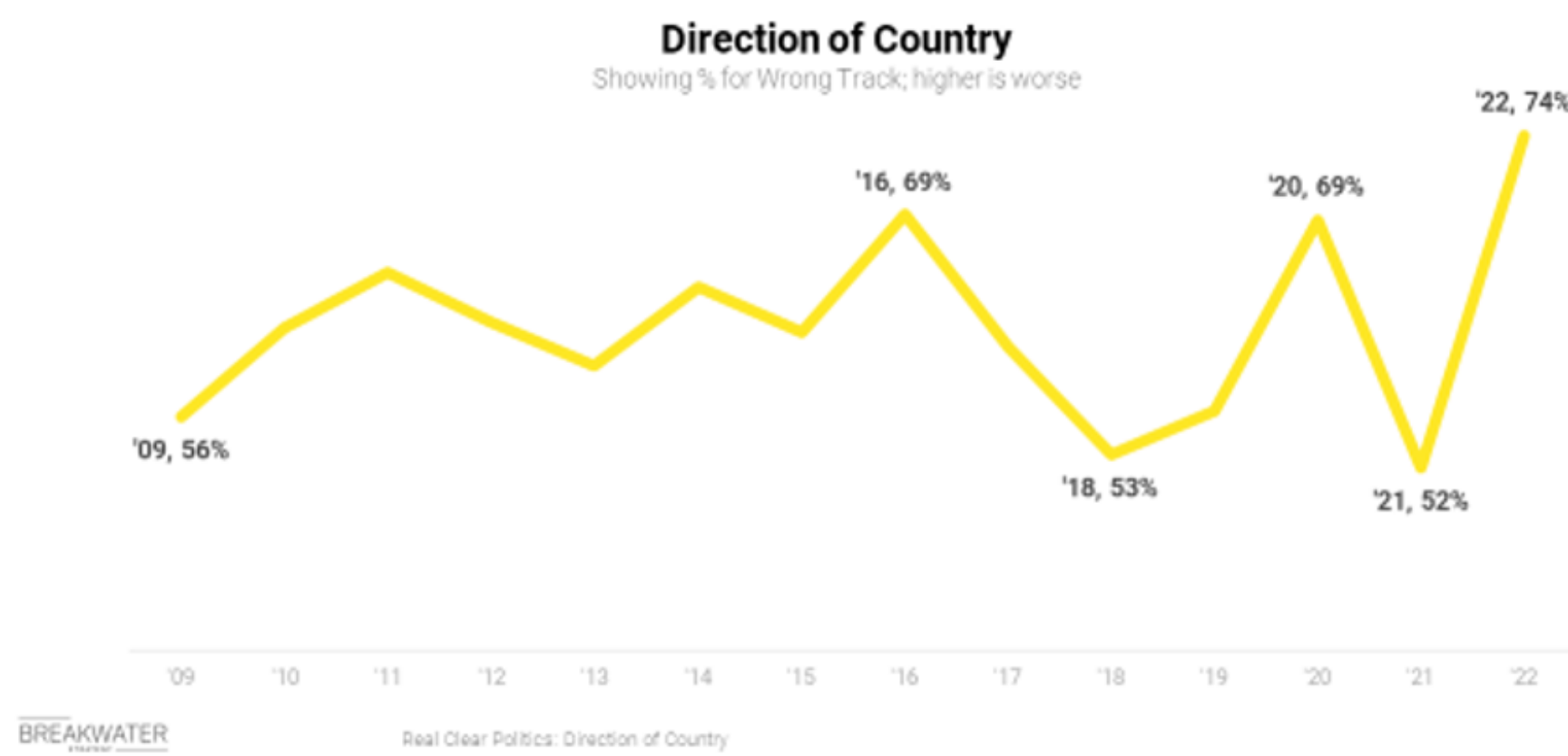


What Time of Day is it for America?

Glance at today's public opinion polls, traditional and social media and you'll see clear signals that the summer of 2022 is one of the most pessimistic moments in modern American history. It feels like we are living through a multifaceted crisis that includes record-breaking inflation, growing signals of a looming recession, a grinding, bloody war in Ukraine, acute signs of a rapidly warming climate, rising violent crime rates including the proliferation of mass-shooting incidents, and the specter of a political system that may be moving from deep and paralyzing polarization to something categorically different, a profound and fundamental crisis of legitimacy.

It's the kind of ambient pessimism that can become self-fulfilling, feeding the conclusion that the future — at least in the short and medium term — of the American political economy is over-determined, and it's almost all on the downside.

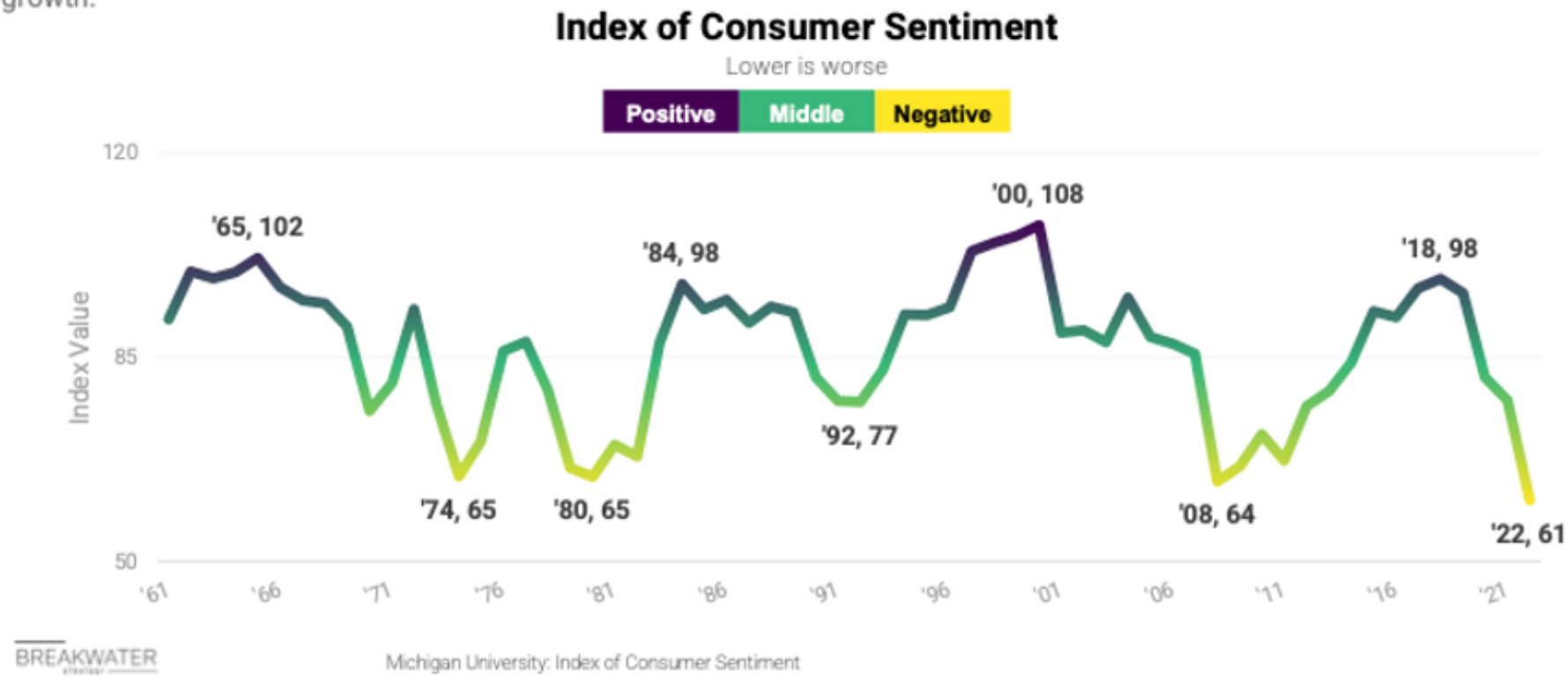
74% believe the country is on the wrong track – the highest figure since tracking began in 2009



7

At 61, consumer sentiment is at its lowest recorded value in 60+ years of tracking

Index of Consumer Sentiment measures perceptions about the health of the economy and prospects for short- and long-term growth.



5

2022 feels like the most pessimistic American summer of the 21st century... and there are good reasons for it



POLITICS

&



ECONOMICS

Political Pessimism

- The SCOTUS decision to overturn Roe has disrupted American politics, creating a degree of interstate tension not seen in living memory
- Gun violence, including hate-driven mass shootings, has increased at an alarming rate
- Extreme weather is directly impacting the lives of Americans and people the world over
- The percentage of Americans actually expecting a civil war has exceeded 50%
- Surveys consistently show deepening animosity between Red and Blue America
- A potential Trump '24 candidacy looms over the political landscape threatening a period of further escalating polarization

Economic Pessimism

- Inflation has reached levels not seen since the late-1970s/early-1980s
- Consumer sentiment has reached all-time lows
- Interest rates are being pushed up at historic speed, increasing the cost of credit, including mortgages, personal loans, and credit cards
- Federal government projections show the federal deficit ballooning to unsustainable levels over the coming decades, driven in large part by the increasing cost of debt-service
- The Russian invasion of Ukraine appears poised to stretch on for the foreseeable future, exacerbating energy and food price spikes

But Think Back to March 2020...

But think back to March 2020, when the world economy was literally shut down by a novel coronavirus. All the signals were pointing down. The prognosticators were expecting the worst. Yet within a few months, a more nuanced picture came into view, and the medium-term future turned out surprisingly complex and even upbeat in many respects.

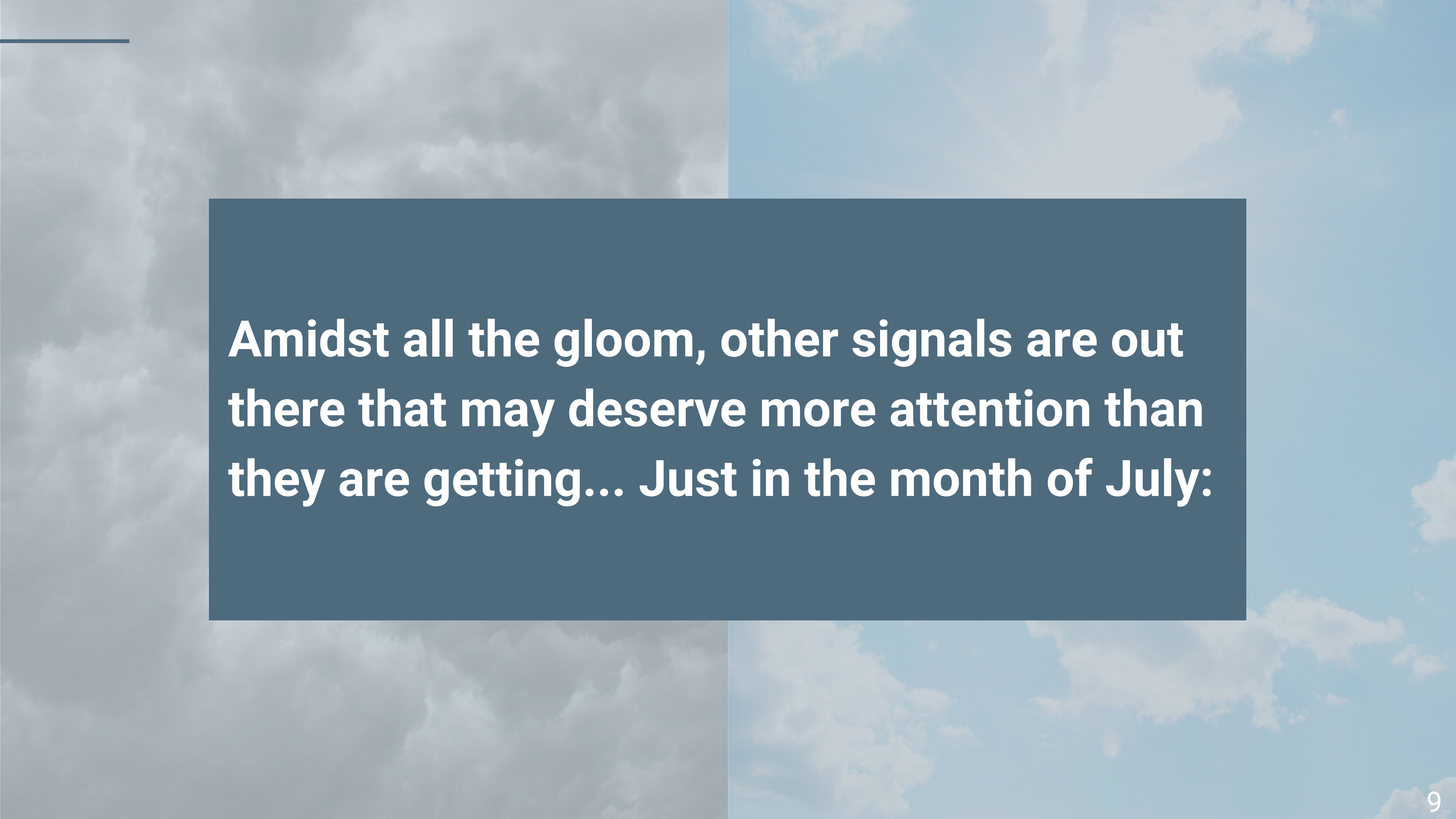
The point here is not to ignore the pessimistic signals or to assume they are off-base. Rather, it is to recognize and be skeptical of what we call 'the official future.' An official future takes shape when a broad swath of leading voices in a society or organization converge around a shared perspective about the important dynamics shaping the world. Most frequently, the official future predicts that tomorrow will look a lot like today, only more so. Right now, it is tilted heavily toward downside risk.

Today's Official Future...

An economic slowdown will turn into a recession; current political polarization will turn into a more fundamental political fracture. The questions are not about whether or not these dynamics will continue, but about how fast they will move and how bad they will get.

We're not going to try to convince you that the official future is wrong. It may be right. But our core conviction is that the cardinal sin of strategy is to build a plan on top of an unexamined official future, and assume away variation in the critical uncertainties that complicate the picture.

And the picture today is complicated (it almost always is). Just below the headlines are data and deeper trends that are ambiguous. Consider the obvious ones: Economic growth is slowing, but unemployment remains near historic lows. Inflation has risen dramatically, but demand is declining (as expected) which will reduce price pressures. American politics is massively contentious, but Congress is just now on the verge of likely passing at least two important bills with bipartisan support. Equity markets have become volatile, but (at least in late July) have barely fallen into bear market territory and have not stayed there long.



Amidst all the gloom, other signals are out there that may deserve more attention than they are getting... Just in the month of July:

Political Optimism

- Congress passed the Chips and Science Act - 280 billion dollars for R+D and manufacturing in the U.S. semiconductor sector
- The scaled-back version of Build Back Better, renamed the Inflation Reduction Act, is set to pass with Senator Manchin now on board
- A new act defending gay marriage gained 47 Republican votes in the House and looks set to pass the Senate with 10 Republican votes
- The Senate looks ready to amend the Electoral Count Act, to revise the VP's role in decertifying the results of an election

Economic Optimism

- U.S. equity markets rebounded from a very short stay in bear market territory; S+P 500 is down just 13.9% in 2022 (a moderate correction by historical standards)
- U.S. unemployment rate remains around 3.6%, near historic lows and job creation is robust month-after-month
- Consumer spending is plenty strong, increasing 1.1% in June
- Supply chain challenges are normalizing a bit - the cost of shipping a container from China to the U.S. has fallen by about half since it peaked around September 2021

Constructing U.S. Political Economy Scenarios

Our effort here, then, is to do three things:

ONE: Examine the official future of the American political economy over the next two years in order to better understand its foundations and implications.

TWO: Explore plausible alternatives futures that are less visible permutations of the key variables that make up the official future path.

THREE: Draw from that exercise some general and specific implications: What do we expect to be true at the business-politics interface *regardless* of what scenario plays out? What do we see more specifically at that interface in the official future, and in plausible alternatives? How would business leaders know if a different future were emerging, and what can be done to amplify the upside and de-risk the downsides in that case?

A Quick Look Back

We did something very much like this in the spring of 2020, with the world gripped by the opening chapters of the COVID pandemic. We created at that time a set of scenarios that attempted to imagine what the coming two or so years might look like. We wanted to think about how the future might play out if the pandemic were to claim more lives and infect substantially more people than experts at that time predicted – or less; and if the economy were to experience a V-shaped recovery from the pandemic-induced crisis, or instead went into a prolonged and deep slump.

Like all good scenarios, the exercise opened our eyes to possibilities that were not getting much attention at the time, particularly the plausibility and implications of a strong economic recovery coupled with a pandemic that proved deadlier and less containable than hoped. As it turned out, that's pretty much what happened. Tragically, early estimates of 250,000 U.S. COVID-related deaths proved vastly optimistic, as we have now lost over 1 million of our fellow citizens to this disease, which continues to haunt us. Yet, the U.S. economy has proven remarkably resilient – arguably going into 2022, too much so (at least in terms of aggregate demand). This is what a V-shape looks like, at least for the acute phase of the pandemic: by November 2020 the major stock market indices were back at their pre-pandemic peaks and the unemployment rate was back below 5% by September 2021.

A Quick Look Back

We foresaw in that particular scenario a few surprising developments, at least some of which have come to pass: In the scenario we called "Resilient America," we imagined how tech platforms and other enablers of innovative solutions to COVID's challenges could play a heroic role, allowing the economy to endure even in the face of a prolonged, devastating pandemic. While these companies have arguably been shortchanged in terms of the public kudos they've received, it's clear that videoconferencing, telehealth, e-commerce, and remotely accessible cloud-based enterprise software were fundamental to the economy's recovery. Our exploration of this scenario also led to the insight that Americans might sooner rather than later be willing to trade personal and collective protection from the disease, for a return to economic growth and "normalcy." And that's a pretty good description of today's maskless indoor spaces.

At the same time, we were far too optimistic about the unifying effect of a robust economic recovery in the face of a prolonged pandemic. In a separate scenario called 'Fractured America,' which was built around the possibility of a deep economic slump caused by an extended shutdown of the economy by public health authorities, we imagined a national rift between a Red America demanding a reopening regardless of health risk and a Blue America resisting that demand as uninformed and dangerous. What we didn't fully appreciate was the degree to which America could politically fracture around this dimension even as the economy swiftly recovered and COVID deaths spread across every part of the country.

A Quick Look Back

To be clear: we are not judging the value of that previous exercise based on what we "got right" and what we "got wrong." That is not the purpose of doing scenarios. Rather, we take it as a signal of useful foresight. For us (and we hope for some of those who read our work), the ability to foresee these previously unforeseen possibilities clearly kept us sharply attuned to a set of incoming data and other signs that this particular scenario was emerging. As a result, we were able to identify it and understand its evolving shape, characteristics, and implications more quickly and more efficiently.

A Long Hot Summer

So as we all go through this long, hot, difficult summer of 2022, we are again peering into the coming couple of years to see what the stories might look like, depending on how two simple key uncertainties play out: first, is our economy headed toward stagflation (i.e., a sustained period during which prices continue to rise, but GDP flattens or shrinks), or might we yet again experience a rapid recovery from the current economic challenges; second, are our politics heading toward a true breakdown, or is there the possibility that trends of polarization we've seen over the past two decades might reverse course and a more constructive, cooperative spirit take hold?

We make no predictions about either of these uncertainties - that's not the point of building scenarios. Instead, we develop a simple model based on the proposition that widely different outcomes are possible along each of these axes – and how they play out and intersect with each other will have important implications for businesses, governments, and citizens, some of which we extrapolate and explore.

We hope this exploration of the next two years is as thought-provoking to you as it has been to us.

Defining the Axes of Uncertainty

The scenarios we explore are constructed around two very simple critical uncertainties: The Economy & Political Systems

1.

The Economy: For this axis, we imagine two endpoints on a continuum- one in which the U.S. economy experiences a sustained period of stagflation, the other in which the economy either avoids a recession entirely or, at most, experiences a dictionary-definition recession over the course of the first half of 2022, but by the second half of the year inflation is trending down, GDP is growing again and the positive momentum continues into 2023. To put some numbers against these scenarios, we are using the following general figures:

- a. **Stagflation:** Inflation remains at or above 6% through December 2023 and GDP growth falls below 1% on an annualized basis over the same period.
- b. **Recovery:** Inflation decreases each quarter through the end of 2022, is below 3% by the end of the first half of 2023, and is trending near the Fed target of 2% by EOY 2023, while GDP grows 1.5% or more each quarter starting in 3Q 2022

Defining the Axes of Uncertainty

The scenarios we explore are constructed around two very simple critical uncertainties: The Economy & Political Systems

2.

Political System: For this axis, we have fewer quantitative metrics to suggest (public opinion polls, for example, vary too widely in methodology to be truly comparable over time). Instead, we propose a qualitative set of indicators that together will suggest whether the political system is trending toward more extreme polarization and a deep legitimacy crisis, or toward a somewhat less polarized, more centrist-oriented politics:

- **Extreme Polarization and legitimacy crisis:** Over the course of 2022/23 multiple elections ended with one side rejecting the validity of the outcome and with the respective parties supporting efforts to overturn the results. The 2023 Congressional agenda is largely defined by the proposals that amplify partisan ill-will, for example, a national abortion ban or a national law protecting abortion rights (depending on which party controls Congress). A significant uptick in political violence, including physical attacks on candidates, officeholders, the media, and other public figures. Candidates associated with the extreme wings of their parties outperform those viewed as more moderate. Early 2024 polling suggests a preference in both parties for more extreme candidates. More than 15% of Americans express the belief that violent protest can be warranted if 'the other party' should somehow claim to win.

Defining the Axes of Uncertainty

The scenarios we explore are constructed around two very simple critical uncertainties: The Economy & Political Systems

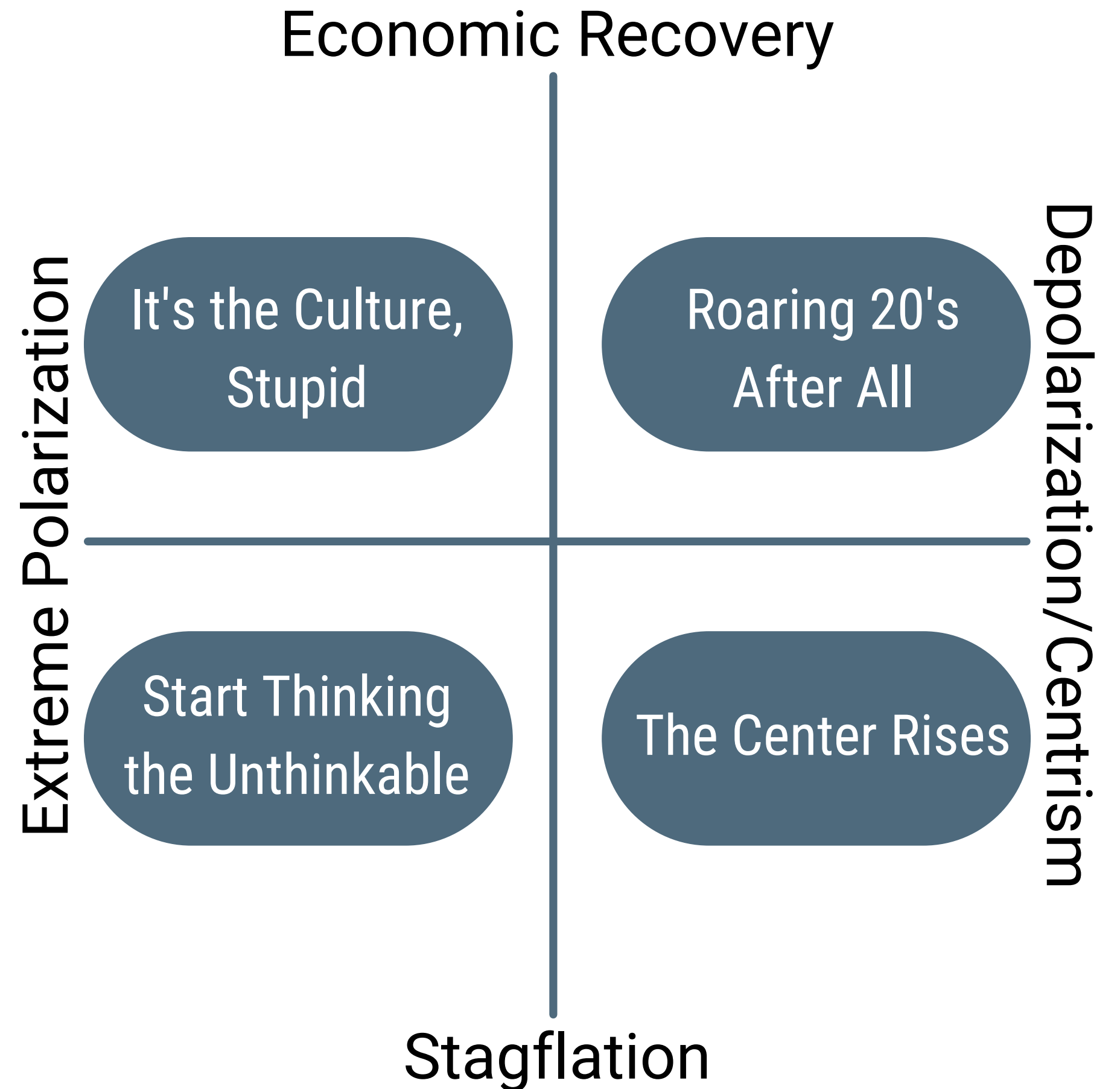
2.

Political System *continued*

- **Depolarization/Centrism:** Growing momentum behind and meaningful experiments with systemic reforms that aim to curb polarization such as rank-choice voting, fusion parties, open primaries, etc. An uptick in successful independent/third-party candidates and/or candidates with clear cross-party appeal. Further increase in the share of voters registered as independents. Increased clout for Problem Solvers Caucus and outsized momentum for specific policies backed by bipartisan coalitions. 2024 polling suggests momentum for centrist nominees from the incumbent parties and/or momentum for potential centrist third party challengers. A very small minority (less than 3%) of Americans condone violent protest as a means of contesting election results.

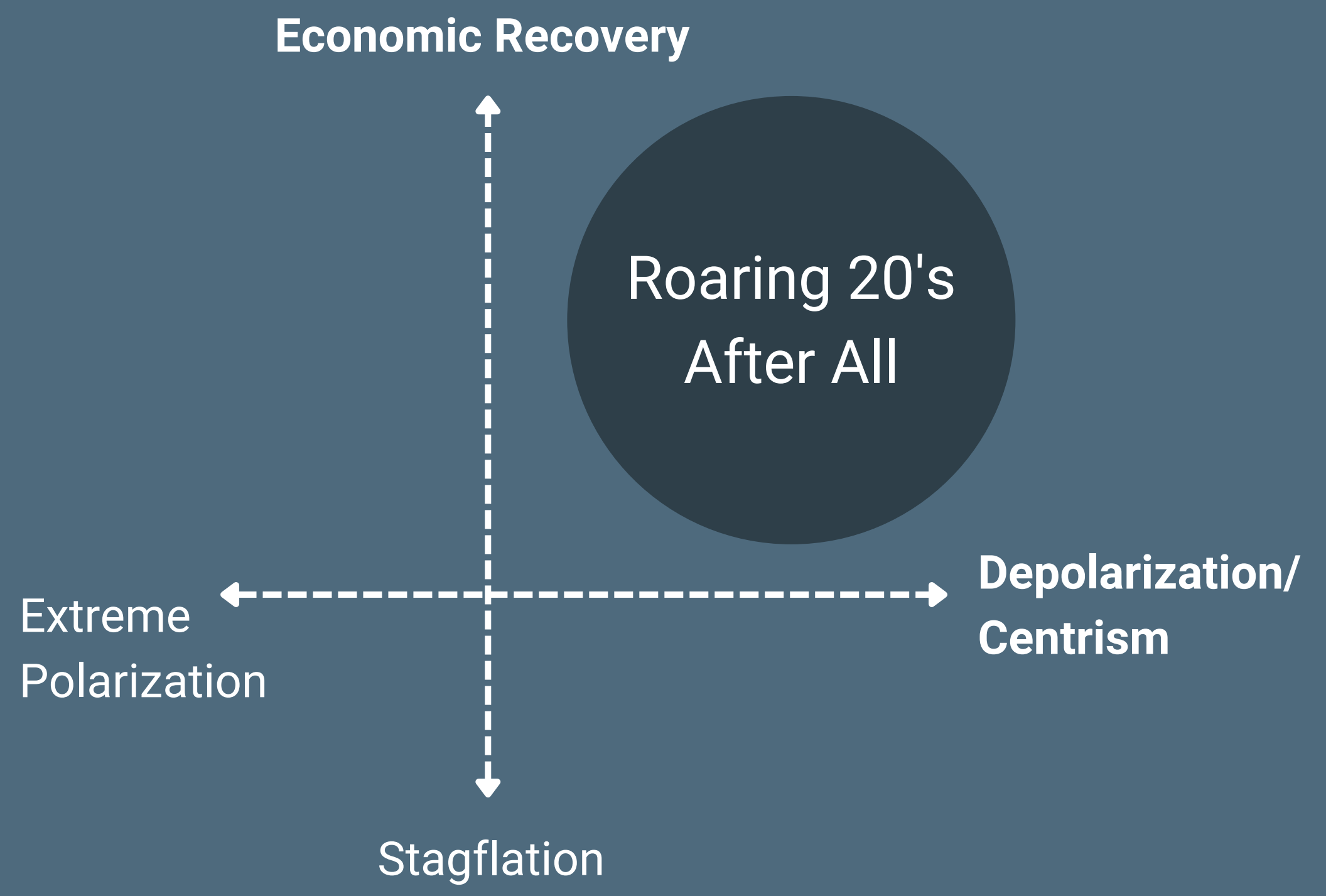
The Four Scenarios

These two uncertainties yield four distinct scenarios that we map out in Fig. 1 to the right, which we call: Roaring 20's After All; It's the Culture, Stupid; The Center Rises; and Start Thinking the Unthinkable. For each scenario, we offer a high-level description of what this future could look and feel like and what some of the big drivers might be that get us to that world. We then zero in on the intersection of business and policy/politics that would characterize and define these years if they play out as the scenarios describe.





Scenario One: Roaring 20's After All



Roaring 20s After All

'If America's politics manage to stabilize and our economy comes "roaring" back – here is what might have caused it and what it could look like....

Starting in late 2021 and through at least the first half of 2022, America lost the plot. We were understandably focused on downside risks associated with inflation, the war in Ukraine, political polarization (especially around the Dobbs ruling), and more. The mood of the American polity was sinking, almost like a delayed reaction to the potential systemic nightmares we dodged during the acute phase of the pandemic.

But in the background, a revolution was taking shape. Technologies including AI, machine learning, Augmented and Virtual Reality, advanced robotics, blockchain, electrification, and clean energy - all were moving from hype to widespread deployment. Their economic impacts were further reaching and faster felt than almost anyone expected. Starting in the second half of 2022, visible synergies began to emerge and hit the public consciousness. The cumulative impact of these investments was stunning, as the 2022 productivity collapse reversed into a productivity boom.

Americans start to see the evidence everywhere: restaurants putting robots in kitchens; electric vehicles proliferating and gas stations scrambling to install charging stations; businesses using ML tools to improve their decision making and particularly inventory management in a cyclical downturn; mass-market AI tools become available for writing memos, building fancy PowerPoint decks, even setting agendas for Zoom calls.

The result is that instead of slipping into 1970s-era stagflation it feels in 2023 like we are steering into potential boom times.

Roaring 20s After All

Politics are still ugly, but in a way that feels more reminiscent of the 1990s - nasty, personal, and ugly at that level – but with stakes that feel far from existential.

The most bitter fights around issues like abortion are shunted into endless litigation and state-by-state compromises which leave few people happy, but that fall short of the apocalyptic predictions of a civil war being made in the summer of 2022.

In 2023 Washington, the sentiment now is that the Fed's response to inflation threaded the needle and got it right and so did the White House (Biden's job approval bottoms out in August 2022 and is nearing 50% by August 2023). There's a greater appreciation that these supposedly 'broken institutions' not only endured through one of history's worst pandemics, political crises, and associated economic dislocations – they successfully piloted the country through it.

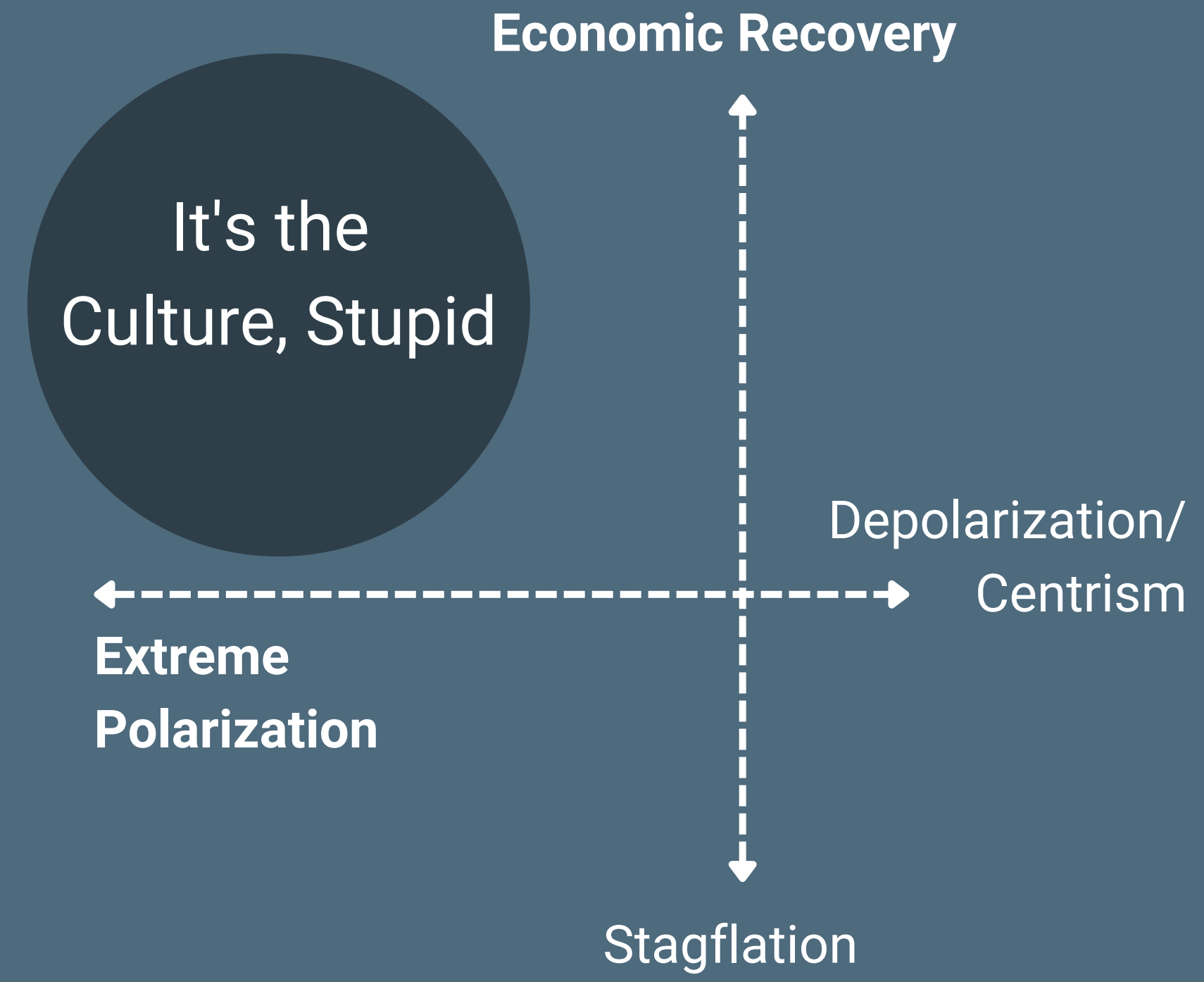
Institutional politics turns out to be like the NY Giants in 2008 – it's not pretty to watch on a play-by-play basis, but what matters is the score at the end, and if you beat the mighty Patriots in the Superbowl, then you've got something working right. And in that spirit, moderates in both parties start to work together behind the scenes (even as they skewer each other in public) to further strengthen the nation's core with a focus on investments in R&D, critical infrastructure, national defense, and education.

Roaring 20s After All

What it feels like at the business-politics interface:

- A new respect emerges among business leaders for the robustness (not efficiency, but robustness) of the American political system – if not for actual politicians. By managing through crisis, our public institutions preserved the democratic, nation-of-laws, free-market framework that is the essential precondition for successful capitalism.
- The new hero of American political tradition is now... James Madison, not George Washington. After all it was Madison who taught us that good institutions compensate for the weaknesses and pettiness of unreliable, short-sighted, and self-interested people. The Federalist Papers are the most popular read since Hamilton hit Broadway.
- Renewed respect for institutions impacts daily behavior in visible ways. Being a loud-mouth on Twitter is becoming increasingly tired. Publishing thoughtful essays on how government and the private sector can collaborate to address areas of mutual concern is increasingly 'Wired'. The 'revolving door' critique loses sting as we realize that Americans actually want expertise flowing back and forth across private and public sectors. More serious (rather than showy) businesspeople start contemplating a public service chapter in their careers.
- More and more businesses, especially in tech, get into the game of applying their solutions to build public goods. Google launches a pilot network of charter schools in 5 states where AI develops curricula and provides instruction tailored to the individual student. Exxon announces massive new investments in geothermal energy. Ford doubles its e-vehicle plan and announces its expectation to be 100% electric years ahead of schedule.
- Against this backdrop, the buzzword in the Acela Corridor is "policy clarity." Business groups aren't celebrating the rollback of administrative state power due to SCOTUS decisions, nor are they pining for a return to the light-touch regulatory model of the 80s and 90s. Instead, the call is for Congress to legislate clear authority to agencies to set the rules of the road - even on difficult issues like data privacy, drug pricing, and climate. Better to be able to plan for the coming decade knowing what the rules will be, than having business prospects swing back and forth with every election.
- There's a newfound rising confidence in the U.S. that with this evolving semi-concord, we can and will win the long-term competition with China. George Kennan's grandson writes his own "Long Telegram" in which he explains that this deep institutional strength of the American system positions it extraordinarily well against China, and all we have to do is keep ourselves focused on this new trajectory and wait out the Chinese system's inherent contradictions to manifest.

Scenario Two: It's the Culture, Stupid



It's the Culture, Stupid

If America's politics sink into ever deeper polarization even as the economy picks up steam and averts stagflation, here is what may have caused that to happen and what that future might look like...

It was always confusing for public opinion: the economy never really got that bad. Inflation was high for much of 2022, but nowhere near the 14% peak reached in 1980 which came after 7 years of rising prices not seven months. And amid anxious talk of deepening recession, economic growth actually started to climb again and the job market remained historically strong.

Yet survey after survey showed people believed the economy was just awful - worse than ever.

Turns out, negative sentiment about the economy wasn't really about the economy. It was about the state of the country more broadly – the 'right track vs. wrong track' question in public opinion polls. In 2022, Americans came to internalize the fact that they lived in a nation of incompatible and irreconcilable cultures, and that realization depressed people's moods far more than an uptick in unemployment ever would.

The 2022 midterms prove the point - candidates barely talk about economics beyond banal statements about "Biden's inflation." That's not where the political energy is. Voters want to talk about abortion, guns, the border, wokeism, same-sex marriage, critical race theory, transphobia, white nationalism, and crime. Above all, they want to hear about how the other side is corrupt, evil, stupid, and determined to subject the entire nation to their (destructive) will.

It's the Culture, Stupid

When multiple Senate elections wind up in protracted legal and even street battles, it sets up the spectacle of The Stolen Senate - a two-year period during which the aggrieved party insists that the other's one-seat Senate majority is illegitimate because it was built on fraudulent election outcomes. Not that it actually matters that much because absolutely nothing gets done in Congress. The minority filibusters absolutely everything (and while there are calls by the majority to end the filibuster, those are beaten back based on the terror of the other side being able to flip the script if they ever regain control). In 2023 the federal government experiences its longest ever shutdown and bond agencies threaten to downgrade U.S. treasuries on the fear that at some point the U.S. will fail to lift the debt ceiling and default.

And yet, the economy hums along. It turns out that even at its worst, the government (at least in the near-term) is able to deliver the minimal necessary public goods to allow the private sector to do its thing - transportation and logistics systems flow, patents get approved, courts of law operate, law enforcement is able to protect property rights if not civic peace. The angry rhetoric aimed by politicians at business remains intense, but corporate America grows increasingly sanguine that in a divided nation it's all just noise - neither side can pass anything significant by itself and the two sides cannot cooperate on anything at all.

The focus of real political action shifts to states and localities. Previously unknown Committee chairs in state legislatures suddenly have outsized importance to business, which creates enormous opportunities for local fixers who increasingly push the envelope between lobbying and outright corruption (made less risky by the hollowing out of local media, which means far less sunshine acting as a disinfectant).

It's the Culture, Stupid

Against that political backdrop, the core strengths that delivered the long expansion from 2009 - 2020, reassert themselves and initiate a new era of uninspiring but solid growth. It turns out that the lessons of 2008 set us up well for the challenges of the pandemic and the bout of inflation that followed. Businesses generally avoided becoming overly leveraged. Banks maintain fortress balance sheets (and the regulators are vigilant). Households didn't take on too much debt or overextend themselves into speculative assets (some crypto bros got burned, but there weren't enough of them to move the needle).

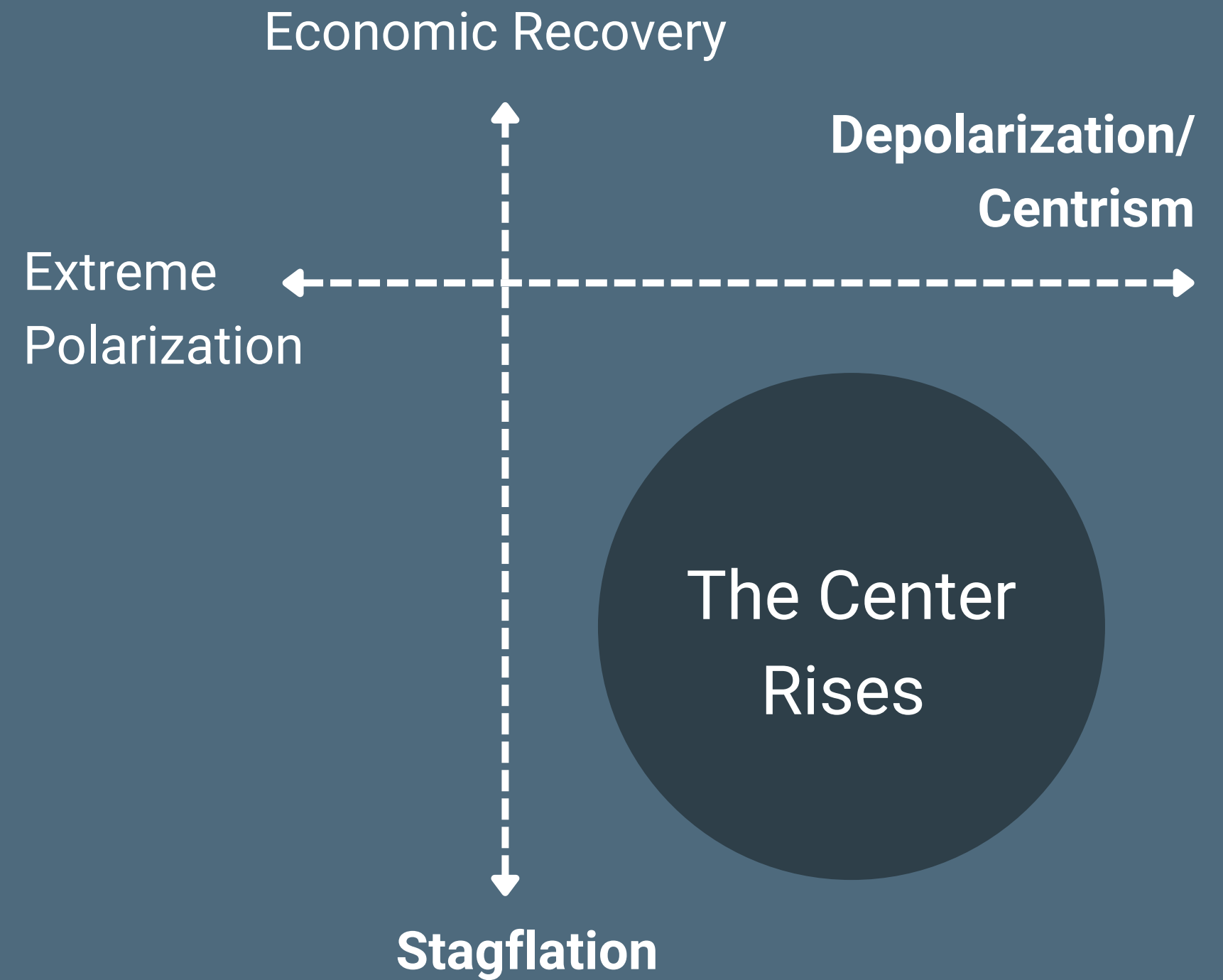
And so, after a short downturn in mid-2022, by the end of the year and heading into 2023 the economy felt very "normal" even if nothing else did.

It's the Culture, Stupid

What it feels like at the business-politics interface:

- Business retreats from national politics as much as possible. The CEO mantra goes from “we have a responsibility to speak out on this or that issue” to “policy changes are best made at the ballot box.” Which, in this politically polarized environment, doesn’t happen very much. And that is part of the foundational plan for business strategy – treat business and markets as a separate realm from politics whenever possible.
- Companies impose increasingly strict rules barring their employees from talking about politics at work. Corporate PACs shut down and political giving becomes increasingly opaque as executives push their agendas through less regulated Super PACs, 501c4s, trade associations, and other bodies that operate at an arm’s length from the company itself.
- For their part, national political figures spend less and less time addressing major economic/business issues - the incentives just aren’t there because voters and donors are thinking about something else. The voters clearly respond most powerfully to cultural issues, so why get bogged down in the minutia of corporate tax policy, data privacy regulation, prescription drug pricing, etc? While the family budget would traditionally be the “kitchen table” issue that moves voters, that old political trope has proven bankrupt in the national culture war setting.
- As national politics bogs down, more and more attention is paid to state and local governments. National brands move to create more autonomous regional and state-level operating units, giving them the flexibility to wear a somewhat more conservative face in Red States and a more progressive face in Blue States. But only when they have to wear a political face at all, which is increasingly less so.
- Business leaders still do live in dread of a deeper breakdown of the national political system. It’s working for the moment, but talk of “civil war” is everywhere - and while it hardly seems like a likely outcome, the risk of some type of profound constitutional crisis has never been greater. But trying to do something about that fact right now seems wasteful and dysfunctional.

Scenario Three: The Center Rises



The Center Rises

If America's politics change course with a rejuvenated center easing the trend of polarization even as the economy struggles through stagflation, here is what may lead to that scenario and what it might look like...

The mounting political dysfunction of the 2010s and early 2020s was disturbing and anxiety-provoking for those who paid attention... but as long as the economy remained strong, and America's global position seemed unassailable, the political mess was tolerable. Almost a form of entertainment – like a horror movie.

That changed in 2022. Stagflation reared its head for the first time in a generation. Crime rates spiked across the country, materially impacting commerce in major cities. A mental health crisis, especially among teens, reminded Americans of all income strata that nobody is safe in a chaotic world. And on top of it all loomed the specter of war in Ukraine potentially triggering mass instability as food shortages loom.

At a moment when America needed its policy apparatus to function at its best, it descended toward its worst - ever uglier partisan fighting, irreconcilable culture wars, complete gridlock.

Americans who felt they had 'skin in the game' of a stable, strong country came to realize that they could no longer treat politics as a kind of lurid entertainment - the country had to become governable again or risk collapse.

The Center Rises

Into that breach stepped a younger generation of political entrepreneurs - a mix of outsiders with backgrounds in business, military, tech and academia, along with some lesser-known politicians at the local and state level. Demographically they are mostly in their 30s, and they see themselves as neither responsible for nor interested in the current Washington fights. They don't bother taking on those fights - they route around them.

They represent a wide range of worldviews. They leverage social media to go around the parties rather than through them, adapting to the specific election regulations of the states and localities where they live. Some run as independents, some under third-party banners, some on fusion tickets and some through the existing primary system but with open disdain of the party whose nomination they may seek but only for purely technical reasons.

Together, they form a loose, amoebalike coalition held together around two shared principles: first, the "two-party duopoly" dominated by aging Baby Boomers will end if we just stop feeding it; second, that the country needs to put aside culture war issues and focus on a "building agenda" including a politically heterodox mix of traditionally conservative and progressive policy prescriptions including cutting red-tape and reducing NIMBYism to enable business development, expanding R&D budgets in the public and private sectors, bolstering national defense and further investing in critical infrastructure.

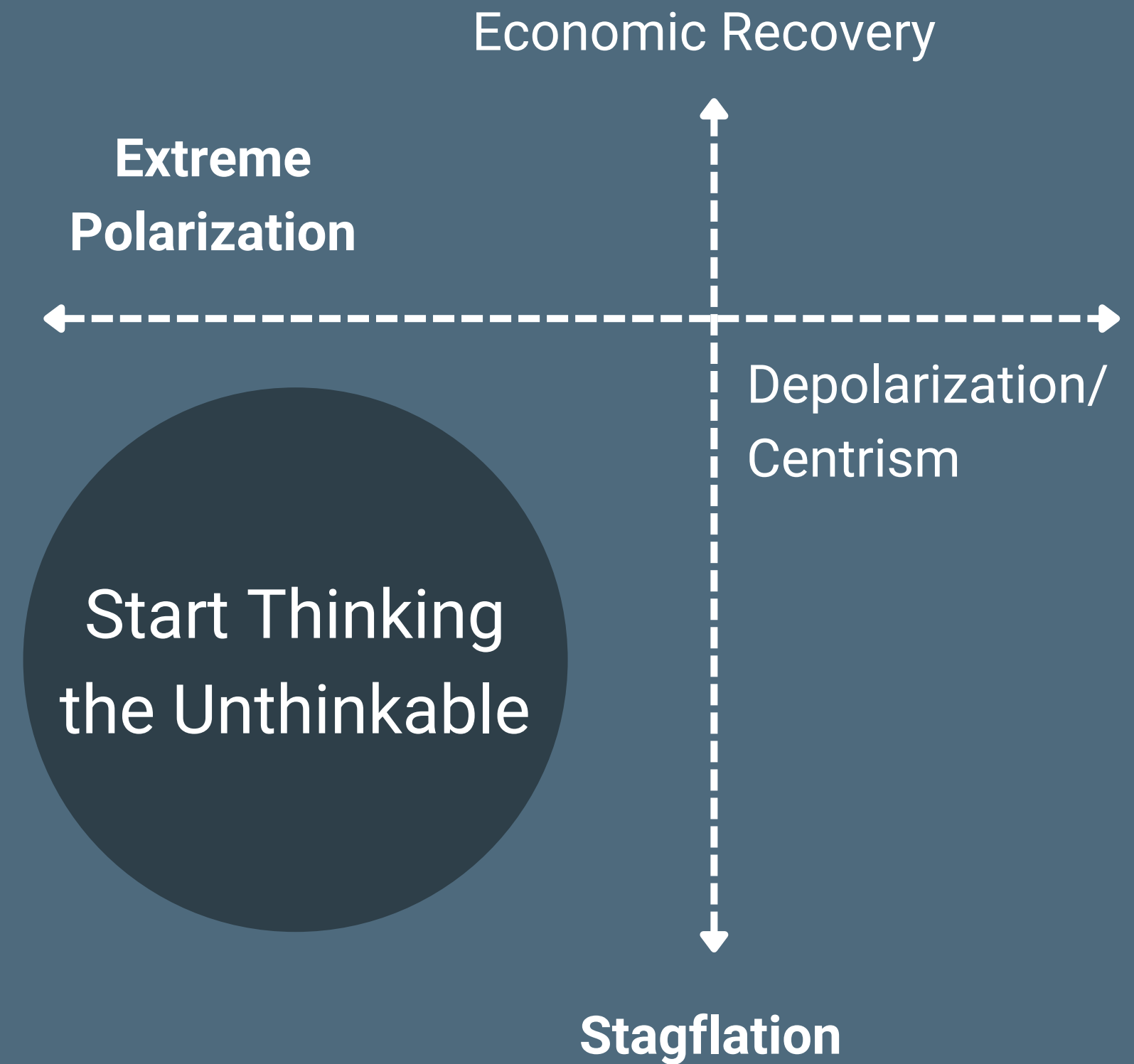
As this political movement gathers steam it starts to gradually shift the national mood. While the stagflationary economy hurts everyone and the world seems like an increasingly scary place - for the first time in a very long time, it starts by late 2023 to feel like America might have the capacity for change.

The Center Rises

What it feels like at the business-politics interface:

- Business leaders struggle at first to understand this emerging movement. The most common interpretation is that it “can’t work.” The assumption that the two-party/left-right framework is an immutable feature of our system doesn’t soften easily. But as Independent and third-party candidates start winning elections, and non-conformist members of the two major parties start increasingly breaking with their own party’s leadership and forming interesting coalitions, the emerging possibilities become more evident.
- Almost subconsciously, some companies start talking less about their “values” and more about their “value” - i.e., the ways they can support the “build agenda.” Some speak more openly about the ways they can change their business models to increase positive externalities and reduce negative ones as government opens up more space for investment, experimentation and innovation. Tech firms team up for this agenda with ‘old economy’ firms (Google + GM + Cargill) to gain credibility and reach.
- Startups with a builder ethos become the movement’s most outspoken champions and rush to promote the innovative solutions they have come up with to reform broken industries. Warm relationships develop between these companies and the emerging generation of political leaders, creating some concerns around a new form of cronyism and corruption.
- Not every business is well-suited to the new environment. Entrenched incumbents from health insurers to auto dealerships - companies that thrived off a combination of information asymmetries and regulatory capture - are targeted for reform efforts at the local, state and national level. If they try to defend their position by appealing to the old political landscape, they will seem even more out of touch than ever.
- The emerging political narrative will display a mild dose of anti-capitalist rhetoric at times, but at its heart it is pro-innovation and growth, though with just enough pro-American economic nationalism mixed in (in particular around ‘American’ values and of course jobs) to make it work. Successful business leaders will need to tread carefully and focus on working with government, rather than over-indexing on the occasional anti-capitalist and anti-globalization memes that will be a part of the discourse.

Scenario Four: Start Thinking the Unthinkable



Start Thinking the Unthinkable

If America's politics are riven by unprecedented levels of polarization, as the economy slips deeper into stagflation, here is a story of why we might have sunk to those depths and what that distressing period might look like...

For 8 long years, we have been waiting for things to “get back to normal.” For normal politics to return when Trump was gone. For normal life to return with Covid's defeat. For normal markets to return when supply chains get fixed and inflation is tamed.

But at some indefinable moment in late 2022 it became clear that there was no normal to return to and perhaps never would be.

The 2022 midterms were the ugliest elections ever. Every close Senate seat felt like a war for the soul of the nation with - at a minimum - a broad swath of reproductive rights, LGBTQ rights and civil rights hanging in the balance. Every state legislature seat and governorship in “Purple” states felt only slightly less weighty.

We all saw it coming, and the warning lights had flashed for years. But knowing the crisis was coming didn't mean we could do anything about it. And so, over the course of 2022/23, America sinks into a national crisis unrivaled since the pre-Civil War period, with the 2024 elections looming as a potential 1860 moment.

The nation passed an invisible threshold from unruly to completely ungovernable. Congress doesn't even try to pass legislation - it's all about performance and vitriol. For the first time in memory, Members come to blows on the floor.

Start Thinking the Unthinkable

Real policy action now only happens in states dominated by a single party and the elections people start caring about most are at the state and local level in Purple states. Scores of sane, moderate politicians at all levels flee politics - not just out of disillusionment, but out of fear for their personal safety.

Money, volunteers and “pro-truth militias” slosh across the country to contest every leverage point, and increasingly with physical intimidation and the threat of violence. Deep Red and Blue States act to lock in their dominance by disenfranchising their minorities, while Purple states erupt into pitched battles pitting cities, suburbs, exurbs and rural areas against each other.

This grim political dynamic is supercharged by economic pain, as the economy slips deeper and deeper into stagflation with no clear end in sight, and no coherent plan for reform. Jerome Powell resigns and Congress fails to confirm his successor. The chaos in national politics contributes to the downward spiral as the financial markets lose hope for rational pro-growth policymaking and begin to doubt the capacity of even some of the most insulated government institutions to maintain independence and endure.

A significant proportion of GOP congress people sign on to a bill to abolish the Federal Reserve. Real estate values in Canada and gold prices skyrocket.

Start Thinking the Unthinkable

What it feels like at the business-politics interface:

- Boards and CEOs increasingly come to think of politics as less like something they can influence or even understand, and more like a random, uncontrollable business risk against which they have to try to insulate or insure. This, ironically, might mean reducing political contributions and lobbying because the ROI for efforts to influence politics isn't measurable or even directionally predictable; unintended consequences are as likely as success; backlash as likely as a win.
- There are unconfirmed rumors that the boards of several major U.S. firms are considering a move of their headquarters to Germany or the Netherlands, on the logic that paying higher taxes is a reasonable bargain for a more predictable and 'moderate' public policy environment.
- Politicians reject the concept of mutual benign neglect – business and markets are just too easy a target for political entrepreneurs who will do anything to score points. The first objective for most politicians is indeed to fight culture wars... but a close second is to demonize business.
- A lot of this, as usual, will simply be rhetoric, speeches, and tweetstorms, not real policy or regulatory action. For the tech industry in particular, this means a further uptick in the 'show trial' rituals of hostile congressional hearings and DC conferences... but not very much actual policy or regulatory movement that matters, since politicians understand that harming economic growth isn't a price they can afford to pay.
- The trick for business may be to play along with the show, rather than resist the show too strongly. Firms are more likely to be impacted materially if they don't play along with the ritual.
- The public mood is terrible, and getting worse. Media attention to mental health crises, suicide rates, divorce and domestic violence expand further. The conversation is about a public health crisis worse than Covid, but with no vaccine revolution this time to save the day. Companies offering some respite from the bleak mood - through self-care, escapist entertainment and metaverse alternate realities - become the symbols of the emerging age.
- Crime rates are spiking in most major cities. The looming clash between structural racism and urban policing is blowing up not only in DC, Detroit, LA... but in the sunbelt growth cities that became favored destinations in the last decade - Austin, Nashville, Miami, Phoenix. Sales of home security systems skyrocket, along with private monitoring and neighborhood security patrols.

Insights & Implications



Our Key Takeaways

Radical change is possible – really

In the history of political economy, most short-term futures end up looking pretty much like the present from which they emerge – in other words, it's generally the case that the short-term tomorrow is a lot like today, only more so. But there are exceptions where discontinuous change happens quickly, and the next few years might very well be one of those. Certainly, there are plausible scenarios in which the current political and economic trajectories continue without disruptive, paradigm-shifting change. But we wouldn't bet on that right now, because the deck appears stacked on the other side. Put differently, the ingredients for big shifts in fundamental aspects of our political system and the relationship between public and private sectors are in place. Business leaders need to be open to the possibility that sweeping change is coming soon, whether they like it or not.

Focus on opportunity, not just risk – really

If the point above proves accurate and we do enter an era of deeper change that is more than just partisan deck-shuffling, businesses will have a unique window of opportunity to participate in and shape that process. This can and should be about more than just securing a helpful appropriation or government contract, or rolling back a burdensome regulation. It can be about re-setting the relationship with government in a way that enables the business to more effectively advance both its commercial mission and socio-economic impact. That will require vision and boldness from corporate leaders, but the potential upside could be significant. It's important to keep in mind as well that these windows of opportunity generally don't last very long, so a sense of urgency is an absolute requirement.

Our Key Takeaways Continued

Washington may not be the only (or most important) game

Under more than one scenario, state and local governments become as important to policymaking as the national government, and in some instances arguably more so. While the federal government will never be 'unimportant,' if polarization further paralyzes national institutions, change will be driven by other actors, and the current legal environment positions states to do so to a degree that has not been experienced since at least the post-war era.

Anxiety is a new 'animal spirit'

It's long been known that capitalist economies are propelled by the sentiments of greed and fear. While that will remain true, in these scenarios we see a new dynamic in which anxiety - which is different from fear insofar as it is rooted in uncertainty about what may happen, rather than the dread of what is happening - becomes a factor impacting everything from employee productivity to financial markets. There may not be an antidote for this feeling, but organizations need to call it out and recognize its emotional and cognitive impact on decision-makers and on the quality and coherence of decision processes.

Our Key Takeaways Continued

Flip-flopping by another name is not a viable strategy

All of our scenarios envision enormous turbulence in our politics. There is no scenario we can foresee in which one political camp or worldview gets 'the win' and becomes stably ascendant. Rather, we anticipate lots of push-and-pull, although the nature of it could change under different scenarios (it's not necessarily just a battle between the existing Red/Blue camps). It's common to hear calls for adaptability and flexibility and surely that is right — at the tactical level. But not at the strategic level.

Exit is an option

The flip side of the point above is that companies will need to consider what plausible strategies would look like to reduce their exposure to U.S. national political dynamics. Whether that means relocating to other jurisdictions, changing their business models to bring themselves under greater state or local oversight, or simply shutting down internal and external engagement in politics, companies need to grapple with the possibility that the near-term political environment may be fundamentally incompatible with their success. "Insulate" may become the new "engagement."

Our Key Takeaways Continued

Generational shifts may be afoot

It is possible, perhaps even likely, that national politics (and the media that follows it) will be dominated in 2023 by a lurid battle between two white men in their late 70s. Regardless, these scenarios remind us that it is absolutely essential to broaden the aperture toward the younger generation who will drive our politics and economy in whatever is coming next. People who turn 30 in 2023 were born in 1993. The Cold War was already over; the stagflation of the 1970s and the Volcker recession of the early 1980s are history; more tolerant social attitudes were inculcated in them from childhood. Understanding how these younger Americans see the world may be much more relevant and useful than reading The NY Times or Washington Post headlines.

A Final Thought

A final thought with a normative bent. At least one of these scenarios (Start Thinking the Unthinkable) is, to be frank, horrific. It is also, sadly, the future a great many of us currently expect. While we generally shy away from normative statements in our strategic analyses, we make an exception in this case. A future in which our economy and our politics enter into a downward spiral that threatens the stability and even the survival of our constitutional republic is not one any of us can accept as inevitable. We all have a duty to prepare for scenarios we may not want and cannot control. But that doesn't mean we should passively accept them either. We hope readers of this will consider what they might do as individuals and organizations to steer away from that world – while still creating contingency plans to preserve what can and might be preserved were it to emerge.

Scenarios are tools for strategic conversation — so reach out to us when you want to talk.

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