Failures’ Fallout

Predicting Politics & Policy in the Post-Pandemic Era
SUMMARY

Failures’ Fallout: Predicting Politics & Policy in the Post-Pandemic Era

• When institutions, policies and leaders fail, people demand change.

• Growing global frustration with broader societal disruptions is peaking amidst perceived COVID failures.

• Rising dissatisfaction will accelerate some 21st century trends while inviting backlash against older institutions and new disruptors.

• Prepare for big impacts across geopolitics, markets, media, technology, culture & politics.
HOW FAILURES LEAD TO CHANGE

Backlash against:
- Failed leaders
- Failed strategies
- New disruptors

Acceleration of:
- Innovative change
- Alternative approaches
- Systemic reform

Impacts across:
- Geopolitics
- Markets & Media
- Science & Tech
- Culture & Politics
# Failures’ Fallout: Lessons from History

<table>
<thead>
<tr>
<th>PERCEIVED FAILURES</th>
<th>ACCELERATED</th>
<th>BACKLASH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WWI</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spanish Flu</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1920 Depression</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Global entanglements bad</td>
<td>Isolationism &amp; protectionism</td>
</tr>
<tr>
<td></td>
<td>Inadequate public health</td>
<td>Infrastructure (public health system)</td>
</tr>
<tr>
<td></td>
<td>Over-active government</td>
<td>Innovation (cars, radio, telephony)</td>
</tr>
<tr>
<td></td>
<td>• Global entanglements bad</td>
<td>Expanding freedom (Suffrage, Jazz)</td>
</tr>
<tr>
<td><strong>Great Depression</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearl Harbor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WWII</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Isolationism &amp; appeasement fail</td>
<td>Anti-Immigration (1st Red Scare)</td>
</tr>
<tr>
<td></td>
<td>Inadequate safety nets</td>
<td>Spirituality vs Modernity (Prohibition, 1925 Scopes Trial)</td>
</tr>
<tr>
<td></td>
<td>Insufficient economy oversight</td>
<td>End Progressive Era (“Business of America is business”)</td>
</tr>
<tr>
<td><strong>Vietnam</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watergate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stagflation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wrong global strategies</td>
<td>Globalization, Nixon to China</td>
</tr>
<tr>
<td></td>
<td>Abuse of power &amp; corruption</td>
<td>Deregulation (Reaganomics)</td>
</tr>
<tr>
<td></td>
<td>Uncompetitive business climate</td>
<td>Innovation (PCs, cable TV, GPS)</td>
</tr>
<tr>
<td></td>
<td>• Wrong global strategies</td>
<td>Expanding freedom (18 yr-old vote)</td>
</tr>
<tr>
<td></td>
<td>• Abuse of power &amp; corruption</td>
<td>• Anti-Soviet (3rd Red Scare)</td>
</tr>
<tr>
<td></td>
<td>• Uncompetitive business climate</td>
<td>• Environmentalism, Anti-Nuke</td>
</tr>
<tr>
<td></td>
<td>• Globalization, Nixon to China</td>
<td>• End Great Society (Anti-bureaucracy / “Government is the problem”)</td>
</tr>
</tbody>
</table>
21st Century Failures: Crescendo in 2020

2001

2005

2020

U.S. to Take Over AIG in $85 Billion Bailout; Central Banks Inject Cash as Credit Dries Up

Emergency Loan Facility Takes Government Control of Insurance Firms; Historic New World Cup of 10 Days That Reshaped U.S. Finance

The Wall Street Journal

COVID-19

CLOSED
<table>
<thead>
<tr>
<th>Backlash</th>
<th>Acceleration</th>
</tr>
</thead>
</table>
| **Geopolitical** | **Nationalism Overpowering Globalism**  
**COVID Worsening Globally** |
| **Markets & Media** | **Extreme Weather Upending Markets**  
**Substackification: Atomizing News** |
| **Science & Tech** | **Disruptive Innovation Accelerating**  
**Bandwidth Is the New Electricity** |
| **Culture & Politics** | **Activist Pressure on CEOs Growing**  
**GOP Populism Rising** |

- U.S.-China Decoupling  
- Global Unrest Increasing
- Supply Chain Frictions Growing  
- News Consumption Shrinking
- “Big Tech” Crackdowns Intensifying  
- Trusting Science, Not Companies
- Institutional Mistrust Deepening  
- Biden Headwinds Emerging
ACCELERATING CHANGE

*Trends Bringing the Future Faster*
Every Nation For Itself (e.g. “Buy American”)

- Sharing
- Coercion
- Interconnectivity
- Cooperation
- Vaccines
- Hoarding
- Cyber
- Exploitation
- Data
- Protectionism
- Climate
- Competition

Geopolitical: Nationalism overpowering Globalism
Contagious Variants + Limited Vaccinations = Record Cases & Deaths in Q2 ’21

New Cases (Global)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2020 Q1</th>
<th>2020 Q2</th>
<th>2020 Q3</th>
<th>2020 Q4</th>
<th>2021 Q1</th>
<th>2021 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases</td>
<td>967,357</td>
<td>9,962,186</td>
<td>23,952,946</td>
<td>48,962,507</td>
<td>45,327,097</td>
<td>53,687,113</td>
</tr>
</tbody>
</table>

Deaths (Global)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2020 Q1</th>
<th>2020 Q2</th>
<th>2020 Q3</th>
<th>2020 Q4</th>
<th>2021 Q1</th>
<th>2021 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deaths</td>
<td>45,385</td>
<td>527,190</td>
<td>532,810</td>
<td>827,443</td>
<td>1,014,302</td>
<td>1,030,671</td>
</tr>
</tbody>
</table>

Previous Pandemics ➔ Deadliest Years (not the 1st)

- 1889 pandemic ➔ 1890
- 1918 pandemic ➔ 1919
- 1957 influenza ➔ 1960
- 1968 pandemic ➔ ‘68 in US, ‘69 in EU
- 2009 influenza ➔ 2010 outside US

Sources: Worldometers; John M. Barry, WaPo
MARKETS: EXTREME WEATHER UPENDING INVESTMENTS

Rising Costs of Extreme Climate Events, Soaring Investments in Resilience

United States Billion–Dollar Disaster Events 1980–2021 (CPI–Adjusted)

- Drought Count
- Flooding Count
- Freeze Count
- Severe Storm Count
- Tropical Cyclone Count
- Wildfire Count
- Winter Storm Count
- Combined Disaster Cost
- Costs 95% CI
- 5-Year Avg Costs

EV sales

ESG Funds AUM

Sources: NOAA; ESG AUM; EV Sales (WEF)

Updated: July 9, 2021
Old Gatekeepers

- Local paper monopoly
- Big 3 Networks
- National papers / magazines

New Gatekeepers

- Media web orgs, aggregators
- Cable TV & Talk Radio
- Punditry sites (Vox)

No Gatekeepers

- Writers / podcasts you subscribe to
- Stories your friends share
- Influencers you pick to follow

More Information, More Disinformation, Less Shared Reality
“The biggest innovations rarely occur when everyone’s happy and safe, or when the future looks bright. They happen when people are a little panicked, worried, and when the consequences of not acting quickly are too painful to bear.”

–Morgan Housel

Source: Morgan Housel
TECH: BANDWIDTH IS THE NEW ELECTRICITY

Transformational & Essential… How to Make It Universal?

Average monthly broadband consumption per household

Gigabytes per month


OpenVault Broadband Insights Report.
Republicans’ Confidence in Big Business Wanes As Populism Rises

Net Confidence in Big Business: GOP Voters

Source: Gallup July 2021
CULTURE: ACTIVISTS POSSESS NEW TOOLS, TARGETS & STRATEGIES

New Tools

Mobile & Weaponized Social Media

New Vehicles for Activism

New Targets

Boards

Brands

OVER 1230 DEAD

BRANDS: PAY UP NOW!!
GROWING BACKLASH

Current Leaders, Policies & Institutions Under Attack
There were 14,871 violent demonstrations, protests and riots in 2020, a 10% increase over 2019.

**DRIVING UNREST**

- **COVID** / lockdowns, mask & vaccine mandates
- **Inflation** / food insecurity
- **Jobs** / economic recession
- **Politics** / fraud & corruption
- **Inequality** / health, work

53 of the 57 epidemics between the Black Death in the 1300s & Spanish Flu of 1918 led to civic unrest & revolts.

More Competition, Less Collaboration, Business Stuck in Between

Supply Chains
- Export controls
- Software origins
- Critical materials

Market Access
- Data localization
- Boycotts / Nat’lism
- IP protection

Tech Rules
- Content liability
- Privacy / Antitrust
- Standard setting

Finance & Influence
- FDI / M&A / LPs
- IPOs & Delisting
- Reserve currency

Military & Nat. Sec.
- Hacking / Crypto
- Taiwan / TSMC
- Law enf. access
MARKETS: SUPPLY CHAINS CONFRONTING NEW CONDITIONS

1989-2019: Tailwinds Prevailed

- Tech-Enabled
- US-China Engagement
- Rising Globalization
- Shareholder-Driven
- Prioritizing Efficiency
- Deflationary Environment

2020- : Headwinds Rising

- Tech-Threatened
- US-China Decoupling
- Rising Nationalism
- Stakeholder-Resisted
- Prioritizing Resilience
- Costs Rising (Wages, Energy, Logistics)
Change in Traffic to Leading News Sites, June 2021 vs June 2020

-33.9% - The New York Times
-27.5% - The Washington Post
-19.9% - The Wall Street Journal

-55.6% - ABC News
-27.4% - NBC News
-26.2% - FOX News
-20.1% - CNN
-9.0% - CBS News

-60.7% - Forbes
-51.9% - The Atlantic
-51.9% - TIME

Source: ComScore per Paul Farhi, @farhip, 7/19 1pm
We Trust Science More than Companies Creating or Leveraging It

TRUST: Great Deal / Quite a Lot

<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCIENCE</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>PHARMA Cos</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>LARGE TECH Cos</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>

"Overall View of tech companies such as Amazon, Facebook & Google"

Sources: Science & Large Tech Cos (Gallup 7/21); Pharma Cos (Ipsos/Axios 9/20); Overall view (Gallup 7/21)
Different Regions, Similar Strategies: Limit Firms, Advance Technologies

<table>
<thead>
<tr>
<th>Protect Consumers &amp; Social Order</th>
<th>Rebalance Economic Power, Reduce Inequality</th>
<th>Promote National Security &amp; Geopolitical Power</th>
</tr>
</thead>
</table>
| • Speech controls: block more and/or censor less  
  • More consumer privacy | • Antitrust crackdown  
  • Cryptocurrency regulation  
  • Minimum global tax  
  • More gig worker rights | • Subsidize 5G & semiconductors  
  • Buy local, support champions  
  • Export/import controls  
  • Data localization |
| • Speech controls  
  • Limit undesirable content  
  • Social credit scores | | • Subsidize 5G & semiconductors  
  • Buy local, support champions  
  • Export/import controls  
  • Data localization & state access |
| • Speech (DSA) & market behavior controls (DMA)  
  • GDPR de facto global privacy standard | • Antitrust crackdown  
  • Digital services taxes  
  • Minimum global tax  
  • More gig worker rights | • Subsidize 5G & semiconductors  
  • Buy local, support champions  
  • Export/import controls  
  • Data localization |
CULTURE: TRUST IN INSTITUTIONS RESUMING DECLINE

Percent Trusting “a Great Deal / Quite a Lot” (& Change in 2021 from 2020)

Medical System: -7, 44%
The Presidency: -1, 38%
Church / Org. Religion: -5, 37%
Supreme Court: -4, 36%
Banks: -5, 33%
Public Schools: -9, 32%
Organized Labor: -3, 28%
Big Business: -1, 18%
Congress: -2, 12%

Source: Gallup, July 2021
**Border Crisis Growing**

Migrant encounters at U.S.-Mexico border, by month

Source: Pew, Aug. 2021

**Murder Rate Climbing**

U.S. murders per 100,000 population

Source: Federal Bureau of Investigation, AH DataTrends

*2020 based on preliminary FBI estimate of 25% increase over 2019; 2021 assumes 15% increase over 2020

Source: Bloomberg

**COVID Confidence Collapsing**

Getting Better

Getting Worse

Source: Gallup

**Optimism Fading**

Direction of the Country

Source: ABC News / Ipsos, July 2021
KNOWN UNKNOWNS

May Be Accelerating, May Be Rolling Back
IS RISING INFLATION LASTING OR A TEMPORARY SURGE?

Why Inflation May Be Transitory

**DRIVING PRICES DOWN**

- COVID accelerating/Delta slowing global recovery
- **Stimulus ending (maybe)**
- Recessionary effects (still 5.7M jobs below last peak)
- Technology (digital productivity, automation)
- Supply chain corrections (eg lumber)
- Massive government debts

Why Inflation May Keep Accelerating

**PUSHING PRICES UP**

- Wage gains sticky & labor markets tight
- Epic government stimulus spending
- Historic consumer savings
- Supply chain issues & rebuilding inventories
- Tariffs & deglobalization
- Fed’s QE ∞
- Money supply (M2) up 30% in 18 months
## WILL DEBT & DEFICITS MATTER?

### We’re All Modern Monetary Theorists Now

<table>
<thead>
<tr>
<th>Select Stimulus Bills &amp; Tax Cuts</th>
<th>2020 Dollars</th>
<th>% US GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Rescue Plan (2021)</td>
<td>$1.90T</td>
<td>9.1%</td>
</tr>
<tr>
<td>Bipartisan Infrastructure (2021)*</td>
<td>$550B</td>
<td>2.4%</td>
</tr>
<tr>
<td><em>Ds’ Reconciliation Bill (2021)</em></td>
<td>$3.50T</td>
<td>15.4%</td>
</tr>
<tr>
<td>Phase 4 Covid Relief (2020)</td>
<td>$900B</td>
<td>4.3%</td>
</tr>
<tr>
<td>CARES Act (2020)</td>
<td>$2.02T</td>
<td>10.2%</td>
</tr>
<tr>
<td>Tax Cuts &amp; Jobs Act (2017)</td>
<td>$1.9-$3.0T</td>
<td></td>
</tr>
<tr>
<td>ARRA (2009)</td>
<td>$1.03T</td>
<td>5.8%</td>
</tr>
<tr>
<td>Marshall Plan (1948)</td>
<td>$154B</td>
<td>5.2%</td>
</tr>
<tr>
<td>New Deal (1930)</td>
<td>$835B</td>
<td>12.6%</td>
</tr>
</tbody>
</table>

Sources: Axios, Cowen & Co, WaPo; TCJA ($1.9T in 2020 $ over 10 yrs, $3.0T if extended)
### Major Bipartisan Senate Action, Past & Future, 2021

<table>
<thead>
<tr>
<th>Issue</th>
<th>Vote Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>COVID-19 Hate Crimes Act</td>
<td>94-1</td>
</tr>
<tr>
<td>US Innovation &amp; Competition Act</td>
<td>68-32</td>
</tr>
<tr>
<td>Juneteenth National Independence Day Act</td>
<td>Unanimous consent</td>
</tr>
<tr>
<td>US Capitol Security Funding &amp; Afghan Refugee relocation</td>
<td>98-0</td>
</tr>
<tr>
<td>Bipartisan Infrastructure Funding</td>
<td>69-30</td>
</tr>
<tr>
<td>National Defense Authorization Act</td>
<td>Expected</td>
</tr>
<tr>
<td>FY22 Appropriations</td>
<td>Expected</td>
</tr>
<tr>
<td>Increasing the Debt Ceiling</td>
<td>Fingers crossed</td>
</tr>
</tbody>
</table>
“Consumer Sentiment” depends on which Party holds the White House

Source: Axios
<table>
<thead>
<tr>
<th>YEAR</th>
<th>BIGGEST NEWS STORY</th>
<th>GREATEST LONG-TERM IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>GOP captures Congress</td>
<td>First Internet browser launched</td>
</tr>
<tr>
<td>2001</td>
<td>9/11 terrorist attacks</td>
<td>China joins the WTO</td>
</tr>
<tr>
<td>2007</td>
<td>Mortgage foreclosure crisis</td>
<td>The iPhone is born</td>
</tr>
<tr>
<td>2020</td>
<td>COVID-19 pandemic</td>
<td>?</td>
</tr>
</tbody>
</table>
Mehlman Castagnetti
Rosen & Thomas

is one of the nation’s most innovative government relations firms, offering strategic solutions to companies, trade associations, non-profits, and entrepreneurs that help them succeed in Washington.

RECENT ANALYSES: