

Emma Carroll..... 00:00:01

Welcome to the Future of the Firm podcast. I'm Emma Carroll, head of content here at Source, and we've got a special US Inauguration version of the podcast for you. Today we'll be thinking about the practical implications of the new US Presidency on consulting and professional services, and we'll be asking, what does this mean for firms? I'm delighted to be joined by two speakers who are perfectly positioned to comment. Michael McMahan, professor of economics at the University of Oxford and a research fellow at the center for Economic Policy Research. And Fiona Cherniaska, CEO at Source and a podcast regular. Welcome to both of you.

Fiona Czerniawska..... 00:00:38

Thank you.

Michael McMahon..... 00:00:38

Thank you, Michael.

Emma Carroll..... 00:00:40

I mentioned a couple of your roles, but that was definitely the tip of the academic and the macroeconomic iceberg. So can you tell us a little bit more about yourself, please?

Michael McMahon..... 00:00:49

Yeah. Well, I am, as you say, I'm currently a professor of economics, macroeconomics in particular, at the University of Oxford. That means I have the joy, as I did this morning, of teaching all of the first year undergraduates who come through Oxford and do any economics, they will be mine. So if you don't like our politicians in the future, then blame me. I didn't have an effect on the current crop. My background is one of practical macro. I actually started my career not very far geographically from where we are here.

Michael McMahon..... 00:01:19

I started at the bank of England, so just down the road, although careful listeners will have picked up from both my name and my accent that I am Irish. So I actually did an undergraduate in Ireland, but did an internship at the bank of England while doing it. And they then offered to give me a job. They paid for a Master's. I did a master's at lse. I

worked there for a number of years and subsequently went back to do the PhD and I've worked University of Warwick. I've done temporary visits to lots of places in the world. Stanford toast for NYU in London, London Business School, Insead, and then, yeah, that's me in a nutshell.

Michael McMahon..... 00:01:58

I have some other policy roles at the moment. So I currently sit on Ireland's Fiscal Advisory Council, and until the summer and end of August, I was the chair of that council. That's the equivalent of the OBR that you have over here. So, yeah, I do this a lot.

Emma Carroll..... 00:02:15

Brilliant. And what would you say your main areas of interest and your main areas of research at the moment?

Michael McMahon..... 00:02:21

Areas of interest are actually my first area of. My first love in macro was actually the behavior of supply chains and inventories, which is particularly one of the topics that got me most interested in economics. And then because of my background working in central banks, monetary and central bank policy, so financial regulation a little bit, but particularly interest rates and how they're set. My big specialism at the moment in that regard is communication. So this is because it's a relatively new thing. Central bankers previously would not talk, now they talk a lot. And so it's sort of deciphering that, understanding that, thinking about that is something I do a lot of.

Michael McMahon..... 00:02:59

And then obviously from the policy side, fiscal policy, so it's macro policies, you know, the big things, tax spending, interest rates, inflation, all the stuff that you hear on the news, everything you think an economist does. And most economists would say, no, we do much broader stuff than that. No, I do all of the stereotypical stuff.

Emma Carroll..... 00:03:20

Wonderful. Thank you. And for most of this podcast, we're going to be looking to the future, but I thought maybe we could take just a second to look back to the last Trump

presidency. So 2017, 2021. Is there anything you put out there that you think was done that had a really big impact? Policy decisions had a big impact on business? Anything you put out there, Michael?

Michael McMahon..... 00:03:40

Yeah, I think not to be negative about everything, I think so. One of the parts of Trumponomics when he came in was to reform particularly things like the tax system. And so the Tax Cut and Jobs act, which came into Power in 2018, was a really substantial overhaul of the tax system. I guess for firms, the biggest One was the 21% corporate tax rate. But there were other bits tax systems in my, and I think most economists views get far too complicated. There's a sort of ratcheting effect where one party sees something they'd like to put in and then the next lot add something else and you just keep adding more and more and we end up with really quite difficult tax systems, tax codes, what's allowed to be deducted, what's not. So anything that moves towards simplification in that respect is a good thing.

Michael McMahon..... 00:04:35

And I think think the studies suggest that these are always very hard to do because obviously the financial crisis was something that Barack Obama had to deal with, but the economy was really starting to recover out of the years of recession and the sort of weakness that persisted. And so how do you attribute it all to Donald Trump's new policies versus a momentum coming back? It's hard, but I think most would say that that probably had a positive effect. There were also some bits that on the macro side, people would remember as a bit more like mayhem. Right. So one of the widely accepted policy Designs right now is an independent central bank. Raising interest rates to fight inflation is not very popular thing. We know historically politicians would cut interest rates to boost things before elections and that's not very good either.

Michael McMahon..... 00:05:31

And so delegating to an independent bank of England, an independent ECB or an independent Fed is sort of just accepted for quite a long time as the done thing. It wasn't quite as accepted by him. So Jay Powell, the head of the Federal Reserve, was on the receiving end of a number of late night angry tweets, which, although they might seem like just tweets, actually they caused quite a bit of market unease about the extent to which Fed independence was under threat. The so by the end, Jay Powell and his colleagues at the Fed had done quite a good job of staving off any attacks on their independence. But I think some of those fears have come back and it's a well known

fact that Donald Trump believes he would be a better controller of interest rates and believes the President should have control of that, which would go against all macroeconomic thinking of the last 30 or 40 years. So that caused a little bit of mayhem before, but maybe that's a look to the future as well.

Emma Carroll..... 00:06:31

And so a good reminder to me there in terms of mentioning the word mayhem. And I should probably let our readers know that we're recording on the 22nd of January, the day after the inauguration, because depending on when this goes out, things may have changed. And I don't think yesterday anything was said about the independence of the Fed, was it? That was one of the things that didn't come up yesterday.

Michael McMahon..... 00:06:51

No, but I mean inauguration day is not usually such a policy heavy executive order day. So if that's. I don't know if that was. Yeah, we don't know if that was show to say, look, we are getting things done or if this was a sign of, you know, by the time this goes out we could have had another three days like that and that would be a very quick turnaround for the podcast. And yet this could seem very out of date very quickly. So we don't know tbc.

Emma Carroll..... 00:07:17

Okay, wonderful. Now, we thought it would be really interesting to look at the potential impact of the new s new US government and their policy to decisions through the prism of four mega trends. And we were thinking de globalization, decarbonisation, demographics and digitalization. So I'm going to take each of those in turn and maybe starting with de globalization because I think there was a lot talked about yesterday in terms of that. So Michael, could you start by Giving us a little pencil sketch of where you think we are globally in terms of this megatrend. And maybe then you can move on a little bit to how you think President Trump's policy decisions look set to play into that.

Michael McMahon..... 00:07:57

Yeah, so this is probably the area that's received most attention from the expected policies. I don't think we'll be able to put all of de globalization at his feet as a response to him. So we went through a period where for about, for the second major time. So there was a time at the end of the 19th century when globalization first took off and we

had a sort of mass ways of globalization that retracted a little bit dead in the early 20th century. And then the period from the 70s and 80s through the 90s, early noughties, was the sort of second big wave of globalization. And that took place on both trade. So we had things like China joined the who, we had India reformed.

Michael McMahon..... 00:08:47

You know, you're suddenly opening markets with two and a half plus billion people in them. This is, you know, an important market to be able to trade into. Since then, of course, we had financial crisis, so there'd been a lot of financial globalization as well. And maybe some of that had to take a, take a slower step forward because of new regulations that came in after the financial crisis. But we still lived in a what I would call a very globalized world. I mean, we sort of joke about it, but we now carry very powerful computers in our pocket where the software and the IP has been developed in one part of the world, the chips are made in another, the whole thing is assembled somewhere else, and the packaging comes from another place. It's just a kind of that's the world I think we've all gotten used to. I think one of the major things to contribute to de globalization beyond any policies was Covid.

Michael McMahon..... 00:09:42

Covid. We saw the impact that supply chain disruptions can have on the production side and on the pricing side, the availability of goods. So even before we talk about any of the other drivers of the big inflation, we saw in 21, 22, 23 when we realized we were reliant on Chinese ports being open for a lot of certainly our goods trade, we had the, you know, boats crashing into canal walls, blocking them. And we suddenly learn that we have built what seemed like highly efficient, you know, fine tuned machines for production. But you break small parts of them or slow down small parts of them, and that creates huge vulnerabilities for companies being able to sell. I think that's led to a little bit of A rethink. I will leave it to you as experts to take, tell us the extent of that. But I can certainly see that this deglobalization trend is not simply a response to a Donald Trump presidency.

Michael McMahon..... 00:10:46

Now, going back to him, it's also very clear that he has articulated through his campaign and even yesterday that tariffs, that is moving away from a world of free trade or free enough trade is, is one where he finds this as an attractive thing for the US Economy. Most economists would disagree, but again, he has managed to sell to a significantly large voter base that this would be a way to enrich. This is the sort of language he would

use, enrich the American people. Now, the reason why most economists disagree is because, of course, import tariffs are paid by the importer. And what he is therefore talking about is if you happen to be a US Firm that is importing timber from Canada, then for the amount you bring in, you will be charged. The number he talked about yesterday with journalists was 25%. That's a sort of big tariff. Now, nobody knows exactly to what extent these will be implemented.

Michael McMahon..... 00:12:00

He implemented some before, you know, some very specific ones on things like washing machines. But he has in the past, in his first term, he did implement some, but it's also pretty. So one argument is he wants to do this because he wants to raise revenue. The US Has a large deficit and he will, you know, he, he has not indicated he wants to get rid of that deficit. If anything, he will want to cut taxes more. And he's a bit unclear and opaque about exactly the means by which they would save money. You know, he's talked about efficiency. That seems to be, you know, that would be great.

Michael McMahon..... 00:12:37

Of course, we all want to be efficient, but I'm not sure that the efficiency savings are going to add up to the amount he wants to give away. And this is a country that runs a very large fiscal deficit at the moment. So one idea is he just wants to do this as revenue raising, and that's a tax. It's a really not great tax in terms of economics, but as a tax, it's likely to be somewhat inflationary. If it's too inflationary, of course, it will give rise to the Federal Reserve, assuming they're still independent, raising interest rates. That's not what he likes. He's not a high interest rate president. So, you know, it's not a great one for that.

Michael McMahon..... 00:13:14

It could be that it's simply a negotiating tactic, you know, throw these on or threaten to throw these on and then try to extract Certain benefits from large areas. So we don't know is the answer. But, but if he were to implement this sort of push towards high, high tariffs, I think it will have implications for exchange rates. It will have some implications for the US themselves and the US consumer with some higher costs. Of course, the US is a pretty closed economy. Being Irish, we are one of the most open economies in the world. The US would be amongst the most closed. So we could be in that situation where this has some implications on the US but it also affects everybody else.

Michael McMahon..... 00:14:03

The sort of classic the US sneezes and everybody else catches a cold. So, so it, you know, we'll see. That's the one where it's clear he signaled something. But equally in the past he has used them as negotiating tactics and he could well be doing that again. You know, maybe some agreements on people crossing the borders with fentanyl and other drugs from Mexico or whatever. The thing he went on about yesterday, I don't know, but that's the one that would be the biggest policy he would have contributing to deglobalization. He wants to onshore business back to.

Emma Carroll..... 00:14:36

The U.S. okay, thank you, Michael. Loads to draw on there. And Fiona, can I pull you in here to sort of, let's do a little curve back to professional services to consulting. Anything you'd put out there from what Michael said that's likely to impact professional.

Fiona Czerniawska..... 00:14:51

Services, I think I do it in two stages. There's a short term impact and the medium to long term impact. So in the short term consulting professional service firms probably benefit from the amount of change that may go on. If there are regulations happening over there or likely to happen. Even if they get bogged down in Congress and through whatever procedures that they go through, clients will still want to be able to plan for it, understand the impact of it. And that could lead to a lot of additional help. Clearly there's been a lot of work, not so much now, but two or three years ago, as you said, after the pandemic, the kind of whole global supply chain thing gave rise to a lot of consulting in that space.

Fiona Czerniawska..... 00:15:28

As people reconfigured things, try to protect it to move. I think generally they start calling a just in time environment to a just in case one. So more inventory, but not quite as much as we had post pandemic. So a lot of work generated in the short term. Longer term though, if trade barriers are erected, then that to buy non economic expertise at least tells me about growth is going to be lower, it's going to be harder for organisations to make money. And consulting certainly has boomed during periods of economic growth going back to the 1970s. So this will be quite a shock to the system from a client point of view. They'll have less money to spend and invest, they'll probably feel less certain about doing things and that would impact directly how much money they've got to spend with professional service firms.

Fiona Czerniawska..... 00:16:16

So I think there's a short term gain for possibly a long term loss here that firms will have to be super careful about.

Emma Carroll..... 00:16:24

Thank you. So our second d, our second megatrend is decarbonisation. And Donald Trump is already carrying through on his promises to reverse climate change regulations. Indeed, he started to withdraw from the Paris agreement on day one and he's declared a national energy emergency and he signed an executive order to exploit more fossil fuels. So, Michael, is the megatrend towards decarbonisation over?

Michael McMahon..... 00:16:49

It's over in America for now, or at least it does not have government support in America for now. It's of course very ironic that we're seeing the effects of climate change with devastating impact in la, right around the time that he's saying we don't need this trend. Now, I'm not a specific expert on the world's views about decarbonization climate change policies, but, you know, I would, I would certainly hope that it will remain a hot topic in Europe and something that the EU is committed to. I hope the UK remains closer aligned to the EU view on this going forward. It's clearly the big challenge that, you know, the existential crisis potentially that the world is facing and so policies need to be adopted. I don't think it was ever that popular in the US and so it's very clear to me from a political point of view why he would be quite happy to leverage that, you know, Americans, the nature of how society, most of the cities, even, not just most of the country, but most of the cities are very car oriented. You have some of obviously like New York and even San Francisco where there are public transport systems that work very well, but most of it is based around car transport.

Michael McMahon..... 00:18:13

And so the fuel price, the price of the pumps is always so vital to sentiment in the, in the place and not by accident, in fact by construction. The policies to decarbonize also tend to put up the prices of these fossil fuel generated things. So yeah, it's a difficult thing, I guess politically, particularly in the U.S. but for the point of view of humanity, I really, really hope that the rest of the world for the next four years can carry on pushing on with policies. Many European countries are behind their 2030 targets, but they've made significant progress. It's easy to see we're far from achieving our targets and each

country, but we're really, there is effort going into this and I think that has to continue. I think the richer countries have to take a lead, but ultimately it's something the whole world has to get on board with. So as much as they have signed an executive order to leave the Paris Agreement, I would hope that at some point in the not too distant future, the US is back involved because I think they're a very important geopolitical player in this regard.

Michael McMahon..... 00:19:30

But for now and part of the world, I think the trend has stopped.

Emma Carroll..... 00:19:36

Well, it's tricky, isn't it, because you've got the big player, the U.S. you've got China, got India. If big players aren't involved, will other people just feel it's not worth it? Will other countries feel they can't do anything about it? Do you think that will become more of a trend?

Michael McMahon..... 00:19:51

I hope not and this is why I think so. I still think that we can make progress through showing that cap and trade type schemes can work, can help. We can hope at least. This has been my hope for a long time. Firms that are climate friendly, climate activists in their, in their, in their investments, in their policies. As we go forward, the price of fossil fuels will continue to rise. And so if you make the adjustments now, and maybe it's gradual, maybe 2030 is not going to be some, you know, wham, bam, we've done it all now it's going to be a bit further out.

Michael McMahon..... 00:20:27

But I think the companies that do invest that way, seeing them make profit will be the incentive. This is my economics faith in markets that, you know, if fossil fuels are going to cost a lot more and there are cleaner, cheaper, better ways of providing energy for data centers and all the things that we need now for our modern economy. And I really hope that it will be the market that pushes them. And then even if some firms or some companies, countries don't want to engage with this, the market will push them there. But getting there does require at least some big players still doing the research showing how it works, pushing firms to take the first step. Adoption can be sped up by regulation. And so that's why I do hope the EU can continue to play a leading role in this regard.

Emma Carroll..... 00:21:16

Thank you. And Fiona, the consulting market for sustainability has always been really hard to forecast. Often sentiment is running well ahead of investment.

Fiona Czerniawska..... 00:21:25

Even before we had Donald Trump out there making it more complicated.

Emma Carroll..... 00:21:28

It was complicated, exactly. So handing you an even more complicated question then, what impact do you see this having on professional services?

Fiona Czerniawska..... 00:21:35

Well, picking up on something that Michael said about the markets, I think one of the interesting things is what corporations decide to do in response to this because they could react to take advantage to move to cheaper fossil fuels that might be cheaper for a short period of time, get a real boost for that for profitability, or they could look to the long term and think, well, this is just a four year period. We've got consumers and people who will be our consumers in 20 years time who may feel not very loyal to us if we've massively invested in the kinds of things that they're not comfortable with. So I think a lot hangs here on how people, particularly corporate America, reacts to that. I think elsewhere in the world probably more corporations will stay aligned to long term consumer view will be against this. And of course, if one believes in climate change, then the world is going to look worse in the future. So all that kind of evidence, all that sense as to you'll have done the right thing will start to come true. But there's a period where it's not quite so clear.

Fiona Czerniawska..... 00:22:34

So I think how consumers react to this is going to be hugely important. That will affect how corporations react to it and that will affect what they ask consulting firms to do and whether they still want firms to help them get involved in sustainability measures. I think there's a separate thing around the social aspects of sustainability. So if you think about the s of environmental, social and governance, I can certainly see corporations in the US pulling back from some of that. I think they would regard, and we've heard people

talk about it's quite onerous from a regulatory point of view. At a time when costs are very high, is it really where the money should be going? Again, Europe probably less likely to do all of this. So I think the message from a professional service firms and consulting firms point of view is that they shouldn't be packing up their sustainability services in a box and putting them in a cupboard because this is four years.

Fiona Czerniawska..... 00:23:29

The world could look very different after four years. The more there are fires and things like this, the more evidence forms in people's minds the need to react to all of it. And consulting firms, I mean to pick up another point you made Michael, they play a crucial role in spreading some of these ideas. So even if there isn't much for return on their thought leadership and material, they're publishing about all this in the short term, longer term, they will probably do well to keep their sustainability pressure up on clients, even when the regulatory pressure starts to go a little bit. So I'm hopeful on that one.

Emma Carroll..... 00:24:04

There's always the difficulty with resourcing in consulting firms, isn't there? Where if there isn't demand for something in the short term, firms often get rid of certain areas of their business. Listening to what you're saying there, do you think there's a risk of that happening?

Fiona Czerniawska..... 00:24:18

I think it's happening to some degree. I think at a time when consulting firms themselves are under pressure from profitability, they've clearly been getting rid of people whose skills are not quite so current in the marketplace. I think last year we saw a lot of layoffs that were more back office staff, and now it's more people in chargeable roles. But the markets that they're in are just underperforming. Sustainability might well fall into that category. Although to your point about the complexity of this, there's a lot of sustainability work that's buried in other things. So there's a lot happening that isn't necessarily labeled as such.

Fiona Czerniawska..... 00:24:49

But I do think that that's going to be a kind of question that firms are asking themselves. And again, my hope is that they will go. We need to keep these core teams together.

Maybe not quite the scale that they had a couple of years ago, but at least the expertise and nurture that, because it can't not come back in the future. My analogy here is with cybersecurity, there was lots of risks that people didn't really pay attention to. They didn't really pay attention to cybersecurity until it hit their firm. And that sense of, oh, this is now everywhere. If we've not seen it, it's already in our systems, we've just not found it.

Fiona Czerniawska..... 00:25:22

And that has meant almost continuous, very high growth in cyber security services for the last 10 to 15 years. Ultimately, I think sustainability is in the same camp as that. We're just not quite there yet. And probably the new administration delays getting there, getting to that tipping point when this stuff is really big, but it can't eradicate it entirely because they can't eradicate climate change.

Emma Carroll..... 00:25:48

Yeah. Okay. Megatrend three. Demographics. Michael, do you think that demographic change is really sort of contributing to the election of populist governments globally?

Michael McMahon..... 00:25:59

So there's two aspects of demographics. So one is the bit that I think is vitally important, and the other is the bit that I think people. People talk about. So the bit I think is vitally important is the aging aspect. We are living, on average, longer, healthier, more productive lives. This is not a UK, US, European phenomenon. This is a sort of more global phenomenon in general.

Michael McMahon..... 00:26:30

This is really good news. Now. It calls into question a big bunch of things, some of which are not at all that important in America. So for instance, in European countries, the state pension is a hugely important part of people's planning, but it's typically done on the pensions today are paid from the taxes taken from workers today. Now, that's fine when there were five workers for every pensioner. That's swinging. And we will, you know, the dependency ratio is getting less and less favorable, making the pension systems very expensive. So that's an aspect of demography that we should celebrate, but also think really hard about policies.

Michael McMahon..... 00:27:17

How do we get people to work longer, remain productive longer? How do we deal with more of the problems and challenges that come from trying to look after someone who's in their 90s rather than people in their 70s? This is a big challenge, and I think it's a big growth area when I think about areas where I think companies can be fairly certain. Economists predict lots of things, not all. Well, demographics are about the easiest thing to predict because we all get older by a year. And with enough people, the death rates and the birth rates can be fairly well predicted. That's the bit people don't talk about enough. And that's the thing I think is huge.

Michael McMahon..... 00:27:58

Particularly actually that's more of a European challenge for the macro policy, the one that obviously, you know, one of the ways you mitigate this if you have this aging population, is you bring in immigration. And immigration is the part of demographics that people do talk about and give far too little credit for how beneficial it is in general in the political chat about it. And, you know, it's been a wonderful target to blame all ills of society on. So we've seen, you know, again, talk about expelling migrants and again, they always talk about the illegal migrants. And fine, yes, but there's a lot of jobs in the US done by these people and jobs that a lot of Americans would not want to do. And so there are going to be economic challenges to companies who are faced with potentially losing this labor. This was not illegal immigration. But if you remember in the UK after the Brexit vote, we had summers where we couldn't get enough people to pick fruit.

Michael McMahon..... 00:29:01

Seasonal workers were a huge part of the migration, legal migration flows. And now since the last couple of years, the migration flows in The UK have actually gone up to levels that are much larger than they were in the years before Brexit. And part of this is because we're having to fill a gap, but we're filling a gap with people again, not just from the eu, from a wider world. Why? Because the economy needs them. And I think that for me, one of the. And again, I'm not a politician and I pray to God I'll never be a politician. I think one of the hardest things is to make that case publicly, but it really does need to be made with an aging population if you're not going to bring in workers from somewhere else.

Michael McMahon..... 00:29:48

And, you know, the UK is really fortunate. People want to come here. Lots of people, wherever they are in the world, they learn English and so they can come here if you take other countries. Japan has struggled with this, but it's a very difficult society to migrate into. So the UK has advantages like the US does, but at the moment we're not embracing it. So that part of the demographics is the one which I think we focus far too much on and. And with too much of a negative spin that should be positive and it could help us deal with the first one. So there.

Emma Carroll..... 00:30:19

Fiona, do you think professional services firms have a role in helping explain that challenge?

Fiona Czerniawska..... 00:30:24

I think they would probably say that stepping into politics in a way that perhaps they wouldn't see themselves. I'm sure they will continue to want to be role models for being good employers, but I'm not sure they see themselves as being proselytisers on that kind of scale. I think what strikes me as interesting, from what you said, is that you've got corporations and indeed lots of jobs that should they really curtail the numbers of people in the US doing these. Who's going to do these jobs? Nobody's going to do them. I'm not so much thinking about the people at the bottom of the economic chain there, but there'll be jobs higher up. And of course, that's one of the reasons why the people from.

Fiona Czerniawska..... 00:31:03

The lovely people from Silicon Valley are concerned about visas and things like this and how that will be controlled. All of that suggests that there could be more use of professional service firms just to provide extra people. Now, staff augmentation, as it's phrased in professional services has a very bad rap. People think of it as being a commodity. Covid changed that. It was much more about expertise and much more part of this. So I think what this could trigger is a broader kind of reconfiguring of how organisations Think about what types of resources they need and who supplies them. Because we saw that in the 1990s, it was the first kind of start of offshoring from that point of view.

Fiona Czerniawska..... 00:31:39

And if you go back even further from that, there was a whole discussion around kind of core business and what you did versus other things. It meant that there were far fewer highly vertically integrated businesses today than they were 40 years ago, because companies just focus on something much more than they used to. Perhaps a shortage of people could lead to another big reconfiguration of what the company looks like and what the company does versus other people. And you've already got professional service firms primed to because, and Covid has amplified this. They've already needed help getting things done. So firms are already doing things that a client would have done for themselves in the past. So I think we could see a lot more of that. However, it's complicated by the fact that people clearly are going to be a scarce resource or the people that they want use with the right kinds of qualifications and skills, and that there's going to be a fight over that.

Fiona Czerniawska..... 00:32:32

So professional service firms are going to have to have a better, more compelling employee proposition to get those people. Otherwise they're going to lose them to their clients. So it creates a huge opportunity to step into a much, much bigger market than is true of professional services at the moment. However, firms have got to be able to have the raw material to service it, and that means changing how they recruit and think and indeed move people around the world in a world that's going to be more difficult to do this. So it feels like there's going to be a giant need there and a huge opportunity for professional service firms, but one, they may not be able to, in fact, service adequately.

Emma Carroll..... 00:33:05

Thank you. And digitalization, that's our final megatrend, Michael, must be one of the most unstoppable ones. What does economics, macroeconomics tell you about where we're going here?

Michael McMahon..... 00:33:16

It's actually the one that I feel less confident on, apart from we're all susceptible to it. We all carry powerful computers with us. We, we all put our data out there as much as we probably don't know or think about it very much. You know, the, the, the information economy and even the, you know, things like AI, they rely on huge quantities of data to train algorithms, to learn behaviors, to predict behaviors, and we're playing a role in that. Now, clearly this is one where, with the incoming administration or the income administration, there is a clear divergence with the alignment with tech, Silicon Valley billionaires, which is really in your face a little bit yesterday in the inauguration, I mean it

was striking to see just some of the richest people in the world just have, celebrating and cheering how they played a role in all of this relative to the eu, which of course is taking in general a much tougher view on this. Thinking a bit more deeply about the implications of all of our information being shared around. You know, so, so I, I think clearly there are gonna, this is gonna be a four year period where I think that divergence will be apparent.

Michael McMahon..... 00:34:42

What will the ultimate, where we're going be in this, this is where I feel very unconfident. If I, if I knew the answer to that, I probably would have been invited to the inauguration yesterday and I'd be one of the richest people in the world, which I am absolutely not.

Fiona Czerniawska..... 00:34:59

Next time, next time.

Michael McMahon..... 00:35:01

I do think one thing I find is interesting is I think the tools, things like AI Now I mentioned already, I don't think you can either you can use AI to fully replace, you know, care of elderly, but it can certainly help in regards, you know, if we all think back to the old way of doing it. Comedian Peter K. Used to joke about this. His mother assisted living with her little necklace with the red button on it that she had to push if something happened. Now of course one of the problems is if you collapse, you can't push the button if you've knocked yourself out or something like that. Whereas, you know, world where there are cameras that are monitoring you and can tell or, you know, I'm getting sort of almost into some kind of fantasy world here, but where they see you falling and they activate a pillow on the floor that kind of bops up to prevent injury. Yeah, there's a whole bunch of stuff where this could at least help and reduce the labor intensity of some of these things.

Michael McMahon..... 00:35:56

So I see big role there. You know, I think with companies now there's lots of companies that would need help, help in adopting AI tools and learning how they can be used or how they can be deployed for them. You know, I've learned a new word today, staff augmentation. It seems like staff augmentation to assist on those things. Most companies, medium sized, small and medium sized companies couldn't afford to hire

someone to do AI for them. But they, you know, potentially there's a market for having sort of products even, you know, not bespoke, like sort of off the shelf products where you go, if you're a retailer, here's how AI can change your life. So I think that. I think it's going to be huge.

Michael McMahon..... 00:36:35

I think it's, you know, you're right. It's a force which, it's like, it's very difficult to see how people stop it. There are dangers with it, and I hope that the EU and UK governments remain attuned to those. But equally, it's, it's potentially huge, economically and socially important and valuable. But I just, I can't give a definitive answer on how things go. It's very clear that the new administration have, are going to be, at least, at least at the moment, are going to be favorable to it because of the people who he surrounded himself with. But relationships change quite quickly in a Trump administration. So again, by the time this goes out, my answer could have changed.

Emma Carroll..... 00:37:20

Fiona, do you see a huge boost.

Fiona Czerniawska..... 00:37:21

In tech work in the U.S. I think absolutely. I just, I think the prospect of some sort of pause on regulation or deregulation around AI will put a huge amount of money into development of that. I think it puts the US potentially far ahead of Europe and potentially elsewhere in the world in terms of the speed with which it does all of these things. So that could have a lasting impact on many, many things. Like, Michael, I'm worried about what the implications are of all of that for people, but I do think in the US it's going to create a lot of investment in technology very, very quickly. And of course, professional service firms, they already recognize that they're being brought in to help with technology more and more.

Fiona Czerniawska..... 00:38:02

So I think they will see it as a significant opportunity. There's probably work, too, for them to do to kind of understand how that technology plays out in corporations. Because I was realizing it was quite fascinating in terms of timing. Just coming up to Covid, we could see evidence from clients that this whole idea of digital transformation was losing a bit of its sheen and they were starting to question what was actually being

delivered. We've seen that same trend again in the last year. Obviously, during COVID there was all of the giant shift. Everybody felt much more comfortable about technology changing. It was much more important that carried through.

Fiona Czerniawska..... 00:38:36

And now again, people are going, is it actually delivering what we wanted it to deliver? Yet this feels like another external boost to the myth of technology. I mean, myth is an unfair term to use, but that kind of the hype of it is going to push back up again. Maybe in four years time, it will be starting to again, just come off that apex of activity and people going, really, is this the only way that we can do Things and also we don't always quite get what we want from.

Emma Carroll..... 00:39:03

Very true. And Michael, I was sort of thinking about the things that were announced yesterday. We haven't chatted about much. And I think one of the big ones potentially was President Trump's big push to tackle inflation. Where do you see that heading?

Michael McMahon..... 00:39:16

Well, I mean, we talked already about tariffs. Tariffs are not going to bring prices down. I think one of the difficulties, and this is a, this is on us as an economics profession. You know, we focus on inflation for good reason. And I don't have time today to explain, explain all of them. But you know, we don't actually in general want to drive prices back down. So, you know, the four pound lettuce might remain an expensive lettuce.

Michael McMahon..... 00:39:48

I mean, obviously individual prices can go up and down, but the aggregate we don't generally like to push down. That's deflation. That's very bad in a world particularly where we write nominal contracts, because if you owe the bank half a million on your mortgage, then the actual value of that goes up a lot if we have a push towards big deflation. Japan struggled with this for a long time. So, you know, I think we saw in the last year, so 2024 had a lot of elections, we saw a lot of governments that had been incumbent during the high inflation suffer at the ballot box because they were associated with this high inflation. And you could hear lots of the reports about American voters who said they wanted Trump to come in to bring prices down. That ain't gonna happen. Some prices may fall, but the aggregate price level, I would be very

surprised if it falls, particularly given the policies he's talked about, which is tariffs, they're inflationary.

Michael McMahon..... 00:40:45

If the US Dollar appreciates because he generates a lot of corporate strength in the US if the stock market's booming, that's dollar appreciating. You know, we're going to have a bunch of factors that are operating. The interest rate is an interesting one because if inflation does start to go up, assuming the Fed remains independent, which I'm hoping it does, then they will raise interest rates and that will help stem the inflation, but it will also curb demand and investment will become more expensive. So I think, I mean, inflation is already back towards target levels in most places. The UK is within target of the bank of England. The US is sort of acceptable levels now. So, so, but I don't think we're going to get, we're not going to get a bout of deflation in the US that's going to bring prices Down. So I think his voters may be disappointed by the fact that inflation will be low.

Michael McMahon..... 00:41:39

I'm not saying it's going to be wildly high, but it may go up a little bit, but prices are not going to fall. So. So this is a, this is a reason I say it's on us is because it's a misunderstanding. We talk about the change in prices, and when we say it's under control and people go, no, I went to the shops yesterday. Things are still 20% more expensive than they were three years ago. Yes, but the rate at which they're becoming more expensive is no longer increasing. That's a very difficult argument for most people to buy into. And so we lose that battle.

Emma Carroll..... 00:42:10

Yeah, potentially. You might have a different way of communicating it, maybe because it is a communication thing.

Michael McMahon..... 00:42:16

Absolutely. This is one of the big things. I was in Frankfurt at the ECB the other day. Exactly. Talking about this. They need to come out and actually accept this. The problem they have is policymakers say, no, no, it's okay.

Michael McMahon..... 00:42:27

Inflation is back under control. And again, people hear inflation and they think prices, and they go, no, I was at the shops, I used to spend £100, it's now 125. Let's be honest with them. In all of our models, in all of our policy designs, we are not trying to bring the prices back down. What we want is to generate enough stability in inflation to allow companies to plan, to hire, to generate growth, to invest in productivity. All of this pushes wages up above the rate of inflation so that in what we call real terms, the purchasing power of your wages can be restored. That's how adjustment has to take place. Not by trying to grip the price level and wrench it back down, which would be disastrous on a number of fronts.

Michael McMahon..... 00:43:15

But we don't really have that public conversation enough as economists, and I would like to see a bit more of that.

Emma Carroll..... 00:43:21

Okay, thank you. And you're the ideal person with this question, Michael. I'm thinking, thinking about professional services leaders and how they're going to navigate the next four years. How would a better understanding of economics help them do that?

Michael McMahon..... 00:43:34

Oh, I think everybody should have a better understanding of economics. So professional services firm leaders in particular, not because everybody should be an economist, but actually economics does influence everything we do in business and even in life. And so having enough understanding not to become a producer of economics, but to become a consumer of it, to understand when someone stands in front of you and says, I'll bring prices down, you go, actually, I don't think that's true. It's useful for voters. Companies will have to assess the risks and the costs and benefits of different policies, think about how, you know, in response to some of the changes that we're going to see. How will policy, how will taxes change, how will subsidies change? Being able to think through all of that is an incredibly useful tool for I think all business leaders to have.

Michael McMahon..... 00:44:25

I'm going to use this as a cheap plug. We in the department we actually run. And Fiona knows this is how I know Fiona. She's one of our steering committee members on an

Oxford University business economics program which we run and have been running for about 60 years now, where we work with firms and many professional services firms to run bespoke courses on understanding economics of sustainability, of diversity, of AI, AI, all sorts of things. So I think everybody should be a better consumer. But equally, some of it is also on the profession, you know, not, you know, we need to improve the way we communicate these ideas and improve how even we, you know, maybe this is particularly an Oxford thing, improve how we train the politicians of the future. Because I think these are really vital things, and when simple, obvious mistakes are made, they're avoidable.

Emma Carroll..... 00:45:21

Okay, thank you. And we always like to end on a really practical takeaway. So I'm going to throw that to both of you. Now, if there was one macroeconomic measure that you really think consulting and professional services leaders should keep an eye on over the next four years of the Trump presidency, what would your macroeconomic measure be?

Michael McMahon..... 00:45:38

I'm actually going to pick a market. 1. I'm going to pick the market, and I'm doing that as a cheat because I'm actually picking two indicators, but broadly defined as the market. So I think we can look at the stock market, because I think Donald Trump is going to look at the stock market. It's going to be what his opinion poll that matters is. So some of the policies, if they're really quite negative and you start to see The S&P 500 dip, I think this will alert him and cause consternation in the Oval Office and may lead to policy reversals and changes and weakenings, et cetera. The other one is going to be the bond market, so yields, and we've seen a lot of action in them.

Michael McMahon..... 00:46:22

So they will go up when the market is worried about either the fact that inflation is coming or that they're worried that there could be really high inflation. And so there's a premium put in. But they also will build in the fact that the Fed will respond to any inflation by raising rates. So you can sort of use one as a warning light of how, of how the market sees inflation and the macro inflationary nature of policies that are put in place. And you can use the other as whether the market is liking his policies. And as I said, some of the policies are going to be probably quite good for business, at least initially. And so you may see stock markets go up, but I think he will use that as an opinion poll, so you should watch that too.

Emma Carroll..... 00:47:05

Well, the market measurement there and the S and P, that is a very tricky one because it's so highly inflated at the moment. So it wouldn't be hard for it to go the other way.

Michael McMahon..... 00:47:13

But, but again partly it's in these are forward looking things, right? We, we, we've had a prediction since the election that you know, he will come in and he will put, you know, lower tax rates, he will, you know, bring businesses back in, he'll make it more better for US firms. But again, he could put tariffs on the wrong place with the wrong reaction and with the wrong retaliation. The dollar moves the wrong way, suddenly the, the, it could go back, it could continue to go up. You know, I, I, I think what happens in the stock market is going to be so vital to his opinion of how well his government is doing that I think everybody should be watching it just to see jitters in that could cause policy changes and firings and all sorts of things. That's my prediction.

Emma Carroll..... 00:47:59

Thank you. And Fiona, what's your measure for professional services?

Fiona Czerniawska..... 00:48:02

Well, as Michael chose two, I'm going.

Emma Carroll..... 00:48:03

To choose two as well.

Fiona Czerniawska..... 00:48:04

Set amount of competition going on there. The first I choose is consumers, as in consumer behavior. What we found in sort of early 2022 were a model that said that clients were very concerned about consumer buying behavior falling or people economizing or trading down in some sort of way. Now that didn't happen for quite a long time and as a result the professional services sector remained stronger for much longer than everybody thought it would do. I think it took a while for that to come through, but I think it's quite a good, very early indicator that if people are really stopping

buying for one reason or another, whether it's inflation or other factors, then at some point down the line it's going to really affect profits and that's really going to affect the professional services space. The other factor is confidence. We know that people obviously invest when they're feeling confident.

Fiona Czerniawska..... 00:48:54

And what we have in our own data at the moment is a growing proportion of people who are polarized. So they're either pretty confident they can get through this or they're very not confident. And the people in the middle are shrinking. And that actually turns out to be good news for the professional services sector. And what that tells us is that if people are in a mess or if they're doing pretty well, then they often need external help. The bit that keeps the thing that keeps people in the middle and they're the ones who spend the least is just waiting to see. So it's kind of version of uncertainty, but it's just, let's just hang on a bit longer because it might get better or worse and we know which way to jump. So I would be looking at that, our own figures as well, selfishly.

Emma Carroll..... 00:49:38

And the next one of those are out in about two weeks, aren't they, Fiona? Yes, we'll keep everyone posted.

Fiona Czerniawska..... 00:49:43

Yes, it will be literally done. The survey for that has been done during the inauguration, so we have to see what we get.

Emma Carroll..... 00:49:50

Michael, Fiona, hugely insightful and hugely timely conversation. Thank you so much.

Fiona Czerniawska..... 00:49:55

It's a pleasure.

Michael McMahon..... 00:49:56

Thank you. Thanks for having me.

Emma Carroll..... 00:49:58

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