Scenarios for 2025

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- The long run, 2040 in brief
- The grounds of current difficulties
- The short-run outlook
- Regional implications
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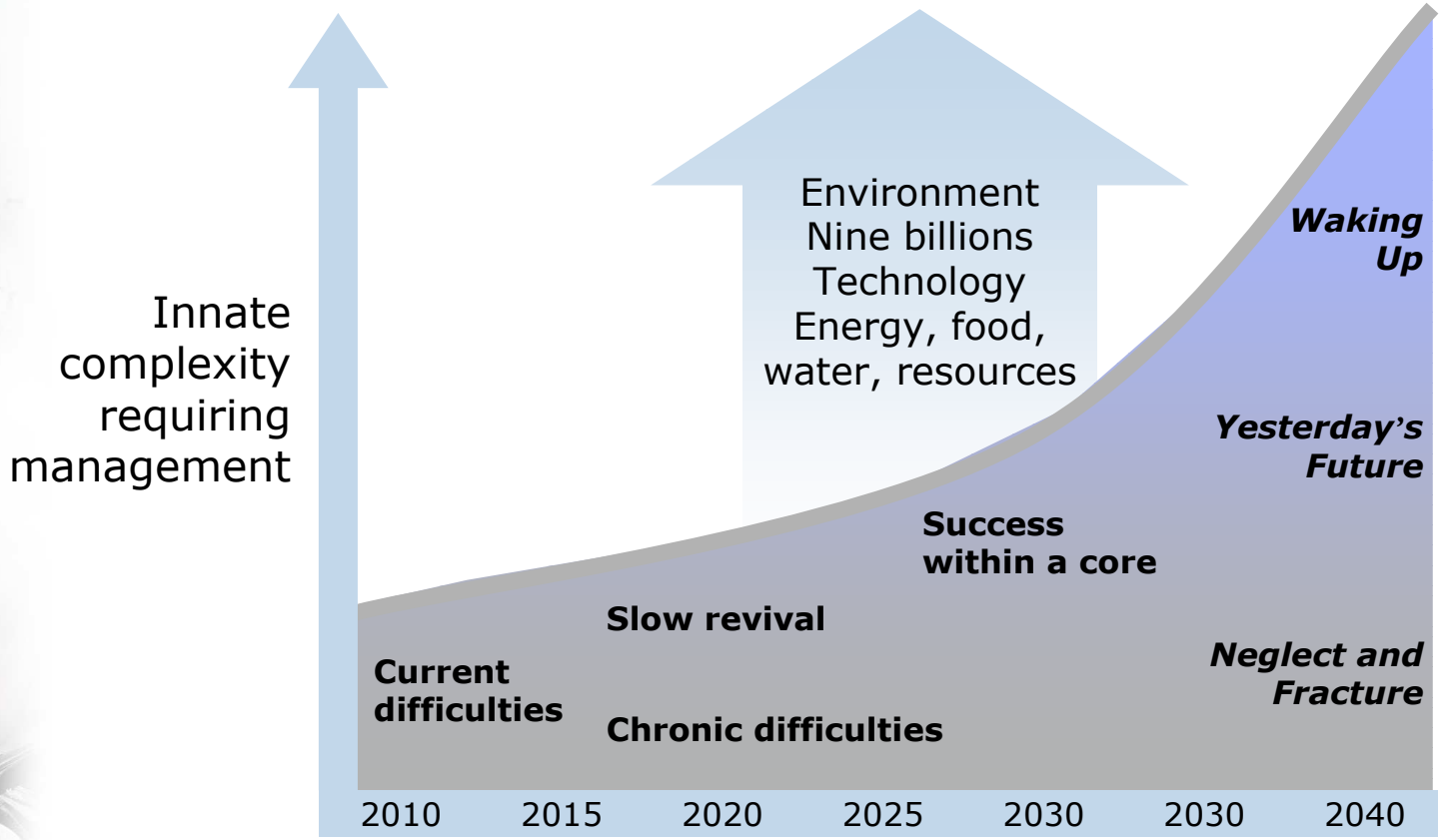
- The long run, 2040 in brief



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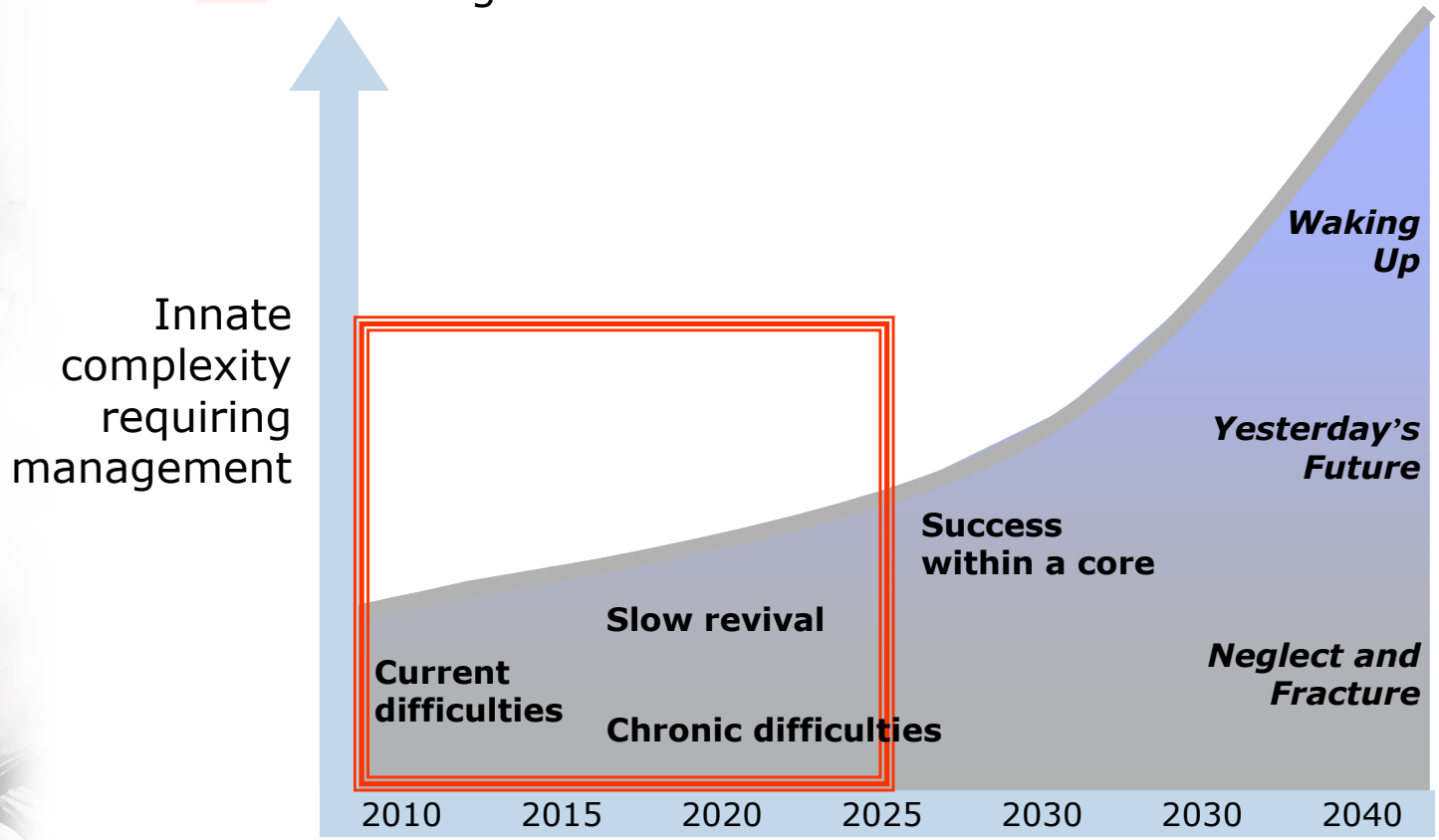

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The 1980s saw the start of fundamental changes:

Faith in markets

De-regulation and privatisation

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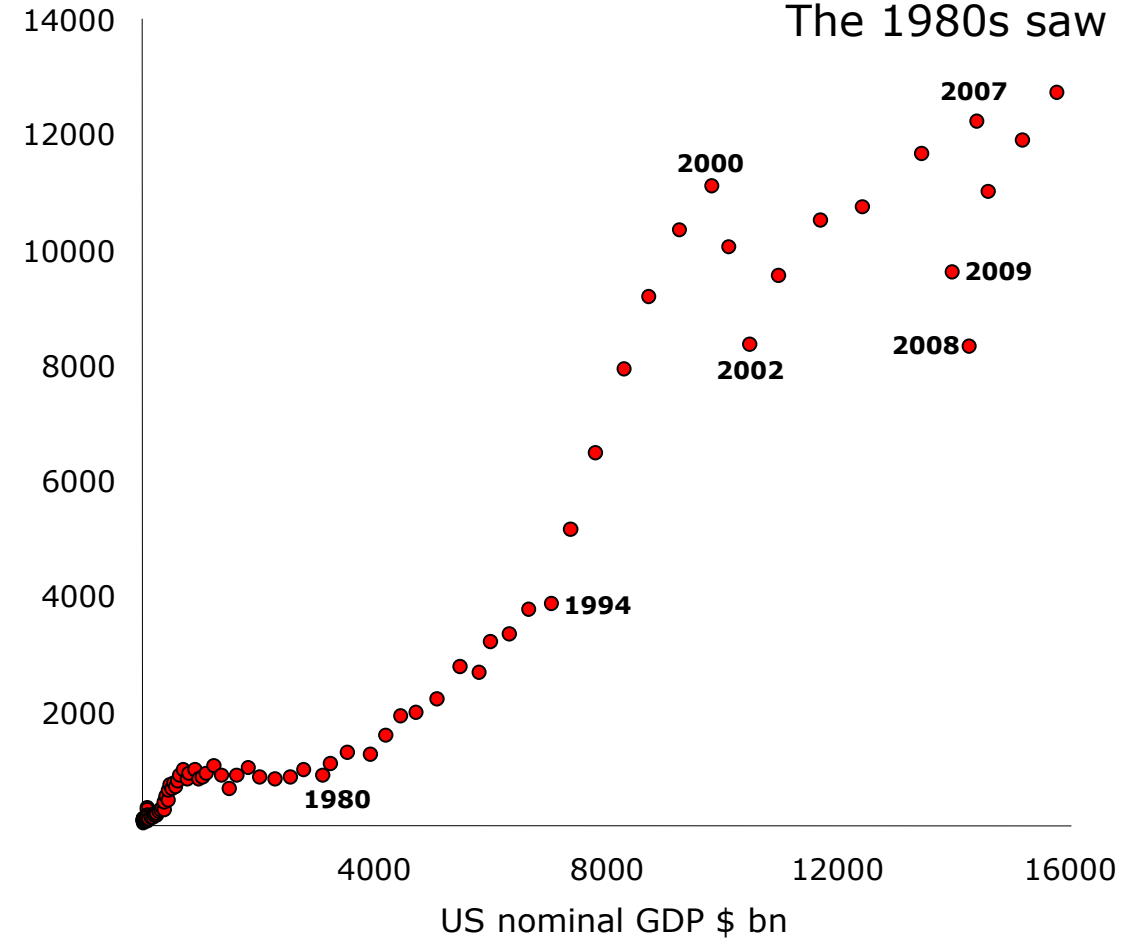
The outsourcing revolution that tied all of this together

Easy money

Dow Jones index 1900-2012



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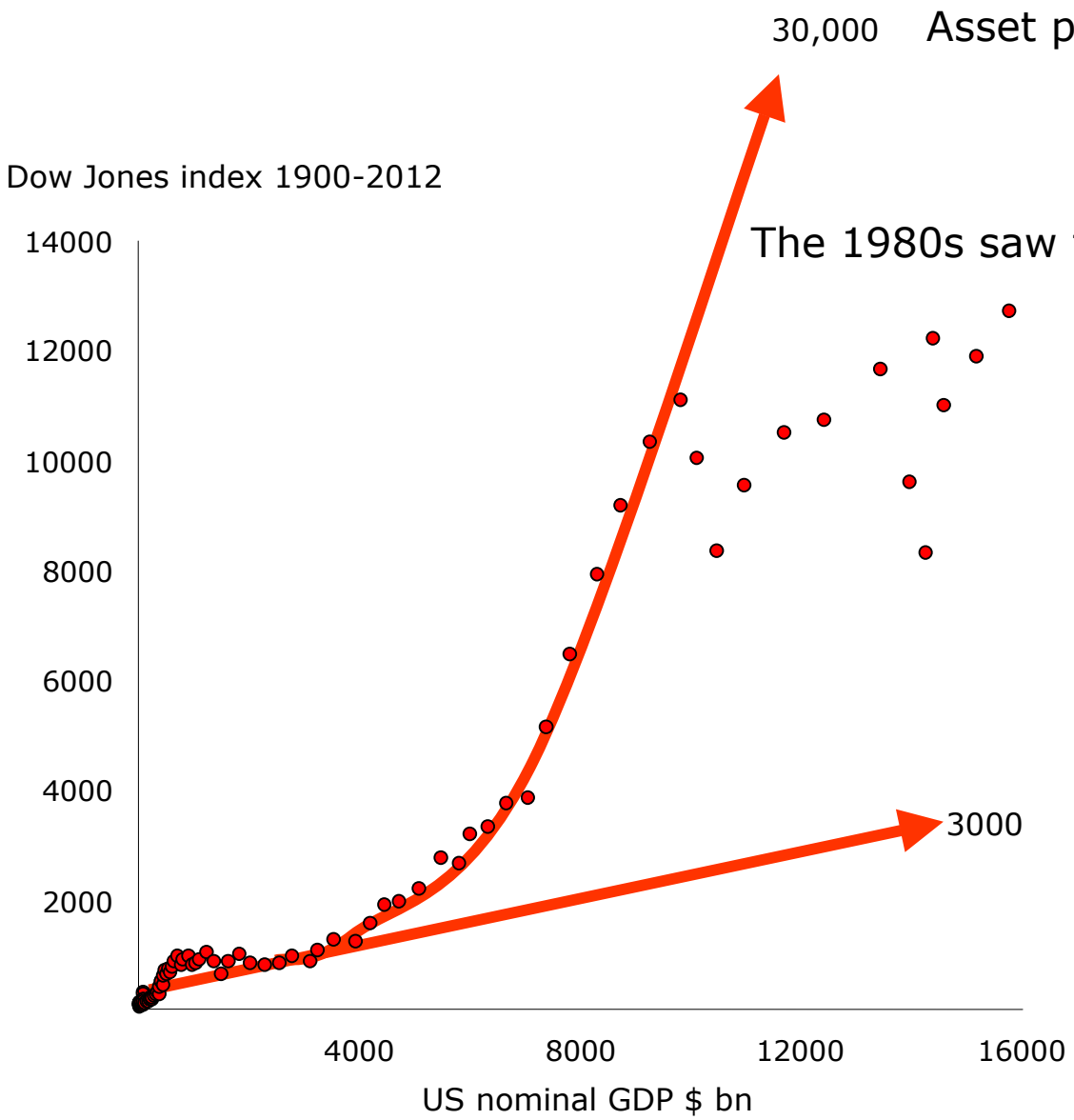

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Easy money

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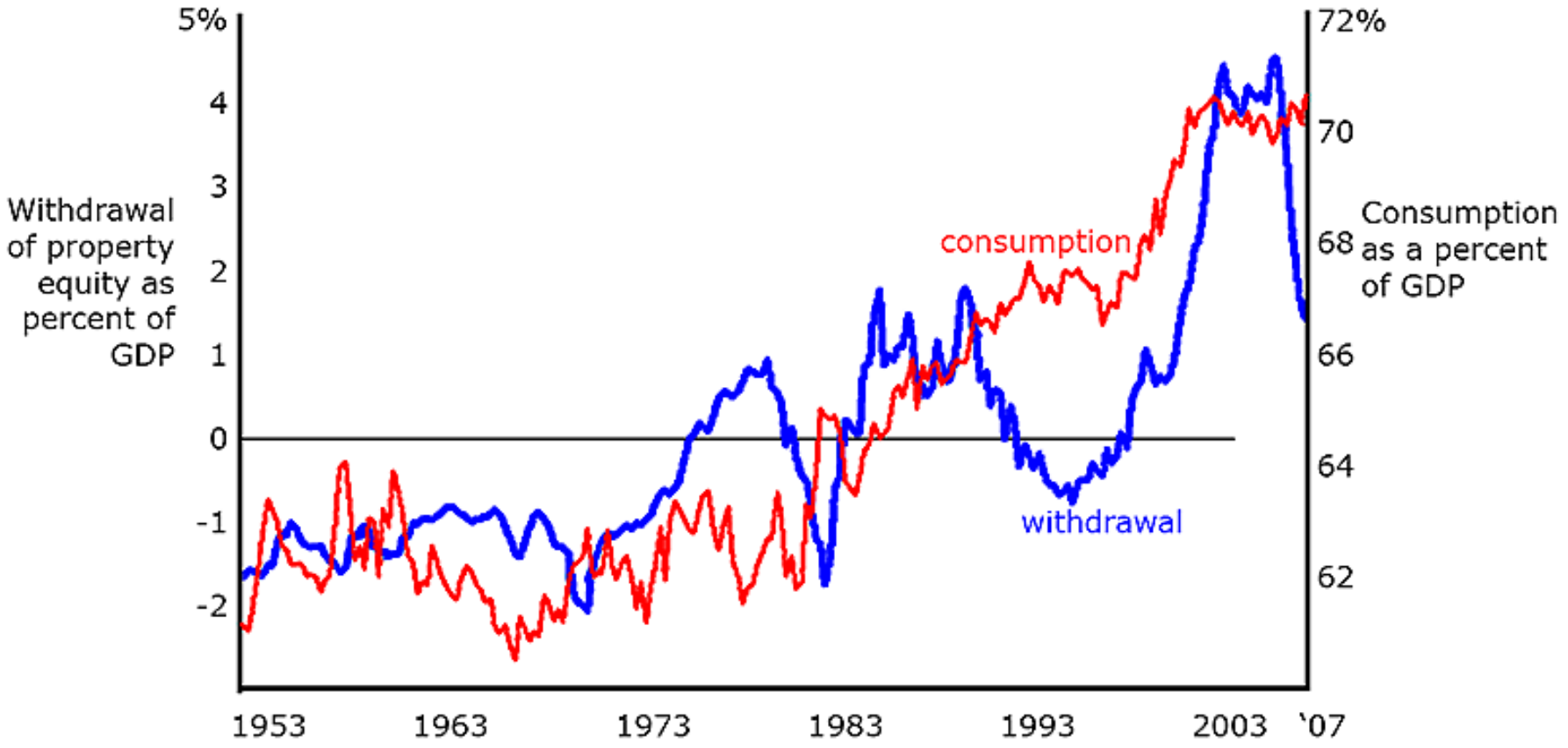
Asset price inflation

Asset building, saving

Asset consumption

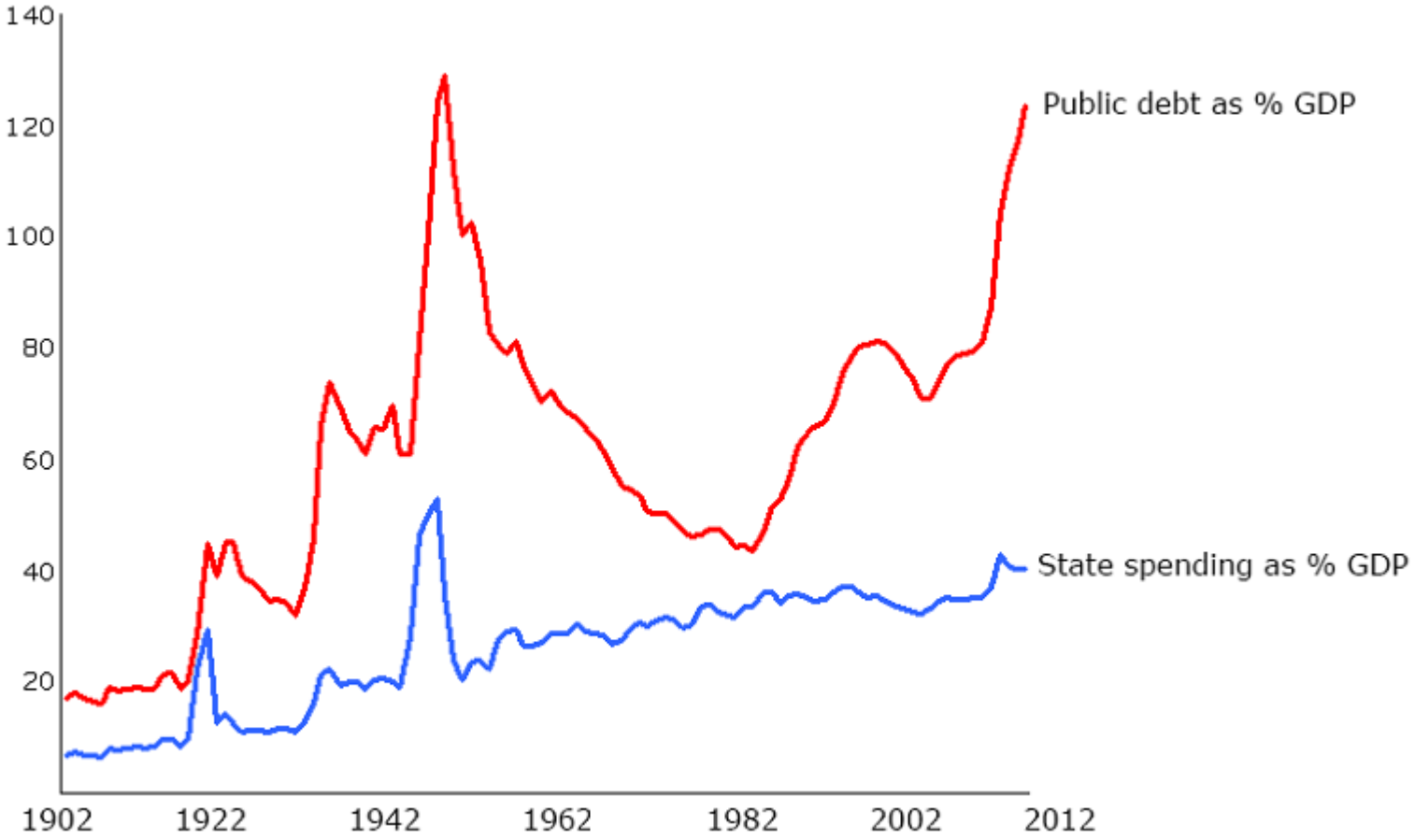
Annual change in US consumption and consumption of property equity

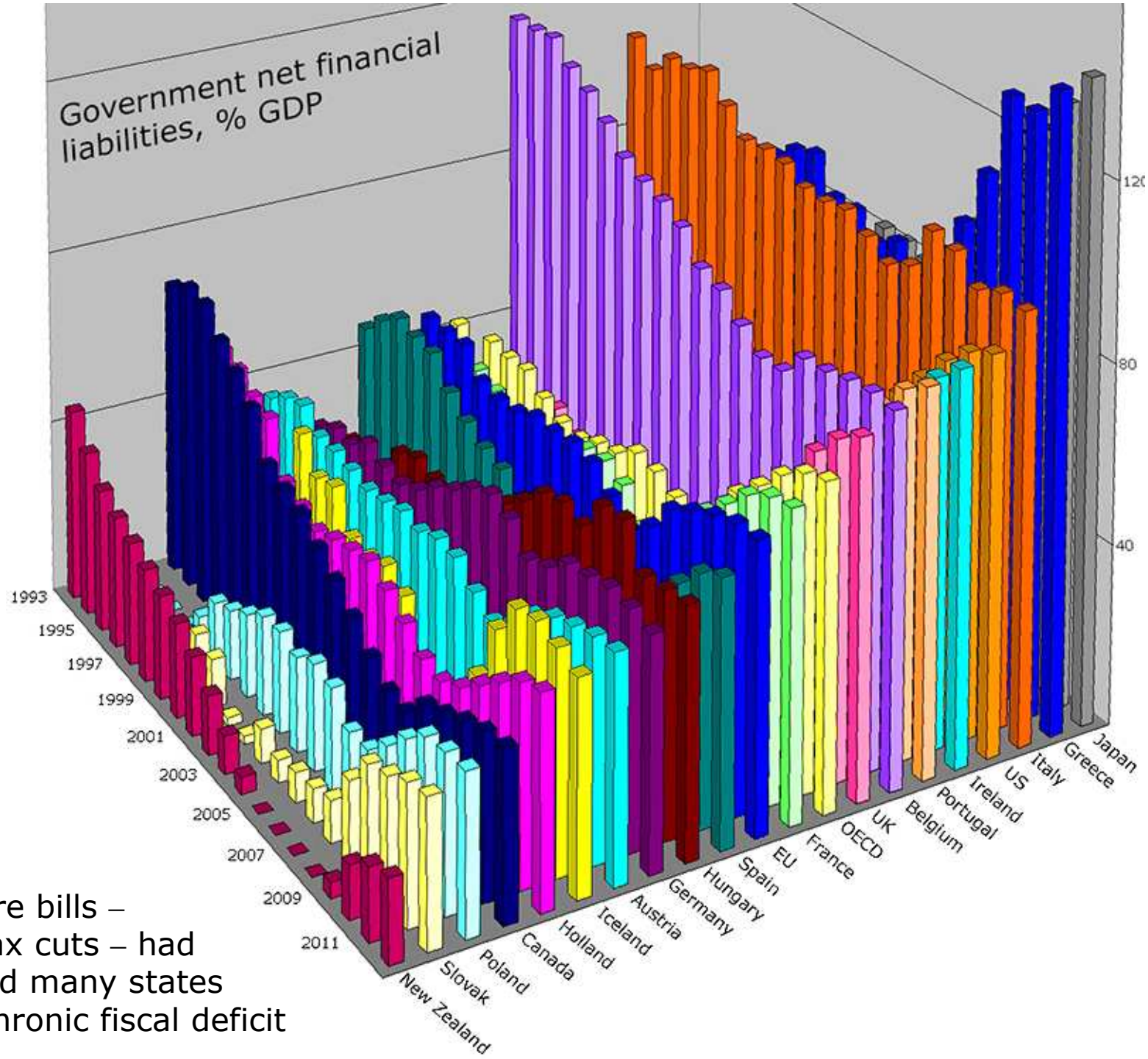


Easy money

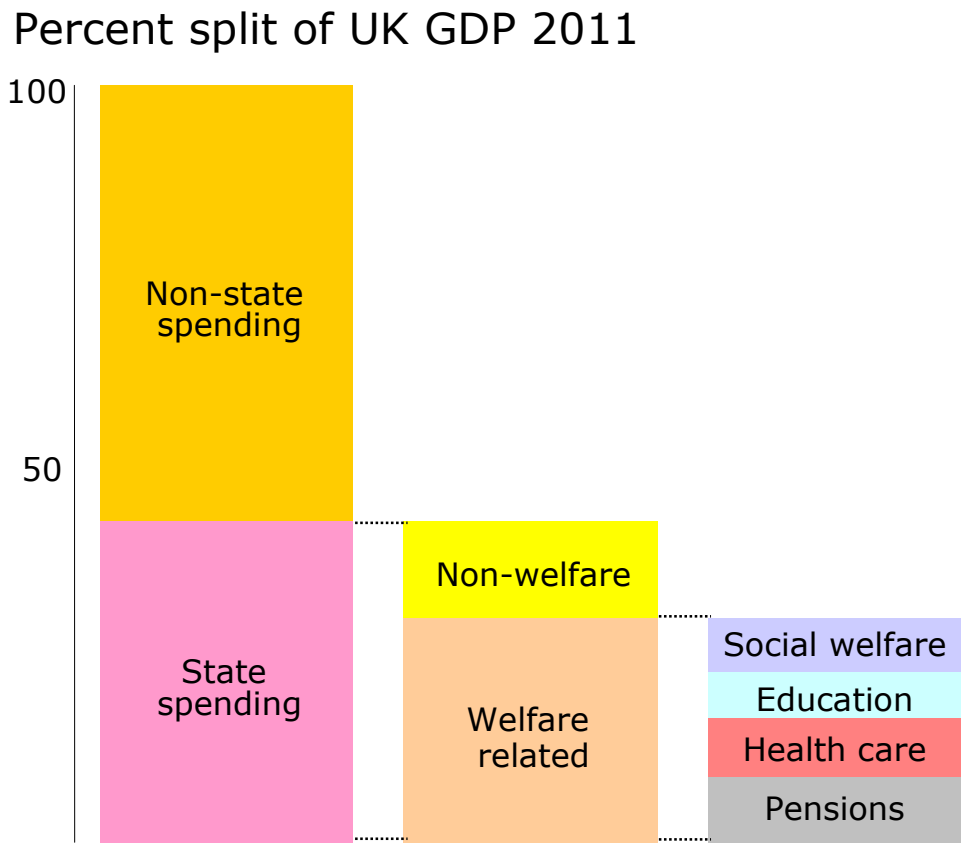
Asset price inflation

State deficits





Welfare bills –
and tax cuts – had
pushed many states
into chronic fiscal deficit

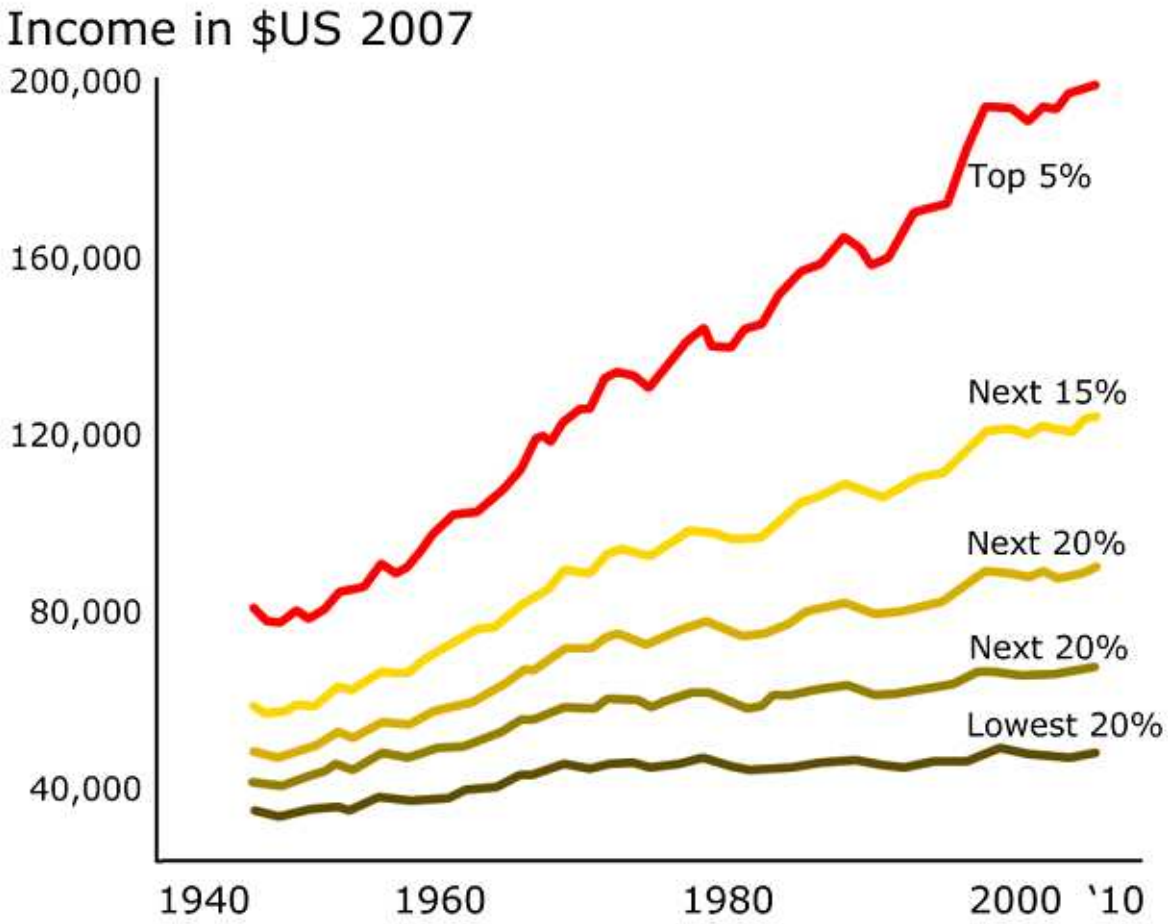


Not everyone in the wealthy world did well out of the boom years

Welfare bills – and tax cuts – had pushed many states into chronic fiscal deficit

In summary:

- The rich world saw Communism fail, and felt a universal optimism
- It funded much of this boom on debt, leading to asset price inflation
- Political pressures to extend welfare grew



High skills have done very well in a world of globalisation and technological advance

Not everyone in the wealthy world did well out of the boom years

Low skills are unable to compete with automation and high skill, low wage areas

In summary:

- The rich world saw Communism fail, and felt a universal optimism
- It funded much of this boom on debt, leading to asset price inflation
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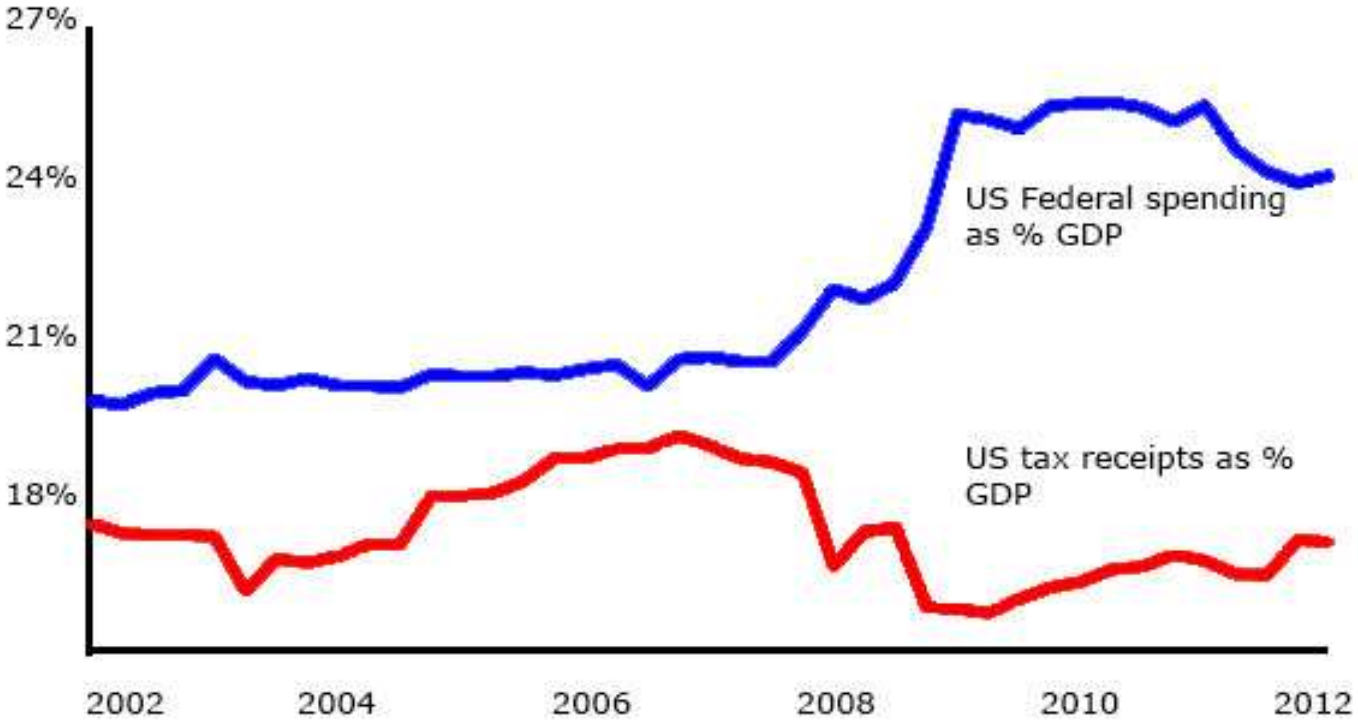
The US governments ordered the housing corporations, Freddie Mac and Fannie Mae, to extend credit to low income families.

These held about half of all US mortgages. Banks treated their assets as triple A and passed them into the system.

When the "sub-prime" mortgages failed, they left a $1.2 trillion hole, scattered around the world's banks. Banks feared to lend to each other: the credit crunch. States used enormous sums to support banks.

States debt grew due to low tax receipts and stimulus spending. It also became clear that some European states had been grossly imprudent.

Stimulus and rescue packages greatly extended the level of state debt.



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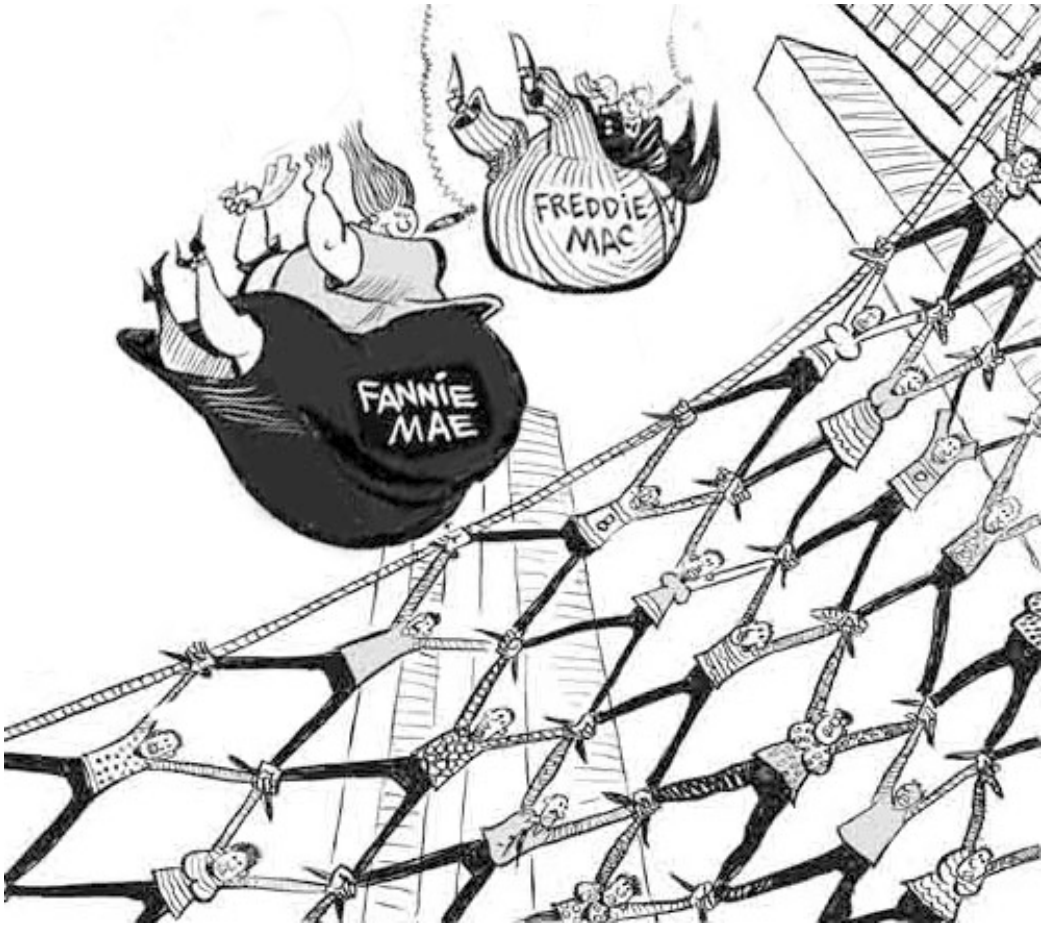

Easy money

Asset price inflation

State deficits

Private debt

Whilst banks were the conduit for the crisis, and had behaved with great ineptitude, they were not truly its origin. This was and is a debt crisis.

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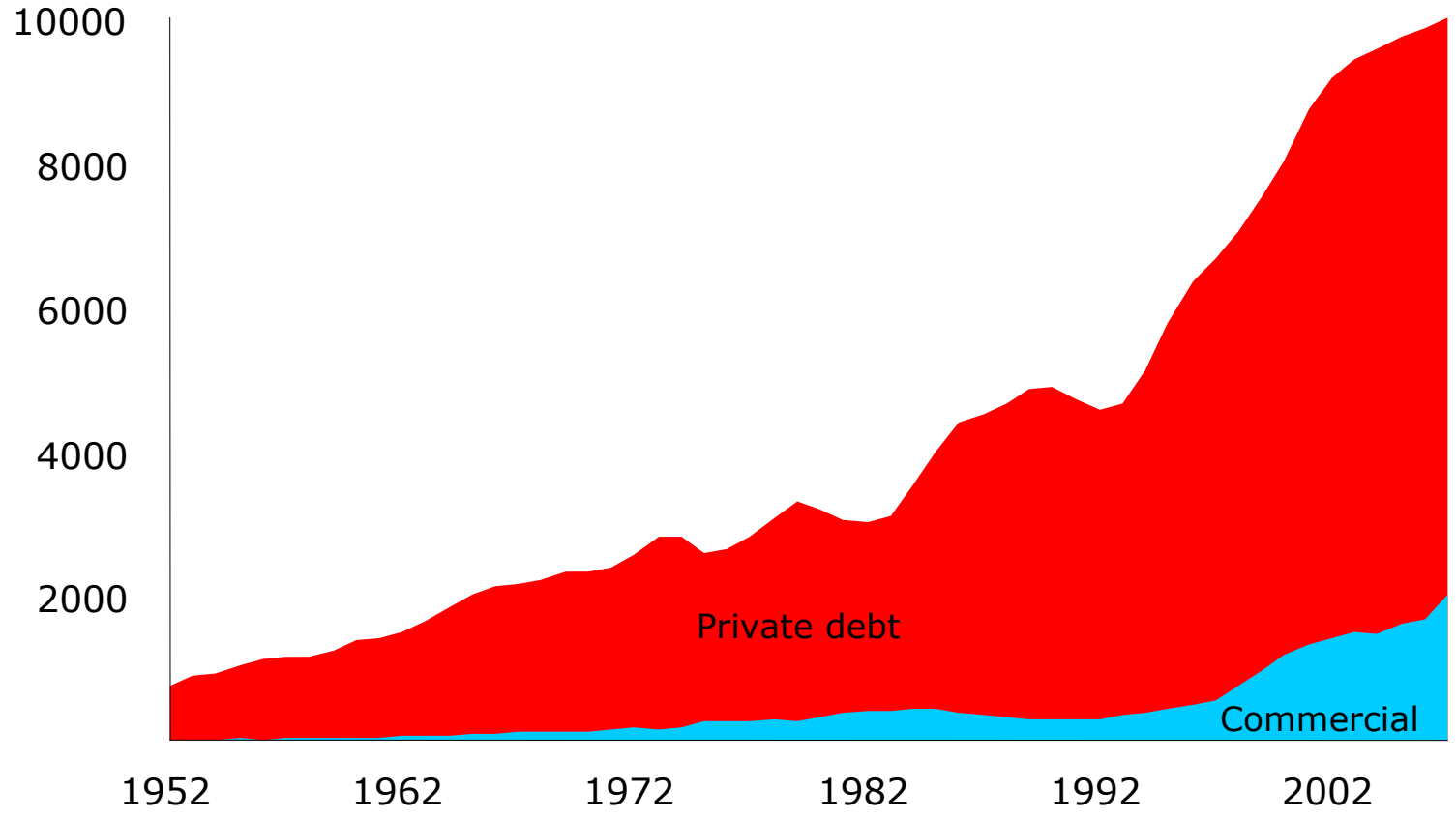
US Commercial bank lending $bn 2011



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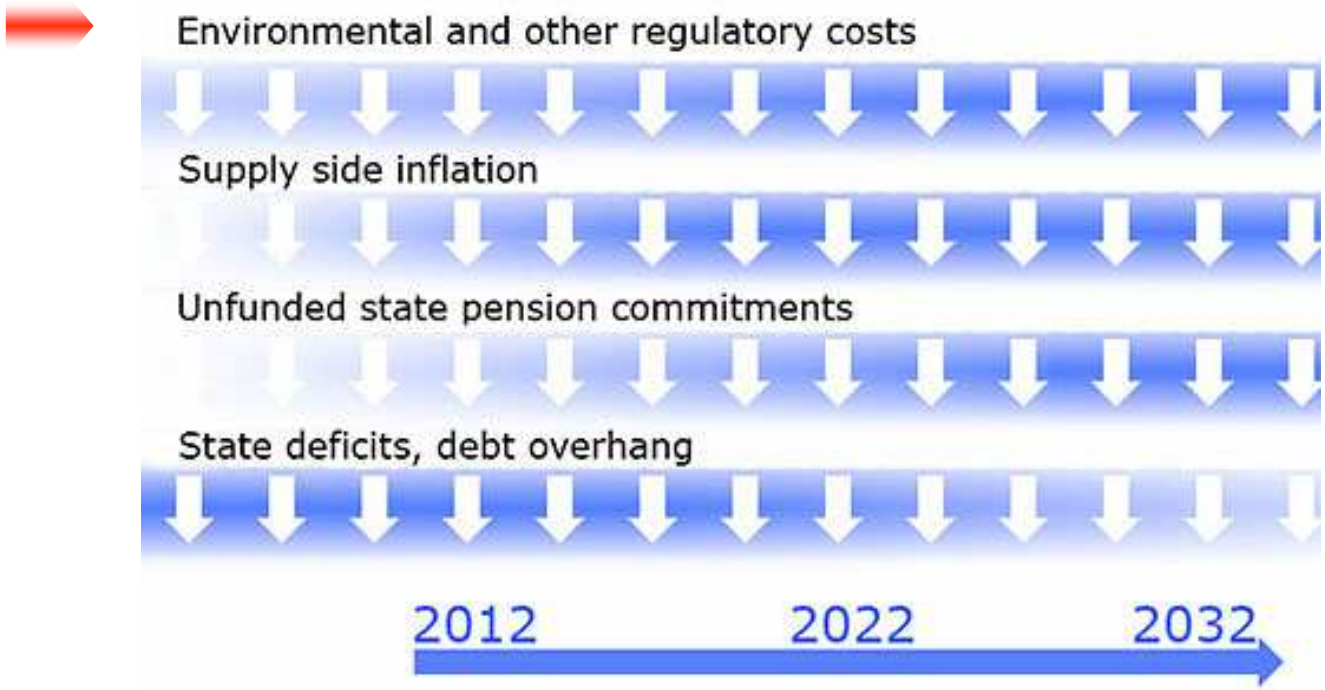

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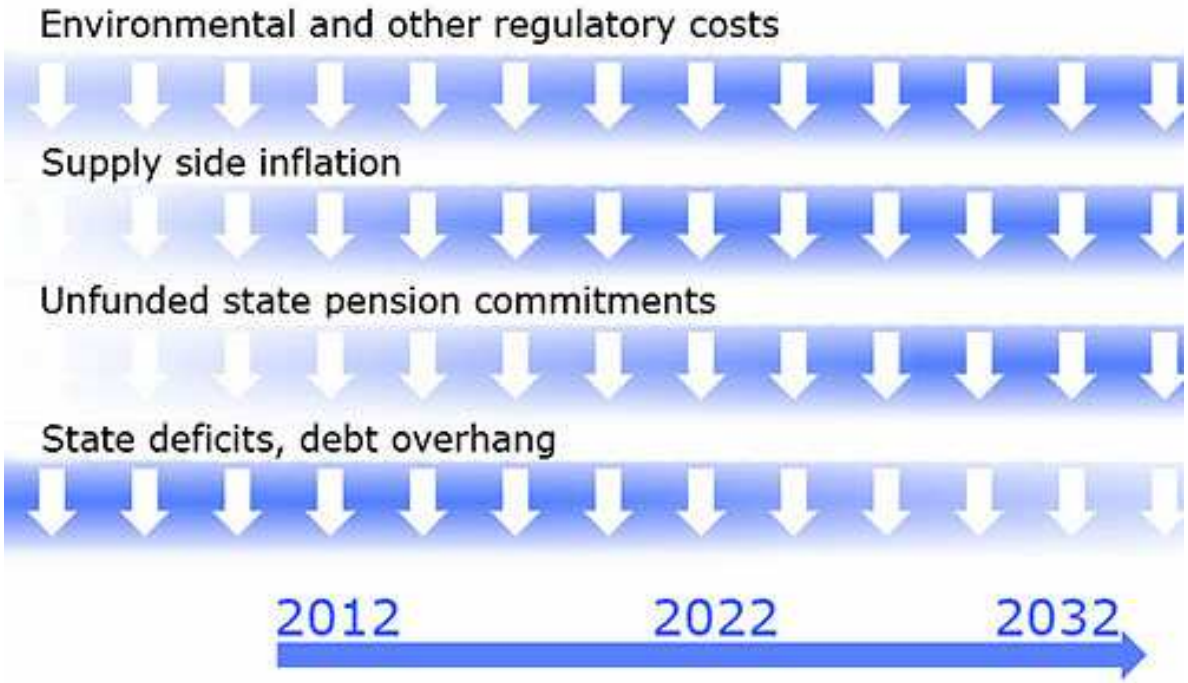

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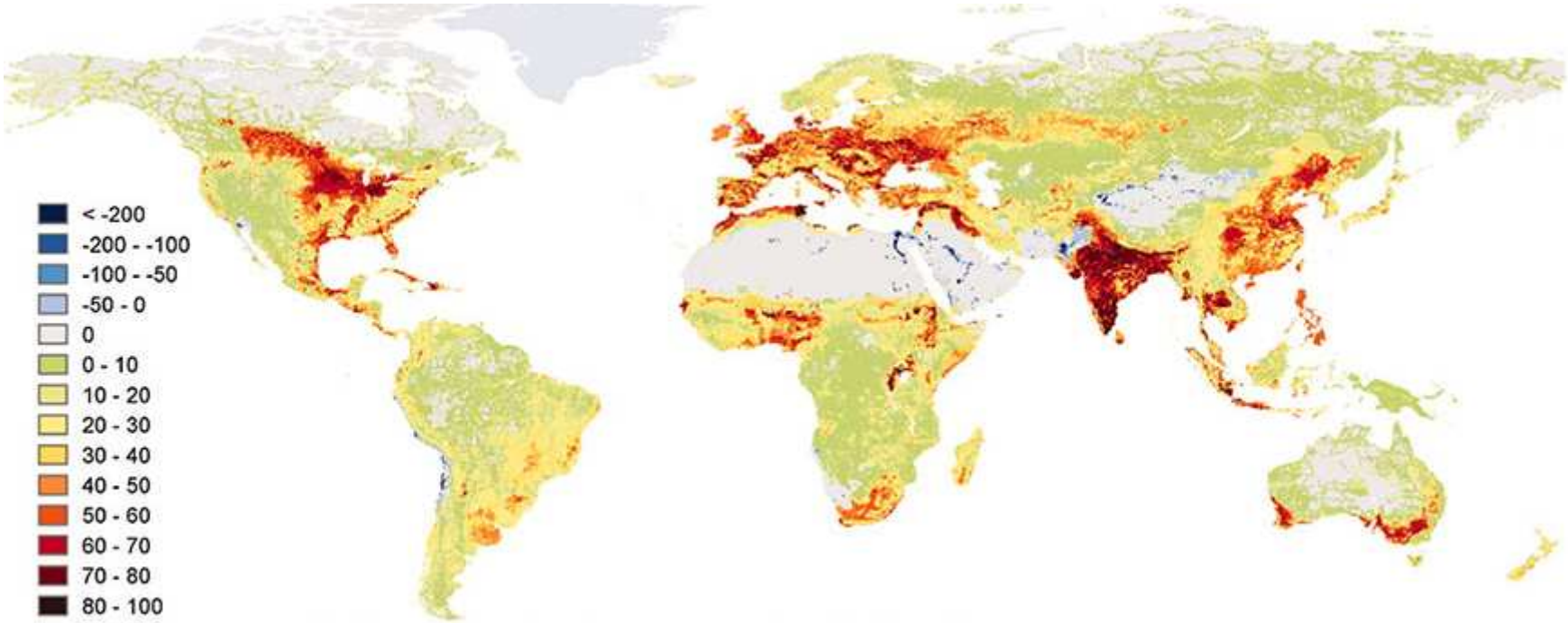

Human appropriation of net primary productivity, %

Haberl et al PNAS 2007

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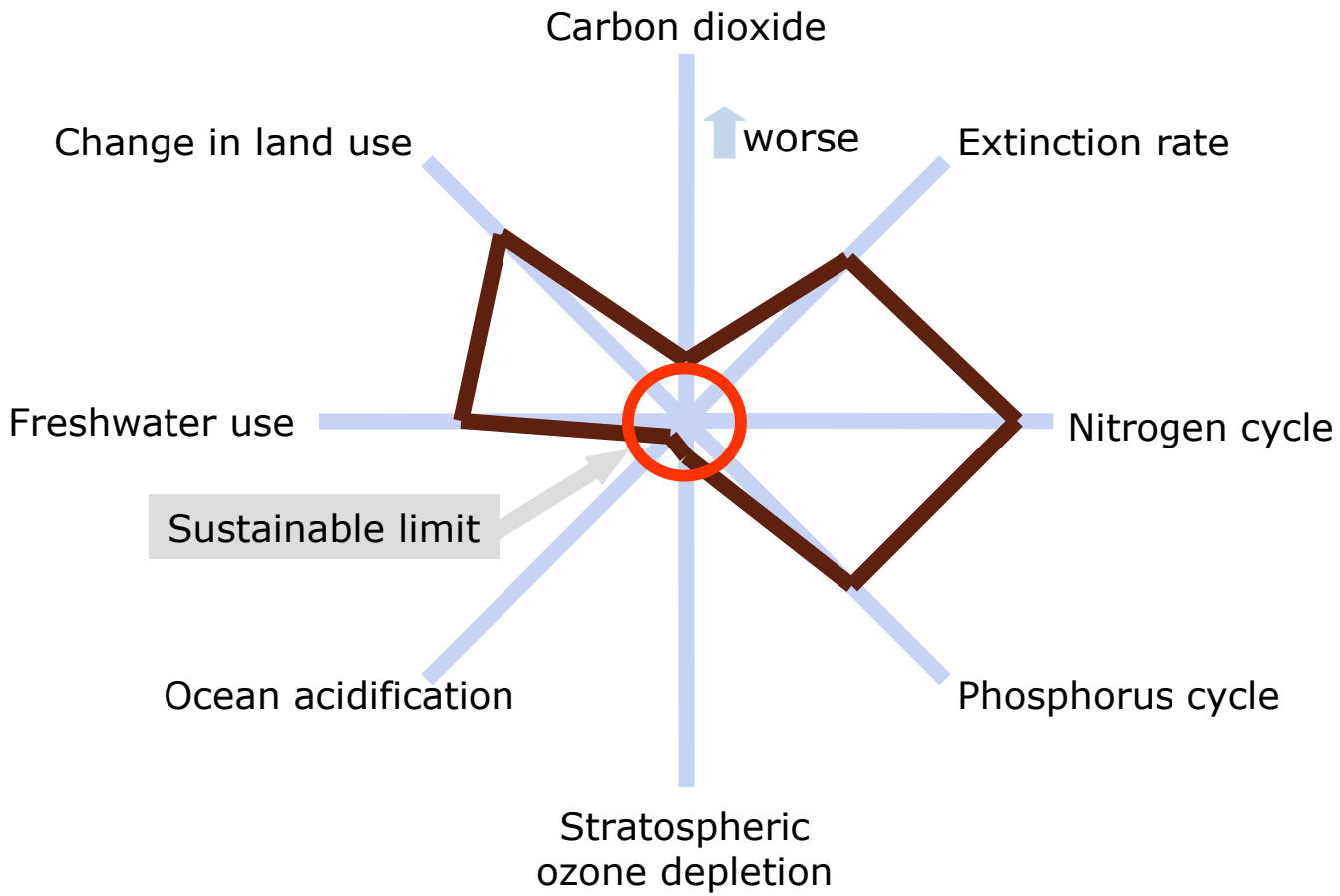
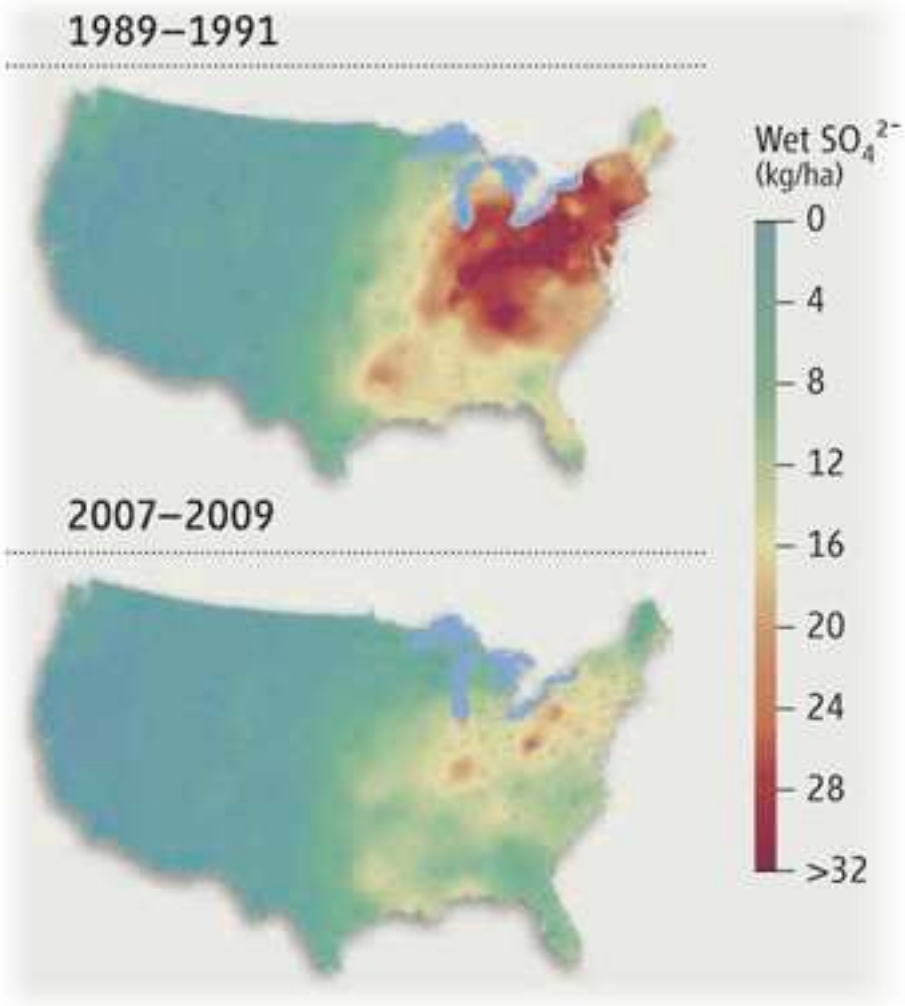


Some pollutants are relatively easy to abate



US Sulphur contamination

Others, such as CO_2, are much less tractable

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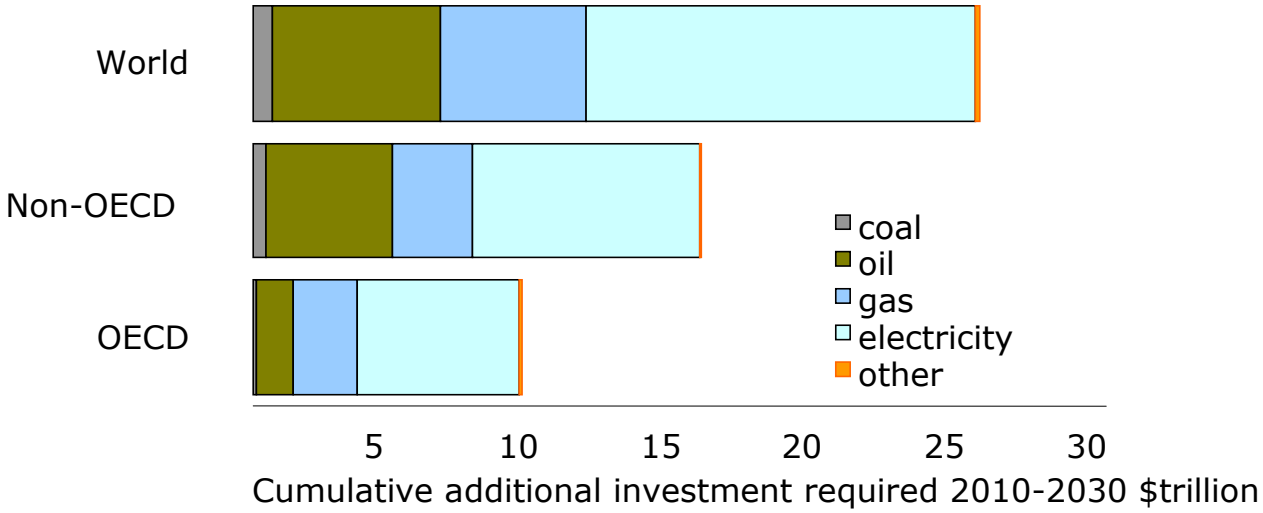
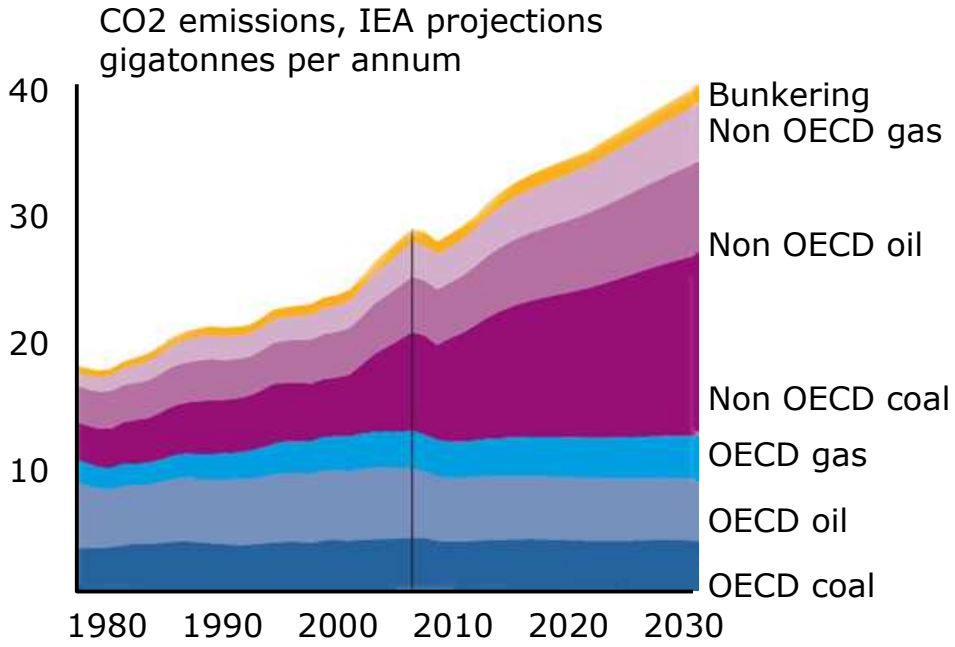


Colossal sums need to be spent, and energy must be used with much greater efficiency: the 15W refrigerator.



All of this comes with a short-run cost, and probably with a long run cost

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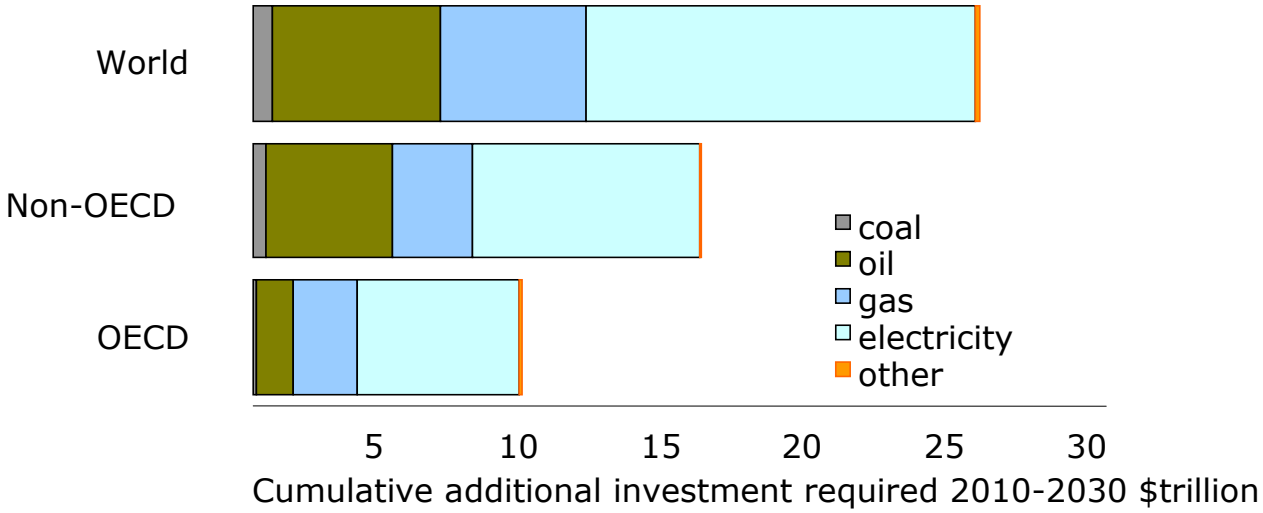

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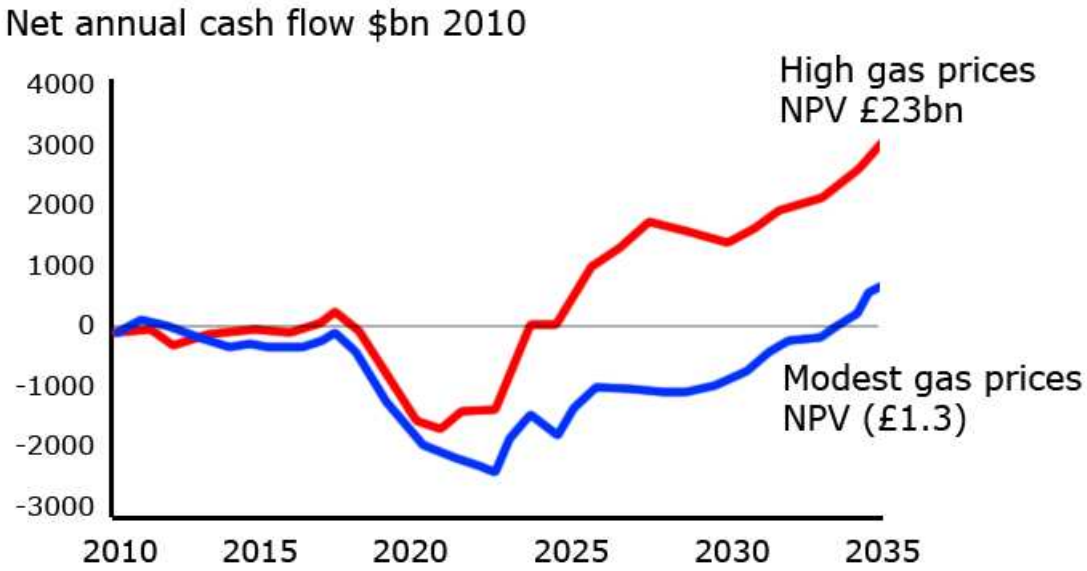

Current estimates of the UK electricity plan economics

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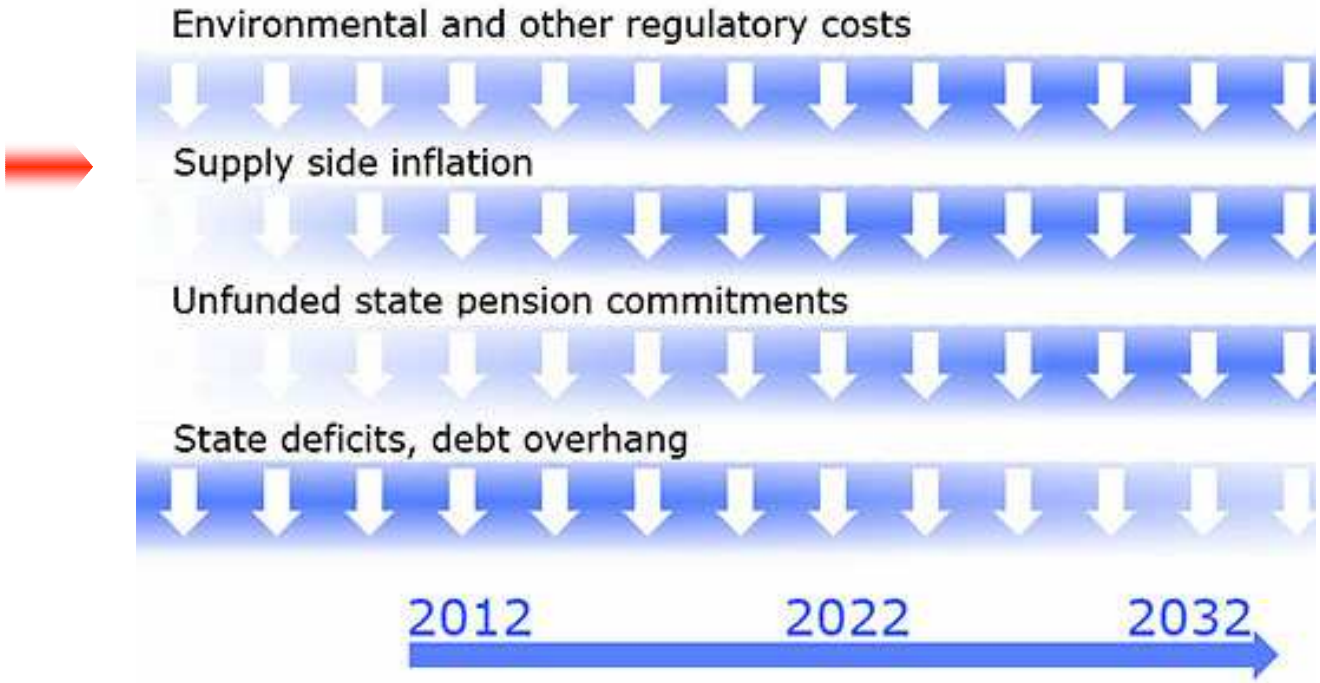
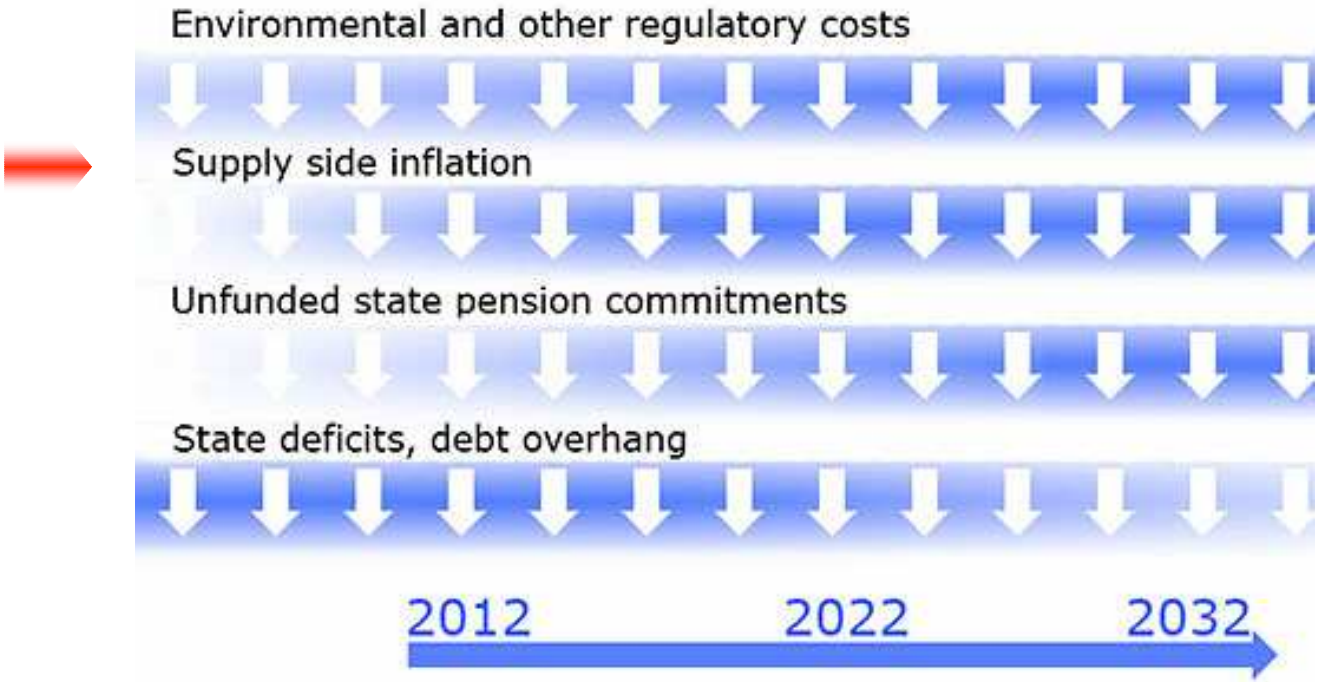


Even with low global growth, resource costs have increased by 10% since 2002. This clips about half a percent of US growth rates, for example.



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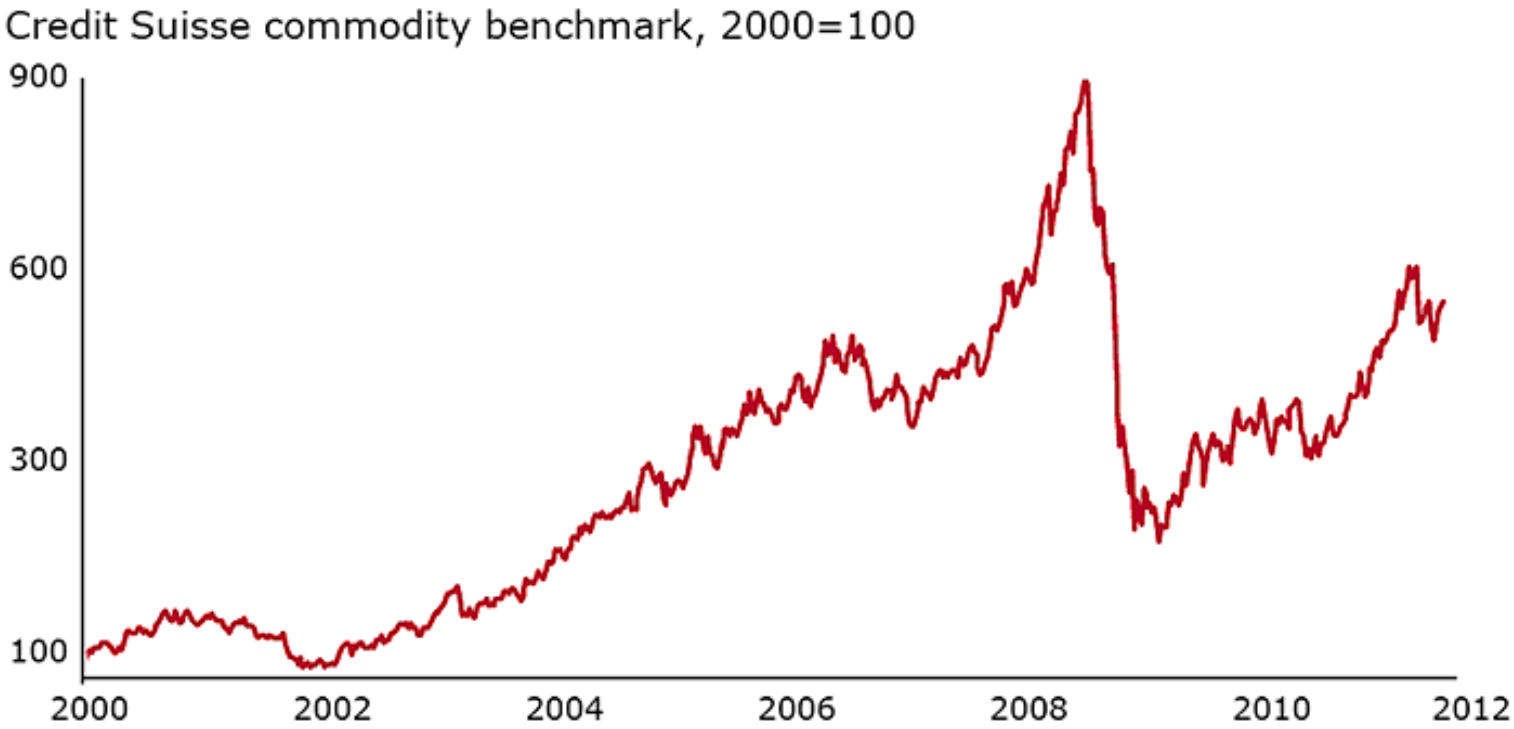
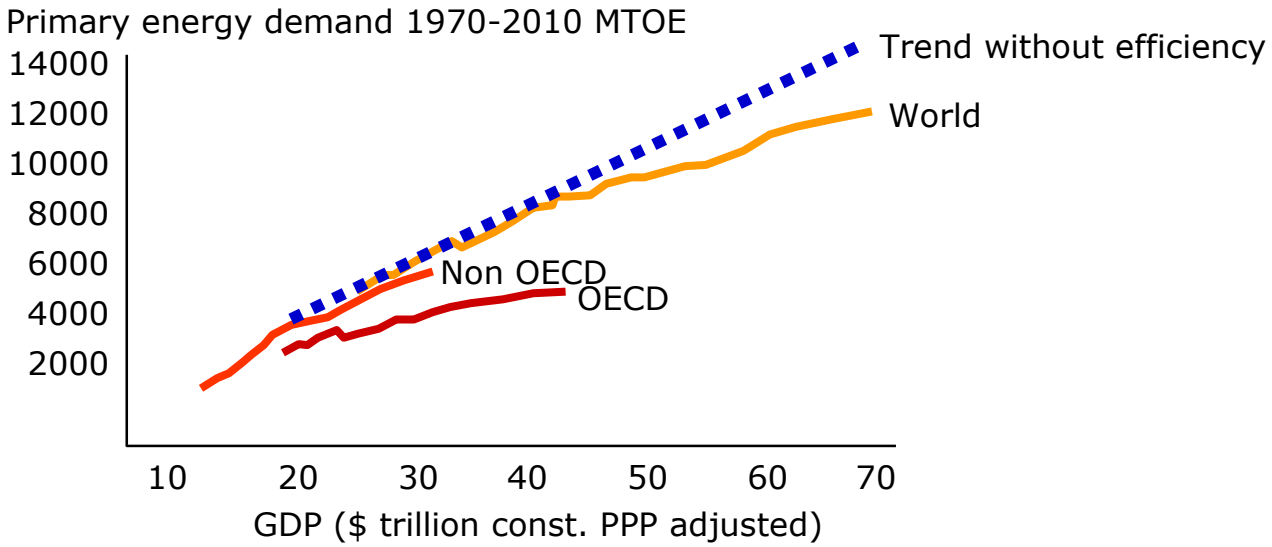


The low cost sources of supply of food, energy and minerals have largely been exploited. Demand is often closely coupled to economic growth.



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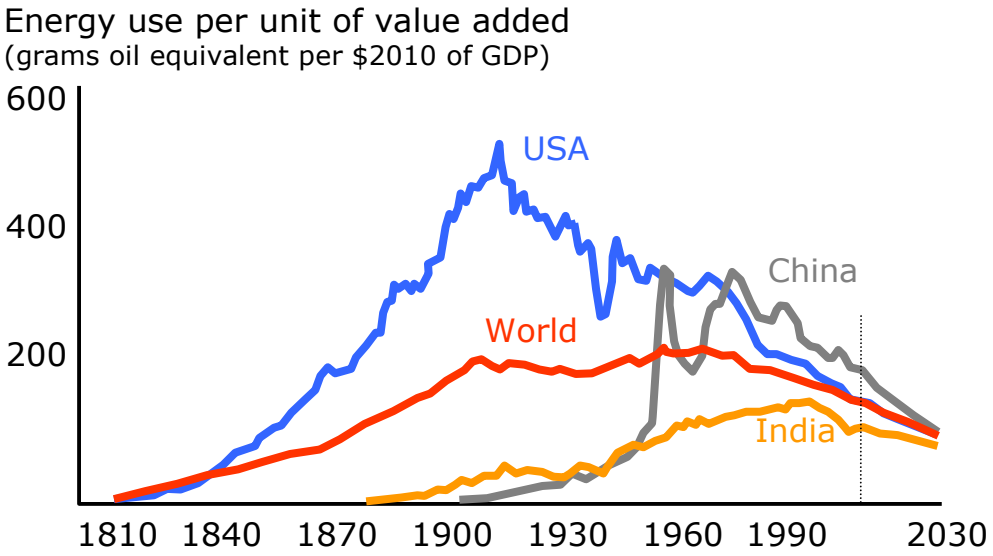
The world ahead is predicated on efficiency in both production and consumption. The required investment will be driven by a mix of high prices and regulation



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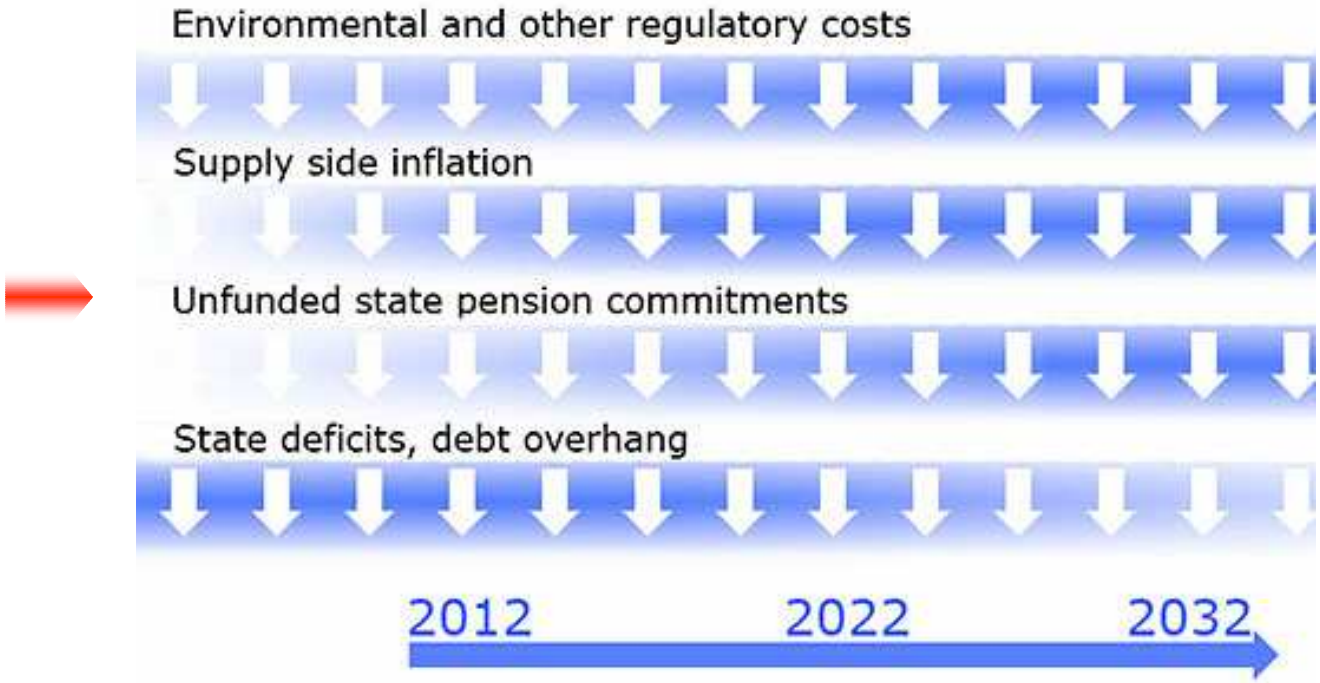
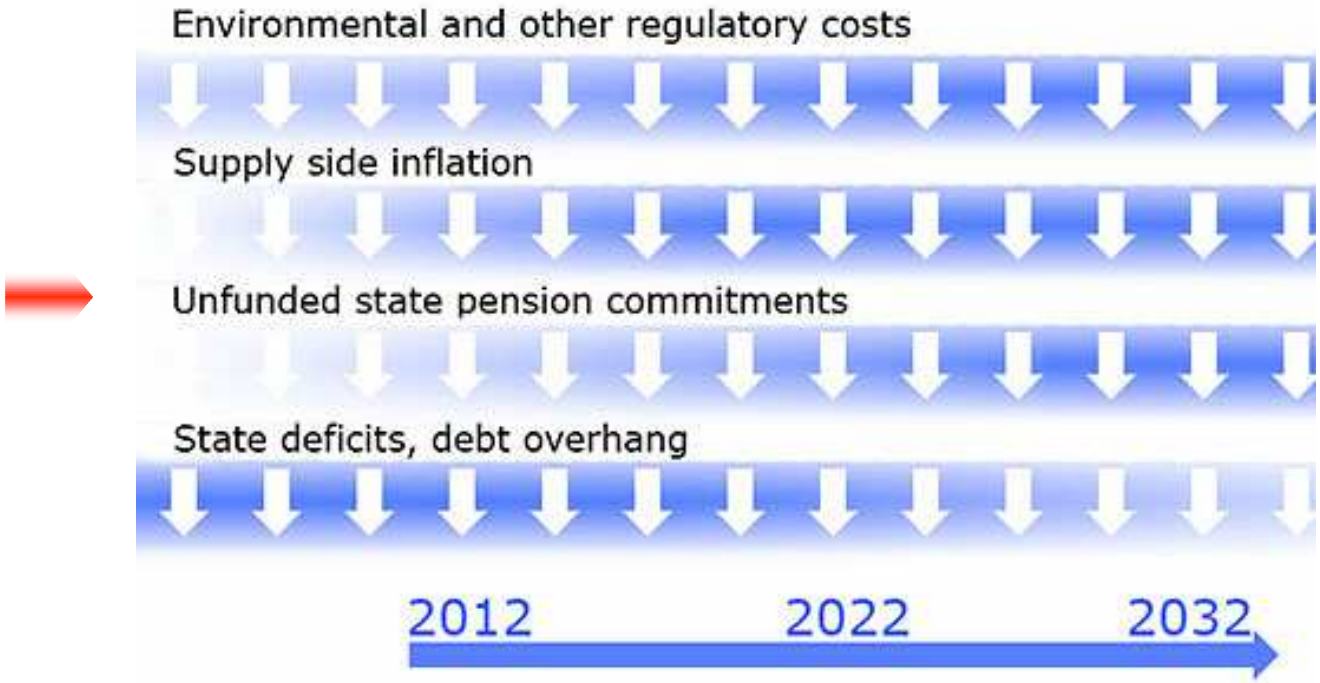


Many of the public welfare provisions in the wealthy world were put in place to serve a demographically young population.



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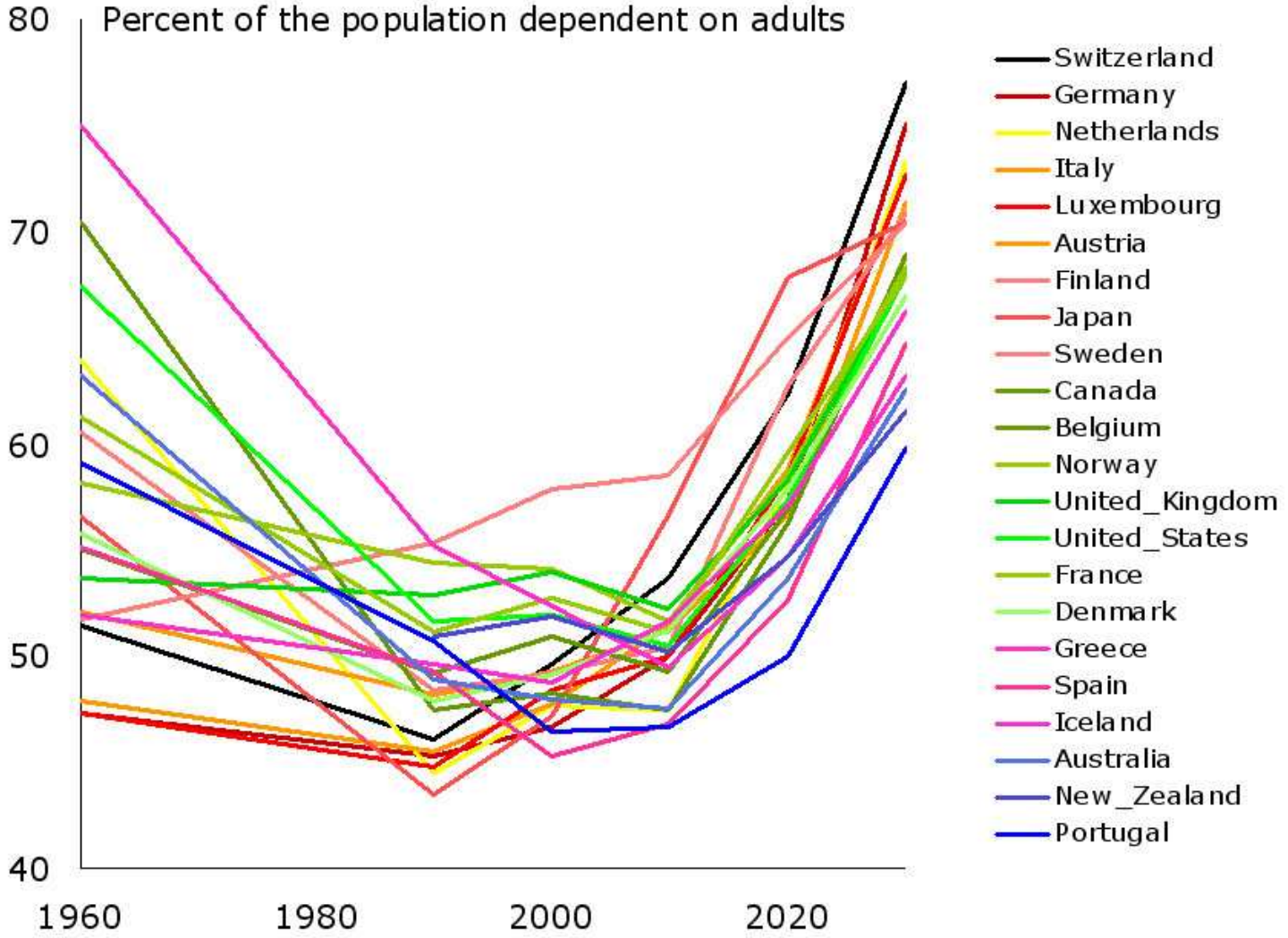

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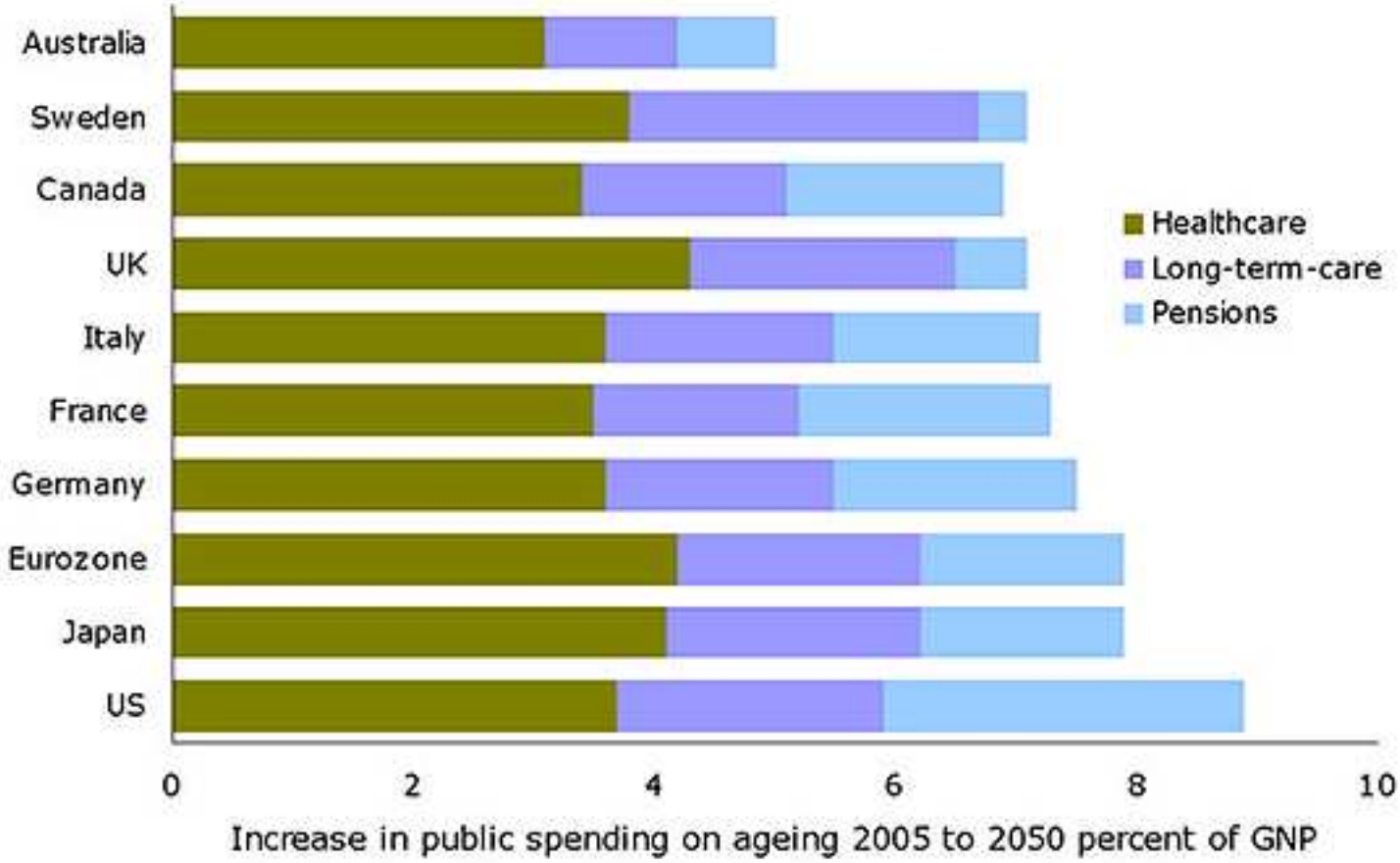
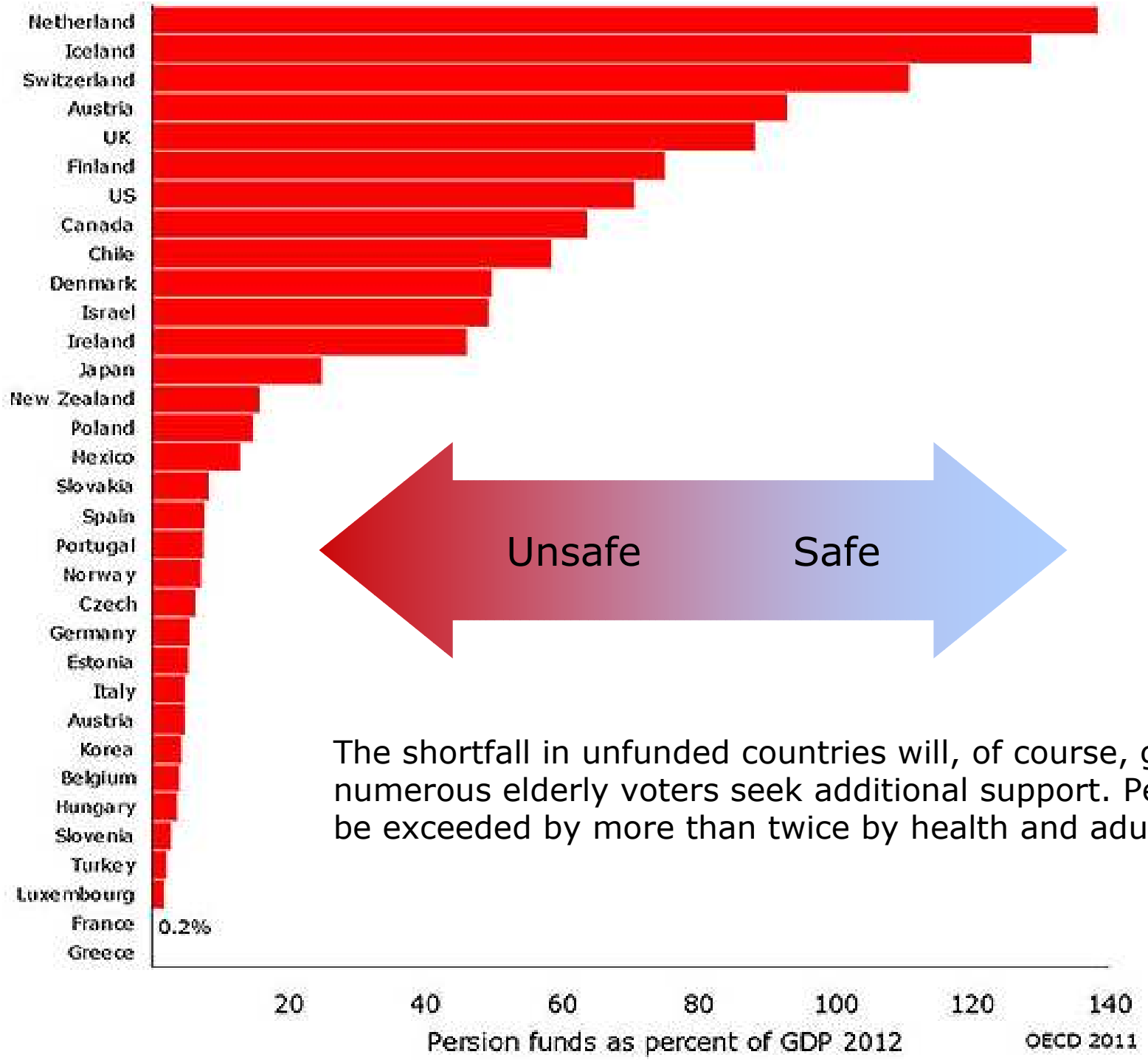
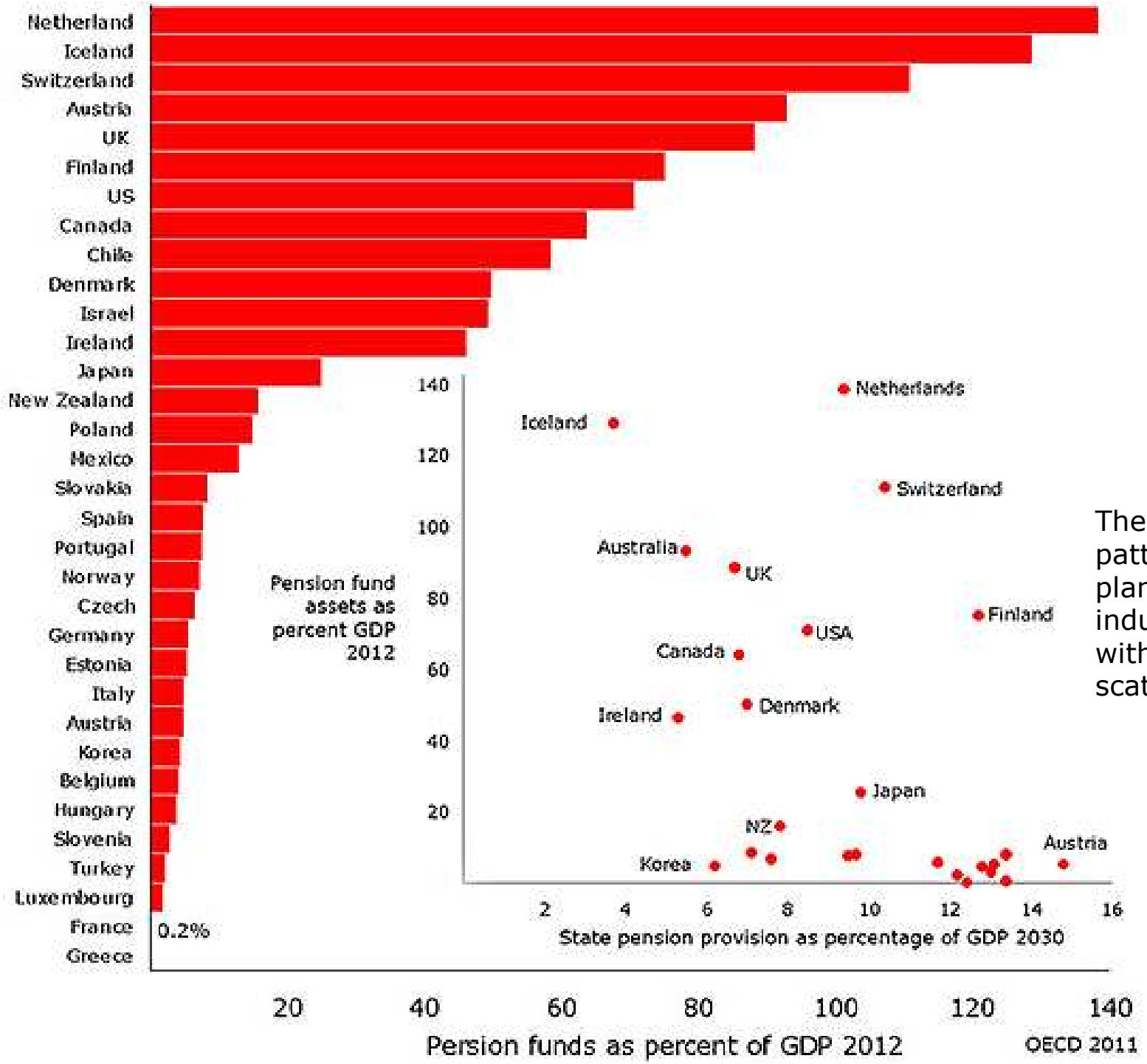
Sales of diapers for adults exceeded those for babies in Japan in 2011



The cost of unfunded pensions in Europe and the US at current levels of commitment are comparable to the cost of WWII



The shortfall in unfunded countries will, of course, grow as numerous elderly voters seek additional support. Pension costs will be exceeded by more than twice by health and adult support costs



There is no coherent pattern of support planned across the industrial nations, with a near random scatter, as shown.

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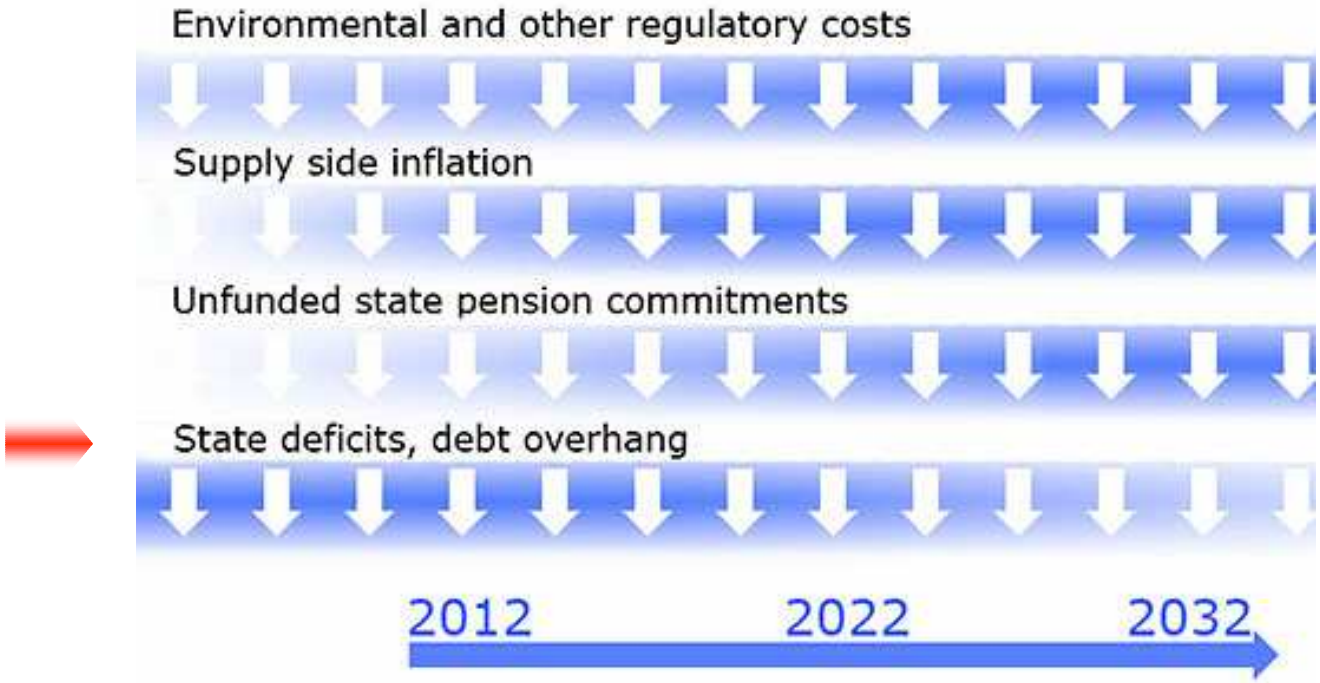


The implication is that US historical rates (3.5%) could be cut to between 1.5% and no growth at all. Similar reductions apply to other nations with demographic and financial difficulties. Efficiency and health advances can abate some of this.

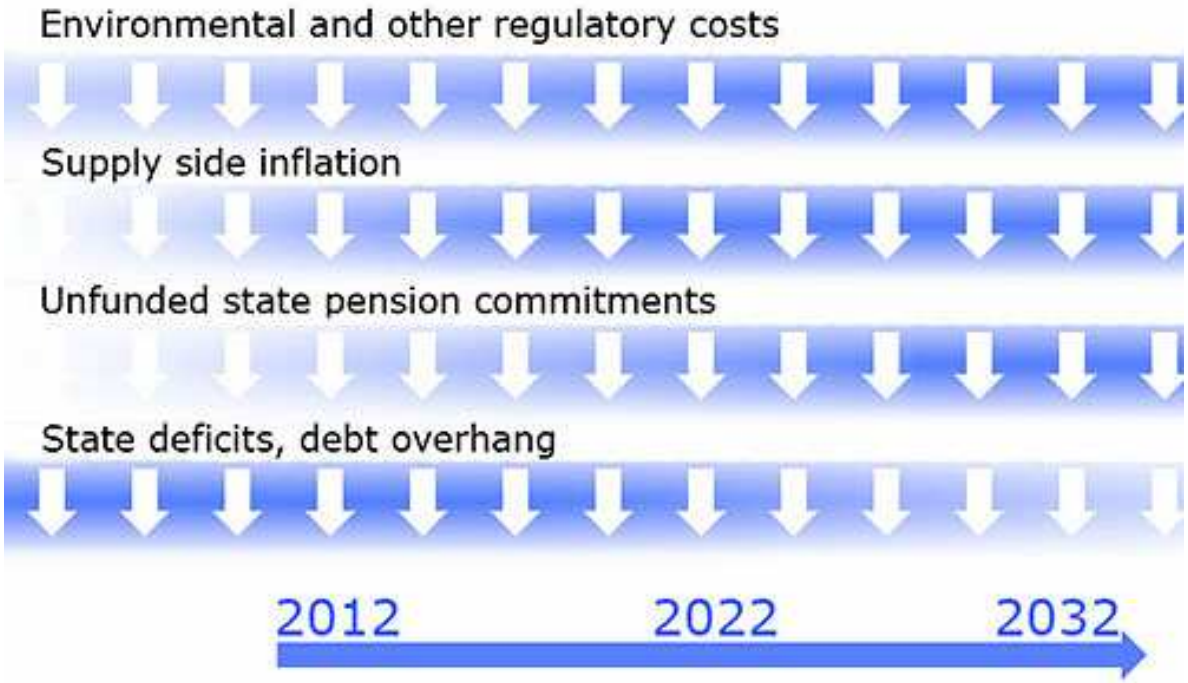
Reduction over OECD historical long run growth rates, %

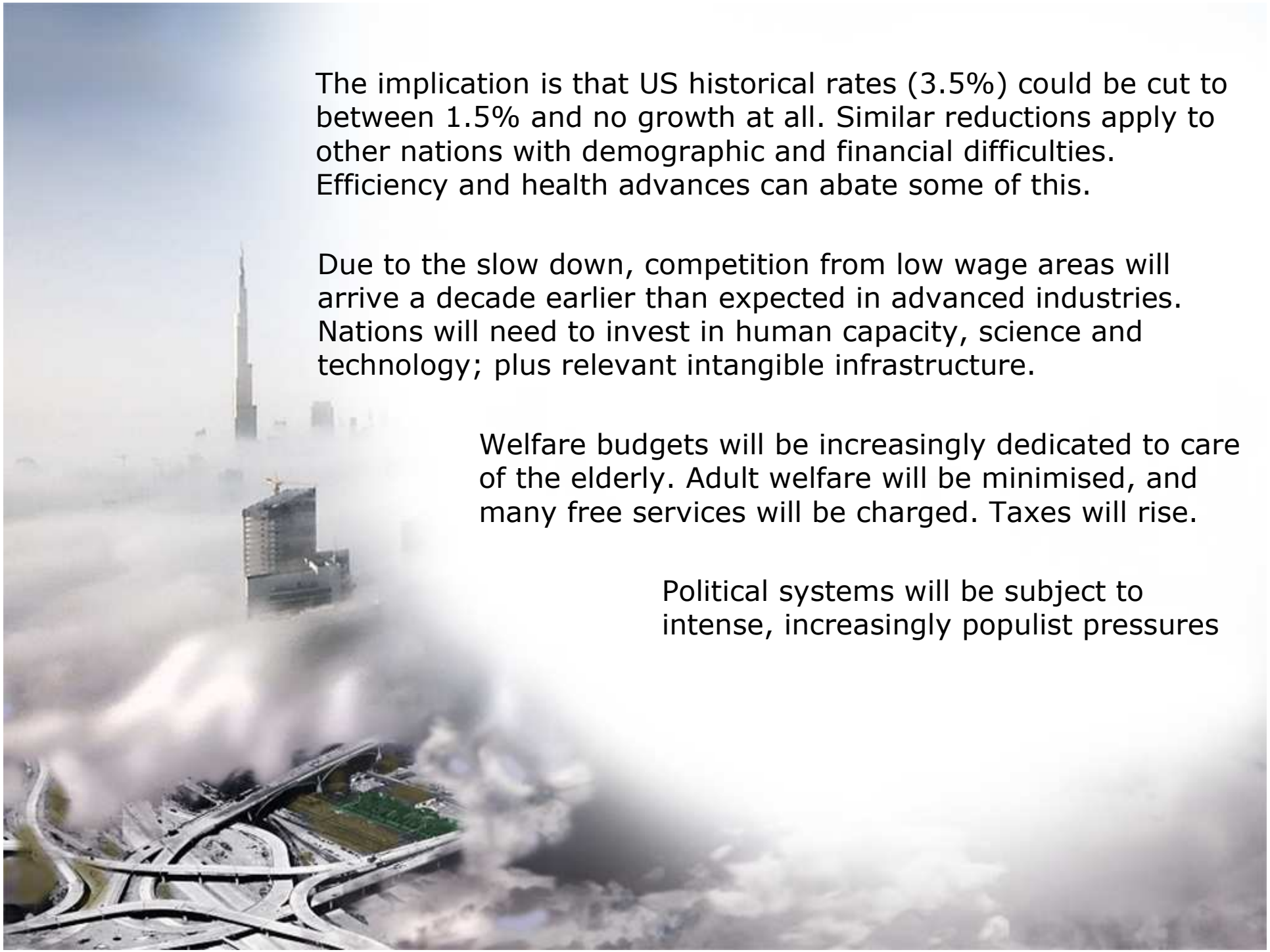
½-1%

¼-½%

1-2%+

½-1%





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Due to the slow down, competition from low wage areas will arrive a decade earlier than expected in advanced industries. Nations will need to invest in human capacity, science and technology; plus relevant intangible infrastructure.

Welfare budgets will be increasingly dedicated to care of the elderly. Adult welfare will be minimised, and many free services will be charged. Taxes will rise.

Political systems will be subject to intense, increasingly populist pressures

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  - China
  - Emerging & poor economies
  - Politics in the wealthy world

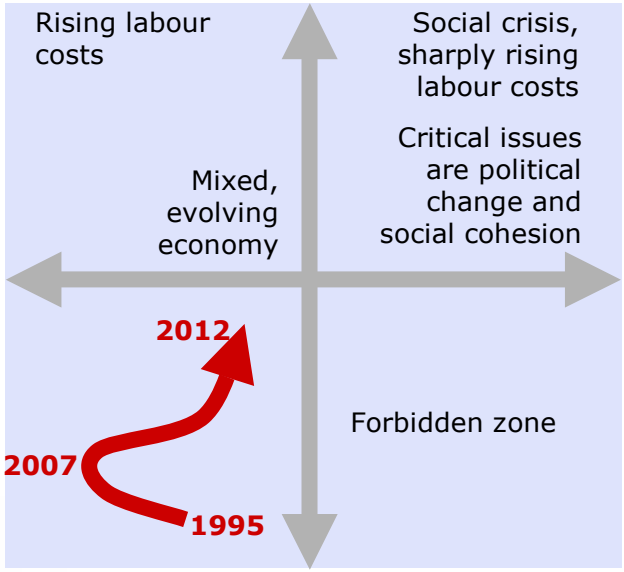
Demographics in China are similar to those in the West

Massive savings against old age fuelled the second revolution

China has ten years to undertake six key tasks:

- Switch from export orientation to domestic consumption.
- Manage the politics of a state with a huge middle class
- Bring 7-800 million rural poor into the economic revolution
- Manage its environmental situation, and other quality of life issues
- Give citizens access to law, information; deliver state integrity
- Find a place for itself as a power in Asia and the World

China moves successfully to domestic consumption



External world is kind to China

China forced to focus on its internal affairs

The economy remains largely export oriented

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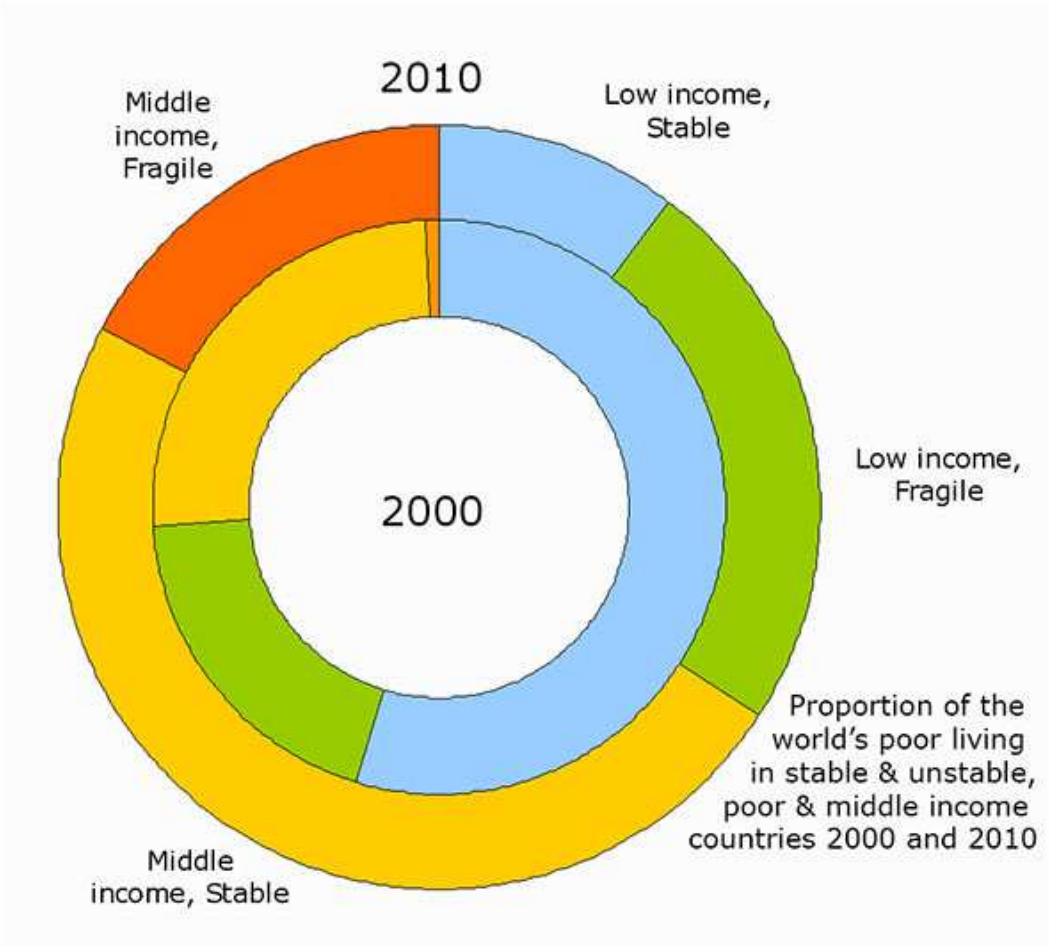
China
Emerging & poor economies
Politics in the wealthy world

The last decade saw major changes. Economies grew fast, but many countries became less politically stable.



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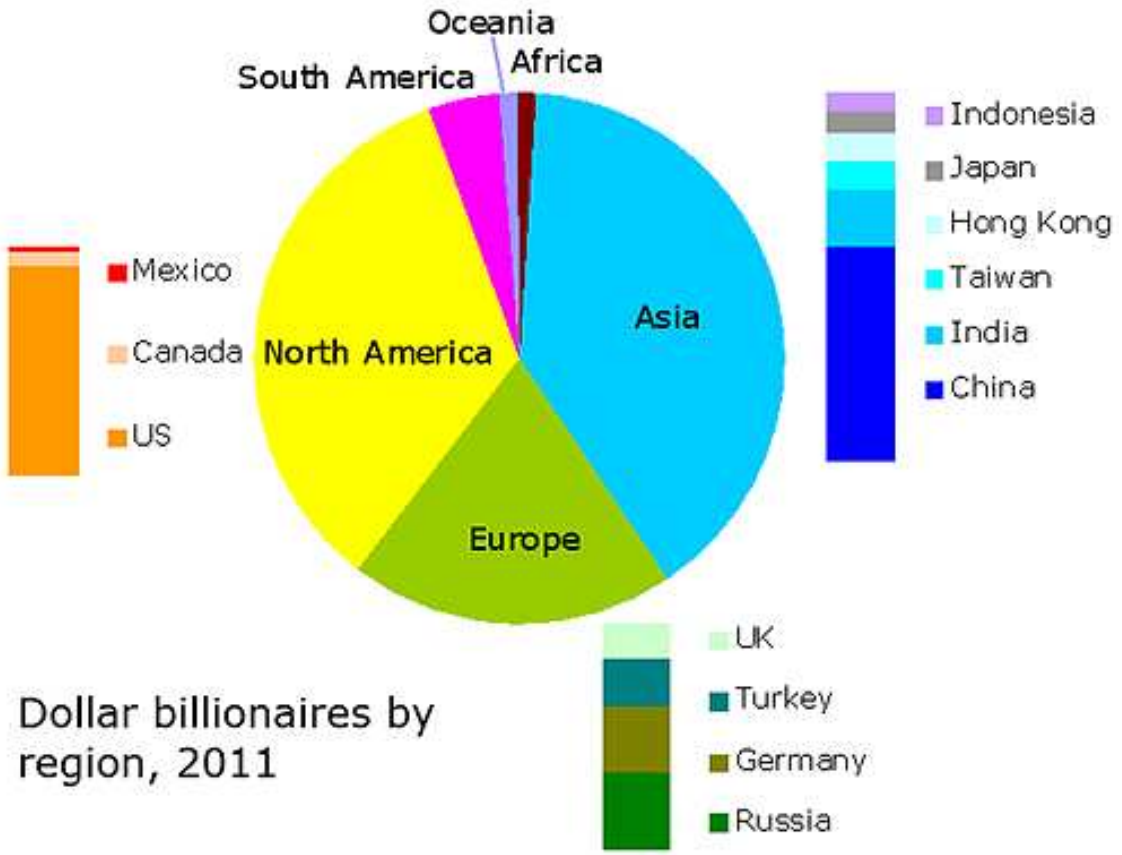
A growing global middle class does not share Western values.



Dollar billionaires by region, 2011

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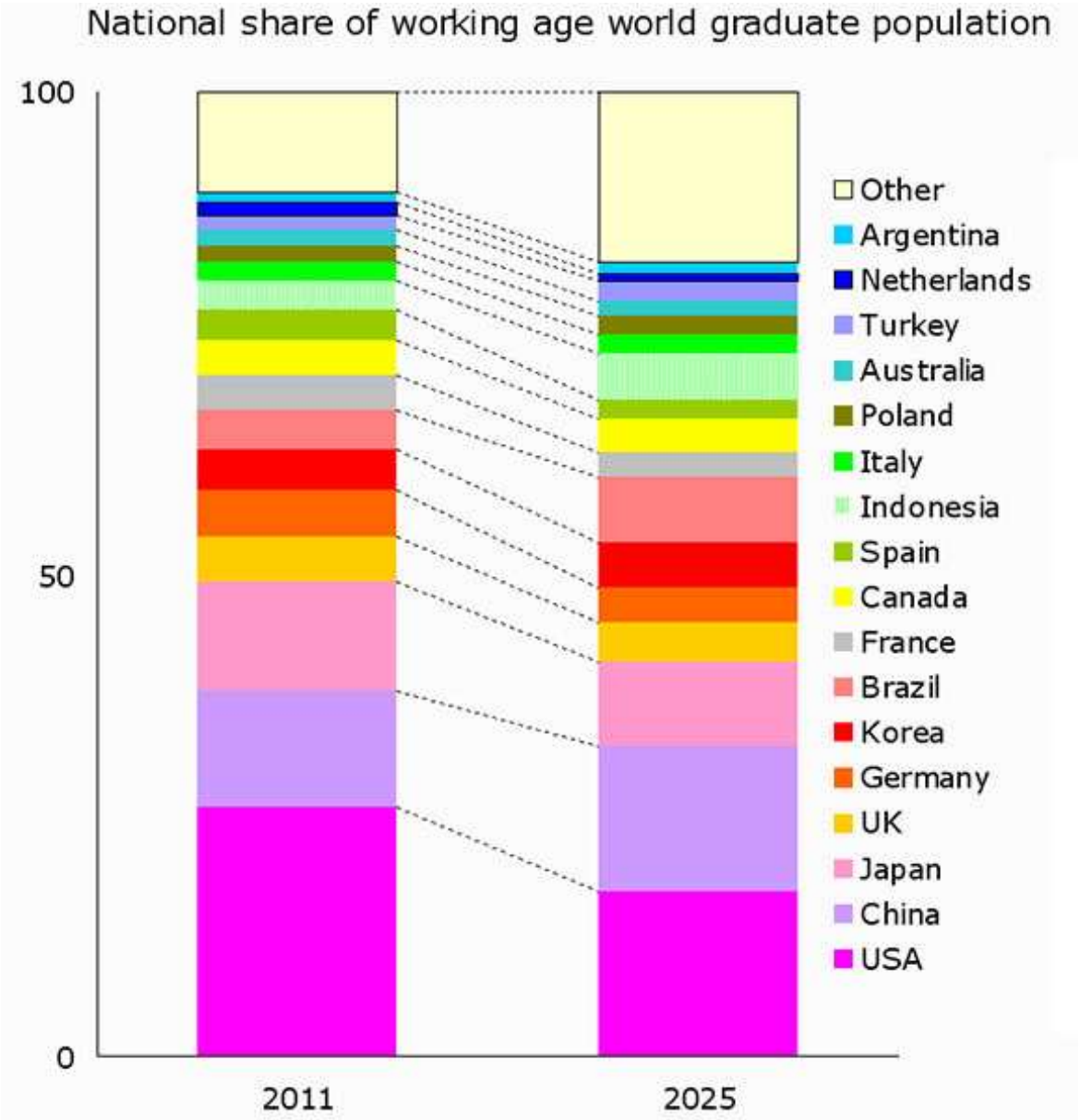
A growing global middle class does not share Western values.

The world's educated population increasing resides outside the industrial world



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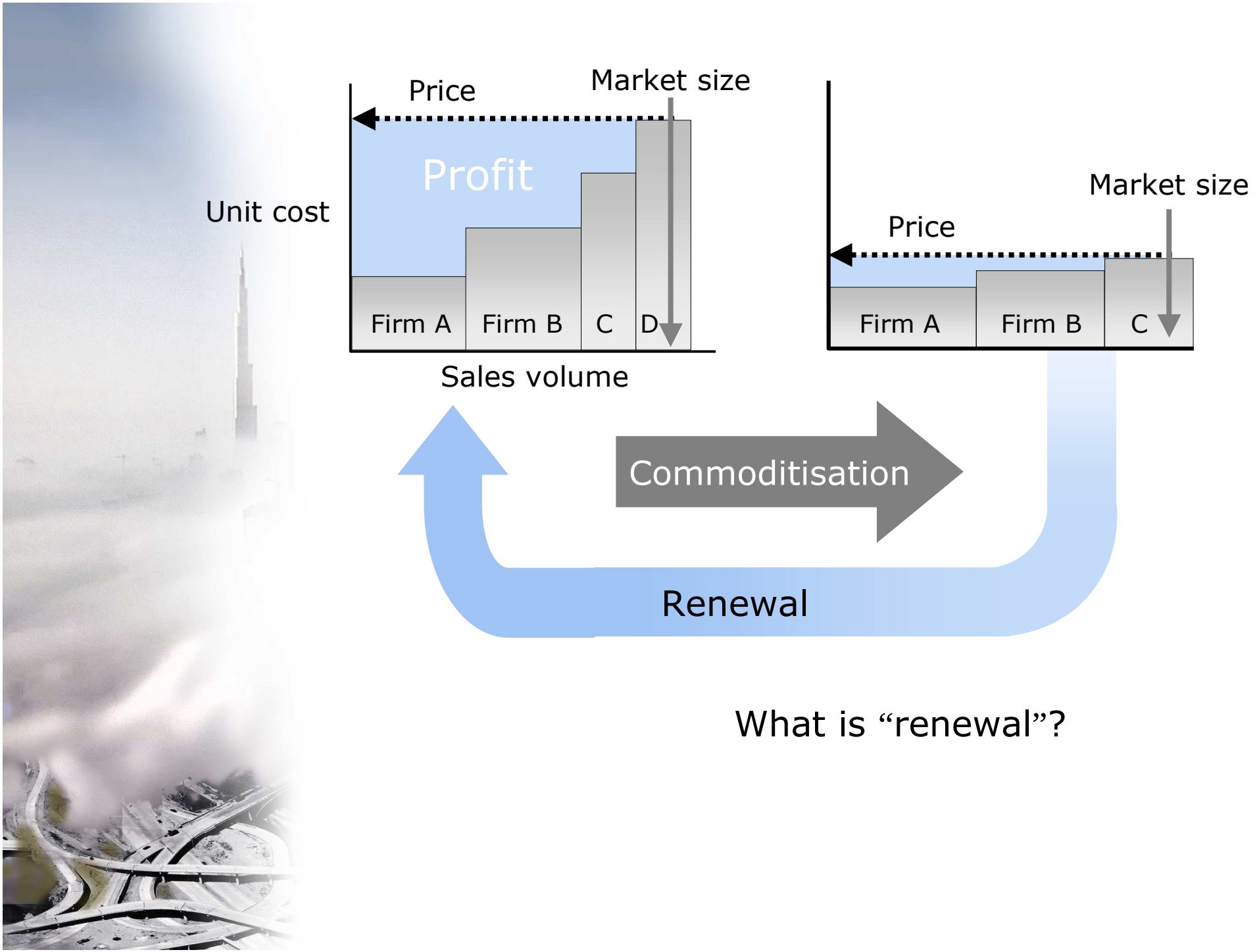
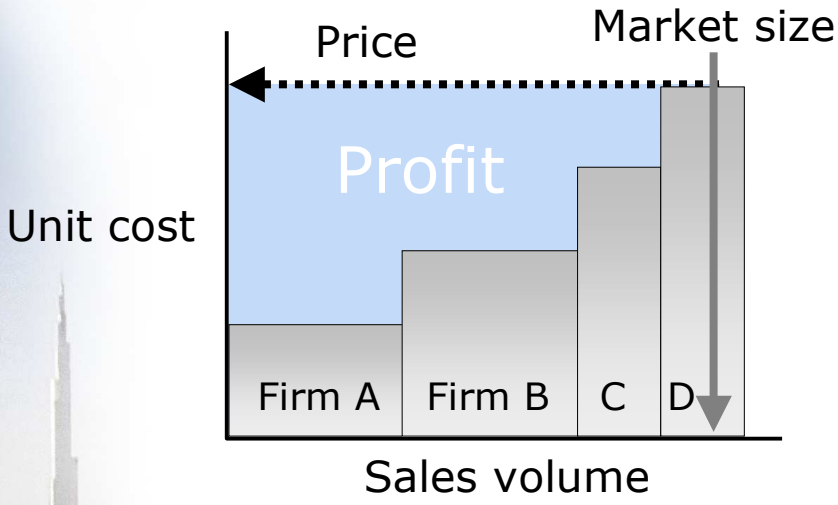
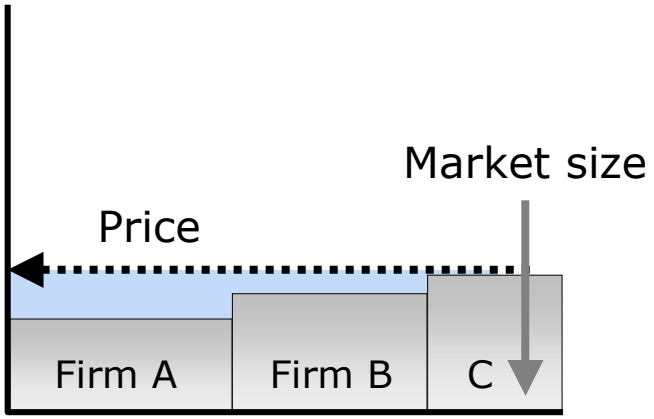
- The New Deal heritage is close to its end
- This and growing income inequality will be divisive
- Self-defeating responses attempt to cling to the past
- Positive responses must include socioeconomic renewal

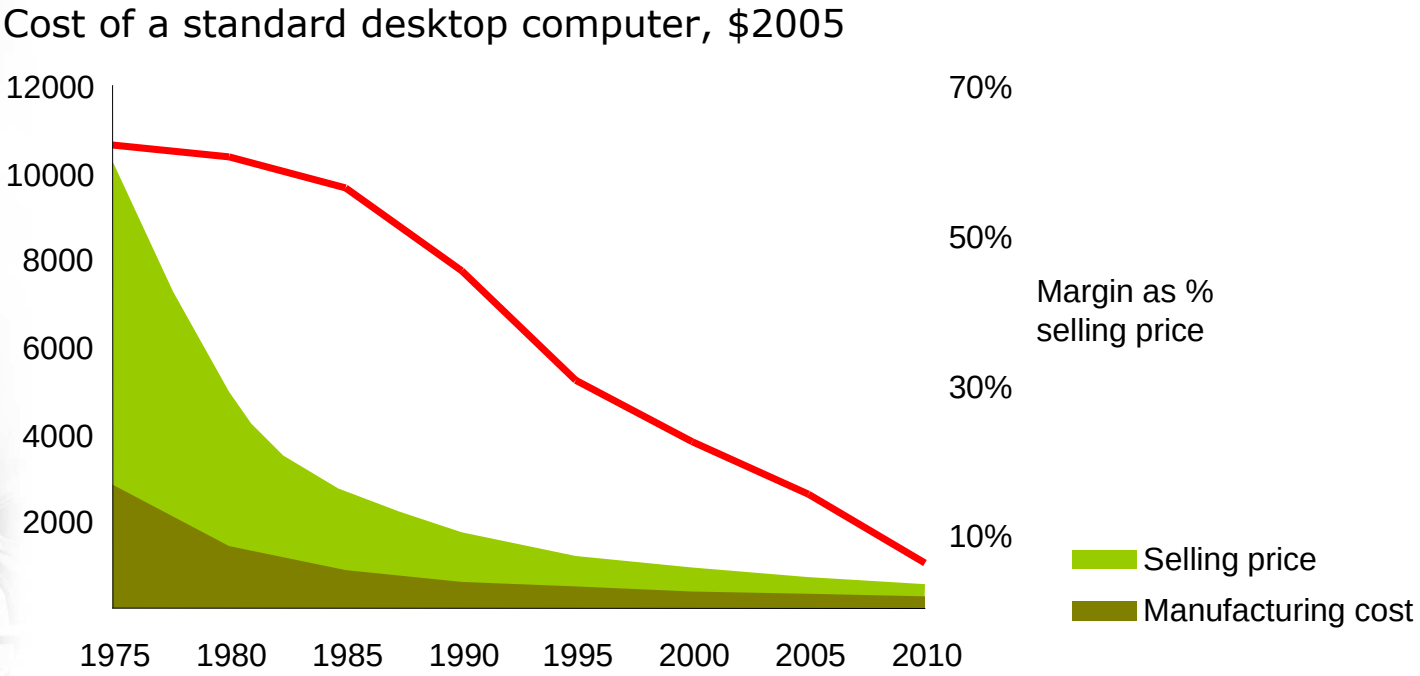
What is “renewal”?



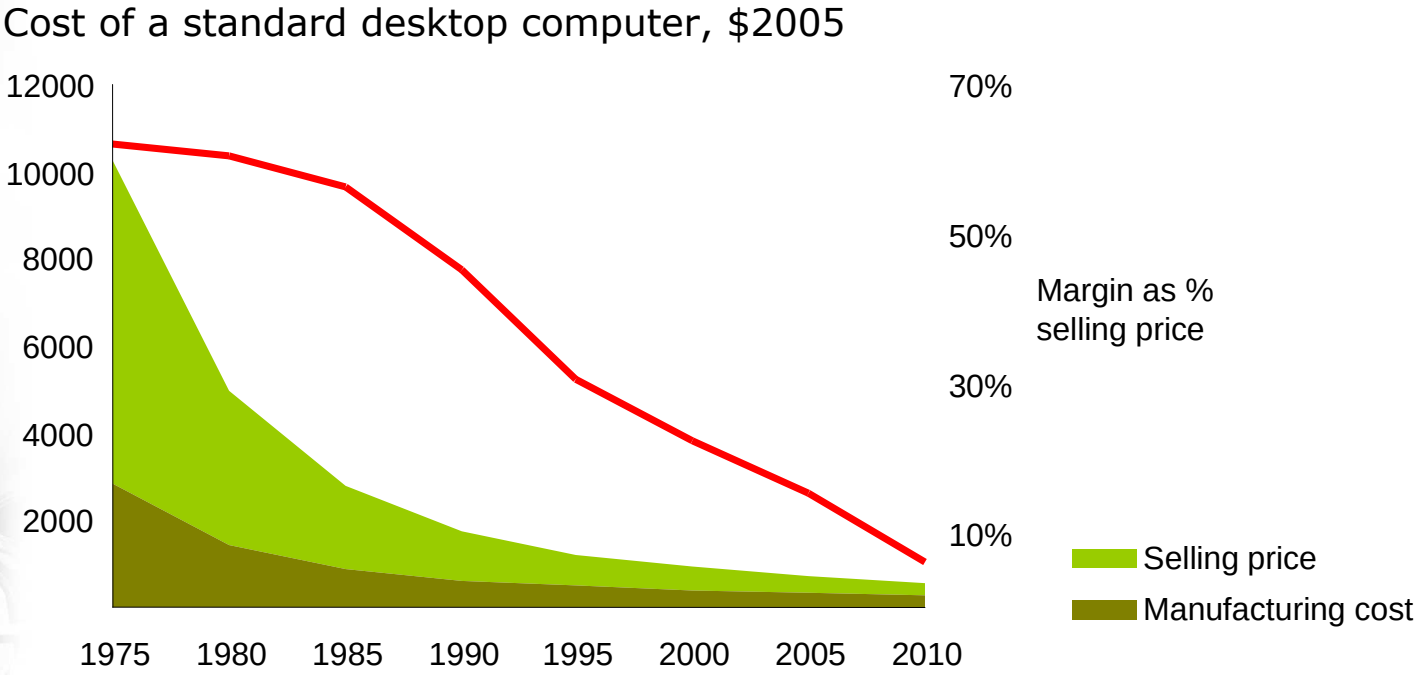
What is “renewal”?


Price
Market size
Profit
Unit cost
Firm A
Firm B
C
D
Sales volume


Market size
Price
Firm A
Firm B
C


Cost of a standard desktop computer, $2005
12000
10000
8000
6000
4000
2000
70%
50%
30%
10%
Margin as % selling price
1975
1980
1985
1990
1995
2000
2005
2010
Selling price
Manufacturing cost

Asset recycling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1975
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Selling price
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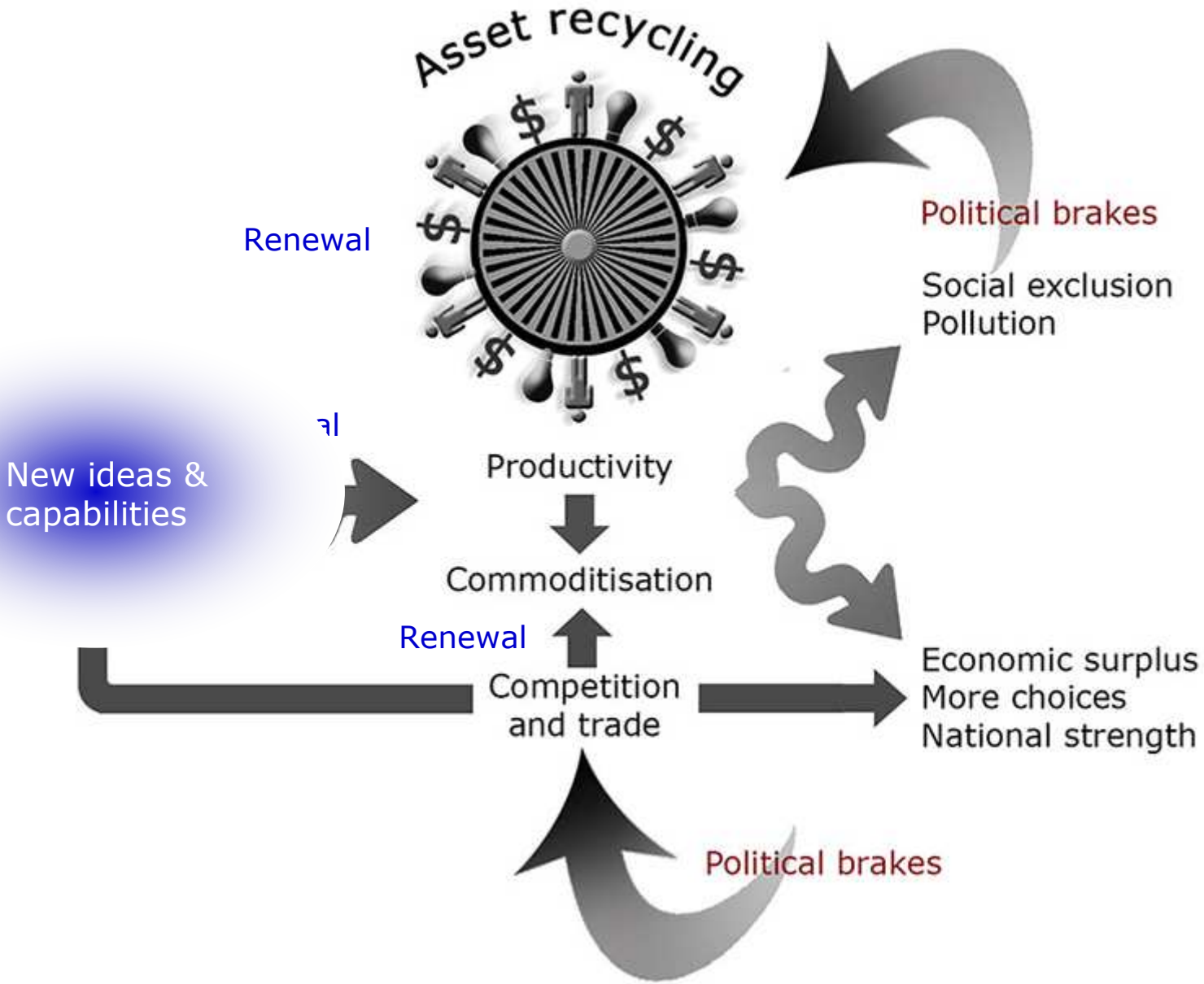
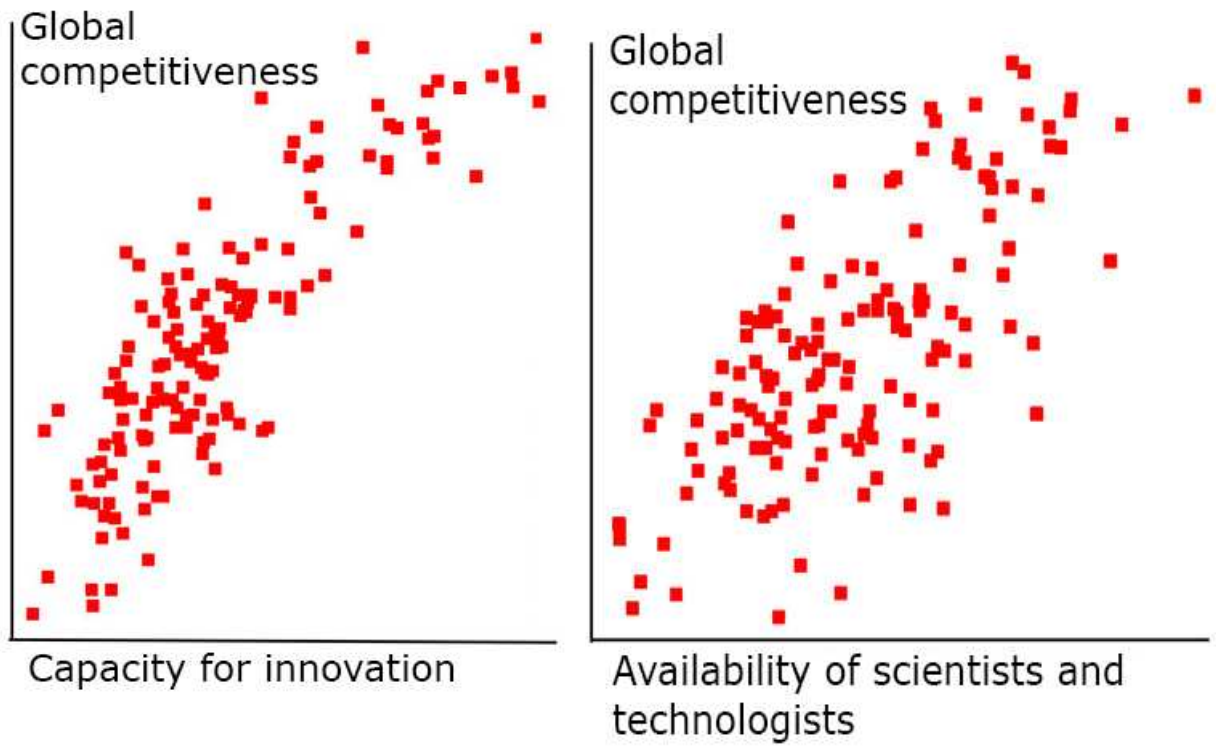
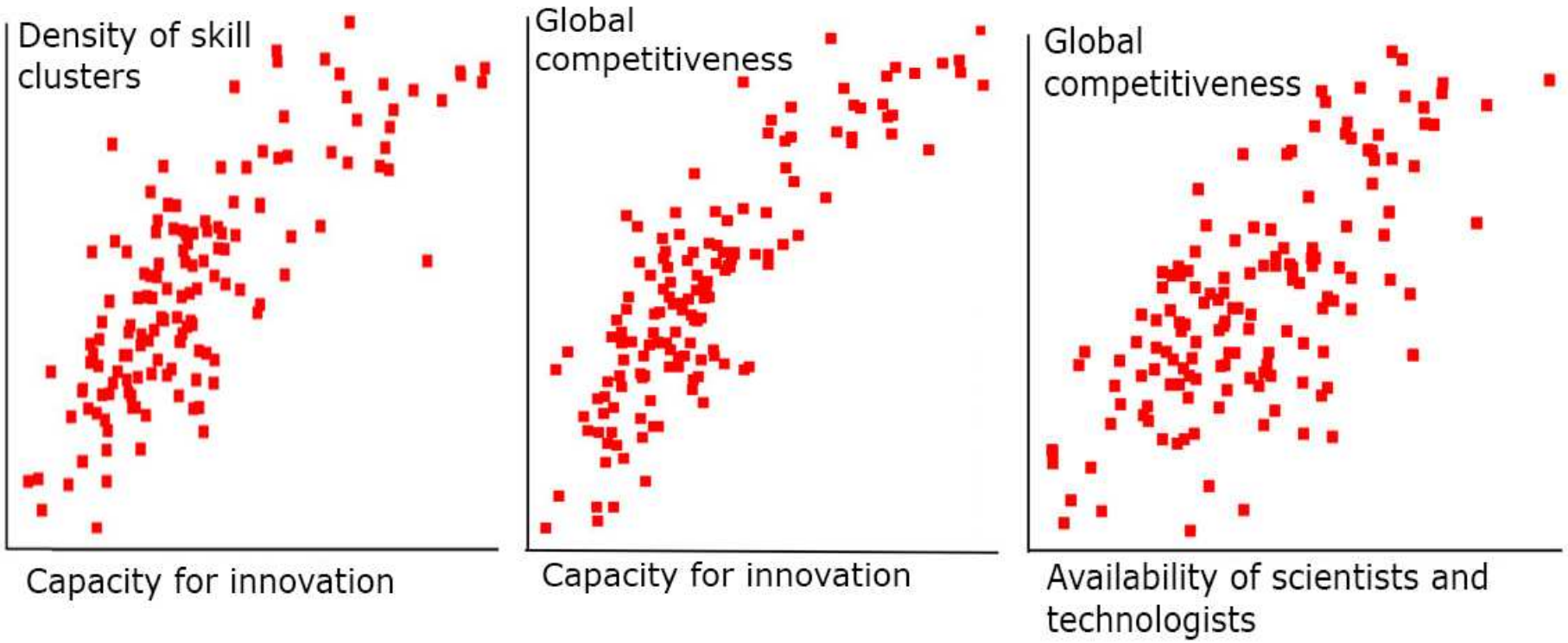
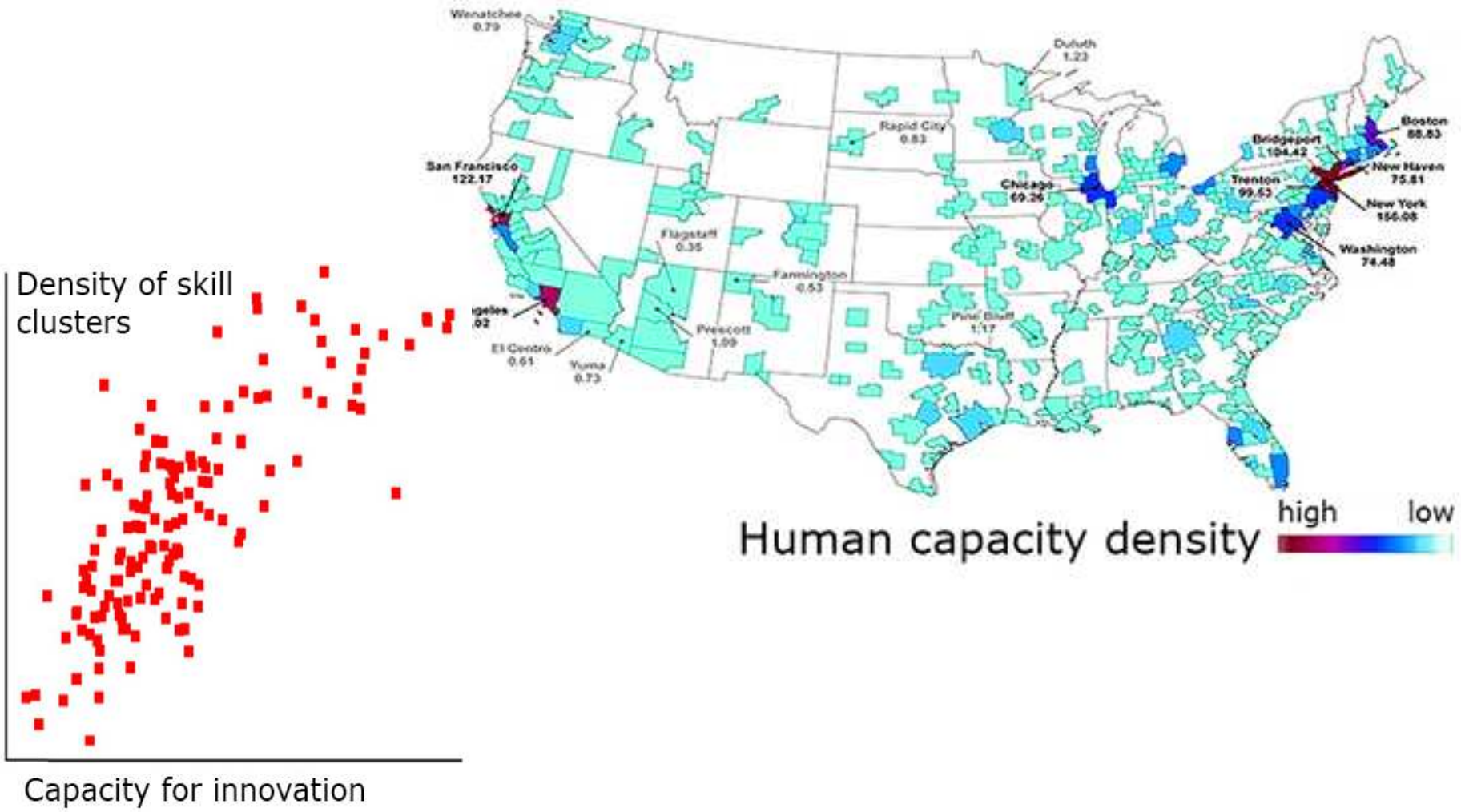

Asset recycling
Renewal
Political brakes
Social exclusion
Pollution
New ideas &
capabilities
Productivity
Commoditisation
Renewal
Economic surplus
More choices
National strength
Competition
and trade
Political brakes

New ideas & capabilities

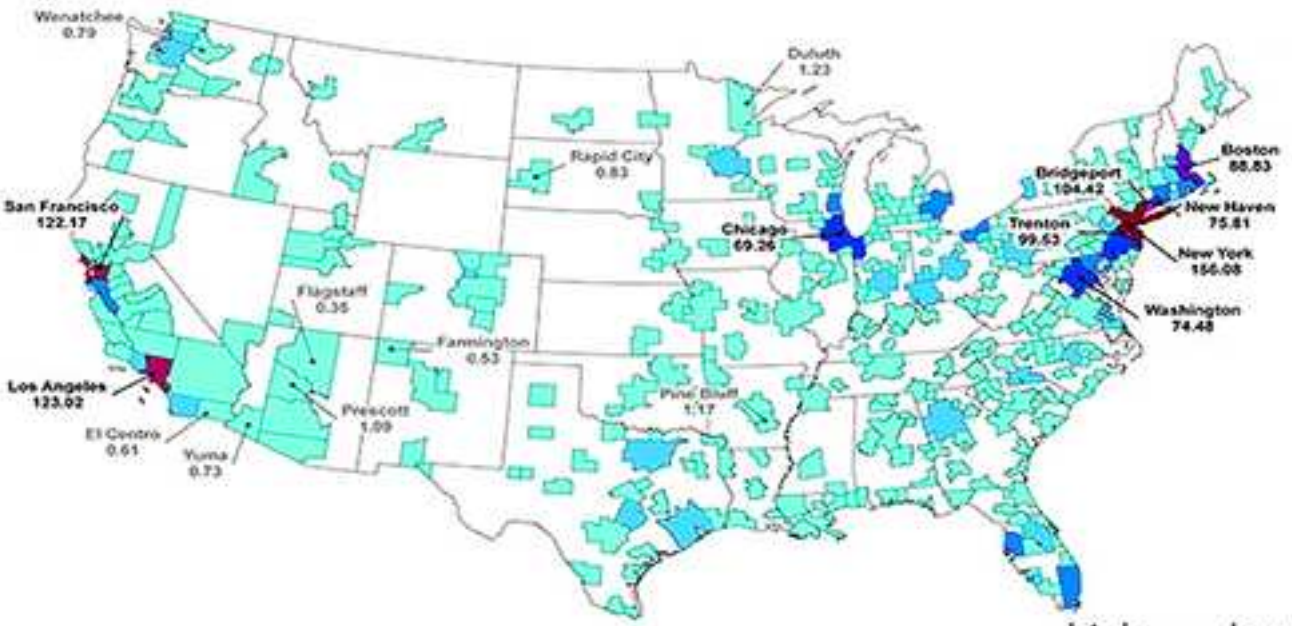


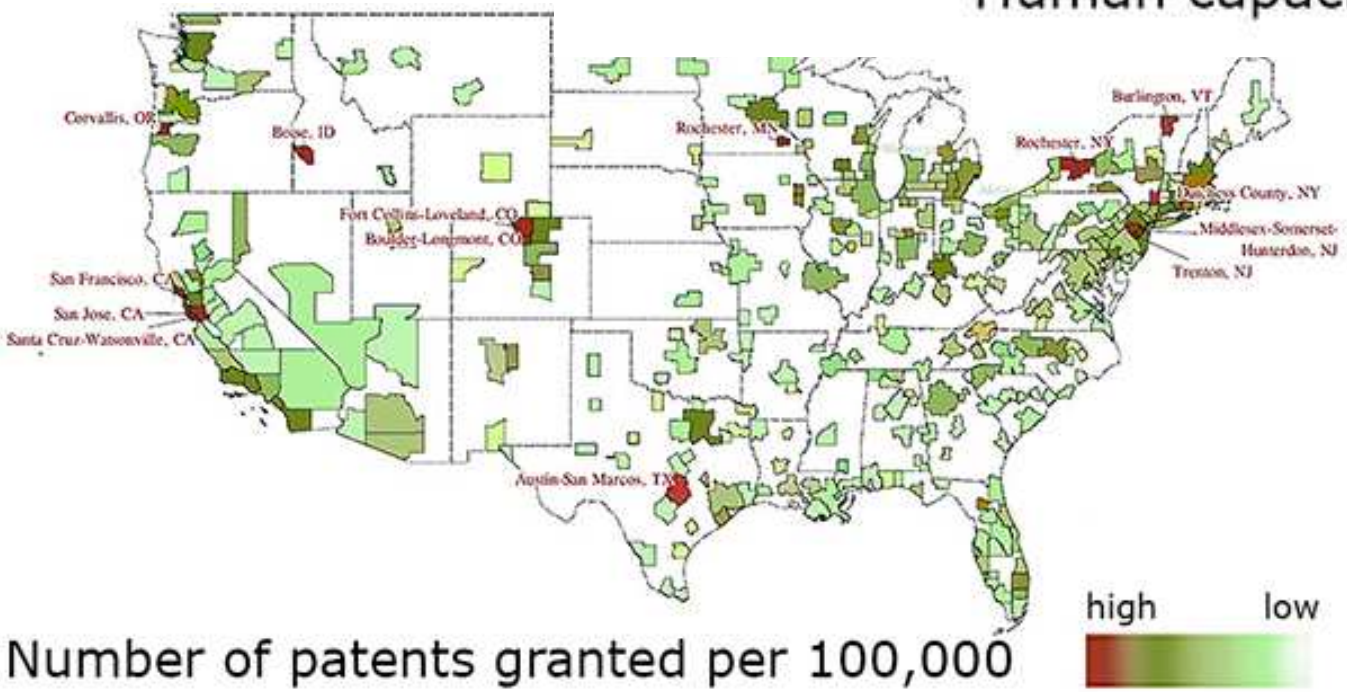


Clusters form wherever there is a sustained burst of industrialisation
They draw in human and financial capital, technology and support industry

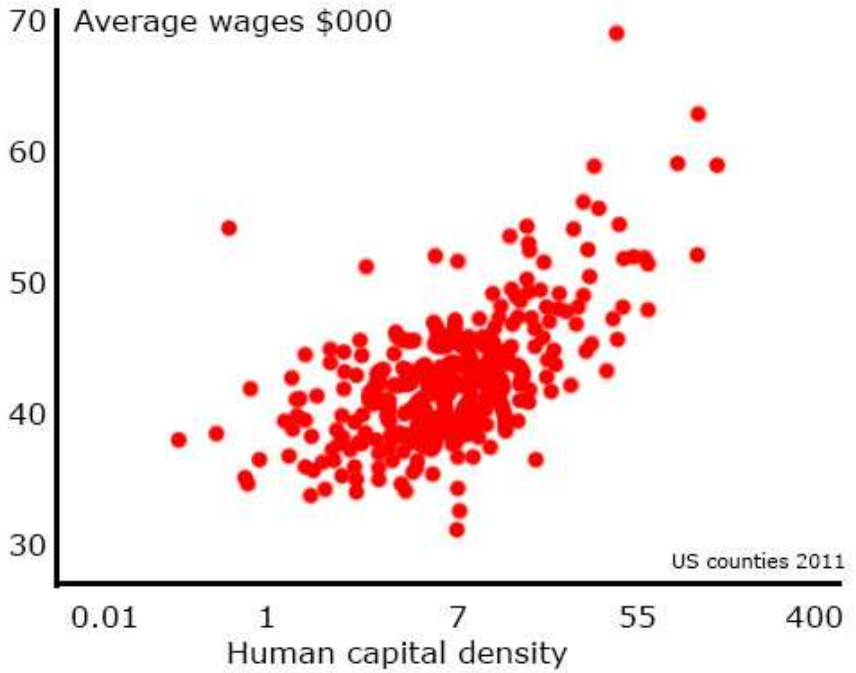


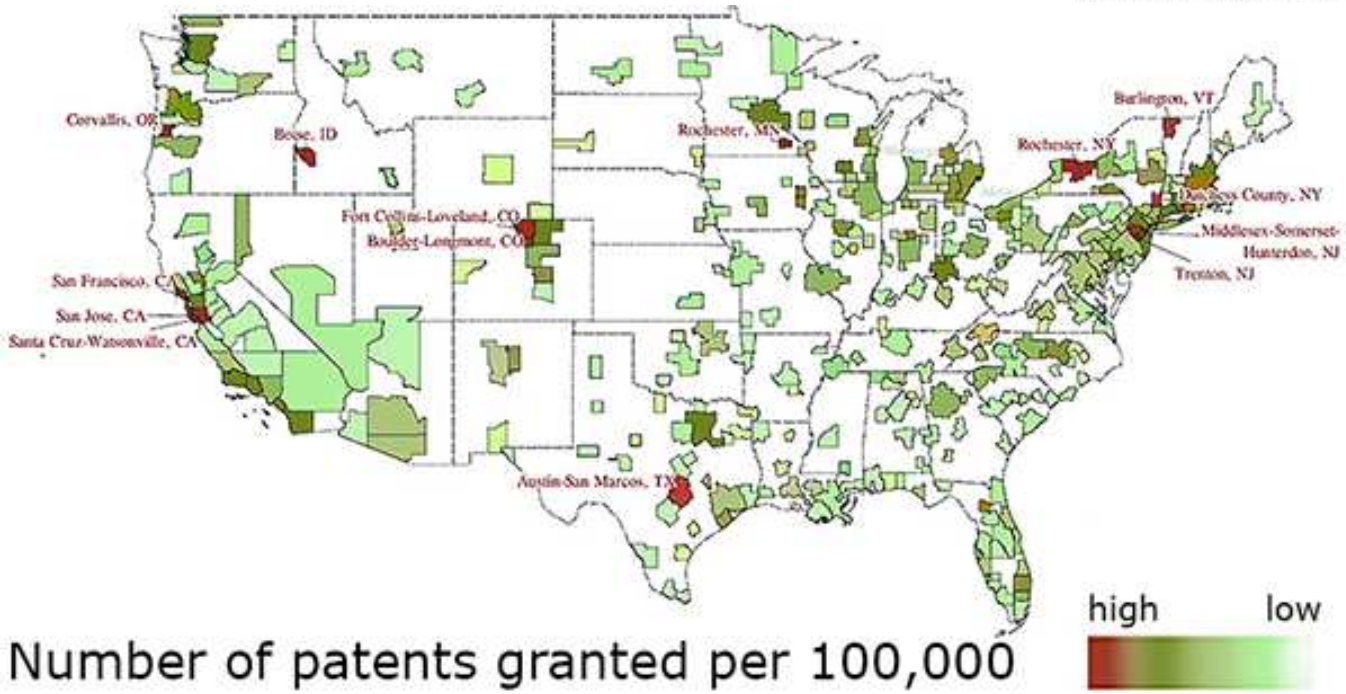
Clusters form wherever there is a sustained burst of industrialisation
They draw in human and financial capital, technology and support industry
They are centres for innovation and renewal


Wenatchee
0.79
Duluth
1.23
Rapid City
0.83
San Francisco
122.17
Chicago
69.26
Bridgeport
104.42
Boston
88.83
New Haven
75.81
Trenton
99.53
New York
156.08
Washington
74.48
Flagstaff
0.35
Farmington
0.53
Los Angeles
123.02
Prescott
1.09
Pine Bluff
1.17
El Centro
0.61
Yuma
0.73
high
low
Human capacity density


Corvallis, OR
Boise, ID
Rochester, MN
Burlington, VT
Rochester, NY
Dutchess County, NY
Fort Collins-Loveland, CO
Boulder-Longmont, CO
Middlesex-Somerset-
Hunterdon, NJ
Trenton, NJ
San Francisco, CA
San Jose, CA
Santa Cruz-Watsonville, CA
Austin-San Marcos, TX
high
low
Number of patents granted per 100,000

The result is extremely focused areas of expertise and wealth





As wealth generating hubs, clusters offer higher wages. Property prices rise and the population tends to select for high earning, capable people. This reinforces the cycle.

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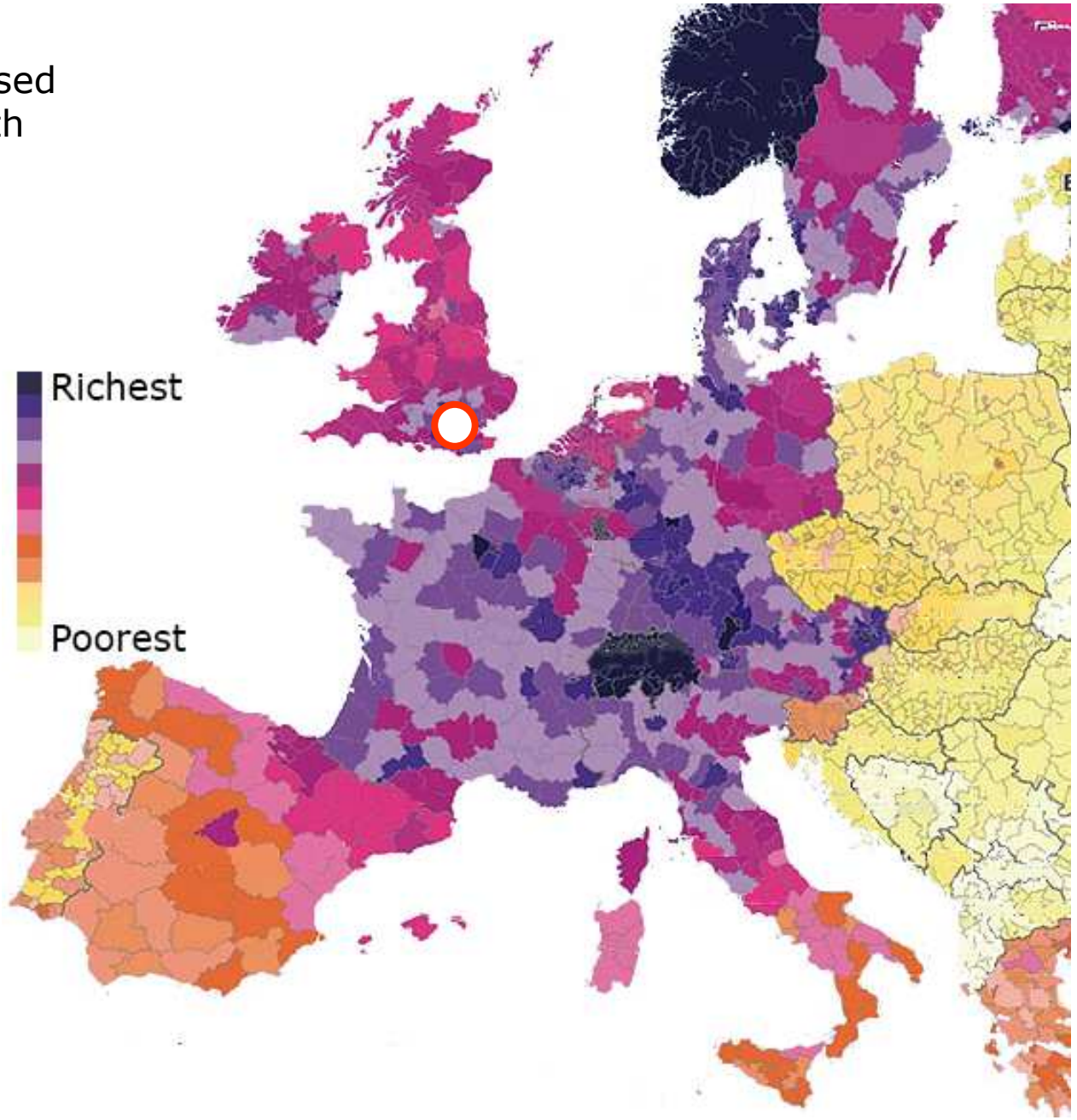


The governance and strategic needs of extremely small areas are completely different. Under unifying standards and national values, these will need to find their own way of dealing with complexity & competition.

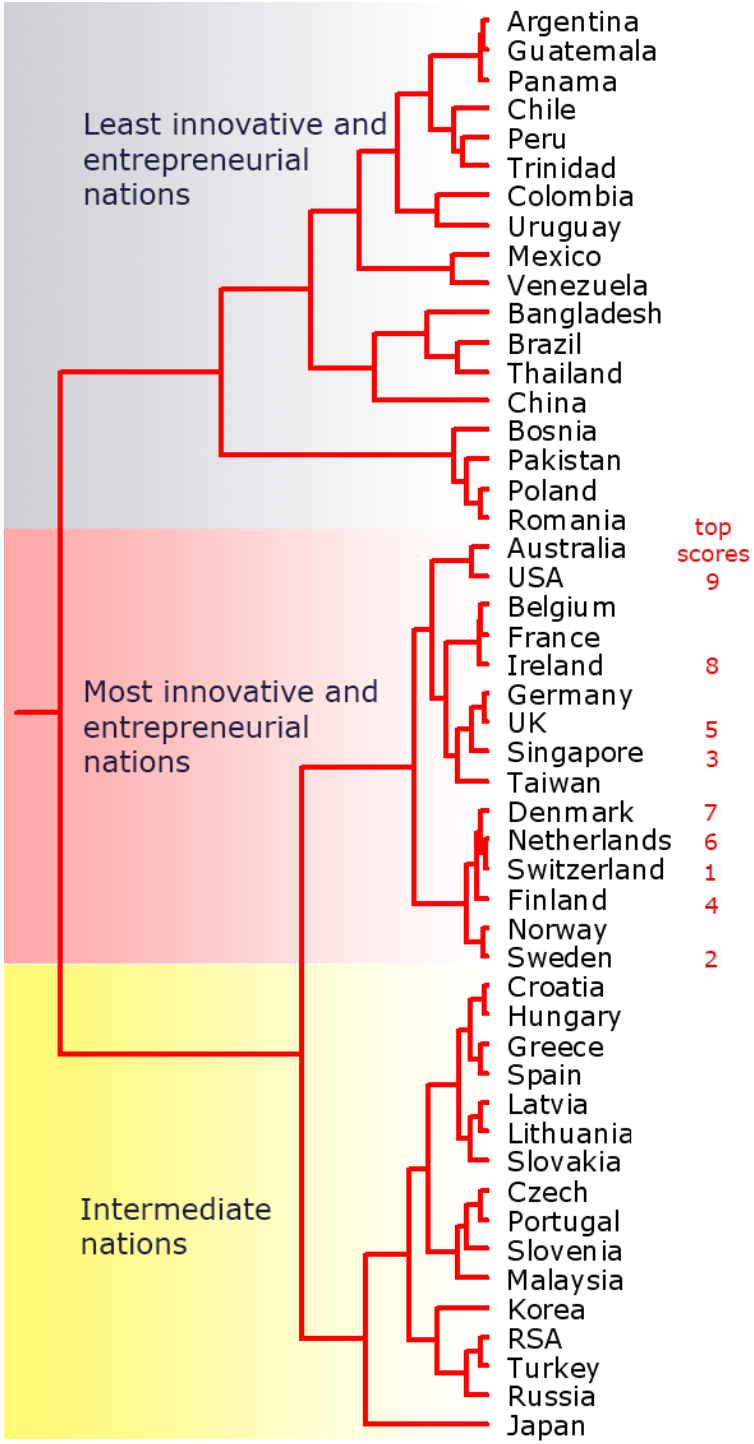
Graduates as a proportion of London population

high low

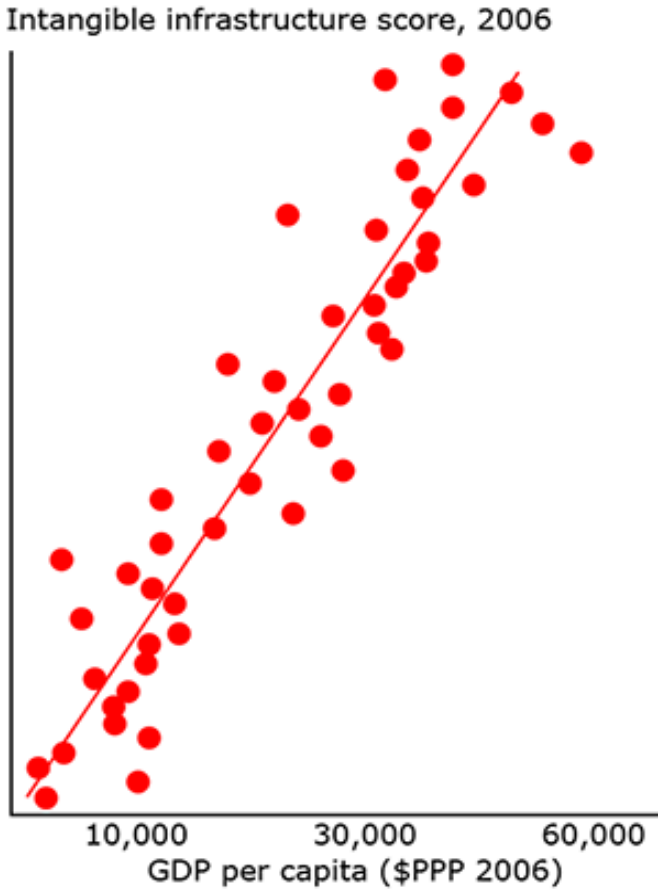
Proportion of London population with no academic qualifications

low high

Neither nations nor regions have equal abilities to renew themselves



Intangible infrastructure – security, honesty, trust in institutions and rule of law, educated work force, attitudes that assist wealth generation – is required for prosperity.



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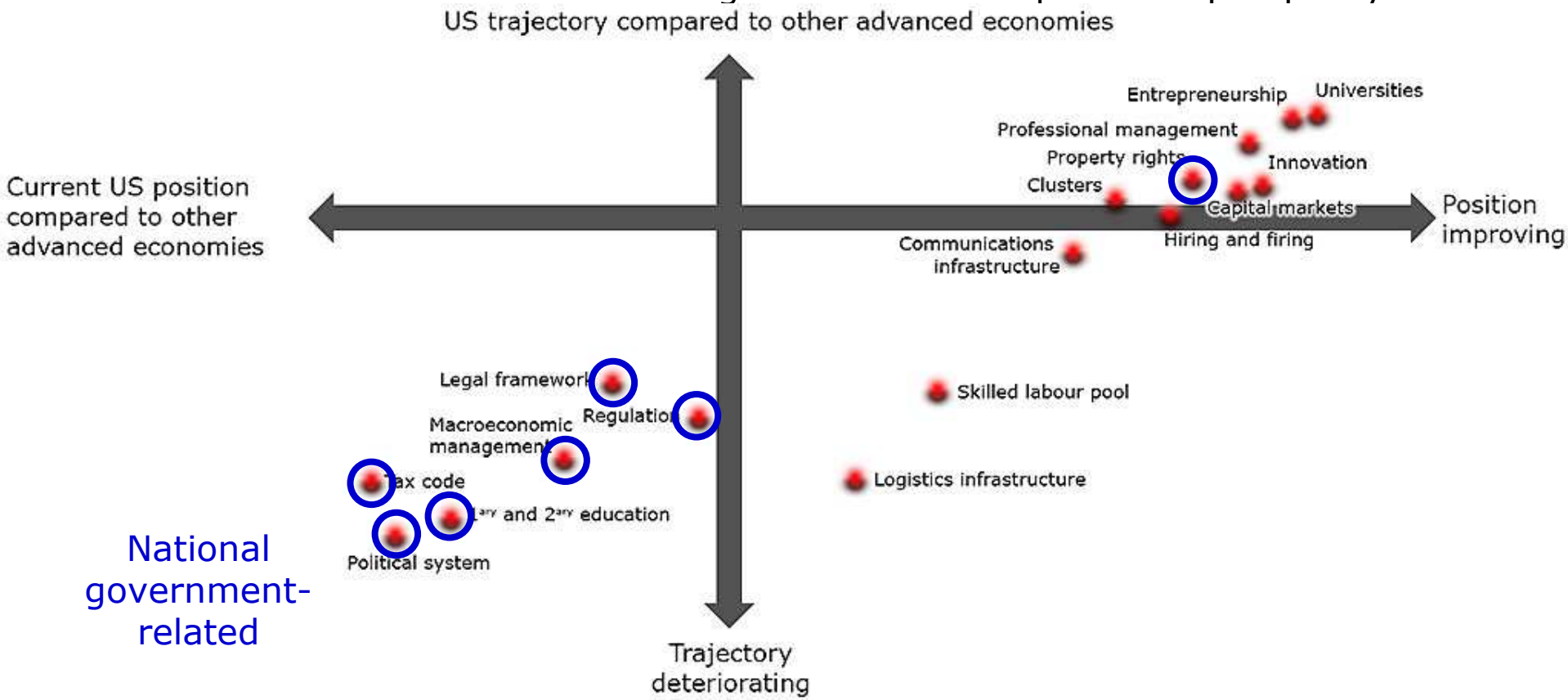

National government-related

Success in renewal is local and issue-focused. National government is increasingly incapable of delivering this, particularly if the nation is very large or very varied.

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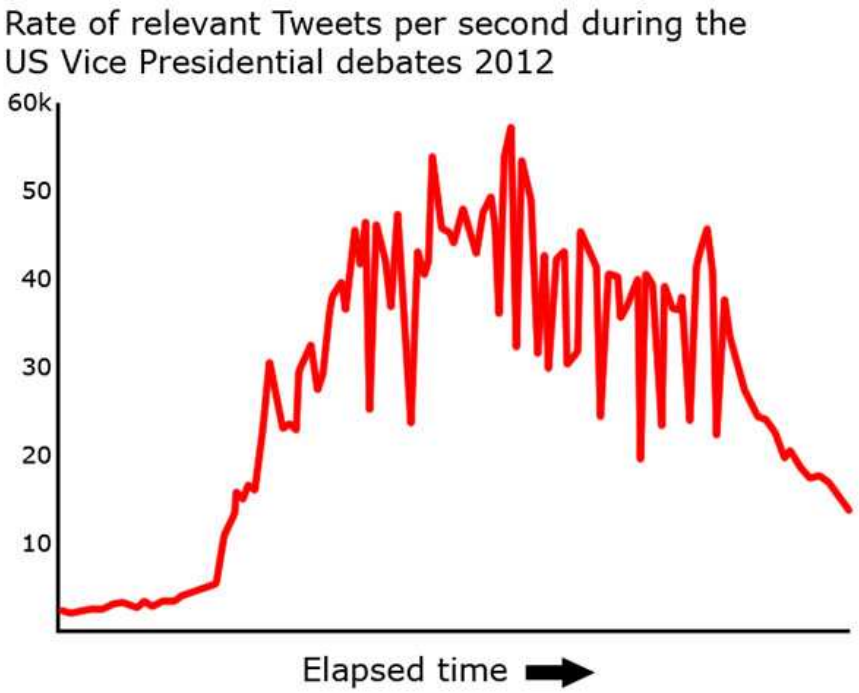

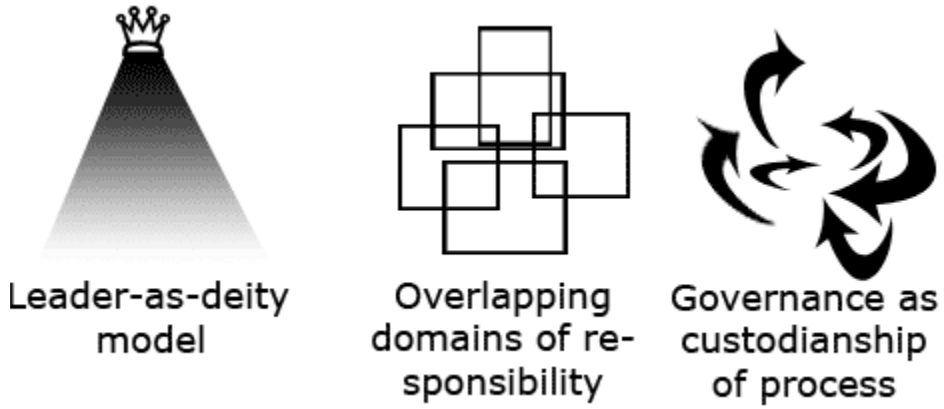

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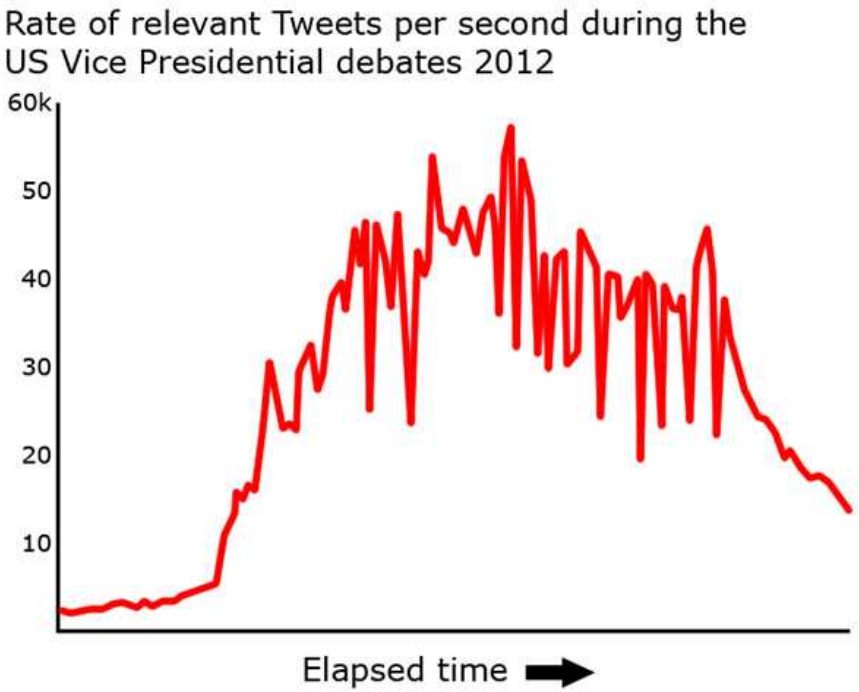

Whilst people are more informed by events than ever before, their sense that the political establishment is up to the task is at a low ebb across the industrial world, in China and other emerging economies.

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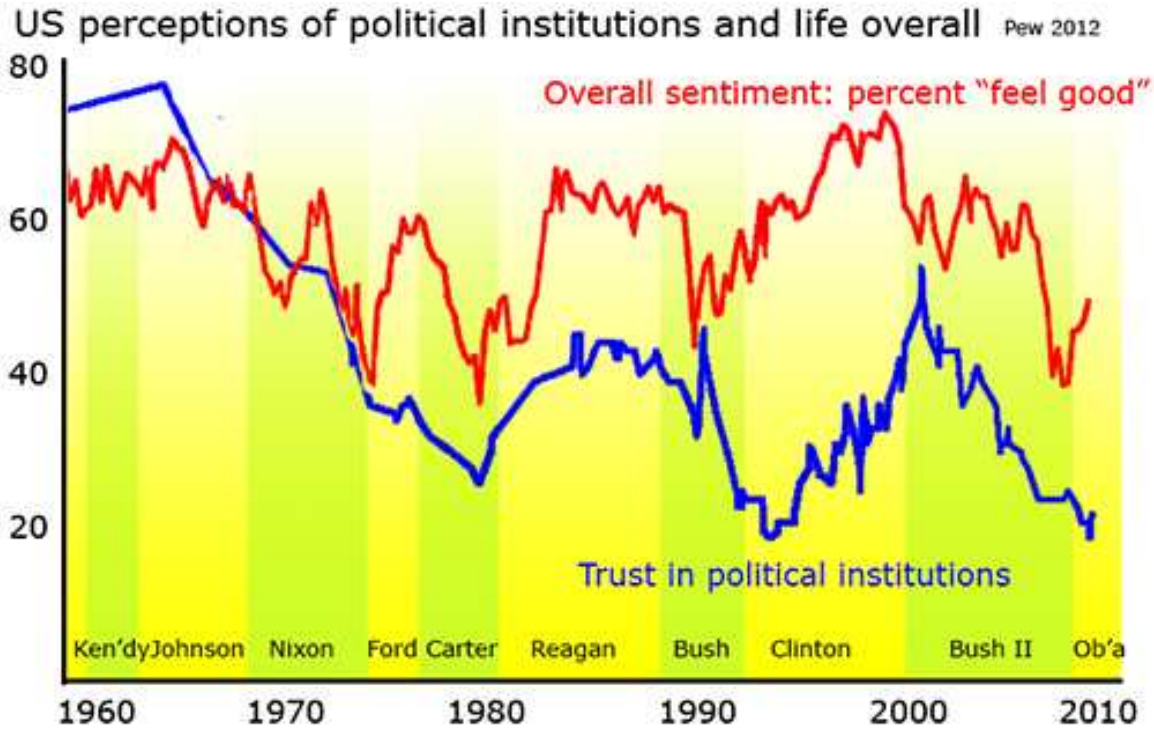

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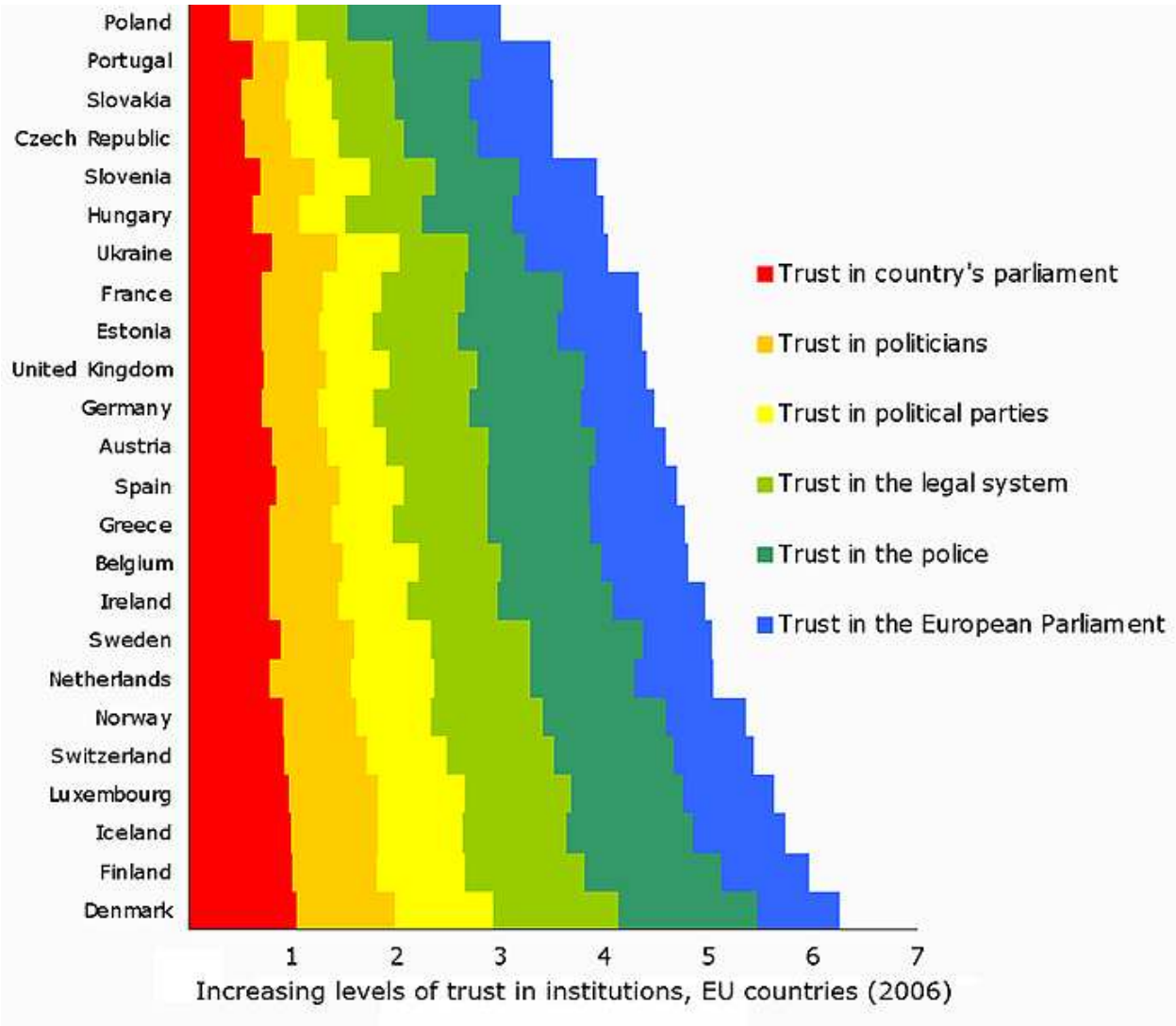
"Trust" can mean: trust that they will deliver; and trust in their intentions. The systematic difference between countries reflects trust in *intentions*.



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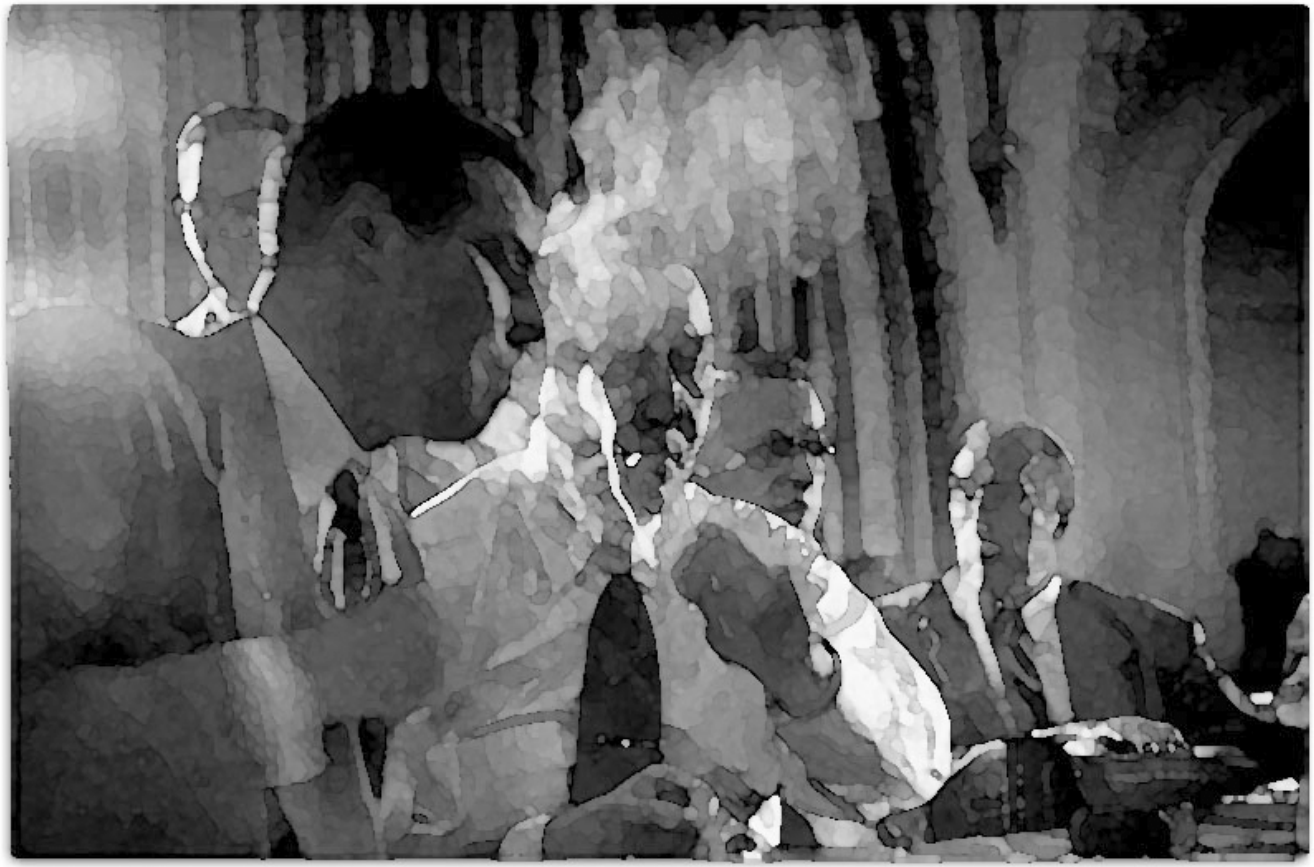

Politics is seen as a career and not a vocation. Personal advantage is thought usually to trump public good. In all studies of international trust, state corruption is the strongest correlate with distrust.

The media have a vested interest in generating distrust and reporting scandal

The reason that this matters is that a broken political machine is colliding with a broken social model: the New Deal, welfare, the state as universal provider.

Agitation around this has the potential to derail the crucial processes of renewal

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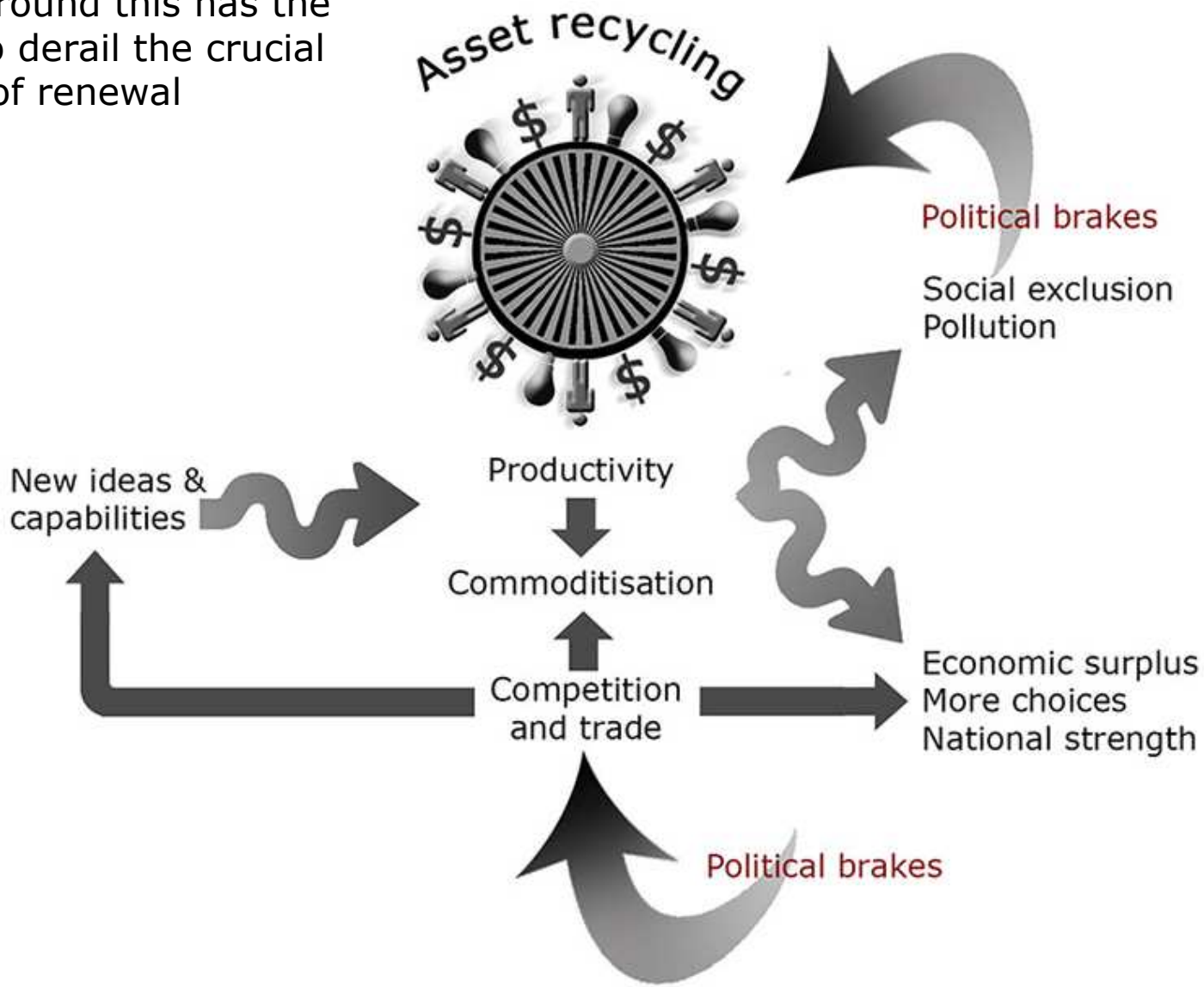

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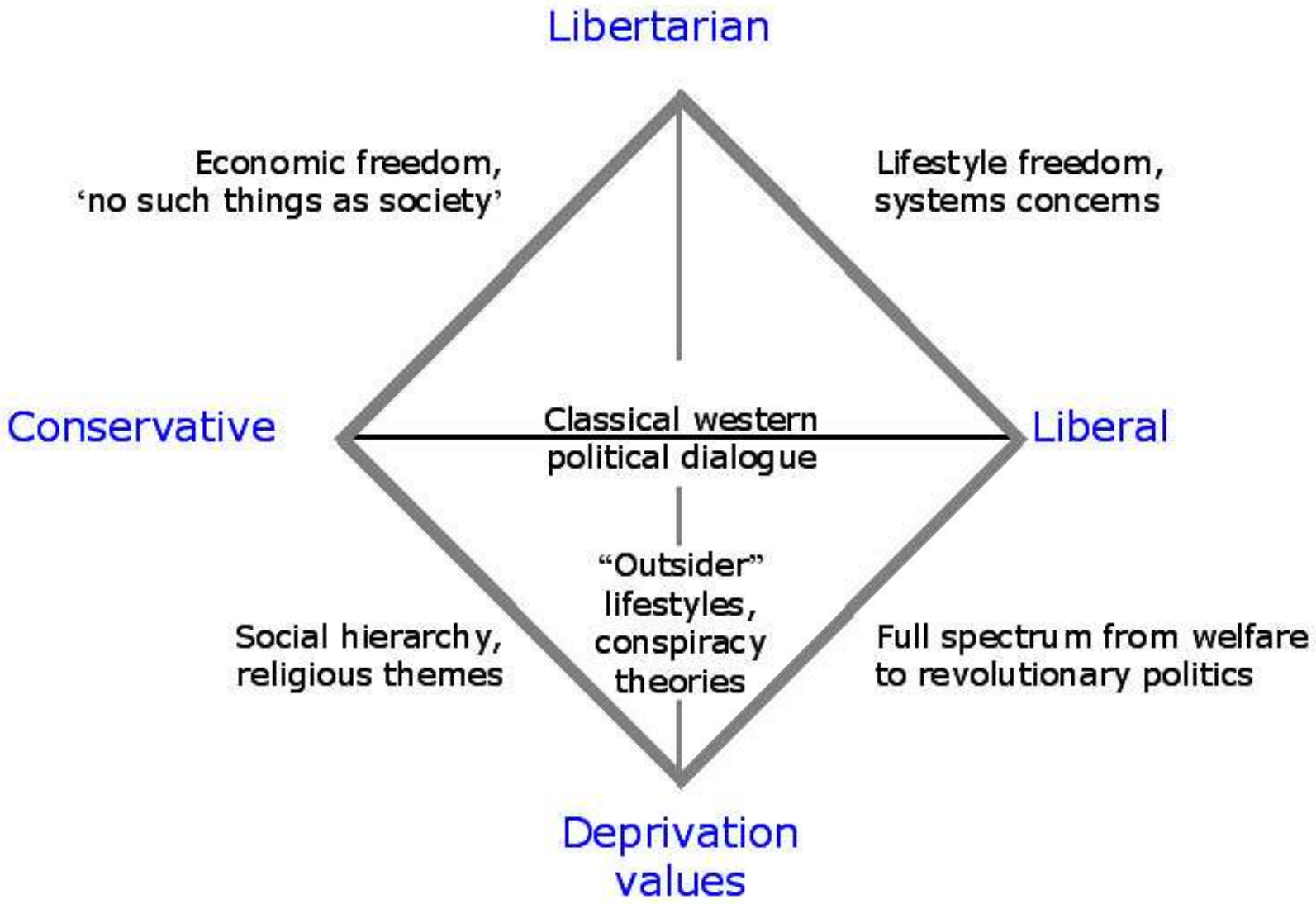

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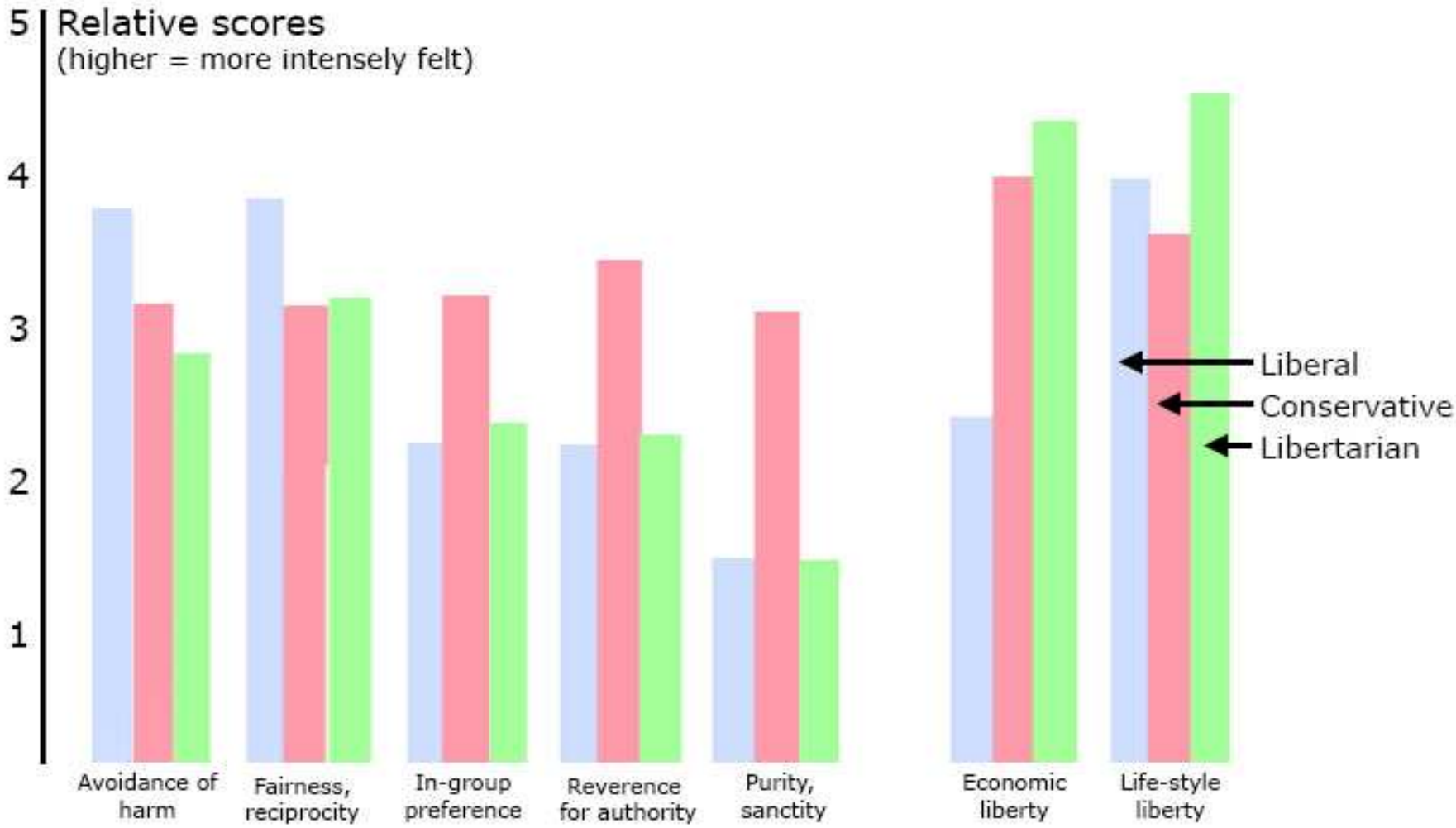

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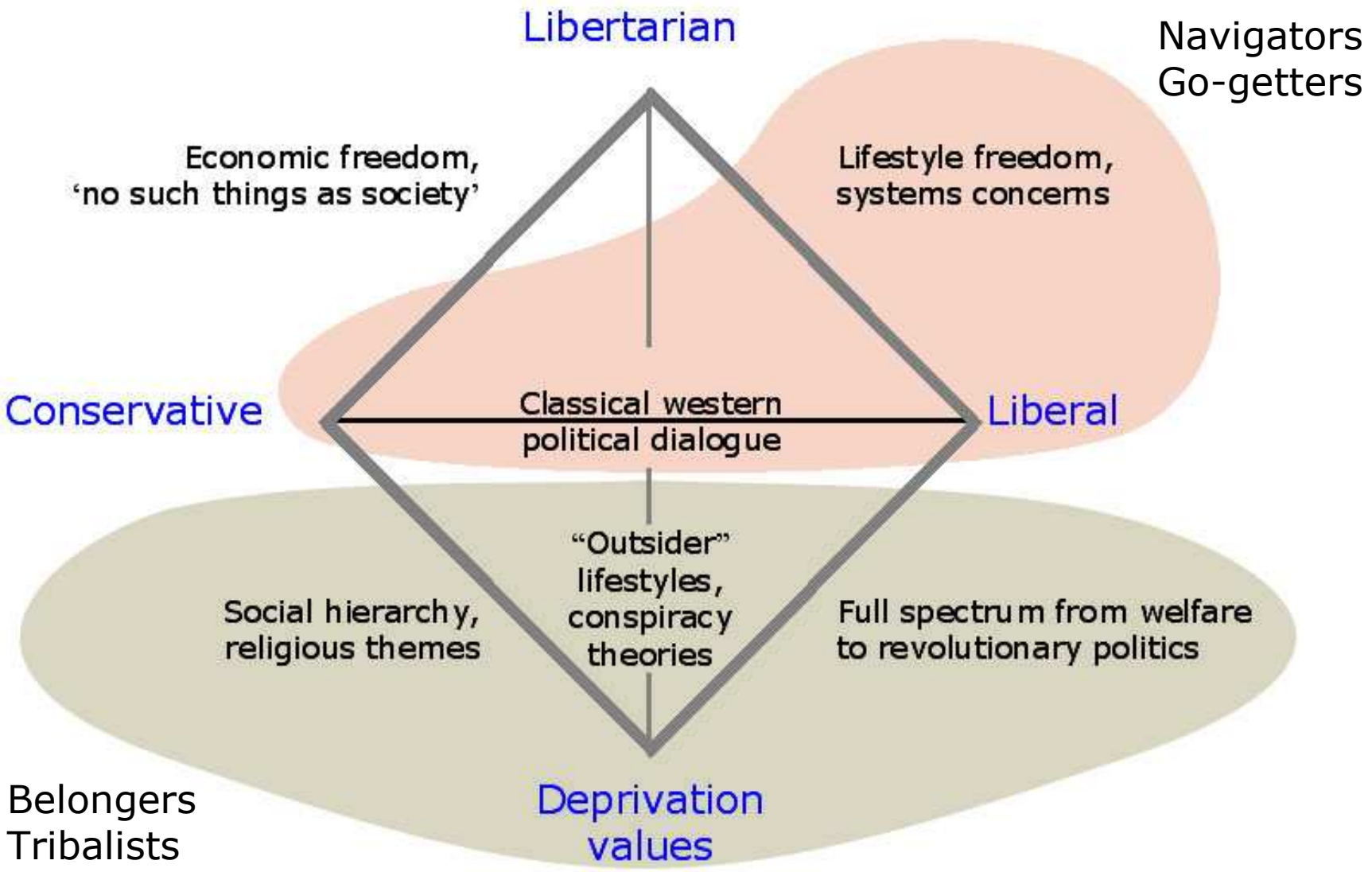
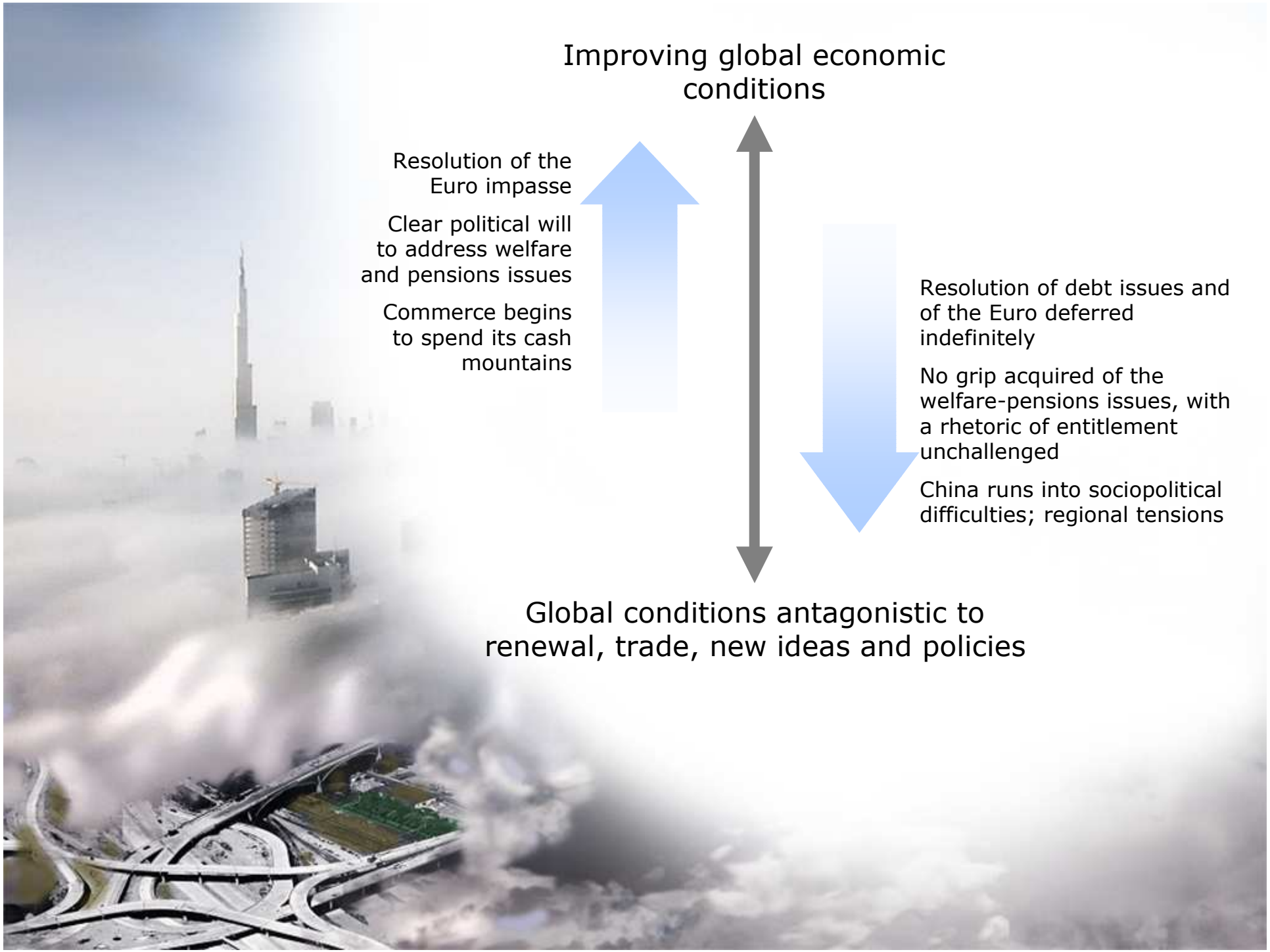
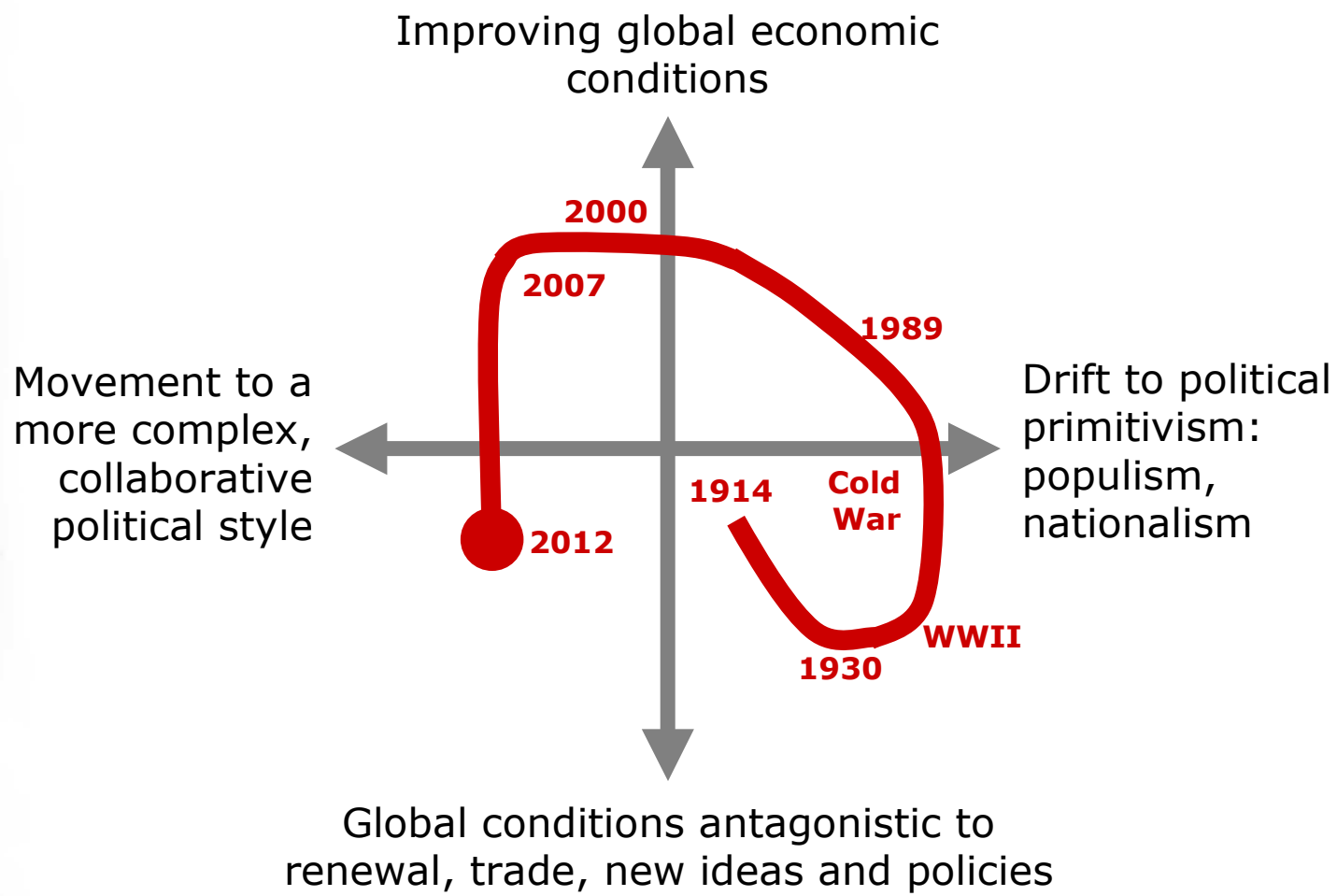
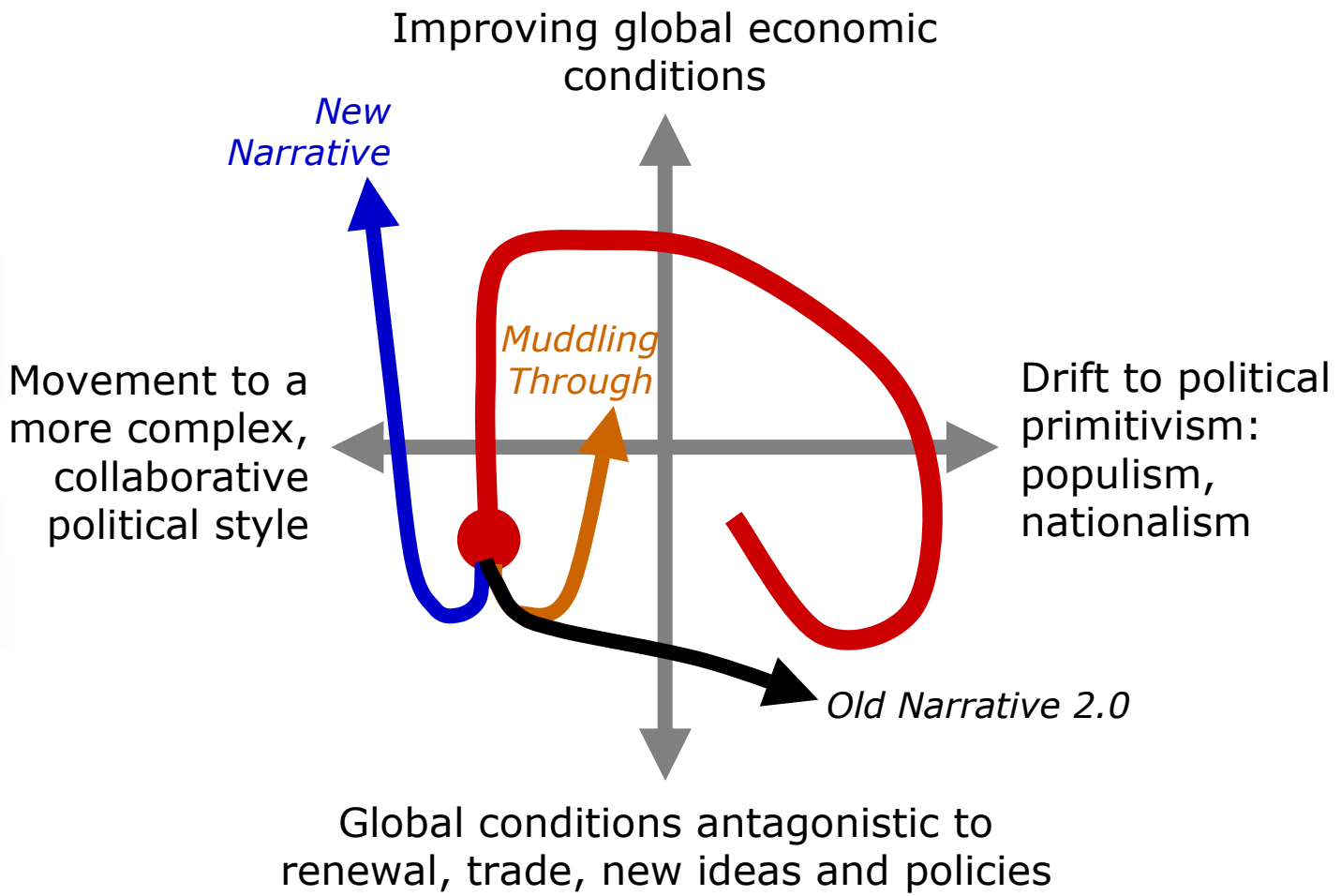


Scenarios for 2025

- The long run, 2040 in brief
- The grounds of current difficulties
- The short-run outlook
- Regional implications
- Scenarios for 2025


Improving global economic conditions
Resolution of the Euro impasse
Clear political will to address welfare and pensions issues
Commerce begins to spend its cash mountains
Resolution of debt issues and of the Euro deferred indefinitely
No grip acquired of the welfare-pensions issues, with a rhetoric of entitlement unchallenged
China runs into sociopolitical difficulties; regional tensions
Global conditions antagonistic to renewal, trade, new ideas and policies


Improving global economic conditions
Movement to a more complex, collaborative political style
Drift to political primitivism: populism, nationalism
Global conditions antagonistic to renewal, trade, new ideas and policies
2000
2007
1989
1914
Cold War
2012
WWII
1930

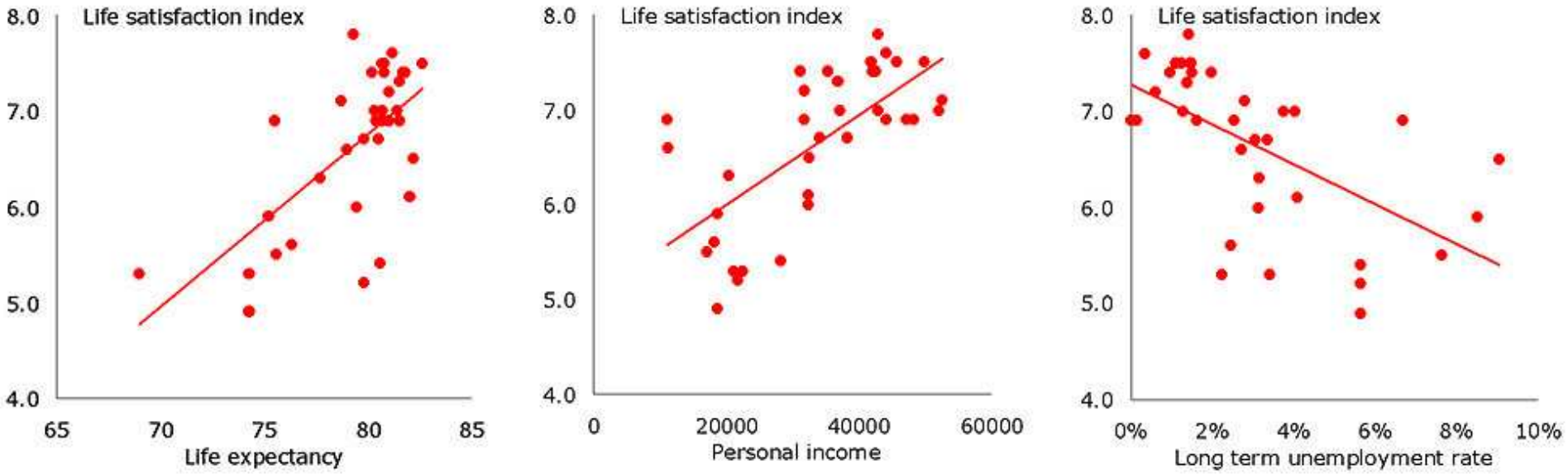


New Narrative	Managed political transition to renewal
Muddling Through	Events permit extension of the status quo
Old Narrative 2.0	Increasing bitter cycle of decline

Muddling Through Events permit extension of the status quo

China fails to make its transition. Political dissent & unionisation raise manufacturing costs. Outsourced jobs are repatriated.

Three variables that explain most of nation differences in contentment. (r^2=0.7)



Supply-side inflation remains low. Hydraulic fracturing has a major impact on gas supply and so on energy prices.

European financial problems reach a semi-permanent resolution. US growth picks up, and with it, confidence. Other EMs benefit from China's crisis, particularly in Latin America.

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Labour-intensive industries continue to decline in the wealth world

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This is not an environment that encourages collaboration. The European project fails to resolve its financial contradictions.

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China succeeds in its transitions. Competition intensifies greatly. Complex industries are affected much sooner than anticipated

Old Narrative 2.0 Increasing bitter cycle of decline

Increasingly strong and often violent populist movements develop

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Divisive, angry politics assign blame and emphasise class divisions. Attitudes are statist, attempting to restore “how it used to be”

Companies defer plans, awaiting clarity, worsening a bad situation

States are unable to borrow significantly. Some print money. All turn to high taxation, redistribution, job and trade protectionism

Economic growth is further deterred, tightening the spiral.

To the rest of the world, Western influence appears discredited

Political reaction to this will take a transnational scale

These are not those of the Western liberal model

Around 3.5 bn middle class people develop their own values

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Many of the values in play revel in the West's decline, and put forward aggressive alternatives. The global security system weakens, attitudes polarise and negotiations on issues such as the environment stall.

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New Narrative	Managed political transition to renewal
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The New Narrative is far from a technology driven world. However, its population intensely recognise the need for renewal and change

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Not every society finds this easy to accept.

The national narrative – "who we are and what we are about; how we behave to others and to our own people" – defines how effective a response will be.

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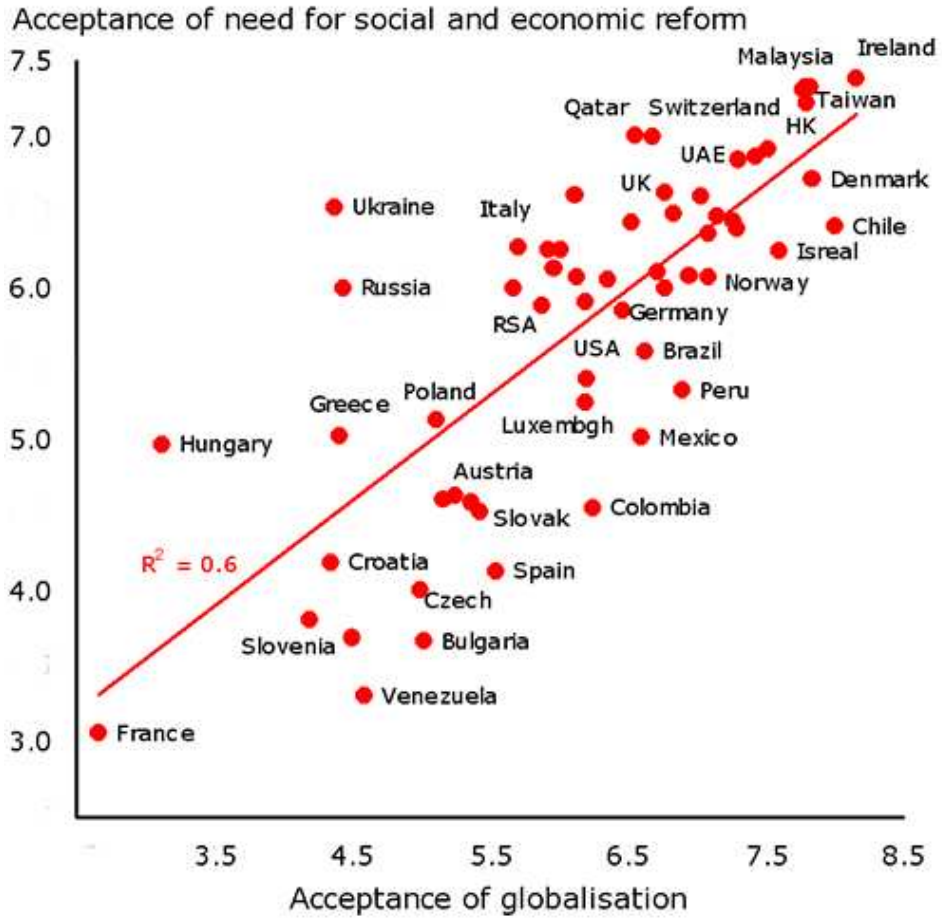

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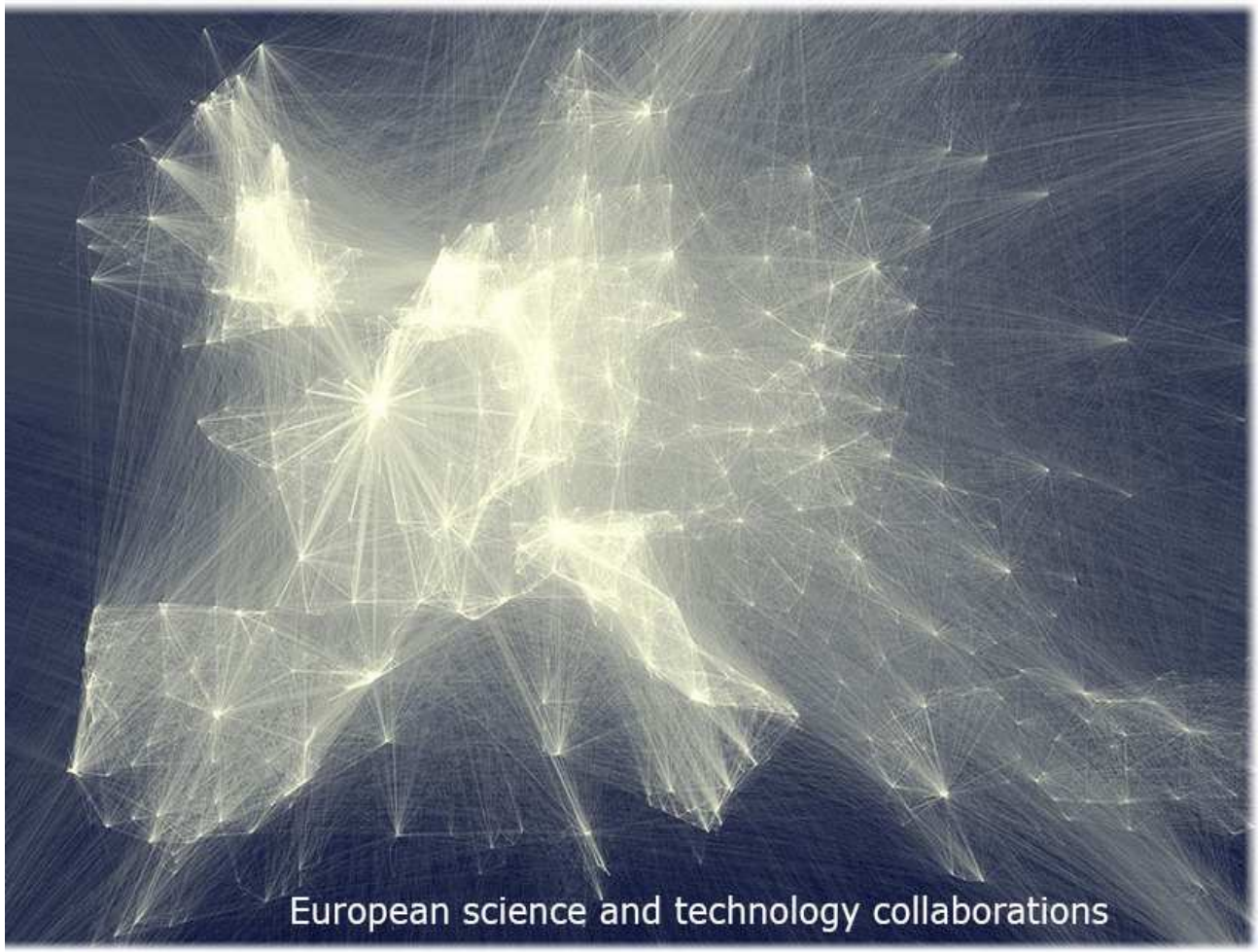

The New Narrative is international in scope, and embraces the notion of constructive change, of actively building a future

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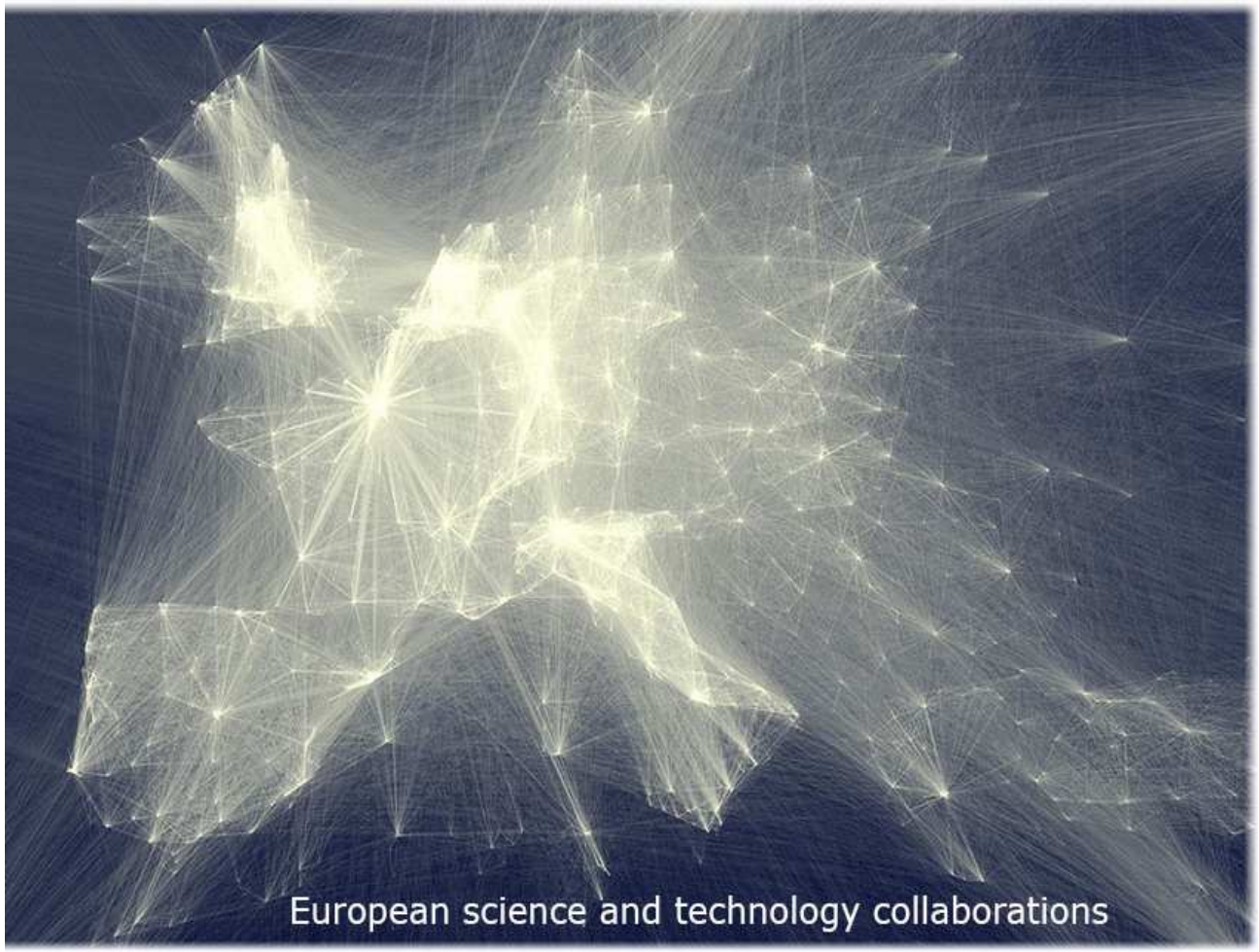

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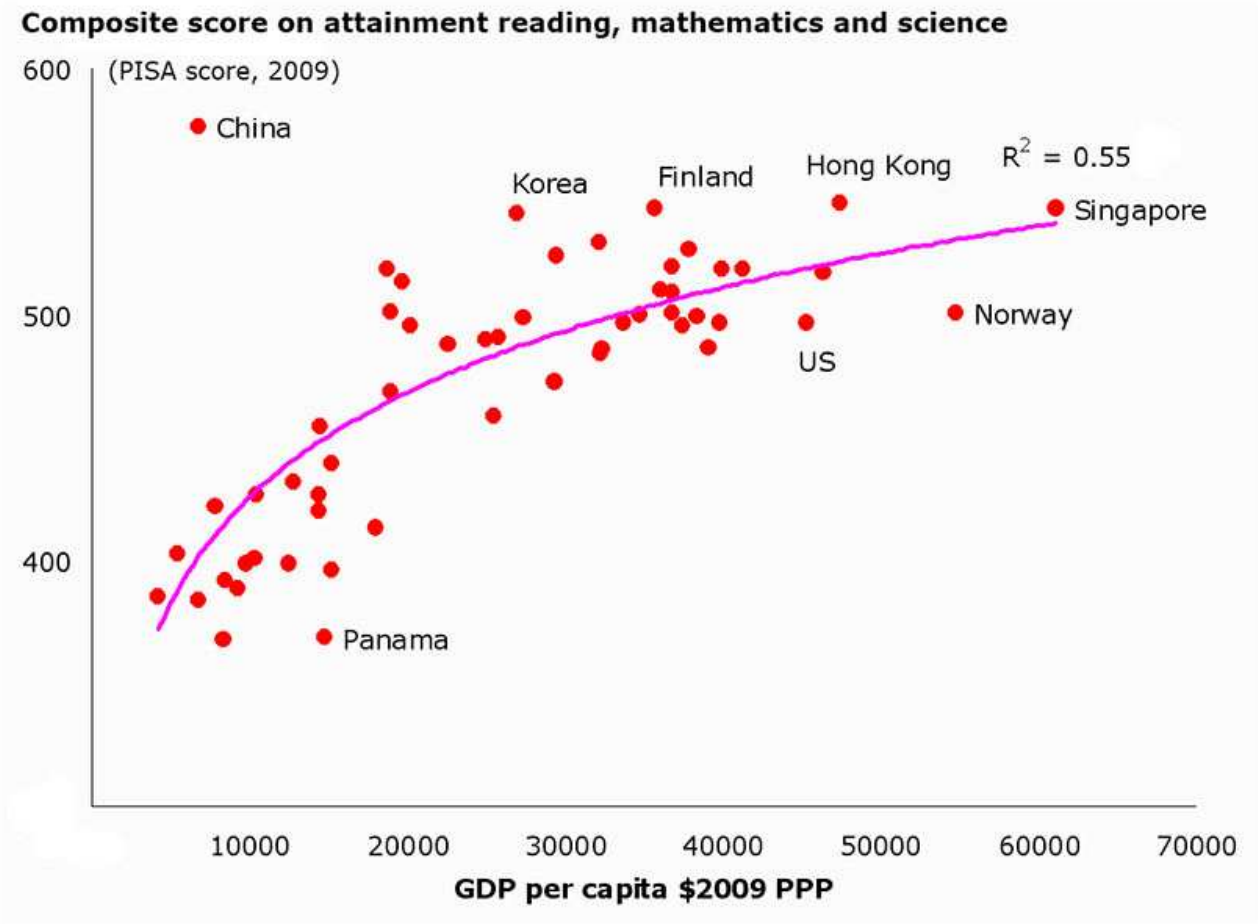
New Narrative Managed political transition to renewal

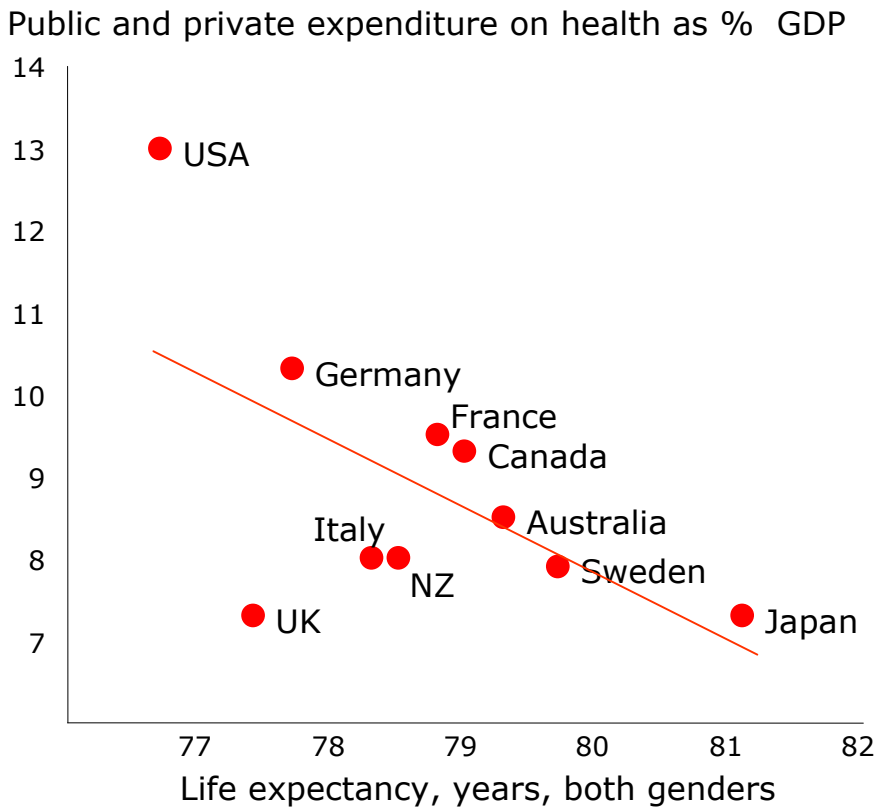
The New Narrative benchmarks all aspects of policy and management against best practice elsewhere. Increasing swathes of policy are removed from political control



Schooling: around a quarter of the adult population of the US and UK are functionally illiterate. They make up four fifths of gaol inmates and half of the long terms unemployed. So why do schools in Norway under-perform and those in Finland and China over-perform?

Health: why are there such great differences in both the proportion of GDP spent on health and in the longevity which this delivers?

The New Narrative benchmarks all aspects of policy and management against best practice elsewhere. Increasing swathes of policy are removed from political control



The USA spends proportionately twice as much as the UK, but achieves worse outcomes. Japan has much better outcomes than the UK on identical proportional spending

Health: why are there such great differences in both the proportion of GDP spent on health and in the longevity which this delivers?

Many other aspects of the New Narrative have already been covered: renewal, innovation. Whilst these are very important, what truly changes is attitude. Societies realise that successful models involve intense, near-wartime change.

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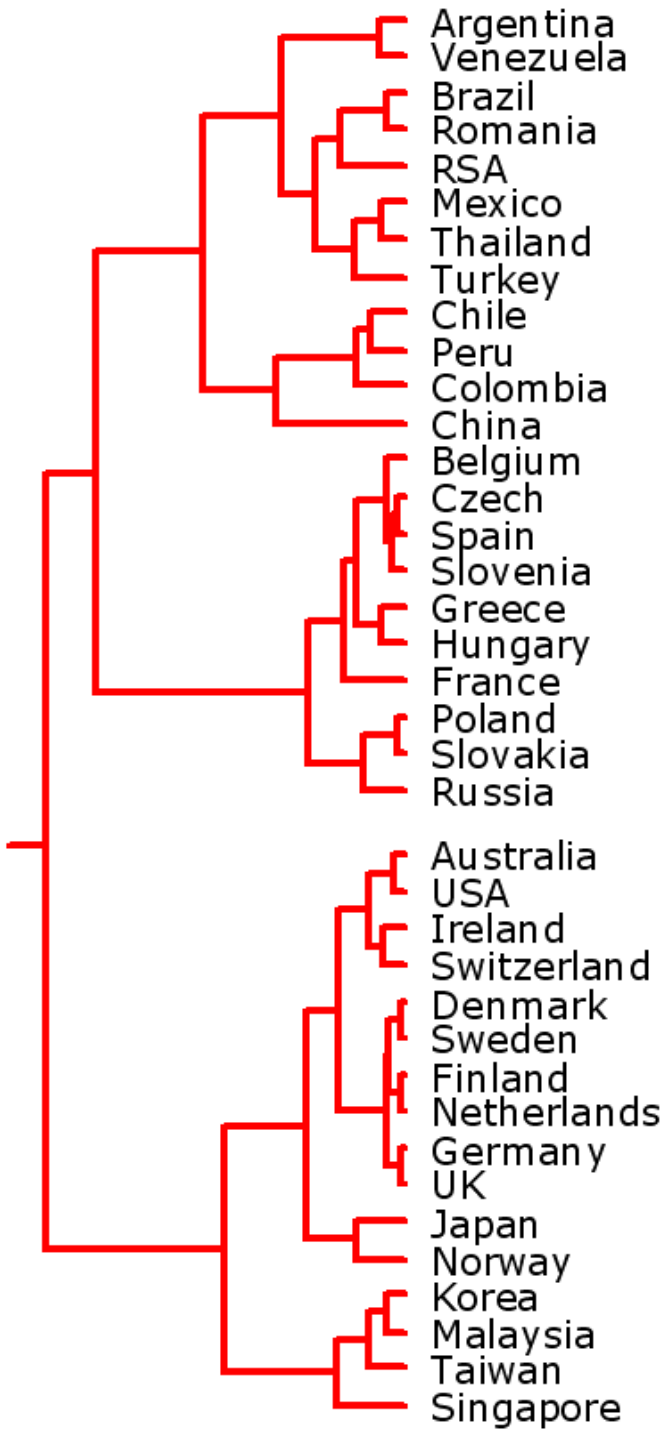
Which countries are most likely to adopt the New Narrative?

We looked at 39 countries for which we had data on attitudes towards change, technology and entrepreneurship. Seven variables stood out as being particularly significant:

- Actual levels of innovation in the economy
- Social perceptions of entrepreneurs
- Commercial perceptions of relevant skills
- Overall levels of education levels
- Acceptance of internationalism and trade
- Acceptance of social and economic reform
- Taxation and state spending as a percent of GDP



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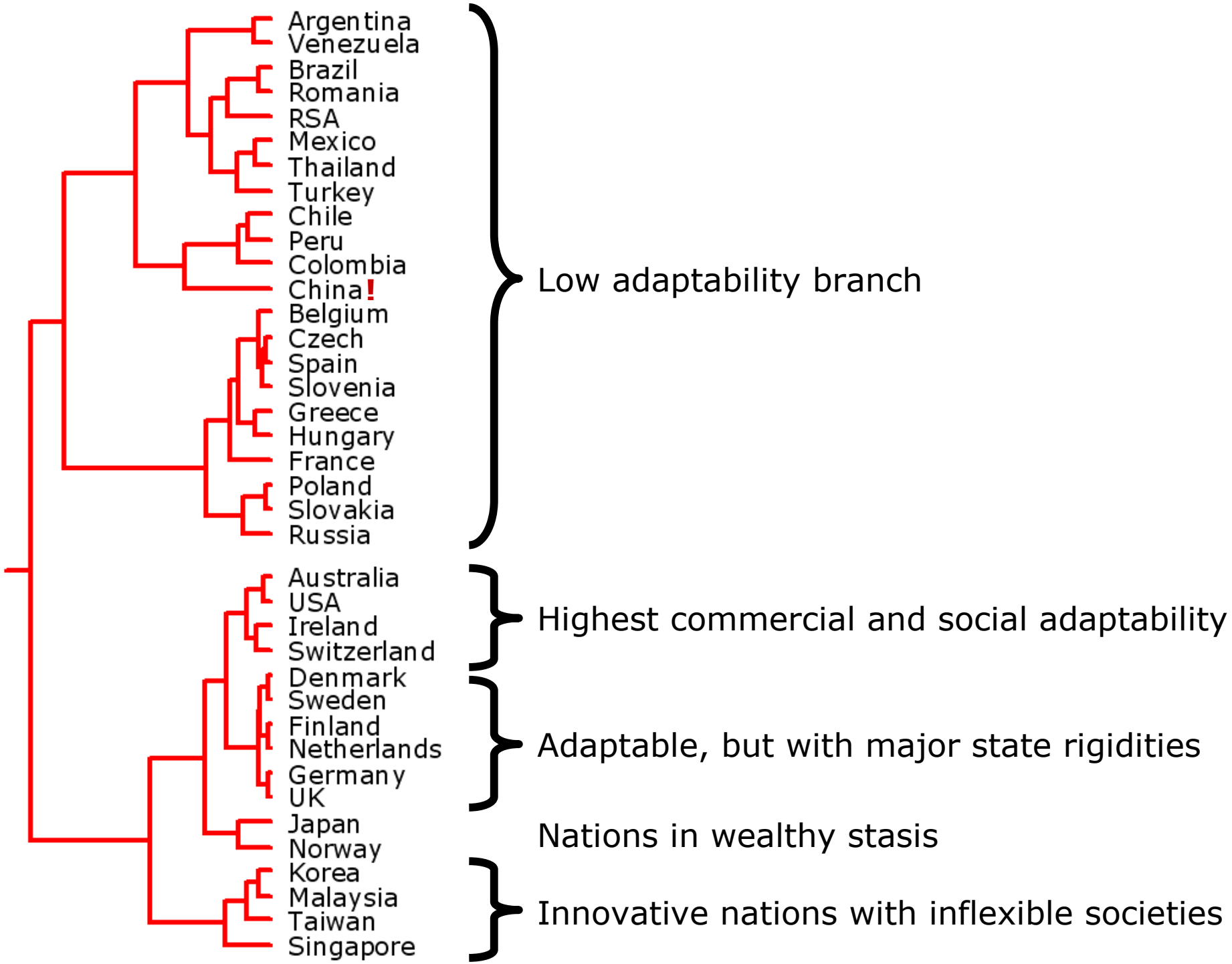
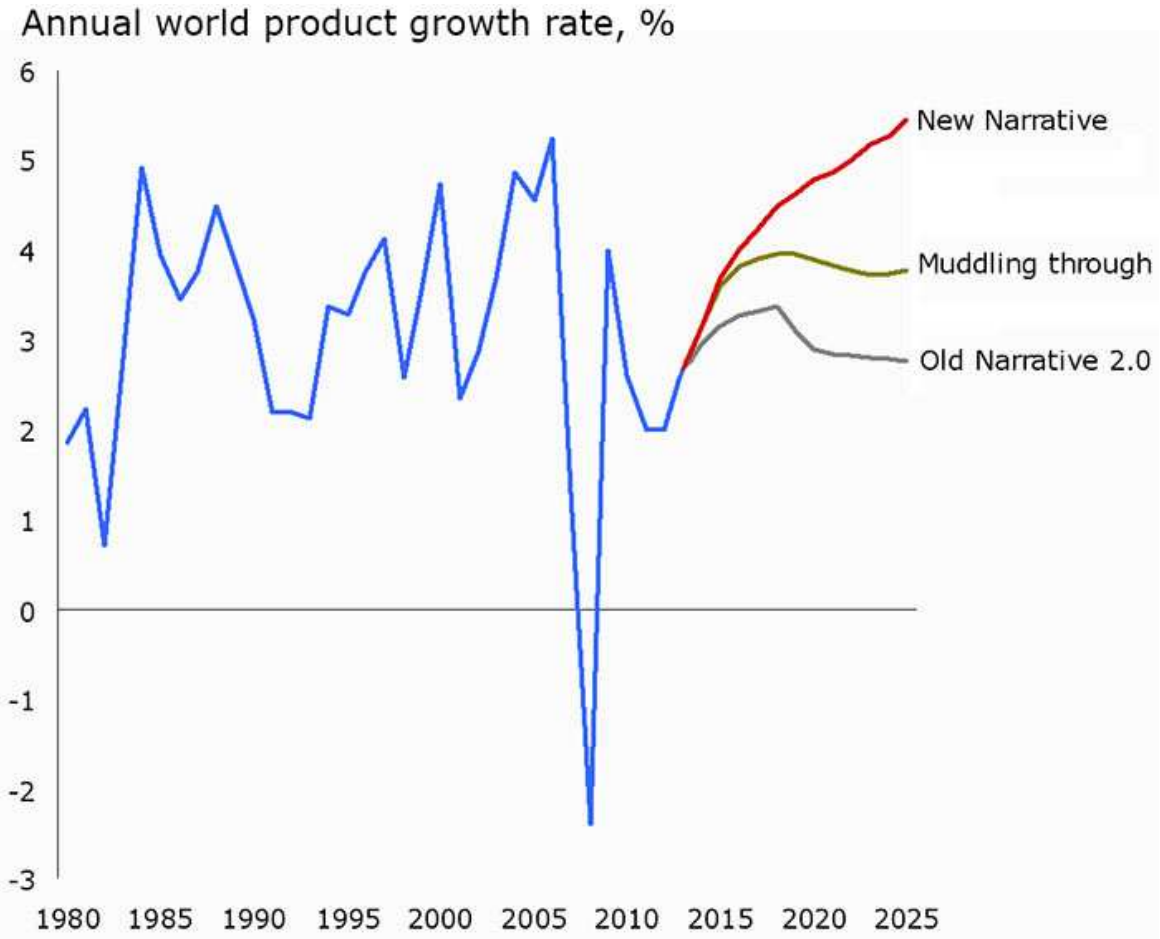
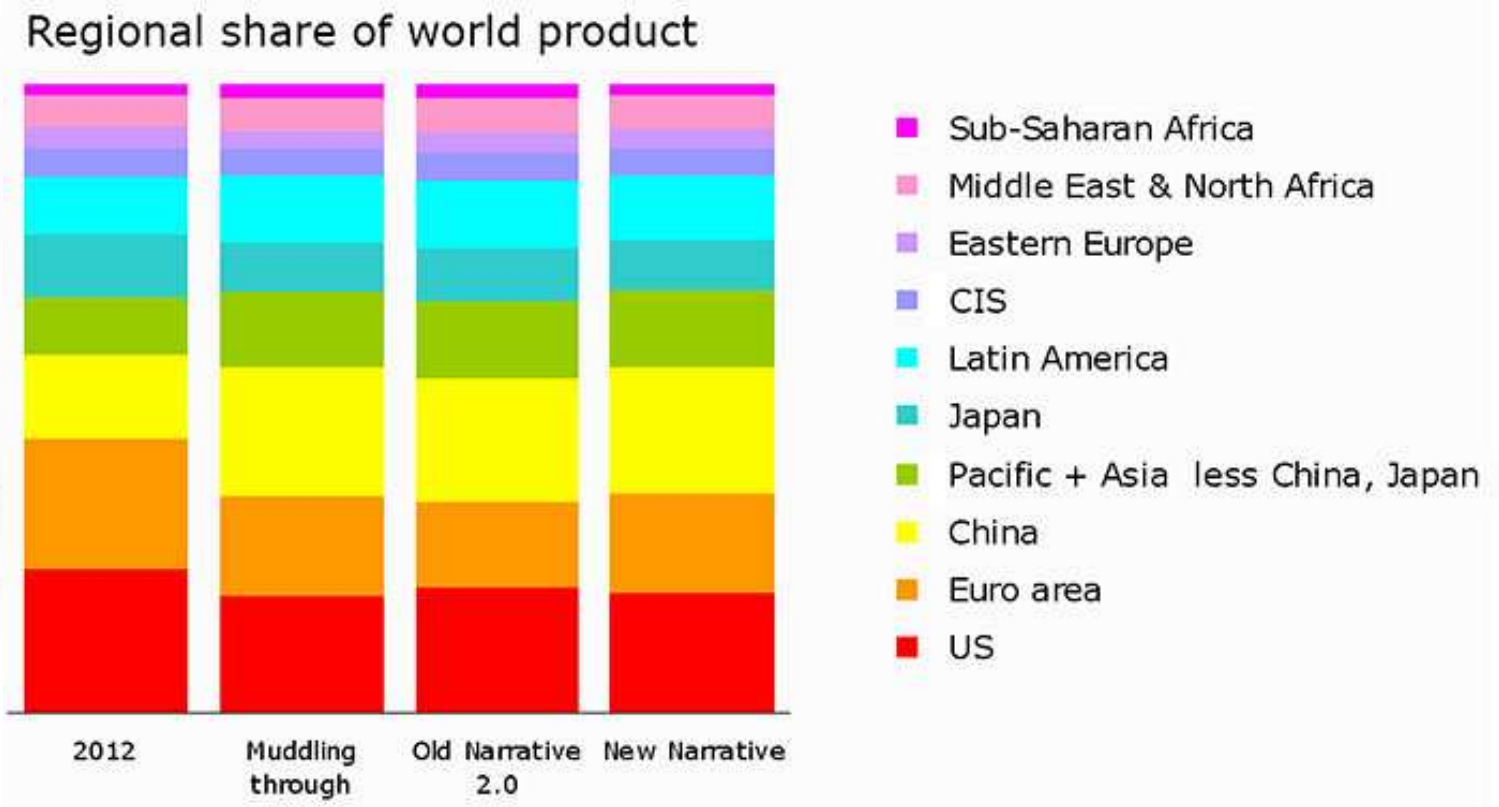
The statistics explained 70% of inter=country variance.


Argentina
Venezuela
Brazil
Romania
RSA
Mexico
Thailand
Turkey
Chile
Peru
Colombia
China!
Belgium
Czech
Spain
Slovenia
Greece
Hungary
France
Poland
Slovakia
Russia
Australia
USA
Ireland
Switzerland
Denmark
Sweden
Finland
Netherlands
Germany
UK
Japan
Norway
Korea
Malaysia
Taiwan
Singapore
Low adaptability branch
Highest commercial and social adaptability
Adaptable, but with major state rigidities
Nations in wealthy stasis
Innovative nations with inflexible societies



New Narrative	Managed political transition to renewal
Muddling Through	Events permit extension of the status quo
Old Narrative 2.0	Increasing bitter cycle of decline



New Narrative Managed political transition to renewal

Muddling Through Events permit extension of the status quo

Old Narrative 2.0 Increasing bitter cycle of decline

Using the scenarios:
a suggested workshop schedule

09.00-09.15	Introduction: participation and goals
09.15-11.00	Scenarios for 2025; general discussion
11.00-11.30	Coffee
11.30-12.30	Your views and concerns, expressed on Post-Its
12.30-12.50	Defining the core uncertainties and issues
12/50-13.00	Assignment to syndicate, one per issue
13.00-13.30	Working lunch
13.30-14.15	Working in syndicate
14.15-14.55	Feedback and discussion
14.55-15.00	Closing remarks

Note: scenarios are a tool, not an outcome. To get value from these scenarios, teams need to work on them so as to bring their message into the context of your own activity. This schedule is a minimal approach to this.

People are asked to express what they have learned from the presentation in a few words on a PostIt. (There are typically three rounds of this, focusing on e.g customers, human resources, competition or as seems fit.) PostIts are arranged in loose collections on the wall. They are then clustered into four or five centres of weight. Syndicates are assigned to work through the implications of this centre of weigh to the business, or whatever is under consideration. Feedback should, ideally, seek to define further work that is needed to clarify these issues, and assign responsibility to deliver this information, to whom and when.