

# The Next Decade



**Will Hutton, Executive Vice-Chair  
The Work Foundation**

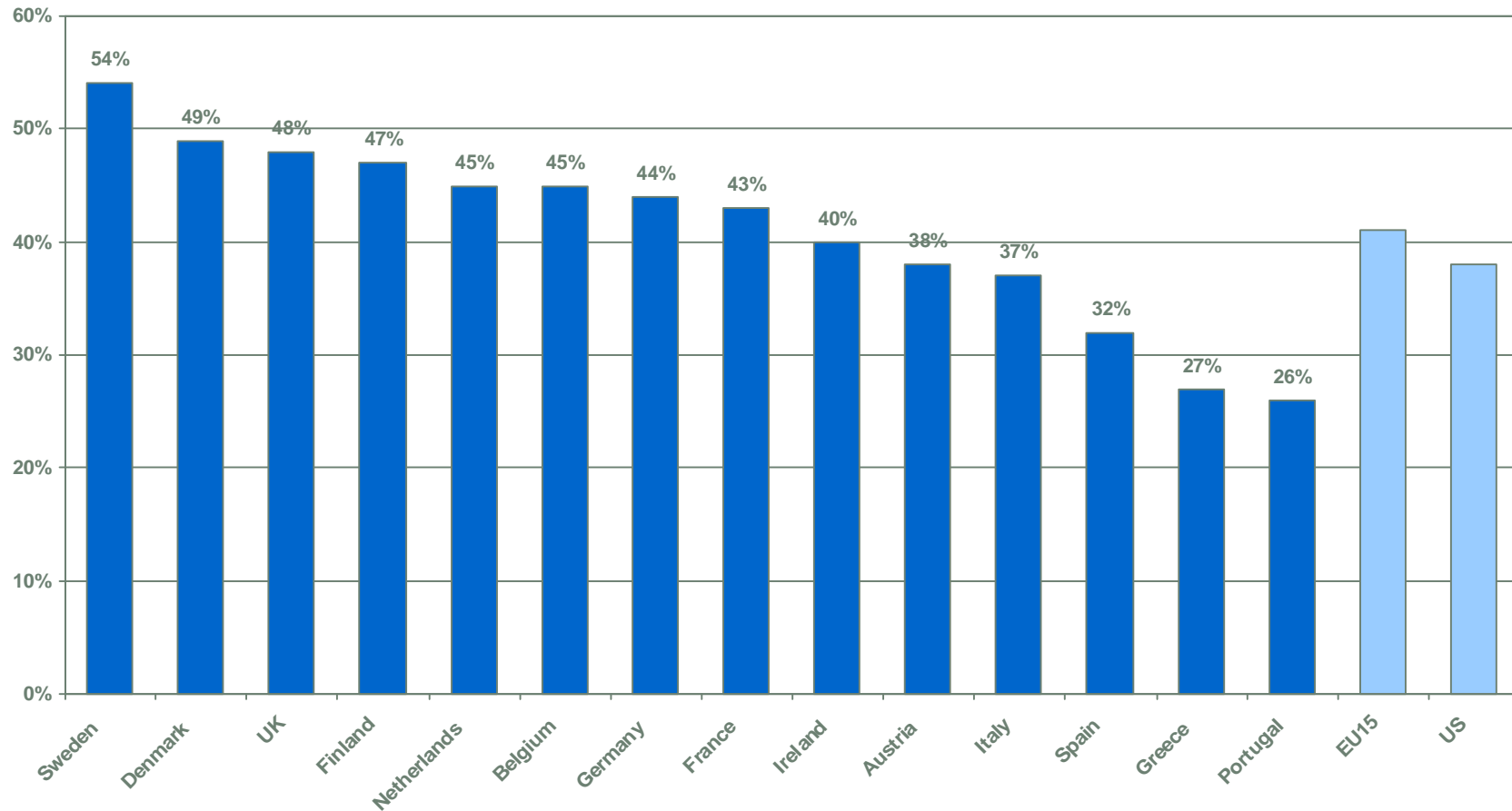
**8 July 2009**



**Global economy is becoming more knowledge intensive**

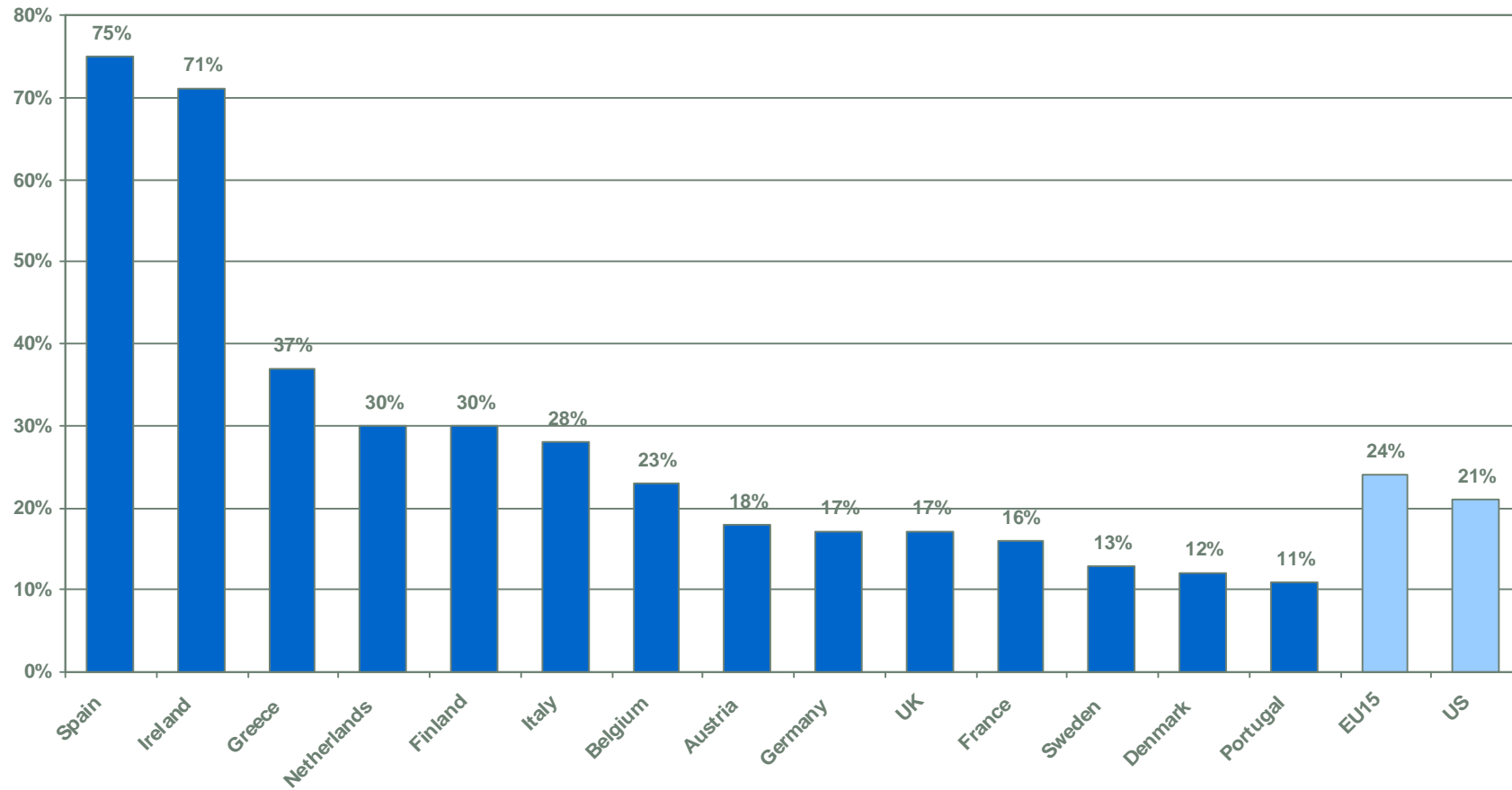
# Employment in knowledge based industries in the EU in 2005

EU15 is share of total employment using Eurostat definitions (high to medium tech manufacturing, finance, business services, communications, health, education, cultural services, air and sea travel). US estimate is Work Foundation estimate for share of employees derived from US Bureau of Labor Statistics for similar industries and is not directly comparable.



# Most new jobs in knowledge based industries 1995-2005

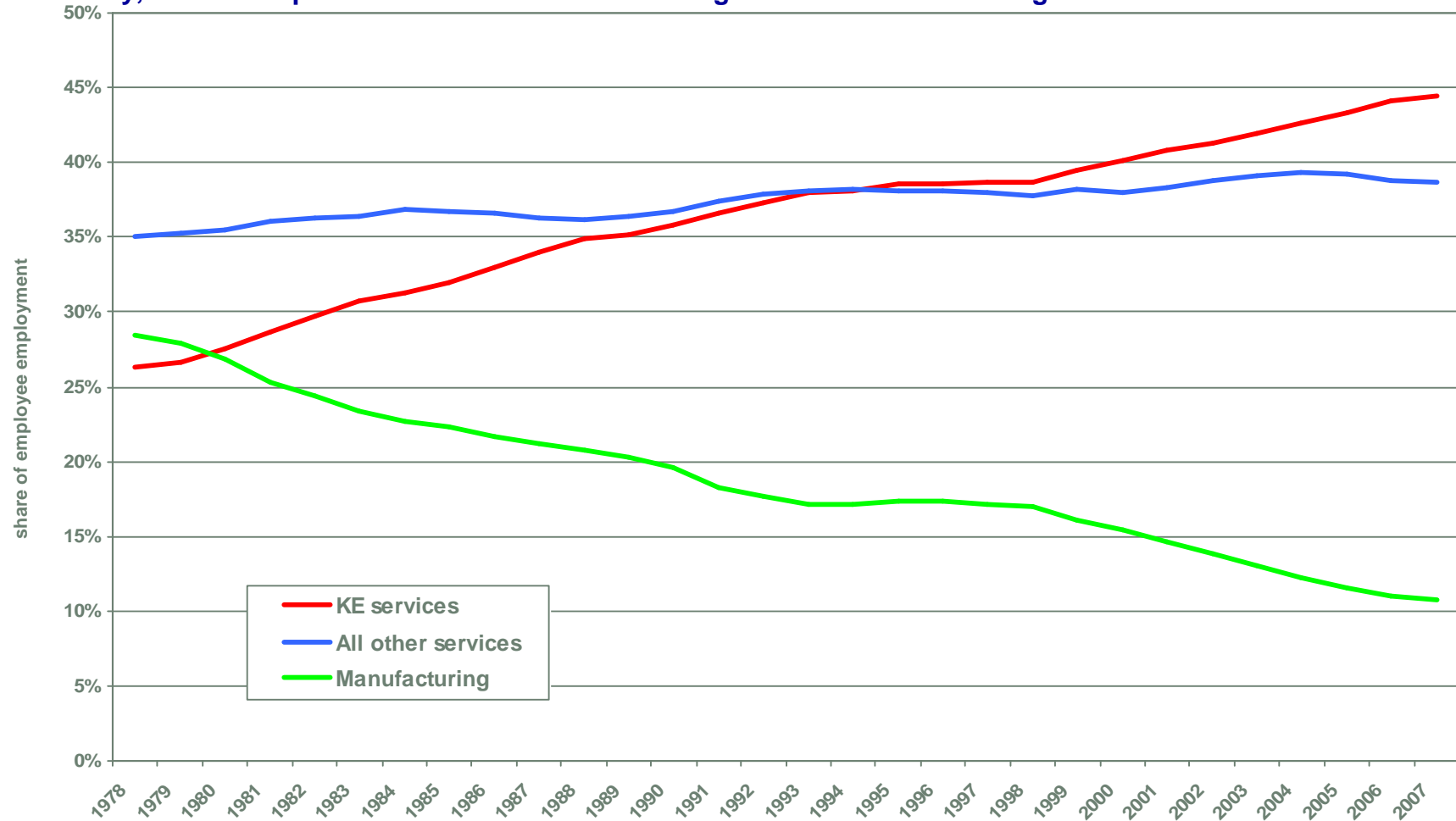
Eurostat definitions for EU15, change in total employment 1995-2005; US is Work Foundation estimate for employees in similar industries and is not directly comparable.



# More jobs in knowledge based services 1978-2007



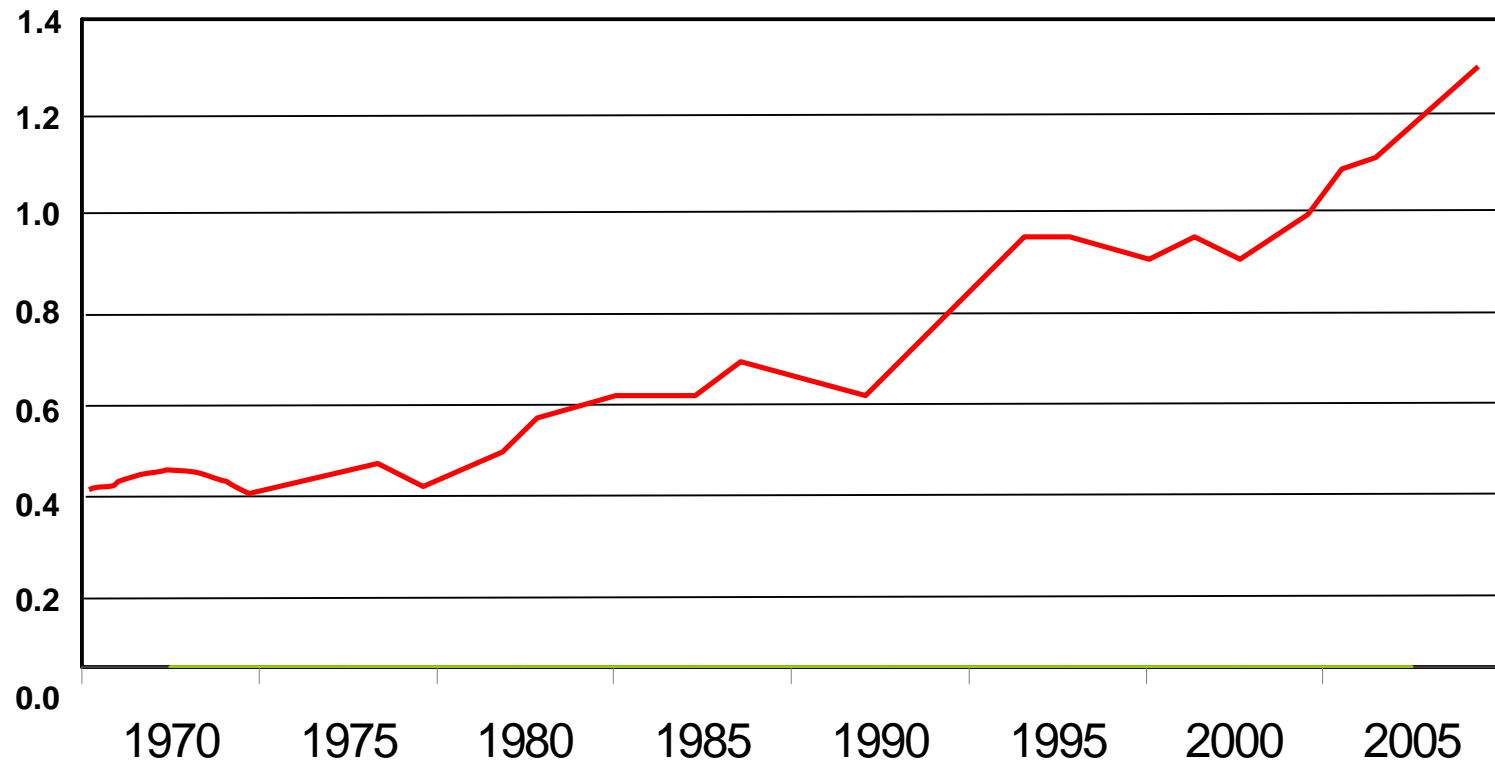
share of employees in employment, GB. Knowledge based services WF estimates from Office for National Statistics figures based on OECD definitions and includes communications, financial services, business services, education and health. All other services includes retail, hospitality, transport, public administration and other community, social and personal services. Manufacturing includes both knowledge based and other sectors.



# Business Investment in Intangible Assets

ratio of investment in tangible assets (machines, buildings) to intangible assets (R&D, software, design and development, human and organisational capital)

Source: HMT Economic Working Paper No.1, October 2007.



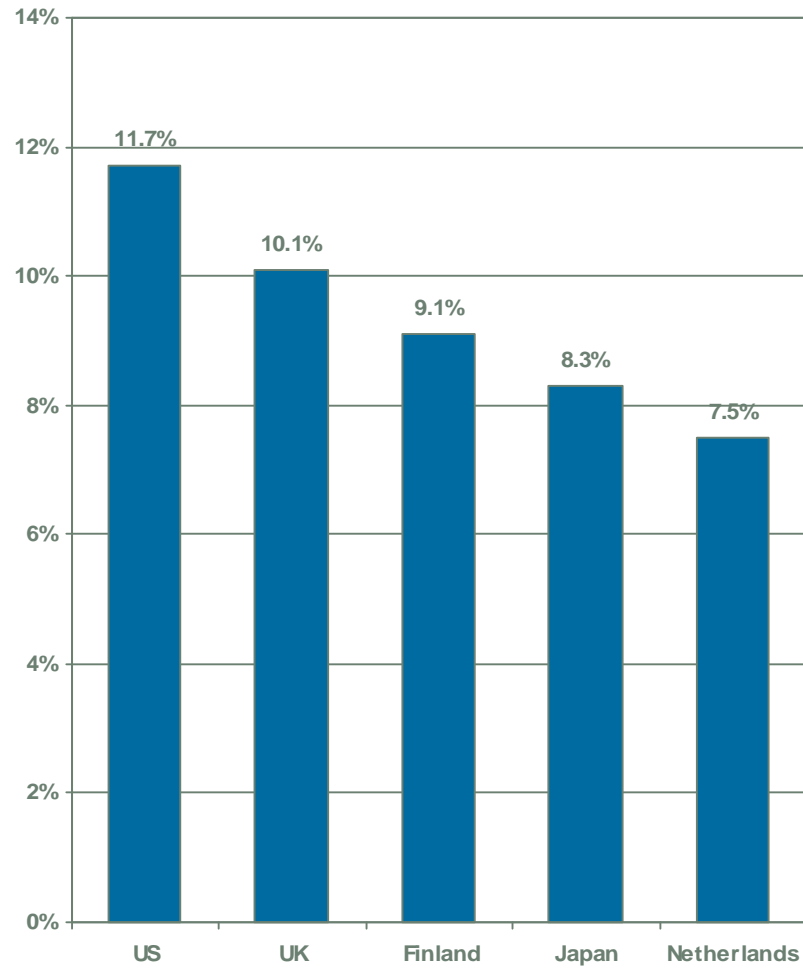
# Intangibles compared across the OECD

Source: OECD (2008) *Intellectual Assets and Value Creation*

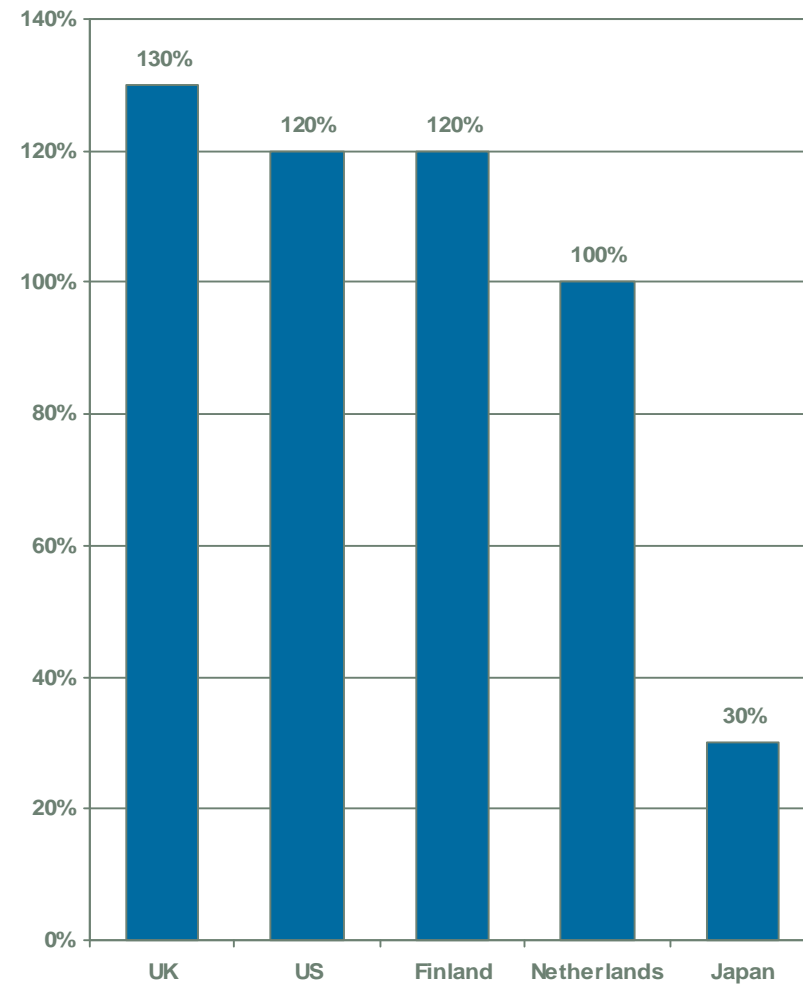
the work foundation



### Intangibles as % of GDP



### Ratio intangibles to tangibles



# Impact of the recession

# Globalisation at risk



- 2002-7 exceptional period – growth of 10\$ trillion securitised asset market. 60\$ trillion CDS mkt. The alleged diminution of risk. Leverage everywhere
- Catastrophic event. 4.1\$ trillion of loan losses. September and October 08 the world system nearly failed.
- Freezing of interbank market on which banking model rested – and other models dependent on leverage e.g. hedge funds, private equity, growth by acquisition
- Threat of disappearance of bank lending capacity on scale that would have exceeded early 1930s.
- Globally credit constrained. Huge destocking. The “Great Recession”.
- Global trade down 9 per cent 2009... globalisation at risk. Buy America. Buy China.

# Shattered assumptions



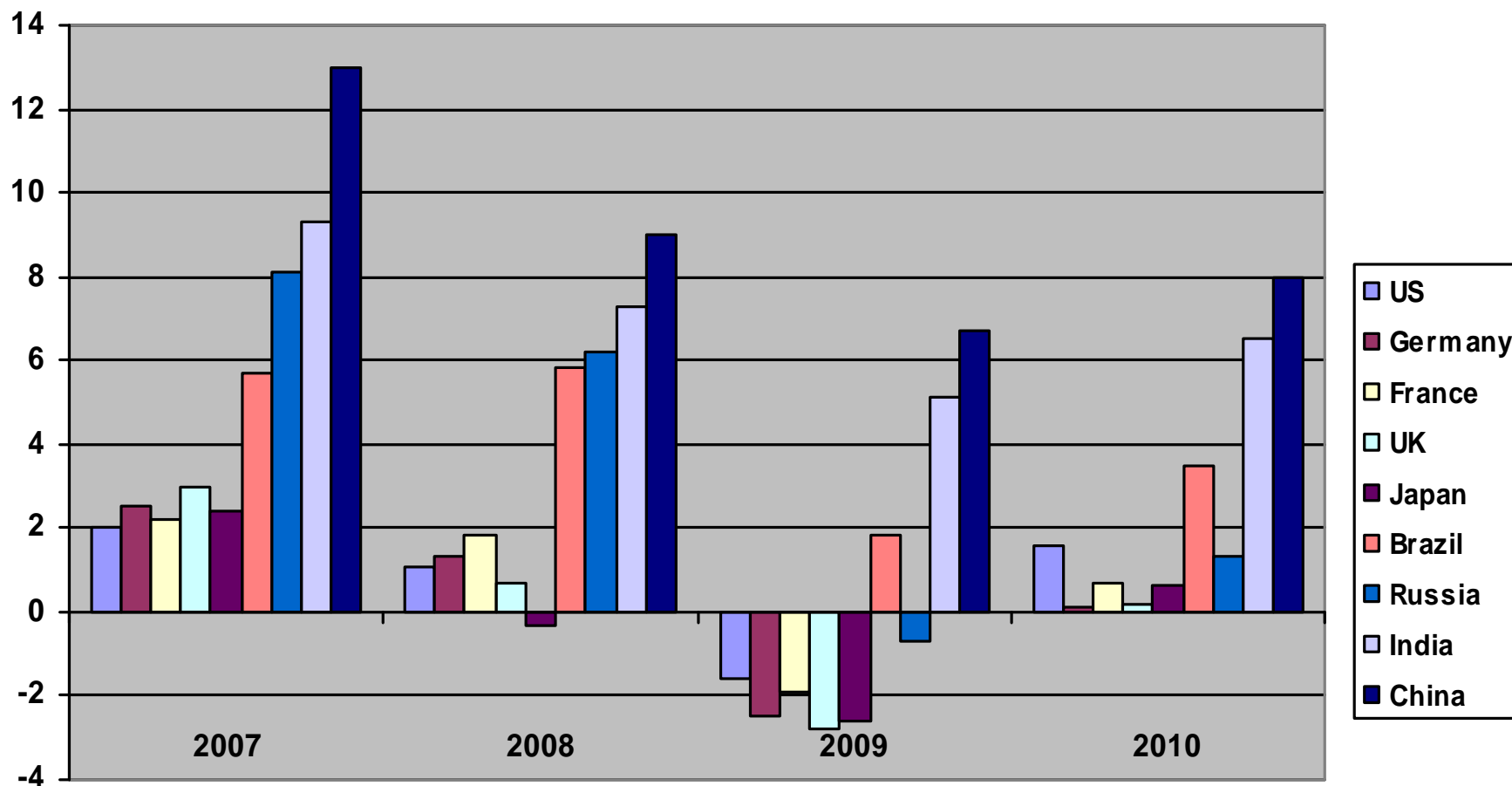
- 2002-7 not the benchmark. New era of constraint and uncertainty.
- Regulated finance will be more risk and leverage averse
- Credit crunches have deep and long lasting impact on growth, employment, asset prices and public debt. Synchronised crunches even more.
- Citigroup, Bank of America, RBS , Lloyds, UBS ,British building societies, German landesbanks and small financial centres knocked out
- Governance, regulatory, intellectual, business model, political leadership and ethical failure
- Huge write downs, insurance and pension system concerns
- Assumptions of last 30 years now dead. No longer possible to joke “I am from the government and I am here to help you”. No certainty about what will be dominant philosophy – but unlikely to be market fundamentalism.

# Headline indicators – Global growth is falling

(Source: IMF)

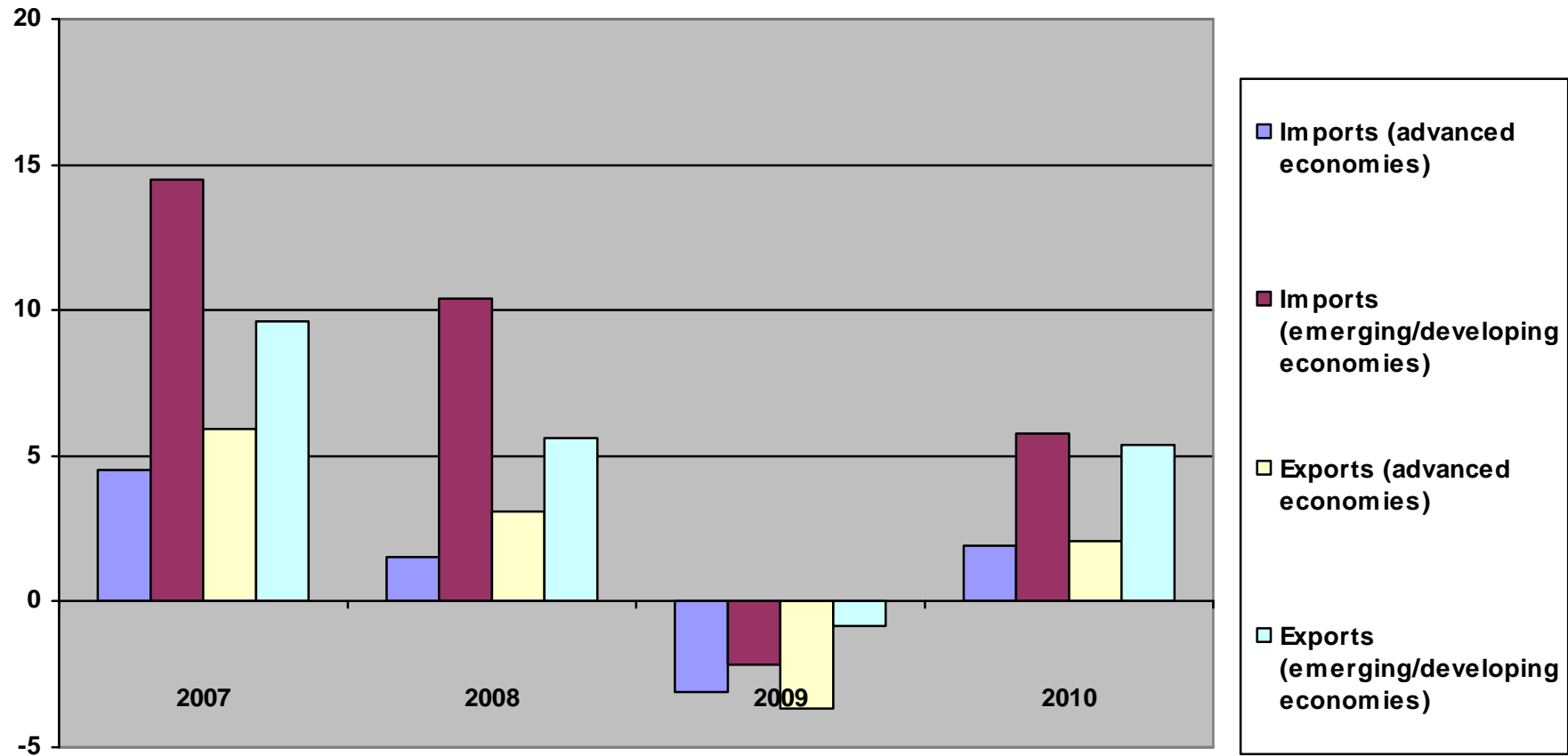


### Change in output, year on year (%)



# Global trade is slowing

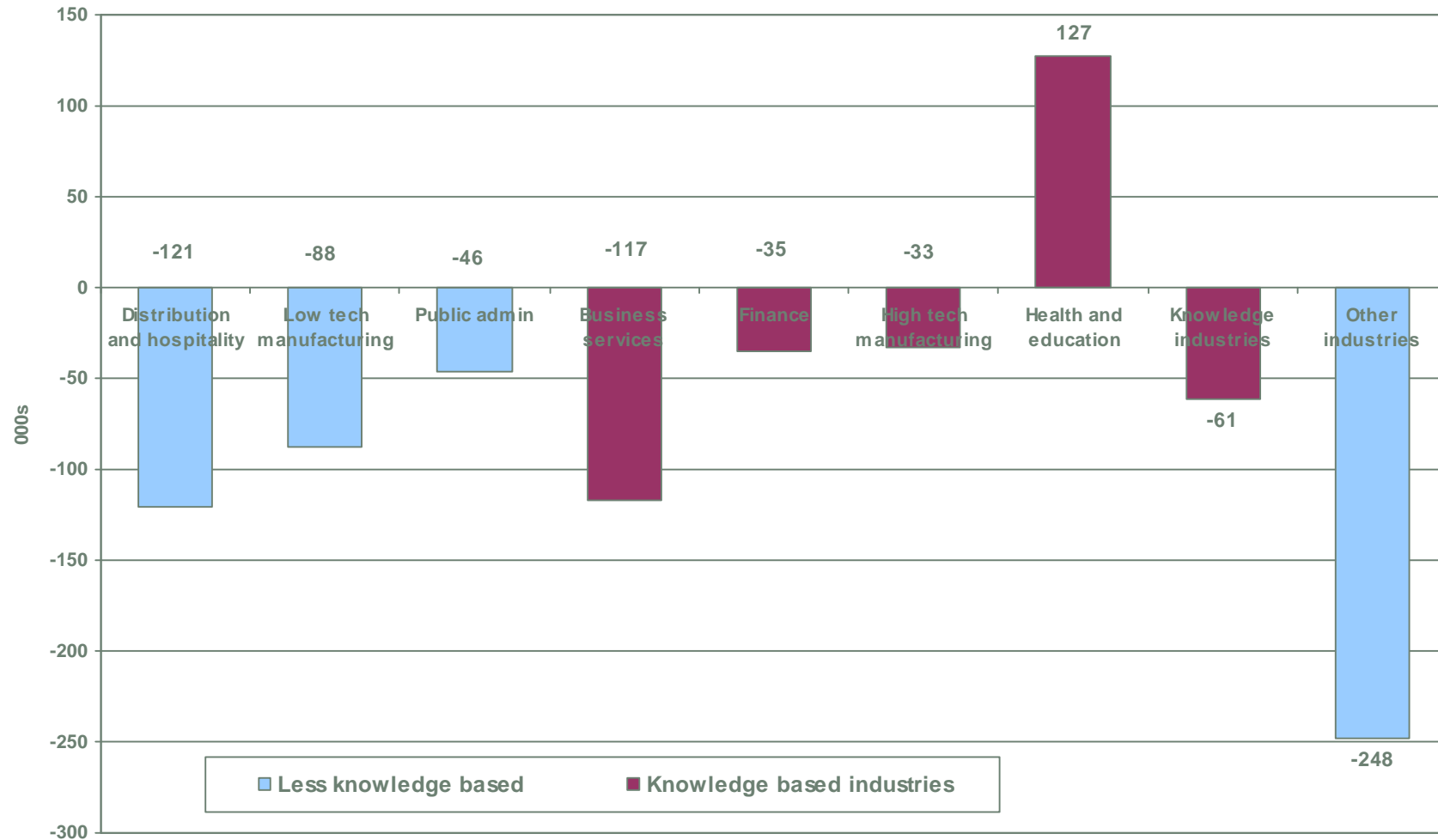
Figure 2: World trade volume, year on year change (%)



# Impact of the recession on the UK's knowledge economy

Note: Totals include sectors not shown in the chart. All figures GB employees, seasonally adjusted Dec 2007 to Dec 2008. OECD definitions of high tech and knowledge based industry.

the work foundation

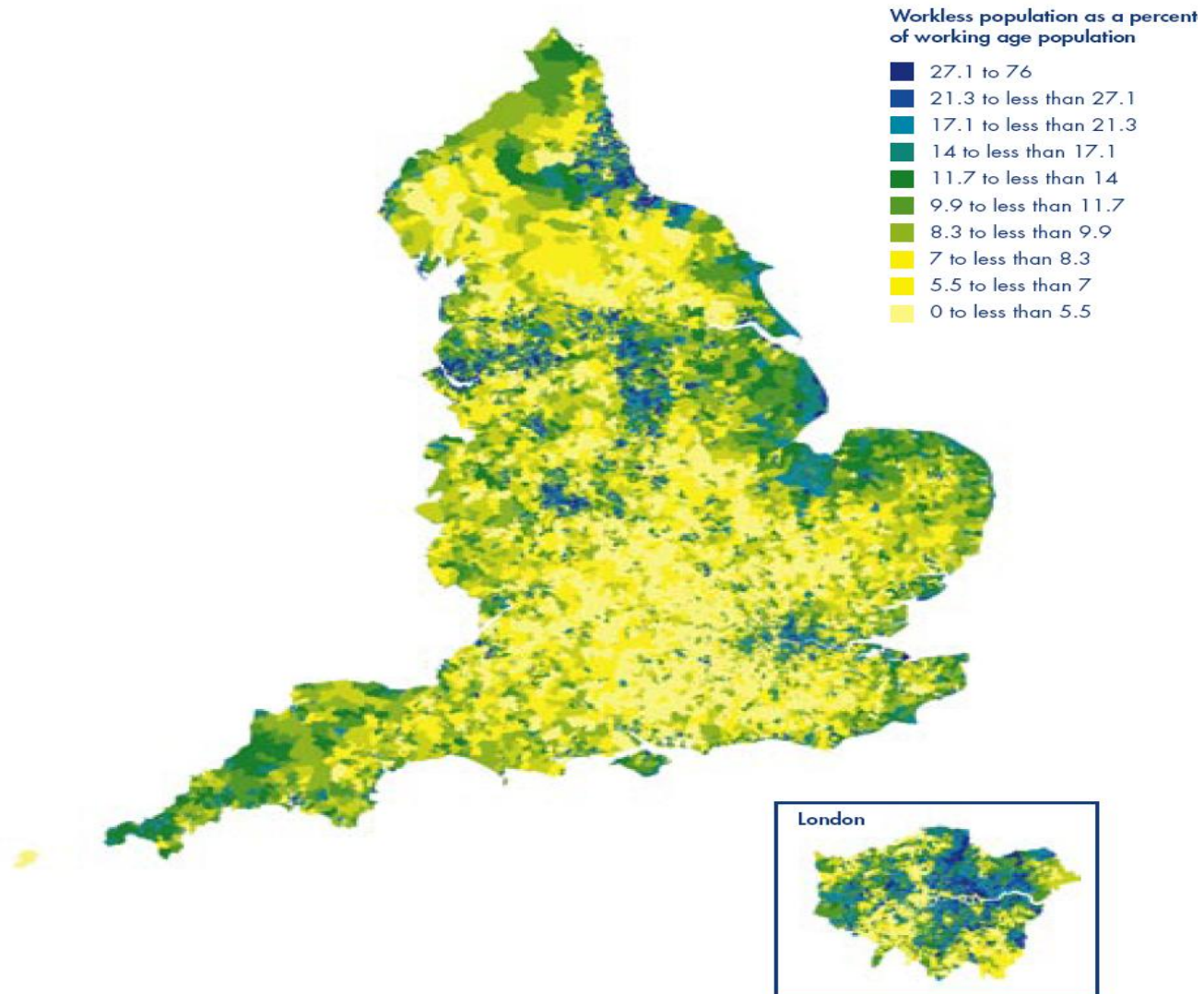


# Risks abound...



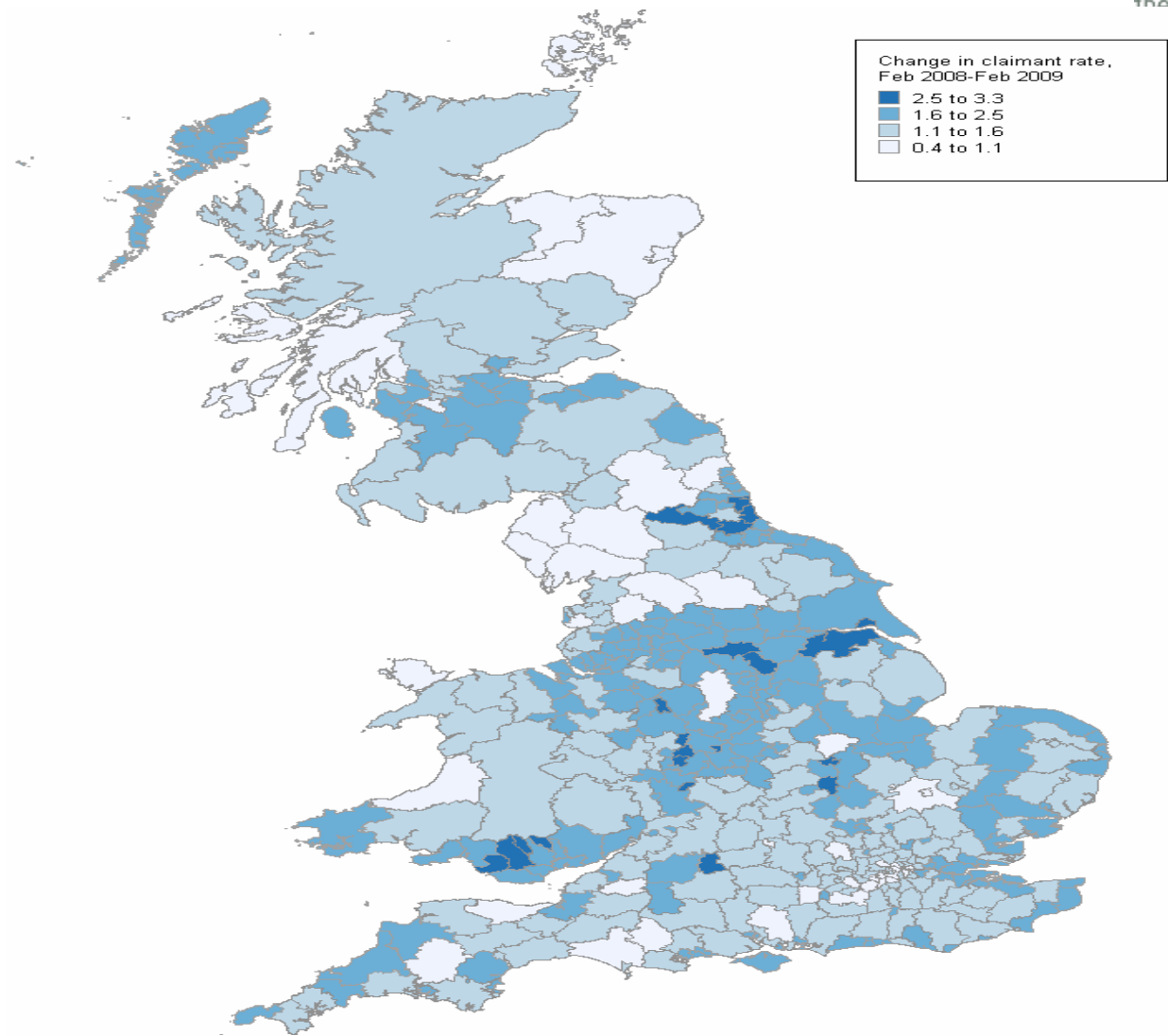
- The bullish case ( re-capitalisation, aggressive policy, mutual interest in business as usual , inflection point, asset price falls easing, PMI). BUT
- Banking capacity has disappeared for ever. Repatriation of lending. Probably a third of UK capacity has disappeared; a fifth of US. UK lending falling.
- Refinancing of maturing asset backed securities, RMBSs, CDOs and CLOs when no 12 month borrowing in inter-bank market. This cannot be done without crystallisation of losses.
- “ Nipponisation of EU” via Germany. German attitude understandable but profoundly wrong.
- Balance sheet stress in every sector. Second round effects of de-leveraging yet to be felt. Richard Koo – firms become debt minimisers during asset price deflations.
- US and UK households must and are rebuilding savings
- UK and US government must and will focus on deficit reduction
- Corporations will be careful about leverage

## Worklessness highly concentrated before the crisis (2007 data)



Source: National Audit Office analysis of Department for Work and Pensions data

# Worst affected regions (Source: Labour Force Survey)



## What does this mean for housing associations and new social home programme?



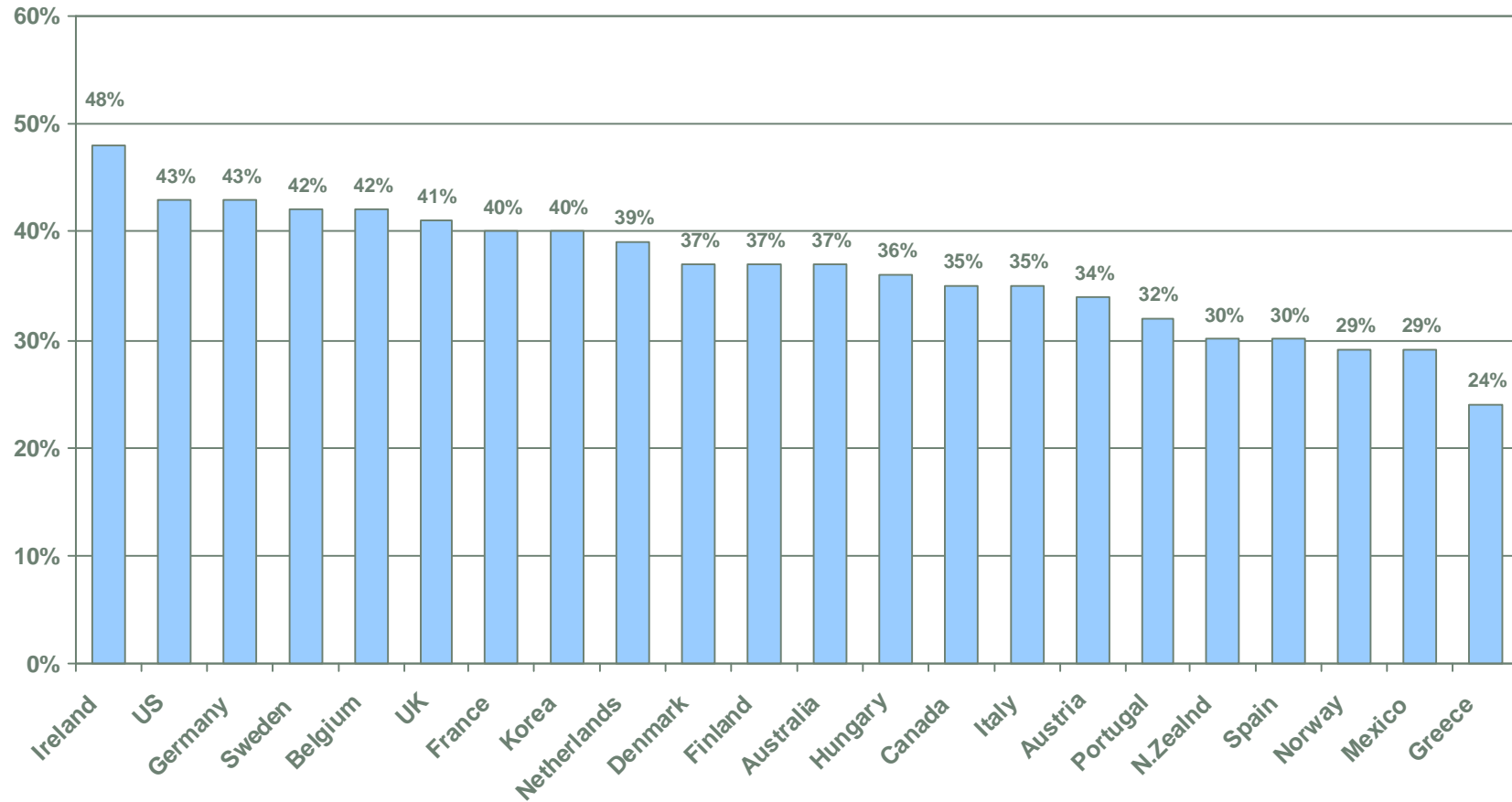
- Can fiscal stance hold – how severe will any cuts be? Koo, Krugman and the US versus the rest
- Asset prices. Average fall 52 per cent post credit crunches. Continuing weakness likely, and little real growth except in very particular areas. Site assembly easier
- Unemployment – average rise 7 per cent and stabilisation only 3 years after recession bottoms. Projection is for 3 million and growing poverty at least until 2015
- Clever financing an imperative. Securitisation of housing association rental streams? Powerful case for specialist housing bank
- Social housing as an agent of recovery. How to hook to knowledge economy?

## Extra slides

# Knowledge economy across the OECD in 2002



share of knowledge based industries in gross value added (current OECD definition: high to medium tech manufacturing; financial services; telecommunications; business services; education and health services). Figures for Japan only available for market based sectors.



# Knowledge service exports 1987-2007

All figures current prices, UK exports. KE services are total service exports less transport and travel, and include financial, insurance, business, high tech, recreational and cultural services, and communication services and royalties and fees.

