Challenging Economics

Global economic recovery has been slow and major structural weaknesses in the market exposed. Public and private debts are large and capital flows have declined rapidly, limiting wealth creation.

Recovery from the 2008 financial crisis has been slower than anticipated. Ratios of public and private debt-to-gross domestic product (GDP) in many economies are significant[1,4]. Major structural weaknesses have been exposed in economies, and the risk of financial shock remains as countries focus on returning to growth rather than bringing forward the structural reforms necessary to address these weaknesses. Witness the inflation of asset prices such as property and junk status shale oil companies as examples. Transitioning to a low carbon economy could reduce the long term risk of financial crisis, but stranded or over valued fossil fuel assets pose short-to-medium term systemic risks to investors and markets[6]. The Bank of England is considering which fossil fuel assets must remain unexploited if climate change is to be kept to 2°C, and the Financial Policy Committee is investigating potential risks that these assets pose to financial stability[14].

Societies' willingness and ambition to invest in the infrastructure needed to address our biggest challenges and to grow economies seems constrained. Austerity public budgets are playing a role in this but, counterintuitively, in the private sphere available capital continues to outstrip demand[4]. Cross-border capital flows have fallen, especially into emerging economies, as financial integration reverses globally, led by Western Europe[5]. Euro nations are under continued economic strain, while economic power is shifting to new markets. GDP as a metric is recognised by many as inadequately accounting for factors vital to a healthy society, such as quality of life or the environment. The adverse environmental impacts of traditional market systems and external costs of pollution are considerable. Innovative new financial models need to be explored, particularly those that address externalities like climate change and which recognise environmental limits.

Challenges

★ Can we learn from lessons the 2008 financial crisis and reduce future risk?

★ Can markets and metrics of economic growth be more closely aligned with social and environmental realities?

★ Can public budgets and private capital be more effectively mobilised to tackle societies' biggest challenges and support growth?

★ Can localism or community ownership be effective in tackling macroeconomic issues?

Key Facts:

1. **Net public debt-to-GDP ratios in developed economies, as a % of GDP, had risen to an estimated 78.1% in 2013[1].**

2. **If current business-as-usual trends continue, net global public debt will rise to 98% of GDP by 2035[1].**

3. **Global private debt at the end of 2013 stood at EUR 31.6 trillion, or roughly 65% of global GDP[2].**

4. **China and India alone represent 25% of global GDP today[1].**

5. **Developing economies will account for an estimated 57% of global GDP by 20301 with China alone providing about a third of this global growth[3].**

6. **Through to 2025, 440 of the world's fastest growing cities will be in developing countries, generating 47% of global GDP growth over the period[1].**

In 2011, **59%** of all jobs in England and Wales were located in cities. **13%** of all jobs were located in city centres.

69% of high skilled, knowledge-based jobs were located in cities. **28%** were located in city centres[15]

LDA Design Insights:

The UK economy was heavily damaged by the 2008 recession, but has recovered relatively strongly compared with other countries. Growth has been led by London but all other regions have seen expansion[7]. Labour productivity has stagnated however and private investment and business financing levels are low[8]. Public and private debt remain high, at 83% of GDP[9] and 112% of income[10] respectively.

⋆ Most UK infrastructure is unfit for the challenges we face and limited appetite to use public debt to invest, together with constrained capital markets and low labour productivity growth, are limiting economic recovery. This is worsened by risk aversion and political uncertainty. Bold leadership is needed, which sets the context and framework for change and mobilises public, private and institutional investment.

⋆ Innovative local authorities, faced with huge budget cuts, and communities are starting to take the initiative and developing their ability to deliver infrastructure through social models like crowd-funding or community ownership. City Deal and Local Growth Funds are well placed to accelerate this by streamlining access to finance.

⋆ Modern economies are reliant on cheap energy, often from fossil fuels, but neither the highs or recent lows in oil and gas prices seem to have benefitted the economy. The creation of a viable shale extraction industry is likely to lead to widespread dissent from communities and will have significant environmental implications. In contrast, the UK's low carbon sector in 2014 comprised 4.4% of all non-financial businesses, generated £46.2bn turnover and employed 238,500 people[13]. Around one third of this was renewable energy related. The sector will demonstrate increasing benefits, with on-going technology improvements, and cost reductions and the ability of communities and businesses to benefit from direct ownership of renewable energy projects.

⋆ The national economy is concentrated in major cities, while many smaller places and hinterlands are in decline. The economic benefits of agglomerations of people and jobs means city centres often attract the most skilled and well paid jobs. Policy-makers need to support this by focussing not just on retail, but the whole offer, on creating quality places and providing the necessary infrastructure and skills[15].

⋆ Emerging technologies such as 3D printing and advanced manufacturing could have profound impacts, changing fundamentally the ways we plan, build, move, shop and produce. Preparing for these will be critical and so understanding and flexibility should be built into strategic plan-making processes.

What is LDA Futures?

The world is changing in response to a set of environmental, economic, social and technological drivers, and these are shaping the types of infrastructure and development we need and the way we use land.

LDA Futures explores these drivers and their implications to enable us to make appropriate responses through our projects and the advice we give to clients.

References

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