The Near Perfect Storm

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Was the old normal abnormal?

- The decline and fall of the west?

- Anti-establishment anger – Trump and Brexit. The rise of protectionism, nationalism, populist right, anti-immigration sentiment and isolationism across west. A Trump victory would spell end to WTO as US embarks on trade unilateralism.

- Echoes in the UK. Could Brexit spark domino effect in Europe, and the end of the EU?

- Parallel but more complex forces in Eastern and Southern Europe.

- Can EU manage Mid East contagion / immigration?
Don’t assume the period ahead will be like 1945-2009

• 1945 – 2009: unparalleled period of co-ordination and multilateral governance plus successful mixed economy.

• Who believes in the mixed economy?
• Simultaneously entire international treaty framework looking weaker and inadequate
• China in trouble too (economic model unsustainable/ party not legitimate)
• Emergent economies also fragile.
The new age of turbulence – lessons from 1870-1945

• Unregulated capitalism very unstable, propensity to enormous inequalities and poor at generating good jobs/living conditions.
• 1870-1945 era of enormous technological change - flight, internal combustion, mass production, telecommunications, chemicals, electricity, new materials (plastics), drugs
• Interaction of unmediated capitalism and great change to economic base without a functioning international framework or domestic social safety nets created militant working class and impossible international tension
• Relearning old lessons. The new right revolution a political and social disaster. Dismissing the disadvantaged as losers and shirkers invents backlash. Too much private debt unsustainable. Too much inequality is dysfunctional. We need international framework.
Challenge 1 – General Purpose Technologies

• **9000 BC – 1400AD**
  Seven GPTs
  domestication of animals & plants; wheel; smelting of ore; writing; use of bronze; iron & steel; creation of water wheel

• **1400 – 1750**
  Two GPTs
  three masted sailing ship and printing

• **1750 - 1900**
  Five GPTs
  steam engine; factory system; railway; iron steamship; communications

• **1900– 2000**
  Nine GPTs
  internal combustion engine; electricity; motor vehicle; airplane; mass production; computer; lean production; internet; biotechnology
Their ever quickening pace

1784-1845: Early mechanisation and water power – carried by textiles and cotton industries
1845-1900: Steam power and steel – carried by railway expansion and heavy engineering
1900-1950: Electrical engineering and chemistry – carried by rise of electric / chemical industries
1950-1990: Petrochemicals and oil – carried by automotive and the rise of aviation
1990-2020: The digital economy – carried by new media, knowledge intensive and manu. services
2020-2040: Health economics, life sciences, low-carbon economy
Twenty-first century prospects?
Grand Challenges

- The mobile phone
- Nanotechnologies
- Energy from fusion
- Advanced materials
- Carbon sequestration
- Space
- Manage the nitrogen cycle
- Water
- Health informatics
- Durable customised infrastructure
- Customised medicine
- The brain
- Cyberspace security
- Enhance virtual reality
- Personalised learning
Digitisation as a meta GPC

- Driverless car, pilotless aircraft, people free banks, new forms of shopping, online learning, new forms of crime
- Big data as stimulant to economic reinvention, eg transport. Driverless car and traffic management dependent on sensors and communication networks
- 3D Printing and the internet of things?
- Artificial Intelligence?
Intangibles bigger than tangible assets

Source: National Academies in the US
EU COINVEST and Haskel et al
Innovation, intangible assets and intellectual property are vital for growth

Innovative firms:
22% more likely to be high growth than non-innovative firms

High growth firms:
74% more intangible assets and intellectual property on their balance sheet than non-high growth firms.

22%

74%
Challenge 2 – De-purposed Enterprise

- Hard to express purpose – great companies have a moral underpinning.
- Instead need to please a myopic market with distorted view of shareholder primacy
- High cost of capital - high hurdle rates, short pay back periods, high dividend distribution
- Most acute in UK - ownerless corporations with no block shareholding
- Fragmented ownership means control resides with no one
- Parallel effects in US and Europe
Eclipse of commitment

- Flight of long-term equity
- Pension and insurance funds own less than 10 per cent of UK companies
- Hedge funds fill the vacuum with short term values
- Private equity replacing public equity with debt
- Anonymity, high frequency trading
A new capitalism – or the old capitalism back?

• Extreme focus on share prices
• Under-invest
• Under-innovate
• Executive pay
• Careless of human capital
• Environmental degradation
• Loss of trust – this works for the elites but not for me
New capitalism hostile to open innovation

- Unknown unknowns all around – nor reducible to mathematical probabilities
- Business models under constant attack and revision
- There must be risk pooling and joint problem solving
- Ecosystem, interdependence and trust – both for business to business and business to consumer
- Business purpose, participative organisations, committed owners, hi-trust workforces and collaborative culture
- Transparency, Accountability and Openness indispensable
Challenge 3 – Rogue Finance

- Undercapitalised fractional reserve banking
- Excess liquidity/too much leverage
- Conflicts of interest endemic
- Rewards excessive
- Gaming the floating rate exchange rate system
Challenge 4 – China

- Growth model needs wholesale reform
- Leninist Corporatism no longer possible
- Overseas markets saturated
- Excessive debt
- Extreme precariousness of banking system
- Profound corruption and illegitimacy of party
- Need rule of law and property rights for any next growth phase – but strikes at heart of one party rule
Challenge 5 – Brexit

- 52 per cent vote tribute to all of the above
- Will Article 50 ever be invoked?
- If it is, a Brexit recession, stagnation and financial instability will follow
- UK political, financial, business and official class in turmoil
- The bite back of the bottom 50 per cent
Challenge 6 – Intellectual

- Too much faith in neo liberal model and market flexibilities
- Radical uncertainty and differential speed of financial market and real economy adjustment heart of Keynesian economics
- Consequently there is public/private interdependence.
- Markets need trusted architectures and trust.
- Society needs social contracts.
- Workers need to know there is a prospect of flourishing
- Well-designed taxation to finance public spending is an imperative not a burden and disincentive
An agenda for the OECD?

• A mixed economy for the 21st century

• A new growth model less based on private debt and more on scale-ups and innovation

• Put purpose back into business

• New sources of equity?

• Re-create functioning social model

• Employee voice and participation?
An international agenda for the OECD?

- Sustain international trade treaty framework
- Reframe the IMF – revisit exchange rate regime
- Proper banking reform
- Protocols for digitisation – cyber security?
- Protocols for IP – how much to share and when?
APPENDICES
The state of play

• Great firms are precious economic and social organisations; yet the UK economy has too few domestic value-generating companies with strong market positions at home and abroad.

• Those great firms are more important than ever in a knowledge rich economy. Investment in intangible ‘knowledge’ assets is now close to double that of investment in the tangible assets of machines and buildings.

• Companies are inadequately organised around clear corporate purposes that unite all stakeholders in common goals and values.
The role of purposefulness is to serve value generation

- Economic growth is closely associated with firms’ ‘computational capacity’ to confront complexity and creatively gather necessary information. No one individual or organisation possesses the relevant know-how to respond effectively to all business challenges.

- Trust—rather than contracts and markets—is critical to deploying vast quantities of knowledge, which in turn, permits larger networks and more sophisticated forms of value creation.

- All this is enabled by the pursuit of a clearly defined visionary corporate purpose, which sets out how the company will better peoples’ lives and encourages stakeholders to internalise the behaviours it wants to create and sustain.
State as innovator-in-chief

Science Policy (1950s-60s)
- From science to market is assumed automatic
  - Focus on Research and Development

Technology Policy (1970s-80s)
- Main focus is on engineering technologies
  - Focus on technology push and market pull strategies

Innovation Policy (1990s-2000s)
- Knowledge transfer
  - Focus on building institutions

Emerging Open Innovation Policy (Post 2010)
- Open Innovation/Knowledge co-creation
  - Focus on people
There will be jobs

- Body parts manufacturing and storing
- Pharming – cultivation of genetically modified crops
- High rise farming – cultivation in skyscrapers
- Personal brand consultants for social networking
- Customised avatars as teaching aids
- Space guides
- Miniaturisation doctors
- Old age well being advisers
- Care assistants