

OPENING REMARKS

ROBIN NICHOLSON – Edge Convenor

Robin welcomed all to this 52nd Edge Debate on a subject of close and long interest to the Edge. He explained that owing to Ken Webster (Ellen MacArthur Foundation) pulling out at the last minute, the Chair, Chris Beauman, had agreed to take on the additional role of speaking in his place.

PRESENTATIONS

Dr Victoria Johnson – New Economics Foundation.

NEF is an independent think tank founded in 1986 with the aims of sustainable development, social justice and wellbeing.

A new economic direction is needed because resource depletion, exceeded environmental limits show growth economics is not working - with mounting poverty and a widening gulf between rich and poor. One of the arguments for growth is to bring people out of poverty, but research shows that it isn't a necessary condition.

Growth founded on cheap energy leads to NEF's 'End of Civiilisation' scenario. Cheap energy is now bolstered by shale gas, enabling USA to become an energy exporter again. But cheap energy is not sustainable. Thus the issue is how to manage the transition to a 'wellbeing' based economy?

Globally we use natural resources 44% faster than they regenerate. Every \$100 of growth generates only \$0.6 contribution to reducing poverty.

Economic growth is predicated on the continued availability of cheap energy, but we are entering the peak oil phase with production now plateauing – requiring prices to double to sustain demand (and avoid major recession or depression). As GDP growth tracks energy costs closely, the benefit of growth in this economic model is insignificant. The

IEA, IMF and G7 share concerns that increasing energy costs stifle real growth. Developing economies better cope with oil cost escalation because they still use it selectively.

Options to soften the impacts are limited:

- To find new sources of cheap oil (which is unlikely)
- To make a marked improvement in usage efficiency and demand management (which will be difficult)
- To derive a new economy.

Converting from our 'steady state' to this new economy involves, in NEF terms, the 'Great Transition' comprising:

- Revaluation - Making social and environmental values central to decision-making
- Redistribution – more equal and happier societies
- Rebalancing the market, public and core economies
- Re-localisation & subsidiarity
- Reskilling – to convert consumers into producers
- Economic irrigation – essential tax reforms to facilitate the transition
- Interdependence – capping global emissions, climate-proofing and climate-friendly development.

Reducing oil dependence in UK will involve low/zero carbon solutions, reinforcing the electricity grid (and exploiting efficient local energy production), decarbonising by demand reduction & by sequestration and investment in efficient public transit systems and vehicles.

Unfortunately UK energy policy has recently been so volatile that fossil fuels remain the more attractive investment.

The cumulative costs of 'business as usual' economics to 2050 are predicted as £1.6-2.6T for climate change effects, with a further £4.5T if social inequality is not dealt with. Conversely, transition could create £8.7T of environmental and social value.

26th November 2012 – RICS**Chris Beaman: European Bank for Reconstruction and Development**

An undercurrent of 'equilibrium' thinking is emerging, for example; Tim Jackson's concept of prosperity without growth. There is growing acceptance of a multitude of evidence that the current world order is unsustainable, including by McKinsey and The World Bank. The question is how to get 'there from here', without major shock?

In standing in for Ken Webster on effecting redirection Chris referenced the Ellen MacArthur Foundation's proposals for a 'Circular Economy' as a business concept (not a tree-hugger's one). It has a practical agenda, (for example, leasing rather than individual ownership reduces waste and improves maintainability) but still has to be proven because much of the infrastructure to support it has yet to be put in place.

With a background in steel, Chris is aware that meeting steel demand cannot be sustained by production. The problem extends to many materials as addressed in Julian Allwood's 'Sustainable Materials with Both Eyes Open' which proposes, inter alia, direct reuse of salvaged materials (rather than after reprocessing them). Yet cars are getting heavier when technology can now make them lighter. 'Heavy steel' economics still thrives.

Europe must take the lead in economic transition because it's the only place where the 'thinking' is happening. But its politics and industry are scared that profit margins will be eroded and there is no pathway set out from theory to practice. The thinking people are not close enough to business realities. Impetus must come from profitable ideas (refer McKinsey).

But not all good ideas progress quickly (for example, ESCOs were a long time in formation and never really got off the ground).

Oil shortage is not the problem but rather its comparative abundance. Too much resource produces no drive for change leading to the danger that our profligacy may heat the world up by 6° or more. Change must therefore come through new initiatives.

SIMON RAWLINSON: E C Harris

Coming from a commercial background linked to a growth assumption it's difficult to 'get off the bus'. This is the case for most involved with governments – who are unable to question the idea of growth. But there are obviously challenges, as evidenced by COP18 in Doha.

At the moment we are operating in a disequilibrium economy and rely on growth for redress.

In E C Harris the options are to grow or to lose momentum. Having merged with an organisation of 21,000 engineers and now owned by long term investors, the firm must look for growth (currently with a target of 10%) and return. It is part of the organisation's DNA. It involves a multi-outlet multi-service offering, ever-larger projects and more staff. Both clients and staff want EC Harris to grow, although and at the same time we also have to become more productive.

Employers have responsibilities; in providing career paths, succession, sustaining longer-living people, etc. Those firms that chose to consolidate or downsize create difficulties for their earlier and following generations. Fairness manifests in all of this.

Societies do not thrive when they stagnate - as with the Arab Spring and the emerging problems with the EU Mediterranean countries. The habits of stagnation endure - long after reunification, East Germany is still less dynamic than West.

Growth has real positives in developing markets – as with healthcare and the application of leapfrog technologies that avoid waste.

In UK, according to Standard Chartered, there are only three things to make money from: cash, commodity and creativity. In the UK we really only have creativity! Leading, if anything, to a less equal future. 24% of our GDP is spent on expensive things like health and welfare but we don't make best use of it.

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The UK's model distorts our behaviour, but the Eurozone has shown how damaging getting off the bus can be and the dangers of de-leveraging.

Growth is good and we need growth with less than zero impact and we also need to provide for our descendants.

DISCUSSION

(Following the Chatham House Rule, remarks from the floor are not attributed).

1. So how can we move to a non-carbon economy? If this doesn't happen it appears to be 'game over' by 2060.
2. 'Cities' may be the solution – by rebalancing them (One Planet Living). CO₂ comes from food production, transport and the like - with less from homes than imagined. A start would be to make cities easier/safer to cycle around. In Copenhagen 37% of trips are by bike (London <5%). While cycle-ways do not produce immediate uptake, they are practical and 'doable' now.
3. All traffic engineers should bike to work – which would transform traffic planning! Community engagement so far is limited to a few transition towns and their influence is tiny. Major cities and councils must involve if momentum is to build.
4. The natural order cycles between growth and contraction – except in the last 250 years where decoupled growth has been fuelled by carbon. A circular economy is irrational in our world which doesn't support notions of green-ness, equity or the like and it won't catch on until the price of 'stuff' drives change. But no organisation or country can continuously grow for ever.

5. Re (3) above – it's not council officers but councillors that set policy. Consumers have proven to be more influential than politicians in 'greening' (e.g., no one sells a 'C' rated fridge anymore!)
6. Query SR's response that E C Harris is so dominated by the pressures of their investors. Surely there are other ways of serving them alongside the Firm's wider responsibilities?

SR: Private equity investors have a long term view which is why E C Harris took that route - a responsible approach to trading in a market economy for an average size organisation. But yes, it inevitably has constraints.

CB: Resource constraints indicate that the standard of living of our children and grandchildren will not be better than ours – but we can mitigate their hardships through wise investment now to leave a legacy of durable buildings, infrastructures and the like. Not persuaded by the 'green growth' scenario – but might be by the concept of 'green dynamism'.

7. Dynamism is a more useful concept than growth and a more acceptable term politically and societally (than 'equilibrium' or 'contraction'). A dynamic economy doesn't have to grow.

VJ: Language is a huge issue in this discussion - as is achieving acceptance of redefined success metrics. Tim Jackson's book (Prosperity without Growth) caused a great fuss in the Treasury. All public decisions should be made on the basis of cost-benefit analysis, measuring well-being as well as GDP.

8. We should stop only thinking quantitatively and go for qualitative metrics – e.g., the concept of 'commonwealth' does not feature in national income statistics. Cycling, for example, is not only green but, if routed well and safely (as Copenhagen), very stress-free. This is not the case in London – hence its vastly lower cycle use.

Smarter growth comes from maximising quality and not depleting natural capital.

9. Is there an economic model that recognises the finite limit of resources (4 above?)
10. There are several - but none recognised yet; perhaps the subject of a future Nobel Prize!

CB: What about Herman Daly? Part of the challenge is that economists do not think 'long term'; even 10 – 15 year outlooks are rare. Consider the fracas over Stern's use of discount rates.

11. The situation requires prosperity to be redistributed from the few to the many, from centralised models to the 'world-wide web', from a few hands to many. Depletion of potassium, phosphates and water resources is likely to be the major short term problem in agriculture.

CB: Governments no longer regard GDP growth as being invariably linked to increased wellbeing. An example of European green dynamism might be seen in the way that its cities have moved from cars to cycles (exactly the reverse of China as it has developed).

12. Happiness is founded on individuals' ability to 'control' their MO. Thus in congested cities bikes are preferred to cars and both to public transport.

VJ: Studies in Canada have shown that certain low growth and low emission macroeconomic models positively benefit their societies (e.g. those organised for part-time working). See the work of economist Peter Victor ('Managing without Growth') who is currently working with Tim Jackson on producing models for the UK economy

13. Conventional economics can be applied to alternative scenarios – it's just that economists don't use it in this way. While 'creative

destruction' is part of human ingenuity, being non-linear, it is beyond most economists' ambit.

14. Fairness has no relationship to growth. It comes from opportunity (and access to it). A dynamic economy offers better access to health and opportunities in life.

CB: We worry now about UK poverty – but our standard of living is far higher than 40 years ago. Is our only driver to get ahead and widen the gap? Ref: Fred Hersch, The Social Limits to Growth.

VJ: The advertising industry drives consumption and the desire to consume. Can it be regulated? Income inequality is used as a stimulus of consumerism.

CB: This is the challenge of affluence. Can it be combatted by establishing the novel benefits of dynamism (which, before consumerism, were prized)?

15. Iceland's people threw out their government. It's now booming.

CB: Iceland created a ridiculous bonanza and crisis. Many there suffered badly. But real change can follow from such crises.

SR: Baby boomers are a one-off, problematic, event that will play out. As a society reliant on cheap materials, we export manufacturing CO₂ – this cannot continue.

16. Retrofit is not VAT exempt. Yet dealing with retrofit would give better economic lift than HS2.

CB: this might be a worthwhile campaign with politicians. They will be aware of many respectable papers that make this point.

17. Following the US election, 'doing the maths' is now respectable. It is acknowledged that growth is unsustainable and 'winners' will be those who work how to succeed with a low consumption of

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resources. In construction, our professional challenge is to find a response to retrofit and build out that uses less resource.

CB: Localism plays a part in this. For example, in Germany the acceptance of wind power stems from the localisation of its benefits. We need to scale up localism (e.g., transition cities; not just towns)!

VJ: Could Bristol be a candidate transition city?

18. No! Despite the new Mayor, it's a hopeless case (unlike its twin cities, Bordeaux and Hanover). It's stymied by its politics - a labour city council surrounded by conservative held communities.
19. Do we need an ethical advertising industry board to influence consumers?

CB: Advertising follows the 'money'. Its message is determined by its clients.

20. But fuel efficiency has come through the mandatory requirement to advertise energy performance.

SR: Yes, and often in synch with consumer wants - as with BMWs, which tick the green boxes but retain 'must have' luxury products. Construction has nothing analogous.

21. Getting the metrics right is vitally important. A study of the carbon benefits of London's cycle scheme showed it only saves the equivalent of one 10-storey office building's carbon emissions
22. Convergence and contraction was a lost opportunity. It could have had real appeal and resonance. Was it killed off due to fear that we were going to have to change our lifestyles?

SPEAKERS' SUMMARIES:

VJ: UK is still dazzled by cheap energy. The 1970 oil crisis saw the UK head one way and Denmark another. Now UK is back at the same crossroads.

SR: It is probably not energy use but food and water that are our immediate concern. We face an expensive future.

CB: Green Dynamism