Knowledge Economy and the recession

By Ian Brinkley
Knowledge Economy Programme Director

the work foundation

Some useful phrases and contributions on the recession

- "In our base case simulations there is an upside case that corresponds on the flipside of the downside case in kind of an adverse direction" (World Bank economist on the BBC World Service, winner of the Kelloway Awards, Category Economist's Twaddle of 2008)

- "We are going to upgrade you with immediate effect. We are going to allow you to move on in order that you can use your talents and skills more effectively and thus upgrade your career and opportunities"; and "Dynamic rightsizing" (unnamed US companies, winner and honorary mention, in the Kelloway Awards, Category Best Term for Sacking People)

- *"I trust the whole nation will turn in repentance and cry to God for an intervention so that calamity will not come on our children and on the babes in their cots"* (Ian Paisley, HoC, Oct 7 2008)

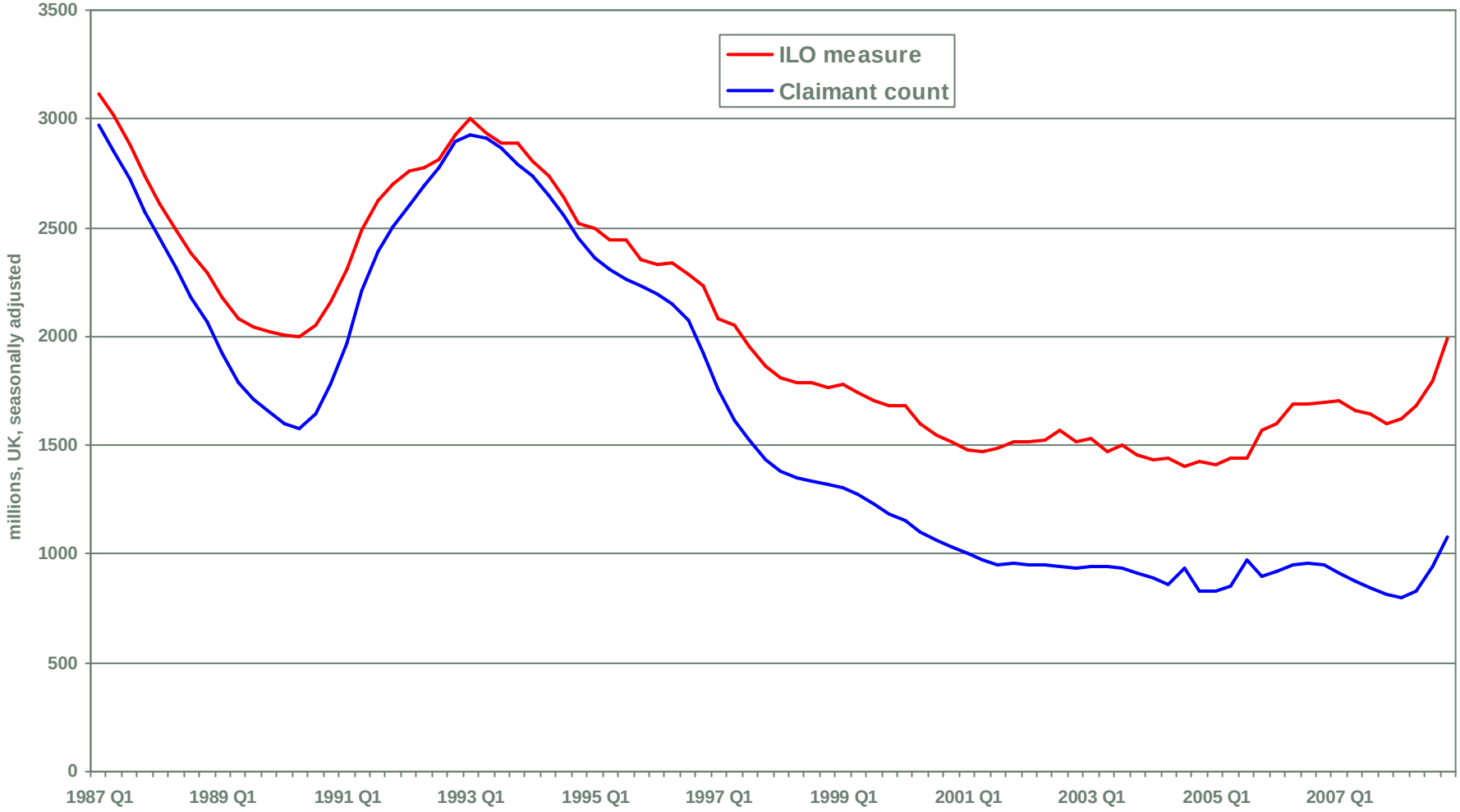
- "*They (the Romans) adjudged the guilty wretch to be sown in a sack, and thrown alive into the Tiber. He looked upon the contrivers and executors of the villainous South-Sea scheme as the parricides of their country, and should be satisfied to see them tied in like manner in sacks, and thrown into the Thames."* (report of speech by Lord Molesworth, quoted by Charles McKay, *Memoirs of Extraordinary Popular Decisions and the Madness of Crowds*, 1848, revived by Vince Cable Feb 2009)

© The Work Foundation.

the work foundation

Unemployment 1987Q1 to 2008Q4

ILO measure – all those who looked for work in 4 weeks prior to survey and able to start a job in 2 weeks time; claimant count all those on unemployment register in receipt of unemployment benefit. Source: TWF estimates for 2008Q4, Labour Force Survey, Office for National Statistics



© The Work Foundation.

Drivers, enablers and accelerators of the knowledge economy

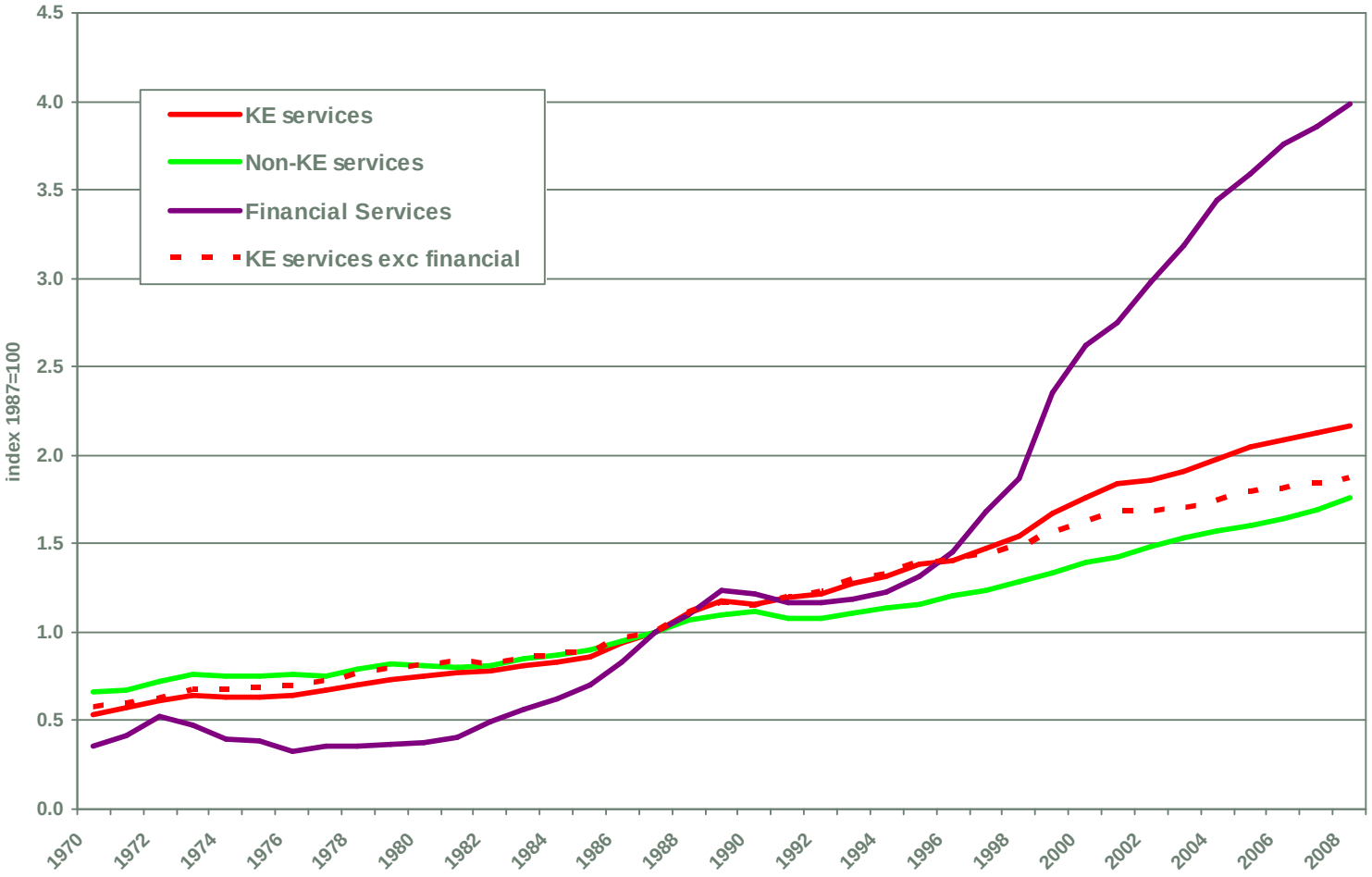
- Demand side drivers – consumers, business, and government
- Supply side enablers – new general purpose technologies and intangible knowledge based investment
- Globalisation accelerator on both demand and supply sides through trade in goods and services, ideas and best practice, technology transfer, high skilled migration.

© The Work Foundation.

Consumer spending on knowledge services 1970-2008

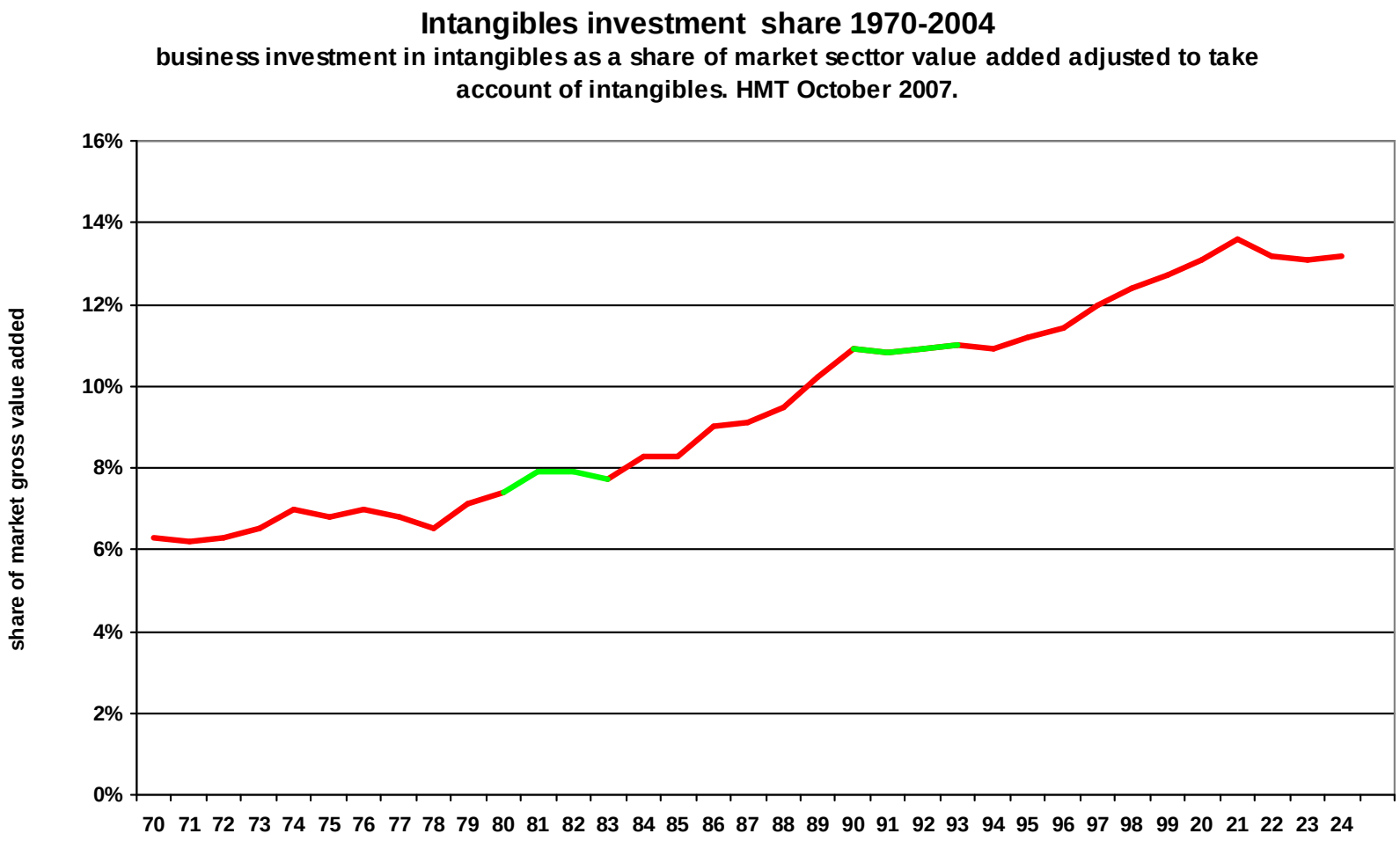
the work foundation

All figures UK, real terms. ONS definitions. KE services are business, high tech, financial, telecom, health and education services. Financial services are fees and commissions on credit cards, over-drafts, mortgages, investments.



© The Work Foundation.

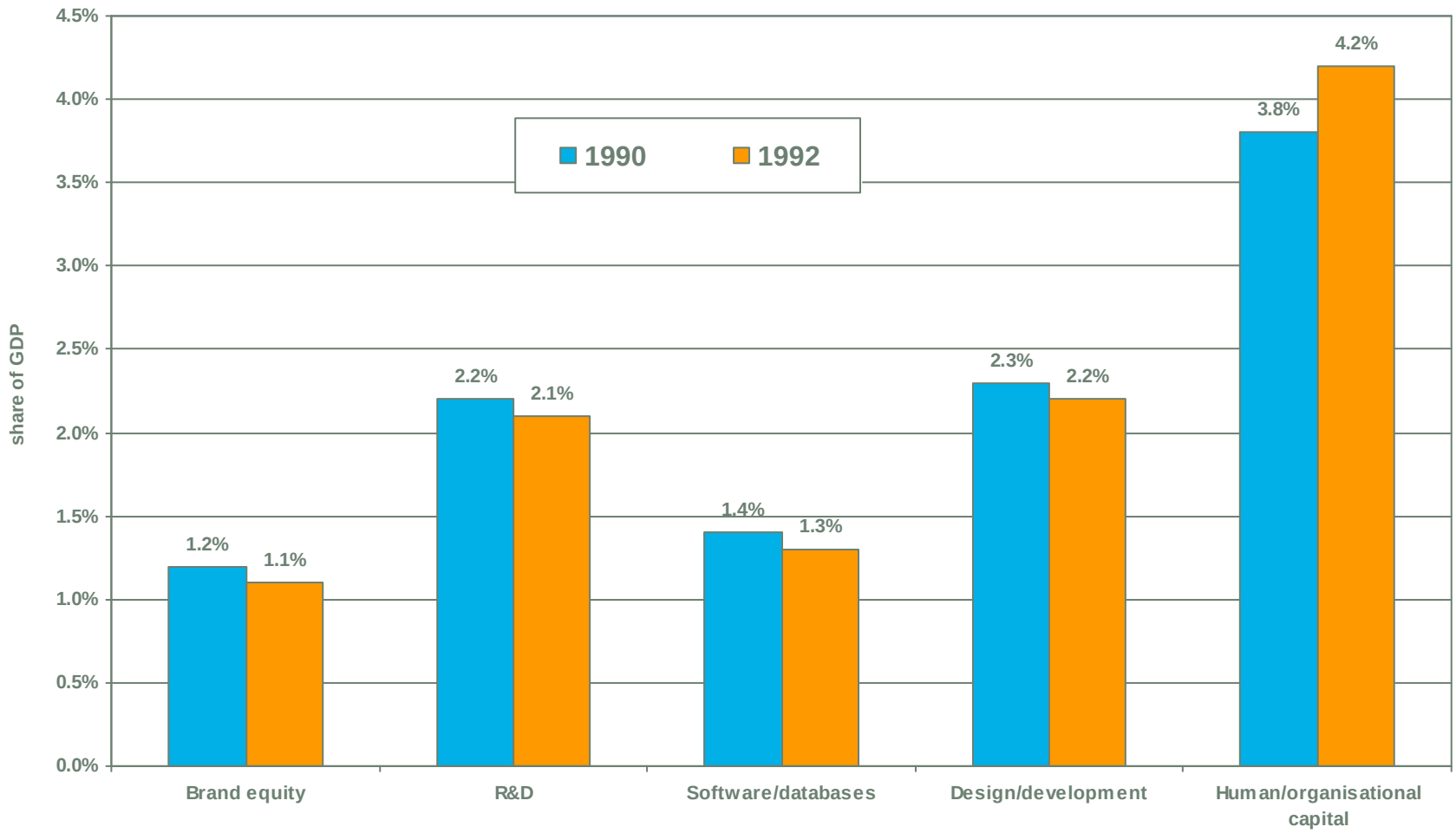
Intangibles less affected by recession than physical assets



© The Work Foundation.

Intangible investments in the last recession

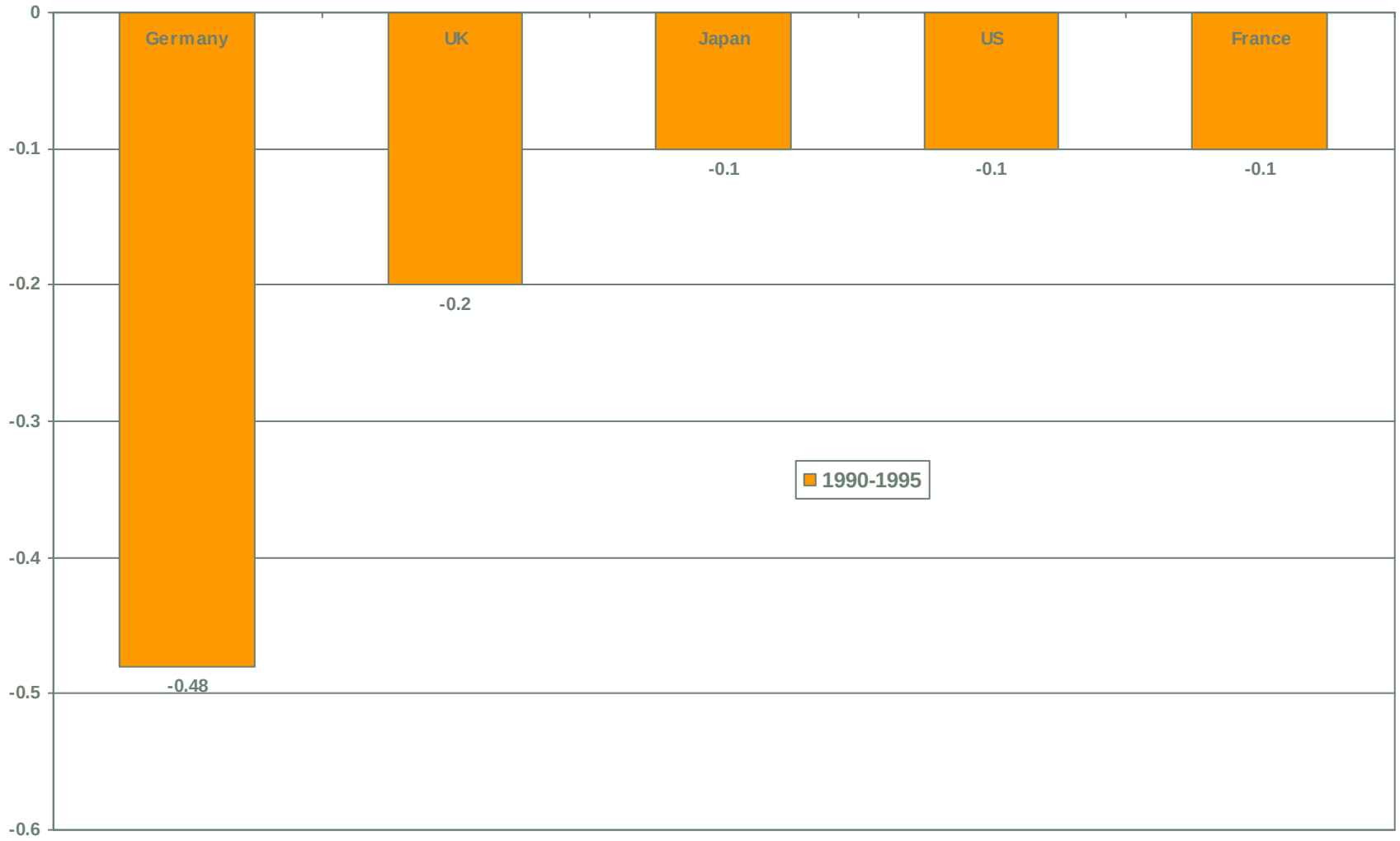
Intangible business investment as share of GDP. Source: HMT October 2007.



© The Work Foundation.

R&D and the 1990s recession – change in R&D as a share of GDP

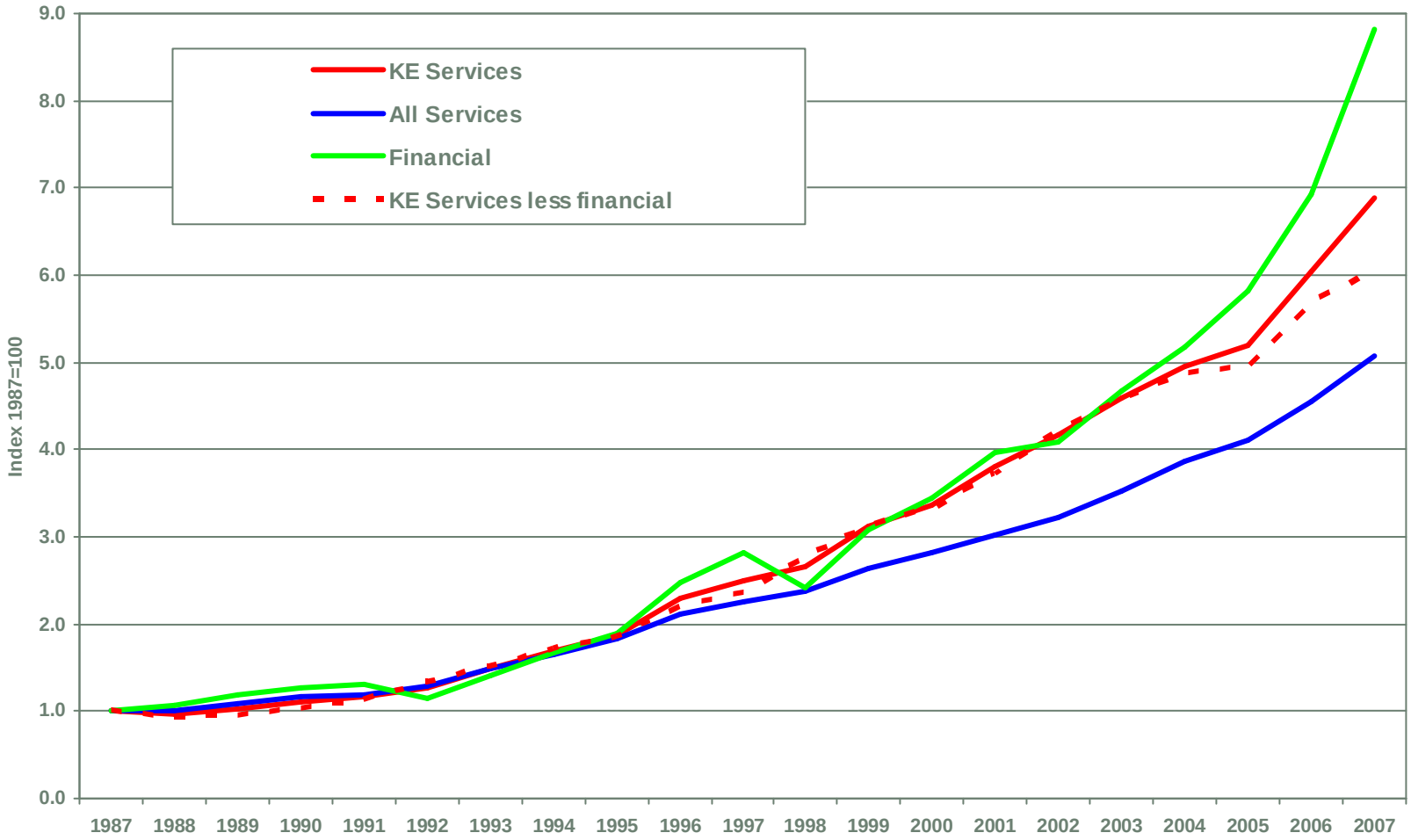
the work foundation



© The Work Foundation.

Knowledge service exports 1987-2007

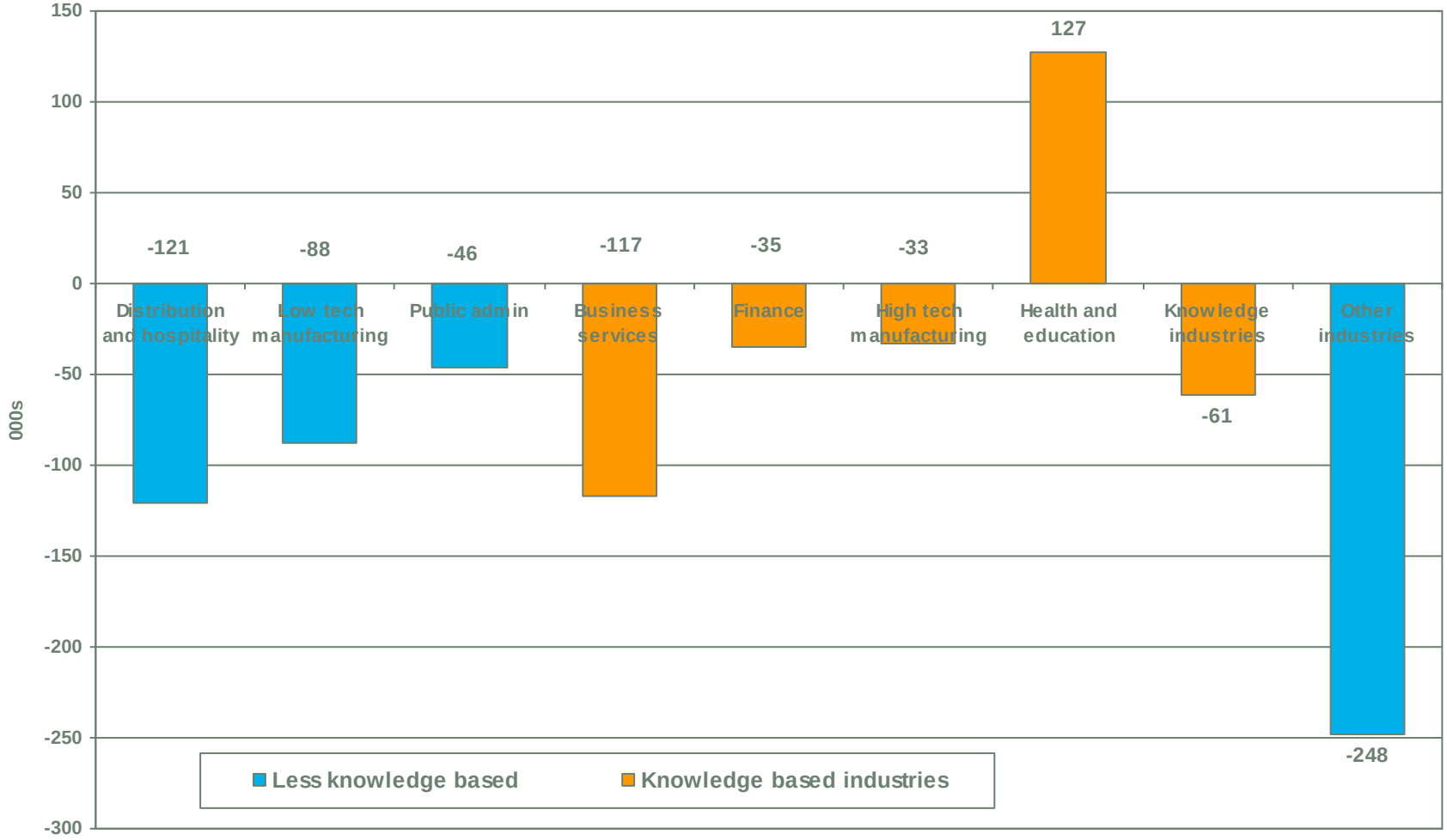
All figures current prices, UK exports. KE services are total service exports less transport and travel, and include financial, insurance, business, high tech, recreational and cultural services, and communication services and royalties and fees.



© The Work Foundation.

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.

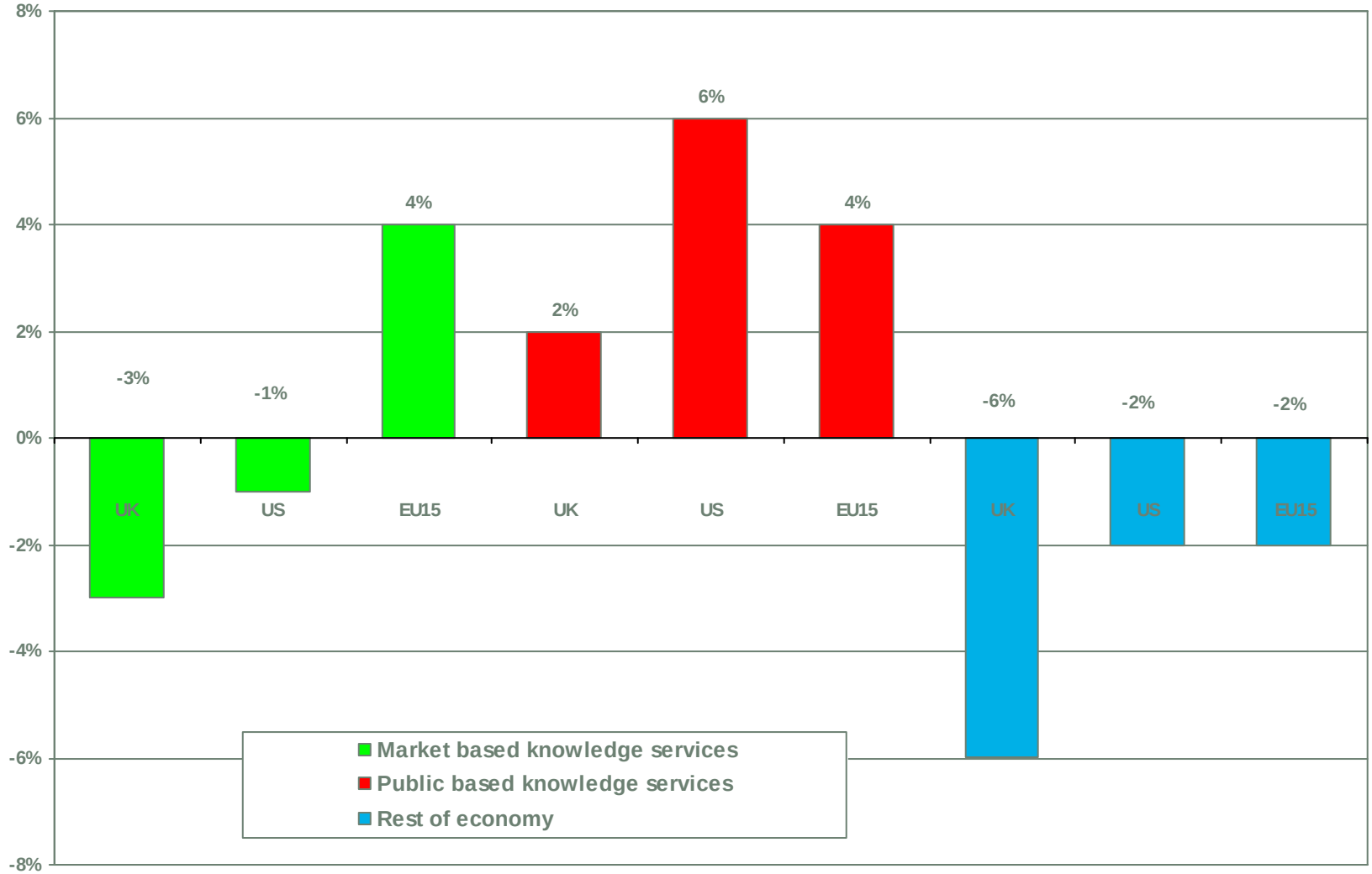


© The Work Foundation.

Knowledge services in the last recession – UK, US, and EU15 compared

the work foundation

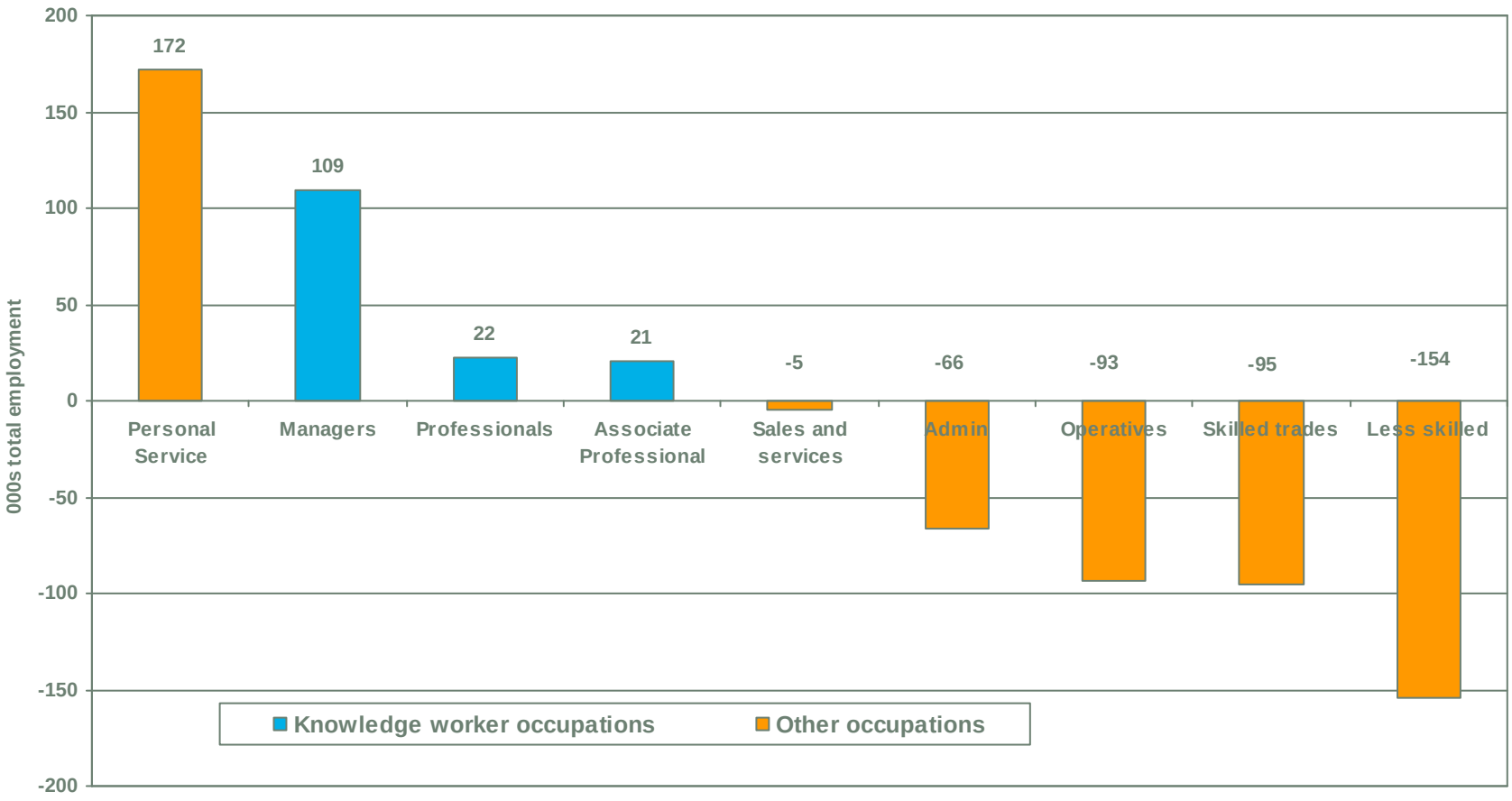
All figures total employment, annual change 1990-1992. KE services based on OECD definitions: KE services are financial and business services, education and health. Source: TWF estimates, from EU KLEMS database.



© The Work Foundation.

Manual, administrative, and unskilled jobs worse affected

All figures UK seasonally unadjusted, 2007Q4 to 2008Q4.Labour Force Survey international definitions of employment. Source: Office for National Statistics

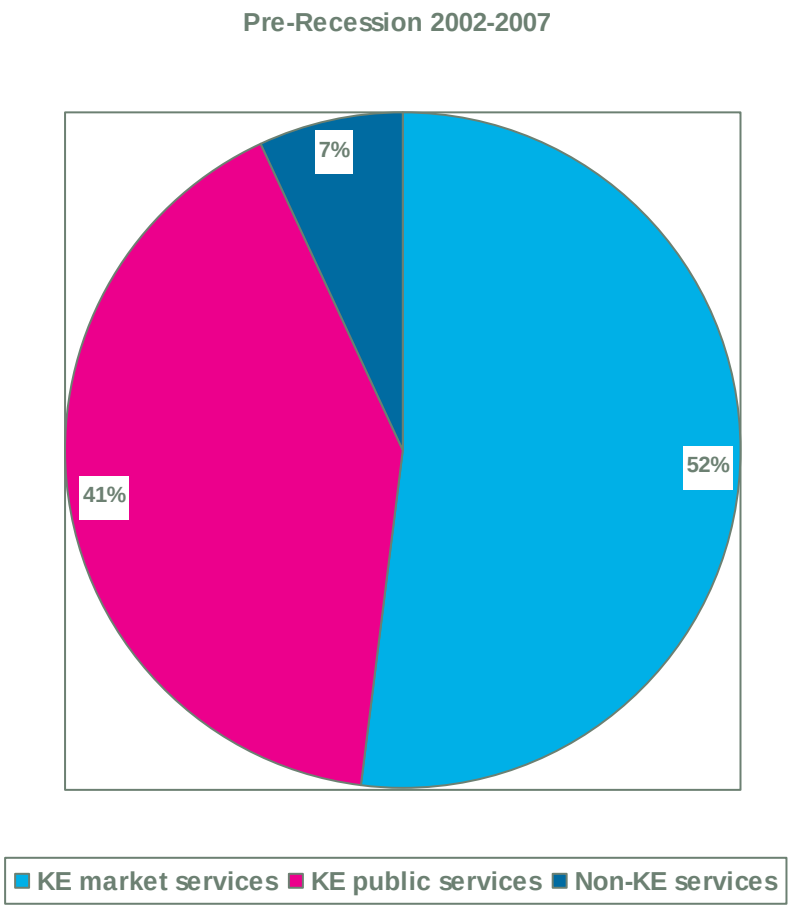


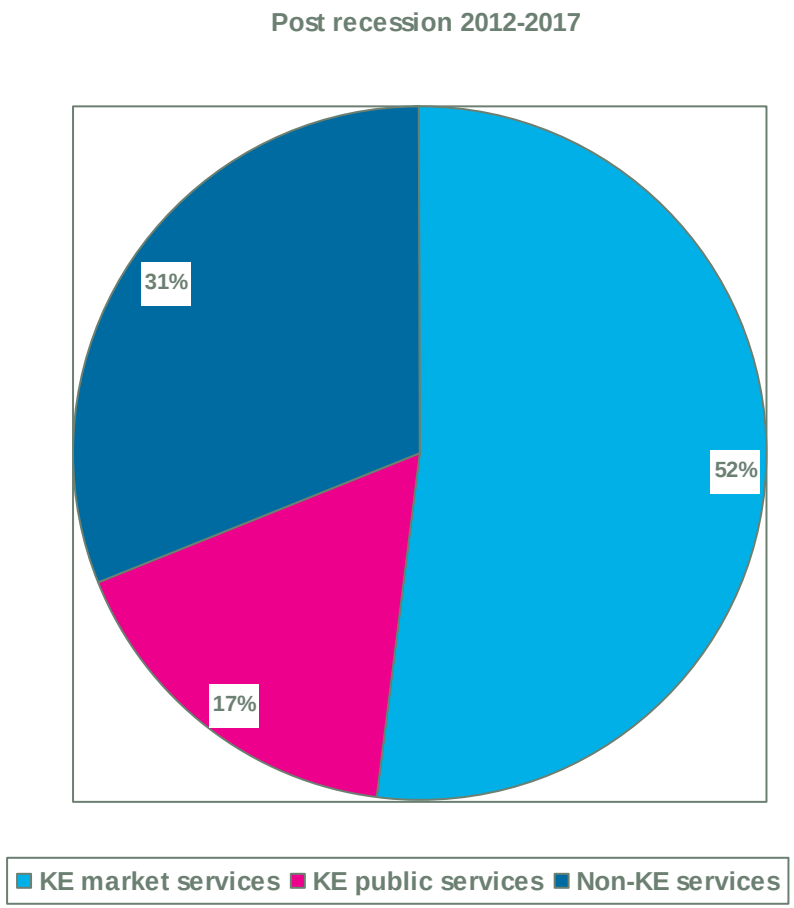
© The Work Foundation.

Job growth in knowledge and other services pre and post recession

the work foundation

Source: TWF estimates from UKCES *Working Futures* 2007-2017.





© The Work Foundation.

Conclusions –knowledge economy source of stability and basis for post recession recovery

- Knowledge economy industries overall a source of stability in the recession;

- Impact of financial services decline and credit crunch
  - lower intangibles investment in recession
  - harder for knowledge based SMEs to get capital
  - slower growth in knowledge service exports
  - less consumer spending on knowledge services

- R&D likely to fall as share of GDP - but will it recover post recession?

- Potential recovery sectors – high tech and professional services; modern manufacturing; creative and cultural; healthcare and education.

© The Work Foundation.

Policy priorities for the post-recession economy

- Preserve as much of the knowledge, technical and scientific base through the recession as possible;

- Build a post recession knowledge economy strategy with the next Spending Review to establish clear long term priorities with as wide as possible stakeholder and political support;

- Develop a plan for what will be needed to deliver the strategy over the next five to ten years, who is going to pay for it, and how it will play out across cities and within regions;

- Make the necessary changes to institutions, regulations, and frameworks to maximise private and public long term investment in the UK's knowledge economy.

© The Work Foundation.