

Think

new things

Make

new connections

Terms of Reference

**A Profound Economic
Crisis: finding a way
through to a better
future**

19-20 January 2023

DITCHILEY

Warnings about the risks, threats and now damage to economic systems have been getting ever louder. Are the shocks that are now hitting national economies the transient effects of Covid and war, or are they caused by a deeper tectonic shift in the global economy leading to more fragmented and volatile markets? How do we manage the short-term stresses and how do we ensure capacity for action against our shared existential challenges over the next 20 years? It is clear that soaring energy prices have the capacity to delay action on climate. But, conversely, could the same energy crisis create a political window for expedited action on climate and an economic route out of crisis through a green transition?

This Ditchley conference, bringing together a diversity of expertise and authority, will explore what is happening to local and global economies and our potential routes out of the current energy and economic crisis to a more sustainable economy, both in terms of the environment and in the context of a world moving toward geopolitical competition and fragmentation.

The Energy Crisis

The disruption of gas supplies from Russia has created a spike in energy prices and this has amplified existing vulnerabilities to create a sustained groundswell of inflation. Some put the blame mainly on disinvestment from fossil fuel exploration and restricting future fossil fuel supply in advance of the growth of renewable energy sources. Others point to the failure to develop sufficiently robust and diverse energy distribution networks in Europe, for example in Germany, and the particular and arguably broken nature of national and international energy markets.

Is the answer better markets or more government intervention?¹ Is there a way to make energy markets less volatile and to reduce the ability of energy producers, for example through OPEC, to fix the price through production caps? Should democratic governments seek to control the means of production of energy through state enterprises, for example as is largely the case in France, or as in the Labour Party's proposal for a nationalised green energy enterprise? Should national energy price relief be funded through windfall taxes? What scope is there for new forms of public private collaboration?

Could the current energy crisis create the political window for greater adoption of carbon saving-but-politically-difficult technologies and solutions that already exist, such as much more onshore wind and solar and much more nuclear energy? To what extent should solutions be centralised and to what extent decentralised and led and implemented at local levels?²

What will the impacts of price rises be on Africa and countries in the global South? With fresh attention on Africa as a source of both fossil fuels and renewable energy (including the

¹ Medium-term reshaping of energy markets Proposals here include regulatory change, stress-testing energy companies, accelerating investment in renewables and measures to reduce energy demand.

² The British Government's Ten Point Plan part of the Energy White Paper sees an expansion of the electricity sector in order to service newly electrifying sectors such as transport. It is likely that offshore wind will become central to the UK Energy system. But the combination of technologies (nuclear, solar etc.), the changing shape of energy production, storage, connection to other sectors (transport) and form of distribution has yet to be worked out.

critical minerals for renewable technologies), is there an opportunity now for much greater investment for sustainable development? Renewable energy is fundamental to Africa's future regional economic development. How will new energy and economic demands play into the wider North/South politics of climate change, climate finance and indeed wider geopolitical competition?

Stagflation or something new?

Russia's war on Ukraine is causing disruption not only to energy supplies but also to food security across much of the world and this is also contributing to inflation. But, like the energy crisis, current inflation also has deeper roots. Some point to the over-long continuation of the stimulus packages launched after the financial crisis of 2008, compounded by further stimulus and relief packages in response to the global pandemic. There is also, arguably, a broad disruption of supply across the global economy caused by increasing geopolitical competition between the US and China and by China's continuing zero-Covid policy, which is disrupting Chinese production and thus global supply chains.

The combination of long-term stagnation of wages for many in industrialised economies; a sharp rise in prices across energy and the general economy; plus the rising cost of debt in response to central bank interest rate hikes to control inflation is creating a perfect storm for a cost-of-living crisis. In disrupting supplies of food and energy, Russia is seeking to heighten the crisis further to put pressure on western countries supporting Ukraine.

Stagflation has previously been defined as a combination of low growth, rising prices and high employment. We have the first two, but combined with virtually full employment, albeit on the back of long-term income stagnation for many. Is high unemployment on the way or is this a new form of economic crisis, suggesting a tectonic shift in the global economy? Could restrictions on technological exports to China, and possible Chinese countermeasures, further disrupt supply chains, further increase inflation and further restrict growth? Is there space for dialogue with China?

How should governments and central banks respond to these difficult conditions?³ Can increasing interest rates to control inflation effectively be combined with measures to mitigate its impact, such as energy subsidies? How can such subsidies be targeted at the most vulnerable so as to reduce the general impact on inflation? Former Prime Minister Liz Truss' attempt to break out of low growth through unfunded tax cuts was sharply punished by financial markets: to what extent are the markets sovereign for middle powers? What freedom of manoeuvre do governments actually have? What are other routes for increasing productivity, for example through accelerated use of technology? What ideas are emerging from ecological and post-growth economics?

Surviving the storm – help and self help

What can and should governments do to mitigate the impact of the cost of living crisis in addition to energy subsidies? How can individuals and communities at different levels be

³ Gordon Brown (applying his experience of financial crisis management in 2007) has suggested a range of measures such as: an immediate pause in increases in the energy price cap; negotiation of lower prices with energy companies; offering of loans and equity financing; nationalisation of energy companies that cannot afford to keep bills down; offering of emergency payments to households; a windfall tax; looking for new gas supplies; increasing storage; and voluntary energy blackouts.

empowered and incentivised to increase their resilience to economic stress? How far should energy use be constrained, and restraint urged?⁴

What measures can governments, companies and communities take to limit the impact of financial stress on employment and housing, ensuring for example that large numbers of people do not lose their homes through widespread failure to meet mortgage payments or rent?

The pandemic led significant numbers of people to reassess the effort they put into work. Might the economic crisis, following on the back of the pandemic lead to a further reassessment of the balance between work and life and indeed of the search for economic growth as opposed to a sustainable existence? To what extent do countries, and the communities at different levels within them, need to think locally for resilience whether for energy, food, goods or services? How much should people rely on governments? What can families and communities do to help themselves practically and financially?

Millions in industrialised countries face hardship. Millions in the developing world face starvation. To what extent can and should we target support to the most vulnerable globally?

For the middle part of the conference, we will split into working groups so as to address the three sets of issues above in more detail.

Group A:

The energy crisis, future markets and systems. Is this a moment to rethink the structure of investment into sustainable energy and the future of the energy sector? Can the disruption caused by war and the need for security of supply also drive a faster turn to clean energy? What interventions can governments make – should they seek greater control over energy systems? Should there be a massive acceleration of investment in renewables, regulatory change, more stress testing of energy companies and measures to reduce energy demand? What is the future for the retail market, the funding of electricity generation and for the transmission and distribution networks? What are the implications for African countries as a source of both fossil fuels and renewable energy?

Group B:

Stagnation or something new? Can the prevailing economic system that has underpinned post-war democracies survive and absorb the ongoing and unfolding shocks causing breaking energy systems, climate, war and geopolitical competition with China, or are we on the verge of a fundamental and global economic reconfiguration? What are the consequences for the global South? Can developed democracies work together to harness the power of interconnected financial markets or are national governments now wholly at their mercy? How should we understand the economic crisis and make it more knowable?

⁴ See for example the work of Tom Jarman and [Low Carbon Journey](#): a scheme to insulate social housing across the country would be an effective way to target support and reduce energy demand longer term.

Group C:

Surviving the storm. How to prepare and defend against damaging social costs? What measures could governments take to tackle the impact of the cost of living crisis in addition to energy subsidies, for example large scale programmes for home insulation? How can individuals, communities and local government be empowered and incentivised to increase resilience to economic stresses and their consequences? For example, renewable energy systems require a distributed energy infrastructure: would decentralisation of the energy system complement greater political devolution? Should energy use be constrained? What opportunities does the post-growth agenda offer?