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Speech

The Social Consequences of Knowledge-Based Growth

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What I want to argue today is that knowledge-based growth forces us to use a different road map for public policy. It also changes the time frame in which we do policy analysis. We have to abandon our notion of the economy as a clock-work machine and begin to think of it as a dynamic, interconnected universe.

I will begin with a brief discussion of the social consequences of knowledge-based growth, as we have experienced it so far, and then talk about the ingredients for sustainable growth in the future.

The Drivers

Knowledge-based growth has both an upside and a downside. The upside is the new sources of growth, employment, and income – the dynamism of new sectors and new kinds of work. You will spend a lot of time discussing these trends at this conference. Forgive me if I focus more on the downside.

There are three fundamental drivers in the current economic situation.

1. Polarization of the labour market into good jobs and non-standard jobs.

2. Slower productivity growth from 1973 to 1993, which slowed the overall growth in incomes flowing to citizens and governments, and

3. The excessive public debt caused by the delayed public sector response to slower productivity growth.

The Outcomes

The combined effect of these three economic drivers has been to create serious social deficits – imbalances which could jeopardize the strength and duration of economic growth in the years ahead. These deficits can be summarized as follows:

1. The individualization of risk. Employers and governments have shifted more risk onto the shoulders of individual citizens and families. At the same time, families too have been fragmenting, shifting more risk to the individual.

2. The emergence of inter-generational tensions – people over 45 were much better protected against the economic stresses of the past decade than those under 45.

3. The marginalization of some population groups. This is not fully documented yet, but there appear to be groups in society who have lost hope and feel locked out of the mainstream.

The fall out from these social deficits is insecurity and alienation, and a decline in trust of institutions and elites. In short, we have been spending the rich legacy of social capital built up over the post-war period.

The Lessons

During the 1990s, we have struggled with the economic drivers with some success. Governments have made good progress in addressing fiscal imbalances, inflation is low and stable, and economic growth has finally begun to rebound at promising rates, as a result of a profound restructuring of industry. Canada has therefore earned itself a second chance. We have a chance to do things right – to look forward to a long period of growth and job creation.

The challenge will be to learn new ways of integrating the social and economic. For the economic success of recent years will not be sustainable, unless it is supported by an appropriate social and political platform – a platform where all citizens believe they have a say in the way society evolves and have an opportunity to participate in the fruits of economic growth. They need to feel they are all part of a shared enterprise.

Let me explain why the social and economic have become inextricably linked:

1. In a knowledge-based economy, human capital is a dominant force. Employers and policy makers are forced to widen their focus to embrace both the market and the household because there are huge feedback effects between work and family in a world where nearly 70 percent of the population over 15 and under 65 is in the work force. This is a fundamental change from the industrial era, when the connections between work and family were invisible and easily ignored.

2. The notion of dynamic economic growth lengthens our time frames, and makes us think about path dependency. Learning curves matter in both personal and corporate life. Human capital is built over time. Early childhood experience shapes the adult. Individuals and firms are remarkably adaptable, but it takes time.

3. We have begun to uncover a new conception of health and well-being. In Biblical times, illness was associated with sin. Look what happened to poor Job – until he repented. In the industrial era, illness was associated with germs, genetics etc. In the post-industrial world, illness is often associated with stress, lack of control, poverty, hopelessness. Organizational design and workplace policies are therefore going through a transformation.

These linkages between social and economic outcomes have created a whole new set of demands on researchers and on governments. To make good decisions, we need to know the outcomes from the investments/interventions that corporations and governments make. In addition, governments have to be able to show what outcomes they have achieved, if they are to rebuild the trust of citizens.

This leads to a very challenging question: What is growth for? Why do we strive for economic success? Why do we inflict all this pain of open markets and deficit reduction upon ourselves? Why do we welcome the new technologies that polarize labour markets?

In economists parlance, we want to raise living standards and give people security.

I think the answer requires more careful specification with respect to both outcomes and time frames. Let me give you an example. It comes from a longitudinal study of interventions for children born into highly disadvantaged circumstances in Hawaii. [Werner] The authors reported (after tracking the children for more than twenty years) that many of these children grew up to "live, learn and love" better than the control group which had no help in early childhood. That is, many of the children who had been helped in the first years of life grew up to be adults who could earn a living, who had stayed in school (and out of jail), and who could form lasting attachments to other human beings.

In short, this study is a vivid example here of the long time frames for social investment and for the development of human capital. [It also shows the value of longitudinal surveys and the potential payoff from the surveys launched by Statistics Canada in recent years.]

The Policy Choices

What does this mean for public policy?

I think there are parallels between 1997 and 1945. That was the year we began to set the course for post-war and post-depression economic and social policies. The federal government had a huge burden of war debt, but it made a commitment to both economic and social renewal. The new social contract with citizens had a strong social foundation in family allowances, housing, education, and other measures to enable families to get "back to civil life."

We now have to plan for post-deficit Canada. The big issue of the next five years is not whether to cut taxes or pay down the debt. The big issue is whether we know where to invest the hard earned dollars from the economic expansion now underway. Yes we must begin to pay down the debt, but we must also begin to address the social deficits which afflict so many Canadians. For these social deficits are a drag on our long-term growth. They impair our human capital and they depreciate our social capital.

The even bigger challenge for researchers, statisticians, and policy analysts will be to help governments assess how big the social deficits are in 1997, as input to the decisions on social and economic investment priorities. This will be the essential policy road map for post-deficit Canada.

The overall objective in the post-deficit world is to rebuild trust, to restore hope, and to restate our economic objectives in social terms.

In this new, dynamic and interconnected universe, there are three ingredients for success: knowledge capital, investment capital, and social capital. You cannot expect sustainable growth without all three ingredients.

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