



Anchoring Sustainable Growth in Disruptive Times

Annual Sylvia Ostry Lecture*

by Jonathan T. Fried

Remarks by Jonathan T. Fried, Coordinator, International Economic Relations and Personal Representative of the Prime Minister for the G20, delivered at the C.D. Howe Institute on October 15, 2018.

I am humbled to have been invited to share my thoughts with you today. Throughout my career, I have turned to Bill Robson, Daniel Schwanen and the members of the Institute, and to many of you who have come today and served as mentors, as a recipient of your insight, wisdom and guidance. More intimidating still, I follow a remarkable roster of past lecturers, whose company I am honoured to join.

This speakers' list is testimony to Dr. Bernard Ostry and his family's altruism and generosity in endowing this series. It has provided a permanent venue to reflect on Sylvia Ostry's remarkable and unparalleled intellectual leadership. Her living legacy is one of rigorous discipline, breadth of interests, abiding concern for people's well-being rooted in her early focus on labour economics, and her pedagogical bent in always seeking to nurture the next generation of academics and public servants, especially women. Although I now occupy the position last held by Sylvia, I continue to be in awe of her vision and achievements. She remains truly an icon. I take solace in knowing that her enquiries, writings, and prescriptions were always a work in progress, and I would beg your indulgence in allowing me to similarly share thoughts on issues requiring us, in the public, academic and private sector alike, to pursue more answers.

DISRUPTIVE TIMES

My talk today, as the title suggests, takes as a given that these are indeed unsettling times. Although some journalists and commentators would simplify the situation as increasing polarization between globalists and nationalists, the disruption we are witnessing has many facets.

* The Institute is deeply honoured to host the annual Sylvia Ostry Lecture to recognize the many accomplishments of Dr. Ostry, one of Canada's foremost economists. The Sylvia Ostry Lecture, established in 1991, aims to raise the level of debate on trade and international policy by featuring an eminent international expert on a pressing topic.

In political discourse and elections in many countries, progressives debate conservatives, with far left and far right fueling often more extreme views. In many of our societies, there is continuing tension between workers, whose wages have largely stagnated over this decade of growth since the financial crisis, and corporations, whose profits and executive compensation has grown. And as Christine Lagarde noted in her Ostry lecture, this continuing inequality, and accompanying failure to provide opportunity, underlies much of the resentment.

These times are also disruptive thanks to the acceleration of the pace of change in technology, from automation to artificial intelligence, which is already challenging how we approach both education and employment.

And these times are disrupted by extreme weather events, a reminder that, as the UN Intergovernmental Panel on Climate Change recently highlighted, we are yet to effectively marry a growing economy with environmental stewardship.

Take these factors together, and despite lower unemployment rates in Canada and neighbouring countries, people in many segments of our society carry a sense of uncertainty, risk, or dare I say fear or dislocation. And this undercurrent has generated growing resentment and anger among some voters at the perceived unwillingness or inability of governments to be responsive to the threat of economic, social or cultural dislocation, and a perceived loss of control over their livelihoods and future. The result in a number of countries in recent elections has been a rise of populism, with misplaced blame on immigration and/or trade. And in turn, internationally, tension has returned to East-West economic relations, for example with each of China and Russia over technology and trade, which implicate important security issues as well.

WHAT IS TO BE DONE?

In 1863, Nikolai Chernyshevsky asked “What is to be Done” in a seminal novel. The book embodied a social commentary on inequality and the need for reform that many said planted the seeds of Marxism, and of Lenin’s 1901 political pamphlet of the same name. The experience of the 20th Century offers a different, more cogent, and dare I say proven response to this increasing sense of disquiet.

Put simply, quality growth, anchored in accountability and equitable distribution, is at the heart of the answer. Making the pie bigger provides the means to address shortcomings by providing the resources to invest in people, both to improve standards of living and well-being and to create more opportunity. But as our government in Canada has emphasized, pro-growth policies must be accompanied by policies to ensure that the benefits of growth, of a bigger pie, are widely shared.

Governments such as our own that have adopted and pursued such an approach not only have the courage of conviction to work through the interconnections between economic and social policies, but also have enjoyed public buy-in and voter support to do so. Polling has consistently shown that a good majority of Canadians understand and are willing to see higher taxes for health care or for closing the inequality gap. But this is also the result of education, consultation and engagement, not just communication – recall the extensive efforts undertaken by a previous administration to explain the necessity for, and benefits of, a GST in the years prior to its adoption. Conversely, meaningful engagement is a two-way street, and helps to ensure governments stay accountable to their publics for delivering results.

A RECIPE

Permit me to elaborate some key threads that in my view are properly woven and intertwined into a rope to anchor sustainable growth.

(1) A suite of economic policies:

Despite whatever shortcomings are associated with what was once called the “Washington Consensus,” it remains clear that sound macroeconomic policies remain at the core of creating and maintaining conditions for equitable growth. Sound fiscal policy means responsible expenditure and debt management combined with sufficient tax revenues on a broad enough base to invest in the economy and in people. In a world of varying systems of exchange rates, from pegs to floating, it also means responsible monetary policy.

But it is also essential to ensure an enabling environment for people to do business, from sole entrepreneurs and MSMEs to large enterprises. In the G20, APEC and other forums, Finance Ministers speak of “framework policies,” including sound and transparent regulatory practice, in an environment free from corruption.

In my view, as an additional foundation for considering how best to encourage specific areas of the economy, there are a few core sectors on which all others depend, effectively infrastructural in nature. Success for business in various fields is dependent in particular on well-functioning, well-regulated, and fairly priced transportation, energy, financial services and communications/IT, and now digital/internet sectors. Vendor and buyer need to connect, goods and people need to get to their markets, plants and offices need to be powered, and as we know in using credit cards and mortgages, access to financing can multiply the impact of an investment.

In today’s global economy, where, as former WTO Director General Pascal Lamy noted, goods are “made in the world,” access to foreign markets, access at home to the best the world has to offer for components and inputs – so-called “intermediate

goods” – and healthy competition, including in affiliated services, increases productivity and is thus a wealth enhancer. Seen in this light, trade is not an end in itself, but an important adjunct and complement to a well-functioning economy. Although less prominent in public discourse, effective competition policies play a similar complementary role. And “staying in the game” means the right public-private-scientific partnerships in innovation, technology, research, and development.

In sum, a suite of quality economic policies and transparent regulation is job one.

(2) Sustainability, in all its dimensions

Thus far, I have referred to “sustainable growth” as the desirable outcome. Permit me to underscore the importance and richness of this term. By “sustainable” economic growth, I mean not only growth that can be maintained over the medium term in economic terms, but also growth that is pursued in a manner that is compatible with preserving our environment and building social cohesion and equality, both within Canada and with other countries.

This first and foremost dictates that attention be paid to education, labour and related social policies to better ensure broader participation in economic growth. One can and should think of a suite of human capital policies in holistic fashion, starting with early childhood development, access to affordable health care, nutrition and education, setting future-oriented curriculums, and policies that help people adjust to the dynamism inherent in growth and change. This means the “structural adjustment” policies that Sylvia Ostry championed, and encompasses adjustment and social assistance right through to re-skilling and upskilling workers, be they in trades or professions.

I need not dwell on the environmental dimension of sustainability. So richly endowed as we are privileged to be in Canada, future generations depend on our stewardship of our air, water, and soil, and the

resources they host. As our early experience with acid rain taught us, threats know no boundaries, so it is incumbent on us to promote international action on oceans and climate alike.

It is this comprehensive notion of sustainability that is embodied in the UN's Sustainable Development Goals adopted in 2015. Agenda 2030 aims to meet those 17 goals with 169 targets and over 230 indicators to create, in the words of our government web site, "a secure world free of poverty and hunger, with full and productive employment, access to quality education and universal health coverage, the achievement of gender equality and the empowerment of all women and girls, and an end to environmental degradation." It is often summarized in 5 "Ps": people, planet, prosperity, peace, and partnership.

(3) Better, more responsive governance internationally as well

The SDGs underscore the reality that the economy, the environment and people are intertwined. As the G7 Oceans Ministerial recognized, climate change can affect ocean currents which impacts on fish stocks which affect livelihoods. Economic migration is a consequence of varying economic opportunities. And in the world I noted of value chains and supply chains, conditions surrounding the flow of capital and investment are significant determinants of whether such opportunities are available. I suggested earlier that good governance should encompass the full sweep of economic, environmental and social policies to create and maintain conditions for inclusive, more equitable growth.

But I also noted that many of the challenges go beyond our borders. This in turn argues for equally coherent action and governance at the international level. Sylvia once talked of international rules to smooth "system friction" between different modes of economic regulation, balancing advantages at the border. And at the UN, we once talked of an

international law of peaceful coexistence to frame areas for East and West to work together in the cold war era. Today, at what may be the early cusp of a shift or rebalancing of power, and of renewed incompatibility between market-based and state-based capitalism, international frameworks are needed at a minimum to define some common ground, and to work in the common interest and for the common good.

Lest I sound like a starry-eyed world federalist, I hasten to note that while global action can and should respond to global problems, bilateral and regional/plurilateral approaches can be effective depending on the subject. Examples abound, from the crucial Canada-US acid rain accord to the APEC-anchored response to SARS and later avian flu, to take but two. And global diplomatic conferences at head of government level are not always the best instrument choice: our food safety is ensured not only by the Canadian Food Inspection Agency, but by a set of standards, codes and rules worked out in specialized agencies, where expert government officials can and do reach agreements that allow agricultural and agri-food products to cross borders – to the benefit of both our exporters and our winter diet!

Nor is rule-making the only choice. Among the panoply of international institutions, peer review and exchanges of best practices, analyses by professional secretariats to complement those undertaken nationally, and forums for discussion, also play a valuable role. Most all of the major international institutions, including the Bretton Woods and UN families, the WTO, OECD and APEC all have various ways to promote such common understanding.

But as current stalemates at the WTO and the UN demonstrate, my third ingredient of the recipe for sustainable growth is to improve how we as an international community function in these institutions. Canada's proposals for WTO reform set out practical ideas for improving the functioning of the rules-based multilateral trading system, to take a current example. More broadly, we have separate

institutions for trade (WTO), finance and capital (IMF, BIS), labour (ILO), and competition (the international competition network, hosted by the OECD), and we treat each as distinct and discrete. So in Geneva, New York and elsewhere, Canada seeks to better promote inter-institutional coordination, without opening a Pandora's Box of seeking to re-write treaties, constitutions, or charters.

BUT IT'S TOO IMPORTANT TO LEAVE TO GOVERNMENTS ALONE

I said at the outset that I would be sharing with you a work in progress. Many of the issues I have flagged require more analysis, and where the public policy community can provide thought leadership, as Sylvia consistently recognized. Time does not permit me to go into detail, but permit me to flag a few challenges where we in governments would benefit greatly from work by the academic community and the private sector. First, coming back to current trade tensions, we need to better understand the economic impact of value chains and potential disruptions. This includes the inherent "servicification" of goods trade and the advent of digital commerce. More broadly, from a competition perspective, how can and should we assess state capitalism?

Secondly and more profoundly, my reading of the economic literature to date on the relationship between openness and inequality is less than conclusive, and thus at least would benefit from further work.

Thirdly, with the G7 and G20 highlighting the centrality of infrastructure for development, and the need to support health, education and even good governance institution-building in developing countries also urgent, scholarship is limited on the best way to spend development assistance: where should the next aid dollar go?

Fourthly, for political scientists, there is work to be done on accountability. Given that we recognize that some things can and should be delegated "up"

to international organizations, is it enough to say that government representatives, as shareholders in those bodies, carry accountability with them, having brokered various stakeholder viewpoints to arrive at the national interest at home? Or as we witnessed in Landmines and Paris climate change negotiations, and as is unfolding on matters digital, should and can we adjust to a multi-stakeholder world of rule-making and oversight?

Finally, as between the WTO, the UN and the Bretton Woods institutions, and between these intergovernmental bodies and stakeholder communities, we must do a better job than we have to date of bringing the public policy and private sectors together with governments. In this way, we can jointly better connect trade and investment to good economic and social governance, and to the challenge of development more generally.

COMING FULL CIRCLE

We started this session with the premise of disruptive times. In offering but one recipe to address current challenges, we should not minimize the remarkable progress we have made in recent decades on various fronts. In economic terms, I need not dwell on the remarkable rise in global GDP and GDP per capita, and of the beneficial social consequences that ensued in poverty reduction, increased literacy, reduced infant mortality and higher life expectancy.

But I have sought to convey to you today that there is much to be done, both in terms of proper tending to home territory with sound policies and accountability at home, and in working in a community of interest for international action where needed.

At the international level, the recipe suggests that Canada and other partners continue to work to promote coherence within and across institutions in this heterogeneous world, and to champion improvements in the internal functioning of each. With eyes wide open, it is of course necessary to foster an atmosphere of common cause that includes

the US, China and other major players. But again as our WTO reform effort is already demonstrating, so-called “middle powers” have an outsized role in ultimately bringing the protagonists together.

In this light, I would argue that “caucusing” matters, within and to preserve a multilateral framework. Within international institutions, at the UN, the WTO and other bodies, aside from the formal committee and decision-making framework, consensus is built by communities of interest, including among the various “G’s,” and with a critical mass, by efforts to “socialize” ideas and approaches. As Allan Gotlieb and his colleagues will remember, the Law of the Sea Convention came together because various communities, that cut across political and developmental lines, such as coastal states, fishing states, island states, were each able to set out common approaches and to better understand the interests of other such communities.

Between institutions, I would submit that the G7 and G20 matter mightily. As you might expect me to highlight in my current role, let me illustrate by way of the G20. Both as a forum for Finance

Ministers from its formation following the Asian financial crisis and at Leaders’ level since 2008, the G20 has provided at both officials’ and the political levels a roundtable for consensus building. Its agenda, as the declared “premier forum for international economic cooperation,” is impressively horizontal – work streams feed up to leaders’ analysis, assessments and recommendations that connect trade, the economy, innovation, labour, development, health, and environmental dimensions. In recent years, G20 members have, with increasing firmness, invited international bodies to work together to provide joint assessments and reports, thus achieving some of the coherence needed. And maybe most importantly, it brings leaders together more often than does the IMF, WTO, or other international bodies with the possible exception of the “High Level Week” of the UN General Assembly.

In sum, I offer for sustainable growth a recipe requiring both domestic and international action, and of partnership between public, public policy and private sectors to work together to pursue it. I look forward to our discussion.