Heresy: The upside of low growth

Reprinted from *The Toronto Star*, September 13, 2008. p. ID 8
By Cameron Smith

We live in a society hooked on speed. The faster the better, no matter whether it's cars, communications, or fast food. But things are changing. People are rediscovering the benefits of slow food. They're also discovering that lower gasoline consumption trumps taking a car from zero to 100 kilometres an hour in less than five seconds.

And now there's the concept of slow growth to challenge conventional wisdom, which maintains prosperity depends on fast growth, meaning an annual increase in gross domestic product (GDP) in the range of 3 per cent.

However, says David Foot, economics professor at the University of Toronto and author of Boom, Bust and Echo, standard of living can remain high, and even rise, while the growth rate drops.

This borders on economic heresy. But Foot is a demographer, and he insists that "Demographics is the dominant determinant of an economy." By demographics, he means age distribution within a society.

If a country has a large bulge of young people coming into the job market the economy can grow at a quick pace if basic ingredients are in place, such as entrepreneurial skills and available technology. The young workers will provide a growing market, their purchasing power will enlarge the economy, and from this base exports can take off.

Meanwhile the standard of living will grow, and this is what has been happening in Brazil and China. In China's case, as Foot points out, 400 million people, more than the total population of the United States, have been taken out of poverty in the past decade.

On the other hand, if the bulge in population is among people in middle age or older, and the number of young people coming into the job market has shrunk, there will be fewer workers looking for jobs and wages will increase. The standard of living will go up.

As Foot notes in one of the many articles on his web site at www.footwork.com, as long as population growth consistently drops more than economic growth, the standard of living will go up.

He estimates that Canada, with its ageing population and a low fertility rate, could experience rising incomes while economic growth drops as low as one per cent a year.

From an environmental viewpoint, that could be a godsend for sustainability. It would prevent the environmental footprint of Canadians from expanding. Instead of more people producing more goods for more consumers, we would have fewer people producing sufficient goods for a more stable population.

But there are catches to this. Canada is a trading nation. Exports account for about a third of our GDP, so we need to stay highly competitive in a demanding global market. We have advantages: a highly skilled services sector, rich natural resources, a tremendous agricultural capacity.

However, we need to stay creative, dynamic, and up-to-date, and this requires reinvestment by both government and business. Without it, Foot says Canada will experience “a long, gradual decline in relation to other countries.”

Unfortunately, a lot of manufacturing is now controlled from outside the country, and as Foot says, profits have been going offshore, and are not being reinvested in Canada in new technology.

In addition, Prime Minister Stephen Harper has been cutting taxes in a deliberate, ideological attempt to limit the government’s spending power, and curb its ability to take an activist role in the economy. This means less money for infrastructure, services, and incentives to keep Canada competitive.

I asked Foot for his assessment of the situation. “I’m concerned,” he said, and left it at that.

I think we should be more than concerned. I think we should be vexed and outspoken.

David K. Foot is a professor of economics at the University of Toronto, and co-author of the Boom, Bust & Echo books.