A Canadian "Growth Agenda":

Nice Sentiment, Complicated Reality

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The idea of promoting a "growth agenda" in Canada seems to be gaining traction among those thinking about economic policy.

The Conference Board of Canada has stated that the 2014 federal budget, likely the last in a series of deficit-reduction documents, should be followed by budgets that focus on creating higher growth. A new video from the Liberal Party argues the need for more sustained growth, partly motivated by a collection of middle-class anxieties. And the G20 finance ministers recently agreed to recommendations from the International Monetary Fund to implement growth-friendly structural reforms.

This emerging focus on economic growth is a good sign. Many of our economic problems, from environmental damage to rising income inequality, are easier to address in a growing economy than in a stagnant one. But as important as it is to think seriously about economic growth, we need to recognize that the best policy choices won't be obvious, and nor will they deliver quick results. Economic growth is complicated.

Begin with the recognition that these calls for higher growth are aimed at the long run; they are not driven by our current "cyclical" concerns about a tepid economic recovery. While it would obviously be better to have a healthier recovery, our ability to provide a short-run stimulus to aggregate demand, either through monetary or fiscal policies, is at its limit.

Instead, today's calls for greater growth are driven by concerns about the long-run path of our material living standards. And this path is ultimately driven by what economists call "supply side" factors, including productivity growth, the accumulation of human capital and the rate of innovation.

Some will suggest that Canada should adopt policies to enhance the growth of productivity, and this is a great idea. Economists know two things about productivity. The first is that its long-term growth is probably the single largest determinant of average per capita incomes. The second is that we don't really understand where it comes from.

Many of the things economists think are important obstacles for productivity – such as high and volatile inflation, punitive corporate tax rates, excessive regulation and limited access to foreign markets – have been addressed over the past 25 years, with little apparent improvement in productivity growth. This doesn't mean we should give up, only that we should be humble enough to recognize that the key to improving Canada's productivity growth is not obvious.

Others will argue the need to adopt policies that improve our collective human capital – the knowledge and skills among members of the labour force. This is another great idea, but it soon gets complicated. Should we be introducing programs for early-childhood education, or improving our primary schools, or reducing high-school dropout rates? Should we be trying to increase enrolment in trade schools or trying to produce more masters and PhDs in universities? All of these would improve Canadians' human capital, but which matters most for growth? In a world of scarce resources, we can't do it all; difficult choices must be made.

Still others will suggest that Canada needs to adopt policies to promote innovation. This is another fine idea, but also a tricky one. How do we best encourage the research that leads to innovation – through tax credits for private research and development, or direct government involvement, or more generous funding of university research? And which kind of research matters most for growth – the "applied" kind that takes place in private sector facilities, or the "pure" variety that is more common in universities? There are many important questions, but very few compelling answers.

Two final comments are needed. First, many of these policies are quite expensive, and so any government needs to think carefully when making its fiscal choices. Second, if they encourage growth at all, these policies will only have a noticeable effect after several years. This combination – certain up-front costs but uncertain and distant benefits – makes pro-growth policies particularly vulnerable in a partisan political arena.

It's a good sign when policy makers start to think seriously about how to improve our long-run rate of economic growth, and we should support them in this project. But we all need to be patient, willing to debate, and understand that there are no silver bullets.

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