

Prospects for Growth

How Economies Transform

Tom Phillips, Ph.D.

July 21, 2020.

Fleming College

The Source of the Economic Recovery and the Post-COVID-10 Economy

- The recovery will be driven by DEMAND, not SUPPLY
- DEMAND – the ability of consumers and governments to spend on goods and services
- SUPPLY – the ability to produce – i.e., combining technology, labour, and raw materials to produce good and service
 - currently we can produce more than we are – i.e., technology, labour, and raw materials are under utilized – they will only be utilized when there is sufficient demand (and the ability to spend) on goods and services
 - there is no reason why the revival of production will combine technology, labour, and raw materials in the same quantities and proportions post-COVID-19 than was the case pre-COVID-19

The economy that will emerge through the recovery will be structurally different from the pre-COVID-19 economy.

Technology will be used in different ways; people will interact with technology (and one another) differently.

General observations of organizations – public and private – over the past four months:

1. When the COVID-19 outbreak struck organizations deal with individual issues as they came up. Decisions were made based on the best information available. Each issue was dealt with independently. The underlying presumption was that if each issue was dealt with well, they would add up to a good result, overall. That is, the sum of all the good micro decisions adds up to a good macro result. This is an example of the Fallacy of Composition. In economics, the whole is never equal to the sum of its parts.
2. The micro decisions being made have been operational in nature. Again, there is an underlying presumption that looking back on the operational decisions, overall tactics will eventually become apparent, and the strategy driving the tactics will emerge.

The usual path is: Strategy -> Tactics -> Operations

What has been more common recently is: Operations -> Tactics -> Strategy In terms of strategy, this isn't likely to go well.

An ECONOMIC STRATEGY for recovery

- a new phase of economic development -
needs to be addressed - eventually

Lessons from the past few months. It was easier than we thought to use existing technology to conduct our day-to-day business.

- Businesses and governments have quickly adopted technology to provide services and generate revenue
- Students and teachers learned how education can be delivered differently
- More uses of technology, and ways to work, emerge daily

The big change is in HOW we do things. The technology was already there. We use technology well through

NECESSITY AND INGENUITY

We very quickly abandoned longstanding ways of doing things by creating new ways of getting things done. This is an example of

CREATIVE DESTRUCTION

A perspective on economic growth.

Economic growth comes from the COMBINATION of:

TECHNOLOGICAL CHANGE

and

COMPLEMENTARY CHANGES IN SOCIAL INSTITUTIONS

New technologies without complementary changes in social institutions cannot reach their economic growth potential.

Economic growth is more determined by changing the role of government, how business is conducted, how education is delivered, how the family is structured, etc., than it is by technology alone.

This is:

TRANSFORMATIONAL GROWTH

Our current place in terms of Transformational Growth:

- No need to wait for technological change – the technology is already available
- How can we ensure – through decisions of governments, institutions, and businesses – that technology is deployed and adopted so that it can have positive impacts on economic growth? The old way of doing things – old social institutions will not be sufficient to stimulate economic growth – and there are only diminished opportunities for economic growth if we were return to where we were in January 2020.
- We must practice CREATIVE DESTRUCTION. Some things we have been doing must be left behind for the sake of creating new economic opportunities. No longer can government or business be continually ‘additive’ – i.e., keep all that is currently done and add more to what exists. No longer can businesses or governments keep underperforming processes (i.e., combinations of technology and labour) and expect economic success for themselves or the economy.

The decisions governments face:

1. Cut spending
2. Increase taxes
3. Invest in economic growth

History has taught us that only investing in economic growth has the potential to move an economy from recession/depression to robust growth in a timely manner.

Given the technologies that already exist, TRANSFORMATIONAL GROWTH can occur if we choose to change our social institutions – i.e., make decisions that consciously break with returning to the ‘old’ economy.

The fundamental choice is between a :

- Vicious Cycle of decline based on existing social institutions, whether new or old technologies, and
- Virtuous Cycle of transformational growth based on creative destruction in technologies and social institutions.

COMMENTS? QUESTIONS?