

**A HUMAN CAPITAL FUTURE
FOR AN
INFORMATION ERA**

by

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I: Introduction

Century 21 is synonymous with the blossoming of the information age. This new era is variously referred to as the new techno-economic paradigm, as the information revolution or, in my preferred (and admittedly clumsy manner), as GIR, i.e. *Globalization and the Knowledge/ Information Revolution*. However labelled, the essence of the emerging era is clear: information revolution will do for human capital what the industrial revolution did for physical capital. Indeed, one can go much further here and presume that the ultimate impact of the Internet will be to privilege citizens individually and collectively with a degree of information, influence and power heretofore unimaginable and one that no government, regardless how powerful, will be able to ignore, let alone suppress. Thus the combination of this democratization of information on the one hand, and the rise of knowledge or human capital as the cutting edge of international competitiveness on the other, means that citizens will emerge as the dominant socio-political actors on the domestic and international fronts and as the key to excelling on the economic and competitive fronts. Accordingly, nothing short of bestowing citizens in their information and human capital roles with pride of place on the public policy agenda will ensure that, updating Laurier, the 21st century will also belong to Canada. In turn, this implies that Canadian public policy has no meaningful alternative except to strive toward the societal goal of remaking Canada into, as the title of my forthcoming IRPP monograph indicates, *A State of Minds*.

In what follows, I shall attempt to summarize those aspects of *A State of Minds* that bear upon the issues that are central to this CERF/IRPP conference, “Creating Canada’s Advantage in an Information Era.” Towards this end, the first order of business is to provide an overview of the

“information age.” Drawing upon the framework embodied in Figure 1, section II will focus initially on the implications of GIR for citizens, for markets and for governments and, then on the interrelationship among and between these three societal building blocks, with the objective of detailing the litany of challenges that GIR poses for policy, for institutional design and for governance in the information era. Section III then attempts to distill these often-disturbing implications into two “proximate goals” for Canadian policy and governance, namely developing a framework or set of frameworks so that we can simultaneously pursue both *economic competitiveness* and *social/societal cohesion*. Not surprisingly, perhaps, the very nature of GIR suggests that the primary way (and, I would assert, the only way) to move forward on both the competitiveness and cohesion fronts is to foster a human capital future for Canadians. Hence, if economic competitiveness and social cohesion are the proximate goal of policy and governance, then Canada’s overarching goal is to rethink and rework our economy and society to strive to become the world’s foremost human capital society. Lest there be any doubt about the importance of this challenge, I shall offer a human-capital-based “mission statement” to drive Canadian policy in the millennium. The purpose of section IV is to elaborate on some of the implications of this mission statement as it relates to our economic and social future in the upper half of North America. A brief conclusion completes the paper.

II: The Anatomy of the Information Era

As noted, Figure 1 embodies the framework for assessing the implications of GIR (globalization and the knowledge/information revolution) first on citizens, markets and governments (the rectangular blocks), then on the citizen-market, citizen-government and market-government

interfaces (the ovals in Figure 1), where the ultimate objective is, as noted, to focus on the resulting challenges for policy, for institutional design and for governance. Proceeding in terms of the entries in Figure 1, the implications of GIR can be summarized in more or less “bullet form” along the following lines:

A. GIR and Governments

- Powers are being transferred upwards and downwards from central governments of nation states, especially federal nation states.
- In terms of the former, the rationale is straightforward: economic space is transcending political space, with the result that countries are transferring power to supra-national structures and regulatory bodies (NAFTA, EU, the European Central Bank, etc.).
- Powers are also being passed downward to markets (privatization, contracting out, deregulation), to lower levels of government (e.g. transferring forestry, mining, tourism, and training to the provinces) and to citizens (via the information revolution).
- A convenient description for this process is *glocalization* (the combination of *global* and *localization*).

B. GIR and Citizens

- GIR enfranchises individuals as “consumers”. Indeed, Ohmae (1990) actually defines globalization as “consumer sovereignty”.
- But globalization also tends to disenfranchise individuals as “citizens”, in the sense that some key policy decisions are increasingly taken in forums where citizens have no direct representation. Europeans refer to this as the rise of “democracy deficits”. Arguably, however, this is old paradigm thinking: Information empowered citizens will eventually expand their power and influence (e.g., the MAI and the “Battle in Seattle”) so that over the longer term GIR will be democracy enhancing.
- More relevant for present purposes is that GIR is enhancing the returns to human capital. In turn, this is serving to polarize market earnings, especially since GIR is also serving to erode last paradigm’s middle class, based as it was (in Canada) on unionized labour and a resource-based mentality.
- Relatedly, immobile factors – land and unskilled and low-skilled labour – are bearing the costs of GIR, at least in the first instance.

C. GIR and Markets/Enterprise

- Production is now internationalized which, among many other things, implies the incentives within national welfare systems have to be rethought since they were typically geared to a “national” approach to production.
- The informatics revolution is a) altering firm structure as a result of falling transactions costs (e.g., more horizontal and less hierarchical), b) redefining “industries” (digitization is integrating cable, television, computers etc.), c) generating dramatic excess capacity (the merger mania), and d) ushering in of pervasive production and organization technologies (the Internet is not only an integral part of this new technoeconomic paradigm: In several key areas, it *is* the new technoeconomic paradigm).
- Especially problematic for Canada is the increasing north-south economic and trade integration. The market value of Ontario shipments to the US is of the order of 45% of Ontario’s GDP, nearly 3 times its shipments to the rest of Canada. At last observation, only two of Canada’s provinces (Nova Scotia and PEI) now export less internationally than interprovincially.
- As a result Canada is now progressively less and less a single national (east-west) economy and more and more a series of cross-border regional economies. Phrased differently, Canada is no longer an economic policy “railway”, but rather a transfer and social policy railway. The challenge here is how to reconcile an east-west social and transfer system with our north-south trading system.

While these implications relating to citizens, markets and governments will have a direct influence on the appropriate evolution of policy in an information era, the interaction among and between these three societal building blocks adds significant further dimensions and complications to the challenges facing Canadian governance.

D. GIR and the Citizen-Market Interface

- GIR is triggering, simultaneously, an integration of work globally and a potential disintegration of workers as a collective domestically. What emerges is the vision of an “extraordinarily dynamic, flexible, and productive economy with an unstable, fragile society and an increasingly insecure individual (Carnoy and Castells, 1996).
- Among the results are the rise of non-standard work; the rise of the self-employed; the

elimination of traditional “career ladders” largely because there are precious few “careers” in the new order; the erosion of the traditional middle class (national unions are no match for mobile international capital and production).

- While not all of the above are necessarily problematic, all signal a dramatic change in the citizen-market nexus. Century 21 must find policies and instruments to reconnect citizens to markets and to reconstitute the social cohesion or “civil society” of the “fordist” era.

E. GIR and the Market-Government Interface

- GIR is currently enhancing international openness at the expense of societal cohesion – taxes on mobile factors are falling relative to those on immobile factors. In other words, the post-war era of “embedded liberalism” (where the welfare state grew apace with increased integration) is becoming unstuck. As Rodrik (1998) notes, the challenge is to ensure that further international economic integration does not lead to domestic social disintegration. Thus, the challenge domestically is to develop new instrumentalities that allow us to “embed GIR”, as it were.

- Complicating this is that social policy issues are becoming enmeshed in international trade arrangements (e.g. “social dumping” in the EU and the labour and environmental “riders” in NAFTA).

- Governments, in order to attract mobile capital, are under pressure to favour their winning sectors. One example of this is the changing region-centre relationship in Canada, where the emphasis is (appropriately) shifting from “place prosperity” to “people prosperity”, leaving the former to the provinces.

- More problematical still is the fact that with rapidly increasing north-south trade, much of our east-west economic infrastructure is becoming a “stranded asset”. The recent bank merger issue was all about re-orienting our east-west banking system toward a more north-south axis. Ottawa said “no” to these merger proposals, but the pervasiveness of GIR means the underlying issue will not go away.

- More generally, the integrating global economy is occurring side-by-side with a splintering global polity. This is the “unbundling” of nation and state. It is progressively easier for subnational governments to latch on to the new supra-national infrastructures (e.g. the EU and the Euro) and to attempt to pursue a more autonomous or “distinct society” future, thereby by-passing their central governments. This is what Scotland and Catalonia and Quebec are all about (Keating 1995) and, on the economic front what “region state” Ontario is all about (Courchene and Telmer, 1998).

F. GIR and the Citizen-Government Interface

- Program spending as a percent of GDP is falling quite dramatically – from 36% in 1994 to a forecast 26% by the end of the current fiscal year. The federal share has dropped from 17% to 11%, while the provincial share has fallen from 18% to 15%. Although some of this decline is a result of privatization and although with the advent of surpluses some of this spending has been restored, this is a significant development, the implications of which have not as yet filtered down fully to individuals.
- Relatedly, along with this general decline in program spending, key aspects of the Canadian identity (health and social programs) are being devolved to the provincial level. The new Social Union Framework Agreement is a creative response to this challenge. Nonetheless the old citizen-government (and especially citizen-Ottawa relationship) is altering significantly.
- Finally, we are witnessing a “revolt of the elites”. As Reich (1991) notes, the “symbolic analysts” are networking internationally, agglomerating in specific geographical areas (Silicon Valley, Route 128) and effectively “seceding from America”. This is also occurring in Canada, reflected in part by the recent proposals emanating from the BCNI. Societal cohesion will be in the balance unless we find creative ways to re-forge common bonds across this growing income-distributional divide.

This then constitutes a summary of selected challenges generated by the pervasiveness and non-reversible forces of GIR for Canada’s social, economic and political environment. No one has captured the essence of this challenge as well as has Manuel Castells (1996, 106):

The global economy emerging from information-based production and competition is characterized by its *interdependence*, its *asymmetry*, its *regionalization*, the *increasing diversification within each region*, its *selective inclusiveness*, its exclusionary *segmentation* and, as a result of these features, an extraordinary *variable geometry* that tends to dissolve historical economic geography (emphasis is original).

How do we respond? How do we maintain our socio-economic distinctiveness in the upper half of North America? Phrased differently, how do we remain *Canadian*? To this I now turn.

III: Responding to GIR: Canada as a “State of Minds”

Canada excelled in mastering the old paradigm. We really have no choice but to do the same for the new paradigm – globalization and the knowledge/information revolution. What this means,

in practice, is that we must as a society maximize the opportunities of the new era at the same time that we minimize, or otherwise compensate for, the obvious downsides of GIR. An integral part of this is to buy into the wintry wisdom of Wayne Gretzky: “I skate to where the puck is going to be, not to where its been” (cited in Ontario, 1999). But where is the GIR puck going to be? Here, I think, the answer is rather clear. While the millennium is exciting in its own right, more significantly it coincides with the emergence of a truly remarkable watershed in the annals of socio-economic history – the blossoming of an information era where citizens, individually and collectively, are emerging as dominant players on the world scene. As the above analysis reveals, this is clear in individuals’ roles as consumers. More evident still are citizens’ roles in the economic sphere: not only is knowledge now at the cutting edge of competitiveness, but the spectacular market capitalization in new economy industries is increasingly a reflection of returns to human capital (often via stock options). Finally, and more subjectively, information-empowered citizen influence on the political front, although admittedly only in its embryonic stages, promises an exciting evolution in terms of new forms of democracy and accountability in the post-nation-state era. In other words, the twenty-first century will be about people in their role as consumers, capitalists and citizens. In a word, this is where the GIR puck is going to be. This being the case, the solution to the GIR challenge has to be to privilege citizens in their information and human capital dimensions.

One can come at all of this from another direction. We need to rekindle the post-war achievement of “embedded liberalism” or, in terms of the new paradigm, we need to “embed GIR” within a socio-economic-political framework. Operationally, this means that we have to simultaneously ensure that GIR leads both to *economic competitiveness* and *societal cohesion*, which is the essence of embedding GIR. Here, we have a historically unprecedented window of opportunity

since the key to achieving both competitiveness and cohesion lies in citizen information-empowerment and human capital. Tableau 1, drawn from various writings of Lester Thurow, clearly demonstrates that human capital is the key to progress on *both* the social and economic fronts.

This being the case, in *A State of Minds*, I take the rather unusual approach (at least for an economist) to articulate a single-sentence mission statement for 21st century Canada. Stripped of its contextual environment, the mission statement reads as follows:

To design a sustainable socially-inclusive and internationally-competitive infrastructure that ensures equality of access for all Canadians to develop, enhance and employ in Canada their skills and human capital, thereby enabling them to become full citizens in the information-era Canadian and global societies.

I submit that this captures the essence of what being a Canadian must mean in the 21st century. Anything less would not only be failing our citizens in this progressive knowledge/information era but as well would also be failing to take full advantage of the opportunities presented by GIR.

The remainder of the paper attempts to superimpose this mission statement on some of the many implications emanating from GIR. Prior to doing so, a few observations relating to the mission statement are in order.

First, by their very nature mission statements tend to be articulated in an unconstrained manner. This is certainly the case with the above mission statement. Yet the real world is full of constraints – fiscal, political, institutional, as well as those emanating from the international arena. This does not detract from the value of a mission statement: indeed, the existence of societally-accepted common goal or beacon may well serve as the catalyst for overcoming some of the myriad of constraints.

Second, the mission statement offers, as noted, a uniquely Canadian vision or version of post-war “embedded liberalism”, namely an approach to embedding the pervasive openness and competitiveness of the new global order within a GIR-compatible domestic social framework.

Third, and relatedly, the mission statement addresses GIR’s competitive imperatives by virtue of the commitment to an “internationally-competitive infrastructure” and the “employ in Canada” aspect of the human capital priority. Indeed, one could well imagine that much if not all of the recent BCNI perspectives and proposals would be fully appropriate in terms of a consistent economic policy strategy arising from the mission statement. But there would be one very important difference. In designing this competitiveness infrastructure – e.g. in approaching tax reform, in rethinking competition and regulatory policy, in approaching further international agreements, etc. – policy makers would have to ensure that the various choices would also advance the human-capital aspirations of Canadians. For example, the “employ in Canada” component of the mission statement resonates well with the BCNI’s desire “to make Canada a better place to live and work and do business” and “to create a uniquely attractive home base for competitive and growing global enterprises”. Were we to succeed on this front, we would surely make Canada a more attractive location for our home-grown and home-financed “talent”. Many of the high-value-added opportunities (e.g. finance, legal, accounting, R and D, advertising, computational and the like) are associated with head offices or with domestic product mandates. Privileging the latter will surely be a major incentive to develop, enhance and employ in Canada our human capital.

Fourth, the call for a socially-inclusive infrastructure in the context of privileging human capital encompasses much, if not most, of the philosophical underpinnings of our sharing community. Indeed, it would go further in several directions. For example, one would surely have to address

more seriously the recent emphasis on early childhood development as an instrument toward ensuring that all Canadians have rough equality of access and opportunity in terms of human capital development. However, what the mission statement would not countenance are social policy initiatives that run counter to the ability of Canadians to enhance their human capital.

Fifth, the “to enhance” wording in the above mission statement is intended to capture the need for “life-long learning”, as distinct from the “to develop” reference which is intended to capture K-through-PSE skills and human capital formation.

Finally, but hardly exhaustively, a societal commitment to the vision embedded in this mission statement, i.e., a commitment to “embedding GIR” within a larger societal context, may serve to facilitate the difficult changes that GIR is sure to usher in. Phrased differently, it may infuse a sense of social cohesion on the process, since just as the social side should be consistent with addressing our economic prospects, so too would traditional economic policy be designed in ways that enhance the social-policy/human-capital envelope.

What might accommodating GIR in the context of this mission statement look like in terms of the evolution of Canadian policy? Albeit tentative and prospective, this is the purpose of the final substantive section of this paper.

IV: Competitiveness and Cohesion: Implementing the Mission Statement

Unfortunately, getting the mission statement right does not make the GIR policy challenge all that much easier. We Canadians will still have to face the delicate and difficult trade-offs among and between the social and the economic, the rich and the less-well-off, the domestic and the international, as well as the old chestnuts – public vs. private, efficiency vs. equity, and centralization

vs. decentralization. Hopefully, what the mission statement should accomplish, provided there is a collective and credible commitment to its implementation, is a greater willingness to embrace the turbulent changes that GIR is forcing on all economies and societies. That is, it should allow us to manage the inevitable change, to get on top of the overall process and to nudge it in ways that ensure that we can take full advantages of the economic and socio-political opportunities that accompany GIR.

The purpose of this final section is to focus in turn on what the mission statement might imply in terms of policies designed to foster economic competitiveness and social cohesion. As prelude to this, a few background or framework observations are in order.

A. Private vs. Public Sector Adjustment

GIR is forging an increasing divide in terms of the nature of the adjustment pressures and forces impinging on policies relating to the private and public sectors. In a word, the difference relates to the ease of “by-pass”. The private sector is increasingly international, and is in any case highly competitive, while the public sector is (except in its interprovincial dimension) inherently national and non-competitive, even monopolistic. For example, in my role as a consumer of goods and services, I have absolute confidence that I will have access to state-of-the-art banking or telecommunications services. The internationalization of financial and telecommunications markets ensures that this is so. What I do not know is whether these services will be imported or domestically produced and, if the latter, whether these producers will be domestically owned or foreign operated. However, as a consumer of government services, I have no such guarantee that five years from now I will be able to access to state-of-the-art public services. I have to consume the nature of education or health or EI or welfare that is provided by our various governments. There is no meaningful scope

for “by-pass” (except, as noted, in the context of federalism). It is this key difference in the underlying environment – competitive vs. monopolistic provision, as it were – that merits attention in terms of the approaches to framing policy. I shall deal with each in turn, beginning with some recommendations for addressing or managing market adjustment under GIR.

1. Principles Relating to Private-Sector Adjustment

Continuing with the earlier analogy, since I cannot be denied state-of-the-art banking, telecommunications and the like in an increasingly integrated global economy, it then becomes patently foolish for Canadian policy not to attempt to ensure that, wherever possible, Canadian-based enterprise plays a key role in providing these services. In effect, this constitutes an GIR-triggered, paradigmatic shift in the public policy environment as it relates to private sector adjustment. Thus, the first principle related to public policy toward markets is to engage, region-state like, in creating “untraded interdependencies” or positive and attractive locational advantages to ensure that Canadian enterprise is on a level playing field with its international competition in providing these services to Canadians. I hasten to add that this is not intended to be “code” for subsidies. Rather, à la Friedland (1999), the challenge is to provide GIR-consistent “software” – e.g., appropriate tax policies, macro-management, transparent and accountable corporate governance, regulatory regimes, etc. However, it must mean more than this. Given that there are alternative ways to generate GIR-compatible “software”, other things equal we should always tilt the specific policy choices in the direction of accommodating the underlying human-capital imperative that is central to the mission statement.

What does this mean for policy approaches to private sector adjustment? My answer is along the following lines: *Government should adopt as a principle the presumption that any private sector initiative is permissible unless it can be demonstrated to be contrary to the public interest.* On the

surface, this seems to be a harmless reworking of the typical approach, namely: is the new innovation/adjustment in the public interest? Yet the difference is critical because of *where* it places the *burden of proof*. Should the innovators have to demonstrate that their activities are not contrary to the public interest, or should those espousing the status quo be required to show that the innovation/adjustment in question runs counter to the public interest. As the principle indicates, it must surely be the latter – the status quo must be on the defensive, not the innovators.

Of course, society at large would still be assigned the role of defining the “public interest”. Thus, the above adjustment principle must be viewed as operating within this societal framework. Nonetheless, shifting the burden of proof on to the status quo will lead to a much more flexible and dynamic economy.

Public sector adjustment is very different since there are no (or few) avenues for “by-pass” and, therefore, no direct pressures *within* the system to emulate best-practice elsewhere in the world. Thus, the design and implementation of our social policy infrastructure (education, training, welfare, EI, the transitions from school-to-work and from welfare-to-work) is emerging as *the* critical policy area for a GIR era. One reason for this relates to the observation that the nature of our social institutions in the millennium will effectively define who we are and who we want to be as a society in the upper half of North America. Relatedly, without an appropriate social infrastructure we will fall well short of our potential on the economic front: “national human capital markets are essential for the productivity of economic units located in a national territory (Castells, 1997, 307). A second reason has already been alluded to – it is enormously difficult to effect adjustment in the public sector since one is dealing with the political market not with the impersonal price system. Phrased differently, the powerful Schumpeterian process of “creative destruction” that is in full evolutionary,

if not revolutionary, flight in the private sector does not carry over to public sector adjustment. Rather, we have to fall back on our innate creativity as a citizenry to design and implement innovative instruments to forge our social and human capital future. One example of such creativity is the recent Social Union Framework Agreement (SUFA) which serves to provide pan-Canadian principles to oversee east-west social evolution in the context of increasing decentralization, increasing north-south trade and increasing provincial asymmetry.

2. Goals vs. Instruments

Beyond these features, we need to be careful in terms of the distinction between *goals* and *instruments*. Specifically, some instruments have become so enmeshed with our values and/or identity that they become elevated to the status of goals. In the current time frame, medicare surely falls into this category and, to a degree, so does our flexible exchange rate (i.e. monetary sovereignty). But at base these are *instruments* for delivering ultimate goals – arguably universally accessible, tax-financed health care in the case of medicare and a growing, prosperous and stable economy that enhances the well-being of Canadians, perhaps even on a regional basis, in the case of flexible rates or monetary sovereignty. To view these as immutable instruments (i.e. as goals in and of themselves) may, in a dynamic changing socio-economic order, place the ultimate goals in the balance. For example, the 100% of public funding for medicare-covered activities and more or less zero per cent public funding for non-covered items such as home care and chronic care may progressively run afoul of the equality of access to essential health services. The European approach – more comprehensive coverage but with income-tested co-payments throughout – may resonate better with the underlying goals, especially as the non-covered components loom larger in terms of population health. Likewise, in the face of enhanced trade-flows and increasing currency integration

elsewhere in the system, a fixed-exchange rate or a common currency may become a preferable instrument to deliver on the overall goals of monetary policy. This is not to be interpreted as an argument against either medicare or flexible exchange rates. Rather, it is a reminder that the underlying goals of a society tend to be ensuring across paradigms whereas instruments tend to be paradigm or environment specific. In effect, instruments are the means toward achieving the underlying ends or goals and we must be willing to rethink their relevance as the overall parameters of the system evolve.

Underpinnings any and all mission-statement related policies relating to competitiveness and cohesion is that we become the most “wired” or Internet-connected country on the globe. And we have done well when it comes to Internet access. Facilitated by School Net, all of Canada’s schools and libraries now have (or should have) Internet access and we are well on our way to establishing 10,000 Community Access Portals to provide Internet access to non-school-age Canadians. The disturbing news is that Canadians lag the US in e-commerce. In this regard, recommendations of the Report of the Canadian E-Business Opportunities Roundtable need to be implemented quickly. Assuming that these recommendations fall on sympathetic policy ears, I now turn to the challenges relating to creating a social infrastructure appropriate to an information era.

B. Social Cohesion Imperatives

While *A State of Minds* addresses in considerable detail the nature of the policies and instruments required to “embed GIR” in a framework consistent with furthering social cohesion. I shall focus in bullet form on some of the key components:

- *A children’s human capital “bill of rights”*. This is critical to ensuring equality of access by all Canadians to the information and skills dimension of the new global order and it is at the core of any meaningful implementation of the mission statement.

· *Viewing the family as the locus for the production of human capital.* Without in any way downplaying the various critical roles that the family plays in our society, the time has come to also view the family as the principal locus for the production of human capital. Among other things, this should incorporate key aspects of Fraser Mustard's crusade for policies related to early childhood development. However, it must go well beyond this to privilege the families in their pursuit of life-long learning. We must assess our existing social policies and instruments with an eye to ensuring that they further human capital formation.

· *Viewing the State as the Knowledge and Information Intermediary.* We must shift our bureaucratic organization away from the previous industrial production system and toward a human capital production system. It is inappropriate to tuck concerns relating to the information economy and human capital somewhere under the umbrella of Industry Canada. Rather, the reverse is appropriate for a GIR- and social-cohesion-consistent approach – we ought to nestle Industry Canada, and industrial policy initiatives generally, within an overarching human capital and information super-ministry. Without such a conceptual rethinking and restructuring of our policy priorities, we will never make a fully successful transition capable of embracing the challenges and reality of the emerging GIR era, let alone embrace the societal mission statement. Phrased differently, without this accommodating shift in the “mind of state”, we will not make the societal transition to a “state of minds”.

At the program level, this requires a reworking of most aspects of our social infrastructure.

I shall limit myself to one area – health (medicare). We Canadians view our health care system as falling entirely within the “social” envelope. This is last paradigm's thinking and it will ultimately result in a system that fails Canadians. In the new global order, health is emerging as one of the leading-edge economic sectors for research, for innovation, for employing high-level human capital and talent and for exports. To maintain state-of-the-art technology and services it needs a massive infusion of physical, intellectual and financial capital. It will never receive this under the current policy rubric which essentially limits expansion and innovation to the spending inclinations of governments. Moreover, the emphasis is typically on cost containment, subject to some national idea of “adequate” service (which we Canadians appear willing to have decline over time). In my view, were we to view our overall health-care system as an essential social *and* economic sector in the information age, it would result in a creative economic engine (with multitudes of spin-offs in other

new-technology sectors) and would also improve the health-care services for Canadians. One problem here, as already noted, is that we have viewed medicare not as an *instrument*, but as a *goal*.

It isn't a goal. The time has come to rethink this instrument and to allow health care to play the pivotal role in our society in line with the opportunities generated by the new global order as well as the pressing health care needs of Canadians.

I have heralded SUFA as an important new instrument for creating an east-west social union consistent with the exigencies of GIR. And it is. But it has one critical defect, as has the mid-1990s Agreement on Internal Trade (AIT). Specifically SUFA and AIT are agreements among and between governments. But federalism, and governance generally, must also be about *citizens*. As written, neither agreement allows individual citizens to trigger the appeal process – for mobility barriers under the AIT or credential recognition under SUFA's mutual agreement relating to accreditation and occupational recognition across provinces. We must change these agreements to become a version of citizens' rights to the east-west Canadian economic and social union. This is but one example of how a commitment to the mission statement can and will alter our conception of what it must mean to put people first.

Finally, while I am an ardent decentralist, the above policy approaches transcend “who does what” in the federation. If the provinces, via the revitalized Annual Premiers' Conference route, are unwilling to embrace these pan-Canadian approaches to social cohesion in the information era, then citizens will surely call on Ottawa to further their infrastructure needs in the emerging global order.

C. Economic Competitiveness

First and foremost, GIR calls for a shift in taxes away from mobile factors and toward consumption. Admittedly, this is politically challenging, since it does not square well with our closed

economy vision of equity. Paul Martin's 2000 budget, replete with indexation and the reduction of the middle-income tax rate, is a marvellous document for old-paradigm Canada. In GIR terms, it falls short, since the 1% reduction in the corporate income taxes (with the remaining reductions to come much later) as well as the federal reticence to quickly reduce the high-income surcharge will simply fuel the on-going outflow of jobs, talent and enterprise. Moreover, all of us know that eventually our tax rates on mobile factors will have to fall into line with those of our largest trading partners. By proposing to remove these discrepancies on "government time", rather than on "Internet time", we are losing the critical first mover advantages in terms of lowering rates.

Much the same problem applies to the bank merger decision. Surely, it is patently evident that much of our economic infrastructure has to be redeployed consistent with our emerging trading pattern. To be sure, the resulting implications for our east-west economic infrastructure requires compensating creative instrumentalities. Focussing on where the "puck has been" will not solve this inevitable challenge.

Arguably, what makes these decisions so difficult politically is that there is no societal social or socio-economic vision of who we are or where we want to be. This is why the earlier approach and tentative recommendations relating to social cohesion is so important to our collective future.

With the mission-state type of vision in place, it would be far easier to make these difficult but inevitable economic policy decisions.

My fear, and indeed the underlying rationale for *A State of Minds*, is that we will eventually be forced to follow the US on the economic front. If this is done without addressing the requisite aspects of social cohesion in a GIR era, we will risk becoming Northern Americans. If this comes to pass, we will have done this to ourselves!

Finally, while many of our economic policies are likely to be dictated by international requisites, we do, nonetheless, have considerable room to manoeuvre. This being the case, the essence of the mission statement is that wherever there are degrees of freedom (in competition policy, in merger policy, in regulatory policy, in international agreements, in industrial policy, etc.) we must use this freedom to advance the overarching goal of enhancing Canadians' access to developing, enhancing and employing in Canada their human capital.

V: Conclusion

Apart from hopefully generating interest in my forthcoming *A State of Minds*, my objective in this summary paper has been to outline the pervasive nature of the challenges posed by the new GIR global order and to offer a uniquely Canadian response to these challenges. There is no better way for me to conclude than to re-iterate that our Canadian future must be one where we design and implement a sustainable socially-inclusive and internationally competitive infrastructure that ensures equality of access for all Canadians to develop, enhance and employ in Canada their skills and human capital, thereby, enabling them to become full citizens in the information-era Canadian and global societies.

References to follow

TABLEAU I

Human Capital as the Key to Economic Competitiveness and Social Cohesion

(From the Pen of Lester Thurow)

The old foundation of success are gone. For all human history, the source of success has been the control of natural resources – land, gold, oil. Suddenly, the answer is “knowledge.” The world’s wealthiest man, Bill Gates, owns nothing tangible – no land, no gold, no oil, no factories, no industrial processes, no armies. For the first time in history the world’s wealthiest man owns only knowledge (Thurow, 1999, xv).

In a global economy where employers arbitrage the world looking for the lowest wages, people’s pay is not based on whether they live in a rich or a poor country but upon their individual skills. The well-educated living in India make something that looks like American wages, while the uneducated living in America make something that looks like Indian wages. If unskilled first world workers don’t want to be in competition with equally unskilled but lower wage third world workers, they will need much better skills. With globalization and a skill-intensive technological shift, much better skills must be delivered to the bottom two-thirds of the labour force in the developed world if their wages are not to fall (Thurow, 1999, 132-3).

If capital is borrowable, raw materials are buyable and technology is copyable, what are you left with if you want to run a high-wage economy?

- Only skills, there isn’t anything else!

(Thurow, 1993, A21)