

Session 4

Can an Economy be Dynamic without Growth?

In a knowledge-based economy, the skills of the population is key

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Economic growth provides added resources to a nation, and these resources can be used to make all of society better off. Of course, growth can also have negative effects –lowering the quality of the environment, exacerbating issues surrounding the distribution of income, and lowering the general happiness and well-being of at least some in society. Achieving the right balance of these forces is a challenge for modern democracies.

One thing nonetheless seems clear: the absence of growth will make balancing these trade-offs and important decisions more difficult. The validity of this conclusion is perhaps self-evident in today's struggles within Europe and within France. Since 2008, when the world suffered a major economic setback, we have vividly seen the pressures of stalled short-run economic conditions. Indeed as nations come out of the depths of the recession we are seeing changes in economies that leave a portion of society measurably worse off than previously. Most importantly, those with the least skills and with less prior income to buffer them from hard economic times are finding even less demand for their services.

Governments have tried to protect all of society, not just the vulnerable portion of society, from economic hardships. This move has led to substantial fiscal deficits, obligations that must be paid for in the future. And here the problem becomes worse. Aging and slow-growing populations are left with fewer active workers over time, even while governments are trying to provide support and services for a larger portion of society.

Without economic growth that provides for added societal resources, it will be increasingly difficult to meet even current expectations, and the political strife seen now in France and elsewhere is likely only to get worse.

Indeed, with no changes in perspective about the appropriate strength of the social safety net, about the importance of preserving the environment, or about the role of national defense, the pressures on society and on the government will almost certainly grow. Key elements of public programs –particularly education and healthcare– have shown increasing costs over the past half century, and there is little reason to expect these cost pressures to abate in the near future.

There is an answer to these difficulties. In the long run, economic growth is almost entirely dependent on the skills of the population. And, importantly, the skills of the population can be directly improved by high-quality schools. High quality schools in turn are something that government can provide. The skills of the population not only lead to substantially different growth rates in the future but also provide the means for improving the other issues in the public debate. High-level skills provide the source of innovation that leads to more environmentally sustainable economies. They provide a direct way of changing the distribution of income without having to bear the political costs of increased redistribution of income. And they provide an impetus for more equitable participation in the economy and in society. Improved schooling and improved skills for the members of society take time to develop and take political commitment. There will be members of society who grew up without the benefits of modern skills who will face difficult circumstances in the short run, and society will have to deal with this. But

gearing society for a situation where there will always be a substantial portion of the population without sufficient skills means that the political turmoil of today will never subside.

In an agricultural society, the quality of the land is key. In a manufacturing society, the organization of firms is key. In a knowledge-based economy, the skills of the population is key. Luckily a skilled population can simultaneously provide for more economic growth and for the innovations that will improve the quality of life.