

David Dodge: On economic education

Remarks by Mr David Dodge, Governor of the Bank of Canada, to the David Dodge Tribute Dinner, hosted by the Canadian Foundation of Economic Education, Toronto, Ontario, 3 November 2003.

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It's an honour to be here with you tonight and to receive this award.

One of the great privileges of working in the public sector is interacting with so many outstanding individuals from all parts of Canada and, indeed, from around the world.

To be here tonight, surrounded by people I have worked with over the years, and whom I can truly call my friends, is very exciting and tremendously rewarding.

The program this evening focuses on the value of public service and the importance of economic and financial literacy for the well-being of Canadians. These two themes have special significance for me, as my career has involved time spent in the public service as well as teaching. My long-standing interest in public service and economic education (indeed, education more generally) was sparked and nourished through my formative years at Ridley College and Queen's University. Ridley's motto is *Terar Dum Prosim* (which roughly translates into *May I Be Consumed in Service*). And Queen's is *Sapientia et Doctrina Stabilitas* (that is, *Wisdom and Knowledge Shall Be the Strength of Thy Times*).

So there it is: wisdom, knowledge, and service. Education focuses on wisdom and knowledge. And education confers an obligation to serve.

Others here tonight have explored ways to strengthen the contribution of the public sector to our well-being. But I would still like to make some general remarks on the subject before moving on to economic education.

As an economist, the question I most often ask myself is, How can we as a country increase our economic well-being? And when I look around the world, one thing is clear to me. The societies that have been the most successful in improving the welfare of their citizens are those that have provided a social climate in which the dynamism and creativity of individuals and businesses can thrive. They are societies that, in the words of Robert Wright,¹ are able to create "win-win" situations for their citizens. They are the "efficient societies" that Joseph Heath talks about in his book of the same title.²

To move in that direction, we should, among other things, continue to work towards strengthening the relationship between the public and the private sectors. In particular, it is important that we get the *incentives* right for those working in government to encourage and facilitate the drive in the private sector towards higher productivity and innovation. But we should also have the right incentives for the private sector to work towards enhancing the public good and the productivity of collective action by governments.

The problem is that the private and the public sectors too often act as if they are completely different worlds. So, the difficulty and the challenge is for both to more fully recognize the symbiotic nature of their relationship and thus the importance of interaction and cross-fertilization.

The bottom line here is that, as a society, we cannot afford to have the private and the public sectors operating as two solitudes. Individuals and businesses need a well-functioning public sector to ensure, first, the efficient operation of markets and, second, the cost-effective provision of public goods. At the same time, the public sector has a responsibility to understand how individuals and businesses work in order to provide the appropriate framework for the efficient functioning of markets. While this applies to all parts of the public sector, it is perhaps most critical for those of us (including the Bank of Canada) who are responsible for the economic and financial framework within which businesses and individuals operate.

¹ Wright, R. 2001. "Nonzero: The Logic of Human Destiny." Random House.

² Heath, J. 2001. "The Efficient Society: Why Canada Is as Close to Utopia as It Gets." Viking Canada.

A moment ago, I talked about the symbiotic relationship between the public and private sectors. Nowhere is that relationship more important than in the development of human capital through education, training, and learning-by-doing.

What I want to explore here is how the public and private sectors can interact to enhance the development of the “economic” capital of individuals. By “economic” capital I mean the ability of individuals to contribute more productively at work - as employees or entrepreneurs - or in their personal lives, as managers of their own economic and financial affairs.

To frame this issue in economists’ terms, if we are looking to increase our output of goods and services, to become more productive, and to improve our well-being as a nation, we need to augment our investment in physical capital. But, as technology becomes more complex and the global environment more competitive, it is equally, if not more, important that we also augment our investment in human capital. This primarily means improving the skills of our workforce.

So it is incumbent on all of us to think hard about how to do this. And about how to give individuals the tools they need to become more efficient at work *and* more knowledgeable and competent in conducting their own affairs.

This requires that we focus on both the quantity and the quality of education - whether that education be formal or informal.

There is a vast body of literature on the returns to investment in formal education. Much of this literature focuses on the benefits of completing high school and post-secondary education. This kind of analysis generally shows that more formal education leads to higher earnings. Partly because of this analysis, we in Canada have focused on keeping children in school longer and ensuring that they go on to complete post-secondary education.

This has paid enormous dividends, and should continue to feature on our agenda. But what we should also consider is how to make schooling more productive. And that is not simply about increasing the resources for education, but also about using more effectively the most critical and most valuable resource in this process - students’ time.

How do we do that? For starters, in the future, we will have to pay more attention to early childhood development, so that a greater proportion of our 6-year-olds arrive in school ready to learn. I have talked about this at some length in a speech I gave last May to the Sparrow Lake Alliance.³

We should also focus more on the development of literacy skills in primary grades, given evidence that this really pays dividends later on.

But one of the keys to making schooling more productive and relevant for our times lies in linking formal education to practical experience - in other words, “building a bridge to the real world.”

Learning-by-doing can help build that bridge. These practical forms of education can be delivered by the community inside and outside the school, by parents, and by businesses - in other words, pretty much by everyone in this room here tonight! Unfortunately, this type of education has been largely neglected in the economic literature, which is why I would like to spend the next few minutes talking about it.

When I was in Russia in the early 1990s, the thing that struck me was that, even though people had technical skills and some of them also had theoretical knowledge of a market economy, they could not relate to markets intuitively. They had not had the opportunity to absorb informally, by “doing,” the skills that are absolutely critical in order to function effectively in a market economy.

What does this mean? In part, it means ensuring that our school system does a better job of bringing students to a level of “functional literacy,” and I will have more to say about this in a moment. But it also means ensuring that children have an opportunity to really understand how the economy works.

Based on my experience in Russia, it is not that the Russians that I worked with had not studied the theory of the market economy at university, but that they did not have the opportunity to experience at an early age how a market economy works, and to learn from that experience.

³ Dodge, D. 2003. “Human Capital, Early Childhood Development, and Economic Growth: An Economist’s Perspective.”

The great advantage that we in Canada have is that most of us do understand intuitively how the market system works. That's because we have had exposure to it while growing up, in one of two ways: as mini-entrepreneurs, delivering newspapers, cutting grass, or babysitting; or as young employees, working at a fast-food joint, or packing and carrying out groceries at a supermarket. As mini-entrepreneurs, we learned that, if we delivered a wet newspaper, we wouldn't get paid. If we didn't show up on time for babysitting, we wouldn't be called again. As young employees, we learned that, if we flipped the hamburger onto the floor, or if we were rude to the customer, we would get fired. Importantly, we also learned that there is a relationship between the quality of our service and remuneration.

Today, some of these "early commerce" experiences and learning opportunities for children are gone. For example, the morning paper is now delivered by adults who can get up at 3 a.m. And, in the interests of health and occupational safety, some Canadian provinces have labour laws that prevent anyone under 16 years of age from even being on a construction site.

Because some of these "early commerce" experiences are gone, and because more are likely to disappear as technology changes, all of us, as parents, employers, and public policy-makers will have to keep thinking of ways to provide new opportunities for our youth to learn by doing.

As parents, we can encourage our children to seek out "early-commerce" experiences. As employers, we can offer opportunities to teenagers, as interns or part-time workers. As educators, we can do more to integrate work experiences with schooling. And as public policy-makers, we can ensure that workplace regulations do not prevent youth in school from gaining valuable work experiences.

We should all be doing what we can to provide opportunities for high-school kids to work with skilled tradespeople on the shop floor, with computer technicians and programmers in our businesses and offices, and even with economists at the Bank of Canada.

As we all know, kids are fascinated with computers. We should build on this fascination to provide opportunities for children to be exposed to the working world. Computers also provide boundless opportunities for interactive learning in our schools, which we should try to exploit more fully. Textbooks still have an important role to play - especially if done well and if properly adapted to Canadian youth. But the Internet, and especially interactive tools, such as games that simulate real-life situations, can be very valuable, effective learning vehicles. Kids can have fun with them and learn a lot in the process - about money and credit, about how the economy works, and about how government and other institutions function.

Again, as I said earlier, the problem is that we often tend to think of the world as separate boxes - private sector here, public sector there; academic world here, work world over there. But, in fact, there are great benefits to be had by building bridges between the academic experience and the real world - both the world of business and the business of daily living.

We must encourage our youngsters, while still in school, to start familiarizing themselves with the world of banking, finance, and the economy more generally if we want them to be "functionally literate," capable of handling their daily affairs effectively as tomorrow's adult citizens.

Individuals with a good knowledge of economic and financial basics can make more informed decisions - to their benefit and to the benefit of the entire economy. Not only can they manage their personal affairs and their households better, they can be more effective and productive members of society. They can also be better citizens, capable of making reasonable judgments on public policy issues that have a bearing on their personal prospects and those of the nation.

Now, children are not the only ones who need to learn. In our rapidly changing world, adults too need to keep up with developments and advances in many areas. Learning ought to be a lifelong experience if we are to keep pace with a rapidly changing economic, financial, and technological environment.

In this sense, it is important that all of us, as employers, pay greater attention to the management of knowledge and the management of learning. That way, our employees can continue to develop and function effectively in an increasingly complex, demanding environment.

Community programs and organizations such as the Canadian Foundation of Economic Education (CFEE) can also provide learning opportunities for youths and adults to improve their economic and financial knowledge. I know that the CFEE, on its own and through strategic partnerships with educators and business, has already done a lot to further economic literacy in schools and among adult Canadians. And it plans to do considerably more as we look ahead.

We at the Bank of Canada feel very strongly about the need for improved economic and financial literacy in Canada. An economically more literate public means a more effective monetary policy. When Canadians understand our functions, responsibilities, and policies, particularly with respect to the economy and inflation, they can plan for the future with greater confidence and make better economic decisions.

I spoke at the beginning about the need to ensure that the private and public sectors in Canada do not operate as two solitudes, but that, instead, they talk to each other, work together towards national objectives, and do business in a more open and transparent way. It is in this spirit that the Bank of Canada has undertaken important initiatives to communicate with Canadians and to provide economic and financial intelligence.

We do this through several vehicles. Our Web site is one. It supplies a wealth of information on economic and financial topics as well as interactive features, such as a graphic depiction of the transmission mechanism of monetary policy and an inflation calculator. We also intend to use our Web site to provide learning opportunities for our kids.

For example, we have developed a program called "Inflation Busters," designed to help senior high-school students learn about monetary policy through games, simulations, discussions, and group activities. This is currently available, on-site, in our Currency Museum, but will be up on our Web site in the new year. In addition, we have "Museum in a Bag" kits that teachers and others can use for presentations to students. And on-site, in our Currency Museum, we provide exhibits and interactive games for students to learn about money and inflation.

Given the importance we attach to improving economic and financial literacy in this country, we will continue to develop educational programs and materials for students. We will also continue to enhance our communications with the Canadian public at large.

Let me conclude.

In an increasingly complex and competitive global economic environment, furthering our national economic welfare will depend importantly on the quality of our labour force. But it will also depend on the ability of our citizens to conduct their daily economic affairs competently and effectively.

Improving skills and raising the level of economic and financial literacy in Canada will require, first, concerted efforts from all of us - parents, educators, employers, community organizations, and policy-makers - and, second, greater understanding, interaction, and co-operation between our private and public sectors.

Organizations like the CFEE have played, and must continue to play, a very important role. You are leading a nationwide initiative - the "Building Futures Program" - to promote economic and financial literacy among Canadians. We at the Bank applaud your efforts.

Ladies and gentlemen, thank you very much for being here tonight. Your presence and your friendship over the years is my greatest personal reward.