

David Dodge: Global challenges, Canadian opportunities

Remarks by Mr David Dodge, Governor of the Bank of Canada, to the Office for Partnerships for Advanced Skills Annual Visionary Seminar, Ottawa, Ontario, 17 November 2003.

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Good afternoon, ladies and gentlemen. Let me begin by congratulating OPAS for its work in advancing partnerships between industry and universities. These partnerships will be increasingly important for Canada in the years ahead. Let me also say how honoured I am to receive the OPAS Visionary Award for 2003. When I look at the list of distinguished business leaders who have received this award in the past - Charles Baillie and John Cleghorn, Ted Rogers and Mike Lazaridis, John Sheridan and Jean Monty - I must say that I am absolutely delighted to join them.

It's a particular pleasure to receive this award since it marks the first time that it is being given to a person who has made a career in the public sector. This award recognizes that the public sector has an important role to play in promoting the economic health of a country. Far too often, people think that the private sector is solely responsible for creating wealth, and that the best the public sector can do is to redistribute that wealth. The reality is far more complex. That's what I want to talk about today: how those complexities give rise not only to challenges, but also to opportunities. In particular, I want to talk about the challenges posed by the globalization of the world economy, and how Canadians in the public and private sectors can take advantage of the opportunities that the global economy presents.

It is certainly nothing new to say that economies have become increasingly globalized. In his 1962 book, *The Gutenberg Galaxy*, Marshall McLuhan observed that the electronic mass media were collapsing time and space barriers. This enabled people to communicate on a global scale. He coined the term "global village" to describe this change.

Of course, even McLuhan couldn't have foreseen the developments in transportation and communications that have taken place over the four decades since his book was published. These developments have converted McLuhan's abstract concept into reality.

Satellite technology gives us live broadcasts from anywhere in the world. Ideas are available simultaneously to those who have access to the Internet - and that number continues to grow at an exponential rate. As I stand here today, I can talk to, and hear from, thousands of people across the country at the same time. More to the point, these technological advances have allowed markets, not just of goods and services, but also of ideas, to expand as never before.

Think of technology as the enabler of so many of the trends leading towards globalization. Technological advances have slashed the cost and the time it takes to reach across borders. But whether that turns out to be good or bad depends on all of us here today. For while technology enables us to make huge progress, it does not guarantee that this progress will occur.

We are all working to understand the impact of globalization on economic and social development. We still have a lot to learn. But one thing is clear: the societies that have progressed the furthest in the last century are those that have embraced the opportunities that stem from being open and adaptive.

As I look around the world, I see a number of societies that are seizing these opportunities for the good. What I also see is that those societies that are open both to ideas and to economic competition from abroad are societies that are making the most progress in improving the well-being of their citizens.

The technological advances that created McLuhan's global village will continue. While the pace of evolution may speed up or slow down, the world economy seems destined to become ever more global in nature. The question is then, What challenges and opportunities will this present? Let me raise three points, which can serve as the basis for our discussion later.

Thinking and Acting Globally

The first is the importance of having a global point of view. The old adage tells us to "think globally and act locally." But we should really think *and* act globally.

Let me put that idea in more concrete terms. During the 1980s and 1990s, free-trade agreements with the United States and Mexico focused Canada's attention on the opportunities south of the border. Individual Canadians and businesses have been making the tough adjustments that are necessary to face increased competition and to take advantage of new opportunities. While keeping that continental focus, it is now important that we broaden our sights and focus on opportunities that are opening up in the rest of the world.

In a very real sense, the rest of the world is becoming part of our world. With rising incomes, foreigners are acquiring a taste for Canadian products and ideas. At the same time, our tastes and interests are becoming more international. We're all shopping in the same global village market - for goods, for services, and for ideas.

Still, this is a large planet with a wide variety of cultures, each with its own perspective and ways of doing things. We Canadians need to continue to broaden our horizons, and to think of ourselves as citizens of that world. That means getting as much global exposure as we can.

Canadians are fortunate to have much of the world's diversity reflected across our country at large, and in our universities. Six continents' worth of culture can be found here in one country, sometimes in one city. That diversity allows for mutual enrichment that benefits us all. It is important for those from different backgrounds to learn about the strengths and rich traditions of this country. It is equally important that those of us who were born here, into families with deep roots in Canada, to learn from the backgrounds and cultures of those who come from other continents. By listening to each other, we learn how to listen to the world. By speaking to each other, we learn how to speak to the world. That two-way learning adds a new dimension to the metaphor of the Canadian mosaic - the colours in the mosaic remain distinct, but they blend together to create a vibrant and dynamic picture.

In short, Canada's diversity is a real strength, and it will fall to you, the next generation of leaders, to ensure that we use this strength to our advantage. So that's the first message I have: think globally, act globally, and experience the world's diversity.

The Importance of Finance

During my career, I have spent a lot of time working with the financial sector in one way or another. From a global perspective, I have seen how people's lives can be made better when countries choose to open their economy to outside investment. So let me now take a few minutes to talk about my second point - the opportunities that lie within the financial sector, in the context of increased openness and globalization.

Nowhere have the advances in communication and information technologies had a greater impact than in the financial sector. Technological advances and increased openness have led to greater flows of capital and new methods of financing development. Capital flows have become global, as investors look across national boundaries for the best opportunities for their savings. This has benefited not only countries that receive investment, but also allowed our aging society to generate higher returns on its savings, both private and public.

Of course, a country that truly embraces openness in its markets leaves itself open to increased risks. We have all seen what can happen when investment flows into countries with unreliable or underdeveloped financial sectors. We have also seen what can happen when investors send large capital flows abroad without doing their due diligence first. So seizing the opportunities that have come from being more open has required more effective risk management. For savings to flow smoothly around the world, the financial sector has had to evolve, inventing new instruments that facilitate appropriate investments. These trends are likely to continue, and those countries that have financial sectors that can deliver services efficiently, at home and abroad, will have an important advantage.

But it is not only the private sector that has made advances in risk management. International financial institutions, such as the International Monetary Fund, have made significant strides in developing a more robust international financial architecture. And co-operation among governments and central banks has played an important part, whether within the G-7, the G-20, or the several specialized groups that have emerged, such as the Financial Stability Forum.

These efforts have paid off. Despite several dramatic events that might have rocked financial systems worldwide, the work done by these groups has led to the development of ways to mitigate shocks that, in previous decades, would have been very destructive.

But obviously, huge challenges remain both for private financial institutions and for the public sector - nationally and internationally. The public sector in every country must take the necessary steps to ensure that its financial sector is appropriately regulated. And countries need to continue to work together to develop and implement best practices to promote financial stability. Once again, with the trend towards increasing globalization, the importance of the financial sector and the need to ensure that it is appropriately regulated will become even greater.

So that's my second message - recognize the opportunities that the world of finance offers not just in the private sector, but in the public sector as well. That leads me to my third point, which is the role of the public sector.

The Role of the Public Sector

As I said earlier, there is a popular but simplistic view that it is the private sector's job alone to create wealth, and that the most the public sector should do is to make minimal attempts at income redistribution. Such a view grossly underestimates the nature and the scope of the public sector's role in promoting a country's economic health. It ignores history, which clearly shows that those societies that have done the most to improve the economic well-being of their citizens are those where the public sector has provided the right social climate for the dynamism and creativity of individuals and businesses to thrive.

In practice, this means that those working in government must have the right incentives to provide the appropriate framework - one that facilitates higher productivity and innovation in the private sector. The flip side of the coin is that 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 bottom line is that we cannot afford to have the private and public sectors operating as two solitudes. To work efficiently, individuals and businesses need a well-functioning public sector and the appropriate framework that provides the right incentives. The public sector has a responsibility to understand how businesses and individuals work in order to provide the appropriate setting and support. While this applies to all parts of the public sector, it is perhaps most critical for those who are responsible for the country's economic and financial framework - including us at the Bank of Canada.

Creating and maintaining this framework, in the context of a changing global environment, will be a daunting challenge indeed. Part of that challenge will come from developing a public policy framework that has two dimensions. First, it must have enough consistency with the rest of the world so that we remain open to competition and to the flow of ideas from abroad. Second, our policy framework must create unique strengths for Canada so that our public sector is a source of competitive advantage and does not detract from our other advantages.

What does this mean for students in terms of opportunities for tomorrow? It means that you should be thinking of careers that combine public and private sector experience, as well as academic. The lessons you learn in one place will give you a greater ability to work and contribute elsewhere. And this diversity of experience will give you a set of skills that you will find are in great demand.

And it really doesn't matter where you begin. For example, if you want to make a real contribution as an academic, some experience in either the private or the public sector will be tremendously important in letting you bring more to the table as a teacher. In the private sector, academic or public sector experience will let you view the world strategically, which is difficult if your experience is confined to just one firm or industry. And if you want to contribute in the public sector, as I have already said, it is extraordinarily important to have private sector experience so that you can better understand how business functions. Why? Because, in the end, public policies must foster the effective and efficient delivery of public goods and provide the incentives to encourage private activities that will create positive outcomes for the benefit of everyone.

Developing such policies is much easier said than done. But in the last 15 years, we in Canada have made considerable progress in our macroeconomic policies. The challenge in the future will be to maintain that progress and to make comparable progress in microeconomic policies. Progress will need to come from the federal, provincial, and municipal levels of government, in such diverse areas as labour market policies, intellectual property law, health, environment, and infrastructure investments. This is where challenges lie, but it is also where opportunities present themselves.

Conclusion

Having mentioned opportunities, let me close by saying a few words about the opportunities for Canada and young Canadians in the years ahead.

I talked earlier about the great advantage of Canada's cultural mosaic. In a globalized world, this provides a real opportunity because it gives us the ability to understand what is going on elsewhere on the planet, while at the same time drawing on the real strengths we have in terms of our unique Canadian social and economic culture.

When I travel abroad, I am always amazed by how welcoming foreign businesses and public entities are towards Canadian participation. At the same time, I am also amazed by how little effort we sometimes make to take advantage of this good will. As young people, you are going to have to capitalize on these opportunities.

So I hope that you will take my three messages to heart: have a global perspective, recognize the importance of the financial sector, and understand the crucial role of the public sector. With the global economy continuing to evolve, it will become increasingly important to act on these ideas, no matter where your career path leads you.