

High levels of inequality jeopardize Canada's ability to succeed ^[1]

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EXCERPTS:

What do the Occupy Movement and Canadian software giant OpenText have in common? Most people, including the campers and coders themselves, would probably say very little. But, while the message coming out of Robson Square and St. James Park last fall was about economic justice, it is highly relevant to economic growth as well.

Canada's high levels of inequality and poverty don't just erode social cohesion, but also jeopardize our ability to succeed in the knowledge-based economy.

Last week, the Drummond report correctly observed that, in the 21st century, "education and innovation will be the key for Ontarians to be prosperous." But it is important to recognize that "education and innovation" aren't just the product of classrooms and laboratories; they are nurtured through favourable social conditions that are incompatible with elevated levels of inequality and poverty.

There is substantial evidence that "human capital" - the knowledge and skills that make people innovative - is socially determined. For example, children in less equal countries have lower math and literacy scores than their peers in more equal countries. In addition, the crucial period for human capital development is early childhood, and making the most of it depends largely on family circumstances.

But human capital isn't just about intellectual ability. A person's health is also an important factor, both in terms of educational outcomes and productivity. Thus inequality and poverty, which are both associated with poor health outcomes, are worrying from an innovation standpoint as well. Likewise, studies show that a person's social relationships - which are a source of mentorship, employment, and investment - are negatively affected by inequality and poverty.

For these reasons, Canada's record is particularly disturbing. It ranks 17th out of 20 peer countries in terms of income inequality. While perfect equality is both impossible and undesirable, there's clearly plenty of room for improvement.

With respect to overall poverty, Canada ranks 15th out of 20, and drops to 16th spot in terms of child poverty. Indeed, every year since 1990, at least 1 million Canadian children have lived in poverty. These are our future knowledge workers.

And it's not just the gap between the richest and the poorest that's widening. In fact, 60 per cent of Canadians experienced a drop in their market incomes between 1976 and 2009.

These trends are the result of massive changes in the global economy, brought on by the internationalization of markets and advancements in technology. In this new economy, people with the right mix of human capital get ahead, and everyone else gets left behind.

But countries like Canada can't afford to let huge swaths of their populations get sidelined by the twin forces of globalization and technology. Complacency in the face of these challenges will only exacerbate inequality and poverty, further undermining human capital outcomes, our capacity to innovate, and our long-term prosperity.

For far too long, Canadian policy-makers have failed to appreciate the economic significance of issues like the ones the Occupy Movement brought to the fore. While they've long understood the importance of innovation, they've misunderstood where innovation actually comes from.

Instead of investing people, Canadian governments have given huge tax breaks to businesses in the hopes of spurring innovation. But, as Prime Minister Stephen Harper acknowledged in Davos a few weeks ago, this strategy has produced "less than optimal results".

To make matters worse, governments have shifted the burden of human capital investment to individuals, while simultaneously neglecting income security programs, such as employment insurance and social assistance. As a result, millions of Canadian workers are struggling to adjust to the new economy, even though that adjustment is critical to our collective prosperity.

Clearly, a major shift in thinking is needed. First, "education and innovation" are socially determined. Investments in these areas won't pay off unless underlying issues like inequality and poverty are addressed. Second, innovation comes from people, not lifeless institutions. Thus public funds are better spent helping people cope with structural economic changes.

Third, and most importantly, in the knowledge-based economy, inequality and poverty are obstacles to, rather than consequences of, economic growth. As a result, growing our way out of these problems isn't a viable solution. In the long term, Canadians must find ways of prospering together.

These are the lost messages of the Occupy Movement. The campers and the coders have more in common than they think.

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