
Twin Transitions and Inclusiveness

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Dr Tim Sargent

Centre For The Study Of Living Standards

Ottawa, Canada

Inclusion: What Is It and Why Do We Like It?

- Broad agreement across political spectrum that everyone in every community should have at least the opportunity to participate in the economy and earn a “middle class” income
- Alternative is a lack of social cohesion that leads to conflicts over redistributing resources rather than focussing on how to increase overall growth
- Both Brexit and 2016 US election are very obvious examples of “left behind” communities taking revenge on a political class seen as unresponsive to their interests

Transition #1: Green Transition

- Government-led
- Means widespread replacement of physical, tangible capital
- Threatens well-paying blue-collar jobs in energy-intensive manufacturing, natural resources
- Fear that winner-take-all nature of new technologies means gains will accrue to very few companies (in very few countries)
- Not going as fast as governments would like

Transition #2: Digital Transition

- Private sector-led
- Means widespread replacement of human, intangible capital
- Threatens well-paying white-collar jobs in professional services, information and culture, education
- Fear that winner-take-all nature of digital markets means gains will accrue to very few companies (in very few countries)
- Going a lot faster than governments would like

Policy Trilemma

- Governments want simultaneously
 - Green transition, social inclusion, economic growth
- But there are inevitable trade offs
 - Green policies can lower growth, hit blue collar workers, rural areas
 - Redistribution can also lower growth, and takes resources away from green transition
 - Growth leads to more emissions, may skew to already affluent

Solution: Subsidies For Green Investment?

- Huge fiscal cost (e.g. \$10 billion subsidy for battery factory in Canada)
- Risk of trade/subsidy war
- Governments betting on specific technologies
- Economic benefits often accrue to small number of individuals

Solution: Sand in the Wheels of Big Tech?

- Calls for
 - Targeted anti-trust regime for big tech firms
 - Pre-emptive regulation or even a pause on AI
- But
 - Not obvious that tech firms face no competition
 - Benefits from adoption mostly captured by users
 - Hard to get balance right for brand new technologies, esp. GPTs

Better Solution #1: Investing in Non-University Education, Especially Skilled Trades

- Focus on university education means too people many people chasing white collar jobs, some of which are potentially threatened by technology
- Meanwhile, economy needs skilled tradespeople for housing, green infrastructure, retrofitting homes etc.
- Need to focus more on encouraging technical skills, as well digital skills and entrepreneurial skills for non-university graduates
- Crucial for moving people from working poor to middle class

Better Solution #2: Investing in “Left-behind” Communities

- Having people move from depressed communities to sprawling suburbs is expensive and
 - Need to construct new infrastructure—schools, roads etc.
 - Exacerbates already tight housing markets
- WFH makes it easier to work outside of major urban centres and Government could lead by example, but
 - Need connectivity, both digital and physical
 - Need good quality of life, better amenities

Better Solution #3: Streamlining Regulatory Process for Major Projects

- Capital investment required for a green transition can be impeded by burdensome regulatory processes that facilitate NIMBYism
 - E.g. Electricity transmission, wind/solar generation, nuclear power plants
- Projects provide good jobs outside of big urban centres
- Need predictable and timely approvals for investors
 - Does not mean answer has to be yes: but should not take years to get a decision

Better Solution #4: More Efficient Government

- Public sector must embrace digital transition, particularly AI
 - Public services such as education can be more tailored to individuals
 - Back office functions such as HR can be significantly streamlined
 - Quality and speed of decision-making can significantly enhanced
- More efficient Government
 - Improves private sector efficiency
 - Releases resources for other priorities, such as Green Transition and Inclusion

Conclusion

- Governments are not good at micromanaging economic development
 - Especially when technology is changing fast
- Governments should focus on what they know best...
 - Education, local public goods
- ...and look to be more efficient at what they do
 - Smarter regulation, streamlining service delivery