Technology, politics and the remaking of the Canadian economy

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Former U.S. labour secretary Robert Reich argued persuasively in The New York Times on Friday that the economic and financial power of mega-capitalization companies must be sharply reined in to protect workers, highlighting the vastly important three-way, all-out economic war between capital, labour and consumer prices.

Mediating this battle is arguably the central issue for developed-world economic policy-makers in the next few decades, and the issue is also of primary importance for Canadian voters ahead of October’s election.

Mr. Reich, now a professor of public policy at the University of California, Berkeley, uses Google and Amazon as examples of technology companies becoming too financially and economically powerful as virtual monopolies. He notes Google is used for two-thirds of web searches in the United States and Amazon sells 40 per cent of new books. Mr. Reich believes the government must step in to protect competition, and “‘intellectual property’ is the key building block of the new economy. Without government decisions over what it is, and who can own it and on what terms, the new economy could not exist.”

Mariana Mazzucato, a University of Sussex economics professor and author of The Entrepreneurial State: Debunking Public vs. Private Sector Myths, goes a step further in arguing for greater government intervention in science and technology. Ms. Mazzucato notes the common belief that the private sector drives technological innovation is exactly 180-degrees wrong.

In interviews and presentations, Ms. Mazzucato repeatedly argues the U.S. government, not Apple Inc., is primarily responsible for the technology behind the iPhone. She notes the global positioning system, the touch screen, the Siri voice-activation software and the Internet itself were funded by the government.

Ms. Mazzucato also highlights the large number of patents generated by the U.S. National Institutes of Health despite funding
cuts. Above all, she thinks the current system of “socializing risk and privatizing [financial] gains” is both wrong and contributing to economic inequality. Governments, in other words, should keep more of the profits from the research and patents they generate and redistribute the wealth to its citizens.

Domestically, the first political skirmish in the coming war against technology is likely to occur in the entertainment sector. The Canadian Radio-television and Telecommunications Commission has already lost a 2014 battle to force Netflix to hand over client information, but a larger fight looms. Supported by the government of Ontario, domestic cable companies lobbied hard for the regulation of “over-the-top” entertainment streaming services, such as Netflix, at a recent series of hearings on the current state of broadcasting in Canada.

The policy dilemma before the CRTC is whether to protect the profits and employment levels of incumbent cable companies at the expense of a service that consumers have adopted wholesale.

These issues of new technology and government intervention in the Canadian economy lie just below the surface of the Canadian election. New Democratic Party Leader Thomas Mulcair has pledged to be a “champion for new investment and new jobs [to] kick-start Canada’s auto and manufacturing sector.”

Sustaining job growth in the domestic auto sector will be difficult, however, and not just because of low-wage competition from Mexico-based plants. Companies in high-wage Germany, for example, are rapidly moving toward completely automated assembly lines. Technology – in the form of robotics – is gaining a steadily larger share of the manufacturing process. In Audi’s facility in Ingolstadt, Germany, the number of robots already equals the number of employees.

The issue of what to do with the profits from the inevitable development of employee-less manufacturing plants is at the crux of the economic policy conundrum facing policy-makers throughout the Group of Ten in the coming years.

Neither governments nor manufacturers can allow for the plant operator to keep all the money. There will eventually be no one to sell the output to if everyone’s out of work and impoverished. Paying people to stay home and not work is for many in the current political climate a severe and disruptive form of moral hazard.
Eventually, the seemingly unstoppable incursion of technology into the workplace will demand the necessary political and economic compromises. These compromises will almost certainly involve far more wealth distribution than we have now. Governments may decide to tightly control the technology economy, as Mr. Reich and the domestic cable companies advocate, or keep more of the proceeds from their services, as Ms. Mazzucato suggests. Any way it happens, it will be fascinating to see how this plays out.