

Clearing the wreckage, and building anew

A creative revolution spurred by new technology is the solution to Canada's industrial decay, argues economist Richard Lipsey

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GLOBE AND MAIL UPDATE
JANUARY 12, 2009 AT 7:41 AM EST

As one of Canada's iconic economists, Richard Lipsey wrote textbooks that unlocked the mysteries of the supply-demand curves for a generation of university students.

As one of London's hottest TV directors, Matt Lipsey was part of the creative team behind the hilariously off-colour comedy hit, Little Britain.

Matt is Richard's son - and one of the reasons the 80-year-old economist remains optimistic, despite the storms shaking the industrial core of the Canadian economy.

Prof. Lipsey sees the dramatic decline in Canadian manufacturing as the onset of a potential 10-year restructuring similar to what hit Britain in the 1980s.

"All the old manufacturing industries disappeared and it probably will happen in Ontario," he said from his home on Bowen Island, just off the coast from Vancouver. "It will be a profound change for the whole country."

Yet Britain survived and so should Canada, he says. One phenomenon that replaced the decaying industrial foundation of Britain was the emergence of London as a financial, media and entertainment centre.

That transition gave Matt Lipsey a stage to play on. And the creative revolution was spurred by technological change, which according to Richard Lipsey, is also the hope for Canada's future.

"London has done [the transition] - and it was all technological," says Prof. Lipsey, who has another son working in the British music business.

New technology is where government should primarily direct its economic stimulus, he maintains. "Ontario and Quebec have the sunset industries now. The question is can we get enough sensible government policies to encourage the whole transition," he says.

"That is the trouble with shoring up the auto industry - you're shoring up the sunset instead of pushing for the sunrise."

And yet he grudgingly supports the auto bailout because the collapse of such a cornerstone industry would be catastrophic at a time when the global economy is on its knees.

Give the auto-makers a short lifeline with strings attached, he advises.

All this is typical of Prof. Lipsey, who in his maturity is one of the least doctrinaire economists. He constantly makes a distinction between economic theory - the kind in his textbooks - and short-term policy demands, including political realities.

"There is no good solution to the auto industry," an exasperated Prof. Lipsey said.

Despite his years, the professor emeritus at Simon Fraser University remains engaged in economics, spearheading a collaborative research project aimed at preparing local governments for massive climate change.

"It keeps me alive," he says of his work.

He hopes some of the economic support packages in various countries will go to alternative energy. But

meanwhile, he would toss a temporary lifeline to Detroit because he expects a long, hard recovery.

It will be a downturn of at least two years, he says. If he were a betting man, he would wager three-and-a-quarter years, but he does not expect a reprise of the Great Depression of the 1930s.

Despite their fumbling, governments have learned a lot since 1929, when Washington let thousands of banks fail, thus aggravating and prolonging the Depression.

Letting Lehman Brothers fail was a major error, he says, but it proved a turning point as the paralysis of credit markets jolted the U.S. out of its rigid laissez-faire stance.

If there is a silver lining to the current meltdown, he says, it will force re-regulation of the financial system, putting to rest the view that minimal regulation is all that is required. Yet he also worries about the pendulum swinging too far the other way.

He predicts the price of energy will bounce back strongly with economic recovery and that will have both bad and good effects - more drilling of pristine areas, perhaps, but also a stimulus for alternatives to carbon fuel.

He predicts a spectacular boom in 10 years as private and public sectors invest heavily in alternative energy to replace depleting sources of polluting hydrocarbons.

And not a moment too soon. The urgency of his research project is underlined by the challenges already facing local governments from extreme weather, such as increased public health risk and communities imperiled by landslides caused by torrential rain.

The project does not seek the cause of global climate change - it assumes the reality of change - but how to cope with its results. "Municipalities are on the front lines."

Prof. Lipsey says the move to alternative energy will happen the same way as most major technological change in modern history - because governments get behind it.

"The best industrial policies consist of co-operation between the government, universities and the private sector to push new technologies." But the private sector has to put up enough of its own money "so there are not boondoggles and that sort of thing."

Meanwhile, Prof. Lipsey derives pleasure from seeing the results of an earlier economic revolution, as manifested in the London career of his son Matt.

When it is suggested Little Britain is a bit extreme in its scatological humour, he is quick to point out: "He directed it, he didn't write it."

Richard Lipsey

Professional

Currently professor emeritus of economics at Simon Fraser University. Held chairs in economics at London School of Economics and was chairman of the department of economics and dean of the faculty of social sciences at University of Essex, U.K.

1970 to 1986: Sir Edward Peacock Professor of Economics, Queen's University.

1983 to 1988: Senior economic adviser, C.D. Howe Institute.

1989-1994: Fellow of the Canadian Institute for Advanced Research and the founding director of their international research project on Economic Growth and Policy from 1989-1994, then a member until 2002. This work led to the publication of a major book on the causes and effects of large technological shocks entitled *Economic Transformations: General Purpose Technologies and Long Term Economic Growth*. The book was co-winner of the 2006 Schumpeter Prize for best writing on evolutionary economics over the

previous two years.

Prof. Lipsey has authored several textbooks that have been translated into nearly 20 languages. Honours

Holds honorary doctorates from several Canadian universities and University of Essex.

Prof. Lipsey is an Officer of the Order of Canada, a fellow of the Royal Society of Canada and the Econometric Society, and a past president of the Canadian Economic Society and the Atlantic Economic Society.

Education

BA from UBC in 1951

MA, University of Toronto, 1953

PhD from London School of Economics in 1957