

Davos diary: A new sense of dread is settling over the world's elites

By John Stackhouse

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The Google Club Lounge is a step removed from Davos, in distance and spirit.

Anchored in a new hotel, high above town, it seems designed to send a message. The customized pad has sliding doors, fireplaces, a long bar and panoramic views of the Alps, as if to say, “all you governments meeting down in the valley can’t see the future.”

This evening, the Lounge is also a hotbed of debate.

Eric Schmidt, the tall and strapping executive chairman of Google, is in a verbal tussle with Martin Wolf, the shorter and rotund economics guru from the Financial Times, over – and only in Davos could this be called an “It” party – productivity. Like a school master at exam time, Mr. Wolf is distressed by the world’s inability to generate more growth and more jobs, and it’s all because we can’t find a way to be more productive. Every banker in the room seems to agree with him. Mr. Schmidt doesn’t. He says we’re using the wrong numerator, that we’re all producing lots more than we know thanks to, well, Google, and a lot of other disruptive technologies. We’re producing more, consuming more, enjoying more.

As the Google crowd nibbles on prosciutto and sips Chablis, there isn’t much room for the fusty old views of John Maynard Keynes, that in such times of distress it’s the role of the state to guide the economy and create jobs. At this party, the hidden economic god is Joseph Schumpeter, the author of “creative destruction.”

In Schumpeter’s day, high-speed freight trains were ruining small-town America, and lots of jobs along the way. Suck it up, was the economist’s message. Those trains would help build a new economy rooted in cities and fac-

ories, and a scary new threat called supply chains, across the land.

Once again, the argument between creative destruction and state-funded stability is the talk of policy-makers, who have woken up to a new year of economic growth around the world and yet a dreaded sense that this global expansion will not bring nearly enough jobs and wage increases to satisfy any public. It’s a tension not seen, perhaps, since the late 1930s, when Schumpeter made his case and a three-decade-long burst of innovation proved him right. For then.

Another machine revolution is upon us. There is a new wave forming behind the past decade’s surge of mobile technology, with disruptive technologies like driverless cars and automated personal medical assistants that will not only change lifestyles but rattle economies and change pretty much every assumption about work.

The talk of one Davos session this week was 3-D printers – for housing. A prototype, it was claimed, is already printing small houses fit for human habitation. Within five years, the entire construction industry could be replaced by a phalanx of printers. Goodbye, a million construction jobs. Hello, a thousand code-writers.

“It’s a race between humans and computers,” Mr. Schmidt tells another audience, in another hotel room, over another meal. “And it’s important the humans win.”

The state of the state

Davos is a tranquil mountain town that seems perfectly content and productive 51 weeks of the year. Then comes this week in January when the World Economic Forum descends on it and brings along every problem known

to mankind. Never mind the pristine, snow-capped Alps, sausage stands and tourists walking the boulevard, skis on shoulders; there's round-the-clock debate about death and disease, terrorism, cyber-attacks, financial collapses and private wars.

Inside the high-security zone, billionaires (S. Schwarzman), economists (J. Sachs), movie stars (M. Damon), prime ministers (B. Netanyahu), rock-star commentators (T. Friedman), even aging rock stars (P. Gabriel) seem eager to take on problems that most of them won't be going home to.

But this year may be different, paradoxically so. For the first time in five years, the world does not seem to be in a financial or economic crisis. The U.S. economy is looking to hit 3-per-cent growth this year. Europe is back in the black. Even Spain mustered a quarter of growth recently. In Asia, Japan is threatening to roar, and China and India are doing fine.

For all the talk of growth, though, the global economy is also in an employment morass that has the smartest people in the room humbled and anxious. The rebound is not producing jobs and pay increases to the degree that many of them expected. Most governments are tapped out, fiscally, and can only call on the private sector – “the innovators” – to do more.

That in itself seems humbling. Davos was the place where governments often found succor, in a cacophony of panels, speeches and forums that seemed to usually conclude with the view that a government – democratic or theocratic, clean or corrupt – had good reason to go home and get on with it.

Of course, after 9/11, governments coming here expressed dismay at their seeming inability to fight the new enemy. State warfare was gone. Then came the financial crash of 2008, and the state was back. Bailouts, crackdowns, virtual printing presses for money – the interventionists had their day in the Swiss sun.

But rather than a celebration, these countries are all owning up to a new challenge, as

amorphous and yet more insidious than anything else on the agenda. You wander into the Google Club and sense that much of what Davos has known is coming unglued.

Worker, disrupted

Here's what the world may look like, sometime in the 2020s, which for this crowd is tomorrow:

- The Internet changing the functioning of everything. Your hearing aid. Your snow shovel. Your shoes. Everything will be programmed, monitored and designed for what's called “process optimization,” meaning a machine will run your life.
- Advanced materials changing the shape of everything, from airplanes (they have to be cylindrical because of aluminum) to rooftops (they have to be angled because of lumber). More mind-bending (literally): bioprinted organs based on stem-cell materials.
- Artificial intelligence changing the job of everyone. Emerging intelligent software can handle unstructured commands and rely on what we humans call judgment. Siri is about to get a PhD.

The consulting firm McKinsey & Company has tried to calculate how much the coming wave of disruptive technologies will change the global economy, and figures a dozen innovations like these could, by 2025, create up to \$33-trillion a year in new economic activity. That's \$3,300 for every expected person on the planet.

It's heady stuff for consumers and entrepreneurs. Goods and services will be cheaper, and easier to use. And anyone with a sound, scalable idea – plus venture capital – will be able to eat the lunch of vast industries. Banks, universities and drug stores may yet get to taste the bitter pill of disruption that media, retail and phone companies have swallowed.

Which is where the worry of government becomes evident.

If a 3-D printer can kneecap your construction industry, or an AI-powered sensor put to pasture half your nurses, what hope is there for old-fashioned job creation?

The new digital divide – it used to be about access, now it's about employment – stands to further isolate the millions of long-term jobless people in Europe and North America, many of whom have left the workforce and won't be getting calls when jobs come back.

Some governments see this as a call for an overhaul of their education systems, to be replaced by lifelong learning programs that assume much of the population will be back in class at age 40, 50 and 60, and probably for a good many hours in between. Globally, there are an estimated 200-million unemployed. A Davos forum on the issue was told that number could hit 250 million by 2018.

In an age of economic upheaval, history indicates most employment will come from new enterprises, ones that don't exist today, as the old ones – including government – batten down their hatches. In Canada, spurring such enterprise has left government planners flummoxed, just as they were a generation ago. With notable exceptions, venture capital remains as foreign as four-down football, something Canadian entrepreneurs go to Boston or San Francisco to find.

However it is spurred, innovation and enterprise is what everyone is looking for. Even the Chinese here are bemoaning their insufficient creative class, fearing what, say, the Koreans might come up with.

A tribal war

During another period of global upheaval, the Industrial Revolution, a French economist named Jean-Baptiste Say popularized a theory that says successful products create their own demand. Say's Law is again in vogue, often

cited in debates about the iPad. No one asked for the iPad, or perhaps even needed it, but we all wanted one once tablets were on the market. And we found ways to pay for it, either insisting on paying less for other products or working harder to make more money, often using an iPad to do so.

That is a pollyannaish view that the technology enthusiasts might endorse.

Not Keynes, however. He was among the fervent critics of Say's Law, for reasons that might just be playing out in Canada today.

All this creative chaos not only drives down prices, the argument goes, it spooks businesses and individuals who fear more disruption and so horde what they can. As prices fall further, disinflation sets in, a problem highlighted this week by the Bank of Canada, as it sent the dollar tumbling. Consumers stop buying as they wait for new and better things at even lower prices. And instead of investing in job-enhancing technologies and expanding exports, businesses are hoarding cash. As in Japan, many will see that as reason for more government intervention, to keep the economy as we know it going.

In Davos, those two scenarios are taking shape, like tribal forces on opposing mountainsides. The coming waves of innovation will show who's right, whether government – having saved the financial system – should now get out of the way of a new industrial revolution. Or whether those states need to step it up, spending tax money on training, helping pick winning technologies and pumping consumers with even more credit to buy what the innovators are creating. At least for now there is general agreement with Eric Schmidt's take on the race between humans and machines – “that it's important the humans win.”