
Let's All Learn How to Fish . . . to Sustain Long-Term Economic Growth (a summary)

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Give a person a fish and you feed him or her for a day; teach a person to fish and you feed him or her for a lifetime.

—Author's paraphrase of a proverb attributed to Maimonides
(1135–1204)

For all of us, economic health and economic growth are heavily influenced by social policies on entitlements, government spending, taxation, and personal incentives—in particular, how we are motivated and what we are required to share with others. Therefore, this book begins with a consideration of these policies: Have we taught too few individuals how to fish for themselves and handed out too many fish?

First, consider those who need us to hand out fish. The following maxim, which has been attributed to Mahatma Gandhi, may be true: “A nation’s greatness is measured by how it treats its weakest members.” That is, for those who are unable to learn or no longer capable of fishing, let’s strive for this view of greatness and offer proper safety nets. According to Raghuram Rajan and Luigi Zingales (from their 2003 book *Saving Capitalism from the Capitalists*), “A safety net is . . . a mechanism to ensure political consensus for free markets . . . it is also a way to encourage people to invest in their future”—that is, save for their future.

Well-intentioned policies may not only fail to achieve greatness, however, but also conspire to defeat it. Well-intentioned but poorly designed or implemented incentives pose real risks to a prosperous economic future.

Policies that create incentives for retirement, employment, migration, fertility, and family formation affect the size of current and potential worker populations. In developed economies, the current custom of retiring at or near the age of 65 was based on two premises that are no longer valid. First, in agrarian and industrial economies, where retirement as a policy was born, older individuals may have had little if any productive capacity beyond a certain age. In today’s service-based economy, however, that is much less true. Second, the exit of everyone over 65 from the workforce was sustainable when the

dependency ratio—that is, the ratio of workers to retired individuals—was about 20 to 1. This ratio, which was typical of an agrarian society in the early to mid-20th century, is no longer valid. Today, in developed economies, the dependency ratio—based on global life expectancies, fertility rates, productivity rate projections, and the changed physical nature of work in these countries—is closer to 3 to 1 and projected to shrink to 2 to 1 within 20 years. And although developing economies are in far better condition today than developed economies with regard to the dependency ratio, their population pyramids are aging rapidly. Can the societal wealth in the developing economies grow fast enough to allow them to avoid the challenges in today's developed economies?

Policies and costs that alter the value propositions of health insurance, education, and capital investments affect productivity. Consider, for example, health insurance. Among the myriad issues with health insurance coverage, we know that when a user of services is someone other than the payer for services, resources are expensively misallocated. One must also ask to what extent, if at all, health care is a right and, as a result, resource misallocations are simply a price to be paid. The United States is a particularly stark example of misallocation of resources. The United States spends roughly 2.5 times as much per capita on the delivery of health services as the OECD countries, on average, based on 2013 purchasing power parity data, but has not demonstrated better outcomes—in terms of increased longevity or decreased infant mortality—than most other developed economies.

The economic growth of the past couple of centuries has accomplished some wonderful things for the citizenry of the world. Many people now worry, however, about whether our aging global economies can produce enough growth to overcome the massive debts accumulated and the even larger future liabilities, the “promises” made to current generations. To put the future—with regard to aging and its associated liabilities—into perspective, consider the following from a 2009 International Monetary Fund report: The whopping age-related costs are more than 10× the costs of the Great Recession.

The importance of today's policies cannot be overstated; the incentives—intended or otherwise—pose challenges to economic growth and its effect on all of us. What about the need to preserve hope for young people and for generations not yet born? Should not these generations have the same opportunities as their predecessors did? We should consider the interrelationships among people, their productivity, government-styled promises, and the prospects for growth. One method of estimating economic growth is, in fact, the sum of the growth in the number of workers and the growth in productivity; this method highlights the major factors in the following table.

Primary Factors Affecting Economic Growth

Effects on the Number of Workers	Effects on the Amount of Productivity
Retirement	Health
Employment/participation	Education/skill relevancy
Net migration	Investment capital
Fertility	

Considering all of these factors, policies that shrink worker populations or restrict productive capacity seem inadvisable. Yet, those policies are precisely what many world regimes advocate.

The book proposes some perspectives that broaden the purely economic accounting of success and suggests principles by which we might better pursue sustainable economic growth. Did you learn to fish on your own, or were you taught by someone else? Do you buy your fish at a market, or are fish simply given to you? Was it you and only you that succeeded at fishing? Even if you learned on your own, did you build or make your own fishing pole or dig up the bait used?

In some manner or form, success almost always has some assistance, if only from those who came before us. Can you appreciate the people, things, and circumstances that have enabled your success? Or do you, like so many, suffer from ADD—Appreciation Deficit Disorder? Are you “entitled”?

In addition, consider inclusive measures of economic success. Growth in GDP is not and has never been a fully inclusive or accurate measure of economic progress; aspects of improved quality of life are difficult to capture in numerical terms. Simon Kuznets, the Nobel Prize-winning economist who developed the system of national income accounting, said back in the 1930s, “The welfare of a nation can, therefore, scarcely be inferred from a measurement of national income” (from a 1933 NBER paper “National Income 1927–1932”). Economic growth and social progress are not identical. The costs of safety nets are simply a transfer to those who no longer work or will never work again, but some safety nets could be trampolines—an investment in those who can and are willing to work again. According to the business strategist Michael Porter, social progress is “the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential” (from

Michael E. Porter, Scott Stern, and Michael Green, “Social Progress Index 2014 Executive Summary”).

With the current state of growth prospects as it relates to population and productivity factors as well as the preceding perspectives, the book turns to consider what could (should) be, not entitlement and not irresponsibility, but Entitlement to Responsibility with Appreciation (ERA). Three chapters are devoted to *principles* for policy designs in the realms of, respectively, retirement, health, and education. If people would simply work longer—increasing productivity and decreasing the need for transfers (payments) to retirees—the costs of aging would be demonstrably less than they are. To work longer, however, people need both *healthy aging* and the *proper education and skills* to find work.

One principle would include a *compassionate retirement* policy. Retirement may be a type of dependent variable to the variables of health and education, but it is also a primary financial goal for people. But retirement, stopping a person’s productivity, causes problems for modern societies, so incentives to leave the workforce need to fit both a society’s needs as well as its citizens’ desires. A compassionate retirement policy would have two retirement ages: one that delays the incentive for those who can work and another that respects the reduced physical capability of those who cannot.

Other principles in the area of *retirement* support bigger, strong societal “first pillar” (social security–type) benefits; a society-wide defined contribution pension plan (superannuation plan) with required contributions; and the discontinuance of defined benefit structures (apart from the first pillar plans).

A number of principles are given for improving the *health* of citizens. Together, these principles paint a picture of personal responsibility, thoughtful and complete access to care, and effective ways with which to manage costs. The principles attempt to align the incentives so that healthy aging becomes a high probability rather than simply a possibility.

The principles in the area of *education* are bifurcated among those for young children and those for university-aged young adults. Three keys to successful education for young children are longer days, longer school years, and nutritional support. As economies advance, so do education and skill demands, and the best way in which to broaden the capability in a population is to help ensure that fewer children get left behind. The call for these three policies will help not only the children but also financially strapped households and the local economy in the long run.

The education principles directed toward young adults are designed to stretch our thinking about the all-too-common reality of small returns or big debts in exchange for education. How might the classic pattern of

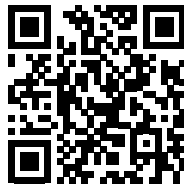
education—attending university for roughly the ages 18–22—be broken to benefit everyone and better support lifelong learning?

Because this book focuses on improved principles for policy design—and because the future is uncertain—the three chapters on principles for retirement, health care, and education end with to-do lists (or at least suggestions) for today.

In 2004, Benoit Mandelbrot and Richard Hudson argued in *The (Mis) Behavior of Markets* that “the foundation” of financial markets needs repouring before any more repairs are done. The author of this book argues that the foundation of entitlement policies also needs repouring. Society’s policies and goals need to be rethought and rebuilt. Based on the expected (low to negative) rate of growth in the number of workers, productivity will need to rise simply to maintain current levels of growth, let alone increase them. In consideration of agedness (of populations and infrastructures) and current levels of global debt, sustainable economic growth requires more responsibility, more appreciation (*not* inflation), and more policies that encourage productive behavior. Policies that reward paying riders, not free riders, are needed.

Demographics do not have to be destiny. We have a choice. Our past does not need to be prologue (sorry, Mr. Shakespeare) to our future. But to ensure that it does not become so, all of us who are able need to take responsibility. If we can raise productivity and lengthen people’s productive capacity—which we can do—national growth rates can rise and become more sustainable than currently. With greater knowledge and skills and increased health, citizens will have the ability to work longer. And finally, we need to appreciate that not everyone is able to fish. Let all who can, however, learn how to fish . . . to sustain long-term economic growth.

The complete book can be found at
<http://www.cfapubs.org/toc/rf/2016/2016/2>.



Use your mobile device to scan the QR code to go straight to the webpage.