Paul Jenkins - Navigating Economic Shifts

Host: Maggie John

Overview:

Paul Jenkins joins us to discuss how businesses can better prepare for the economic shifts caused by technological disruption. Jenkins is a former Senior Deputy Governor of the Bank of Canada. Jenkins explains why risk management structures are essential for business resilience in the face of rapid technological change and advancement, and says Canada needs to invest more heavily in digital skills training to avoid falling behind other nations.

Highlights from our conversation include:

History shows it can take decades for the effects of technological change to be fully felt. In Jenkins' view, we are "not even close" to the point where the digital revolution reaches its peak.

Businesses need to invest in both attracting new talent and upskilling existing talent to ensure they're able to remain competitive and adapt to new technological developments in the future.

MAGGIE:

Magnet Network Live! We are live here in the Distillery District here in Toronto.

You are joining me, your host Maggie John, along with Paul Jenkins.

Paul served as the Deputy Governor of the Bank of Canada, where he played a crucial role in guiding the country's monetary policy. He is a senior fellow at the C.D. Howell Institute and has extensive expertise in financial systems and global economic trends.

Paul, thank you for joining me.

PAUL:

Delighted to be here. Thank you for the invitation.

MAGGIE:

So how can businesses better prepare for economic shifts driven by technological disruption? And I say this, Paul, on the heels of as I was driving in, I saw a pop up on my phone that BMO has had a huge site outage. I don't know if you've heard about this.

PAUL:

I did see a story to that effect.

MAGGIE:

So, I mean, I feel like this goes right in hand with our conversation today. How do we navigate, you know, technological disruption, changing global markets in this new world?

PAUL:

Well, it's a big question. And I think the BMO example you cited is a good one. But it's also what I would call sort of a micro observation.

And what I mean by that is many people are talking about the age we're going through as one of the most revolutionary ages in history.

And so at a more global or macro level, the disruptions that I see as being particularly crucial are, one, the changing world order, which is the shift in the center of economic activity away from the West towards the developing world. A lot of that as a result of the rise of China.

And that in and of itself has many, many implications for individuals, governments, and certainly businesses as well, to your question.

But the other revolution is the digital revolution. And that too has many, many aspects to it.

And so the BMO example, I think, is an interesting one. But, I have power outages in Ottawa, as you do here.

And I mean, some of that is sort of part and parcel of what we deal with.

So when I think of disruptions in the context of, for example, the work of Magnet, I'm thinking much more of a global disruption through the technology, in this case, the digital revolution, AI being a subcomponent of that, if you like.

MAGGIE:

And so what does that, how does that affect us?

You're right. I mean, what we're seeing with BMO, what we've seen with TD in the past as well are obviously micro, they're local issues. But as you talked about the global aspects of disruption, what does that look like in the long run? What are we anticipating in the future? What should we be aware of and be watching closely as we see the world change in this matter?

PAUL:

Well, if we start with the digital revolution, and when you think about the digital revolution, it has many, many components to it. As I mentioned, AI being one example of that, but not in any stretch the only one.

The digital revolution is one that basically is supported through the access to the internet and everything that falls out of that.

And so that has implications for individuals, for businesses, for governments.

In the case of businesses, these sorts of technical revolutions, and you can go back to the Industrial Revolution, for example, it takes many years, many years, decades, in fact, for some of this technology to be fully harnessed.

So we're not even close, in my view, to being at a point where the digital revolution is close to its fruition.

You know, for example, in the United States, they estimate that the digital economy accounts for about 15% of the U.S. GDP.

In the case of Canada, it's only about 5%, 5.5%. So we, I think, have a lot of work to do in this country.

We have skill shortages in the digital area. So, it's something that we shouldn't shy away from. Quite the opposite.

We need to embrace it and find ways of adapting to it. And I think that includes practically every sector of our economy.

MAGGIE:

What role does central banking and monetary policy play in fostering a stable environment for businesses to thrive in an increasingly automated world?

PAUL:

Right. Well, here you're going back to my years as a central banker. And, central banks have a critically important role in providing a stable economic and financial environment. So let me just explain that a little bit more.

On the monetary policy side, there's been a great deal of focus, and rightly so, over the last two or three years on inflation, and inflation spiked up very, very high.

A good part of that as a result of the disruptions around COVID, not exclusively, but certainly that was a big part of it.

And inflation has come down quite substantially.

MAGGIE:

Today alone, we saw the rates come down.

PAUL:

And today, the Bank of Canada lowered its policy rate by another 50 basis points to three and three quarters percent.

And so providing a stable monetary framework for an economy is critically important.

And that's where the importance of price stability comes in, that people have to have certainty when it comes through their financial transactions.

And one of the elements, the key elements of that uncertainty is to have confidence that your central bank is going to preserve the purchasing power of money through low, stable, and predictable inflation. So that's a critically important part of it.

The other part is what we call financial stability, which is a bit closer to your references to BMO and TD, where you want the financial system to be sound and stable, not just in a micro context, which I think are the examples you cited, but on what we call a systemic basis.

That is, not only are individual financial institutions healthy, but the system is also healthy.

And it was 16 years ago this month that Lehman Brothers collapsed, leading to the global financial crisis. And you'll remember.

The fallout from that globally and certainly here in Canada.

So those two elements of having confidence in the purchasing power of your dollar and my dollar and stability and confidence in the financial system are really the two cornerstones of the important role that central banks can play.

MAGGIE:

As we look at strategies, Paul, that organizations should adopt to stay resilient and economic uncertain, economic uncertainties and financial disruptions. What does that look like then?

PAUL:

Yeah, that's a very good question. And I think in many respects, it comes down to the importance of risk management for businesses.

And there's what I would call traditional risk management in terms of your balance sheet and the sound of your balance sheet.

But there's also what's called enterprise risk management, which is, again, looking across the system. And so there's a need to be resilient and confident that you have a strong risk management system in place.

There is so much uncertainty in the world today. We could talk about geopolitical uncertainty, economic uncertainty, climate change, and we don't know the answers.

This is the famous unknown unknowns in terms of the future.And so to have resilience, you do need to have a risk management structure in place. But I think also equally important, particularly for businesses, is to look at where there are opportunities.And there is really an investment deficit in this country. We need to invest more in the capital. We need to invest more in human capital.

MAGGIE:

Talk to me a little bit more about the investment deficits that you see. What are areas that you feel Canada needs to step more into? Maybe a little bit more aggressively into?

PAUL:

Right. Well, you could go through a number of sectors, if you like. But let's just talk about, again, the digital revolution.

And there have been studies produced by, for example, the CD Howe, which shows that we really do have a skills deficit on the digital revolutionary side, if you like, in Canada.

And so part of the investment is in education, to have the skill set coming out that is needed. It's businesses investing in not just being able to attract that skill set, but retraining as well. Because any sort of disruption, they talk about it in terms of winners and losers. And one of the things we need to do much better going forward is as you adapt new technologies, everyone is carried forward.

And that gets into issues like retraining. And to put in a plug for Magnet, this is exactly where they fit in. And as I like to describe it, Magnet has a digital marketplace that brings labor supply and labor demand together. And so they provide opportunities for whether you're a student or someone looking for retraining to enter the job market digitally, virtually.

And you've got employers, whether it's an RBC or a small accounting firm that might be looking for someone, that they can bring people together.

It's the connections that are critically important here and doing it in a much more effective, efficient way that reduces job search, job cost search. So that's an area where I think we as a country need to invest significantly more.

MAGGIE:

Thanks so much, Paul, for your time today.

PAUL:

Thank you.

MAGGIE:

That was Paul Jenkins, former deputy governor of the Bank of Canada.