

# KNOWLEDGE IS THE KEY TO DEVELOPMENT

On January 14, HEC Paris hosted one of the most influential economists in the world<sup>1</sup>: Professor Joseph Eugene Stiglitz. The lecture started with a wonderful introduction by Tomasz Michalski. Tomasz, today an Associate professor at HEC Paris, was the Teaching Assistant of Joseph Stiglitz in 2004-2005. In a packed Blondeau amphitheater, the 2001 Nobel Prize laureate – now HEC Paris honoris causa professor – advocated knowledge and education as crucial drivers for sustainable growth.

In the middle of the 19<sup>th</sup> century, an unprecedented phenomenon took place in Europe. Wages, which were flat for centuries, began to soar. At the same period, life expectancy dramatically increased from its desperately low levels. Joseph Stiglitz reckons that this progress has to do with the emergence of "learning societies". "The improvement of resource allocation and the rise of capital accumulation only explains a very small part of the increase in standard living; the main driver was Enlightenment", the Nobel Prize said at the conference. As from the 1600s, philosophes like Francis Bacon, René Descartes, Voltaire and Immanuel Kant challenged the legitimacy of the Church and other institutions. A change of mindset led people to question authority, become more tolerant and start "recognizing that change was possible". Such a revolution paved the way for scientific progress and a tremendous increase in productivity. More recently, countries like China and India have been experiencing a similar transition.

## LIKE A CANDLE

And today? What still separates "developed" countries from "emerging" ones? "The gap in knowledge, more than the gap in resources", Stiglitz said. Creating learning societies is therefore a priority, even though nations can't rely on free market to do so. Indeed, knowledge is a public good, which means that there is no marginal cost of an additional beneficiary. "Thomas Jefferson put this idea much more poetically. He said: 'Knowledge is like a candle; when one candle lights another, it does not diminish the light of the first candle'", Stiglitz explained. Now, here is the economic logic: if marginal cost is zero, the

price you should charge is also zero. Don't expect companies to jump on that.

Government policies (rather than free market) should then promote the advent of learning societies. Public action is all the more relevant as knowledge and innovation create huge externalities. "Consider the discovery of DNA, transistors, lasers: they have had tremendous effects in our society and economy,



## IN EUROPE, A NEED FOR ALTERNATIVE

Talking about the current situation in the euro-zone, Stiglitz did not hide his pessimism.

*"The recession going on will have a huge impact on the long-term standards of living"*, the professor deplored. Austerity measures have led companies to focus on the short term. Priority is to get through the recession. They can't or don't want to spend their resources on long-run R&D projects. At the same time, many businesses are closing, with consequences that may be even worse than you think. *"When a company goes bankrupt, the knowledge that was embedded in it is lost, and very hard to recreate"*, Stiglitz pointed out. *"If you lose your job, there is no more on-the-job training!"* Quite elementary – and alarming.

while innovators only got a small fraction of the benefit", the Columbia University professor illustrated.

## LIFE-LONG LEARNING

That said, the former senior Chief Economist of the World Bank also emphasized a change in education models. Traditionally, people went to school until they were 15, 20 or 25. Teachers tried to pour as much information as possible in their brains. While they gave lectures, pupils wrote down concepts and ideas with a view to apply them in the next 40 years, during their working life. Good education was basically tantamount to getting more information.

In a rapidly changing world like today, this model cannot work anymore. *"Only a small part of learning actually occurs in formal school"*, Stiglitz pointed out. Thanks to the Internet, individuals have access to huge amounts of information without any cost or effort. *"The problem today is: how to search and evaluate knowledge? And most importantly: how to learn how to learn? Our education institutions should focus on that"*.

That certainly was the main lesson to draw for the HEC Paris students and professors, who warmly applauded the talented professor. ●

1. In 2011, Stiglitz was mentioned in Time Magazine's "100 most influential people in the world" list.