

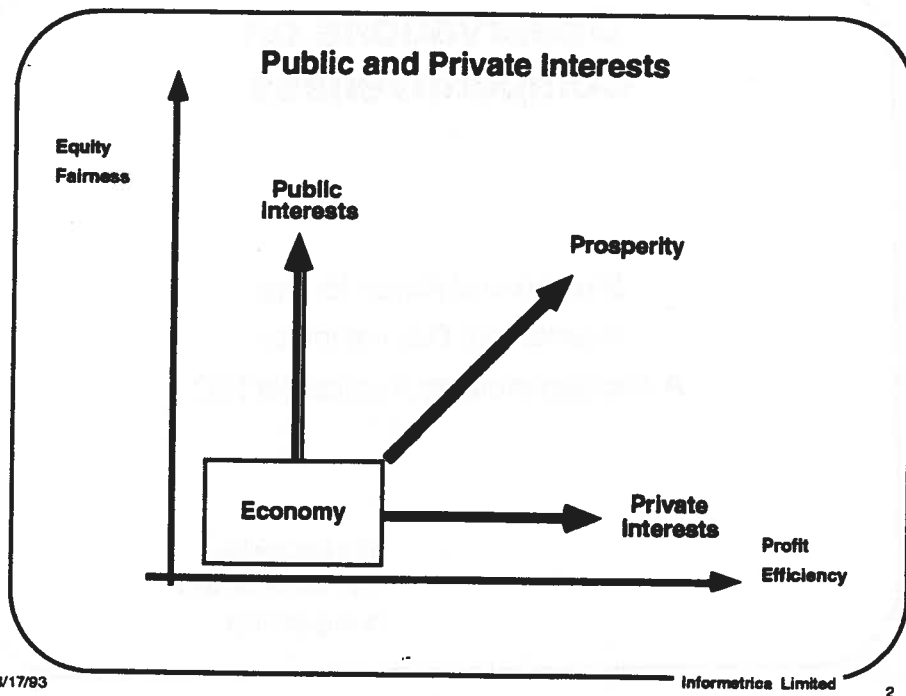
Observations on Competitiveness

Background Notes for the
Roundtable Discussion of:
A Microeconomics Agenda for ISC

Mike McCracken
Informetrica Limited
18 August 1993

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- Some see the "struggle" as governments against private interests.
- But governments complement private activities, provide the framework within which private activities take place, and, ultimately, ensure that the private sector flourishes.
- Thus a graphical representation would show that governments pursue different purposes, orthogonal to private interests. Together, the two entities will deliver prosperity.

State of the Economy

- **We are competitive and wealthy today.**
- **There is room for improvement.**
 - URATE - over 11%
 - Poverty, illiteracy
 - Slow productivity growth
 - Stagnant or declining per capita incomes
- **New Challenges face us.**
 - Unity
 - Aboriginal
 - Military changes
 - Globalization
 - New technologies
 - Environment

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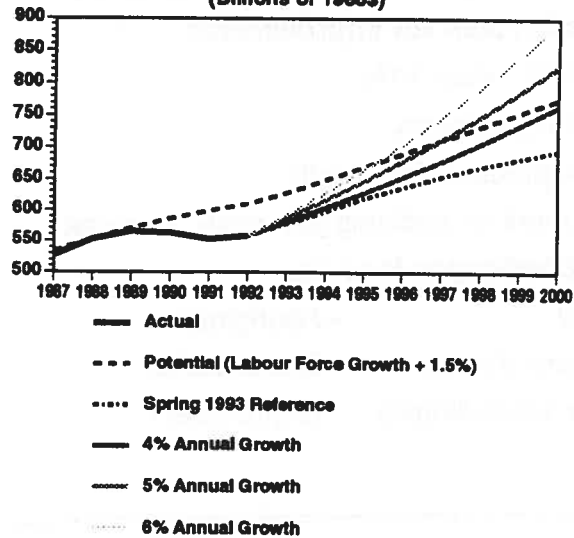
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- No. 2 in GDP / pop.
 - No. 2 in GDP per employed person.
 - No. 2 in Quality of Life, UNDP (1993)
- BUT:**
- Productivity growth has been slowing for two decades.
 - Real incomes have been declining for three years.
 - Shifting role with fewer resources for the military.
 - Need to adapt to changes from Biotech, computers, new materials, telecommunications.

Challenges Facing the Canadian Economy

Potential and Actual Gross Domestic Product
(Billions of 1986\$)



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- Vigorous growth of 4% or greater is required to close the "outputgap" that has opened up since 1988 (10% in 1992) by the turn of the century. (5% -1997, 6% - 1996)
- In our most recent forecast the challenge is not met, as the gap is more than 10% in 2000. This "unusual" behavior reflects a continuation of current monetary and fiscal policy, with a focus on zero inflation and reduction of government spending and deficits.

The Boxes

Society		
Minorities		Majority
Health, Education, Safety Nets, Redistribution		
Marketplace		
Consumer		Retailer
Purchaser		Seller
Distribution, transportation, communications		
Workplace		
Employees		Corporations
Labour unions		Other Businesses
Resources, Technology, Skills		

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- Any state can be thought of as a set of stacked boxes.
- Workplace - Firms combine labour, capital, technologies, resources and management to produce goods and services.
- Marketplace - Goods and services are bought and sold, prices signal relative demand and supply. Inputs used by the workplace may be traded here.
- Society - The people: quality of life, family, culture, education, participation.

The Framework

Tradition	External	The State
Caring Trust of state	International norms	Individual rights State responsibilities
Honesty Service	International agreements Standards	Contracts Competition law Property rights
Work ethic Discipline	Intellectual property	Corporate laws Labour laws

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- The sides of the three stacked boxes are determined by:
 - Tradition, The laws of the state, External influences
- Thus the marketplace is "framed" by the laws defining private property, laws of contracts, coupled with the societal norms of voluntary buy/sell decisions
- Any state will be a blend of elements:
 - Traditional - social, political, technological norms of the society (inertia, continuity)
 - Command - authority, enforcement, management (set direction or change it for society)
 - Market system - autonomous decisions, prices, consumer "choice" (dynamism, innovation, continuous change)
- This last element is the essence of economics and the necessary condition for capitalism.

Linkages

International	The State
Immigration Peacekeeping UN, OECD Television	Health and Education Social Programs Tax System Contracyclical policies
Trade Tourism GATT/APEC/ASEAN International capital flows	Regulatory programs Information programs Marketing Boards
Technology transfer Foreign Ownership International operations	State corporations Research and technology

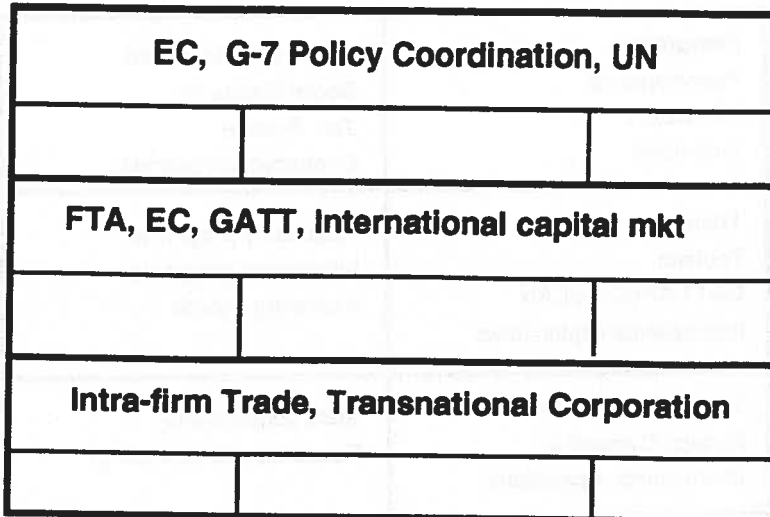
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- In a modern, democratic, capitalist society most of the decisions are made by individuals or private groups, and most of the institutions are private
- But there are influences and formal linkages which affect all of the boxes originating from outside the boundaries of the country and from the state which operates within the boundaries
- The relative importance of these other factors will depend on the degree of openness of the country and the organization and responsibilities of the government.

Globalization

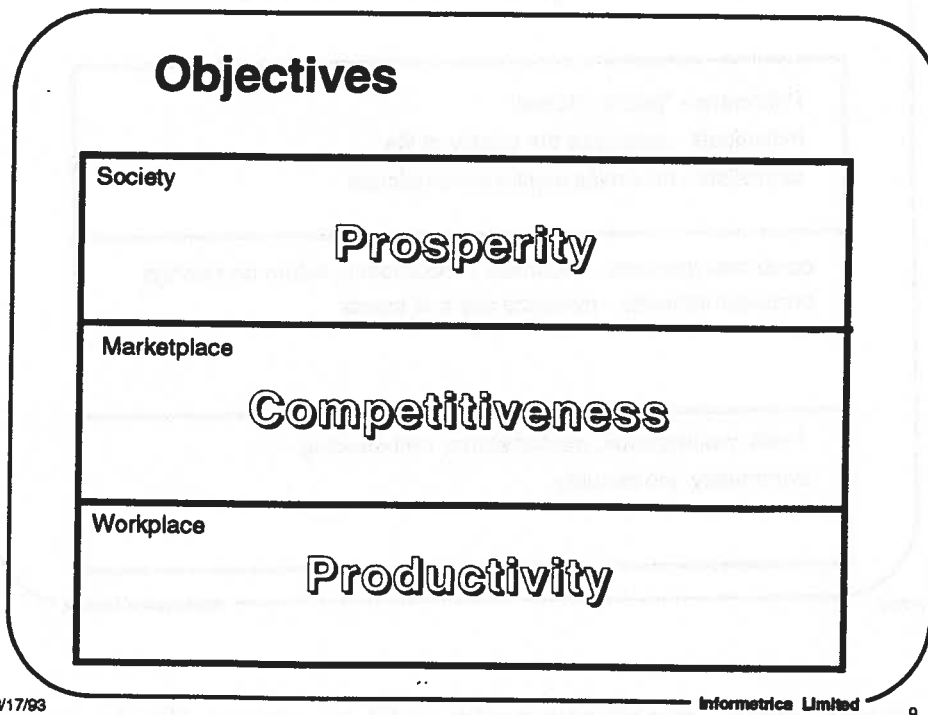


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- Globalization is different from internationalization, in that there is a loss of sovereignty by the individual state over the activity.
- As a result, actions to influence outcomes require cooperation and coordination among states.
- There is a need for an international body of laws, standards, etc.
- Private decisions made within the transnational corporation present particular challenges to governments in that the information base is weak and market information not available.
- In this diagram, three states are shown with some activities within their purview and sovereignty, but with significant activities spanning countries in all three boxes.



Productivity is a concept at the level of the **firm**, government department, or other organization (i.e., the **workplace**).

It is the base for competitiveness, and the root of real income gains.

Competitiveness is a concept of **marketplaces**, where relative costs determine if sustainable operations for a firm, and indeed, an industry are possible.

Prosperity is the concept for the **society**, with improvements in real incomes, the quality of life, equity, and environmental sustainability all as goals.

Causality or Motivation

Politicians - "public interest"
individuals - maximize the quality of life
capitalists - maximize capital accumulation

consumer interests - maximize consumption, return on savings
producer interests - minimize costs of inputs

Profit maximization, market share, rent-seeking
community job security

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Within each box, participants will pursue their own objectives. The outcomes will depend on their relative power and the "regulating device" that balances the forces.

In the marketplace, we are quick to draw supply and demand curves with price as the "invisible hand" signaling the participants.

At the firm level, profit maximization or management survival or "satisficing" may be the mechanism, perhaps countered with some degree of organized labour or labour legislation to control the worst instincts of employers.

In society, the notion of public choice with politicians striving to "buy votes" through their actions, coupled with special interest groups lobbying is seen as the driving mechanism. Mobility of capitalists, or at least their funds may be their protection. Individuals may seek their objectives through the exercise of "consumer sovereignty", mobility, or by seeking representation through social lobbyists.

- Improving productivity growth is the key to increasing competitiveness, which, in turn, should enhance prosperity.
- What we think works. (Productivity twist is a term for moving resources to high productivity industries from lower ones.)

Productivity

- Improved human resources.
- Higher investment effort.
- Adoption of new technologies.
- Better infrastructure.
- Productivity twist.

How?

- Less inflation.
- Better macroeconomic performance.
- Right framework policies.
- Better education & training.
- Get the signals right.
- Capacity to use skills.
- Right organizational structures.

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Key Policy Moves.

First three are conducive to higher investment effort, more capital per worker, and better efforts by firms.

Rewarding innovation is part of the framework policies, including intellectual property law and a capitalistic system.

Next four are aimed at human resource elements, with concern about incentives, opportunity to use skills, and the importance of appropriate organizational structure for using the skills.

Competitiveness

- Improving the efficiency and effectiveness of the marketplace.
- Internationally, a relative concept, based on price, quality, deliverability, and service.
- Governments are involved, through regulation, standards, taxes and subsidies, crown corporations, international agreements, etc.

How?

- Improve the regulatory processes.
- Reduce internal barriers to trade.
- Improve access to international markets.
- Expand the information infrastructure on domestic markets and international economies.
- Assist Canadian firms in entering new markets.

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- Private sector market participants are expected to focus on selling, marketing, and service to clients. Adoption of a "global view" can be helpful.
- Governments in essence ensure the marketplace, through the maintenance of property rights and contract. Regulation can be of help to all participants in laying out the rules of the game.
- International agreements and coordination through GATT, FTA, NAFTA, G-7, and other international organizations are key to the maintenance of international markets.
- Tariffs, standards, and other regulations define the access of others to Canadian markets.

Prosperity

- Rising real incomes for all Canadians.
- Sustainable environment.
- Provision of safety nets.
- Contribution to world economies through aid, etc.
- Improvements in regional economies.

How?

- Redistribution of incomes from a growing pie.
- Efficient health care system.
- Encourage voluntarism and charity.
- Involve citizens in determining goals.

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- In all of the activities of government there remains a strong priority on the efficiency of the operations. In essence, this ensures that income redistribution and other activities do not "waste" resources, maximizing the benefit delivered.
- Culture, public parks, and other niceties would also fit in here.

Tools of Governments

A. Dollars - Subsidies, grants, tax expenditures.

B. Spending - Infrastructure investment, provision and pricing of government services.

C. Rules - Laws and regulations, framework policies, mandated activities.

D. Suasion - Information activities, public messaging, demonstration projects, consultation.

Coordination - Harmonization of public and private sector activities, intergovernmental cooperation and coordination, consensus processes.

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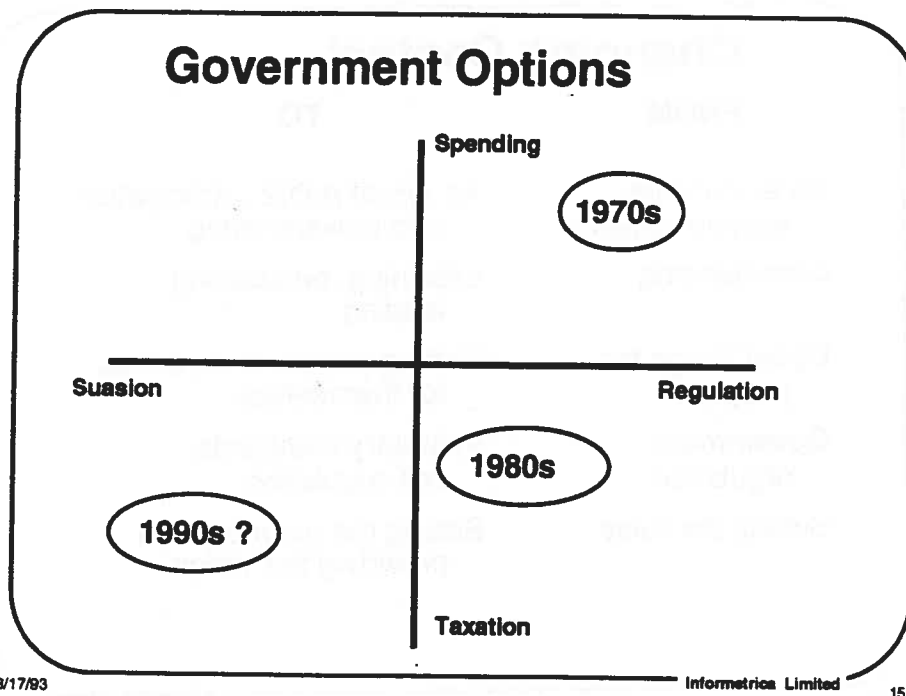
Individuals in society make millions of transactions and decisions by themselves, within the frameworks and without state intervention.

But actions by the state may be necessary due to market failure or to offset some of the results of markets.

The four tools of government cover most of the actions taken. Coordination is not really a tool; rather it is a necessary, or at least desirable, attribute associated with each of the four tools, particularly in a federal state.

The key thing is to recognize that there are choices about what tools are used for a given problem. Indeed, multiple tools may be employed for a given objective.

At the same time, remember the old saying, "When all that you have is a hammer, everything looks like a nail!"



Government has four options for implementing policy: spending, taxation, regulation, and suasion.

Program spending has been slowing, from annual growth of 13.8%, 1970-85, to 3.9% during 1985-1992. Forecasts suggest growth of 3%, 1992-1997. The 1980s witnessed the increased use of user fees and selected taxes.

Increased regulation in the 1970s gave way to less regulation and the emergence of self-regulation in the 1980s. Moving to increased regulation is also under pressure internationally. In the 1990s use of suasion (self-regulation, guidelines) and user fees, specific taxes, and other "price signals" seem to be the instruments of choice.

Changing Context

FROM

TO

An era of elite
accommodation

An era of public participation
and powersharing

Commanding

Informing, persuading,
leading

Doing things for
people

Getting people to do things
for themselves

Government
regulation

Voluntary standards,
self-regulation

Setting the rules

Setting the example and
providing the vision.

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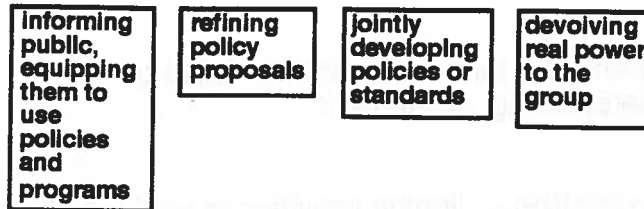
With an increasingly well-educated, and well-informed population the role of governments in society is changing. The pressure is to change the way in which the state makes choices.

The Charter and Courts in Canada are giving increasing attention to individual (and collective) rights. Combined with the adversarial preferences of the press/media we are seeing increasing challenges of political decisions and growing cynicism about governments.

Slower economic growth moves the focus of many groups to winning the zero-sum games of rent-seeking actions (or how to get a bigger piece of the pie) rather than working to grow the economic pie.

For some changes it may be necessary for the public to take the initiative, rather than government.

Spectrum of Applications



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- Involving the public can be done in many ways.
- The key element for government is to identify the share of the power base they are prepared to give up.



CCCCP

- **Consultation** - seeking inputs from stakeholders
- **Cooperation** - seeking help in achieving objectives
- **Consensus** - forming a common base of understanding, agreement
- **Coordination** - aligning activities to achieve objectives
- **Partnership** - on-going activity, with risk-sharing

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- These are in order of ascending degree of commitment, resources, and time frame for operation.
- We know little about which approach to use for a given problem. Indeed we are at the stage where we don't know if the tool should be used for a particular action.

Motivators

- Public demand for involvement and participation
- Increase power and influence
- Extend own resources
- Fiscal restraints
- Increase effectiveness
- Deal with complexity
- All parties benefit
- Global competitors are doing it

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- Why would partners come to the table?

Barriers

- Short-term horizon of governments and others versus need for long-term commitment
- Finding someone to lead - governments backing off
- Fragmentation - financially weak participants, geographic spread, federal organization , weak private sector organizations
- Resource limitation - No dollars to partnership
- Competitive pressures and egos

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- There will always be a list of excuses for not doing something.
- In Canada, as a federal state a common complaint is the inability to coordinate actions between governments.
- With divided jurisdictions among federal, provincial, and local governments, there are natural tensions, including those between rich and poor provinces, fed/prov interfaces, and province building versus nation-building perspectives.
- Is it conceivable that a more formal process of consultation, etc. between the federal and provincial governments, with other participants at the table, might lead to a more successful outcome?

Principles

- Voluntary
- Mutual benefit
- Meaningful participation
- Joint priority-setting
- Clear objectives
- Open process
- Feedback of results
- Long-term commitment
- Risk-sharing

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- Synthesis of principles from various workshops.
- Risk-sharing is a major element of partnerships.

Questions

- Do we need a legal framework for CCCCPC activities?
- Can someone sue for being left out?
- Dispute resolution and enforcement mechanisms?
- Are commitments made by various parties legally binding?
- How are "partnerships" to be dissolved?

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- The "law" is not static. It is expected to adapt to the society.
- Coping with federal-provincial battles, international and globalization pressures, and delivering improved productivity, competitiveness, and prosperity should be enough of a challenge for the lawyers.
- However, on top of this, the legal framework for the way in which people participate in society will be under pressure for change from the passive act of voting periodically, to an on-going dialogue with governments and other members of society.
- Dealing with environmental concerns looks as if it will require regulation of price signals (public use of private interests) and fines that fit the "crime". Perhaps the recent Contraventions Act will cover more than picking flowers in a federal park.

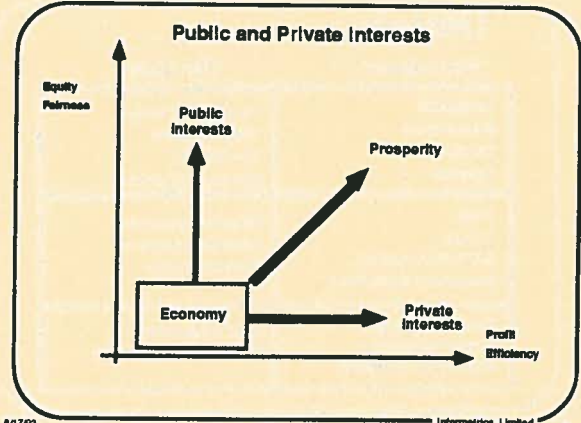
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State of the Economy

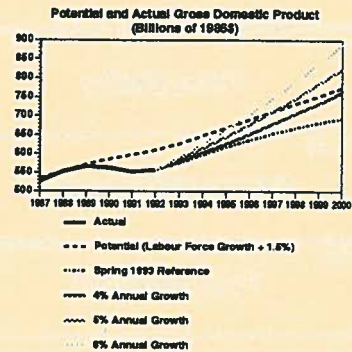
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- New Challenges face us.
 - Unity - Aboriginal
 - Military changes - Globalization
 - New technologies - Environment

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Challenges Facing the Canadian Economy



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The Boxes

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Employees	Workplace	Corporations
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The Framework

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Linkages

International	The State
Immigration Peacekeeping UN, OECD Television	Health and Education Social Programs Tax System Contracyclical policies
Trade Tourism GATT/APEC/ASEAN International capital flows	Regulatory programs Information programs Marketing Boards
Technology transfer Foreign Ownership International operations	State corporations Research and technology

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Globalization

EC, G-7 Policy Coordination, UN
FTA, EC, GATT, International capital mkt
Intra-firm Trade, Transnational Corporation

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Objectives

Society Prosperity
Marketplace Competitiveness
Workplace Productivity

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Causality or Motivation

Politicians - "public interest" individuals - maximize the quality of life capitalists - maximize capital accumulation
consumer interests - maximize consumption, return on savings producer interests - minimize costs of inputs
Profit maximization, market share, rent-seeking community job security

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- ### Productivity
- Improved human resources.
 - Higher investment effort.
 - Adoption of new technologies.
 - Better infrastructure.
 - Productivity twist.
- ### How?
- Less inflation.
 - Better macroeconomic performance.
 - Right framework policies.
 - Better education & training.
 - Get the signals right.
 - Capacity to use skills.
 - Right organizational structures.
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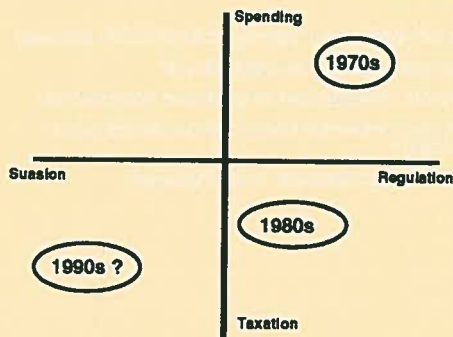
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Government Options



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Changing Context

FROM TO

An era of elite accommodation

An era of public participation and powersharing

Commanding

Informing, persuading, leading

Doing things for people

Getting people to do things for themselves

Government regulation

Voluntary standards, self-regulation

Setting the rules

Setting the example and providing the vision.

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Spectrum of Applications



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CCCCP

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