SPECIAL

Financial Crisis and Capitalism

The review of globalized economies

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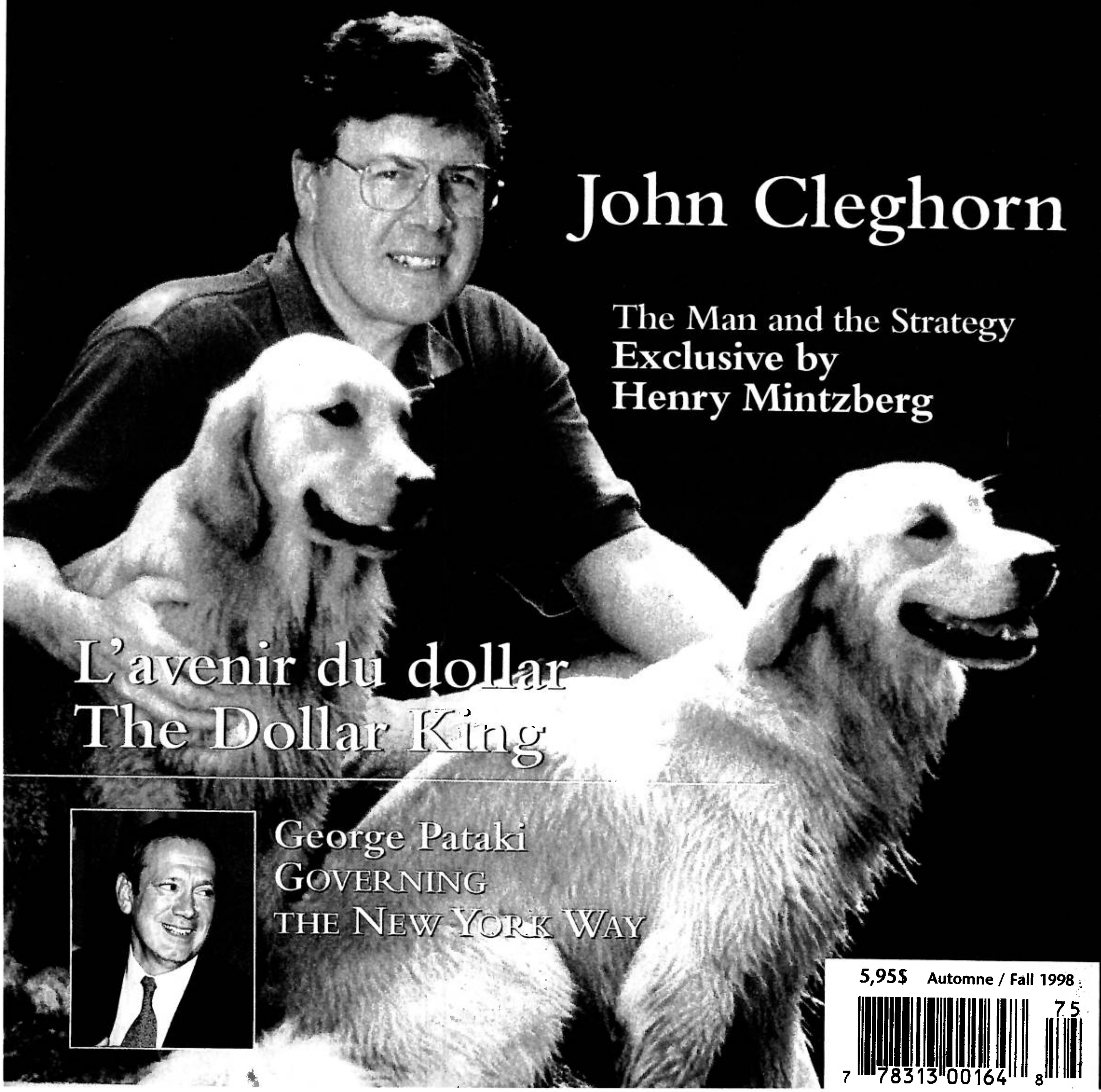
La revue des économies mondialisées



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Choice, Strategy and Execution

By Yvan Allaire
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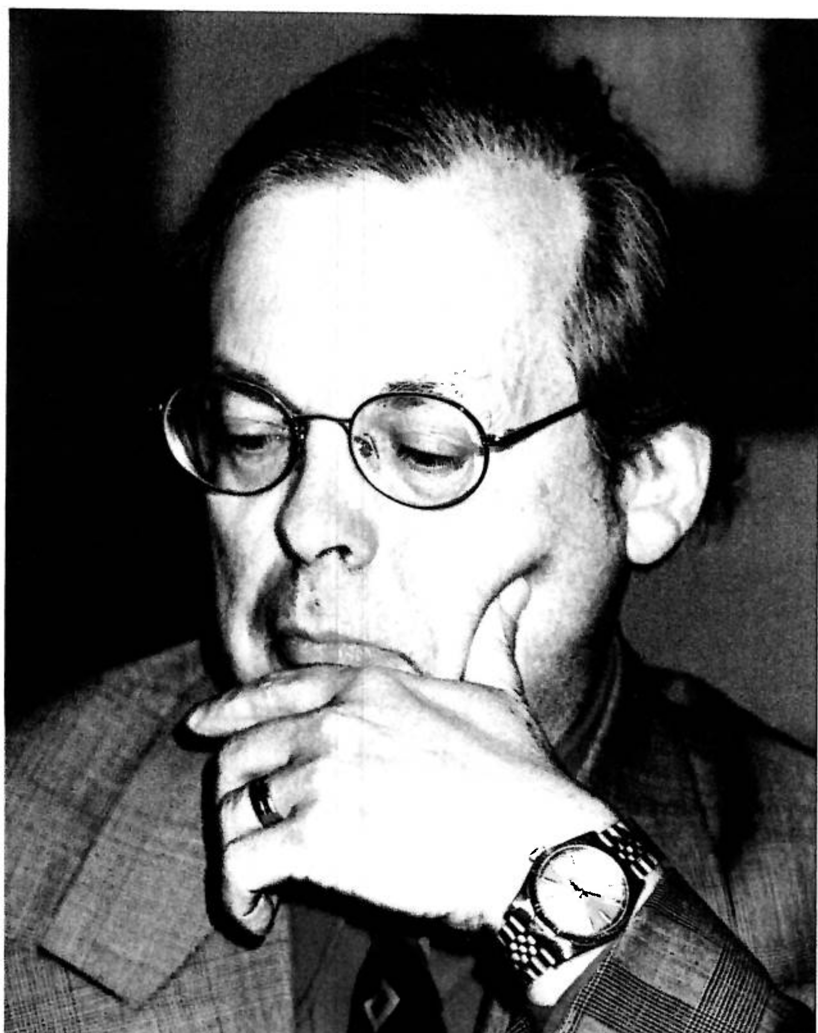

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I come to this topic of economic models from the perspective of a business strategist and not of an economist. As Napoleon said somewhere, strategy is a simple science: it's all in the execution.

With the bankruptcy of the communist/socialist economic model, there is currently a remarkable convergence worldwide of the economic policies that have succeeded in adding to the economic well-being of societies. But there are still – sometimes even in the midst of the same government and certainly across governments – policy-makers with a mindset reminiscent of another period.

Indeed, having met strategists from more than a few nations, I found for all the convergence they actually tend to fall into three categories. The first are those policy-makers with a statist mindset. They still believe that economic decisions are too important to be left in the care of inferior business minds. Basically, they believe the welfare of any civil society requires the disciplining of raw market forces. They contend that a superior intellect can govern and order an economic system through large state and semi-state enterprises and do it better than impersonal random market mechanisms.

Then there are the pragmatists, characteristic of Japan's Ministry of International Trade and Industry (MITI) and Canada's Department of Finance in its halcyon days, with a focus on broad policy instruments such as the cost of capital, interest rate variation, and R&D. They are also very conscious of social and civic virtues, which are vital ingredients for high economic performance. Finally there is the increasingly dominant liberal mindset, which considers that the goal of public policies in the economic domain is simply to ensure and protect the efficiency of markets. Transnational competition is to be facilitated as a means of spurring innovation and productivity in domestic firms. Policy-making, they believe, must seek to optimize spillover effects and focus on public goods, such as investment in education or research and development. Finally – and this is a fundamental belief – to them markets are the best, albeit imperfect, friends of citizens as consumers and taxpayers.

The weight of evidence does favor a market-driven approach, although, as is the case with social opinion, not so overwhelmingly that it makes the alternate position indefensible. I believe that the burden of proof rests on those who believe that wholesale government involvement in the economy will create a better society. Certainly events of the last decade have, on the whole, vindicated those political leaders who choose to embrace open markets.

I believe that the burden of proof rests on those who believe that wholesale government involvement in the economy will create a better society. Certainly events of the last decade have, on the whole, vindicated those political leaders who choose to embrace open markets.

We must also put to rest the canard that financial markets hate workers and rejoice at their firing. Financial markets hate inefficiencies but love growth. They applaud companies which take strong action to improve their efficiency, usually, by the way, through firing managers rather than workers. But they applaud even louder companies which invest in new products, creating new jobs in the process. Companies such as Microsoft and Bombardier, job-creation machines, are the darlings of the financial market because of their growth performance.

It's also important to stress that what we call "free" markets in fact require regulations, charters, and institutions. And governments have their work cut out for them to enforce free markets. Key institutions are required for truly free markets, as the countries of Eastern Europe and the former Soviet Union are finding out: property and contract laws, accounting principles and bankruptcy laws, enforceable and enforced tax codes and systems, pension and unemployment insurance systems, labour laws, the supervision of banks and financial markets, a tight net of consumer protection laws and agencies, and a framework of competition rules and agencies responsible for their enforcement.

We sometimes forget there are three distinct markets which underpin a free market economy: the capital market, the product and services market, and obviously the human resources market.

The capital market is quite singular in that it is a truly global market. Few products and services are truly global. The capital market is also one where individuals, as investors, have a lot at stake. Perhaps one of the differences between the United States and Europe, still to this day, is the large number of people who, directly or indirectly, are investors in American companies and through that activity generate a good part of their wealth as well as their future retirement income.

The human resources market – the market for skills and know-how – is a very different market from capital or products markets. And therein lies a basic dilemma for governments, since every citizen has, at different times, different roles that relate to these different markets. We are all consumers of private goods. We're all workers. We're all taxpayers. We're all investors directly, or indirectly, through pension funds. And we're all workers and consumers of public goods.

Obviously, as consumers of private goods, we can all applaud the efficiency of product markets. They produce lower prices for goods and services. Even the efficiency of capital markets is desirable for all when it means better returns for the pension funds in which we have put our retirement money. When it comes to the human resources market, however, the benefits of efficiency are not so clear as implementation tends to be harsh for workers. This market is made of people – people who have their own goals and who in general will resist the rules of flexibility, adaptability, geographical mobility, and professional mobility which technically define efficient markets.

Societies tend to differ in their social and economic policies as they reflect the priority of their citizenry. Governments are free to choose the model they consider most appropriate but transnational corporations are also free to choose where they should set up their activities. Because of that freedom to locate, transnationals – not through any kind of undue pressure, just by this interplay of freedoms and mobility – foster some convergence of public policies around the world. They serve as an arbitrageur of economic development.

At this time, there is a great deal of convergence about which economic policies work for most societies. In a sense, the agenda for governments is fairly straightforward. We can all agree that economic growth is essential for the prosperity of individuals and families, and to ensure justice and equity in society. We can all agree that prosperity is based on the dynamism of all economic participants who must find an open society, political stability, social harmony and fiscal competitiveness. We can all agree that in this new world of knowledge and skilled workers, the degree of training required will be higher and that societies may differentiate themselves on that basis. And finally, we believe that the social capital – a society's networks of trust and solidarity – are important in economic development and must be sustained and nurtured.

But everything is in the execution. Beyond binary choices between one model or another, I believe de Tocqueville was right in stating that societies decline and die from internal causes, rarely in consequence of external machinations. The essence of strategy is choice. The essence of economic policy is also choice, making the right trade-off between cost and benefit. Governments must show leadership in these matters, particularly now that the way to achieve prosperity has never been clearer. Ⓓ