

### Concluding comment

In many of these areas, the Office's work — and the work of similar consumer agencies in other countries — requires close coordination and often joint and complementary approaches with competition agencies. Areas where the Office of Consumer Affairs and the Canadian Competition Bureau are now cooperating include financial sector reform, telecommunications reform, cross-border telemarketing and Internet fraud, anti-dumping and other trade remedy laws, and the competition and consumer issues posed by intellectual property rights and electronic commerce. Future work in Canada and elsewhere should be designed to:

- develop a better understanding of the importance of competition and the role of consumers in supporting advanced technologies and higher value-added industrial and service activities;
- address the interactions, complementarities and tensions between the two sets of laws in developing new statutes, reforming existing laws and establishing institutions to advance competitive markets and consumer sovereignty;
- ensure that competition and consumer perspectives are fully integrated into the formulation of international trade and related policies developed by nation states and multinational institutions; and,
- foster experience, skills and understanding in business, government and academia in applying industrial organization and other advanced microeconomic analytical techniques to consumer and competition issues.

It is anticipated that the close relationships between competition policy and consumer protection will be further explored and advanced in Canada and elsewhere as policy makers come to realize that true consumer sovereignty requires more than competitive markets and product choice; accurate, understandable and credible information is also needed to facilitate consumer decision making in the increasingly complex marketplace of today and tomorrow.

**Derek Ireland** is Director, Consumer Research and Analysis, Office of Consumer Affairs, Industry Canada. This paper benefits considerably from a recent article by American experts Neil W. Averitt and Robert H. Lande entitled: "Consumer Sovereignty: A Unified Theory of Antitrust and Consumer Protection Law," Volume 65, *Antitrust Law Journal*, page 713, Spring 1997. The author would like to thank Messrs. Averitt and Lande for the analytical framework they have provided to guide the development of this paper, and for reviewing and commenting on an earlier draft. This article reflects only the personal views of the author and not the policies of the Office of Consumer Affairs, Industry Canada or the Government of Canada.

by Lane Kenworthy

# COOPERATION AND ECONOMIC PERFORMANCE

*La vitalité d'une économie repose sur diverses formes de coopération et non pas seulement sur la concurrence. Après avoir comparé les performances économiques de divers pays industrialisés dans le temps, l'auteur constate que les économies qui font davantage place à la coopération ont des résultats plus favorables que celles qui se concentrent sur la concurrence.*

The view that market competition is the key to national economic success has been around for a long time. Its popularity has ebbed and flowed, but in the past decade it has enjoyed a resurgence — not just in the US and Britain but throughout the industrialized world. Is more of the market what these economies need? Are markets indeed the key to a healthy economy? The comparative evidence from the past 35 years suggests that markets yield better results when balanced with extra-market institutions that promote cooperation.

### Balancing competition and cooperation

Competition is certainly important, but economic vitality also requires cooperation. Of course, markets foster some types of cooperation — most notably, voluntary exchange. But there are other, critical forms of cooperative economic behaviour that markets either do not encourage or, in some instances, inhibit. Consider the types of cooperation outlined in Table 1. Each can help enhance efficiency and growth, yet each is likely to be "underproduced" unless markets are supplemented by extra-market institutions. Let me briefly describe these nine forms of cooperative economic behaviour.

Business firms are, typically, the most powerful of an

array of interest groups that engage in “rent-seeking” behaviour — lobbying government for subsidies, protection from imports and other such benefits. A centralized business confederation that represents a substantial share of firms and has some real authority over its members can help to mitigate this problem. As Mancur Olson ably demonstrated in his book *The Rise and Decline of Nations*, the more encompassing the organization — the larger the share of society that it represents — the greater its incentive to try to increase the size of the social product, since redistributive gains can be taken only at the expense of its own members.

A similar logic applies to unions, particularly in the realm of wage bargaining. Union fragmentation tends to foster wage militancy, since each individual union enjoys the benefits of higher wages while bearing only part of the costs — higher inflation or unemployment, or reduced international competitiveness. A national union confederation that conducts or coordinates wage setting has a strong incentive to bargain moderately, since it represents those who will bear most of the costs of militancy.

Fragmentation among state agencies and among business and labour organizations can render government policy making combative, conflictual and inconsistent. Each firm or industry association or union tends to press its own narrow interests upon government officials, and government agencies compete with one another for status and control over resources. Coordination within interest groups and within the state facilitates cooperation, heightening the potential for productive, coherent government policies.

The chief drawback of a US-style flexible capital market, in which investors typically hold small ownership stakes in firms and can thus quickly and cleanly exit from ownership, is that it encourages investors to focus on short-run company stock performance, and thereby

forces corporate managers to do the same. Where investors (such as banks or other nonfinancial firms) hold large ownership stakes, it is more difficult to exit quickly and quietly and the investor can use its influence to help change the firm, rather than simply abandon it, when things go awry. This fosters a competitively advantageous orientation toward the long term.

### Key Types of Economic Cooperation

Actors cooperating	Economic benefit(s)	Institution(s) promoting cooperation
1. Firms across industries	Reduced rent-seeking	Centralized business federation
2. Unions	Wage restraint	Centralized and/or concentrated labour movement
3. Government and interest groups	Coherent, productive government policy	Unified government and centralized interest group organizations
4. Investors and firms	Long time horizons for firms	Long-term commitment by investors -- a product of investors having large ownership stakes and a means of effectively influencing company decision making
5. Purchaser and supplier firms	Heightened communication, greater supplier willingness to invest and raise productivity	Long-term commitment by purchasers
6. Competing firms	Greater investment in R&D and employee training; quicker agreement on standards; assistance with financing, technology diffusion, design, accounting, marketing, etc.	Industry trade associations or government incentives
7. Labour and management	Greater willingness on the part of workers to share valuable knowledge, accept productivity-enhancing technology, and upgrade skills	Long-term commitment by employers (employment guarantee)
8. Workers	Heightened work effort	Participatory work teams
9. Functional departments within firms	Quicker, more effective transition from R&D to production	Cross-functional project teams that link departments along the production chain

Long-term partnerships with suppliers offer companies advantages over short-term, market-based supplier relationships or vertical integration. Such partnerships enable firms to reap the benefits of low fixed costs and supplier expertise while encouraging suppliers to invest in long-term improvements and to communicate extensively both with the purchaser and with other suppliers.

Collaboration among competing firms can encourage investment in and supply of a variety of sources of corporate success, including research, employee training, standard setting, financing, technology diffusion, design, accounting, marketing and export promotion. Joint efforts allow risk to be pooled and help protect against free riders. They are especially helpful for small firms. Industry trade associations and government incentives can aid in fostering such cooperation by facilitating communication between companies and by providing resources and selective incentives for joint action.

If workers have no guarantee of future employment with a company, they have little assurance that they will benefit from improvements in their firm's productivity, and thus limited incentive to share ideas with management, accommodate the introduction of new machines or work practices and upgrade skills. An employment guarantee (implicit or explicit) provides such an incentive.

Many employees have an incentive to shirk, to free ride on the efforts of their co-workers, because doing so will not reduce their own pay as long as others work hard. The standard remedy for this problem is moni-

### Economic Cooperation Scores, 1960-95

	Cooperation Index	Firms across Industries	Unions	Government & Interest Groups	Investors & Firms	Purchasers & Suppliers	Competing Firms	Labour & Management	Workers	Functional Departments
Japan (Ja)	.94	1.00	.71	1.00	1.00	.93	1.00	1.00	.80	1.00
Germany (Ger)	.72	1.00	1.00	1.00	1.00	.50	1.00	.80	.11	.04
Norway (Nor)	.71	1.00	.94	1.00	1.00	.50	.50	.93	.50	.04
Finland (Fin)	.70	1.00	.80	.92	1.00	.50	1.00	.99	.04	.04
Sweden (Swe)	.69	1.00	.91	1.00	1.00	.50	.50	.96	.30	.04
Austria (Aus)	.68	1.00	1.00	1.00	1.00	.50	.50	1.00	.04	.04
Denmark (Den)	.57	.50	.81	1.00	1.00	.50	.50	.71	.04	.04
Belgium (Bel)	.56	.50	.71	1.00	1.00	.50	.50	.71	.04	.04
Italy (It)	.50	.50	.13	.50	1.00	.57	1.00	.50	.21	.04
Switzerland (Swi)	.45	.50	.50	.50	1.00	.50	.50	.50	.04	.04
Netherlands (Neth)	.40	.50	.81	1.00	.23	.07	.14	.71	.04	.04
France (Fr)	.30	.16	.00	1.00	1.00	.11	.14	.21	.04	.04
Australia (Aul)	.14	.00	.60	.00	.23	.07	.07	.21	.04	.04
New Zealand (NZ)	.12	.00	.40	.00	.23	.07	.07	.21	.04	.04
United States (US)	.10	.00	.00	.00	.23	.11	.14	.21	.11	.04
United Kingdom (UK)	.09	.00	.03	.00	.23	.07	.14	.21	.04	.04
Ireland (Ire)	.09	.00	.11	.00	.23	.07	.07	.21	.04	.04
Canada (Can)	.08	.00	.00	.00	.23	.07	.07	.21	.04	.04

toring by a supervisor, but this can be costly and of limited efficacy. A less expensive and potentially more effective alternative is to group employees into participatory work teams. Employee decision making through teams fosters trust and encourages workers themselves to monitor individual performance. The effect is to promote effort and cooperation among employees.

Functional specialization of the stages along the production chain — research, design, development, production and so on — can render companies slow and ineffective at moving from creation to production. The process becomes disjointed, leading to less coherence, more delays and higher costs as errors are discovered late in the process. Cross-functional project teams, whose members represent different departments and which stay with a project as it moves through the various stages, can enhance coordination and continuity and thereby reduce the time and costs involved in bringing new products, or product improvements, to market.

### Cooperation and national economic success

Industrialized nations differ considerably in the degree to which their economies balance competition

and cooperation. But does cooperation really contribute to economic health? To find out, I have created an index measuring the degree of cooperation in the 18 richest industrialized nations along the nine dimensions just discussed. For each dimension, in each year from 1960 to 1995, each nation receives a score of 0, .5, or 1 — representing weak, moderate and strong cooperation, respectively. The scores are then averaged to form the index, which ranges from 0 to 1. This is plainly a relatively crude measure, due in part to the fact that patterns of cooperation are not always similar across firms and industries within countries and in part to the paucity of available data for some countries on certain cooperative dimensions. Yet it is, I submit, a good start. Table 2 shows the overall index along with the averages for each type of cooperation.

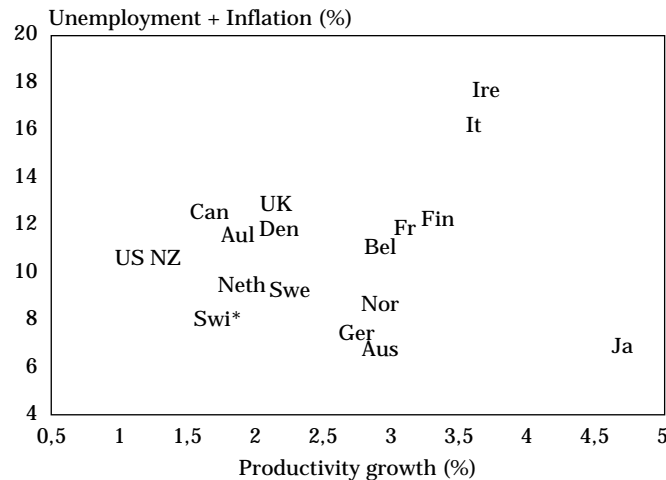
To understand how the index is computed, consider the scoring for Japan. Japan's economy clearly features the most extensive cooperation. A central employer federation, the Keidanren, helps moderate rent-seeking by individual firms and industries. Japanese unions are organizationally fragmented; but wage setting for most industries occurs at the same time each spring, and powerful employer associations work closely together,

generally with union cooperation, to assure coordination in the bargaining process. Government policy has contributed to and supported Japanese economic success, aided by a high degree of coordination within the state and a strongly cooperative relationship between government and business.

Japanese firms and their investors — especially companies and banks linked through cross-ownership — are frequently committed to a long-run relationship and communicate directly with one another when problems or dissatisfactions arise. Large Japanese companies are renowned for their use of long-term supplier partnerships. Competing firms in most sectors are organized in strong industry trade associations, which have helped forge rapid agreement on standards and serve as an important source of information flow among companies. R&D collaboration among firms occurs frequently, in some cases *via* an industry-wide consortium.

Lifetime employment for workers and a substantial amount of team-based employee decision making on the shop floor are common in large Japanese firms. These companies have proved very successful at encouraging employee skill development and eliciting the sharing of useful knowledge, and labour tends to accommodate the introduction of new technologies. Japan has been, until recently, the only nation whose firms make substantial use of cross-functional teams to coordinate the transition from research through production.

Comparative Economic Performance, 1960-95



Source: OECD

\* Swiss unemployment rate is estimated

Germany, Norway, Finland, Sweden and Austria, and to a lesser extent Denmark and Belgium, feature a rather extensive amount of cooperative behaviour. The best-known aspects of this cooperation are related to their centralized labour and business associations, but these nations have also exhibited relatively cooperative investor-firm, purchaser-supplier, competing firm and labour-management relationships.

Italy is a mixed case — individualistic in several respects but featuring a wide range of cooperative practices within particular regions (primarily in the north), industries and firms. Switzerland and the Netherlands face pressures similar to those of the other small, open European countries, but their economies have been somewhat less cooperative — Switzerland's at the macro level and Holland's at the firm level. The French economy has been characterized by relatively little cooperation, except in its relations between investors and firms and between the state and interest groups.

The "Anglo" nations — Australia, New Zealand, the US, the UK, Ireland and Canada — have had the most individualistic industrialized economies throughout the post-World War II period. The gap has begun to diminish somewhat since the late 1980s as firms in these countries, particularly in the US, have begun to adopt a number of "Japanese-style" cooperative practices, such as supplier partnerships, shop-floor work teams and cross-functional project teams.

Figure 1 offers a simple, useful means of evaluating comparative economic performance during the past several decades. On the horizontal axis is real productivity growth, the best measure of how rapidly an economy is growing. On the vertical axis is a sum of the unemployment and inflation rates, commonly referred to as the "misery index." The correspondence between cooperation and national economic success is rather striking. There are exceptions, such as Denmark and France. But that is hardly surprising, since many factors contribute to economic health. Overall, the comparative evidence strongly supports the notion that cooperation is a key to national economic success. The nations with the best performance records — Japan, Germany, Austria, the small northern European countries and (northern) Italy — have been those most committed to balancing competition and cooperation. Those faring worst — primarily the Anglo countries — have relied predominantly on atomistic, individualistic competition.

Where do we go from here?

In the past three years the business press has been rife with stories detailing a US economic resurgence. But America's recent economic success relative to other industrialized countries is due at least in part to business cycle timing. The US emerged from recession in 1992 just as Japan and Europe were beginning downturns. True success is best judged over a period of two or three decades rather than two or three years.

On the brighter side, it is also likely due in part to increased experimentation with various forms of economic cooperation within and between firms. Over the past decade, for instance, US manufacturers in a variety of industries have begun to shift their relationships with suppliers, competitors and employees in a more cooperative direction. Some supplier firms have been given long-term contracts, and exchange of information and direct supplier participation in the design process

are now much more common. Strategic alliances among competing firms and the use of cross-functional project teams within firms are more frequently seen. A growing number of companies have also created participatory work teams, backed in some cases by employment guarantees. At the same time, however, more than a few firms have dropped whatever partial commitment they once had to job security for their workforce in an effort to keep up with the downsizing trend.

Whether firms will press further in the direction of cooperative relationships is uncertain. Can government help? Indeed it can. The *National Cooperative Research Act* of 1984, which substantially loosened restrictions on cooperative research among US firms, has spurred a proliferation of joint R&D ventures. Since the mid-1970s the US government has offered tax breaks to companies with employee shareholding programs; it could do the same to promote employment guarantees or the use of participatory teams. Long-term partnerships between investors and firms could be promoted by allowing banks to hold significant equity stakes in non-financial companies, or by altering the tax structure on capital gains so that investments held for longer periods receive more favourable tax treatment or imposing a transaction tax on the sale of shares held for less than a specified amount of time. Given the apparent benefits of economic cooperation, policy makers in the US, Canada and other nations might do well to devote more effort to promoting it.

**Lane Kenworthy** (kenworthyl@mail.ecu.edu) is Assistant Professor of Sociology at East Carolina University. This article draws on his *In Search of National Economic Success* (Sage, 1995) and "Balancing Competition and Cooperation," *Challenge* (July-August 1996).

#### Books Available/Livres disponibles

The following books are available for review. Please contact Policy Options to receive a copy.

Les livres di-dessous sont disponibles à nos bureaux. Si vous voulez contribuer une critique de livre, communique avec Options politiques.

Andrew Sharpe and Rodney Haddow, eds., *Social Partnerships for Training: Canada's Experiment with Labour Force Development Boards*, McGill-Queen's University Press, 1997.

Thomas Courchene and Edwin H. Neave, *Reforming the Canadian Financial Sector: Canada in Global Perspective*, McGill-Queen's University Press, 1997.

André Blais, Donald E. Blake and Stéphane Dion, eds., *Governments, Parties, and Public Sector Employees*, University of Pittsburgh Press, 1997.

par Maurice Pinard

## L'EFFET BOUCHARD

*The authors assess Bouchard's impact in the very strong showing of the "Yes" forces in the last Quebec referendum. More important than Bouchard's appeal to traditional nationalist sentiment was the fact that he inspired confidence that there would actually be an economic union with the rest of Canada following Quebec independence. This reassurance moved significant numbers of undecided voters into the "Yes" camp.*

Parmi les forces politiques, les ressources dont un mouvement dispose au niveau du leadership peuvent être très importantes. Il faut toujours compter avec l'influence majeure de leaders dont la popularité est exceptionnelle, voire charismatique. Cela est vrai au sein des partis traditionnels, mais l'est souvent davantage au sein des mouvements sociaux et, en particulier, au sein des mouvements nationalistes. Ces mouvements engendrent de tels leaders plus facilement que les partis traditionnels et, en retour, en profitent grandement. Pensons, pour ne considérer que le passé récent du Québec, au leadership de René Lévesque et à son influence sur le mouvement indépendantiste.

Depuis l'accord du lac Meech, le mouvement souverainiste s'était donné un autre leader particulièrement populaire en Lucien Bouchard, dont le charisme populiste est considérable. Sa popularité exceptionnelle a été maintes fois confirmée par les sondages. Ainsi, avant même le virage d'avril, un sondage de mars 1995 révélait que Lucien Bouchard était de loin le plus populaire de tous les leaders de partis politiques provinciaux ou fédéraux au Québec. À la question: « Dans le dossier sur le référendum, les hommes politiques suivants vous inspirent-ils beaucoup, assez, peu ou pas du tout confiance ? », Lucien Bouchard, dans l'ensemble,