

An OISD Okanagan Institute for Strategic Development initiative

**A perfect functioning allocation mechanism in an economy is a utopia. A better functioning allocation mechanism in regional and local economies is not a utopia, but a better functioning society.**

With a deductive approach, the purpose of this paper is to initiate cross-disciplinary discussions between Okanagan University College of British Columbia, and the Mid University of Sweden, and other parties from the government and private sector.

The major premise is the proposition that the parties will form a joint institute. The International Institute for Sustainable Regional Economics IISRE (working name)

The Institute's purpose is to assist government and private sector to address issues in the allocation and pricing mechanisms that unsolved, cause market failure in local and regional economies. To assist government and private sector to correct market failure and develop precautionary methods and systems to prevent such failure, industry collapse, fragmentation of communities, and impelled migration – a global problem.

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### **Writers Proviso**

The purpose of this three-part paper is to initiate a discussion between OUC and MU and possibly other parties from the private and government sector. Studies of the CCIP Canadian Community Investment Program and experience from VentureBC's effort to address information and transaction failures that hamper investment in, and the development of, small and midsize enterprises, has been a contributing factor in the decision to draft this paper.

The approach is deductive. As such, formulated proposition and statements are assumptions, with the aim to initiate and provide a platform for discussion, rather than to make predictions or to prove the analysis, statements, and propositions in the paper. The intent is that conclusions shall arise from the ensuing discussion, not from the paper itself.

It is anticipated that subsequent discussion will involve participants from different natural and social science disciplines, and from government and industry, both large and small. Any recapitulation of elementary knowledge merely intends to establish a base for discussion and a bridge between disciplines and between people with different expertise and experience. What should be important are the issues, not who addresses them. As Francis Bacon said: knowledge is power, nevertheless, it is not enough to argue and discuss; acceptance of new ideas and thinking requires practical experience.

The major premise is the proposition that the parties, with participation from government and private sector, will form a joint institute and with facilities in Canada and Sweden. The International Institute for Sustainable Regional Economics IISRE – working name. The Institute will provide advanced research and education programs to private sector and government that address issues in the allocation mechanism that, unsolved, leads to market failure in local and regional economies. Thereby, assisting government and private sector to correct and develop precautionary methods and systems to prevent market failure, fragmentation of communities and migration.

The rationale for the proposition is that social satisfaction and a sound ecology in local societies, which make up democratic governed mixed economic systems, such as in Canada and Sweden, depends on a proper functioning allocation mechanism and the allocation of private investment and government intervention as required, into economic production in local and regional economies.

Missing or faulty bits in the allocation mechanism will inevitably hamper investment in economic production, and ignored will eventually cause market failure. Since the seventies, the economy has shifted from the more commodity driven and tariff regulated closed Cold War conditions, to more knowledge driven open and rapidly shifting conditions with unrestricted movement of investment and liquidity and expanding political and trade block formation such as EU and NAFTA.

The socio psychological impact of the shift is changing people's economic behavior (private, corporate, and government), which subsequently affects the allocation mechanisms in local and regional economies. From a more lateral flow in local economies, the flow of investment and economic activities is shifting vertically into the major capital, stock and bond markets. Traditional post and Cold War government intervention methods are not working well or not at all in today's open globalized conditions.

The common observable reaction from central government, is to intervene by simply off-loading functions by privatizing or downloading services to regional and municipal government and to so-called non-profit corporations, where the impact on the allocation mechanism in regional and local economies is not understood.

This presents tough challenges for local communities, where the common reaction is to jump on bandwagon solutions; expecting society to adapt to models and systems that are often unsuitable, rather than developing the models and systems necessary to solve the real underlying issues that hamper economic production and social satisfaction.

The problem is that each regional and local economy is unique, and the underlying issues in the allocation mechanism that hamper investment in economic production and the distribution of real incomes in each community are different.

What are the issues that hamper investment and economic production, cause market disruption, and ecological failure that erode distribution of real income in the community? How do societies that make up regional and local economies organize themselves to survive in technology driven rapidly shifting open conditions?

The proposed institute's purpose is to address the issues and assist regional and local communities in British Columbia and Norrland, and elsewhere in the world, to identify and solve problems in the allocation mechanisms that hamper sustainable economic development. This involves the relationship between regional and local economies and central government. To identify and study the issues that hamper (versus stimulate) economic production in the Swedish and the Canadian version of a democratic mixed monetary economic system, and to utilize the research to offer solutions at home and abroad.

The underlying causes, as well as the solutions to issues in the allocation mechanism, are found in socio-psychology and the impact of natural and social science – or lack of - on economic behavior in the private sector and in government.

That raises the question: what is in it for people? The unsolved issues in the allocation mechanism that stagnate communities, threaten jobs, and erode social conditions, such as occurred in the British Columbia forest sector, the Newfoundland fishery and in similar examples in Sweden, cause irreparable harm to communities. These are not acts of God or nature and do not need to be accepted.

The cause is in socio psychology and economic behavior - the eternal conflict between unlimited and indeterminate human aspirations and instinctive tendencies pulling in all directions, and limited resources that have alternative uses. Consequently, that is the reason why a perfect functioning allocation mechanism in an economy is a utopia. It is also the reason why a better functioning allocation mechanism and therefore a better functioning society is not a utopia.

Can society afford to continue to allow issues in the allocation mechanism to escalate into wealth distribution problems, social problems, and community fragmentation? That is what is in it for people.

The cause and solution is found in human characteristics. Therefore, a discussion of the proposition would not be meaningful without reference to the economic system and the characteristics of the members of society that make up the democratic mixed economy in Canada, Sweden and elsewhere.

In such a system, social satisfaction in society depends on private investment in viable sustainable economic production in the local economies that make up the overall economy. It also foremost and entirely depends on government meeting its monitoring and intervening role in the system.

Universities role in the economy and ethical responsibility to the society that make up the economy, is to provide the research that produces the knowledge resources that solve issues relating to everyday existence in society.

Research and knowledge is the key to combine all other resources into sustainable economic production and to solve issues that hamper sustainable economic production and distribution of real income and social satisfaction in the community. What kind of research and education the university prioritizes is crucial for society, and that those decisions reflect ethical choices.

Ultimately, the intent of this paper is to open a discussion on how Universities and Colleges through research and education can assist the community to develop better methods and systems to monitor the allocation mechanism - the allocation of resources and investment - in regional and local economies. Furthermore, to research better intervention methods to prevent and solve issues in the allocation mechanism that cause market distortions and failures that erodes social conditions in the community.

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**Characterization of a Democratic Mixed Monetary Economic System – a reference for discussion**

The standard of living, social satisfaction and sound ecology in democratic mixed economic systems such as in Canada and Sweden, requires a functioning allocation mechanism. Encourages private investment and entrepreneurial effort, to generate economic production, in pursuit of profit, in viable business that combines resources into product and services that consumers want and can afford to buy. Businesses that distribute wealth in local communities via better-paid employment and rather than via tax transfers to individuals and business.

Government taxes the economic production generated in the private sector in order to provide the services that the private sector fails to provide or to which the members of the community (as voters) in good democratic order have decided shall be provided by the public sector. Government crucial role in the system is to monitor the allocation mechanism and intervene appropriately before issues in the private sector's behavior, as well as in government's own behavior and policies, escalates into market failure and economic, social and ecological adversity. This monitoring and intervention function is beyond the scope of the private sector and can never be the private sector's task in a mixed economy. It also requires that those the voters elected and entrusted with the task and paid to be government, meet their accountability to society and ensure that government monitors the allocation mechanism, addresses issues and formulates alternative solutions for the community's benefit.

What is significant in a 'democratic' economy is that government not only has the accountability to society for the private sector's behavior, it also has the accountability to society for the government's own behavior and policies.

Eventually of course, that depends on the consumers and members of the community to meet their task in their guise as voters and in good democratic order ensure good government that meets its role and the standard in the economic system. Market failure could with a stretch, be seen as a democratic failure.

An economy, like an engine, must have all of its components functioning together in order to work and drive economic production and secure social satisfaction. When components, like a spark plug, misbehave, the engine may still function but the malfunctioning parts can be repaired or replaced allowing the engine to run better again. The problem occurs when failing components go undetected or are ignored. Eventually the components and hence the engine will fail. Malfunctioning components in the allocation mechanism in an economy will hamper economic production, and failing components can cause market failure.

Consequently, problems in the allocation mechanism can hamper private investment and entrepreneurial effort in regional and local communities, and unsolved can eventually cause market distortion and failure, job loss, economic erosion, and force migration. This is a global problem.

Since the seventies, the more commodity driven tariff regulated and more closed Cold War economic conditions have shifted. Today the community is facing a more knowledge and technology driven open economy and rapidly mutating conditions with unrestricted and instant movement of information, investment and liquidity, and expanding political and trade block formation such as EU and EFTA.

In the post war and Cold War conditions, an economy could function with significant flaws in the components in the allocation mechanism. Problems in the private sector could be remedied with tax transfers, subsidizes, tariffs against foreign competition, and be compensated for by expanding the Government sector. In today's information driven open conditions, those remedies are obsolete and often barred by agreements and supranational legislation.

In the past, in more closed conditions, societies could secure and improve their economic and social condition and achieve their ambition with more flaws in the allocation mechanism than is possible today. The proposed institute will assist communities to address these issues.

The socio psychological impact of information technology that is driving the shift to open economic conditions, is changing people's economic behavior - as individuals, in business, and in government - and has shifted the investment and liquidity flow.

It is the socio psychological impact of knowledge and technology that has always changed economic behavior and society, just as the steam engine started the industrial revolution. From a more lateral local flow, investment and liquidity is shifting to a vertical flow into the major capital, stock and bond markets. In the more closed post war and Cold War economies there were less investment alternatives. Community members were more likely to invest locally resulting in more of the local wealth being invested back in the regional and local economy. Investors may not have consciously acted with more 'civic mindedness' in the past and may not have made any connection between their local investment in economic production and the subsequent socioeconomic standard and quality of life in the community. However, local money stayed local simply because the system offered fewer investment opportunities outside the domestic and local economy.

Since the seventies, the shift to a more open global economy, deferred tax pension systems fueling ballooning mutual funds, free and unrestricted movement of capital, and online and Internet banking are radically changing people's economic and investment behavior. That is ultimately changing the investment flow and making it more difficult for smaller and mid sized companies to attract investment and obtain financing.

Today, small investors can obtain information that only a few years ago was the privilege of banks and large corporations – making it easy to invest and deposit money worldwide, facilitated by a creative growing financial sector.

Banks and Credit Unions have directed their initiatives toward wealth management, personal, and consumer lending and away from commercial enterprise. With a negative impact for many local economies, the shift in the economy has made these traditional sources of commercial financing less accessible to small business enterprises, particularly those that require smaller amounts of operating capital.

In Canada companies that cannot document annual minimum revenue potential in excess of 25 million US and a high growth rate have very limited access to equity financing and have difficulty qualifying for a public offering.

The lack of long-term reinvestment of the profits from the resource sector back into forests and especially into education, research and development of a value-added manufacturing sector has been especially serious for British Columbia and Norrland and other resource economies. Much is taken out - little is invested back.

It presents a tough challenge for many local economies, in business, educational institutions and in regional and local government, not only in Canada and in Sweden but also elsewhere in the world.

The proposition in this paper is that there is an urgent need to address problems in the allocation mechanism in regional and local economies.

### **A Characterization of the society that makes up an economy**

Problems in the allocation mechanism are rooted in socio psychology and economic behavior - the eternal conflict between unlimited and indeterminate human aspirations, and instinctive tendencies urging in all directions, and limited resources that have alternative uses.

A discussion of the proposition would not be meaningful without a reference to the characteristics of the members of society that makes up the democratic governed mixed economies in Canada, Sweden and elsewhere.

From the first prototypes assembled on the African savanna over five million years ago, to the most recent models of over six billion who make up the world economy today, Homo Sapiens are the only sentient creature on earth with unlimited ambitions.

Humans have a perpetual faculty of reasoning to produce knowledge and use the knowledge to invent and produce new tools and ways to satisfy our ambitions and solve issues that hamper our ambitions, including the self-inflicted. Our basic instinct tells us that we can better or satisfy our own ambitions by cooperating in groups with others. We form families and group together, early in tribes and then in larger, local, regional, national, and supranational economies such as EU and NAFTA.

To our own advantage, we instinctively seek alternate ways to secure social satisfaction for the group we belong to and the society that makes up the economy in which we live. Some members, on a scale from total vanity to total altruism, will take more leadership than others and offer solutions to the rest of the group, and unfortunately sometimes impose the solutions.

The formation of Canada and Sweden and other countries, its provinces, municipalities, and cities, reflects this human group behavior. It is an ongoing, never ending process. Countries group together in defense and free trade agreements, businesses merge, and groups break down and form anew. As long as we believe we will be better off than before, the grouping will continue.

The same group behavior and socio psychology can be traced back to the tribal societies in ancient Greece, when politics and religion were one and people considered the leaders to have godly powers. It still flourishes around the world. The leader's decision was God's decision and any opposition was in opposition to God. When the leader died, the power was transferred to their heirs. For example, as told in the Old Testament: by anointing Saul, Samuel transferred the godly powers to the first King of Israel.

The divine status of head of the state has been upheld even in modern times. Japan's Emperor had official divine status up to the end of the Second World War, and many in Japan continue to consider the Emperor divine. Not always under the banner of a God, a number of countries around the world are ruled with autocratic divine power.

Increased enlightenment and influence from philosophers such as Socrates, who believed that humans had the ability to know what was good and bad, changed people's beliefs. The leaders were no longer Gods, but representatives or prophets of God. Still, in our time, legislators, politicians, and business leaders sometimes behave in a way that could create the suspicion that they really believe they are God or at least a prophet of God.

Experience of tyranny and cruelties made people question that one person had divine authority to rule over others. The Greeks started to consider society as an association of many interests, where the society was given the task to solve common issues; developing the first democratic type of society in Perikles Athens.

However, early democracy was a democracy only for some and not a democracy for all. Women, slaves, and other underprivileged had no democratic right and were disbarred from the democratic process. The Sophists refined the democratic idea and argued that only free speech and the right to criticize constituted a democracy. The observation was that only free speech and criticism could prevent a demagogue from taking advantage of people.

The relative democracy in Athens created social satisfaction, economic, social and cultural prosperity, which promoted democracy among people. A backlash occurred when Athens lost the Peloponnesian war, causing economic depression and political chaos. Taking advantage of the economic and political chaos, demagogues and small interest groups took power and violently oppressed the opposition. In 404 BC, the tyrants in Athens executed more than 1500 people of the opposition.

This is an example from democracy's early stages. The importance of this account is that we face the same issues and behavioral forces in modern time and today.

The attitude in the society ruled by the Russian Czar can be traced directly back to the time of the Byzantine. The Russian revolution in 1917 was caused by economic and social oppression under the Czar's dictatorial, feudalistic regime. Contrary to Marx and Engels' predictions, the revolution took place in the most poorly and underdeveloped country in Europe and not as they predicted in the more developed countries in Europe. Disparity in opportunities and the lack of economic production and distribution of real income via employment in a community is what creates political instability, not the other way around.

Adolf Hitler and his National Socialistic movement in Germany in the thirties - resulting in World War Two - is another example of economic and social misery leading to political extremism. Many warned after WW1 that the depressing economic and social situation in Germany, to a high degree caused by the tough terms the Allies imposed on Germany, was treacherous for the stability in Europe. Unfortunately, they were not taken seriously. Lingering economic and social dissatisfaction will always lead to political instability. That in turn creates the opportunity for extremists and demagogues to take advantage of people's gullibility and 'wishful' thinking.

Today, while technological advancements, open economic conditions, and free flow of investment and trade has improved life for many, the increased world population is creating more consumer possibilities and subsequently more opportunities. At the same time, increased disparities in opportunities and wealth within and between societies, is causing social misery that is neither humane nor sustainable, causing political instability and more uncertainties than ever.

Social satisfaction and quality of life, a sound ecology, and political stability, entirely depends on investment in sustainable economic production and distribution of real income in local economies via employment.

The forgoing offers a reference for discussion of the proposal to form the institute whose purpose is to provide research, knowledge and education to assist society that makes up local economies, and to address issues in the allocation mechanism that hamper economic production and distribution of real income in the community.

Participation from private and government sectors will result in the development of methods and information technology to address information and investment failure.

**University and college role in society - local regional, national, and international**

Present and future generation's aspirations for living standards, social satisfaction, and a healthy ecology entirely depend on the allocation of scarce resources that have alternative uses, into sustainable economic production and the distribution of real income in local and regional economies.

Knowledge is the key resource that makes it possible to allocate and combine all other resources into economic production and to solve the issues that hamper human aspirations. Unlike other resources, the problem with knowledge is that it cannot be automatically carried over from person to person or from generation to generation. It requires learning over and over again.

Universities role in the economy is to provide the knowledge key to society by providing higher learning and to educate people for life. The result can be measured by the role Universities and academically educated people play in the society and by their social activism and involvement to solve issues facing society. This reflects the ethical values of the universities.

The advancement of knowledge depends on research driven by human curiosity and ambition, to find new meaning in old ideas and new uses for known resources, in the search for new possibilities. It also, or rather should, include finding better ways of doing things, using fewer resources, and decreasing disparities in opportunities in order to improve social conditions and political stability. Realizing politics cannot be understood without the use of natural and social science.

Contrary to prediction, since the seventies the world is facing increasing disparities in wealth and opportunities within and between communities; effectively destabilizing the world. These issues contribute to the proposition in this paper to form a research and educational institute from where OUC and MU can better assist local communities at home and elsewhere to secure economic production and the distribution of real income in an information driven open and chaotically shifting world.

Knowledge – derived from research - is the entire stock of information that a society has at its disposal to achieve their ambitions. Unlike other resources, knowledge can be used in different directions simultaneously and has no opportunity cost attached. It is also the key to utilize the stock of knowledge produced by research in other parts of the world. The ideal situation is of course to increase knowledge and any other resource without incurring opportunity cost.

The problem is: without research, an economy loses the ability to profit from increased knowledge in the world, and therefore loses economic production and progress. Knowledge, research, and hypothesis that challenge convention can easily be rejected and destroyed by dogma that cannot be questioned; impeding discussion and experimentation with new ideas. While it may also be destroyed simply from not being used, research and hypothesis that has been rejected as being useless has over time shown to be useful. For example, valuable knowledge and understanding in native communities in British Columbia and in Norrland, Sweden and elsewhere in the world, may be lost because they are no longer in use.

The problem of course is to know how many resources should be allocated to research, and to what kind. It is obviously impossible to know the exact outcome. The writing discusses the proposition of allocating resources to researching the allocation mechanism in regional and local economies, with purpose to address issues that cause market failure and adversity. The decision faces the following situations. The issues are known: 'we know what we don't know' and society can decide to allocate resources to research solutions. Society is unaware of the issues facing them: 'we don't know what we don't know', and society can decide to allocate resources to research 'what we don't know'.

What society does know, or assumes to know, is that problems in the allocation mechanism that hamper allocation of resources and investment into economic production causes market failure and hence social and ecological problems. Apart from natural disasters, it is human aspirations, behavior and technology that causes economic, social, political and ecological adversity. Conversely, human aspirations, ingenuity, information and technology is also the only way to solve the issues. In that paradox we find the reason and the solution to the issues society are facing.

While the resources stay the same, the world population has grown from 'only' 2.5 billion in 1950 to approximately 6.4 billion today and will reach 7.0 in ten years. Wouldn't we be fools to deny that we are facing mounting socioeconomic, environmental, political problems and social unrest?

This paper proposes a discussion on how Universities and Colleges can better assist societies that make up regional and local economies, to solve issues in the allocation mechanism that unsolved, cause market distortion and market failure that results in social and ecological adversity.

Improved economic and social conditions also means improved somatic and mental health in society and subsequently, better public health and reduced social and healthcare consumption. Allocating more thinking to solve the underlying issues that cause somatic and mental health, social and ecological problem in society, is a good investment.

A rapidly and radically changing and increasingly complex economy and world prompts a discussion about a new role for Universities and the need to assist society with new disciplines, utilizing new combinations of social and natural science.

Finding new ways, adding value, using fewer resources.

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