

CANADIAN BUSINESS IN ITS SOCIAL CONTEXT

Government's Influence (Ch 8 Continued)

Government's Influence on Business

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- Regulation
 - Market Failures
 - Social
 - Political

- Non-regulatory forms of influence

- Industrial Policy



Government's Influence on Business

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- **Regulation** – the imposition of constraints, backed by the authority of government, that are intended to modify economic behaviour in the private sector significantly (Economic Council of Canada)

Regulation

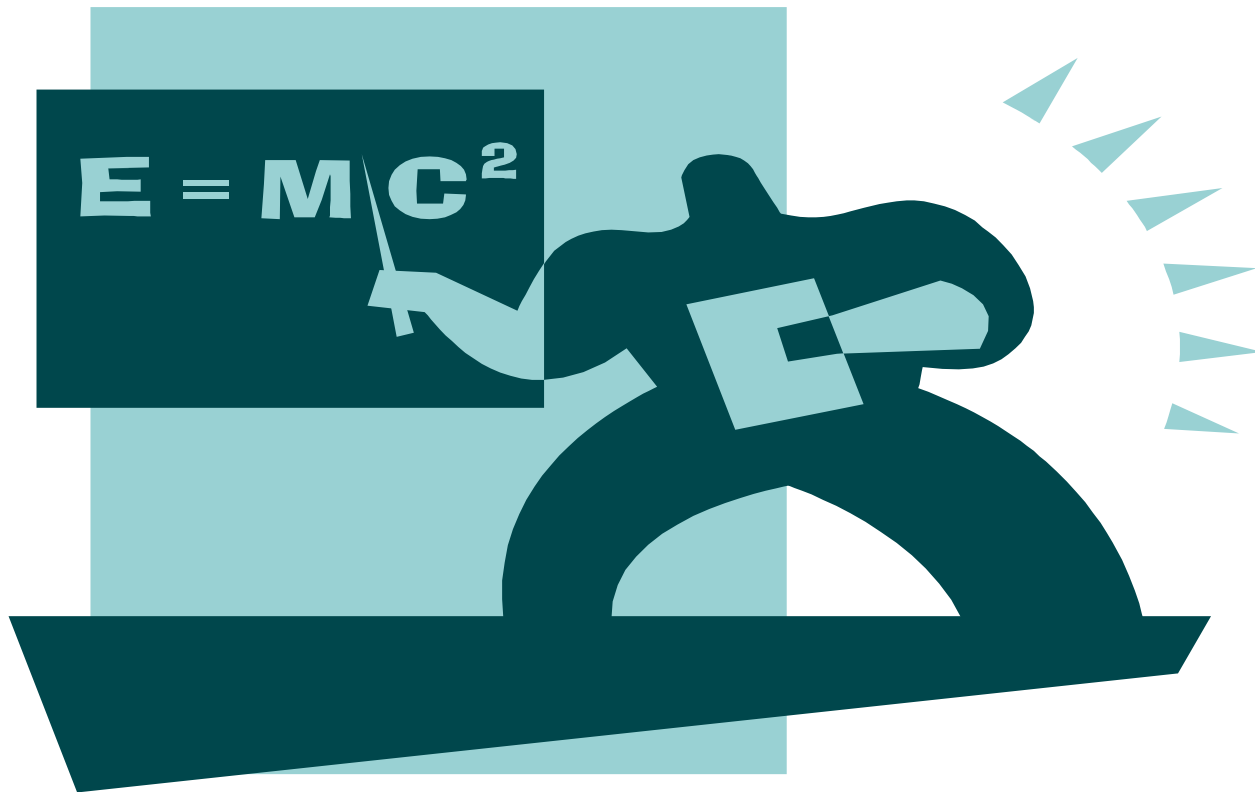
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- According to the Cabinet Directive on Streamlining Regulation, 2007, p.1, in regulating the federal government seeks to:
 - Protect and advance the public interest
 - Promote a fair and competitive market economy
 - Make decisions based on hard evidence and the best available knowledge
 - Create regulation that is accessible, understandable and responsive
 - Advance the efficiency and effectiveness of regulation
 - Require timeliness, policy coherence, and minimal duplication

Theories of Regulation

(Source of this material: Murray L. Weidenbaum: Business and Government in the Global Marketplace, Seventh Edition, Pearson Prentice Hall)

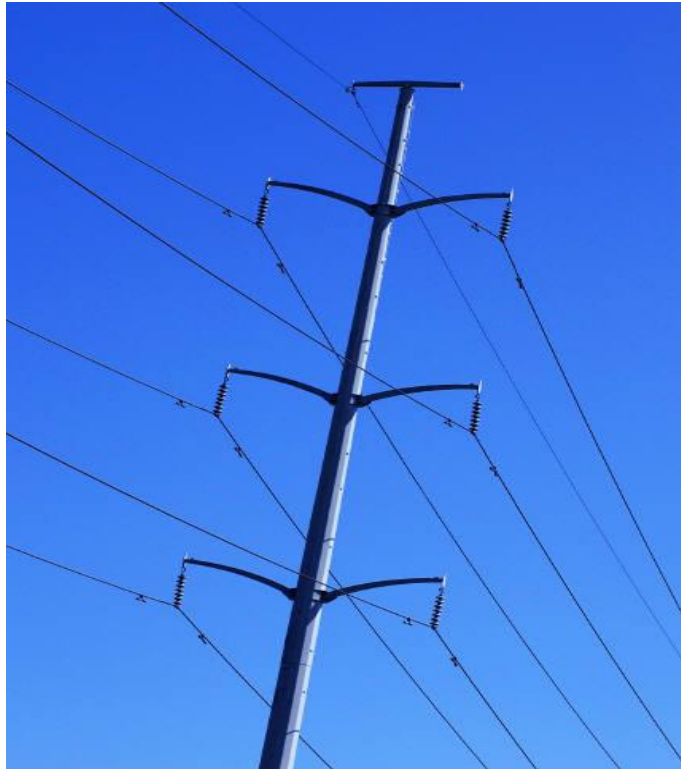
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Market Failure: Responding to Natural Monopoly Conditions

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(Source of this material: Murray L. Weidenbaum: *Business and Government in the Global Marketplace*, Seventh Edition, Pearson Prentice Hall)



- **Monopoly** – a market controlled by one supplier
- Considered '**natural**' when the economies associated with large scale production make it inefficient for more than one firm to operate
 - ▣ Per-unit production costs decrease as the firm's size increases
- If unregulated production can be restricted and prices increase

Market Failure: Use of Natural Resources

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(Source of this material: Murray L. Weidenbaum: *Business and Government in the Global Marketplace*, Seventh Edition, Pearson Prentice Hall)



- A “common resource” needs to be used sensibly
- Where many producers draw from a common pool – the fisheries for example – no single producer will have an economic incentive to conserve

Market Failure: Externalities

(Source of this material: Murray L. Weidenbaum: *Business and Government in the Global Marketplace*, Seventh Edition, Pearson Prentice Hall)

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- Spillover effects – costs imposed on other people e.g., pollution
- In the absence of regulations compelling the polluter to minimize spillover effects, they would have little incentive to do this on their own

Market Failure: Inadequate Information

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(Source of this material: Murray L. Weidenbaum: *Business and Government in the Global Marketplace*, Seventh Edition, Pearson Prentice Hall)

- Insufficient information with which to make informed decisions in the marketplace
- Free availability of product safety information – companies have little incentive to do this on their own



Market Failure: Public Goods

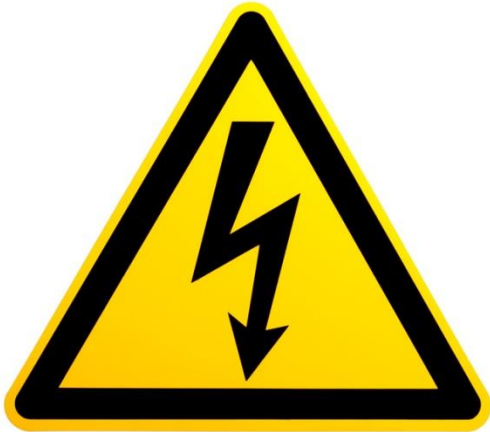
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- Public Goods: goods that generate social benefit that everyone can enjoy and that no one can be deprived of
- Examples – clean air, national defence
- Government provides these services to all Canadians (funded through tax dollars)

Market Failure: Moral Hazard

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- A party insulated from risk may behave differently than if exposed to the full risk
- In the context of economic regulation....

Social Regulation

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- Focuses on firm's impacts on people as employees, consumers, and citizens
- Addressing business practices in all industries
- Examples – Employment Equity Regulations, Occupation Health and Safety Regulation

Regulation for Political Reasons

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- For votes but also:
 - ▣ To appear as a leader in a matter of public policy (Kyoto)
 - ▣ In response to pressure from interest groups
 - ▣ In response to pressure from the media

Regulation

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- Regulation of the sale of eggs – is this appropriate?



Non-Regulatory forms of government influence on business:

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government ownership

- Crown corporations typically provide a service or product that the private sector would be unwilling or unable to provide
 - Export Development Corporation
 - Canada Post
 - Canadian Wheat Board

Government Ownership

Other Corporate Interests	Description	Number
Mixed Enterprises	Corporate entities with share ownership split between the Government of Canada and private sector	0
Joint Enterprises	Corporate entities with share ownership split between the Government of Canada and another level of government <i>e.g., The Lower Churchill Development Corporation Limited</i>	2
International Organizations	Corporate entities created pursuant to international agreements in which the Government of Canada either owns shares or has the right to appoint members to the governing body <i>e.g., International Monetary Fund</i>	18
Shared Governance Corporations	Corporate entities without share capital in which the Government of Canada has the right to appoint members to the governing body <i>e.g., The Canadian Wheat Board</i>	149
Corporations under the terms of the <i>Bankruptcy and Insolvency Act</i>	These corporations are partially own by the Government of Canada following receipt by a bankruptcy trustee	45

Non-regulatory forms of government influence on business:

government subsidies

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- Either the direct transfer of cash to a recipient or the indirect transfer of benefits
- Either increase the supply of a product or the demand for the product or service – the resulting market prices affect competition
- \$19 billion in subsidies to business in 2004 (Fraser Institute)

Non-regulatory forms of government influence on business: tax policy

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- Encourage investment in some activities, but not others
- Deductibility of business operating expenses
- Capital cost allowance policy
- Tax credit policy

Non-regulatory forms of government influence on business: **government procurement**

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- Government is a major purchaser of goods of services
- \$13 billion annually
- Changes in procurement policy can significantly affect business

Non-regulatory forms of government influence on business: **international trade**

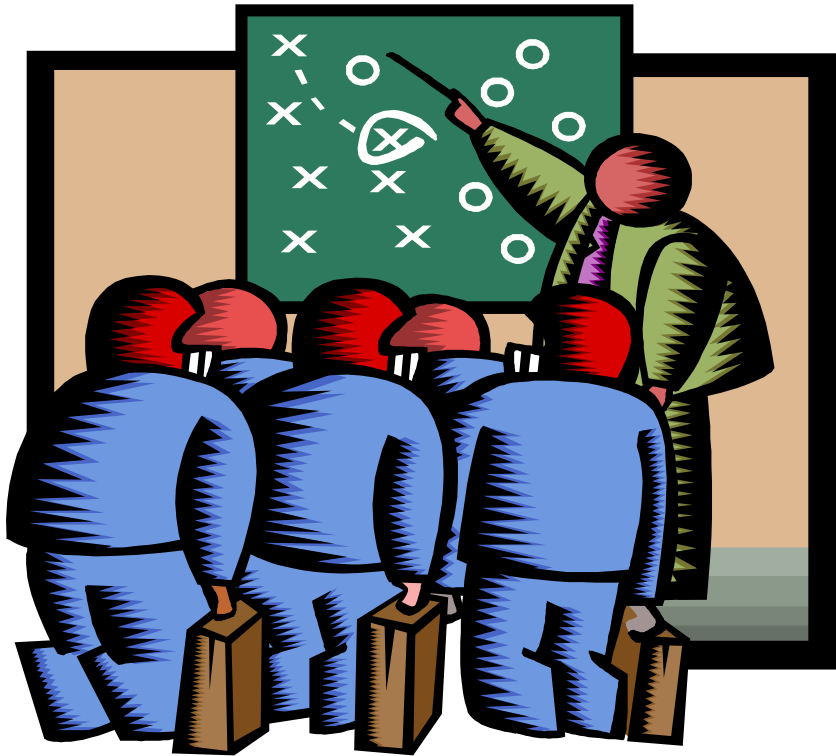
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- Negotiation of international tariff laws
- Non-tariff barrier elimination
- Strong proponent for Canadian business abroad

Industrial Strategy

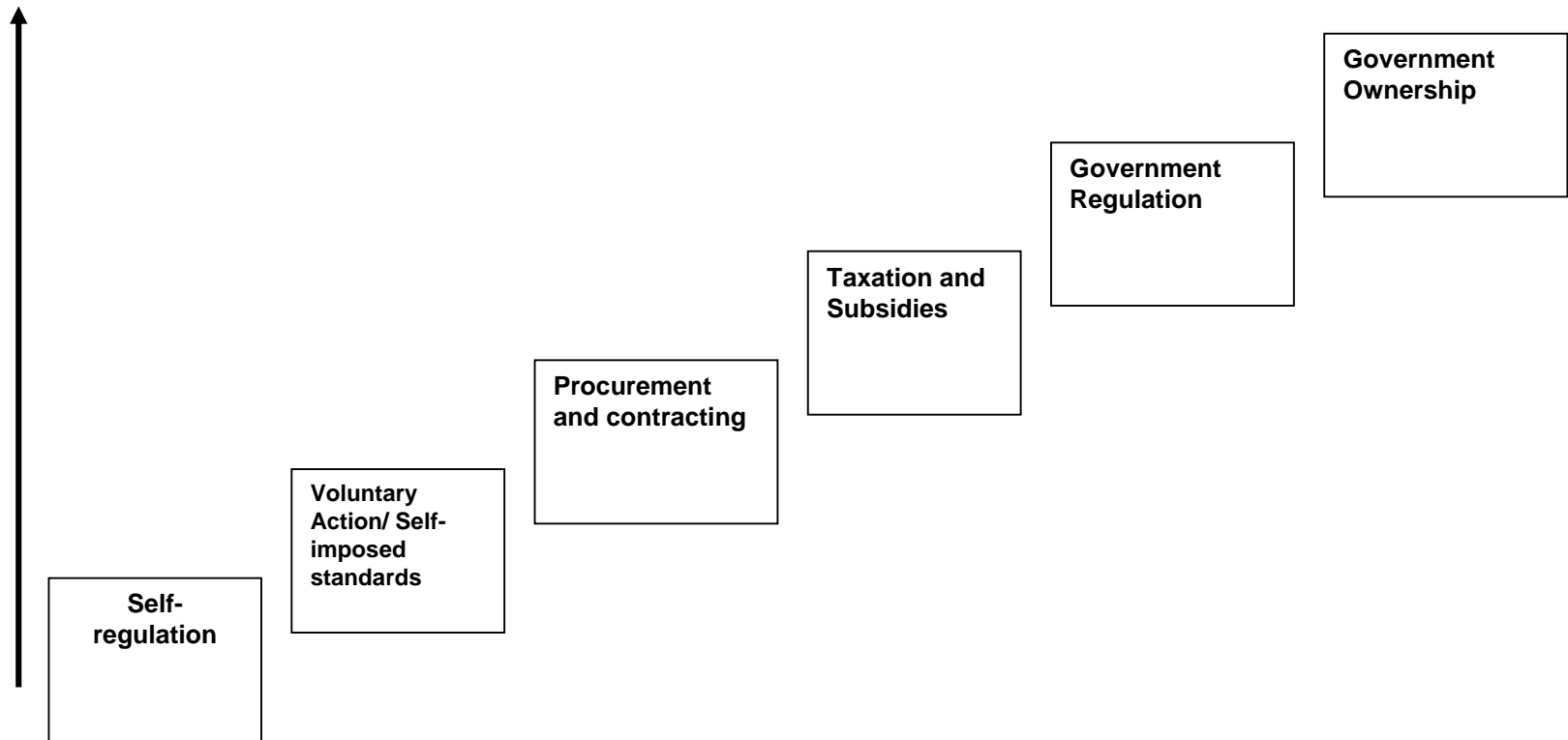
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- Any attempt by government to apply a coherent and consistent set of policies that are designed to improve the performance of the economy
 - ▣ Framework policies
 - ▣ Concertation-based strategies
 - ▣ Intervention

Spectrum of Government Influence

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Government's influence on civil society

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- Direct Funding
- Tax policy
- Contracts
- Knowledge transfer
- Alternative service delivery mechanisms

Civil Society's Role

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- Monitoring – policy is kept “honest”
- Advocacy – policy options are supported (or not)
- Innovation – different ways of doing things
- Serving – provision of services to fulfil a particular need
- Building capacity – provide support to other Civil Society organizations

Civil Society's Tool Chest

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- Print / media / online
- Lobbying
- Media campaigns
 - “Peoples right to know”
- Protests / demonstrations
- Volunteering / Canvassing
- People
- Volunteerism
- Networks
- Community
- Cause-related marketing
 - Generate funds in relationship with a company
- Awareness
- Info Dissemination

Business's influence on civil society

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- Funding
- Encouraging employee participation
- Knowledge transfer
- Network opportunities

Questions, concerns, comments



Forward Schedule

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- Project
 - ▣ Draft due Nov 21 /22
 - ▣ Final version due Nov 28/29
- Mini-assignment: “Regulation”
 - ▣ Due officially 2 days before class
- November 21 /22 – Environment and Sustainability
 - ▣ Another online lecture
 - Short lecture – with brief quiz
 - Online access to film – with questions to follow (MA-6)
- November 28/29 – Catch-up, Evaluating CSR, “The Bonus Lecture”