

# OISD

## Okanagan Institute for Strategic Development

- promoting discussion, leading to best practices and solutions

### **British Columbia Government's proposed Bill 12, Community Charter Council Act.**

OISD suggests that the BC Government consider a more thorough analysis of 'Government's role' prior to any enactment of Bill 12 and therefore offers OISD's expertise and experience in the analysis process:

- Will the Community Charter Act contribute to solving strategic issues in the allocation mechanisms that hamper private investment in BC and erode social satisfaction and political stability?
- Will the Act stimulate private investment and further economic development thereby solving interrelated strategic economic, social, socio-psychological and economic behavioral and ecological issues - *decreasing disparity in opportunities?*
- Conversely, could the Act further hamper private investment in economic production, and erode social satisfaction and quality of life - *increasing disparity in opportunities?*
- British Columbia has the challenging opportunity to break new ground and be a model for government in open economic conditions. The question is, will that happen?

Okanagan, October 2001

## **Writer's Preface**

The owners of more than 300,000 independent small and midsize businesses together with all other members of society that makes up the BC economy depend on the new BC government to successfully address the strategic issues facing the economy.

Decades of old problems in the allocation mechanism and in the investment and liquidity flow are a particular problem for developable small and midsize businesses starving for investment and liquidity.

Further, social satisfaction in the community and the tax base depends on investment in economic production in businesses that can distribute wealth via employment in the local economy.

Previous BC governments failed in their accountability to monitor, identify and address problems in the allocation mechanism that hampered investment and the liquidity flow in BC's economy and that subsequently hampered economic production and quality of life.

In good democratic order, the voters reacted and gave the BC Liberals an explicit mandate to reorganize the government's policies and institutions and to solve the issues that hamper investment in economic production and jobs.

The Community Charter Act is one action the government is taking to meet that mandate.

The question for the government and legislative assembly is: Will the Community Charter Act contribute to solving the issues that today hamper investment and distribution of real income in local communities across BC such as in Prince Rupert or Kelowna?

Conversely, could the Act worsen the allocation problems; hampering investment in economic production, eroding social satisfaction, and consequently hindering the government's effort to solve the interrelated economic, social and ecological problems?

Could the outcome be similar to the previous government's attempt to solve problems in the healthcare system by decentralizing the delivery of healthcare to politically appointed regional Healthcare Boards?

Will it be any more effective than the choice to support local economies through Forest Renewal BC?

Both decisions had some basic merit and good intention. The problem was the issues facing the forest sector and the healthcare system were never prudently identified or understood. The result is that the intervention failed to address the real issues and 'cure the disease', instead allocating transfers in the wrong direction, 'leaving the patient in worse shape'.

The Community Charter Act certainly has the potential to stimulate the more lateral working economy that BC needs. However, it is unclear if vital allocation and liquidity issues are recognized or taken into consideration.

How will the Act contribute to solving allocation and liquidity problems that hamper the development of sustainable economic production in local economies and communities, such as Prince George or elsewhere in BC?

The alternative is that economic production is abandoned in the local communities, forcing businesses and people to move. This will erode the tax base while further increasing the need for subsidies and tax transfers. There is a strong mutual motive for government and the community to solve the allocation issues.

Recognizing, the Community Charter Act is based on economic conditions in the early and mid nineties; the question is, will the Act address economic and market conditions that have continued to change rapidly - even excluding the occurrences of the past few months.

OISD, therefore, suggests that the government and the legislative assembly, and ultimately the community, needs a more thorough analysis that identifies the issues that must be solved and those that the Act intends to solve. Further, to examine how the Act will contribute to solving the problems in the allocation mechanism and how it will stimulate investment in economic production in BC, through private investment from investors at home and abroad.

OISD would like the opportunity to contribute to the analysis of the issues and to inject an additional perspective into the search for solutions.

Referring to the Government's eleven guiding principles in the Council's development of the Act, the following provides some considerations that support the need for a more thorough analysis of Local Government's future task in the economy and consequently of the Community Charter Act.

Okanagan Institute for Strategic Development  
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## **CONSIDERATION 1**

### **Canada's Constitution, Economic System, and test of the Act**

#### **The Constitution**

The Constitutional Accountability for the allocation mechanism (i.e. allocation of resources, taxation, investment and liquidity in the economy) is shared between the federal and provincial governments. As stated in the Canadian Constitution, government has a commitment to furthering economic development and to reducing disparity in opportunities.

- (a) *promoting equal opportunities for the well-being of Canadians;*
- (b) *furthering the economic development to reduce disparity in opportunities; and*
- (c) *providing essential public services of reasonable quality to all Canadians.*

It is significant for the Community Charter Act that the regional and municipal governments have an administrative function and mandate broadly limited to land uses and infrastructure planning. Revenue is limited to property tax, business tax and transfers from senior governments.

## **Canada's Economic System**

Whoever we are and wherever we live in BC and Canada, or anywhere else in the world, the fundamental factors that create social satisfaction is the same.

Quality of life, a good ecology, a stable tax base and political stability depend on investment in sustainable economic production in enterprises that distribute wealth in the local community via employment.

What is government's task in a democratic mixed economy such as ours?

Investment in economic production, wealth generation and wealth distribution depends on two interrelated fundamentals:

1. a competitive sustainable business and industrial sector which in pursuit of profit combines our resources into economic production - distributing wealth and securing the tax base through employment,
2. a government sector that provides the service that the pricing mechanism and private sector fails or is unable to provide, as well as those services which the community in good democratic order has decided should be provided by government. (Not to say that government service must always be excluded from the pricing mechanism.)

Today, most agree that the economic production of a competitive and sustainable industry that generates well-paid jobs is the best way of generating and distributing wealth and securing social satisfaction. Experience over the past fifty years shows that the alternate method of distributing wealth via tax transfers and individual and corporate welfare is not sustainable.

We need government to monitor and identify problems in the allocation mechanism that hamper investment, liquidity flow, and economic production. Most will agree, it is not realistic to believe that industry will take an overall community responsibility for these issues.

Since community development depends on economic production occurring in the local community, government's first responsibility must be to analyze and monitor shifts in the economy and marketplace and to identify issues facing all sectors and individual industries important to a local economy.

The questions society must ask:

What level of government has the accountability to identify and address issues in the regional and local economy – such as in Prince Rupert and recently in Kelowna - before the problems become acute?

What product and service can best be provided by:

- local government?
- provincial government ?
- federal government?

## **CONSIDERATION 2**

### **Test of government intervention in the economy**

What is appropriate government intervention in a mixed economy?

Will the Act pass a test for government intervention in a mixed economy?

Will the Act reduce disparity in opportunities?

Will the intervention at least leave one member of the community better off and nobody worse off?

### **The central issue**

The central issue facing BC is the effect that the shift to a more open, knowledge and technology-driven, global economy will continue to have on social satisfaction and quality of life in BC. The resource sector is no longer fuelling the economy and tax base with lower-educated better-paid jobs.

Demographic realities mean the population is growing older and there are fewer young to support more elderly. This and the gap between jobs available and fewer people with the skills to fill them, will be the dominating factor for the socio-economic standard in the future - not employment statistics.

Recognizing the 'bell curve' reality, the community will have to concern itself with more than merely the development of well-educated, well-paid jobs.

The quality of life for the well-educated and social establishment will also depend on the economy's ability to secure lower-educated, better-paid jobs.

Footnote:

Is it time for a reorganization of our education system?

Should education and training be a local government task?

### **CONSIDERATION 3**

#### **Systemic Failure**

What happened? Why did BC fail to recognize and react to the shift from the resource-driven post war, Cold War conditions - to today's knowledge and research-driven open conditions?

Previous BC governments and the bureaucracy ignored systemic problems in the government's own analysis, monitoring and intervention systems. This allowed decades of unsolved issues in our government institutions and policies in the forest sector, healthcare, education and ecosystem to escalate into adversity causing irreparable harm to the community.

For example, the problem in the forest sector was that industry failed to identify the economic and market shifts and ecological issues that were already evident in the seventies.

As the market and economy shifted from resource-driven postwar conditions to knowledge-driven open economic conditions, the resource and manufacturing sector were no longer fuelling the economy and tax base with lower-educated better-paid jobs. Government failed in its monitoring and analysis to detect the problems in the industry, and most crucially, the failures in its own policies that were furthering the problems.

Both industry and government were unaware of the real depth of the market, financial, organizational and ecological issues facing the industry, before it was too late.

During the good times, the BC economic system and policies failed to encourage long-term investment, adding value, and using fewer resources. During the bad times, it stimulated industry to expect government assistance and bailouts.

The system encouraged people in the community to devote their energy to chasing federal and provincial grants and programs, instead of devoting time to developing business and jobs in the underlying local economy.

### **Is it in fact a democratic failure?**

The government failed to provide the service that the private sector was unable to provide and to correct the problems in the allocation mechanism and marketplace.

Could the reason be found in a combination of: a self-interested patronage-driven political system, self-interested bureaucrats and self-interested pressure groups? (Nothing unexpected in human behavior, but an important consideration in any economic issue.)

Politicians, bureaucrats and other members of the political and social establishment may well be aware of the problems, but do not do anything for fear of political, social, and economic retribution.

That may be a particular problem in smaller communities, as experiences from Sweden have shown.

As in air, train and other disasters where the system failed, don't we need better aftermath analysis to refine our system and avoid repeating the mistakes?

Will the Community Charter Act, take these issues into consideration?

### **Improving and refining the system**

Government programs will have to change from the post and Cold War policies and reactive approach. It is no longer sufficient to react to the 'mill' closing down by focusing on carrying the communities over short recessions.

The community needs the government to take a progressive approach where government identifies and addresses strategic issues and discusses solutions with industry.



The Government's most important function in a rapidly shifting knowledge-driven marketplace is:

- to analyze and address the market, financial, organizational and environmental issues, and
- to facilitate co-operation before problems in the pricing mechanism and private sector become acute and show up in financial statements and job losses.

It will not be sustainable in the future to allow issues such as in the BC forest sector to remain unsolved for more than twenty years - and be allowed to escalate.

Will the Act contribute to solving these problems or will the Act further increase the uncertainty of what level of government has the economic and social accountability to identify and address strategic issues in the local economy, and to intervene before the issues escalate?

Will the Act contribute to solving these issues and modernize our government system?

What methods and systems does the government intend to implement and use in order to monitor the economy and intervene in time before the issues cause adversity?

## **CONSIDERATION 4**

### **The Community Charter Act and Socio-psychology, basic human behavior and Community Development**

Absolute accurate forecasting of the future is impossible. However, decades of problems in forests and fisheries, in the education and health care system, to mention a few, are not acts of God, but the direct result of 'economic socio-psychiatric behavior' and how members of our society react to issues.

Government intervention is supposed to solve allocation problems and market failures that hamper investment, economic production, employment and social satisfaction.

Ultimately, this can only be achieved by changing economic behavior and how the members of our society, including government and the private sector, behave and react to issues.

The Community Charter Act is delegating more autonomy to local communities. That in itself will change the decision process and how resources are allocated.

However, it is very important to recognize that each group - voters, politicians, and bureaucrats - will make their choices in a way that best furthers their own objectives.

In itself, democracy and greater local autonomy will not guarantee an absence of abuse of power and position.

In times of technological and economic shifts, extreme positions and actions become more prevalent. The social establishment becomes less personally and individually responsible for socioeconomic and environmental issues. 'Bystander' behavior becomes more common.

It is easier to 'go with the flow'; supporting or even participating in the process, rather than speaking out against it.

In this situation, it is more common that loyalty to the group, political party, the leader, or to an ideology, etc., becomes an assumed heuristic and impairs wise decisions.

On one hand, it is easier to be lost in the crowd of support for the extreme position. On the other hand, the more complex and difficult the issues are, the harder it is to formulate or espouse an alternative stand. People keep opinions to themselves and dissenters come under peer pressure to take positions and actions against their better judgment.

Unsolved issues that hamper economic production and social satisfaction will inevitably erode any social grouping and economic system, democratic or not.

It is reasonable to conclude that identified economic socio-psychological factors in the BC economy must be recognized and taken into consideration in the Community Charter Act.

Will the Community Charter Act stimulate economic production and democracy in the local economy, and stimulate new ideas and better ways using fewer resources?

On the other hand, could the charter hamper economic development and fuel special interest groups that oppose necessary change?

Will the Act stimulate tax transfers from senior government rather than stimulate local politicians, economic development officers and business people to allocate their best effort to stimulate private investment in business?

## **CONSIDERATION 5**

### **Community Charter Act and Government's political task**

The Government's political task is to satisfy the needs of the members of society that makes up the economy. Since that entirely depends on economic production, the Government's economic task is to secure investment and the allocation of resources into economic production and social satisfaction.

## **CONSIDERATION 6**

### **The Community Charter Act, and the shift from cold war resource driven to a knowledge and research driven economy and marketplace**

Economic production is generated by combining the resources available to us: natural, human, capital (which is not money) and knowledge. In that allocation process there are four fundamental problems:

- a) human desire is limitless
- b) resources required to satisfy our human ambition are limited
- c) resources can be used in different directions for different purposes
- d) and most significantly - knowledge has become far more critical in today's economy

Knowledge is the accumulation of understanding and information, which is required to combine and allocate all other resources.

Knowledge cannot automatically be carried over from one person to another or from one generation to the next, such as buildings and roads, etc.

Knowledge requires learning over and over again.

It is in these forgoing axioms, we will find the reason for the issues Canada and BC is facing, and the key to solving the strategic socioeconomic issues.

The strategic issues - including the problems in the fishery, forest, pulp and paper industry, and allied secondary industries - have been well know since the seventies. Unresolved, they have become acute during the nineties.

BC and Canada have relied on the natural resource base at the expense of developing other resources. As supply, demand and environmental challenges grew in a changing open economy and marketplace, our ability to compete and to control our own destiny eroded.

What has been missing is a combined educational, industrial, social, and environmental strategy to effectively assist the community in the transition. Our federal and provincial government programs were designed to carry the community over short recessions in post war and Cold War economic and market conditions, which no longer exist. In the tariff regulated, slower changing, post and Cold War economy, the government could, with macroeconomics and legislative means affect, better control the economy, and secure social satisfaction.

The problem is we are not facing a “nice” Cold War recession, which the government can wait out or carry the community over with tax transfers, tax cuts or fiscal measures. The community is facing a knowledge-driven open economy with frequent fundamental and radical changes.

In today’s education and technology driven, open, rapidly changing economy and marketplace, the slow acting legislative macroeconomics and government microeconomics means will be increasingly inadequate.

The government will simply not be able to secure investment and economic production and social satisfaction with the same methods and model as in the past.

We need new models and systems to ration and allocate resources between the many competing claims from the members of society.

## **Government is more important in open conditions**

In many respects, government is more important in today's open conditions than during the Cold War tariff regulated conditions. Government tasks become more intricate as knowledge, information, and proactive government intervention become more critical for the community.

Reactive post and Cold War intervention methods that allow issues to become acute before intervening must be replaced with proactive analysis and intervention methods that can prevent issues from escalating.

Practically, that means more systematic use of a deductive approach to analyze, identify issues, formulate hypothesis and take reasonable action while testing the hypothesis -- not waiting for issues to become acute, and then analyzing and writing thesis on what happened.

Ultimately, the strategic issues BC is facing can be solved. We have the knowledge, technology, and the tools to solve the problems. The end will depend on the political and social establishment to recognize the issues and to apply intellect and knowledge to solve them.

## **Conclusion**

Will the Community Charter Act contribute to solving the heavy strategic issues BC is facing?

The foregoing forms a platform for discussion of OISD's proposal and the need for a more thorough analysis of the Community Charter Act.

Ultimately, Canada is not a planned economic system. It is a democratically governed mixed economic system, operating in an open economy with unrestricted movement of investment and liquidity.

British Columbia and a large part of Canada face the economic behavioral problem of any natural resource driven economy. Resources such as timber and minerals have been transferred into money, but the money has not been invested back into the local economy.

The BC economy lacks the underpinning socio-psychology, knowledge and infrastructure to attract investment. Said in another way, BC lacks the structure required to recover some of the money extracted from the economy that is now working elsewhere in the world.

It is appealing to believe that tax cuts and fiscal measures will encourage investors at home and abroad to inject investment in economic production in BC.

However, it is our analysis that in BC's case it would be wise to plan for the possibility that tax cuts, fiscal measures and the private sector alone will not fix the problems. In BC's current situation it may require massive government intervention.

Does the government have the monitoring and support system in place that is imperative for successful decentralization?

The paradox is that successful decentralization always requires more support and control from the central body. If the methods and system is not in place, the decentralization usually fails.

As appealing as it may sound, decentralization should never be an end in it self. What is important for BC, is: a) the issues need to be solved, and b) on what level can they best be solved.

BC has a challenging but unique position, to be a model for government in open economic conditions, creating unique comparable advantages.

Never has good government been more important for BC.

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