

YOU COUNTRY – It's just about strategy and structure!

By Diogo F. Caiado

3rd week of September 2008

Almost every person, corporation or country has a strategy for life. But only some deploy an organizational structure that can effectively implement their strategy … Strategy

To build a supply-side sound economy you should park yourself 4 objectives: reduce inflation, infuse growth, decrease government's weigh and strengthen security. Your breakthrough on these goals will depend on a set of core macro and micro economic strategies. 1. Macroeconomic Strategies:

- a. Fiscal Policy – Government Budget. Focus on the surplus because the deficit will always come at the cost of borrowing money with interest charges. Don’t forget you should be attractive so that companies, people and money feel loved in your territory. You should balance factors as taxation, investment and consumer spending with education, infrastructure and social entitlements.
- b. Monetary Policy – Central Bank. You should balance interest rates, reserve requirements and open market operations to finance healthy economic growth with control over inflation and appropriate levels of foreign exchange.
- c. Control of Exchange Rates. You should be able to manage your currency to gain control over capital flows and the ownership of your assets’ portfolio. The generally accepted idea that depreciate your currency will increase exportations is a caveat because it will only benefit the profitability of exportation, that will ultimately end up in a Swiss account. If you want to export more, promote a better allocation of the economic factors.
- d. Income Policy – Control over Wages/ Prices. Not even in inflation crisis should you use this policy because it will make you unattractive and you will not afford such cost. In my opinion one possible exception would be the oil prices’ abuses by the local oligopoly. In this case, government should index oil prices to a producing economy plus transportation costs. Don’t worry: sellers don’t go away.2. Microeconomic Strategies:

- a. Trade Policies – Tariffs, Quotas and Trade Agreements. Taxing importations (e.g., alcohol in India) can be a short term strategy until your companies are prepared to compete in the global marketplace but in the long run just get rid of all these externalities. Conversely, taxing exportations (e.g., meat in Argentina) is just a way of fund raising for the next elections.
- b. FDI Promotion. Import substitution won’t hold on the long run thus creating streams of inefficiency that will soak up the consumer surplus. The strategy is to create business clusters, alliances with foreign companies, tax advantages and legal schemes to expatriate money to the parental holding, following the great example of China, Canada and Singapore.
- c. Privatization. If you still have national companies privatize them in and out of your territory attracting ownership of good reputation in Japan, Germany or Ireland. If you get politically messed up, retain a golden share (not a golden shower as R&B R. Kelley was accused of giving to a 14 year old girl in 2006). That will surely calm down the stupid media.
- d. Economic Regulation. Some sectors and industries’ structures need regulation to get the most of its overall performance. You must have a think tank able to look through your economy and formulate the guidelines for those cases. I’m talking about insurance companies’ compliance with their contracts, regulating market space in the case of natural monopolies/ duopolies, and tools to mitigate all types of errors and externalities that each economy on the course of its life organically generates.
- e. Competition Policy. Maximizing competition policy implies on one hand antitrust provisions, cartel policies and monopoly pricing fixing and on the other hand helping out companies to occupy the industry limited market space. Following Paul Krugman’s mindset, the Finish government understood that there’s only space worldwide for half a dozen cell phone producers. So at the beginning it helped Nokia to become one of them. Aznar thinks alike but now Zapatero is far more interested in the bullshit.
- f. Provision of Subsidy. Commonly referred as industrial policy all subsidies should be used only in the short run and to promote exclusively your companies’ ability to compete worldwide and FDI. Direct grants, tax advantages, government purchasing and help to acquire inputs are some of the tools micro science offers. Never forget that if one of your citizens gets a payoff of a 100 monetary units and pays, say, an average of 20% tax on his income, when you offer a 500 subsidy to a particular entrepreneur, you are wasting the output of 25 economic agents. Be coherent and fair with your people, because abusing of subsidies is the way down to bankruptcy. Structure

Countries should create and correctly implement an organizational structure to conduct strategy over time. Applying the right strategy in an organization fulfilled with capacity constraints, adoptions hurdles and efficiency caveats is of no use. As empirical tests doesn’t lie I will use some cut to the chase empirical examples?

• Politics have a direct impact on organizational structure:

- Japan – Autocratic. In Japan, the Liberal Democratic Party – LDP – has ruled since 49 except for a brief period during part of 93 and 94, providing long term stability to the country. The cost was that LDP factions constituted a bottleneck for decision making during the 90’s crisis
- Italy – Democratic. In Italy, except for Andreotti’s period (and more recently Berlusconi coalition). There were hundreds of political parties fragmenting the polls and leaving the upcoming government with no capacity and fragile legitimacy to decide whatever about long term policies
- USA – Two Parties System. In the US or even in England, any election will always end up with a radical change of policy since the two sides existence depends on underlining their differences, which eventually leads to the loss of years of good choices in particular sectors

•Economic Structure allocates weights of consumption, investment, trade and government spending:

- USA – consumption absorbs 70% of GDP
- Europe – consumption absorbs 40%/ 50% of GDP
- Singapore – consumption is as low as 40% but trade accounts for more than 300% of GDP

•The Institutional Structure is core to strategy since the banking system, court efficiency, safety or property rights have direct impact in the economy environment:

- Russia: In the 90’s, institutions collapsed deriving in the failure of the government to comply with his responsibilities. Putin was, in my opinion, a great governor. He enabled Russia to recover its proud, its structure and led the country to impressing growth – maybe a little lucky because of the commodities rising prices
- Singapore: The Central Provident Fund has guaranteed a high savings rate that will induce families to save, which in the long run will partly correspond to domestic investment and social security
- USA: In the United States no such institution exists making saving rates among the lowest in the world thus creating insecurity and ultimately result in short term huge risk appetite both in managing in and out of legal terms