The Great Economics Debate and Business Strategy

by

Constantine E. Passaris
University of New Brunswick, Canada

Successfully navigating the public policy landscape of the 21st century is becoming an essential pre-requisite for businesses operating in a national and global environment. Public policy plays a key element in defining the operational parameters within which businesses can succeed or fail. The reason being that in the process of formulating and implementing their public policy response to the contemporary hot button issues, governments are also defining the microeconomic landscape and shaping the business environment within which businesses operate. The global financial crisis of 2008 triggered the Great Recession. The financial contagion effect impacted severely on national and multinational corporations, most national economies, triggered massive unemployment, created social tensions and revealed the limitations of the contemporary economic governance architecture. The public policy dilemma faced by most countries has been textured by two cataclysmic events— the global financial crisis and the Great Recession. These events have triggered an epic economic debate. On the one side are the proponents of fiscal austerity in order to combat fiscal deficits. On the other side are the advocates of a fiscal stimulus that will contribute to economic growth. Developing a potent business strategy under these policy options is a challenge for all national corporations and most global enterprises. The current and near future business environment is best described as being uncertain and volatile. This is compounded by the current business climate which is defined by a weak consumer sector, slumping natural resource prices and stumbling national economies such as that of China.

1. Introduction

Successfully navigating the public policy landscape of the 21st century is becoming an essential pre-requisite for businesses operating in a national and global environment. Public policy plays a key element in defining the operational parameters within which businesses can succeed or fail. In consequence, an appreciation of the economic policy environment within which businesses operate is a foundational requirement towards building a potent business strategy.

More specifically, the public policy priorities should inform the business strategies and corporate tactics that will be pursued by business. The reason being that in the process of formulating and implementing their public policy response to the contemporary hot button issues, governments are also defining the microeconomic landscape and shaping the business environment within which businesses operate.

The financial crisis of 2008 unraveled with record speed into a devastating economic crisis of global proportions. The financial meltdown took everybody by surprise. Indeed, the recent financial crisis had a more devastating effect than simply
creating the most significant economic crisis since the Great Depression of the 1930’s. It revealed the public policy fault lines on the economic landscape.

The global financial crisis triggered the Great Recession of the second decade of the 21st century. The financial contagion effect of the global economic crisis impacted severely on national and multinational corporations, most national economies, triggered massive unemployment, created social tensions and revealed the limitations of the contemporary economic governance architecture.

The public policy dilemma faced by most countries around the world on the contemporary economic landscape has been textured by two cataclysmic events. These are the global financial crisis of 2008 and the Great Recession that followed in its wake. These events have triggered an epic economic debate about economic doctrine. On the one side are the proponents of fiscal austerity and punitive measures to reduce run away fiscal deficits. On the other side are the advocates of a fiscal stimulus program and infrastructure investments that will lead to economic growth.

The austerity paradigm rests on the diagnosis that the economic crisis was essentially caused by consecutive fiscal deficits and excessive public debt. In this context, restrictive and contractionary fiscal policy is the appropriate solution for the excesses of the past.

Those on the other side of the debate advocate a growth agenda through a stimulus program, infrastructure renewal, private sector investment, an emphasis on job creation and a focus on economic growth. In this case the modus operandi is the Keynesian approach in order to kick start and grow the economy.

Developing a potent business strategy under these extreme policy options is a challenge for all national corporations and most global enterprises. The current and near future business environment is best described as being uncertain and volatile. This is compounded by the current business climate which is defined by a weak consumer sector, slumping natural resource prices and stumbling national economies such as that of China.

2. New Economy

The new global economy of the 21st century is composed of a trilogy of interactive forces that include globalization, trade liberalization and the information technology and communications revolution. Globalization has melted national borders and redefined economic policy. Free trade has enhanced economic integration and extended the economic architecture. The information and communications revolution has made geography and time irrelevant and enhanced the reach of economic parameters.

The advent of the new economy has resulted in the fundamental restructuring of economic society. The role of innovation as a catalyst that drives the engine of economic growth has become a fundamental postulate of the new global economy. Furthermore, the pivotal role of a country’s human resources and the unique economic value of its human capital endowment which is reflected in the educational attainment, the technical competencies and the special skills of its
population is an essential prerequisite for empowering the new economy and facilitating the integration of labour in the knowledge based industries. The knowledge based economy is fuelled by technology, human capital and research and development. In short, the fuel of the new economy is technology and its currency is human capital. The product of the new economy is knowledge and its market is the virtual marketplace of the internet (Passaris, 2006).

On the contemporary landscape, economic globalization is defined by the growth of foreign direct investment, the increase in international trade and the volume of transactions in international financial markets. Furthermore, the global outreach and economic integration of corporations beyond their national borders impacts on numerous economic activities.

There is no denying that multinational and transnational private sector corporations have emerged as a catalyst for globalization. The transformation of the composition of trade from finished products to intermediate and sub-components is a prevalent feature of contemporary international trade. Indeed, the observed acceleration in the pace of economic globalization can be attributed to technological advances and innovations in information technologies and communications, trade liberalization, the growth in incomes, consumption and productivity growth.

The amalgam of trade liberalization and economic globalization have created global markets with the full significance of that concept. The international integration of production and distribution, enhanced trade activity, global investment and capital flows have defined the modern economic landscape and impacted on the scope and substance of economic governance (Passaris, 2011B).

3. Economic Internetization

The information technology and communications revolution has become a significant enabler for the new global economy. Increasingly, internetization will become a driving force in the business strategy pursued by corporations in the 21st century. Internetization describes the transformative powers of the world-wide-web and the electronic information highway on the evolving dynamics of interconnectivity for the new global economy of the 21st century. Furthermore, internetization captures the pervasive influence of technological change and electronic innovations on the global economic landscape as well as on all aspects of human endeavour for our civil society (Passaris, 2014).

The digitalization of business transactions has profoundly altered the interface between business to business and business to consumer financial transactions. Internetization has also impacted upon economic governance by facilitating the public scrutiny of government documents, enhancing the accessibility of data and generally promoting the electronic connectivity between civil society and the government. In short, internetization which is empowered by the internet and electronic connectivity has enabled the spectacular technological structural changes of the new global order.

It should be noted that the process of internetization is not static. It is constantly evolving, mutating and transforming. The capacity for internetization took a giant
leap forward with the transformation of wired electronic technology into wireless devices. New technological frontiers have been reached through nanotechnology, cloud computing and virtual networks.

Internetization has precipitated a global communications network that connects billions of people to data, machines, computers and each other. The internetization process has extended social contact, facilitated economic liaisons, enhanced the transmission of services, disseminated knowledge and ideas and truly made the world a global village. In essence, internetization refers to how people, businesses and governments have increased their capacity to interact on multiple levels through revolutionary advances in digital technology.

As a foundational enabler, internetization has had a significant influence on the scope and magnitude of the new global economy of the 21st century. Indeed, internetization is the catalyst that binds and connects the three pillars of the new global economy and empowers the synergies that are the signature mark of the modern economic landscape. Internetization is a process that is empowered by the information and communications technology revolution in a borderless world with a tremendous capacity for virtual connectivity. In short, internetization combines the modern version of globalization with the economic empowerment of the internet. The electronic prefix that is appearing before an increasing number of our daily interactions such as e-commerce, e-mail, e-learning, e-banking and e-government is a tangible expression of the pervasive influence of the information technology revolution. (Passaris, 2014).

It should be noted that internetization is multifaceted and multidimensional. This has become abundantly clear in the contemporary knowledge driven economy. At the very heart of the information technology applications for the knowledge based sector is the widespread use of computers and robotics. A collateral benefit of this transformation has been the extraordinary scale of research and development in the quest for new applications for the advances in information and communications technology. This has triggered the phenomenal growth of the software industry and related business services. Indeed, the scale of investment in computerized equipment and in the telecommunications infrastructure is unprecedented. In addition, the rapid growth of niche markets for satellite and peripheral industries supplying information and communications technology products and specialized components and services have catapulted the knowledge based sector into the leading sector of the new economy of the 21st century.

The word global has taken on a new meaning since the emergence of the internet more than three decades ago. The internet has opened up countless opportunities for businesses and individuals worldwide. It has eliminated restrictions and borders regarding instant communication and economic interaction. Internetization has triggered an age of individual and collective empowerment that is unprecedented in our history of civilization. It provides individuals, businesses and governments with a global influence and outreach. In short, internetization has truly made time and geography irrelevant.
4. Economic Governance

Economic governance can take different forms and structures. A simple, direct and operational definition of economic governance is the multidimensional aspects of direction and policy that impact on the economy including the machinery and institutional architecture for the delivery of economic governance initiatives. In this regard, a conventional approach to economic governance includes the traditional private and public sectors, household, financial institutions and labour organizations. More specifically, it is directed to all aspects of economic engagement including production, distribution, consumption and the investment of resources. In short, economic governance refers to the formulation and implementation of policies, the institutional economic architecture and the administration and management of the economic landscape (Passaris, 2011A).

In the modern context, the economic role of government within the framework of a mixed economy has evolved to embrace a multiplicity of economic functions. Starting with a legislated, legal and regulatory framework that is conducive to the protection of property rights, intellectual property and the enforcement of contracts. Economic governance has also been directed towards investing in physical and human capital infrastructure that permits the private sector to accomplish its mission and contribute to economic growth and development. Another aspect of the government’s economic role is that of an overseer and referee with respect to the private sector through economic regulations that promote fair competition and that prevent concentration of economic power along with the social addendum of a regulatory outreach in the form of human rights codes that protect the rights of individuals and groups.

A mixed economy also permits the public sector to contribute all those products and services that are not produced by the private sector. Furthermore, the economic and social policy direction of modern governance has taken form and substance in the implementation of collective social security systems as well as the promotion of macroeconomic policies such as monetary and fiscal policies that support a vibrant private sector and contribute to the long term economic goals of sustainable economic growth. Finally, economic governance has also adopted an interventionist role in order to correct market outcomes that contradict social goals such as the redistribution of wealth.

The recent past has witnessed a reversal in the economic governance mission for most countries. There are several reasons for the retreat of the public sector from its previous level of economic engagement and involvement. These include, declining tax revenues, an increase in the public debt, public displeasure with the government’s management of the economic agenda, a decentralization of government operations, the belt tightening and reduction in government expenditures particularly with respect to social programs and the privatization of government activities.

It is worth noting that along with the downsizing, devolution and downloading of government economic initiatives and an increased reliance on the market mechanism, the public sector’s institutional architecture has been neglected and allowed to atrophy to the point that it has reached a minimalistic state of existence. There is no denying that this weakness in the structural foundation for the
formulation and implementation of economic public policy has had a deleterious effect on economic governance. In particular, it has generated an adverse effect on macroeconomic stabilization efforts, employment creation and the role of the public sector in economic governance. In consequence, the redirection of influence and leadership on the economic landscape has been weighed in favour of the market mechanism and a more influential role for the private sector.

The modern institutional architecture of economic governance should have a global mindset. Indeed, on the contemporary economic landscape, the dividing line between the national domestic context and the international linkages is blurred at best and fluid on most economic issues. This does not negate the need for domestic institutions of economic governance. It simply requires that we recognize and acknowledge that their efficacy in responding to national issues can be constrained. Furthermore, a global disposition and mindset will create a positive environment for taking advantage of international opportunities.

Global economic interdependence is a fact of life in the 21st century and our institutions need to adapt and evolve to embrace it rather than ignore its existence. The economic linkages associated with internationalization in the context of the new global economy can emerge as contentious and controversial. For example, countries may endorse the process of trade liberalization while at the same time recognizing the existence of irritants such as the linkages between an enhanced trade outreach and domestic labour regulations, environmental standards, or direct and hidden subsidies (Passaris, 2015).

Good economic governance is not a static concept. It should evolve in order to accommodate the structural changes on the economic landscape. Clearly it is a concept that is not only time sensitive but also responsive to societal permutations. In this regard Dixit points out “….that different governance institutions are optimal for different societies, for different kinds of economic activity, and at different times. Changes in underlying technologies of production, exchange and communication change the relative merits of different methods of governance” (Dixit, 2008, p. 673).

4.1 Policy Paradox

The advent of the new global economy of the 21st century has revealed the fault lines on the contemporary economic policy landscape. Indeed most countries around the world are acknowledging that their traditional economic policy tool kit is proving to be inadequate, insufficient and ineffective in dealing with the current economic challenges. These economic challenges include mounting fiscal deficits, high unemployment levels and the failure of traditional economic initiatives to grow the economy.

It is becoming increasingly clear that the policies that were effective in dealing with the old economy of the 20th century are proving to be ineffective, unresponsive and unreliable in dealing with the problems associated with the structural changes that have taken place with the advent of the new economy of the 21st century. Indeed, our arsenal of traditional economic policy tools are compromised in the face of the modern economic issues, challenges and opportunities of the new millennium. In consequence, economic policy requires a new direction, a new orientation and a
novel approach in order to respond to the contemporary hot button issues of the new global economy of the 21st century (Passaris, 2008).

Governments are understandably perplexed by the existing disconnect between their contemporary economic policies and the desired economic outcomes. Furthermore, governments of all political stripes are bewildered by the lack of a satisfactory implementation and positive outcomes as a result of the application of conventional economic policy initiatives. Simply put old ideas and the traditional economic policy initiatives of the past are not working in the new economy.

Contemporary institutions of economic governance are no longer effective and are unable to deliver positive economic outcomes. In effect there is a lack of economic policy efficacy and a demonstrated inadequacy in the accompanying economic governance institutions (Passaris, 2015). Institutions of economic governance come in two sizes. Those that are nimble, agile and can take advantage of new opportunities. The remainder are monolithic, solidly entrenched in the past and unable to embrace change and adapt to the structural evolution of time. Schumpeter used the concept of creative destruction to highlight the important role of innovation for business (Schumpeter, 1942). Innovation also has an important role to play within the context of public policy and economic governance.

In short, innovation in economic governance must become a desirable objective in order to achieve the macroeconomic outcomes of price stability, full employment and economic growth. The pursuit of an effective economic governance model in the contemporary context requires a re-examination of the scope and substance of public policy for the purpose of modernizing its thrust and effectiveness. In consequence, we need to design economic institutions with the purpose of becoming more proactive and incorporating a longer term horizon in their decision making mandate. This may take the form of restructuring existing institutions of economic governance through renewal and institutional innovation or building new ones from the ground up.

4.2 Great Debate

Since time immemorial, philosophical debates about political, social and economic issues have taken place in Ancient Greece and during the lifespan of the Roman Empire. The names of Plato, Socrates, Aristotle and Cicero come to mind. At the present time, we are at the epicenter of a contemporary debate about economic philosophy, public policy and economic theory.

The global financial crisis of 2008 and the Great Recession that followed in its wake have triggered an epic economic debate of economic doctrine. On one side are the proponents of fiscal austerity and punitive measures to reduce run away fiscal deficits. On the other side are the advocates of a program for stimulating economic growth and growing the economy.

The austerity paradigm rests on the diagnosis that the economic crisis was essentially caused by consecutive fiscal deficits and excessive public debt. In this context, restrictive and contractionary fiscal policy is the appropriate solution for the excesses of the past. Understandably, the economic medicine is hard to swallow, but
it is presented as the only solution if the patient will survive. Advocates of austerity measures are determined to reign in fiscal disparity within the shortest period of time and inflict consecutive punitive measures of a very strong dose (Schui, 2014).

Those on the other side of the debate advocate a growth agenda through a stimulus program, public sector investment in physical capital, digital technology, social capital, infrastructure renewal and private sector investment. All of this with the purpose of employment creation and a focus on economic growth. This school of economic thought emphasizes economic growth as a means of ameliorating the economic malaise that has erupted as a consequence of the Great Recession.

The paradigm for a stimulus agenda has embraced the Keynesian approach on fiscal deficits to kick start and grow the economy. However, advocates of the growth model are maligned and criticized for being fiscally irresponsible. They are held up to ridicule for promoting economic stimulus programs at a time when the public treasury is bare. They are admonished for promoting a plan of action that got us in this economic mess in the first place (Griffith-Jones, 2014).

While the economic debate rages on at the extremes, there are aspects of both the austerity camp and the growth school that make compelling arguments. Those two extreme public policy options are bound to converge. The intellectual compromise that will likely emerge will be in favour of a longer time line for implementing the austerity plan and a more protracted implementation scenario along with a smaller spoon-full of the bitter medicine. There will also emerge a simultaneous recognition for the merits of growing the economy and reducing the unemployment rate.

In essence what is required is to stretch out the austerity programs over a longer timeframe. Furthermore, relying singularly on fiscal constraints is not appropriate. In addition to fiscal downsizing, the public sector should embrace internal efficiencies, raise productivity and promote innovation. As well as a growth oriented strategy that emphasizes a new economic governance architecture and supply side reforms.

In particular, the public sector must do a better job of realigning our human resources with the emerging opportunities of the new global economy. At a time when human capital, consisting of the education, skills and competencies of our workforce, is a country’s most valuable economic asset and resource, we cannot afford to languish in excessively high rates of unemployment. Nor is the brain drain in the form of migrations of our best and brightest young men and women to other parts of the world a recipe for sustained economic development into the future.

The austerity plan of action and the economic growth alternative offer two extreme economic scenarios and terms for engaging the modern economy. It is evident that no one single theoretical model of the two warring schools of thought has a monopoly on the right answer for our challenging economic times. Indeed, the appropriate course of action lies in an economic compromise and a theoretical blend. It will take a combined and comprehensive effort to bring government finances under control while at the same time investing in strategic economic initiatives that will grow the economy. This process should recognize that unemployment is a debilitating cost on our future potential. Consequently a new
economic model should emphasize the need to nurture our human capital assets in order to best align our workforce with the new job opportunities of the new global economy of the 21st century.

During a protracted period of economic recession and a fragile record of economic recovery, harsh fiscal austerity measures are a recipe for economic decimation. The austerity option with its single minded fixation on reducing the role, the size and the cost of government can inadvertently become a catalyst for a perpetual condition of economic malaise, create an adverse side effect of a socio-economic pattern and trigger systematic economic turbulence.

In a mixed economy, economic growth should be a collaborative effort and an effective partnership between the public sector and the private sector. In particular, faced with fiscal constraints the public sector must increasingly rely on the private sector in order to spearhead investment and job creation. In this regard, the public sector has a vital role to play in promoting economic growth through facilitating foreign investment, promoting innovation and concluding new bilateral and multilateral trade agreements.

This undesirable scenario reflects that austerity measures will create larger deficits even if they succeed at reducing government spending. In short, there is sufficient evidence that austerity has a tendency to undermine itself (Shui, 2014). It is not inconsequential that under an austerity regimen the financial system and banking liquidity become fragile and the unemployment rate is likely to climb to unprecedented highs.

The argument for austerity is based on the principle that large government expenditures lead to large deficits. In consequence, large deficits crowd out private investment, add to the public debt and burden future generations, all of this resulting in the specter of increased interest rates culminating in an unsustainable fiscal outcome.

Instead of pursuing a single minded austerity strategy, it would seem more strategic to embrace a combination of public sector initiatives that consist of fiscal prudence, public sector enhanced productivity and eliminating the duplication in government services. That in addition to modernizing economic governance, creating a more effective and efficient machinery of economic governance, introducing the principles of public sector entrepreneurship and promoting innovation.

Heavy handed austerity measures and cost cutting of government programs without any corresponding investment from the private or public sectors in growing the economy are unlikely to result in positive outcomes. In short, applying austerity measures during an economic slump is self-defeating even in purely fiscal terms, as the combination of falling revenues due to a depressed economy and worsened long-term prospects actually reduces market confidence and makes the future debt burden harder to handle. In addition, it makes it more difficult to attract foreign investment and create a favourable economic climate for employment creation.

The Great Debate should serve as an economic lesson to the international community of nations. In this regard, it reinforces the conventional rule that incurring fiscal deficits during boom times is inappropriate. However, it also
underlines a variance to this rule in that attempts to curtail the deficit forcefully within a short period of time is a recipe for economic catastrophe that will result in a deep and prolonged economic recession. The moral of this story is that balance and perspective should be applied in developing economic policy and directional strategies that are appropriate to the new global economy of the 21st century. In effect, the dangers of trying to reduce deficits too quickly, while the economy is still deeply depressed will produce adverse results.

In the context of the Great Debate the private sector should be perceived as a role model and an ally. In particular, the austerity camp should accept the private sector as a role model in terms of achieving the optimal allocation of resources with an emphasis on economic efficiencies. On the other hand, an alliance between the school advocating economic growth and the private sector will underline the importance of a purposeful business environment, attracting new investment, an exports outreach and the importance of employment creation.

5. Business Strategy

The word business strategy was introduced in the economic literature by Joseph Schumpeter. He used that concept in the following context:

“Every piece of business strategy acquires its true significance only against the background of that process and within the situation created by it. It must be seen in its role in the perennial gale of creative destruction; it cannot be understood irrespective of it or, in fact, on the hypothesis that there is a perennial lull... In other words, the problem that is usually being visualized is how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them” (Schumpeter, 1942, 83–84).

Schumpeter also introduced microeconomics to the important role of innovation and entrepreneurship. He alerted business enterprises to the process of creative destruction which is propelled by the innovation cycle. In the contemporary context, innovations in technology are rapidly shortening the product life cycles and require a constant infusion in state-of-the-art business infrastructure.

The business environment in the current and near future horizon is defined by uncertainty and volatility. This is further accentuated by the global tentacles of the modern economy. In this regard, an economic recession or a financial meltdown cannot be contained within a country’s national borders. Globalization has ensured that the economic contagion effect does not respect geographical boundaries.

There is no denying that corporations around the world were deeply and directly affected by the global financial crisis of 2008. Undeniably, they were in the cross hairs of the Great Recession that followed. Furthermore, businesses were collateral damage as a result of the sputtering economic recovery that has failed to take off. The role of the public sector as an economic lifeline has also been severely constrained by the limitations in government spending. All of this permeates a
global business environment that is uncertain and volatile. Furthermore, the current economic fundamentals are transcribing towards a protracted economic recession.

On the global stage, the expectations that the juggernaut of the Chinese economy with its robust levels of economic performance would continue indefinitely has not transpired. The economic slowdown in China has had a marked impact in revising global economic forecasts downward. Furthermore, political instability in some countries and the threat of terrorism in others have precipitated a very unstable economic environment.

The contemporary global uncertainty is further accentuated by the financial landscape. In response to a sputtering economic recovery, most of the world’s central banks have infused their money markets with quantitative easing and have enforced low interest rates. This cheap money environment is not likely to become the new normal. Indeed, cheap money is likely to become a casualty of the bursting of artificial bubbles, the upward creep of personal indebtedness and the threat of inflationary pressures. In consequence, the prospects of increasing interest rates and a more stringent credit protocol for businesses are likely to resurface in the near future. For small and medium sized businesses who lack a positive cash flow and asset based security, accessing their needs for financial loans from the commercial banks will become increasing challenging.

In the face of these enormous economic challenges, the prospects for business growth and expansion are a veritable minefield. The contemporary economic environment underscores the need for adopting a visionary business strategy. More precisely, the contemporary economic landscape requires a business strategy that is informed, nimble, agile and opportunistic. In short, a business strategy that focuses on strategic planning and market positioning.

At the present time, the world economies and stock markets have stumbled as a result of falling commodity prices. Commodities, including oil, iron, potash, coal, aluminum and other base metals, are at historically low prices. In consequence, the economic recovery has failed to take off, incomes have declined, consumer capacity has fallen, business confidence is low, unemployment has soared and capital investments have been postponed.

The World Bank’s January 2016 commodity market update provides a comprehensive summary of the contemporary landscape:

“The sharp decline in commodity prices over the past five years has coincided with slowing growth in emerging and developing economies (EMDEs). Commodity prices slid by 40 percent since 2010 while growth in EMDEs slowed from 7.1 percent in 2010 to 3.3 percent in 2015. Although the decline in commodity prices has been mostly due to excess supply, weakening demand from commodity-importing EMDEs has also played a role. For example, recent developments in oil markets have been driven by both supply and demand factors. A decomposition of oil price movements into demand and supply factors suggests that the decline in oil prices since mid-2014 has been predominantly driven by supply factors. However, pressures from softening
demand have steadily increased as EMDE growth slowed. .......... The weakness in oil prices has mirrored that in other commodity prices, especially those of other industrial commodities (World Bank, 2016. 11)’.

A comprehensive analysis of the contemporary international economic landscape reveals a fragile global economy along with considerable financial volatility. The elements contributing to the global economic downturn are vividly described by the World Bank as follows:

“Both external factors—including weak global trade, financial market volatility, and persistently low commodity prices—and domestic factors have contributed to the slowdown. Adverse external developments have hit commodity-exporting developing economies particularly hard. Growth in several of the largest countries weakened considerably in 2015, as the impact of deteriorating terms of trade on exports was compounded by tightening macroeconomic policy and softening investor confidence. Governments responded to falling fiscal revenues from the resource-intensive sectors with spending cuts. Central banks raised interest rates to help moderate pressures on exchange or inflation rates. Investor confidence weakened on deteriorating growth prospects and credit ratings, resulting in declining capital inflows and currency depreciations (World Bank, 2016, 12)”.

The potency and efficacy of a business strategy, during both good and bad economic times, is in the spirit of the Louis Pasteur dictum that “chance favors the prepared mind”. In consequence, a business strategy must consider and prepare for different scenarios and outcomes. In addition, a successful business strategy will reflect a strategic plan for overcoming business challenges as well as taking advantage of new economic opportunities.

In developing their business strategy, corporations should be cognizant of the public policy environment within which they operate. Navigating the public policy environment is an essential prerequisite for success on the national landscape as well as international economic and trade outreach. The contemporary economic policy options of the austerity model and the growth model should inform the scope and substance of a business strategy.

Clearly a public policy environment predicated by the austerity model is not conducive to business prosperity or expansion. In consequence, a business strategy that is defined by an austerity policy environment will require the downsizing of the workforce, a heightened level of cost-effectiveness and a deferred maintenance and investment profile.

On the other hand, governments’ that implement a growth strategy predictably concentrate on investments in infrastructure and job creation. There is no denying that a business strategy that is formulated in a growth policy environment is more conducive to achieving corporate growth and business profits. In this scenario,
construction and contracting firms will experience a boom period along with the positive economic benefits of the investment and the consumer multiplier effect.

6. Conclusion

Two recent cataclysmic events in the form of the global financial crisis of 2008 and the Great Recession that followed have altered the course of public policy. They have also triggered an elevated need for corporations to embrace a purposeful business strategy.

The current global public policy environment is defined by the emergence of two opposing schools of thought. Indeed, the contemporary public policy discourse has resulted in an epic debate between two polarized public policy models. Those advocating austerity measures in order to curtail public debt and an opposing school that proposes to grow the economy in order to achieve sustainable economic prosperity.

The two defining features of the contemporary global economic landscape are uncertainty and volatility. In this context, the merit of a business strategy takes on added importance. It becomes an essential prerequisite for business success in the turbulent economic environment of the second decade of the 21st century.

An effective business strategy in the current environment should respond to the challenges of a protracted economic recession. In addition, it should chart a course that successfully navigates the polarized public policy environment. Both public policy options, the austerity and growth models, offer unique challenges and opportunities.

References


