

Consultation, Conflict Resolution and Social Adjustment

A. R. Dobell

Notes for Presentation to the Macdonald Royal Commission

Victoria, B.C., 1983

Mr. Chairman, Commissioners:

I hope in these brief remarks simply to raise a couple of questions, not because I feel qualified to comment on them, but because I hope that the Commission will take them on as problems to address in its research and recommendations.

Just a few moments ago, I passed to members of the Commission my notes for a presentation to the last [1983] national conference of the Institute of Public Administration of Canada. This brief report was put together as a comment on the B.C. government's so-called restraint program, but in many ways it provides a springboard for my more general remarks here. I do not propose to discuss the paper in detail but simply observe that its basic point was the importance of two or three propositions about institutions of government and, in particular, institutions of government in a time of restraint.

What has come to me from surprisingly broad public discussion of that paper is the observation that there seem to be two quite different views in the community here as to the way in which one can handle a restraint program (or structural adjustment more generally). There is one view which says the appropriate process is one of consultation, of implementing a program of action using all the institutions for consensus building which we have developed in our economy and our society over the last little while.

There is another view which is articulated quite explicitly, I think, that says in fact an economy which is settled and peaceful and has all these institutions for conflict resolution also does not have very much progress built into it. Such an economy does not display very much dynamism. If you are going to do anything about increasing productivity, improving competitive position, and so on, in such an economy, you may have to do it by a process which is explicitly confrontational, one which has the explicit purpose of disrupting existing social or economic coalitions. By its very nature, then, such an undertaking cannot be a nice, civilized, consensual process.

I have been worrying about that question a little bit, and it seems to me that there is a technical issue that might be worth raising with you. It suggests problems that, I think, are central to the development of labour relations over the

time horizon that you are thinking about.

The background, I suppose, is standard commentary on the kind of economy that appears to be emerging in Canada. You have probably heard ad nauseam -- you certainly will by the end of your hearings-- comments about micro-technology, the information revolution and the impact that all that will have on employment prospects. You have heard and will hear a lot about the emerging service sector.

It seems to me that the pressures on employment stemming from the information revolution are certainly going to lead to pressures for the public sector and the service sector to act as sinks, if you like, for employment. They will be pressed to soak up some of the unemployment problem that may well be created in the rest of the economy.

That prospect seems to me to raise a couple of fundamental questions. In the paper that I have passed to you, I identify, in the context of the BC. restraint program two important underlying technical assumptions which serve as props for that program. As I see it, there is a questionable concept of “ability to pay”, a discipline on how substantial an expansion in the public sector can be tolerated, and an even more questionable concept of “productivity”, offering some kind of signal as to where resources should go in the economy.

In the context of the computer/communications revolution and consequent growth of the service sector, as against the intangible outputs—and more particularly the unpriced outputs--in the public sector, it seems to me that we encounter very difficult problems in trying to assign any sensible meaning to a concept of ability to pay or to concepts of productivity usefully linked to resource allocation decisions.

So, I suppose the first problem I am asking you to think about is that of consensus-building processes and, more particularly, collective bargaining processes in a setting in which a very substantial proportion of the economy is going to be in this service sector where traditional economic guidelines are not at all clear.

The second problem is a little bit more abstract. Given the difficulties associated with traditional economic calculations, it seems to me we have, along with these two basic views I mentioned initially (the confrontational approach and the consensus building approach), a fundamental problem of decision-making in the public sector, and of determining from where the information for decision-making in the public sector will come.

Market signals, as a guide to the allocation of resources, certainly cannot be

accepted in their entirety. As a community, we have agreed to override them for a variety of reasons, including a lot of social considerations. On the other hand, signals that come from voting, I am arguing in the paper I handed you, also cannot be seen as definitive. Again we have well-established traditions that say that politicians have a responsibility to go beyond what appears to be the popular will in order to consider what is ethical, what is proper and what is, in the long term, in the interest of the economy and in the public interest.

With neither of those two sets of guides, if you like, any longer to be relied upon we have, it seems to me, a problem in seeking a proper foundation for public decisions. We have the opportunity of a lot more polling, a lot more information gathering which is of the nature of taking a vote. We have the opportunity for a lot more analysis, a lot more information to bear on decisions as what is in the public interest, which is in the nature of revealed preference from market signals. But in the end we face the problem that we also have a great many interest groups, each of whom now can be in possession of this same information. Ultimately, the technology is there to make the transfer of information costless, the assembly of information costless, and we are in the situation where we have an essential stalemate in the decision-making process. I come back through that route to the question, whether, in fact, we should not be building up more and stronger institutions for consultation and consensus building. The fundamental issue is whether it is feasible, not naïve, to argue that you can achieve both a discipline in the allocation of resources and essential economic structural adjustment through a consultation mechanism or whether it is necessary that you do so through essentially executive—probably conflictual—action.

I come down to the proposition in terms of a little bit of system theory. We say a competitive mechanism is robust and stable and not terribly vulnerable to outside shocks because it has a lot of small units, each bearing a lot of small shocks, taking a lot of small risks and incurring a lot of small costs in the process of adjustment. We can also see a certain amount of robustness and discipline in a system of larger units which are well regulated or coordinated. It is unclear how much robustness there is in a system of government units which are neither competitive nor regulated. But it is certainly clear that a system which takes those government units and uses those institutions to protect each of the small actors in the economy from any kind of small adjustments will tend to build up all those small risks into accumulated massive pressures that ultimately will lead to a very large, or, if you like, revolutionary change.

So, we have support for the classic kind of competitive economy in the proposition that says, if you do not make the small adjustments early on, they

accumulate into some really big problems.

I learned from the reaction to this little paper on the B.C. restraint program that there is a substantial body of thinking that suggests, in order to avoid those big risks, you are going to have to find some way to dislodge the existing coalitions, the entrenched interests, and that means you cannot avoid trampling on the processes of consensus-building and conflict resolution.

I take that to mean that we have some real problems in the collective bargaining area, in the labour relations area, and in public consultation processes more generally. I would like to put that little cluster of issues on the table for the Commission. We see a combination of the information revolution, its impact on employment, the growth of the service sector and, as a consequence, growing problems of making responsible decisions within that service sector and particularly in the public sector. The usual discipline, usual constraints and usual ground rules do not apply and can not provide adequate guidance. Yet, there are a lot of reservations about processes of bargaining with a whole set of entrenched interests in more extensive and more protracted consultation processes which could be the alternative to imposed executive action.

Mr. Chairman, as I said, I simply wanted to put these questions on your agenda and I thank you for the opportunity to do so.

THE CHAIRMAN: Thank you for coming and doing that.

I would like to call first on Commissioner Breton and, then, on Commissioner Shoyama. Commissioner Breton, please.

COMMISSIONER BRETON: Dr. Dobell, I am very grateful for the way you pose a central problem of government, essentially. I have not read the paper, obviously.

Let me ask you, in thinking about this problem and in referring to the first distinction which you make at the beginning, whether you have considered whether it is possible to change a consensus without breaking a prior consensus and whether it is possible, therefore, to use existing institutions and existing patterns to change a consensus.

I think that there are two views on this also, that it might be possible, or that it is never possible to rebuild a new consensus without breaking the first one.

Would you agree on this or would you think that evolution is possible, slow evolution?

DR. DOBELL: I was afraid I was too philosophical in my comments, but I am glad to be outdone!

I guess that in the end one has to face the fact that there will be a new balance. If we are going to have progress, if we are going to reallocate resources, there are going to be some costs and, in a sense, to make those changes is already action which could be viewed as not consistent with what people thought was an existing consensus. Obviously, you could imagine a consensus which simply says, I know the ground rules and I take my risks. I suppose that is a consensus that exists in a purely competitive economy: if I guessed wrong, I move out and go somewhere else.

I think one could think of that as a model; that is to say, we have a consensus on the ground rules but not the outcome, and argue for an evolution rather than a shattering of the social contract in order to rebuild a new one. I recognize there is a logical problem there. But in the end I would have more faith in the process of consultation, of persuading people as to the inevitability of these changes and, in some sense, of bringing people on side, building acceptance of a program rather than in the argument that says, there is an executive authority and it has to be exercised in a strictly authoritarian way.

COMMISSIONER BRETON: Do you have to bypass existing interest groups for that or do you think you could do it through the existing interest groups, in other words, a consensus which has to be rebuilt through bureaucratic processes?

DR. DOBELL: That is the interesting thing about the B.C. program; it almost seems to be posing the contradiction between building it through political action and building it through a bureaucratic process.

The process of consultation that I am talking about is a long bureaucratic process and is not one with which politicians are likely to be very patient.

Arguing from the example of the B.C. Government Employees Union, I would think that handwriting could be on the wall clearly enough so that existing interest groups will participate in that process of change. The story can be spelled out clearly enough and the inevitability of the change can be spelled out clearly enough that existing interest groups will come on board simply for the purpose of smoothing the transition, making the best of the adjustment, easing the pain as much as possible.

COMMISSIONER BRETON: Do you really think that these exercises in changing the consensus -- they have gone on in B.C., but they have also gone on in the U.S. and some are shaping up elsewhere -- are really in the name of increasing productivity or are they really in the name of changing the structure of property rights in favour of a structure of entitlements which was deemed to be appropriate and which has been changing over the recent past, that productivity is just tangentially related to it?

DR. DOBELL: That is certainly my interpretation in looking at the programs proposed here. They talk about increasing productivity, but at heart they are trying to redress a perceived imbalance in things like property rights, redress a structure which has emerged over the last 30 years and which is now thought not to be very attractive.

I would certainly agree with your interpretation.

COMMISSIONER BRETON: Thank you very much.

THE CHAIRMAN: One of the propositions put to me -- and I have not been able to evaluate it -- is that one of the reasons that West Germany is now going through a particularly difficult economic passage in relation to other OECD countries is that the very effectiveness of its consensus system has built-in rigidity which makes it difficult to adjust. I do not know if that is true or not.

Commissioner Shoyama, would you like to raise anything at this point?

COMMISSIONER SHOYAMA: My first question is a somewhat technical question.

We have been talking a great deal about stagnation and the improvement in productivity. As you know, a number of analyses have been done to try to explain why, since 1975, essentially, the rate of increase and improvement of productivity has been so limited. A number of factors have been adduced.

One of them is a very technical question: to the extent that in the previous period the public sector did expand much more than the GNP, government was taking a larger proportion of resources. Since the technique for measuring outputs in the public sector is simply to cost the inputs, that means that the government sector never shows any productivity increase. When it becomes a sufficiently large proportion of the total output, then presumably it would have a very significant impact on total productivity; is that right?

Would there be lags in this measurement problem? The government sector did not expand as rapidly from 1975 to 1980 as it had done in the previous seven-year period.

Would statistical problems of measurement and lags turn up in this situation? You are a mathematician; I am not. That is why I ask you.

DR. DOBELL: The evolution of real income per capita, or something of that sort, could certainly reveal the kind of problem you are describing. If you are looking at the economy as a whole, the growing share of the government sector would account for -- since we do not measure that output in quality terms in GNP -- we measure it by the cost of production, the wage bill, as you said -- there may

well be a sense that income per capita is not growing as fast as it was.

This problem should not arise at all if you are looking at manufacturing productivity or productivity by sector; in that case, obviously, you would not be taking into account government employment.

I do not know why there would be a lag in the process, apart perhaps from the argument about “Baumol’s disease” which says that the relative price of government services, because there is no productivity increase, is increasing faster than prices in the rest of the economy. The relative price will be rising, and therefore, I suppose, if you take a real income measure, you would have a sense that that was not growing as rapidly as you had wished either.

I guess I would not be looking to that as the explanation for the concern about the lack of expansion of productivity because in most cases those productivity studies are based on something more limited than the total economy.

COMMISSIONER SHOYAMA: Would you like to say anything about your own private and perhaps unformed assessment of the impact of the technological revolution in microelectronics on employment over the next two decades?

DR. DOBELL: The obvious proposition is that there are going to be a lot of jobs replaced, a lot of jobs disappearing. The obvious question to follow on that, of course, is where will the other jobs show up and what will be the balance. The second obvious proposition is that the impact will be greatest in white collar activity. We have seen it already in things like robotics on assembly lines, and so on. The thing that is yet to come is the impact on offices and white collar activity, professional activity, and of course, the whole of that middle level of the government services. In fact, not just the middle level. The question I was alluding to in my opening comments is what happens at the very top level of the government when in fact you have a different kind of information flow, and you have the capacity to drown yourself in it. The big art will be to know what to throw away--the big art will be to know what to retain after you have thrown away the big mass of the data which is being generated.

T.S. Eliot has a marvelous line which runs “where is the knowledge we have lost in information?” , and I would like to have added " where is the information we have lost in the data?" , and in fact we could go on from that and say " where are the data we have lost in the records?" Stafford Beer also has a marvelous line which says " information is what changes us" . Data have nothing to do with decisions. What you have to do is use the data to get some information from which you will then take some action.

The information revolution, I guess, is likely to have a lot of its impact on that

decision-making process rather than strictly on the straight swap of job for job.

My unformed impression -- and it really is unformed and uninformed -- is that there is going to be a need for a lot of growth in other sectors -- service sectors, health care services, or other similar services -- which are labour intensive, if the technological revolution is not going to mean a really massive unemployment problem, and that takes me right back to where I started. How can that adjustment occur peacefully?

THE CHAIRMAN: That is your second quotation of T.S. Eliot. Is he a poet for our time?

DR. DOBELL: 'Choruses from 'The Rock' was written in the mid-thirties, of course, and it very much is a depression poem. I am not sure about The Hollow Men, however.

COMMISSIONER SHOYAMA: We are simply talking about a continuing shift of activity into the service sector, which has been going on for centuries anyway. What has been interesting, of course, is that the large expansion has been in those services which tend to fall within the public sector --health and education in particular, but also support services and family services. This has brought a reaction, quite obviously--a sense that governments are just too large, absorb too large a proportion of the total output, or at least, too large a proportion flows through the government sector, even if essentially the whole system of transfer payments really involves government acting just as a financial intermediary in a sense. Insofar as health and education are concerned in particular, this anxiety about government getting too big raises larger questions. (Of course, the concern can also be a political one in the sense of worry about concentration of power; to a degree, people rail against the public service because there is a sense that the bureaucrats have all the power, or there is a gut feeling that there is too much power in certain parts of society, and in particular, senior mandarins who have massive power are faceless and anonymous and not very sensitive or caring.)

If that is likely to be a continuing problem, would one way out be a return to more private activity in health and education? Recipients might very well be supported primarily by some kind of insurance system, with an equitable distribution of the load carried actually through some redistribution mechanism for the government sector, but the actual operations of units -- whether they are schools, universities, hospitals, nursing homes, and so forth -- could nevertheless be run by private sector operators.

Do you think that that is possible?

DR. DOBELL: There are all the obvious problems in putting those services

into the private sector. I suppose a nice question would be whether they could not be run by small groups. I am not sure that the private sector/public sector distinction is necessarily the right one. Community groups, independent voluntary groups may well be an alternative. The provincial government's privatization initiative suggests some interesting speculations here. One of the questions that has been raised with me is: Why should we not expect, if the Rentalsman's office, for example, is performing a useful mediation role, some kind of spontaneous generation of such an institution, supported in part by the groups that are avoiding legal fees and high court costs by having this mediation service there at their disposal? It could be that it is a unit that could operate on a cost recovery basis and therefore could operate independent of the government which creates this problem you mentioned of people perceiving an excessive scale.

There are a number of things which could be devolved in that way. And of course, the voluntary sector is an obvious alternative as well. The big structural question is, I suppose, whether those provide an alternative which is strong enough to create the discipline on the growth of the public sector that everybody is searching for. The counterpart to the constraints faced by a small operator in a competitive market -- namely, if he does not do the job well, his competitors will -- the counterpart to that within government could well be the formation of much smaller units on a community basis. Presumably they would still have to be public in the sense that they are not going to pay their way; they are not going to pass a market test. But they would provide decentralized decision.

I guess I would certainly argue for that as a lively alternative to simply putting everything into an expanding government department.

COMMISSIONER SHOYAMA; We talked about this at some length on the question of support of universities. Let us by all means make sure that students have enough money to pay for the operation of the universities, and then the universities can compete among themselves to provide the best service to the private purchaser who happens to be the student. There are research activities and so forth, and that kind of thing, that could be funded publicly, but you might very well have, instead of one very large university in Victoria, three small ones. You run into obvious problems of specialization and all kinds of things, but at least the Howard Petch University could compete much better against the Rod Dobell University.

DR. DOBELL: We could certainly argue for this kind of approach to education financing, at least for financing of post-secondary education where the benefits are more private, more readily seen as private benefits. As long as the student has the financing, the competition amongst the suppliers might well be very healthy.

I just ponder how well we would fare under that kind of a system. My guess is that at full cost pricing certainly some universities would be operating on a smaller scale, but that presumably is a signal of something as well.

COMMISSIONER SHOYAMA: Can I come back to the basic point you were talking about -- consensus versus confrontation? I was trying to think a little bit about it in a historical perspective. When one thinks back to the period of the 30s, which came along after the First World War, there was a good deal of disruption, and so forth, and then things settled down. The world economy and Canada's did quite well during the period of the 20s. Certainly right up until 1930, or so, there was growth in output, in population. There was a rising standard of living, some expansion of the welfare state in those terms at least: we got a means tested old-age pension, for example, and technical and vocational training, et cetera.

It all started to come apart, of course, during the middle of the depression -- '31, '32, '33 -- but one of the responses to the difficulties, as you well know, was the so-called Bennett New Deal, and a whole flowering of new ideas as to how to tackle the economic and social system. The Rowell-Sirois Commission came along with a whole new panoply of new ideas. All this was interrupted by the war, but in a sense some of the basic concepts came to the fore during the period of the 30s, and it was a matter of implementation during the postwar period and right up until 1975.

Do you think that there is any parallel between the period of the relatively strong growth, expansion, extension of liberal democracy up until the disruption of the 70s? Now we find ourselves caught in what is called the most serious recession since the depression, and there are these new ideas floating around, as well as very significant structural change, such as microelectronic revolution, and so forth. Are we in a kind of a period of ferment that might destroy some old shibboleths-- this, in a sense, is what you are saying -- and we will be looking for new approaches for the next two, three or four decades? We will have to be revolutionary in our thinking in a sense.

DR. DOBELL: You undoubtedly have to be revolutionary in your thinking. I guess the question is: Do you also have to be revolutionary in your handling of the institutions? There must be at least a parallel in the sense that there are two responses when times get tough. One is to give in to a process of squabbling about the division of the spoils, and the other is to pull together. I think you are hearing both kinds of recommendations these days. You are hearing a lot of suggestions about community initiatives, about a pooling of local resources, and various ways in which one can somehow mobilize the resources across the society to deal with these problems. You are also hearing a lot that looks very much like bashing at the neighbours when times get tough.

That clearly is a parallel, to some extent, to the ferment which gave rise to the sort of developments you are talking about in the 30s. I do not see where a recipe -- I suppose that this is really your job, is it not? -- is to find the counterpart to that vision for the next two or three decades that will deal with the fact that there seems to be fairly general apprehension that building that social net, all those safety nets, and a whole structure of mechanisms that insulate people against the need to change will build up a sufficiently big accumulation of pressures that, when the changes come, they will just be very unpleasant. So, I suppose what we are seeing is an attempt to move back away from that degree of insulation, that degree of insurance against the outside world.

It has been interesting, in talking to people about pensions over this past while, to see the extent to which small groups are arguing for inclusion in some larger group as a way of making themselves more secure against uncertainty.

Most groups are arguing that the federal government should be the one which removes the uncertainty from their lives, provides indexed pensions, provides constant purchasing power, provides assurance that all those chance events out there will not impinge adversely on their circumstances. The interesting thing is that very few people are recognizing that the federal government, or at least, the nation as a whole, is not insulated from a lot of uncertainty and therefore is not able to provide complete insurance to everybody. But that seems to me to be the kind of discussion that is obviously going on. The system that we have at the moment encourages people to feel that they can be too much insulated from the kinds of adjustment that you are dealing with.

THE CHAIRMAN: We are unfortunately running out of time, and Commissioner Hamilton wants to ask questions.

COMMISSIONER HAMILTON: Concentrating on the B.C. case may seem a bit parochial, but I think it may be important because we are now viewed here as a sort of test tube in certain areas for all of Canada. I have a question really in two parts.

You are suggesting that change can occur because of big risk all in one sort of lump or a lot of little risks that are rolled in together, as I understood is part of your thesis. What is British Columbia at the present time? Is it a big risk situation, or is it just one of a whole series of little risks that you see? Secondly, irrespective of the answer to that, you have told us that it is really going to lead, if it leads to anything, to new entitlements not increased productivity. Will it actually achieve anything? Is the present process really going to result in some real change?

DR. DOBELL: On the first question, I interpret the way in which the restraint

program was developed and implemented as really reflecting a view that says 'you cannot achieve the necessary degree of change by a process of consultation with the existing groups', that it is naive to talk about implementing the change that is necessary through consultation with the unions, and without upsetting a lot of people who are counting on existing regulatory or administrative protections.

COMMISSIONER HAMILTON: This is a blockbuster, in other words.

DR. DOBELL: This is a blockbuster, and it is for the reason that you cannot otherwise get the attention of enough of these groups. They will not believe that hardball is being played; they will not believe that this is for real. They will assume that they can block it as they have blocked things in the past.

The second question: Will anything come of the program?

COMMISSIONER HAMILTON: Or achieve real change.

DR. DOBELL: My concern is that the coalition that has been formed in response to this program is in fact big enough to be a blocking coalition, if you like. I do not believe it is the majority of the community in opposition to this program, but I do believe that it involves enough interest groups, including obviously organized labour, that it would be very hard to govern by sheer authority in the face of that degree of resistance.

So, I am dubious. I think the program may run into trouble, even if in fact it is true that all you really have to do is wait out the storm and the program will all go through. I think in the end implementation of the program may still block serious progress [in dealing with the underlying adjustment problem]. In the end, if there is going to be an increase in productivity, it has to be with the willing acquiescence of all of the people involved, and one way or the other they have to be brought on board, either sooner or later.

COMMISSIONER HAMILTON: Yes, but this one is about entitlements -- not about productivity, essentially. You just said that.

DR. DOBELL: Yes, that is right.

THE CHAIRMAN: Thank you very much for coming forward and participating this morning. We found this very interesting.

The Panelist Withdrew