

## **NORTH AMERICA – NO LONGER AN ISLAND**

A Chinese student was asked by her professor to comment on the impact of the Reformation on Western Civilization. After a thoughtful pause, the student replied, "It's too soon to tell". In contrast, the North American perspective of history is often described as "last quarter, seasonally adjusted". The title "North America, No Longer an Island" suggests that something profound has changed and that the speaker will have the answers. No such luck! The bookstores and periodicals are filled with analysis about our troubled time ranging from seminal to trite, with the majority in the latter category. I am waiting breathlessly for a thin over-priced book which will tell me how to shift my paradigms in one minute.

The overwhelming consensus of the better writers is that we are in the middle of a historic discontinuity, a time of troubles when many of the familiar and comfortable assumptions about our world lose their validity. Such a discontinuity affects our political and economic institutions as well as the way our society functions. Many people find discontinuities disturbing because they disrupt our lives and relationships. Others find the same circumstances exhilarating because it creates opportunities for changes in politics, business and the church. The buzzword to describe this time of change is a "paradigm shift" or a change in the model or set of rules by which government, business, society, or in the broad sense, civilization, functions.

My goal today will be to describe the nature of change and to put it into a larger historical perspective. This will be done in four parts:

First – describe some of the changes we are experiencing;

Second – put our "time of troubles" into some kind of historical perspective;

Third – attempt to describe the underlying causes of our current discontinuity;

Fourth – connect this analysis to the issues we face in North America.

### **First – What are the Signs of the Times?**

The philosophers of our age agree that our civilization is going through one of its periodic adjustments and most date the beginning of these changes to the early 1970's. Since the world is always experiencing change of one kind or another, what distinguishes this time from any other? What is unique is that there is a series of simultaneous and very important changes in our knowledge of science or technology, an understanding of how society can organize and manage, and changes in our ideological or belief system. Depending on which you think is more important, it is possible to describe this period in very different ways.

One of the better-known and earliest analysis of our time is the essay by Francis Fukuyama entitled, "The End of History". He correctly points out that the ideological developments which culminated in the two-hundred-year struggle between two opposing views of man's ability to govern – scientific socialism versus liberal democracy – ended in 1989 with a clear victory for liberal democracy. His conclusion that this is "The End of History" means that the ideological

paradigm shift is now complete and the new model is now in place – even if not practiced everywhere.

Other writers such as Peter Drucker in “The Post-Capitalist Society” address the question from the perspective of management science, others from the perspective of management science, others from the perspective of economics, ecology, technology or faith. What is remarkable about our time is not that the world is changing, but that it is changing in profound and dramatic ways in many spheres at the same time. Since these spheres interact with each other, it is more difficult to comprehend the changes – and also more difficult to predict the shape of civilization when the pace of change subsides.

How do we know the world is going through such a major shift? A short list of signs could include the following:

1. The dramatic collapse of scientific socialism as a competitive alternative to liberal democracy.
2. The information revolution driven by incredible technological advances.
3. The globalization of technology, design and production.
4. The inability of democratic systems to deal with a much more complex world.
5. We are approaching our environmental limits and what some describe as an environmental holocaust.
6. The inexorable rise of the Pacific Rim.
7. Structural unemployment of 36,000,000 in the Western economies.
8. The collapse or repudiation of almost every government together with our economic icons such as IBM and GM.
9. The increasing inequity in income as the rich get much richer and the lower 80% see their standard of living erode.
10. The dangerous emergence of a new kind of tribalism.
11. The dominance of the English language, Babel reversed.

One can make an almost endless list about the loss of control over information, the emergence of old and new religious expressions, the attack on moral standards. Does this matter? The answer is yes! Your job, your industry, your government and maybe even your church will be profoundly affected.

Second, let’s look at our “time of troubles” and try to gain some historical perspective. The current discontinuity is put into that rarified atmosphere of memorable historical periods which includes the Golden Age of Greece, the Christianizing of the Roman Empire by Constantine in the third century, the rise of towns and crafts in the 12<sup>th</sup> and 13<sup>th</sup> century, the scientific, cultural and ideological explosion which we know as the Renaissance and the Reformation, and the effort by man to control his own destiny in the latter part of the 18<sup>th</sup> century labeled the Enlightenment. It is sobering to think of our time in that list, since the consequences of each of these paradigm shifts was often more than unsettling and released powerful new energies which required decades or even centuries to be sorted out.

Sometimes we believe that we are experiencing something totally unique. A story about the grain business may put that into perspective. Let's consider a real grain enterprise that we will call "Memphis Grain". Memphis was an important commercial centre on one of the major rivers of the world, a river which bisected one of the greatest grain-growing regions in existence. Like agriculture throughout history, it suffered from the floods and other vagaries of nature.

The story began when the political leadership was seeking economic advice and through a series of bizarre events it turned to the economic forecasting model of a young Jewish immigrant. This young man had a checkered history having become a refugee as a result of civil strife, surviving a murder attempt and was jailed for sexual harassment. Nevertheless his networking skills gained him a reprieve from prison and permitted him to suggest a new approach to fiscal policy, very close to the policy of John Maynard Keynes. Not only was his policy accepted, he was given responsibility to create a crown corporation to implement the policy.

His policy did not involve the typical land set-asides or export subsidies but rather a form of compulsory taxation by removing and storing surpluses in exceptionally good years. When the inevitable tough years came along Memphis Grain enjoyed a monopoly position not only in its home country but internationally. The young C.E.O. realized that the situation gave him some extraordinary opportunities since the grain had been accumulated on behalf of the government rather than the farmers.

He used his extraordinary management abilities to take advantage of the situation and instead of assisting the farmers through the low point of the business cycle; he foreclosed on all of their farms and made them effectively serfs on land that had formerly been theirs. This story is about how feudalism came into existence.

All of us recognize this story – but we always make Joseph the good guy and never read or preach about the last chapter. This story is really a parallel with our own time. Joseph's secret was not superior agriculture practices but the superior access to and application of knowledge in terms of economic forecasting and management science. He could have given the Egyptian farm economy a tremendous boost by providing long-term stability – instead he used his exceptional access to knowledge to enslave the people. Comparison to some high-flying MBA's and the leveraged-buyout movement would not be entirely inappropriate.

The Hebrew people began their existence in Egypt as a privileged group but eventually were also enslaved. Would the story have turned out differently if Joseph would have used his access to knowledge to strengthen the hand of the rural population? Would the Hebrews have avoided slavery?

The book of Genesis is about beginnings, it attempts to explain why the world is as it is. It speaks about creation, about mankind, about sin, about language – and it also speaks about how society is organized. The story of Joseph is a story about how man reaches the end of the line – where one part of mankind enslaves the other. What is of special interest for us is that

this did not occur because man was presumably evil in his intent, but because man used advances in his understanding of economics and management for very personal gain.

We are again in a knowledge revolution. The symbolic analyst described by Robert Reich, the new U.S. labour secretary in his book "the Work of Nations" is the latter-day Joseph. These are the people who can manipulate information and numbers. They are the financial analysts, the marketers, the designers and organizers. They are doing well not only in Canada and the U.S. but in Mexico, India and China. Like Joseph, they are indeed getting richer, but at what cost to the rest of the world?

The third question I promised to address is why these changes are occurring at this time. What is driving the process? Let's look at the underlying forces in four different areas:

1. Political/governmental structure;
2. Technology;
3. Information Revolution;
4. Ideology.

The dominant political reality of the past two centuries was the emergence of the nation-state. We tend to forget that the nation-state was hardly a factor until the 1700's. The way this was expressed in economic terms was what I will call the Colonial paradigm.

The Colonial paradigm required a permanent and strong military, a factor which reinforced the development of the nation-state. The mother country considered colonies as a source of raw material and as a protected market for its industrial products. There was no GATT, no Free Trade Agreement. There was a monopoly of trade within trading blocs and the competition between trading blocs was often expressed in military terms rather than terms of trade. Names like Capetown, Hong Kong and the Hudson Bay Co. are classic expressions of this policy. The nature of colonial monopoly trade has also been immortalized in American folklore by the Boston Tea Party.

The pattern of trade was also quite global considering the age. For example, labour was extracted from Africa and sent to the more agreeable soils and climate of the Caribbean and America to produce cotton, sugar and other commodities for England which then supplied the products of its industrial revolution on a monopoly basis. This worked because it was possible to keep trading patterns separate and because the pace of technological change was slow enough to permit parallel development within each trading bloc.

The colonial structure collapsed after WWII and suddenly competition emerged both between the old trading blocs but also between the former colonies and colonizers. The developed countries had a great head start in 1950, but changes in technology and information also contributed to the destruction of the old set of rules.

The idea of technology is also relatively new. It is a combination of the words techne or craft and logos or knowledge. Technology is the systematic application of knowledge to how things

are done – an idea which only emerged some 200 years ago and was the basis of the industrial revolution.

Technological change is a function of three factors:

1. What is already known?
  - For example, it was impossible to develop the jet engine until hundreds of developments occurred in other fields;
2. How many points of innovation are there?
  - We are all aware that the pressure for innovation in our own organization is dependent upon the pace of development among our competitors;
3. Flow of information.
  - Russia is a perfect example of a society which attempted to compete globally while controlling access to fax machines and copy machines and restricting travel. The restrictions in the flow of ideas were one of the most important reasons for the failure of communism.

Technological change is often the foundation of changes in our political structure, our economy and even our environment and society. An interesting historical example of the relationship between technological innovation and political realities is the progress in maritime navigation by Portugal in the 1400's. Portugal was cut off from the rest of the world by the Moors and the Spanish who were themselves locked in a centuries- long life and death struggle. Portugal's only frontier was the unknown and forbidding Atlantic and its only friend the British whose real interest was to keep the Spanish in line.

It was in this environment that Prince Henry, the Navigator, who never went on a major expedition himself, accumulated a remarkable group of scientists and explorers and over a period of half a century pushed the technology of navigation until Portuguese explorers were the first around the Cape of Africa, to India and around the world! These simple developments in measurement and instruments paved the way for the incredible Age of Exploration in the following century. Portugal, a little enclave of under 2,000,000 people on the periphery of Europe, was able to establish a great empire which lasted until 1975.

What has changed is the pace of technological change and its rapid dispersion around the world. This means that a technological development may not benefit the company or even the country where it was invented. An excellent example is the semiconductor industry where every major development was initiated in America but where production is now almost completely dominated by Japan.

The changes in the political structure and in the development and dispersion of technology are being driven by the changing nature of information and communication. The Hudson Bay Company and many other colonial enterprises survived on one contact with head office per year. I was in Moscow during the August, 1991 coup and many of my colleagues were in

continuous phone contact with Western Europe to find out what was being shown on CNN. The fax machine has become one of the main tools of every revolution. It's not just a single technology – but that incredible accumulation of developments which includes printing, electricity, telegraph, telephone, fax, computers, satellites, software, videos, c.d.s.

Russia attempted to compete technologically, while controlling the fax and copy machine and restricting travel. In an age when the free flow of information is essential to progress, its population was spending its intellectual energy on how to beat the system and find sausage and shoes. Russia did not only fail because the idea of communism was flawed – but because modern technology demands a more open society.

The Third World, including Mexico, has experienced the same dilemma and is now reversing its position and embracing more open political and economic structures. The Asian tigers also developed a unique policy. They limited benefits to their population but were aggressive in acquiring technology and in the development of human capital or education. Some observers maintain that the single most important competitive advantage of Asia is education.

The nature of communication has taken much of the control away from governments and has reduced the barriers to the global dispersion of technology. The information revolution has released the genie of technology and together these two revolutions are affecting our ideology.

Ideology is simply the system of beliefs we hold about the cosmos, the world and about human nature. The human race went through the progression from natural religion based on fear, to a belief in an all-powerful God who at least cared about man and finally culminated in the belief that man was really in control of his own destiny.

The idea that man is able to be master of his destiny as expressed in the communist regimes of our century is now in total disrepute. The conclusion in the minds of many people is that this proves the indisputable correctness of the market system. This is unfortunate since much of the failure of communism had little to do with economics, and Western societies themselves are only partially market driven. North America itself is much less individualistic than its own publicity. It is not generally known that over 50% of market capitalization is now controlled not by investors but by pension funds. And who are the pension funds? They are the people or the working class now holding collective ownership of our economy. This collective ownership is precisely what the communist system attempted but failed to accomplish. Most European societies have a government component approaching 50% and in Japan the government plays a significant strategic role. The English-speaking world has discredited the role of government in favour of bowing down uncritically to the god of the market. The problem with the market is the problem of Joseph. It can be incredibly effective – but also equally incredibly unjust in terms of outcomes.

Throughout most of man's history, the ideological or faith framework set the rules for the other spheres – even if it denied the truth in circumstances like Galileo. In our time the technological revolution fuelled by the infinite access to information has resulted in the acceptance of an

ideological and political framework which may serve the needs of our out-of-control technology, but which may do little for the creation of a just and sustainable society.

We began with the question of what is happening in North America and we'll now return to that question. Three major developments have occurred in this century which affected North America in different ways. The colonial paradigm collapsed because there was no scope for late arrivals like Germany, Japan and Italy to participate in that system. The result was two world wars which first destroyed the remaining feudal regimes and empires, destroyed the infrastructure everywhere except in North America and dismantled the cozy colonial trading relationships. The second important event was World War II. America emerged with a dominant industrial, financial and military position and a commanding technological lead in every sector that mattered. The collapse of colonialism and World War II both had the effect of increasing the political and economic leverage of the U.S.A. In the meantime, Canada lived a comfortable existence in the nuclear and economic shadow of the U.S. in a time when a storehouse of raw materials still mattered and while Mexico was in the middle of a '70-year xenophobic siesta following its civil war.

Then everything changed! The third major development was not in North America's favour. The nature of technology and communication went through a revolutionary change which began to be felt in the '70's. While North America developed into a culture of materialism, indulgence, excess, a culture where marketing and financial manipulation, were valued more than quality and loyalty, the rest of the world was dancing to a different drum. Europe and Asia both dipped into their historic and cultural reservoirs and spent their energy on education and training, their cultures valued quality over quantity and their societies did not kneel at the altar of individualism. The effect of the 70's was to make access to technology essentially equal, and as goods were reduced in size or became services, geography was no longer a barrier. At that point, the competitive battle was no longer technological but cultural. Which society could produce the right kind of workforce, the appropriate relationship between employee and management, the appreciation of quality, the discipline and the strategic thinking? The ideology of individualism which served the U.S. so well was not an advantage in this new competitive paradigm. The mix of races and cultures became a handicap in the competition with homogeneous and culturally unified competitors such as Germany and Japan.

Canada, in the meantime, had developed a cozy society to the North but suddenly discovered that the world didn't need our raw materials in an age of software and services. The result was a very cold shower known as the Free Trade Agreement. Mexico had an even more serious collapse after 70 years in an economic cul-de-sac and woke up in the early '80's from its long siesta to discover that the world didn't care what Mexico's economic philosophy was. They decided to join the real world and the result was NAFTA.

One of the great enigmas of our time is the reversal of roles where America, the great free trader since WWII, is suddenly becoming paranoid about a range of economic challenges. Those of us who are not American are sometimes cynical about the protestations for a level

playing field or fair trade. However, the reality is that America faces several very serious problems.

First, there is very little correlation between economic and military leadership in the current paradigm, and America is frustrated that its power is not reflected in respect and economic results. Paul Kennedy, the American historian, documents this relationship between military expenditures and eventual decline in relation to all Western empires during the past 500 years. He forecasts the same result if the U.S. persists in being a military leader.

A second question is culture. America has a blind conviction that unfettered individualism combined with unshackled market forces is the only appropriate political and economic philosophy. The European fetish with quality and the Japanese and Asian ability to think and act strategically as societies is resulting in American competitive setbacks across many sectors. Lester Thurow, Dean of M.I.T.'s school of management quotes Jacques Attali, the Frenchman who became infamous as President of the new European Bank for the Reconstruction of Eastern Europe, "Americans refuse to believe that they are falling behind the most advanced parts of the industrial world and, because of this belief, will not make the changes necessary to remain competitive. No one can solve a problem they refuse to see".

Our own experience at Palliser illustrates this cultural inability to sense a need for change. We have been successful in the U.S. in the interpretation of European designs and technologies which requires a great deal of learning from Europe. Since most of our competitors are located in the very traditional South, and are enjoying a current dominance of their market, it has permitted companies such as Palliser and other foreign companies or U.S. companies outside of the furniture heartland to dominate the categories based on new technologies. When I am asked what my greatest competitive strength is I sometimes like to say that it is the cultural arrogance of my competitors.

Another expression of culture is the attitude toward education. In both Canada and the U.S. education has been subject to local political processes and has attempted to address a great deal of social issues beyond training the mind. The result has been a deterioration of standards and an inability to direct the entire system strategically. While we have an exceptional post secondary university system, it is excessively focused on the humanities and in any event, most of our students are already out of the global competition in the sciences and math before graduation from high school. We also fail to apportion our funds appropriately between university and non-university training at the post secondary level.

In addition to the issues of military expenditures, cultural values and education policy, North America must also review its attitude toward government. When democracy is interpreted in an excessively individualistic form it results in a government of special interests in contrast to a government which acts strategically. The current debates on Health Care and NAFTA in the U.S. are excellent examples. Grazing rights in the West and tobacco tax policy in the South are traded for NAFTA votes. The Canadian Parliamentary system should theoretically protect against such nonsense but we fall victim to the other evil of our time – excessive tribalism as expressed

in our French/English Gordian knot. Both result in bad policy, an inability to control government spending and the absence of strategic thinking.

The NAFTA debate attempts to demonstrate that everyone in the U.S. can win at the same time. The high tech and service industries want to export more to Mexico, the low tech industries want to be protected against job losses, and nobody wants more illegal immigrants. As one Mexican official put it – you can choose between our goods or our people, but you can't close the border to both. As Christians we should support a policy which at least gives 85,000,000 people a chance to improve their lives at the cost of only moderate disruption to ours.

Health care is caught in the ideological trap. America spends 14% of GDP on health care while most Western countries spend 7-9%. Despite this huge extra burden, the belief in competition as a sacred icon does not allow the exploration of alternatives successfully used by other countries.

North America is indeed no longer an island. Technology and information have reduced the power of governments in Canada, the U.S.A. and Mexico to pursue policies out of step with a larger reality. Canada is discovering that its social safety net may be wonderful but attempts to accomplish too much. The U.S. may one day discover in the words of Lester Thurow that "the founding fathers did not get it right every time". Mexico has already acknowledged that it cannot exist within its own rules and borders.

The challenge will not lie in technology – since that is available to everyone. The challenge will be an ability to recognize where our culture is appropriate to the new knowledge paradigm of the 21<sup>st</sup> century and where it is not. The second challenge will be to understand the limits of our ideology and to recognize where and when change is appropriate. In an increasingly more mobile world, strategic positioning in terms of education, cultural attitudes and the ability to agree on common goals will be the factors which determine how societies rather than companies compete with each other. The world of our children and our grandchildren may be very different than ours. As they study history they may well ask why we had such difficulty understanding what from their perspective will be obvious.

North America is indeed no longer an Island!