

David Skilling

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## *Governments have important strategic policy choices to make in order to adapt to a changing world*

Much thinking, research and debate is focused on understanding why some countries have performed better than others. Why are the rich countries rich, and others not? Some mixture of policy, institutions, culture, geography, leadership – and good luck – is usually cited.

But within the group of advanced economies, who score well on these measures, why does the performance of countries change over time? One of the interesting empirical regularities in economics is the absence of a strong correlation between average growth rates across decades within countries. A strong performance in one decade has little relationship with performance in subsequent periods. The US did better in the 1990s than it did in the 1980s, for example.

Why do some countries, after a decade or two of strong economic performance, enter into periods of sub-par growth? Sometimes, as is the case with Greece and Ireland, it is because their strong performance was not based on strong foundations. But in many cases the decline in performance is not accompanied by any obvious change in policy direction. The same policy approach was maintained but no longer generated the same type of results.

The message is that sustaining success over time requires an ability to adapt to a changing external environment. There is no one set of policies that assures sustained success. Some countries find that their 'operating systems' work well in a particular environment, and are less successful when that world changes. This is true in the economic context, but also in education and social areas. Across the developed world, there are many examples of social policies designed for one

environment struggling to deliver good results in another context.

Indeed, in many developed countries, there is a sense that the limitations and stresses of relying on a previous generation of policy are becoming apparent – and that new policy ideas are required to respond to the emerging world. In addition to the immediate economic and social challenges of the post-crisis world, many countries face structural challenges around resilience, competitiveness, and renewing the social contract.

The need to adapt to fit the emerging external context is particularly true for small countries, such as Singapore, because of their greater exposure to the external environment. And small countries are likely to face a specific set of issues over the coming years. The relatively benign global environment that has contributed strongly to the success of small countries over the past few decades may be ending, bringing with it a new set of challenges that will likely require new policy approaches.

But observation suggests that meaningful adaptation is much easier to talk about than to do for many governments. Across the developed world, the basic contours of many areas of policy have not changed much over the past few decades despite disruptive economic, social, and technological change in the world around them. This is partly because decision-making in governments is slow, often by design, and because it takes time to assemble broad-based public support.

But perhaps the more important constraints are self-imposed. There has been a sense in many

countries that, even if the outcomes are not as desired, there are few available policy choices to make and that ‘there is no alternative’. Tom Friedman described a ‘golden straitjacket’ in which markets tightly constrained the actions of governments. And the Washington Consensus, highly influential in the two decades prior to the crisis, specified a restricted role for government.

Again, observation – and substantial empirical evidence – shows that many of these constraints on policy choices are less real than imagined.

Although there are policy fundamentals such as price stability and fiscal prudence that are generally appropriate, and policy choices commonly involve hard trade-offs, on many issues countries have significant leeway to craft policies. Even the trade-off between redistribution and economic growth is remarkably hard to pin down. Countries do have meaningful policy choices in many areas.

Unfortunately, however, the belief that there are no big policy choices left to be made has led to systematic under-investment in strategic policy capacity in many developed country governments over the past couple of decades. The focus has been on execution and implementation, with relatively less attention paid to strategic policy direction.

This lack of attention to strategic policy choices has sometimes been reinforced by complacency in well-performing countries. In some of these countries, there was a sense that the correct policy model had been identified and that only incremental improvements were warranted – leading to a lack of attention to the impact of a changing environment. This can lead to problems. History shows that countries often fail to achieve their potential not because they do the wrong things, but because they continue with what were the right policies after they have ceased to be effective.

But given the scale of the existing challenges, as well as the elevated potential for further disruptive change in the global economic and political environment, it is increasingly apparent that current policy approaches in many countries will need to be adapted to generate the desired economic and social outcomes. Periods of intense policy innovation seem to move in 30-40 year waves, and it is possible that many developed countries are entering into another period of policy change.

Given the likely need for policy change and adaptation, and some of the observed difficulties in delivering timely change, building real strategic capacity will be an increasingly important source of competitive advantage. Decision-making by governments always matters, but in periods of stress and change, it is even more likely to have a fundamental bearing on the trajectory of the country. Building capacity in governments to get the strategic policy choices right, and delivering the next generation of policy, should be seen as a priority.

This is true for Singapore as well. The changes in the global economic and political environment will create substantial challenges and opportunities for a small open economy like Singapore, and will require policy responses. And the rapid economic and social progress of Singapore over the past decades, which has led to Singapore becoming one of the richest countries in the world, creates a new generation of strategic policy choices that will need to be made.

Singapore has the rest of the developed world for company in this endeavour. The aspiration should be for the next generation of Singapore policy to be world-leading, just as Singapore has been one of the world’s leading policy lights over the past generation.

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