**RETROSPECTIVE CLASS NOTES ON CLASS 4**

QUESTION: What was the point of all that mainstream theory on market structure and price and output determination ? How does it relate to the solutions-oriented topics we are beginning to delve into, like industrial Ecology and Biomimicry ?

MY ANSWER:

1. This represents the bulk of the relevant core of standard microeconomic theory for business strategy and management, and to guide regulation of business by government, ostensibly in the public interest
2. These established, comparative-static micro-models of price and output determination ,under conditions, respectively of:

* pure(perfect) competition,
* pure monopoly,
* Chamberlinian monopolistic competition
* and Cournot, Bertrand and Stackelberg oligopoly;

demarcate the terrain under which genuine corporate social responsibility initiatives (“CSR initiatives” or “CSRI”) are likely to appear, given that enterprises likely are, being managed to maximize shareholder value, or at least with that as an important objective on a par with maximization of private benefits to executive management themselves, as individuals.

Reviewing this material, accordingly ,helps us see, I think:

* That CSR is highly unlikely to emerge under conditions that approximate pure competition, because imperatives of cost competitiveness tend to force the complete neglect from consideration of any cost that can legally and practically be treated as “external” to the firm, and since there is under this market structure, no branding to speak of and thus no ability to capture goodwill for the brand by voluntarily internalizing costs that competitors succeed in keeping external;
* That pure monopolists will have little reason (since, by definition, they face no direct competition) to brand their output, and even less to invest resources in building a positive brand-image by voluntarily internalizing costs, but could conceivably do so under regulatory pressure, or to forestall government action to weaken the monopoly, or to deter prospective entry (ICBC or BC Ferries might be interesting case-studies on this point)
* That CSR might well emerge as economically rational under conditions of Chamberlinian monopolistic competition and Cournot, Bertrand and Stackelberg-type oligopoly, to the extent that brand goodwill can be generated and retained by so doing.

As it happens, the mainstream models that come the closest to describing the environment in which the bulk of the goods and services we buy, and that many of us are involved in producing, are precisely Chamberlinian monopolistic competition and Cournot, Bertrand and Stackelberg type oligopolies. It could be argued that the collusive, joint profit-maximization model better described the Canadian banking sector, but there are Cournot-model elements to that sector too; perhaps even Stackelberg elements when one considers that the banks face some fringe competition from credit unions that are organized on a co-operative member-ownership basis rather than on the investor-ownership basis that at applies to the banks. It is interesting also, to explore how significant and how genuine CSRI by the Canadian banks really are.

The main point, then, of the long detour into the mainstream microeconomic “Theory of the Firm”, is to set the stage for consideration of the problem of product design and continuous innovation as major area of focus for management thinking on competitive strategy.

It is in that context, that we explore the opportunities for progressive minded entrepreneurs and enterprise managers to lead, rather than follow, the evolution of public policy.

Even if public policy was to evolve according to the insights of ecological economics, the *public* policy backdrop for *private* sector decisions would be characterized by:

* At least some initiative to facilitate (and possibly even subsidize) productive Coasian bargaining where simple bilateral externalities are identified;
* Widespread use of Pigouvian taxes to harmonize social and private costs in case of well understood, but more multilateral externalities;
* A general expectation that Pigouvian taxes on many products and activities (such as extraction of virgin materials, and disposal of wastes) might rise over time;
* Use of quotas (likely but not always tradable) to get certainty on quantity for inputs drawn from the ecological commons and to cap outputs of high-entropy and toxic wastes into common sinks, where quantity certainty was judged more important than price stability;
* A ***precautionary*** approach in which the imposition of restraints to control overuse of resources from the ecological commons or to prevent over-discharge of high was ***not*** constantly held-back by concerns that the cost-benefit calculus was not precisely known;
* An interest in fostering community and mutual trust across the economy and to set limits on permissible social inequality within it;
* A willingness to contemplate macro-scale limits on economic activity.

Policies like these are based on a modest but probably realistic view that public policy can most easily restrain the pursuit of narrow private benefit, and can at best seek to ***channel*** self-interest and entrepreneurial drive into less harmful directions, but that it is likely much more difficult for ***public*** policy to pro-actively lead the “nuts and bolts” of economic activity in a regenerative direction.

This modest reach of public policy, however, leaves scope for progressive entrepreneurs and enterprise managers to make a unique contribution, and thus to lead, rather than follow. Our provisional conclusion then, is that progressive public policy evolution and progressive initiatives by entrepreneurs and managers, are neither mutually contradictory, nor strict substitutes. Each is necessary and neither alone, is likely to be sufficient.