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BUSINESS, GOVERNMENT AND INVESTMENTS

Government policies and investments are a pervasive, important, and often positive influence on the business environment and economic development of any industrialized nation. The following are among the many government policies and actions affecting the business environment:

- The structure of taxes
- The design and implementation of workplace and environmental regulations
- The amount and nature of government support for generic technology development, research, and programs too large for single firms or with payoffs too far in the future or too uncertain to attract private capital
- The amount and nature of government investments in physical infrastructure and human capital
- The legal environment of operating a business encompassing, among other issues, the protection of intellectual property rights and the handling of liability claims

Through these and other roles, government plays an important, varied, often obvious but sometimes subtle part in determining the time horizons of corporate investment decisions. The impact of government policies and actions on business investment in technology and operating practices is the subject of a vast and continually growing body of scholarly literature and policy studies.

Therefore, recognizing the diversity, complexity, and importance of these issues, and aware of the limitations of time and expertise, the author has chosen to focus on two types of government influence on corporate investment horizons, neither of which is widely understood. First is the role of government in providing a stable environment for investment, including the role the government plays in the creation of markets. Second is the role of government in investing in complementary public assets—national, regional, or local public assets, which work in tandem with private investment to allow and drive economic growth.

Among the government policies and actions that are the most consistently damaging to long time horizons are those which create disincentives for long-term planning and investment. Late or uncertain promulgation of environmental and workplace standards often unnecessarily diverts company investment capital from longer-term technology development.

Among the ways in which governments promote long-term investment is the role they play in the creation of markets or marketplaces. First, the government's considerable buying power has created predictable markets for "public" goods, some of which have become private goods. Commercial passenger and freight aircraft, created in part by government investments in, and demand for, defense aircraft, are a classic example. Additionally, markets for private-sector weather prediction and monitoring, environmental monitoring and waste disposal, public health systems, or large-scale satellite, computer, or networking systems are based on, or were supported by, markets created by government purchases, often in combination with government R&D.

Second, the use of regulation to create or stabilize markets is an important public role in encouraging long-term investment. Government regulation plays an important role in creating safe and reliable financial and air transport markets, albeit the definition of safety in the two markets is quite different. Government's ability to create a monopoly (often regulated and designed to be temporary) during certain stages of an industry's development is another tool to promote long-term investment.

Third, the government plays a crucial role in the creation of stable markets through its role in setting formal or de facto standards. As new markets and technologies emerge and develop, standards are often unclear or in constant flux. At some point - when necessary standards and potential technologies become clear - government helps establish formal standards, or participates in setting de facto standards, by becoming a buyer and thereby promoting long-term investments in the developing industry. Such interventions must be carefully timed to avoid freezing the system too soon or too late, but they can be enormous successes.

In summary, the government-created regulatory and legal environment has a substantial impact on time horizons of companies, but the impact is complex and multidimensional; some regulations and legal procedures can lengthen corporate time horizons, while other regulations, or legal constraints that introduce substantial unpredictability, can shorten time horizons. The importance of government policies with regard to the regulation and creation of markets needs to be acknowledged, and expertise in the use of such policies to support long-term investment should be cultivated.

The government should make sufficient investments in its own expertise and in evaluation and improvement of systems to reduce significantly the time spent in carrying out such fundamental governmental responsibilities as environmental approval of new facilities, obtaining licenses on government controlled or regulated technologies, obtaining patent approvals. The intent of such investments would be to encourage efficiency and timeliness in the prosecution of government regulatory and legal processes.

References

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