

ure of country-specific economic policies and amenable to country-specific policy responses. In fact, it is a global phenomenon with only its depth and length subject to local variation, only partially as a result of local policies. Much of the confusion about the causes and effects of this recession are grounded in the failure to recognize that Canada – as well as its major trading partners – is experiencing a triple dose of interrelated economic adjustment: adjustment flowing from a slowdown in the business cycle; adjustment flowing from the globalization of production and markets; and adjustment flowing from revolutionary changes in industrial organization. These adjustments are exacting heavy social and economic costs in part because the interrelationships between the various factors are not well understood and appropriate policy responses are not readily available.⁸

Part of this adjustment is flowing from the decline in the importance of manufacturing. The revolution in knowledge-based activities has devalued the role of hardware, i.e., the products of traditional manufacturing and the value of those producing traditional manufactured products, and increased the value of knowledge-based products. The CD player is not a major investment; it can now be purchased for little more than a hundred dollars. Discs on average cost twenty dollars retail, of which less than a dollar is required to produce the actual disc. The real cost is in the software, i.e., the music. In effect, over the life of the player, the average user will invest at least five or ten times its value in software. Sony's decision to purchase CBS Records, therefore, was a shrewd recognition of where future profits lie. Software is similarly driving developments in the computer industry. Computer hardware prices have declined radically over the past few years in order to increase the market for software and in turn, increase computer literacy and consequent interest in hardware. In this vein, the Apple-IBM strategic alliance is in part a reaction to the dominance of Microsoft in the design of software and an effort to replace Microsoft software products with their own.

A limited response of governments to the changing face of global economic life can be seen in the changing focus of trade negotiations. It is now recognized that today's barriers to international economic exchanges are no longer tariffs, QRs and other traditional measures but domestic policy instruments such as government procurement and competition and innovation policy. But here too, the transition is incomplete and continues to be hobbled by residual thinking. There is resistance to negotiating international rules that penetrate deep into national economic life and much of the approach of governments to these negotiations reflects continued attachment to

⁸ Robert Reich, *The Work Of Nations* (New York, 1991) is one of the first studies that synthesizes available analysis of many of the interrelated factors involved. The result is an integrated picture of the social and economic stresses being experienced in late twentieth century industrial society. It makes for compelling and sobering reading.