

## Public-private intersection: The Big Shift

**John Hagel, Co-Chairman, Deloitte LLP Center for the Edge**  
**Greg Pellegrino, Global Public Sector Industry Leader,**  
**Deloitte Touche Tohmatsu**

*25 January 2010.*

**Jackey Gold:** Welcome to the inaugural edition of The Global Shift series, part of Deloitte Global Insights. This series will be updated every quarter, identifying the issues that are driving the global economic and business agenda in the midst of a significant shift in the global environment. Today's program, "Public-private intersection: The Big Shift," will focus on the need for the public and private sector to adapt to a new set of indicators in the wake of a new era of growth.

The world is different after the economic crisis, and one way to see it is "The Big Shift." Innovation clusters, technology investments, scientific achievements, and regulatory regimes are some of the new proxies that will define this new era of growth.

Joining us today are John Hagel, Co-Chairman, Center for the Edge, Deloitte U.S. Consulting LLP, and Greg Pellegrino, Global Public Sector Industry Leader, Deloitte Touche Tohmatsu, who will be discussing the impact of this change on the public and private sector, as well as new avenues for growth in this new era.

I read an article recently in the *Harvard Business Review* about "The Big Shift." Can you explain to me what that is, John?

**John Hagel:** Sure, the Big Shift is an effort to refocus public policy leaders and executives away from the current economic downturn, which certainly has occupied a lot of our attention over the past couple of years, and focus much more on the long-term trends that have been playing out on the global economic landscape. We call that "The Big Shift," and we believe that these long-term trends have been largely driven by the emergence of digital technology infrastructures and significant shifts in public policy that have been playing out for decades on the global arena. In particular, those two elements have come together in a very powerful way to intensify competition around the world. And to make that more

*The Big Shift is an effort to refocus public policy leaders and executives away from the current economic downturn, and focus much more on the long-term trends that have been playing out on the global economic landscape.*

**John Hagel**

tangible in terms of specific outcomes, we measured various forms of performance over time, and in particular, focused in on the U.S. economy and the trends in terms of return on assets for all public companies since 1965. If you pull back to that kind of long-term perspective, you see the return on assets have been steadily declining over that four-plus-decades period, and in fact, return on assets have declined by about 75 percent over that time period—a very significant and sustained erosion in profitability of all public companies in the United States.

**Jackey Gold:** Greg, can you tell us how the Big Shift applies to governments?

**Greg Pellegrino:** Well, we thought that the research that John’s team led was quite compelling in terms of this whole idea of the decline of return on assets over the last four decades, and we began to look at what this meant for national economies and for governments. What we found was quite eye opening in terms of both the same trend in looking at how national economies are being reshaped using digital infrastructure and engaged citizens on the Internet as a proxy for how emerging economies are playing an increasingly influential role in the global economy.

If you think about the role that the Internet is playing, it is pretty easy to think of Internet as being essentially a digital waterway, replacing physical waterways that have shaped civilizations and economies over many centuries. Today, you no longer need to have access to waterways and ports in order to be a participant in the global economy. And so, this is reshaping the influence and the economic power that economies of any size are able to play. Our research has shown that emerging economies in places like Singapore, in the Nordic countries, but also in places like China and Brazil are distinctively linked to the emergence of the Internet and the government policies focused on innovation, economic development, research and development, science and as well the behavior of their citizens in terms of their engagement online. As we go forward, we think that this particular trend in the research that has been brought forward by John and his team with the Shift Index is going to allow us to look ahead at how government policies are going to provide the basis for sustainable growth as well as resiliency in economic downturns. So, this research absolutely applies to policy makers in the way they ought to be looking at the role that the Internet plays in providing economic growth and long-term sustainability for the national economies.

*This research absolutely applies to policy makers in the way they ought to be looking at the role that the Internet plays in providing economic growth and long-term sustainability for the national economies.*

**Greg Pellegrino**

**John Hagel:** I just want to add one quick point, Greg. I think that your emphasis on talent as the key source of comparative advantage is potentially challenging in the sense that it can change much more readily than natural resource attributes like waterways or port systems, and so I think it increases the urgency for government and public policy to

really focus on how we develop talent more aggressively and sustain that development of talent over time in order to maintain that comparative advantage.

**Greg Pellegrino:** Well, that's right, John. For example, the United States and Germany—two countries historically leading in industrial capacity in research and development, well recognized around the world, but also rated very highly relative to the movement of people to what is called creative cities, innovation centers in their countries—rate among two of the top three countries for the mobility of talent within their borders. This suggests that the ability for those countries to continue to play a leadership role is actually fairly robust, and I think that sometimes is perhaps a bit contradictory with the world view of whether or not those two industrial economies are going to be able to sustain their leadership position.

**Jackey Gold:** It is very interesting, because for many years we talked about companies going from country to country to find cheaper labor, but now labor has the ability and the mobility to move, as talent can move around the world very easily, and that makes it harder for countries to maintain their talent pool.

**Greg Pellegrino:** I think that if you look at that in the context, let us take a country like New Zealand, which is ranked year after year as one of the top places in the world to start a new business—an indication that the influence that New Zealand has in the global economy reaches far beyond its natural resources, its population, and its landmass size. So the influence of these economies—I have become perhaps enamored with the term island economies—that otherwise are dependent on other countries for resources now are wielding greater influence in emerging areas related to knowledge-based industries, but as well science, medicine, research, and so forth.

*The ability for the United States and Germany to continue to play a leadership role is actually fairly robust.*  
**Greg Pellegrino**

**Jackey Gold:** And that is because of their talent pool.

**Greg Pellegrino:** That is right, and their connectivity. We are seeing, for example, national policies becoming driven by Internet access. For example, Australia recently created a national policy and a goal of providing free Internet access to all of its citizens. That is quite an undertaking when you think about the landmass and the population distribution in a country that large.

**Jackey Gold:** Well, and those countries have to keep that talent pool happy, otherwise they would not be able to keep it within its borders.

**Greg Pellegrino:** Well, that is right and that also ties back to the discussion we were having earlier around migration and mobility, because immigration policy and the role of national security and immigration has very close connections. So, the ability for economies like Australia and New Zealand and others to grow and to prosper is also driven and influenced by immigration policy. For some very good reasons there are

some pretty tight controls over immigration both in terms of who is allowed to enter, which is somewhat restricted, as well as how many people. So we are going to see that issue continue to evolve as a source of debate in terms of whether or not immigration policies need to change or can countries continue to compete based on the development of the people that they have within their borders already by connecting them into the global economy on an increasing basis.

**John Hagel:** And there is a significant opportunity here if the government adopts a set of policies that are very aggressively focused on talent development, development of all the talent in their population, that becomes a magnet for talent from all over the world, and again, assuming immigration policies permitted, allow a country to really gather talent from all over the world and enhance its comparative advantage as a result.

**Jackey Gold:** Using social policy to attract talent. *The Economist* recently did a cover story about women and how women are now a majority of the workforce, and you know, having social policy that is more along the lines of, say, some of the Nordic countries in terms of child care and status a way to promote and keep high-quality talent from moving.

*There are large parts of the world where women are basically precluded from working and participating in talent development and that is a huge disadvantage for any country competing in an increasingly competitive world economy.*

**John Hagel**

**John Hagel:** And certainly there are large parts of the world where women are basically precluded from working and participating in talent development, and that is a huge disadvantage for any country competing in an increasingly competitive world economy.

**Jackey Gold:** Right, and as those women have more freedom to leave, they will go to other countries, get educated, and pursue careers in other countries. Greg, I wanted to ask you what the new indicators are that governments should refocus on and why they are relevant.

**Greg Pellegrino:** Well, we will start with first, which is access to the Internet, and that is really what a lot of this is about; it is the ability to engage businesses and citizens online, to engage them both in terms of social networking tools as well as access to knowledge repositories whether that be search engines or whether that be their corporate knowledge management systems. This connectivity is really driving a lot of the trends that we are discussing today, so the UK in its early e-government initiatives at the beginning of the last decade really emphasized broadband accessibility at every household while others were looking at

*Emerging economies, such as Brazil, India, countries in Southeast Asia, as well as Russia, also rate very highly in terms of social media activity.*

**Greg Pellegrino**

putting government transactions online. The UK was developing policy to provide connectivity to its people. I think it is interesting. The number one country in the world for access and engaged citizens using social media tools is China. This is quite interesting because we think of the Chinese in terms of their manufacturing capacity, the number of, of course, people, their natural resources, but they are also the most active online using social media tools—ahead of the United States by a rate of nearly double. So if you think about that and then look at emerging economies like Brazil, India, countries in Southeast Asia, Russia, they also rate very highly in terms of social media activity. These are not topics that we hear public policy makers debating in the legislature, but these are some of the emerging behaviors and measures of future resource and competitive strength in evaluating national economies.

**John Hagel:** Greg is on to a really important point because when we talk about talent development in terms of public policy, people tend to immediately focus on educational policy, which certainly has an important role to play, but there is a whole range of public policies like the deployment of and investment in digital infrastructures that have a dramatic impact on talent development. We need to significantly broaden our lens in terms of all the public policies that drive talent development, not just education.

*There is a whole range of public policies like the deployment of and investment in digital infrastructures that have a dramatic impact on talent development. We need to significantly broaden our lens in terms of all the public policies that drive talent development, not just education.*

**John Hagel**

**Jackey Gold:** Greg, I think that your group is going to be coming out with some kind of ranking in the spring. You want to talk a little bit about that?

**Greg Pellegrino:** We are working with John's center to apply the Big Shift concepts and the characteristics, the attributes, the drivers of future comparative advantage to come up with a worldwide ranking of national economies based on these attributes. We think that we are seeing the signs that resource-driven measures are kind of last century; and looking forward, some of these new measures are going to become much more important to be able to show comparative advantage, but also to drive the sustainable economic growth that every economy is seeking.

**Jackey Gold:** So, John, is the world no longer flat? Does the Big Shift contradict other theories?

*Rather than just focusing on what you know, increasingly in a rapidly changing world, the key is to tap into as many and as diverse set of knowledge flows as you can, and you can do that much more effectively if you are in a large urban concentration than if you are out in some rural area.*

**John Hagel**



**John Hagel:** Well, it is an interesting paradox. We are all familiar with Thomas Friedman's important book, "*The World is Flat*", and certainly one of the implications of digital infrastructures is that we do have more ability to connect regardless of our location and get the benefit of that connection and coordination of activity on a global scale. At the same time, the paradox and one of the metrics that we look at is movement of people into urban concentrations of talent innovation clusters of various types, and rather than slowing down, that is actually increasing, and so there is an important question to ask given the digital infrastructure and the increasing ability to connect: why is it that the people still feel this need to come together in large urban concentration of these innovation clusters? We think that a lot of it has to do with the increasing importance of knowledge flows. Rather than just focusing on what you know, increasingly in a rapidly changing world, the key is to tap into as many and as diverse set of knowledge flows as you can, and you can do that much more effectively if you are in a large urban concentration than if you are out in some rural area.

**Jackey Gold:** Gentlemen, thank you for joining us today. We hope to speak with you again in a couple of months to discuss new developments and perspectives on this topic.

**About Deloitte**

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 169,000 professionals are committed to becoming the standard of excellence.