Why Competitiveness Matters

By STEVE CHARNOVITZ

In a recent series of essays, Stanford economics professor Paul Krugman critiques the concept of national competitiveness. Paying too much attention to competitiveness, he believes, will steer U.S. policymakers toward counterproductive economic policies. Mr. Krugman does not pull his punches. Competitiveness, he says, is a "dangerous obsession."

Although many of Mr. Krugman's observations are valid, his perspective is too narrow. Are federal officials really too attentive to competitiveness as they design environmental standards, procurement regulations or taxes? Surely not. Far from being an "obsession," competitiveness is often ignored by politicians and bureaucrats alike. Far from being "dangerous," a greater consideration of the competitive impact of proposed policies would be salutary.

A good portion of the on-going debate is semantic. No one, Mr. Krugman included, objects when a corporation is concerned about its competitiveness. The dispute is over whether the government should be concerned about "national" competitiveness. According to Mr. Krugman, competitiveness is a meaningless word when applied to national economies.

In some ways he is right. Nations don't compete, even for Olympic medals. It's people who compete. Nevertheless, Mr. Krugman goes too far in denying the importance of nationhood. The American public is interested in how the United States performs economically vis-a-vis other countries.

Whether competitiveness is a fruitful concept depends on how it is measured. In its initial report to the president and Congress, the Competitiveness Policy Council defined competitiveness as the ability of Americans to earn a standard of living that is both rising and sustainable over the long run. Some useful benchmarks are productivity, the investment rate, wage growth and unemployment. While the trade deficit yields useful information, it is an ambiguous measure of national competitiveness. The value of one's currency is also an ambiguous measure.

Some analysts would measure U.S. competitiveness by selecting "key" industries and comparing the global market share of "American" companies to those from other countries. This approach lacks objectivity, however, because it depends on the industries selected. An internationally strong computer chip industry is probably better for America, dollar for dollar, than a strong potato chip industry. But a strong computer chip industry does not necessarily translate into a higher standard of living.

Some analysts would measure U.S. competitiveness by comparing the skills and wages of American workers to those in other countries. This is an incomplete measure, but better than the "key" industry approach. Moreover, it leads to important questions. How do American workers compare in skill to German workers? What can government do to make the American work force more attractive to investors?

Competition in the private sector is always a good idea. But competition between governments can be good or bad depending on the rationale for the public role. When governments engage in beggar-thy-neighbor practices, like import quotas, such competition can only redistribute or diminish wealth. When governments engage in bolster-thy-self practices, like sponsoring research, such competition has the potential for creating wealth. Not all research efforts are wealth-creating. Research that is merely "pork" or that subsidizes corporate work that would occur anyway does not create wealth.

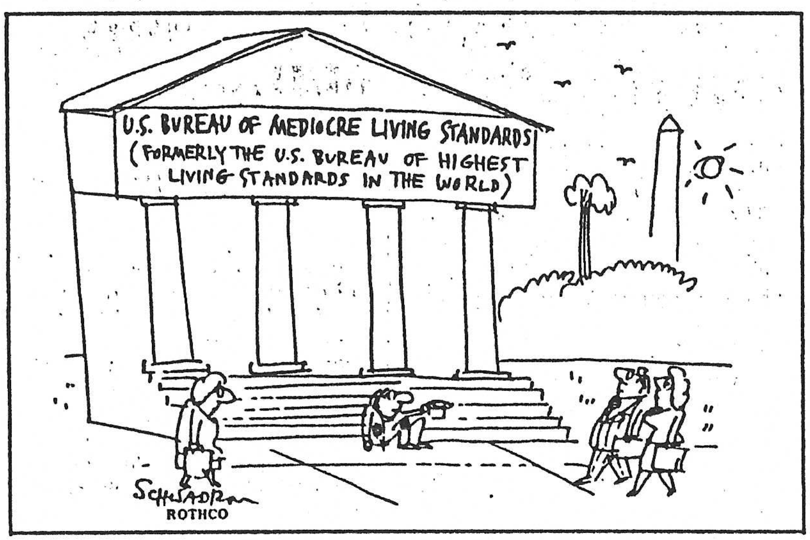
There are many international institutions to promote cooperation among governments. Yet there is little framework to foster competition for the wisest public policies. Imagine national governments vying to see who has the fewest potholes, the least public corruption or the quickest mail delivery. You have to imagine it because it doesn't happen.

Citizens cannot switch countries the way consumers switch brands. Given the limited role of migration in correcting bad government, we need to find ways to make federal officials more sensitive to their performance relative to other countries. There are many fields of international competition besides export prowess. What nation is No. 1 in new inventions? Who leads in tourism growth? The world needs more, not less, of such friendly competition.

Within the United States, we should be trying harder to assess the impact of proposed legislation or regulations. In 1988, the Congress directed the president to submit a "competitiveness impact statement" with every legislative initiative that could affect the ability of businesses to compete. The provision expires this month after six years of noncompliance by the Reagan, Bush and Clinton administrations. A competitiveness impact statement does not assure wise decisions. But it can force policy-makers to think through how new mandates will affect business.

Within any industry, competition between firms will usually be a zero sum game. But competition between nations is a different matter. So long as governments allow labor and capital markets to adapt, one nation's prosperity does not come at the expense of another's. Indeed, growth in each nation can help all nations. If "played" right, governments can boost each other's growth by providing a good macro-economic climate and by expanding markets. Nations can simultaneously raise their standard of living by having competitive industries in their areas of national specialization.

The American political system is extremely sensitive to public opinion. Enacting major reforms requires Herculean efforts. The challenge of competitiveness in our global economy can be a powerful theme for a president trying to rally support for an agenda of "change." The government needs to cut back entitlements, reduce its federal deficit and boost useful public investment. If the pursuit of national "competitiveness" can be used to motivate the public into endorsing that kind of agenda, then competitiveness could become a healthy obsession.



Steve Charnovitz is policy director of the Competitiveness Policy Council. The views expressed are his own.

THE JOURNAL OF COMMERCE, Tuesday, August 2, 1994
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