

Competitiveness across the Atlantic

Governments disappointed with their economic success turn to the slogan of enhanced competitiveness. But both the British and US governments overlook the simplicities in their case.

NATIONAL preoccupations with competitiveness are evidently infectious, but not virulently so. In the late 1960s, as the Italian 'economic miracle' of the previous decade faded into mirage, the government of Italy urged on Europe as a whole its diagnosis of 'the technology gap' in which it saw great danger, and which was taken to be a measure of Europe's backwardness compared with the United States. Laughably, in retrospect, Japan was hardly mentioned. Ironically, the cry of competitiveness was next taken up in the late 1970s by President Jimmy Carter's United States, when the worry was Japan, and served as a desultory theme song for the two Bush presidencies. France, a little later, took a still more dramatic line: Jean-Pierre Chevènement, appointed minister of research and industry in 1980, advocated technological change as an instrument of national prowess; thanks to the energy of his more patient successors, the goal has partly become reality. And now the slogan of international competitiveness has spread to Britain, but in a characteristically muted way.

On behalf of their voters, governments seek prosperity in an increasingly global market in which the prizes go to those who can deliver reliable products at low prices or who can make radically innovative products. The slogan of competitiveness has historically been a mark of governments' disappointment at declining international performance. But, curiously, neither in Britain nor in the United States have governments grasped the lessons that need to be learned.

The British case is the more stark. Last year, Britain came sixteenth, by order of gross domestic product (GDP) per head in the ranking of what were then the 24 members of the Organization for Economic Cooperation and Development (OECD). Last year, by the same yardstick, it was seventh out of the 12 members of the European Union (EU). This is a far cry from the 1950s, when, even so, the then government though it worthwhile to mount a detailed comparison of the shortcomings of the British economy through the work of the Anglo-American Productivity Council. The British ministers who last week launched the government's paper *Competitiveness: Helping Business to Win* could do worse than hunt in the archives for those revealing documents.

Meanwhile, the same ministers should read their own document again, asking themselves what impact it is likely to have. The paper acknowledges that Britain's economic performance has indeed declined over the past century, but it then draws a line in 1979 (when the Conservatives came to power) and seeks to demonstrate that things have been improving ever since. This has indeed been a period of

hyperactive government in Britain. Nationalized industries have been privatized, arrangements for higher education and technical training have been in a perpetual state of flux, the rigours of market forces have driven a kind of darwinian evolution of British industry into occasional patchy extinction, and now the public support of research is going through root and branch upheaval. To be fair, many of these changes may contribute to enhanced competitiveness, even if some of them are gambles.

But the British problem is deeper than that, and in two important ways. First, economic growth seems inseparable from price inflation. And even now, when industrial production is rising towards the level reached in 1991, there is talk of increasing interest rates again to keep inflation in check. The other peculiarly British difficulty is that public policy lacks consistency of the kind conspicuous in France. Historically, the electoral process has become a means by which public policy is moved through right angles, disconcerting trading partners and the rest of the world. In that sense, British competitiveness (or the lack thereof) may stem from its perverse boast that it lacks a written constitution. The government's paper promises further editions on the same theme. It should take up both these questions the next time round.

The US difficulty is different. There are the same long-standing difficulties about the quality of public education and the means by which a government can reliably and legally stimulate innovation, but the US economy as such remains in many ways the most flexible in the world. The drag is that the size of the federal deficit has depressed the dollar, and that the continuing trade deficit depresses it further. So the administration has become itself into a kind of export salesman, as typified in the past few weeks by its arguments with the governments of China and Japan.

Predictably, President Bill Clinton has been forced by reality to retreat from the hard line that a continued low-tariff relationship with China would be possible only if China quickly became more like a Western democracy; he should not have put himself in such a brittle position in the first place. But the administration has relatively bigger sticks with which to thump a more compliant Japanese government. By October, when a decision must be made, it will seem very odd that China will have been accorded 'most-favoured nation' status on trade, while Japan may be among the least favoured trading partners of the United States. "So what?", the administration in its present mood will ask. Let us hope that it does not invite an unwelcome answer. □