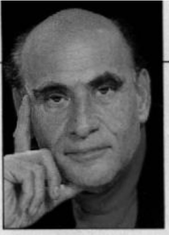

The myth of the competitiveness cure

BY PETER C. NEWMAN

One of the few articles of faith about this country's economic future is that what we need to do, above all else, is become more competitive. Asked near the end of his term about his personal goal for Canada, Brian Mulroney unhesitatingly declared: "To make Canada more competitive." Jean Chrétien has preached a similar sermon and in their Red Book, the Liberal think-tankers came down hard in favor of creating a society that recognizes "that we are competing as a team against our international competitors."

Such hoary clichés have been useful because they rang true, not just for Canada but for all free-market economies—and especially one as dependent on exports as ours. According to that smug theory, Canada could thrive only by successfully competing with other countries in our main export categories. The idea is that there is an endless spectrum of opportunities out there, and that if we break into other people's domestic markets all our problems will be solved. Of course, exports do help reduce our unemployment levels and by earning foreign currency they allow us to buy the imports we either need or want. But some of our economists and most of our politicians have raised competitiveness almost into a theology, as if nothing else mattered.

That superficially comforting approach has now been challenged by Paul Krugman, an academic whiz from the Massachusetts Institute of Technology in Boston, whose most recent book was appropriately titled *Peddling Prosperity: Economic Sense and Nonsense in the Age of Diminished Expectations.* In a seminal article, "Competitiveness: A Dangerous Obsession," published in the current issue of *Foreign Affairs*, the prestigious quarterly publication on international relations, the good professor takes on the prevailing conventional wisdom that countries are like huge companies that compete with each other for sales and customers. He labels as "deeply misleading" the simplistic notion that countries can be compared to such corporate combatants as Coca-Cola and Pepsi, going after the same market of thirsty consumers. Writes Krugman: "The idea that a country's economic fortunes are largely determined by its success on world markets is a hypothesis, not a necessary truth; and as a practical, empirical matter, that hypothesis is flatly wrong. That is, it is simply not the case that the world's leading nations are to any important degree in economic competition with each other, or that any of their major economic problems can be attributed to failures to compete on world markets."

> *By blaming our poor economic performance on a vague concept, politicians avoid dealing with the real issues*

Krugman compares the use by politicians of the competition bogeyman to the American military men who exaggerated fear of the Soviet Union in the Cold War days to justify overblown military spending. "Most people," he complains, "who use the term 'competitiveness' do so without a second thought. It seems obvious to them that the analogy between a country and a corporation is reasonable and that to ask whether the United States is competitive in the world market is no different in principle from asking whether General Motors is competitive in the minivan market."

But companies, he points out—unlike countries—have bottom lines, and an inefficient company can go bust while a country can't really go out of business. The fact that most of a country's output is for its own use means that living standards and other key economic indicators are determined by domestic factors, rather than by international competitiveness.

The article further points out that when Coke and Pepsi compete, only a negligible fraction of Coca-Cola's sales go to Pepsi's employees, and vice versa. But when countries compete, they can still be one another's export markets in several categories, so that if one country does well it doesn't necessarily do so at the expense of the other. Despite the global world we inhabit, economies do act on their own, and the consequences of their actions are largely domestic. "International trade," Krugman says, "is not a zero-sum game. When productivity rises in Japan, for example, the main result is a rise in Japanese real wages; American or European wages are, in principle at least, as likely to rise as to fall, and in practice seem to be virtually unaffected."

Krugman's thesis is difficult to grasp, but it's important because it exposes the false premise on which most Canadian politicians operate. By blaming our lagging economic performance on a concept as vague and uncontrollable as international competitiveness, they can avoid getting to the root of the matter, which involves such gut issues as trimming the safety net, sponsoring appropriate schooling and the willingness of Canada's worker-bees to believe that life's ultimate virtue is a hard's day's work well done. "Most of those who have preached the doctrine of competitiveness," Krugman warns, "want their country to win the global trade game. If, despite its best efforts, a country does not seem to be winning, or lacks confidence, then the competitive diagnosis inevitably suggests the closing of borders." In other words, old-fashioned protectionism.

"Perhaps, the most serious risk of the obsession," Krugman writes, "is its subtle indirect effect on the quality of economic discussion and policy-making. . . . We can see this process at work in the simple-minded claim by U.S. Trade Representative Mickey Kantor that Japan's bilateral trade surplus was costing the United States millions of jobs." President Bill Clinton seems to have fallen into a similar trap by stressing the creation of high-wage jobs instead of potentially much more long-term employment gains that could result from specialization.

Krugman concludes with this telling clarion call: "Competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous."

The argument is a subtle one, but the message is clear. Next time a Canadian politician puts on that mysterious, all-knowing look and blames the country's—or the government's—difficulties on foreign competitiveness, look him in the eye and tell him to tend his gardens instead of distant fields. It's not competitiveness, stupid!