

18

## Competitiveness and the Antieconomics of Decline

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Start with a riddle, by guessing the time and place:

A nation speaking the language of Shakespeare wins a world war and takes command of the balance of power. It builds the largest economic machine in history, and is acclaimed on all sides as having the most energetic businesspeople, the most ingenious engineers, the smartest scientists, and the wisest politicians. Then everything goes to hell. An upstart challenges its economy, beating it at its own game. The former paragon, a decade or two after the hosannas, comes to be scorned, at any rate at home, as having the laziest businesspeople, the stupidest engineers, the dullest scientists, and the most foolish politicians. It becomes in the opinion of the world (or at any rate in the opinion of homefront journalists and politicians) a New Spain or a New Holland, a byword for a failed empire.

Time's up.

### ANSWERS, WRONG AND RIGHT

If you guessed "America, 1916–1992," give yourself half credit, fifty points. Sorry, that's not passing. True, the story fits American history from The War to End All Wars down to the Noriega Trial, but it also fits more. If you guessed "Britain 1815–1956," you again earn fifty points, and ten points extra for recognizing that there is a world outside the United States. The story fits British history, all right, from Waterloo to Suez, but the answer warrants only a pass, D–. The better, cum laude answer is "Both, down to details of the words people used at the time to describe what was happening." British opinion leaders in the 1890s and 1900s read books with titles like *Made in Germany* (1886) or *The American Invasion* (1902). Where have you seen those? You've seen them in airport bookstores from

Kennedy to Honolulu, with America in place of Britain as the patsy. The book of 1896 might as well be reprinted 100 years later with "Japan" in place of "Germany": "Make observations in your surroundings. . . . You will find that the material of some of your own clothes was probably woven in Germany . . . the toys and the dolls and the fairy books" and the piano, the drain-pipes, and on and on, down to a souvenir mug inscribed "A Present from Margate, Kent." Make observations in your garage, your living room, your den; you will see Toyota, Sony, and Yamaha all around.

The answer, however, is too clever by half. Give yourself a B-, and try to be a little wiser next time. Sure, warning that "The End is Near" gives one a reputation for prudence, besides selling newspapers. The story is made better by a supposedly horrible example, such as Britain, the only European country many Americans think they know, and therefore think they know how to improve. The British and American stories certainly are told in parallel. The British analogy haunts American intellectuals. On the upside each country in succession became the world's banker. On the downside both fought a nasty colonial war against farmers (Boer and Vietnamese). Both in the end became debtor nations, with long-lasting deficits in visible trade.

The stories, however, are wrong, both of them. That is the correct answer for an A+ and an invitation to graduate school. The stories are routinely applied to Britain and now America, but they are mistaken. As much as American intellectuals delight in telling them around the fern bar, urging us to buckle up our football pads for *The Zero-Sum Solution Building a World Class Economy* (L. Thurow, 1985) or to finally get down to *The Work of Nations: Preparing Ourselves for 21st-Century Capitalism* (R. B. Reich, 1991), the story is wrong about America. It was just as wrong about Britain a century ago. The story of *The Rise and Fall of the Great Powers* (P. Kennedy, 1987) is a fairytale. The correct story is that both countries were and are economic successes.

### THE MYTH OF DECLINE

Here are the data. Angus Maddison is a Scot living in France and working in Holland. He is a bear of man fluent in seven languages and in statistical thinking, who is the leading authority on the history of world trade and income. In 1989 he published a little-noticed pamphlet entitled *The World Economy in the 20th Century*, under the auspices of the Organization for Economic Cooperation and Development (OECD), the research institute in Paris for the industrial countries. Using the best statistics on income available Maddison came up with the following surprising facts:

1. Americans are still richer than anyone else, after a decade of "failure." In 1987 Americans earned \$13,550 per head (in 1980 prices), about 40 percent higher than, say, the Japanese or the (West) Ger-

mans. If you do not believe it have a look at a typical house in a suburb of Tokyo.

2. Britain is still rich by international standards. After a century of "failures" the average Briton earns a trifle less than the average Swede and a trifle more than the average Belgian. If you do not believe it, stay at a Belgian hotel. The British average, however, is over three times that of Mexico and fourteen times that of India. If you do not believe it, step outside your hotel in Calcutta.

America, therefore, has not "failed," and neither has Britain.

The American story as it is told in the lecture rooms repeats the British story, eerily, but it is a matter of false rhetoric from the start. British observers in the early nineteenth century, like Americans in the Jazz Age, were startled at the ease with which the country had taken industrial leadership. Britain was the first, but a few of its intellectuals were nervously aware of the strangeness of a small island running the world. In 1840, early in British success, J. D. Hume warned a select committee of Parliament that tariffs on imports of wheat would encourage other countries to move away from agriculture and toward industry themselves, breaking Britain's monopoly of world manufacturing:

[W]e place ourselves at the risk of being surpassed by the manufactures of other countries; and . . . I can hardly doubt that [when that day arrives] the prosperity of this country will recede faster than it has gone forward.

Nonsense. It is the "competitiveness" rhetoric, and it has always been nonsense, in the 1840s or the 1990s. Britain was made better off by the industrialization of the rest of the world, in the same way that you would be made better off by moving to a neighborhood of more skilled and healthy people. British growth continued from 1840 to the present, making Britons richer and richer. Likewise, Americans are made better off when Japan "defeats us" at carmaking because we then go do something we are comparatively good at—banking, say, or growing soybeans—and let the Japanese do the consumer electronics. Richer and richer. According to Maddison, Britain is about three-and-a-half times richer than it was a century ago; America about five times richer.

It is true that Britain and America have grown slower than some other countries, probably because Britain and America started richer. The story of industrial growth in the past century has been a story of convergence to British and American standards of excellence. Germans in 1900 earned about half of what Britons earned; now they are about the same. It is not a "race" that Britain lost. The falling British share of world markets was no index of "failure," any more than a father would view his falling share of the poundage in the house relative to his growing children as a "failure." It was an index of maturity. This was also true for America. It is good, not bad, that other nations are achieving American standards of compe-

tence in running supermarkets and making food processing equipment. Three cheers for foreign "competition."

The story of "failure" has consequences itself, which is why it needs to be challenged. It confuses prestige of a sporting character, being tops in what the British call the "league tables of economic growth," with significant differences in wealth. More ominously, it speaks of free exchange in metaphors of war. In 1902, at the height of xenophobic hysteria in Britain about "competitiveness," Edwin Cannan declared

[T]he first business of the teacher of economic theory is to tear to pieces and trample upon [hold on there, Edwin] the misleading military metaphors which have been applied by sociologists to the peaceful exchange of commodities. We hear much . . . in these days of "England's commercial supremacy," and of other nations challenging it, and how it is our duty to "repel the attack," and so on. The economist asks "what is commercial supremacy?" and there is no answer."

We hear much these days of America's commercial supremacy and how it is our duty to repel the attack. In 1884-1914 such talk led to a world war. In our times we should perhaps cool it, recognizing for instance that most jobs lost in Massachusetts are lost to Texas and California, not to Japan and Korea; or that richer neighbors will pay more to us for our goods and services.

David Landes, a professor of history and of economics at Harvard, brought the mistaken story of Britain's decline to academic respectability. In his classic book, *The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present* (1969), Landes summarized a century of journalistic and historical weeping for lost "supremacy and lost empire." He uses throughout a metaphor of leadership in a "race," speaking in chapter titles of "Closing the Gap" and "Short Breath and Second Wind," with a military version in "Some Reasons Why," taken from a poem about a cavalry charge.

The main question, according to Landes, is, "Why did industrial leadership pass in the closing decades of the nineteenth century from Britain to Germany?" Briefly, his answer is:

Thus the Britain of the late nineteenth century basked complacently in the sunset of economic hegemony. . . . [N]ow it was the turn of the third generation, the children of affluence, tired of the tedium of trade and flushed with the bucolic aspirations of the country gentleman. . . . [T]hey worked at play and played at work.

That is fine writing, but it merely restates the nonsense about competition. It is nonsense on two grounds, political and economic. The European story is in fact commonly told by diplomats and their historians in terms of footraces and cavalry charges among ironmasters and insurance brokers, and the sunset of economic hegemony. The balance of political power in

Europe since Peter the Great is supposed to have depended on industrial leadership. Waterloo and the Somme are supposed to have been decided on the assembly line and trading floor. The supposed link between the lead in war and the lead in the economy became a commonplace of political talk before World War I and has never since left the historical literature. To think otherwise, says Landes, is "naïve."

The link between the economy and politics, it needs to be said, is nonsense. After all, a large enough alliance of straggling, winded followers could have fielded more divisions in 1914. The case of Soviet Russia in 1941 or North Vietnam in 1968 suggest that military power does not necessarily follow from economic power. In 1861-1865 the Union sacrificed more men than the entire United States did in any other war to put down a rebellion by a less populous section than it outproduced at the beginning by 30:1 in firearms, 24:1 in locomotives, and 13:1 in pig iron. In World War I the shovel and barbed wire, hardly the most advanced fruits of industry, locked the Western Front. Strategic bombing, using the most advanced techniques and the most elaborate factories, failed in World War II, failed in Korea, and was therefore tried again with great fanfare, to fail again, in Vietnam. It worked finally against a trivial military power in Iraq. Or did it? The equation of military power with economic power is good newspaper copy, but it is poor history.

### BEYOND THE LOMBARDI METAPHOR

The economic nonsense in the metaphor of leadership is that it assumes silently that first place among the many nations is vastly to be preferred to second or twelfth. Leadership is number-oneship. In the motto of the great football coach, Vince Lombardi, "Winning isn't the most important thing; it's the only thing."

No. The metaphors of disease, defeat, and decline are too fixated on Number One to be right for an economic tale. The Lombardi motto governs narrowly defined games. Only one team wins the Super Bowl. The fixation on Number One, though, forgets that in economic affairs being Number Two, or even Number Twelve, is very good indeed. The prize for second in the race of economic growth was not poverty. The prize was great enrichment. In other words, since 1870, Britain has grown pretty damned well, from a high base.

By contrast, the diseases of which the pessimists speak so colorfully are romantically fatal; the sporting or military defeats are horribly total; the declines from former greatness irrevocably huge. A historian can tell the recent story of the first industrial nation as a failure, and be right by comparison with a few countries and a few decades. The historian would sell plenty of books to Americans in the last years of the twentieth century because some Americans worry about "loss of leadership." The historian, however, would be writing nonsense.

On a wider, longer view the story of failure in a race is strikingly inapt. Before the British the Dutch were the "failure." The Dutch Republic has been "declining" practically since its birth. With what result? Disaster? Poverty? A "collapse" of the economy? No. The Netherlands has ended up small and weak, a tiny linguistic island in a corner of Europe, stripped of its empire, no longer a strutting power in world politics—yet fabulously rich, with among the highest income in the world (now as in the eighteenth century), a domestic product per head quadrupling since 1900, astoundingly successful by any standard but Lombardi's.

The better story is one of normal growth, in which maturity is reached earlier by Britain and America than by Japan and Germany. The British failures of the late nineteenth century were small by international standards, even in industries such as steel and chemicals in which Britain is supposed to have done especially badly. Everyone concedes that in shipbuilding, insurance, bicycles, and retailing Britain did well from 1870 to 1914. Whether it "did well or not," however, its growth did not depend importantly on keeping right up with Number One. Britain in 1890 could have been expected to grow slower than the new industrial nations. The British part of the world got there first, and was therefore overtaken in rate of growth by others for a time. Naturally, someone who already passed the finish line is going to be moving slower than someone who is still running. Belgium was another early industrial country and had a similar experience of relative "decline" that is seldom noted.

On the whole, with minor variations accounted for by minor national differences in attention to detail, the rich nations converge. Resources are a trivial element in modern economies. Technology, on the other hand, has become increasingly international. If people are left to adopt the most profitable technology, then they end up with about the same income, whether they live in Hong Kong or Dresden.

The main British story since the late nineteenth century is what Americans can expect in the century to come. British income has tripled while others achieved British standards of living. A 228 percent increase of production between 1900 and 1987 is more important than an 8 percent "failure" in the end to imitate German habits of attention to duty. Looked at from Ethiopia or even from Argentina, Britain is one of the developed nations. The tragedy of the past century is not the relatively minor jostling among the leaders in the lead pack of industrial nations. It is the appalling distance between the leaders at the front and the followers at the rear.

If one must use the image of the race course, then the whole field, followers as well as leaders, advance notably—usually by factors of 3 or more since 1900 in real output per head. The main story is this general advance. The tripling and more of income per head relieved much misery and has given life affording scope to billions of people otherwise submerged: Think of your great grandparents.

In other words, the trouble with this pessimistic choice of story in the literature of British and American failures is that it describes this happy

outcome of growth as a tragedy. Such talk is at best tasteless in a world of real tragedies—Argentina, once rich, is now subsidizing much and producing little; or India, trapped in poverty after much expert economic advice. At worst the pessimism is immoral, a nasty self-involvement, a line of nationalist guff accompanied by a military band playing "Land of Hope and Glory" or "The Marine Hymn." The economists and historians appear to have mixed up the question of why Britain's income per head is now six times that of the Philippines and thirteen times that of India—many hundreds of percentage points of difference that powerful forces in sociology, politics, and culture must of course contribute to explaining—with the more delicate and much less important questions of why British income in 1987 was 3 percent less than the French or 5 percent more than the Belgian.

## CONCLUSION

Telling a story of America following Britain into "decline" is dangerous nonsense. It is nonsense because it is merely a relative decline, caused by the wholly desirable enrichment of the rest of the world. It is dangerous because it leads us to blame foreigners for our real failings, in high school education, say, or in the maintenance of bridges.

So cheer up. We are not going the way of Britain, if that means what the pessimists mean. In the more accurate and optimistic story it means continuing to succeed economically. If success means cricket on Sundays and drinkable beer, then hip, hip, hurray.