

Exploding the myth of competitiveness¹

by Michel Husson

« We are told that if we increase employers' contributions, or if we tax capital and financial products, we will increase the costs of labour which will endanger the competitiveness of companies that will then have no choice but to declare redundancies or relocate (globalisation of the economy allows them no other options!). What's your answer to that ? How can we finance pensions in the future without endangering competitiveness and without forcing companies to relocate ? »²

The first problem with the competitiveness argument is that it is endless. Each concession we make to this « economic imperative » is succeeded by another one, which enables the owners of capital to take possession of an ever greater share of the wealth, produced. However, the distribution of revenues is not determined by intangible economic laws but by the changes in social relationships. If previous generations had believed this type of argument we would still be experiencing 19th century working conditions.

The arguments we hear today are as old as capitalism. In 1770, the anonymous author of an *Essay on Trade and Commerce*, published in London, was already explaining that people needed to work harder : « The cure will not be perfect, till our manufacturing poor are contented to labour six days for the same sum which they now earn in four days ».

A little later, in 1850, the author of *Sophisms on free trade* bemoaned : « The difficulty of getting men to work on reasonable terms grew to such a height as to be quite intolerable ».

In 1865, still in London, the *Commission on child labour* indicated : «Our objections to not allowing boys under 18 to work at night, would be on account of the increase of expense, but this is the only reason. We think that the increase would be more than the trade, with due regard to its being successfully carried out, could fairly bear. Labour is scarce here, and might fall short if there were such a regulation ».

An editorialist of *The Times*, writing on the 3rd of September 1873, issued a warning to the irresponsible that could date from yesterday : « If China should become a great manufacturing country, I do not see how the manufacturing population of Europe could sustain the contest without descending to the level of their competitors »³.

Nearer to our own time, the competitiveness argument holds that decreases in labour costs (direct wages and « social costs ») have beneficial effects on the economy and employment :

- they enable companies to reduce prices and therefore win market share abroad or protect internal markets ;
- they enable companies to re-establish their margins and therefore make investments that improve their « non-price competitiveness », which result from quality ;
- they prevent relocation to countries with low labour costs ;
- they attract capital that otherwise would go elsewhere.

¹ From : « Pour dégonfler la baudruche de la compétitivité », *Le Grain de Sable* n°430, 20 juin 2003, Attac-France. Translation. Coorditrad, volunteer translators. Contact for this article. hussonet@free.fr

² Question received from a user of the portal Vive la répartition ! <<http://reparti.free.fr>>

³ I did not have to search for very long to find these learned quotes because they are taken from Book1 of *Capital*, Penguin 1976, pp.388, 383, 372 and 749.

Therefore, it follows that an unreasonable increasing in labour costs would be detrimental to employment. We can criticise these assertions in two ways: firstly, things do not work like that in practice, secondly, decreases in labour costs have negative effects on employment that may outweigh any positive effects.

1. The competitiveness argument does not work

For about 20 years, the share of wages in GDP has decreased almost everywhere in Europe. This means that real wages have increased more slowly than the productivity of labour. Therefore, the unit cost of labour has decreased and « cost competitiveness » has increased. But this increase has only partly been used to increase real competitiveness because prices have not decreased in the same proportion, which means that companies' margins have increased. In other words, the decrease in labour costs has not led to a decrease in prices but an increase in profits.

Neither has this increase in profits resulted in an increase in the levels of investments. This is a very striking aspect of the period, which is good measure of its financial nature: the restraint of wage costs has fed financial profits and not invested profits.

Quite obviously, the competition from low-wage countries is very strong in some sectors, such as textiles and domestic appliances, but has a relatively secondary effect on the whole of production. Furthermore, the relocated jobs are in part compensated by the surplus of exports, in particular capital goods, to the low-wage countries, even if the labour content is not the same.

As far as attractiveness to capital is concerned, we must not forget globalisation and we must take an overall view. This reveals a strong trend towards transnational integration of capital: French outward investment abroad, on the one hand, and foreign inward investment in France on the other, are increasing much faster than domestic investment. Therefore, the notion that France is becoming less attractive is a myth. As for French outward investment abroad, only a marginal amount goes to low-wage countries.

2. The perverse effects of competitiveness at any price

Not all the effects of decreased wages are beneficial. True, capitalism needs high profits but it also needs demand. Yet, trying to gain competitiveness by decreasing wages depresses demand. Furthermore, the effect is multiplied when all the countries in an integrated economic area, like Europe, pursue this type of policy in a co-ordinated manner.

The best example - it's really a counter-example - of this assertion is the « upturn » period from 1997-2000, when 10 million jobs were created in the European Union. These jobs were created (after a long period during which employment stagnated and unemployment increased) not as a result of increased competitiveness but on the contrary due to a slight relaxing of neo-liberal strictures.

True, there were gains in competitiveness but these were solely due to the appreciation of the dollar in relation to European currencies. Until then, on the contrary, it seemed as if the wage freeze had to compensate for policies of overvaluing currencies which were not very good for competitiveness but were very effective in holding down wages.

In reality, the recovery was sustained by the almost parallel progress, at long last, of wages and GDP. The jobs created fed into the dynamic and incidentally absorbed a large part of the social security and budget deficit (this was called the « kitty effect »). This virtuous circle was also supported by the reduction in the working week in France, where 2 million jobs were created in 4 or 5 years, a record figure.

Neo-liberal policies, increasingly closely co-ordinated at European level, have led to a reversal of those economic conditions and a new de facto wage freeze. The endless search for competitiveness produces periodic recessions because the frozen wages of some people are the empty order books of others. Every one is competitive but in a recession.

Finally, the frantic search for competitiveness based on low wages is an illusion: we can never compete with low-wage countries on this basis. Furthermore, such a policy is in contradiction with competitiveness based on other factors than price, such as skilled work, quality and the incorporation of new technologies. We must choose between the knowledge based economy policy and that based around competitiveness.

Above all, we should never let ourselves be impressed by those who invoke the supposed laws of the economy. If the neo-liberals had really mastered them we'd know about it by now. After two decades of very strict « wage restraint » we should be seeing jobs created everywhere and the start of a return to full employment. But we would be wrong to think that this is really the objective in view. It is really simply to preserve the advantages of a share in revenues that is extraordinarily favourable to the owners of capital.

There is a very simple way of increasing the celebrated competitiveness, it consists of reducing financial profits and reallocating them to wages and pensions. Not only is this fairer in social terms, it is also more efficient economically (supporting demand), on condition however that you take employment as the criterion of efficiency.

3. The bluff of the flight of capital (and the brain drain)

We are told that too high taxes lead to the flight of capital and a brain drain. If we want to describe current reality, this picture is a pure optical illusion. France is not as repulsive as the advocate of zero taxes make out. A very recent report on the subject⁴ confirms this, as have numerous other studies.

But this is not simply a bluff, because what is at issue is the right to a share of the value created. If any of these advantages are called into question a little forcefully, retaliatory measure will obviously be taken, in the form of relocations, export of capital or tax evasion. Capital's mobility, carefully prepared by deregulation, is its great advantage over labour. Nevertheless, there are limits to these retaliatory measures: leaving a country is also losing a market, you can (more or less easily) export capital but you cannot move the real productive forces as easily: the people, know-how, machines and networks, etc.

As in the case of the Tobin tax, the extension of new methods for dividing up revenue to the European level is the condition of their viability. But there remain a degree of confrontation that the technical mechanisms for controlling exchanges and moving capital can reduce but never eliminate. This is all the more true in that the competitiveness imperative is never self-limiting and that each concession gives rise to a new regressive pressure. In the case of pensions, the basic issue is to find out if the share allocated to pension will increase with the number of pensioners or if the owners of capital will impose a fixed budget, in other words pensions will decrease. A study commissioned by the Pensions Policy Council (COR) from an independent economic institute, the OFCE, shows that an increase in the share of wages compensated by a decrease in financial revenues is neutral from the point of view of growth and employment. True, the political feasibility of this operation is another affair, but the decision should not be based on an economic bluff.

⁴ Michèle Debonneuil and Lionel Fontagné, *Compétitivité*, report to the Conseil d'Analyse Economique, La documentation Française, 2003.