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THE COMPETITION SOLUTION

The Bipartisan Secret behind American Prosperity

By Paul A. London

In *The Competition Solution: The Bipartisan Secret behind American Prosperity* (AEI Press, March 3, 2005), former deputy under secretary of commerce Paul A. London provides an unconventional and compelling look at what makes the American economy tick. London analyzes what made America prosperous in the 1990s and identifies, in a straightforward and accessible manner, what needs to be done to return to that level of sustained economic growth. In particular, he explains how the lessons of the 1990s can be applied to improve two major sectors of our economy—health care and education.

What is the competition solution? What is the lesson of the 1990s economy? Using first-hand stories and accessible economic analysis, London shows that the economic growth of the 1990s (as well as the 1980s) was due to bipartisan political support for competition—breaking down the old, non-competitive monopolies and oligopolies that dominated industries such as automobile and steel manufacturing, telecommunications, transportation, express mail delivery, finance, and retailing. As a succession of presidents, regulators, courts, and Congress opened these industries to innovative competitors, investments in new technology soared, productivity rose, unemployment fell, and our economy grew without inflation.

The U.S. auto industry is one example. Once the preserve of three powerful but unimaginative companies, it was forced to change its way of doing business by competition, first from imports and then from foreign-owned car-makers building new plants all over the United States. Volkswagen and the Japanese automobile companies were given a chance to compete by U.S. policymakers and made money by concentrating on low-end customers who got little attention from the established American companies. Foreign competition forced Detroit to rethink how it did business. The result, in the end, was a stronger American auto industry—and a stronger economy.

London also tells the story of the hard political fights to break the grip of the truckers and the Teamsters; of the battles that helped MCI break the monopoly of AT&T and its unions; of struggles that gave rise to new financial instruments and institutions, such as junk bonds and NASDAQ, which served companies that lacked access to traditional sources of capital; and of the rearguard actions of established retailers to maintain the status quo. The rise of Wal-Mart is another classic example, London believes, of how a more competitive marketplace helped American consumers and America's economy in the 1990s.

Surprisingly, neither monetary nor tax policy had much to do with the changes in our economy. London points out in *The Competition Solution* that political decisions played a central role in bringing about change. Although conventional wisdom holds that powerful "special interests" get their way in America, they lost time and time again in these struggles as politicians of both parties chose to give new competitors a chance. Executives and labor unions in the auto, steel, trucking, communications, finance, and retailing industries pressured political leaders to protect their companies from competition. They failed because Presidents Ford, Carter, Reagan, Bush, and Clinton took the political heat and supported trade, antitrust, and regulatory policies that favored new challengers. This new intense competition in large sectors of the economy led to the soaring investment and productivity that were directly responsible for the prosperous 1990s.

Looking to the future, London concludes that the important lessons of the 1990s can be applied to two large sectors of the U.S. economy: health care and education. These sectors are especially difficult because they are near-monopolies and are strongly resistant to competition. The clearest signs of weak competition in these two areas are rising costs and their failure to find ways to serve low-end consumers in the way that competitive industries always do. Tax and monetary policies cannot do the job. Only competition can.

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