Competitiveness versus the public interest

Policies on investment and development can take different approaches. One is "**upgrading**" – for example, strong public investment to improve education or infrastructure, or strong public interest regulation to shepherd and select for businesses acting in the public interest. If Germany successfully upgrades its education, that may well make Britons better off, as richer Germans buy more UK goods. Upgrading improves one's own productivity, and it has nothing to do with "competitiveness" relative to other countries. Everyone wins.

A second, "**competitiveness**" approach, involves "downgrading". Financial capital flows freely across borders, and countries dangle incentives or subsidies to attract it. Examples include relaxing capital requirements for banks; reducing enforcement of criminal behaviour by financial actors, creating tax loopholes for billionaires or multinational corporations, reducing minimum wages or breaking trade union powers, relaxing environmental legislation, or having weak competition policies allowing dominant firms more easily to exploit British consumers, workers and taxpayers. (This approach has also rightly been called "supplicant economics," from a national security perspective.)

If Britain downgrades to stay internationally "competitive," tax havens and other jurisdictions will respond in turn, provoking a **race to the bottom**. UK taxpayers must continually fork out ever greater subsidies to mobile owners of global capital, just to stay in the race. Downgrading regulation selects for the worst firms, most willing to exploit. Inequality and public anger will rise.

The winners in this "competitive" race are – *always* – plutocrats and large monopolising multinationals (which ONS data shows are majority-owned overseas and offshore – so most of these subsidies to capital leak out of the country.) The losers of a "competitiveness agenda" are small businesses, local communities and the general public.

Majorities would vote against such 'competitive' policies: they are fundamentally anti-democratic. Survey after survey of business leaders shows that their top priorities are good infrastructure, the rule of law, healthy and educated workforces, and access to vibrant local markets. Tax cuts and lax regulations are a low priority: the CBI recently confirmed this. Businesses *do* threaten to leave if they don't get their subsidies – of course they do: talk is cheap. But when push comes to shove, good firms rarely leave. Some predators do leave if their avenues for abuse are closed off: these are the ones we want to exclude.

Example 1: a "competitive" tax system?

Britain is currently committed to a "competitive rate of corporation tax," currently 19 percent, down from 30 percent in 2007. A one percentage point cut in the headline rate is estimated to cost £3.4 billion in annual corporate tax revenues. That is equivalent to over 100,000 teachers' or nurses' salaries, or the operating costs of Oxford University seven times over. Such a cut curbs our ability to upgrade. The evidence also shows that tax incentives don't bring useful investment.

How does this make Britain more "competitive?" It does not.

Example 2: A "competitive" financial system?

The same essential arguments apply to the financial sector, posing great danger.

The last global financial crisis was substantially the fruit of "competitive" financial deregulation in Britain and elsewhere, as Britain and other countries increasingly relaxed rules to attract capital and fee-generating activity, thus allowing global financial actors to take profitable risks ultimately at UK taxpayers' expense. The pursuit of high-paying jobs in the City ultimately damaged the wider UK economy.

This is part of a broader phenomenon. Ample cross-country evidence, from the IMF, the Bank for International Settlements, and others, shows that there is an optimal size for a country's financial sector, where it is providing the useful services an economy and population needs. Expansion above this size tends to *reduce* economic growth, increase inequality, boost criminality, and other ills, in a broad "finance curse". In an apparent paradox, "too much finance makes us poorer."

Britain has also, for instance, failed to prosecute money laundering effectively, as revealed by numerous investigations in recent years. Lax enforcement is a deliberate "competitive" strategy used by many tax havens. This corrupts our institutions and gives potentially hostile secret actors leverage over our economy and politics. Of course, making the financial system safer can *also* attract mobile capital. But this is upgrading.

So an "upgraded" financial system supports financial integrity and benefits the UK. A "competitive" financial system benefits owners of capital, at the UK's expense.

Competitiveness "levels down" the regions

A "competitive" financial system benefits wealthy parts of London, while harming Britain's struggling regions. When taxpayers are asked to provide subsidies to mobile capital under such policies, the costs are spread across majorities of the UK population, while the benefits are realised in corporate headquarters mostly in wealthy parts of London, overseas, and offshore. The last global financial crisis is a prime example. So strategy to "level up" the regions based on "competitiveness" will have the opposite effect to the intended one.

Conclusion

Nearly every economist knows that "competitiveness" is a term that can be meaningfully applied to companies in a market, but not to countries, or to tax or regulatory systems. As Martin Wolf of the FT said, "the competitiveness of countries, on the model of the competitiveness of companies, is nonsense." To promote national and regional development, focus instead on upgrading to improve productivity.

Competitiveness is not just a distraction: it is harmful.