

Some Advantages of Competition in Government and Politics

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The subject of my talk is competition. That may sound like I'm going to talk about economic policy and business issues, but the focus of my remarks will be on politics and government organization. Like many Americans, I have been reading that China's political leaders and many academic experts have been discussing ideas for political reform. When Americans talk about political reform, it is usually in terms of freedom of the press, minority rights, and political parties. But I want to suggest that the principle of competition offers an alternative way of thinking about these issues, applying a well-known economic idea to the realm of government and politics, that may be helpful in the Chinese context.

In economics, the advantages of competition are well understood. The principle advantage is efficient allocation of resources. When many suppliers compete for the business of consumers, prices gravitate toward costs of production and scarce resources are used for those goods and services for which there is real demand. Competition thereby produces maximum economic value from given resources, and uses minimum resources to supply a given demand.

That is the teaching of price theory, worked out in graphs and formulas in economics textbooks. If you dig down into the theory, you find two aspects of the competitive process with important practical implications. The first is that competition is essential to producing accurate knowledge and putting it in the hands of people who can use it. This is the advantage explained by Friedrich A. Hayek in his landmark essay, "The Use of Knowledge in Society," published in September 1945 the date that marks the intellectual end of socialism. Hayek pointed out that socialist economics assumes that government planners possess accurate information about conditions of demand and supply throughout an economy. If the assumption were correct, then socialism would be a more efficient means of organizing an economy than competitive markets, with all of their duplication, waste, and chaos. But the assumption is wrong, actually more than wrong: it elides the most important problem any economic system needs to solve, which is the problem of discovering and transmitting true information. No government planner, no matter how intelligent, well-educated, and well-staffed, could possibly collect and keep up-to-date the information necessary to make an economy function properly. The advantage of the market is precisely that the competition consumers bidding for right to use resources for particular purposes, and suppliers bidding for the right to fulfill those purposes, generates highly precise information that otherwise would not exist at all, updates it continuously in response to ever-changing needs and technology, and provides it to those who

can put it to productive use.

The second advantage is resiliency, the capacity to adapt quickly to external shocks and threats. The market economy features numerous competing suppliers of substitute goods and services, each one highly motivated to sell as much as he can and take advantage of rivals' mistakes or misfortunes. That means that when mistakes and misfortunes occur as they inevitably will, the capacity is in place to take up the slack. In this way, problems are isolated and kept from spreading, and costs to the rest of society are held in check. One example of this advantage is the pattern of the financial travails that plagued the Asian economies in 1997-1998. The PRC was relatively unscathed, an experience that is often recalled in support of capital controls. But another important lesson is that, among the open economies, Taiwan weathered the storm much better than Japan and South Korea. The reason is that Taiwan's economy is much more competitive. It lacks Japan and Korea's huge industrial combines and regimented financial markets that proved so unresponsive and fragile in the face of a major external shock. Consider also the United States today: at a time when the war on terror has imposed enormous new costs on our public and private sectors, when we are facing many unsettling international threats, when energy prices are soaring, and when the entry of China and India into global markets is presenting large challenges of economic adjustment, the U.S. economy is nevertheless growing and performing very well.

These advantages have important applications to government and politics, where the problems of accurate knowledge and resiliency in response to crisis are at least as serious as in the world of economics and business.

The knowledge problem is particularly acute because political leaders, like Hayek's socialist economic planner, usually possess information that is very incomplete relative to the importance of the decisions they are called upon to make. Moreover the information they do receive may be inaccurate or biased because their subordinates wish to emphasize good news or because the bureaus that report to them wish to hide embarrassing information.

A competitive supply of information, in the form of an independent media and independent academic organizations, can go a long way toward solving these problems and improving government decisions. I have worked in Washington, D.C. for more than thirty years, twice at the White House, and have noticed two striking things in the behavior of all Presidents and their senior officials. First, they are always angry at the media for reporting their decisions unfairly, for being biased in favor of their political opponents, and for misleading the public. Second, they always rely very heavily on that same media for independent information, not only reading the newspapers closely, but talking with reporters constantly, supplementing and checking the information they receive from the official chain-of-command, and looking for negative information that their subordinates may not be giving them.

This tendency is present even in matters of intelligence and national security. The President of the United States commands a tremendous army of intelligence agents and analysts equipped with the latest technology; despite our current flap over Iraq's weapons of mass destruction, the U.S. President probably receives the most complete security intelligence of anyone in the world. Nevertheless, researchers at the American Enterprise Institute often have critical information that the President and his senior officials don't know about. Moreover, even when we have close relations with officials at the White House, we often find that the best way to get information to the highest levels quickly is to publish it as an article in the newspaper!

To illustrate the speed and efficiency of competitive information, I want to compare three recent incidents. They are the SARS outbreak in China, the *Kursk* submarine failure in Russia, and the *Columbia* space shuttle failure in the United States. Because the SARS episode is a matter of continuing controversy, I want to emphasize that my purpose is not to be provocative or argumentative but only to make an intellectual point.

The three crises had several things in common: each was a surprise occurrence involving great initial confusion and uncertainty concerning cause, magnitude, and implications; and each involved embarrassing failures on the part of government agencies and officials (although SARS was not of course caused by a government mistake). What differed was the extent of competition in the supply of information to senior government officials and to the general public, in the form of a more or less independent media.

- In the case of the SARS outbreak, it was several months, and not until the disease had spread to Hong Kong, Canada, and Singapore, that the nature and extent of the problem was generally known. By then, of course, many hundreds of people had died and the economic losses, mainly in China itself, were tremendous. Within the government, the delays in coming to grips with the crisis were the usual mix of failing to appreciate the importance of a problem in its early stages, bureaucratic problems between different agencies, and a desire to downplay or cover up bad news. Even to the extent of telling journalists not to write about the problem. If China had had a competitive, independent media, news of a mysterious illness in Guangdong would probably have reached Beijing sometime in November 2002, months earlier than it did.
- In the case of the *Kursk* disaster, it took much less time. About four days for Russia's political leaders to acknowledge the crisis and ask for help, and also less time than in the SARS case for the true cause of the incident to become generally known. Within the Russian government, the handling of the crisis was, once again, a mix of confusion, failure to appreciate the magnitude of a problem in its early stages, and efforts to downplay or

suppress embarrassing information. But Russia's media, although only partially independent, played a crucial role in uncovering the truth. Crew members' families were notified not by the government but by a newspaper that bought a crew list from a naval officer for a few hundred dollars. President Putin, on vacation during the incident, learned of it and initiated responsive actions much earlier because of the existence of independent media reports. Twelve days after the incident, Russian officials were still speculating that the *Kursk* had been attacked by Chechen rebels, or otherwise trying to pin the blame on foreigners. But the essential cause of the disaster, an explosion of the ship's torpedoes, perhaps the result of faulty maintenance and training, were well known long before an official government commission reached this conclusion nearly two years later.

- Finally, In the case of shuttle *Columbia*'s disintegration on reentry last February, the disaster was known instantly and its cause was known within a few hours. Even before the shuttle's debris had been located, the media were broadcasting detailed pictures of the shuttle's launch, showing insulation breaking off the rocket launcher and smashing into the leading edge of the shuttle's wing. Soon after that, there were reports that officials at the U.S. space agency, NASA, had been aware of the problem but that no corrective or rescue steps had been attempted. Once again, there was considerable confusion and official attempts to downplay problems, but anyone watching the television knew that the debris collision had been impressive in its force and hit exactly the portion of the wing that had begun to fail when the shuttle broke up. By dinner time on the day of the disaster, most Americans who were paying attention already knew the essential truth of the matter that the official government commission acknowledged many months later.

My second advantage of competition is redundancy of supply and resiliency in response to shocks. In applying this idea to government and politics, I would like to focus on the organization of government itself. This may seem strange, because the government of a nation is a single entity that must possess a degree of monopoly power to accomplish what is expected of it, for example in establishing policy, collecting taxes, and enforcing the laws. The notion of several governments competing with each other in the manner of business firms may seem preposterous and self-defeating.

But competition is the central organizing principle of government in the United States, and in my view is the fundamental reason for our government's durability over the centuries and success in coping with shocks and crises. This competition takes two forms. First, in our federalist system, the states are not administrative subdivisions of the federal government, as in France, but rather possess a considerable degree of autonomous, sovereign power. Second, our national government is divided into three departments or branches, each one

partially dependent on and partially independent of the others; in addition, our most powerful branch of government, the Congress, into further divided into two houses with different constituencies and prerogatives.

America's extreme separation of powers, the most distinctive feature of our government is often regarded as a means of keeping government clumsy and inefficient and therefore limited in size. Americans are more distrustful of government than other peoples; we tend to like small government and a large scope for personal freedom. For that reason, Americans who would prefer larger, more decisive government often advocate changing to a unified parliamentary government as in the European nation's, in which the executive branch is an auxiliary of the legislative majority. But this reflects a very incomplete understanding of the American system. Consider the following paradox: in the economic sphere, competition promotes efficiency and growth, so why should we think of it as *limiting* efficiency and growth in government?

The answer is that the separation of powers, and political competition among them, tends to produce government that is both limited *and* effective. On the one hand, a very broad consensus is required to enact new legislation, which must win the assent of two separate majorities of the Congress, and then the President, and then (if the law is challenged) the courts. On the other hand, at least one branch of our government is almost always open for business, capable of decisive action when one or both of the others are in disarray. That is precisely the advantage of redundancy and resiliency I mentioned earlier in connection with competitive economic markets.

This advantage has been particularly conspicuous in the past three years, when the United States faced a combination of crises, political gridlock followed by the arrival of a new foreign war, that would have undone many other systems of government. In our national elections of 2000, the presidential vote and the U.S. Congress were essentially tied fifty-fifty along partisan lines, and the potential for serious political instability and governmental breakdown was very great. But the crisis was averted, and our government was again united and strong at the time of the September 11 terrorist attacks, by two features of our Aseparation of powers. First, in late 2000, our third branch of government, the Supreme Court, resolved the 2000 presidential election finally and authoritatively in *Bush v. Gore*, averting a constitutional crisis that would otherwise have led to protracted and unseemly machinations in the Congress and might have left the nation without a president for an extended period. Second, a few months later, in the spring of 2001, a change in party affiliation by a single Senator reversed the political majority of the Senate from Republican to Democrat. In a unified parliamentary system, this would have caused the government to fall immediately, but in our divided system it left the presidency and the Executive Branch unaffected. Imagine if, in a period of international crisis such as that following the attacks of September 11, requiring firm and decisive American leadership, the U.S. President had been preoccupied not only with responding to terrorist attacks

and threats but with preventing minor legislative defections that could have toppled his government at any moment, as has happened, for example, in the parliamentary system of Israel. It was precisely to avert such legislative undermining of executive energy in the face of international crisis and domestic disarray that France, in 1958, abandoned its parliamentary system for an American-style presidency with an independent political base and powers (albeit in an imperfect form that promotes cohabitation rather than competition). The American system of competitive government provides both separated powers and redundant powers—powers that are not only checked but also balanced. The system is slow and painstaking in times of tranquility but agile and decisive in times of crisis.

China is a nation with her own traditions, preferences, and challenges, and she will work out her own path to political and government reform. One of the balances China will attempt to strike is between order and stability on the one hand and progress and dynamism on the other. The examples I have offered are intended to stimulate constructive thinking about how to strike this balance. I would summarize my argument as follows: competition is often regarded as rather messy and chaotic, merely a necessary evil where economic markets are concerned. But on deeper investigation, competition, operating under appropriate rules, can be seen as a source of order as well as progress, especially in generating true information, correcting errors swiftly, and protecting a society against shocks and crises. After all, competition is not an invention of any ideology, philosophy, or nation, but rather a principle of nature—the motive force of biology, natural selection, and evolution. It is the process that created human beings and led us to endure and progress in the face of innumerable challenges over many millions of years. Its potential benefits extend far beyond economics to government, politics, and many other areas of social organization.