INTERNATIONAL COMPETITIVENESS: NATIONAL AND CLASS AGENDAS

Dick Bryan*

In the 1980s international competitiveness emerged as the explicit agenda of national economic policy, to which all other national aggregates are subordinate, or at least require compatibility. This emergence had a lot to do with the growing international mobility of capital and the reality that international movements of money in particular, but also commodities, are not subject to effective state management via conventional macroeconomic policy. As a response, many nation states, including Australia, are developing a range of policies which are specifically designed to impact upon the external accounts. They are identifiable collectively by the rationale of making the national industries more 'competitive'. This agenda has been widely embraced in Australian policy circles, including by the Australian Council of Trade Unions.

At issue here is the construction of a nationalist response to a globally-integrated process of accumulation: the belief that the individual nation is a unit which can and must balance its books in relation to the rest of the world. However nationalism is obscuring (indeed, thereby facilitating) an underlying class process on a global scale. With accumulation globally integrated, technology, product design, management and marketing techniques are all readily internationally mobile. The primary basis on which the international competitiveness of industry within a nation is

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being determined is labour productivity. Competitiveness as a national agenda is manifesting as competition between national working classes to increase their productivity.

Competitiveness has been conventionally defined in terms of the theory of comparative advantage. More recently, the a conception of national 'competitive advantage' has entered the lexicon, with quite a different national policy agenda. By investigating the concept of competitiveness as a national objective, it can be seen that the underlying process involves an internationalisation of the value of labour power. With capital now internationally integrated, the location of production rests directly (although not exclusively) on the relationship between the value of labour power and the rate of surplus value within each country (approximately the relation between long-term wages and productivity). By each nation state pursuing policies designed to decrease costs and increase productivity, and aspiring to out-do each other in the name of international 'competitiveness', the rate of surplus value internationally is increasing, by some combination of reducing the value of labour power and increasing absolute and relative surplus value. The blinkers of economic nationalism are focusing nation states (and, in Australia, national working class organisations) on facilitating this process.

How did 'Competitiveness' Come to Rule the Policy Agenda?

International competitiveness emerged in the 1980s as a distinct rationale for national economic policy. This rationale arose with the growing movement of capital in the 1970s and particularly the 1980s. If the 'competitiveness agenda' is to be sheeted home to one 'event', it is almost certainly the emergence around the world of growing and sustained balance of payments current account imbalance, and the inability of conventional national policy to deal with these changes.[1] From the First

1 The proposition as posed here might appear to contend that the 1980s emphasis on competitiveness was driven by the current account deficit countries. In terms of explicit policy statements, this is probably true. For example, in 1984, in the face of a rapidly rising current account deficit (but also an appreciating exchange rate), President Reagan appointed a Presidential Commission on Industrial

World War up to 1982 the sum of the larger industrial countries' imbalances (surplus and deficit combined) never went above $100 billion per year, and was normally below $50 billion.[2] In the second half of the 1980s this figure exceeded $300 billion per year (more than 2% of aggregate GDP) (Turner 1991:9).

These data were alarming to national governments because the policy 'ace' which was designed to 'solve' balance of payments problems had already been played. The ace was floating exchange rates. The theory which had initiated currency floating contended that exchange rates would adjust to rectify current account imbalances.[3] 'External balance' would be secured by the market, without the need for 'intervention'.

History, we now know, did not understand the theory, and current account imbalances have not been secured by market-determined exchange rate adjustments. In Australia, the exchange rate was being actively managed by the Reserve Bank within two years of its float in 1983,[4] but still without the current account being 'rectified'. Indeed, the exchange rate and the balance of payments combined have required more bureaucratic labour time and active state management than before 'deregulation'.

In part, this outcome is due to the 'ideological excesses' of the *laissez faire* theory adhered to by proclaimers of exchange rate and trade 'deregulation'. Many of those in the early 1980s who believed that 'deregulation' would answer all challenges, including 'fixing' the current account of the balance of payments, are now a bit older and wiser, and can reflect on the excesses of the 1980s. For example, Ian Macfarlane,

Competitiveness. But, it will be contended shortly, the momentum of the competitiveness agenda engages all countries, and even those at the top of the productivity ladder, often with current account surpluses, must maintain innovation in 'competitiveness' policies which ensure that they maintain their position.

2 Figures are in 1990 US dollars.

3 This is a standard part of the conventional wisdom that free capital flows will ensure national 'external balance'. Its modern form is expressed in the so-called 'monetary approach to the balance of payments' (Frenkel & Johnson 1975).

4 See MacFarlane (1994) for a description of Reserve Bank interventions in the past decade.

Deputy Governor of the Reserve Bank of Australia, cast the following reflection at a '10th anniversary of the float' conference:

> When we first floated, the general intellectual climate was very purist. Foreign exchange intervention was frowned upon, the determination of the exchange rate was to be left entirely to the market. . . . The Reserve Bank shared some of these purist tendencies,[5] but from the outset we saw at least a limited role for intervention. . . [A]s time went on our intervention became heavier. (1994:9)

This intervention, claims the Reserve Bank, is not designed to hold the dollar at a predetermined level, but to hold the dollar on its longer-term trend by reducing short-term volatility. It is probable that the Reserve Bank has indeed had some success in reducing volatility in the past six years. But there has been no discernible impact on current account imbalances. The potential for nation state 'regulation' to 'rectify' a current account imbalance must be questioned fundamentally. Much as the social democrats would wish to construct 'reregulation' as the antidote to the experiences of the 1980s, the inability of the exchange rate to 'fix' the current account had more to do with an expanding international market for nationally-issued currencies than with a voluntarist withdrawal of the state from price fixing in that market.

The economic orthodoxy which continues to guide policy formation is still a loss to explain the 'failures' of the foreign exchange markets to meet national policy goals of 'external balance'. The microeconomic theorists have been able to contrive in the abstract the instability and unpredictability observed in reality. In particular, there have emerged elaborate models of speculative bubbles and unstable equilibria, by inserting assumptions about asymmetrical information and identifying unequal adjustment rates of the 'monetary' and 'real' sectors. Elegant as these developments may be, they are about theory playing catch-up with history (showing that embellishments of a model can explain outcomes which the model 'initially' predicted would not happen). Moreover, it appears that the models have no profound policy implications, so that there remains a basic belief in free market exchange rates, but no momentum for exchange rates to bring current accounts into balance.

The result has been a perceived need for state policy to target the balance of payments directly. In some countries this targeting has been via programmes to secure high productivity in technologically-advanced industries. In other countries, including Australia, the balance of payments has been targeted via recourse to 'free markets' (so-called microeconomic reform) and monetary policy rather than industry policies for export expansion and import replacement. In long-run current account deficit countries, such as Australia, the balance of payments is constituted as a national economic 'constraint'. The solution is thought by most commentators and politicians to lie in making Australian industry more 'internationally competitive'. Even though the balance of payments show that net income outflow, not the balance of trade, is the predominant source of the current account deficit,[6] the income balance is understood as being beyond direct policy control[7]. The competitiveness of Australian industry, it is contended, can be transformed to generate a surplus in the trade balance, to offset the income deficit and balance the current account.

The dilemma for policy is that the push to float exchange rates and towards free trade come from the same stable, for which a belief in free

5 The Treasury position, advanced by its autocratic Secretary, John Stone, was opposed to the float. From opinions expressed in the television series *Labor in Power* and by former Industry and Commerce Minister Button (1994), the Federal Cabinet was a bit bewildered by the whole issue of exchange rate regimes. Although the finance sector generally and private and state think-tanks were advocating a floating of the dollar, the Reserve Bank was the only participant in the Federal Cabinet meeting which resolved to float the Australian dollar which actively advocated the policy.

6 See Jones (1989) for a still-pertinent consideration of this issue.

7 There is argument that the income outflow can be addressed by constraining the international mobility of superannuation funds (ACTU/TDC 1987; Commonwealth Parliamentary Joint Committee on Foreign Affairs, Defence and Trade 1991). It is contended in these reports that the capturing of such funds will reduce Australia's needs for overseas borrowing. Little serious consideration, however, is given to the market implications of such regulations, indicating that the authors' understanding of the operation and significance of international financial markets is somewhat limited.

markets is the ideological and theoretical starting point. Exchange rate intervention rapidly gained a new legitimacy, in Australia and internationally, as a pragmatic solution to perceived 'market failure'. But with trade it is not so straightforward. The push towards increasingly deregulated trade (at least within groups of countries - so-called 'blocs'- but globally, too) is the dominant tendency; protectionism is condemned, and recognised as a fringe position adopted by sectional interests. So what is the nation state to do when a floating exchange rate and even a managed exchange rate do not move the current account towards balance, and when a movement towards 'free trade' is not tending to balance the balance of trade?

The agenda of 'international competitiveness' has been seen to offer a national policy vision in a world where adherence to 'free markets' leaves nation states powerless to rectify the balance of payments outcomes which the 'free market' has delivered. The term 'international competitiveness' seems harmless enough -- who would advocate being *uncompetitive*? But competitiveness is an attribute of competitors -- individual capitals producing within Australia -- it is not an attribute of the country itself.[8] So what does it mean for national policy to address 'international competitiveness' as a *national* issue? This is where international class issues start to emerge as an explicit dimension of trade policy, via the way in which nationalist policy presents what are essentially class strategies as national imperatives.

From Comparative to Competitive Advantage

Developments in GATT and other momentum towards 'free trade' are regulations only in the circulation of capital. They do not preclude state policy initiatives in the sphere of production. In an increasingly 'deregulated' international trading environment, the construction of external balance depends on domestic policy to facilitate individual capitals to produce locally, rather than in other countries. Such policy must generate and sustain profitable export and import-competing industries, but without recourse to controls on trade.

How particular nation states pursue the objective of creating internationally competitive companies and industries is very much a national question. The national policy debates play out universal themes (from free market cases for efficiency, to centrally co-ordinated strategies for growth), which result in nation-specific policy 'solutions'. As the Australian case shows so clearly, there should be no expectation that policy programmes are expressions of consistency with respect to economic theory. The shift from tripartite industry policy in the early and mid 1980s to a combination of tariff reductions and export assistance portrays a jumble of economic arguments, and an *ad hoc* set of compromise between opposed interests, where consistency is defined simply in terms of nationalist objectives.

In addressing the conditions of production required for the development nationally of internationally competitive industries, there has been a widespread shift away from 'comparative advantage' as the theoretical rationale for policy. With the exception of the *Garnaut Report* (Garnaut 1989), all other major official government and semi-government reports on Australia in the international economy in the past six years have advocated forms of government intervention inconsistent with a comparative advantage approach. This is despite formal adherence to the virtues of free trade (Bryan and Rafferty 1995). The popular lexicon is now 'competitive advantage', not 'comparative advantage'.[9] This shift in terminology is representative of an important development, for the shift away from reliance on the rationale of comparative advantage has come at precisely the time when the 'free trade' policies advocated by that

8 This point has been emphasises by advocated of the 'competitiveness' agenda (for example Porter 1990) but also by more conventional trade economists, such as Paul Krugman (1994). Krugman nonetheless retains a belief in national comparative advantage as the key to trade theory, and that "international trade is not about competition, it is about mutually beneficial exchange" (1993). Krugman, it appears, is having great difficulty in situating the national form within economic theory.

9 Even the Australian Industries Commission, bureaucratic bastion of the dogma of free markets and comparative advantage, has been forced to make some concessions to the theory of competitive advantage (Industries Commission 1993: Appendix B). See also Bureau of Industry Economics (1991, 1993); Department of Foreign Affairs and Trade (1994); Australian Manufacturing Council (1991, 1993; Department of Industry, Technology and Commerce (1989).

theory are most widely recognised in national and international policy circles.

So what is the basis of this shift? It is that the notions of competitive advantage create a space for on-going national policy initiatives (other than simply 'deregulation') in the sphere of production, whereas comparative advantage does not. The limitations of the comparative advantage will first be addressed before a consideration of the 'competitive advantage' approach.

The theory of comparative advantage assumes the domestic mobility but international immobility of capital (defined as factor of production). Domestically, therefore, it proposes an analysis in which the free market is the optimal mechanism for resource allocation, with the addition of international prices to determine what is profitable to produce in an international context. National specialisation according to comparative advantage is, therefore, not a deliberate strategy, but the logical outcome of reliance on 'free' markets, under the assumption of international capital immobility. On this basis, the postulation of global gains from national specialisation, and hence the potential for all nations to share in the global gains, follows as a logical derivation.

This theory, as the essential basis for modern trade policy, displays two problems. First, and obviously, the assumption of international immobility of capital is historically false. In the current era (and the future) it is not even a rough approximation. Yet international capital immobility is a critical assumption for comparative advantage theory because immobility is what defines the domestic, as opposed to the international, economy. As a consequence, comparative advantage embodies the implicit assumption that accumulation has a national cohesion (shared domestic mobility) and that the nation engages in international exchange as a unit (a shared international immobility).[10]

10 Put another way, the pursuit of efficiency is determined by different processes domestically and internationally. Domestically, efficiency (equalisation of the rate of profit) follows from free mobility of capital. Internationally, efficiency follows from changes in the value of money (classical version) or changes in the exchange rate (modern version). This directly constitutes the nation as a discrete economic unit.

This assumption leads the theory directly to the specification of the rules for industry specialisation in national terms (national factor endowments; national factor costs). It follows that the gains of trade constituted in the theory are collective, national gains. There is, clearly, the presumption of a conventional 'trickle down' thesis that 'the market' distributes the efficiency gains of free markets throughout the community. This is the basis on which the *Garnaut Report* (1989) can postulate gains to *Australia* from 'free' trade with North-east Asia, even though any gains will be the property of individual companies.[11]

Second, comparative advantage doctrine leads formally to a set of national policies of *laissez faire*, with the promise that domestic efficiency and international exchange will both expand national income and balance the external accounts. Thus the theory gives no rationale to the nation state to formulate policies to address balance of payments 'difficulties'; simply because such difficulties can only be explained in terms of market distortions.

Combined, these characteristics create the problem that comparative advantage theory rests on the assumption of national unity and so collective benefit; hence precluding the space for policy to construct an explicit analytical basis for such a unity and collective benefit. So comparative advantage leaves nation states without an active policy rationale under conditions when the movement towards 'free trade' appears to not resolve the balance of payments constraint.

At the edge of policy debates, this dead-end has provided the rationale to abandon adherence to free trade in favour of protection to domestic industry. But the momentum towards free capital mobility is too great to concede to this position recognition as representing anything but small, sectional interests. The dilemma for contemporary theory, in providing the rationale for policy, has been how to recognise the mobility of capital

11 Moreover, because the comparative advantage framework adopted by the famous *Garnaut Report* (1989) assumes away the international mobility of capital, that report fails to countenance the possibility that gains to 'Australia' may be in the form of international investment in North-east Asia, not exports to that region. It is difficult to argue that corporate profits from international investment can be constituted as a *national* gain.

(which thereby negates the rationale of national cohesion found in comparative advantage theory) yet still derive the conclusion of collective national gains from 'free' international markets.

The mobility of capital eradicates the notion of a nation having factor proportions. Instead, competitive advantage contends that different industries, or segments of industries, or even individual companies must be constituted as discrete units, each with their own cost structure, and each with their own form of integration into international accumulation. Whether we can talk of 'national' industries in a globally-integrated world is probably as dubious as talking of 'national' economies. But there is an underlying point which must be considered. If individual capitals have their own mode of insertion into international accumulation,[12] the aggregation of a national position in the global economy lacks an analytical basis.

With this recognised, it is apparent that comparative advantage theory 'prematurely' constructs a shared national experience of the global economy. There can be no explanation of how individual capitals can break free from their national factor proportions and expand into new industries, and thus no explanation of how national policy can rectify a trade imbalance when 'the market' will not do it. Policy makers in an era of capital mobility need a theory in which national specialisation and international 'performance' is the outcome (or aggregation) of individual initiatives; not a theory which pre-allocates industries to nations.

The theory of international trade in the era of widespread capital mobility has therefore had to return to such basic questions as "why do industries locate where they do?" (Krugman 1991); or "why firms from particular nations establish leadership in particular new industries?" (Porter 1990:17). These questions can no longer be answered simply in terms of

12 Perhaps it can be considered that, while individual capitals have their own mode of insertion into global accumulation, other individual capitals may share a similar mode of insertion. On this basis segments of industries and conceivably even whole industries within a nation hay be said to share a comparable position in global accumulation. But this is only a descriptive aggregation, not an analytical one. There are no mechanisms to ensure that comparability is sustained.

national comparative advantage. For policy makers confronting the balance of payments constraint, the equivalent question is how to get export growth-oriented industries and companies to locate within a country.

The new analytical question, therefore, is at what point and on what basis in the case for free international mobility of money and commodities is national cohesion constituted, in order to form the basis of nationally coherent policy responses to the balance of payments 'constraint'. Here, the so-called new international trade theory focusing on market imperfections and the role of state intervention (Krugman 1986) has nothing substantial to offer. The mobility of capital causes this approach to constitute nations as distortions within an (in principle) seamless global economy: a conception as inane as it is irrelevant.

The alternative conception of '*competitive advantage*' is seen to address these issues; at least within the perspectives of policy makers. The conception of 'competitive advantage' was developed by Zysman and Tyson (1983) within the United States industry policy debate of the mid 1980s, although it is now most closely identified with the work of Michael E. Porter (1985; 1986; 1990) from a management perspective, and Robert Reich (1991) from a political perspective. Moreover, advocates of this theory[13] now hold key positions in the current United States administration. As a guide to policy formation, an emphasis on competitive advantage is said to be the key to the countries which successfully adapted their industrial structures, and have been increasing their share of world trade since the end of the long boom.

Competitive advantage starts not with nations, but with industries. Competitive advantage is an attribute of an industry within a nation compared with the same industry in other nations. By contrast, comparative advantage is a statement about the relative efficiency of an

13 Laura Tyson currently co-ordinates the Clinton Administration's economic policy as Head of the National Economic Council. Robert Reich is the United States' Secretary for Labor. Porter was a member of President Reagan's Commission on Industrial Competitiveness, and has subsequently been adviser to a number of national governments. See Krugman (1994) for a critique of the influence of competitive advantage on United States policy.

industry within a nation compared with other industries within the same nation. In terms of conventional trade theory, competitive advantage is comparable with absolute advantage (being able to sell at or below international value). Thus, for Zysman and Tyson:

> In contrast to the usual notion of absolute advantage, however, the notion of competitive advantage allows for the presence of economic policies that help or hinder the international performance of different firms. Thus the competitive advantage of the firms of a particular country in a particular market may be the result of either real absolute advantage or of policy-induced and hence distorted absolute advantage (1983:28).

Within this approach, absolute advantage has been reconstructed for a particular purpose. This purpose is to wrest the analysis of trade and efficiency from the conventional comparative advantage framework, in order to create a space for national policy. The need to challenge the conception of efficiency in terms of *laissez faire* is clear - it is the precondition of active state policy. But because comparative advantage postulates global efficiency gains, it is necessary also to show that national specialisation in contravention of comparative advantage will not lead to global efficiency losses - in other words, that one nation's gains are not another's losses.

Competition on an international scale is therefore about individual companies meeting international standards of costs, productivity, technology, quality and service in global, 'deregulated' markets. The development of concepts like 'world's best practice' operates as the guide to internationally competitive production. The (alleged) global gains come not from national specialisation, but from intense global competition to innovate.

This is a theory which explains the competitive position of individual industries, even individual capitals, not nations *per se*. There is no sense that individual industries or capitals are trapped by their national factor endowments. There is scope for individual (entrepreneurial) initiative. In the process, "competitive advantage has recognised that there is more to being competitive in international markets than specialising in line with [national] factor costs" (Porter 1990:6).

Thus there can be no notion of the nation being competitive, even though the pursuit of 'national competitiveness' is the catchcry which rationalises so much national economic policy.[14] According to Porter, "[w]e must abandon the whole notion of a 'competitive nation' as a term having much meaning for economic prosperity". A nation's high standard of living "depends not on the amorphous notion of 'competitiveness', but on the productivity with which the nation's resources (labor and capital) are employed" (1990:6). The standard of living depends not just on increasing output per worker but, in a more dynamic framework, on the ability of companies to move into more and more sophisticated industries, where productivity is higher. Hence, within this approach, the onus is on the individual firm to succeed in the international market - to be in the 'right' industries, and to be cost, quality and service competitive.

It might appear, therefore, that this is an approach to international accumulation in which there are individual players, but no (national) teams. Far from it. Nations are central to this analysis - the critical point is where in the theory national aggregation becomes important. For comparative advantage, assumptions about capital mobility provide a precise economic definition of nationality. For Porter, and the theory of competitive advantage, it is at the point of state policy formation. According to Porter,

> While globalisation of competition might appear to make the nation less important, instead it seems to make it more so. With fewer impediments to trade to shelter uncompetitive domestic firms and industries, the home nation takes on growing significance because it is the source of the skills and the technology that underpin competitive advantage. (1990:19)

So nations are important, yet only because they exert different impacts on competitive advantage.

> Competitive advantage is created and sustained through a highly localised process. Differences in national economic structures,

14 Note, for example, the title of the current Government's major industry statement - *Building a Competitive Australia* (Commonwealth of Australia 1991).

> values, cultures, institutions, and histories contribute profoundly to competitive success. (1990:19)

Thus it is policies of the nation state, rather than attributes of the nation space, which make the difference; policies that can create structures, values, cultures which are compatible with competitive advantage. Thus nations are being defined socially and politically, insofar as these dimensions manifest in production and productivity as a nationally-sited process.

Herein lies the agenda for potentially far-reaching nation state intervention, in securing internationally competitive industries, but without reliance on trade restrictions or a low exchange rate. And herein lies the constitution of the nation as an aggregated, economic entity. For a nation to move up the productivity ladder requires its companies to move into higher productivity industries. The corollary is that lower productivity industries must be relinquished, and this requires state mediation of the conflicting interests of different parts of (total) capital. Moreover, industries must not only have high productivity by domestic standards; they must achieve international standards if they are to survive. Competitiveness, therefore, is not itself an attribute of nations, but of specific companies and industry segments, and the role of state policy is to facilitate the development of that attribute.

How does the conception of 'competitive advantage' appear to resolve the problems that comparative advantage cannot address? First, 'competitive advantage' provides the state with a rationale for structural adjustment policies which, while not meeting the contradictory needs of all parts of capital, can be seen to be securing the transformation of that part of capital which is conspicuously losing in the face of 'deregulated' trade and investment. Australia's steel industry, vehicle industry and textile industry plans in the second half of the 1980s are conspicuous illustrations of this form of structural adjustment policy.

Second, and more significantly, comparative advantage poses the gains from free trade at the level of exchange because it requires state policy to do no more than free-up the exchange process. In contrast, competitive advantage poses the gains from free trade at the level of production. Firms are most profitable internationally when they have the best productivity, the greatest product innovation, the best technology, the best service, etc.. Framed in this way, the state has a role in addressing the balance of payments constraint, for the nation state can nurture a culture of productivity, technological development and service. In the process, it encourages domestic production by companies producing internationally-traded goods, so reducing import demand, and increasing exports.[15]

The balance of payments is thereby the direct object of policy within a free trade setting; something not possible within the perspective of comparative advantage. Whether this is attributable explicitly to the theory of 'competitive advantage' as the catalyst for policy is not the critical issue. Policy never unfolds according to the dictates of theory, although the Department of Industry, Technology and Commerce has explicitly drawn on Porter's work as the (probably only *ex poste)* rationale of Australia's 'interventionist' industry policy of the 1980s (DITAC 1989, ch.2). This does not mean that Porter has discovered productivity as a 'new' key to national economic performance, or that Porter's model is being adopted as a textbook for national policy makers; only that Porter is roughly describing a policy process that national policy makers may well be discovering for themselves. At most, the theory of competitive advantage offers an *ex poste* coherence to a sequence of discrete policy decisions. More generally, competitive advantage theory has certainly depicted, even if it has not explicitly dictated, the general thrust of many national policy agendas, including Australia's. Insofar as Porter presents an underlying logic to policy development, it is important to look at some of the social and economic contradictions which are part of that 'logic'.

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15 This need not be a purely mercantilist agenda - the belief that wealth comes from a trade surplus. It is entirely compatible with the theory of competitive advantage that successful development of such industries will lead to exchange rate appreciation, causing the competitiveness of local production to decline. Such a possibility explains why the state must continue to nurture even higher productivity industries. The increase in national wealth reflected in the exchange rate appreciation is only temporary.

Competitiveness and Surplus Value

In the competitive advantage framework, the international economy is no longer constituted as exogenous, but as the arena in which all capital competes. State policy is no longer evaluated by the criterion of *laissez faire*, but in terms of securing the development of an industrial structure and social culture which will ensure that 'national' companies adapt to participate in the productive initiatives occurring in the international system.

Yet while this construct serves to empower domestic policy makers, it does so at the cost of renouncing an established explanation of national collective will and collective economic interest. For comparative advantage, the domestic distribution of the gains from trade comes via an 'objective' market allocation of resources. There are standard (albeit hypothetical, trivial and deceptive) arguments to support this market-driven system. But for competitive advantage, even this rationale is absent.

For competitive advantage, national unity is constituted not by a formula for the nationally-shared benefits of success (or burdens of failure) but by the capacity of state policy to deliver high productivity growth. Critically, the gains from trade are individually defined, so that collective national gains require widespread success in productivity growth, and this in turn is contingent upon the subordination of social order to the productivity objective. Underlying the idealised notion of a flexible, educated and adaptive economy is a primary emphasis on increasing productivity. Porter is emphatic on this point: "productivity is the prime determinant in the long run of a nation's standard of living . . . The only meaningful concept of competitiveness at the national level is national productivity" (Porter 1990: 6).

There are some significant implications of this agenda. First, with national policies to facilitate the development of competitive success as the defining characteristic of the national economy, the national economy is itself defined in terms of productivity. Indeed, the social, cultural, managerial and institutional dimensions of productivity, emphasised by Porter, are about transforming the totality of social

relations to those most compatible with profitable production. The whole of social organisation must be ordered to facilitate productivity increases, and the possibility of subsidising 'uncompetitive' sectors, in the so-called 'national interest', is disappearing.

Second, while national policies can potentially (and must) advance productivity, this, in itself, is not sufficient to secure competitive industries. Productivity must not only increase; it must increase more rapidly than in other countries. The most productivity-centred form of national social, political and economic organisation therefore sets the standard which all other nations must follow. It should be noticed in this context that while competitive advantage does not have a strong sense of nationality in the conventional sense of factors of production, there is a clear notion of nationality defined in the spheres of productivity and production. The conception of nationality thereby can be understood in terms of national processes of surplus value appropriation.

Porter's own vision of competitive advantage emphasises the shared virtues of a high productivity society, and the potential for rising wages. The case of Singapore could be cited as an instance of the Porter formula, where state-initiated wage increases were designed as an incentive to move labour into higher productivity sectors (Oehlers 1994). Yet the reality of pragmatic policy formation is that international competition in the rate of growth of relative surplus value inevitably (at least in all but the fastest growing countries, such as Singapore) has recourse to increasing the rate of absolute surplus value (to wage increases less than the rate of growth of production; perhaps even real wage cuts). Although reducing the benefits to labor is not the model's ideal path to competitiveness, it can nonetheless be (and widely is being) constructed as an unavoidable (permanent) short term aid to national competitiveness in a fiercely competitive world.

Accordingly, in Australia we see the emphasis on labour market flexibility as the key to international competitiveness. This has two edges. The first emphasises the inherent virtue of flexibility in facilitating structural change in the Australian economy towards more internationally competitive industries. The Industries Commission put it succinctly:

> Underlying persistent high unemployment is evidence of structural problems. The economy is not as flexible and responsive to change as it could be. Labour markets are not functioning as well as they could - in terms of encouraging people to move to expanding areas of the economy and equipping them with necessary skills to undertake the tasks involved. As a result, opportunities to promote more growth and create additional jobs are being lost.
>
> Reform of labour markets can raise productivity to support high and rising standards of living and create employment directly.[16] (Industries Commission 1991-92: 7)

The second edge to the advocacy of labour market flexibility is the pragmatic expectation that flexibility will facilitate a fall in real wages.[17] This fall would cheapen production in Australian both directly and indirectly, by taking the pressure off interest rate increases (and consequent exchange rate appreciation) as the policy tool for controlling inflation. This rationale for labour market 'reform' has long been advocated by the Reserve Bank. For example, Governor Bernie Fraser has contended:

> While monetary policy must continue to bear down on inflation and inflationary expectations, it cannot deliver low inflation - at acceptable costs - on its own. This task has to be shared with other policies, especially wages policy (1990: 2).

16 Fahrer and Pease (1994) cast significant doubt over the capacity of productivity increases to generate employment increases. Indeed, they suggest that technological change leads to either greater income inequality or less employment.

17 A productivity strategy such as that adopted in Singapore, as cited above, relies on centralised control of wages to give signals to capital about needs to increase relative surplus value. Australia's decentralisation of wage determination, on the other hand, places the emphasis on incentives to labour to increase productivity, or lose employment. Critically, the Australian option does not privilege relative surplus value over absolute surplus value, and so is to be understood as a short-term response to competitive pressures because there are limits to increases in absolute surplus value.

Both cases for labour market flexibility - structural change, and wage restraint - have a logic as strategies to increase the competitiveness of industry in Australia. Any capitalist would be delighted to enter the export market or compete with imports knowing that their employees are productive, versatile and cheap by international standards.

In short, the case for labour market flexibility, in the context of a perceived balance of payments constraint, is to be understood predominantly as a strategy to increase surplus value, under the auspices of the state. Moreover, this programme has been embraced by the Australian Council for Trade Unions. Indeed, 'strategic unionism', which has become the new official vision of the Australia's trade union movement, is centred on the rationale of increasing the profitability of industry as the defining characteristic of progressive unionism.[18]

But in an international setting the rate of surplus value is defined by international, not just national, criteria. This international dimension must cause us to reflect with concern on both the state and ACTU strategy for competitiveness. To increase productivity within a nation is a necessary, but not sufficient, condition to increase the rate of surplus value. It all depends on what is happening to productivity in other countries. The rate of surplus value is maintained or increases only if productivity increases in Australia are faster than in other countries. This is the essence of international competition.

International competition is, of course, not new; but it now manifests with a new fervour. While, in the past, this has been an agenda constructed by the need for national responses to a balance of payments crisis (and hence only a direct threat to workers in balance of payments deficit countries), the new agenda is universal. To avoid being a deficit country, productivity of industries within the nation must keep increasing, and more rapidly than before. Put another way, while wage cuts in the framework of comparative advantage are politicised in a national framework - as in the implications of the nation living beyond

18 See in particular the recent publication *Unions 2001* (Evatt Foundation 1995) as a sustained exposition of the case that the future role for trade unions in Australia lies in co-operation with management in realising mutual gains from increased efficiency.

its means - in competitive advantage, the momentum for wage cuts is directly economic, expressed as an international class process - the need for individual capitals to lower their costs of production; and this latter logic applies to all capitals, everywhere.

To project the future of wage determination, it can be conjectured that, while wages continue to be negotiated on a national scale, via national bargaining processes, these national processes are increasingly being driven directly by international criteria. Cross-national differences in the value of labor power will increasingly reflect the rate and absolute level of surplus value which can be appropriated within countries. High value of labor power countries are those in which capital can appropriate high (relative) surplus value; low value of labor power countries are those in which capital can only appropriate low rates of surplus value, with reliance on absolute surplus value.

Conclusion

Under the aegis of comparative advantage theory, with international specialisation based on factor costs, the response to a balance of payments crisis had two edges: cut domestic demand, to reduce imports, and reduce factor costs. In popular parlance, this has been posed as the nation 'living beyond its means'; needing to 'tighten its belt'. This is a politicised rationale, imposing a collective onus on national labor, derived from the image of collectivity constituted in the theory of comparative advantage.

During the 1980s, this agenda has changed to an individualised, economic (market based) rationale for higher productivity labour and wage increases less than productivity, to ensure that individual industries, or even companies, are able to compete in internationally-exposed markets. As an economic constraint rather than a politically nominated policy agenda, it now applies to workers in balance of payments surplus as well as deficit countries.

In the context of national strategies for competitive industries, the theory of competitive advantage correctly focuses on the role of the nation state in securing internationally-competitive rates of surplus value. There is the hope, but not the guarantee, that the rate of surplus value can be increased sufficiently to support an increasing value of labor power. But international competition means that increases in surplus value within one country are being compared with increases in other countries and only in those countries with a relative increase in relative surplus value will the value of labor power increase over time, while remaining compatible with the international profitability of capital.

So the value of labor power is still nationally formulated, with the nation state instrumental in that process. But international competition is inserted into domestic formulation as a primary determinant. The nation state's role is increasingly to facilitate the international commensurability of the value of labor power, constructed as national competitive necessity. This situation amounts to a global contest between national working classes, to deliver the highest rate of productivity increase for the lowest value of labor power. Stripped of its nationalist presentation, policies for international competitiveness only 'solve' nationally-expressed policy contradictions by projecting the national form of class conflict to an international scale (Bryan 1995).

What has this meant for class politics on an international scale? For capital, nationalism manifests as a means by which individual nation states facilitate the international continuity of value appropriation. Apparent national rivalry provides the framework within which capital can safely compete. For labour in Australia, nationalism, particularly in the form of 'economically responsible' unionism, has left the terrain of international class politics entirely to capital.

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