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An Interview with Paul London, author of  
***The Competition Solution:  
The Bipartisan Secret behind American Prosperity***

Q: *What is the book about?*

A: *The Competition Solution* provides an in-depth look at what makes our economy thrive. Contrary to popular belief, our economic success is not rooted in tax or monetary policy. It is primarily a result of competition, which could not exist without courageous bipartisan political support. Much credit goes to the presidents who stood up against the established industries and their unions in the 1970s and allowed new upstarts to challenge them. Today, two sections of our economy remain in dire need of reform: health care and education.

Q: *What happened in the 1970s? Why is it relevant today?*

A: Increasing competition in the 1970s and 1980s—in automobile and steel manufacturing, telecommunications, airlines and trucking industries, railroads, express mail delivery, financial markets (banking, stock trading, the provision of credit), and retailing—was directly responsible for the prosperity of the 1990s. In all these sectors innovative competitors forced established companies to modernize. As a result, investment in new technology soared productivity rose, unemployment fell, and our economy grew without inflation.

The lessons of the 1990s are relevant now because the U.S. economy is not doing as well as it did then. This is in large part because sectors like health care and education are holding it back. These sectors can become the drivers of a new round of prosperity if we apply to them the lessons of the past thirty years.

Q: *Why do you say that monetary and tax policies did not play important roles?*

A: Monetary and tax policies are important, but competition is more important. The major sectors of the U.S. economy that took off in the 1990s would not have done so if competitors had not been breathing down each other's necks. The changes in manufacturing, transportation, communications, finance, retailing, and other areas had almost nothing to do with taxes or the actions of the Federal Reserve Bank.

Q: *Aren't health care and education very different from the industries that were changed by competition between the 1970s and the 1990s?*

A: Businesses always differ from one another, and their leaders always argue that for one reason or another the laws of economics do not apply to them. Recent experience shows, however, that intense competition has forced firms in many industries to get their costs under control and to find ways to take customers away from rivals while also serving new, less affluent customers. Health care and education are two industries where this has not happened but where it could with the right policies. The cost and quality problems we have in health care and public education will never be solved by changing tax or monetary policy. What those important parts of our economy need to be more cost effective is more competition and business plans mirroring the changes that have taken place in other industries.

I should add that doctors and medical practitioners won't oppose competition overtly. Nonetheless, small practices (and

even large hospitals) enjoy local monopolies that hurt the quality of care and prevent price competition. Patients usually are forced to use the local hospitals. Only the rich have the option of choosing doctors from much beyond their communities.

Q: *Is unfair competition from abroad creating the U.S.'s huge trade deficit?*

A: The United States has imported much more than it exports for almost three decades. The biggest deficits, however, have been in a few key products like energy, automobiles, and consumer electronics, where our competitors are often companies from high-wage developed countries like Japan and Germany. I believe that U.S. automobiles and electronics companies lost their edge before the 1970s because they had no competition. These firms have never been fully able to recover.

In contrast, Caterpillar, which is able to export from the United States to Japan and the rest of the world, is a good example of a company that has done it right. Its leaders never became complacent and recognized that if they stopped competing in foreign markets they would eventually be challenged at home.

Q: *What about competition and imports from China?*

A: Focusing on China makes us think that the trade deficit is largely due to competition from low-wage countries. In fact, over half our trade deficit is with high-wage countries like Germany, Japan, and Canada, and with the oil exporting countries. We need to think more about why some of our industries can't keep up with those in high-wage countries.

Q: *Doesn't competition cost jobs?*

A: No. Competition in the 1990s led to the creation of 23 million new jobs. New companies emerged while old airlines went out of business and more cars were made by fewer people. Competition

lowered costs, and growth surged. There are winners and losers in every economic competition, but usually more winners than losers. History shows time and again that competition increases opportunity and employment and allows people to live better.

Q: *You say in the book that Wal-Mart and companies like it have modernized the retail sector? What about the criticism leveled at Wal-Mart for low wages, inadequate health care, and unpaid overtime?*

A: Wal-Mart and similar companies have been criticized for cutting costs to lower prices. These criticisms always downplay the contribution these companies make to keeping inflation low, which lowers unemployment and gives lower wage earners access to products that were once beyond their reach.

The best way to get employers to pay higher wages and provide greater benefits is to make the economy grow faster. Expanding companies compete for workers who then have more bargaining power. That is what happened in the 1990s, and it could happen again, particularly if new parts of the economy like health care and education are forced to innovate and modernize.

Q: *Is competition a solution in all parts of the economy?*

A: Absolutely. It is important however to see competition in the way that America's Founders saw it. The Founders were not in favor of cutthroat competition either in politics or in the economy. They knew there had to be societal rules for competition, and that in a sense is what the American Constitution is. To prevent established firms from blocking new ones, rules exist to create an orderly contest, where the winner in one round of competition faces competition again in the next round. Challengers always have a chance. Powerful economic interests that can shut out future competitors are a great threat to our economy and to our political system.