

## Comment

# Power to those who challenge industry's dinosaurs

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**W**ith all the policy emphasis on "too-big-to-fail", let us not forget one thing: the future prosperity of most countries depends less on the lumbering behemoths that have stumbled and more on the small companies that are job creators and those that are still only a gleam in an entrepreneur's eye. That is not to say policymakers have got it all wrong. It would have been risky in the extreme to allow Citigroup to follow Lehman Brothers into capitalism's graveyard, or to let AIG collapse.

But we should remember that when Franklin D. Roosevelt chose to gut the antitrust laws to permit significant cartelisation of the US economy – collusion to raise prices and divide markets was considered a good idea – he set recovery back by years. Implicit in too-big-to-fail is the creation of barriers to the entry of newcomers and it was not until after the second world war that a reinvigorated antitrust policy could play a role in unleashing prosperity.

So when making policy, central bankers and finance ministers should remember to invite competition authorities into the room. That would at least give a voice to those such as Neelie Kroes, European commissioner, who might remind them that a policy that keeps interest rates as low as possible – which means be careful that fiscal policy does not swallow monetary policy – makes it easier for fledgling enterprises to survive and new ones to get the start-up capital that has launched the companies that historically have driven productivity and living standards up. If we reserve resources to dinosaurs such as General Motors, we deny them to the tinkerer in a garage who might develop the battery that has eluded the automotive giant.

In short, we need to integrate competition policy into anti-recession policy.

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Gordon Brown, the UK prime minister, surely had it right when he decided to inject capital into leading banks in order to prevent their collapse. Ben Bernanke, Federal Reserve chairman, and Hank Paulson, Treasury secretary, surely had it right when they decided to scrap the economic rule book and try a variety of measures to prevent crisis from morphing into cataclysm.

But George Osborne, UK Conservative shadow chancellor, also has it right when he emphasises the need to prevent fiscal policy from becoming so loose that it forces the Bank of England and the Fed to keep rates higher than they would otherwise be. A few points of interest rates matter more to a potential entrant or a tiny competitor than to a large, established institution. The current rate-cutting policies of the central banks cannot survive the spate of inflation and interest-rate increases that will follow too-loose fiscal policy. If you doubt that take a look at Robert Samuelson's new *The Great Inflation and Its Aftermath*. The US paid a huge price for the inflation that successive presidents unleashed before Ronald Reagan and Paul Volcker decided to wring it out of the system.

We should worry as much about the inability of new companies to raise venture capital as about that of existing giants to finance legacy costs. We should worry as much, or more, about the ability of small rivals to survive as about the ability of giants to maintain executive bonuses. We should worry as much, or more, about the tendency of authorities to give a wink and a nod to anti-competitive practices during a downturn as about the survival of companies that are anyhow due to shrivel in a world of innovating entrepreneurs.

That also means avoiding the sort of protectionism Nicolas Sarkozy, France's president, is trying to foist on his European Union partners – and indeed on the world's main economies. Competition from abroad is necessary if companies at home are to be pushed to serve consumers efficiently. US consumers would be poorer if foreign car companies had been denied access to our markets. US workers would be deprived of the 113,000 direct jobs provided by the investment of foreign-owned car companies in many southern states. British consumers would not be as well served, and their living standards lower, if efforts to prop up inefficient manufacturers – so-called industrial policy – had succeeded.

So save those we must to ease the current crisis and fight the current recession. But do so in a way that minimises discrimination against smaller rivals and potential entrants. In the longer run, it is competition, not anti-competitive practices; it is companies that challenge giants, not the giants themselves, that will enable market economies to do what they do best – increase the material quality of life.

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