



USA STILL MOST COMPETITIVE NATION, BUT LOSING GROUND...

Strong economy, weak government?

By Professor Stéphane Garelli (July, 2006)

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In 2006, competitiveness is a more compact race than ever before. Although the US is still No.1 in IMD's World Competitiveness Yearbook, other economies, especially Hong Kong and Singapore are closing the gap.

Professor Stéphane Garelli, Director of IMD's World Competitiveness Yearbook draws attention to the striking difference between the achievements of the US economy in 2005 (3.5% growth) and the US\$318bn budget deficit accumulated by the federal government and the US\$8,000bn debt.

Some governments becoming a burden for competitiveness?

Italy, France and some Latin American countries seem to be confronted with the same situation. Some governments fail to contribute to the overall competitiveness of their country.

Are some governments dragging their feet?

In this year's World Competitiveness Yearbook, we have also calculated the biggest negative differences between the contribution of the government and the contribution of the economy to the overall competitiveness of a country. In these calculations, the governments of Venezuela, Argentina, Brazil, Mexico and Italy show the weakest performance; they significantly lag behind their economic performance. They fail to perform on several fronts: budget deficits, debt, taxes, bureaucracy, etc. In some cases, like Venezuela and Argentina, the economy still performs well for external reasons, such as oil prices or exports. On the other hand, Brazil and Mexico remain weak for growth. Italy is the only country in the ranking with no economic growth in 2005!

"USA and France are the two industrial nations that show the biggest difference between the performance of their governments and the performance of their economies. Budget deficits and debt are running higher in both countries, calling into question the efficiency of the state. Meanwhile, the US and France are still the 2nd and 5th largest exporters in the world thanks to very dynamic enterprises. In these two countries, business outperforms government.

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"India and China face similar gaps between government and economic performance, but for different reasons. With growth rates of 8.1% and 9.9% respectively, both governments face the challenge of keeping pace with rapid economic expansion. Their task now is to meet the standards and expectations of a buoyant economy. Failure to do so may create economic and social imbalances that could jeopardize what has been achieved so far. The lesson here: success has a price.

To support and stimulate the competitiveness of their country, governments need to remain on top of economic imperatives. Hong Kong and Singapore are catching up with the US because their governments are more in synchronization with economic performance. Finland and Denmark also fare well; other countries less. A growing gap between governments and economic performance is always a bad omen for the future."

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