

COMPETITIVENESS IN CONTEXT

Competitiveness and social disparities: A contribution toward the debate

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Abstract

The objective of this essay is to trace the dynamics between competitiveness and social disparities particularly within the *IMD World Competitiveness Yearbook* data. A review of the relevant academic literature and findings in our data highlight the need for the study of competitiveness to build a more comprehensive disparity-sensitive conceptual framework. In this regard, we identify a need for conceptual convergence on both fronts: in the definition of competitiveness and of the nature of social disparities. It also becomes apparent that it is fundamental to rethink current indicators or develop new ones that improve our assessment of disparities.

It has been over 250 years since Swiss-born Jean-Jacques Rousseau assessed the foundations of social disparities in his *Discourse on the Origin of Inequality* (1992). Rousseau argues that inequalities are not natural and that they are constructed by human acts (i.e., human agency). He refers to these disparities as “moral or political.” It is the evolution of society, according to Rousseau, that allows for inequalities beyond natural disparities (e.g., age and physical differences). In this context, Rousseau points out that the advent of private property and the division of labor, for example, are among the bases on which social disparities emerged, leading to deep divisions in socio-economic classes. Rousseau’s argument thus centers on progress (e.g., the institution of political society, the establishment of an economic system and industrialization) as the origin of inequality.

In modern society, the nature of what constitutes progress has evolved. We may argue that progress is either economic development or greater competitiveness. This essay does not intend to focus on the linkages between progress/development and competitiveness – we assume that increasing competitiveness is the path toward development. Rather, our focus is on the interplay between competitiveness and disparities. In what follows, it becomes obvious that there is an increasing conceptual need to strengthen the study of competitiveness by developing a more disparity-sensitive analytical framework. This should be a prerequisite for any search of causation in the competitiveness/inequality dynamics.

It is important to clarify our understanding of disparities before proceeding. For the purpose of this essay, we employ the terms inequalities and disparities interchangeably. This use, however, does not mean that we assume that inequalities and disparities are equivalent. Rather, it reflects the conceptual ambiguity in the relevant literature. Social disparities go beyond inequalities – they refer to lack of inclusion for some individuals/groups rather than to a lack of outcome (e.g., differences in income). With this in mind, we define disparities as the exclusion of certain individuals or groups of individuals from benefiting from private and/or public goods.

Rousseau’s main contribution is that social inequalities are not natural; they are constructed by human activities. In the long term disparities become embedded in the socio-economic and political structures. Branisa *et al.* (2013), for example, argue that gender disparities have become institutionalized through social practices and legal norms that establish specific gender roles. Disparities are then perceived of as legitimate and thus to an extent inevitable. It follows, nevertheless, that if socio-economic and political disparities are human-made, then they can be ameliorated, if not reduced to insignificant levels.

The UNDP’s Sustainable Development Goals (UNDP, 2015) aim at just that. The goals establish a framework to tackle global inequalities through the renewal and transformation of institutions (e.g., “sustainable cities and communities” and “peace, justice and strong institutions”) and through increasing inclusiveness (e.g., “good health and well-being” and “gender equality”).

In the context of the *IMD World Competitiveness Yearbook*, the linkages between competitiveness and institutional transformation are covered by sub-factors such as those assessing the institutional framework and business legislation. The dynamics between competitiveness and social disparities are covered by the societal framework sub-factor and several other indicators located under other sub-factors. For us, achieving the Goals is akin to focusing on competitiveness as an objective of economic and social policy. We discuss these dynamics later in this essay.

For increased conceptual clarity, we approach the effect of social disparities from two levels of analysis: the micro-level contemplates how inequalities affect the members of a particular society (i.e., individual or groups); the macro-level considers the accumulative impact of disparities on the economy in general.

Social disparities: Micro-level

Disparities are multidimensional. They can be spatial (see e.g., Kim, 2008; and Angotti, 1996); for example, when investment in public schools is largely concentrated on specific neighborhoods within a city, or when police forces combating crime are deployed mostly to some areas of a city. Inequalities can also be economic; for example, preferential access to credit favoring some individuals/sectors of society (see e.g., Field and Torero, 2006, and Hudon, 2009). Disparities can be political; some segments of society can experience a limited ability to participate in the electoral process (see e.g., Østby, 2008) due to an over-burdensome registration process, for example.

Disparities directly affect the well-being of individuals or groups, for example, through limited access to the health system (see e.g., Cornia and Menchini, 2007). They can also limit the ability of individuals to engage in certain community activities – to interact meaningfully with other members of society (see e.g., Sen, 2000). In addition, disparities can restrain the ability of an individual or group to protect their rights: for instance, situations in which minorities are treated differently by the judicial system (see e.g., Hoyano, 2010). Disparities can also curtail the social mobility of future generations, for example, low-income families can only minimally invest in the education and health of their children thereby limiting their possibilities of achieving a higher status in the social hierarchy (see e.g., Grusky and MacLean, 2016).

To put it differently, the understanding of the impact of disparities on the micro-level requires the consideration of multiple sources: political, spatial,

economic, racial, gender, technological, among others. The presence of one of these sources does not necessarily imply that other sources are absent. In fact, the sources of inequalities can be mutually constitutive and/or reinforcing. For example, spatial inequalities (e.g., investment in particular schools) can lead to an increase in unequal access to technology, resulting in the underdevelopment of specific areas of a city which in turn exacerbate not only existing economic disparities but also the quality of schools located in those areas.

Social disparities: Macro-level

The linkages between economic growth and inequalities have been approached from two perspectives. First, studies assume that economic growth leads to inequalities (see e.g., Kuznets, 1955). Second, some analyses trace the effect of inequalities on growth. We focus on the latter relationship. Within this strand of the literature, Panizza (2002) finds strong evidence that the relationship between inequality and growth is negative: increases in inequality are accompanied by decreases in growth. Similarly, Alesina and Rodrik (1994) find a negative and “statistically significant” relationship between disparities in land distribution and growth, and between income inequality and growth. Aghion *et al.* (1998) argue that the findings presented in the literature on the negative impact of inequality on growth are “impressively unambiguous.” They point out that the literature is underlined by the proposition that economic inequality affects the level of investment in physical and human capital, which in the long term may lead to decreasing growth rates.

Abramovitz (1986; see also Fagerberg *et al.*, 2007) has indicated that countries that experience economic growth are those with strong “social capabilities.” That is to say, “socially advanced” economies develop capabilities in terms of effectiveness of political institutions and levels of education, among other factors. Social capabilities imply, for example, that competitive economies depend on their members of society to be able to produce, execute and absorb knowledge (e.g., ideas), which leads to increases in innovation. In turn, this requires socially advanced societies to be more inclusive since it is fundamental for their members to realize their potential in order to become innovation agents. In this sense, Atkinson and Marlier (2010) argue that deep disparities negatively impact economic growth, productivity and the stability of society (e.g., safety and security). Similarly, Witztum (1997) suggests that increasing inequalities lead to a drop in productivity. More specifically, Gray and James (2007) find that gender disparities at the firm level prevent female employees from fully contributing to

the innovative capacity of firms and thus in the long-term negatively affects economic competitiveness. In this context, technological transformation can lead to increasing economic inequalities (see e.g., Aghion et al., 1998).

Conversely, some observers indicate that a degree of inequality is necessary to achieve an optimal level of efficiency in the economic system (see Kim, 2008). Furthermore, Dell’Anno and Amendola (2015) find evidence that in the short term, economies with high social exclusion experience high growth rates. For example, economies that have a high wage inequality may be more competitive in attracting investment from multinational corporations. Seguino (2000) finds that gender inequalities based on wages are positively linked to GDP growth. These findings, however, are relevant to countries with a sizable share of exports produced by manufacturing industries largely dominated by the female workforce. In these countries, Seguino (2000) argues that gender wage-differentials boost investment and improve the productivity of that investment through the impact of the female labor force’s low wages on export and technological imports. Li and Zou (1998) conclude that “income inequality is not harmful for growth.”

Competitiveness and disparities

The analysis of the relationship between competitiveness and inequalities adds an additional level of complexity to the debate. The ambiguity in defining competitiveness in sections of the literature, for example, makes it difficult to shed light on the linkages. In the European context, Ranci (2011) seems to consider competitiveness as being equivalent to competition. He then concludes that there is no correlation between “global competitiveness” and social inclusiveness. He indicates that the amelioration of inequalities experienced by major European cities results from the “solid tradition of national welfare systems.” Others argue that the goal of competitiveness is to boost people’s living standards. Competitiveness thus leads to a reduction of disparities (Waheeduzzaman, 2002).

We now summarily trace the dynamics between our overall competitiveness ranking and several indicators assessing social disparities. We focus on the performance of the top 20 countries in the 2016 overall ranking (see **Table I**). Our data show an inconclusive relationship between competitiveness and inequalities.

TABLE I • Overall competitiveness: Top 20 ranking, 2016

2016 Ranking	Country	2016 Ranking	Country
1	China Hong Kong	11	Luxembourg
2	Switzerland	12	Germany
3	USA	13	Qatar
4	Singapore	14	Taiwan
5	Sweden	15	UAE
6	Denmark	16	New Zealand
7	Ireland	17	Australia
8	Netherlands	18	United Kingdom
9	Norway	19	Malaysia
10	Canada	20	Finland

In regards to the fair administration of justice, with the exception of Luxembourg (21st), Malaysia (27th) and Taiwan (31st), results indicate that countries in the top 20 overall competitiveness ranking obtain top 20 scores in the justice indicator (see **Indicator 2.5.01**). Results for equal opportunity (see **Indicator 2.5.09**) are similar: from the top 20 countries in the overall ranking, only Germany (24th) and Taiwan (30th) do not reach a top 20 place in this criterion. We observe the same pattern in the effectiveness of the health infrastructure (i.e., the health system meeting the needs of society; see **Indicator 4.4.04**) and the level of quality of life (see **Indicator 4.4.26**) indicators. New Zealand (21st), Australia (22nd), Qatar (26th), the United Kingdom (29th) and USA (32nd) fall outside the top 20 countries in health infrastructure. This is also the case for Qatar (22nd), the United Kingdom (24th), China Hong Kong (25th), Taiwan (29th) and Malaysia (31st) in the quality of life criterion.

Data on social cohesion (see **Indicator 2.5.05**) exhibits the same top 20 pattern in terms of the number of countries but the gap between the overall ranking and the cohesion indicator widens: Malaysia (22nd), USA (26th), Taiwan (29th) and China Hong Kong (40th). The gap is wider for gender inequality (see **Indicator 2.5.12**): Australia (21st), Ireland

(23rd), Canada (26th), New Zealand (31st), the United Kingdom (35th), Malaysia (38th), UAE (40th) and the USA (43rd). With regard to disposable income (female/male ratio, **Indicator 2.5.13**), the gap widens even further: Taiwan (24th), Singapore (26th), Ireland (29th), New Zealand (33rd), Canada (39th), Australia (43rd), Netherlands (46th), the USA (47th), Qatar (56th) and UAE (57th).

A comparison of the 2016 overall competitiveness ranking and the 2016 societal framework sub-factor also highlights the rather uncertain relationship between competitiveness and disparities. It also shows that there is a degree of “tolerance” (Waheeduzzaman, 2002) toward inequalities in some regions/countries. **Figure 1** highlights this trend. It illustrates that, for example, in the Americas, the ranking of the societal framework sub-factor is on average five places below the overall competitiveness ranking. In Western Europe, this pattern is reversed: the societal framework outranks the overall competitiveness ranking on average by five places.

Figure 2 illustrates this pattern at the country level. In the case of the Americas, it is noteworthy to mention that the USA ranks 3rd in the 2016 overall ranking and reaches 27th place in the 2016 societal framework

FIGURE 1 • Societal Framework’s relationship with Overall Competitiveness 2016, by region [ranking difference]

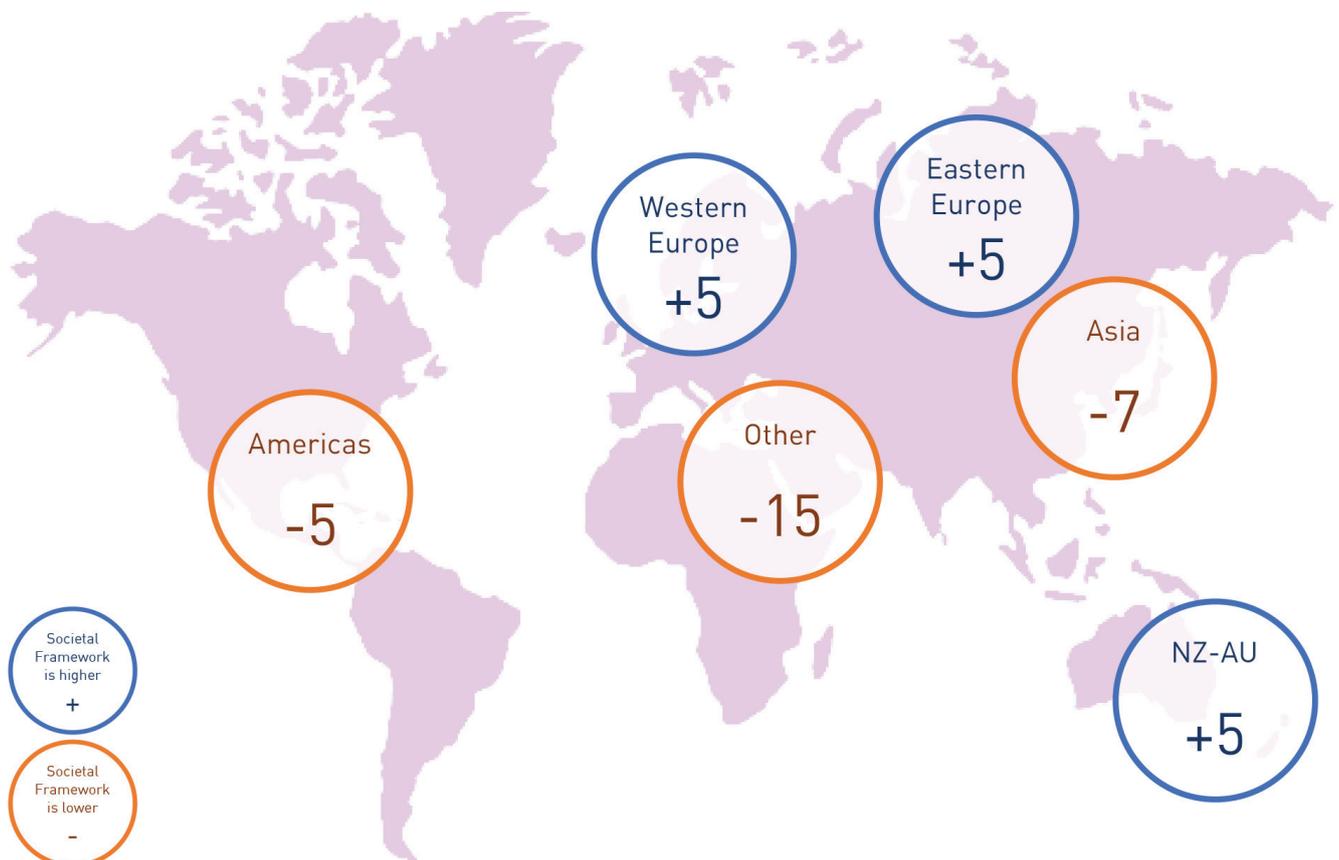
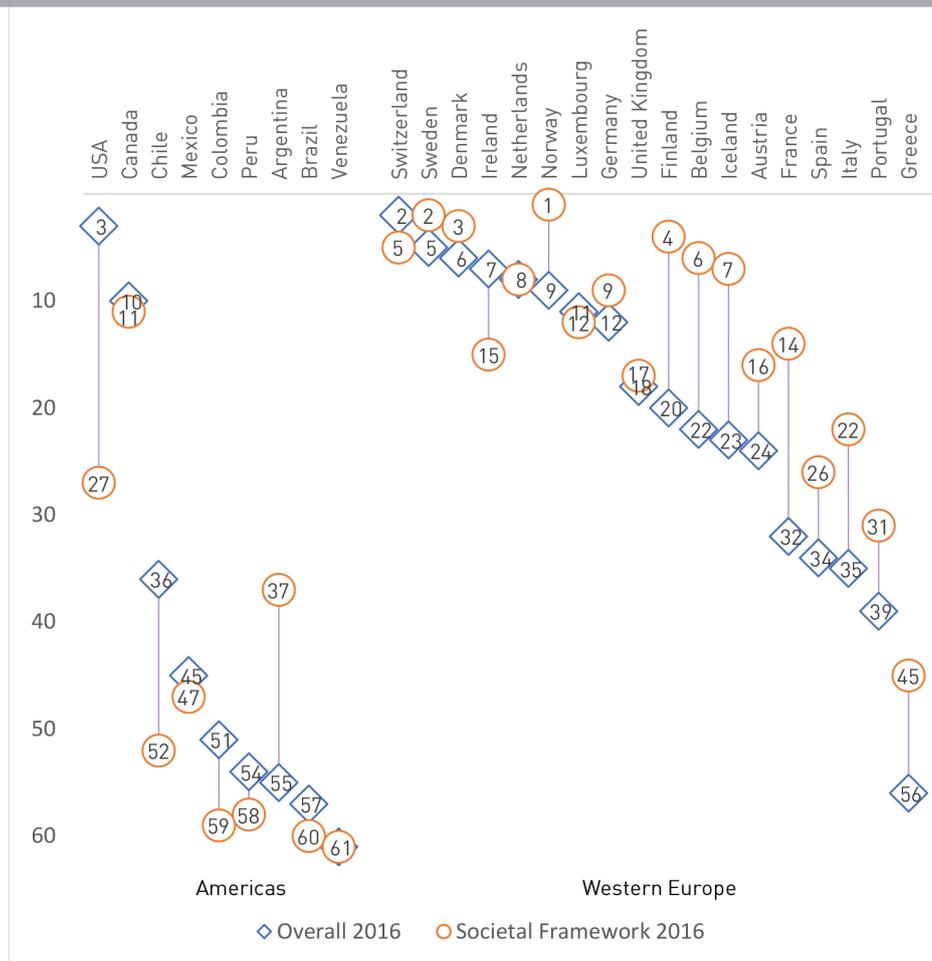


FIGURE 2 • Societal Framework's relationship with Overall Competitiveness 2016, by selected country/region [ranking difference]



sub-factor. At the higher end of the ranking, in Canada, the gap between the two rankings is reduced (10th and 11th respectively) and at the lower end, Brazil ranks 57th and 60th (respectively), and Venezuela 61st in both. Argentina is the exception; its societal framework rank (37th) is higher than its overall ranking (55th). In Western Europe, Norway ranks 1st in societal framework and 9th in the overall ranking. Moreover, nine of the top 10 countries in societal framework are Western European; the exception is New Zealand (10th). In the case of Switzerland, the societal framework ranking (5th) is lower than its overall ranking (2nd), as is the case for Ireland (15th and 7th) and Luxembourg (12th and 11th).

Conclusions

The objective of this essay has been to trace the dynamics between competitiveness and disparities particularly within the *IMD World Competitiveness Yearbook* data. A review of the academic literature covering those dynamics and relevant findings in our data highlight the need for the study of competitiveness

to build a more comprehensive disparity-sensitive conceptual framework. In this regard, there is a need for conceptual convergence on both fronts: in the definition of competitiveness and of the nature of inequalities. It is also fundamental to rethink current indicators (or develop new ones) that improve our assessment of disparities. A measure needs to be developed, for example, of the role of technological transformation in increasing inequalities.

To conclude, intuitively one assumes that competitiveness, understood as a process of long-term value creation, should be a participatory process striving for social inclusion in order to minimize what Sen (2000) calls “capability deprivation” (e.g., not realizing the potential of members of society through the development of their talent), which negatively affects the process’s own strengthening. Space limitations constrain us from exploring the soundness of this proposition. Further research is thus necessary to enhance our understanding of the linkages between competitiveness and disparities.

Annex I: References

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