



Social disparities and competitiveness

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Data show that a structural transformation is a precondition for increasing competitiveness. Such transformation entails enabling all individual members of society to fully participate and contribute to economic activities. Moreover, competitiveness, understood as the extent to which a country achieves long-term value creation, involves the improvement of the welfare of the community as a whole. To put it differently, reductions in social disparities play a significant role in accounting for the competitiveness performance of countries.

Inequalities negatively impact education, health and employment, and limit the control/access to some economic means and assets of particular segments of society. In this sense, social disparities hinder the growth potential of an economy, thwart poverty-reduction efforts and thus deter higher levels of competitiveness. It is crucial, therefore, for any assessment of economic activities to adopt a

more comprehensive inequality-sensitive lens to more accurately situate the impact and role of disparities within the structure of competitiveness. The assessment of competitiveness, for instance, needs a strong understanding of what it is to meaningfully participate in economic activities and how that participation affects competitiveness.

To a large extent, the IMD World Competitiveness Yearbook already acknowledges the key role played by factors dealing with social disparities. For example, the Yearbook includes indicators assessing economic inequality (Gini coefficient) and female labor participation. However, in our efforts to adopt a more sensitive lens, and in preparation for the release of the Yearbook's 2016 edition (31st May), we have incorporated an additional measure of gender disparity. Observers argue that gender is a social hierarchy through which certain "characteristics" are better rewarded by the socio-economic system and that in the long-run such disparities are detrimental for economic performance; for example, they constrain women's economic opportunities and thus affect the productivity and purchasing power of a large segment of the population. With this in mind, we have adopted a measure of "disposable income" (i.e., the female/male ratio) to further strengthen our societal framework sub-factor.

Initial examination of the disposable income data shows a strong correlation with key competitiveness indicators for 2015. Consider, for instance, Hong Kong, Denmark, Malaysia, Norway, Sweden and Switzerland which all perform well in disposable income. At the same time, to various degrees, they achieve high scores in the equal opportunities indicator, in the social cohesion measure (although Hong Kong ranks rather low in this instance), in the indicators related to justice (with Malaysia ranking moderately low) and in quality of life (though Malaysia and Hong Kong scores are relatively lower). Importantly, all these countries excel in the overall competitiveness ranking. Despite high scores in such dimensions of competitiveness, it is significant that the sampled countries remain vigilant about the need to strengthen economic and social reforms (they all score high in this indicator).

To be sure, some of the academic literature on the subject argues that a degree of social disparity (e.g., in wages) may be optimal for competitiveness. Nevertheless the findings we have briefly discussed highlight a deep-seated correlation between improvements to social disparities (e.g., disposable income) and competitiveness indicators, and thus the need for a more inequality-sensitive competitiveness analytical framework.