

COMPETITIVENESS BEYOND GDP

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WELFARE, WEALTH AND WORK – A NEW GROWTH PATH FOR EUROPE



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Aims & background

- **Competitiveness: a new interpretation for high-income countries**
- **Popular but ill-defined term**
 - Meaning varies with the user: Industry vs. politicians, national vs. EU
 - Originally a **firm- or industry-level concept**
 - Factor input costs or productivity → **Price competitiveness**
 - Production structure, country capabilities → **Quality competitiveness**
 - At the **macro level** (countries, regions) more difficult
 - Krugman (1994), Porter (1990): **Nations don't compete**
 - EC (1998): Generating income and employment → **Outcome competitiveness**
- **Competitiveness for whom?**

Competitiveness – a new definition

■ Should serve society as a whole

= A means to **raise the welfare of citizens**

➤ A **comprehensive assessment** should cover *economic*, *social* and *environmental* outcomes

➤ **The ability of a country or region to deliver the ‘Beyond-GDP’ goals for its citizens**

= the **outcome of inputs/determinants:**

□ **Price competitiveness, production structure & country capabilities**

□ Capabilities = innovation, education, social system, institutions, environment

Measurement: Outcome competitiveness

■ **3 pillars:** Similar to Beyond-GDP literature

- ❑ **Income pillar** = disposable household income, consumption expenditure...
- ❑ **Social pillar** = poverty rates, inequality indicators, youth unemployment...
- ❑ **Ecological pillar** = CO2 emissions, renewables share, resource productivity

↔ **Traditional definition:**

- ❑ GDP per capita, employment (EC 1998)

■ **Aggregate into a composite indicator**

- ❑ Using **principal components analysis**
- ❑ First all individual indicators per pillar, weighted by factor loadings
- ❑ Aggregate three pillars using **equal weights of 0.33**

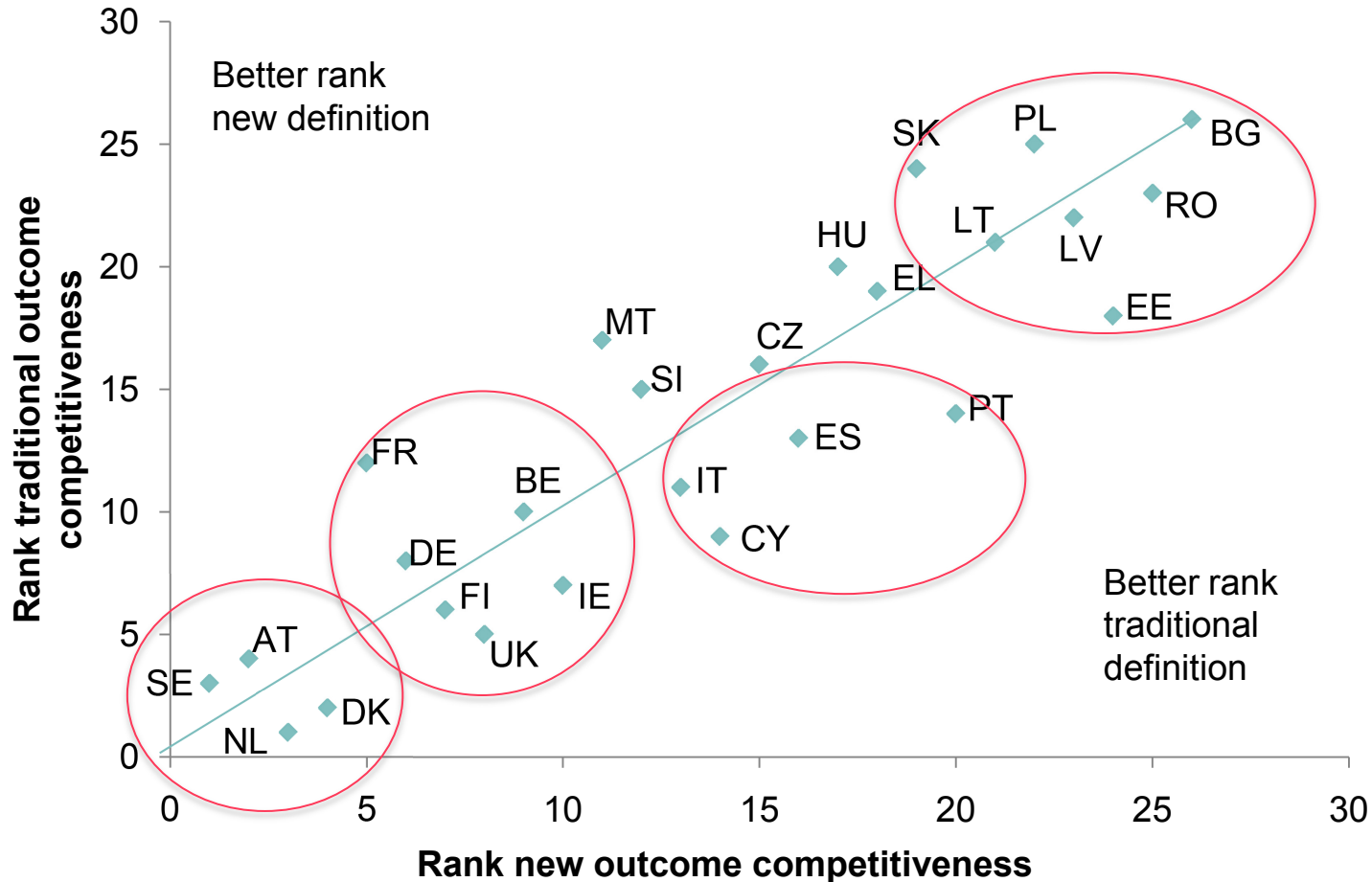
Measurement: Drivers of outcome competitiveness

■ Three categories

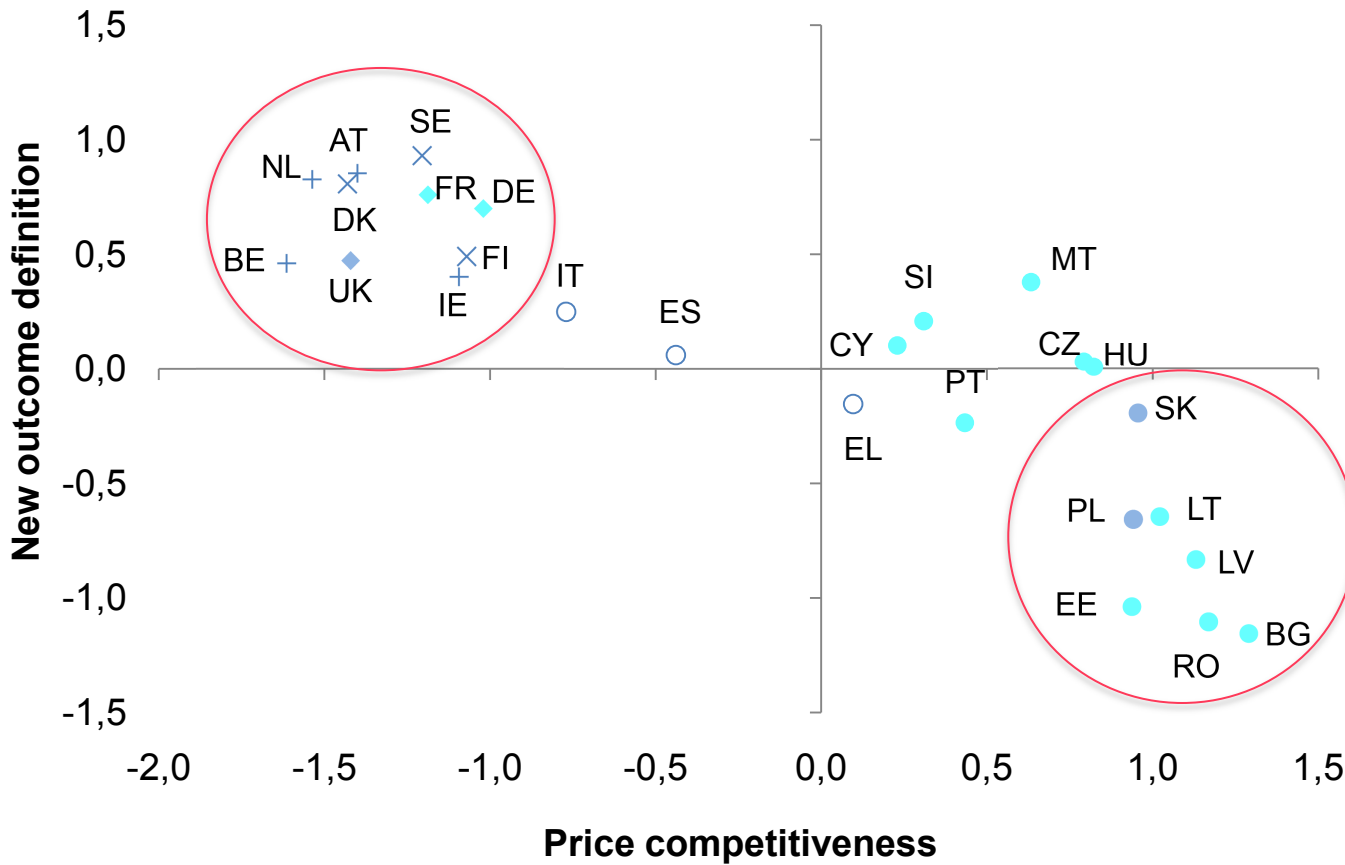
- **Price** = wages, productivity, unit labour costs
- **Production structure** = shares of technology-, skill- and knowledge-intensive manufacturing industries in value added and exports
- **Capabilities:**
 1. *Innovation* = R&D expenditure, tertiary attainment, patents per population
 2. *Education* = Investment in early/lifelong learning, vocational education...
 3. *Institutions* = quality of governance, corruption, trust in parliament...
 4. *Empowering social system* = active labour market policy expenditure...
 5. *Environmental ambition* = recycling, organic farming shares, eco-patents

- Overall, data on **68 indicators** covering **EU-27** over **2000-2010**.

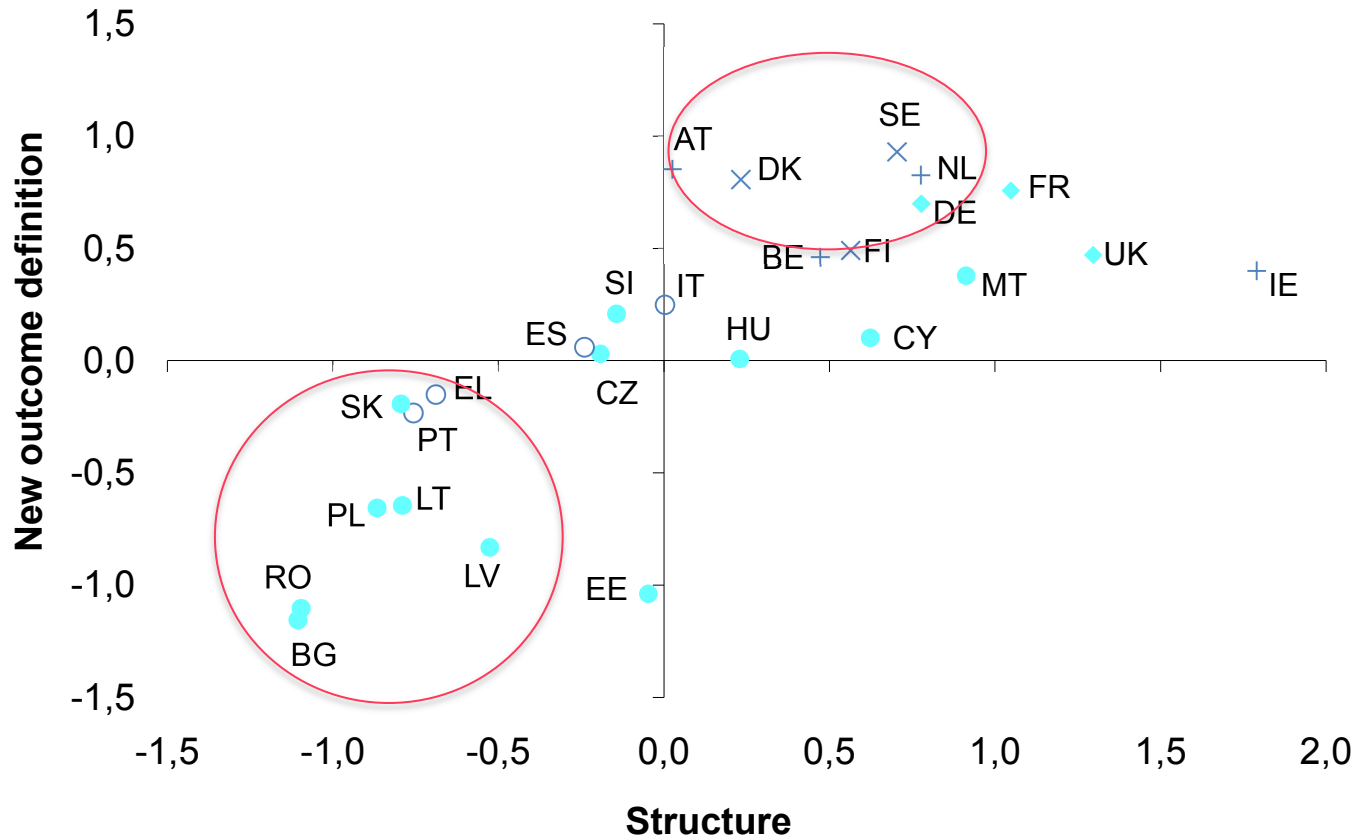
Empirical application 1: EU country comparisons, 2000-10



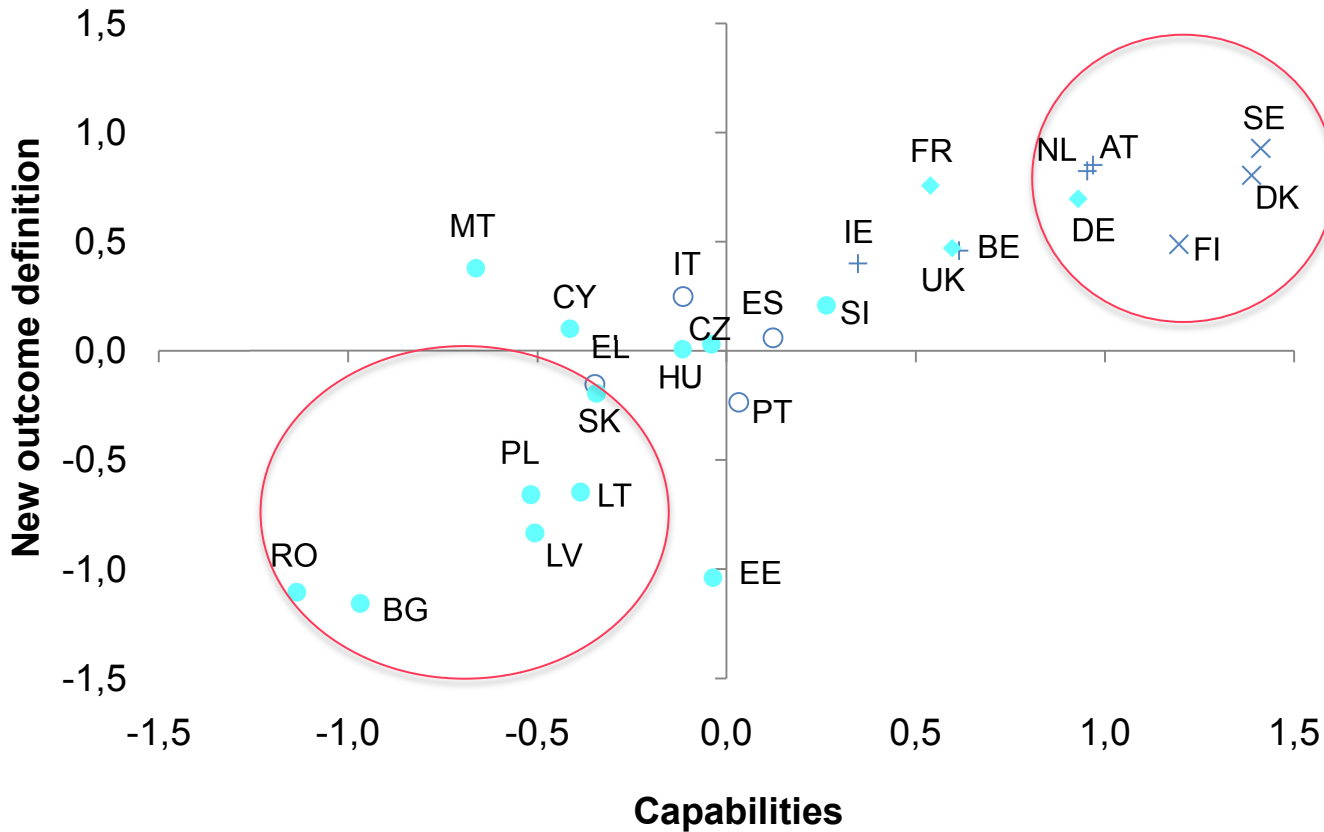
Correlation outcome & price competitiveness



Correlation outcome competitiveness & structure



Correlation outcome competitiveness & capabilities



Empirical application 2: Econometric analysis

Outcome Competitiveness	(i) OLS	(ii) OLS	(iii) OLS	(iv) OLS	(v) OLS	(vi) OLS	(vii) OLS	(viii) OLS	(ix) OLS
<i>Price</i> _{<i>i,t-1</i>}	0.623 (0.666)								
<i>Wages</i> _{<i>i,t-1</i>}		-0.235* (0.131)	-0.216* (0.115)						
<i>Structure</i> _{<i>i,t-1</i>}	0.239** (0.112)	0.222* (0.119)	0.272*** (0.095)	0.312*** (0.092)	0.366*** (0.103)	0.399*** (0.093)	0.416*** (0.087)	0.217* (0.108)	0.536*** (0.078)
<i>Capabilities</i> _{<i>i,t-1</i>}	0.490*** (0.130)	0.305** (0.143)		0.539*** (0.110)					
<i>InnoEdu</i> _{<i>i,t-1</i>}			-0.205 (0.208)		-0.179 (0.219)	0.417*** (0.095)			
<i>Social</i> _{<i>i,t-1</i>}			0.217 (0.179)		0.301 (0.244)		0.426*** (0.088)		
<i>Institutions</i> _{<i>i,t-1</i>}			0.176 (0.145)		0.232* (0.141)			0.489*** (0.092)	
<i>Ecological</i> _{<i>i,t-1</i>}			0.152* (0.089)		0.201** (0.075)				0.368*** (0.074)
<i>R</i> ²	0.787	0.805	0.824	0.775	0.798	0.712	0.754	0.720	0.802

Discussion of the results

- **Price competitiveness (wages)** weakly negatively related with outcomes
 - Higher **price competitiveness** (lower costs) associated with lower outcome competitiveness
- **Capabilities and structure** positive and significant
 - A **narrow focus on cost neglects other important determinants** of competitiveness
 - **Economic structure**
 - **Capabilities:** especially institutions, ecological ambition

Policy implications & conclusions

- Broadening the definition of outcome competitiveness towards a comprehensive measure of national welfare leads to **policy recommendations that are *in the long-term interest of society***
- Unless **high-income countries** want to give up this status, their **only policy option is to pursue the ‘high road’**:
 - **Compete on structure & capabilities (quality)**
 - **This is possible:** Scandinavian countries focus on innovation, education, high-tech/high-quality products, institutions, “green” transition and an inclusive welfare state
 - **Taking the ‘low road’ is counterproductive in the long term**
 - Cutting costs: wages, welfare state and environmental standards
 - Emerging countries can and will undercut.

Thank you for your attention!

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