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## Standard of Living as a Factor of Countries' Competitiveness

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### Abstract

This study examines the relations between competitiveness of selected countries and the standard of living of their populations. The focus of this study was determined by literature review, which showed that the mentioned relation has been usually identified only implicitly, showing less emphasis on empirical study. Our research is based on international statistical reports focused on factors of competitiveness of national economies and the metrics used in evaluating the standard of living. Secondary data from several reputable sources - such as the World Bank, the Gallup Institute, and OECD - are systematized and analyzed using several statistical procedures, so as to identify structural links between the various indicators. Based on the identified relations, we discuss areas suitable for increasing the competitiveness of the countries, and we also compare them with current macroeconomic trends.

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### 1. Introduction

In 2010 European leaders initiated and prepared the strategy concerning Europe development and called it Europe 2020 Strategy and its main goal was to encourage “smart, sustainable, inclusive growth brought about through greater coordination of national and European policy“ (EC, 2012). This step was a response to economic and social problems of several European countries. Consequently in 2012 and 2014 World Economic Forum published reports evaluating Europe's competitiveness progress based on the Europe 2020 Strategy (EC, 2012). The authors of the reports agree that after the financial crisis was relatively successfully managed by means of monetary tools in European economic area it is not possible “to be complacent” but it is a must to take actions to increase Europe's

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competitiveness (WEF, 2014). On the other hand there is a relatively strong scientific criticism of “artificial growth of living standard” based on indebtedness (Afonso, 2010) or generous social system (Algan, 2010), which partially equilibrates accelerating tendencies based on countries macroeconomic performance.

With reference to a wider context concerning countries competitiveness growth it can be stated that this effort is not characteristic only for Europe but is a worldwide trend (Čarnogurský, 2015) (Capello, 2015). Emphasis on competitiveness as one of key pillars of national, international and world development can be felt from both theoretical and practical aspect (EC, 2012). There are several (more individual) methodologies to measure international competitiveness, preferably used to measure countries macroeconomics performance (Durand, 1998). The most widespread and relatively the most exact is World economic forum methodology. World economic forum monitors competitiveness by means of 12 aggregate indicators: Institutions environment, Infrastructure, Macroeconomic environment, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market development, Technological readiness, Market size, Business sophistication, Innovation. Next very important organization – OECD – does not evaluate international competitiveness directly but prepares methodology of so called competitiveness indicators platform (OCIP), which contains 12 indicators consolidated in three areas: (1) endowments and conditions, (2) policy and (3) performance (Hong, 2014).

Since more scientific studies present implicit relation between international competitiveness and standard of living (Okrepilov, 2015) (Yakovieva, 2015), also approaches concerning living standard measurement were reviewed within literature retrieval. Metrics to measure living standard are most frequently identified with the valuation of life quality or with measurement of wellbeing index (Kral, 2011). To evaluate or measure life quality several metrics of institutions as for example OECD, Gallup’s institute, Mercer, The Economist are used till now but they differ from each other considerably. Each of the above mentioned metrics uses its own interpretation of life quality and the results achieved by means of their application may be markedly different. With the aim to measure quality of life some institutions use objectively measurable indicators of macroeconomic, demographic or social character and some of them base the results on indicators of perception by means of nationwide research also called subjective wellbeing (Diener, 2003). The theoretical study about importance of so called social indicators measurement was introduced by Noll in 2004, and he stated that „social indicators research has succeeded to considerably improve the measurement of peoples’ quality of life as well as the monitoring of general social conditions and change“ (Noll, 2004).

With regard to structure of both mentioned areas it is possible to state that the factor of population living standard - in the situation when competitiveness is assessed - is taken into consideration only partially – some indicators of international competitiveness are identical with the indicators of living standard or some indicators of living standard are implicitly included in the indicator of international competitiveness. From the scientific point of view this failing presents potential for relatively extensive empirical research, since several previous expert studies implicitly (Okrepilov, 2015) or explicitly (Easterlin, 2011) point out the relation between living standard and international competitiveness. The goal of this study is to research mutual connections between individual indicators of international competitiveness and indicators of life standard (quality of life).

## **2. Material and methods**

To review the relation between living standard and international competitiveness the availability of secondary datasets was checked. It was found out that the latest evaluation of competitiveness was realized by World Economic Forum in 2014, while publicly accessible data include 151 countries (Schwab, 2014). In each country 12 aggregate indicators created by 150 variables are monitored. The access to data concerning living standard was more complicated. Found datasets containing subjectively measurable indicators were not actual and stratified only according to several countries. The total dataset containing global data concerning living standard was not found – we managed to find only the dataset containing the sequence of countries in five categories of living standard (wellbeing) and the dataset of OECD countries. Finally the total dataset of 36 countries containing 11 aggregate variables concerning quality of life and 12 aggregate variables concerning international competitiveness was developed.

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