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Press Release

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The WCY analyzes and ranks the ability of nations to create and maintain an environment that sustains the competitiveness of enterprises.

TAXES AND COMPETITIVENESS – IS THERE ANY LINK?

(All quotes can be attributed to Professor Stéphane Garelli, IMD)

“Many business and political leaders intuitively feel that lower taxes sustain competitiveness by boosting investment and personal spending. It may be true. However, the findings of the World Competitiveness Yearbook 2005 indicate a subtler link. The competitiveness of Luxembourg, Denmark, Finland, Norway, Sweden, and Belgium was good in 2004 – the highest economic growth rates in continental Europe – despite a significant overall tax pressure (above 40% of GDP). At the same time, the US, Australia, Estonia, Ireland and the Slovak Republic had remarkable growth rates while relying on much lower taxes (between 25% and 34% of GDP). Finally, Japan and Switzerland have both shown very weak economic growth over the past ten years in spite of low total tax pressure (27% and 30% respectively)! Clearly any link between taxation levels and competitiveness performance is far from evident at first glance.

The first observation is that competitiveness reacts differently to the various types of taxes that are levied. A direct impact is more easily established between corporate taxation and competitiveness than with personal, social or indirect taxes. As a consequence, Northern European nations heavily tax personal income and consumption but spare corporate profits.

The second observation is that taxes are perceived in general as fuelling excessive government spending. Here again, a direct correlation with competitiveness is hard to establish. Sweden, the Netherlands, Denmark, Finland or the UK display high levels of government spending, in excess of 20% of the GDP, and high competitiveness performance. At the other end of the spectrum, only 11% of the GDP of Singapore and Hong Kong goes towards government spending and they also have a top competitiveness performance. It would appear that the efficiency and quality of government expenditure matter more than the size.

So what? Tax policy is no substitute for competitiveness. The level and type of taxation can enhance or hinder competitiveness, but cannot create it. The real “engines” of competitiveness are science, technology, entrepreneurship, finance, logistics and education. Tax still matters in as much as it is part of the overall cost of doing business- one of the major reasons why companies relocate abroad. Thus, the real impact of taxes is on job creation or destruction. A higher cost of business can be somewhat offset by improving the ease of doing business. Thus, it would appear that as far as competitiveness is concerned, the simplicity of the tax system is just as important as the level of taxation per se. In this regard, a simpler flat tax system may be more valuable in the long run than a complex low tax regime.”

THE 2005 WORLD COMPETITIVENESS RANKINGS

THE TOP 24 (OUT OF 60)			
Score 05	**Country/Region**	**Rank 05**	**Rank 04**
100.0	USA	1	1
93.1	Hong Kong	2	6
89.7	Singapore	3	2
85.3	Iceland	4	5
82.6	Canada	5	3
82.6	Finland	6	8
82.5	Denmark	7	7
82.5	Switzerland	8	14
82.0	Australia	9	4
80.3	Luxembourg	10	9
78.3	Taiwan	11	12
77.8	Ireland	12	10

THE TOP 24 (OUT OF 60)			
Score 05	**Country/Region**	**Rank 05**	**Rank 04**
77.4	Netherlands	13	15
76.3	Sweden	14	11
76.2	Norway	15	17
75.5	New Zealand	16	18
74.3	Austria	17	13
74.1	Bavaria	18	20
72.2	Chile	19	26
69.7	Zhejiang	20	19
68.7	Japan	21	23
68.5	United Kingdom	22	22
67.8	Germany	23	21
67.5	Belgium	24	25

(NB: The Scores are actually indices (0 to 100) generated for the unique purpose of constructing charts and graphics.)

The IMD World Competitiveness Yearbook 2005 provides several customized rankings, whether global, by size, by wealth, by regions, etc. In the overall ranking, for example, Malaysia has fallen from 16th to 28th position, Spain 31st to 38th and China from 24th to 31st. China's surprising fall, despite an excellent economic performance, is due to an extremely negative opinion survey conducted in the business community on Q1 - 2005. It seems that the sustainability of such a rapid expansion is being questioned while the strains on the financial system, infrastructure and weaknesses of corporate governance are being highlighted."

HIGHLIGHTS FROM THE WORLD COMPETITIVENESS LANDSCAPE IN 2005

1. The uneven growth rates between Asia, the US, Latin America and Europe, (but also inside regions such as between Eastern and Western Europe) continue to create economic and political tensions.
2. Persistent deficits in the US maintain a weak dollar and exacerbate the instability of currencies now divided into three main monetary zones: Dollar, Euro and Yen.
3. Asia's strong appetite for raw materials and the US need for capital increase the prices for commodities and money.
4. A rise in interest rates, especially in the US, can in turn jeopardize economic growth and hamper the borrowing capacity of many emerging nations.
5. As a consequence, inflation that had completely disappeared because of the intensity of global competition resurfaces as a source of concern.
6. A growing gap is also developing between the performance of the global economy, which is good, and the domestic sector, which is less buoyant, especially in Europe.
7. A similar disparity occurs between Anglo-Saxon economies, which thrive on consumption, and sometimes debt, and other nations mainly in Continental Europe and Asia, which prefer to thrive on investment and saving.
8. A significant disparity in labor costs among industrialized and emerging nations continues to be the main factor for the relocation of activities worldwide.

Developments can be found in the Executive Summary of the WCY 2005

WHAT IS THE WCY?

• Competitiveness of 60 economies, using 314 criteria • Focuses primarily on Hard data (2/3 from international, regional and national sources) • Survey data (1/3) – from the annual WCY Executive Opinion Survey 2005	• Published since 1989 without interruption and earliest publication every year • Worldwide reference point with objective benchmarking • Reliable and up-to-date data with unique network of 57 Partner Institutes worldwide

WHAT IS IMD?

IMD is an independent not-for-profit foundation located in Lausanne, Switzerland. For over 50 years it has trained managers of leading international companies. Its proven "Real World. Real Learning" philosophy is designed to enhance leadership in every area of management. IMD helps executives and companies find new and innovative ways in which to sustain global competitiveness. IMD's World Competitiveness Center has been a pioneer in competitiveness since 1989. For more information, see www.imd.ch/wcc.

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