

Human Wealth - Employment Policy - Competitiveness

Review of the Book Versenyképességi mozaik/Mosaic of Competitiveness (Edited by Magdolna Csath)

The Mosaic of Competitiveness is the work of several experienced authors coordinated by a respected editor with a clear vision. A mosaic is something that is made up of several elements, and the picture is complete when viewed from a slightly more distant perspective. This is a definition that this volume clearly meets. It takes a thorough look at the subject of competitiveness, giving scope to different perspectives within each study, but still presenting the different aspects within a coherent value framework. As the editor notes in the introduction, *"As you can see from the topics, the book takes a thorough look at competitiveness, returning to the key messages - such as the importance of people, knowledge, innovation and learning. A conscious choice of values is also reflected in the book: an appreciation of performance, an emphasis on quality over quantity in all areas, and the importance of reliability, honesty and trust."* (p.15)

Hence, it is important to note that the conceptual framework of the book expands the general framework used in Hungarian higher education and highlights the need for economists to interpret concepts broadly and to move beyond the neoliberal worldview in order to contribute to the conceptual framework needed to address current global economic challenges. In this regard, the editor concludes her introductory thoughts with a quote from US President Theodore Roosevelt: *"If education gives a man only knowledge, but not values, it is a danger to society."* (p.15)

After the general introduction, let us now move on to the 13 studies presented in the volume.

1. The concept, and the changing role and measurement of competitiveness: a literature review (Magdolna Csath)

The opening chapter is written by the editor of the book, Magdolna Csath, in which she provides a detailed overview of the principles and methods of measuring competitiveness. The author explores the issue thoroughly and in a comprehensive manner, excellent for providing a theoretical foundation for the subject and for framing the subsequent in-depth examination.

She emphasises the misleading nature of GDP growth as a measure, the need to consider human capital, social capital, and national wealth overall. She analyses in detail the concepts of productivity and efficiency and the possible ways of connecting them. In particular, she discusses the concepts of total factor productivity and so-called real labour productivity, which go beyond the mainstream concept of "normal" productivity and provide a more accurate picture in each study. In this context, she analyses the phenomenon of the middle-income trap in detail, providing several examples and suggestions on ways to avoid it.

An important conclusion of the theoretical synthesis is that accelerating investment in human capital is critical for the competitiveness of countries.

2. Measuring competitiveness in the light of international indicator systems (Balázs Nagy)

In this chapter, the author reviews the various major reports and indices of competitiveness and presents their main features. The reports reviewed are the following:

- The World Bank's "Doing Business" Report
- The WEF Competitiveness Report
- The IMD Competitiveness Report
- WEF "Europe 2020" Competitiveness Report
- MNB Competitiveness Report
- EU's Regional Competitiveness Report

The chapter is essentially descriptive but provides a broad overview of the subject of measuring competitiveness and lays a good foundation for the sub-areas discussed in the following chapters.

3. On the interpretation and measurement of "national competitiveness" in the light of the World Economic Forum's competitiveness reports and the multidimensional global crisis (Tamás Szentes)

In this chapter, the author adopts a geopolitical and economic philosophical approach: he stresses the importance of distinguishing the level of analysis (settlement, region, world economy), which is not always clearly reflected in contemporary literature. He also raises significant questions of economic philosophy: he considers it crucial to broaden the concept of competitiveness, since he believes that in contemporary literature this concept has generally been interpreted in terms of competition in the economic field. *"While competition on the world market is, by definition, competi-*

tion between firms in different countries and the goods and services they bring to market or the factors of production they commodify, competition between countries within the world economy in the field of development is a much broader concept."(p. 74)

Following these introductory thoughts, the author enters a geopolitical discussion of the interdependencies between non-equal partners. He argues that the neoliberal mainstream currently dominating economics ignores ownership relations and the inequalities that arise from international capital flows, and thus their analysis is systemically biased. He then explores in detail the phenomenon of 'brain drain'.

After exploring international asymmetries, the author turns to the question of the internal economic and social integration and disintegration of countries. He points out that *"the disintegrated or dual economic structure and the divided society impede and even distort development in several aspects, at the same time amplifying the negative, disintegrating, development-inhibiting and distorting effects of external, international factors."* (p.79)

He then goes on to examine the existence and role of the key sector within the countries' economies in terms of internal asymmetries. He discusses the existence and role of the key sector as an important factor in overcoming development gaps and, on a practical level, the typical key sectors of the past decades and the areas expected to become important in the 21st century. The benefits and risks of working with transnational companies are then be addressed. He concludes that cooperation with TNCs can help rapid development, but also identifies significant risks, which he explains in detail. The author then summarises the findings in relation to state and government policy.

At the end of the chapter, the author discusses the changes in the content and methodology of The World Economic Forum (WEF) Competitiveness Report over the past decades. He concludes that, although the introductions and summaries have become more 'realistic' and the recent reports have included social and sustainability aspects (in line with the social science function of economics), the indicators that form the main part of the reports retain a simplistic "neoliberal" approach, focusing only on GDP growth, which has considerable distorting effects.

4. National Competitiveness Councils (Magdolna Csath)

In the following chapter, the editor of the volume gives a general overview of the functioning of the National Competitiveness Councils. In the introductory section, she summarises international experience and then presents the following within the framework established:

- The EU Competitiveness Council
- The Competitiveness Council of Ireland
- The Competitiveness Council of the Czech Republic
- The Productivity and Competitiveness Council of Slovakia
- Lithuania's Competitiveness Council
- The Competitiveness Council of the United States of America

Following the international overview, Csath examines the functioning of the Hungarian National Competitiveness Council in the second part of the chapter. As a member of the Council, the author has detailed information about its operation, its planned objectives and what it could and could not formulate. She identifies the main objective of the Council as making the business environment more entrepreneur-friendly, and as part of this she has primarily examined the 6 components of the World Bank's "Doing Business" report. A key finding of the author is that over the nearly five years of the Council's operation, the only area where significant progress has been made is in the area of tax administration monitored by the Ministry of Finance, which oversees the Council.

The author also identifies the following as significant areas of activity:

- Improving government efficiency
- Assessing the situation of the labour market, employment and training while proposing improvements
- Vocational training, adult education, language skills and the situation of young people
- Encouraging investment
- The situation of digitalisation
- Characteristics of the business environment

The chapter concludes with a detailed presentation of the "Programme for a more competitive Hungary", based on the Council's first two-year work.

5. Sustainability: its concept, measurement and relationship with competitiveness (Magdolna Csath)

The editor notes the next chapter of the volume, which can be seen as an introductory, general summary chapter on the problem of sustainability, which becomes an increasingly important aspect in the second half of the book. The author points out that the definition of sustainability is complex and constantly changing, making it difficult to measure. After outlining a set of conceptual frameworks, she attempts to illustrate the most important aspects of the development of indicators, using the example of the Global Sustainability Competitiveness Index (GSCI), compiled by the SolAbility research group operating since 2005. These are, along the lines of the GSCI:

- Natural capital
- The efficiency of resource utilisation
- Social capital
- Intellectual wealth and its exploitation
- Efficiency of governance

According to the author, the indicator can be considered comprehensive and reflects the system approach required, but the focus on quantitative measurement means that the 'soft' characteristics relevant to social sustainability are excluded.

After an overview of the indicator, the author first analyses the MNB's 2021 Sustainability Report and then looks at the aspects of sustainability in the European context. She concludes the chapter with an examination of the circular economy model.

6. The impact of sustainability on economic policy (László Trautmann)

This chapter is dominated by an approach based on political economy and theory, as opposed to the more "popular" view of economics/economic policy applied in previous sections. The author places the issue of sustainability in this political economy framework, going beyond the strictly competitiveness-based arguments of earlier chapters. The focus of the analysis is on the relationship between globalisation and sustainability, thus going beyond the competitive approach favoured by various competitiveness reports and conceptualising economic development from a sustainability perspective at the global level.

The chapter begins with a detailed analysis of the neo-conservative and neo-liberal approaches that were dominant in the twentieth century, of which only the neo-liberal argumentation was incorporated into

mainstream thinking in domestic practice after the change of regime. The author stresses the need to overcome these two schools of thought.

The author then discusses the long-term sustainability requirements, followed by an analysis of the medium-term phase of sustainability. Among the long-term requirements, he identifies three as follows:

The transformation of infrastructure and technological vision

In this section, Trautmann emphasises the importance of infrastructure and technology development, highlighting that the development of technology will not ensure sustainability without the development of society's capacity to apply technology. *"It is therefore a question of economic and socio-political policy to determine how to involve different social groups in technological development and what institutions are capable of transferring the knowledge needed to use technology and to realise its business potential."* (p.141)

The institutional framework for sustainability

The author argues that sustainability can only be achieved by establishing a knowledge-based economy worldwide. He claims: *"In a knowledge-based society, society perceives knowledge as a precondition for life. Global and domestic institutions are therefore pushing society in the direction of learning and the acquisition of knowledge. Although there are contradicting signs, the new direction seems increasingly clear."* (p.142)

The economic theory of the narrative

The author sees a third long-term task as the development of a vision of the future that can be followed by all members of society and thus provide the individual with a framework of thought. In terms of sustainability, he believes that it is necessary to move beyond the narrative of neoliberalism towards greater prosperity and to define a framework of thought focused on harmony and on improving the quality of life.

For the medium-term phase, he also outlines three main ideas. The first is to move beyond the oil-based economy of the twentieth century and reduce carbon emissions. The second is water management and ecological issues, which are fundamental to the sustainability of agriculture in the face of a growing world population. The third medium-term challenge is social sustainability, with dimensions of demography, health and welfare.

7. The links between social capital and competitiveness (Szergej Vinogradov)

In this chapter the author first discusses the conceptual distinction between social capital and human capital.

"Social capital differs from human capital in that human capital comprises the skills, abilities, knowledge and experience possessed by individuals, while social capital is the sum of resources that determine the quality of relationships between people." (p.159)

He then goes on to discuss possible definitions of social capital by reviewing various literatures.

"Social capital defines the relationships between individuals and communities in society. Its most important components are values, trust, reciprocity and mutuality, as well as networks, which together determine the quality (strength) of social capital. Certain elements of social capital - such as shared norms, values, cultural traits - can only be altered over the long term." (p.159-160)

The second part of the chapter discusses the importance of relational capital and social networks along with the difficulties of measuring the field. In this context, the author looks at three types of networks and analyses their role in different segments of society. These are:

- Bonding networks
- Bridging networks
- Linking networks

The third block of the chapter is devoted to an introduction to Schwarz's model of values, while the final section deals with the issue of social trust, with a review of a substantial literature base. A key finding is the existence of a particularly strong correlation between high levels of social trust and levels of economic development and welfare.

8. Human wealth and competitiveness (Magdolna Csath)

The author first provides a detailed theoretical overview of the concepts of human resources, human capital and human wealth, analysing the differences and discussing the conceptual confusion that often arises from the mixing of categories. An important aspect of the author's argument is that it is not enough to 'create' knowledge, but that governments must also place explicit emphasis on building and maintaining a system of values and institutions that support its utilisation.

Following a theoretical introduction, the author discusses studies and surveys that attempt to compare the performance of countries in measur-

ing human wealth. The following important studies are presented in this volume.

The World Bank's Human Capital Index (2020)

"The Human Capital Index attempts to measure the level of human capital that a child born in a given year will achieve by the age of eighteen, given the circumstances in that country." (p.189)

The Human Development Index (HDI)

"The purpose of conducting this study is to examine not only economic growth but also how the state of society is changing, i.e., the aim is to examine the role of human wealth in improving competitiveness." (p.190)

The Global Knowledge Index (GKI - 2020)

The study looks at seven areas based on 199 indicators: pre-university education; technical and vocational education; higher education; R&D and innovation; info-communication; economy; and characteristics of the business environment.

IMD's World Talent Ranking publication

"...the study assesses a country's ability to develop, retain and attract talent. This ability is closely linked to a country's competitiveness." (p.196)

Following the international overview, the author analyses the specific problems of human wealth in Hungary. While Hungary emerged as a potential leader in the 1990s following the change of regime, it has not been able to catch up with the global economic trends of the past decades in this area. Companies have low levels of employee training, and a lack of knowledge of digitalisation is a major problem. The author makes the following observation, which is particularly relevant to this issue: *"Another important question is the extent to which enterprises support the digital upskilling of their employees. In Hungary, according to Eurostat data for 2019, 16% of companies with ten or more employees offer digital training to their employees. The EU average is 23 percent, the Czech 25 percent and the German 32 percent. The Hungarian figure is particularly low in the construction sector, at only 9 percent." (p.201-202)*

9. Innovation, intellectual capital, competitiveness: theoretical considerations (Magdolna Csath)

In the opening part of the chapter, the author analyses the concept of innovation by reviewing the literature, then distinguishes 5 types of innovation, following block:

- Innovation in general
- Product innovation
- Process innovation
- Organisational innovation
- Communication/marketing innovation

An important finding of Csath is that the perspective of a given culture or nation is of paramount importance for innovation: *"the influence of the past, present and future on our thinking"* (pp. 209-210). On this basis, she distinguishes three mindsets:

- Past-oriented thinking (importance of memories and experiences), which is specific to Europe
- The future-oriented thinking typical of the United States of America (the importance of dreams and visions)
- The reality-oriented thinking typical of Asia (importance of living in the present, daily tasks)

This is followed by a separate subchapter on the importance of the "spirit of place". Unlike the social average, there may be places (she cites Silicon Valley as an example) where the existing innovative environment and community are major attractions, further enhancing the innovation-friendly character of the place by attracting new entrants.

A significant block of content in which the author analyses the relationship between innovation and intellectual capital at the company and national economy level. *"Innovation capital generally refers to those non-obvious, intangible assets that influence performance in the longer term. In the case of firms, visible assets are buildings, machinery, the amount of money in the bank accounts, but invisible, hidden assets are the innovative capacity of the organisation, its culture, its level of trust, the commitment of its employees. Buildings and machinery are easy to acquire, but it takes a long time to create the assets listed, and they cannot be bought on the market. Intellectual capital can be understood in a similar way at national level. It includes the innovativeness, creativity, cohesion and national culture of the population. Again, these characteristics cannot be developed overnight, although they clearly have an impact on the functioning of both the economy and society."* (p.215)

The chapter then concludes with the author's comments on the measurement of innovation. First, she analyses in detail the measurement errors of existing indicators in the field, which, for instance, put Hungary in a more prominent position in such rankings than our actual innovation performance would justify. Finally, the subchapter concludes with an in-depth analysis of the EU Community Innovation Survey and the Global Innovation Index.

10. The link between innovation cooperation and national competitiveness: innovation ecosystems (Ferenc Pongrácz and Klaudia Horváth)

The authors first discuss the difficulties of defining the concept of innovation, then, placing it in a historical framework, outline the differences between the closed innovation model and the open innovation system, leading to the concept of innovation ecosystem, which (as the determinant of the framework of innovation cooperation) forms the backbone of the chapter.

In the following, a detailed literature review of the concept of the innovation ecosystem and its distinction from the business ecosystem is presented. Based on Granstrand and Horgersson (2020), they consider the definition of an innovation ecosystem as *"In general, an innovation ecosystem is defined as the set of actors, activities, assets, institutions and the relationships between them that are determinants of the innovation performance of an economic actor or set of actors."* (p.235)

After defining the concept, the critiques in the literature on the definition are analysed, and then an attempt is made to broaden the conceptual framework of the innovation ecosystem by defining the different ecosystem models. The ecosystem models reviewed:

- Business ecosystem
- Platform ecosystem
- Service ecosystem
- Entrepreneurial ecosystem
- Innovation ecosystem
- Triple Helix models

They then examine the relationship between the innovation ecosystem and the state, making important observations on the consequences of the changing economic structure over the last decade:

"Following the global economic crisis of 2008, in contrast to the 'laissez faire' paradigm, the investor, innovative and agile state model has been reinforced, with the development of the 'entrepreneurial state' in partnership

with market actors at its core (Mazzucato 2013). The outbreak of the coronavirus in 2020 further confirmed that a cooperative state role is essential for the market to ensure social, economic and environmental cohesion (Csath 2021)" (p. 240).

However, as the role of the state comes to the fore, it is also necessary to pay attention to the precise extent to which the state should be involved in the process:

"It is therefore crucial that in well-functioning ecosystems, state actors play an active role, rather than a passive one, but are not protagonists and managers, just participants of the ecosystem. To promote innovation, the state must work closely with both companies and higher education institutions. However, the framework for cooperation should not be limited to the provision of financial resources, as success depends on the acquisition of an entrepreneurial mindset and the knowledge needed to be innovative, which are not easily available in the marketplace, yet can be learned from each other by the actors in an ecosystem (Lundvall-Johnson 1994; Dhana-raj-Parkhe 2006)" (p. 241).

The authors conclude the chapter with a discussion of the main challenges and possible responses to innovation ecosystems, focusing on practical considerations.

11. The role of micro, small and medium-sized enterprises (MSMEs) in enhancing competitiveness (János Varga)

In this chapter the author discusses in detail the role of the MSME sector, which plays a significant role in both Hungary and the European Union, in improving economic and competitiveness performance. (It is important to note that the categorisation defined by the EU guidelines classifies much more significant size categories into this group than is common in public discourse. At current Euro exchange rate levels, this category includes all companies with fewer than 250 employees and a turnover of around HUF 20 billion or a balance sheet total of around HUF 17.2 billion.) With this categorisation, more than 92% of firms at EU level fall into this category, thus having a significant impact across Europe.

The author then looks at the key aspects needed to stabilise and expand the SME sector. Some examples (the list is by no means exhaustive):

- The importance of creating a supportive economic environment
- The importance of providing a financing environment
- The promotion and education of entrepreneurship
- The importance of building business trust

In the remaining part of the chapter, the author analyses in depth the key skills and opportunities that contribute to improving the competitiveness of the MSME sector. He also discusses in detail:

- The advantages of dynamic adaptation to local needs
- The advantages of a dynamic way of operating provided by small organisations, which is essential to facilitate rapid adaptation to change
- Their central role in innovation processes

The chapter provides an excellent summary of the issue and makes important practical observations on the development policy guidelines needed to support the sector, which could be essential to successfully improve competitiveness.

12. The economic network of regional competitiveness (József Káposzta)

In this chapter the author analyses regional competitiveness from a spatial economic perspective, paying particular attention to the corporate, national and international dimensions.

In each subchapter, the overall issues of spatial economic growth are discussed first, followed by the economic linkages of regional competitiveness. This is followed by a detailed analysis of the historical relationship between spatial economic growth and regional competitiveness, and the impact of globalisation processes - which are playing a prominent role in the world economy today - on changing theories of regional competitiveness. The author makes important observations on the phenomenon of network effects that are important for regional competitiveness:

"The context of the models clearly shows that a critical mass of firms that are able to create related new businesses and to operate a rapidly growing corporate milieu by developing and introducing innovations should be highlighted as an important key factor of competitiveness. The combination of these capabilities contributes significantly to employment growth, which should be highlighted as a key determinant of prosperity. This clearly shows that the density of innovative enterprises is an essential regional competitiveness criterion, as there is a close link between the spatial concentration of enterprises and their competitiveness." (p.284)

He then makes crucial findings on the complementary effects of regional competitiveness on both the supplier and the "consumer" side. Finally, at the end of the chapter, the author summarises the essence of his overall message:

"Our analyses also show that among the strategic development directions of regional competitiveness, perhaps the most important are the in-

crease of employment, the implementation of a balanced and diversified agriculture and forestry, the operation and development of a production structure based on endogenous resources, the implementation of short supply chains, the development of network systems, the preservation of the diversity of natural systems, while strengthening local communities. Our research confirms that a sustainable increase in regional competitiveness requires the implementation of a complex spatial economic programme that is founded on the values of people and communities, preserves traditions, preserves the values of the local and built environment, manages natural resources in a sustainable way, takes into account global competitiveness trends and develops regional enterprises, thus offering the chance to improve the overall quality of life and create prosperity." (p.289)

13. Digitalisation as a tool to improve competitiveness (Balázs Nagy)

The final chapter revisits the issue of digitalisation, which has been addressed several times throughout the volume. The author summarises the lessons already highlighted in previous chapters: developing digital infrastructure is a necessary but not a sufficient condition for improving competitiveness. It is important that the development of infrastructure is accompanied by the development of the skills and competences needed to use it.

In this context, the chapter analyses in detail 4 sets of indicators which take into account the above aspects and analyse the situation in each country. These are:

- The IMD Digital Competitiveness Index
- The Digital Planet Report
- Smart City Index (produced by IMD and SUTD)
- Digital Economy and Society Index (DESI, produced by the European Union)

Summary

The reader is presented with an important and niche volume, which differs in style from the average style of domestic economics textbooks: although it displays the strong literary treatment typical of academic literature, the style and content of the volume transcend the academic context, the comprehensible language and the examination of issues of daily economic policy defines the target audience as decision-makers in economic and political life. The issues raised are relevant, the challenges facing domestic economic policy are precisely defined, and, in addition to the

concerns raised, the paper offers policymakers a focus for action that can ensure that the middle-income trap is avoided over the medium term.

The key findings relate to the development of human and social capital, which permeates the functioning of the economic system in all areas and is an important basis for productivity and hence competitiveness. All other changes are essentially derived from this, so that the message to be conveyed to economic policy makers is clear when summarising the proposals of the authors' collective.

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