

THINK-TANK

Education, population, poverty, tax...getting views on topics like those in Jersey isn't the difficult part – but have you ever noticed how many people sound eminently credible when talking about them, even though they may actually be basing their views on conjecture, false facts and blind guesswork?

There is a real danger in making the 'facts' fit the opinion, rather than the other way around – which is exactly the point at which someone with an eye on the latest buzzwords will smugly insert the phrase 'post-truth' into the conversation, imagining its actually helpful.

So, we've asked the Jersey Policy Forum to add some robust material to those crucial local debates – the point is not to provoke agreement or acquiescence; it is to provide reliable material on which others can build their views.



By Gailina Liew, Executive Director, Jersey Policy Forum

Why it's good to be complex...economically

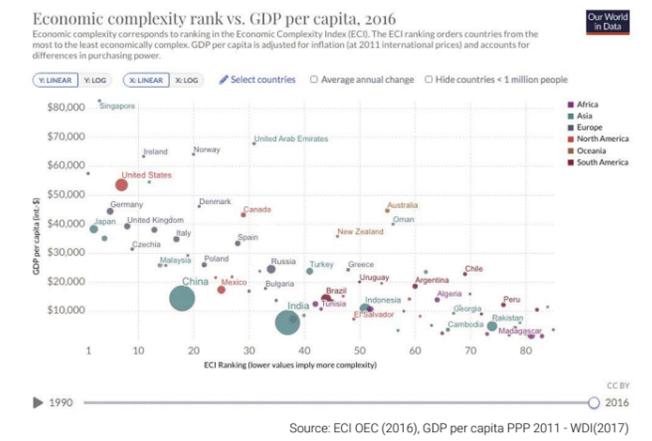
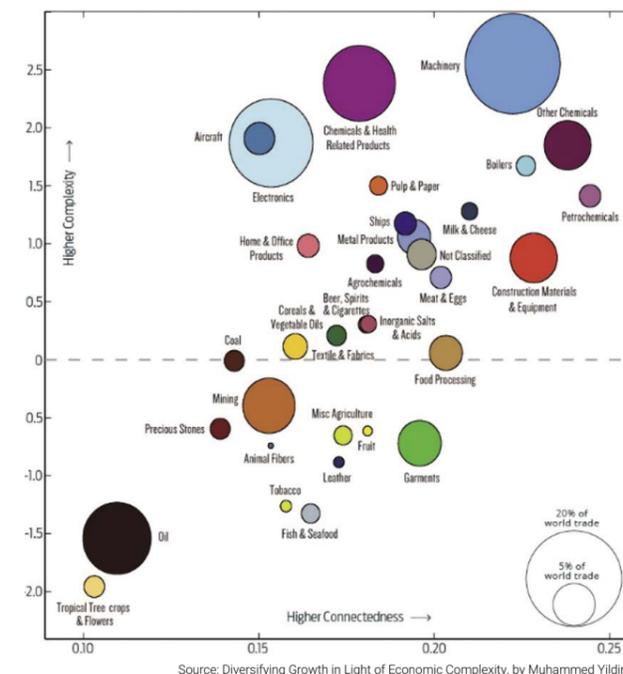
How can countries improve their economic productivity and pursue economic development while also ensuring better income distribution? There doesn't seem to be a single straightforward answer to this question but one approach that is gaining more attention is to look at the productive capabilities of a country. So, what are they and how can we measure them?

Ricardo Hausmann and Cesar Hidalgo say that productive capabilities include things like the infrastructure, land, laws, machines, people, creativity and collective knowledge of a society and that these things or 'inputs,' in combination, then determine what that society can produce and export as products. Since it would be pretty difficult to develop objective measures for the entire range of 'inputs' that a society might draw upon, they argue that looking at the different types, uniqueness and sophistication of products in that society's export basket would be a decent proxy.

Based on this thinking, they developed an algorithm to measure a country's 'economic complexity.' The economic complexity of a country is calculated based on the diversity of exports a country produces and their ubiquity (essentially how many other countries

are able to export the same products). Countries that are able to sustain a diverse range of productive know-how, including sophisticated, unique know-how, are found to be able to produce a wide diversity of goods, including complex products that few other countries can make.

Hausmann and Hidalgo also show a strong correlation between a country's ECI and its productivity as measured by GDP per capita, and further show that the ECI can actually predict economic growth after controlling for other baseline country characteristics.



Economic development requires the accumulation of productive knowledge and its use in both more and more complex industries. The Observatory of Economic Complexity (OEC) and Harvard Growth Lab's country rankings assess the current state of a country's productive knowledge, through the Economic Complexity Index (ECI). Countries improve their ECI rank by increasing the number and complexity of the products they successfully export.

Further work by Hidalgo et al¹. shows that the ability of an economy to both generate and distribute income is strongly correlated with economic complexity and reveals structural linkages between economic development and income inequality which aggregated variables like the average years of schooling or income per capita alone are incapable of revealing. They also showed that increases in economic complexity tend to be accompanied by decreases in income inequality. So, how might these findings be useful for Jersey?

From an export basket perspective, the physical goods that Jersey exports (eg. fish, potatoes, dairy, etc.) are relatively low in complexity. However, it is important to recognise that Jersey's economy is primarily focused on the export of financial services – a product category that is not included in the economic complexity assessment. It is likely that the same underlying principles of diversity and ubiquity would apply to services as products. How can productive capabilities for unique and sophisticated services be improved for Jersey?

THE TOP 10 (1997–2017)				
1997	2002	2007	2012	2017
1 Japan	1 Japan	1 Japan	1 Japan	1 Japan
2 Germany	2 Germany	2 Germany	2 Switzerland	2 Switzerland
3 Switzerland	3 Switzerland	3 Switzerland	3 Singapore	3 South Korea
4 Sweden	4 Sweden	4 Finland	4 Germany	4 Germany
5 Finland	5 U.K.	5 Sweden	5 South Korea	5 Singapore
6 U.K.	6 Finland	6 Austria	6 Sweden	6 Czech Rep.
7 Austria	7 U.S.	7 U.K.	7 Austria	7 Austria
8 U.S.	8 Austria	8 Czech Rep.	8 Czech Rep.	8 Finland
9 France	9 Singapore	9 South Korea	9 Finland	9 Sweden
10 Italy	10 France	10 Hungary	10 Hungary	10 Hungary

Hidalgo et al. would say that their work highlights the importance of productive structures and how they represent a high-resolution expression of a number of factors, from institutions to education, that co-evolve with a country's mix of exported products and with the inclusiveness of its economy, showing that they are not only associated with income and economic growth, but also with how income is distributed. Going back to the list of productive capabilities described at the beginning that include things like infrastructure, land, laws, machines, people, creativity and the collective knowledge of a society – how can they be improved for Jersey?

¹Linking Economic Complexity, Institutions and Income Inequality. <https://www.sciencedirect.com/science/article/abs/pii/S0305750X15309876>