Persisting divides and political deadlock are jeopardizing prosperity

History has shown that those countries with a winning combination of competitiveness strengths tend to be the ones that are best prepared to ride out economic crises and provide rising and sustainable living standards to their citizens. Five years into the most significant economic downturn since the Great Depression, then, it is dispiriting to note that short-termism and political deadlock have taken such root in national and regional discussions that competitiveness divides across the world are actually being reinforced rather than narrowing.

A country that does not focus on the factors that over the longer term matter greatly for its economic success is a country whose prosperity is in jeopardy. For more than three decades, the World Economic Forum's annual Global Competitiveness Reports have examined the many factors enabling national economies to achieve sustained productivity improvements and economic growth. These factors -- which range from good governance and macroeconomic stability to the efficiency of markets, education, technological adoption and innovation potential, to name but a few -- drive the productivity enhancements on which their present and future prosperity is built. To get these things right, countries need to take a long-term view on their economic policy goals.

Judging by the results of the 2012-2013 edition of The Global Competitiveness Report, such long-term vision seems to be in short supply. Let's first look at Europe. There, while leaders are right to take urgent action to improve fiscal discipline where needed, reassure investors and calm financial markets, a more fundamental underlying problem -- a significant competitiveness divide across eurozone countries -- is being overlooked. This year, Finland, Germany and the Netherlands are ranked among the top 10 most competitive economies worldwide, while others, particularly from southern Europe, are ranked much lower (Greece is ranked 96th), facing numerous longer-term challenges. Without decisive action to raise competitiveness in southern European countries, any other efforts will only serve as a short-term Band-Aid for a poorly healed injury.

In this context, to truly resolve Europe's protracted economic difficulties and avoid a lost decade for economic growth, fiscal re-balancing must be accompanied by a rigorous reform agenda that addresses the main competitiveness weaknesses, especially of the weaker countries, such as rigid labor markets and low competition in several sectors, while preserving critical investments in areas such as education, R&D and innovation. Here, actually implementing the European Union's 2020 growth strategy would be a good place to start.

Just as Europe's leaders are finding a collegial approach to the crisis elusive, a similar political deadlock has gripped the United States. The U.S. remains the world's innovation powerhouse, but increasing concerns in other areas led to a further drop of two places in the country's competitiveness ranking this year to seventh. Party politics seem to be hindering even the ability to agree on shorter-term priorities such as avoiding automatic budget cuts (which neither party wants). More importantly, the bickering -- perhaps not surprising in an election year, yet highly unconstructive -- is distracting attention from more fundamental longer-term reform and investment decisions in areas such as infrastructure and education that must be taken to ensure that the country can return to more robust growth.

Yet short-termism is not restricted to the advanced economies in Europe and North America. The divergent competitiveness among emerging market economies also provides a window on to the importance of taking a longer-term view on development for enhancing economic performance. For example, China stands out as the most competitive among the BRIC economies, having systematically pushed forward with reforms over recent decades (a reform process that no doubt still requires sustained efforts, in particular to shore up the financial sector). Brazil has also made significant strides. This stands in deep contrast with the reform stagnation in India and Russia; two countries that until recently inspired notable optimism but whose political leaders today now seem to be focusing on short-term objectives in the context of economic systems burdened by patronage.

Looking forward, it is clear that around the world, leaders must engage in a much more open and rigorous discussion about what it really takes to provide high prosperity and gainful employment to their citizens. Policy reforms to improve competitiveness require perseverance because they often take time to bear fruit, and too many leaders today are prepared to sacrifice long-term prosperity for short-term popularity. Switzerland, Singapore, Finland and Sweden, the top four most competitive nations in this year's Index, did not get where they are today without making tough, unpopular choices and longer-term strategic investments. Those that do not grasp this reality are condemned to face an uncertain future.

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This article originally appeared in Huffington Post World