Economic Policy Reforms 2012
Going for Growth
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PART I

*Chapter 1*

# Structural reforms in times of crisis

*The crisis has raised new policy challenges, but it has also made the necessity of structural reforms more apparent. This initial chapter of* Going for Growth *assesses progress that countries have made in structural reforms since the start of the crisis, covering the whole period 2007-11.*

*The key political economy lesson emerging from the analysis is that the crisis and ensuing recession have acted as a catalyst for structural reforms, especially in* OECD *countries where reforms were most needed. In particular, the depth of the labour market crisis has provided an impetus for structural reforms aimed at raising labour utilisation. The need to consolidate public finances and the financial pressure arising from mushrooming sovereign debt have given another impetus to reform, with a clear acceleration of politically sensitive reforms designed to help lift potential growth, regain price competitiveness and restore fiscal sustainability, especially in some euro area countries.*

*Going forward, priority should be given to boosting jobs in the context of ongoing fiscal consolidation. For now, there is a clear case for sheltering activation policies aimed at retraining displaced workers and encouraging return to work from fiscal consolidation efforts. And in countries that experience renewed economic set-backs it will be important to build on the lessons from the financial crisis in terms of policies that can help cushion the labour market and social impact of weak activity, such as making use of short-time working schemes. Tax reforms, not least a reduction in tax expenditures and a shift in the tax burden away from labour, could help kick-start the jobs recovery and assist fiscal consolidation. Product market reforms could also boost short-term growth, especially if implemented in sheltered sectors where the potential to quickly create jobs is relatively high, such as retail trade and professional services.*

## Summary and conclusions

*Going for Growth* reports have been published by the OECD every year since 2005. The *Going for Growth* analysis identifies five structural reform priorities to boost real income for each OECD country, for the European Union as a whole, and starting with the 2011 edition, the BRIICS – Brazil, China, India, Indonesia, Russia and South Africa – key non-member countries with which the OECD works closely. This process provides a tool for governments to reflect on "structural" policy reforms that affect their residents' long-term living standards. Structural policy reforms are central to the mission of the OECD, and the *Going for Growth* analysis has been used in the Mutual Assessment Process of the G20 since the 2008 Pittsburgh Summit.

The methodology used identifies policy recommendations based on their ability to improve long-term material living standards through higher productivity and labour utilisation. The reference performance measure in this regard is gross domestic product (GDP) per capita, given its contemporaneous availability and relatively broad coverage and despite its various drawbacks.[1] Policy priorities have been mainly concentrated on labour and product market policies, education, health, innovation, housing policies, the efficiency of public sectors, and tax systems. Five policy priorities were first identified in 2005, which were then reassessed in the 2007, 2009 and 2011 editions based on both observed progress in reform and new evidence. The intervening editions of *Going for Growth* have reviewed progress made on previous priorities.

This paper provides a broad overview of the progress that countries have made in structural reforms since the start of the crisis, covering the whole period 2007-11. This crisis has raised new structural policy challenges, such as reviving economies and consolidating public finances in a way that also fosters sustainable long-term growth. At the same time, it has also made the necessity of reforms such as those identified in *Going for Growth* more apparent – for example pension reforms that would boost labour utilisation while addressing fiscal sustainability concerns. The five-year retrospective allows identifying reform patterns throughout the various phases of the crisis, from which political economy lessons can be drawn. As a tool for structural surveillance, this analysis aims primarily at taking stock of reforms carried out in areas that had been previously identified as priorities in *Going for Growth*. At the same time, however, the crisis induced timely policy action to support the economy and especially the labour market,[2] including in structural areas which were not previously covered by *Going for Growth*, and it therefore delivered relevant policy lessons to amend and broaden the surveillance exercise. Against this background, this chapter covers major labour market policies and interventions implemented in the crisis context, including when those were *not* identified as *Going for Growth* priorities.

The main reform patterns that emerge over the years since the start of the crisis are as follows:

- The responsiveness of countries to OECD reform recommendations featured in *Going for Growth* was greater overall after than before the crisis. However, the pace and the nature of reforms have varied markedly throughout the distinct phases of the crisis.

The 2008 recession first slowed down structural reforms in OECD countries, due to the pressing need to stabilise aggregate demand and provide income support to the unemployed. As the need for medium-term fiscal consolidation became more pressing, reforms were implemented in policy areas which could help assist the fiscal adjustment process. This was the case with respect to both labour-utilisation (retirement schemes and welfare systems) and labour-productivity (public sector reforms and privatisation programmes)-enhancing areas.

- The crisis and ensuing recession have acted as a catalyst for structural reforms especially in OECD countries where reforms were most needed. In contrast to what was observed before the crisis, lower-income OECD countries, which are generally in greater need of reform, have acted more on priorities identified in *Going for Growth* than their higher-income counterparts. Likewise, there has been a strong correlation between the depth of the labour market crisis and subsequent reforms, *i.e.* those countries that saw unemployment rise most during the crisis have taken more measures along the *Going for Growth* labour utilisation-enhancing priorities.
- The need to consolidate public finances and the financial pressure arising from mushrooming sovereign debt have given another impetus to reform most recently, contrasting with past evidence that fiscal easing usually accompanies and facilitates reforms. Indeed, there is a strong cross-country correlation between the intensity of ongoing fiscal consolidation efforts and responsiveness to *Going for Growth* priorities over the period 2010-11. This pattern is driven mostly by the actions taken in countries affected by the European debt crisis. Indeed, the most recent phase of the crisis has seen an acceleration of politically sensitive reforms designed to help lift potential growth, regain price competitiveness and restore fiscal sustainability, especially in some euro area countries.
- Countries have sought to raise labour utilisation especially by cutting labour taxes, delaying effective retirement ages, reforming disability schemes and strengthening active labour market policies (ALMPs). At the onset of the recession, most OECD countries sought to improve the safety net for job losers by boosting unemployment benefit generosity and expanding coverage to new groups of workers. At the same time, more than two-thirds of OECD countries raised resources for job-search assistance and training programmes in order to facilitate re-employment and re-deployment. To stimulate labour demand, work-sharing arrangements were introduced or expanded in two-thirds of OECD countries, labour taxes were cut and new job or hiring subsidy schemes were introduced, often targeting marginal job seekers such as youth, older workers, or the long-term unemployed. Some temporary measures were subsequently phased out, and difficult labour market reforms were implemented in the areas of retirement schemes, job protection, minimum wages and wage bargaining systems, especially in the context of the European debt crisis.
- Regarding priorities aimed at boosting labour productivity, countries have been especially active in improving the design of their innovation policies and reforming their education systems, while much less progress has been achieved towards reducing agricultural policy support and removing barriers to foreign direct investment. The need to deliver both higher growth and credible fiscal consolidation in many OECD countries has also provided additional impetus for growth-friendly tax reforms that reduce impediments to work and invest.

- The impact of the crisis was both milder and shorter in the BRIICS, but it also made more apparent the necessity of some of the structural reforms recommended in *Going for Growth*, in particular the need in several cases to expand social protection systems in order to support workers in times of crisis and – in a longer-term perspective – achieve more equitable and sustainable growth.[3] Policy responsiveness to *Going for Growth* priorities has been mixed since early 2011, when policy recommendations to the BRIICS were made for the first time. All emerging economies have implemented policies aimed at enhancing the quality and inclusiveness of their education systems, which is a key challenge these countries face to achieve higher living standards. Helped by their generally more sustainable fiscal situations along with their higher growth prospects, most large emerging countries continued investing in physical infrastructure, another specific *Going for Growth* priority in a number of them. By contrast, less has been done to address other important productivity-enhancing priorities, such as the reduction of barriers to entrepreneurship and foreign direct investment and the enhancement of the rule of law and of governance systems.
- Given what has been done in recent years, priority should be given to action that can boost jobs in the context of ongoing fiscal consolidation:
  - At the current juncture, there is a need to reduce the risk of unemployment persistence in a number of OECD countries, which can be achieved through effective ALMPs aimed at retraining displaced workers and encouraging return to work – in this regard there is a case for sheltering public spending on such activation from fiscal consolidation efforts. Once recovery in labour market demand is solid, ALMPs should be accompanied by unemployment benefit reforms with a view to enhancing work incentives.
  - Growth-friendly tax reforms could strengthen the jobs content of a recovery, while also helping fiscal consolidation insofar as they are implemented in a way that raises tax revenue. These include removing tax expenditures and shifting the tax burden towards tax bases that are less harmful to employment and growth, such as immovable property, consumption and environmental taxes.
  - Product market reforms are a priority for many OECD countries – in particular in Europe, and could boost short-term growth, especially if implemented in certain sheltered sectors such as retail trade and professional services where the potential to quickly create jobs is rather high. By lifting productivity and potential growth, such reforms would also have beneficial effects on debt dynamics and fiscal sustainability.
  - Concerns that reforms may entail short-term economic losses before their benefits start to materialise seem to be overdone. New empirical evidence provided in Chapter 4 suggests that some structural reforms may fairly quickly boost growth while very few if any have short-term costs in general. However, some reforms can be temporarily detrimental in "bad" times, which may be a concern at the present time. For instance, the pay-off from unemployment benefit and job protection reforms appears to be less when the economy is depressed, suggesting these should probably wait until the economic situation improves decisively.
  - In economies that experience renewed economic slack, it will be important that the policy response draws on the lessons from the crisis as to what works in terms of cushioning labour market and social outcomes, such as making use of short-time working schemes.

## Growth performance and policy priorities in OECD countries and the BRIICS

### *Understanding differences in GDP per capita across countries*

Structural reforms recommended in *Going for Growth* are aimed at improving living standards by raising either labour productivity, or labour utilisation or both. Labour resource utilisation is measured as the total number of hours worked per capita, while labour productivity is measured as GDP per hour worked. The policy priorities (see Table 1.1) were identified by mapping performance weaknesses (*e.g.* low labour productivity) against policy deficiencies (*e.g.* high barriers to product markets), using internationally comparable indicators.[4]

Table 1.1. **Share of *Going for Growth* policy recommendations by subject area**

Per cent

| Going for Growth edition | 2007 | 2009 | 2011 | 2011 | | | |
|---|---|---|---|---|---|---|---|
| | Pre-enlargement OECD | | | OECD in 2011 | Upper-income OECD[1] | Lower-income OECD[2] | BRIICS |
| Productivity | | | | | | | |
| Product market regulation | 25 | 25 | 24 | 26 | 20 | 32 | 33 |
| Agriculture | 5 | 5 | 5 | 4 | 6 | 2 | 0 |
| Human capital | 14 | 15 | 15 | 15 | 13 | 16 | 17 |
| Other policy areas | 15 | 14 | 18 | 17 | 16 | 16 | 30 |
| *Total* | *59* | *58* | *61* | *61* | *54* | *67* | *80* |
| Labour utilisation | | | | | | | |
| Average and marginal taxation on labour income | 7 | 8 | 8 | 8 | 11 | 4 | 0 |
| Social benefits | 20 | 17 | 17 | 17 | 21 | 12 | 7 |
| Labour market regulation and collective wage agreements | 12 | 13 | 11 | 11 | 8 | 14 | 10 |
| Other policy areas | 2 | 3 | 3 | 2 | 6 | 4 | 3 |
| *Total* | *41* | *42* | *39* | *39* | *46* | *33* | *20* |
| Overall (%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Overall (*number of priorities*) | 155 | 155 | 155 | 175 | 11 | 90 | 30 |

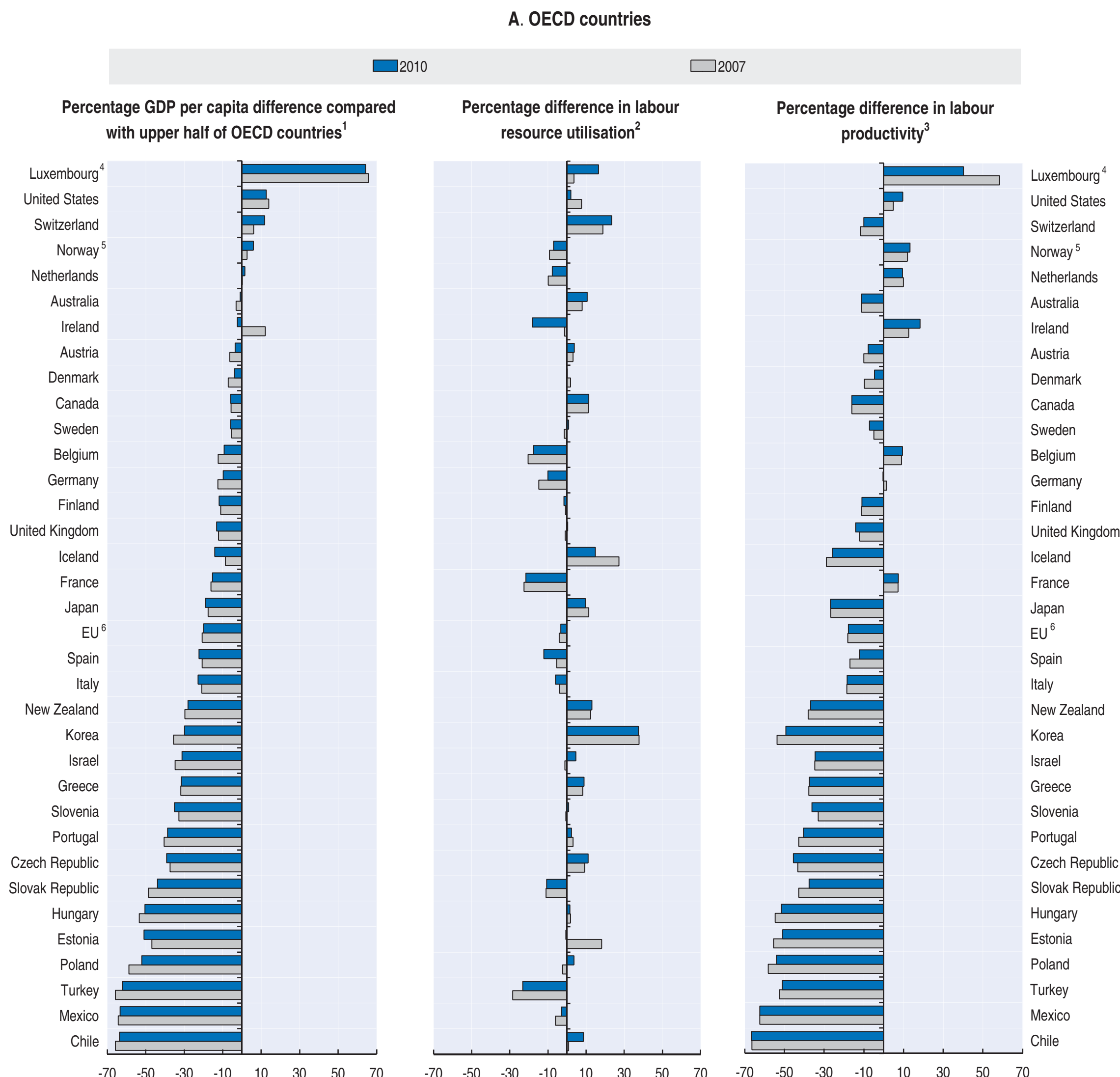
1. Upper-income OECD includes countries with per capita GDP levels above the median.
2. Lower-income OECD includes countries with per capita GDP levels below the median.

*Source:* OECD (2007), *Economic Policy Reforms 2007: Going for Growth*, OECD Publishing; OECD (2009), *Economic Policy Reforms 2011: Going for Growth*, OECD Publishing; OECD (2011), *Economic Policy Reforms 2011: Going for Growth*, OECD Publishing.

Looking at broad indicators of performance, OECD countries' patterns of labour utilisation and productivity have remained quite stable despite the depth of the crisis (Figure 1.1, Panel A). Some exceptions stand out though, reflecting large differences across OECD member countries in the magnitude of the decline in output and the way labour markets responded to it. For instance, Ireland experienced a major decline in GDP per capita as a result of the crisis, which turned the positive income gap with respect to the upper-half of the OECD into a negative one. There was also a substantial reduction in the United States' lead in labour utilisation over the crisis period, reflecting a large increase in unemployment and a significant decline in labour force participation. The impact of the crisis has been both milder and shorter in the BRIICS countries. This has allowed them to continue to converge rapidly with OECD GDP per capita levels, mostly thanks to rising labour productivity. Nevertheless, for almost all the BRIICS, income is still 60%-90% lower

than the upper half of OECD countries, mainly owing to labour productivity shortfalls. In this respect they are similar to the lower-income OECD countries. Low labour resource utilisation is also a particularly large challenge in South Africa (Figure 1.1, Panel B).

Figure 1.1. **Factors behind income variations: OECD and BRIICS countries, 2007 and 2010**




1. Compared to the average of the 17 OECD countries with highest GDP per capita in 2007 and 2010, based on 2007 and 2010 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity do not add up exactly to the GDP per capita difference since the decomposition is multiplicative.
2. Labour resource utilisation is measured as the total number of hours worked per capita.
3. Labour productivity is measured as GDP per hour worked.
4. In the case of Luxembourg, the population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.
5. Data refer to GDP for mainland Norway which excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on the financial assets held by the petroleum fund abroad are not included.
6. The EU category brings together countries that are members of both the European Union and the OECD. These are the EU15 countries plus the Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia.

*Source:* *OECD National Accounts Statistics* (*Database*); OECD (2011), *OECD Economic Outlook No. 90: Statistics and Projections (Database)*; *OECD Employment Outlook* (*Database*).

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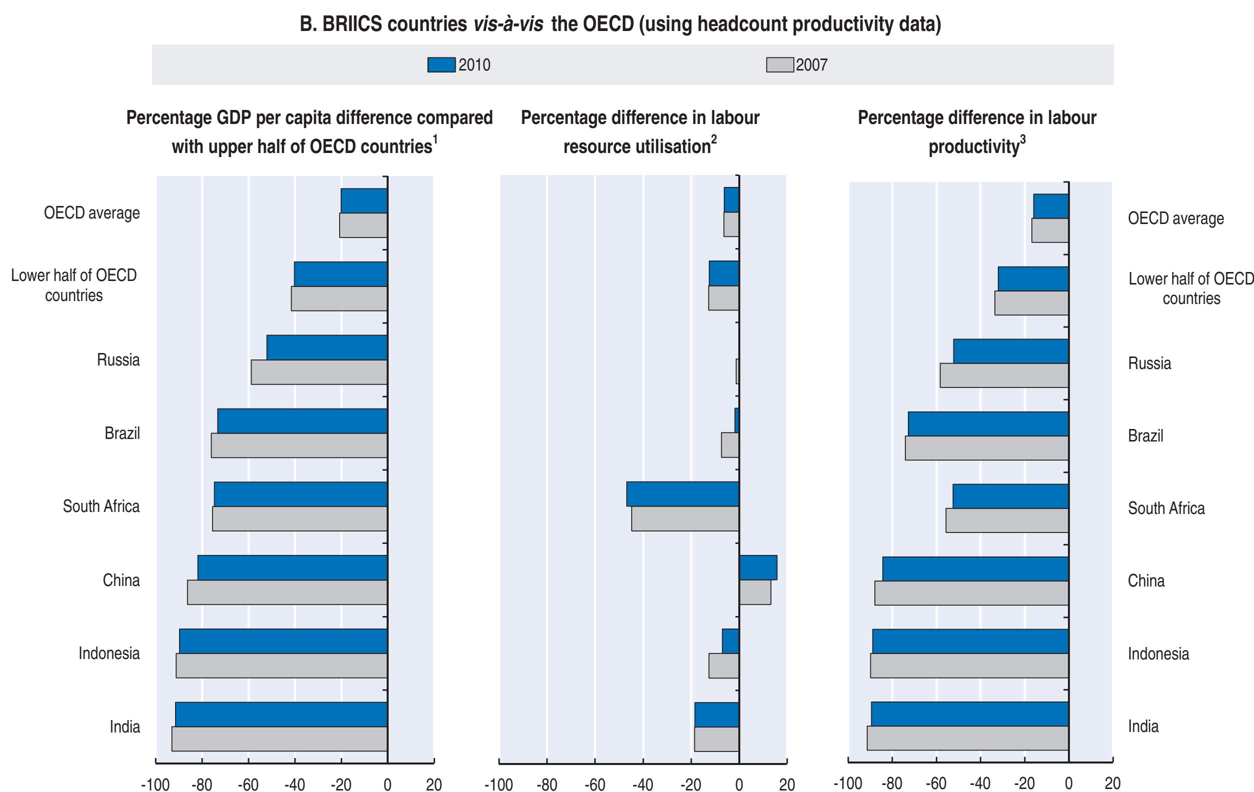
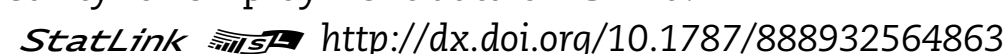
Figure 1.1. **Factors behind income variations: OECD and BRIICS countries, 2007 and 2010** *(cont.)*




1. Compared to the average of the highest 17 OECD countries in terms of GDP per capita, based on 2007 and 2010 purchasing power parities (PPPs) from the World Bank. The OECD average is based on a simple average of the 34 member countries. The sum of the percentage gap in labour resource utilisation and labour productivity does not add up exactly to the GDP per capita gap since the decomposition is multiplicative.
2. Labour resource utilisation is measured as employment as a share of working-age individuals in the population.
3. Labour productivity is measured as GDP per employee.

*Source:* World Bank (2011), *World Development Indicators (WDI) (Database)*; ILO (International Labour Organisation) (2011), *Key Indicators of the Labour Market (KILM) (Database)* for employment data on Brazil and Indonesia; Statistics South Africa for employment data on South Africa; India National Sample Survey (various years), annual population estimates from the Registrar General and OECD estimates for employment data on India; China Ministry of Human Resources and Social Security for employment data on China.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### *Policy priorities in OECD countries and the BRIICS*

Overall, the balance of policy recommendations in *Going for Growth* by subject area has remained quite stable for OECD countries since 2007, with the share of productivity-enhancing recommendations remaining at approximately 60% (Table 1.1). This ratio slightly increased in the most recent rounds, reflecting new priorities in public sector efficiency, taxation structure, infrastructure, housing and social mobility. This was partly following new empirical research in these domains, as well as reflecting policy lessons emerging from the recent crisis. The predominance of labour productivity-enhancing challenges is more pronounced among the lower-income OECD economies. While detailed priorities vary widely across OECD countries depending on their particular performance and policy weaknesses, relaxing anti-competitive product market regulations and reforming social benefit systems are fairly common recommendations for raising productivity and labour utilisation, respectively.

For the BRIICS, four-fifths of the policy recommendations are aimed at improving productivity, reflecting these countries' relative weakness in this area (Figure 1.1, Panel B). There is a strong focus on product market regulation, which is often much more stringent than in upper-income OECD countries; and education systems, where quality and achievement levels are relatively low. Government/governance reform, strengthening intellectual property rights protection and basic financial liberalisation are also common recommendations for boosting productivity in the BRIICS. There are fewer recommendations aimed at enhancing labour utilisation than for OECD countries in general and the lower-income OECD countries in particular, partly because most of the BRIICS have relatively high overall employment rates. Instead, a number of recommendations are intended to address the major challenge of labour informality. These include increasing the coverage of social protection systems or containing labour costs and relaxing overly strict job protection for formal workers.

## The role of the crisis in shaping reform patterns

### *Measuring progress on Going for Growth priorities*

In order to assess progress on *Going for Growth* priorities over the past five years, this report makes use of the "reform responsiveness rate indicator", first constructed for *Going for Growth 2010* (see Box 1.1). The reform responsiveness indicator is a measure of the extent to which OECD countries have followed up on *Going for Growth* recommendations, but it does not aim to assess overall reform intensity *per se*, which would require both accounting for reforms carried out in non-priority areas and quantifying the importance of each individual measure.[5] It is defined annually for each individual *Going for Growth* policy priority area, each broad reform field (labour productivity or labour utilisation) and each

#### Box 1.1. **An indicator of reform action**

The reform responsiveness rate indicator is based on a scoring system in which each priority set in the previous edition of *Going for Growth* takes a value of one if "significant" action is taken the following year, and zero if not. The indicator is therefore the ratio of the total number of years in which some action is taken to address the policy priority to the total number of years in which the policy priority has been identified. By definition, it excludes the years before and includes the year in which the policy priority was first set.

Some policy areas appear to be more difficult to reform than others. Thus, the extent to which countries have followed up on *Going for Growth* priorities may be shaped by the nature of the recommendations. For instance, a country with recommendations in the areas of innovation and public sector efficiency might be expected to be more responsive than another country with similar appetite for reform but with priorities in the areas of job protection and wage formation, where political economy obstacles to reform are stronger. In order to account for this possibility a "corrected" responsiveness rate has also been computed. This weighs responsiveness on each individual priority according to the difficulty of undertaking the relevant reform. The difficulty is measured by the average responsiveness to priorities in this area across the OECD.

For more details see Box 2.2 and Annex 2.A1 in OECD, (2010), *Economic Policy Reforms 2010: Going for Growth*, OECD Publishing.

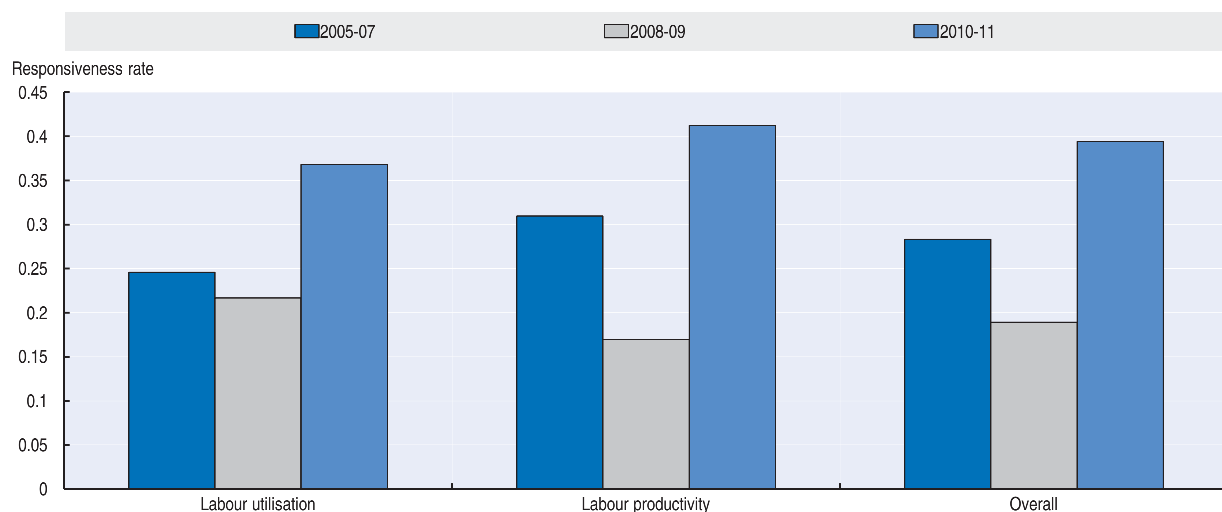
individual country. While this indicator is an imperfect substitute for proper reform assessments, it is used here because of its comprehensiveness and timeliness. The reform responsiveness indicator does not cover the countries that joined the OECD in 2010 (Chile, Estonia, Israel[6] and Slovenia) and the BRIICS, for which priorities were set for the first time in 2011. Actions these countries have taken over the past year – a much shorter time period than the other countries – are discussed in this report and detailed in the accompanying country notes (Chapter 2).

### *Reform patterns during the crisis*

Overall, the crisis seems to have acted as a catalyst for structural reforms.[7] Compared with the pre-crisis period, responsiveness rates have increased on average to *Going for Growth* recommendations for enhancing both labour productivity and labour utilisation. For the latter, this partly reflects recent extensive labour market reforms undertaken in the context of the euro area debt crisis. Reform activity has gone through distinct phases since the start of the crisis (Figure 1.2). At first the recession markedly slowed action on *Going for Growth* priorities, probably reflecting much greater policy focus on macroeconomic stabilisation. The pace of reform slowed down most in the labour productivity area and less so for labour utilisation. The subsequent period saw reform action accelerate strongly, with the bounce-back strongest in reforms to boost labour productivity, such as product market or public sector reforms aimed at increasing efficiency.

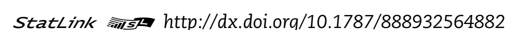
Figure 1.2. **The crisis has acted as a catalyst for reforms**

Responsiveness to *Going for Growth* recommendations across the OECD, 2005-11[1]




*Note:* See Box 1.1 for the definition of the responsiveness rate.

1. Average across OECD countries excluding Chile, Estonia, Israel and Slovenia.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During the 2010-11 recovery phase responsiveness to *Going for Growth* priorities increased in more than half of OECD countries compared with the 2005-07 pre-crisis period (Figure 1.3, Panel A). In the vast majority of these countries the picture is reinforced when comparing this phase and the crisis phase (Panel B). However, there are exceptions. For example, in Germany responsiveness has been declining, possibly reflecting reform

"fatigue" after past efforts and the country's relatively good overall economic performance. Since 2010, there has been a major acceleration in reform action in countries either *i)* directly affected by the euro area debt crisis and therefore forced into reform as part of the European Union-International Monetary Fund (EU-IMF) financial aid package; or *ii)* experiencing tensions with sovereign bond spreads. Indeed Greece, Ireland and Portugal all appear among the countries whose responsiveness to *Going for Growth* recommendations increased the most between 2008-09 and 2010-11, especially for labour utilisation, and so does Spain. The acute crisis forced these countries to enact unpopular reforms in "difficult" areas, such as labour market regulation and social welfare systems (*e.g.* job protection, pension and welfare reforms). This can be seen in Figure 1.4, which compares responsiveness rates with corrected responsiveness rates (see Box 1.1 for methodological details on these indicators and Box 1.2 for a discussion of reforms in Greece, Ireland and Portugal).[8]

Figure 1.3. **Evolution of responsiveness to *Going for Growth* recommendations: OECD countries**

**A. Change in overall responsiveness to *Going for Growth* recommendations across OECD countries from 2005-07 to 2010-11**

Percentage points
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
-0.1
-0.2
-0.3
-0.4
-0.5
Germany
Switzerland
Belgium
Luxembourg
Iceland
Turkey
Japan
Canada
Korea
Italy
Hungary
Denmark
Norway
Netherlands
Czech Republic
United Kingdom
France
Australia
Ireland
Sweden
Mexico
New Zealand
Poland
Slovak Republic
United States
Finland
Portugal
Austria
Greece
Spain

**B. Change in overall responsiveness to *Going for Growth* recommendations across OECD countries from 2008-09 to 2010-11**

Percentage points
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
-0.1
-0.2
-0.3
Germany
Switzerland
Luxembourg
Belgium
Iceland
Turkey
Slovak Republic
Canada
Australia
France
Denmark
Korea
Netherlands
Japan
Austria
Italy
Norway
Hungary
New Zealand
Mexico
Sweden
United States
Czech Republic
Finland
Poland
United Kingdom
Portugal
Ireland
Spain
Greece

*Note:* See Box 1.1 for the definition of the responsiveness rate.

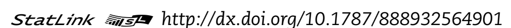
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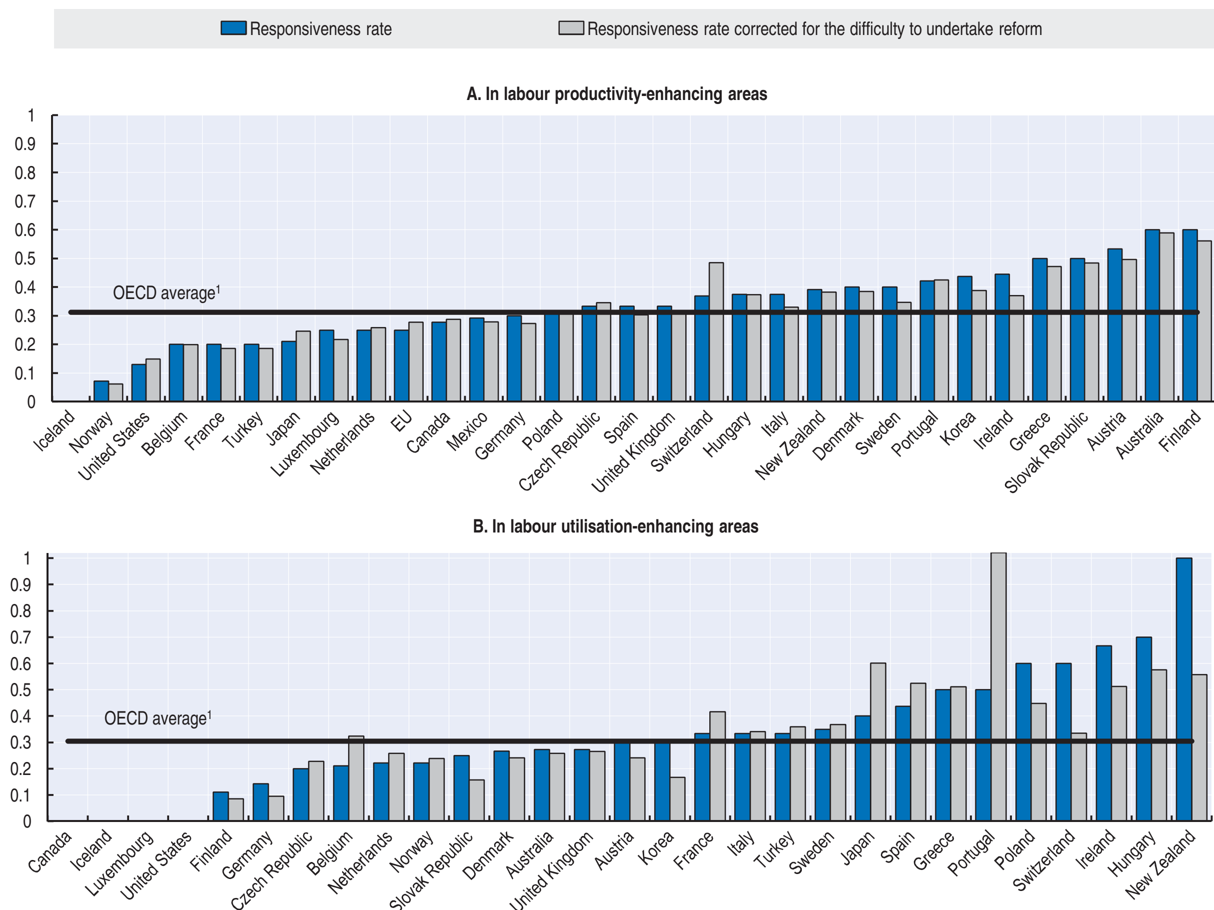
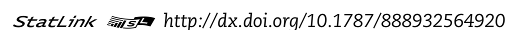
Figure 1.4. **Responsiveness to *Going for Growth* recommendations: OECD countries, 2007-11**




*Note:* See Box 1.1 for the definition of the responsiveness rate.

1. OECD average excludes Chile, Estonia, Israel and Slovenia.



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Box 1.2. **Structural reforms catalysed by the euro area debt crisis: Greece, Ireland and Portugal**

As has often been the case in the past, the current crisis has acted as a catalyst for structural reforms. Reform impetus has been particularly strong in the euro area in countries that asked for assistance from the European Union and the IMF. For Greece, Ireland and Portugal, some of the measures announced in 2010 and 2011 were part of their conditions linked to financial assistance.

Most reforms implemented by these countries are aimed at delivering credible fiscal consolidation *e.g.* pension and welfare reforms, public sector reforms and privatisation programmes. In addition, labour market institutions, active labour market policies, and product and financial market regulations have been or are being reformed, partly as a way to boost growth and indirectly strengthen public budgets. This box summarises the most important structural reforms introduced by Greece, Ireland and Portugal in these policy areas, covering both measures that have already been undertaken as well as commitments to present future reform plans or studies. Some other European countries experiencing severe financial market stress, such as Italy and Spain, have taken similar measures on a voluntary basis. As will be seen below, a large number of these reform initiatives are among the *Going for Growth* policy recommendations. The accompanying country notes (Chapter 2) detail actions taken on those.

Box 1.2. **Structural reforms catalysed by the euro area debt crisis: Greece, Ireland and Portugal** *(cont.)*

**Tax reforms**

Tax reforms include: *i)* base broadening by rationalising personal income tax and eliminating a number of deductions (Greece, Ireland and Portugal) and broadening the value added tax (VAT) tax base (Greece and Portugal); *ii)* budget-neutral tax shifting aiming to lower labour costs (Ireland); *iii)* reforming property taxation, including increasing (Portugal and Greece) or introducing (Ireland) property taxation and introducing a new flat stamp duty on all residential property taxation, along with abolishing all existing exemptions (Ireland); *iv)* stepping-up environmentally-friendly taxation by increasing the level of carbon taxes and introducing water charges (Ireland) or increasing the car registration tax (Portugal); *v)* combating tax evasion and enhancing tax compliance, tax administration discipline and transparency by developing a risk-based analysis audit system, increasing fraud penalties, revising tax auditors' hiring rules and reinforcing their supervision and the legal measures to curb corruption by tax personnel (Greece).

**Pension, welfare and active labour market policies reforms**

Pension reforms include: *i)* increasing the legal and/or minimum retirement ages and lengthening the contribution periods required for a full pension (Greece and Ireland for the state contributory pension); *ii)* reducing the generosity of pension benefits (Greece), focusing on civil servants above a wage level threshold (Ireland); *iii)* reducing early retirement *via* reducing benefits and revising the list of arduous occupations (Greece); *v)* introducing a mechanism to index the retirement age to life expectancy (Greece).

Welfare and active labour market policy reforms include: *i)* reducing unemployment benefit rates (Ireland and Portugal) and duration (Portugal), introducing means-tested benefits (Greece), along with extending the population covered by these benefits (Portugal); *ii)* cutting other welfare payments such as child benefits (Ireland); and *iii)* strengthening active labour market policies (Ireland) through:

- Increasing the provision of training and internship.
- Enhancing efficiency in the Public Employment Services (PES), including enhanced profiling to better identify claimants at high risk of becoming unemployed.
- Strengthening the mutual obligations approach *e.g.* greater sanctions for refusal to engage in training.

**Product market reforms**

Product market reforms include: *i)* privatisation programmes – primarily aimed at raising public revenues – in various energy and transport sectors (Greece, Ireland and Portugal) and launch of public-private partnerships and concessions to develop some state-owned immovable assets (Greece); *ii)* strengthening the power, independence or effectiveness of the competition authority (Greece and Portugal) and the enforcement of competition law (Ireland); *iii)* easing the formalities to start a new business (Greece) and the complexity of licensing procedures (Greece and Portugal); *iv)* increasing competition in transport and network industries by reducing barriers to entry in road and maritime cruises (Greece) and phasing out regulated tariffs in electricity and gas (Greece and Portugal); *v)* increasing competition in retail trade (Portugal) and reducing barriers to entry in professional services (Greece, Ireland and Portugal).

**Public sector reforms**

Public sector reforms include efficiency-enhancing measures: *i)* reorganising local and central government (Greece, Ireland and Portugal), rationalising the public remuneration system (Greece and Ireland), rationalising management and improving efficiency and governance of state-owned enterprises (Greece and Portugal); *ii)* introducing cross public sector measures, including greater use of shared services and information technology solutions, reform of public procurement processes (Ireland and Portugal), regular comprehensive expenditure reviews and using new business models for service delivery (Ireland); *iii)* public healthcare sector measures, including strengthening and better monitoring of prescription rules and rationalising procurement procedures (Greece and Portugal), increasing co-payments (Portugal) and enhancing cost-accountability in the hospital sector (Greece and Portugal).

Box 1.2. **Structural reforms catalysed by the euro area debt crisis: Greece, Ireland and Portugal** *(cont.)*

**Labour market reforms**

Labour market reforms include: *i)* reductions in severance pay for regular contracts and some simplification of individual or collective dismissal procedures (Greece and Portugal), along with measures to boost temporary employment by increasing the maximum work time under temporary work agencies (Greece); *ii)* measures to boost flexibility in working-time arrangements by reducing overtime pay and earnings of part-time employees and making averaging of working time possible (Greece); *iii)* measures to enhance flexibility in wage determination such as easing the conditions for firms to opt out from higher-level collective bargaining agreements (Greece and Ireland) and reforming sectoral wage agreements (Ireland); *iv)* introducing a sub-minimum wage for young people (Greece).

**Financial sector reforms**

Financial sector reforms include: *i)* measures to help deleverage the banking system by progressively setting higher capital requirements than under the Basel III rules and requiring them be met earlier (Ireland and Portugal); *ii)* enhancing prudential regulation by reinforcing banking supervision (Ireland and Portugal) and restructuring the banking system (Ireland).

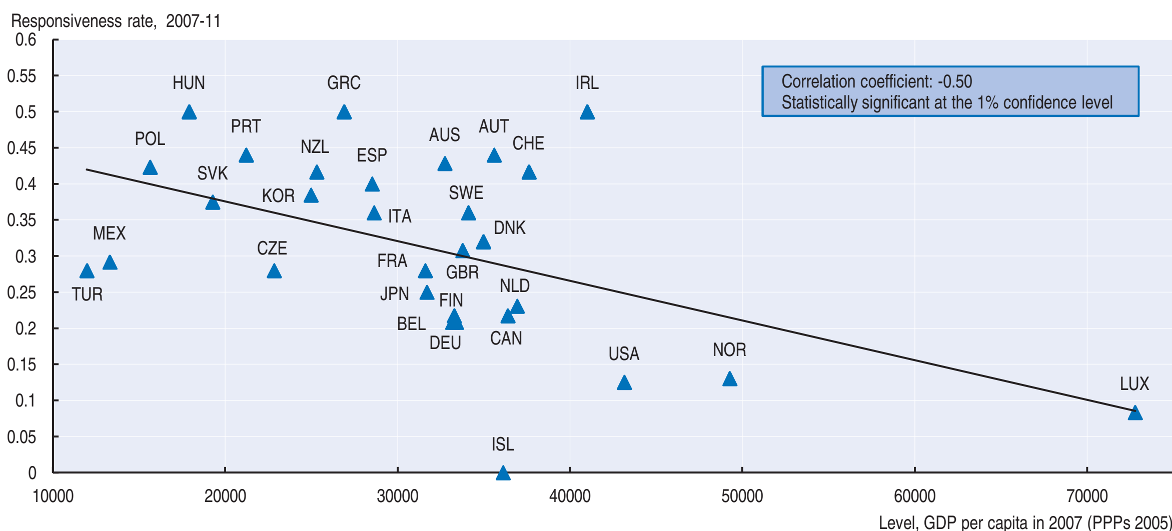
### *Impact of the crisis on reform action*

While countries that have been most active in their priority areas since 2007 (Figure 1.4) are relatively diverse in terms of geography and size, those that were in greater need for reform – *i.e.* with lower GDP per capita levels in 2007 – have been most responsive to *Going for Growth* priorities on average, as can for example be seen in the cases of Greece, Hungary, New Zealand, Poland and Portugal (Figure 1.5).

Reforms have been more frequent in countries that have been more severely affected by the crisis. There is a particularly clear positive correlation between the severity of the labour market impact of the crisis (measured as the change in unemployment from trough

Figure 1.5. **Reform progress has been greater in lower-income countries**

Responsiveness to *Going for Growth* priorities and 2007 GDP per capita levels




*Note:* See Box 1.1 for the definition of the responsiveness rate.

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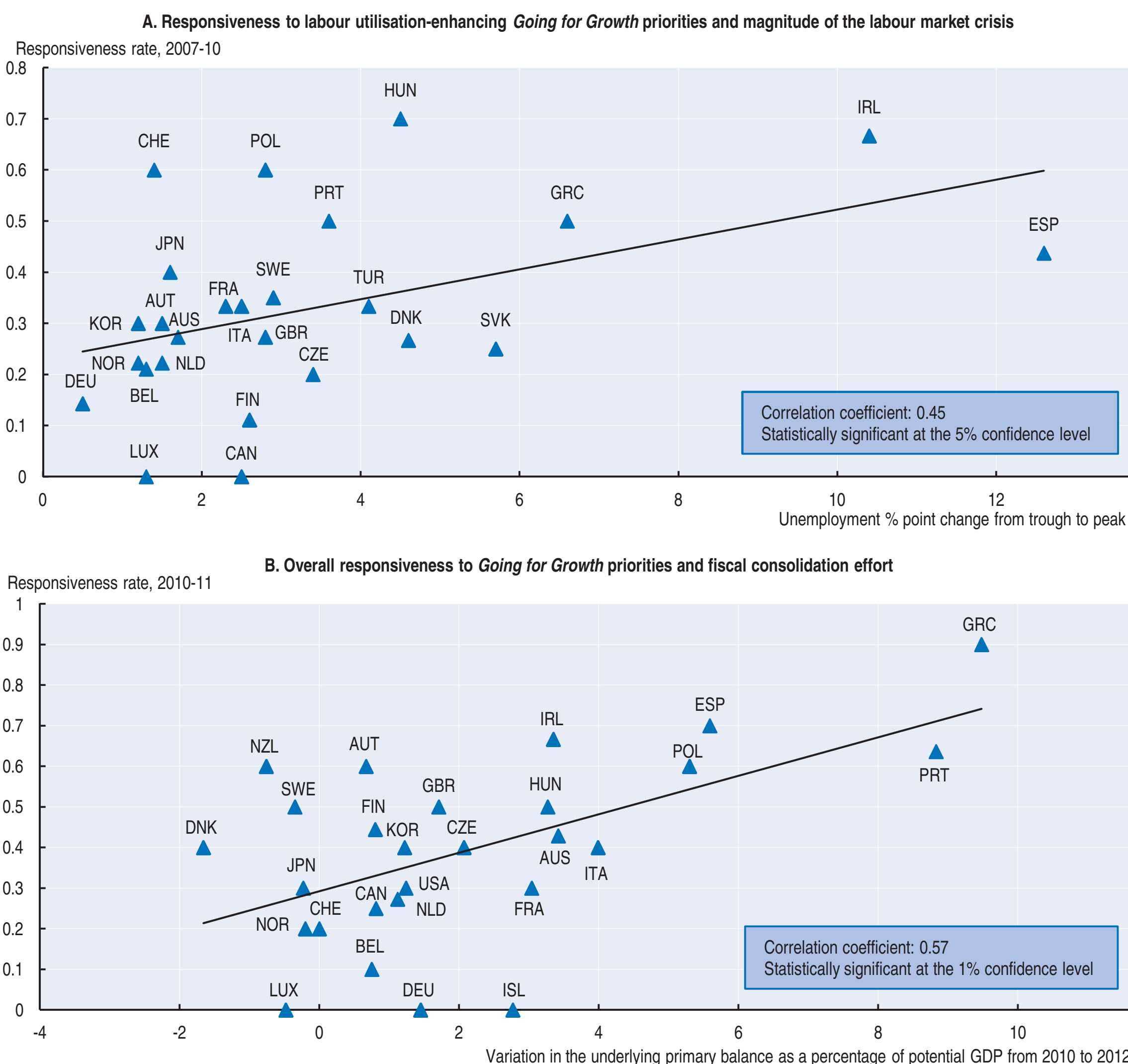
to peak) and responsiveness to *Going for Growth* recommendations for enhancing labour use (Figure 1.6, Panel A).[9] Major financial market pressure seems to have forced both fiscal consolidation and reforms. There is a significant positive correlation between recent reform intensity – measured by the responsiveness rate to *Going for Growth* priorities between 2010 and 2011 – and fiscal consolidation intensity – measured as the projected change in the underlying primary balance between 2010 and 2012 (Figure 1.6, Panel B).[10, 11] This suggests that countries facing major economic and fiscal crises simultaneously may have had little choice but to address both growth and fiscal consolidation objectives, as the examples of Greece, Ireland and Portugal show (Box 1.2). In the current situation, it is therefore difficult to disentangle structural reforms genuinely aimed at raising long-term living standards from fiscal consolidation actions. Reforms that are associated with rapid and unprecedented fiscal retrenchment are likely to have weaker positive effects on growth than fiscally-neutral reforms (see discussion in Chapter 4).

Figure 1.6. **The need to address job and fiscal sustainability concerns has given impetus to reform**




*Note:* See Box 1.1 for the definition of the responsiveness rate.

*Source:* OECD *Quarterly National Accounts* (Database); OECD *Main Economic Indicators* (Database) and OECD *Economic Outlook No. 90: Statistics and Projections* (Database).

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## The crisis and structural reforms: a detailed review of progress since 2007

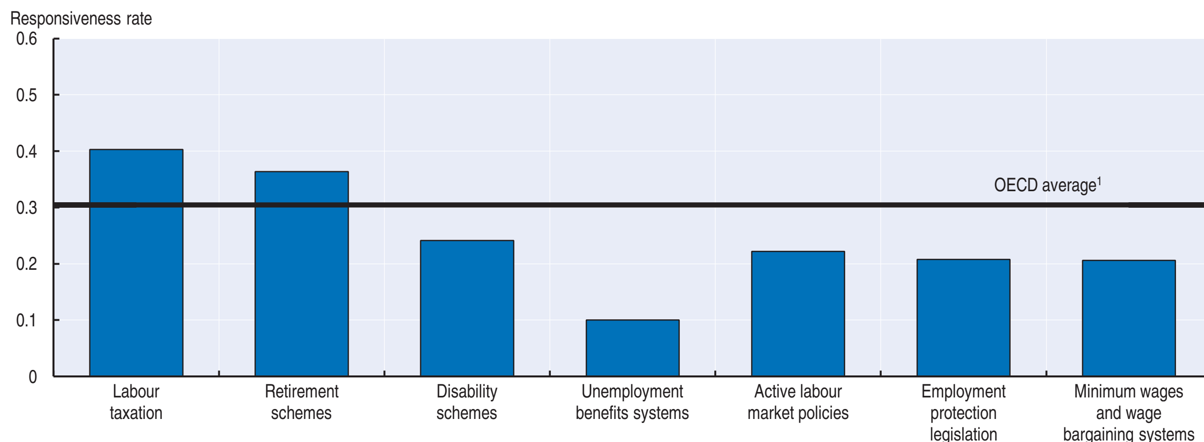
This section reports on progress in implementing *Going for Growth* priorities since 2007, distinguishing labour-utilisation and labour productivity-enhancing priorities. The associated actions are detailed in separate country notes (Chapter 2). Furthermore, as already noted above and against the background of the crisis, key labour market reforms and interventions in non-priority areas are also covered (in the labour utilisation section), based on the accompanying country notes as well as on other recent OECD work (see OECD, 2009; 2010b; 2011d; 2011e).

### *Progress in reforming policies to improve labour utilisation in the context of the crisis*

Since 2007, recommendations to remove impediments to labour utilisation have been made primarily to continental European countries, where trend labour utilisation rates remain comparatively low despite some heterogeneity and some progress prior to the crisis (Figure 1.1). Identified policy priorities have included reducing disincentives to work at older ages, obstacles to female participation, and labour taxation, as well as improving the design of disability and sickness benefit schemes and other labour market policies such as job protection, unemployment benefits and activation policies. Priorities have also been identified in these areas outside Europe, often as a way to address more specific labour market performance weaknesses, *e.g.* widespread informality in the BRIICS. Among the various types of *Going for Growth* labour utilisation-enhancing priorities, countries have been most active in the areas of labour taxation, retirement systems, disability schemes and active labour market policies (Figure 1.7).

Figure 1.7. **Responsiveness to *Going for Growth* recommendations across labour utilisation-enhancing areas**

2007-11 average




*Note:* See Box 1.1 for the definition of the responsiveness rate.

1. OECD average excludes Chile, Estonia, Israel and Slovenia.

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#### *Average and marginal taxation of labour income*

Most countries for which labour taxation was identified as a priority in previous editions of *Going for Growth* implemented measures to sustain employment by lowering labour taxation, either on a permanent or a temporary basis. Despite high responsiveness, policy action has never been judged sufficient to justify the removal of the policy priority.

This does not point to some lack of major reform, but reflects the fact that labour taxation is an area where sustained reform efforts are often required to achieve major policy changes. Countries with a *Going for Growth* priority in this area have reduced income tax rates or increased tax relief (Austria, Belgium, the Czech Republic, Denmark, Finland, Hungary, Netherlands, Poland and Sweden), introduced or raised in-work tax credits (Denmark, Netherlands, Sweden and the Slovak Republic), and lowered social security contributions (Austria, Germany, Hungary, Poland, Sweden and Turkey).[12] Italy reduced the labour tax wedge for young people and women by making the payroll tax deductible against income tax. In some of these countries, reductions in labour taxation were accompanied or, more recently in the context of fiscal consolidation packages, followed by compensatory increases in consumption (Germany, Finland and Italy), environmental or energy (Austria, Finland and Germany) and financial sector taxes (Austria).

Many OECD countries – including some for which labour taxation was not identified as a priority in previous editions of *Going for Growth* – further implemented new job or hiring subsidy schemes in response to the crisis, often targeting vulnerable job seekers such as youth, older workers, or the long-term unemployed (Finland, France, Greece, Hungary, Portugal and Turkey, for which reducing the cost of labour was identified as a *Going for Growth* priority, as well as Ireland and Spain who did not have a priority in this area). Going forward, to minimise potential productivity losses resulting from labour misallocation, hiring subsidies should eventually be withdrawn. Conditional on the pace of fiscal consolidation, reductions in social security contributions are to be envisaged on a longer time frame in countries where non-wage labour costs remain high, and could be coupled with a shift in the tax burden towards tax bases that are more friendly for employment and growth, *e.g.* immovable property, consumption, or environmental taxation. Tax structure reforms along these lines were recommended for ten countries in the 2011 edition of *Going for Growth* (OECD, 2011b).

### *Social benefits and active labour market policies*

**Retirement schemes.** There has been progress since 2007 in reducing financial disincentives to work at older ages embedded in old-age pension systems and/or available social transfer programmes in countries where this was deemed a *Going for Growth* priority. The crisis and the ensuing fiscal sustainability problems in many OECD countries have led to an acceleration of pension reforms over the most recent period. Major reforms have been implemented in European countries, especially – but not exclusively – in EU-IMF programme countries (see Box 1.2). Some of the reforming countries phased out or restricted access to early retirement schemes by tightening eligibility conditions (Austria, Belgium, Greece, Poland, the Slovak Republic and Spain) or progressively closing *de facto* early retirement routes by abolishing job-search exemptions for older unemployed (France). Others raised minimum and statutory retirement ages (Belgium for females, France, Greece, Hungary and Spain), or sought to increase the effective retirement age by lengthening contribution requirements to claim full pensions (France, Greece and Spain), reducing the level of pension benefits (Greece and Hungary), or adjusting benefits or the retirement age in line with life expectancy (Greece, Norway and Spain). Reforms aimed at enhancing the long-term sustainability of public pensions systems have in some cases been accompanied by concomitant backtracking with the downsizing of the fully-funded, defined-contribution "second pillar", especially in some Central and Eastern European countries. Among the OECD countries that had a *Going for Growth* priority in this area,

Hungary dismantled the "second pillar" altogether while Poland partially diverted contributions from the private to the public pillar. In Turkey, where reform of retirement schemes was identified as a policy priority, the phasing-in of the pension reform remains excessively slow.

One notable feature of this crisis has been that older workers have remained in the labour market, contrary to the experiences of previous recessions, where early retirement incentives sometimes encouraged labour market withdrawal (OECD, 2011b, 2011d and 2011e). This may reflect not just the comparatively mild deterioration in labour market conditions (given the magnitude of the recession) in a number of OECD countries, but also the benefits of recent reforms. Still, given that severe recessions have in the past led to significant labour market withdrawal with a notable lag (Duval *et al.*, 2011), further reductions of financial disincentives to continued work – not least faster phasing out of special or *de facto* early retirement routes – would help ensure that laid-off older workers remain attached to the labour market. Furthermore, such reforms would improve the long-run sustainability of pension systems, which recent OECD analysis (OECD, 2011e, *OECD Pensions at a Glance 2011*) shows is not currently ensured. Such reforms can be designed in ways that protect the most vulnerable (low income earners and people with interrupted careers), as has been done in some OECD countries.[13]

**Disability schemes.** Long-term sickness and disability benefit schemes have in the past provided an exit pathway from the labour force to both older and prime-aged workers. A look at the past cyclical profiles of unemployment and disability rates shows that in a number of countries, unemployment peaks associated with recessions have tended to be followed by spikes in disability rates a number of years later.[14]. This partly explains why disability benefit reform ended up being identified as a priority in countries such as Australia, Denmark, Norway, the Netherlands, the United Kingdom and the United States.[15] While it is too early to draw definitive conclusions regarding the impact of this crisis, preliminary evidence (OECD, 2011d) suggests that recipiency rates have started trending upward or have continued to rise in a number of OECD countries since the onset of the crisis (Australia, Denmark, Estonia, Iceland, Israel, Korea, Norway and the United States).[16] Cross-country heterogeneity in post-crisis developments has been wide, partly reflecting differences in the design of disability benefit schemes and the extent of past reforms.[17] Some of the countries with a *Going for Growth* priority in this area (the Netherlands, Sweden and the United Kingdom) reformed their schemes just prior to the onset of the crisis, with the view to stemming the "excess" inflow of recipients and, in some cases, to helping existing recipients with work capacity to (re-) join the labor market. Preliminary recipiency rates data suggest that past reforms in these countries helped cushion the impact of the crisis in this area. While similar reforms are being implemented in Australia starting in 2011, action was rather limited in other countries for which disability schemes reforms were identified as a *Going for Growth* priority, in particular in the United States which have experienced what seems to be a structural rise in the beneficiary rate.

**Unemployment benefit systems.** The crisis led a number of countries to better protect the incomes of the unemployed, which was needed in a context where job opportunities fell dramatically. Many of the changes made to unemployment benefit schemes during the crisis were therefore temporary measures, rather than structural reforms *per se*. These short-run imperatives legitimately constrained policy action, which explains low

responsiveness in this area (Figure 1.7). Indeed, none of the countries with a recommendation took significant action in line with the priority, except for Portugal, whose authorities committed to reduce the generosity of unemployment benefits in 2012 under the EU-IMF financial aid package.

Crisis-response measures (including in countries where unemployment benefit reform was not identified as *Going for Growth* priority) included:[18]

- Moderate increases in benefit replacement rates (Belgium and Finland where unemployment benefit reform was a *Going for Growth* priority, but also the Czech Republic, Greece and Poland);
- Increases in benefit duration (Canada, Iceland, Portugal and the United States);
- Looser eligibility criteria, a long-standing *Going for Growth* recommendation for certain countries (*e.g.* Japan) in order to increase the social insurance coverage of non-regular workers. For instance, changes in eligibility in Finland, France, Israel, Japan, Portugal and Spain are likely to have made it easier for temporary or irregular workers to access unemployment benefits.

Once the labour market recovers, phasing out crisis-related increases in benefit levels and duration (where these were already high) would amplify the pick-up in labour utilisation, with direct co-benefits for public budgets. In a number of countries, crisis-related increases in unemployment income support have already been phased out – increases in benefit duration have been phased out in Canada for instance[19] – and some countries have recently taken some steps to reduce the generosity of unemployment benefits – especially those under fiscal pressure such as Ireland and Portugal. By contrast, some of the extensions in the coverage of unemployment benefits from previously low rates could be made permanent provided they are coupled with conditionality and activation measures.

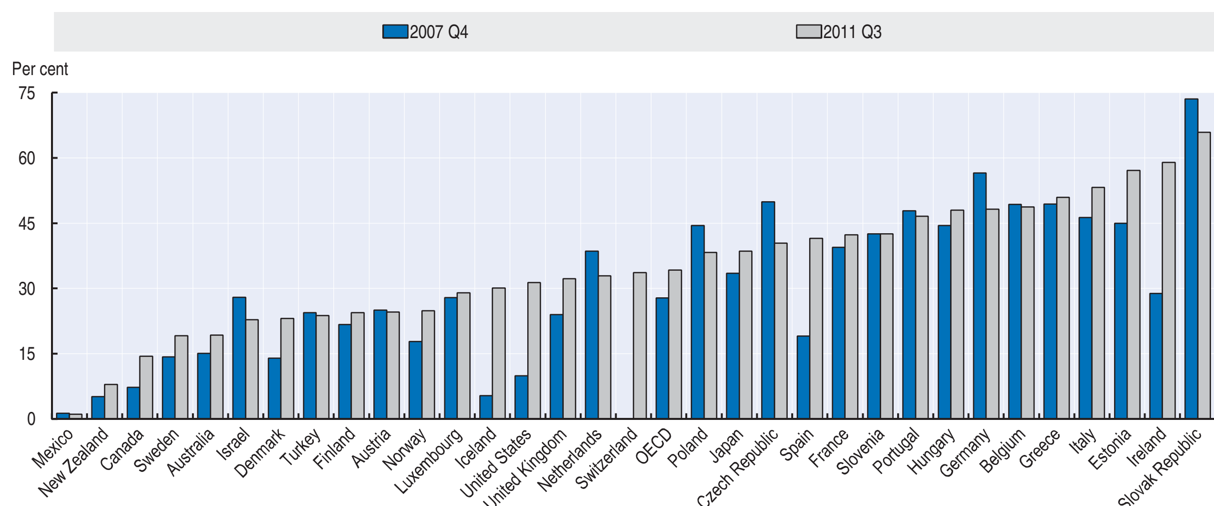
**Active labour market policies.** OECD countries have been endorsing the need to develop sound ALMPs as a key tool to activate the long-term unemployed. In the crisis context, reforms to increase spending on or enhance the efficiency of ALMPs have been implemented in all the countries for which this was identified as a priority. Efficiency has been improved through more regular assessments of job search activity (Estonia), greater sanctions for refusing job or training offers (Ireland since 2011) or not participating in active labour market programmes (Finland) and the reorganisation of Public Employment Services (PES) (merger of benefit administration and public employment services into a single department in Ireland, enhanced coordination between regional placement agencies in Belgium). South Africa committed to increase funding devoted to employment services and to improve information about training and employment opportunities. More broadly and including outside *Going for Growth* priorities, more than two-thirds of OECD countries raised resources for job-search assistance and training programmes in order to facilitate re-employment and re-deployment during the crisis. Despite the additional resources devoted to PES, the average staff caseload increased in most countries during the crisis due to the surge in the number of registered jobseekers. Additional PES resources have therefore been typically targeted to provide job-search assistance to particular groups such as young people, immigrants, and people with short-term contracts or not receiving benefits (OECD, 2010b).

In countries where the average caseload per staff providing PES has risen substantially during the crisis as a result of a sharp increase in the number of job seekers, there is a case for ensuring that resources devoted to job-search assistance are commensurate to the task of returning to pre-crisis employment levels. Still, the relevance of different ALMP spending programmes differs depending on the state of the labour market, suggesting a case-by-case approach:

- In countries that have experienced large increases in long-term unemployment, and in particular where its level is now also high (see Figure 1.8), unemployment persistence is the most pressing concern. The longer individuals remain unemployed, the more difficult it becomes for them to find a job and the more unqualified and discouraged they may be, a phenomenon referred to as *hysteresis*. One particular concern is that some of the most affected countries invested relatively little in ALMPs prior to the crisis (OECD, 2011d). In this context, training programmes implemented in response to the crisis could be maintained where unemployment outflows remain depressed and the public budget situation allows. Some of the hardest-hit countries were also most affected by a strong boom-bust pattern in the construction sector (*e.g.* Ireland, Spain and the United States), implying a likely need for substantial labour reallocation, which further strengthens the case for maintaining adequate training to facilitate reallocation of workers.
- In countries where the risk of persistently high unemployment is low, especially where labour hoarding or some form of work sharing dampened the labour market impact of the recession, efforts should concentrate on ensuring that PES provide effective job-search support and incentives. More generally, as the labour market situation normalises, the value of job search relative to training programmes increases, calling for putting greater weight on activation.

Figure 1.8. **Long-term unemployment has increased dramatically in some OECD countries**

Share of people unemployed for more than 12 months in total unemployment[1]




1. Series are smoothed using a three-quarter centred moving averages. 2011Q4 for Canada and the United States.

*Source:* OECD (2012), *Quarterly Labour Market Indicators* (*Database*), Directorate for Employment, Labour and Social Affairs unpublished data (January).

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**Short-time working schemes.** Among crisis-related labour market interventions, work-sharing arrangements and in particular short-time working schemes (STW) have played a prominent role, with measures in place in two-thirds of OECD countries.[20] Such measures typically aim at cushioning the labour market impact of downturns, and for this reason they have not been covered in *Going for Growth*, whose focus is on longer-term growth. Nevertheless, given the highly persistent employment impact of the crisis in some countries, STW schemes may have protected permanent jobs and prevented large income losses where they were in place. New STW schemes were introduced in Poland, the Netherlands, Hungary, the Czech Republic, the Slovak Republic, Mexico and New Zealand. In addition, many countries extended the coverage or generosity of existing schemes, or relaxed eligibility or administrative requirements in order to encourage take-up. The share of employees participating in pre-existing STW schemes expanded substantially in Belgium, Germany, Finland, Italy, Japan and Luxembourg, contributing to relatively benign labour market effects of the crisis (OECD, 2010b; Hijzen and Venn, 2011). Although an empirical assessment of the long-term effects of STW schemes is not yet available, the crisis experience suggests that having such options in place and being able to activate them in severe downturns can be useful, insofar as they may avoid losses of specific human capital in the wake of shocks that are temporary and do not imply a need for reallocation.

At the same time, as with any form of public wage subsidy, STW schemes entail some risks: *i)* deadweight losses may be incurred if subsidies are paid for jobs that employers would have maintained even without public support; *ii)* displacement effects may occur if STW schemes help preserve jobs that are not viable in the long run, hampering the reallocation of resources across firms and industries and resulting in persistent declines in hours worked and productivity; *iii)* wage pressures may arise, mitigating the success of STW schemes in containing the rise in unemployment. In order to minimize these risks, certain features in the design of STW schemes are desirable (OECD, 2011d; 2011e): *i)* tight eligibility conditions (*e.g.* proof of minimum and abrupt reduction in production or sales), co-financing by firms and (as is the case in Germany and the Netherlands) built-in incentives for workers and firms to withdraw from STW schemes once they have outlived their conjunctural purpose can help reduce deadweight losses; *ii)* quick phasing out as the economy recovers can mitigate displacement effects. Also, such schemes may work more effectively when implemented in the context of wage bargaining that provide individual firms more leeway (such as opt-out clauses) in the application of collective agreements, as this will allow for greater flexibility in the determination of working conditions during the operation of such schemes. For example, in Germany, those measures complemented spontaneous private-sector adjustment in average hours worked, the implementation of which was facilitated by collective agreements.

### *Policy barriers to full-time female participation*

Some of the impediments to full-time female participation have been reduced since 2007 in all nine countries where this had been put forward as a policy priority. This has been achieved by expanding childcare facilities (Germany, Ireland and Switzerland), increasing childcare subsidies (Korea, New Zealand and the Slovak Republic), stepping up the childcare components of tax credits (Switzerland and the United Kingdom), lowering the compulsory schooling age or promoting full-day schools (Germany and Switzerland), reducing differences in taxation between main and second earners (Australia and Switzerland) and restructuring income support for single parents or second earners to

promote participation (Australia and the United Kingdom). Chile increased the length of paid maternity leave and created a paternity leave, though empirical evidence suggests that childcare support may be more conducive to high female labour force participation (see *e.g.* Jaumotte 2003; Bassanini and Duval, 2006).

### *Labour market regulations and collective wage agreements*

**Job protection and other policies to reduce labour market dualism.** Firing restrictions may have cushioned unemployment to some extent during the crisis, but excessive gaps in protection between permanent and temporary contracts contribute to duality in the labour market, which in turn hampers employment and productivity (Bassanini *et al.*, 2009). Actions taken in countries that had a *Going for Growth* recommendation in this area were more frequent and radical in nature during the crisis than before, especially in European countries where the surge in unemployment highlighted the weaknesses of partial employment protection reform strategies – *i.e.* reforms reducing job protection on temporary contracts while maintaining high protection on regular contracts.[21] Greece and Spain introduced major EPL reforms in 2010 aimed at reducing severance payments on permanent contracts. In Portugal, the 2009 job protection reform, which implied a substantial easing of job protection on regular contracts through a simplification of dismissal procedures, is being followed up – as part of the EU-IMF financial assistance package – by reductions in severance payments for regular contracts and a narrower definition of unfair dismissal. The Netherlands have been gradually reducing *de facto* severance payments, first by reforming judicial procedures for local courts and then by introducing a cap (although limited to public and care sector workers). The Czech Republic also reformed severance payments by linking their level to job tenure. The provision for termination of a work contract by mutual consent was instituted in France in 2008 with the goal of reducing uncertainty about dismissal costs but it had a limited impact on reducing dualism so far. Finally, some countries have sought to reduce labour market duality by strengthening training (Korea) or work-study schemes (France). Such measures are likely to work best if targeted to marginal groups in the labour market in order to enhance their regular employability. No actions were taken in respect of the priority to reduce job protection on regular workers in Germany, Italy, Korea, Luxembourg, Slovenia and Sweden.

EPL or targeted training reforms have also been recommended to lower-income countries as a way to tackle labour informality, which is an extreme form of labour market duality. Brazil recently introduced a programme for vocational training of low-skilled workers. Turkey progressively eased the conditions for establishing temporary work contracts. Little progress has been achieved in India over the past year to reduce employment protection legislation that discriminates against larger firms. No action was taken over the past year in Chile and Indonesia, where reducing job protection had been recommended along with introducing (Indonesia) or stepping up (Chile) unemployment benefits.

**Minimum wages and wage bargaining systems.** Reductions in the relative level or growth rate of minimum wages *vis-à-vis* average wages have been recommended as a means to encourage low-skilled and formal employment in both some OECD and large emerging countries (Australia, Greece, Indonesia, Israel, South Africa and Turkey). Greater flexibility in wage determination has also been recommended for Australia, Belgium, Finland, Italy, Slovenia, Spain and South Africa in order to better align wages with firm-and

regional-level productivity conditions and thereby encourage demand for low-skilled workers. Similarly to the trend observed in the area of job protection, responsiveness to such recommendations has been stronger during the crisis than before. Greece introduced sub-minimum wages for young workers and apprentices. While no change in this area has been achieved in Belgium, Finland decentralised wage bargaining, as did Australia by strengthening wage bargaining at the firm level, Italy by agreeing on a new labour contract promoting greater wage differentiation in the private sector and Spain by easing the conditions for firms to opt out from higher-level collective bargaining agreements. Reforms in this area have been accelerating over the past year, especially in southern European countries in need to regain competitiveness. Spain recently introduced a reform facilitating company-level agreements over any other negotiation level on issues such as wages and distribution of working time and accelerating arbitration procedures. Similarly, in Italy, the 2011 emergency budget allows local enterprise bargaining to undercut national wage agreements, provided a representative union in the firm accepts to opt out of the collective agreement and signs the new agreement with the employer. Responsiveness to priorities was more limited in the new OECD members and in Indonesia and South Africa since 2011, when associated *Going for Growth* priorities were set. In South Africa, the *New Growth Pact* strategy includes broad proposals to reform wage bargaining, which could help raise the very low employment rate in the formal sector. In Israel and Slovenia, increases in relative minimum wage levels were agreed for 2011 and 2012, in contrast with *Going for Growth* recommendations in this area.

### *Housing policies*

Housing policies can affect living standards through both labour productivity and labour utilisation (see Special Chapter 4 in *Going for Growth 2011*, OECD, 2011b). However, *Going for Growth* priorities in this area have focused somewhat more on boosting labour utilisation. Responsiveness to these recommendations has clearly increased over the past few years, possibly reflecting growing recognition that badly designed policies contributed to the build-up of housing bubbles. Some countries have been revising housing subsidies (Iceland and the Slovak Republic), in some cases replacing them with less distortive targeted cash benefits (Spain). The United Kingdom simplified the planning process in order to increase the responsiveness of housing supply to demand, while Sweden took some actions to introduce market principles for municipal housing companies. Some countries reduced tax distortions that favour home ownership by reducing mortgage interest deductions from income taxation (Denmark) or by equalising the tax treatment of rented and owner-occupied housing (Spain). Rent regulations that prevent the development of the rental market have been eased in the Netherlands, Poland and Spain. No actions were taken in Luxembourg to address housing rigidities.

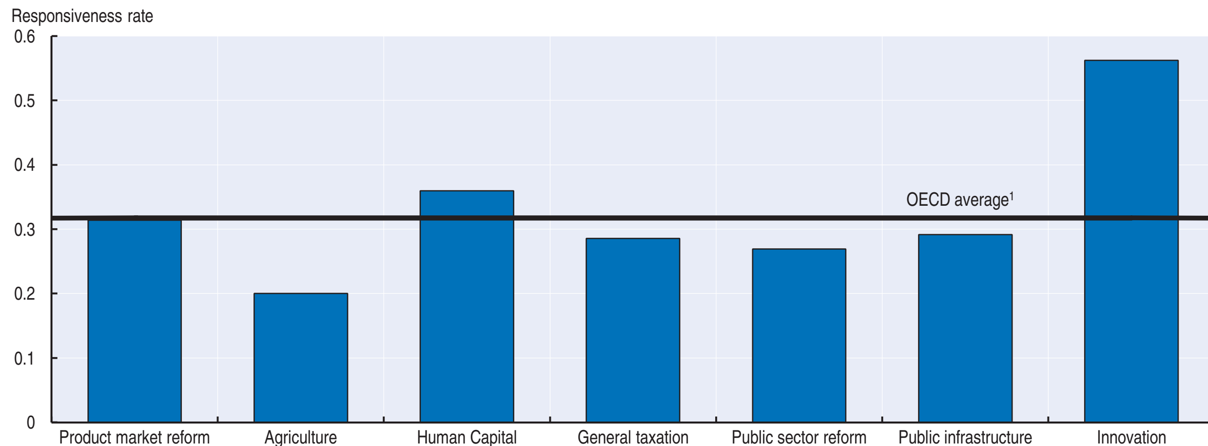
### *Progress in reforming policies to improve labour productivity*

Policy priorities aimed at improving productivity performance have been more prevalent for countries with a large gap in output per hour worked *vis-à-vis* the most productive OECD economies or with weak productivity growth over the past decade. Such countries have included some North American and Asia-Pacific member countries, some smaller European countries, the European Union as a whole, and starting in 2011, all of the BRIICS. Suggested policy reforms to boost productivity have included the easing of entry restrictions and controls over business operations in specific product markets, policies to

boost educational outcomes, cuts in agricultural support to improve resource allocation throughout economies, and various other measures such as tax system reforms and innovation policies. Progress has been mixed since 2007 in the area of agriculture, but more actions in line with prior *Going for Growth* recommendations have been taken in other areas, notably innovation,[22] but also human capital and product market regulation (Figure 1.9).

Figure 1.9. **Responsiveness to *Going for Growth* recommendations across labour productivity-enhancing areas**

2007-11 average




*Note:* See Box 1.1 for the definition of the responsiveness rate.
1. OECD average excludes Chile, Estonia, Israel and Slovenia.

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### *Product market reforms*

The easing of unduly restrictive regulations in product markets has been identified as a priority for most OECD countries – especially those with sub-par productivity performance – and would in many cases also help them kick-start the recovery. While action on these priorities has been relatively frequent, it has rarely been followed by a removal of the corresponding *Going for Growth* priority, hinting at some lack of major reforms. Specifically, around two-thirds of the countries concerned have followed up on recommendations to ease product market regulations since 2007, but the actions taken have been deemed sufficient to result in a removal of the corresponding priorities in only around one-fifth of them. The main product market reforms have been the following:

- All countries that had been recommended to reduce economy-wide regulatory burdens have taken some measures to address this priority by: *i)* streamlining registration and licensing procedures (Belgium, Chile, the Czech Republic, Greece, Korea and Turkey) including in some specific sectors (construction in Israel, services in Portugal and food in Turkey); *ii)* creating a one-stop shop for start-ups (the Czech Republic, Greece, Israel and Poland); *iii)* simplifying bankruptcy procedures (the Czech Republic and Estonia); and *iv)* promoting competition for public contracts and cutting business red tape (Denmark and Poland). Policy responsiveness has been limited in Iceland, India and Indonesia, where sustained efforts will be needed to reduce economy-wide regulatory burdens.

- In line with *Going for Growth* recommendations, efforts have been made to strengthen the competition framework in Denmark, France and Greece, Italy, as well as in New Zealand through the establishment of an independent Productivity Commission in 2010, and in South Africa through the introduction of regulatory impact assessment for new regulation. In the European Union, the transposition of the Services Directive, albeit incomplete, is well advanced and the creation of a Single European Payments Area has reduced cross-border financial transactions costs. Norway took action that goes against *Going for Growth* recommendations in 2008 with the simplification of government procedures to overrule competition authorities.
- Most countries that had been recommended to strengthen competition in network industries have taken some measures to address this priority by: *i)* unbundling energy networks (Hungary, Portugal); *ii)* improving third-party access and easing entry restrictions (Austria and Mexico in telecommunications, Greece and Portugal in various network sectors and Switzerland in telecommunications and electricity transmission); *iii)* introducing or consolidating the power of the regulatory authority (Mexico, New Zealand, Poland and Switzerland) or adopting an industry-specific competition Act (Austria in the gas sector); *iv)* reducing price controls (Belgium, Hungary, Ireland where a wholesale electricity market was set up in 2007 and Portugal where a roadmap for phasing out regulated energy prices was drafted in July 2011) and; *v)* introducing incentive-based regulation (Germany and Israel). In the European Union, competition has been enhanced in air services by the first-stage EU-US Air Transport Agreement and postal services will be fully liberalised in 2012. The Netherlands took action that goes against *Going for Growth* recommendations in 2010, when the court of appeal overruled the 2006 law stipulating ownership separation of the energy distribution networks. No significant action was taken in Canada and South Africa to address priorities to enhance competition in network industries, nor in Japan where the privatisation of Japan Post and Japan Post Insurance – planned to be completed by 2017 – was suspended.
- In countries that had been recommended to reduce barriers to competition in retail trade, measures have been taken to: *i)* ease entry barriers, including for large retailers (Italy, Belgium, Portugal and Spain), *ii)* retail pricing regulation (France) and *iii)* sales regulations (Belgium) and; *iv)* reduce restrictions on shop opening hours (Austria, Denmark, Finland, Italy and Portugal). In line with *Going for Growth* recommendations, barriers to entry in professional services have been reduced in Austria, Canada (where the focus has been barriers to inter-provincial mobility), Germany, Greece, Ireland, Korea and Portugal (a commitment associated with the EU-IMF aid package). No progress has been achieved to increase competition in retail trade and professional services in Luxembourg, where even the transposition of the EU Services Directive remains to be legislated, or in the Netherlands to promote competition in retail trade.
- Reducing the scope of public ownership has often been recommended as part of a broader policy package aimed at strengthening competition. Privatising SOEs could bring efficiency gains while helping restore the sustainability of public finances in cases where public administration and management had clearly proven to hurt efficiency. Well-designed privatisation processes, however, need to consider competition principles and apply competition law. Reducing the scope of public ownership has also been specifically advised to some OECD countries as well as in 2011 to China and Russia, where public ownership is particularly high. In China, private equity firms are progressively being

allowed to restructure state-owned companies and the share of state capital in state-owned enterprises is being decreased. Italy privatised its public airline Alitalia in 2009. Mexico has been gradually increasing the independence and accountability of PEMEX, the national oil company. Privatisations took place in Poland and Turkey. More broadly, against the background of fiscal sustainability concerns, the crisis has accelerated the pace of privatisation, and especially so in European countries in the context of the sovereign debt crisis (see Box 1.2). In Russia, where State intervention remains pervasive, no significant progress has been recorded over the past year.

- Among the 11 countries (8 OECD countries and in 2011 India, Indonesia and Russia) where reducing barriers to foreign direct investment had been recommended, policy responsiveness has been rather limited, with countries often combining small steps forward with policy relapses. As a result, all priorities in this area have yet to be fully addressed. Approval processes for foreign direct investment (FDI) were removed in the non-state-owned banking sector in Russia over the last year and were simplified across the board in Korea. Efforts to improve transparency and simplify procedures for prospective foreign investors have also been undertaken in India since 2011 as well as in Japan through the "Inward Investment Promotion Programme" (2010) which features some deregulation of investment procedures. Reductions of ownership restrictions have taken place for satellites broadcasting in Canada and Korea and for retail trade in India. Little has been achieved in Australia, Iceland, Indonesia and New Zealand to reduce FDI restrictions.
- Openness to trade was improved in Switzerland – for which the removal of non-tariff trade barriers was identified as a priority in 2007 – in 2010, when remaining technical barriers to trade for over 80% of the imports from the European Union were eliminated. In Russia, action to remove distortions in trade policy has been limited since 2011, apart from some reduction in tariffs for selected agricultural products that were put in place in response to the food price shock resulting from the summer 2010 drought.

#### *Agriculture*

Limited action has also been taken on *Going for Growth* agricultural policy reform priorities as reflected in relatively low responsiveness rates and in the persistence of the recommendations over time. This partly stems from the political difficulty of reform in this area, as also testify increases in restrictions of agricultural exports in the past few years. Agricultural subsidies have been mechanically reduced as a consequence of higher world market prices. However, some progress has also been made towards reducing the economic distortions associated with policy interventions, *i.e.* the composition of producer support to agriculture has shifted from price support towards more direct income support (European Union and Switzerland), and in some countries new direct payments supplement existing market price support measures (Japan and Korea). The European Union is progressively decoupling producer support from production and will abolish milk quotas by 2015. However, the renewed use of export subsidies for dairy products in 2009 was a step back. Korea, Iceland and Switzerland are reducing export subsidies and tariff and non-tariff barriers. The United States went a step back in 2008 by providing new incentives for the local production of cellulosic bio-fuels and little progress has been achieved in Norway in this area.

### *Human capital*

Raising human capital has been recommended to lift productivity levels in the vast majority of OECD countries since 2007 and in 2011 in all BIICS. Concrete priorities have aimed at improving the quality and efficiency of education systems, their responsiveness to labour market needs, as well as at reducing educational inequalities. While action has been very frequent and increasingly so over time, many of the priorities remain as education reform typically requires sustained efforts. The crisis context did not halt longstanding policy efforts in this area but, as discussed in the 2011 edition of *Going for Growth*, there remains significant room for improving the efficiency of public education spending.

About half of the countries have taken actions on *Going for Growth* recommendations to reform primary and secondary education. General education reforms have included: *i)* curricula reforms (Greece, Iceland, Luxembourg, Mexico and Turkey); *ii)* increased supply of vocational education at the upper secondary level and greater responsiveness to the needs of the labour market (Australia, Portugal, Spain and Turkey and the United Kingdom) – including by developing second-chance programmes for low-educated adults (Brazil and Portugal); and *iii)* stronger qualification requirements, training or certification for teachers (Chile, Greece, Indonesia, Mexico, Norway, South Africa, Spain and Sweden). Accountability has been reinforced through: *i)* teacher or school performance evaluations (Greece, Mexico, Portugal and the United States); *ii)* reforms or wider use of standardised exams (the Czech Republic, Germany, Denmark, Israel, Sweden and Spain); *iii)* national standards or indicators (Norway, New Zealand, Turkey and the United States), annual reporting (New Zealand); and *iv)* evaluation by a quality assurance agency (Chile). Countries have taken measures to increase equality of educational opportunities, such as: *i)* financial incentives for under-performing schools or for teachers to raise student achievement (Chile and the United States); *ii)* increased support for students from disadvantaged backgrounds (Chile, New Zealand, the United States and the United Kingdom); *iii)* reduced grade repetition (Luxembourg); *iv)* the progressive postponing of tracking (Austria and Germany); and *v)* an increase in compulsory years of schooling (Portugal and Israel). Funding for basic education and school infrastructure has been increased in emerging economies, including in Brazil, China, Chile and South Africa, as well as in Israel where it has financed increased teacher pay and reductions in class size.

Reform of higher education systems has been flagged as a priority in *Going for Growth* for many continental European countries. Most of them have taken some measures, although further action is still needed to address long-standing deficiencies. The reforms undertaken since 2007 in countries with a recommendation in this area have included:

- Revising the functioning of students' financial aid (Denmark and Finland) and introducing or extending tuition fees (Germany, Ireland through increases in the contribution charge for tertiary students, and Sweden but in the latter case only for students from outside the European Economic area);
- Improving the governance of universities, including through greater autonomy (France, Germany, Italy and Portugal) and the reinforcement of financial incentives to improve performance *inter alia* by strengthening evaluation mechanisms (Italy), partly conditioning government funding on outcomes (New Zealand and the Slovak Republic), and *via* cost benchmarking across institutions (Switzerland);

- Reforming higher education assessment frameworks, including by establishing a new framework law for higher education (Greece) or by creating or reforming the accreditation agency to support internal quality assessments of universities (Portugal and Switzerland);
- Encouraging earlier completion by adjusting university funding and study programmes (Denmark), or earlier entry into tertiary education by reforming admission criteria (Sweden and Finland);
- Developing higher education technical and professionally-oriented courses (Portugal, Spain and Turkey) with facilitated transition to university (Portugal and Spain).

### *General taxation*

Tax reform has gained increasing prominence in the *Going for Growth* exercise over the years. This reflects mounting evidence of the impact of the tax structure on economic growth (see *e.g.* Arnold *et al.*, 2011) and the pressing need to restore fiscal sustainability in many OECD countries, which calls for designing growth-friendly fiscal consolidation strategies – or for implementing revenue-neutral tax reforms where there is fiscal space. While Brazil took no action to reduce the fragmentation and complexity of its tax system since 2011 (when the corresponding priority was set) reforms have been widespread over the last five years in the 13 OECD countries where improving the efficiency of the tax system had been identified as a priority. Greece and Portugal have been implementing tax reforms largely consistent with their *Going for Growth* priorities. In particular, both countries have sought to broaden the tax base by combating tax evasion (Greece) and curbing tax expenditures (Portugal). Portugal also took action to simplify tax collection and reduce tax compliance costs. In 2011, Italy undertook a number of fiscal consolidation-driven tax changes which should improve the efficiency of the tax structure, *e.g.* cutting labour and corporate taxes along with raising value added tax (VAT) and local property tax rates. In Germany and Finland, cuts in labour taxation implemented as part of the crisis-related measures have been financed through permanent increases in less distortive consumption and environmental taxes. Canada and Israel have been reducing the corporate tax rate – as well as personal income tax rates in the case of Israel, as will Australia by 2013. Japan broadened the tax base by abolishing a number of tax exemptions in 2010. Tax reform was also implemented in Korea by broadening the consumption tax base and in Mexico, first by reducing corporate tax loopholes and then by increasing the VAT rate in 2010. Norway partly reformed its wealth tax system by bringing the housing valuation component of the tax closer to market values. No significant action was taken in the United States to address tax distortions and broaden the tax base.

### *Other policies*

Policy priorities have also covered a broad range of other areas relevant to productivity performance, some of which – especially in the area of the financial sector and public sector efficiency – could also help address public and private sector financial imbalances:

- *Financial services.* Financial market reform has in general not featured among the *Going for Growth* priorities and has been treated separately (*e.g.* in Box 1.1 of *Going for Growth 2011* and in *Going for Growth 2010*), as it is a key challenge in many OECD countries and in need of broad international coordination. Reforms in this area had also been specifically identified as policy priorities for the European Union since 2007, and for Iceland and the United States against the background of the financial crisis. Most OECD countries – including those with a previous priority in this area – have taken steps towards overhauling

financial supervision, in an attempt to correct some of the institutional failures that led to the financial crisis. Together with actions by individual countries and the European Union, a regulatory reform has been taking place at the international level in recognition of the need for co-ordinated rules to strengthen financial stability and reduce opportunities for regulatory arbitrage. One vital component of such a regulatory regime has been the Basel III agreement, which effectively triples the size of capital reserves that banks must hold against losses over the period 2011-18.[23] Despite this progress, areas where international coordination still needs to advance include the regulation of the over the counter derivatives market and accounting standards. International coordination of prudential supervision is particularly important for the euro area, where further efforts to develop an effective system of cross-border supervision and an integrated crisis management framework should feature on top of the policy agenda. *Going for Growth 2011* recommended more basic financial liberalisation in most non-member economies, including Brazil and India, where bank credit is not fully allocated by the market. Since 2011, no action was taken in Brazil to reduce its very high level of reserve requirements, but the authorisation of credit registries should improve banks' access to information on borrowers. Over the last year, India eased restrictions on access to local capital markets with foreign individuals allowed to invest directly (from 2012).

- *Public sector reform.* Responsiveness has been relatively high among the OECD countries where improving the efficiency of government expenditure had been recommended, likely reflecting the need to consolidate public budgets. General public sector reforms have included a rationalisation of public services (Hungary and Portugal) and introducing performance assessment (Portugal). Efficiency-enhancing public sector reforms have taken place in the healthcare sector through the re-organisation of public providers and the introduction of benchmarking (Hungary and New Zealand), patient co-payments (the Czech Republic) or the decentralisation of expenditures to enhance cost-awareness (New Zealand and the United Kingdom). Broader healthcare sector reforms have been recommended for Switzerland, the United States and Russia. The 2010 reform in the United States made health insurance compulsory and provided means-tested subsidies for its purchase. Switzerland has been enhancing cost-effectiveness in the pharmaceutical sector by increasing co-payments on branded drugs and by progressively introducing diagnosis-related funding in the hospital sector. Since 2011, the Russian Federation has allowed citizens to choose a primary care doctor and an insurance company within the mandatory insurance system. No significant progress has been registered in Iceland with respect to public sector reform.
- *Public infrastructure.* Addressing public infrastructure deficiencies has been a priority for several OECD and large emerging countries. Against the background of fiscal adjustment needs, raising expenditure on infrastructure has proven more challenging in the aftermath of crisis-related fiscal stimulus packages implemented in most OECD countries in 2008 and 2009 (see Chapter 1 in OECD, 2010a). Policies to make cost-effective use of existing infrastructure have included the introduction of a combined property and water charge in 2012 (and meter-based water charges scheduled for 2013) in Ireland and the introduction of toll roads to restrain demand in Australia and New Zealand. Australia also focused on enhancing transparency in the selection of projects through the publication of cost-benefit analyses and *ex post* evaluation mechanisms. While the UK

government halted the trend increase in public investment amid austerity measures, Poland could rely on EU structural funds to continue upgrading its transport and communication infrastructure. In emerging economies, where enhancing infrastructure provision is key to boosting living standards and where public finances are generally in better shape, public spending on infrastructure continued to rise. At the same time, though, backtracking took place with respect to the opening of infrastructure industries to foreign investors, with India raising limits for foreign institutional investment in debt issued by Indian infrastructure companies and Brazil restricting private equity participation in the oil and gas sectors.

- *Innovation-promoting policies*. As a key driver of long-term growth, innovation-related reforms have been recommended in seven OECD countries and in the Russian Federation as well as in China, where the focus was to speed up absorption of existing technology. As in the past, policy responsiveness has been rather high in this area, although it has declined more recently. All countries concerned followed up on *Going for Growth* recommendations since 2007 by raising public support for R&D activities through tax credits (Ireland and Italy), public grants (New Zealand) or subsidies targeted at innovative SMEs (Slovak Republic), as well as by strengthening university-industry linkages (Canada, Ireland, Japan and New Zealand) and better protecting intellectual property rights (Korea). In Russia, the recent creation of the Skolkovo "innovation city" may help improve innovation policy in the future, but with the risk of increasingly "picking the winners" through public support.

In some lower-income OECD countries (*e.g.* Mexico) and the BRIICS, a number of more specific productivity-enhancing policy initiatives have been recommended, such as land regulation, governance and legal reforms that would help strengthen the rule of law, clarify property rights and fight corruption, or phasing out of distortive energy subsidies. Action has been rather limited since 2011, when corresponding priorities were set. India and Indonesia have introduced reforms aimed at streamlining land acquisition processes. Since 2011 in Russia, all draft legislation is required to be subject to regulatory impact analysis, in order to identify unjustified bureaucratic interference in private sector activities and thereby reduce corruption risk. The new Mediation law introduced in China in 2011 should strengthen the judicial system by providing a firm basis to the first level dispute resolution mechanism commonly used at the local level for the resolution of private disputes. Little progress has taken place since 2011 in Indonesia and Mexico to improve governance systems. Energy subsidies were increased in Indonesia in 2011 compared to what was planned in the initial Budget, at odds with the corresponding *Going for Growth* priority.

### *Green Growth*

*Going for Growth* priorities are aimed at promoting long-run growth, and a number of them would also boost *Green Growth* and contribute to environmental sustainability including *inter alia* in the areas of innovation, taxes and infrastructure. Responsiveness to *Going for Growth* priorities has been pro-*Green Growth* in a number of policy areas, among which:

- *Tax reforms*, where the focus was on reducing direct taxes by partly shifting the tax burden on environmental taxation. Germany lowered unemployment insurance contributions over the 2007-09 period while introducing a $CO_2$ element in the vehicle tax in 2009, and Finland cut income tax and social security contributions during the

recession while increasing energy taxes. Other countries have been introducing carbon emission trading schemes, such as New Zealand. To the extent that the underlying trading permits are auctioned, such schemes could also be part of a growth-friendly tax reform package.

- *Public infrastructure reforms*, where the focus was on reducing $CO_2$ emissions and road congestion and curbing demand through price incentives more broadly. Water charges are being introduced in Ireland (in 2012 as a lump sum per household and in 2013 meter-based). Australia is developing a system of smart managed motorways embedding technologies aimed at improving traffic demand management in major cities, and New Zealand opened a toll road in 2009.

### *Notes*

1. Several broader measures of well-being are being developed in the context of the OECD-wide work on measuring well-being and progress. Highlights of this work are provided by the OECD Better Life Initiative, which so far includes the 2011 report "How's life?" and the interactive wellbeing assessment tool "Your Better Life Index". Some measures that extend GDP numbers to non-market production, and thereby may come closer to indicators of well-being, have been explored in last year's edition of Going for Growth. While many alternative well-being measures are correlated with GDP per capita (see OECD, 2006, *Going for Growth* 2006), broader measures are important complements to evaluate issues such as, for example, income distribution, poverty, or environmental sustainability. On the latter issue, the OECD is providing analytical tools and policy recommendations to foster green growth, which will progressively be integrated in the Going for Growth exercise (see OECD, 2011a) starting with next year's edition.
2. See special chapter on the crisis-related policy interventions in *Going for Growth* 2010 (Chapter 1 in OECD, 2010a).
3. See Chapter 2 of *OECD Employment Outlook 2010* (OECD, 2010b) for a discussion on the impact of the crisis on emerging economies and the role of labour market and social policies to support affected workers and their families.
4. See Annex 1.A1 for a detailed presentation of the methodology used to select the priorities.
5. Box 2.2 in *Going for Growth 2010* (OECD, 2010a) discusses the caveats associated with reform intensity indicators.
6. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
7. Roughly comparable reform patterns emerge from a concomitant survey carried over the same period by the Business and Industry Advisory Committee to the OECD (BIAC) in its Member and Observer organisations – *i.e.* the major national business and employer organisations in OECD countries and certain emerging economies. The latter survey suggests that BIAC Member/Observer organisations perceive that most *Going for Growth* priorities have been addressed. Indeed, 69% of the reform priorities are considered to have been partly implemented since 2007, which is consistent with significant reform activity over the period considered. BIAC Member/Observer organisations rarely consider that *Going for Growth* recommendations have been *fully* implemented, in line with the current finding that policy action has been often piecemeal and that it rarely would imply the removal of the corresponding priority.
8. See also the latest Economic Survey on Greece (OECD 2011c).
9. The scatter excludes the four countries that had either no or only one labour-utilisation enhancing priority.
10. Based on *OECD Economic Outlook 90* projections.
11. This finding is in contrast with past experience and empirical evidence, *e.g.* with Duval (2008) who found significant evidence of a general trade-off between undertaking reforms and consolidating public budgets.

12. Hungary achieved considerable progress in reducing labour taxation over the last two years, and, more recently, it even introduced a flat-rate personal income tax. While boosting labour utilisation in principle, such reform as implemented has been highly regressive and raises fiscal sustainability concerns.
13. See (OECD, 2011e).
14. See de Serres *et al.* (2012) and OECD (2010c), *Sickness, Disability and Work: Breaking the Barriers – A Synthesis of Findings across OECD Countries*
15. The Netherlands and the United Kingdom have had some success in reversing the trend rise in disability rates during 2000s.
16. See Box 1.3 and Panels A and B of Chapter 1 of *OECD Employment Outlook 2011* (OECD, 2011d).
17. Other influential factors factors include population ageing, since disability prevalence increases with age.
18. See Chapter 1 of *OECD Employment Outlook 2011* on income support to job losers (OECD, 2011d).
19. See web annex of Chapter 1 of *Employment Outlook 2011* (OECD, 2011d), Table 1.A1.6.
20. See *OECD Employment Outlook 2010* (OECD, 2010b) for a detailed assessment of STW schemes in OECD countries.
21. The Spanish labour market crisis is a topical case. See Blanchard and Landier (2002), Bentolila *et al.* (2010) and de Serres *et al.* (2012).
22. Actions in this area do not need to imply comprehensive reforms. Moreover, the bulk of measures were actually taken over the period 2007-09, with some slowdown more recently.
23. See *e.g.* Box 1.1 in Chapter 1 of OECD (2011b) on financial market reform.

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## ANNEX 1.A1

# *How policy priorities are chosen for* Going for Growth

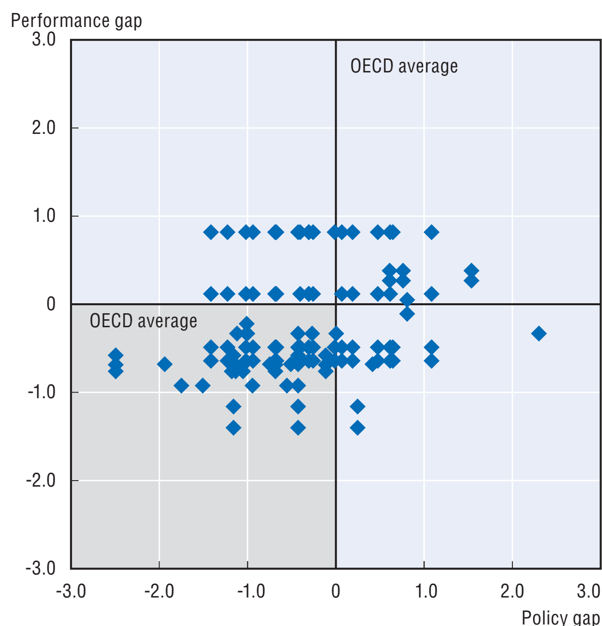
The *Going for Growth* structural surveillance exercise seeks to identify five policy priorities for each OECD member country, the BRIICS and the EU. Three of these policy priorities are identified based on internationally comparable OECD indicators of policy settings and performance. The additional two priorities are often supported by indicator-based evidence, but may draw principally on country-specific expertise. These priorities are meant to capture any potential policy imperatives in fields not covered by indicators.

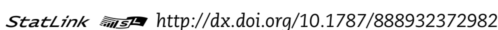
For the selection of the three indicator-based policy priorities, the starting point is a detailed examination of labour utilisation and productivity performance so as to uncover specific areas of relative strength and weakness. Each performance indicator is juxtaposed with corresponding policy indicators, where OECD empirical research has shown a robust link to performance, to determine where performance and policy weaknesses appear to be linked. This evaluation process is carried out for each of the approximately 50 areas where OECD policy indicators provide coverage.

As an example, Figure 1.A1.1 below shows, for a sample country, a scatter plot of pairings of policy indicators (on the horizontal axis) with corresponding performance indicators (on the vertical axis). Since many of the approximately 50 indicators are associated with more than one performance area, there are potentially more than 100 potential pairings to be examined. The indicators of policy and performance are standardised by re-scaling them so that each has a mean of zero and a cross-county standard deviation of one, with positive numbers representing positions more growth-friendly than the OECD average. The scatter plot is thus divided into four quadrants, depending on whether a country's policy-performance pairing is below or above the average policy or performance score.

Candidates for recommendations thus fall into the lower left quadrant, where policy indicators and corresponding performance are *both* below average. In most countries there are more than three unique policy areas that qualify as potential priorities (for instance, Germany had 16 candidates in the 2009 exercise). When there are more than three candidate policy priorities, the list has been narrowed using a combination of country expertise with the following criteria: *i*) the estimated quantitative impact of reforms in the policy area on GDP per capita as determined in previous OECD analysis, *ii*) the normalised distance of the policy stance from the benchmark (the OECD average), and *iii*) recent trends in policy and performance. The limit on the number of priorities means that for some countries, obvious policy imperatives may not be identified as priorities because other priorities are deemed as more important.

Figure 1.A1.1. **Example of selection of candidates for *Going for Growth* priorities**





StatLink http://dx.doi.org/10.1787/888932372982

The empirical research linking policy with performance includes a long series of studies carried out by the Secretariat as well as the academic literature. OECD studies include for instance the OECD (2003), OECD (1994) and its reappraisal (OECD, 2006). Carrying out empirical analysis to strengthen the underpinnings of *Going for Growth* recommendations is an ongoing process. Some new empirical evidence on the policy and institutional drivers of long-term economic growth for both OECD countries and the BRIICS is featured in Bouis *et. al.* (2011).

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