Economic Policy Reforms 2017
Going for Growth

Chapter 1

Overview of structural reform progress and identifying priorities in 2017

This chapter assesses the progress in structural reforms that countries have achieved in areas related to Going for Growth *policy recommendations over the period 2015-16. Against this background, it identifies OECD and selected non-OECD countries' new priority areas where structural reforms are needed to lift growth and make it more inclusive.*

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.

Main findings

- The pace of structural reforms has continued to slow over the past two years, and is now back to the pre-crisis level. This overall deceleration masks significant differences across countries:
  - In more than one-half of countries reform activity has slowed, while it has accelerated in one-third of the countries.
  - The slowdown has also extended to non-OECD countries, reversing the sustained reform pace that they had been displaying in previous years.
- The pace of reforms has slowed more markedly in policy areas with a particularly strong influence on labour productivity, such as education and innovation. This is a concern in light of the persistent and widespread decline in productivity growth.
- On the positive side, the number of reforms related to *Going for Growth* recommendations has risen with respect to objectives such as reducing barriers to the labour force, participation of women and fostering job creation through lower labour tax wedges, in particular for low-wage workers. In both areas, there remains scope for further actions.
- Governments have generally tended to concentrate reforms efforts in specific policy areas, indicating that potential gains from policy synergies and reform complementarities are being missed. But a better packaging of reforms would ease implementation, maximise their growth and job-creation impact and also improve distributional outcomes at the same time.
- New policy priorities and strategies to achieve the objectives of strong and, for the first time in this publication, inclusive growth, are presented in this Chapter. Given the importance of productivity for long-term living standards, more priorities to improve performance in this area and to ensure that the gains are widely shared across the population are identified. Measures in the domains of education, product market competition and public infrastructure are particularly emphasised.
- There can be strong synergies between the pursuit of productivity and employment growth on the one hand, and inclusiveness on the other. In fact, if properly and comprehensively implemented, nearly half of the policy priorities put forward in this Chapter would lead to higher and more widely shared income gains.
- Facilitating the entry and growth of innovative firms, promoting a more equal access to high-quality education, as well as the inclusion of women and migrants in the labour market, boosting investment in infrastructure and improving the training of workers and activation policies, are all part of the most common policy challenges identified in this publication to achieve stronger and more inclusive growth.

Introduction

For many countries, advanced and emerging-market economies alike, the risk of being caught in a low-growth trap with rising inequality has become all too real. Avoiding or escaping such outcome requires comprehensive and coherent actions from both macro and structural policies. The prime objective of *Going for Growth* is to help policy makers identify coherent structural reform strategies across a broad range of policy areas in order to achieve strong and – for the first time in this publication – inclusive growth.

For the last 12 years, using a systematic monitoring of policies with a proven link to performance, the *Going for Growth* framework has identified five policy priority areas to achieve stronger economic growth for each OECD country, as well as for selected non-member countries. The priorities are identified on the basis of the potential impact of specific policy changes on long-term material living standards, through improved productivity and employment performance. Such potential impact from specific reforms is assessed through the joint comparison of performance and policies across countries, based on a broad set of quantitative indicators and the qualitative judgment of OECD country experts. The result of this process is a set of recommendations spanning a wide range of areas and which contributes to policy discussions, both within and between member countries, and in particular in the context of the G20 regular work programme.

Economic growth is fundamental to enhance well-being, but it cannot alone capture the multi-dimensional nature of well-being. This point has been underscored in recent years by rising inequality in many countries, raising concerns that many people are being excluded from the fruits of economic growth. Policy makers therefore increasingly need to meet the challenges of ensuring that prosperity is widely shared, that everyone has good access to opportunities for a better life (through, for example, education, health care and freedom from discrimination), and that our economies are environmentally and socially sustainable. Accordingly, the OECD has been shifting its policy focus towards much broader measures of economic performance, as described in the *OECD Initiative on Inclusive Growth* (OECD, 2014a). While *Going for Growth* has dealt with some of these issues in the past (OECD, 2006, 2012a and 2013), the 2017 exercise introduces a new framework that integrates inclusiveness in the selection of policy priorities and recommendations.[1] The result from this new framework is, for each country, a set of five policy priorities to promote inclusive growth (Chapter 3). While the main challenges vary across OECD and emerging economies according to country-specific circumstances, the 10 most common priorities are highlighted in the final section of this Chapter.

Progress on reform priorities since 2015

Measuring progress on priorities

As an indicative assessment of reform intensity across time and countries, a "responsiveness rate" is constructed for each individual priority area and for each country. The indicator measures the share of total policy recommendations formulated in the last issue of *Going for Growth* on which governments in each country have taken some action. It considers only legislated changes as opposed to announced changes (Box 1.1).

Overview of progress on reform priorities

The pace of reform has continued to slow in OECD countries (Figure 1.1). Signs of reform slowdown were already identified in recent issues of *Going for Growth* (OECD, 2015a and OECD, 2016a), and this publication confirms such deceleration, with a pace of reform now back to the pre-crisis level. Moreover, the slowdown has now extended to non-member countries, reversing the earlier trend of an increasing reform pace (OECD, 2015a).

Box 1.1. **A qualitative indicator of reform action**

The reform responsiveness rate indicator is based on a scoring system in which recommendations set in the previous issue of *Going for Growth* take a value of one if ”significant” action is taken and zero if not. An action is considered as “significant” if the associated reform addresses the underlying policy recommendation and if it is actually legislated; reforms that have not gone beyond the stage of announcement are not taken into account.

Given that a single priority may entail more than one specific recommendation, the scoring is often based on more than one reform opportunity per priority area. For example, product market priorities can cover both economy-wide barriers (e.g. excessive or non-transparent administrative burdens) as well as industry-specific barriers (e.g. weak competition in retail trade); in turn, such priorities can cover different industries (e.g. retail trade and electricity). Changes may occur in one area only or in several areas. This is reflected in the scoring system rate by assessing reform responsiveness at the detailed level of policy areas for each recommendations (corresponding to reform opportunities) within each priority.

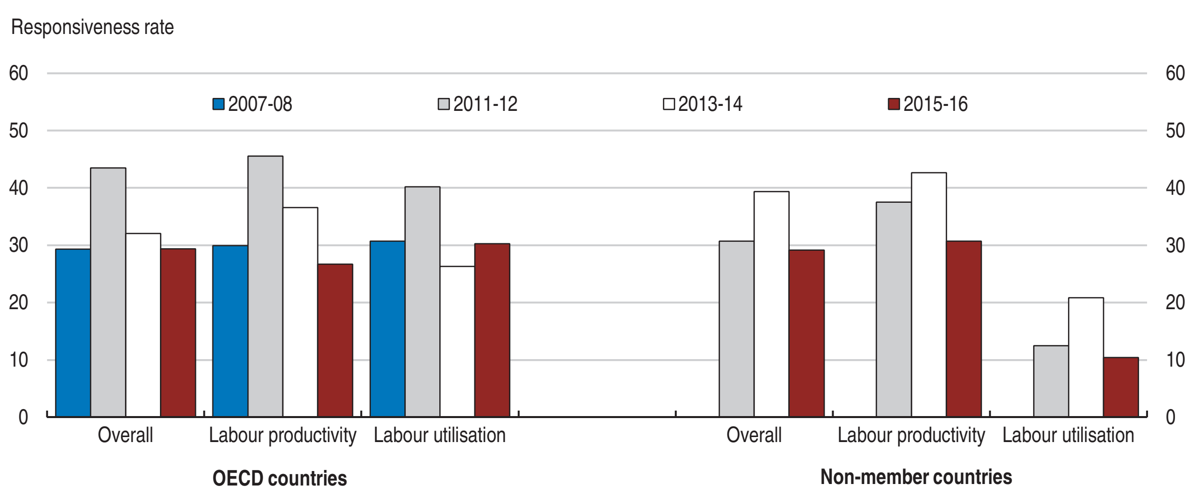
As a measure of the extent to which countries have followed up on *Going for Growth* recommendations, the indicator does not aim to assess overall reform intensity per se, which would imply accounting for reforms carried out in areas not identified as priorities and quantifying the importance of each individual measure, nor does it aim to assess effective reform implementation. But despite these limitations, its direct comparability across countries and its timeliness make this indicator a valuable tool to assess progress made in structural reforms across countries.

The following section focuses on actions taken on recommendations formulated in early 2015; hence it covers actions taken over two years (2015 and 2016). It also offers a partial comparison with the previous 2-year period i.e. reform responsiveness over the period 2013-14. Reform responsiveness cannot be assessed for Argentina, Costa Rica and Lithuania, because priorities are being identified in 2017 for the first time for those countries.

For more details see Box 2.2 and Annex 1.A1 in OECD (2010).

Figure 1.1. **The pace of reforms has further declined driven by a slowdown in productivity-enhancing reforms**

Responsiveness to *Going for Growth* recommendations across the OECD and non-member countries[1]



1. Non-OECD countries refer to BRIICS countries and Colombia. Exclude the Russian Federation in 2015-16.

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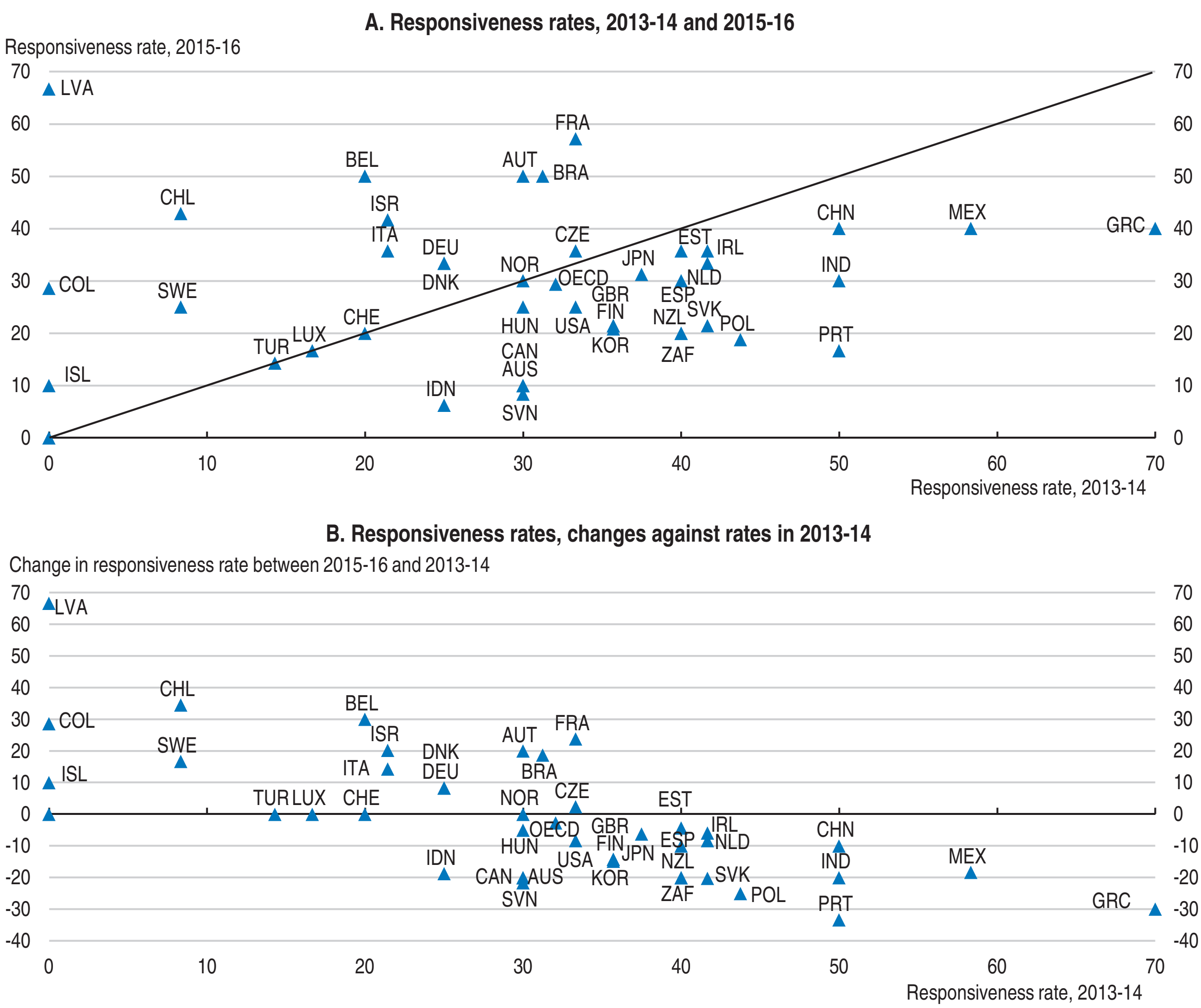
This general slowdown is driven by a marked decrease in the number of actions taken to boost labour productivity among OECD countries. In comparison, the pace of actions taken to raise labour utilisation increased slightly. In non-member countries, reforms in both areas have decelerated significantly.

The pace of reform has not slowed in all countries (Figure 1.2, Panel A). It did so in more than one-half of countries, whereas it either stayed unchanged or accelerated (in about equal numbers) in the remaining countries. In some cases, it even accelerated significantly (e.g. Austria, Belgium and France). Generally, the slowdown is more pronounced in countries that exhibited the highest levels of reform responsiveness in 2013-14 (Figure 1.2, Panel B), leading to some convergence across countries, as described in OECD (2015a).

Figure 1.2. **The pace of reform has slowed in more than half of the countries but has accelerated in some**

Responsiveness to *Going for Growth* recommendations[1]



1. For Colombia and Latvia there is no responsiveness rate computed for 2013 and 2014.

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The precise reasons for such a slowdown are not easy to pin down, but a number of explanations can be put forward. First, in the countries that went through a very intense phase of reforms in previous years, in particular between 2011 and 2013, the slowdown can be attributed to the need for governments to concentrate on the effective implementation and monitoring of those earlier major reforms. Some of the reforms have entailed complex and challenging institutional and legislative changes, requiring secondary legislation, the transmission of laws from central to local governments, while facing court challenges and insufficient or ineffective administrative capacity. For example:

- Italy initiated the implementation of an ambitious reform agenda, whose implementation requires boosting significantly the efficiency of its public administration and improving the judicial system (OECD, 2015b).
- In Spain, the implementation of the Market Unity Law is challenging, both technically, due to the complexity of dealing with a large body of regulation, and politically, due to the resistance by some regions (OECD, 2014b).
- Some planned reforms, such as Sunday shop opening in Greece or the liberalisation of professional services in Spain, either have not been fully implemented or have been significantly delayed, with unclear prospects regarding their eventual implementation.

Another potential factor is the lack of perceived benefits from earlier reforms, potentially because reforms have been undertaken in piecemeal fashion instead of comprehensively. The benefits from many types of reforms may take far longer to materialise in a context of persistently weak demand and uncertain growth prospects (OECD, 2016a). Widespread uncertainties regarding the global short- and medium-term outlook, as well as cash-flow constraints facing many SMEs and a difficult access to credit for would-be entrepreneurs, can offset the positive impact that reforms would otherwise have on investment and consumption. In turn, the gap between the perceived intensity of reform efforts and the lack of perceived benefits undermines the trust of citizens in governments' reform agendas and capacity to implement them, raising political resistance to continued efforts.

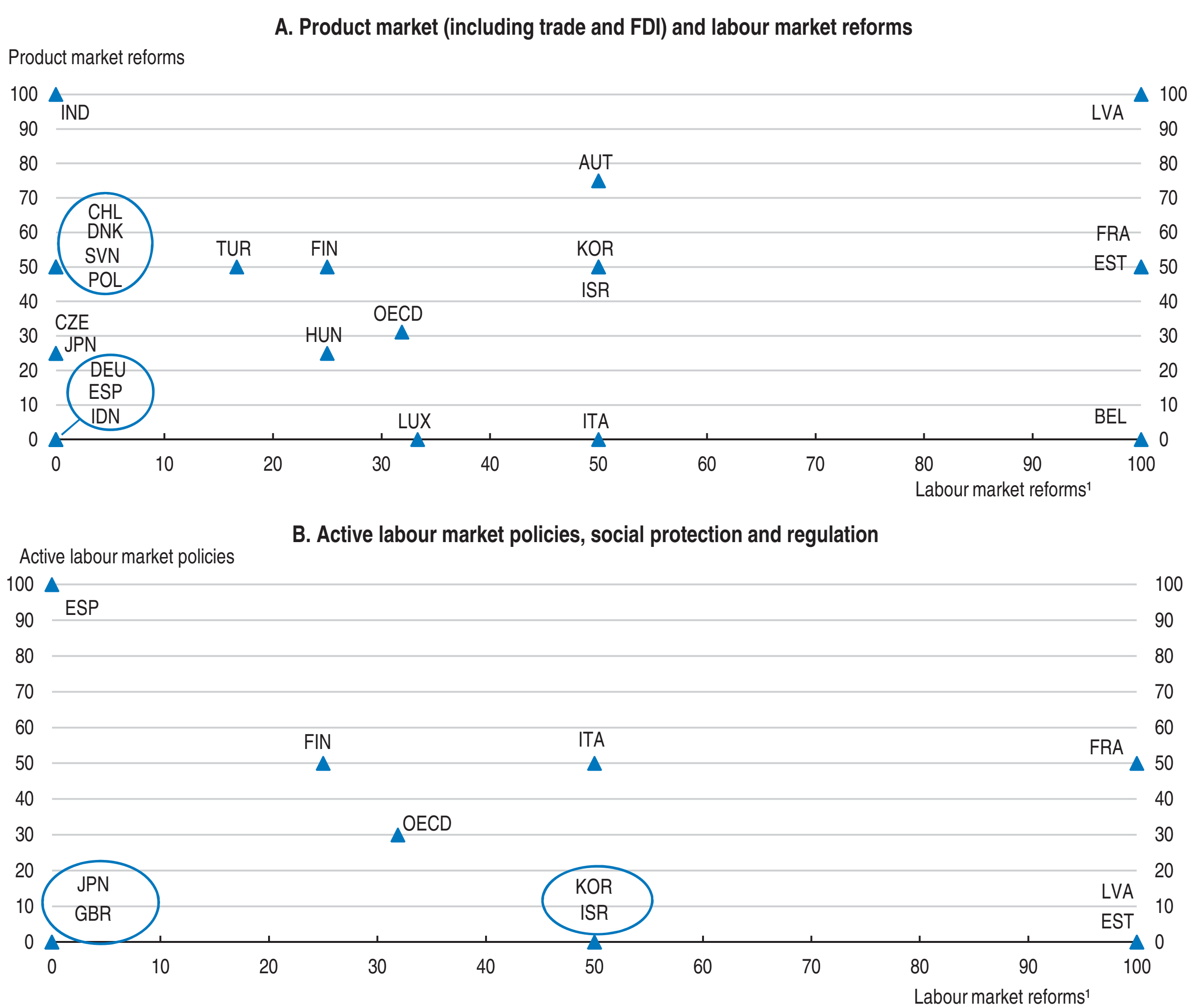
- Trust in governments has indeed deteriorated strongly in many OECD countries (OECD, 2015c). On average only 40% of OECD citizens trust their governments, with this level being even only 20% in some countries. In addition to the perceived lack of benefits from reforms, trust levels can be affected by various factors, such as the economic outlook, the social situation or inadequate behaviour by government representatives and misuses of public resources.
- Yet, higher trust in governments can facilitate reform implementation, not least by lowering transaction costs in economic relationships (Fukuyama, 1995). In a low-trust climate, citizens tend to prioritise immediate, appropriable and partial benefits, which may induce politicians to seek short-term and opportunistic gains through free-riding and populist attitudes (Gyorffy, 2013). Winning trust back is thus essential and, for that, increasing the efficiency of public administration and fostering the rule of law are fundamental, as reflected in the *Going for Growth* recommendations in those areas, which have become more common.

In such a context, the stance of macroeconomic policies can play a crucial role in facilitating or slowing structural reforms' implementation. While the fiscal stance has recently become slightly more supportive, there is still room for further support in several OECD countries. In particular, there is a pressing need in many countries to expand public investment, reflecting the extent to which infrastructure spending, including necessary maintenance, was deferred as part of past consolidation efforts (OECD, 2016c). As a result there are more *Going for Growth* recommendations in the area of infrastructure than in the past. Monetary policy remains highly accommodative but its effectiveness is still moderated by fragilities in the financial system, in particular in Europe, where a high incidence of non-performing loans impedes the capacity of banks to focus on new lending. In this regard, this issue of *Going for Growth* includes recommendations for some countries to move forward in the clean-up of banks to improve the credit flow.

In an environment of weak demand and lingering uncertainties regarding the near-term outlook, pursuing simultaneous and coherent reforms of product, labour and financial markets is particularly important to maximise the short-term gains. A poor or insufficient packaging of reforms can result in large up-front costs to aggregate demand and employment, which make implementation more difficult and less effective. An example is Greece, where much of the adjustment was borne by workers, while monopoly power and barriers to entry have remained in place in many sectors (OECD, 2016b). Moreover, recent evidence suggests that simultaneous reforms of labour and product markets are more growth enhancing than isolated reforms (OECD, 2016a).

Figure 1.3. **Synergies between product and labour markets reforms have not been fully exploited**

Responsiveness to *Going for Growth* recommendations, 2015-16



1. Average responsiveness on labour tax wedges, job protection legislation and retirement.

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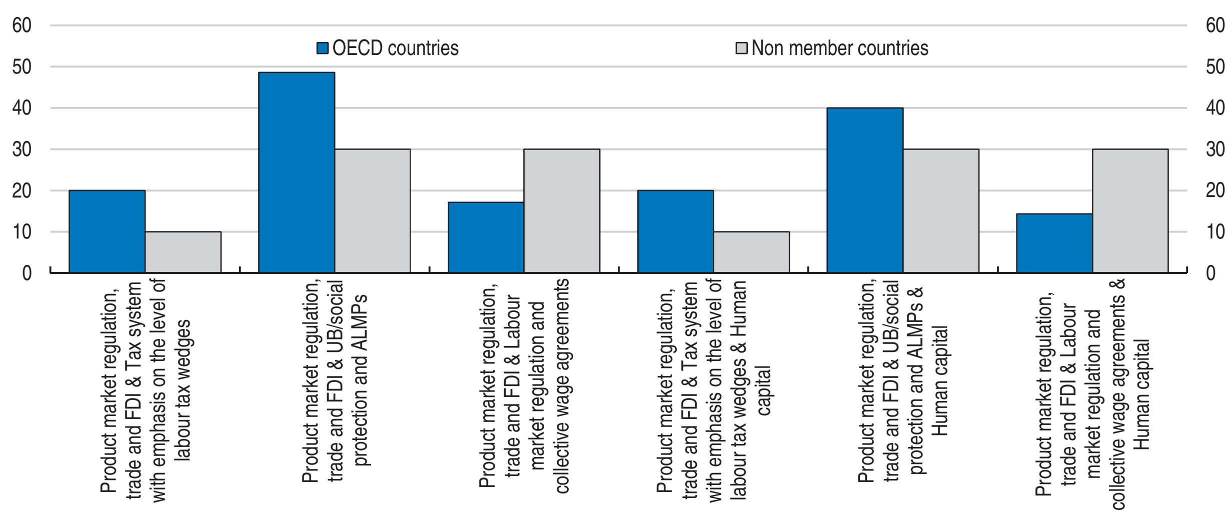
Going for Growth recommendations are generally formulated as part of an articulated and coherent policy package so as to maximise the benefits through synergies across multiple reform areas. Over the last two years, however, such reform packages have not been the norm. For example, reforms have been undertaken *either* in the labour market *or* product markets, but very rarely in both areas (Figure 1.3, Panel A). Among labour market policies, it is often advised to reform job protection and unemployment benefits in tandem with activation policies, such as job-search counselling, training and re-employment services (which together form the so-called active labour market policies – ALMPs). When properly designed, labour market reform packages can significantly attenuate, if not eliminate, negative inclusiveness outcomes that may arise when specific measures are introduced alone (see Chapter 3 in OECD, 2016e). However, the complementarities between such reforms have not been fully exploited either (Figure 1.3, Panel B). Overall, better co-ordination of reforms across different areas would ease implementation, maximise their impact in terms of growth, job-creation and equity at the same time. Hence, this issue of *Going for Growth* continues to emphasise the need for a consistent and comprehensive packaging of reforms to ensure both stronger and inclusive growth (Figure 1.4).

Figure 1.4. **The scope for reform packages with strong synergies is large in many countries**

Percentage of total number of countries, 2017



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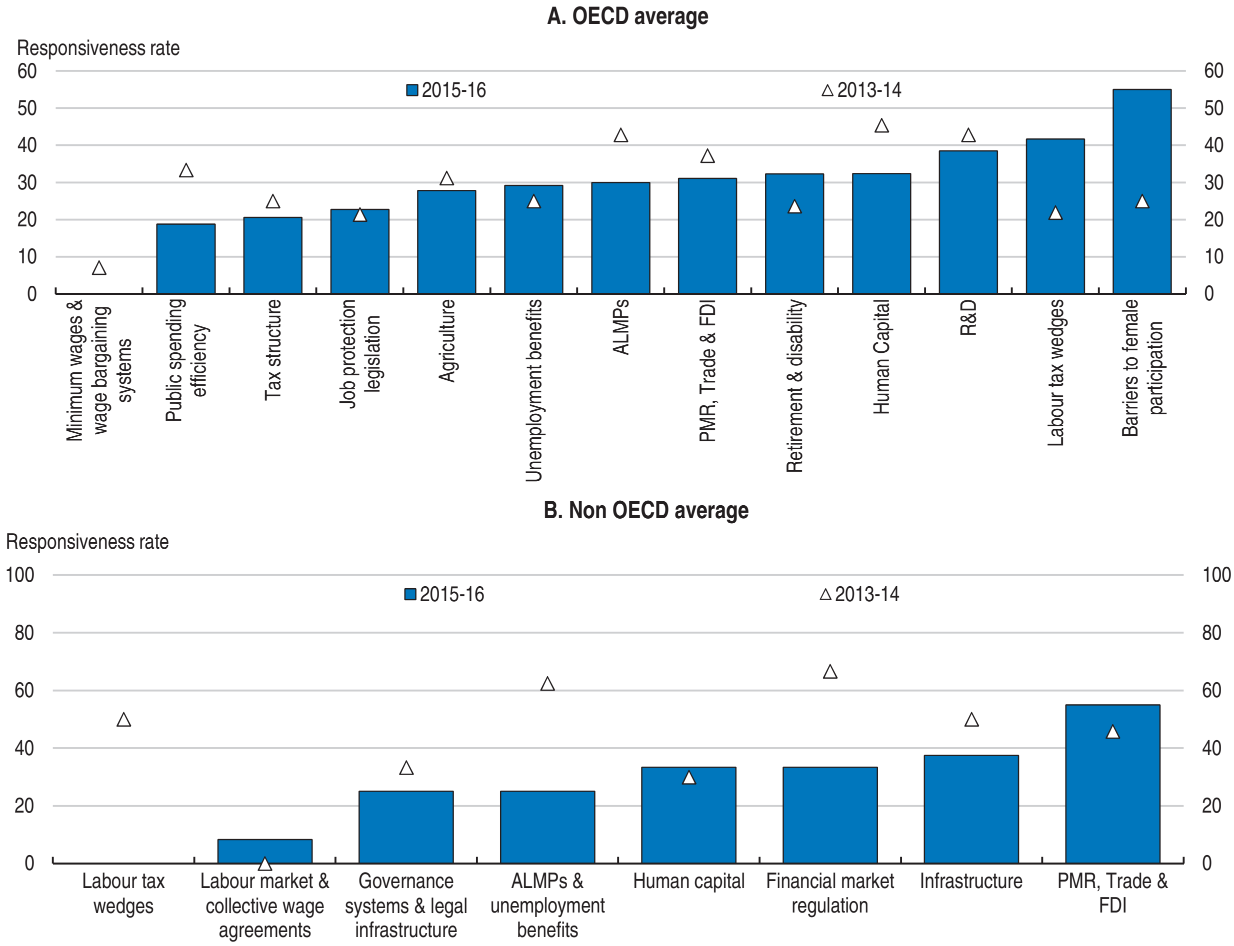
Reform progress across policy areas

While the pace of reform has slowed, significant differences across reform areas are observed among OECD countries (Figure 1.5, Panel A). Reform responsiveness has even increased significantly in two areas: reduction of barriers to full-time labour market participation of women and reduction of the labour tax wedge, especially for low-income earners. The significant progress in facilitating the labour force participation of women is welcome, given its significant positive impact on both economic growth (OECD, 2012) and income distribution (OECD, 2016d), thus contributing to make growth more inclusive (see also Chapter 2). Examples of countries being active in this area include Germany, the United Kingdom, Japan and the Slovak Republic, where governments boosted early childhood education and care. In Korea, incentives for fathers' take-up of parental leave have been increased.

Figure 1.5. **Less reform intensity in many areas but a notable effort to make the labour market more inclusive**

Responsiveness to *Going for Growth* recommendations across policy areas[1]



1. Non-OECD countries refer to BRIICS countries plus Colombia and excluding the Russian Federation for 2015-16.

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Notwithstanding this progress, eliminating barriers to the labour force participation of women remains a priority in this publication for all countries (except Ireland) where this was already the case in the previous *Going for Growth*. Further efforts in this area are thus warranted. The same applies to a large extent to labour taxation, for which action has been focused on reducing the labour tax wedge for low-wage workers. In many cases, this has been achieved via targeted reductions in social security contributions (e.g. Austria and Belgium), thus boosting employment among segments such as low-skilled workers or youth. Again, these welcomed steps towards a more efficient and inclusive labour market remain too limited or temporary (e.g. some recent cuts in social security contributions) to fully address the challenge. Hence, reducing the labour tax wedge remains prevalent in the reform agenda of OECD countries, including among those where some improvements have been made.

On the other hand, the pace of reform has declined significantly in the areas of human capital and active labour market policies. For human capital, the deceleration took place after several years of relatively high reform intensity. Implementation lags in the education area are long, and this can partly explain the slowdown in responsiveness since several countries are still in the process of implementing previously legislated education reforms (e.g. Spain). Still, efforts to improve policies have continued in some countries; in Germany, a mentoring programme to facilitate school-to-work transition and to reduce drop-out from school has been set-up; in Italy the government has introduced the "Good School" reform and has also reformed the vocational system; in the United States, standards across states have been established for primary and secondary education.

Concerning ALMPs, the responsiveness slowdown comes after intense reform activity in the aftermath of the crisis in response to the sharp increase in unemployment. With labour market conditions gradually improving, efforts to improve activation policies have lessened. Nevertheless, with many individuals still struggling to access jobs, notably among the low-skilled and youth, the slowdown is raising concerns, especially from the youth perspective considering the simultaneous deceleration in education reforms. Further efforts in this area are thus warranted, and indeed a number of countries have implemented reforms recently. For example, France stepped up individualised support and wage subsidies for young and low-qualified workers and also doubled training offers to the unemployed, while Ireland increased the support provided to the long-term unemployed with the involvement of private providers of activation services. However, for reforms in this area to be effective, measures must be taken to remove barriers to job creation, including policies to support aggregate demand.

Reform action also decelerated somewhat in the area of product markets, although it remains a high priority area in reform agendas. Denmark eased access to regulated professions and strengthened the competition authority, while Israel has started to submit to regulatory impact assessments all new laws likely to affect competition. Responsiveness has also fallen in innovation, after strong reform intensity in 2013-14, possibly reflecting the focus on completing the reforms introduced in earlier periods.

Reform activity was also relatively low in minimum wage and wage bargaining systems, areas where few countries have recommendations and where policy changes tend to occur sparsely. Major reforms to bargaining systems were already introduced in 2011-12 (e.g. Spain, Portugal and Greece) and governments should continue to monitor implementation of those reforms. In some cases, policy action has not taken the direction recommended in *Going for Growth* (e.g. the 30% rise in the minimum wage in Turkey). Little progress has been achieved also in reducing agriculture and energy subsidies, reflecting particularly strong and broadly-based resistance to reform in those areas.

In other areas, reform action either has kept a similar pace as in 2013-14 or increased slightly:

- For unemployment benefits and social policies, implemented reforms are very heterogeneous reflecting country-specific challenges. Thus, Korea expanded the coverage of social policies to non-regular workers, Italy introduced a universal unemployment insurance system, and Finland tightened work search requirements.
- Several countries have been active in reforming retirement and disability benefits. Belgium increased the minimum statutory retirement age and tightened early retirement schemes. Finland increased the retirement age to 65 by 2025 and linked it to life expectancy thereafter and also narrowed progressively early retirement paths. Austria increased incentives for those eligible for early pension to continue working, and Luxembourg improved medical checks to access early retirement through disability.

- Regarding reforms to enhance efficiency of the tax system, some countries have already raised consumption taxes in the past several years, limiting the scope for further increases, not least due to their potential detrimental short-term effects on more vulnerable households. Still, many OECD countries show ample room for enhancing the efficiency of their systems through greater use of other sources of indirect taxation such as property, environmental or inheritance taxes. Such shifts in the composition of the tax system can also have a positive impact on income distribution, if for instance increases in indirect taxes are implemented in tandem with cuts in labour taxes targeted at low-income earners. That is also the case of tax base broadening, i.e. closing tax loopholes that distort resource allocation and from which higher-income households tend to benefit most, such as mortgage interest rate deductibility (see Chapter 2).

Across non-OECD countries, the pace of reform has also been heterogeneous across areas (Figure 1.5, Panel B):

- Reforms of financial market regulations have markedly slowed down despite the need for basic liberalisation to sustain high growth. Nonetheless, measures to improve financial market efficiency have been adopted in the People's Republic of China, Brazil and India; China has formally liberalised interest rates, while in Brazil the financial support from the national development bank is being scaled back, which should facilitate the development of private long-term credit markets. India has made efforts to accelerate the resolution of non-performing loans and to increase financial inclusion.
- Reform efforts have also decelerated in the area of physical infrastructure, despite their low provisions in these countries. Some progress has been achieved in Brazil and Indonesia, where a new land acquisition regime is being implemented, as well as in Colombia, where roads concessions have finally started.
- Acceleration has been observed in the pace of product market reforms, not least due to steps taken by China to boost competition by curtailing price controls both at central and subnational levels, simplifying administrative procedures to set up firms and revamping the licensing system. India also took steps to lower the administrative burden on start-ups, both at the central government and state levels, to improve bankruptcy procedures and ease restrictions on foreign direct investment in many sectors.
- Little progress has been achieved to strengthen the legal infrastructure (rule of law, efficiency of the judicial system, protection of intellectual property rights) and basic institutions (public administration), despite being an important bottleneck for growth.

Recommendations to enhance labour utilisation are less frequent for non-OECD countries, and progress there has also decelerated. Indonesia introduced a cap on minimum wages, which will help to avoid further increases in informality but little progress has been observed in other countries with priorities in this area. Yet, the need for reforms to improve labour market conditions across non-OECD countries is widespread. Some of these countries enjoyed an economic expansion during the 2000s, driven by high commodity prices, which boosted the services sector, increased the demand for low-skilled labour and improved social outcomes. The end of the commodity cycle brought an acute need to boost labour market reforms so as to lock-in the earlier gains and achieve further progress. A common challenge across most non-OECD countries is the relatively high level of informality. Improving labour market regulations and fostering activation are much needed to address such challenges (see Chapter 2).

Performance challenges and reform priorities in 2017

For this publication, the selection of policy priorities is based on the newly extended *Going for Growth* framework, which goes beyond the drivers of growth by including measures of income inequality and other aspects of inclusiveness, so as to design growth strategies with an explicit eye toward the distribution of the gains to all citizens (see Box 1.2 and Chapter 2 for a more detailed presentation). The section first starts with a brief overview of performance challenges, focusing on gaps in productivity, labour utilisation and income inequality. It is followed by a snapshot of changes in policy priorities between 2015 and 2017, and a summary of the recommendations advocated in this publication, focusing on the ten most prevalent policy challenges that countries are facing. A more detailed discussion of the rationale for the selected policy priorities is provided in Chapter 3, which contains individual country notes laying out the concrete recommendations to address the challenges that each country faces.

Box 1.2. **Selection of policy priorities in the extended *Going for Growth* framework**

The extended *Going for Growth* framework identifies five policy priorities to boost long-term material living standards and to ensure that the gains are broadly shared across populations (see figure opposite). The purpose is to design equity-friendly growth strategies for every country covered, taking into account country-specific challenges and social preferences. Thus, the framework for selecting policy priorities now considers inclusiveness as a prime objective, alongside productivity and employment.

For both productivity and labour utilisation, measures of outcomes are juxtaposed with corresponding policy indicators, where empirical research has shown a robust link to performance, to determine where performance and policy weaknesses appear to be linked. For instance, based on empirical evidence, multifactor productivity growth (performance indicator) is matched with specific areas of product market regulation such as administrative burdens on startups or barriers to entry in professional services (policy indicators). In the case of labour utilisation, aggregate employment (performance indicator) is paired for example with the level of the labour tax wedge (policy indicator), while the employment rate of women (performance indicator) is matched with childcare-related costs embedded in tax and benefits systems (policy indicator).

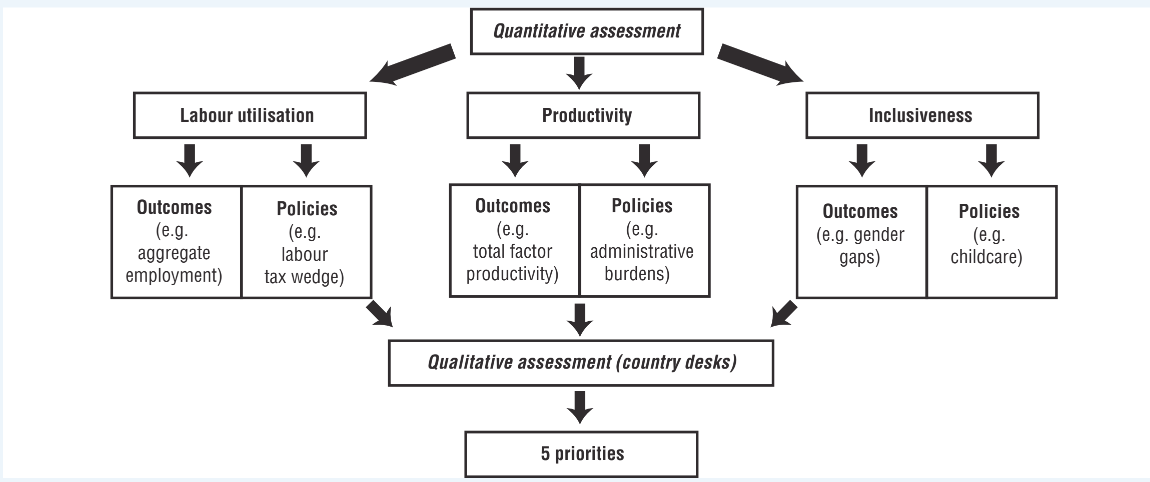
The same principle applies to inclusiveness, which is formally integrated as a policy objective for the first time in this exercise. The integration of inclusiveness is based on a dashboard of inclusiveness indicators encompassing a number of income and non-income dimensions such as inequality and poverty, job quantity and job quality, along with labour market inclusion of vulnerable groups, gender gaps and equity in education. As for productivity and employment, a set of inclusiveness indicators is matched with corresponding policy indicators, for whom empirical research has shown a robust link, to determine where performance weaknesses are a potential reflection of policy weaknesses (see Chapter 2).

The identification of country-specific reform priorities, as well as the formulation of underlying recommendations, then continues to build on a "mixed" approach combining a quantitative assessment and a qualitative assessment of policy priorities. Based on the quantitative assessment, potential policy priorities are identified in areas where indicators show a country being well below the OECD average in both performance and related policy settings. The further away a country is from OECD average in a specific performance area, the more likely related policy settings will be selected among priorities if they are also found to be distant from good practice. These *quantitative* assessments of policies for potential top-priority status are then brought into the domain of *qualitative* analysis. The *qualitative* assessment of country-specific challenges is based on judgment and expertise provided by country specialists. In particular, the relative emphasis put on productivity, employment and inclusiveness in the mix of priorities of the growth and inclusiveness objectives is not based on a welfare function that should necessarily have to rely on an

Box 1.2. **Selection of policy priorities in the extended *Going for Growth* framework** *(cont.)*

arbitrary weighting of the different objectives. Instead, country expertise is used to assess their relative importance according to the evaluation made and the knowledge of country circumstances. The final outcome of the process delivers a set of five policy priorities to boost growth and make it more inclusive, tailored to country-specific challenges and context (see figure below).

The *Going for Growth* priority setting model



In order to ensure that priorities do reflect the most pressing challenges faced by countries, a new feature of *Going for Growth* is to allow for priorities to be dropped, even if insufficient progress has been achieved, in case new and more pressing priority areas have come up. Thus, based on country-specific expertise, new priorities have been introduced for some countries to reflect new challenges. The cases where previous priorities have been dropped while still remaining an area where further policy action is needed, are highlighted in the introductory section of the country notes. This is to remind readers that these remain areas of much needed policy actions, even if they are no longer among the top five.

Cross-country differences in living standards

Labour productivity

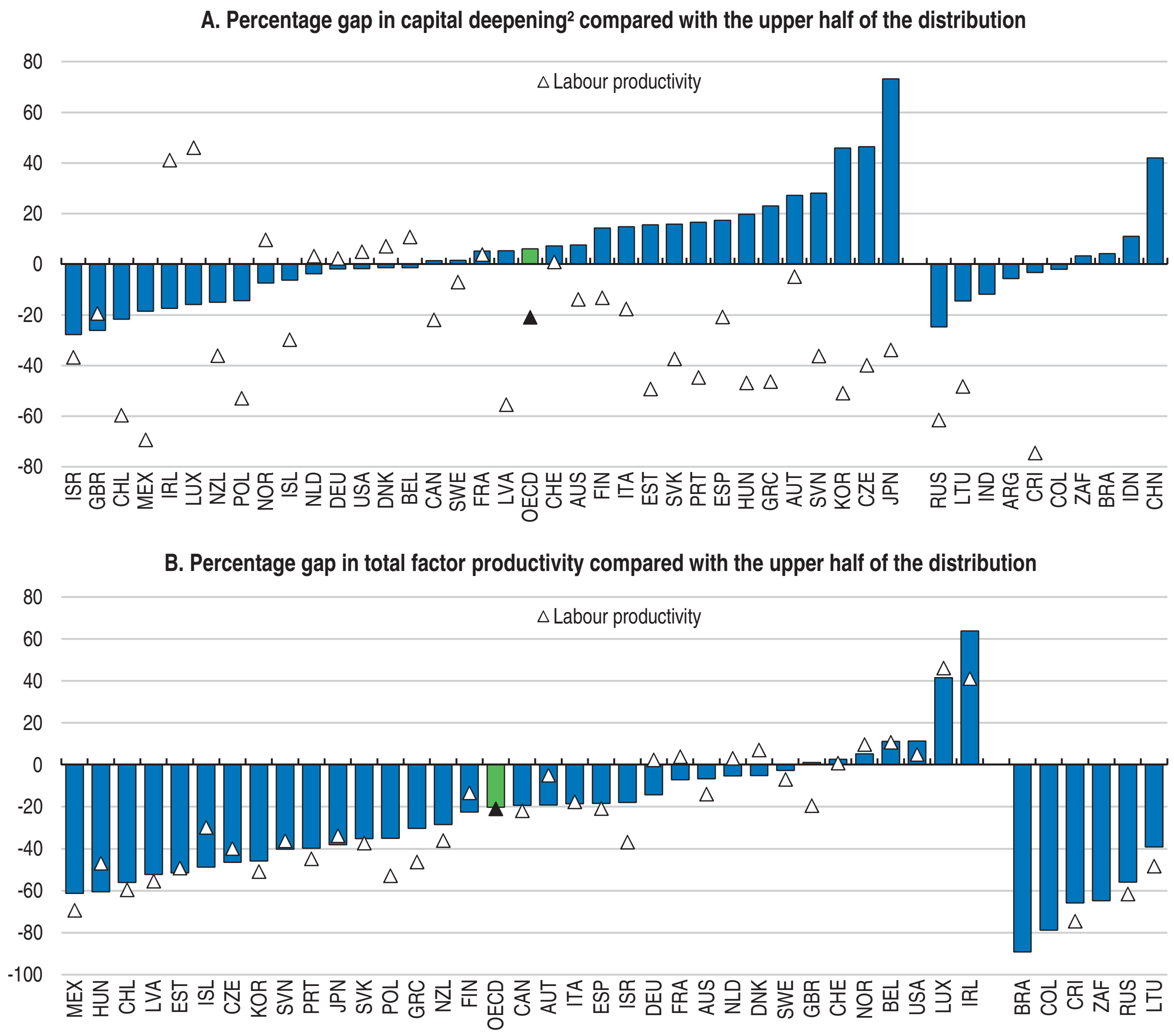
Productivity gains, which are the central driver of long-term and sustainable improvements in living standards, have persistently slowed in many advanced economies since the early 2000s, as well as in emerging economies more recently. This phenomenon has strengthened since the crisis, with labour productivity growth falling to very low rates in the large majority of OECD countries. A pessimistic view on this trend is that it carries a high risk of becoming permanent, with the characteristics of a "secular stagnation" (Summers, 2015). More optimistic views hold that the crisis has provided opportunities to boost long-term productivity through reallocation effects, i.e. by shifting resources away from inefficient sectors towards more productive ones. Such transitions are by nature protracted, but structural reforms such as those advocated in *Going for Growth* can help accelerate this reallocation.

Overall, cross-country differences in labour productivity can be decomposed into contributions from investment – or capital deepening – and total factor productivity (TFP).

Doing so shows that in most cases the magnitude of the gaps in levels is mostly accounted for by weak TFP (Figure 1.6). And while TFP growth has been positive during the recovery in a majority of countries, it remains sluggish and uneven. Despite some hurdles associated with its measurement,[2] TFP tends to reflect a more efficient use of inputs via improvements in the management of the production processes, research and development as well as innovation and its diffusion. As a result, policies conducive to a productivity revival include those that foster innovation at the global frontier, and more importantly, those that facilitate the diffusion of available technologies and knowledge from frontier firms to lagging ones.

Figure 1.6. **Differences in labour productivity across countries are mostly driven by TFP dispersion**[1]

2015



1. The gap in capital deepening is compared to the weighted average using population weights of the 17 OECD countries with highest labour productivity in 2015; the gap in labour productivity is compared to the weighted average using population weights of the 17 OECD countries with highest GDP per capita in 2015; the gap in total factor productivity is compared to the weighted average using population weights of the 17 OECD countries with highest labour productivity in 2015.
2. Capital deepening refers to the ratio of productive capital stocks over GDP (volume).

Source: OECD, *Economic Outlook Database*.

StatLink http://dx.doi.org/10.1787/888933454649

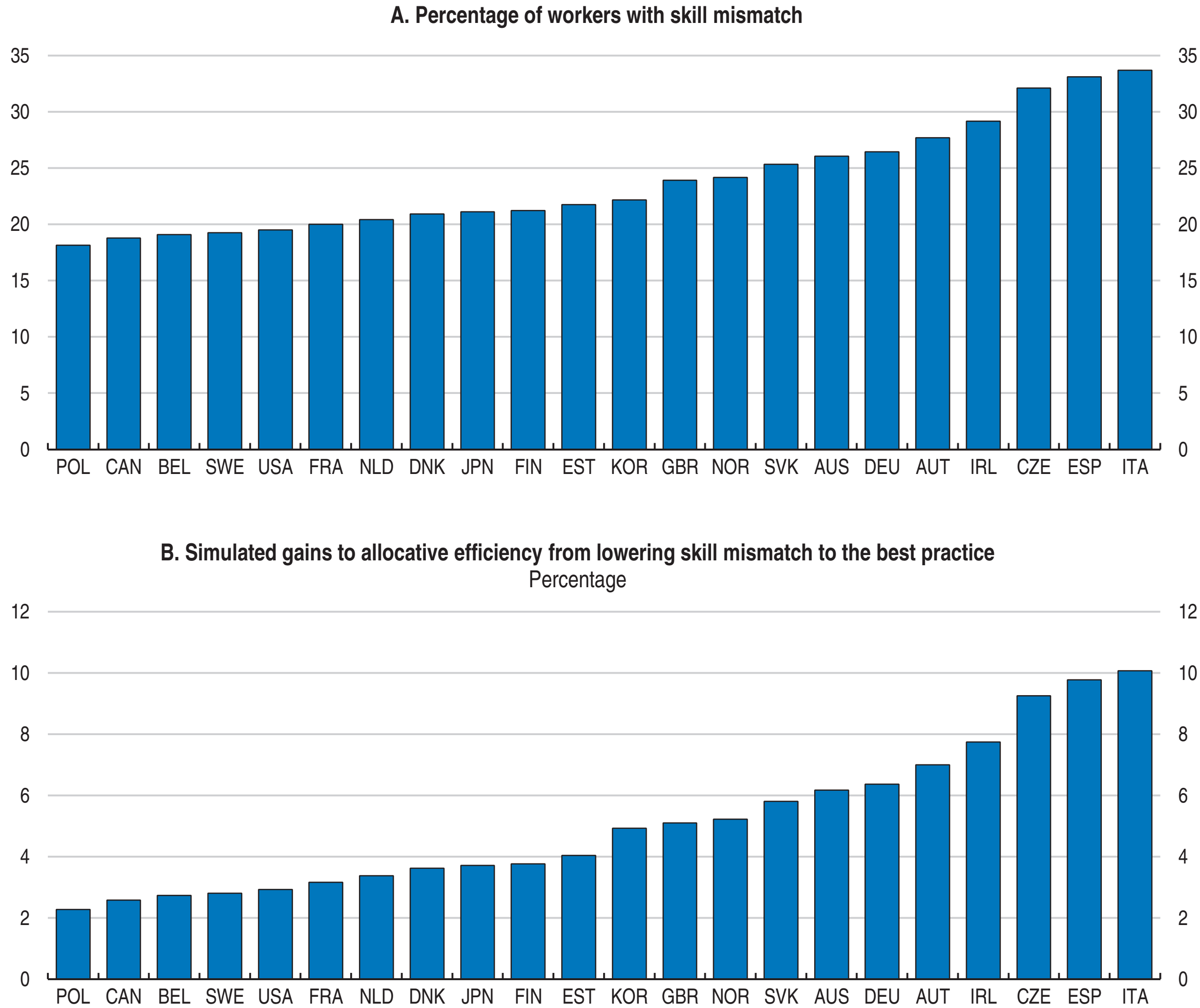
Some of the key factors shaping the effectiveness of diffusion include global connections (cross-border trade and investment), investment in knowledge-based capital, and the efficiency with which the resources are allocated across firms and industries. These factors are in turn influenced by a number of structural policy settings, the most important of which include pro-competition reforms, with a particular attention to firm entry and exit, but also policies promoting collaboration among firms and universities (so that basic research can more easily benefit non-frontier firms), policies that provide better access to early-stage venture capital as well as those facilitating the mobility of labour, and a good matching between skills and job tasks (Saia, Andrews et al., 2015).

Strengthening the link between skills in the labour force and job requirements is indeed one example of a policy intervention where large productivity gains could be generated, given that skill mismatches are high in many OECD countries (Figure 1.7). On average, approximately one-quarter of workers report a mismatch between their existing skills and those required for their jobs in OECD countries, with important cross-country differences in the prevalence of mismatch, suggesting structural inefficiencies in the allocation of skills. OECD research suggests that reducing the skill mismatch in countries such as Italy and Spain would be associated with an increase in productivity of around 10%, while potential gains of around 3% are estimated for France and the United States (Adalet Mc Gowan and Andrews, 2015). Reforms that reduce regulatory barriers to firm entry and facilitating the exit of inefficient firms (through stronger efficiency of bankruptcy procedures) can improve productivity performance and reduce skill mismatch. Additionally, reforms that ease labour market restrictions and promote worker mobility, e.g. reduction in property transaction costs and the lowering of stringent planning restrictions can entail a double dividend, which is to raise employment by reducing the number of job vacancies going unfilled and boost productivity by facilitating a better matching of workers' skills and jobs tasks.

The slow pick-up in productivity since the crisis has been partly caused by the weak and uneven recovery in capital deepening (Figure 1.6). Despite the fact that several leading OECD countries experienced a contraction in capital deepening since 2010, (e.g. Japan, Germany and the United States), cross-country differences remain large as investment in lagging countries has been too weak to even partially close the gap. Low investment rates can be partly explained by the protracted weakness in aggregate demand following the financial crisis, which has been exacerbated by private sector deleveraging and cutbacks in public investment under the pressures from fiscal consolidation (Ollivaud et al., 2016). The countries experiencing the most severe downturns have also suffered the most marked slowdown in capital stock growth. One major concern is that continued weakness in demand has led to deterioration in potential output via weaker growth in the capital stock.

Public investment can help to boost demand and the capital stock, but it has fallen as a share of GDP relative to pre-crisis levels in nearly half of OECD countries for which data are readily available (Figure 1.8). In these countries, the fall typically accounts for more than one-fifth of the decrease in the share of total investment in GDP (Ollivaud et al., 2016). Falling government investment may not only have contributed to a direct reduction in the growth rate of the productive capital stock, but may also have had adverse indirect spill over effects on business investment and productivity. The effect of public investment on private sector investment and activity can be positive and large for example, public capital installed by local/regional governments, roads, railways and utilities (Bom and Lighart, 2014). While countries where government investment was cut back most sharply were also

Figure 1.7. **Reducing skill mismatch could generate substantial productivity gains in some countries**[1]



1. Panel A shows the percentage of workers who are either over- or under- skilled, for a sample of 11 market industries: manufacturing; electricity, gas, steam and air conditioning supply; water supply; construction; wholesale and retail trade; transportation and storage; accommodation and food service activities; information and communication; real estate activities; professional, scientific and technical activities, and administrative and support service activities. In order to abstract from differences in industrial structures across countries, the 1-digit industry level mismatch indicators are aggregated using a common set of weights based on industry employment shares for the United States. Panel B shows the difference between the actual allocative efficiency and a counterfactual allocative efficiency based on lowering of skill mismatch in each country to the best practice level, which implies a productivity gain of around 10% in Italy and 3% in the United States. The estimated coefficient of impact of mismatch on productivity is based on a sample of 19 countries for which both firm level productivity and mismatch data are available. While mismatch indicators are available for Australia, Canada and Ireland in the Survey of Adult Skills, the estimates gains to allocative efficiency for these three countries should be interpreted with caution to the extent that they are not included in the econometric analysis due to insufficient productivity data.

Source: Adalet McGowan, M. and D. Andrews (2015), "Skill Mismatch and Public Policy in OECD Countries", *OECD Economics Department Working Papers*, No. 1210.

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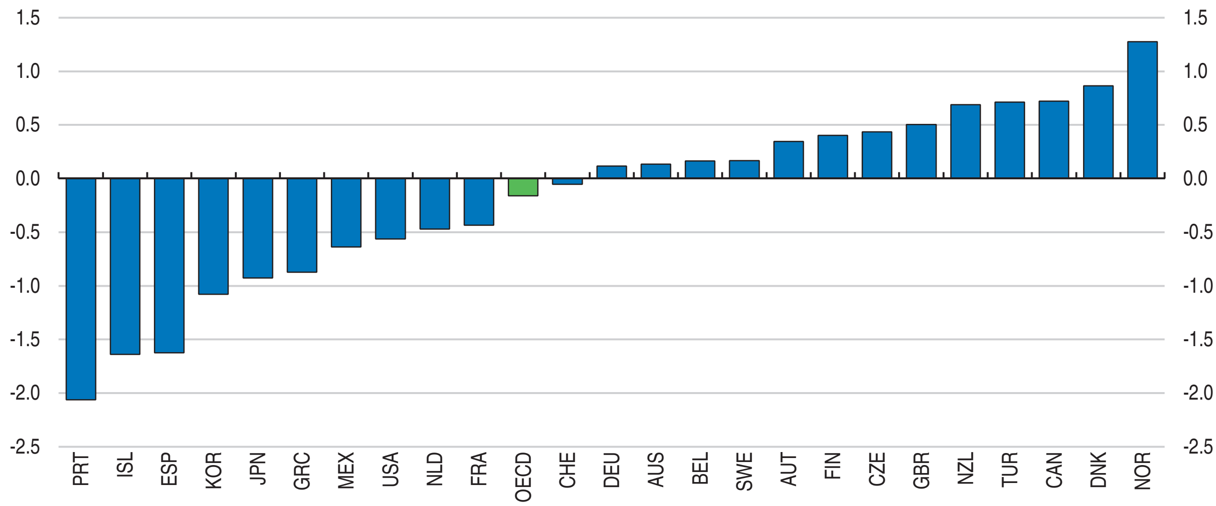
under the most pressure to undertake fiscal consolidations measures, the current context, with nominal interest rates at their zero lower bound, demand being constrained, and the risk of permanent loss of potential output, is likely to render additional investment spending by the government to be self-financing (Delong and Summers, 2012). Furthermore, the productivity gains from public investment are likely to be substantially greater during a downturn than what they are thought to be in normal times (Dabla-Norris et al., 2015).

Figure 1.8. **Public investment is still below the level of the early 2000s in many countries**

Percentage points difference in public investment between 2015 and the average over 2000-07[1]



1. The last available year is 2014 for Korea.

Source: OECD, *Economic Outlook Database.*

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Consistent with this evidence, priorities in individual countries in this area have been identified by the *Going for Growth* framework as part of the efforts to improve productivity performance.

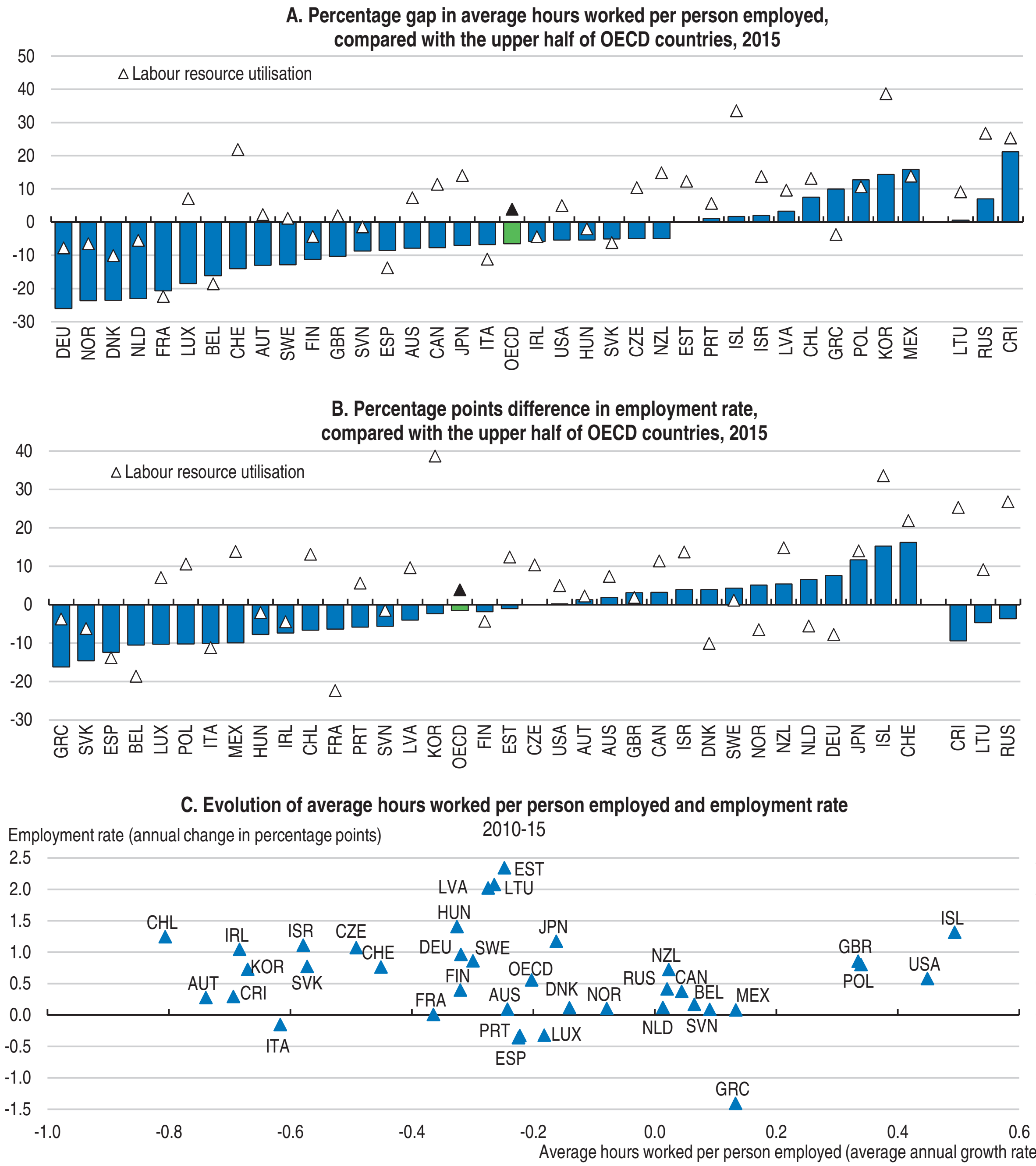
Labour utilisation

In several northern European countries (e.g. Belgium, Denmark, France, Germany and Spain), the gap in labour utilisation, i.e. the smaller number of hours worked per capita relative to the upper-half of OECD countries, is largely the result of low average hours worked per person employed. Employment rates are typically relatively high, although Belgium and France are characterised by both low employment and low hours worked (Figure 1.9, Panels A and B). Low hours worked often reflect policy impediments to full-time work, especially for lone parents and second earners. Removing these impediments, sometimes embedded in the tax and benefits systems (e.g. some features of joint income taxation or implicit marginal tax rates due to the withdrawal of benefits as hours worked increase), can also help to make the labour market more inclusive, notably by closing the gender wage gap.

By contrast, the gap in lower income countries, such as Greece and Turkey, is explained by low employment rates as average hours worked per employed person are relatively high. The weak employment rates of some countries are largely driven by low employment of specific groups, such as younger workers, women and those aged 55 and over. This can be partly attributed to policy impediments such as a strong duality between workers under contracts with strong protection and those under contracts with little protection, as well as little scope for on-the-job training.

Overall, progress in raising labour utilisation has been mixed in the aftermath of the crisis (Figure 1.9, Panel C). Aside from countries which have been hit the hardest by the crisis, employment rates have tended to rise over the past five years, reflecting the entry of second earners into the labour market to cushion households' income losses, and also because seniors have delayed retirement owing to a decrease in their pension savings, or to past reforms to both pension and early retirement systems. Unemployment rates have also

Figure 1.9. **The sources of differences in labour utilisation vary across groups of countries**[1]



1. The gap in average hours worked is compared to the weighted average using population weights of the 17 OECD countries with highest labour resource utilisation in 2015; the gap in labour resource utilisation is compared to the weighted average using population weights of the 17 OECD countries with highest GDP per capita in 2015; The percentage points difference in employment rate is compared to the weighted average using population weights of the 17 OECD countries with highest labour resource utilisation in 2015.

Source: OECD, *Productivity and Labour Force Statistics Database.*

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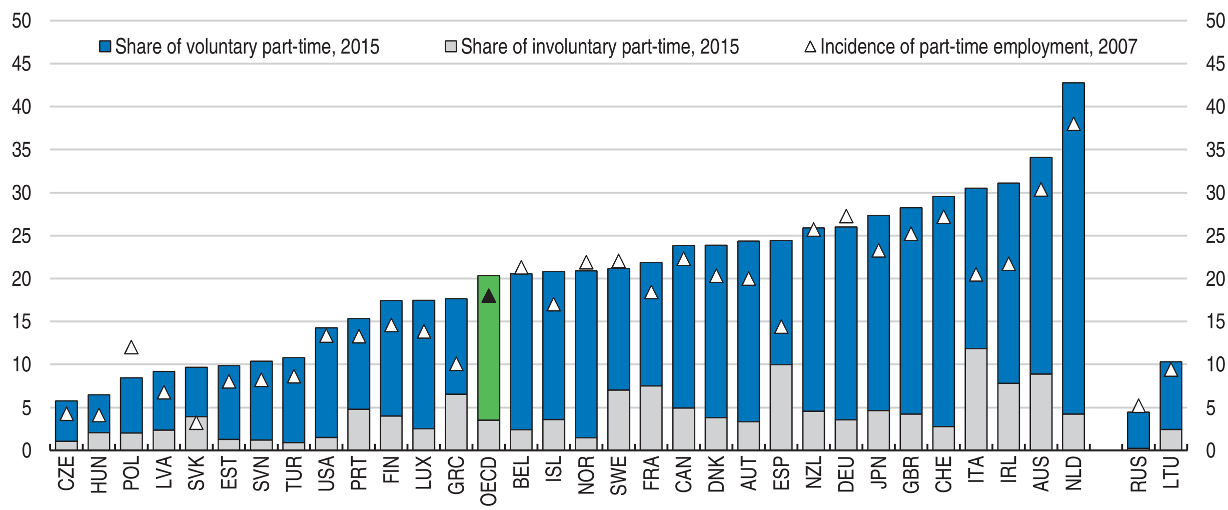
started to improve in countries hardest hit by the crisis, such as Spain or Portugal. Nevertheless, concerns remain strong for youth, with a high proportion being neither in education, nor in employment or training (NEET; see Chapter 2), and who may suffer long-lasting consequences from delayed or unsuccessful labour market entry. Similar concerns arise for the long-term unemployed, who risk becoming permanently disenfranchised from the labour market. The risk of premature withdrawal from the labour market for older workers also remains high, partly due to unfavourable policies that could be made more labour-market friendly and inclusive.

Furthermore, the overall increase in the proportion of people working has been at least partly offset by shorter average hours per person employed (Figure 1.9, Panel B), which reflects to some extent the increased incidence of part-time work (Figure 1.10). Across the OECD, about one in five employed persons worked part time in 2014 and the importance of part-time work has increased almost across the board since 2007. This increase largely takes the form of involuntary part-time work in the majority of countries, reflecting a shortage of opportunities for full-time employment. In particular, the share of part-time work that is involuntary is much higher in countries where the incidence of part-time work has sharply increased since the crisis (e.g. Italy and Spain), exceeding three-fifths of all part-time workers.

Figure 1.10. **The incidence of involuntary part-time employment has risen in several countries**[1]

Percentage of employment for 15 year-olds and over



1. For 2015, the incidence of part-time employment is split into its voluntary and involuntary shares. For 2007, only the total is shown.
Source: OECD (2016), *OECD Employment Outlook 2016*.

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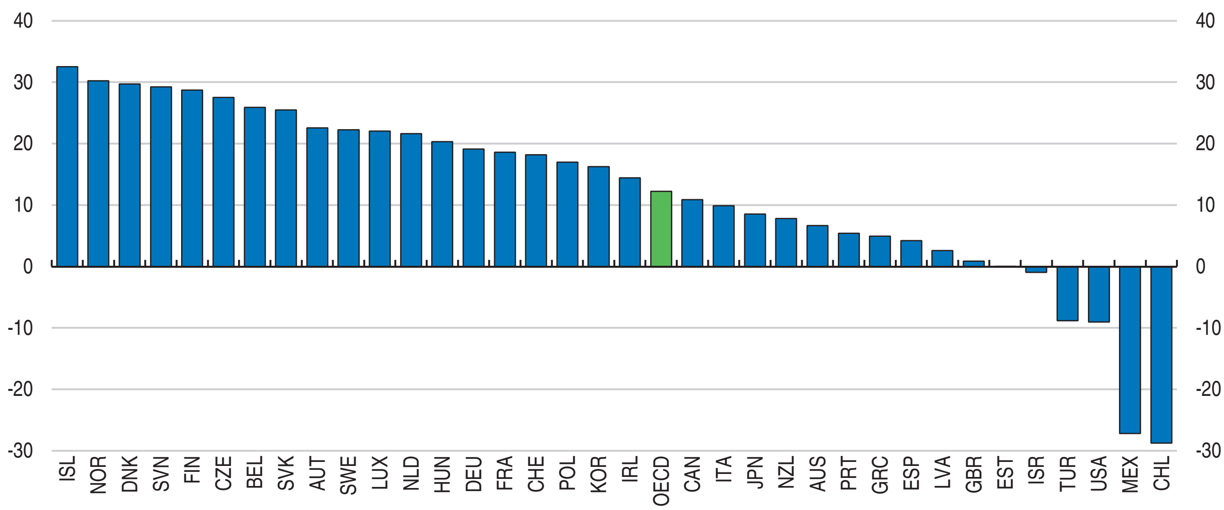
This shift in the job mix toward more part-time has also been accompanied by shifts in the sectoral composition of the economy, potentially increasing the incidence of mismatch between the unemployed and labour demand. In the United States, Japan and the European Union, the contribution of manufacturing, utilities and construction to job losses during the downturn was much larger than it has been to job creation during the recovery. This highlights the importance of policies that can help workers who have lost their jobs in these aforementioned sectors to find new jobs elsewhere so that they do not stay out of the labour market for too long. Addressing these labour market challenges calls for policy actions in several domains, including facilitating access to jobs for under-represented groups, lifting barriers to job creation and helping unemployed workers returning to work with job-search support and to acquire the type of skills required to find new employment opportunities.

Income inequality

The degree of income inequality differs significantly across OECD countries. Such differences can be highlighted by analysing summary indexes of dispersion (the best known of them being the Gini index) of the underlying income distribution. Examining gaps in Gini indexes vis-à-vis the upper-half of the most equal members of the OECD (Figure 1.11) reveals that cross-country differences are large, with the group of least equal countries (Chile, Mexico, Turkey and the United States) having a huge gap vis-à-vis the most equal countries (e.g. Denmark, Iceland, Norway and the Slovak Republic).

Figure 1.11. **Differences in income inequality across countries are large**

Gini at disposable income: percentage gap compared with the upper half of the distribution, 2013[1]



1. For the Gini coefficient (after taxes and transfers), data refer to 2014 for Australia, Finland, Hungary, Israel, Korea, Mexico, the Netherlands and the United States, 2012 for Japan.

Source: OECD, *Income Distribution Database*.

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A snapshot of policy priorities for reform

Compared with the 2015 exercise, there has been a slight increase in the share of labour productivity-enhancing priorities in OECD countries, as derived from the combined quantitative and qualitative evaluation (Table 1.1). Indeed, persistently weak productivity growth across the vast majority of countries since the crisis has put productivity at the forefront of the policy agenda. At the same time, labour market conditions have improved somewhat in several countries, which also partly accounts for the shift toward more productivity-focused priorities. However, considering both the many labour market challenges prevailing and the importance of high employment for inclusiveness, recommendations devoted to improve labour utilisation still account for around one-third of total priorities.

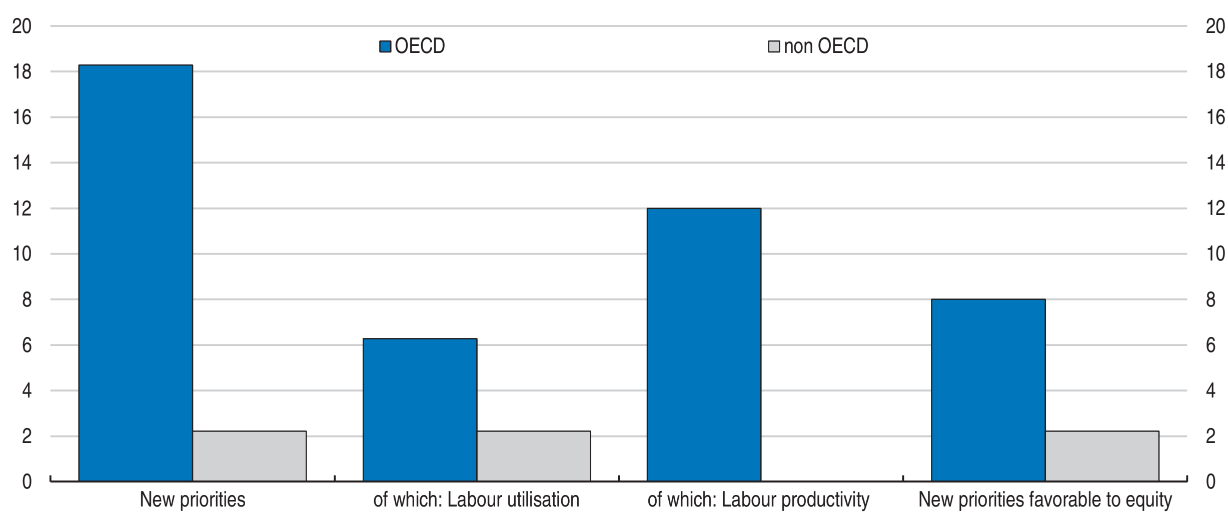
About one-fifth of the 2015 recommendations have been dropped, allowing for a higher proportion of new priorities to be selected, compared to previous issues of *Going for Growth* (Figure 1.12). To some extent, this is the result of the change in methodology (Box 1.2). This is the case for about half of the new priorities (around 10% of the total of priorities). The other half of new priorities is justified by the dropping of former priorities due to sufficient policy actions being taken. In the vast majority of cases (80% of the total priorities), no "significant"

Table 1.1. Share of priority by policy areas

The share of *Going for Growth* priorities by area, %	2017		2015		2013	
	OECD	Non-OECD	OECD	Non-OECD	OECD	Non-OECD
Labour utilisation						
Tax system with emphasis on the level of labour tax wedges	5	7	7	3	7	0
Social benefits and active labour market policies	17	9	17	8	17	7
UB/social protection and ALMPs	15	9	10	8	9	7
Retirement and disability schemes	2	0	6	0	7	0
Retirement systems	1	0	4	0	4	0
Disability and sickness schemes	1	0	2	0	3	0
Policy barriers to full-time female participation	6	2	5	0	5	0
Labour market regulation and collective wage agreements	5	9	9	10	10	10
Job protection legislation	3	4	6	5	7	7
Minimum wages and wage bargaining systems	1	4	2	5	2	3
Housing/planning policies/barriers to labour mobility	2	0	2	0	2	0
Total labour utilisation	34	27	39	20	40	17
Labour productivity						
Human capital	17	20	16	15	16	17
R&D and innovation policies	7	4	6	8	4	3
Product market regulation, trade and FDI	19	20	22	23	21	23
Agriculture and energy subsidies	3	0	4	3	4	3
Tax system-structure and efficiency	9	4	5	5	5	3
Efficiency of public spending	5	4	4	0	5	3
General efficiency	3	2	2	0	3	0
Efficiency of the healthcare sector	1	2	2	0	2	3
Public infrastructure	4	11	2	13	2	10
Legal infrastructure and rule of law	1	4	1	5	1	7
Financial markets regulation	0	4	0	8	1	10
Planning/zoning/housing/policies	2	0	1	3	1	3
Total productivity	66	73	61	80	60	83
Total number of priorities	175	45	175	40	175	30

Figure 1.12. **Close to 20 per cent of total priorities are new in 2017**

As a percentage of total priorities



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action has taken place or the measures adopted have fallen short of what is needed to fully address the challenge and hence to warrant the removal of the corresponding priority. This reflects the piecemeal nature of structural reforms in many areas.

It is also worth emphasising that the changes in priorities reported in this publication prompt also a better alignment of *Going for Growth* recommendations with *Economic Surveys* (Box 1.3). While the latter focus on challenges in specific areas pertaining to the focus of the *Economic Survey*, including macro policies, *Going for Growth* focuses on the most important measures to boost overall income growth for the vast majority of citizens in the long run.

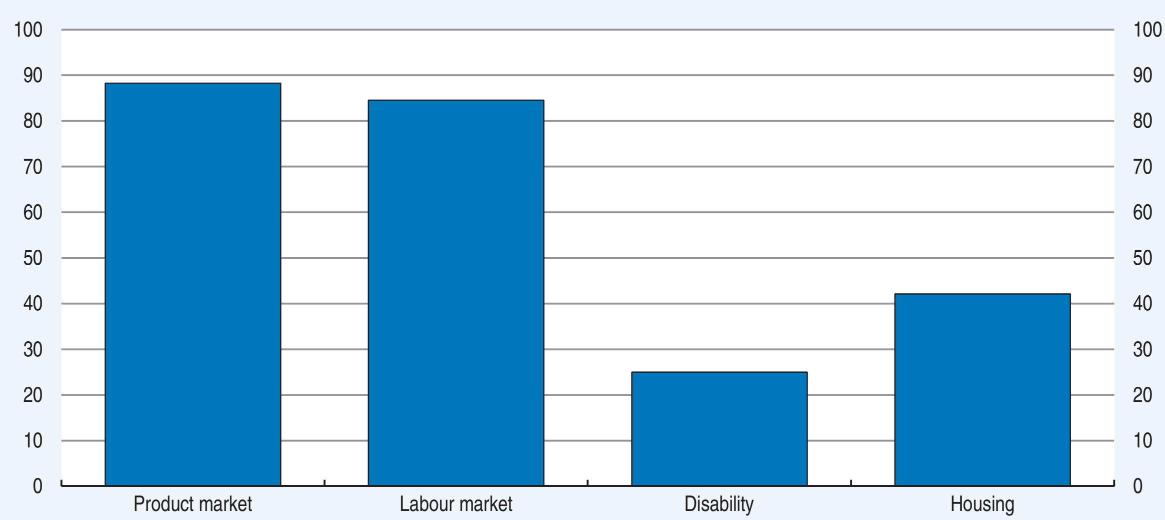
Box 1.3. ***Going for Growth*** **and Economic Surveys: A coherent and comprehensive policy package**

Going for Growth provides an overview of long-run structural policy challenges from a comparative perspective, which is complemented by more in-depth country analysis as provided by the OECD *Economic Surveys*. *Economic Surveys* go beyond structural policies and also cover macroeconomic, financial stability and environmental issues, but are also in general more reflective of countries' short and medium-term challenges.

Both OECD publications complement each other, providing consistent analysis and policy recommendations over different time horizons. This is reflected in the overlap of recommendations on structural policies between the two publications (see figure below). The overlap is high in broad areas, i.e. product and labour markets, but lower in more specific ones, such as housing and disability. This may reflect the fact that policy changes in the latter areas tend to occur more sparsely, implying that they tend to be maintained systematically as priorities in *Going for Growth*, at least for as long as the gaps in policies and performance remains significant. By comparison, the turnover of recommendations in Surveys tends to be higher, insofar as the focus varies from one Survey to the next. Methodological changes introduced in this issue of *Going for Growth* (see Box 1.2) prompt a higher turnover in recommendations, increasing further the consistency between both publications.

Overlapping recommendations between *Going For Growth* and Economic Surveys[1]

Percentage



1. Bars show the number of recommendations in Economic Surveys that can also be found in the 2015 edition of *Going for Growth*, as a share of *Going for Growth* recommendations. Comparison is made based on surveys published until the end of 2015.

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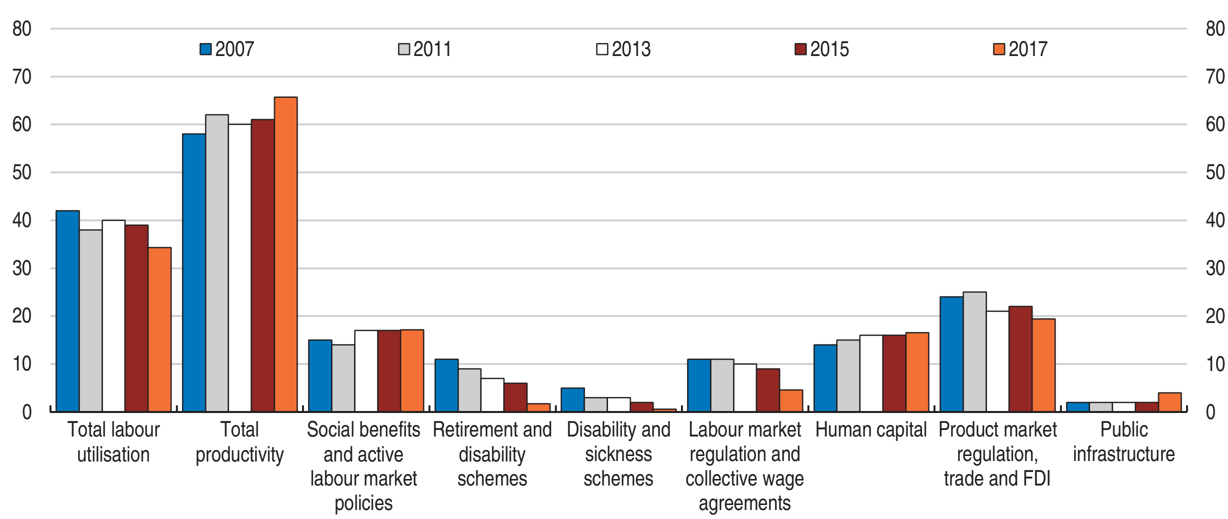
Box 1.3. *Going for Growth* and Economic Surveys: A coherent and comprehensive policy package *(cont.)*

Recommendations in this issue of *Going for Growth*, taken together with recommendations made recently in *Economic Surveys*, provide a comprehensive and coherent package of policy advice that policy makers can consider to establish a reform strategy. Since *Economic Surveys* are increasingly focused on policies to promote inclusive growth, the evaluation of coherence between *Going for Growth* priorities and recommendations from the *Economic Surveys* will feature more prominently in future *Going for Growth* publications.

Looking at the distribution of priorities over time, more than half of the new priorities are related to productivity, with a significant portion leading also to more favourable income distribution outcomes (Figure 1.12). This underscores the fact that addressing policy challenges on productivity is often complementary to the goal of achieving more equal societies.[3] The shift towards productivity is partly explained by increases in the share of priorities related to education and human capital, and to a minor extent in the share related to public infrastructure (Figure 1.13). Both are areas where public expenditure can promote both productivity and inclusiveness: better and more education are associated with higher growth and productivity, and also greater income equality. Public investment tends to boost growth and productivity over the long term in the average OECD country and empirical evidence suggests that it leaves income inequality broadly unchanged.[4] Nevertheless, in some cases, infrastructure can also make growth more inclusive, e.g. when it facilitates labour mobility, particularly in non-OECD countries.

Figure 1.13. **The share of productivity-related priorities has risen over time**

As a percentage of total priorities, OECD countries



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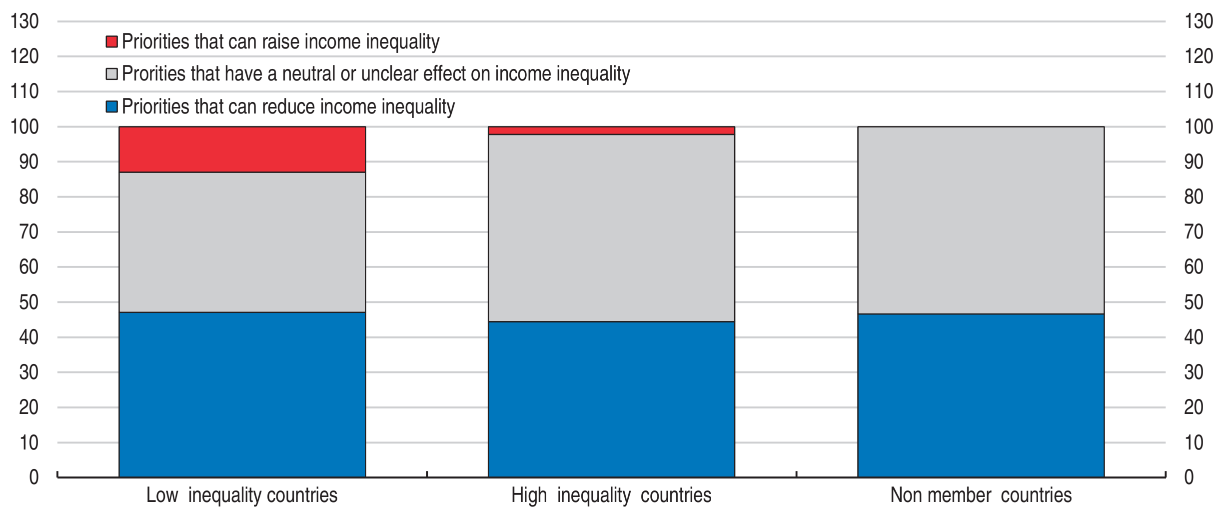
For non-member countries, the distribution of priorities has shifted in the opposite direction, with a greater emphasis on policy priorities aimed at improving labour utilisation. In fact, all new priorities introduced for these countries fall in this area (Table 1.1 and Figure 1.13). The middle class has been expanding in several non-member countries. That expansion is accompanied with a need to increase access and quality of public services, along with stronger social protection based on cost-effective programmes, and this is reflected in new priorities. A common concern in these countries is that the informal sector remains large. Most often informality is not a choice but a fall back option, meaning that many workers remain outside the reach of labour market regulations and social protection, nurturing the already high levels of inequality and poverty in these countries, as well as the incidence of low-quality jobs[5] (see Chapter 2). Widespread informality is also often associated with low productivity (de Vries et al., 2012). Hence the bulk of priorities in non-member countries remain related to productivity (73%), with a strong focus on: i) regulatory barriers to competition in product markets, which are often higher than in advanced OECD countries; ii) education systems, where quality and equity are relatively low; iii) physical and legal infrastructures, to tackle bottlenecks and also to strengthen institutions to fight corruption.

Structural policies can unlock the productive potential of individuals and enterprises in ways that generate resources for everyone. Priorities advocated in *Going for Growth* are for a large majority conducive to such outcome, with almost half of the pro-growth priorities being equity-friendly in OECD countries (Figure 1.14). This share is identical in non-member countries, where the levels of inequality are far above the OECD average. Priorities which could potentially lead to a trade-off with the equity objective are mostly concentrated in countries with the lowest levels of inequality. It represents around 12% of all priorities in those countries, while it is only 2% in the remaining countries.

Figure 1.14. ***Going for Growth* priorities and their impact on inequality**[1]

As a percentage of priorities, 2017



1. This figure shows the share of *Going for Growth* priorities that could reduce (increase) income inequality for countries (OECD, non-OECD) with Gini coefficient below (lower inequality) or above (upper inequality) the median. For low (high) inequality countries the share is computed taking as denominator the total number of priorities for low (high) inequality countries.

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The remaining priorities concern reforms whose impact on income distribution is either neutral or uncertain, as it may depend on the more specific nature of the policy change and the context in which the reform is introduced. In several policy areas, more research is needed before clear conclusions can be drawn about their distributional incidence. Even so, potential trade-offs between growth and equity cannot be used as an excuse to hold back on reforms, but rather justify growth strategies that make full use of the synergies that are advocated, calling for a revival of reform momentum in a coherent and packaged way. In contrast, a piecemeal approach to reforms is more likely to entail attenuated growth gains and potentially adverse equity outcomes.

Ten policy recommendations for boosting inclusive growth

While challenges vary across countries according to their specific circumstances (see Chapter 3), a bird's eye view of *Going for Growth* recommendations points to some common areas of policy priorities across countries (Figure 1.15). Looking at the most prevalent recommendations across the various policy areas points to ten key *Going for Growth* recommendations to achieve strong and inclusive growth:

- *Allocating education resources more equitably across schools and students:* spreading education benefits more fairly across society is a common challenge at primary and secondary level to reduce inequality of opportunity and lift productivity in the long run.
- *Expanding and improving vocational education and training*: addressing challenges in this area can in the short run tackle persistently high youth unemployment in some countries while providing in the long run better bridges between education and labour market and reduce skill mismatch.
- *Streamlining permits and licensing and cutting red tape*: facilitating the entry of new firms helps to bring new ideas to the market, while encouraging incumbents to innovate, improve the quality or variety of products and experiment with new modes of production as means to escape competition. In line with evidence showing that young firms disproportionately drive employment growth, lower regulatory barriers to entry also enhance inclusiveness by promoting job creation (Gal and Theising, 2015; Criscuolo, Gal and Menon, 2014).
- *Reducing entry barriers in professional services*: particularly acute across many countries, lowering such barriers offers a large potential payoff in the current macroeconomic environment as it can stimulate demand in the short run (OECD, 2016a). Furthermore, it can also positively spill over to the whole economy, since professional services are inputs for nearly all firms as well as key for trade competitiveness.
- *Addressing infrastructure bottlenecks*: particularly acute in transport and energy (and considering the digital future, in networks), it would boost productivity and can also contribute to stronger labour utilisation and inclusiveness through enhanced labour mobility, and to better environmental protection through lower carbon emissions.
- *Enhancing R&D collaboration between universities and firms*: can help to close the productivity gap between the least productive and most productive firms (Andrews et al., 2015), as R&D collaboration facilitates technological diffusion by providing smaller firms with access to sources of knowledge. Initiatives to encourage R&D collaboration between universities and firms can thus make productivity more inclusive.
- *Broadening the tax base and reducing tax expenditures*: as a way to reduce distortions, it can lead to a more growth-friendly tax system, enhance revenues and reduce income inequality. More generally, shifting taxation from labour and capital to immovable properties (housing and land), inheritance and environmental sources can help boost growth in an equity-friendly manner.
- *Achieving greater gender equality, in particular through more and better early childhood education options*: the high proportion of women excluded from the labour market (or overrepresented among involuntary part-time workers) in a number of countries can be partly traced to ill-designed policies, such as a lack of affordable and high-quality childcare. Since attendance at early childhood education also improves school outcomes for disadvantaged students, increasing the provision and quality can entail the double

Figure 1.15. **Prevalence of *Going for Growth* recommendations across policy areas**[1]

A. Primary and secondary education

Provide additional support to disadvantaged schools/students
Improve teaching quality and teachers' career prospects/incentives
Postpone early tracking
Improve school accountability and autonomy
Other

B. Higher and vocational education

Expand VET and apprenticeships
Improve universities' responsiveness to labour market needs
Increase employers' involvement in vocational programmes
Better target financial assistance to students
Other

C. Economy wide regulations

Streamline permits/licensing/red tape
Reduce barriers to trade
Introduce regulatory impact assessment
Strenghten competition and regulatory authorities
Improve bankruptcy procedures
Other

D. Sector specific regulations

Professional services
Energy
Retail
All network sectors
Other

E. Physical and legal infrastructure and public sector efficiency

Enhance quality/access/connectivity in transport/energy
Reinforce fight against corruption, judiciary resources and efficiency
Improve public procurement procedures
Improve cost-benefit analysis of infrastructure (PPPs and concessions)
Other

F. R&D and innovation

Strengthen collaboration between research centres/universities and industry
Improve coordination of public policies
Evaluate/reform R&D tax credits
Rebalance direct and indirect support
Other

G. Efficiency of taxation

Broaden the tax base / Reduce tax expenditures
Shift tax burden to property
Shift tax burden to environment
Shift tax burden to VAT
Other

H. Gender

Expand access to quality childcare
Remove tax and benefit disincentives
Increase access to childcare by immigrant/refugees/minorities
Improve parental leave policies
Other

I. Labour taxation, job protection and wage bargaining

Reduce tax wedge (low-wage workers)
Tackle dualism (diminish gap between permanent and temporary contracts)
Improve legal certainty for collective or justified individual dissmissals
Promote agreements at firm level and reduce automatic extensions
Other

J. Activation and social policies

Increase spending on activation/Improve efficiency
Focus activation on key groups
Restructure social benefits to increase work incentives
Expand some specific activation programs (e.g. for long-term unemployed)
Other

1. Darker shades represent the more prevalent recommendations across both OECD and non-OECD countries. See Chapter 3 for an in-depth survey of the recommendations for each country.

dividend of encouraging greater female labour force participation and mitigating social inequalities. It would also be a key policy to improve the integration of immigrants and minorities and would help to bring about the economic and social benefits from the growing population diversity found in OECD and non-OECD countries.

- *Reducing the tax wedge on low-skilled workers*: high labour tax wedges contribute to labour demand-side obstacles faced by the low-skilled and youth. Lowering them can make the labour market more inclusive and reduce wage inequality also by increasing hours worked.
- *Increasing spending on activation policies as well as their efficiency*: in countries with high and sustained long-term and youth unemployment rates, and also in countries where large segments of the population are facing important difficulties to access the labour market, activation policies facilitate the return to work for the unemployed, making the labour market more inclusive, and can also improve resource allocation (Andrews and Saia, 2016) and productivity.

The annex to this chapter contains tables presenting the full list of recommendations for all countries, grouped by policy areas. A more detailed discussion, as well as country-specific presentation in separate country notes, can be found in Chapter 3.

Notes

1. This new framework is presented in a special chapter of this publication (Chapter 2).
2. See Box 1.2 in OECD (2016d).
3. This is based on the analysis on the links between policy and performance drawn from various studies (see Chapter 2).
4. See Fournier (2016) and Fournier and Johansson (2016) for some recent evidence.
5. See OECD (2011) and OECD (2016).

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ANNEX 1.A1

Table 1.A1.1. **Labour market integration of specific groups**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
Policies to make the labour market more gender inclusive																					
Expand access to quality childcare & early education	✓	✓			✓	✓		✓				✓							✓	✓	
Remove tax and benefits disincentives		✓										✓							✓		
Increase access for childcare for immigrants/ refugees/minorities			✓									✓									
Improve parental leave policies						✓				✓										✓	
Implement corporate governance codes/quotas																					
Align the official retirement age for women and men		✓																			
Policies to improve integration of immigrants and minorities																					
Provide language acquisition support			✓				✓		✓			✓									
Improve training							✓					✓									✓
Expedite recognition of skill/qualifications			✓									✓									
Improve information/monitoring of the situation of minorities	✓																				

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
Policies to make the labour market more gender inclusive																								
Expand access to quality childcare & early education	✓	✓		✓		✓		✓				✓	✓		✓	✓			✓	✓			✓	
Remove tax and benefits disincentives	✓							✓	✓			✓												
Increase access for childcare for immigrants/ refugees/minorities	✓			✓								✓												
Improve parental leave policies								✓							✓									
Implement corporate governance codes/quotas												✓				✓								
Align the official retirement age for women and men												✓												
Policies to improve integration of immigrants and minorities																								
Provide language acquisition support											✓													
Improve training											✓													
Expedite recognition of skills/qualifications											✓													
Improve information/monitoring of the situation of minorities				✓				✓																

Table 1.A1.2. **Active labour market policies and social benefits**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
Active labour market policies																					
Increase spending								✓					✓				✓				✓
Improve efficiency																		✓			
Focus on key risk groups								✓		✓	✓				✓						
Expand some specific programmes													✓	✓		✓			✓	✓	
Better enforce mutual obligation										✓	✓					✓					
Improve co-ordination between different government levels																		✓			✓
Social benefits																					
Restructure benefits to increase work incentives										✓					✓	✓					✓
Improve targeting																✓		✓			✓
Expand the coverage of social benefits													✓						✓	✓	✓
Eliminate regressive subsidies																					

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
Active labour market policies																								
Increase spending									✓	✓				✓	✓	✓							✓	✓
Improve efficiency	✓		✓					✓	✓	✓				✓										
Focus on key risk groups			✓						✓				✓											
Expand some specific programmes				✓						✓					✓									✓
Better enforce mutual obligation																								
Improve co-ordination between different government levels										✓														
Social benefits																								
Restructure benefits to increase work incentives	✓		✓						✓														✓	
Improve targeting	✓								✓						✓		✓					✓		
Expand the coverage of social benefits																		✓					✓	
Eliminate regressive subsidies																✓						✓		

Table 1.A1.3. **Labour taxation, regulations and collective agreements**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
Labour taxation																					
Reduce social security contributions		✓	✓					✓			✓	✓		✓				✓			
Reduce labour tax wedge for low wage workers			✓					✓				✓		✓				✓			✓
Introduce or expand EITC																	✓				
Labour market regulations																					
Tackle dualism and diminish the gap in protection between permanent and temporary workers					✓														✓	✓	
Improve legal certainty for collective or justified individual dismissals											✓								✓	✓	
Reduce severance pay																			✓		
Minimum wage and wage bargaining systems																					
Promote agreements at firm level and reduce automatic extensions			✓								✓							✓			
Avoid a too high minimum wage level and allow for age and regional differentiation																					
Increase the minimum wage																				✓	

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
Labour taxation																								
Reduce social security contributions													✓			✓			✓	✓			✓	
Reduce labour tax wedge for low wage workers			✓			✓				✓			✓											
Introduce or expand EITC															✓								✓	
Labour market regulations																								
Tackle dualism and diminish the gap in protection between permanent and temporary workers			✓							✓			✓						✓					
Improve legal certainty for collective or justified individual dismissals										✓											✓			
Reduce severance pay			✓																			✓		
Minimum wage and wage bargaining systems																								
Promote agreements at firm level and reduce automatic extensions							✓																	✓
Avoid a too high minimum wage level and allow for age and regional differentiation													✓						✓					
Increase the minimum wage															✓									

Table 1.A1.4. **Regulations for domestic and foreign firms**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
Economy wide regulations																					
Streamline permits/licensing/red tape	✓		✓	✓	✓								✓	✓		✓	✓				✓
Introduce or expand regulatory impact assessment									✓			✓	✓	✓			✓			✓	
Improve bankruptcy procedures	✓							✓	✓									✓			
Strengthen competition and regulatory authorities							✓						✓	✓	✓						✓
Improve competition framework					✓	✓								✓	✓				✓		
Improve SOEs governance						✓															✓
Reduce the scope of public ownership						✓						✓									
Set one stop shops													✓								
Facilitate firm entry																					
Sector specific regulatory burden																					
Professional services		✓	✓	✓							✓	✓				✓					✓
Energy				✓				✓						✓			✓		✓		
Retail		✓	✓	✓		✓				✓	✓			✓		✓					
All network sectors			✓			✓							✓	✓							✓
Services			✓				✓		✓											✓	
Banking																	✓		✓		
Construction							✓			✓											
Transport												✓									
Post												✓							✓		
Ports																✓					
Barriers to trade and FDI																					
Reduce barriers to trade									✓						✓		✓		✓	✓	
Reduce barriers to FDI				✓															✓		
Reduce/reform public subsidies to agriculture or energy									✓								✓		✓	✓	

Table 1.A1.4. **Regulations for domestic and foreign firms** *(cont.)*

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
Economy wide regulations																								
Streamline permits/licensing/red tape						✓			✓									✓		✓	✓	✓		✓
Introduce or expand regulatory impact assessment		✓																						✓
Improve bankruptcy procedures						✓	✓																	✓
Strengthen competition and regulatory authorities						✓														✓				✓
Improve competition framework																✓				✓				
Improve SOEs governance																				✓			✓	✓
Reduce the scope of public ownership				✓	✓	✓			✓															
Set one stop shops																		✓		✓	✓			
Facilitate firm entry		✓				✓																		
Sector specific regulatory burden																								
Professional services	✓	✓					✓		✓	✓														
Energy																								✓
Retail	✓	✓			✓																			
All network sectors					✓								✓											✓
Services																								
Banking		✓																		✓	✓			
Construction																								
Transport		✓		✓	✓					✓														
Post					✓																			
Ports							✓			✓														
Barriers to trade and FDI																								
Reduce barriers to trade				✓	✓							✓				✓	✓							
Reduce barriers to FDI		✓		✓												✓		✓				✓		
Reduce/reform public subsidies to agriculture or energy					✓							✓	✓			✓						✓		

Table 1.A1.5. **Human capital and R&D**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
University																					
Improve responsiveness to labour market needs					✓									✓				✓			
Better target financial assistance to students		✓				✓															
Improve funding formula																					
Encourage shorter completion times																					
Improve access and reduce inequalities														✓							
Increase specialization																					
Vocational																					
Expand VET and apprenticeships							✓	✓			✓		✓				✓				
Increase employers involvement						✓		✓													
Increase workplace component								✓						✓							✓
Improve alignment with labour market needs					✓																✓
Primary and secondary																					
Provide additional support to disadvantaged schools/students			✓			✓	✓				✓	✓			✓		✓				✓
Improve teaching quality and teachers career prospects/ incentives															✓						
Postpone early tracking			✓			✓						✓		✓							
Limit grade repetition			✓									✓									
Improve school accountability and autonomy															✓						
Improve access/enrolment																					
Provide second chance opportunities																					
Expand lifelong learning			✓				✓					✓	✓	✓							✓
R&D and innovation																					
Strengthen collaboration between research centres/universities and industry	✓				✓			✓							✓	✓		✓			
Improve co-ordination of public policies	✓					✓		✓													
Evaluate/reform R&D tax credits	✓			✓											✓						
Rebalance direct and indirect support																✓					
Develop technology clusters																					
Improve links between domestic and foreign firms																					

Table 1.A1.5. **Human capital and R&D** *(cont.)*

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
University																								
Improve responsiveness to labour market needs											✓					✓	✓	✓		✓				
Better target financial assistance to students										✓		✓							✓					
Improve funding formula					✓			✓											✓	✓				
Encourage shorter completion times					✓						✓													
Improve access and reduce inequalities												✓						✓						
Increase specialization										✓														
Vocational																								
Expand VET and apprenticeships	✓					✓	✓			✓			✓	✓		✓	✓	✓		✓	✓			✓
Increase employers involvement								✓		✓										✓				
Increase workplace component																							✓	
Improve alignment with labour market needs							✓			✓	✓													
Primary and secondary																								
Provide additional support to disadvantaged schools/students				✓		✓	✓	✓			✓				✓					✓				
Improve teaching quality and teachers career prospects/incentives		✓		✓	✓	✓	✓			✓	✓	✓				✓	✓			✓		✓	✓	✓
Postpone early tracking	✓																							
Limit grade repetition	✓						✓																	
Improve school accountability and autonomy	✓			✓	✓		✓						✓											
Improve access/enrolment																	✓	✓			✓	✓		✓
Provide second chance opportunities								✓		✓														
Expand lifelong learning								✓						✓										
R&D and innovation																								
Strengthen collaboration between research centres/universities and industry	✓						✓		✓										✓	✓				
Improve co-ordination of public policies																			✓	✓				
Evaluate/reform R&D tax credits				✓			✓								✓									
Rebalance direct and indirect support			✓			✓								✓										
Develop technology clusters		✓				✓																		
Improve links between domestic and foreign firms		✓																		✓				

Table 1.A1.6. **Tax structure**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
Broaden the tax base/reduce tax expenditures	✓	✓		✓				✓				✓	✓					✓	✓		
Shift tax burden to property							✓	✓		✓		✓		✓		✓		✓		✓	✓
Shift tax burden to environment				✓								✓		✓				✓	✓	✓	✓
Shift tax burden to VAT	✓			✓						✓									✓	✓	
Improve tax collection/compliance													✓					✓			✓
Improve legal certainty for collective or justified individual dismissals																					
Reduce corporate tax rate				✓															✓		
Reduce the scope of VAT reduced rates										✓		✓									
Reduce top income tax rates																					

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
Broaden the tax base/reduce tax expenditures					✓					✓			✓			✓			✓					
Shift tax burden to property	✓					✓			✓		✓								✓					
Shift tax burden to environment						✓				✓		✓							✓					
Shift tax burden to VAT					✓							✓							✓					
Improve tax collection/compliance						✓				✓														
Improve legal certainty for collective or justified individual dismissals																								
Reduce corporate tax rate					✓										✓									
Reduce the scope of VAT reduced rates			✓								✓	✓												
Reduce top income tax rates									✓		✓													

Table 1.A1.7. **Physical and legal infrastructure and public spending efficiency**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
Infrastructure																					
Enhance quality/access/connectivity in transport	✓							✓	✓								✓				✓
Enhance quality/access/connectivity in energy								✓	✓									✓			✓
Improve cost-benefit analysis, including of PPPs and concessions						✓															
Improve institutional framework and capacity in ministries/agencies						✓															
Raise public and private investment in infrastructure																		✓			
Improve rural infrastructure								✓													
Improve capacity/spending of subnational governments																					
Improve long-term strategy and planning																					
Rule of law																					
Sustain/reinforce fight against corruption														✓				✓			
Reinforce judiciary resources/out of court procedures/ efficiency													✓					✓			
Improve legislation																		✓			
General public spending efficiency																					
Improve public procurement procedures			✓			✓	✓							✓				✓			
Improve human resources management																		✓			
Improve monitoring and performance evaluation						✓															
Health sector efficiency																					
Promote and improve generics drugs use																					
Reinforce/monitor equity in access										✓											
Promote more healthy lifestyles																					

Table 1.A1.7. **Physical and legal infrastructure and public spending efficiency** *(cont.)*

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
Infrastructure																								
Enhance quality/access/connectivity in transport						✓									✓	✓			✓	✓		✓		
Enhance quality/access/connectivity in energy						✓																		
Improve cost-benefit analysis, including of PPPs and concessions																✓			✓	✓				
Improve institutional framework and capacity in ministries/agencies																	✓			✓	✓			
Raise public and private investment in infrastructure														✓	✓									
Improve rural infrastructure																✓						✓		
Improve capacity/spending of subnational governments																✓						✓		
Improve long-term strategy and planning														✓						✓				
Rule of law																								
Sustain/reinforce fight against corruption		✓																				✓		
Reinforce judiciary resources/out of court procedures/efficiency		✓																				✓		
Improve legislation		✓																✓						
General public spending efficiency																								
Improve public procurement procedures																								
Improve human resources management								✓																
Improve monitoring and performance evaluation								✓																
Health sector efficiency																								
Promote and improve generics drugs use												✓											✓	
Reinforce/monitor equity in access															✓			✓						
Promote more healthy lifestyles				✓																			✓	

Table 1.A1.8. **Housing**

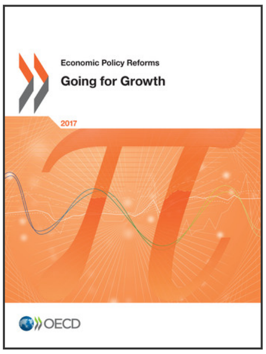
	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
Ease planning and construction regulations							✓			✓											
Reduce/eliminate preferential tax treatments																					
Reduce rent regulation							✓														
Improve targeting of social housing/subsidies							✓														
Increase the supply of social housing																					

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
Ease planning and construction regulations	✓			✓		✓					✓			✓										
Reduce/eliminate preferential tax treatments	✓		✓					✓			✓													
Reduce rent regulation			✓								✓													
Improve targeting of social housing/subsidies			✓																					
Increase the supply of social housing	✓													✓										

Table 1.A1.9. **Retirement and disability policies**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Latvia
Increase statutory retirement age		✓												✓							
Limit access to early retirement		✓												✓	✓						
Review criteria to access disability/sickness benefits		✓																			
Increase portability of pension rights									✓			✓									
Focus special schemes on elderly with low income																				✓	
Adjust pension benefit indexation formula																					

	Luxembourg	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Argentina	Brazil	China	Colombia	Costa Rica	India	Indonesia	Lithuania	South Africa
Increase statutory retirement age	✓					✓			✓				✓											
Limit access to early retirement	✓								✓															
Review criteria to access disability/sickness benefits					✓																			
Increase portability of pension rights																								
Focus special schemes on elderly with low income																								
Adjust pension benefit indexation formula									✓															



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