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Getting the agenda right: strategies for spurring growth and creating jobs

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I would first like to tell you how pleased I am to participate in this initiative of the Lisbon Council. The organisers have given me a very challenging task however. I am supposed to tell you how to get the reform agenda right. No less. This issue is, of course, very topical since, next week the European Council will revisit and relaunch the Lisbon Agenda.

It is also topical in a deeper sense as growth is back everywhere at the centre-stage of public attention. It is no secret, for instance, that disappointment with economic performance has reached new heights in many EU countries. It is also felt, throughout the OECD, that regaining growth momentum is key to preserving standards of living, at a time of rapidly ageing societies. So, to put it in a nutshell, we are now faced with a growth challenge of large magnitude. And it is to meet this challenge that the OECD launched, just a few days ago, a new annual publication called: "Economic Policy Reforms: Going for Growth".

Since this report devotes a lot of attention to European countries, I would like to use it as a basis for my presentation. I would like to tell you:

- Why Europeans should pay much more attention to long-term growth;
- What economists can do to focus European minds on growth-oriented reforms;
- Where Europe's problems lie; and
- What the OECD's main policy priorities are for Europe.

I. The need to stem economic decline

The Lisbon Agenda has set very high ambitions for Europe, such as "overtaking" America. This approach is not without merits: it is always good to set objectives in a positive perspective. But it is not without drawbacks too: it tends, for instance, to cloud the bleak reality of current European economic performance, which is characterised by a premature interruption of economic convergence. The story is probably a familiar one to many of you, but it's worth repeating. Economic catch-up, which was widely believed to be automatic, started to stall during the 1980s and degenerated into relative decline during the 1990s (Graph 1). Today GDP per capita in France, Germany or Italy is 30 per cent below US levels and, at current trends, this gap will increase over the foreseeable future.

Before overtaking America, the first, very ambitious objective, should be to stop Europe's relative decline. This will be hard enough to achieve over the next few years, in a context where ageing will exert a strong depressing influence on GDP per capita.

II. To get the Agenda right, economists should work harder at explaining the need for economic policy reforms

Working harder and better at explaining the need for reforms, is exactly what the OECD has recently decided to do. As you may know there is already, at the OECD, a very valuable surveillance which operates on a country by country basis. But we felt that more could be done to address the issue of inadequate economic convergence. What was lacking was a cross-country surveillance devoted to growth, OECD wide. And it was felt that a benchmarking exercise, covering both economic performance and policies, would provide the most natural way to push countries ahead. Through naming and shaming and, at times, complimenting.

Comparing and benchmarking may indeed be the best way to address inability to converge at its core. At the end of the day, being unable to converge simply means losing the capacity to learn from others and their successes. Regaining this capacity to learn implies first an ability to situate oneself on the international scale and to evaluate the gaps that need to be bridged. An ability to benchmark oneself accurately.

In the case of Europeans, learning from others does not only mean learning from North-America or Asia but also from other Europeans. There is, for instance, a lot that is worth emulating in the performance of some of the smaller European countries.

Assessing the extent to which one is lagging behind is of course rather unpleasant, even more so if the gap is worsening. And the natural temptation is to minimise the significance of the comparison. In the end, aren't we all unique and truly incomparable! And so proud of our own way of life, which is worth so much more than a vulgar GDP per capita statistic. For instance, Europeans may have a stronger preference for leisure than others. And, as you know, the increased welfare associated with more leisure is not recorded in GDP statistics. In this case, benign neglect in the face of a low GDP per capita would be warranted.

This reticence in the face of potentially misleading comparisons is not without legitimacy. And it needs to be taken seriously. In this domain of benchmarking, however, recent methodological progress can help us.

The OECD has now developed a diversified set of structural policy indicators. When tested through modern and rigorous econometric techniques, these policy indicators seem to do a reasonably good job at explaining economic performance. It then becomes easier, in this context, to understand what lies behind a comparatively low GDP per capita. And find out what reflects bad policies as opposed to legitimate societal choices. If it turns out that weak GDP is genuinely reflecting weak policies, then ignoring international comparisons becomes a fault.

To sum it up, what the OECD is trying to do with its publication "Going for Growth" is moving beyond a superficial form of benchmarking, that only focuses on apparent performance. Instead the OECD is engaging in "deep benchmarking" with a focus on policies and their influence on performance.

We would like this exercise to reach an audience that goes beyond the inner circle of policy makers. Indeed, learning to situate one self in order to improve is not just the business of

governments. It is also necessary for society at large, since there is no successful reform without broad public support. Yet, in many European countries, pessimism about the benefits of economic reform has allowed vested interests to prosper or to remain well entrenched. The widespread belief that economic reforms do not generate overall gains for society, but only losers and winners, has often proved difficult to dispel.

Reform pessimism in Europe has allowed, in turn, a vicious circle to develop where reforms can only start in earnest at a late stage. This is unfortunately a time when growth has already weakened and when positive payoffs may be slowest.

To be more successful at reforms, Continental Europe needs to start being more proactive. Getting the support of public opinion for such an approach is a challenge however: there is a need not just to produce the evidence on the analytical side, but also to articulate concretely the case for reform. Our newborn publication is precisely an attempt at playing this role of “reform catalyst”.

III. Where do Europe’s problems lie? What does benchmarking reveal?

The starting point, here, is a set of performance indicators, such as GDP per capita and its main components: labour utilisation and labour productivity. These components are in turn subdivided. For instance, labour utilisation indicators are broken down into overall rates of employment – i.e. the share of persons at work – and number of hours worked per employee. Overall rates of employment are themselves split into employment rates by age group: between 25 and 55, above 55, etc.

Besides these performance indicators, we have also built, as already mentioned, policy indicators, dealing for instance with labour and product markets, as well as education and taxation. To list just a few of our labour market indicators, we tried to evaluate the stringency of employment protection legislation, the implicit tax on continued activity, the tax wedge on labour income and the relative cost of unskilled labour.

All these indicators can be put to various uses:

- They can help produce a “group diagnosis” for the OECD as a whole and large regional groupings. This diagnosis shows Europe’s performance to be lagging behind the US both in terms of productivity and labour utilisation, with the gap in labour utilisation extremely large (Graph 2). It also suggests that substantial progress may have been achieved in increasing competitive pressures on product markets while labour market reforms have remained very subdued (Graphs 3 and 4).
- They can help yield a better and deeper understanding of issues. I would like to single out, in particular, the indicators that relate to the employment rate of ageing workers. They provide, in my view, a graphic illustration of how to link structural policy indicators to economic performance.

As just noted, continental Europe lags behind in terms of GDP per capita, in large part because of a low rate of labour utilisation, and, more specifically, because the labour force

participation of ageing people is weak. People aged over 55 are basically absent from the labour market while they are still very active in Asia, North America and English-speaking countries, as well as in Nordic countries (Graph 5).

As I mentioned earlier, beyond these uncontroversial statistics, there is however a lively debate about what this low labour utilisation on the continent means. Is it a reflection of different cultural choices, a better way of life? Or does it stem from misguided policies that are hampering labour supply?

To shed light on this debate we have computed “implicit tax on continued activity” indicators (Graphs 6 and 7). This tax represents the income forgone by a person who would like to continue working despite the possibility of joining lofty pre-retirement schemes benefiting from large public transfers.

What our note documents is the troubling fact that in those countries where the implicit tax is high, the participation rate of ageing workers is generally well below the OECD average (Graph 8).

Through rigorous econometric analysis, we have been able to evaluate more precisely the labour disincentives that these implicit taxes produce. To that end, we have simulated what would happen in a state of the world where social and pension systems are neutral with respect to labour supply all across the OECD.

What we find out in the end is that in the absence of biased public policies, the French and the Germans may wish to work as long as their American or Scandinavian counterparts (Graph 9).

IV. What are the main policy conclusions for Europe?

The final contribution benchmark indicators can make is to help design priorities for action for individual countries as well as the EU at large (Table 1).

Let me remind you first what was our assessment of the progress achieved over the past 5 years:

- On the positive side, a significant move toward more flexible and open product markets, thanks largely to good work from Brussels. This may contribute to higher productivity gains in the future,
- On the less positive side: little progress in the area of labour markets. While in certain areas such as pension reforms some progress has been achieved, in other crucial areas such as employment protection legislation, inaction has been the rule.

In the large continental EU economies, boosting the low overall rate of labour utilisation is the main challenge. Based on our indicators the main policy priorities to improve labour utilisation in large European countries include:

- To strengthen work incentives by reducing the tax wedge on labour income and the implicit tax rate on continued activity;
- To better protect employment prospects by increasing flexibility in wage setting and bargaining. Great care should be taken in particular not to increase further the cost of unskilled labour;
- To alleviate the “insiders/outsiders” syndrome by loosening employment legislation protection.

We also identify the scope for raising labour productivity. Here, as mentioned above, product market regulation reforms have already moved in the right direction. In the EU countries these gains have been largely driven by the implementation of EU directives, mostly in the context of the Single Market initiative. But more product market reform is needed. In France, adapting regulations could promote greater competition in the retail distribution sector, as would reforms that lowered entry barriers in network industries. In Germany, competition in government procurement and the provision of public local services could also be strengthened. In Italy, where productivity gains and competitiveness are particularly weak, there is enormous scope, finally, for market liberalisation in the services sector.

To raise productivity in Europe it will also be important to increase spending on R&D and tertiary education. Here what is needed is more privately funded R&D as well as more private funding of tertiary education.

In other policy domains reforms are needed at the European level. In particular:

- Lowering the obstacles to geographic labour mobility, by enhancing the portability of accrued pension rights and other benefits, could contribute to reduce unemployment in some regions (Graph 10).
- Earlier reforms to the Common Agriculture Policy have been significant, but the overall level of assistance is still too high (Graph 11). Reducing further producer support to agriculture is thus needed.
- In network industries, competition is still undermined by a dominant incumbent in some sectors. Competition policy should do more to reap the potential gains from liberalising network industries. The scope for improvement could be substantial. For instance, in the electricity sector where the dispersion of electricity prices for industrial use among EU countries is large (Graph 12).
- Many obstacles are still preventing the realisation of a single market in service sectors. In this context, implementation of the draft EU services directive would represent a milestone towards achieving such a single market in services.

To put it succinctly, the message I am trying to convey this morning is that many European economies, though not all, are falling behind in terms of per capita GDP. This is largely attributed to public policies that result in low labour utilisation and lacklustre growth in productivity.

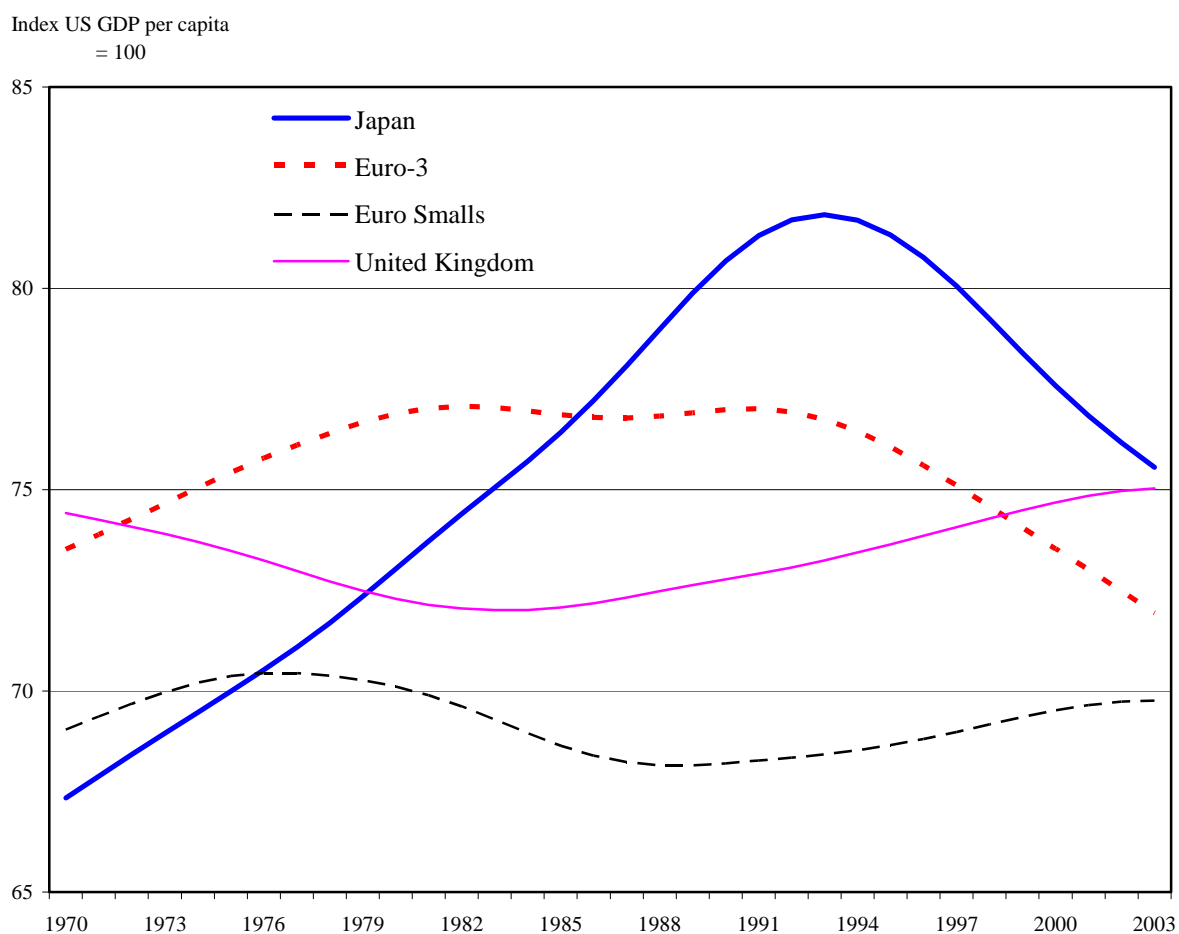
The diagnosis should be no cause for fatalism, however. After all Europe has many strengths, not least a highly skilled workforce and a modern infrastructure. With appropriate

policies, there is every reason to believe that Europe could be a world leader. But as said towards the beginning, it is not enough to simply identify the policies needed to spur higher output.

Success also requires winning broad support for change. As you are well aware, that is not an easy task. Here, the OECD is trying to play a part through its surveillance work. By bringing together a new type of multilateral surveillance in the form of an annual publication, our aim is to help catalyse and sustain the momentum for structural reforms.

* Available on <http://www.oecd.org/eco/>

Graph 1: In the large euro area countries per capita GDP relative to the U.S has receded
Trend indices, based on 2000 PPPs and 2000 prices ¹

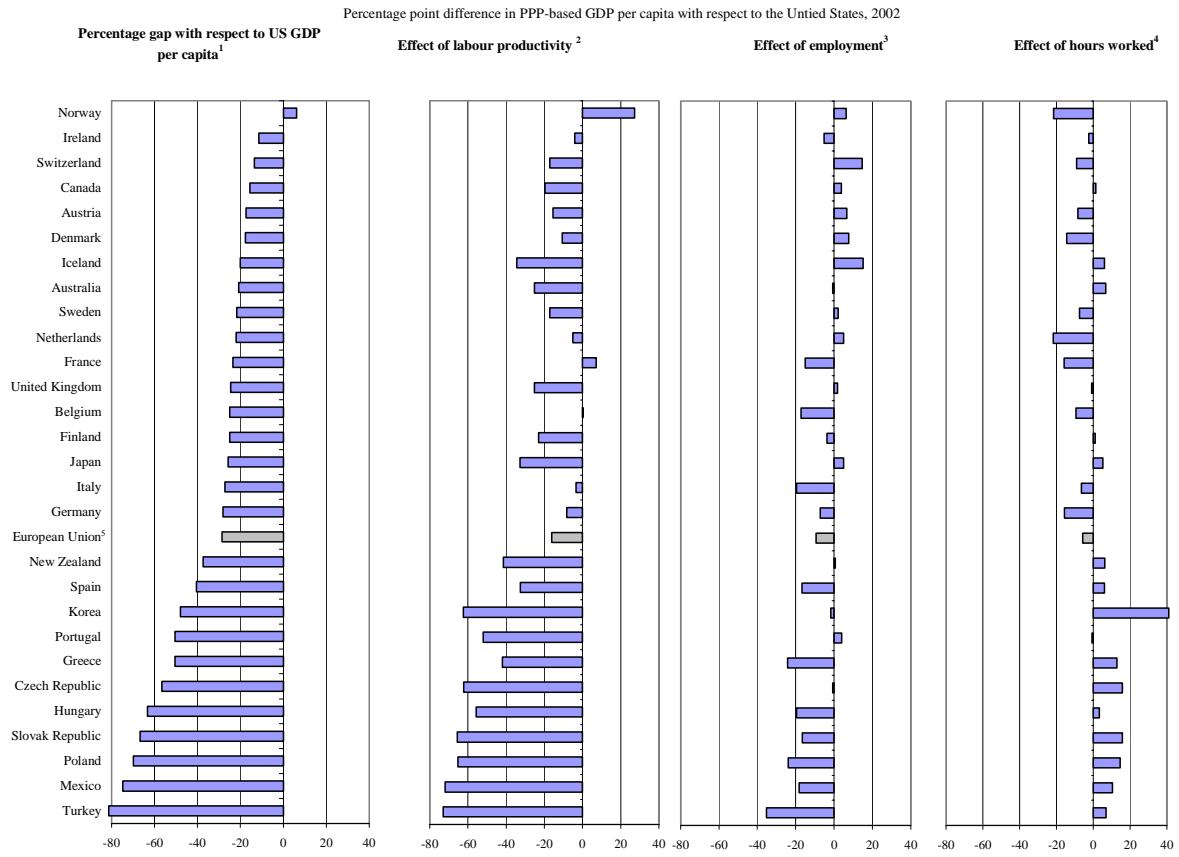


1. The trend is calculated using a Hodrick-Prescott filter (smoothing parameter set to 100) over a period which includes projections through 2010.

Note: Euro-3 refers to Germany, France and Italy. Euro Smalls refers to Austria, Belgium, Finland, Greece, Ireland, Netherlands, Portugal and Spain.

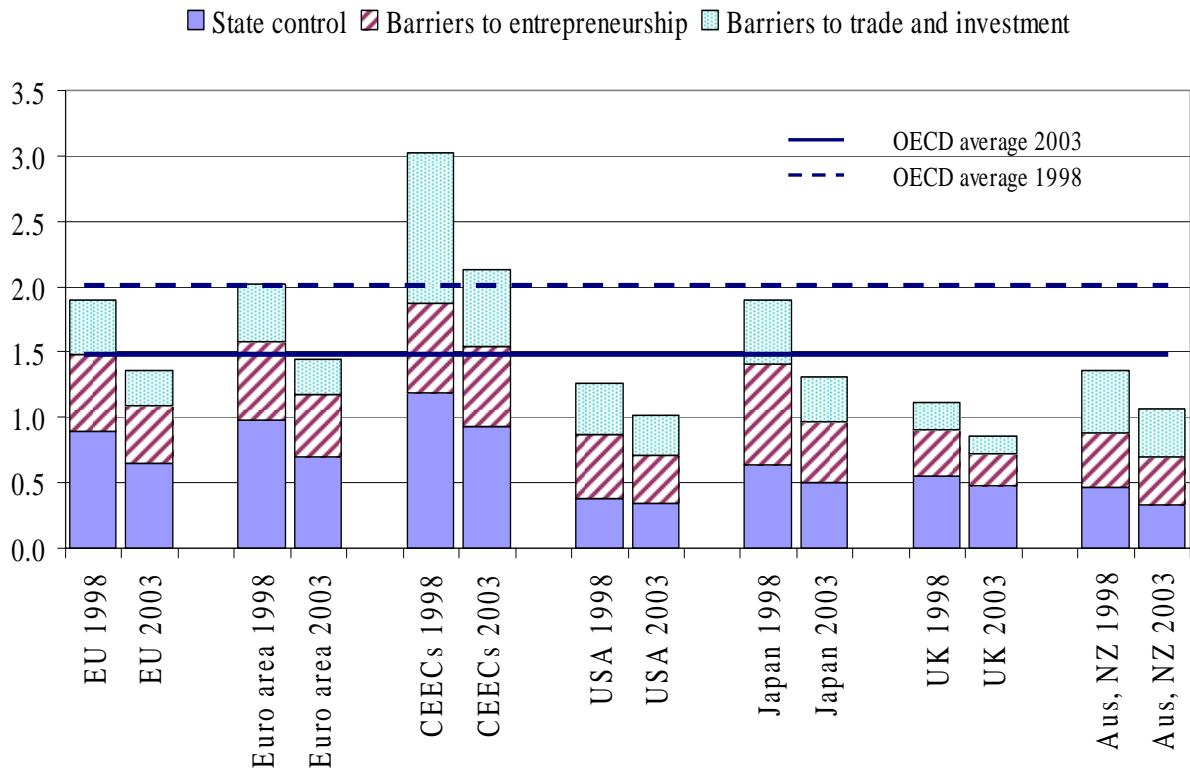
Source: OECD *Annual National Accounts*.

Graph 2: What's been driving the gap in per capita incomes?



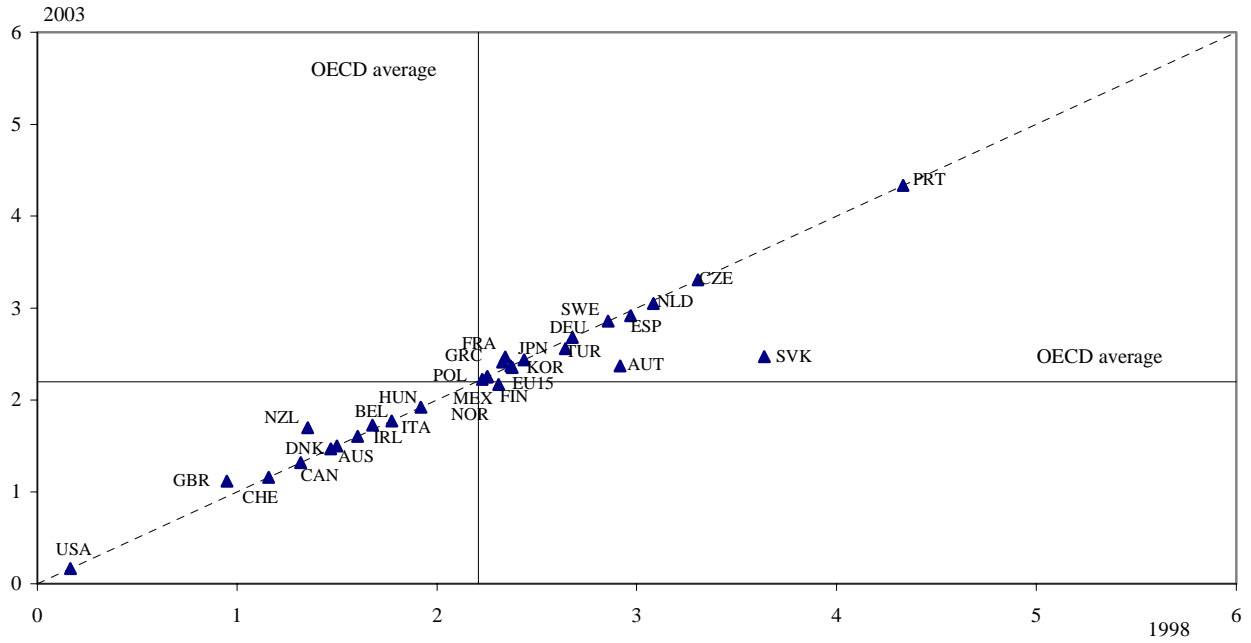
1. Based on the identity decomposing real GDP per capita into labour input variables and labour productivity. The labour input variables are the employment rate and the average number of hours worked by persons in employment.
 2. GDP per hour worked.
 3. Total employment as a percentage of total population.
 4. Average hours worked by persons in employment.
 5. European Union excluding the central and eastern European accession countries, Austria and Luxembourg.
 Source: OECD.

Graph 3: Product market regulation restrictiveness is converging towards a more liberal stance in all OECD countries...



Graph 4: ...but no progress has been made in reforming employment protection legislation

Restrictiveness of protection legislation on regular employment¹
Index scale of 0-6 from least to most restrictive



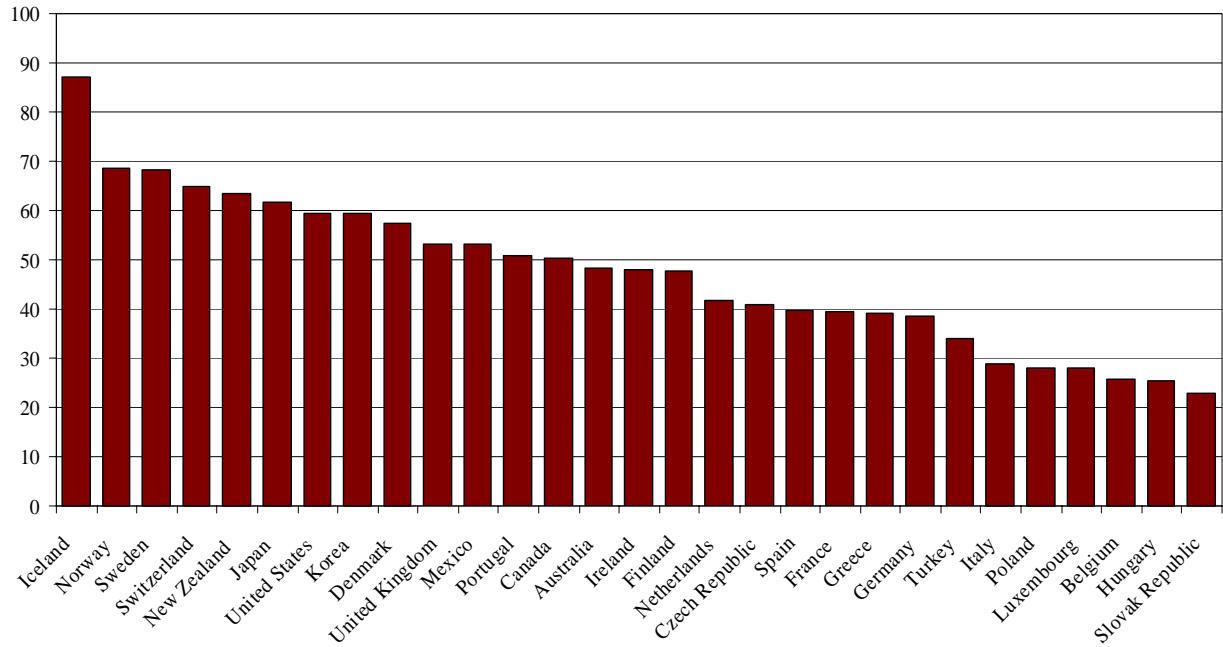
1. EU15, excluding Luxembourg.

Source: OECD *Employment Outlook*, 2004

Graph 5: There is a wide dispersion in older worker employment rates...

Employment of men and women age 55-64 as a percentage of the population age 55-64, 2002

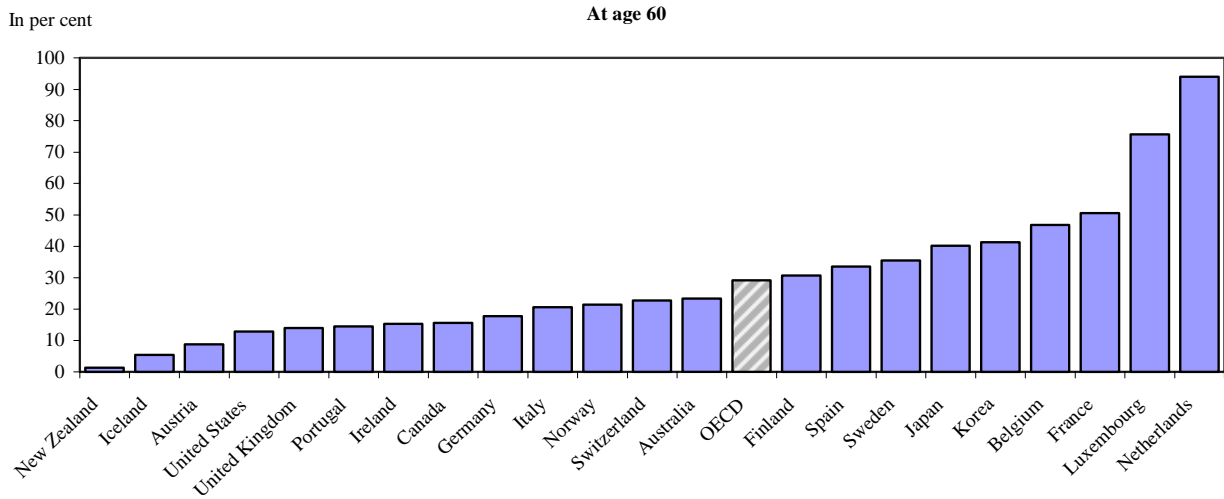
% of population age 55-64



Source: OECD.

Graph 6: ...which is largely explained by disincentives in old age pension systems...

Implicit tax rates on continued work over next 5 years in current old-age pension systems¹

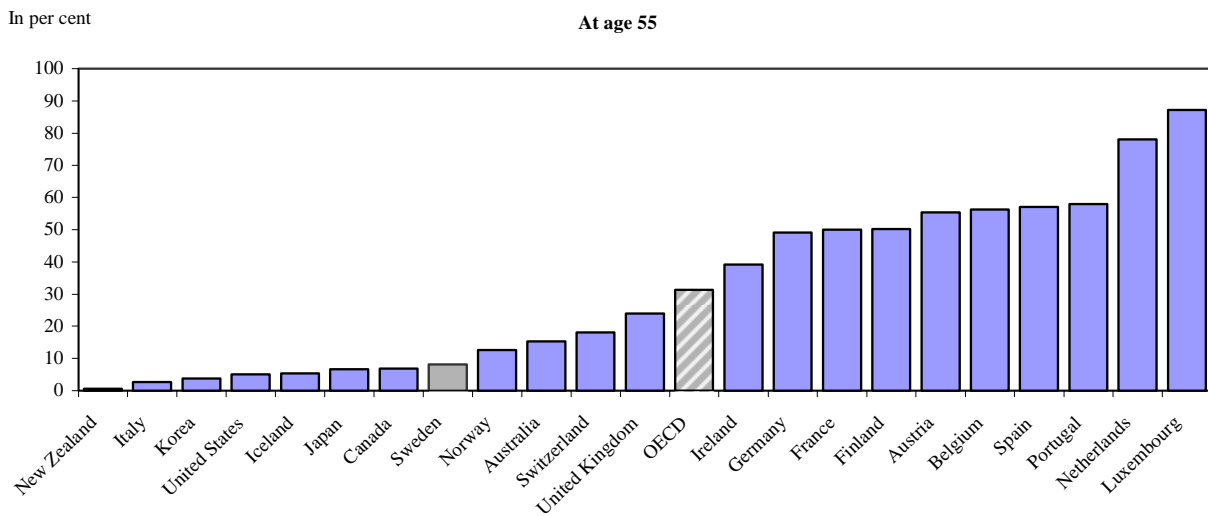


1. Single worker with average earnings.

Source : OECD.

Graph 7: ...and in social transfer programmes

Implicit tax rates on continued work over next 5 years in current social transfer programmes¹

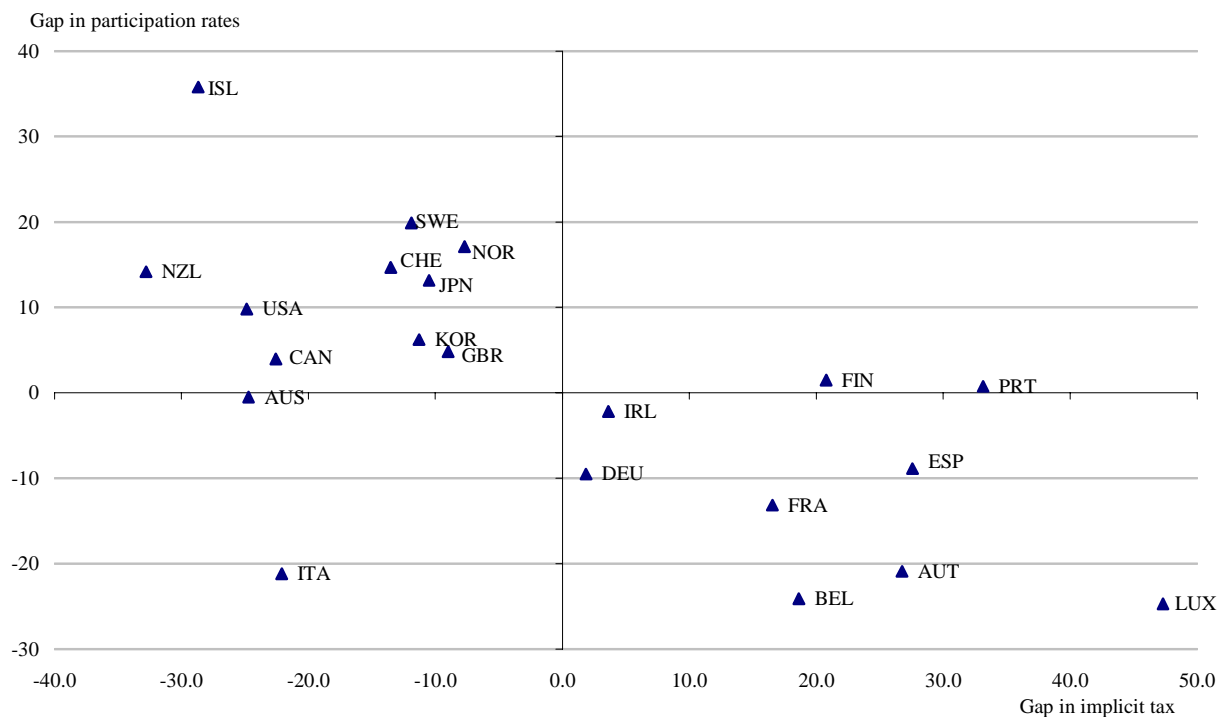


1. Single worker with average earnings.

Source : OECD.

Graph 8: Labour force participation rates of population aged 55-64 and the implicit tax on continued work¹

Percentage points gap vis-à-vis OECD average

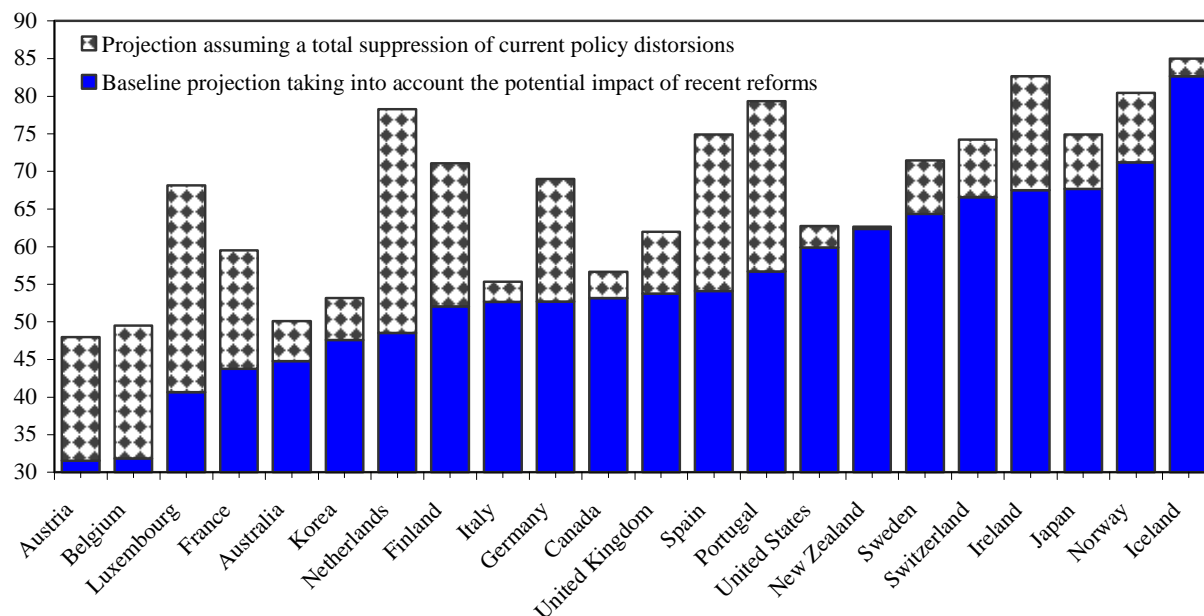


1. Average of implicit tax on continued work in early retirement route, for 55 and 60 years old.

Source: OECD Labour Force Statistics, 2004; OECD Transforming Disability into Ability, 2003 and Chapter 5 in this publication.

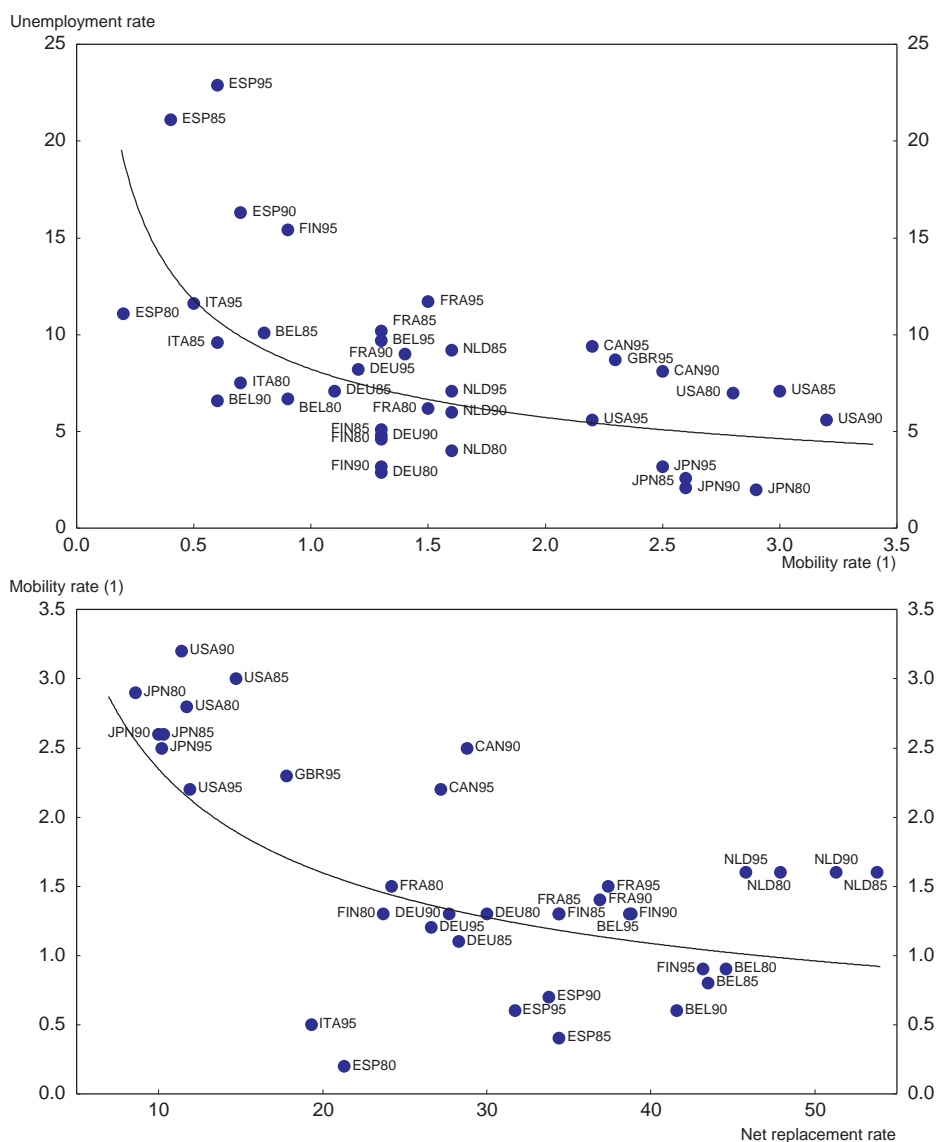
Graph 9: Suppressing various policy distortions would have a large positive impact on the labour force participation of older workers

(projected labour force participation rates of the 55-64 age group in 2025 under different scenarios)



Source : OECD.

Graph 10: Geographic mobility, unemployment rates and unemployment insurance in selected OECD countries

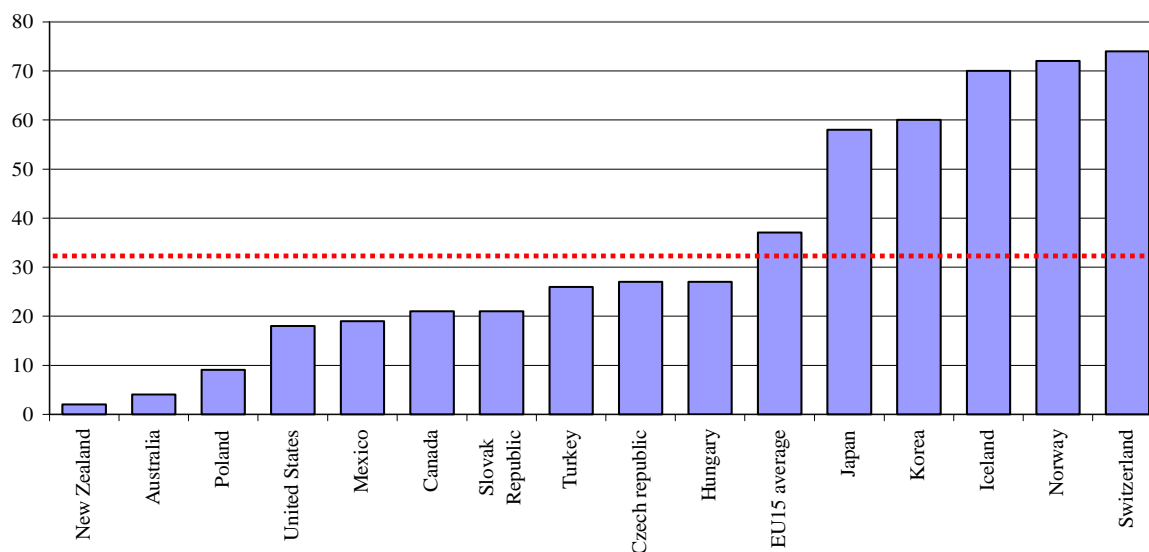


1. Ratio of the total number of persons who changed region of residence to the total population over one year.

Source: OECD (2002), *Employment Outlook*; OECD (2002), *Benefits and Wages*.

Graph 11: In the EU, producer support to agriculture is relatively high¹

Percentage of total value of agricultural production, 2003



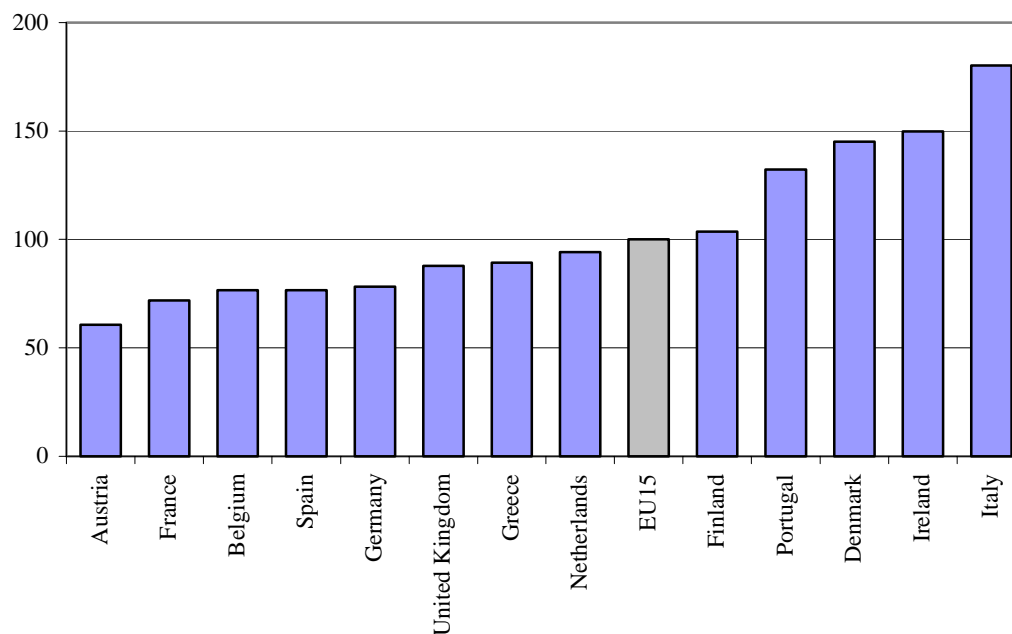
Note: The dotted line represents the simple average for the OECD.

1. A single producer support estimate is calculated for EU countries.

Source: OECD Producer and consumer support estimates database.

Graph 12: In the EU, electricity prices for industry vary widely, 2003¹

Index EU15=100



1. 2000 for Austria and Belgium, 2001 for Italy and the Netherlands, 2002 for Germany and Spain.

EU15 excluding Luxembourg and Sweden.

Source: OECD *Energy Prices and Taxes*, 2004.

Table 1.1. **Structural policies and performance: proposed priorities**

		Performance areas	
		Labour utilisation	Labour productivity
Australia	<p>Refocus disability benefit schemes to encourage work by those with substantial work capacity.</p> <p>Increase the weight of employability in the setting of minimum wages ("award wages").</p> <p>Strengthen employment prospects for lower-skilled workers by improving vocational education.</p> <p><i>Reduce tax wedge on low-income workers to improve work incentives for this group.</i></p>	<p><i>Accelerate reforms aimed at lowering barriers to entry in network industries.</i></p>	
Austria	<p>Reduce implicit tax on continued work to cut disincentives to work at older ages.</p> <p><i>Reform child support benefit system to weaken inactivity traps.</i></p>	<p>Raise overall human capital by improving graduation rates from tertiary education.</p> <p>Reduce administrative costs for start-ups and ease entry regulations in professional services.</p> <p><i>Strengthen competition law and enforcement by giving more powers to the competition authority.</i></p>	
Belgium	<p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p>Reduce disincentives to work at older ages by limiting early retirement through unemployment.</p> <p><i>Reduce the incidence of long-term unemployment by strengthening job-search requirements and improving skills of the unemployed.</i></p>	<p>Ease sectoral regulations and subject all new regulations to an efficiency test.</p> <p><i>Improve educational outcomes for students from ethnic backgrounds.</i></p>	
Canada	<p>Strengthen incentives to move from welfare to work via stricter job search and activation requirements.</p> <p><i>Restrain growth in public health care costs to limit increases in taxation and labour costs.</i></p>	<p>Switch from foreign ownership barriers to other means to pursue cultural goals, etc.</p> <p>Further liberalise professional services by removing inter-provincial trade restrictions.</p> <p><i>Reduce effective taxation on capital to encourage business investment.</i></p>	
Czech Republic	<p>Stimulate hiring by cutting the costs of EPL for regular workers.</p> <p>Reduce tax wedge on low-income workers to strengthen work incentives for this group.</p> <p><i>Further liberalise the rental housing market to increase labour mobility.</i></p>	<p>Implement intended reform of bankruptcy laws and simplify business registration.</p> <p><i>Reform system of taxes and benefits to reduce poverty traps for non-employed households.</i></p>	
Denmark	<p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p>Assist disabled beneficiaries to rejoin the labour force part time, and introduce a waiting period and stronger certification for sickness benefit.</p> <p><i>Reduce implicit tax on continued work embedded in the early retirement scheme.</i></p>	<p>Reduce barriers to entry in industries to strengthen competition in product markets.</p> <p><i>Improve educational achievements to raise the efficiency of the work force.</i></p>	
Finland	<p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p>Reduce implicit tax on continued work at older ages by reforming early retirement pathways.</p> <p><i>Promote greater flexibility in centralised wage agreements to expand employment opportunities.</i></p> <p><i>Reduce the incidence of long-term unemployment by tapering unemployment benefits with duration.</i></p>	<p>Reduce the scale of public ownership, especially raising private provision of publicly-funded services.</p>	

Table 1.1. **Structural policies and performance: proposed priorities** (cont.)

Performance areas		
	Labour utilisation	Labour productivity
France	<p>Stimulate hiring by cutting the costs of EPL for regular workers.</p> <p>Stimulate labour demand for youth and low-skilled by allowing for a relative decline in the minimum cost of labour.</p> <p>Reduce implicit tax on continued work at older ages by reforming early retirement pathways.</p>	<p><i>Accelerate reforms aimed at lowering barriers to entry in network industries.</i></p> <p><i>Promote greater competition in retail distribution by reviewing regulation concerning retail outlet locations and pricing rules.</i></p>
Germany	<p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p><i>Reduce disincentives to work at older ages by removing preferential unemployment benefit eligibility conditions for older workers.</i></p>	<p>Improve secondary education achievements to raise efficiency of the workforce.</p> <p>Liberalise professional services by phasing-out binding fee schedules in specific professions.</p> <p><i>Raise competition in government procurement to increase public spending efficiency.</i></p>
Greece	<p>Reduce age/gender imbalances in unemployment by easing the most stringent provisions of EPL.</p> <p><i>Reduce disincentives to work at older ages by linking pension to lifetime earnings.</i></p>	<p>Accelerate reforms aimed at lowering barriers to entry in network industries.</p> <p>Promote greater domestic competition by reducing administrative costs for start-ups.</p> <p><i>Simplify the tax code to reduce compliance costs for businesses and to boost private investment.</i></p>
Hungary	<p>Reduce the tax wedge for low-income workers to improve their incentives to work in the formal economy.</p> <p><i>Refocus disability benefit schemes to encourage work by those with substantial work capacity.</i></p> <p><i>Downsize the housing loan subsidy programme to reduce housing market distortions and facilitate labour mobility.</i></p>	<p>Reduce state control on the operations of network industries to allow prices to better reflect market signals and to facilitate entry.</p> <p>Promote greater domestic competition by reducing administrative costs for start-ups.</p>
Iceland	<p><i>Reduce government backing of bonds issued by the Housing Finance Fund to reduce housing market distortions and facilitate labour mobility.</i></p>	<p>Lower barriers to entry for domestic and foreign firms especially in the energy and fisheries sectors.</p> <p>Raise overall human capital by improving enrolment and graduation rates from upper-secondary education.</p> <p>Reduce producer support to agriculture, especially the most trade-distorting type.</p> <p><i>Raise public-sector efficiency by accelerating performance measurement and management.</i></p>
Ireland	<p>Strengthen work incentives for lower-skilled second earners via a tax credit or a subsidy for child care.</p> <p><i>Phase-out tax deductibility of mortgage payments to reduce housing market distortions and facilitate labour mobility.</i></p>	<p>Ease regulatory burden on business operations to reduce compliance costs.</p> <p>Promote greater competition in network industries and retail distribution by facilitating entry.</p> <p><i>Strengthen enforcement of competition law by giving the competition authority more power.</i></p>
Italy	<p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p><i>Promote greater flexibility in wage bargaining by decentralising wage-setting arrangements in the public sector.</i></p>	<p>Reduce the scope of public ownership by allowing for more competition in the provision of public local services.</p> <p>Raise overall human capital by improving access to, and graduation rates from, upper-secondary and tertiary education.</p> <p><i>Improve corporate governance by strengthening directors' independence and minority shareholder rights.</i></p>

Table 1.1. **Structural policies and performance: proposed priorities** (cont.)

Performance areas		
	Labour utilisation	Labour productivity
Japan	Stimulate hiring by cutting the costs of EPL for regular workers.	<p>Promote greater competition in network industries and professional services by facilitating entry.</p> <p>Reduce producer support to agriculture, especially the most trade-distorting type.</p> <p><i>Improve the soundness and functioning of financial system by resolving the non-performing loan problem.</i></p> <p><i>Reduce barriers to foreign direct investment to enhance technological transfers from abroad.</i></p>
Korea	Stimulate hiring by cutting the costs of EPL for regular workers.	<p>Promote greater competition in network industries and professional services by facilitating entry.</p> <p>Reduce producer support to agriculture, especially the most trade-distorting type.</p> <p><i>Improve the soundness and functioning of the financial system by extending privatisation and strengthening financial supervision.</i></p> <p><i>Reduce barriers to foreign direct investment to enhance technological transfers from abroad.</i></p>
Luxembourg	<p>Reduce implicit tax on continued work at older ages by reforming early retirement pathways.</p> <p>Strengthen incentives to move from welfare to work by raising in-work benefits at low wages relative to unemployment benefits.</p>	<p>Improve primary and secondary education achievements to raise efficiency of the work force.</p> <p><i>Raise public-sector efficiency by expanding the role of e-government and simplifying administrative procedures.</i></p> <p><i>Reduce barriers to competition in telecommunications to reap further benefits from liberalisation.</i></p>
Mexico	<i>Shift burden of taxation towards consumption by broadening the value-added tax base.</i>	<p>Improve secondary education achievements to raise efficiency of the workforce.</p> <p>Promote greater competition in product markets by reducing barriers to entry in industries.</p> <p>Reduce barriers to foreign ownership to enhance technological transfers from abroad.</p> <p><i>Strengthen investors' confidence by improving the enforceability of contracts.</i></p>
Netherlands	<p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p>Refocus disability benefit schemes to encourage work by those with substantial work capacity.</p> <p><i>Stimulate labour mobility by reforming residential zoning restrictions.</i></p>	<p>Reduce compliance costs for businesses by simplifying administrative procedures.</p> <p><i>Promote greater competition in network industries and retail distribution by facilitating entry.</i></p>
New Zealand	<p>Strengthen incentives to move from welfare to work via activation requirements and back-to-work bonuses.</p> <p><i>Stimulate labour demand by reconsidering recent measures that have raised labour costs.</i></p>	<p>Reduce barriers to foreign ownership and use other means to protect sensitive land.</p> <p>Improve educational achievement, in particular among ethnic minorities.</p> <p><i>Improve the regulatory framework for addressing infrastructure bottlenecks.</i></p>
Norway	<p>Refocus disability and sickness benefit schemes to encourage work by those with substantial work capacity.</p> <p><i>Use direct transfers rather than provisions of labour market and natural resource policies to achieve regional objectives.</i></p> <p><i>Reduce future pension contributions by using the Petroleum Fund to pre-fund part of pension liabilities.</i></p>	<p>Reduce the scope of public ownership by pursuing privatisation of competitive activities in network industries.</p> <p>Reduce producer support to agriculture, especially the most trade-distorting type.</p>

Table 1.1. **Structural policies and performance: proposed priorities** (cont.)

Performance areas		
	Labour utilisation	Labour productivity
Poland	<p>Refocus disability benefit schemes to encourage work by those with substantial work capacity.</p> <p><i>Increase labour mobility by improving transport and housing infrastructure.</i></p> <p><i>Stimulate labour demand for youth and low-skilled by allowing for a relative decline in the minimum cost of labour.</i></p>	<p>Intensify competitive pressures in a number of sectors by strengthening the privatisation programme.</p> <p>Reduce barriers to foreign ownership to enhance technological transfers from abroad.</p>
Portugal	<p>Stimulate hiring of regular workers and facilitate labour mobility by cutting the costs of EPL.</p>	<p>Improve secondary education achievements to raise efficiency of the workforce.</p> <p>Reduce state control in certain network industries to promote effective competition.</p> <p><i>Raise public-sector efficiency by accelerating the reform of public administration.</i></p> <p><i>Simplify the tax system to reduce compliance costs for businesses.</i></p>
Slovak Republic	<p>Reduce the tax wedge for low-income workers to improve their incentives to work in the formal economy.</p> <p><i>Promote a rules-based business environment by strengthening the governance of the judicial and enforcement systems law.</i></p> <p><i>Reduce future pension contributions by raising standard retirement age.</i></p>	<p>Reduce state control in certain network industries to promote effective competition.</p> <p>Raise overall level of human capital by improving secondary education achievements and access to tertiary education.</p>
Spain	<p>Promote greater flexibility in wage determination by limiting the extent of administrative extension of collective agreements.</p> <p>Stimulate hiring of regular workers by cutting the costs of EPL for this group.</p> <p><i>Reduce future pension contributions by making the public pension system actuarially fair.</i></p> <p><i>Phase out tax advantages for home ownership to reduce housing market distortions and facilitate labour mobility.</i></p>	<p>Raise overall level of human capital by improving upper-secondary and tertiary education achievements.</p>
Sweden	<p>Refocus sickness and disability benefit schemes to encourage work by those with substantial work capacity.</p> <p>Strengthen work incentives by reducing the tax wedge on labour income.</p> <p><i>Reduce work disincentives by reconsidering measures that would result in lower working hours.</i></p> <p><i>Improve labour mobility by reducing housing market distortions.</i></p>	<p>Reduce the scope of public ownership by allowing for more competition in the provision of public local services.</p>
Switzerland	<p><i>Refocus invalidity pension schemes to encourage work by those with substantial work capacity and to stem rises in tax burden.</i></p> <p><i>Promote competition in the provision of medical products and services to contain increases in health care costs.</i></p>	<p>Further liberalise professional services by removing inter-cantonal trade restrictions.</p> <p>Promote greater competition in product markets by reducing barriers to entry in network industries.</p> <p>Reduce producer support to agriculture, especially the most trade-distorting type.</p>

Table 1.1. **Structural policies and performance: proposed priorities** (cont.)

Performance areas		
	Labour utilisation	Labour productivity
Turkey	Strengthen incentives to work in formal activities by reducing the tax wedge on labour income.	Promote greater domestic competition by reducing administrative costs for start-ups. Reduce the scope of public ownership to allow for more competition in network industries. <i>Raise public-sector efficiency by implementing results-oriented budgeting in core public activities.</i> <i>Reduce genders imbalances in education by raising educational enrolments by women.</i>
United Kingdom	Refocus invalidity pension schemes to encourage work by those with substantial work capacity. Strengthen employment prospects for low-skilled workers by improving vocational education at the upper-secondary level.	Improve public infrastructure, especially for transport to further reduce bottlenecks. <i>Raise public-sector efficiency by strengthening incentives to pursue performance targets in publicly-funded services.</i> <i>Enhance competition in some service sectors by reviewing planning restrictions.</i>
United States	Limit increases in labour costs by reforming Medicare to restrain health care costs. <i>Encourage private saving by shifting the burden of taxation towards consumption.</i>	Improve primary and secondary education achievements to raise efficiency of the workforce. Reduce producer support to agriculture, especially the most trade-distorting type. <i>Stand firm on promoting transparency and accountability in corporate governance.</i>
European Union	<i>Improve intra-EU labour mobility by enhancing portability of pension and other benefit entitlements.</i>	Ease internal regulatory obstacles to cross-border trade and entry to strengthen competition. Promote greater competition in product markets by further reducing barriers to market contestability in network industries. Reduce producer support to agriculture, especially the most trade-distorting type. <i>Enhance competition in financial services by ensuring full implementation of Financial Services Action Plan.</i>

Notes

1. Given that the high ranking of Norway partly reflects the contribution from exploiting its oil reserves, the United States is considered as the leading country in terms of GDP per capita.
2. However, GDP per capita overstates the level of living standards in Ireland because of large income transfers to abroad from foreign subsidiaries (see Annex 1.A.1).
3. The indicators displayed in Chapter 2 are generally comparable across countries and over time. However, movements in some of the indicators may also reflect changes in the methodology used for the calculation.
4. The efficiency of the health sector is considered even though the link with growth performance is perhaps not as obvious as in the case of education. The reason is that fast-rising health care costs, as have been observed in many countries in recent years, can have an adverse influence on employment rates by putting upward pressures on indirect labour costs. In countries where health care is provided by the public sector, the associated costs are reflected in social security contribution rates and hence the tax wedge. And, in countries where health care is, to a large extent, provided by the private sector, the cost increases will not show up in the measured tax wedge, but will nonetheless be reflected in labour costs.
5. The policy areas covered by indicators will be expanded in the future as planned special studies on particular policy-performance linkages will enrich the indicator set used for surveillance.