

Improving the analytical basis for policy recommendations

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Growing demand for robust and transparent evaluation frameworks

“ The methodology for evaluation of NRPs and the underpinnings of country-specific recommendations need to be spelled out more explicitly in order to encourage national debate on key areas of underperformance in individual countries.”

Pisani-Ferry and Sapir (2006)

“ Monitoring and assessing reforms is an important factor for the success of the Lisbon strategy. This calls for a clear and transparent approach based on suitable methods.”

ECOFIN Council, February 2007

“... invites the Commission to continue working with Member States to further develop a clear and transparent methodology for the monitoring and evaluation of Lisbon reforms”.

European Council, March 2008

Part of a more comprehensive effort to improve analytical underpinnings of the Lisbon strategy

1. **Tracking what is actually happening:** using yearly reporting tables and databases on structural reforms under way in Member States
2. **Making the link to growth and identifying underperforming policy areas:** the Lisbon Assessment Framework (LAF)
3. **Quantifying the impact of reforms on growth and jobs:** modelling tools (QUEST III, Worldscan) and econometric studies

Structure of presentation

- Overview of the Lisbon assessment framework
- Insights from case studies: focus on new EU Member states
- Some elements of comparison with other frameworks

Overview of the LAF: Underlying assumptions

- Level data refers to 2006 (when available), and change refers to 2000-06
- Reference benchmark in is EU15 average, but technically feasible to use alternative benchmarks (EU27, five best values, EU5, the Lisbon target).
- Standardised continuous scoring system, score = $(\text{Indicator} - \text{EU15 average}) / \text{Standard deviation} * 10$.
- Qualified with country specific expertise (not pure mechanical)

Overview of the LAF

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GDP

Analysis of 12
GDP components
in level and
changes

Policy Performance

Analysis of 21 policy areas
affecting GDP. Indicator-
based assessment which is
then qualified with country-
specific information

Screening

Examines links
(identified in
literature survey)
between
performance in
policy areas and
relevant GDP
components

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Relative
performance of
GDP components

Relative performance of
policy areas

Underperforming
policy areas
qualified with links
to GDP
components

GDP components covered by LAF



Decomposition of per capita GDP

Decomposition of growth rate

<i>[Native population]</i>	Native population
<i>[Proportion of foreign population in total population]</i>	Net migration
Working age population share in total population	Working age population share in total population
Youth Participation	Youth Participation
Male prime-age participation	Male prime-age participation
Female prime-age participation	Female prime-age participation
Older-worker participation	Older-worker participation
Unemployment rate	Unemployment rate
Working time (Average Hours worked per person employed)	Working time (Average Hours worked per person employed)
Capital deepening	Capital deepening
Total factor productivity (Solow's residuals)	Total factor productivity (Solow's residuals)
Initial education of labour (labour quality)	Initial education of labour (labour quality)

Overview of the LAF

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GDP

Analysis of 12 GDP components in level and changes

Policy Performance

Analysis of 20 policy areas affecting GDP. Indicator-based assessment which is then qualified with country-specific information

Screening

Examines links (identified in literature survey) between performance in policy areas and relevant GDP components

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Relative performance of policy areas

Underperforming policy areas qualified with links to GDP components

Policy areas covered by LAF

Labour market

- Active Labour Market Policies
- Making work pay: interplay of tax and benefit systems
- Labour taxation to stimulate labour demand
- Job protection and labour market segmentation
- Policies to increase hours worked
- Specific labour supply measures for women
- Specific labour supply measures for older workers
- Wage bargaining and wage setting policies
- Immigration and integration policies
- Labour market mismatch and labour mobility

Macroeconomy

- Orientation and sustainability of public finances

Product and capital market regulations

- Competition policy framework
- Sector specific regulation
- Regulatory barriers to entrepreneurship
- Business dynamics: Start-up conditions
- Financial markets and access to finance
- Openness to trade and investment

Innovation and knowledge

- R&D and innovation policies
- ICT
- Education and life long learning

Overview of the LAF

GDP

Policy Performance

Screening

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Analyses of 12
GDP components
in level and
changes

Evidence-based analysis of
21 policy areas affecting
GDP. Indicator-based
assessment which is then
qualified with country-
specific information

Examines links
(identified in
literature survey)
between
performance in
policy areas and
relevant GDP
components

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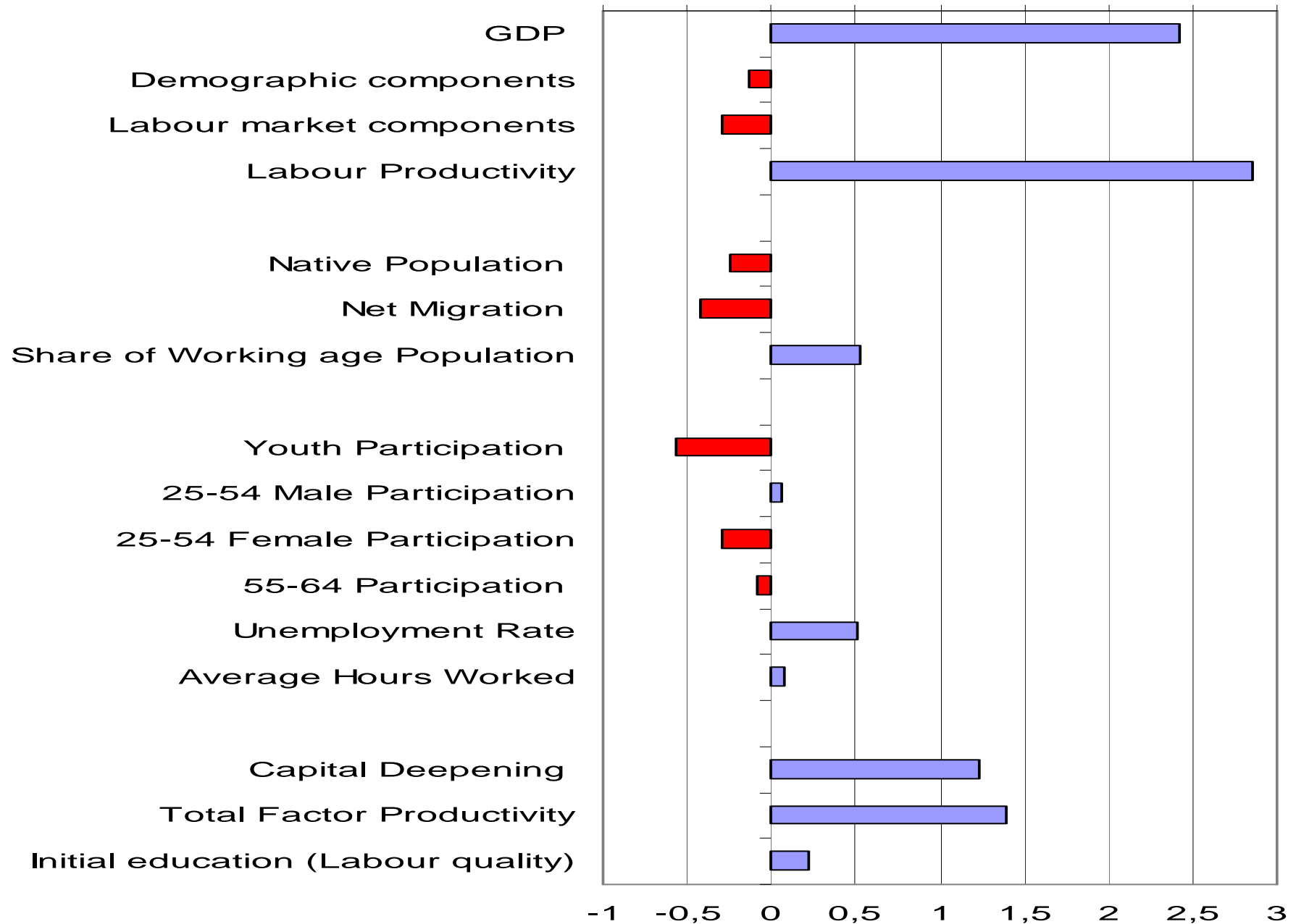
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Relative performance (+
= -) of policy areas

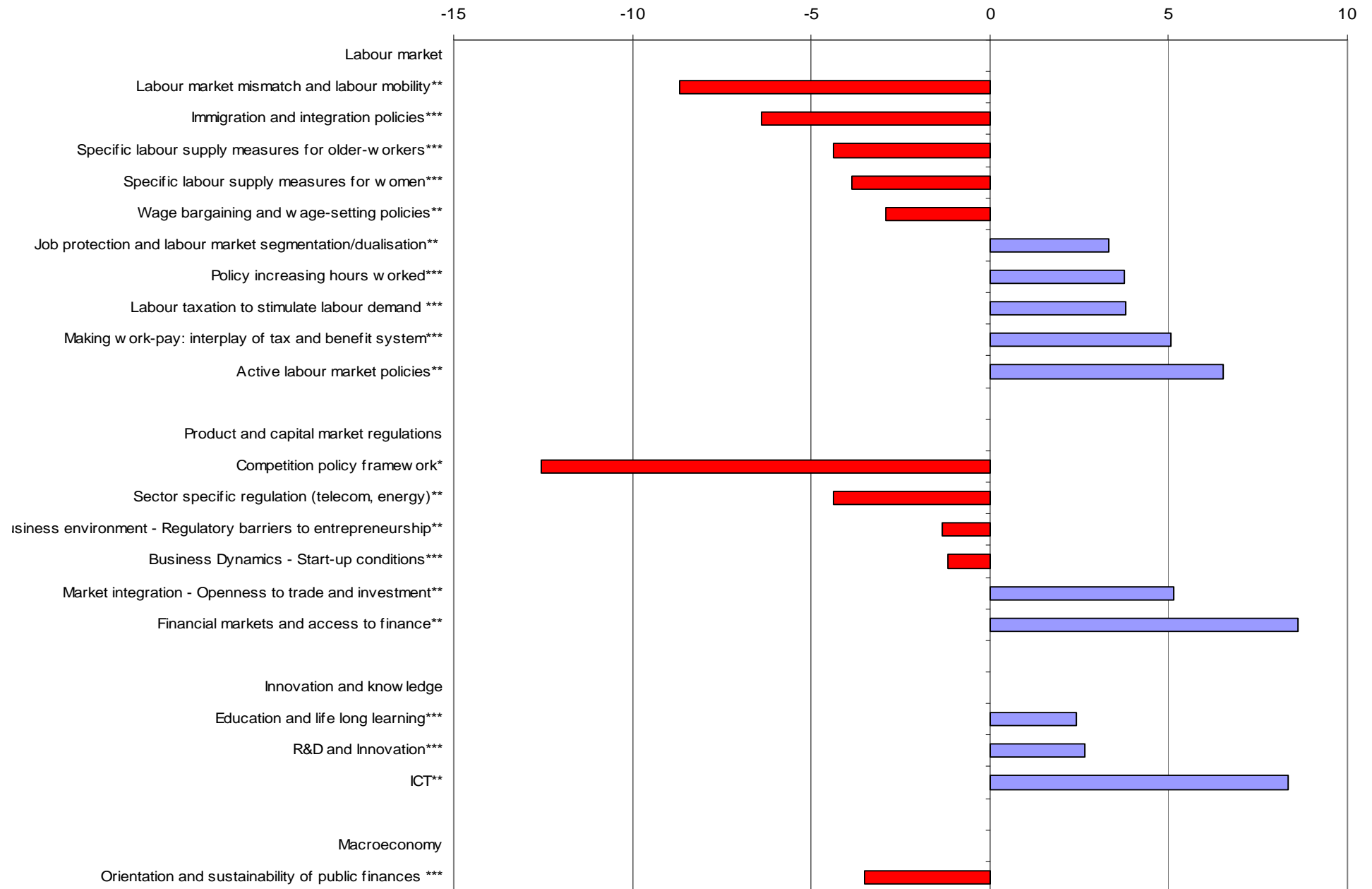
Underperforming
policy areas
qualified with links
to GDP
components

**Some horizontal results with a
focus on new EU Member States**

Growth differences vis-à-vis the EU15 2000-2006



Changes in policy areas in the NMS compared to the EU15 (average score 2000-2006)



Insights from case studies: focus on new EU Member states

- There continue to be differences in the patterns of over/under performance between new and old Member States
- Prospect of accession acted as a powerful reform stimulus (especially year 2004)
- In some cases the new Member States managed to push the reforms further than the former EU15.
- On the other hand, new Member States are still considerably further from the global technological frontier

Issues for discussion

- Whilst there is a generalised tendency towards catching-up across countries in terms of TFP growth, such a tendency seems to be weakening over time, especially in the post-1995 period.
- TFP growth appears increasingly associated with innovation and technological spillovers from countries positioned "at the frontier".
- Thirdly, ICT, human capital, and R&D appear to play a significant role in TFP growth over the period
- Finally, the determinants of TFP growth appear to be largely industry-specific.

Some elements of comparison with other frameworks

Comparing LAF findings with OECD's "Going For Growth"

- ✓ OECD identifies 5 issues per country irrespective of its relative performance; LAF assesses performance relative to EU15 benchmark.
- ✓ OECD identifies 3 priorities using scores at the level of each indicator and 2 priorities based on qualitative reading. LAF identifies priorities at aggregate level (policy area scores), at the level of each indicator (specific issues), or combined reading of growth accounting and policy area results.
- ✓ OECD recommendations are more concentrated across policy areas:
 - over 50% are in 4 policy areas: labour taxation, making work pay, wage bargaining, and education and lifelong learning (only 19% of all LAF underperformances).
- ✓ High degree of match in labour taxation, specific labour supply measures for older workers, competition and education
- ✓ The highest match is identified for the bigger euro area economies, while the lowest match is for the best and worst performing countries.

Main advantages of LAF

- LAF is a more economically sound and consistent framework so that policy recommendations are focussed on most important challenges
- LAF establishes an analytical benchmark that:
 - takes account of starting levels
 - helps disentangle the impact of the cycle and societal change (e.g. demographics) from structural reforms
 - can cater for lagged effects of reform measures (takes account of growth over the period)
 - balances need for comparability with country specificity (mechanic assessment complemented by qualitative assessment)

Caveats and limitations

- some policy areas and dimensions are missing (environment, social cohesion)
- usual caveats of growth accounting
- results in some policy areas are less robust (competition)
- Interactions and complementarities between policy areas
- Non-linearities in some of the links (Aghion, inverted U shaped)
- Needs to be complemented by additional analysis (at sectoral level - PM side)

Thank you

Annex

	Demographic components			Labour market components						Labour Productivity		
	Fertility (level) / Native Population (growth)	Share of foreign population (level) / Net Migration (growth)	Share of Working age Population	Youth Participation	25-54 Male Participation	25-54 Female Participation	55-64 Participation	Unemployment Rate	Average Hours Worked	Capital Deepening	Total Factor Productivity	Initial education of labour (Labour quality)
Active labour market policies												
Making work pay: interplay of tax and benefit system				X	X		X	X				
Labour taxation to stimulate labour demand								X				
Job protection and labour market segmentation/dualisation												
Policy increasing working time												
Specific labour supply measures for women												
Specific labour supply measures for older-workers							X					
Wage bargaining and wage-setting policies												
Immigration and integration policies								X				
Labour market mismatch and labour mobility				X	X			X				
Competition policy framework												
Sector specific regulation (telecom, energy)								X			X	
Business environment - Regulatory barriers to entrepreneurship								X			X	
Business Dynamics - Start-up conditions												
Financial markets and access to finance												
Market integration - Openness to trade and investment												
R&D and Innovation											X	
ICT												
Education and life long learning												
Orientation and sustainability of public finances												

GDP components

Policy areas

A coincidence of underperformance in a policy area and a relevant GDP component

The relevant GDP components for each policy area identified in economic literature are indicated by grey shaded cells

Table 1: Relative performance of GDP components vis-à-vis the EU15 both in level and growth (scores)

	I		Absolute contribution to annual growth	II	III
	GDP decomposition scores			Qualification	Overall assessment
	Level	Growth			
Demographic components	1	1	0,5		
Fertility / Native Population	1	-1	0,1		=
Share of foreign population / Net Migration	8	-1	0,4		+
Share of Working age Population	-7	4	0,0		-
Labour market components	-12	7	0,5		
Youth Participation	-12	-1	-0,1		-
25-54 Male Participation	-8	-3	-0,1		-
25-54 Female Participation	1	-2	0,2		=
55-64 Participation	-15	5	0,5		-
Unemployment Rate	-2	-7	-0,2	↓ growth	-
Average Hours Worked	-3	22	0,2		=
Labour productivity components	15	-6	0,8		
Capital Deepening	1	-16	0,3		=
Total Factor Productivity	18	-5	0,2	↓ growth	-
Initial education of labour (Labour quality)	11	8	0,4		+
GDP per capita (level) / GDP (growth)	8	-1	1,8		

Table 2: An overview of performance in each policy area at aggregate level

	Indicator-based assessment		Type of qualification of aggregate score	Overall assessment
	I		II	III
	Level	Change		
Labour market				
Active labour market policies**	2	-3		=
Making work pay: interplay of tax and benefit system***	-1	3	↓ statistical; country-specific ^a	-
Labour taxation to stimulate labour demand ***	-13	8		-
Job protection and labour market segmentation/dualisation**	5	9	↓ country-specific ^b	=
Policy increasing working time***	4	1		
Specific labour supply measures for women***	1	-2		=
Specific labour supply measures for older-workers***	-13	5		-
Wage bargaining and wage-setting policies**	-7	-14		-
Immigration and integration policies***	-9	-5		-
Labour market mismatch and labour mobility**	-8	-9		-
Product and capital market regulations				
Competition policy framework*	3	-14		=
Sector specific regulation (telecom, energy)**	-4	1		-
Business environment - Regulatory barriers to entrepreneurship**	-5	-2		-
Business Dynamics - Start-up conditions***	7	-2		+
Financial markets and access to finance**	9	0		+
Market integration - Openness to trade and investment**	6	2		+
Innovation and knowledge				
R&D and Innovation***	-2	-5	↓growth; country-specific ^c	-
ICT**	1	-6		=
Education and life long learning***	7	-1	↓country-specific ^d	=
Macroeconomy				

Types of qualifications



Qualification type	Reasons	Remarks
Growth	<i>Qualification of level score based on growth</i>	<i>A priori</i> , a policy area should be considered as underperforming (-) if the score in level terms is less than -4 irrespective of the score in change. However, this can be adjusted by country teams (to = or +) based on the "change" score, for example if absolute and relative growth was strongly positive.
Statistical	<i>Statistical inaccuracies or breaks in series</i>	Some indicators may be missing for some countries. Particular care should be paid to breaks in series: for example, some LFS series have been affected by methodological changes, thereby reducing the comparability of the series. However, these arguments should only be used if one considers that the aggregate score has been altered very significantly
	<i>Cyclical</i>	To be used only if cyclical impacts significantly the outcome of the indicator.
	<i>Low standard deviation</i>	Low standard deviation can cause some countries with a fairly low absolute deviation from the average to become outliers. For example, low standard deviations are found in some financial market indicators, such as insurance premium volume or bank overhead costs.
	<i>Impact of very significant recent reforms not yet captured by indicators</i>	This should only refer to very significant reforms, which have been enacted and whose effects are covered by reliable data from other sources.
Low benchmark	<i>EU15 benchmark not ambitious enough</i>	For advanced Member States, the EU15 benchmark may not be ambitious enough target. Commission services have not used this qualification in the LAF case studies.
Country-specific	<i>Country specific feature identified in the narrow list:</i>	This could arise when the aggregate score for a policy area may be above -4 and thus provide an indication of neutral (=) or positive (+) performance of the policy area, but where underperformance in one/several dimensions of a policy area is considered to be critical importance for the Member State concerned. This is reflected in the score of some indicators included on the narrow list used to calculate the aggregate score.
	<i>Other country-specific features</i>	This could arise when the aggregate score for a policy area may be above -4 and thus provide an indication of neutral (=) or positive (+) performance of the policy area, but where underperformance in one/several dimensions of a policy area is considered to be critical importance for the Member State concerned. This is not captured in the narrow list used to calculate the aggregate score. It could for example arise if there is a missing dimension of policy area that is not captured by the indicators (e.g. the efficiency of public spending).