



Economic Survey of Spain, 2008

Which new sources of growth can be tapped?

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Summary

The 14 year-long period of strong expansion has come to an end, as residential construction has begun adjusting towards a sustainable level of activity and the highly indebted household sector is curbing spending in response to both tighter financial conditions and higher inflation, while external demand is weakening as global financial turbulence worsens. The downturn is still at an early stage. Nonetheless, it has already resulted in a marked increase in unemployment, hitting workers in low-skill occupations, including immigrants, particularly hard. Moreover, some of the driving forces of past strong performance are also likely to lose momentum beyond the current downturn: immigration flows may slow, the potential for further gains in women's labour force participation is diminishing, and the expansionary impact of low real interest rates and strong credit growth following euro area entry on investment has ended. At the same time, even if there has been some improvement in productivity outcomes in recent years, the underlying trend still appears weak. Finally, the number of youths leaving full-time education with poor skills is high, while there are few workers with intermediate vocational skills, which offer high returns.

On the other hand the Spanish economy can count on two notable strengths to help it emerge from the deep slowdown: while the international financial crisis and the large exposure of domestic banks to the residential construction sector create a challenging context, the financial sector is overall comparatively well placed to withstand the foreseeable domestic contraction of activity, and the rapid expansion of tertiary education over the past 20 years provides a vast potential for future increases in economic welfare. While the short-term fiscal stimulus that was provided was appropriate so as to reduce risks of mutually reinforcing employment and activity losses, the scope for further discretionary stimulus is limited. In addition, government revenue growth is set to weaken markedly beyond the current downturn, requiring much tighter priority setting in spending.

The overarching policy challenge is to implement structural reforms that will more fully exploit existing potential and tap new sources of growth. Some of these would also do away with the need to offset market distortions with subsidy programmes, helping to lower government spending pressures.

This Policy Brief presents the assessment and recommendations of the 2008 OECD Economic Survey of Spain. The Economic and Development Review Committee, which is made up of the 30 member countries and the European Commission, reviewed this Survey. The starting point for the Survey is a draft prepared by the Economics Department which is then modified following the Committee's discussions, and issued under the responsibility of the Committee.

- **Improve the matching of workers to jobs.** Better activation of the unemployed would make a significant contribution to mitigating the impact of the downturn on the labour market. Reform of stringent employment protection for existing long-term contracts would lower the substantial barriers for young qualified workers to obtain jobs commensurate with their skills, as would focusing housing market reforms more squarely on removing barriers to geographic mobility.
- **Exploit the contribution the education system can make to raising long-term economic performance.** The very large number of school drop-outs needs to be reduced and vocational training made more attractive. Education outcomes could be raised through improved accountability and autonomy of schools. Better funding arrangements in tertiary education could further boost the contribution of high tertiary attainment to improving living standards.
- **Enhance the role product market competition can play in boosting productivity growth.** While past reforms in the regulation of some network industries have shown some good results, lack of independence and accountability of some sector regulators still deters entry of new firms. Reforms to heighten competition in transport, postal and professional services would have benefits throughout the economy owing to their use as intermediate inputs. ■

Which new sources of growth can be tapped?

The long period of virtually uninterrupted strong growth since the early 1990s has ended. This is likely to bring about lasting and profound economic changes. Housing construction is slowing sharply from an unsustainable level, and private consumption is also adjusting to more restrictive conditions in financial markets at home and abroad. The slowdown, although still at an early stage, has already had a significant impact on unemployment and is set to deepen in 2009, as the slide in housing construction is steepening. Some driving factors behind the robust historical performance – low real interest rates following euro adoption, ample credit availability, rising female labour force participation and massive immigration – are losing steam, portending only a modest rebound. Although predicting future potential growth is tricky, productivity gains have been weak, notwithstanding rapid capital accumulation, and it is as yet too early to assess whether the recent improvement will be sustained. Implementing an ambitious programme of structural reforms would surely enhance productivity performance in the medium and long term.

Nevertheless, the eventual recovery will benefit from some notable strengths. Banking institutions are, in the aggregate, comparatively well placed to absorb losses which will result from their lending exposure to domestic residential construction and to withstand ongoing international financial market turmoil. Fortunately, lending practises have in important respects remained relatively prudent. Looking further ahead, the vast expansion of educational attainment at the tertiary level, surpassed by only a few OECD countries, provides a huge opportunity for future gains in living standards. However, severe labour market segmentation and low geographical mobility are holding back the integration of young highly qualified workers in the labour market. Moreover, rising tertiary attainment notwithstanding, the supply of poorly educated workers with meagre employment prospects is still substantial and growing – in large part because of immigration – while the availability of young people with intermediate vocational skills is limited, despite high returns to such skills.

The challenges facing the Spanish economy are therefore to minimise the economic costs of the current downturn, moving workers shed in the shake-out quickly to new jobs, and to raise sustainable productivity growth including by steps to unlock the potential inherent in young highly qualified workers.

- *Improve the matching of workers to jobs.* Scope remains to better activate the unemployed, especially for immigrants and unskilled workers. Housing- market policies need to contribute to remove barriers to internal mobility. Reform of employment protection legislation could also go a long way to ending the marked underutilisation of highly qualified young workers.
- *Exploit the contribution the education system can make to raising long-term productivity prospects.* Outcomes need to be raised in secondary education. In particular, the number of young workers entering the labour market without qualifications must be lowered and vocational training be made more attractive. Better funding arrangements in tertiary education could further boost the contribution of high tertiary attainment to improving living standards.
- *Enhance the role product market competition can play in boosting productivity growth.* While significant advances have been made in a number of areas, such as in some network industries, barriers to competition are still significant, including in sectors that produce intermediate goods and services, exacerbating their negative impact on productivity throughout the economy.

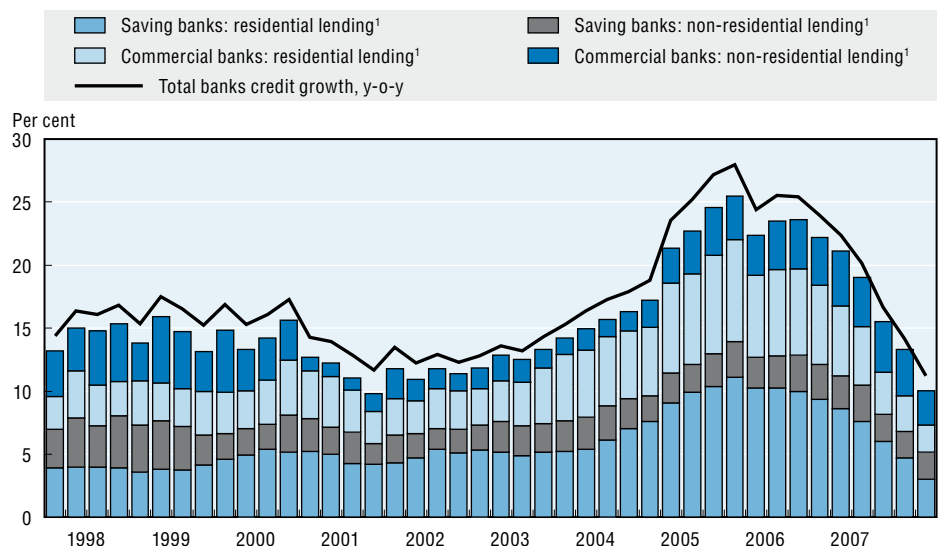
Rising short-term interest rates, most recently caused by the ongoing global financial turbulence, have triggered the end of a decade – long boom of

investment, especially in residential construction, and of consumption which together had pushed up the current account deficit to over 10% of GDP. The slowdown is deepening, as the drastic decline in housing starts has yet to fully feed through to activity, and the large number of new dwellings that have recently come on stream have added to oversupply. Private agents are also adjusting to tighter financing conditions and increased uncertainty worldwide. Export market performance has held up well, but foreign markets are weakening. The disinflationary impact of the sharp deceleration of domestic demand would be enhanced by boosting flexibility in wage and price setting, thereby limiting the negative impact on activity. If future wage bargaining continues to provide *ex post* indexation to the current inflation shocks, the recent impact of oil and food price increases on inflation will be at least partly passed on to wages. Competitiveness will be damaged, and the downturn will be accompanied by particularly heavy output and employment losses. *Should the total elimination of inflation indexation clauses in collective bargaining not be feasible in the short run, these clauses should be redesigned with a view to minimise second-round effects on inflation. To this end any indexation should be limited to an inflation measure that excludes oil and other commodity prices, and further reduces the degree of indexation. Making it easier to opt out of collective agreements would also be helpful.* ■

How can the banking sector be made more resilient?

Although domestic financial intermediaries' balance sheets are heavily exposed to the shrinking domestic residential construction sector, cushions against losses that will result from this exposure are substantial, and supervisors have discouraged imprudent mortgage lending practices. However, the exposure of the unincorporated, private domestic savings banks – which hold about half of total banking-sector assets and are, as any other bank, under the supervision of the Bank of Spain – is higher than that of other commercial banks, and their particular legal status places some limits on their ability to raise external equity. This could diminish their ability to offset any reductions in their solvency without resorting to tighter lending standards, although resulting

Figure 1.
GROWTH OF CREDIT GRANTED BY SAVINGS BANKS AND COMMERCIAL BANKS



1. Contributions to total credit growth. Residential lending comprises loans for home purchase as well as loans to firms in the real estate service (including property development) and the residential construction sector.

Source: Banco de España (2008), *Boletín Estadístico*.

macroeconomic effects could be mitigated if other institutions were to step in to fill the gap. No investor can own more than 2.5% of a savings bank's equity, and scope for takeovers are limited, even among savings banks themselves, as such mergers require regional governments' approval. *Consideration should be given to lowering barriers for savings banks to raise external equity. Such steps could include lifting the requirement of regional government approval for mergers and raising the limit on individual shareholdings.* Separately, loan defaults could rise more markedly if employment losses are large; this would especially affect young workers living independently.

The indexation of interest rates on mortgages to short-term interbank rates heavily exposes the economy to changes in such rates (which have risen sharply in recent months) especially in view of high private household indebtedness. The government is appropriately taking steps to raise information requirements on interest rate risk for loan customers and has lowered the costs of switching to mortgage rates which are less flexible. However, a small transaction tax is still weighing on such costs. *Transaction costs for switching to less variable mortgages should be lowered further.* ■

How should fiscal policy be managed?

The government has introduced a package of expansionary measures to offset the sharp deceleration of activity, including an income tax rebate of € 400 – in addition to the adjustment of tax brackets and basic income tax allowances to inflation in the 2008 Budget Law – as well as an acceleration of public investment projects and an expansion of public lending guarantees for social housing. New child benefits payable at birth were already partly introduced in 2007. Overall, these expansionary measures have an expected budgetary impact of around $\frac{3}{4}$ per cent of GDP. Although the resilience of the financial sector is likely to help limit the fall-out of the residential construction downturn, and adjustment is inevitable, taking out some insurance was appropriate to limit the risk of a downward spiral in activity and employment, reinforced by declining house prices. However, some of these measures could be more closely linked to policy priorities for structural reform. In particular, *the resources taken up by the new tax allowances and child benefits could be more effectively used to lower the relatively high tax wedge on low income workers with children by means of an in-work benefit* (see below). In any case, fiscal policy expansion is nearing its limits, as the government has recognised in its budget proposal for 2009.

The attention of fiscal policy makers needs to turn to the medium term, as revenue gains are likely to diminish considerably even beyond the current cyclical downturn. This is because, as the current account returns to a sustainable position, economic growth will shift from domestic to external demand, which is less tax rich, and some of the drivers of economic growth in the recent past are likely to weaken. In addition, current primary spending relative to GDP has drifted upwards and ageing-related spending pressures will rise. The central government has therefore presented a draft budget that curbs spending growth, including on defence and some subsidies. *Fiscal policy could be more supportive of structural reform, raising the growth potential, by cutting remaining unproductive spending and further removing distortions in the tax structure.* Conversely, structural reform can contribute to improving sustainability of government finances by making it easier to eliminate spending aimed at offsetting adverse consequences of inappropriate policy settings (see below). *Medium-term spending priorities need to be more stringently determined and tied to structural reform priorities.* On the revenue side, the recent decision to fully allocate pollution permits

to firms participating in the EU greenhouse gas emission permit scheme for free until 2012 foregoes the opportunity to reduce the national debt without recourse to distorting taxation and risks undermining incentives to reduce emissions that result from the trading scheme. *The government should auction greenhouse gas emission permits after 2012. It should therefore support the elimination of the cap of 10% on the share of permits that can be auctioned according to EU rules.* Also size thresholds in the taxation of business profits provide disincentives for successful businesses to grow. *Differences in corporate tax rates according to firm size should therefore be phased out.* ■

Which policies can help move workers into jobs?

The deceleration of economic growth has already resulted in a marked increase in unemployment. This reflects labour shedding in construction and related sectors and an expansion of labour supply, as immigration is still substantial and female labour force participation continues to rise, albeit at a reduced pace. Workers in occupations with low qualification requirements have been affected the most by the rise in unemployment, including immigrants. Sectors which have employed many of these workers, mainly construction, are set to lose importance. The mismatch between qualified workers and available jobs is severe in international comparison, with an unusually large share of highly qualified workers employed in occupations not making adequate use of their qualifications.

Effective active labour market policies (ALMPs) play a major role in damping the impact of the business cycle on labour-market performance. The government has recognised the importance of such policies, pledging an increase in resources to the public employment services (PES). Spain's activation policies are sound, with benefit receipt at least formally conditional on satisfying search requirements, but scope for improvement remains. While the central government level is responsible for financing unemployment benefits and part of the PES' activities, regional governments run the placement services. This split assignment of responsibilities risks weakening incentives for effective placement. Indeed, enrolling some unemployed in ALMPs is used to re-qualify participants for benefits, and placement interviews are conducted less frequently than in many other OECD countries. *To identify well and poorly performing placement offices the placement results of regional employment services should be benchmarked and linked to some financial reward for success.* Not all ALMPs are evaluated, and a large share of such spending is directed towards wage subsidies for offers of permanent contracts to the unemployed, which are subject to large deadweight losses and displacement effects. *Wage subsidies for the hiring of the unemployed on permanent contracts should be redirected to those ALMPs targeted at the difficult to place unemployed that prove most effective in moving them into unsubsidised jobs.*

While labour tax wedges are not generally high by OECD standards, the tax burden on low-wage earners with children is still comparatively high, even after improvements in their fiscal treatment introduced in the 2006 reform of the personal income tax. This adversely affects their employment prospects and contributes to their relatively high poverty rate. As mentioned above, *consideration should be given to introducing a means-tested in-work benefit, whose level would depend on the number of children in the household.* Higher child benefits conditional on school attendance could also reduce early dropping out from secondary school (see below).

As outlined in earlier Surveys, immigrants have helped to raise living standards through their large contribution to labour input, reflecting their relatively young age and high participation rates. However, many work in low-skill occupations, including in the construction industry, and in jobs that do not reflect their skills. Also, about half are employed on temporary contracts, exposing them heavily to the current economic downturn. About half of all immigrants arriving in Spain are not Spanish native speakers. *Incentives for immigrants to acquire local language skills should be raised, inter alia by adapting the national system of language skill certification to labour-market needs. Finally, barriers excluding non-EU workers from some regulated professions and from public-sector jobs should be removed.*

Why is reform of employment protection legislation needed?

Stringent employment protection legislation (EPL) for workers on permanent contracts continues to encourage widespread use of temporary contracts. The precarious employment status of young workers, whose levels of qualification are especially high, is strongly related to their lack of access to positions that are commensurate with their skill levels. Measures taken in recent years, notably financial incentives for hiring on permanent contracts and some reduction in severance payments for new hires of young and female workers, cannot address the depressing impact of strict EPL for incumbent workers on worker turnover, including on voluntary job-to-job movements. This is the fundamental problem EPL poses for these demographic groups. *Severance pay for permanent contracts should be made less generous, reducing the difference in the degree of protection between temporary and permanent contracts. One option to fully remove such differences is to create a universally applicable contract.*

What should the focus of housing policy reforms be?

Limited geographic mobility contributes to a mismatch of workers with needed skills, especially among young, highly qualified workers, reducing the returns to education. Low mobility is linked to the stunted development of the private rental market, which is weakened in turn by slow rental contract enforcement by the courts. A more developed rental market could raise housing demand among young and low-income individuals. Progress has been made in this direction, and the government is preparing additional legal reforms in order to shorten eviction processes, and the possibility of applying arbitration procedures to rental contracts is under consideration. Indeed, *judicial procedures to enforce residential private rental contracts need to be further accelerated.* Otherwise, the central and regional governments have embarked on an ambitious joint programme to raise the supply of social housing by 1.5 million units over the next 10 years. While at least 40% of the new units are aimed at the rental market, this programme risks exacerbating mobility barriers, as access is typically available only after a considerable waiting period. Moreover, social housing programmes are poorly targeted at low-income households, *inter alia* because part of social housing is made available for purchase. Means-tested cash benefits earmarked for housing costs are likely to achieve better targeting without harming mobility. The recently introduced mobility allowance for the young is a step in this direction. *Resources devoted to subsidising social housing should be redirected to means-tested earmarked cash benefits. Such steps would more effectively improve the income prospects of the truly needy. Developing new social housing for purchase should be abolished. Finally, the deductibility of mortgage and rent payments from the personal income tax should be phased out.* ■

What education reforms will raise productivity and employment outcomes?

Improving education outcomes needs to be a vital part of Spain's strategy to catch up with the living standards in more advanced OECD countries. Education system reforms can also reduce inequality, by breaking the intergenerational transmission of low attainment. While progress has been impressive over the past 30 years in both early childhood education and tertiary attainment, more can be done:

- The early school dropout rate is unusually elevated for a high-income country, constraining access to upper secondary education, where the graduation rate in the vocational stream is low. Dropouts are regrettably strongly correlated with socio-economic background.
- Learning outcomes in compulsory schooling, as measured by PISA scores, are somewhat below the OECD average, notably in reading.
- At the tertiary level, students' incentives are biased towards the vocational pathway, where returns are lower than in university education. Furthermore, Spanish universities have hardly emerged among the top internationally renowned institutions. ■

How should policy improve learning in compulsory education?

The high school drop-out rate is closely related to the very high grade repetition rate, resulting in many pupils leaving school at the age limit of compulsory schooling (16 years) before having completed lower secondary education. Grade repetition entails high social costs and little educational benefit. Reducing the number of early drop-outs has figured prominently among the government's reform priorities. Legislation passed in 2006 (*Ley orgánica de educación, LOE*) tightened qualification requirements for new teachers substantially. This should help future teachers to cope with diversity in the classroom. *Giving existing teachers incentives to acquire similar qualifications as those required of newly hired staff should be considered.* The LOE also strengthened schools' capacity to identify pupils' learning difficulties early. However, formal grade advancement criteria give equal weight to all subjects, and graduation from lower secondary education requires a pass mark in all subjects. Curricula in the comprehensive secondary school system allow limited room for vocational subjects, although the LOE widened the choice of optional subjects to some extent. Curricula and grade advancement criteria are likely to discourage vocationally interested pupils. *Grade advancement and access conditions to upper secondary education should be limited to those skills that are required in order to benefit from any type of upper secondary education, and room for optional subjects, especially of a vocational nature, should be widened.*

While some regional governments have introduced regular centralised testing procedures, and the LOE provides for samples of schools to be regularly tested, nation-wide testing has not yet been utilised to benchmark regional education policies. The new law gives public schools some albeit limited influence in the decisions to hire teachers and to set curricular content. It is important that measures to strengthen school autonomy be conditional on progress with regard to accountability so as to ensure incentives are in place for schools to make good use of their enhanced autonomy. *Nation-wide sample-based evaluations of education outcomes should be used to assess the differential impact of regional educational policies to help determine best practice. External testing of all schools should be extended to all regions and should be used to benchmark performance against targets and identify priorities for improving performance. Consideration should be given to complementing these with centralised exams at secondary level.* Indeed, the international evidence shows that external examinations reduce grade repetition considerably, reinforcing teachers' incentives to improve learning

outcomes of all pupils. *Autonomy of schools, notably with respect to hiring decisions of teaching staff and curricular content, should also be widened further.*

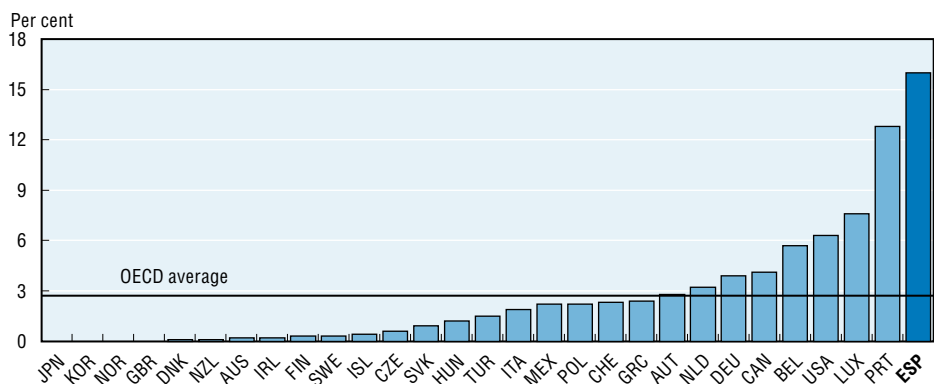
To reap the benefits of improved accountability and autonomy, schools' managerial capacity needs to be well developed and teacher career advancement linked to performance. While specific qualification requirements for the selection of public school head teachers have been introduced, their selection is in the first instance limited to the teachers of the school in question. Also, head teachers are paid little more than classroom teachers. *The pool of candidates among whom head teachers can be hired should be widened and their pay raised.* Teachers enjoy a high degree of job protection and a good level of pay in international comparison but face weak incentives from promotion prospects and the pay structure. *Opportunities for promotion or other rewards for teaching staff and management should be enhanced.*

Means-tested grants are available for families with children in secondary education; indeed, they have been raised in recent years. However, take-up, which requires an application, is low, and most funds are directed to upper secondary education and so cannot address the lower-secondary drop-out problem. *Support for low-income families whose children attend secondary education should be increased. One option would be to raise child benefits, linked to a means-tested in-work benefit (see above), and to make continued eligibility for child benefits beyond the age of 16 conditional on secondary school attendance.*

Which reforms can raise the effectiveness of vocational training and university education?

Schools providing vocational education are closely integrated with non-vocational schools, suggesting that their accountability and autonomy can likewise be raised. *Schools offering vocational teaching should be evaluated with respect to their success in the transition of graduates to qualified jobs and results published.* Employers have argued that a larger role for professional practitioners in vocational teaching would be beneficial, but there are barriers to their assuming teaching positions. *The teaching profession should be more widely opened to practitioners.* Employers have also complained of graduates' weakness in general competencies, such as written expression and foreign languages. *More*

Figure 2.
REPETITION RATES
IN LOWER SECONDARY
EDUCATION ACROSS
OECD COUNTRIES¹



1. School principals were asked what percentage of students in their school repeated a grade at the levels of lower secondary education (ISCED 2), in the previous year of schooling.

Source: OECD, PISA 2006.

emphasis on general skills within vocational pathways could also help sustain graduates' employability at more advanced age, strengthening their capacity to acquire new skills. The attractiveness of upper secondary vocational education is also hampered by limited scope for transition into tertiary education. Opportunities for transferring from upper secondary vocational to tertiary education should be improved.

Government-sponsored loans are not available for most tertiary courses. At the same time, universities charge fees, whereas none are charged for tertiary vocational courses. While a means-tested student grant system is in place for students with low-income parents, access to university remains constrained. Indeed, these policy settings limit talented students' access to university and bias students' education decisions towards tertiary vocational courses, where study duration is much shorter than in universities but where returns have been lower. A loan scheme could address students' funding needs at a lower budgetary cost. *Loans with income-contingent repayments should be introduced for all tertiary students, including those in the vocational stream. Fees should then be introduced for tertiary vocational courses and raised elsewhere.* Many of the autonomous regions have not yet moved to outcome-oriented elements in universities' funding, and their autonomy is still limited with regard to working conditions and pay of academic staff. *University funding should be more closely linked to outcomes. Further strengthening their independence, notably with regard to the setting of contract conditions and pay, would be beneficial.* Finally, reliance on regional funding, notably for universities, diminishes incentives to provide centres of teaching excellence of national standing and to create university departments capable of attracting students from throughout the country. Indeed, while their graduates would be attractive to employers located elsewhere, providing regions would not reap the full benefits of their actions. *Thus, consideration should be given to creating a nation-wide funding scheme, supplementing existing regional funding, to reward the creation of centres of excellence in university teaching.* ■

What reforms in product market regulations could boost productivity?

Trend productivity growth has been weaker than in other European countries across a broad range of both manufacturing and services sectors. Over the past decade productivity advances appear to have been particularly meagre in international comparison in transport services as well as post and telecommunications. Measures to further strengthen competition in these sectors, as well as in other network industries and in the professional services, would stimulate productivity growth beyond the sectors concerned, owing to their use as intermediate goods and services. Recent reforms have already resulted in visible improvements in competition, for instance in the energy sector.

- *The independence and powers of sectoral regulators in some network industries should be strengthened.* In some sectors (railways and airports, for example), regulation is conducted by a central government ministry. *Independent sector regulators should be introduced in all sectors.* Regulatory autonomy is also compromised by government interventions in regulatory decisions, especially in the energy industry, and by the option of re-appointing the members of the regulators' boards. *Sectoral regulatory decisions should not be subject to government review, while the contracts of senior regulatory officials should not be open for renewal.*
- In the *electricity industry*, regulatory policy is more advanced than in many other OECD countries, notably with respect to vertical separation, helping new entrants gain market share. Electricity is still offered at regulated retail prices, which are set below cost. This practice undermines efforts to achieve greenhouse gas emission targets. The government intends to phase out

regulated retail prices from 2009 to 2012, following the helpful elimination of high-voltage business customer tariffs in July this year. *Remaining regulated retail prices should be phased out as soon as possible, not only because of the distortions involved for users but because of the future risk that the current bond-financed supplier payment system poses to the taxpayer.*

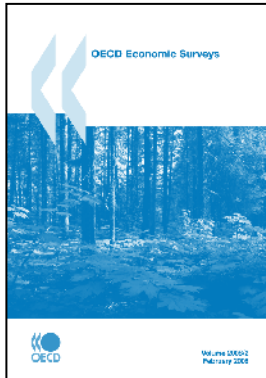
- In transport, the government has announced measures to strengthen competition among ports, which are welcome. Licensing requirements in road freight haulage are more onerous than in other OECD countries, hindering entry and restructuring. *These licensing requirements should be eased.* The government is renewing road passenger transport licenses. *These licenses should be tendered on a competitive basis without favouring incumbents.* In the railways, market entrants have gained little market share in freight transport. *Access of competitors to the incumbent's rolling stock at non-discriminatory conditions should be guaranteed.* *Competition in passenger services should be introduced as soon as possible.* Experience in several OECD countries shows that the tendering of public service obligations in regional transport services, linked to the payment of subsidies, has been effective in lowering costs.
- In the telecommunications sector, the incumbent has been able to retain a large market share in ADSL services, but the spread between the incumbent's and competitors' prices for high-speed internet access is still unusually high. *To what extent this is the result of ongoing non-price discrimination against competitors in their access to the local loop is worthy of investigation.* Spain has moved ahead of other countries in considering how to regulate the new fibre-optic networks. In view of the limitations to the unbundling of individual customer connections to these networks, functional separation may perhaps need to be imposed on the incumbent to ensure effective competition. *The regulator should therefore be explicitly empowered to impose functional separation on the incumbent.* In postal services, competitors' access to the incumbent's network facilities, including address data bases, is limited. *Their access to these facilities should be improved.*
- The range of professional services for which Spanish regulation requires specific qualification requirements to be met is unusually large in international comparison, generating barriers to entry. The government is planning to reform entry conditions. *Qualification requirements for professional services should be reviewed and the range of covered professions narrowed.*
- Entry barriers at the regional level on large-scale retail outlets continue to depress productivity in retail trade with a significant impact on aggregate outcomes. The government appropriately intends to use the European Union Services Directive as an opportunity to remove them. ■

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