

OECD ECONOMIC RESEARCH PROGRAMME

1. The following is a description of a subset of OECD activities judged most likely to possess scope for cross-fertilisation with the work programmes of NEROs. It is organised by topic and these are grouped by the Agenda's proposed rounds of discussion. Some of the topics involved cover work by a number of Directorates. Links have been included to those studies recently published and which are available online as OECD Working Papers.

Round 1: Productivity, innovation and economic growth

2. Since the May 1999 meeting of the OECD Council at Ministerial level, a priority theme of OECD work has been to identify the determinants of and policies to strengthen overall economic growth.

3. The initial phase of this work reviewed countries' growth performance over time, identifying the main direct sources in terms of labour input, capital deepening, human capital and MFP. Another dimension examined the micro dynamics of growth, considering the respective roles of new firms, ongoing firms, and exiting firms for productivity growth. Other work focused on the main determinants of macroeconomic growth, the influence of human capital on growth, as well as the roles of social capital, social expenditures and income differentials and ICT for growth. A book synthesising much of this body of work, with an emphasis on the policy implications, entitled *The Sources of Economic Growth in OECD Countries* was published in 2003 and last year a report examined the economic impact of ICT at the macroeconomic, industry and firm level. As well, a sizeable number of *OECD Working Papers* on economic growth were published. For more details on this body of work see: www.oecd.org/eco/structural_issues/growth.

4. Since the publication of the synthesis of OECD work on growth, certain aspects have been examined more closely, including through country reviews of policies designed to promote growth. In addition to the analytical work on growth, a procedure has been implemented to derive, in a consistent manner across countries, policy recommendations to enhance growth. For details see *Economic Policy Reforms* at: www.oecd.org/eco/economicpolicyreforms2005. Recent and current work consists of in-depth studies on the determinants of innovation, the relationship between product market regulation, competition policy and economic performance and an investigation into the possible reasons why some, mainly continental European economies seem less resilient to economic shocks. More specific details include:

- **Innovation.** OECD work has examined ways of improving the performance of innovation policies and enhancing their contributions to economic growth. Topics covered have included: strengthening industry-science linkages, financing business R&D and the governance of public research organisations. Several sectoral studies have also been conducted on innovation in biotechnology, energy and knowledge-intensive services. Further, a study has just been completed which focuses on the determinants and the role of policies and framework conditions for innovation and knowledge diffusion. The paper also considered some interactions between different policies and discussed the relative effectiveness of innovation policy instruments designed to encourage innovation activity, such as grants, tax measures and intellectual property protection. The paper will also serve as a framework for future OECD

Country Survey chapters on Innovation policies. Nine chapters on innovation are currently scheduled for the coming two years. A series of in-depth country reviews dedicated to science, technology and innovation policies has also recently been launched. Innovation (along with financial markets and growth, discussed below in Round 4) will also feature as a theme for the OECD's 2006 *Economic Policy Reforms* publication – a benchmarking exercise designed to expose more clearly the areas where and why countries are lagging behind in terms of growth performance. This project will include the further development of indicators of innovation activity and innovation policy performance.

- ***The relationship between product market regulation restrictiveness and economic performance.*** Earlier stages of this work involved the development of product market restrictiveness indicators. A database was developed and is available on the Internet at <http://www.oecd.org/eco/pmr>. The database covers aspects of economic performance and of regulation across OECD countries. The performance data covers both economy-wide and sectoral indicators such as productivity levels and growth as well as prices. The regulation data set contains for each country more than 1000 basic indicators of economy-wide and sectoral regulations and a large amount of information on the market structure of five service industries (telecommunications, road freight, railway transport, air passenger transport and retail distribution). The database has recently been updated to give a reading for 2003 and revised figures for 1998. The next stage of the project will exploit the cross-country variations in regulation and performance, in some cases combined with time series information, to identify linkages between aspects of performance and regulation.
- ***Competition.*** Closely related to the work on product market regulation is analysis of competition policy frameworks. In the context of OECD Country Surveys, two thirds of the member countries have or will have by 2006 included a special chapter on competition. Among the topics covered in these chapters are: descriptions of the legal and regulatory frameworks, trends and developments in indicators of product market competition, the linkages between product market competition and economic performance, the design of institutions to ensure and enforce competition policy and recommendations for improving the competition policy framework. Working Paper versions of these chapters can be found at www.oecd.org/eco/structural_issues/competition. A synthesis of the Country Surveys reviewing and assessing competition policies will be finalised this year.
- ***Regulatory reform.*** The OECD programme on regulatory reform is multidisciplinary in its approach. A core of the work undertaken to date is a series of country reviews. A synthesis of these reviews was conducted in 2004, which led to new principles for Regulatory Quality and Performance. Through 2005, new data on regulatory quality is being collected and will be used in analytical work aimed at better understanding the linkages between regulatory processes, institutions and outcomes. As well, a separate database on regulatory authorities has been developed, with information on independence and accountability. Information about the programme is at: www.oecd.org/regreform and all the country reviews can be accessed at: www.oecd.org/countrylist/0,2578,en_2649_37421_1794487_1_1_1_37421,00.html.
- ***Resilience.*** The shock triggering the economic slowdown in 2001 was by and large a common one, yet OECD economies were impacted to different degrees and the pace of recovery since has been disparate. Work at the OECD has attempted to identify the sources of this weak resilience. The first stage was the construction of a general equilibrium model, calibrated to replicate the key features of the US and euro area economies. Stylised differences in monetary policy transmission mechanisms and product and labour market rigidities could then be introduced to gauge how they bear on the resilience to temporary shocks. This work is available as a Working Paper at [www.oecd.org/olis/2004doc.nsf/linkto/eco-wkp\(2004\)5](http://www.oecd.org/olis/2004doc.nsf/linkto/eco-wkp(2004)5). The second stage of the project moved beyond a stylised model by estimating structural VAR models to

provide an empirical sense of the differences in adjustment paths to shocks and also tried to relate indicators of resilience to structural policy indicators. Some further estimation work is in progress and results should be available in the autumn of 2005. Other work has examined how the degree of resilience to economic shocks can be affected by the structural characteristics of housing and mortgage markets and is available as a Working Paper at: [www.oilis.oecd.org/olis/2004doc.nsf/linkto/eco-wkp\(2004\)17](http://www.oilis.oecd.org/olis/2004doc.nsf/linkto/eco-wkp(2004)17).

- **Statistics for productivity analysis.** In recent years the OECD has worked on improving the international comparability of data for productivity analysis. This includes a newly established OECD Productivity Database at the aggregate level, available online at: www.oecd.org/statistics/productivity as well as OECD involvement in the EUKLEMS project, which is aimed at the development of detailed productivity accounts for the EU countries, Japan and the United States. Work is also underway to broaden the data available for productivity analysis, e.g. in statistical work on foreign affiliates and patents. More detail on the statistical work is available at: www.oecd.org/sti/statistical-analysis

Round 2: Labour markets, human capital, training and migration

5. Labour utilisation differs widely across OECD countries. Much of the disparity is linked to specific groups, such as older workers, the unskilled youth and female workers and in the number of hours worked. Work at the OECD has examined the reasons for these differences, especially the role played by variations in policy. The performance of labour markets is another area where differences across OECD economies are large. This likely reflects a wide range of policy domains. Over the next two years OECD work will further examine some of these, including:

- **Jobs study follow-up.** In 1994 the OECD published a set of recommendations, subsequently known as the OECD Jobs Strategy, designed to deal with high and persistent unemployment that affected many countries. The OECD is now reassessing these recommendations in the light of experience and new evidence. The first stage of this project, which is now complete provided a detailed description and quantitative assessment of labour market reforms implemented in member countries over the past decade. This work is available as a Working Paper and can be found at: [www.oilis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP\(2005\)16](http://www.oilis.oecd.org/olis/2005doc.nsf/linkto/ECO-WKP(2005)16) Other work examined the links between employment protection legislation and labour-market performance, the role of wage bargaining systems and policies to promote transitions from the informal economy to formal employment arrangements (see www.oecd.org/els/employmentoutlook). The 2005 edition of the *Employment Outlook* (forthcoming) reassesses other planks of the Jobs Strategy, notably tax-benefit reform, the role of activation strategies and geographic mobility issues. The next stage of the project involves an econometric assessment of the determinants of labour market performance, paying close attention to the role of institutions, as well as possible interactions between labour and product markets. Another element will evaluate the extent to which specific OECD recommendations entail a trade-off between equity and efficiency objectives.
- **Active labour market programmes.** Evaluating the impact of labour market programmes based on microeconomic evaluations enables a richer analysis, which together with data improvements is enabling a research agenda that better evaluates the impact of labour market training programmes on employment and earnings outcomes several years after programme participation. Chapter 4 of the forthcoming 2005 *Employment Outlook* surveys much of the existing evidence, and Chapter 5 recommends governance arrangements for defining the objectives of active labour market programmes and maximising their impact on outcomes (see www.oecd.org/els/employmentoutlook).

- **Ageing and employment policies.** Since 2001 the OECD has been carrying out thematic reviews of ageing and employment policies. So far 15 country reports have been released, which can be accessed at www.oecd.org/els/employment/olderworkers. Other work has estimated the size of disincentives to continued work beyond age 55 embedded in pension and social policies and is available as a Working Paper at: [www.oecd.org/olis/2003doc.nsf/linkto/eco-wkp\(2003\)24](http://www.oecd.org/olis/2003doc.nsf/linkto/eco-wkp(2003)24). A number of policy issues have arisen which could benefit from further investigation such as: the potential trade-off between encouraging later retirement while increasing individual choice in the timing of retirement; the link between employment protection legislation and private early-retirement practices; the risk of future labour shortages in the private and public sectors as the baby-boom generation begins to retire; and the optimum policy mix from a lifecycle perspective for increasing participation in training and other active labour market programmes.
- **Working hours.** One of the reasons for the premature halt in economic catch-up, particularly in continental economies vis-à-vis the US is the decline in the number of hours worked, which partly explains the cross-country differences in labour utilisation. The 2004 OECD Employment Outlook included some analysis on differences in working time. Future work plans to identify the causes and in particular the extent to which these differences can be related to policy. A description of recent trends in working hours can be found at www.oecd.org/dataoecd/13/38/16587241.pdf.
- **Training.** Improving workers' skills is often championed as a means to ease the transition costs associated with structural change, as well as population ageing. Yet little is known about the labour market impact of adult learning. Recent OECD work has examined whether adult training does improve the overall employment situation, possible side-effects associated with training and whether the effects of training differ across demographic groups. This work was published in the 2004 edition of the OECD *Employment Outlook*. Upcoming publications examine policy initiatives to promote learning opportunities among adults (www.oecd.org/els/employment/skills) and a second brings together seminar papers on "evaluating human capital obsolescence" and "market failures and under-provision of training".
- **Human capital.** The OECD Growth Study found that investment in human capital contributed strongly to raising per capita output. The OECD is examining the determinants of investment in human capital at the tertiary level, compared to secondary education and the behavioural effects of cross-country variations in returns to education on human capital accumulation. This will include new estimates of the private and social returns to tertiary education and how these returns are influenced by institutional and policy settings. Other work planned includes country reviews of tertiary education, a synthesis of these reviews by the end of 2006 and an analysis of the social benefits of learning, with a focus on health, family formation and social disadvantage.

6. Work on *migration* has been a high priority for the Organisation over the past few years. Since most OECD countries are net immigration countries, a main focus of economic analysis has been the economic effects of immigration and the policy requirements to enhance these. Other work has focussed on improving migration statistics, the process of immigrant integration into the host country workforce and considered the impacts of migration on the emigration country. This work covers issues such as the role of emigrant remittances; the tendency and incentives for emigrants to return; the risk of a "brain drain"; and the role of wage and income gaps in driving migration. In September this year the OECD is jointly organising a conference on female immigrants and the labour force. Since migration policies and the institutional settings migrants assimilate to are highly country-specific, OECD Economic Surveys have included reviews of migration policies. So far, 13 member countries have been reviewed. Working papers on migration issues, including the Country Survey chapters are available at

www.oecd.org/els/migration/workingpapers. A synthesis of the Country Surveys reviewing and assessing migration policies will be finalised in 2006.

Round 3: Public sector issues

7. The level of government expenditures and how revenues are raised to finance such expenditures impact on economic performance. Further, in most countries resistance to higher taxation is strong, yet trends in major areas of government spending, such as health and old-age related expenditures are rising quickly. Governments are therefore seeking ways to meet the objectives of health and ageing policies more cost effectively. Work at the OECD in these areas can be divided into public finance issues, spending pressures linked partly to demographics and health care systems.

8. **Public finance issues.** Recent and ongoing work in this field includes:

- **Public sector expenditure reform.** Seven country reviews on the challenges posed by public sector reform at the aggregate level or in a policy domain where public spending is sizeable have been undertaken and published in OECD Economic Surveys since 2003. In the previous three years there were 17 country reviews published. These, as well as a synthesis paper, are also available as Working Papers and can be accessed from: www.oecd.org/eco/public_finance/expenditure.
- **Taxation.** Ongoing work monitors trends in tax policy and examines current tax policy issues. This work is published in a regular series known as *Tax Policy Studies*.
- **Fiscal policy and policy frameworks.** Recent work has examined the extent to which fiscal policy actions to change public saving are offset by changes in private saving, as well as the determinants of that offset and is available at: [www.oecd.org/olis/2004doc.nsf/linkto/eco-wkp\(2004\)20](http://www.oecd.org/olis/2004doc.nsf/linkto/eco-wkp(2004)20). Accounting conventions usually leave some room for judgement, which governments may be tempted to take advantage of, especially when fiscal rules bite or threaten to do so. An OECD study has documented the European experience over the past decade, providing estimates of the size of one-off measures and fiscal gimmickry and is available at: [www.oecd.org/olis/2005doc.nsf/linkto/eco-wkp\(2005\)4](http://www.oecd.org/olis/2005doc.nsf/linkto/eco-wkp(2005)4). Future work includes a commissioned set of papers on what should and should not be included in fiscal rules.
- **Fiscal federalism** The OECD assesses fiscal relations across levels of government. This involves analysing their impact on economic efficiency and income distribution, drawing cross-country comparisons on their design, and formulating recommendations so as to obtain most of the benefits of decentralisation while mitigating the potential drawbacks. In 2003 OECD Member countries launched the Network on Fiscal Relations across Levels of Government. Work carried out for the Network includes collecting data on local taxes, inter-governmental grants and macroeconomic management. In September this year, the Network will meet at the OECD for a workshop. A series of papers are being prepared for the workshop, covering sub-central taxing powers, fiscal rules and the spending of sub-central governments and Intergovernmental transfers. Chapters in Country Surveys on fiscal federalism have either been completed or planned for 6 countries. In September this year the OECD will host a Workshop on Fiscal Relations Across Levels of Government. For this the OECD is preparing a paper on fiscal rules and sub-national governments' spending behaviour.

9. **Demographics.** The OECD has for many years worked on various aspects related to demographic developments. Recent and on going work covers:

- **Ageing.** Some observers anticipate that ageing populations will impact on the composition of demand, on labour supply and therefore growth and have implications for financial markets. Some of these issues were examined in a recently completed OECD project. The work focussed particularly on the consequences of ageing for growth, based on a modelling exercise that was able to simulate the impact of various stylised policy scenarios, including lengthening working lives in line with increased longevity. This work can be accessed at: [www.oelis.oecd.org/olis/2005doc.nsf/linkto/eco-wkp\(2005\)7](http://www.oelis.oecd.org/olis/2005doc.nsf/linkto/eco-wkp(2005)7). In many countries, governments provide tax incentives for savings invested in a private pension plan. The OECD recently hosted a workshop on tax-favoured private pension plans, preparing a paper that gave estimates of the implicit fiscal asset, as well as of the evolution over time of fiscal costs and benefits related to tax-favoured pension regimes, which is available at: [www.oelis.oecd.org/olis/2004doc.nsf/linkto/eco-wkp\(2004\)29](http://www.oelis.oecd.org/olis/2004doc.nsf/linkto/eco-wkp(2004)29). The full set of papers presented at the Workshop will be published as a special edition of the OECD's *Economic Studies Journal*. A series of country reports on policies to improve employment prospects of older workers is also being conducted (see above, Round 2). In other work on pension policies, models of pension entitlement for all OECD countries have been developed. These models allow comparisons of prospective pension entitlements for full-career workers across a wide range of earnings. Indicators measure redistribution in pension systems, the cost of countries' pension promises, and potential resource transfer. More information on this project is available at www.oecd.org/els/social/ageing/pag. For a full description of completed work and links to published ageing related working papers see: www.oecd.org/ageing.
- **Fertility.** One of the sources of uncertainty surrounding demographic projections is movement in the fertility rate. Yet empirical knowledge of the forces, both policy and otherwise, that affect fertility rates in OECD countries is sparse. The OECD is undertaking a major project to better understand fertility and how well the causes can explain cross-country differences in fertility rates. An earlier working paper on female fertility can be accessed at [www.oelis.oecd.org/olis/2003doc.nsf/linkto/delsa-elsa-wd-sem\(2003\)15](http://www.oelis.oecd.org/olis/2003doc.nsf/linkto/delsa-elsa-wd-sem(2003)15).

10. **Family-friendly policies.** The OECD has examined the extent to which work arrangements and social policies facilitate the reconciliation of work and family responsibilities of working parents in a series of country-reviews. These reviews focus on the impact of family-friendly policies on female labour force participation, fertility decisions, child development and the well-being of parents. 13 OECD countries have been covered and a synthesis of the findings is planned by the end of 2005. More detailed information is available at www.oecd.org/els/social/familyfriendly.

11. **Health care systems.** The OECD has recently finalised a large scale project on health outcomes and policies affecting health. The results of this project have been published as OECD Reports and in a series of Health Working Papers. Links to all of these can be found at: www.oecd.org/health. At the May 2004 meeting of OECD Health Ministers a mandate was given to do further work, building on the earlier studies. This will include the further development of the OECD System of Health Accounts, which enables countries to benchmark health expenditures, both at the aggregate level and in terms of their sub-components. The work will also include the elaboration of indicators of health care quality and an analysis of the factors influencing efficiency of health care delivery. Another project will produce long-term projections of health expenditures, based on a common framework. Demographic and non-demographic factors will be identified separately and the sensitivity of the projections to different assumptions will be examined. Other health studies will investigate trends in disability status among the elderly and their implications for expenditure, the role of prevention in health policy and the relation between pharmaceutical pricing practices and innovation.

Round 4: Other important issues

12. In addition to the above topics, the OECD policy research agenda is or is likely to include work on other topics of interest to NEROs. These include the following:

- **Financial markets and growth.** As already noted, the 2006 edition of *Economic Policy Reforms* will include several thematic papers. One of these will examine the structure and performance of financial systems in OECD countries and their impact on growth. The project will construct quantitative indicators on financial market performance and policies and empirically link the policy indicators to different measures of performance of financial markets, capital formation and productivity and output growth.
- **Political economy of structural reform.** In many OECD countries the diagnosis of economic weaknesses and corrective policy prescriptions are well known, yet implementation of reforms has been slow or absent. A possible future OECD study would examine the causes of reform inertia and identify possible pre-conditions and approaches conducive to successful implementation of progressive reform agendas. The OECD's Special Group on Regulatory Reform is a forum for discussions on the political economy of structural reform.
- **Globalisation.** Globalisation is affecting the agenda across a wide range of policy areas. A chapter in the 2005 OECD *Employment Outlook* examines trade-adjustment costs in OECD labour markets and policies to address them (see www.oecd.org/els/employmentoutlook). Future OECD projects will build on on-going work across the Organisation to help quantify the potential benefits and challenges and to identify the policy settings conducive to getting the most out of globalisation. Among the issues to be addressed are: a quantification of the challenge posed by outsourcing, especially ICT-related outsourcing; the likely implications of the emergence of a number of non-OECD countries, notably China and their possible impacts on OECD member countries. In this context, a workshop on the measurement of globalisation, including outsourcing, is being organised for 15-16 November 2005. Further, new OECD studies are examining the impact of trade liberalisation on developing countries. The full series of papers can be assessed at: www.oecd.org/findDocument/0,2350,en_2649_33705_1_119684_1_1_1,00.html.
- **Product market liberalisation.** Traditional commercial policies designed to restrict international trade, such as tariffs and quotas have reached low levels for most products in most OECD countries. However, other obstacles limiting trade, especially in services are less transparent and can serve to restrict trade indirectly. The first stage of a study quantifying the estimated size of the economic gains to be had from more open policies, for instance less restrictive product market regulations has been completed. The second stage, to be completed in 2005, will extend the country coverage of the analysis. Other related work is analysing the impact of services barriers on effective rates of protection in agriculture and manufacturing. Preliminary results are presented in *Enhancing the Performance of the Services Sector* and in a forthcoming paper, new estimates of services barriers will be used to estimate the economy-wide costs of services protection to downstream-using industries.

13. Finally, the OECD has launched in the past few years several Newsletters designed to communicate to a non-specialist audience recently completed and ongoing work. The Economics Department and the Statistics Directorate Newsletters can be accessed at: www.oecd.org/eco/newsletter and www.oecd.org/std/statisticsnewsletter.