Economic Policy Reforms 2017
Going for Growth
@ OECD 2017

Chapter 3

Reform agenda for 2017: Overview and country notes

This chapter presents the country-specific policy priorities and underlying recommendations to achieve high and inclusive growth. It starts by reviewing how countries rank in terms of GDP per capita and income inequality. This is followed by a cross-country examination of Going for Growth *recommendations by policy areas. The chapter ends with individual country notes, which provide a rationale for the selection of the five policy priorities in terms of the performance weaknesses they are intended to address, as well as concrete recommendations to remedy the perceived shortcomings in the related policy area. Each OECD country is covered, as well as the European Union as a whole. There are also country notes for a number of non-OECD countries such as Brazil, Colombia, the People's Republic of China, India, Indonesia, Russian Federation, and South Africa and, for the first time, Argentina, Costa Rica and Lithuania.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

This chapter presents the *Going for Growth* policy priorities and underlying recommendations to achieve high and inclusive growth. In doing so, it summarises the information laid-out in the individual country notes reported at the end of the chapter. The cross-country dimension of *Going for Growth* reflected in this chapter facilitates the transfer of knowledge about domestic policy reforms, allowing for lessons to be drawn from successes and failures. At the same time, the selection of country-specific policy priorities and recommendations detailed in individual country notes allows for domestic considerations, such as differences in income levels, institutional capacities and the stance of macro policies, to be taken into account, avoiding thereby "one-size-fits-all" policy prescriptions.

In this year's publication, the country notes have two new features. First, the policy objective of boosting growth is now accompanied by the complementary goal of making it more inclusive, as discussed in Box 1.2 of Chapter 1 and in Chapter 2. This is reflected in the country notes, where concerns about inclusiveness and in particular inequality developments are also explicitly discussed, with additional tables and figures introduced to show recent trends.

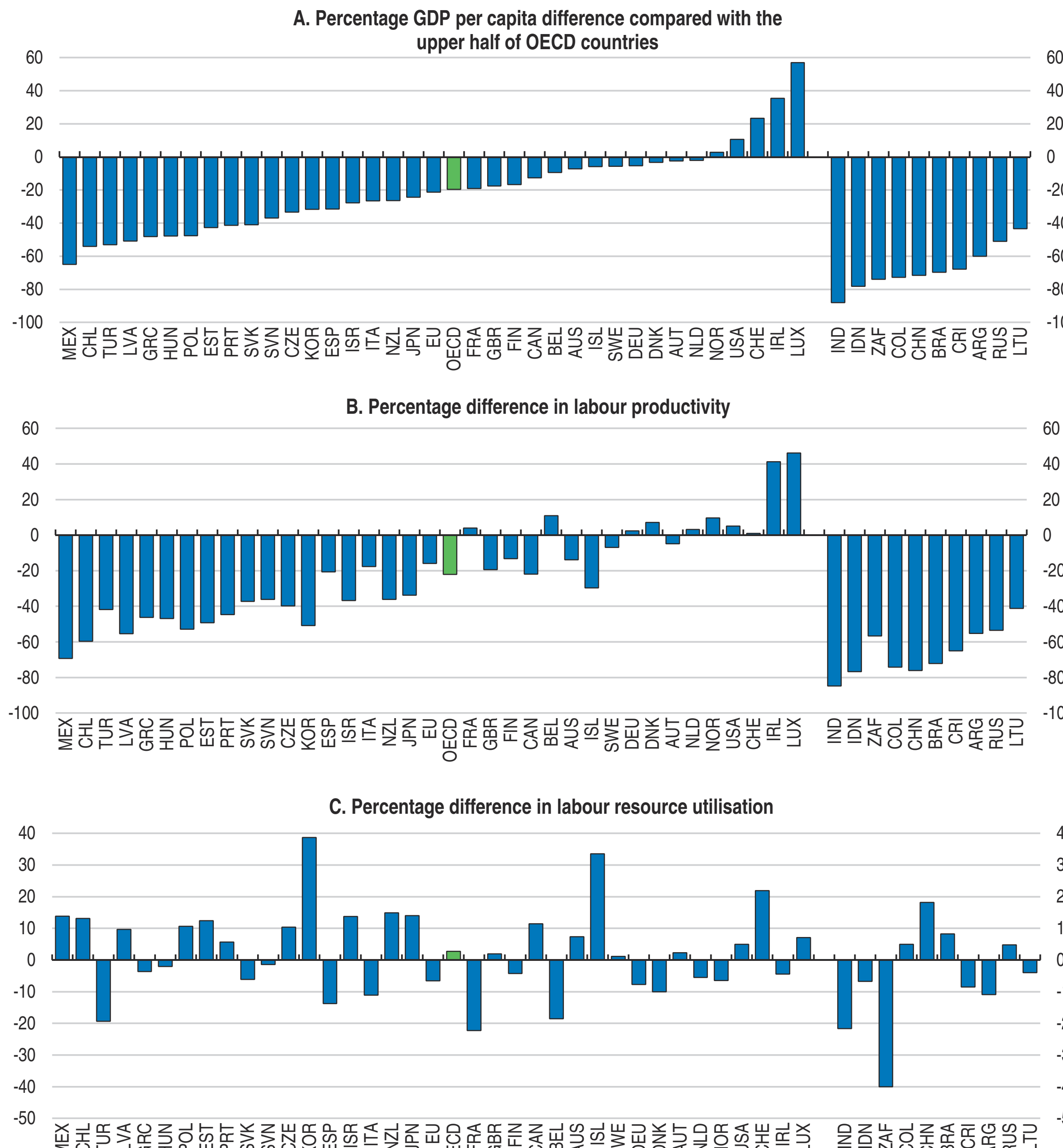
Second, to ensure that priorities do reflect the most pressing challenges faced by countries, some of the previous priorities have been left out from the top five, even if insufficient progress has been achieved. This is to allow for the introduction of new priorities in areas that are seen as most pressing and likely to have a more significant influence on inclusive growth. Such cases are highlighted in the introductory section of the country notes, where it is also emphasised that, in some cases, even if these priorities are no longer among the five most pressing challenges, there is still a need for additional policy action.

GDP per capita and inequality differences across countries

Gaps in GDP per capita relative to the average of the upper half of OECD members can be decomposed into contributions from hourly labour productivity and labour utilisation (Figure 3.1). What stands out from this accounting exercise is the strong link between the cross-country dispersion of income per capita and that of labour productivity, and the weakness of the link with labour utilisation. The decomposition reveals different groups of countries:

- *Top and bottom income countries*: For both top income countries and the dozen or so countries with the lowest levels of GDP per capita, the difference vis-à-vis the average of the upper-half is accounted for mostly by labour productivity.
- *Average income countries with offsetting gaps*: Most of the average income countries can be split into two groups. In the case of many northern European countries (e.g. Belgium, Denmark, France, Germany and the Netherlands), relatively high productivity is offset by low labour utilisation.[1] The opposite pattern holds for countries outside Europe (e.g. Australia, Canada, Japan and Korea), as well as for some Nordic countries, Austria and the United Kingdom, where labour utilisation above the average is offset by low productivity.

Figure 3.1. **Differences in GDP per capita are mostly accounted for by productivity gaps,[1] 2015**



1. Compared to the weighted average using population weights of the 17 OECD countries with highest GDP per capita in 2015 based on 2015 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity do not add up exactly to the GDP per capita difference since the decomposition is multiplicative. Labour productivity is measured as GDP per hour worked for OECD countries and as GDP per employee for non-member countries. Labour resource utilisation is measured as the total number of hours worked per capita and as employment as a share of population for non -member countries. In the case of Luxembourg, the population is augmented by the number of cross-border workers in order to take into account their contribution to GDP. Data refer to GDP for mainland Norway which excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on the financial assets held by the petroleum fund abroad are not included.

Source: OECD, *National Accounts, Productivity, Employment Outlook and Economic Outlook Databases*; World Bank, World Development Indicators (WDI) (Database); ILO (International Labour Organisation), Key Indicators of the Labour Market (KILM) Database for employment data on Brazil, Colombia, Indonesia and Latvia; Statistics South Africa for employment data on South Africa; India National Sample Survey (various years), annual population estimates from the Registrar General and OECD estimates for employment data on India; China Ministry of Human Resources and Social Security for employment data on China.

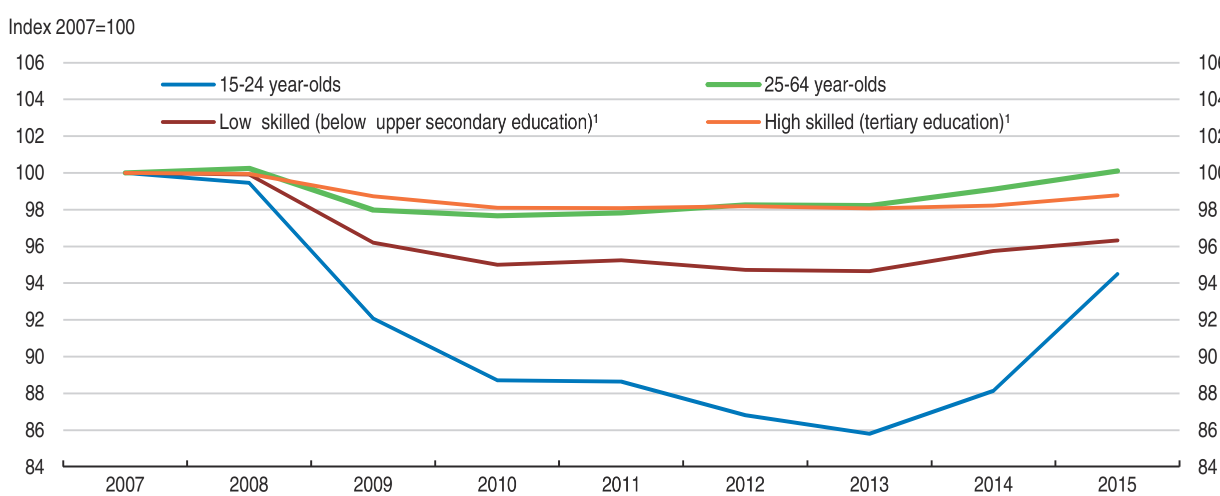
StatLink http://dx.doi.org/10.1787/888933454870

- *Countries with both gaps*: for some Eastern and Southern European countries (e.g. Greece, Hungary, Italy, the Slovak Republic and Spain) and for Turkey, gaps in GDP per capita are explained by gaps in both labour productivity and utilisation.

The fact that productivity is the main driver of growth in the long run should by no means reduce the relevance of labour utilisation-enhancing reforms, in particular to facilitate the participation of under-represented groups in the labour force and to tackle labour insecurity (see Chapter 2). In addition to helping close gaps and bringing higher levels of GDP per capita, a job-rich growth would contribute to achieve other objectives, such as reducing income inequalities and promoting a more inclusive society, as growth through labour utilisation gains tends to benefit disproportionately the bottom of the income distribution (Hermansen et al., 2016). It would also contribute to improve the situation of youth, whose bleak labour market situation (Figure 3.2) remains the most negative and enduring legacy of the recession and the subsequent weak recovery despite some slight recent improvement.

Figure 3.2. **Employment rates remain below their pre-crisis levels, especially for youth and low-skilled**

As a percentage of population in the same age group, OECD average



1. Refers to 25-64 year-old workers.

Source: OECD, *Education at a Glance Database*.

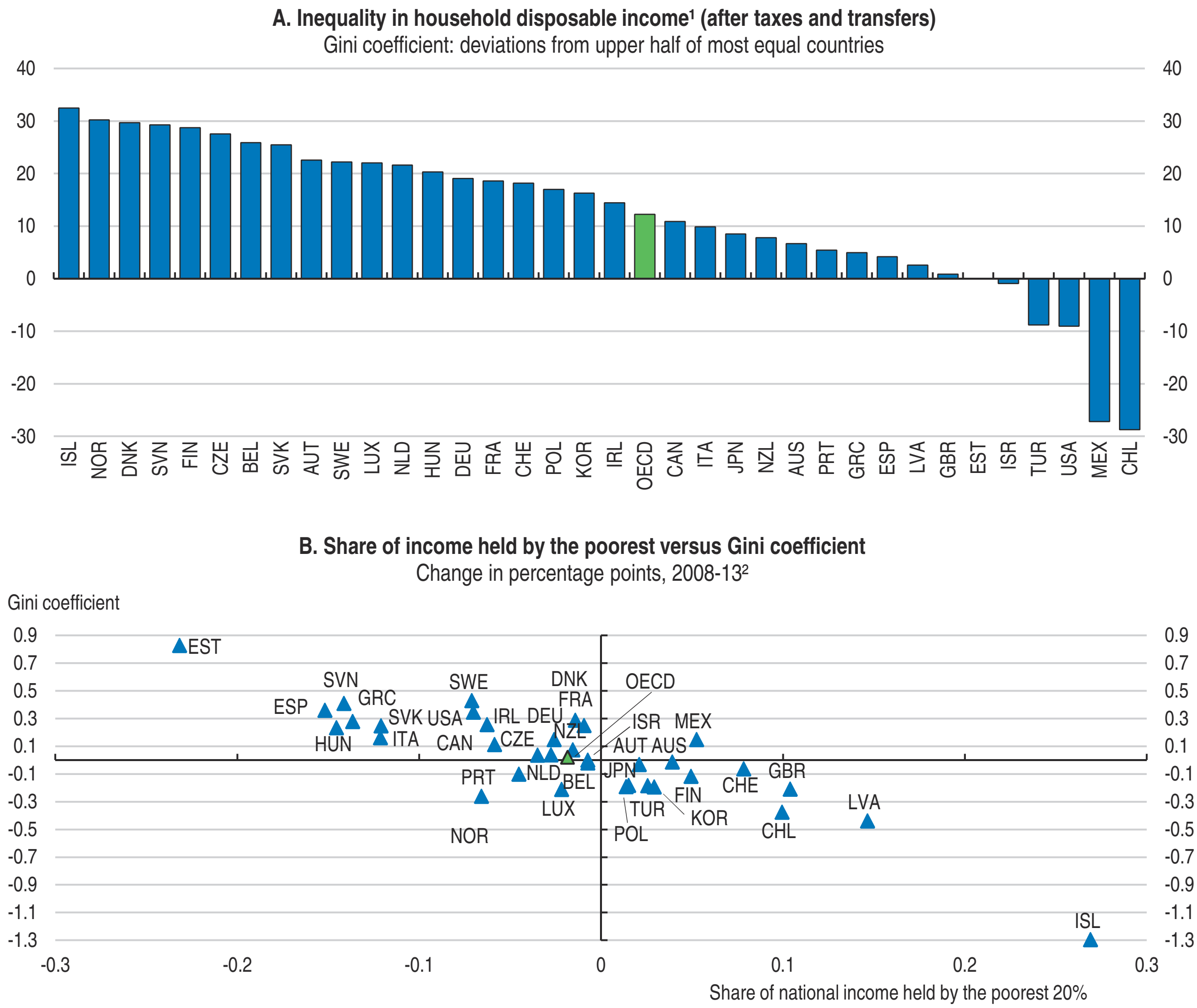
StatLink http://dx.doi.org/10.1787/888933454887

The degree of income inequality also differs significantly across OECD countries. Such differences can be highlighted by analysing summary indexes of dispersion (the best known of them being the Gini index) of the underlying income distribution. Examining gaps in Gini indexes vis-à-vis the upper-half of the most equal members of the OECD (Figure 3.3, Panel A) reveals:

- Cross-country differences are large, with the group of least equal countries (Chile, Mexico and Turkey) having a gap generally twice as large as the most equal countries (e.g. Denmark, Iceland, Norway and the Slovak Republic).
- When considering additional inequality measures, trends since the onset of the crisis diverge for some countries, highlighting that inequality movements did not operate in the same way for all countries (Figure 3.3, Panel B). While in most cases an increase (resp. decrease) in the Gini coefficient has been accompanied by a decrease (resp. increase) in the

Figure 3.3. **The degree of income inequality differs substantially across countries**

Percentage gap compared with the upper half of the distribution, 2013



1. For the Gini coefficient, data refer to 2014 for Australia, Finland, Hungary, Israel, Korea, Mexico, the Netherlands and the United States, 2012 for Japan. For GDP per capita, data refer to 2014.
2. Change over 2008-14 for Finland, Israel, Korea, Mexico, the Netherlands and the United States; 2007-14 for Hungary, 2007-13 for Turkey; 2009-12 for Japan; 2008-12 for New Zealand.

Source: OECD, *Income Distribution, National Accounts and Productivity Databases*.

StatLink http://dx.doi.org/10.1787/888933454893

share of national income accruing to the poorest 20%, for some countries where overall inequality has increased according to the Gini coefficient, the share of income held by the poorest 20% remained stable or even increased (Australia, Mexico). Conversely, in some countries where overall inequality has decreased, the share of income held by the poorest 20% also decreased (e.g. the Netherlands, Norway and Portugal). This reflects the granularity of challenges faced by countries to tackle inequality and promote inclusive growth.

Overview of policies to enhance labour utilisation

Making the labour market more gender inclusive

Although recent progress has been achieved, gender gaps are still large in many OECD countries, both in terms of labour force participation and earnings (OECD, 2016a). Achieving greater gender equality would increase long-term growth and would make it more inclusive, both in OECD countries and in emerging economies (see also Chapter 2). It would also help to partly offset the impact of ageing on labour market participation across OECD countries. Hurdles in the labour market and difficulties associated with reconciling work and family life often mean either exclusion from the labour market or involuntary part-time work for women. While significant actions have been taken in this area (see Chapter 1), recommendations are made to further enhance female labour force participation and full-time jobs opportunity, and to help parents balance work and family responsibilities (Table 3.1).

Table 3.1. **Recommendations to make the labour market more gender inclusive**

Expand access to quality childcare	ARG	AUS	AUT	CHE	CHL	COL	CRI	CZE	DEU	EST	JPN	KOR	LTU	LUX	MEX	NZL	POL	SVK	TUR	USA
Remove tax and benefit disincentives	AUT	CHE	DEU	JPN	LUX	SVK	SVN													
Increase access for childcare for immigrants/refugees/minorities	BEL	CHE	DEU	LUX	NZL															
Improve parental leave policies	CZE	FIN	KOR	SVK	USA															
Implement corporate governance code/quotas	ARG	CHE																		
Align the official retirement age for women with that for men	AUT	CHE																		

A key recommendation in *Going for Growth* is to increase the provision of childcare facilities. Differences in the availability of affordable, high-quality childcare is an important factor explaining cross-country varied performance in women's labour market participation (OECD, 2012a). This is an area where the scope for progress and potential pay-off is particularly high in emerging economies (Mateo-Diaz and Rodriguez-Chamussy, 2013). Attendance to pre-primary education also decreases the likelihood of low performance in secondary education, even after controlling for socio-economic factors (OECD, 2016b). Thus, facilitating access to good quality childcare can offer the double dividend of encouraging greater female labour participation and mitigating social inequalities. Improving access to childcare facilities for the most disadvantaged families, including those of immigrant background, refugees and minorities (see below), is therefore recommended in many countries (Germany, Belgium, Switzerland and Luxembourg). Quality standards should also be monitored, improved and kept uniform across the system, so that the equalizing effect of investing in childcare can be achieved.

The disincentives embedded in tax and transfer systems are another barrier to full-time employment. For example, disincentives to work should be removed for second earners or lone parents (Austria, Germany, Japan, Luxembourg, the Slovak Republic and Switzerland), as well as disincentives to move from part-time to full-time work (Austria). Family benefits should also be better designed and targeted (e.g. Czech Republic or Slovenia). Promoting more gender-equal parental leave systems is also fundamental to closing gender gaps. Introducing paid parental leave (United States), facilitating its take-up (Korea) or encouraging a higher incidence of paternity leave (Czech Republic and the Slovak Republic) are recommended, depending on country specific circumstances.

Aside from these policies directly aimed at facilitating the access of women to the labour market, reforms in other policy areas would also help achieve this objective. Implementing corporate governance codes establishing gender goals in management can contribute to enhance diversity and improve economic outcomes (Argentina and Switzerland), as exemplified by Norway, the pioneer in using gender quotas for corporate boards (Sorsa, 2016). Fostering active labour market policies would also contribute to close existing gender gaps, as women tend to benefit most from them (Bergemann and Van den Berg, 2008). In the same vein, women tend to be more impacted by labour market dualism (e.g. Korea and Japan), segmentation and informality (e.g. Costa Rica), and thus would benefit most from policy action in the areas of job protection and taxation. Finally, female labour market participation is also influenced in several countries by prevailing social norms concerning the role of men and women towards work and care. Hence, bringing gender issues into the public debate through information campaigns, which is recommended for Argentina, would help to raise awareness for the existence of gender inequalities and for the potential benefits of a more gender-inclusive society.

Integrating migrants and minorities

The share of the foreign-born population has increased significantly across the OECD, reaching now nearly 10% of total population. Second-generation immigrants are also numerous and heterogeneous and several OECD countries host sizeable minorities, such as Roma or aboriginal populations. At the same time, refugee flows have recently increased significantly, especially to European countries. This increasing population diversity can bring significant economic and social benefits to OECD countries, such as helping to offset ageing effects on labour participation. The realisation of these benefits will depend largely on the design and implementation of integration measures. *Going for Growth* recommendations in this area range from measures to promote short-term labour market integration to early action in education and social domains that could facilitate labour market integration in the future and reduce inequality of opportunity overall (Table 3.2).

Table 3.2. **Recommendations for the integration of immigrants, refugees and minorities**

Provide language acquisition support	BEL	DEU	DNK	EU	SWE
Improve training	DEU	DNK	LVA	SWE	
Expedite recognition of skills/qualifications	BEL	DEU	SWE		
Improve information/monitoring of the situation of minorities	AUS	NZL	SVK		
Implement strategy for integrating second generation into the education system	DNK				
Integrate refugees in mainstream schools	DEU				
Streamline immigration processing and improve visa programmes	DNK				

Particular attention is needed in the initial stages of education. Participation in early childhood education and care programmes among immigrant children is considerably lower than among native-born workers (OECD, 2015a). At the same time, immigrant students who participated in early childhood education programmes scored 49 points higher in the PISA reading assessment than immigrant students who did not attend (OECD, 2015a). This difference corresponds to one extra year of education. Hence, efforts to promote and facilitate the use of childcare facilities by immigrants (e.g. Belgium and Switzerland), refugees (e.g. Germany), minorities (e.g. Slovak Republic), and a better targeting of early childhood education for groups with low participation (New Zealand) are recommended. While attendance to early childhood education is key to reducing language handicaps, action is also needed in primary and secondary education, where language proficiency should be assessed systematically and additional language acquisition support provided when needed (e.g. Belgium and Germany). Ensuring that immigrants and minorities are integrated in mainstream schools (Germany), while targeting more resources to disadvantaged schools (Slovak Republic), is also recommended.

Across the OECD, immigrants tend to be at a higher risk of being overqualified than native-born workers, i.e. they are more likely to be educated beyond what is necessary for a job (OECD, 2012b). High over-qualification rates imply risks of entering a cycle of brain gain, waste and drain, whereby OECD countries could be initially successful in attracting highly qualified workers, but they are unable to fully utilise their human capital, which depreciates over time. Eventually those workers are likely to move to a third country or return home. International experience suggests also that, across countries, about one-third of immigrant over-qualification rates can be explained by weaker linguistic skills (Bonfanti and Xenogiani, 2014). Therefore, increasing support for language training for adults (e.g. Sweden, the European Union), along with facilitating training (Germany, Denmark and Latvia) and promoting fast-track recognition of professional qualifications gained abroad (Germany and Sweden) would contribute to making the most of immigrant workers and would facilitate smoother integration into the labour markets as well as raising productivity.

These policy recommendations are also pertinent for minorities, whose weak educational outcomes hinder their access to the labour market (Slovakia). More generally, it is also recommended to improve the information available and to assess more thoroughly the situation and challenges minorities face (New Zealand and the Slovak Republic), so that adequate policies can be deployed to narrow existing gaps in socio-economic opportunities and outcomes, including in the health area.

Strengthening social benefits and active labour market policies

Giving people help and support to access good jobs is essential to foster inclusive growth. Unemployment benefits, social protection and active labour market policies are aimed at providing income support during unemployment spells and facilitate the return to work via job-counselling or training. In addition to contributing to raising employment rates, they help to achieve a better matching of workers and skills, and hence can improve resource allocation (Andrews and Saia, 2016) and productivity. Hence, previous issues of *Going for Growth* have emphasised the need for further progress in this area. Reforms in these areas have overall lost steam, which raises some concerns given the high youth and long-term unemployment rates. Thus, more efforts are needed (Table 3.3).

Table 3.3. **Recommendations on active labour market policies and social benefits**

Active labour market policies											
Increase spending on activation	ARG	ESP	EST	GBR	GRC	ISR	LVA	LTU	SVN	USA	ZAF
Expand some specific programs (e.g. for the long-term unemployed)	ESP	GRC	HUN	IRL	JPN	KOR	NZL	USA	ZAF		
Improve efficiency of activation policies	ESP	GBR	ITA	LUX	NLD	SVK	SVN				
Focus on key risks groups	EST	FIN	FRA	ISL	NLD	SVN	TUR				
Better enforce mutual obligation	IRL	FIN	FRA								
Improve coordination between different government levels	ESP	ITA	LVA								
Social benefits											
Restructure benefits to increase work incentives	FIN	IRL	ISL	LVA	LUX	NLD	SVN	ZAF			
Improve targeting	BRA	IDN	IRL	ITA	LVA	LUX	SVN	USA			
Expand the coverage of social benefits	CHN	GRC	JPN	LTU	LVA						
Eliminate regressive subsidies	ARG	IDN									

As regards activation policies, many countries need to boost resources (Argentina, Estonia, Greece, Israel, Latvia, Lithuania, Slovenia, South Africa, Spain and the United Kingdom) and improve efficiency (Spain, Italy, United Kingdom and Netherlands). This is particularly important in countries with high and sustained long-term and youth unemployment rates, and also in countries where large segments of the population are facing important difficulties to access the labour market. Recommendations typically include improving the co-ordination between the different levels of government involved in the administration, financing and delivery of labour market policies (Italy, Latvia and Spain), and focusing on key risks groups such as young or displaced workers (Estonia, Finland, France, Netherlands, Turkey and Slovenia). There is also a need to expand some specific programmes, which have been found to be particularly effective in improving employability (Ireland). For that it is fundamental to put in place sound and systematic evaluation of policies (Spain). Evaluation of labour market programmes is well established in some OECD countries, but other countries should take more concrete steps in this field.

Activation policies have been found to be most effective when they are based on the mutual obligation principle, whereby the unemployed receive income and employment support while in return they are required to participate actively in job search and training (Martin 2000; Kluve 2006; OECD, 2015b). Consequently, countries should continue their efforts to reinforce the mutual obligation approach, for example by enforcing more systematically mandatory job-search and reporting requirements (Finland, France) or by defining more clearly what is considered a suitable job offer (Ireland). In the same vein, restructuring unemployment benefits so as to better support the return to work remains a prevalent recommendation. This includes withdrawing benefits more gradually when low-income earners take up job (Ireland, Latvia) or tapering unemployment benefits along the unemployment spell (Finland, Luxembourg).

Some countries need also to continue increasing the coverage of social protection, which is generally under-developed. Greece is recommended to fully implement a guaranteed minimum income scheme along with school meal and housing assistance programmes targeted at the poor, while Japan and Korea need to increase the coverage of social protection, as the incidence of labour market duality results in a substantial proportion of the workforce (often those on fixed-term contracts) being currently not covered by the system. Increasing social protection is also important as a way to fight informality. If well designed, extending social protection would contribute to better labour outcomes by increasing the incentives and the feasibility to move to the formal sector, both for the overall population (Chile and Indonesia) and for specific groups (such as older workers in Turkey). In some cases, poorly designed subsidies should be phased out and replaced by targeted transfers to the poorest segment of the population (e.g. Argentina). India is implementing a subsidy reform, replacing several price subsidies by cash transfers. Such an approach should be extended to other subsidies, in particular food, electricity and fertiliser subsidies.

Reforming retirement and disability schemes to reduce premature withdrawal from the labour market

For several years before and after the crisis, pension reform has been high on the agenda of many governments. Countries have launched significant reforms, including raising retirement ages, amending the way entitlements are calculated and introducing measures to generate savings in their pension systems. The crisis has been a major accelerator of such reforms, not least reflecting the pursuit of fiscal consolidation objectives as well as financial market pressure to signal commitment for debt sustainability (OECD, 2013a). It is therefore not surprising that, after these efforts, the need to implement pension reforms in order to encourage a longer working life is waning. Accordingly, for this issue of *Going for Growth*, only a few countries have a priority in this area (Table 3.4), and the most common recommendation

Table 3.4. **Recommendations on retirement and disability policies**

Increase statutory retirement age	AUT	CHE	HUN	LUX	POL	SVN	TUR
Limit access to early retirement	AUT	CHE	HUN	LUX	SVN		
Review criteria to access disability/sickness benefits	AUT	ISL	NOR				
Increase portability of pension rigths	DEU	EU					
Focus special schemes on elderly with low income	KOR						
Adjust pension benefit indexation formula	SVN						
Make continuing working after retirement more attractive	TUR						

is to tighten some early exit routes from the labour market (Luxembourg, Poland, Slovenia and Turkey) in order to raise older workers' employment rates.

The pension system should also ensure sufficient living standards for the elderly in countries where this group is facing a higher poverty risk than the overall population (Korea). Likewise, inclusiveness concerns are central for disability benefit schemes, by providing adequate support for individuals whose health status temporarily or permanently prevents them from working and searching jobs. However, these schemes can be sometimes misused and poorly targeted. In such cases, priority should then be given to enhancing the medical assessment of these schemes to reduce the risk of permanent labour market withdrawal (Norway).

Lowering average and marginal taxation of income in particular for low-income workers

High average and – in particular – marginal taxes on labour incomes can reduce individuals' labour supply and raise unemployment, especially for workers with low incomes. They can also reduce firms' labour demand by rising labour costs through employers' contribution and payroll taxes. In countries with weak legal institutions, excessively high social security provisions and tax wedges are also major drivers of informality, reflecting both labour demand and supply side hurdles. Lowering such taxes (including through cuts in social security contributions) is a priority for a large number of countries (Table 3.5), with a particular emphasis on reducing the labour tax wedge for low-wage workers (e.g. Spain, Italy and Poland).

Table 3.5. **Recommendations on labour taxation**

Reduce social security contributions	ARG	AUT	BEL	COL	CRI	DEU	EST	FRA	HUN	ITA	LTU	TUR
Reduce labour tax wedge for low-wage workers	BEL	DEU	ESP	EST	HUN	ITA	LVA	NLD	POL	TUR		
Introduce or expand EITC	ISR	LTU	USA									

Reductions in labour taxes are often recommended as part of policy packages aimed at reducing labour supply distortions sometimes embedded in the overall tax and benefit system (especially for specific groups of the labour force, for example, low earners and second earners or lone parents), at improving the efficiency of taxation (see below), and in association with measures to generate public spending efficiency gains. In some cases they are also accompanied by recommendations to expand or introduce earned income tax credits schemes in order to raise the incentive to work and increase incomes at the lower end of the distribution (Israel, Lithuania and United States). In some non-OECD countries, social security contributions also tend to be relatively high (e.g. Costa Rica and Lithuania). Reducing them is seen as a priority, in particular on segments of the workforce, such as low-skilled, where informality is high.

Reforming labour market regulations and collective bargaining systems

Job protection and labour market dualism

Over the two decades prior to the global financial crisis, many countries promoted flexibility in the labour market by easing regulations on non-regular contracts, i.e. contracts not benefiting from the same degree of protection against termination as permanent ones. At the same time, the relatively stricter regulations on regular contracts have remained largely unchanged. This has led to an expansion of non-regular contracts in a number of OECD countries and to an increase in labour market dualism and segmentation (OECD, 2015b). An excessive use of non-regular contracts can have an adverse impact on both equity and efficiency. Workers on these contracts tend to be young, face a higher degree of job insecurity and carry the burden of cyclical adjustments, suffering from longer and more frequent unemployment spells. This results in skills depreciation and lower productivity. Firms also tend to invest less in non-regular workers (Cabrales et al., 2015), further depressing productivity. Moreover, the probability of moving from the non-regular segment of the labour market to the regular one is low (OECD, 2015b). Thus, non-regular workers tend to be confined to move from one temporary contract to another while regular workers enjoy greater protection and job stability.

A number of specific recommendations are made to address this key policy challenge (Table 3.6). A key recommendation is to increase convergence in protection across contracts (e.g. Chile, Colombia, Korea, Japan, the Netherlands, Spain and Turkey). Increasing convergence across contracts, for example in terms of termination cost, would promote mobility, prevent dualism and lessen inequalities across workers.

Table 3.6. **Recommendations on labour market legislation and dualism**

Tackle dualism and diminish the gap in protection between permanent and temporary contracts	CHL	COL	ESP	JPN	KOR	NLD	SWE	TUR
Improve legal certainty for collective or justified individual dissmisals	FRA	IND	JPN	KOR				
Reduce severance pay	IDN	JPN	NLD					
Reform employment regulations in some industries	SWE							

Recommendations also focus on dismissal legislation for permanent contracts, either by improving legal certainty for collective or justified individual dismissals (e.g. India, Japan, Korea and France) or by reducing severance payments (Indonesia and Netherlands). All these recommendations should be implemented in tandem with adequate income support for the unemployed as well as effective job-search counselling and re-employment services. As a result, *Going for Growth* job protection recommendations are often formulated as part of broader labour market reform packages (see Chapter 1), encompassing advice to improve active labour market policies and social polices – with different emphasis depending on countries' challenges and weaknesses.

Minimum wages and wage bargaining systems

Most (26 out of 35) OECD countries have a form of statutory minimum wage, and their number is increasing, including also in many emerging economies. However, minimum wage levels and wage-setting mechanisms vary markedly across countries, as do their coverage and the level of employer compliance (OECD, 2015b). While minimum wages can have a strong impact on wages at the bottom of the distribution, it is important that they be set at a level balancing the needs to provide adequate living standards with maintaining or creating job opportunities in formal sectors for low-skilled workers. Macroeconomic conditions and iterations with other policies, such as taxes and benefits, should also be taken into account. As a result, significant cross-country differences can be observed in *Going for Growth* recommendations in this area (Table 3.7).

Table 3.7. **Recommendations on minimum wage and wage bargaining systems**

Promote agreements at firm level and reduce automatic extensions	BEL	FRA	ITA	PRT	ZAF
Avoid a too high minimum wage level and allow for age and regional differentiation	TUR	COL			
Increase minimum wage	KOR	USA			
Reform/Simplify minimum wage	CRI	ZAF			
Reduce excess coverage in wage agreements and streamline workers' representation	FRA				
Provide wage settlements guidelines in line with inflation targets	ZAF				

On the one hand, Korea and the United States are advised to raise the minimum wage as a tool to raise income at the bottom of the earnings distribution, and to accompany them with other tax and benefit measures to effectively fight poverty in and out of work, such as earned income tax credits. On the other hand, in countries with a large informal sector (e.g. Colombia or Turkey) it is important to avoid that an excessively high minimum wage level deters the creation of formal jobs. Allowing minimum wages to vary by group (to reflect differences in productivity or employment barriers) or by region (to reflect differences in economic conditions) is also recommended. Moreover, simple minimum wage systems are also most likely to achieve high compliance. Consequently, too complex minimum wage structures should be avoided (Costa Rica).

The cost of labour can also be driven to levels that are detrimental to employment by collective wage agreements, which in some countries are administratively extended to workers and employers who are not party to the original negotiations. Recommendations emphasise avoiding the automatic extension of wage agreements and promoting wage bargaining at the firm level in some countries (e.g. Portugal and Italy). Reforms along these lines increase the responsiveness of wages to labour market conditions and help to preserve jobs in downturns. Increasing the representativeness of the collective bargaining system or bringing wage agreement coverage more in line with union membership are also recommended (e.g. France and Portugal).

Reforming housing market policies to facilitate mobility

Restrictive housing policies such as strict rent regulation can hamper housing investment and supply and limit labour mobility, thus potentially raising structural unemployment and reducing the matching between workers and jobs (Adalet McGowan and Andrews, 2015). They can also discourage capital mobility and contribute to resource misallocation by distorting the price responsiveness of construction to supply and demand. Additionally, overly stringent planning and zoning can also entail some financial instability by raising house price levels and volatility, as well as undermine competition and productivity in certain sectors such as retail trade (OECD, 2011). However, as in other policy areas, housing, zoning and planning policies can raise some trade-offs with equity objectives, such as social housing, which is an important tool to improve access to affordable housing for the most vulnerable but which can also act as a barrier to labour mobility.

The main recommendations in this area aim at avoiding policy distortions that act as a drag on labour mobility and productivity, and include (Table 3.8): i) reducing excessive rent

Table 3.8. **Recommendations on housing, planning and zoning policies**

Ease planning and construction regulations	FIN	GBR	LUX	NZL	POL	SWE
Reduce/Eliminate preferential tax treatments	DNK	LUX	NLD	SVK	SWE	
Reduce rent regulation	DNK	NLD	SWE			
Improve targeting of social housing/subsidies	DNK	NLD				
Increase the supply of social housing	LUX	GBR				
Reduce housing subsidies	DNK					

regulations, which can lead to a decline in the supply of rental accommodation and to upward price pressure in urban areas (e.g. Denmark, Netherlands or Sweden); ii) easing planning and zoning regulations, which prevent agglomeration economies (e.g. New Zealand) or that housing supply adjusts to demand (e.g. United Kingdom); iii) removing distortions in the tax system, such as the generous tax treatment of home ownership or interest rates subsidies, which contributes to labour and capital misallocation (e.g. Luxembourg and the Slovak Republic) and can increase the risk of housing bubbles (Sweden). To promote greater equality in housing access, some countries are also recommended to raise the supply of social housing where clear shortages are identified (Luxembourg and United Kingdom).

Overview of policies to enhance labour productivity performance

Reducing regulatory barriers to domestic and foreign competition

A broad range of firm, industry and macro-level evidence illustrate the impact of product market regulation on the pace of convergence in productivity levels to technologically advanced economies. Product market regulation can also affect aggregate productivity through its impact on the capacity of the economy to allocate capital and labour resources to fast-growing sectors. Estimates of the potential impacts of product market reform point to a strong pay-off, with the long-term gains in living standards realised relatively rapidly[2]. Moreover, recent empirical evidence suggest that product marker reforms could be inclusive in that they tend to lift incomes of the household across the distribution, leaving inequality broadly unchanged (Causa et al., 2016).

Against the background of large productivity gaps despite rapid convergence during the last decade, all of the non-member countries but Colombia have at least one product market reform priority. A number of such reforms are targeted at network and infrastructure sectors where lower-income countries face substantial shortages. Such recommendations are therefore often formulated in association with increases in infrastructure provision. Despite progress achieved over the last decade (Koske et al., 2015), product market reforms remain also a priority for a large majority of OECD countries – in particular European countries. In the context of near zero inflation, they could facilitate adjustments in unit labour costs and the reallocation of resources across firms, as well as boost short-term growth and jobs creation (Bouis et al., 2012). Stronger competition and lower barriers to entry, especially in services where there is pent-up demand, would help ensure that the protracted period of wage stagnation in several countries result in lower consumer prices rather than higher profits as well as in greater job creation in the context of high structural unemployment. Hence, product market reforms are not only important per se, but also as a necessary complement to labour market reforms. Moreover, some of these reforms in specific services can boost short-run demand and create jobs even in a weak conjuncture (OECD, 2016c), as is currently the case in many OECD countries.

Table 3.9 summarises policy recommendations in the area of product markets. Streamlining permits and licensing and cutting red tape is needed in many OECD (e.g. Canada, Greece and Slovenia) and non-OECD countries (e.g. China, India and Indonesia). Introducing or extending the use of regulatory impact assessments, whereby the positive and negative effects of regulations are systemically and critically assessed, is also recommended for several OECD countries (e.g. Greece and Israel). Greater action is also needed to improve bankruptcy procedures as a way to rehabilitate viable firms and close down unviable ones, allowing reallocating capital to new and more productive firms (e.g. Italy and Poland). Strengthening competition frameworks, including competition authorities and regulators, is also recommended in some OECD countries (e.g. Greece and Hungary) and non-OECD ones (e.g. Costa Rica). Reducing the scope of public ownership is specifically advocated for some countries such as Latvia and China, where state intervention is particularly widespread, with evidence that this hurts efficiency. In other countries where the role of state-owned enterprises is pervasive in many sectors, it is recommended to improve their governance (e.g. Costa Rica and Lithuania), for example by adopting the OECD Guidelines on Corporate Governance of State-Owned Enterprises.

Table 3.9. **Recommendations on regulations for domestic and foreign firms**

Economy wide regulations																
Streamline permits/lincensing/red tape	AUS	BEL	CAN	CHL	CHN	CRI	GRC	HUN	IDN	IND	IRL	ISR	LVA	POL	SVN	ZAF
Introduce or expand regulatory impact assessment	DEU	EU	GRC	HUN	ISR	KOR	MEX	ZAF								
Strenghten competition and regulatory authorities	CRI	DNK	GRC	HUN	ISL	LVA	POL	ZAF								
Improve bankruptcy procedures	AUS	EST	EU	ITA	POL	PRT	ZAF									
Improve competition framework	ARG	CHL	CRI	CZE	HUN	JPN										
Reduce the scope of public ownership	CZE	DEU	NOR	NZL	POL	SVN										
Improve SOEs governance	CRI	CZE	LVA	LTU	ZAF											
Set one stop shops	CHN	CRI	IND													
Facilitate firm entry	MEX	POL														
Ensure country-wide implementation	CHN															
Sector specific regulatory burden																
Professional services	AUT	BEL	CAN	DEU	ESP	FRA	IRL	LVA	LUX	MEX	PRT	SVN				
Retail	AUT	BEL	CAN	CZE	FIN	FRA	HUN	IRL	LUX	MEX	NOR					
All network sectors	BEL	CZE	GRC	HUN	LVA	NOR	TUR	ZAF								
Energy	CAN	EST	HUN	ISR	JPN	ZAF										
Banking	CRI	IND	ISR	JPN	MEX											
Transport	DEU	ESP	MEX	NOR												
Services	BEL	DNK	EU	KOR												
Post	DEU	JPN	NOR													
Ports	ESP	IRL	PRT													
Construction	FIN	DNK														
Telecommunications	DEU															
Barriers to trade and FDI																
Reduce barriers to trade	ARG	BRA	CHE	GRC	ISR	JPN	KOR	NOR	NZL							
Reduce barriers to FDI	ARG	CAN	CHN	EU	IDN	JPN	MEX	NZL								

Not only economy-wide but also sector-specific administrative burdens are still a problem in many countries, and most countries are advised to further reduce sector-specific barriers to competition. The need to reduce entry barriers in professional services is particularly acute across the OECD (e.g. Austria, Germany and Spain). At the same time this reform offers a large potential payoff, as it can stimulate demand in the short-run (OECD, 2016b). Furthermore, increasing competition in such sectors will positively spill over across the whole economy, since professional services are inputs for nearly all firms. Other sectors in need of reform range from retail (e.g. Greece) to network industries (e.g. Turkey) or ports (e.g. Portugal). In particular, removing policy distortions in services in Japan and Korea would help boost overall productivity and close the large productivity gaps with leading OECD countries.

Reducing barriers to trade and foreign direct investment (FDI) should also be given priority, especially in emerging-market countries such as Argentina, Brazil and Indonesia with large productivity gaps. Greater openness to trade and FDI can unleash productive potential by raising the scope for cross-borders knowledge diffusion and boosting competition (Andrews and Cingano, 2012). The participation in Global Value Chains (GVC) – activities where goods and services cross several borders along different value-added stages – has allowed lower-income countries to access world demand and advanced technologies without having to develop an entire industry. Nevertheless, trade within GVCs can magnify the negative impact of tariff and non-tariff trade barriers (OECD, 2013b). This makes it all the more important to reduce such barriers in countries where they remain too high. In addition, enhancing trade facilitation, notably by measures to modernise and simplify customs procedures, would improve the capacity to export and import high-quality inputs (Moïse and Sorescu, 2013). Increased exposure to FDI can also encourage integration into GVCs and boost productivity through technology transfer and the provision of sophisticated inputs. Recommendations in this area cover both specific sectors where restrictions are a particular concern and more broadly, the transparency of screening procedures.

Raising the efficiency of R&D and innovation policies

Innovation-related reforms boost productivity both by advancing the technology frontier (mainly in advanced OECD countries) and by speeding up the adoption of existing technology (in less advanced OECD and non-member countries). Combined with appropriate framework policies in the area of education, infrastructure and product market regulations, reforms of specific innovation policies – including public support measures – could help raise business expenditure on R&D, an area where performance is highly heterogeneous across countries (Andrews and Criscuolo, 2013). There is no clear evidence to suggest that higher aggregate R&D spending per se leads to higher dispersion in household disposable income for households, even if they may lead to higher wage dispersion (OECD, 2016d). However, some evidence indicate that the income gains from innovation activities reflected in the number of patent applications, may be less equally distributed as the income of households in the lower half of the distribution does not seem to benefit (Causa et al., 2016). Furthermore, related studies that not only focus on inequality of income, but also on inequality of opportunities, indicate that promoting innovation is positively correlated with social mobility. As innovativeness in an economy rises, children become more likely to be either higher up or lower down in the income distribution than their parents (Aghion et al., 2015, 2016).

Innovation policies that reduce the productivity dispersion across firms may also diminish labour income inequality (OECD, 2016d). Results from firm-level data suggest that more R&D collaboration between universities and firms reduces the productivity gap between the less productive and most productive firms (Andrews et al., 2015), as R&D collaboration with universities facilitates technological diffusion by providing smaller firms with access to sources of knowledge, such as advanced machinery or skilled scientists. Thus, initiatives to encourage R&D collaboration between universities and firms can make productivity more inclusive. Specific recommendations to strengthen such collaboration are made for Australia, Chile, Colombia, Ireland, Estonia, Luxembourg, Portugal and Slovenia (Table 3.10).

Other recommendations aim at increasing R&D incentives by achieving a better balance between tax incentives and direct grants, not least to avoid penalizing innovative young

Table 3.10. **Recommendations on R&D and innovation**

Strengthen collaboration between research centers/universities and industry	AUS	CHL	COL	CRI	EST	IRL	ISL	ITA	LUX	PRT	SVN
Evaluate/reform R&D tax credits	AUS	CAN	ISL	NZL	PRT	USA					
Improve coordination of public policies	AUS	COL	CRI	CZE	EST						
Rebalance direct and indirect support	GBR	IRL	NLD	POL							
Develop technology clusters	MEX	POL									
Improve links between domestic and foreign firms	CRI	MEX									
Increase direct and indirect (tax incentives) support	GBR										
Increase direct support	NLD										
Increase indirect support	CZE										
Make R&D tax credits refundable for new firms	USA										

firms which may not benefit from tax incentives (e.g. Czech Republic, Netherlands, Poland, Portugal and the United-Kingdom); to improve targeting of government support and the efficiency of indirect measures with a view to encourage firm growth through economies of scale (Canada); to improve co-ordination of public policies (Costa Rica and Czech Republic); and to improve links between domestic and foreign firms (Costa Rica and Mexico).

Providing more equal access to high-quality education

Without adequate education and skills, people are unable to access jobs, technological progress does not translate into economic growth, and countries can no longer compete in an increasingly knowledge-based global society (OECD, 2012c). Reforms that facilitate the accumulation of human capital and skills are thus paramount for enhancing long-run living standards (Cohen and Soto, 2007), and require continued efforts over an extended period of time. Education has always been an area of fairly active reforms, but changes have often been incremental, reflecting sometimes the difficulty of implementing comprehensive reforms. As a result, country-specific priorities in this area are in some cases extended from one issue of *Going for Growth* to the next. Those include both reforms aimed at improving the performance of the education system and those that seek to reduce inequality of educational opportunities, as the latter may also contribute to lower labour productivity and utilisation (Stiglitz, 2015).

Policy priorities in education are identified for nearly all countries. However, the recommendations vary across countries according to the more specific nature of the weaknesses (Table 3.11). There is a strong focus on primary and secondary education for the emerging economies but also for a large number of OECD countries. A common challenge across most countries is to spread education benefits more fairly across society. For that it is recommended to allocate resources more equitably across socio-economically advantaged and disadvantaged schools and students (e.g. Germany, the Slovak Republic or United States), to attract the best teachers to disadvantaged schools (e.g. Belgium and Portugal) and to target early on additional support to students at risk of leaving the educational system (e.g. Portugal or Denmark). Postponing early tracking and limiting grade repetition would also contribute to raising equity in educational outcomes (OECD, 2013c).

A second common challenge is to raise the quality of education. While a lot of progress has been achieved in terms of enrolment rates, both in OECD countries and in non-OECD countries, there are still large gaps across countries in terms of quality, as reflected for example in the latest PISA results. Improving teaching quality is therefore key and this is reflected in a large number of countries with recommendations in that direction, ranging from improving teachers training (e.g. Switzerland) to introducing performance-based remuneration schemes (e.g. India and Costa Rica) or attracting higher performing

Table 3.11. **Recommendations on human capital**

University	
Improve responsiveness to labour market needs	ARG BRA CHL CHN CRI GRC HUN ITA SWE
Better target financial assitance to students	AUT COL CHE CZE ESP
Improve funding formula	CHL COL CRI NOR SVK
Improve access and reduce inequalities	CHE CHN HUN
Encourage shorter completion times	NOR SWE
Increase specialisation	ESP
Vocational	
Expand VET and apprenticeships	ARG BRA CHN CRI DNK ESP EST FRA GBR GRC IND ISR LUX POL PRT TUR ZAF
Increase employers involvement	CRI CZE GRC ESP EST SVK
Improve alignment with labour market needs	CHL ESP LVA PRT SWE
Increase workplace component	EST HUN LVA LTU
Encourage SMEs to share apprenticeship places	LVA
Provide vocational training earlier in the cursus	IND
Update curricula	CHL
Harmonise requirements for apprenticeships	CAN
Primary and secondary	
Provide additionnal support to disadvantaged schools/students	BEL CRI CZE DEU DNK FRA HUN ISL ISR LVA NZL POL PRT SVK SWE USA
Improve teaching quality and teachers career prospects/incentives	ARG BRA CHE CRI ESP GRC IDN ISL LTU MEX NOR NZL POL PRT SWE ZAF
Postpone early tracking	BEL CZE DEU HUN LUX PRT
Improve school accountability and autonomy	ISL LUX NOR NZL PRT TUR
Improve access/enrolment	BRA CHN IND IDN ZAF
Limit grade repetition	BEL DEU LUX PRT
Provide second chance opportunities	ESP SVK
Lifelong learning	BEL DEU DNK GBR GRC HUN LVA SVK

graduates to the teaching profession (e.g. Lithuania) and improving its career prospects (e.g. Sweden). Reflecting the prevalence of high unemployment among school drop-outs, some countries (e.g. Spain) are also recommended to boost second chance educational opportunities. Recommendations aiming at increasing access and ensuring adequate school resources are formulated in lower-income countries (e.g. India and Indonesia)

Recommendations in the area of tertiary education are more prevalent for OECD countries, but can be also found in several non-OECD countries (e.g. Colombia, Costa Rica or Brazil). A common challenge in that area is to improve university responsiveness to labour market needs. Digitalisation, globalisation, demographic shifts and other changes in work organisation are constantly reshaping skill needs (OECD, 2016e). Excessive inertia in the education and training systems, in particular in universities, would translate into people acquiring obsolete skills and into persistent skill shortages and mismatches, which are costly for individuals, firms and society in terms of lower wages, productivity and growth. Flexibility and ability to equip students with job-relevant skills are thus vital and recommended. For that, curricula should be updated regularly, intelligence about future skills needs should be developed (e.g. Italy) and fields with high expected demand, such as engineering or basic science, should be promoted (e.g. Chile). Funding mechanisms can play an important role in this respect, and it is recommended that the funding formula takes into account labour market outcomes and needs (e.g. Norway or the Slovak Republic). Better targeting financial assistance provided to students is also a frequent area of recommendations. In some cases it is recommended to introduce mean-tested grants targeted at students from low socio-economic backgrounds (e.g. Switzerland), while other countries are recommended to introduce or raise tuition charges and, in order to alleviate their adverse effects on enrolment, combine these with income contingent payback.

Concerning vocational education and training (VET), the pay-off from policy reforms in this area can be particularly important in the current context. A number of countries are being advised to expand or enhance the effectiveness of VET so as to address the skill mismatch and to provide better bridges between education and the labour market. The potential for a broadly-based increase in the skills level to result in improved well-being and higher productivity gains can only fully materialise if both workers and firms make best use of these skills. But the growing gap between education qualifications and the actual level of skills means that using qualifications as a proxy for skills may lead to placing people in the wrong jobs. As a result, not only can well-designed VET systems improve the overall quality and equity of secondary and tertiary education systems, they can also be particularly useful at raising employability among youth and the low-skilled, an attractive property at a time when several countries face substantial levels of youth unemployment and a need to encourage requalification and redeployment. For example, increasing participation in lifelong learning programmes from the low level in Italy to the median level in Estonia is associated with a 6 percentage point decrease in mismatch (Adalet McGowan and Andrews, 2015). Here again, reducing the skills mismatch requires a combination of policies that include education but also labour market and product market regulation measures.

Raising the efficiency of taxation

Earlier studies have provided evidence of the impact of the tax structure on economic growth and inequality, through effects on labour utilisation (discussed above) as well as on private investment and productivity. While policy recommendations to improve the tax structure vary depending on country-specific performances and policy weaknesses (Table 3.12), they often include reductions in labour (see above), or corporate (e.g. Japan and Norway) income taxation. Reducing statutory corporate income tax rates tends to raise productivity (Arnold and Schwellnus, 2008) by lifting incentives to invest in innovative activities and may also increase employment, which could reduce inequality. Policies to broaden the tax base and reduce tax expenditures are also strongly advocated (e.g. Argentina, Italy, Japan, Norway and Spain) as a way to reduce distortions, enhancing revenues and reducing inequality. In the same vein, strengthening tax collection and compliance is recommended as an effective and equitable way to raise revenues (e.g. Spain, Greece or Italy).

Table 3.12. **Recommendations on tax structure and subsidies**

Tax structure													
Broaden the tax base / reduce tax expenditures	ARG	AUS	AUT	CAN	COL	DEU	ESP	EST	GRC	ITA	JPN	NOR	TUR
Shift tax burden to property	DEU	DNK	EST	FIN	HUN	IRL	ITA	KOR	LVA	LUX	POL	SVN	SWE
Shift tax burden to environment	CAN	CHE	COL	DEU	ESP	HUN	ITA	JPN	KOR	LVA	POL		
Shift tax burden to VAT	AUS	CAN	CHE	COL	FIN	JPN	KOR	NOR					
Improve tax collection/compliance	ESP	GRC	ITA	LVA	POL								
Reduce the scope of VAT reduced rates	CHE	DEU	FIN	NLD	SWE								
Reduce corporate tax rate	CAN	JPN	NOR	USA									
Reduce top income tax rates	SVN	SWE											
Subsidies													
Reduce/reform public support to agriculture	CHE	EU	ISR	JPN	KOR	NOR	TUR						
Reduce energy subsidies	ARG	IDN											

A more growth-friendly tax system can be achieved by shifting the tax burden away from direct income toward consumption, immovable property and the environment, as recommended to most countries featuring a priority in the tax area (e.g. Denmark, Estonia, Germany, Ireland, Latvia and Slovenia). The scope for such reforms may be limited in some cases, as they may increase inequality. To cautiously address policy trade-offs, the reduction in direct taxation can be targeted at low-income earners (e.g. Estonia, Germany, Hungary, Latvia and Turkey). Some countries are also recommended to reduce distortions or fragmentation in their taxation systems (e.g. Norway and the United States), by aligning the taxation of different asset classes and in particular by reducing the implicit tax subsidy for owner-occupied housing or by introducing an integrated nationwide value-added tax (VAT) system for domestic goods (Brazil).

Reducing agriculture and energy subsidies

Little progress has occurred in 2015-16 towards reducing agricultural subsidies, which explains why priorities are still present for the European Union, Israel, Japan, Korea, Norway, Switzerland and Turkey (Table 3.12). Those countries all need to further reduce the level of producer support, that remains high, and to de-link it from production (especially Japan and Korea) to mitigate its adverse effects on the efficiency of resource allocation and productivity. Similar recommendations are made for the European Union, in association with a reduction in barriers to market access for non-EU countries and of biofuel subsidies. Similarly to agricultural support, energy subsidies are sometimes used as social policy devices, but they distort markets and are regressive, wasting resources that could be more effectively targeted directly at the poor – such as through cash transfers – or at growth-promoting spending. Reducing such subsidies substantially, replacing them by targeted transfers to low-income households, remains a priority for Argentina and Indonesia.

Improving the efficiency of public administration and the quality of public services

Reforms to improve the efficiency of government expenditure are expected to boost productivity performance in the long term. They are also particularly attractive given unfavourable demographic prospects and the rising spending pressures in areas like health and education, key areas to improve well-being and equity outcomes. Governments will increasingly face the challenge of providing adequate public services while containing budgetary pressures. Enhancing public sector efficiency is especially important in those countries which have embarked in intensive reform agendas over recent years in order to achieve an effective and full implementation of reforms. An ineffective public sector can also lead to resource misallocation in the private sector (Garcia Santana et al., 2016), for example through arbitrary assignment of public procurement (Adler, 2016). All this explains why public sector reforms have been gaining momentum over the last years (see Chapter 1), but further progress in this area is needed.

Reforms to raise overall public sector efficiency cross different areas (Table 3.13). Public procurement remains the government activity most vulnerable to waste, fraud and corruption (OECD, 2009). Improving public procurement procedures is therefore crucial in several OECD countries (Belgium, Czech Republic, Denmark and Hungary). Improving monitoring mechanisms of public sector performance (e.g. Slovak Republic and Czech Republic), and human resource management (e.g. Italy and the Slovak Republic) are frequent recommendations. Some countries need also to bolster the administrative capacity of the local administration (Poland). An expenditure review, aimed at creating fiscal space to boost social spending, is recommended for Greece.

A number of public sector recommendations focus also on the healthcare sector, given the considerable scope to increase cost-efficiency in a number of countries. Reforms in this area cover hospital efficiency and care management incentives (e.g. New Zealand, Switzerland) and the promotion of generic drugs (e.g. New Zealand, Lithuania). The promotion of healthy lifestyle is also advocated for some countries (e.g. Lithuania, New Zealand), particularly among the poor. Despite major action by the current administration, the United States still devotes a much larger share of its resources to healthcare than other

Table 3.13. **Recommendations on public spending efficiency, physical and legal infrastructure and financial markets**

General	
Improve public procurement procedures	BEL CZE DNK HUN ITA
Improve human ressources management	ITA SVK
Improve monitoring and performance evaluation	CZE GRC SVK
Bolster local administrative capacity	POL
Undertake an expenditure review	GRC
Health	
Reinforce/monitor equity in access	CHN FIN USA
Promote and improve generics drugs use	CHE LTU
Promote more healthy lifestyles	LTU NZL
Increase cost-efficiency	NZL
Increase benchmarking of hospital costs	CHE
Increase cost-efficiency	USA
Infrastructure	
Enhance quality/access/connectivity in transport	AUS ARG COL CRI EST EU IDN ISR LVA POL USA
Enhance quality/access/connectivity in energy	EST EU ITA LVA POL
Improve cost-benefit analysis, including of PPPs and concessions	ARG COL CRI CZE
Improve institutional framework and capacity in relevant ministries and agencies	BRA CRI CZE IND
Raise public and private investment in infrastructure	ITA GBR USA
Improve rural infrastructure	ARG EST IDN
Improve capacity/spending of subnational governments	ARG IDN
Improve long-term strategy and planning	CRI GBR
Enhance quality/access/connectivity in ports	LVA
Introduce user pricing (e.g. in roads)	GBR
Simplify regulatory approval processes	IND
Rule of law	
Sustain/reinforce fight against corruption	ITA HUN IDN MEX
Reinforce judiciary ressources/out of court procedures/efficiency	ITA GRC IDN MEX
Improve legislation	CHN ITA MEX
Publish enterprise annual reports to reduce scope for fraud	CHN
Strengthen penalities for unlawful business conduct	CHN
Financial markets	
Reduce state intervention	ARG CHN
Accelerate resolution of banks non-performing loans	ITA PRT
Enhance financial literacy	CHN
Ease bank portofolio restrictions	IND

OECD countries, which requires continued efforts to identify and implement cost-saving measures and monitor their impact.

Enhancing the provision and quality of physical infrastructure

The most direct contribution of policy to growth of the whole-economy capital stock comes from public investment and recent empirical work suggests a large positive effect on productivity. Solving infrastructure bottlenecks, such as those in transport, can also contribute to stronger labour utilisation, through enhanced labour mobility, and to better environment protection, through lower carbon emissions. Considering the post-crisis fall of government investment as a share of GDP (see Chapter 1) and the current macroeconomic context, enhancing core public capital, and in particular the capacity and regulation of infrastructure, is a priority for both member and non-member countries (Table 3.13). This requires addressing infrastructure shortages in a cost-effective way, in the area of transport (e.g. Argentina, Costa Rica, Israel, United Kingdom or United States), energy (e.g. Estonia and Italy) or both (e.g. Latvia and Poland) and education (South Africa). Reforms in this area also need optimising the use of infrastructure. This can be achieved by price signals such as congestion charges (United Kingdom) or green taxes (Poland). Infrastructure provisions are also very low in many emerging economies, and raising public investment should be accompanied by reforms of the regulatory environment to attract private investment and optimise use, by reforming land acquisition (India), improving the institutional framework and capacity in relevant government agencies (e.g. Costa Rica and Brazil), enhancing long-term planning (e.g. Costa Rica) and promoting PPPs based on *ex-ante* cost-benefit analysis and balanced risk sharing (e.g. Argentina and Colombia).

Strengthening the rule of law

Not only physical but also legal infrastructure bottlenecks hamper productivity, both in emerging-market countries and in some OECD countries. An inefficient judicial system can also act as a significant impediment to full implementation of structural reforms (OECD, 2015c). A well-enforced rule of law is thus essential for growth (Acemoglu et al., 2001) and this is reflected in different mechanisms on which reform priorities need to be addressed for some countries (Table 3.13). Streamlining the court system and enhancing the monitoring of court performance (e.g. Italy) would make judicial systems more agile and responsive. Implementing out-of-court settlement mechanisms (e.g. Greece and Italy), such as mediation, would help to reduce delays and backload of cases. Using more e-justice tools (Greece), moving from written to oral trials (Mexico), and increasing courts specialisation (Greece and Italy), would also contribute to quicker resolutions and stronger contract enforcement. Lastly, it is also important that legislation remains clear and unambiguous (Italy) and that legislation reforms are enacted and implemented (Mexico).

Reducing corruption and improving trust in government institutions, which has recently deteriorated in several OECD countries (OECD, 2015d), must also remain a priority, as it would help governments to implement structural reforms, in particular those bringing long-term benefits (OECD, 2013c). Corruption and crony capitalism are also conducive to resource misallocation and low productivity (Garcia Santana et al., 2016). Consequently, it is recommended to establish or reinforce dedicated anti-corruption agencies (e.g. Hungary, Indonesia, Italy and Mexico). China would also benefit from actions to fight unlawful business conducts, such as strengthening penalties or making annual enterprise reports publicly available.

Reforming financial market regulations

Financial market reform has generally not featured prominently among country-specific priorities, owing to the particular need for strong international co-ordination in this area. There are nonetheless specific idiosyncratic cases where financial reform priorities feature in *Going for Growth*. An area where urgent policy action is required concerns the high level of non-performing loans in Portugal and Italy, which is hindering private investment and growth (Table 3.13). Accelerating the resolution of non-performing loans, including by developing markets for distressed debt securities (e.g. Portugal) and improving insolvency procedures, would contribute to restore credit growth and would allow banks to focus on new lending and on reallocating capital to new and more productive firms.

In some emerging-market economies, basic financial-sector liberalisation is needed to sustain high growth, including in China, where bank credit is not fully allocated by the market. In the same vein, a more efficient functioning of financial markets in Argentina would contribute to reallocating resources towards more productive activities. However, in order to deliver their full benefits, such liberalisations should be gradual and accompanied by strong prudential regulation. In China interest rates have fully been liberalised, with the exception of some policy rates, but, to further enhance risk pricing by financial markets, implicit state guarantees to public entities should be removed. Internet finance regulation has been strengthened, but illegal fundraising activities and defaults by peer-to-peer financial service providers have become widespread. Thus financial literacy should be also enhanced through financial education from an early age. Overall striking a better balance between liberalisation and regulation in financial markets, would allow for better pricing of risk and contribute to lower the adverse impact on inequality of the financial sector (Denk and Cournède, 2015).

Notes

1. For some of these countries, high productivity is the result of the relatively low share of lower skilled workers in the labour force. Consequently, improvements in labour utilisation may not generate one-for-one gains in GDP per capita (see Boulhol, 2009).
2. See Bourlès et al., (2010) on OECD countries and Bas and Causa (2012) for evidence on China.

Refereneces

Acemoglu, D., S. Johnson and J. Robinson (2001), "The colonial origins of comparative development: An empirical investigation", *American Economic Review*, Vol. 5, pp. 1369-1401.

Adalet McGowan, M. and D. Andrews (2015), "Skill Mismatch and Public Policy in OECD Countries", *OECD Economics Department Working Papers*, No. 1210, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js1pzw9lnwk-en*.

Alder, S.D. (2016), "In the Wrong Hands: Complementarities, Resource Allocation, and TFP," *American Economic Journal: Macroeconomics*, 8(1): 199-241.

Aghion, P. et al., (2016), "Living the 'American Dream' in Finland: The Social Mobility of Innovators", Presentation at the Annual Meeting of the American Economic Association, San Francisco.

Aghion, P. et al., (2015), "Innovation and Top Income Inequality", *NBER Working Papers*, No. 21247.

Andrews, D. and A. Saia (2017), "Coping with creative destruction: Reducing the costs of firm exit", *OECD Economics Department Working Papers*, No. 1353, OECD Publishing, Paris, *http://dx.doi.org/10.1787/bbb44644-en*.

Andrews, D., C. Criscuolo and P. Gal (2015), "Frontier Firms, Technology Diffusion and Public Policy: Micro Evidence from OECD Countries", *OECD Productivity Working Papers*, No. 2, OECD Publishing, Paris, htt*p://dx.doi.org/10.1787/5jrql2q2jj7b-en*.

Andrews, D. and C. Criscuolo (2013), "Knowledge-Based Capital, Innovation and Resource Allocation: A *Going for Growth* Report", *OECD Economic Policy Papers*, No. 4 OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k46bh92lr35-en*.

Andrews, D. and F. Cingano (2012), "Public Policy and Resource Allocation: Evidence from Firms in OECD Countries", *OECD Economics Department Working Papers*, No. 996, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k9158wpf727-en*.

Arnold, J. and C. Schwellnus (2008). "Do Corporate Taxes Reduce Productivity and Investment at the Firm Level?: Cross-Country Evidence from the Amadeus Dataset," *OECD Economics Department Working Papers,* No. 641, OECD Publishing, Paris, *http://dx.doi.org/10.1787/236246774048*.

Bas, M. and O. Causa (2012), "Trade and Product Market Policies in Upstream Sectors and Productivity in Downstream Sectors: Firm-level Evidence from China", *OECD Economics Department Working Papers*, No. 990, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k92pgjgll7l-en*.

Bergemann, A. and G.J. van den Berg (2008), "Active Labor Market Policy Effects for Women in Europe – A Survey", *Annales d'Économie et de Statistique*, No. 91/92, pp. 385-408.

Bonfanti, S. and T. Xenogiani (2014), "Migrants' skills: Use, mismatch and labour market outcomes – A first exploration of the International Survey of Adult Skills (PIAAC)", in *Matching Economic Migration with Labour Market Needs*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264216501-11-en*.

Boulhol, H. (2009), "The Effects of Population Structure on Employment and Productivity", *OECD Economics Department Working Papers*, No. 684, OECD Publishing, Paris, *http://dx.doi.org/10.1787/225644583654*.

Bouis, R. et al., (2012), "How Quickly Does Structural Reform Pay Off? An Empirical Analysis of the Short-term Effects of Unemployment Benefit Reform", *IZA Journal of Labor Policy*, pp. 1-12.

Bourlès, R. et al., (2010), "Do Product Market Regulations in Upstream Sectors Curb Productivity Growth? Panel Data Evidence for OECD Countries", *OECD Economics Department Working Papers*, No. 791, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kmbm6s9kbkf-en*.

Cabrales, A., J. Dolado and R. Mora (2014), "Dual Labour Markets and (Lack of) On-the-Job Training: PIAAC Evidence from Spain and Other EU Countries", *CEPR Discussion Paper* 10246, London, November.

Causa, O., M. Hermansen and N. Ruiz (2016), "The Distributional Impact of Structural Reforms", *OECD Economics Department Working Papers*, forthcoming, OECD Publishing, Paris.

Cohen. D. and M. Soto (2007). "Growth and human capital: good data, good results", *Journal of Economic Growth*, Springer, Vol. 12(1), pages 51-76, March.

Denk, O. and B. Cournède (2015), "Finance and income inequality in OECD countries", *OECD Economics Department Working Papers*, No. 1224, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js04v5jm2hl-en*.

García-Santana et al. (2016) "Growing like Spain: 1995-2007", *CEPR Discussion Paper Series* 11144.

Hermansen, M., N. Ruiz and O. Causa (2016), "The Distribution of the Growth Dividends", *OECD Economics Department Working Papers*, forthcoming, OECD Publishing, Paris.

Kluve, J. (2006), "The Effectiveness of European Active Labour Market Policy", *IZA Discussion Paper,* No. 2018.

Koske, I. et al., (2015), "The 2013 update of the OECD's database on product market regulation: Policy insights for OECD and non-OECD countries", *OECD Economics Department Working Papers*, No. 1200, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js3f5d3n2vl-en*.

Martin, J. (2000). "What Works Among Active Labour Market Policies: Evidence From OECD Countries' Experiences", *OECD Labour Market and Social Policy Occasional Papers*, No. 35, OECD Publishing, Paris, *http://dx.doi.org/10.1787/267308158388*.

Mateo-Diaz, M. and L. Rodriguez-Chamussy (2013) "Childcare and women's labor participation: evidence for Latin America and the Caribbean", *Inter-American Development Bank* / IDB Technical Note; 586.

Moïsé, E. and S. Sorescu (2013), "Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade", *OECD Trade Policy Papers*, No. 144, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k4bw6kg6ws2-en*.

OECD (2016a), *The Productivity-Inclusiveness Nexus*, Meeting of the OECD Council at Ministerial Level, *www.oecd.org/mcm/documents/The-productivity-inclusiveness-nexus.pdf*.

OECD (2016b), *Low-Performing Students: Why They Fall Behind and How to Help Them Succeed*, PISA, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264250246-en*.

OECD (2016c), *Economic Policy Reforms 2016: Going for Growth Interim Report*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2016-en*.

OECD (2016d), *OECD Economic Outlook, Volume 2016 Issue 1*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_outlook-v2016-1-en*.

OECD (2016e), *Getting Skills Right: Assessing and Anticipating Changing Skill Needs*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264252073-en*.

OECD (2015a), "Immigrant Students at School: Easing the Journey towards Integration", *OECD Reviews of Migrant Education*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264249509-en*.

OECD (2015b), *OECD Employment Outlook 2015*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/empl_outlook-2015-en*.

OECD (2015c), *OECD Economic Surveys: Italy 2015,* OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-ita-2015-en*.

OECD (2015d), *Government at a Glance 2015*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gov_glance-2015-en*.

OECD (2013a), *Economic Policy Reforms 2013: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2013-en*.

OECD (2013b), *Interconnected Economies: Benefiting from Global Value Chains*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264189560-en*.

OECD (2013c), *Government at a Glance 2013*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/gov_glance-2013-en*.

OECD (2012a), *Closing the Gender Gap: Act Now*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264179370-en*.

OECD (2012b), *PISA Untapped Skills: Realising the Potential of Immigrant Students*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264172470-en*.

OECD (2012c), *Better Skills, Better Jobs, Better Lives: A Strategic Approach to Skills Policies*, OECD Publishing, Paris. *http://dx.doi.org/10.1787/9789264177338-en*.

OECD (2011), *Economic Policy Reforms 2011: Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2011-en*.

OECD (2009), *OECD Principles for Integrity in Public Procurement*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264056527-en*.

Sorsa, P. (2016), "Gender quotas for corporate boards – do they work? Lessons from Norway", Entry in OECD ECOSCOPE, *https://oecdecoscope.wordpress.com/2016/03/08/gender-quotas-for-corporate-boards-do-they-work-lessons-from-norway/*.

Stiglitz J. (2015), "Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity", W.W. Norton & Company, NY, New York.