Chapter 1. Overview of structural reforms actions in 2017

This chapter reviews the main growth challenges faced by advanced and emerging economies and takes stock of the progress made in 2017 in the adoption and implementation of structural policy reforms to address these challenges. Progress is assessed on the basis of actions taken in response to Going for Growth *policy recommendations formulated in the previous edition.*

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.

Main Findings

- A robust and widespread pick-up in activity creates favourable conditions for the successful implementation of structural reforms, which are necessary for the current upswing to be turned into stronger and sustainable long-term growth for all.
- Yet, this opportunity risks being wasted. In 2017, the pace of reforms has, on average across countries, remained similar to the relatively slow pace observed in the last two years. In both advanced and emerging economies, there are little signs of a return to the higher pace observed a few years back.
    - In 2017, policy actions across advanced economies have been implemented in just over one tenth of the 2017 *Going for Growth* priority areas, while reforms are underway in about one third of them.
    - In emerging-market economies, even fewer concrete actions have been fully implemented. Further reforms are in the process of implementation, covering one quarter of Going for Growth priority areas.
- Notwithstanding the subdued reform pace, some bold actions have been taken – over one third of actions implemented in 2017 can be viewed as “major steps”.
    - For example, Greece and Italy implemented major programmes to strengthen social protection, while France passed a long-overdue reform to improve the functioning of its labour market. Japan launched a new plan to significantly increase childcare capacity. Argentina passed a comprehensive tax reform.
- The intensity of reforms has also varied across policy areas:
    - Among reforms to boost skills acquisition and innovative capacity, actions taken to increase the size and efficiency of R&D support have been particularly widespread.
    - The bulk of actions taken to promote business dynamism and knowledge diffusion have focused on strengthening physical and legal infrastructure as well as on making product market regulation more competition-friendly.
    - A particularly high number of significant actions have been taken in the area of social benefits, which is important for social cohesion. To further help workers to cope with potentially rapid changes in jobs and tasks, more reforms are needed in complementary areas, such as improving active labour market and housing market policies to facilitate the job-market transition and mobility.
- A coherent reform strategy is crucial to reap synergies, manage trade-offs and ensure that the benefits are broadly shared over time.

1.1. Introduction

Global growth is on a broadly-based upturn. Advanced economies[1] are benefiting from rising investment and job creation, with unemployment already at pre-crisis levels in many countries and edging down in others. Emerging economies have seen their prospects improving with a rebound in some commodity markets and increases in public infrastructure investment. While encouraging, this short-term momentum should not obfuscate the longer-term challenges that need to be addressed in order to sustain improvements in living standards for all. Indeed, productivity growth – the main driver of long-term growth - continues to be weak in advanced economies and has slowed in many emerging-market economies. Business investment has increased in advanced economies, but still remains weaker than the average of past recoveries, implying that productive capital may not be growing fast enough. In emerging economies, enhanced capital deepening and productivity gains are necessary to escape the middle-income trap, to continue lifting millions out of poverty and to overcome demographic pressures.

Growth is still supported by favourable monetary conditions while in many countries private debt levels have remained elevated or further risen, which is not without risks to the outlook. An expanding majority of advanced economies have also finally closed the massive jobs gap that opened during the great recession, but not all segments of society are benefitting from the labour market recovery, with many youth and low-skilled workers still facing bleak job and career prospects. And despite rising employment, wages have largely failed to follow. In particular, real income growth has been weak at the bottom of the distribution, where the ground lost by the bottom 10% during the recession has still not been fully recovered (OECD, 2016a). Hence, translating the short-term recovery into strong and resilient long-term growth for all cannot be taken for granted.

Against this background, there is a strong case for ambitious structural reforms to move to robust and sustainable growth paths, with the gains shared by all. This chapter builds on the regular 2017 issue of *Going for Growth*, where priorities were set with a view to improving material living standards in an inclusive way through stronger employment and productivity gains. In essence, recommendations have been formulated with a view to pursuing three intertwined objectives:

Unlocking skills development and innovation capacity: Achieving stronger growth and reduced inequality requires action to better ensure that all individuals have the skills to obtain rewarding and productive employment and that these skills are put to their best use. Advances in digital technologies and the growing importance of knowledge-based capital underscore the need for reforms in education to ensure that young people are prepared for the dynamic labour market of the future and have the right cognitive and non-cognitive skills to cope with technological change. More efficient and effective policies to support innovation will help ensure these skills are turned into higher productivity growth.

Boosting business dynamism and diffusion of knowledge: To seek innovation and make the most of new technologies and workers' skills, firms must be given incentives to make the necessary investment in research and development (R&D), new digital equipment and organisational know-how. Strong product market competition and robust business dynamics – entry and growth, but also the exit of unproductive firms – are key for the diffusion of innovation and the allocation of resources to their best use. Businesses have a crucial role to play in fostering a good matching of skills and tasks by providing employment opportunities, contributing to skills development and knowledge diffusion.

Preserving social cohesion and helping workers make the most out of a dynamic labour market: Dealing with a rapid turnover of firms, jobs and tasks requires that workers facing a job loss be rapidly given new employment opportunities or a chance to up-grade skills, with adequate income support and job-search assistance during the transition. A well-functioning labour market, without unduly restrictive labour market regulation, and with appropriately designed unemployment benefits combined with comprehensive activation policies, will ensure that everyone can have access to jobs and labour market security. Such a job market will also be capable of better including population groups with thus far lower labour participation rates.

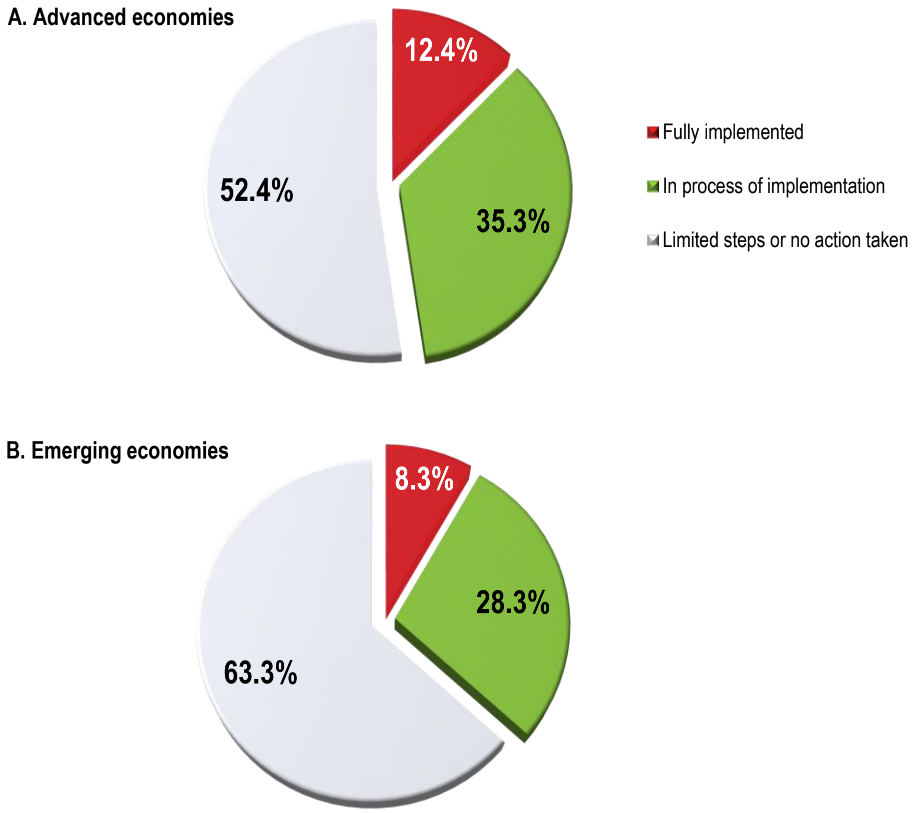
This chapter reviews the main growth challenges faced by advanced and emerging economies in pursuing these three objectives, and takes stock of actions taken that relate to policy recommendations on reform priorities laid out in the 2017 publication. It specifically evaluates the extent to which countries have already been addressing the 2017 reform priorities. The implementation of reforms is defined as the introduction of relevant laws and decrees or appropriate measures (such as budgetary provisions) put in place for the reform to come into effect. It cannot, however, evaluate how effectively those measures are enforced in practice. The next section presents a global overview of the reform momentum in 2017 compared to previous periods. The following section provides a brief reminder of the main performance challenges faced by countries. The final section reviews actions taken by countries across policy areas. An Annex provides the link to the online chapter on structural policy indicators, which contains a comprehensive cross-country set of quantitative policy indicators used in *Going for Growth*.

1.2. Overview of reform progress across countries

Reform activity, in advanced- and emerging-market economies alike, appears to be settling on a low level compared to the post-crisis peak. The number of reform actions in priority areas is also somewhat lower than what was observed before the crisis (OECD, 2017). On average across advanced economies, reforms have been fully implemented in 12% of the priority areas identified in the 2017 issue of *Going for Growth* (that is, relevant legislation or significant budgetary provisions have been passed for some recommendations in the priority areas). In addition, some reform action has been initiated (*i.e.* is in the process of implementation) in 35% of the areas (Figure 1.1). For emerging-market economies, the share of the *Going for Growth* priority areas where concrete actions have been taken remains lower than in advanced economies, with actions in the process of implementation in more than one fourth of priority areas.

Figure 1.1. Share of *Going for Growth* priority areas with actions taken

As a percentage of priorities, 2017



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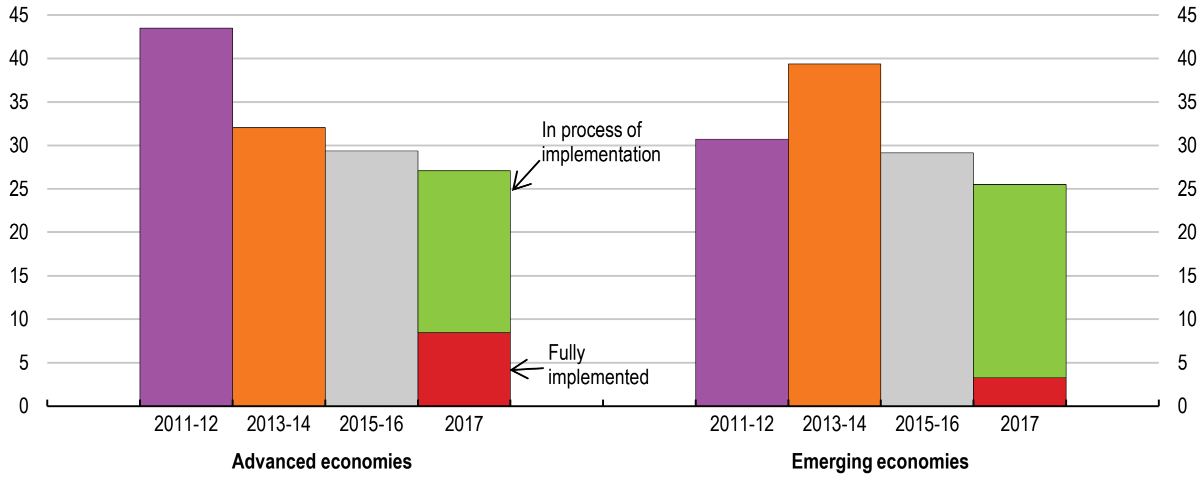
Reform intensity, as conveyed by the reform responsiveness rate indicator, looks set to remain below the peak observed in 2011-12. Considering jointly reforms fully implemented and in the process of implementation, the intensity has stabilised (Figure 1.2). Moreover, some bold actions were taken – over a third of actions implemented in 2017 have been assessed as "major steps" by OECD country specialists.[2] As legislative intensity can vary significantly from one year to the next – including due to political cycles - and the importance of individual actions can differ vastly, caution is needed in comparing the pace reported over the course of one year (2017) in this interim report relative to the pace averaged over a two year period (2015-16) documented in the previous issue of *Going for Growth*.

Figure 1.2. Despite the positive short-term prospects, reform intensity has stalled

Responsiveness rates to *Going for Growth* recommendations,[1] percentage



1. The chart illustrates the pace of reform in previous periods captured by the indicator of reform responsiveness (RRI) and the estimated level of responsiveness in 2017 based on fully implemented policies (red) and policy actions in the process of implementation (green) to ensure comparability with previous two-year periods. See the Going for Growth 2010 issue for an explanation on RRI.

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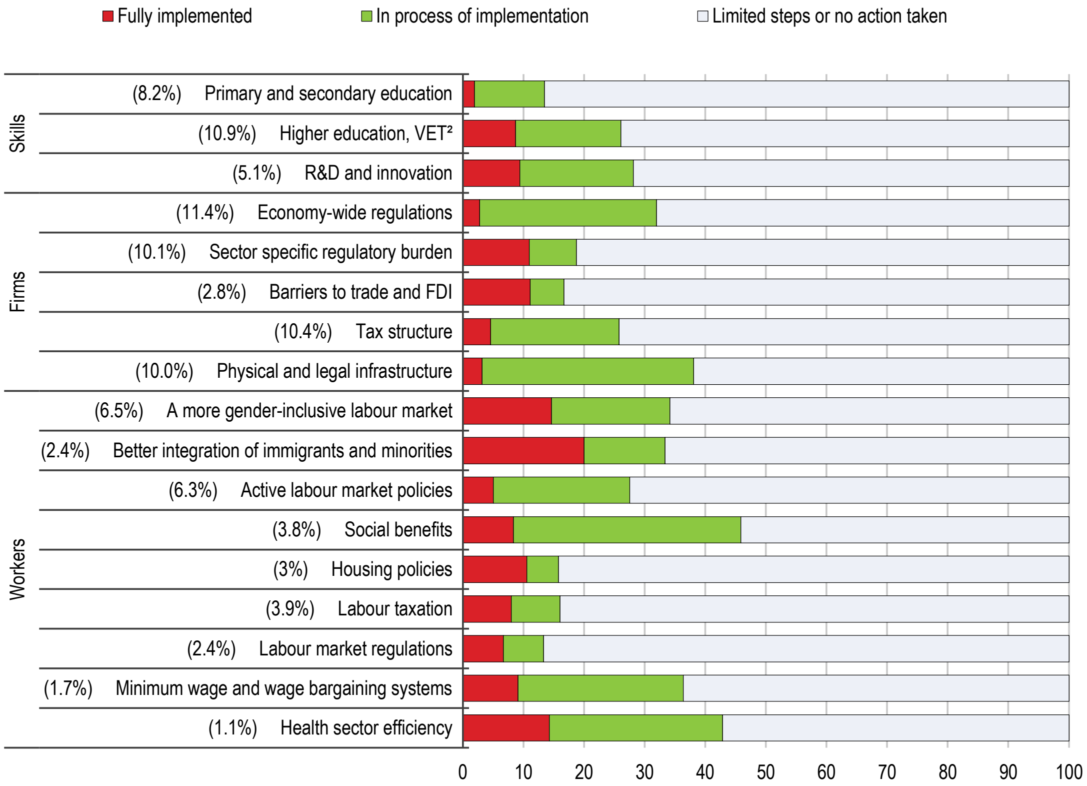
This overall pattern hides some heterogeneity in the actions taken on *Going for Growth* recommendations across the main policy areas (Figure 1.3):

- Among the reforms to boost skills and innovative capacity, the largest share of actions implemented or in the process of implementation is observed in the areas of R&D investment and, to a lesser extent, higher education.
- Regarding the reforms that promote business dynamism and knowledge diffusion, the areas where most action is taking place are physical and legal infrastructure, with an emphasis on transportation networks, and the lowering of economy-wide regulatory barriers to competition, in particular in emerging-market economies.
- Among the reforms to enhance social cohesion and help workers to cope with potentially rapid changes in jobs and nature of tasks, social protection has seen an important share of actions taken, with significant anti-poverty programmes introduced in Italy and Greece. Priorities in the area of health care have also seen a relatively high share of reforms that have been fully implemented or in the process of implementation. In contrast, relatively few actions have been taken in the areas of labour taxation – an area where more substantial actions had been seen in 2015-16. The notable efforts to lift barriers to the participation of women in the labour force, which were reported in the previous issues of *Going for Growth*, have continued in 2017.

Figure 1.3. Reform intensity has been the highest in the area of social benefits, health and physical and legal infrastructure

Share of implemented recommendations,[1] percentage



1. The chart summarises the share of recommendations made in Going for Growth 2017 by the status of their implementation. Full implementation refers to the adoption of relevant laws or equivalent measures. Values in parenthesis represent the share in total recommendations.
2. Vocational education and training.

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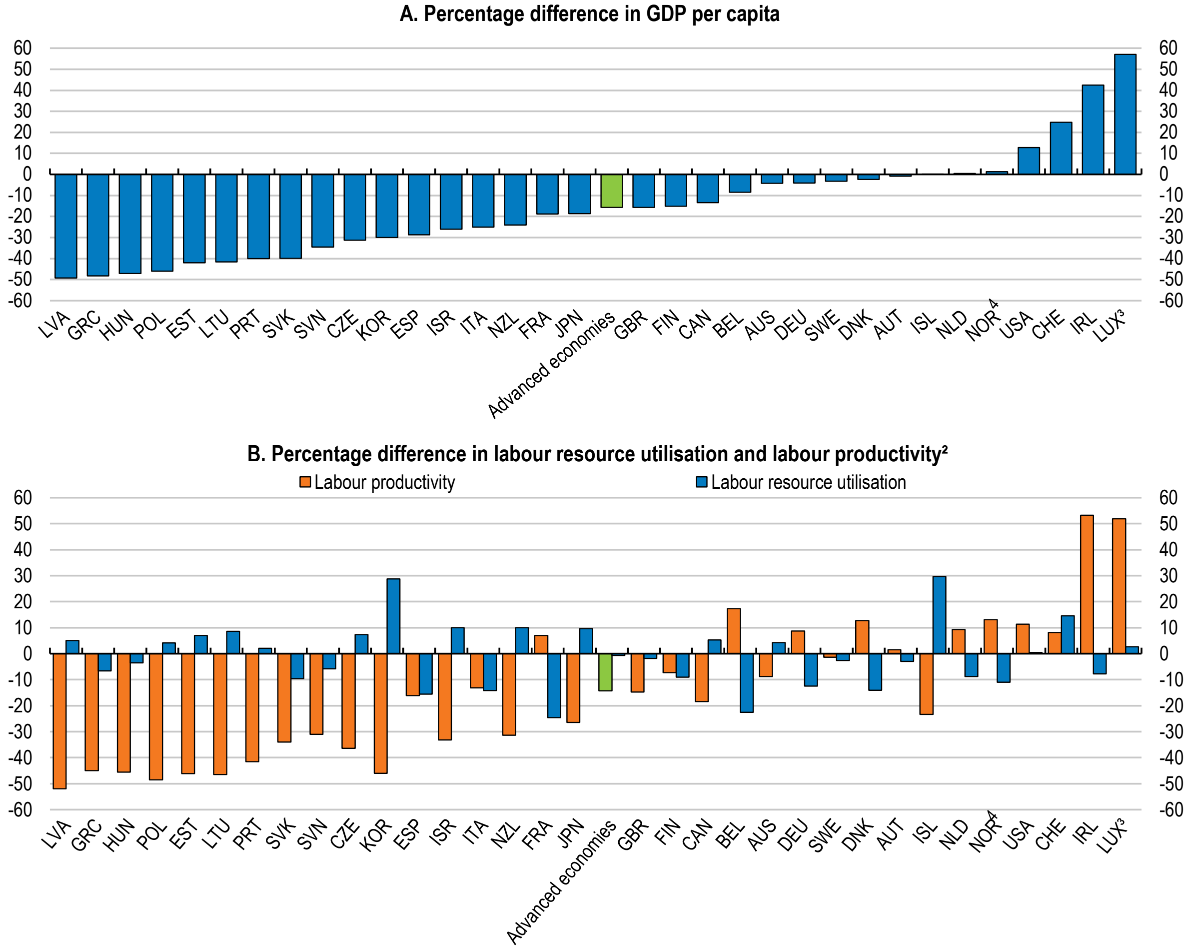
1.3. Economic performance and Going for Growth 2017 reform priorities - a snapshot

Ensuring that the short-term momentum translates into strong long-term growth will require much more action than demonstrated in 2017. The policy priorities identified in the 2017 issue of *Going for Growth* remain valid and should continue to serve as guidance to a broadly-based structural reform agenda.

Going for Growth identifies policy reform priorities based on a 'mixed' approach combining a quantitative assessment that compares performances and policy indicators, and a qualitative assessment based on judgment and expertise provided by OECD country specialists. A standard overall benchmark is the average of top performing OECD countries on GDP per capita (Figure 1.4 and Figure 1.5). Priority reforms are identified even for those top performers based on weaknesses in specific areas and identified emerging challenges. The primary objective is to set a policy agenda most likely to secure long-term improvements in performance.

Figure 1.4. The sources of real income differences, advanced economies

Compared to the upper half of OECD countries, 2016[1]



1. Compared to the weighted average using population weights of the 17 OECD countries with highest GDP per capita in 2016 based on 2016 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.
2. Labour productivity is measured as GDP per hour worked. Labour resource utilisation is measured as the total number of hours worked per capita.
3. 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.
4. 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.

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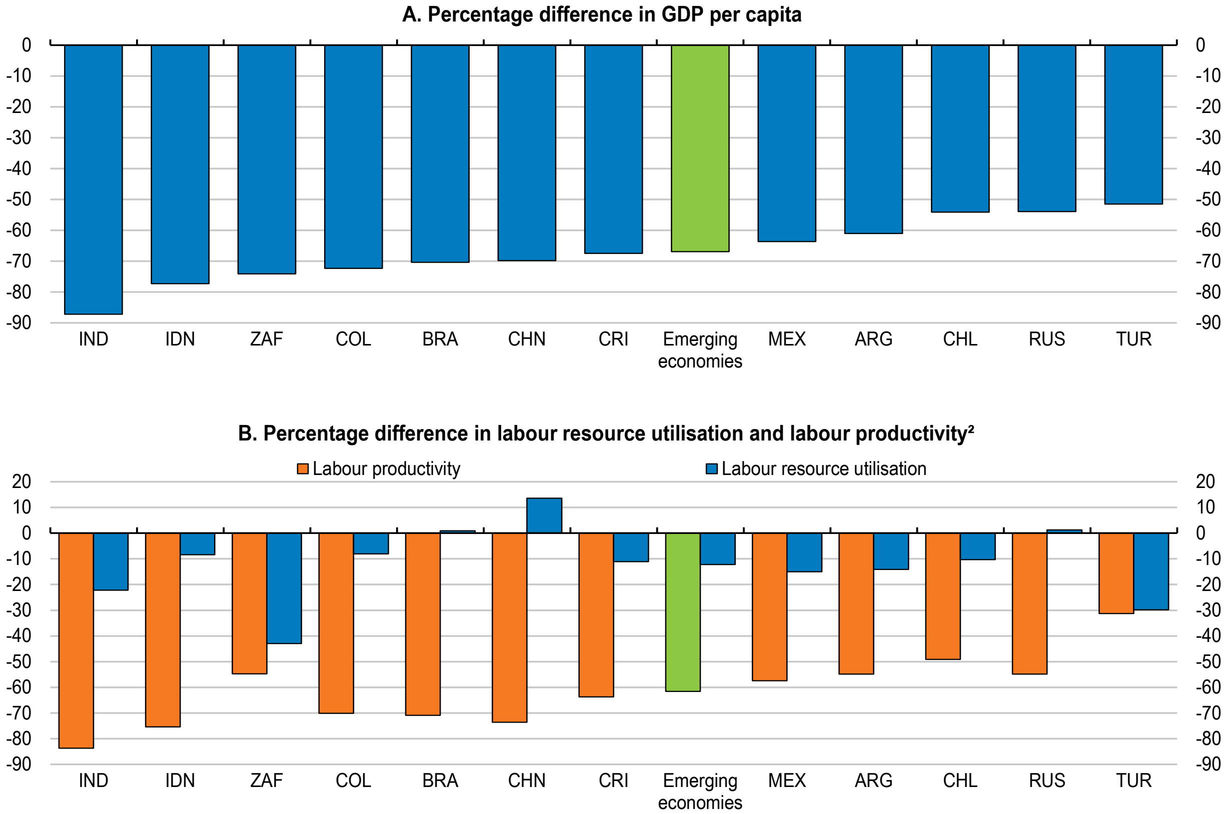
Figure 1.5. The sources of real income differences, emerging economies

Compared to the upper half of OECD countries, 2016[1]



1. Compared to the weighted average using population weights of the 17 OECD countries with highest GDP per capita in 2016 based on 2016 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.

2. Labour productivity is measured as GDP per employee. Labour resource utilisation is measured as employment as a share of population.

Source: OECD National Accounts and Productivity 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; 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.

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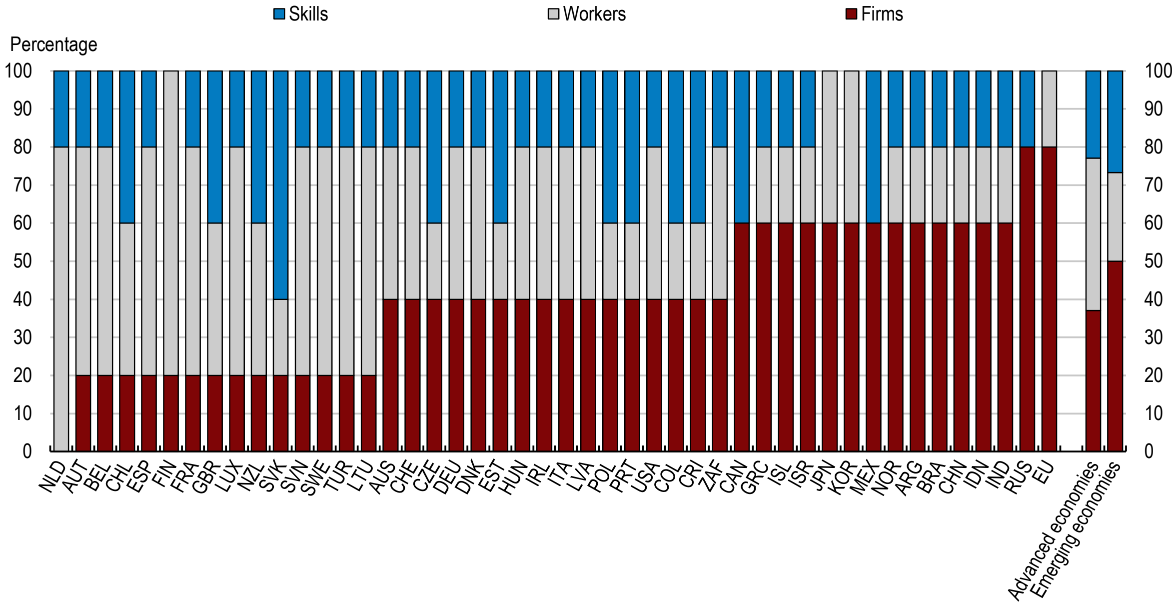
As the job market situation improves - due to a combination of a cyclical pick-up and actions taken on past employment-related priorities - the medium-term policy preoccupation is more with the slowdown in productivity growth and the pass-through from technological leaders to a broader population of firms. Hence, the bulk of 2017 policy priorities, in particular in advanced countries, concern promoting business dynamism and knowledge diffusion (labelled 'firms' in Figure 1.6). Most common areas include sector-specific and economy-wide regulations with an emphasis on professional services and retail distribution, as well as the streamlining of licensing and permits.

Other priorities include shifting the tax burden from direct sources (labour and capital income) to indirect sources (taxes on consumption, immovable property and pollution emissions) while broadening the tax base, enhancing connectivity in transport and improving the efficiency of public administration. For emerging economies, priorities to boost business dynamism and knowledge diffusion account for an even larger share of total priorities (around half), and primarily include streamlining permits, lowering barriers to trade and investment, expanding regulatory impact assessment, setting one-stop shops, improving the quality and accessibility of infrastructure and strengthening the rule of law.

Figure 1.6. Distribution of *Going for Growth* priorities across broad categories

2017



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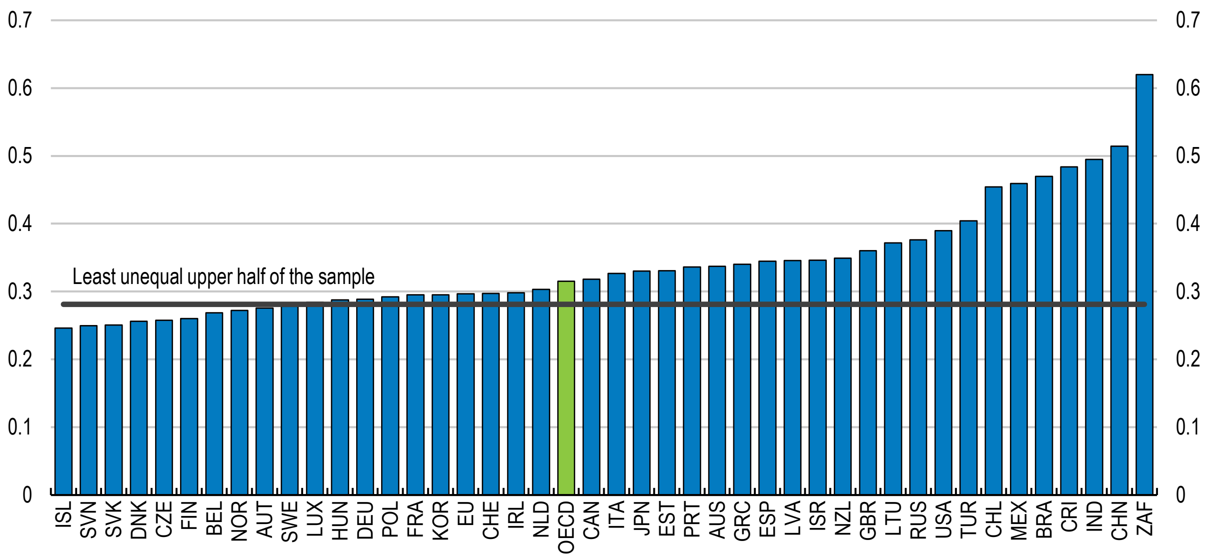
Priorities focussing on helping current and future workers to acquire or improve their skills and on increasing the overall innovative capacity of the economy also largely address the productivity slowdown, but with an important inclusiveness angle – aiming for longer-term growth to benefit all. Across advanced economies, a quarter of priorities fall in this area, but they dominate in the Slovak Republic, while being significant in Canada, Czech Republic, Estonia, New Zealand, Poland, Portugal and the United Kingdom (labelled "skills" in Figure 1.6). Roughly 80% of the skills' priorities concern the need to reform education, with better support to disadvantaged students, improving teaching quality, vocational education and training (VET), and expanding long-life learning having the largest occurrences. Priorities on R&D and innovation follow. In emerging economies, the emphasis on education is similar – with roughly 80% of priorities in skills linked to higher vocational education and training, as well as primary and secondary education.

Finally, priorities to help workers cope with and adapt to job and task changes and promote social cohesion focus primarily on how to facilitate access and attachment to the labour market (labelled "workers" in Figure 1.6). Particular attention is given to groups with traditionally lower participation and employment rates and higher risks of falling out of the labour market: women, minorities, youth, the low-skilled, the disabled and the elderly. In other words, emphasis is placed on policies that have the largest scope to make growth more inclusive. Countries having the most important gaps in labour utilisation generally have a high share of priorities in 'workers' (Belgium, France, Spain and Turkey – Figure 1.6). Some countries with a relatively high level of income inequality, as measured by the Gini coefficient (Figure 1.7) are among those with a lower share of priorities in the category 'workers' (Brazil, China, Costa Rica, India and Mexico). In total, over a third of priorities for advanced economies can be classified in the category labelled 'workers' (Figure 1.6), of which more than half focus on implicit and explicit barriers to employment and labour force participation, as well as activation policies. In emerging-market economies, the share of priorities in the category 'workers' is lower, focusing mainly on unemployment and social benefits, labour market regulations and tax wedges.

Figure 1.7. Inequality remains a challenge, particularly in developing economies

2014 or latest available year[1]



1. Gini at disposable income (after taxes and transfers), for total population. The latest available year is 2016 for Costa Rica; 2015 for Chile, Finland, the United Kingdom, Israel, Korea, the Netherlands, the United States, South Africa; 2013 for Brazil and China; 2011 for India and the Russian Federation.
Source: OECD, Income Distribution Database.

StatLink http://dx.doi.org/10.1787/888933680191

Importantly, the three categories "firms", "skills" and "workers" should not be seen in isolation. To enhance the effectiveness of reforms and ensure that their benefits are shared broadly – but also to enhance their social and political acceptability – a coherent reform strategy is crucial. As advocated in *Going for Growth* 2017, such a strategy can be most beneficial if formulated as (explicit or implicit) reform packages – combining various policy reforms within and across the categories, in order to reap synergies, manage trade-offs and improve the distribution of effects over time. For example, reforms to stimulate business dynamism – such as reducing barriers to firm entry and exit - should be accompanied by labour market measures to help vulnerable workers transition to new jobs. The new dynamism and innovative activity generated by such reforms will likely accelerate the transformation of tasks and skills requirements – highlighting the need for actions in education policies, which can take a longer time to materialise.

1.4. Progress in unlocking skills development and innovation for all

Knowledge is likely to be the main driver of growth in the future and policies geared towards enhancing skills for all will be crucial in this respect. Improving education and skills has always been identified as a priority for a vast majority of advanced and emerging economies and the specific recommendations vary depending on the sources of policy weaknesses. But despite widespread and sustained reform action over the years, they usually fall short of fully addressing country-specific skills priorities, which often appear from one to the next issue of *Going for Growth*. Indeed, education and skills priorities often require pursued efforts and monitoring of actions over an extended period of time.

Education is also an essential driver of an economy's innovative capacity. A strong network of knowledge transmission nurtured through R&D collaboration among firms, as well as between higher education institutes and firms, is conducive to innovation-led growth. A highly qualified labour force is essential for the adoption of ideas and turning them into improvements in production. And, providing a larger share of firms, in particular smaller and younger firms, with access to sources of knowledge and advanced skills can help bridge the dispersion between leading, frontier firms and those lagging behind (Andrews et al., 2015), making productivity growth more inclusive.

The success of the match between education and innovation relies on a broader range of assets, mostly intangible: employee skills, organisational know-how, databases, design, brands and various forms of intellectual property. Policies spurring investment in such assets should be complemented by appropriate framework conditions, *e.g*. product, labour and financial (including venture capital) market policies that encourage the reallocation of capital and jobs across firms, as well as effective bankruptcy laws that keep a good balance between the costs and benefits of entrepreneurial experimentation. Thus, addressing the challenge of innovation spreads across most of the policy areas covered by *Going for Growth*.

1.4.1. Reforms to foster primary and secondary education

In primary and secondary education, a common emphasis is on raising teachers' qualifications and addressing educational inequalities, and enhancing the targeting and effectiveness of resources devoted to disadvantaged students and schools (Table 1.1). Indeed, social returns to education are high, but relate mostly to earlier stages of education, especially for disadvantaged individuals (Heckman et al., 2005). Increasing the quality of lower-level schooling across broad segments of the population is thus important for securing improved productivity but also for fostering inclusiveness, notably by achieving rising participation in higher education. High-quality primary and secondary education should be prioritised in public funding because those are a prerequisite for raising skill levels and expanding tertiary education. For emerging-market countries, recommendations to address bottlenecks in schooling infrastructure are relatively frequent, which may require raising public investment. Recent actions in this area include:

- France halved class size to 12 pupils for grade 1 and grade 2 in poor neighbourhoods, with implementation already started during the 2017-18 school year.
- Mexico finalised the implementation of the mandated National Evaluation System of teachers, where almost all of the teaching body has been evaluated, and public investment has been undertaken to improve schools' infrastructure.
- Sweden increased appropriations targeted to schools with weak results, and to upper-secondary education for pupils without the grades to directly integrate the standard programmes.

Table 1.1. Recommendations and actions in primary and secondary education

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

1.4.2. Reforms to expand higher and vocational education and training

Recommendations in the area of tertiary education are more prevalent for higher-income countries, with a common challenge to improve university responsiveness to labour market needs (Table 1.2). Indeed, digitalisation, globalisation, demographic shifts and other changes in work organisation are constantly reshaping skill needs (OECD, 2016b). Excess inertia in the education and training systems, in particular in universities, translates into people acquiring inadequate skills and eventually into persistent skill shortages and mismatches. The latter are costly for individuals, firms and society in terms of lower wages, productivity and growth. Flexibility and the ability to equip students with skills enabling them to more rapid adaptation to task changes are thus vital. Similarly, recommendations in the area of vocational education and training (VET) also aim at responding to the challenge of aligning of skills with labour market needs. Expanding or enhancing the effectiveness of VET will provide a better bridge between education and the labour market. This is needed as the nature of future economic growth will likely entail substantial firm turnover (OECD, 2015). As a result, policies should focus on facilitating job matching, allowing the labour force to adapt more quickly to new skill requirements and changes in industrial and occupational structures. Recent actions in this area include:

- Colombia has launched the Access and Quality in Higher Education Project (PACES), with the aim of improving the quality of higher education and tackling inequality of access through the use of loans for disadvantaged students. Education loans have also been reformed to eliminate caps on loans and ease access to accredited universities for poorer students.
- Germany has simplified procedures and improved financial support for individuals pursuing life-long learning as well as for vocational education graduates. Moreover, universities have received additional funding to support studies, in particular for students from vocational education pathways. Measures to improve the school-to-work transition, including job counselling, have also been reinforced.
- Latvia has developed a modular VET curriculum that provides training programmes tailored for specific skill needs for each industry. It also introduced a legal framework for work-based learning and raised the fiscal incentives to undertake VET by partially exempting students' earnings from the income tax. VET schools have been consolidated and VET Competence Centres which experiment with new curricula and offer adult education were established.
- In the United Kingdom, spending on lifelong learning pilots has been increased in England to test different approaches to help workers retrain and upskill throughout their adult lives. The pilots will inform a wider National Retraining Scheme, which is set to be introduced in England. VET qualifications are also going to be modified to simplify the technical education system.

Table 1.2. Recommendations and actions in higher education, vocational education and training

	University					Vocational					
	Improve responsiveness to labour market needs	Better target financial assistance to students	Improve funding formula	Encourage shorter completion times	Improve access & reduce inequalities	Increase specialisation	Expand VET & apprenticeships	Increase employers involvement	Increase workplace component	Improve alignment with labour market needs	Expand lifelong learning
Australia											
Austria		Blue									
Belgium											Blue
Canada	Blue				Blue						
Czech Republic		Blue						Blue			
Denmark							Blue				Blue
Estonia							Blue	Blue	Blue		
EU											
Finland											
France							Blue				
Germany											Maroon
Greece	Blue						Maroon			Maroon	Blue
Hungary	Blue				Blue				Blue		Blue
Iceland											
Ireland											
Israel							Blue				
Italy	Blue										
Japan											
Korea											
Latvia									Maroon	Maroon	Blue
Lithuania									Blue		
Luxembourg							Blue				
Netherlands											
Norway			Blue	Blue							
New Zealand											
Poland							Blue				
Portugal							Blue			Blue	
Slovak Republic			Maroon					Blue			Maroon
Slovenia											
Spain		Blue				Blue	Blue	Blue		Blue	
Sweden	Blue			Blue						Blue	
Switzerland		Blue			Blue						
United Kingdom							Maroon				Maroon
United States											
Argentina	Blue						Blue				
Brazil	Blue						Maroon				
Chile	Maroon		Maroon		Maroon					Maroon	
China	Blue				Blue		Maroon			Maroon	
Colombia		Maroon	Maroon								
Costa Rica	Blue		Blue				Blue	Blue			
Indonesia											
India							Blue				
Mexico											
Russia											
South Africa							Blue				
Turkey							Blue				

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

1.4.3. Reforms to improve innovation capacity

In both advanced and emerging economies, recommendations on innovation include generally strengthening collaboration between research institutes or universities and industry. Efficient public support to R&D also remains warranted, as investing in innovation involves considerable uncertainty while associated outcomes often have some public good qualities - being widely shared within the economy and even abroad. A mix of incremental R&D tax incentives and selective direct grants is considered the best approach, with recommendations focusing on achieving a better balance between the two types of support and pursuing close evaluation of the grant programmes (Table 1.3). Recent actions in this area include:

- The Czech Republic passed a new evaluation methodology to improve the effectiveness of spending in R&D.
- Estonia substantially increased the weight of business contracts in the funding formula for public research institutions.
- Mexico introduced a new tax credit regime for R&D – making 30% of an increase in R&D expenses and investments (with respect to past values) deductible from taxes.
- The Netherlands extended the scheme to subsidise labour and other costs associated with undertaking R&D.

Table 1.3. Recommendations and actions in R&D

	Strengthen collaboration between research centres/universities and industry	Improve co-ordination of public policies	Evaluate/reform R&D tax credits	Rebalance direct and indirect support	Develop technology clusters	Improve links between domestic and foreign firms
Australia	Blue	Blue	Blue			
Austria						
Belgium						
Canada			Blue			
Czech Republic		Maroon				
Denmark						
Estonia	Blue	Maroon				
EU						
Finland						
France						
Germany						
Greece						
Hungary						
Iceland	Blue		Maroon			
Ireland	Blue			Blue		
Israel						
Italy	Maroon					
Japan						
Korea						
Latvia						
Lithuania						
Luxembourg	Blue					
Netherlands				Maroon		
Norway						
New Zealand			Blue	Blue		
Poland				Maroon	Blue	
Portugal	Blue		Blue			
Slovak Republic						
Slovenia	Maroon					
Spain						
Sweden						
Switzerland						
United Kingdom				Maroon		
United States			Blue			
Argentina						
Brazil						
Chile	Blue					
China						
Colombia	Blue	Blue				
Costa Rica	Blue	Blue				Blue
Indonesia						
India						
Mexico			Maroon			
Russia	Blue		Blue			
South Africa						
Turkey						

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

1.5. Progress in boosting business dynamism and faster diffusion of knowledge

Recent decades have seen a persistent and worrying slowdown in productivity growth, which is a central driver of long-term improvements in living standards. More recently, the slowdown has extended to emerging economies. Slower productivity growth is fuelling concerns of low global long-term growth, amid population ageing. Recent evidence has characterised this slowdown in productivity growth as a reflection of both cyclical and structural factors, which have – thus far – prevented rapid technological changes from translating into aggregate productivity gains as it has done in the past. One major factor, which is part cyclical but to some extent also structural, has been persistently weak investment in physical capital (Ollivaud et al., 2016): in most advanced countries, the recovery in non-residential investment is lagging behind that of GDP, and this is particularly the case among European countries. But behind the aggregate slowdown, there has been also a growing dispersion of productivity performance within countries between firms and regions, with some of them enjoying fast productivity gains enabled by rapid technological progress, and others lagging behind. In other words, while the productivity frontier keeps advancing, these gains have not diffused throughout the rest of the economy (Andrews et al., 2016).

The role of businesses is crucial in addressing these challenges. They can provide employment opportunities, contribute to skills development and engage in knowledge and technology diffusion, which is particularly important for emerging economies. But this requires a business environment that encourages them to do so and ensures a level playing field so that they can compete on ideas and business models. Policy makers need to deploy a range of policies that i) enable firms to invest in breakthrough innovation, ii) ease firm access to skilled workers, finance, and markets to experiment with new ideas and capitalise on them to grow, iii) support the diffusion of innovation throughout the economy and across the world, thus enabling all firms to benefit from these innovations and grow, and iv) allow for the smooth exit of unproductive firms to free up valuable resources, including workers, so that they can contribute to more rewarding activities.

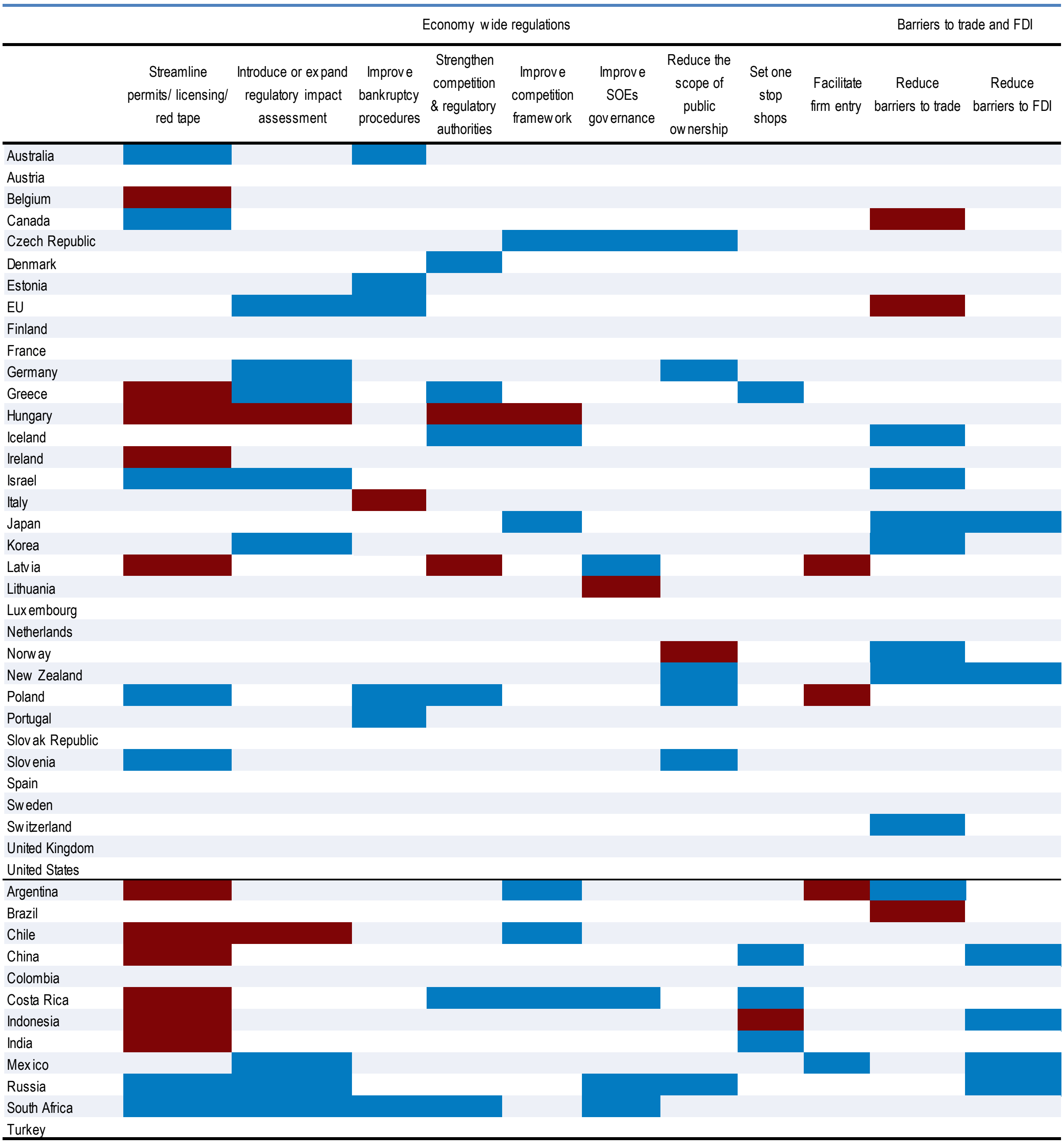
Achieving these policy objectives will span many areas from competition and product market regulation to innovation and financial market policies. The *Going for Growth* framework identifies such country-specific priorities to be implemented at the national level. Globalisation - closer economic integration and rising cross-country interdependence - brings additional challenges that require stronger international co-ordination on structural policies in a number of areas, not only trade but also R&D, the protection of intellectual property rights, taxation, competition and other fields affecting the corporate sector.

1.5.1. Reforms to economy-wide and sector-specific regulations to facilitate firms' entry and exit

Pro-competition product market regulations affect aggregate productivity via various channels such as the speed at which new sectors can grow, the incentives for innovative efforts and the adoption of new technologies, as well as the capacity of the economy to allocate capital and labour resources to their best use. In emerging economies, high regulatory burdens can also act as a barrier to business formalisation. Estimates of the potential impacts of product market reform point to a strong pay-off, with gains in living standards achieved relatively rapidly (Egert and Gal, 2017). Additionally, recent empirical evidence suggests that pro-competition product market reforms can be inclusive in that they tend to lift household incomes across the distribution, leaving inequality broadly unchanged (Causa et al., 2016). At the economy-wide level, reducing the regulatory burden is needed in many countries. Frequent associated recommendations include streamlining regulation while facilitating firm entry through simplified and transparent permit and licence procedures, reducing the scope of state-owned enterprises while improving their governance, and strengthening competition frameworks (Table 1.4). Recent actions in this area include:

- Hungary passed a new legislation to significantly increase merger notification thresholds. Furthermore, the EU's antitrust damage directive was adopted, making it easier for injured parties to obtain compensation for damages due to anticompetitive conduct.
- Chile is rolling out its 2020 digital agenda to increase e-procedures for households and firms. Moreover, 40 municipalities are currently experimenting "Escritorio Empresa", a digital platform to simplify firm procedures.
- Latvia passed an action plan for the improvement of the business environment. Measures include on-line registration of a company starting from 2018 and the registration of property without a notary but with a safe electronic signature.

Table 1.4. Recommendations and actions to lift regulatory distortions and promote firms' entry and exit



Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

Table 1.5. Recommendations and actions to lift sector specific regulatory burdens

	Professional services	Energy	Retail	Services	Banking	Construction	Transport	Post	Ports	All network sectors
Australia										
Austria	Maroon		Maroon							
Belgium	Blue		Blue	Blue						Blue
Canada	Blue	Blue	Blue				Blue	Blue		Maroon
Czech Republic			Blue							Blue
Denmark				Blue		Blue				
Estonia		Blue								
European Union		Blue		Maroon			Blue			
Finland			Maroon			Maroon				
France	Blue		Blue							
Germany	Blue						Blue	Blue		
Greece										Maroon
Hungary		Blue	Blue							Blue
Iceland										
Ireland	Maroon	Blue							Blue	
Israel		Blue			Maroon					
Italy										
Japan		Blue			Blue			Blue		
Korea				Blue						
Latvia	Blue									Blue
Lithuania										
Luxembourg	Blue		Blue							
Netherlands										
Norway			Blue				Blue	Blue		Blue
New Zealand							Blue			
Poland										
Portugal	Blue								Blue	
Slovak Republic										
Slovenia	Blue									
Spain	Blue						Maroon		Maroon	
Sweden										
Switzerland										
United Kingdom										
United States										
Argentina										
Brazil										
Chile										
China										
Colombia										
Costa Rica					Blue					
Indonesia										
India					Blue					
Mexico	Blue		Blue		Blue		Blue			
Russia										
South Africa		Blue								Blue
Turkey										Blue

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

Reducing sector-specific regulatory burdens, especially in non-manufacturing, i.e. retail trade and professional services as well as network industries, are also frequent recommendations (Table 1.5). Product market reforms in this area could facilitate adjustments in unit labour costs in a context of low inflation. Furthermore, reducing regulatory barriers to firm entry and competition in sectors where there is pent-up demand such as retail trade and professional services can spur job creation. Stronger competition, especially in services, would help to ensure productivity gains mainly translate into wage increases and that workers' real income also benefit from lower consumer prices. This would help workers to reap the benefits from previously-introduced labour market reforms. In fact, product market reforms have become even more important now insofar as the lack of competition in some product markets risks undermining the success of previous labour market liberalisation reforms. Recent actions in this area include:

- Costa Rica simplified the registration procedure of low-risk food and cosmetic products, and implemented pilot projects with municipalities to streamline licensing.
- A Services package to tackle barriers in the services market was adopted by the European Commission. It includes (i) a legislative proposal establishing a new notification procedure for services under the Services Directive, (ii) a guidance on specific reform needs per country, (iii) an analytical framework for proportionality analysis ("the proportionality test") in order to assist Member States in targeting instances of disproportionate and unnecessary regulation, (iv) a legislative proposal introducing the European Services card, which aims at facilitating the cross-border exercise of a number of activities in the area of services. The proposals will facilitate the mobility of professionals and streamline the administrative procedure that EU business service providers have to follow to expand their activities to other EU countries.
- Ireland simplified the licensing procedures to start a business by creating the Integrated Licence Application Service (ILAS).
- Spain adopted some measures to ease the implementation of the Market Unity Law.

Policies that promote efficient firm entry and exit are regularly featured in *Going for Growth* (Table 1.4). Pushing out the production frontier requires enabling experimentation with new technologies and business models. Since new firms are often the vehicle through which such new technologies and business practices enter the market, the policy framework should be conducive to firm entry while framework conditions need to ensure that innovative new firms can get a foothold in the market. Recent evidence suggests that the policy environment often favour incumbents over start-ups (Calvino et al., 2016). In some cases policies and regulations – introduced for good reasons, such as consumer and environmental protection - can unintentionally serve as barriers to the entry of new technologies and business practices. In many cases such negative design features can be avoided or minimised. However, the policy environment should not only encourage the entry of new firms and enable them to grow, but it should also encourage unsuccessful firms to close down. In the case of a start-up, a failure needs to be recognised as an opportunity for the entrepreneur to learn and rebound, to find new opportunities which lead to more rapid growth, and thus to create new employment opportunities. This in turn facilitates more effective knowledge diffusion. In practical terms, this calls for bankruptcy legislation that does not excessively penalise business failure (see also Chapter 3). Recent actions in this area include:

- Argentina legislated a new entrepreneurship law to reduce barriers on start-ups.
- Latvia created a monitoring system of insolvency proceedings.
- Poland passed a set of reforms (Constitution for Business) to ease the starting, running and ending of business operations.

Greater openness to trade and foreign direct investment (FDI) opens access to global demand for and supply of goods, services, technologies and knowledge. It boosts competition and knowledge spill-overs (Andrews and Cingano, 2012) and facilitates participation in Global Value Chains (GVCs). However, GVCs can actually increase the negative impacts of tariff and non-tariff trade barriers, as goods and services cross borders multiple times (OECD, 2013) – strengthening the case to reduce such barriers. Recommendations in this area cover tariff and especially non-tariff barriers, which remain of particular concern, both in general as well as in specific sectors. No significant progress has been made on trade and investment barriers, though Brazil has scaled back some local content requirements in fossil fuel investment projects.

Inefficient subsidies such as to energy and agricultural production have adverse effects on the efficiency of resource allocation and can increase pressure on the natural environment. While reducing such subsidies is a long-standing priority in several advanced countries and at the EU level, no progress has been made in 2017. However, in emerging economies, Argentina has undertaken significant efforts to reduce fossil fuel subsidies.

1.5.2. Reforms to make the tax system more friendly to growth

There is solid evidence of the impact of the tax structure on economic growth, through effects not only on labour utilisation (see above) but also private investment and productivity (Arnold et al., 2011). A more growth- and equity-friendly tax system can be achieved by shifting the tax burden toward immovable property, broadening the tax base and reducing the fragmentation of the tax system. A shift to environmental taxation can also help improve the sustainability of growth and well-being, provided measures are taken to ensure that lower-income households are not disproportionately impacted by green taxes. The pace of reform in this area has been slowing recently across advanced economies, following a period of widespread crisis-driven tax reforms. Countries still exhibit wide scope for improvement in this respect, and tax reform features among frequent priorities. Recommendations vary depending on country-specific performance and policy weaknesses (Table 1.6). Reductions in labour or corporate taxes are generally recommended alongside increases in indirect taxes; whether it is recommended to increase one or several of these taxes depends on country-specific sources of policy distortions. Moreover, striking the right balance may be challenging - the scope for such reforms may be limited in some cases, as they may increase inequality (Causa et al., 2016). Recent actions in this area include:

- Argentina has broadened the tax base in the personal income tax as capital income will start to be taxed, which will increase progressivity. Moreover, a reduction in employers' social security contributions for low-skilled workers will encourage formalisation. The reform will also reduce corporate tax rates from 35% to 25% for reinvested profits.
- In Canada, the Federal budget eliminated a number of inefficient tax measures and removed some tax expenditures to improve consistency.
- Denmark initiated a property tax reform to link tax payments to house price developments and to create a new system for property valuation.
- Greece improved tax compliance and lowered the tax-free threshold on personal income by a third, effective 2020.
- Italy undertook new actions to reduce tax evasion, especially VAT, and raise additional revenue through voluntary tax compliance.

- India implemented the Goods and Services Tax.
- Norway reduced its corporate tax rates from 25% to 24% and a further reduction to 23% is planned for 2018.
- Latvia replaced car and motorcycle taxes by an annual vehicle tax where rates are linked to CO_2 emission performance standards.
- Poland improved its VAT compliance, reflecting changes in the VAT Act and the Criminal Fiscal Code.
- Portugal reduced the preferential tax treatment of debt relative to equity, notably with the introduction of a tax allowance for corporate equity.
- Spain took several measures to broaden the corporate income tax base. Taxes on alcohol and tobacco have been increased. Furthermore, an electronic VAT filing system to address VAT fraud has been legislated.
- Switzerland increased the CO_2 levy from CHF 84 to CHF 96.
- The United States has cut the corporate tax rate from 35% to 21%.

Table 1.6. Recommendations and actions on the structure and efficiency of the tax system

	Broaden the tax base/reduce tax expenditures	Shift tax burden to property	Shift tax burden to environment	Shift tax burden to VAT	Improve tax collection/ compliance	Reduce corporate tax rate	Reduce the scope of VAT reduced rates	Reduce top income tax rates
Australia	Blue			Blue				
Austria	Blue							
Belgium								
Canada	Maroon		Blue	Blue		Blue		
Czech Republic								
Denmark		Maroon						
Estonia	Maroon	Blue						
EU								
Finland		Blue		Blue			Blue	
France								
Germany	Blue	Blue	Blue				Blue	
Greece	Maroon				Maroon			
Hungary		Blue	Blue					
Iceland								
Ireland		Blue						
Israel								
Italy	Blue	Blue	Blue		Maroon			
Japan	Blue		Blue	Blue		Blue		
Korea		Blue	Blue	Blue				
Latvia		Blue	Maroon		Blue			
Lithuania								
Luxembourg		Blue						
Netherlands							Blue	
Norway	Maroon			Blue		Blue		
New Zealand								
Poland		Blue	Blue		Maroon			
Portugal	Maroon							
Slovak Republic								
Slovenia		Blue						Blue
Spain	Maroon		Blue		Maroon			
Sweden		Blue					Blue	Blue
Switzerland			Maroon	Blue			Blue	
United Kingdom								
United States						Maroon		
Argentina	Maroon							
Brazil								
Chile								
China								
Colombia	Blue	Blue	Maroon	Maroon				
Costa Rica								
Indonesia								
India				Maroon				
Mexico								
Russia		Blue			Blue			
South Africa								
Turkey	Blue							

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

1.5.3. Reforms to improve physical and legal infrastructure

Public investment contributes both directly and indirectly to the economy-wide capital stock, including through its role as a catalyst for private investment. Indeed, recent empirical work suggests a large positive effect of public investment on productivity (Fournier, 2016). As a result, enhancing the capacity and regulation of infrastructure is a priority in several advanced countries (Table 1.7). The emphasis is on addressing infrastructure shortages in a cost-effective way, in the area of transport, energy or both. Infrastructure provision - quantity and quality - is also very poor in many emerging economies, and raising public investment should be accompanied by reforms of the regulatory environment to attract private investment and optimise use. Removing infrastructure bottlenecks in these countries, such as those in transport, can contribute to higher employment by facilitating the matching of workers and jobs, and to improved business dynamism as quality infrastructure is crucial to the mobility of goods and people. It can improve inclusiveness and well-being, e.g. by providing access to reliable energy, clean water and sanitation in emerging economies or efficient and accessible public transport more generally. While in some cases infrastructure expansion may face trade-offs with the environment (e.g. expansion of road infrastructure), in others it may actually improve environmental outcomes (e.g. public transport). Recent actions in this area include:

- Argentina developed new public-private partnerships (PPPs) in the energy sector and for the construction of an airport terminal.
- Greece introduced more competition in the electricity production market; the incumbent’s market share is expected to fall from over 90% to 50%.
- India has increased electrification, especially in rural areas. Full coverage is planned for 2018.
- Indonesia increased its spending on infrastructure significantly. The government also injected more funds into the State Asset Management Agency (LMAN) for land acquisition to facilitate strategic projects, including roads, ports and dams. Electrification in rural areas has also been increased.
- Latvia carried out improvements of public roads using EU funds.
- The United Kingdom introduced the National Productivity Investment Fund (NPIF) in order to support investment in a number of productivity-enhancing areas, in particular transport and digital infrastructure. Notably, the NPIF will fund the government’s new 5G strategy and local full-fibre broadband projects.

Table 1.7. Recommendations and actions in public infrastructure

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

Table 1.8. Recommendations and actions in rule of law and efficiency of public administration

	Rule of law			Efficiency of public administration		
	Reinforce fight against corruption	Reinforce judiciary resources/out of court procedures/efficiency	Improve legislation	Improve public procurement procedures	Improve human resources management	Improve monitoring and performance evaluation
Australia						
Austria						
Belgium						
Canada						
Czech Republic						
Denmark						
Estonia						
EU						
Finland						
France						
Germany						
Greece						
Hungary						
Iceland						
Ireland						
Israel						
Italy						
Japan						
Korea						
Latvia						
Lithuania						
Luxembourg						
Netherlands						
Norway						
New Zealand						
Poland						
Portugal						
Slovak Republic						
Slovenia						
Spain						
Sweden						
Switzerland						
United Kingdom						
United States						
Argentina						
Brazil						
Chile						
China						
Colombia						
Costa Rica						
Indonesia						
India						
Mexico						
Russia						
South Africa						
Turkey						

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

In addition to well-developed physical and digital infrastructure, a sound legal framework is also critical to lifting growth bottlenecks. Strengthening the overall institutional framework is important so that i) decisions defining policy needs are not skewed towards inefficient and unnecessary projects; ii) access to public services and justice is equally granted to all citizens; and iii) the main criteria to award contracts when procuring goods and services is value for money (Glaeser et al., 2004). *Going for Growth* provides policy options to strengthen the rule of law and judicial efficiency, with recommendations generally spanning the provision of security of persons and of property, the enforcement of contracts and checks on corruption as well as improvements on resource management and performance evaluation in public administrations. Recent actions in this area include (Table 1.8):

- Greece progressed on implementing the comprehensive public administration reform passed in 2016 and aiming at reducing political interference, as well as enhancing transparency and accountability, and fighting corruption.
- Italy modified its public procurement code to streamline and expedite implementations, based on the suggestions provided by the State Council and stakeholders.
- In Mexico, the New Anti-Corruption System has been approved and started to be implemented in all of the 32 states.
- The Slovak Republic introduced the "Value for Money" initiative, adopted in 3 sectors in 2016 (health, transports and ITC), and now expanded in 3 new sectors (environment, labour market and social policy).

1.6. Preserving social cohesion and helping workers make the most out of a dynamic labour market

Job-rich growth helps to reduce inequalities and promote more inclusive societies, as growth through labour utilisation gains tends to benefit disproportionately the lower-end of the income distribution (Hermansen et al., 2016). Policies that can be conducive to growth and inclusiveness jointly include those aimed at facilitating the participation and improving job-market outcomes of under-represented groups, such as women, immigrants, the low-skilled, the young, older workers and the disabled. *Going for Growth* recommendations target these objectives, notably by promoting a well-integrated system of passive (e.g. unemployment benefits) and active (e.g. job search support) labour market policies. These objectives also constitute some of the key pillars around which the forthcoming new *OECD Jobs Strategy* will revolve to provide guidance to policy makers on labour market and other policies that enable workers and firms to harness the opportunities provided by new technologies and markets (Box 1.1).

Box 1.1. The OECD's new Jobs Strategy

The OECD's new Jobs Strategy responds to global challenges related to the aftermath of the financial and economic crisis, continued weak productivity growth, high levels of income inequality in many countries, and the megatrends such as technological progress, globalisation, and ageing.

Strong and sustained economic growth remains a prerequisite for the quantity of jobs, but job quality, in terms of both wage and non-wage working conditions, and labour market inclusiveness, also emerges as a central policy priority. Policies to support flexibility in product and labour markets are needed for growth, but are not sufficient. Countries with policies and institutions that promote job quality, job quantity and greater inclusiveness perform better than countries where the focus is predominantly on market flexibility.

A whole-of-government response is needed, embedding the new OECD Jobs Strategy in the OECD Inclusive Growth Initiative as well as Going for Growth. The key policy recommendations are organised around three broad principles:

- ***Promoting an environment in which high-quality jobs can flourish.*** This requires a sound macroeconomic framework, a growth-friendly environment and skills evolving in line with market needs. A key new insight is that during sharp economic downturns it can be beneficial to channel resources to short-term work programmes that seek to preserve vulnerable jobs that are viable in the long-term. Moreover, the liberalisation of the use of temporary contracts while maintaining high levels of employment protection for workers on open-ended contracts can lead to the excessive use of temporary contracts and low job quality, high levels of inequality and low resilience, without clear gains in overall employment.
- ***Preventing labour market exclusion and protecting individuals against labour market risks.*** Protecting workers who fall through the cracks remains essential but it is important to address problems before they arise: strengthening the equality of opportunities and a life-course perspective to avoid an accumulation of individual disadvantages. New evidence suggests that a high coverage of the unemployment benefit and social assistance system, with rigorous enforcement of mutual obligations, plays a pivotal role in the success of activation strategies, providing a key instrument for connecting with the jobless.

Preparing for future opportunities and challenges in a rapidly changing economy and labour market. Product and labour market dynamism will be necessary to deal with rapid economic change. However, workers need to be equipped with the right skills in a context where the demand for skills is likely to evolve rapidly, potentially eroding incentives for investing in non-transferable skills. Workers also need to remain protected against labour market risks in a world where flexible forms of work may increase. This includes social protection and basic labour market regulations but possibly also expanding the role of non-contributory schemes, minimum floors to social benefits, and making social protection more portable. A more radical solution - a universal basic income (UBI) - is unlikely to provide effective protection to all workers without significantly raising fiscal pressure or the need to cut other, well-targeted benefits to finance the UBI.

Matching efficiency, i.e. the ease with which jobseekers find jobs according to their skills has deteriorated in recent years (European Commission, 2014), reflecting the growing mismatch in terms of skills, industries and regions. Reforms that ease labour market restrictions and promote worker mobility, e.g. property transaction costs, rental regulation, can reduce the number of unfilled job vacancies, and boost productivity and inclusiveness by facilitating a better matching of worker's skills and jobs tasks.

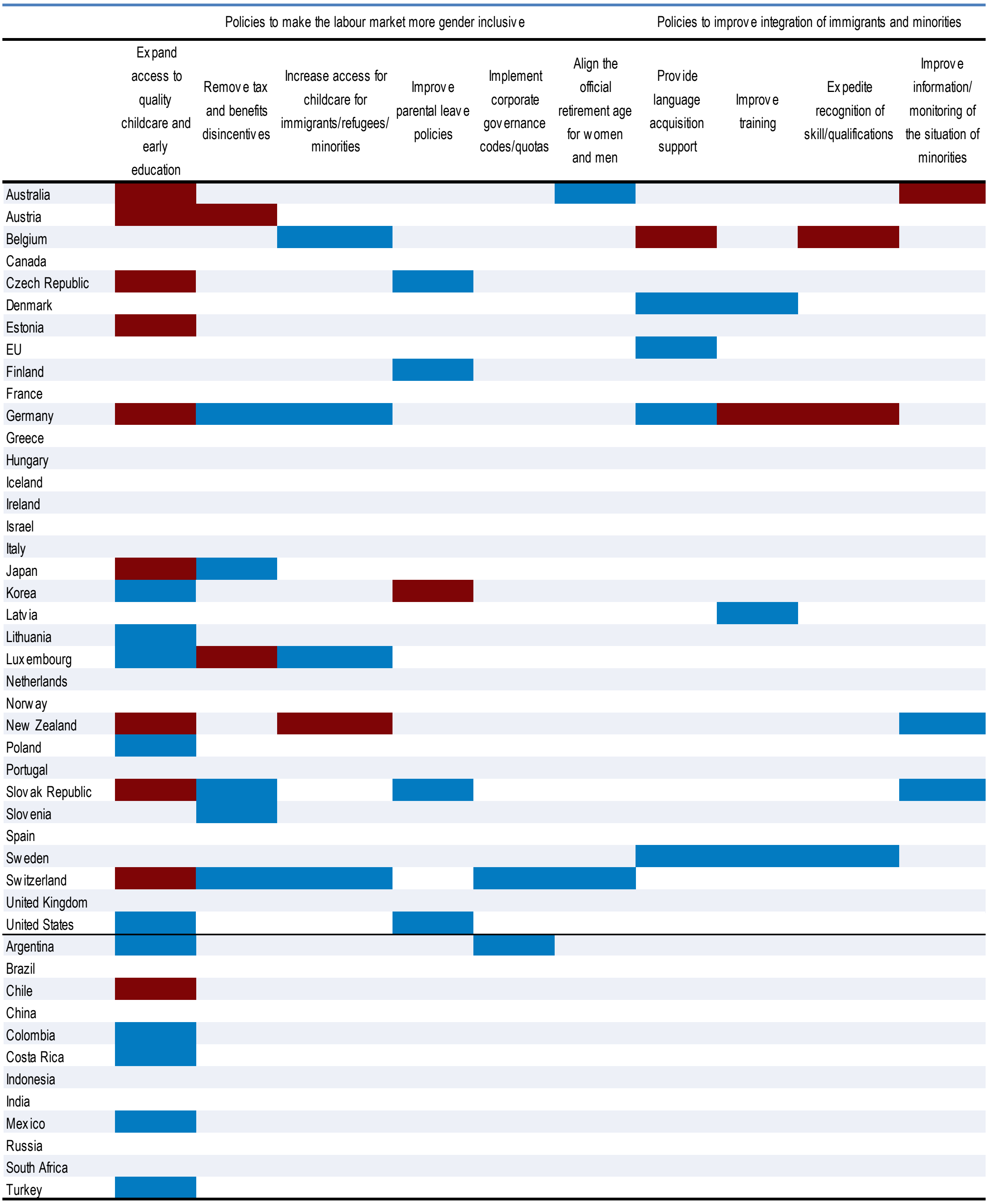
Finally, health is a key ingredient of well-being overall, and promoting better health provides people with higher life satisfaction and a platform to fulfil their productive potential. People in ill-health are less able to take part in productive activities, but people working in poor labour conditions are also more likely to find themselves afflicted by illness. Recent OECD evidence shows that income, lifestyle choices and the environment are all significantly associated with gains in life expectancy (James et al 2015), while healthier people tend to benefit from greater access to training opportunities, and can expect their children to attain stronger educational results.

1.6.1. Reforms to reduce the gender gap in labour market participation and work conditions

A high proportion of women remain outside of, or poorly attached to, the labour market in a number of countries, while in others they are overrepresented among (involuntary) part-time workers (OECD, 2016c). Recommendations are made to encourage female labour force participation or hours worked where those are particularly low and can be traced to ill-designed existing policies. Hence, recommendations include family-friendly policies and working conditions which enable fathers and mothers to balance their working hours and their family responsibilities and facilitate women's employment. They fall in three main reform areas – with differential thrust reflecting country-specific context (Table 1.9): i) the level and design of taxes and benefits and systems of joint taxation (e.g. tax allowances for non-working spouses), ii) high costs, weak targeting and therefore limited access to childcare, and iii) ill-designed parental leave policies with low de facto take-up of parental leave arising from, for example, the lack of flexibility in working-time arrangements and underdeveloped part-time work. Addressing these challenges would allow for a better balance between work and family and a narrowing of gender inequalities, bringing equity and welfare gains. Recent actions in this area include:

- The newly adopted "Education Investment Law" in Austria will provide EUR 750 million for the expansion of full-day schooling until 2025.
- Germany boosted funding for child day care services by approximately EUR 1.1 billion, from 2017 to 2020.
- Japan is implementing a significant new plan to gradually expand the capacity of childcare centres by 320 thousand children by 2020. Teleworking rules have been also revised to allow more flexibility in teleworking and flexitime systems.
- Korea raised the amount of parental leave benefits for the first three months of leave.
- Luxembourg introduced optional individual taxation for both resident and cross-border married or co-habiting workers in order to reduce the marginal tax rate applied to the earnings of second earners.

Table 1.9. Recommendations and actions for stronger labour market participation of women and the integration of migrants and minorities



Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

1.6.2. Reforms to integrate migrants and minorities

The share of the foreign-born population has increased significantly across advanced countries, reaching now nearly 10% of the total population. Second-generation immigrants are also numerous and heterogeneous, and several advanced countries have 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 easing demographic pressure on labour participation. But 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 rapid 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 1.9). Recent actions in this area include:

- Australia created a new programme (Youth Jobs PaTH) aimed at improving skills and opportunities of indigenous communities
- Belgium included in its Plan Formation 2020 a social, professional and linguistic assessment of migrants as well as specific offers of training and/or validation for newly arrived migrants.
- In Germany, an initiative has been introduced to enable up to 10 000 young refugees to start training in the skilled crafts sector. Moreover, refugees can now get quick access to some small-scale paid employment in the context of active labour market policies. Specific counselling services are now also being offered to young immigrants.

1.6.3. Reforms to reduce obstacles to job creation, labour force participation and employment in formal sector jobs

Policy impediments to job creation and labour force participation span several potential areas of actions. First, high labour tax wedges can reduce firms' labour demand by driving up the cost of labour (due to high employers' contributions or payroll taxes). As a result, high labour tax wedges are associated with lower employment and hours worked as well as higher unemployment. Such detrimental effects are stronger for workers already facing foremost labour demand-side obstacles, generally the youth, the disabled and the low-skilled, and the elderly. Too high, ill-designed social security provisions and tax wedges are also major drivers of labour informality in emerging-market countries, reflecting both labour demand and supply-side obstacles. Reducing labour taxes, including through cuts in social security contributions, thus remains a priority for many advanced and emerging-market countries (Table 1.10 and Table 1.11). Recent actions in this area include:

- In addition to the tax reform that entered into force in 2016, Austria is progressively reducing payroll taxes until 2018.
- Estonia introduced continuous training measures targeted to those at risk of unemployment.
- In Finland, fiscal measures associated with the Competitiveness Pact reduced the tax wedge.
- Hungary reduced employers' social security contributions from 27% to 22%, and will reduce them by a further 2 percentage points in 2018.
- Turkey reduced employers' social security contributions from 14% to 9% of gross wages. Moreover, for firms that have increased their net employment over 2016, new hiring will be exempt of social security contributions for one year.

Table 1.10. Recommendations and actions to lift obstacles to labour force participation and employment

	Active labour market policies						Social benefits			
	Increase spending	Improve efficiency	Focus on key risk groups	Expand some specific programmes	Better enforce mutual obligation	Improve co-ordination between different government levels	Restructure benefits to increase work incentives	Improve targeting	Expand the coverage of social benefits	Eliminate regressive subsidies
Australia										
Austria										
Belgium										
Canada										
Czech Republic										
Denmark										
Estonia	Maroon		Maroon							
EU										
Finland			Blue		Maroon		Maroon			
France			Blue		Blue					
Germany										
Greece	Blue			Blue					Maroon	
Hungary				Blue						
Iceland			Blue				Blue			
Ireland				Maroon	Maroon		Blue	Blue		
Israel	Blue									
Italy		Maroon				Maroon		Maroon		
Japan				Blue					Blue	
Korea				Blue					Blue	
Latvia	Blue					Blue	Blue	Maroon	Maroon	
Lithuania	Maroon						Blue		Maroon	
Luxembourg		Blue					Maroon	Maroon		
Netherlands		Blue	Blue				Maroon			
Norway										
New Zealand				Blue						
Poland										
Portugal										
Slovak Republic		Maroon								
Slovenia	Blue	Blue	Blue				Blue	Blue		
Spain	Blue	Maroon		Blue		Maroon				
Sweden										
Switzerland										
United Kingdom	Blue	Blue								
United States	Blue			Blue				Blue		
Argentina	Blue									Blue
Brazil								Blue		
Chile										
China									Blue	
Colombia										
Costa Rica										
Indonesia								Maroon		Maroon
India										
Mexico										
Russia										
South Africa	Blue			Blue						
Turkey			Blue							

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

Table 1.11. Recommendations and actions to lift obstacles to labour force participation and employment

	Labour taxation			Labour market regulations			Minimum wage and wage bargaining systems		
	Reduce social security contributions	Reduce labour tax wedge for low wage workers	Introduce or expand EITC	Tackle dualism and diminish the gap in protection between permanent and temporary workers	Improve legal certainty for collective or justified individual dismissals	Reduce severance pay	Promote agreements at firm level and reduce automatic extensions	Avoid a too high minimum wage level and allow for age and regional differentiation	Increase or simplify the minimum wage
Australia									
Austria	Maroon								
Belgium	Blue	Blue					Blue		
Canada									
Czech Republic									
Denmark									
Estonia	Blue	Blue							
EU									
Finland		Maroon							
France	Blue				Maroon		Maroon		
Germany	Blue	Blue							
Greece									
Hungary	Maroon	Blue							
Iceland									
Ireland									
Israel			Blue						
Italy	Blue	Blue					Maroon		
Japan				Maroon	Blue	Blue			
Korea				Blue	Blue				Maroon
Latvia		Blue							
Lithuania	Blue		Blue						
Luxembourg									
Netherlands		Blue		Blue		Blue			
Norway									
New Zealand									
Poland		Blue							
Portugal							Blue		
Slovak Republic									
Slovenia									
Spain		Blue		Blue	Blue				
Sweden									
Switzerland									
United Kingdom									
United States			Blue						Blue
Argentina	Blue								
Brazil									
Chile				Blue					
China									
Colombia	Blue			Blue				Blue	
Costa Rica							Blue		Maroon
Indonesia						Blue			
India					Blue				
Mexico									
Russia									
South Africa							Blue		
Turkey	Maroon	Blue		Blue				Blue	

Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

Second, the articulation between unemployment benefits, social protection and active labour market policies should be designed to provide adequate income support during jobless spells while encouraging the return to work, efficiently matching workers and jobs. The challenge consists in designing social protection systems that minimise trade-offs between financial sustainability, adequacy and efficiency (Fall et al., 2015). At the same time, a large number of countries still need to address long-term unemployment and bring those discouraged by long unemployment spells back into the labour market. This requires targeted policies, such as a more intensive and personalised approach to case management (e.g. regular face-to-face interviews and the development of individual action plans) as well as measures to find job opportunities that contribute to skills acquisition and work experience. The importance of ALMPs is now well established, as reflected in the sustained pace of reforms in this area since the post-crisis period. But despite this encouraging progress, reforms in this area are still needed, with differential emphasis depending on country-specific performance and policy challenges (Table 1.10). Recent actions in this area include:

- Finland tightened job-search reporting requirements and reduced the duration of unemployment insurance.
- Greece rolled out nation-wide its “Social Solidarity Income” (SSI), with supporting infrastructure for identifying eligible households and transferring funds.
- Italy implemented a nationwide anti-poverty programme, with the creation of the ‘Inclusive Income’ scheme to tackle severe poverty especially among families with children.
- Lithuania enacted the Law on Employment, which changes the structure of public employment services, centralising the management of activities planning, financial and human resources. The law also strengthens activation policies by scrutinising active labour market measures, extending the scope of employment support and widening training possibilities for the unemployed.
- Luxembourg strengthened eligibility conditions for unemployment benefit recipients and included the requirement to actively search for employment and retrain.
- The Slovak Republic amended its previous Act on Employment Services to improve the access of jobseekers to training and to widen the range of available measures.

Third, too stringent labour market regulations and collective bargaining systems slow down the reallocation process and thus aggregate productivity growth because they raise labour adjustment costs for firms (Haltiwanger et al., 2006). A clear tendency towards reducing the strictness of employment protection has been observed over the past decade, mostly focussed on regulations governing individual and collective dismissals. In the aftermath of the crisis, more than one-third of advanced economies undertook some relaxation of these regulations, with reforms concentrated in countries with the most stringent provisions. However, most of the easing took place for non-regular contracts, leading to their expansion and a heightened duality on the labour market. High labour market duality can have adverse impacts on both equity and efficiency, as the young tend to be confined in these contracts between unemployment spells and thus suffer from skill depreciation, which translates in lower productivity over all.

Reforms in this area are thus still needed in a number of countries (Table 1.11). The emphasis is on simplifying procedures and reducing costs and uncertainties associated with lay-offs but at the same time strengthening the protection of individuals (as opposed to jobs). This requires having in place adequate income support for the unemployed as well as effective job-search counselling and re-employment services (see above). As a result, job protection recommendations are often formulated as part of broader labour market reform packages, with differential emphasis depending on countries' challenges and weaknesses. Recent actions in this area include:

- In Japan, the guidelines for equal pay for equal work have been set out to improve the treatment of non-regular workers and to help them receive judicial relief in the case of discrimination. The government will submit the relevant bills to the Diet.
- As part of its major labour market reform, France streamlined workers' representation and sector-specific agreements will have to include specific conditions for small and medium enterprises. The Labour Minister and individual firms now have more leeway to base administrative extensions on an evaluation of their economic and social effects. In the case of employment protection legislation, a ceiling on the compensation paid by the employer in the case of unfair dismissal has been introduced, reducing legal uncertainties.

Finally, low-paid employment is a policy concern when it is associated with in-work poverty or reflects situations where workers are unable to get wages in line with their productivity or to find jobs that make full use of their skills. In particular, setting the level of the minimum wage requires a careful balancing. Too low net minimum wages can fail to assure adequate living standards and are likely to be ineffective in fostering incentives to work for individuals at the margin of the labour market, while a minimum wage set too high can reduce firms' incentives to hire or to formalise employment of low-skilled workers. Policies and institutions can help to set minimum wages appropriately and minimise any adverse employment effects. Reforms in this area are recommended for countries where ill-designed minimum wage policies appear to weigh on low-skilled or formal employment (Table 1.11). Recent actions in this area include:

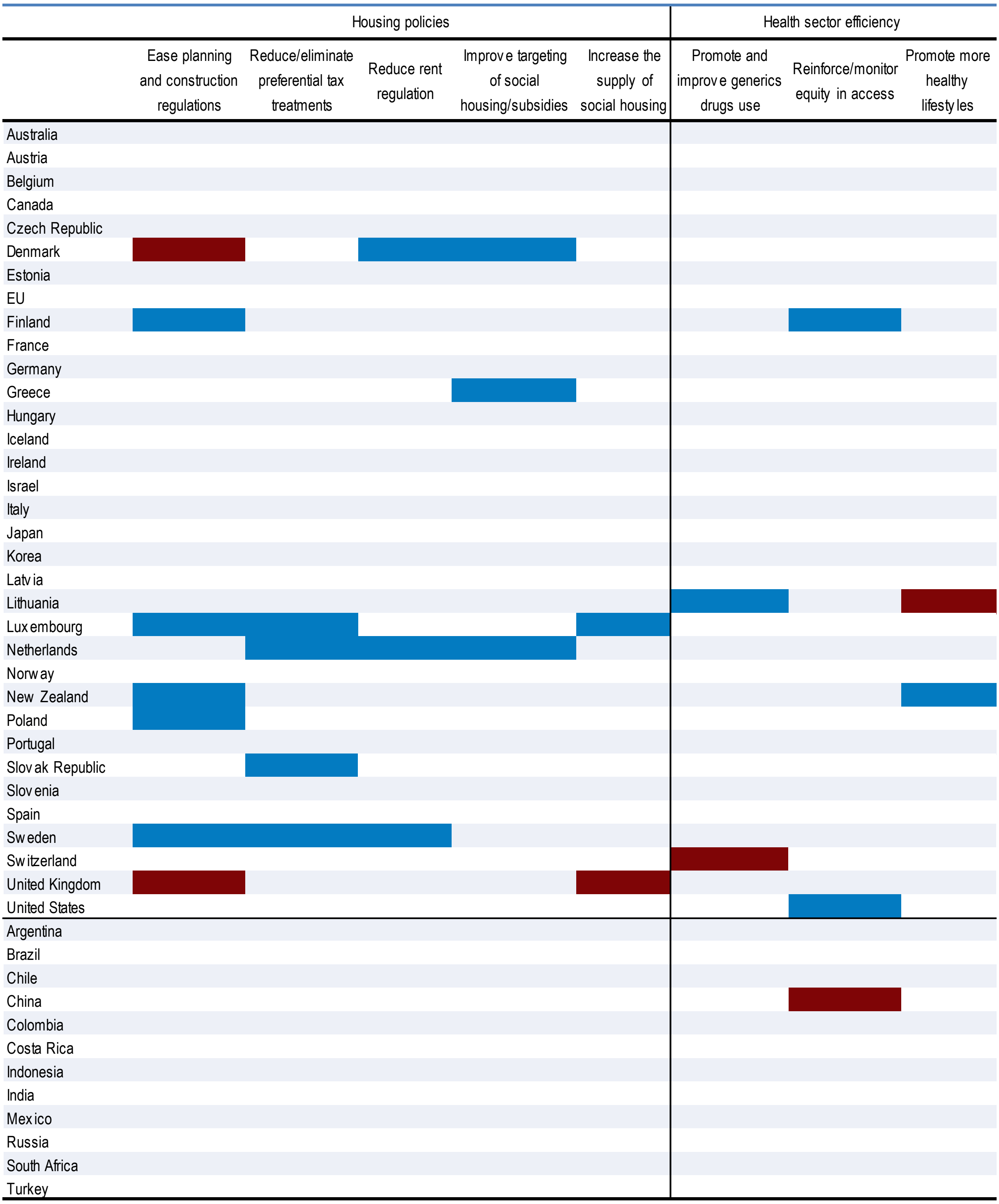
- Korea increased the minimum wage by 7.3%, to 56% of the median wage, a ratio that is close to the OECD average.

1.6.4. Reforms to reduce policy barriers to mobility

Institutional settings regulating (residential and commercial) property and land-use can discourage labour as well as capital mobility, often by distorting the price responsiveness of rental and construction supply and demand conditions. Country-specific recommendations in this area are formulated with a view to boost both labour utilisation and labour productivity (Table 1.12). This policy area can nonetheless raise trade-offs with equity. One example is social housing, which is an important tool to improve access to affordable housing among vulnerable households, but may act as a barrier to labour mobility. Recent actions in this area include:

- Denmark modernised land use regulation, notably to allow larger retail stores and better opportunities for tourism in rural areas.
- In the United Kingdom, the Housing Infrastructure Fund was introduced to unlock land from local councils in order to deliver 100 000 new homes in areas of high demand with a total investment of GBP 5 billion. Additionally, GBP 2 billion will be dedicated to the funding of affordable housing, including funding for homes let at a social rent.

Table 1.12. Recommendations and actions to address workers' mobility and health sector efficiency



Note: Blue cells represent recommendations for a given country in a given area (with no action taken in 2017). Maroon cells represent actions taken on a recommendation (fully implemented or in the process of implementation).

1.6.5. Reforms to address public healthcare challenges

Addressing the determinants of population health and health inequalities requires policies across multiple sectors for achieving better social, education and labour market outcomes and thereby more inclusive growth and well-being. Among them, reforms to promote health sector efficiency and healthy lifestyles feature regularly among *Going for Growth* recommendations, and in some countries the scope for improvement remains large (Table 1.12). Recent actions in this area include:

- China linked 361 regions (96% of the total) and 8624 cross-regional medical institutions to the nationwide settlement system for medical expenses. This will improve the utilisation of health services by migrant workers and reduce the time between when health costs are incurred and reimbursed.
- Lithuania increased excise duties on alcohol and tobacco products to promote healthy lifestyles. The number of municipal public health bureaus, responsible for health promotion and disease prevention, has also been increased.
- Switzerland adopted a decree which aims at decreasing generic drugs prices by comparing them with international prices and by linking the price with the turnover made by the original maker.

Endnotes

1. In this publication, the group of advanced economies comprises all OECD member countries excluding Chile, Mexico and Turkey but includes Lithuania. Chile, Mexico and Turkey have been considered as part of the group of emerging economies alongside Argentina, Brazil, China, Colombia, Costa Rica, Indonesia, India, Russia and South Africa.

2. No past information on the importance of the reforms taken exists.

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Annex 1.A. Structural policy indicators

Starting from the 2018 issue of *Going for Growth*, the chapter on Structural Policy Indicators is now only available online, under the following address:

http://www.oecd.org/eco/growth/going-for-growth

This chapter contains a comprehensive set of quantitative indicators that allow for a comparison of policy settings across countries (both OECD and selected non-OECD depending on data availability). The indicators cover areas of tax and transfer systems and how they affect work incentives, as well as product and labour market regulations, education and training, trade and investment rules and innovation policies. The indicators are presented in the form of figures showing for all countries the most recent available observation and the change relative to the previous observation.