OECD ECONOMIC POLICY REFORMS:
GOING FOR GROWTH 2018

- EDITORIAL
- EXECUTIVE SUMMARY: ENGLISH AND FRENCH
- CANADA NOTE

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Global growth is finally back to cruising speed. For the first time in many years, all the major regions of the world are enjoying a widespread and largely synchronised upswing, even if some economies have been in steady expansion for much longer than others. Hopefully, the stagnation of living standards endured by a large share of the population in many OECD economies is coming to an end. The more rapid decline in unemployment seen in recent months is clearly an encouraging sign. However, the improvements in labour markets have yet to translate into significant and broad-based wage gains. Comprehensive structural reforms are needed to sustain stronger growth beyond the cyclical upswing, create more and better paying jobs, improve opportunities and strengthen inclusion.

Figure 1. Global growth is back to cruising speed

Real GDP, year-on-year growth


Based on the review of actions taken on structural policy priorities presented in this Going for Growth report, there is little sign of an imminent pick-up in the pace of reforms. If anything, the review points to a further slowdown in 2017 from the already modest pace observed in the previous two years. Notwithstanding, some countries have managed to introduce significant reforms in the past year. In Japan, measures have been taken to improve access to childcare services, helping women to stay in the labour force. France has implemented a broad labour market reform, covering both employment protection legislation and collective wage bargaining. India has rolled out a goods and services tax, while Argentina has just passed a comprehensive tax reform.
By and large, governments have continued to devote greater attention to employment and social protection, including also through measures to improve healthcare services. Examples include Greece and Italy, where significant measures have been taken to strengthen social protection, as well as China, where access to healthcare for migrant workers has been improved. The broader attention to employment and income support is important for achieving greater inclusiveness and a more balanced distribution of income. To a large extent, reform efforts are paying off: the employment rates of low-skilled and youth – still low in some countries hardest hit by the crisis – are improving and already roughly back to their pre-crisis levels on average across countries, while the labour-force participation of women continues to rise.

However, significant reforms have remained too few and far between to boost productivity and to reduce the reliance on macro-policy stimulus. The return of higher global growth offers a window of opportunity to make renewed progress on structural reforms, with higher chances that they bear fruit more rapidly. Individually and collectively, decision makers need to find ways to overcome political resistance to reforms that address well-known growth bottlenecks, and lay the groundwork for their economies to make the most of the ongoing digital transformation. Higher and more sustained growth would also help to reduce financial risks related to the high public and private debt levels built up in a low interest rate environment.

While finally gathering momentum, business investment still remains weak in comparison with past expansions. Furthermore, recent data shows that investment in digital technologies, which is fundamental to boosting productivity, varies greatly across countries and firms. The growing productivity gap between leading and lagging firms is itself a source of growing wage inequality and productivity slowdown. OECD analysis suggests that firms face various constraints affecting both their incentives and capabilities to invest in such technologies.
Raising investment incentives requires measures to create a more competitive business environment, notably by promoting the entry of firms through lower regulatory barriers to start-ups and by reducing obstacles to foreign direct investment. Despite progress in these areas – for example in the European Union with the recent Services Package -- entry in business services in countries such as France, Germany and Spain is still hampered by administrative and regulatory barriers. Meanwhile, more needs to be done to reduce barriers to foreign investment where they remain relatively high, including Indonesia, Mexico and Russia. And, trade protectionism can only harm investment by raising costs and uncertainty, eroding the competitive environment and narrowing the scope for successful firms to grow.

There is also scope in many countries for reforming insolvency regimes to facilitate the orderly exit or restructuring of unsuccessful firms. This is important both to encourage experimentation of new ideas and to free the resources needed for successful innovative firms to expand. Chapter 3 of this Report presents new OECD indicators of insolvency regimes across countries, laying out the main design features to achieve such objectives. In countries such as Australia, Italy and South Africa, lowering barriers to corporate restructuring in case of distress is a priority. Reforms are also needed to harmonise insolvency procedures across member states in the European Union.

Taxation is another area where governments can act to raise private incentives to invest. This includes reforms of tax systems to broaden the tax base through the elimination of loopholes, not least those that mostly benefit individuals with high levels of income or wealth, while making room for rate reductions, especially on more mobile sources such as capital and labour income. Reforms along those lines have been implemented in countries such as Argentina, Canada and Spain, while corporate tax rates have been reduced in the United States. But reforms have yet to tackle a key distortion of tax systems, which is to favour debt over equity financing. Not only does such a bias contribute to making growth overly dependent on debt, but it also discriminates against innovative young firms.

More broadly, most countries have ample scope for reforms that can reconcile growth and inclusiveness objectives, notably by relying more on tax revenues from immovable property and inheritance. Internationally, in the effort to make corporate taxation fairer and more transparent, progress is being made to limit tax avoidance by multinationals through the so-called Base Erosion and Profit Shifting (BEPS) action plan elaborated under the auspices of the G20 and the OECD and the rolling out of the automatic exchange of information.

In countries such as India, Indonesia and Turkey, but also Italy and Greece, labour informality remains a key challenge for boosting inclusive growth. Addressing this requires reforms of burdensome product and labour regulations, along with reducing labour tax wedges on low-paid workers where they remain high. Bringing more workers in formal jobs will offer better prospects to improve skills and productivity while providing them with better social protection. In China, further measures to provide more equal access to public services while abolishing the household registration system, would promote labour mobility, productivity and inclusion. The effectiveness of reforms in these areas is best supported by the successful implementation of measures to reinforce the fight against corruption - such as the steps taken in Mexico - and to strengthen the rule of law.

In both emerging and advanced economies, the shortage of skills, including managerial and organisational talent, is one factor limiting the capabilities of many firms to adopt digital technologies. A longer-term response is reforms of education and training systems
to ensure that workers acquire the cognitive and non-cognitive skills that the new digital technologies and knowledge-based capital make increasingly necessary. This includes measures to facilitate access to education for disadvantaged groups so as to reduce the digital divide. In the shorter term, the response to the skills shortage consists in providing workers with better opportunities for up-skilling and reducing the mismatch between the skills provided by workers and those demanded by employers. Developing training and life-long learning programmes that benefit those who need them most remains a challenge shared by most countries.

Hence, in spite of stronger economic growth this is no time for complacency. *Going for Growth* provides policy priorities and recommendations to unlock skills development and innovation capacity, to promote business dynamism and the diffusion of knowledge, and to help workers benefit from a fast-changing labour market. In the spirit of ensuring the sustainability of the gains in incomes and wellbeing it also increasingly takes into account environmental risks and bottlenecks (see Chapter 2). The current economic upswing provides a window for the successful implementation of reforms that can best achieve the objective of strong, inclusive and sustainable growth. The opportunity should not be missed.

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Executive Summary

At nearly 4 per cent projected for 2018, the annual GDP growth rate of the global economy is close to the pace of growth preceding the great recession. This period of strong and broadly-based global growth creates favourable conditions for the successful implementation of structural reforms – necessary to turn the upswing into stronger and sustainable long-term growth for all.

Amid these positive short-term developments, still underpinned by supportive fiscal and monetary policy, medium and longer-term challenges remain for policymakers. Productivity growth is still disappointing. Despite the long-awaited employment recovery, wages have so far failed to follow, and many vulnerable groups are still confronted with weak prospects in the labour market. Inequality is persistent and on a longer-term trend rise within many countries – indicating that parts of society have not benefited much from growth. On top of this, megatrends such as digitalisation, environmental pressures and demographics, may carry risks for the sustainability of long-term growth unless the policy challenges they raise are properly addressed.

Going for Growth provides policy makers with concrete reform recommendations in areas which are identified as the top five country-specific priorities in order to tackle medium-term challenges, revive productivity and employment growth, while ensuring a broad sharing of the benefits. The priorities are identified building on OECD expertise on structural policy reforms and inclusive growth. The areas covered are diverse, including product and labour market regulation, education and training, tax and transfer systems, as well as trade and investment rules, physical and legal infrastructure and innovation policies. Policy recommendations across these areas are articulated so as to form a coherent reform strategy, which is crucial to reap synergies, manage trade-offs and ensure that the benefits are broadly shared over time. As such, the Going for Growth framework has been instrumental in helping G20 countries make progress on their structural reform agenda, including through monitoring their growth strategies to achieve sustained and balanced growth.

This Interim report reviews progress on structural reforms with respect to priorities identified in Going for Growth 2017.

Actions taken on policy priorities

- In 2017, the pace of reforms has remained similar to the relatively slow pace observed in the last two years and below the one observed in the direct aftermath of the crisis.
- Nevertheless, some bold actions have been taken – over one third of actions implemented in 2017 can be viewed as “major steps”. Notable examples include reforms to strengthen social protection in Greece and Italy, a long-overdue reform of the labour market in France, significant measures in Japan to increase childcare
capacity, a goods and services tax in India and a comprehensive tax reform in Argentina, to be phased in over the next 5 years.

- More generally, the intensity of reforms has varied across policy areas. Among reforms to boost skills acquisition and innovative capacity, widespread actions were taken to increase the size and efficiency of R&D support.
- 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.
- 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.

Special chapters – reviewing indicators to enrich the Going for Growth analysis

This report includes two special chapters that review indicators for extending the scope of the Going for Growth framework: green growth indicators and OECD indicators of insolvency regimes.

The links between green and growth: what the indicators reveal

The ability to sustain long-term improvements in GDP and well-being, as advocated in Going for Growth, depends – among other things – on the ability to reduce negative effects (such as pollution) associated with economic activity, minimise environment-related risks and lower the reliance on (limited) natural capital resources. Hence, a more systematic approach to environment-related challenges in Going for Growth is warranted. At the same time, the links between the environment, environmental policies and economic growth are complex. In that regard, Chapter 2 reviews the indicators available and the recent progress made on the measurement of environmental outcomes and policies. While no single broadly-accepted measure of environmental performance exists, significant progress has been made in the measurement of green growth, notably as part of the OECD Green Growth Indicators, paving the way for a more consistent treatment of green growth in Going for Growth.

Facilitating orderly exit: insights from the new OECD insolvency regimes indicators

Poorly performing insolvency regimes can be linked to three inter-related sources of labour productivity weakness: the survival of so-called “zombie” firms – that should otherwise exit the market; capital miss-allocation, i.e. the trapping of resources in low productivity uses; and stalling technological diffusion. Chapter 3 presents the newly developed OECD indicators of insolvency regimes, which will allow the extension and fine-tuning of reform recommendations on exit policies in Going for Growth. The analysis reveals significant cross-country differences in the extent to which insolvency regimes promote orderly exit of non-viable firms, indicating that some countries have scope to improve resource allocation and productivity through reforms of bankruptcy laws and procedures.
Résumé

Le taux de croissance annuel du PIB mondial, qui devrait selon les prévisions s’établir à 4 % en 2018, est proche du rythme qu’il affichait pendant la période ayant précédé la grande récession. Cette phase de croissance mondiale forte et généralisée offre un cadre favorable pour transformer cette embellie en une croissance à long terme plus forte et durable pour tous.

Dans ce contexte d’évolutions positives à court terme s’appuyant encore sur des politiques budgétaires et monétaires qui soutiennent l’activité, les responsables de l’action publique restent confrontés à plusieurs défis à moyen et long terme. La croissance de la productivité reste décevante. De plus, et malgré le redémarrage de l’emploi tant attendu, la progression des salaires n’a pas suivi pour l’instant, et nombre de groupes vulnérables restent confrontés à des perspectives médiocres sur le marché du travail. Les inégalités persistent et se caractérisent même par une hausse tendancielle à long terme dans de nombreux pays, signe que certains pans de la société n’ont pas beaucoup profité de la croissance. En outre, des mégatendances comme la transformation numérique, les pressions environnementales et l’évolution démographique pourraient bien menacer la durabilité de la croissance à long terme, sauf si des mesures adéquates sont prises pour relever les défis pour l’action publique qu’elles représentent.

La publication *Objectif croissance* contient, à l’intention des responsables de l’action publique, des recommandations de réformes concrètes dans des domaines identifiés comme les cinq premières priorités qui s’imposent aux pays pour s’attaquer aux enjeux à moyen terme, redynamiser la productivité et stimuler la croissance de l’emploi tout en veillant à ce que les avantages des mesures prises profitent au plus grand nombre. Ces priorités ont été définies en s’appuyant sur le savoir-faire de l’OCDE en matière de réformes structurelles et de croissance inclusive. Les domaines visés sont divers et concernent notamment la réglementation des marchés de produits et des marchés du travail, l’éducation et la formation, les systèmes de prélèvements et de transferts, les règles relatives aux échanges et à l’investissement, les infrastructures physiques et juridiques ou encore les politiques de l’innovation, pour n’en citer que quelques-uns. Les recommandations pour l’action publique formulées dans tous ces domaines sont articulées de manière à former une stratégie de réforme cohérente, indispensable pour dégager des synergies, gérer les arbitrages à opérer et veiller à ce que les conséquences positives des politiques menées soient largement partagées sur la durée. En tant que tel, le cadre défini par *Objectif croissance* a joué un rôle décisif pour aider les pays du G20 à faire avancer leurs programmes de réforme structurelle, notamment grâce à un suivi des stratégies menées pour asseoir une croissance soutenue et équilibrée.

Le présent *Rapport intermédiaire* permet de passer en revue les progrès accomplis en matière de réformes structurelles du point de vue des priorités identifiées dans l’édition 2017 d’*Objectif croissance*. 
Mesures correspondant aux priorités d’action publique

- En 2017, les réformes ont été menées à un rythme comparable à celui, relativement peu rapide, observé au cours des deux dernières années, et inférieur à celui qui avait été relevé dans le sillage direct de la crise.

- Néanmoins, certaines mesures vigoureuses ont été prises; de fait, plus d’un tiers de celles qui ont été mises en œuvre en 2017 peuvent être considérées comme de grands pas en avant. Au nombre de celles-ci, on peut citer les réformes visant à renforcer la protection sociale en Grèce et en Italie, la réforme du marché du travail en France, attendu depuis longtemps, ou les importantes mesures prises au Japon pour développer les capacités d’accueil de jeunes enfants. L’Argentine a de son côté adopté une vaste réforme fiscale qui sera progressivement mise en œuvre au cours des cinq prochaines années.

- Plus généralement, l’intensité des réformes varie selon les domaines de l’action publique concernés. Parmi les réformes destinées à stimuler l’acquisition de compétences et les capacités d’innovation, des mesures de grande ampleur ont été prises pour développer le soutien à la R-D et en accroître l’efficience.

- Pour l’essentiel, les mesures prises pour favoriser la dynamique des entreprises et la diffusion de connaissances ont porté en priorité sur le renforcement des infrastructures physiques et juridiques ainsi que sur des actions visant à rendre la réglementation des marchés de produits plus propice à la concurrence.

- Des mesures notables ont aussi été prises dans le domaine des prestations sociales, ce qui est important en termes de cohésion sociale. Pour continuer d’aider les travailleurs à faire face à l’évolution potentiellement rapide des emplois et des tâches, des réformes supplémentaires sont nécessaires dans d’autres domaines connexes, par exemple pour améliorer les politiques actives du marché du travail et les politiques du logement pour faciliter la transition vers le marché du travail et la mobilité.

Chapitres spéciaux – revoir les indicateurs pour enrichir l’analyse proposée dans Objectif croissance

Le rapport comprend deux chapitres spéciaux dans lesquels les indicateurs sont passés en revue dans le but d’élargir la portée des grilles d’analyse utilisées pour Objectif croissance : les indicateurs de la croissance verte et les indicateurs des régimes d’insolvabilité établis par l’OCDE.

Liens entre croissance et croissance verte : ce que montrent les indicateurs

La capacité à améliorer durablement le PIB et le bien-être, comme le prône Objectif croissance, dépend entre autres facteurs de la capacité à réduire les conséquences négatives (par exemple la pollution) des activités économiques, à minimiser les risques liés à l’environnement et à exploiter les ressources en capital naturel (limitées). Il est en conséquence logique d’aborder de manière plus systématique, dans Objectif croissance, les enjeux liés à l’environnement. À cet égard, le chapitre 2 permet de passer en revue les indicateurs disponibles et les progrès récemment accomplis en termes de mesure des résultats et des politiques en matière d’environnement. Bien qu’il n’ existe pas de mesure unique des performances environnementales qui serait globalement admise, des avancées
considérables ont été obtenues dans la mesure de la croissance verte, notamment dans le cadre des travaux relatifs aux indicateurs de la croissance verte de l’OCDE, ouvrant la voie à un traitement plus cohérent de la croissance verte dans la publication *Objectif croissance*.

**Faciliter une sortie ordonnée du marché : éclairages fournis par les nouveaux indicateurs des régimes d’insolvabilité établis par l’OCDE**

Des régimes d’insolvabilité médiocre peuvent avoir un lien avec trois facteurs de faiblesse de la productivité de la main-d’œuvre, eux-mêmes interdépendants : la survie d’entreprises dites « zombies », qui devraient normalement sortir du marché ; la mauvaise allocation du capital, c’est-à-dire le fait que des ressources se retrouvent piégées dans des utilisations peu productives ; et enfin l’enlisement de la diffusion des technologies. Les indicateurs des régimes d’insolvabilité nouvellement élaborés par l’OCDE sont présentés au chapitre 3 ; ils permettront d’étendre et d’affiner les recommandations de réforme portant sur les politiques de sortie énoncées dans la publication *Objectif croissance*. L’analyse fait état de grandes différences entre pays dans la capacité des régimes d’insolvabilité à promouvoir une sortie ordonnée du marché de firmes non-viables. Ceci suggère que certains pays pourraient améliorer l’allocation des ressources et accroître la productivité en réformant la loi sur les faillites.
Canada

*Going for Growth* is the OECD flagship report analysing structural policy settings and economic performance to provide policymakers with concrete reform recommendations to boost growth and ensure that the gains are shared by all. The 2018 Interim Report reviews the main growth challenges and takes stock of reforms enacted over the past year -- in both advanced and emerging economies -- on policy priorities identified in the previous issue of *Going for Growth.*

**Country highlights**

GDP per capita remains below the average of the most advanced OECD countries due to the gap in hourly labour productivity, which has widened markedly in the aftermath of the crisis and a declining labour force participation rate. Income inequality has edged up and is now slightly above the OECD average.

Reducing barriers to product market competition remains a key to raising productivity. This requires rolling back non-tariff barriers to internal trade to facilitate economies of scale, lowering FDI restrictions in some network sectors, easing licensing requirements in retail sectors and less discrimination against foreign suppliers in professional services, air and road transport. Provincial apprenticeship training and certification requirements need to be harmonised to increase apprenticeship completion rates and inter-provincial mobility. Rebalancing taxation from sources with high efficiency costs, such as corporate and personal income taxes, towards those with low efficiency costs, such as consumption and environmental taxes, and reducing unwarranted tax expenditures would improve resource allocation and hence, productivity.

**Share of direct taxes**

As a percentage of total tax revenue, 2016

*Note:* Direct taxes aggregate taxes on income, profits and capital gains, social security contributions and taxes on payroll and workforce. Data refer to 2015 for Argentina, Australia, Brazil, Colombia, Costa Rica, Indonesia, Japan and Mexico.

*Source:* OECD, Revenue Statistics Database.
Going for Growth 2017 recommendations include:

- **Reduce barriers to entry for both domestic and foreign suppliers and enhance competition in network and service sectors** by reducing foreign ownership restrictions in telecoms and broadcasting, and, on a reciprocal basis, in air transportation. Move towards more integrated and competitive electricity markets. Privatise Canada Post and eliminate its legally protected monopoly. Ease entry regulations and reduce discrimination against foreign suppliers in professional services, air and road transport. Reduce licensing requirements in retail trade.

- **Reduce barriers to internal trade** by making the sectoral coverage of the Canadian Free Trade Agreement (CFTA), which was agreed in principle by provincial premiers in July 2016 to replace the Agreement on Internal Trade, as broad as possible, notably by including energy. In the CFTA, prohibit agricultural supply management regimes, which are highly distortionary. Reconcile remaining regulatory differences (possibly via mutual recognition). Establish a pan-Canadian regulatory co-operation council to harmonise legislation, standards and regulations. Expedite dispute resolution and raise monetary penalties for non-compliance.

- **Enhance access to post-secondary education and its responsiveness to skills demand** by working with provinces and territories to harmonise training and certification requirements for all apprenticeship programmes, thereby facilitating access to post-secondary qualifications for disadvantaged groups. Publish data on student labour market outcomes by tertiary education institution.

- **Improve the innovation framework** by evaluating R&D subsidies to determine whether the substantially enhanced R&D tax credit for small companies and heavy reliance on indirect measures are efficient, and adjust subsidies accordingly. Phase out federal tax credits for provincial labour sponsored venture capital funds and explore whether to make greater use of funds that operate like private, independent, limited partnership venture capital funds.

- **Reform the tax system** by increasing environmental and value-added taxes, which are low, and reduce taxes with high efficiency costs, notably corporate and personal income tax rates. Review tax expenditures, including for small businesses, and eliminate those not warranted either by clear market failures or by equity objectives.

Recent policy actions in these areas include:

- A number of **inefficient tax measures and expenditures have been eliminated**.
- **Training and certification requirements have been harmonised** for 8 additional Red Seal trades and changes have been implemented in most jurisdictions.
- **Restriction to foreign ownership has been reduced** for Canadian air carriers. The Government also proposed to review and modernise the Broadcasting Act and Telecommunications Act.