

Executive summary

The financial crisis and continued subdued recovery have resulted in lower growth potential for most advanced countries, while many emerging-market economies are facing a slowdown. In the near term, policy challenges include persistently high unemployment, slowing productivity, high public-sector budget deficit and debt, as well as remaining fragilities in the financial sector. The crisis has also increased social distress, as lower-income households were hit hard, with young people suffering the most severe income losses and facing increasing poverty risk. Longer-term challenges include coping with population ageing as well as with the effect of skill-biased technical change on income inequality and the impact of environmental degradation on health and future growth. Robust structural policies are needed to address many of the short- and medium-term challenges faced by both advanced and emerging-market countries.

Going for Growth offers a comprehensive assessment to help governments reflect on how policy reforms might affect their citizens' wellbeing and to design policy packages that best meet their objectives. The report identifies key reform priorities to boost real incomes and employment in advanced and major emerging-market countries. The priorities broadly cover product and labour market regulation, education and training, tax and benefit systems, trade and investment rules, and innovation policies. The *Going for Growth* framework has been instrumental in helping G20 countries to develop growth strategies to raise their combined gross domestic product (GDP) by 2%, one of the main policy objectives set by the G20 in 2014 to achieve sustained and balanced growth.

The primary focus of *Going for Growth* is on improving material living standards in the medium term, but the report also sheds light on trade-offs and complementarities with other wellbeing objectives, such as reducing income inequality and mitigating pressures on the environment. More specifically, it reviews the evidence on the effect of pro-growth structural reforms on wage dispersion and household income inequality and examines whether specific policies driving GDP growth over the past decades may have also contributed to widening inequalities. The report also examines the environmental pressures related to economic growth. It discusses in this respect the role of structural reforms and environmental policies and presents evidence on the importance of adequate design of environmental policies as well as their impact on productivity growth. Finally, this issue of *Going for Growth* includes a special chapter reviewing broad trends in structural reforms since the early 2000s.

Progress on structural reform since 2013

- The pace of structural reforms has slowed in the majority of advanced countries across the OECD over the last two years. This follows a period of significant acceleration in the aftermath of the crisis, partly driven by market pressures associated with the euro area debt turmoil.
- Reform activity remains high, albeit declining in Greece, Ireland, Portugal and Spain, and has increased in Japan. It remains relatively weak in most Nordic and euro area core countries.
- Across the OECD, countries have given priority to education and active labour market policies (ALMPs), consistent with the importance of knowledge-based capital and complementary skilled labour as sources of growth, and mindful of the persistence of unemployment in a context of weak recovery.
- The pace of reforms has been accelerating in major emerging-market countries, reflecting the awareness of bottlenecks and constraints to growth and the need to reduce vulnerability to fluctuations in commodity prices and capital flows.

New reform priorities

- Labour productivity remains the main driver of long-term growth. Priority should be given to reforms aimed at developing skills and knowledge-based capital. Raising the quality and inclusiveness of education systems will underpin this.
- Reallocation of resources in the face of adjustment is key to achieving higher growth. Governments need to improve policy settings in competition and innovation to facilitate the entry of new firms and the smooth reallocation of capital and labour towards the most productive firms and sectors. In Southern euro area countries, product market reforms, especially in services, are needed to reap the benefits of labour market reforms introduced in recent years.
- Growth can be made more inclusive by removing obstacles to higher employment and labour market participation of underrepresented groups such as women, youth, low-skilled and older workers. Encouraging faster reallocation to new jobs and ensuring that workers can up-grade skills would further boost employment and promote inclusion.

Pro-growth structural reforms and income distribution

- Some pro-growth policies that raise GDP through increased productivity may contribute to technology-driven inequality. For instance, reforms that boost innovation may widen the wage distribution among employed workers.
- Other policies that promote labour force participation and job creation also widen the wage dispersion. However, because they contribute to raising employment – not least among lower-skilled workers – such reforms have a neutral effect on the dispersion of households' disposable income.
- Given the need in many countries to tackle rising inequalities and hardship, governments should give priority to pro-growth policy packages that help promote equity and inclusiveness. It is particularly important to lift the earnings potential of the low-skilled and make it easier for women to join the labour force.

Pro-growth structural reforms, the environment and environmental policies

- Economic growth usually comes with higher pressures on the environment. And, the relationship between growth and the environment is influenced both by environmental policies and the structural policy framework against which they are implemented.
- Some growth-enhancing reforms such as increasing environmental taxes, introducing road pricing or removing harmful subsidies can be good for the environment. Others enhance the effectiveness of environmental policies. This is the case of improving the rule of law or competition policies.
- Environmental policies that are flexible and neutral with respect to technological choices and that minimise barriers to competition can effectively protect the environment without causing significant harm to economy-wide productivity.

Reform trends since 2005

- Since the first issue of *Going for Growth* in 2005, the pace of structural reforms has remained roughly constant on average across OECD countries, with the exception of a notable acceleration in the aftermath of the crisis.
- Reform activity has resulted in substantial improvement in some policy areas. This is the case for product market regulation, the design of pension systems and unemployment income support programmes.
- Overall, structural reforms implemented since the early 2000s have contributed to raising the level of potential GDP per capita by around 5% on average across countries, with most of the gains coming from higher productivity.
- Further reform towards current best practice could raise the long-term level of GDP per capita by up to 10% on average across OECD countries. This is equivalent to an average gain of around USD 3 000 per person.