OECD ECONOMIC POLICY REFORMS
GOING FOR GROWTH 2018

- EDITORIAL
- EXECUTIVE SUMMARY: ENGLISH AND JAPANESE
- JAPAN NOTE

G20 FINANCE MINISTERS & CENTRAL BANK GOVERNORS MEETING

19 MARCH 2018

BUENOS AIRES, ARGENTINA

ARGENTINA 2018

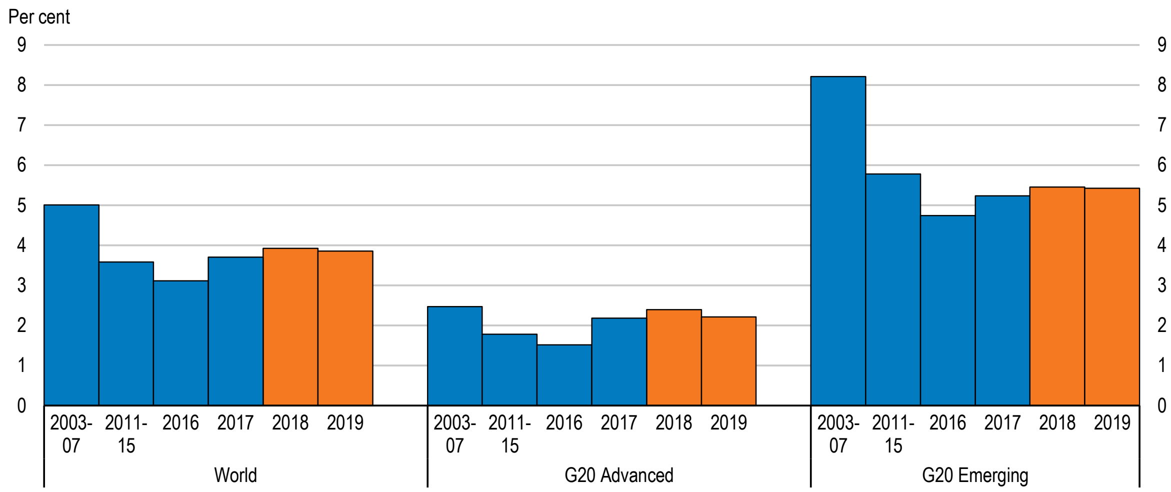
BETTER POLICIES FOR BETTER LIVES

Editorial: An opportunity that governments should not miss

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

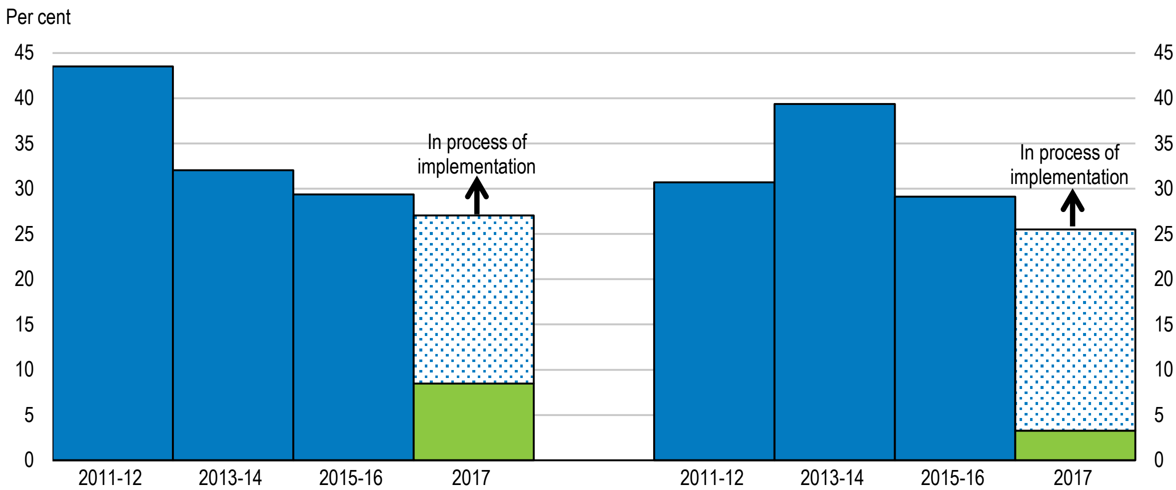


Note: Average of annual growth rates for 2003-07 and 2011-15. OECD Projections for 2018 and 2019.
Source: OECD, *Interim Economic Outlook*, March 2018.

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.

Figure 2. The pace of reforms is modest

Number of reform actions taken as a percentage of *Going for Growth* recommendations



Note: Fully coloured bars refer to the share of fully implemented reforms. For 2017, reforms in the process of implementation are included to ensure comparability with previous two-year periods. For the two-year periods, the responsiveness rate is annualized. Emerging economies include Chile, Mexico, Turkey, Argentina, Brazil, China, Colombia, Costa Rica, Indonesia, India, Russia and South Africa. Advanced economies include all non-emerging OECD member countries and Lithuania.

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 been 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.

Álvaro Pereira
OECD Acting Chief Economist

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 policy makers. 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

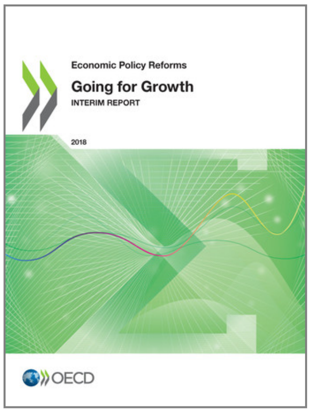
The ability to sustain long-term improvements in GDP and well-being, as advocated in *Going for Growth*, depends – among other things - on the ability to reduce negative effects (such as pollution) associated with economic activity, minimise environment-related risks and lower the reliance on (limited) 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.

OECD *Multilingual Summaries*
Economic Policy Reforms 2018
Going for Growth Interim Report

Summary in Japanese



全文を読む: 10.1787/growth-2018-en

経済政策改革 2018
『成長に向けて』中間報告書

日本語要約

2018 年、世界の GDP 成長率は年率 4%近くまで上昇すると見込まれ、経済危機以前の水準に戻りつつある。このように世界が力強く、しかも広範囲にわたって成長する時期は、構造改革を実施する好機である。上向き始めた経済をさらに強力な成長へと押し上げ、すべての人に恩恵をもたらす持続可能かつ長期的な成長を実現するために必要な構造改革を、成功に導く好条件が整い始めるからである。

現在の好景気は、財政政策と金融政策に支えられた短期的なものであり、政府が抱える中長期的な課題は未解決のままである。生産性の伸びは依然として芳しくなく、待ち望んでいた雇用回復はいまだ賃金の上昇を伴うには至らず、弱い立場にある多くの人々から見れば、労働市場の見通しは暗いままだ。不平等は解消されず、多くの国ではむしろ長期的に拡大する傾向にある。すなわち社会の中の一部の人は、まだ成長の恩恵をあまり受けていないということになる。こうした課題に加えて、デジタル化や環境問題、人口構成といったメガトレンドからも政策課題が発生しており、その対処を誤ると、長期的な成長の持続可能性を損なうリスクが生じかねない。

『成長に向けて』は、各国政府が中期的な課題に対処し、生産性を向上させ、雇用を増やすと同時に、その恩恵が広く行きわたるようにするために、優先的に改革すべき分野を国ごとに 5 つ特定し、政策立案者に向けた具体的な提言を示している。優先的分野は、構造政策改革や包摂的成長に関する OECD の専門的知見をもとに決定した。対象分野は多様で、製品・労働市場規制、教育・訓練、税制・再分配制度、さらに貿易や投資の規則、物理的・法的インフラ、イノベーション政策などを含んでいる。こうした幅広い分野を対象としつつ、一貫性のある改革戦略の策定につながる政策提言を作成した。広範かつ一貫性のある戦略は、相乗効果を生み出し、トレードオフを管理し、成長の恩恵を長期的に広く共有するために不可欠である。こうしたアプローチで作成した本報告書は、自国の成長戦略が持続的でバランスの取れた成長を達成しているかどうかを監視するなど、G20 諸国において構造改革のための政策課題の進展に役立つ有益な枠組みとなっている。

本中間報告書は 2017 年版で示した優先課題をもとに、構造改革の進展について論じている。

優先課題に対して講じられている対策

- 2017 年の構造改革のペースは、過去 2 年間と同様に比較的ゆっくりとしており、金融危機直後よりも遅かった。
- しかし一方、大胆な対策も実施された。2017 年に実施された対策の 3 分の 1 以上が「大きな進歩」と言えるものだった。注目すべき例としては、ギリシャとイタリアで実施された社会保護強化のための改革、長年の懸案だったフランスの労働市場改革、保育園の定員増加に向けた日本の大規模な施策、今後 5 年間にわたって段階的に実施されるアルゼンチンの税制全面改革などがある。
- 世界全体で見ると、改革の強度は政策分野によってまちまちである。技能獲得やイノベーション力強化のための改革では、研究開発支援の規模と効率の向上に向けて、幅広い対策が実施されている。
- ビジネスの活力を高め、知識の普及を促進するために実施された改革では、その大半が物理的インフラ及び法的インフラの強化を目指す施策、そして商品市場の規制を競争により適したものに変更する施策だった。
- 社会の一体感を高めるために重要な社会的利益の分野でも、大規模な対策が実施されている。今後、労働者の仕事の内容が急速に変化していくことが考えられるが、労働者がそれに対応できるよう支

援していくためには、補完的分野での改革をさらに進める必要がある。例えば、労働市場・住宅市場活性化政策を改善して、労働市場の変化と流動性を促進することもその一つである。

特集 - 『成長に向けて』の分析をさらに充実させる指標について

本報告書では、『成長に向けて』の枠組みの範囲を拡大する指標であるグリーン成長に関する指標と、破産制度に関する OECD 指標の 2 つを検討する特集を設けている。

環境(green)と成長(growth)のつながり：指標から見えてくるもの

本報告書で述べているように、GDP の増大と暮らし良さの向上が長期的に持続できるかどうかは、何よりも、経済活動に伴うマイナスの影響 (汚染など) を減らし、環境関連のリスクを最小限に抑え、(限りある) 自然資本への依存度を下げられるかどうかにかかっている。したがって環境に関する課題については、本報告書に掲載されている体系的なアプローチで対応すべきである。その一方で、環境、環境政策、経済成長の関係は複雑なものである。そのため第 2 章では、環境成果や政策をどのように測定するかについて、最近の状況および入手可能な指標について検討する。今のところ、環境実績の測定に関して広く受け入れられている単一の方法はないが、グリーン成長の測定手段はとりわけ OECD の『グリーン成長指標』の一環として大きく進歩しており、本報告書でもグリーン成長を取り扱う際の一貫性向上が期待される。

秩序ある退出を促す：OECD が新たに開発した破産制度指標の考察

破産制度が有効に機能していないと、3 つの相互に関連する要因から労働生産性が低下する。その 1 つ目は 、本来市場から退出すべきいわゆる「ゾンビ企業」が生き残ること、2 つ目は、資本が正しく配分されず、生産性の低いところに資源が閉じ込められること、そして 3 つ目は、技術の普及が停滞することである。第 3 章では OECD が新たに開発した破産制度に関する指標を掲載し、本報告書で提示された撤退政策に関する改革提言の拡大と微調整ができるようになっている。分析によると、破産制度によって、死に体の企業の秩序ある退出をどの程度推進できているかは国によって大きな差があり、一部の国には、破産法や破産手続きの改革を通じて、資源配分や生産性を改善する余地が残されていることが分かった。

OECD iLibrary で英語版全文を読む!

© OECD (2018), *Economic Policy Reforms 2018: Going for Growth Interim Report*, OECD Publishing.
doi: 10.1787/growth-2018-en

Japan

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*.

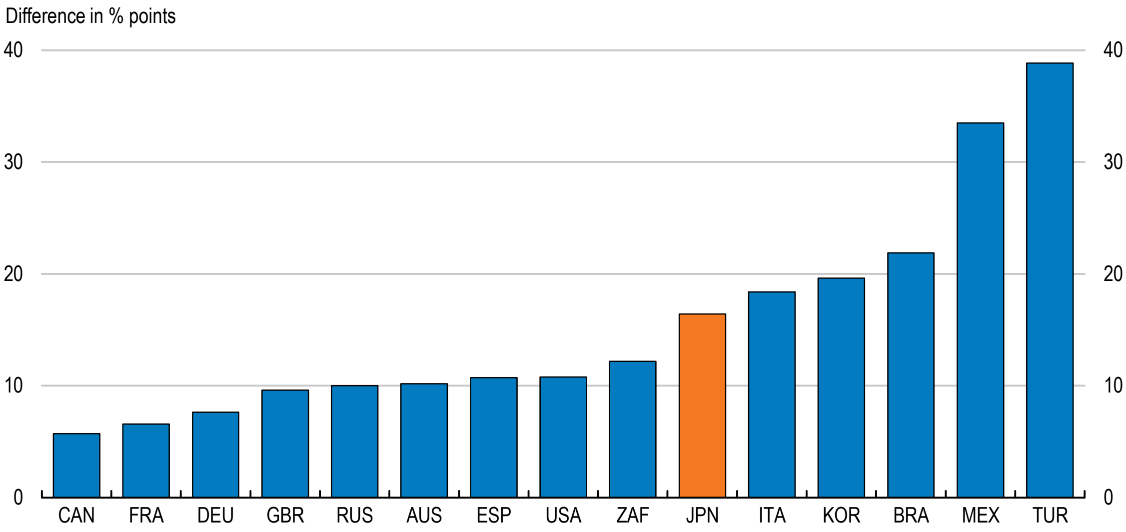
Country highlights

GDP per capita remains about a quarter below the average of the most advanced OECD countries, reflecting somewhat weak labour productivity, which is held back by a marked slowdown in capital accumulation. Despite significant declines in the working-age population, a rising participation rate, notably among women, is boosting employment. Income inequality is decreasing but remains above the OECD average. The share of disposable income held by the poorest sections of the population is below the OECD average, reflecting entrenched labour market dualism and the weak redistributive effect of the tax and social welfare system on the working-age population.

Narrowing the productivity gap requires further reforms to reduce entry barriers, especially in services, and to encourage inward FDI. Enhancing the competitiveness of agriculture through the consolidation of farmland and increased entry of business-oriented farmers would facilitate Japan's participation in comprehensive trade agreements. To mitigate the impact of a shrinking and ageing population, it is warranted to increase the employment of women by reducing disincentives to work for second earners in the tax and social security system, further expanding childcare and breaking down labour market dualism. The latter would also help lowering income inequality and boost productivity by encouraging firm-based training.

Gender employment gap

Persons aged 15-64, 2016



Note: Defined as the difference between male and female employment to population ratios. Data refer to 2015 for Brazil.
Source: OECD, Labour Force Statistics by sex and age Database.

Going for Growth 2017 recommendations include:

- **Ease entry barriers for domestic and foreign firms in the services sector** by extending the reforms in the Special Zones nationwide. Reduce entry barriers, while lowering restrictions on service imports and inward FDI, including those on ownership. Increase fines on violators of the Anti-Monopoly Act (AMA) and reduce exemptions from the AMA. Break down the ten regional monopolies in the electricity sector and create a competitive, nationwide market, which would also support the development of renewable energy. Follow through on the full privatisation of Japan Post, including its banking and insurance companies, as outlined in the 2005 law.
- **Reduce producer support to agriculture** and delink it from production. Promote greater efficiency through farmland consolidation by lifting obstacles to transactions and abolishing the prohibition on non-agricultural corporations owning farmland.
- **Improve the efficiency of the tax system** by setting a schedule of small annual increases in the consumption tax to raise it toward the OECD average of 20%. Continue to lower the corporate tax rate toward the OECD average of 26% and broaden its base. Broaden the personal income tax base by scaling back deductions that primarily benefit high-income households. Increase environmental taxes to achieve environmental goals and boost revenue.
- **Strengthen policies to support the labour force participation of women** through a comprehensive approach that includes further increasing the availability of affordable, high-quality childcare, reducing labour supply distortions in the tax and transfer system and breaking down labour market dualism.
- **Reform job protection and upgrade training programmes for the unemployed** by reducing effective employment protection for regular workers through better transparency about the cost of collective dismissal and reducing the role of the judicial system. Further expand social protection for non-regular workers and upgrade training programmes for them.

Recent policy actions in these areas include:

- **A significant new plan to gradually expand the capacity of childcare centres** by 320 thousand children by 2020 is being implemented. Teleworking rules have been revised to allow more flexibility and flexitime systems.
- **The draft guidelines for equal pay for equal work have been revised**, aiming at improving the treatment of non-regular workers and at helping them receive judicial relief in the case of discrimination. Firms will have to explain their treatment of non-regular workers and the government will establish an Alternative Disputes Resolution to make it easier for non-regular workers to seek relief.