1 Overview of 2019 Going for Growth Priorities

Slowing growth and increasing global uncertainty should not divert policy makers’ attention from longer-term objectives of improving incomes and well-being. Addressing such long-term objectives requires implementing key structural reforms. This chapter presents an overview of the Top 5 reform priorities and recommendations for OECD member and key non-member states. Two cross-cutting themes can be identified: improving the equality of opportunities for workers and firms and securing the environmental sustainability of gains in growth and well-being. Country-specific information supporting this chapter is available in the country notes (Chapter 4).

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.
In Brief

The time for reform is now

The global growth slowdown is largely a cyclical development. However, the slowdown and increasing uncertainty come at a time when globalisation, digitalisation, demographics and environmental degradation are key forces shaping economic developments. To make the most out of these challenges policy makers need to address domestic reform priorities, with a tailor-made structural reform agenda. Such an agenda requires packaging and sequencing policies to offset potential short-term costs, particularly on the most vulnerable and to build support for reforms.

*Going for Growth* identifies Top 5 structural reform priorities to boost growth in an inclusive way in OECD member and key non-member economies. The priorities are selected using quantitative analysis and qualitative OECD expertise. For each reform priority, policy recommendations are put forward and recent reforms are reported. *Going for Growth 2019* integrates green growth to account for the environmental sustainability of growth.

In both advanced and emerging-market economies, the most prevalent priorities to be addressed by reforms are in the areas of skills and education and product market regulation, competition and trade and FDI openness. In emerging-market economies, the majority of labour market priorities tackle the policy-related causes of informality and labour market duality. In advanced economies, a significant share of labour market priorities target reducing barriers to full-time labour market participation of women, older workers, migrants and minorities. A more growth-friendly tax mix is a priority in many advanced economies, with emphasis on increasing the share of revenues coming from the taxation of property, consumption and environmental externalities.

The provision of accessible, quality infrastructure and its efficient use are key priorities, in particular in emerging-market economies. Delivering on these priorities cost-efficiently will not only boost economic growth, but improve its inclusiveness and in some cases environmental performance. Securing the rule of law, fighting corruption and improving the efficiency of the judicial system are priorities in both emerging-market and selected advanced economies. Addressing them is necessary not only for growth itself, but also for the ability to successfully implement other structural reforms.

A large share of 2019 *Going for Growth* priorities can be seen as improving the equality of opportunities among current and future firms and workers. This concerns priorities to lower entry barriers, improve market access and ensure a more level playing field in product and service markets, education and skills policies and policies to increase the inclusiveness of the labour market.

Overall, 11 countries and the European Union have priorities addressing environmental pressures among their Top 5 priorities. A large number of countries have reforms recommended to boost growth that can also reduce pollution and environmental degradation. Nevertheless, environmental sustainability remains a global concern and needs to be addressed through a combination of domestic and multilateral action.
Introduction

More than ten years after the onset of the global financial crisis, global growth is fragile. The prospects for strong and sustained improvements in living standards in the medium term remain weaker than prior to the crisis in both advanced and emerging-market economies, reflecting unfavourable demographic trends and the consequences of a decade of subdued investment and productivity growth. Uncertainty is high and poverty and inequality pressures loom, with many countries experiencing a prolonged stagnation of incomes of the poorest and a decline in the wage share (Pak and Schwellnus, 2019). In some countries, there is a growing perception that equality of opportunities and social mobility have declined. At the same time, environmental pressures are rising. Economic growth and higher living standards imply evolving lifestyles, production and consumption patterns, all of which will have consequences for the environment and the resources it provides and hence the sustainability of growth and well-being.

The cyclical developments should not divert attention from long-term objectives and structural reforms needed to achieve them. Yet, they may affect the emphasis in the design and implementation of reform packages. For example, where demand is particularly weak, and fiscal space permits, governments may need to do more to complement structural efforts with fiscal stimulus. Examples include investing in infrastructure, especially digital, transport and energy, enhancing people’s skills, and more generally implementing policies that favour equal opportunities (OECD, 2019).

To meet these challenges, Going for Growth identifies the Top 5 structural reform priorities essential for achieving a high growth path, in a way that is both inclusive and sustainable. This Chapter first briefly summarises cross-country differences in productivity, employment and inequality in order to understand each country’s specific performance weaknesses. It then presents an overview of the country-specific policy reform priorities and recommendations to address them. Chapter 2 reports on actions taken on the 2017-18 priorities. Chapter 3 provides details on and the results of the integration of selected dimensions of environmental sustainability into the priority selection framework – a novelty in the 2019 Going for Growth edition. Finally, Chapter 4 provides the country-specific Going for Growth Country Notes with details on reform priorities, recommendations and actions taken.

A snapshot of cross-country challenges in 2019

Countries covered in Going for Growth exercise exhibit large variation in GDP per capita, which is largely explained by differences in productivity for most countries (Figure 1.1). In Estonia, Israel, Korea, Japan, New Zealand and China, low productivity is coupled with relatively high labour utilisation. In contrast, in many advanced European countries, such as Belgium, Denmark, France and Germany, relatively low labour utilisation is offset by high productivity. Countries lagging behind on both productivity and labour utilisation with respect to the most advanced OECD economies include Italy, Spain and emerging-market economies such as South Africa and Turkey.
Figure 1.1. Countries covered in *Going for Growth* exhibit large variation in GDP per capita

Compared to the upper half of OECD countries,¹ 2018

1. Compared to the weighted average using population weights of the 18 OECD countries with the highest GDP per capita in 2018 based on 2018 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity does not add up exactly to the GDP per capita difference since the decomposition is multiplicative. 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. For Norway, data refer to GDP for mainland which excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on financial assets held by the petroleum fund abroad are not included.

2. Labour productivity is measured as GDP per hour worked. Labour resource utilisation is measured as the total number of hours worked over the population aged 15-74. Hours worked per person employed have been estimated for Australia, Canada, Finland, Israel, Mexico, Switzerland, Turkey and the United States.

Source: OECD, National Accounts, Productivity and Economic Outlook Databases.

StatLink [https://doi.org/10.1787/888933954287](https://doi.org/10.1787/888933954287)
Cross-country differences in labour productivity

Overall, cross-country differences in labour productivity levels are explained by a combination of gaps with respect to the most advanced OECD countries in capital stock per worker and in total factor productivity (TFP). In most countries, the two gaps go together. The United Kingdom, Norway, Denmark, the Netherlands, Israel, Sweden and Germany have gaps in capital per worker, but high TFP levels. In contrast, in Korea and Japan TFP is relatively low while capital per worker is comparatively high.

In many countries TFP growth slowed already before the global crisis, since the crisis it has continued to be weak and become more widespread. Recent evidence has shown that the pre-crisis productivity slowdown masks a widening performance gap between more productive and less productive firms, especially in the services sector (Andrews et al., 2016). Several factors with well-identified policy drivers, contribute to these developments in productivity growth:

- **Skill mismatch and quality.** Skill mismatch is significant in many advanced economies. There are indications that working populations are poorly equipped with skills related to digital technologies (OECD, 2016). Low managerial quality, the lack of ICT skills and poor matching of workers with jobs can be associated with lower digital technology adoption (Andrews et al. 2018a). Skill mismatch is higher in the presence of more stringent product and labour market regulation, insolvency regimes that excessively punish failure and restrictive housing policies (e.g. high transaction costs, strict rent control and low responsiveness of housing supply to demand) which hinder the reallocation of workers to better match their jobs and skills (Adalet McGowan and Andrews, 2015).

- **Weak business dynamism.** Declining business dynamism is a cause of concern for policy makers in many countries (Calvino and al., 2015). Business dynamism boosts productivity growth by facilitating the reallocation of resources from lagging, low-productivity firms towards more productive firms and strengthening the diffusion of new technologies. New firms are also often associated with bringing new technologies into the market, radical innovation and increasing pressure on incumbent firms to increase their productivity. Differences in employment protection legislation, bankruptcy regimes and R&D fiscal incentives are policy drivers that have been found to explain the heterogeneity in business dynamism across countries (Bravo-Briosca et al., 2013).

- **Technological adoption.** The incentives for technological adoption may have weakened, in the presence of weaker competitive pressures (Decker et al., 2017; Adalet McGowan et al., 2017; Gal et al., 2019). New technologies developed at the global frontier are increasingly global, but diffuse slowly to firms within countries. Many existing technologies may remain underexploited. This lack of diffusion can be illustrated by the low adoption rates of key technologies relevant for productivity growth (Figure 1.2). In most advanced economies virtually all firms are now connected to broadband internet, but the diffusion of more advanced tools and applications varies greatly across technologies and countries. A range of policies can support the diffusion and efficient use of digital technologies. These include pro-competition reforms in telecommunication sectors and regulatory frameworks that support investment and reallocation of resources to most productive uses, including through improved bankruptcy procedures. Training, especially of low-skilled workers can also improve the pool of skills available to firms, improving their ability to grow and adopt new technologies while facilitating the job-to-job transition in dynamic labour markets.
Figure 1.2. Diffusion of selected information and communications technology tools and activities in firms

As a percentage of enterprises with at least ten persons employed, 2018¹ or last year available

1. Broadband includes fixed and mobile connections with an advertised download rate of at least 256 Kbit/s. E-purchases and e-sales refer to the purchases and sales of goods or services conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders. Cloud computing refers to ICT services over the Internet to access server, storage, network components and software applications. Radio frequency identification (RFID) is a technology that enables contactless transmission of information via radio waves. Data refer to 2016 for Australia, Japan and New Zealand; 2015 for Colombia, Korea and Switzerland; 2014 for Iceland; 2013 for Canada.

Source: OECD, ICT Access and Usage by Businesses Database.

StatLink ² https://doi.org/10.1787/888933954306

Digitalisation can boost efficiency of production, reduce the costs of entry into global markets, and provide consumers with new and cheaper goods and services. However, it also poses a number of challenges for policy makers. Many digital technologies are characterised by low marginal costs combined with potentially high fixed investment costs and importance of intangible assets in particular data, intellectual property and networks (OECD, 2018a). The large economies of scale and scope can allow rapid upscaling and can be a challenge for maintaining competitive conditions and gains for the consumer. So-called ‘superstar’ firms with rapidly increasing market power and profits may raise implicit entry barriers and block potential competitors (Korinek and Ng, 2017; Calligaris, et al., 2018; De Loecker and Eeckhout, 2017; Andrews, et al., 2018). Such developments may require particular attention to market entry barriers, a reflection on the adequacy of existing competition policy tools and enforcement of the protection of intellectual property rights.

Labour utilisation and inclusiveness

Employment is crucial to make growth more inclusive (Hermansen et al., 2016). Employment rates are on average above pre-crisis level in advanced economies, which is partly due to cyclical conditions. In Germany, Hungary and Poland, among others, the increase in employment has been accompanied by a reduction in unemployment. By contrast in some other countries (e.g. Greece, Italy, Spain and France), unemployment remains high, well above pre-crisis levels. In the United States despite the longest job recovery in the post-war period, the employment rate is still below the pre-crisis level largely due to a withdrawal of prime-age male workers from the labour force in the past decade.
In many European countries, such as Austria, Denmark, Finland, Germany, Iceland, the Netherlands, Norway, Switzerland, the United Kingdom, and to a lesser extent in Belgium and France, the gap in labour utilisation compared to the best OECD performers is largely the result of low average hours worked per worker. Low hours worked often reflect policy impediments or disincentives to full-time work, especially for lone parents and second earners. For example, some features of tax and benefits systems, related to the joint income taxation of spouses or high implicit marginal tax rates due to the withdrawal of benefits as hours worked increase, can result in lower hours worked.

By contrast, in Greece, Italy, Poland, Spain, Slovak Republic, and also in Turkey, Costa Rica and South Africa and other emerging-market economies, the labour utilisation gap can be explained by a relatively low employment rate, while average hours worked per worker are relatively high. Weak aggregate employment rates are often driven by low employment of specific groups, such as younger workers, low-skilled, women, older workers and minorities. One reason is related to labour market dualism - the segmentation between workers with regular contracts with strong employment protection and those with contracts with little protection and little scope for on-the-job training. Other reasons for weak employment are related to the incentives for early retirement or inadequate skills.

The degree of inequality also varies significantly between and within advanced and emerging-market economies. Income inequality is one example (Figure 1.3). Another example is the equality of opportunities which is crucial for inclusiveness, fairness and the full utilisation of labour resources across the society. In a society where an individual’s wage, education and occupation are strongly related to those of his or her parents, opportunities to succeed in life are unequal and this can lead to a waste of talent and productive capacity (OECD, 2018b).

Figure 1.3. The degree of income inequality differs substantially across countries

2016

1. The Gini coefficient measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. Data refer to 2017 for Argentina, Brazil, China, Colombia, Costa Rica, Finland, Israel, Korea, Norway and Sweden; 2015 for Denmark, Iceland, Ireland, Japan, Switzerland, Turkey and Russia; 2014 for Hungary, New Zealand and South Africa.

Source: OECD Income Distribution Database and World Bank, World Development Indicators Database.

StatLink  [https://doi.org/10.1787/888933954325](https://doi.org/10.1787/888933954325)
One dimension through which the equality of opportunities reveals itself is through social mobility - a multifaceted concept that can be defined and measured by looking at incomes, health, education or occupation or social status (OECD, 2018b; Roemer and Trannoy, 2016). In terms of earnings, social mobility is high in most Nordic countries, Canada and New Zealand while it is relatively low in France, Germany and emerging-market economies (Figure 1.4, Panel A). Korea, the United States and the United Kingdom have high upward occupation mobility (Figure 1.4, Panel B), but relatively low mobility in education (Figure 1.4, Panel C) or earnings. In general, in many advanced economies with relatively low income inequality, particularly in Europe, individuals’ education outcomes are strongly linked to their family background.

Figure 1.4. Social mobility varies across countries

A. Intergenerational earnings mobility¹

B. Percentage of 25-64 year olds whose social class is higher or lower than that of their parents

C. Impact of the socio-economic background on education outcomes
Change in the reading score per unit change in socio-economic index,² 2015

1. Mobility is proxied by 1 minus the intergenerational earnings elasticity, which is defined as the sensitivity of an individual’s lifetime labour income with respect to his father’s income. Higher value indicates higher mobility.
2. Social class is based on the nine European Socio-Economic Classification (ESEC) categories constructed based on occupation. See Box 4.2 in OECD (2018), A Broken Social Elevator? How to Promote Social Mobility.
3. Defined as the estimated coefficient from the country-specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS). The ESCS is a composite score built by the indicators parental education, highest parental occupation and home possessions including books in the home via principal component analysis. The score has been transformed with zero being the score of an average OECD student and one being the standard deviation across equally weighted OECD countries.

Source: OECD (2018), A Broken Social Elevator? How to Promote Social Mobility and PISA Database.

StatLink 2 https://doi.org/10.1787/888933954344
The extent to which individuals have the opportunity to improve their economic status depends on a host of factors, some related to the inheritability of traits (such as innate abilities), others to the family and social environment (Frank, 2016; Kearney and Levine, 2016). Some aspects of the social environment can be heavily impacted by policies. For example, policies can determine access to education and training through public support (e.g. via the tax and benefit schemes, provision and pricing).

A snapshot of cross-country reform priorities in 2019

Going for Growth identifies structural reform priorities to boost income growth, through higher productivity and employment. Key considerations in the Going for Growth framework is that economic growth needs to be inclusive and that the gains in growth and well-being need to be sustainable in the longer term. The identification of Going for Growth priorities is based on a combination of quantitative analysis of performance and policy weaknesses, and country-specific expertise (Box 1.1).

Overall, the key priority areas in Going for Growth 2019 are similar to those of 2017, with a slight increase of priorities to boost productivity, in particular in emerging-market economies (Figure 1.5). About six out of seven of the 2017 country-specific priorities are retained from the 2017 edition, implying that most countries have not fully addressed these priorities. However, the detailed recommendations have evolved, reflecting actions taken throughout 2017-18, in order to focus on the remaining aspects of each priority. Of the 14% of priorities that are new in 2019, two thirds replaced 2017 priorities which have been dropped as they were addressed through significant reforms (Chapter 2). The rest have been dropped in response to new developments, new evidence or re-assessment of the situation in a country.

Box 1.1. The selection of policy priorities in the extended Going for Growth framework

The Going for Growth framework identifies Top 5 reform priorities to boost longer-term living standards and to ensure that the gains are broadly shared across the population.

In order to identify the Top 5 priority challenges, the approach combines quantitative and qualitative insights (see Diagram below). Economic outcomes are matched with policies empirically proven to address them. For instance, multifactor productivity growth (performance indicator) is matched with specific areas of product market regulation such as administrative burdens on start-ups or barriers to entry in professional services (policy indicators). Aggregate employment (performance indicator) is paired with, for example, the labour tax wedge (policy indicator), while the employment rate of women (performance indicator) is matched with childcare related costs resulting from the tax and benefits system (policy indicator).

Performance is compared to the OECD average. An outcome-policy pair becomes a priority candidate in a given country if both the outcome and associated policy rank poorer than the OECD average. In the next step, OECD country expert judgement is used to select the Top 5 priorities among these identified candidates and other areas relevant for growth, which it may not be possible to properly measure or compare, and hence include in the matching process. For each of these priorities, detailed reform recommendations are formulated and actions on them are reported.
Since 2017, the inclusiveness dimension is an integral part of the Going for Growth exercise. The integration is based on a dashboard of inclusiveness indicators encompassing a number of income and non-income dimensions such as inequality and poverty, job quantity and quality drawing on the new OECD Jobs Strategy (OECD, 2018c), the labour market inclusion of vulnerable groups, gender gaps and equity in education. The set of inclusiveness indicators are matched with corresponding policy indicators where empirical research has shown a robust link, to determine joint policy-performance weaknesses. Along similar principles, in the current 2019 Going for Growth edition, green growth considerations have been integrated to address the issue of sustainability of the gains in growth and well-being (see Chapter 3).

The Going for Growth framework for identifying reform priorities

Note: Due to data constraints the identification of environment performance gaps based on policy-outcome pairs is supplemented with one based on pure outcomes (trends and levels).

Overcoming the data constraints is key to identifying robust empirical relationships between the various income and non-income dimensions of inclusive growth as defined in the recent OECD Inclusive Growth framework (OECD, 2018d) and their relationship with structural reforms. Work is underway to gradually integrate a comprehensive coverage of inclusive and environmentally sustainable growth in Going for Growth.
Figure 1.5. The share of priorities focusing on boosting productivity has risen slightly

As a percentage of total priorities

In both advanced and emerging-market economies the 2019 priorities have a strong focus on competition in goods and service markets and openness to international trade and FDI (Figure 1.6). Improving quality and access to education are also key priorities in both advanced and emerging-market economies with potentially high impacts on future productivity and employment patterns. In advanced economies, the efficiency of the tax system, in particular a shift to property, consumption and environmental taxation, ranks high, together with more effective social benefits and activation policies and reforms to increase incentives for and lift obstacles to higher labour market participation of women, older-workers, migrants and minorities.

Improving the quality and accessibility of infrastructure and strengthening institutions to fight corruption are recurrent recommendations for durably boosting productivity in emerging-market economies. Many priorities such as extending the coverage of social protection systems, containing labour costs and relaxing overly strict job protection for workers in formal jobs are also intended to address labour informality and low employment in some of the emerging-market economies.

Going for Growth priorities over the years

Going for Growth has been identifying structural reform priorities and documenting progress since 2005. A comparison with the 2005 edition can give an idea on how the emphasis on different priority areas have evolved. The priority selection has changed somewhat over the years, and so has the country coverage. New policy areas have emerged as important, with new indicators to measure them and new evidence on impacts. The emphasis has shifted, for example as visible in the integration of new Going for Growth dimensions: inclusiveness and green growth. However, many priorities have been replaced as governments have responded to the main challenges by undertaking reforms.
Product market regulation has remained among the most important priorities, but has lost relative prominence in the 31 OECD countries covered in 2005 (Figure 1.7). Extensive progress on reforms in regulation and competition have been documented in *Going for Growth*, and are visible in the convergence of OECD’s Product Market Regulation (PMR) indicators over time (Koske et al., 2015; Vitale et al., 2019). As a result, product market regulation is now more frequent as a priority in emerging-market, most of which have only been included in *Going for Growth* recently.

Similarly, governments have made significant progress on reforming labour market regulation, reducing labour tax wedges, in particular for low-skilled workers and addressing older-worker incentives to participate in the labour market. In particular, some of these priorities were dropped in Central European countries where labour market performance has improved significantly in the last decades. Similarly, such priorities have been dropped or modified in Nordic countries, often due to reforms taken to address the employment prospects of specific parts of the workforce, e.g. older workers.

Several categories of reform priorities have become more common. For example, skills and education, public infrastructure and rule of law, as well as innovation, have gained prominence since 2005. Labour market related priorities are now focused more on labour market participation of women, activation policies, social benefits and improving the position of migrants and minorities on the labour market. Such changes are part of a longer-term process, not the least due to improvements of measurement and understanding of specific policy areas, and their increasing coverage in *Going for Growth*.
Figure 1.7. Some Going for Growth priority areas proved to be persistent challenges

Number of Going for Growth priorities across policy areas¹

Key policy recommendations for boosting inclusive and sustainable growth

The 2019 Going for Growth country-specific priorities and recommendations to address them are listed in the detailed Country Notes (Chapter 4). Based on these, common reform recommendations can be identified. They can be classified as reforms to boost business dynamism, unlock skills development and innovation potential for all, and support workers to make the most of a dynamic labour market. Implementing the recommended reforms can benefit the equality of opportunities and in a number of cases improve environmental sustainability.

Reforms to boost business dynamism

Businesses have a crucial role to play by providing employment opportunities, contributing to skills development and knowledge and technology diffusion, particularly in a context of rising global integration. Lifting barriers for businesses to enter and experiment with new ideas, compete and raise resources to grow, but also fail and exit if not successful are all requirements for boosting productivity growth, incentivising innovation and job creation.

Red tape and barriers to trade and FDI openness

Recommendations to streamline permits, licensing and insolvency procedures are among the most common in both advanced and emerging-market economies (Figure 1.8). Introducing or improving one-stop shops for business registration is recommended in several emerging-market economies, but also in Germany and Greece. Greater use of the assessment of regulatory impact of legislative proposals is recommended in several European economies, Korea and South Africa. A level playing field among firms needs to be safeguarded by stronger competition authorities and regulators, while improved governance of state-owned enterprises is crucial for both competition and efficiency. Indeed, several countries have recommendations to reduce government ownership in the economy via privatisation.

¹ Based on the sample of 31 OECD countries covered in Going for Growth 2005.

StatLink  
https://doi.org/10.1787/888933954401
Deregulation and improving competition in potentially competitive segments of network sectors remain among the key recommendations for both advanced and emerging-market economies. Deregulation in professional services and retail trade is recommended particularly in advanced economies, while removing tariff and non-tariff barriers to trade and obstacles to FDI are recommended especially for emerging-market economies in order to increase access to global demand for, and supply of, goods, services, technologies and knowledge.

**Improving the quality and accessibility of infrastructure**

Improving the quantity and quality of infrastructure in a cost-effective way can boost growth and provide access to markets, education and quality services for greater share of the population (e.g. health care and utilities). In Going for Growth 2019, 10 advanced and 8 out of 12 emerging-market economies have priorities to improve infrastructure (Figure 1.9). In Argentina, Brazil, Colombia, Costa Rica, Indonesia and South Africa significant gaps in infrastructure, in particular in transport, hold back job creation, access to markets and employment opportunities and contribute to regional income inequalities. In India, where many households still do not have access to electricity and water sanitation, upgrading infrastructure will boost growth and improve people's health and well-being. Making greater use of public-private partnerships (PPPs), involving the private sector and using innovative financing models for infrastructure investment is recommended in all of the above countries.
In Germany and the United States expanding public investment to support broadband internet access is recommended. Transport infrastructure investment, in particular public, low-emission transport is a recommendation for Germany, Israel, Italy, Luxembourg, the United Kingdom and the United States.

Ensuring the high quality of infrastructure projects is a key consideration in efficient use of public resources, effective delivery of social services and minimising negative environmental outcomes. In this respect, expanding and improving the use of cost benefit analysis in infrastructure project selection is recommended in Colombia, Costa Rica, Israel, Italy, Norway and Poland.

A level playing field for businesses cannot be effective without a well-functioning judicial system and enforcement of laws and policies. Recommendations in this area include improving the protection of whistle-blowers (China, Mexico and Russia), the functioning of the judicial system (Slovak Republic) and anticorruption and law enforcement (a number of large emerging-market economies, Italy and the Slovak Republic). Improving the efficiency of public administration will also facilitate the implementation of policies, law enforcement and more generally save resources. It can also help secure trust in the government. Recommendations in this respect span more transparent and effective public procurement (Czech Republic, Denmark, Iceland, Italy, the Slovak Republic and Mexico) and investing in human and technical resources in administration (Greece, Italy and Russia).

**A tax system that is more friendly to growth, equity and the environment**

Shifting the tax burden away from incomes to revenue sources such as property, consumption and environmental taxation, can raise economic growth and improve its environmental sustainability. A shift to taxation of property and consumption can also have the advantage of exploiting less mobile tax bases in the context of further global integration. In areas where tax base erosion and cross-border environmental externalities are large, such as carbon taxation, international co-operation and co-ordination can improve the efficiency and effectiveness of policy action.
Some 25 countries, of which three emerging-market economies (Argentina, Brazil and Russia) have priorities directly related to the tax system. In European countries, shifting the tax burden to property is among the main recommended reforms. Increasing consumption taxes is recommended in Japan, Korea and many European countries. Scaling back specific, inefficient taxes is recommended in Argentina, while consolidating various state and federal indirect taxes towards a national value added tax is a recommendation in Brazil. Recommendations to improve the efficiency of the tax system also include phasing-out inefficient tax expenditures (Argentina, Canada, Germany, France and Finland) and improving revenue collection, including through the use of digital technologies (Greece and Italy).

Unlock skills development and innovation potential for all

An efficient and inclusive education system is crucial for higher productivity growth and employment in the future. Education is a major area of priorities, and the country-specific recommendations target various areas and levels of education (Figure 1.10). Ensuring that the human capital and firm potential translate into productivity growth requires also adequate innovation support policies.

Figure 1.10. Key recommendations in education and skills

<table>
<thead>
<tr>
<th>University</th>
<th>Vocational</th>
<th>Primary and secondary</th>
<th>Lifelong learning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve access and reduce inequalities</td>
<td>Improve vocational education and training</td>
<td>Improve teaching quality, teachers’ incentives and career prospects</td>
<td>Expand lifelong learning</td>
</tr>
<tr>
<td>AUT BRA CHE CHL CHN EU GRC HUN POL SVN USA</td>
<td>ARG AUS BRA CAN CHE CHN COL CRI CZE DNK ESP EST FRA GBR HUN IDN ISR ITA LVA LTU LUX MEX POL PRT TUR ZAF</td>
<td>ARG BEL BRA CRI ESP FRA GRC IDN ISL MEX NOR NZL PRT SVK SWE ZAF</td>
<td>ARG AUS CHE CZE DEU FRA GBR ITA LVA POL USA</td>
</tr>
<tr>
<td>Improve funding formula</td>
<td>Improve alignment with labour market needs and increase employer involvement</td>
<td>Provide additional support to disadvantaged schools or students</td>
<td>Expand school infrastructure</td>
</tr>
<tr>
<td>AUT CHL CRI DNK NOR POL SVN</td>
<td>ARG CAN COL CRI CZE ESP EST EU GBR GRC IDN ITA ISR LTU POL PRT TUR</td>
<td>AUS BEL COL CRI FRA HUN ISR LVA MEX NZL PRT SVK SWE USA</td>
<td>BRA IND MEX ZAF</td>
</tr>
<tr>
<td>Better target financial assistance to students</td>
<td>Expand apprenticeships and increase the workplace component of training</td>
<td>Improve school accountability and autonomy</td>
<td>Limit grade repetition</td>
</tr>
<tr>
<td>AUT CHE DNK HUN SVN</td>
<td>CAN CHL CZE EST FRA GRC HUN ISR ITA LTV LUX NZL POL PRT</td>
<td>FRA GRC ISL LUX NOR PRT TUR ZAF</td>
<td>COL LUX PRT</td>
</tr>
</tbody>
</table>

Access to quality education

Better access to and higher quality of education are recommendations both for tertiary education, and for primary and secondary education, particularly through targeted support for disadvantaged schools and...
students (Figure 1.10). In Brazil, India, Mexico and South Africa, recommendations include upgrading school infrastructure, in particular in remote and poorer regions. Increasing school autonomy and accountability, recommended primarily in European countries, Turkey and South Africa, can also help in this manner, in particular if coupled with efforts to raise teachers’ qualifications through better incentives and prospects for career development. Finally, recommendations to reform university funding, such as allowing the introduction of general tuition fees in Austria, can bring efficiency gains and improve incentives to better align curricula to job-market needs. However, the introduction of general tuition fees requires the development of a grant and income-contingent student loan systems to avoid socio-economic segregation.

**Vocational education and activation policies**

Recommendations to expand vocational education and training (VET) and lifelong learning are among the most popular in the category of education (Figure 1.10). The objective is to improve the responsiveness to new skill requirements. The recommendations target more involvement of businesses in VET design, notably at the local level. Particular emphasis is placed on the expansion of apprenticeships and on-the-job training.

Longer working lives will mean a longer period where depreciation of skills and technological change risk making human capital obsolete. In this light, recommendations on lifelong learning are common in advanced economies where populations tend to be older on average.

**Innovation policies**

Public R&D support is needed to complement the framework conditions for innovation and put human capital to productive use. The most common recommendations in this area include better balancing the support between direct funding and indirect tax incentives (Figure 1.11). Stronger collaboration between universities and research centres and the private sector as well as better co-ordination of public policies, are recommended in particular in Central and Eastern European countries. Finally, recommendations on evaluating existing policies and programmes and focusing on those that deliver results aim at improving the efficiency of the money spent.

**Figure 1.11. Key recommendations on R&D and innovation policies**

- **Rebalance direct and indirect support**
  - CAN COL CZE ESP GBR IRL NLD NZL POL PRT
- **Strengthen collaboration between research centres and industry**
  - AUS COL EST IRL ISL LTU POL PRT RUS
- **Evaluate existing policies**
  - CHL COL ESP EST POL NZL
- **Improve policy co-ordination**
  - ESP EST LTU
Supporting workers to make the most of a dynamic labour market

Workers need to have the incentive and opportunity to find quality employment. This means policy makers need to balance incentives in the tax and benefit system and provide well-targeted activation policies to improve employability.

Labour market dualism and informality

In the two decades prior to the financial crisis, many countries promoted flexibility in the labour market by easing regulations on non-regular contracts. At the same time, the existing stricter regulations on regular contract remained unchanged. This has led to an expansion of non-regular contracts and to an increase in labour market segmentation. The youth and the low-skilled tend to be overrepresented among non-regular workers.

Excessive protection of regular contracts can leave a significant part of workers unemployed, in poor quality non-standard work or in the informal sector. Informal and low quality jobs are often worse paid and have poorer – if any – security, social protection coverage and on-the-job training. Moreover, the transition from informality to regular jobs is difficult and working informally may have negative consequences for future labour market prospects (Petreski, 2018; OECD, 2014).

Key recommendations in the area of labour market duality include aligning the protection of regular and non-regular workers in advanced economies and reducing strict protection of regular contracts in emerging-market economies with large informal sectors (Figure 1.1). More flexible wage bargaining is recommended in a handful of advanced economies, while avoiding too high or too rigid minimum wages is recommended in some emerging-market economies. Finally, reducing severance pay and the uncertainty related to dismissals are recommended in several countries (e.g. the Netherlands, Chile, Turkey and Indonesia).

Labour taxation and social benefits that incentivise work

High average and in particular high marginal taxes on labour income tend to depress individuals’ labour supply by discouraging full-time labour force participation. In addition, high labour taxes can reduce firms’ labour demand by driving up the cost of labour (due to high employers’ social security contributions or payroll taxes). This can lead to lower employment, shorter hours worked and higher unemployment. Such detrimental effects are more pronounced for workers facing labour demand-side obstacles, generally youth and the low-skilled, and those facing supply-side obstacles, generally second earners, mothers of young children and single parents.

Excessive and poorly designed labour taxes and social security contributions create both labour supply and demand obstacles and are drivers of labour market informality and low employment. These effects tend to weaken opportunities and mobility in the labour market. Many of the Going for Growth priorities to lower labour taxation focus on low-skilled workers that are at greater risk of being excluded from the labour market (Figure 1.12). In some countries, such recommendations are formulated in the broader context of the efficiency of the tax and transfers system through lowering the taxation of (labour) income and shifting the tax burden toward immovable property and consumption.

The goal of the mix of unemployment benefits, social protection and active labour market policies is to provide adequate income support in times of need, while encouraging the return to work. It serves to help workers’ adapt to the changing reality of the job market through skills acquisition and experience. In this respect, many countries would benefit from boosting activation policies and targeting them towards workers with weak labour market attachment, such as youth and the low-skilled (Figure 1.13). Similarly, better targeting of social benefits and gearing them to increase the incentives to take up work is a common recommendation. An expansion in benefits is recommended in Chile and bridging the rural/urban divide in coverage is recommended in China.
A more inclusive labour market

A high proportion of women are currently not employed, overrepresented among (involuntary) part-time workers (OECD, 2016) or more likely to be in the informal economy (ILO, 2018). This can often be traced back to barriers or disincentives to work induced by policies (Figure 1.14):

- the generosity and the design of tax and benefit systems: for example, fiscal disincentives to work for second earners such as tax allowances for non-working spouses and joint income taxation of spouses;
- high costs and poor accessibility of childcare;
- the design of parental leave policies and low take-up of parental leave.

Removing such obstacles will not only ensure better opportunities for women in the labour market but will also promote the economic prospects for children from disadvantaged background.

Better inclusion of minorities and migrants in the labour market are key priorities for inclusive growth. In Australia, Israel, New Zealand, Slovakia and Hungary recommendations target minority groups that show weaker performance in the labour market and in education. The recommendations focus particularly on the quality and targeting of education and improving the school-to-work transition and better engagement with representatives of the minorities. Recommendations targeting migrants include better training and language support and recognition of foreign qualifications (Figure 1.14).
Figure 1.13. Key recommendations on activation policies and social benefits

Active labour market policies

- Better focus on risk groups
  - ARG CHL DNK FRA ISR ITA NLD SWE

- Expand specific programmes
  - CHL GRC GBR ISR IRL USA

- Increase spending or improve effectiveness
  - GBR ITA LTU TUR

- Improve coordination
  - ITA NLD SWE

Social benefits

- Improve targeting
  - BRA FIN GRC IRL LVA NZL SVN SVK

- Increase work incentives
  - FIN GRC IRL ISL LTU POL SVN

- Expand coverage
  - CHL CHN NZL

- Tighten eligibility, including in disability benefits
  - AUT ISL NOR

Figure 1.14. Key recommendations to make the labour market more inclusive

Making the labour market more gender inclusive

- Improve early childcare accessibility
  - ARG AUT CAN CHE CHL CZE DEU FIN HUN IRL JPN KOR LUX POL SVK USA

- Encourage more balanced parental leave
  - ARG CAN CHE CZE DEU FIN HUN SVK USA

- Improve incentives in the tax and benefit system
  - ARG AUT CHE DEU JPN LUX POL SVK

Improving integration of immigrants, refugees and minorities

- Provide training, including language training
  - BEL DNK ISR NZL SVK SWE

- Corporate codes, quotas, awareness and anti-discrimination laws
  - ARG CHE CHL IDN

- Align the official retirement age
  - AUT CHE POL

- Facilitate recognition of qualifications
  - BEL DEU DNK SWE

- Improve early childcare provision
  - CHE LUX SVK
Structural reforms to promote growth and equality of opportunities

Going for Growth advocates a large number of priorities that are likely to increase the equality of opportunities for workers, both current and among future generations. Such priorities aim at providing adequate skills, quality employment and improving the prospect for upwards income mobility (Figure 1.15). More generally, reforms to level the playing field and encourage competition can also be seen as improving the equality of opportunities for firms.

Figure 1.15. Going for Growth priorities most likely to promote equality of opportunities

Providing educational opportunities for all

Education shapes individuals’ life chances, ensures the acquisition of job-market relevant skills and helps the development and productive allocation of talents. In Going for Growth around 15% of the reform priorities advocated, both in advanced and emerging-market economies, can be seen as targeting fairer access to education. Examples of recommendations on enhancing equity of opportunities in education and skills span a wide range of areas: additional, targeted support to disadvantaged schools or students in all levels of education and reforms to improve the school-to-work transition, lifelong learning and vocational education.

Promoting equal opportunities in the labour market

Quality employment opportunities are crucial for equal opportunities of succeeding in life. A multitude of Going for Growth labour market-related reform priorities will help in this respect. Reducing labour market dualism, reducing the labour tax wedge on low-income workers and a more flexible minimum wage can help bring workers into the formal labour market in many emerging-market economies. Reducing the gap in protection of workers on regular and non-regular contracts can improve the access to training and career prospects as well as their social benefit coverage.

Targeted and effective activation policies can help dismissed workers and those with weak attachment to the labour market to update their skills and find employment. Removing policy disincentives to the
participation of women in the labour market has significant benefits in terms of equality of opportunities for both current and future generations. In families where no-one is working, and in families with single mothers at risk of poverty, children are more likely to face lifetime disadvantage. This is a key issue in both emerging-market and advanced economies, where children from disadvantaged backgrounds are at greater risk of material deprivation and for which recommendations are formulated to address this challenge.

Similarly, recommendations for better inclusion of migrants and minorities address directly the fact that workers from these groups as well as their children often suffer from poor performance in the labour market and in education.

**Improving infrastructure and housing to enhance access to equal opportunities**

Better infrastructure, especially in large emerging-market economies and remote regions, is crucial to provide access to markets, education and quality services for greater share of the population (e.g. health care and utilities). It can help decrease income inequality and regional disparities (Calderon and Serven, 2014) and improve the equality of opportunities both for workers as well as for firms.

Housing access and affordability can affect both labour productivity and labour utilisation. Housing also has a significant impact on well-being, being central in households' life and social mobility throughout the lifetime. Restrictive housing policies can hamper housing investment and limit labour mobility, thus potentially raising structural unemployment and increasing skill mismatch (Adalet McGowan and Andrews, 2015). Rigidities in the housing market can also discourage capital mobility and contribute to resource misallocation by distorting the price responsiveness of construction to supply and demand signals. Improving the accessibility of housing is recommended in Latvia, New Zealand and the United Kingdom. Improving the flexibility and reducing distortions in the housing market is recommended in Denmark, the Netherlands, Sweden and Luxembourg.

**Structural reform priorities that address environmental sustainability**

The global economy faces major environmental challenges. Climate change poses major systemic risk to future growth and well-being, even if the exact effects are uncertain. Greenhouse gas emissions are far from where they need to be with respect to the globally agreed targets of net-zero emissions in the second half of the century (OECD, 2017). Outdoor air pollution, which is more closely linked to domestic impacts, has a significant impact on both growth and well-being, with an estimated global death toll over 4 million annually (WHO, 2018). Issues related to waste and biodiversity loss are among other significant risks and potential bottlenecks even if they are more difficult to link to growth directly.

Even if the direct links between growth and the environment are complex and difficult to quantify, the *Going for Growth* objectives of higher economic growth need to be fulfilled in a way that can be sustained by the environment. This requires that the design of pro-growth reforms take into account the costs of environmental degradation by increasing the stringency of environmental policies or providing incentives for more environmentally-friendly innovation.

In the 2019 edition of *Going for Growth*, 11 countries and the European Union have been identified as having a priority to address the environmental sustainability of growth and well-being (a “green growth priority”) among the Top 5 pro-growth priorities (Figure 1.16). China, and Turkey have primarily pollution related priorities, though greenhouse gas emissions and water scarcity are also targeted. In China, air pollution is estimated to cause over 1 million deaths per year while Turkey has one of the worst air quality in the OECD. India, where millions of households still lack access to electricity, clean water and sanitation and the death toll of air pollution is similar to that in China, has a priority to combine more efficient use and quality access to electricity, water and sanitation and to reduce transport-related pollution.
Advanced economies such as Australia, the European Union and Japan have priorities primarily related to addressing climate change in a cost-effective way. In Estonia and Poland, the efficiency and environmental performance of the energy sector are identified while cost-reflective energy pricing and phasing out fossil fuel subsidies remain on the Indonesian agenda. Luxembourg and Israel have priorities focusing on curbing transport related pollution, including through the improved provision of public transport and pricing of road use. Finally, Iceland has a priority to ensure the environmental sustainability of its rapidly growing tourism sector.

Overall, in most countries without outright green growth priorities some aspects of pro-growth priorities can be addressed with reform recommendations explicitly formulated to reduce the negative effects of growth on environment (Figure 1.1). These are labelled as “green growth recommendations”. Examples include pro-growth tax reforms that recommend to increase the reliance on the taxation of environmental externalities and to phase-out environmentally harmful tax expenditures, which would increase the price incentives for less environmentally harmful behaviour and activity. Recommendations to improve infrastructure provision that explicitly target expanding public transport and low-emission modes of transport as well as those to introduce or expand the pricing of road use or congestion are also counted as “green growth” recommendations. Priorities to phase-out production and trade distorting subsidies to agriculture should reduce the negative environmental impact of agriculture. Finally, other structural reforms with a broad scope, such as strengthening the rule of law and policy enforcement as well as improving innovation policies, can also benefit environmental sustainability.

Some countries do not have an outright green growth priority nor recommendation. Yet, this does not mean that environmental sustainability is not a concern for them. In fact, in a globalised world, major environmental challenges are largely global concerns. Impacts of environmental degradation often spill across borders, but solutions can also come from international collaboration and knowledge diffusion. This is the case for climate change and air pollution, both of which are now explicitly considered in Going for Growth, but also waste and biodiversity, which are more difficult to integrate due to measurement and evidence on the link to growth. In this respect, a co-ordinated, global approach to the environment, and in particular to climate policies, makes achievement of environmental goals more feasible and cost-effective.
Bibliography


OECD (2018a), Maintaining competitive conditions in the era of digitalisation, G-20 FWG mimeo.


ECONOMIC POLICY REFORMS 2019: GOING FOR GROWTH © OECD 2019


1 In this publication, the group of advanced economies comprises all OECD member countries excluding Chile, Mexico and Turkey. These three countries, alongside Argentina, Brazil, China, Colombia, Costa Rica, Indonesia, India, Russia and South Africa are labelled emerging-market economies.