



Economic Policy Reforms
Going for Growth

2008



Going for Growth: Structural Surveillance in the OECD

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Outline of the presentation

- **The key features of Going for Growth**
- **Methodology**
- **The results for lower-income OECD countries**
- **Conclusions**

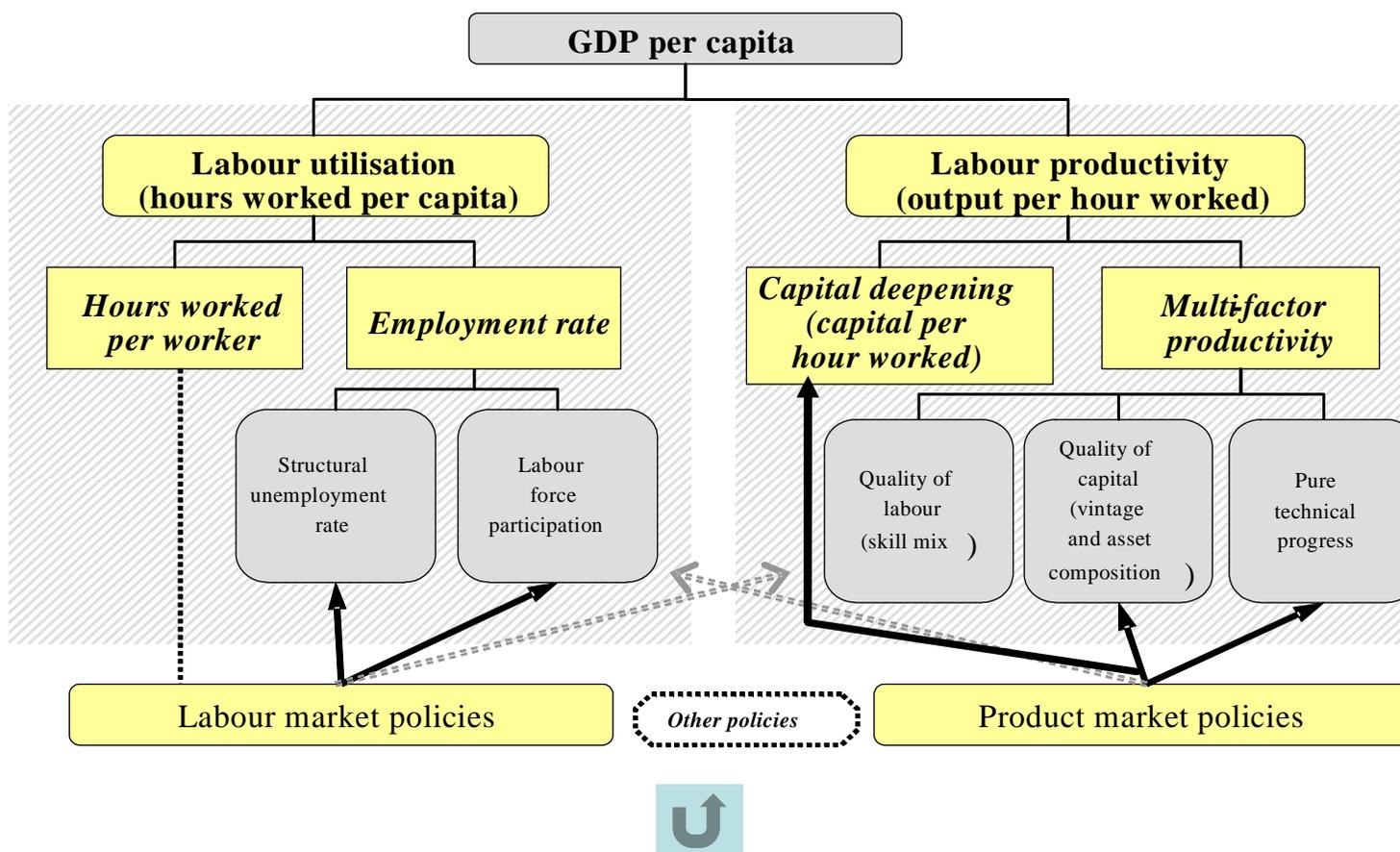
Going for Growth: the key features

- **General horizontal structural surveillance covering simultaneously all OECD countries and a number of policy areas.**
- **Evidence-based exercise anchored in a large number of empirical analysis carried out by the Secretariat (e.g. OECD Jobs Study, OECD Growth Study, studies on ageing and the determinants of R&D).**
- **International benchmarking of performance and policy settings based on cross-country comparable quantitative indicators:**
 - **Performance indicators: GDP per capita, labour utilisation and its sub-components (hours worked per employed person and employment rates for different population groups), labour productivity, etc.**
 - **Policy indicators: average and marginal tax rates, implicit taxes on continued work at older ages, product market regulations, etc.**

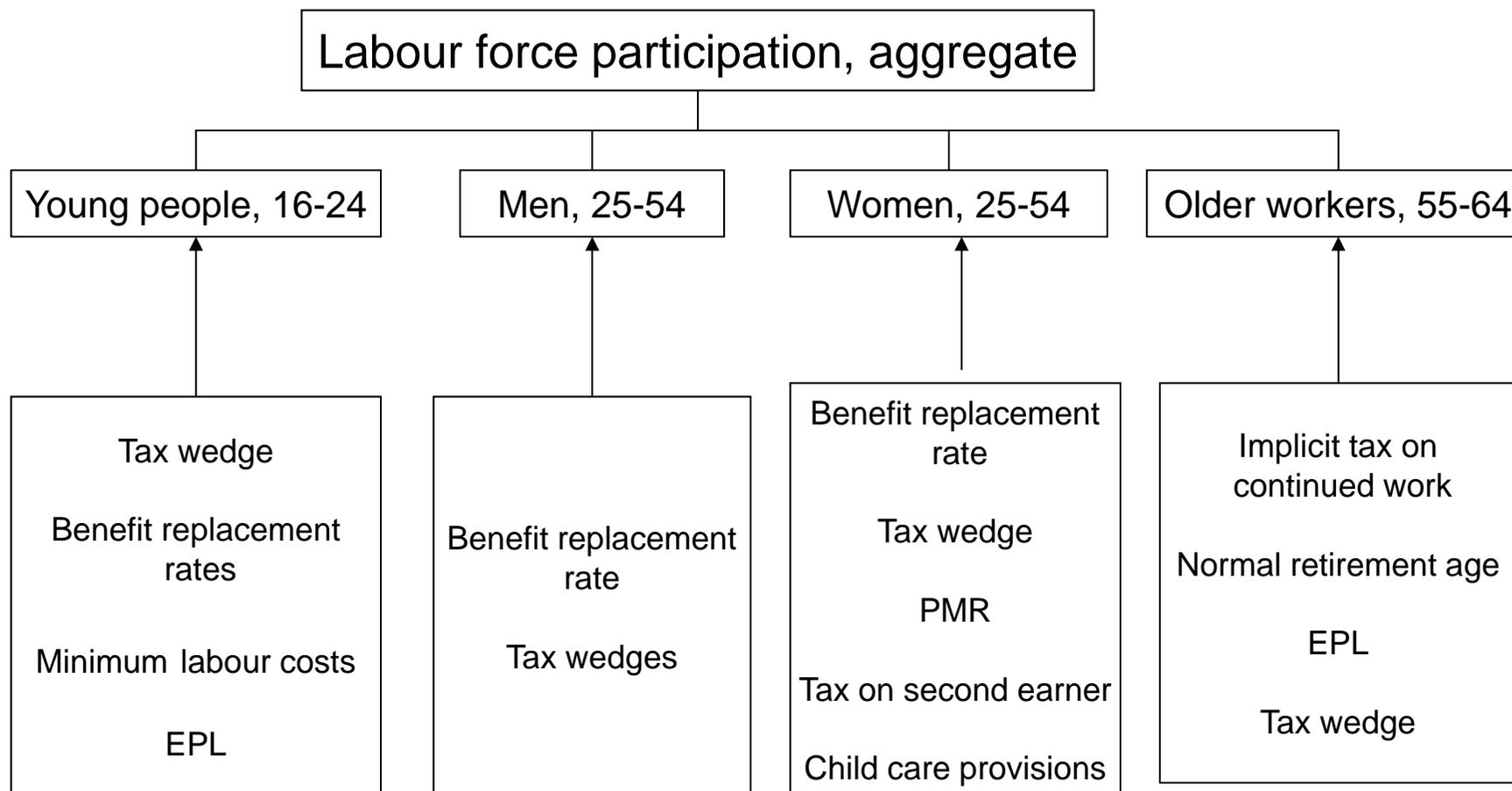
The methodology

- **First stage: Derivation of a set of potential policy priorities:**
 - **Identification of relative performance of labour utilisation and labour productivity at a more and more detailed levels.** 
 - **Identification of relative policy settings that influence performance.** 
 - **The juxtaposition of relative performance and policy settings: potential policy priorities are limited to areas where current policy settings are weaker than the OECD average and the corresponding performance is also weaker than the OECD average.**  

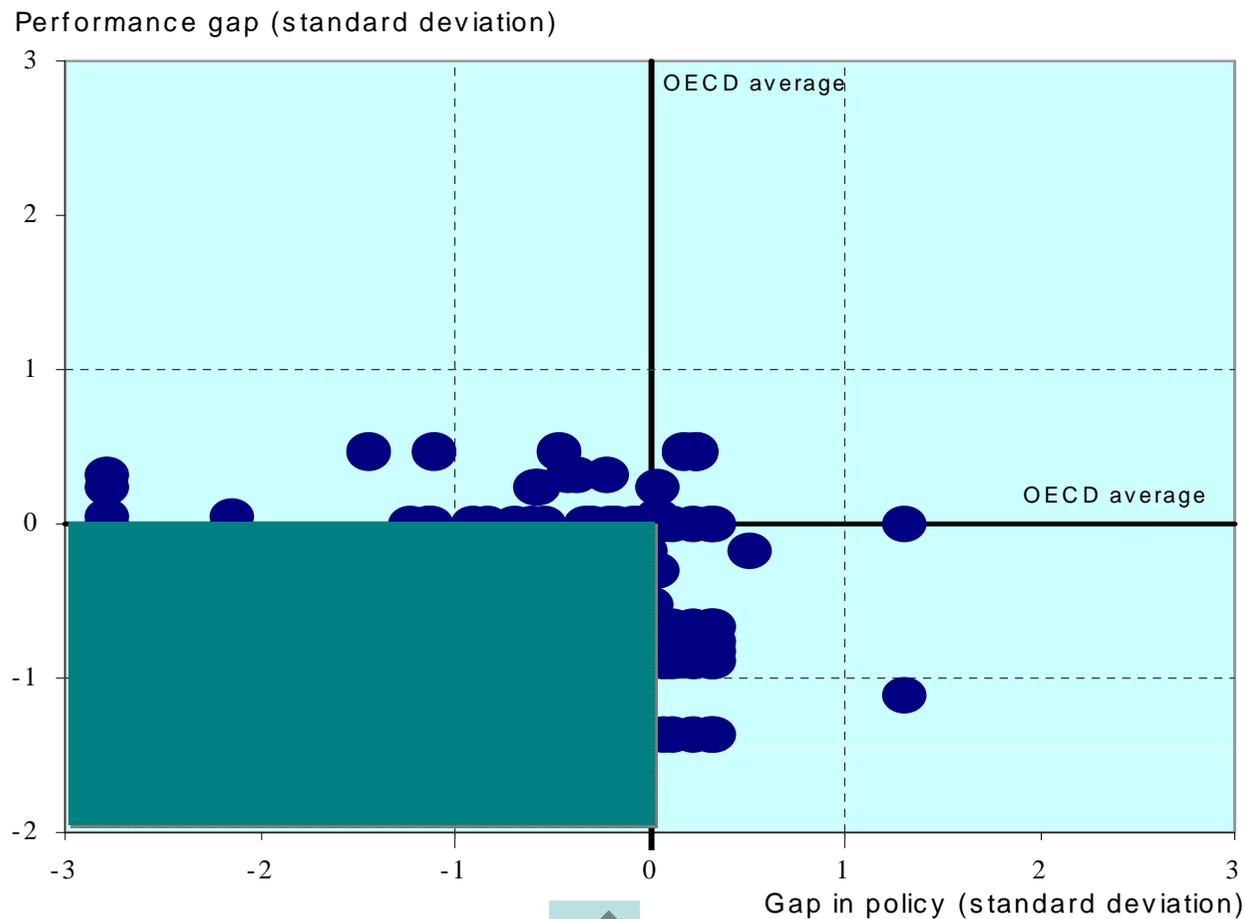
The basic growth accounting framework



Labour force participation: The policy determinants.



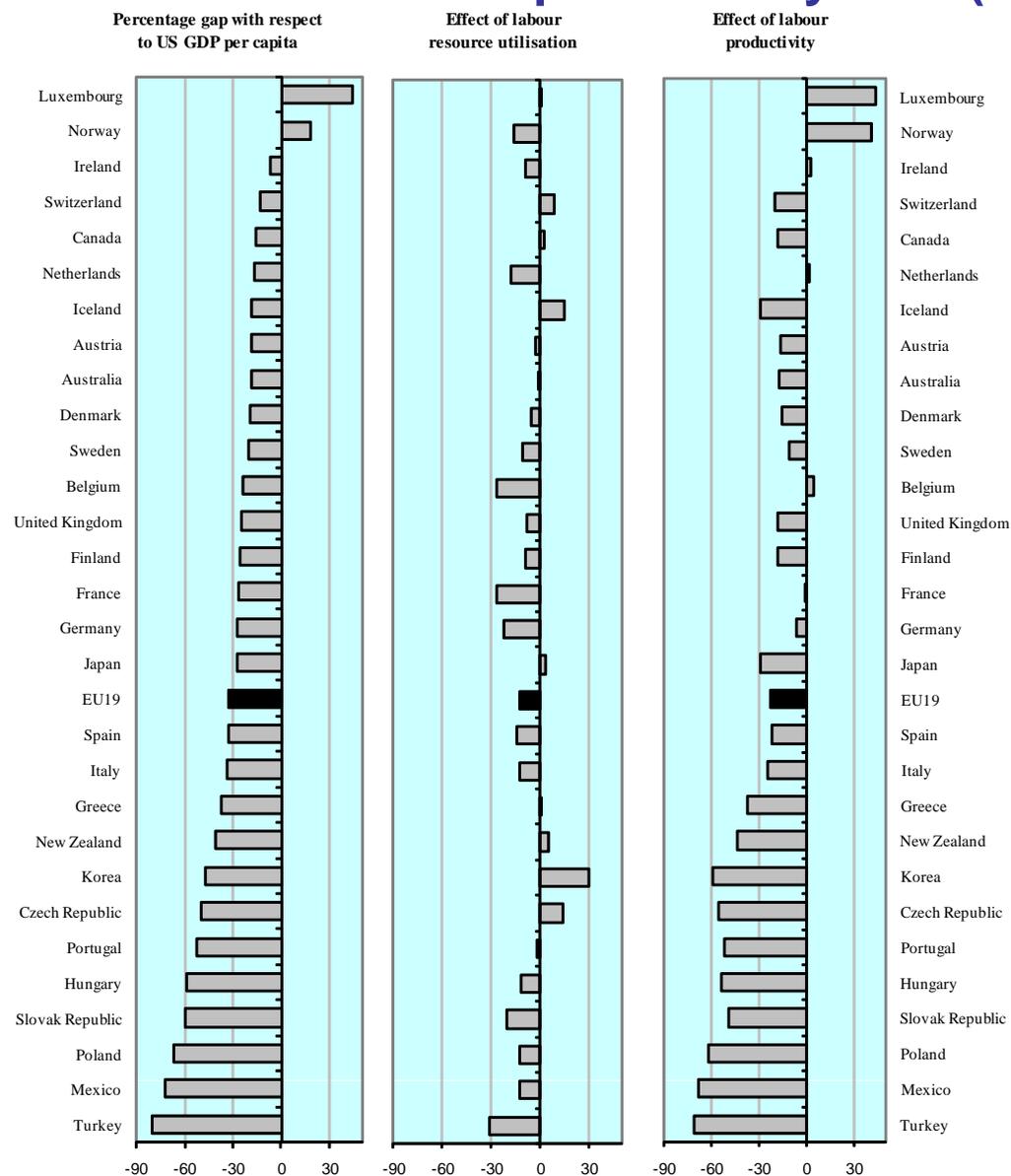
Policy-performance gaps: Low-income countries



The methodology, cont.

- **Second stage: The narrowing down of potential policy priorities to the 3 indicator-based priorities reported in Going for Growth based on:**
 - **Country expertise.**
 - **An empirical framework that provides the GDP per capita effects of changes.**
 - **Distance from average OECD performance and policy settings.**

Lower-income OECD countries: Performance weaknesses are on the productivity side (2006)



Lower-income OECD countries: Labour utilisation gaps

- **Labour utilisation gaps are large in some of these countries (notably Turkey) ...**
- **... but they may also reflect problems in measuring informal employment ...**
- **... which is likely to be more extensive in the lower-income countries.**



Identified policies to address productivity weaknesses

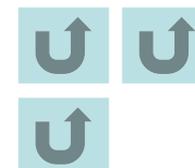
- **Education reform to build up human capital of the future workforce so that it can take advantages of technological opportunities and engage in innovative activities.**
- **Product market reforms to strengthen competition in markets for goods and services so that companies are forced to be efficient and to innovate.**

Distance from the technological frontier: Implications for PMR policies?

- **The argument: Strong competition is beneficial for innovation close to the technological frontier as companies seek to escape competition by creating new products and processes, but it may be harmful far away from the frontier as it reduces the ability of companies to appropriate innovation rents.**
- **OECD empirical studies do not support this hypothesis; they suggest the opposite: strong competition will have particularly strong effects in low-productivity sectors/countries as it speeds up convergence to the technological leader.**

Low-income OECD countries: Going for Growth indicator-based policy priorities, 2007

<i>Reform area:</i>	Mexico	Turkey	Poland	Hungary	Slovak Rep.
Education	x	x	x	x	x
Product market	x		x		
Minimum cost of labour		x			
Employment protection legislation		x			
Tax wedges				x	x
Benefit / taxes			x	x	
Implicit tax on continued work					x

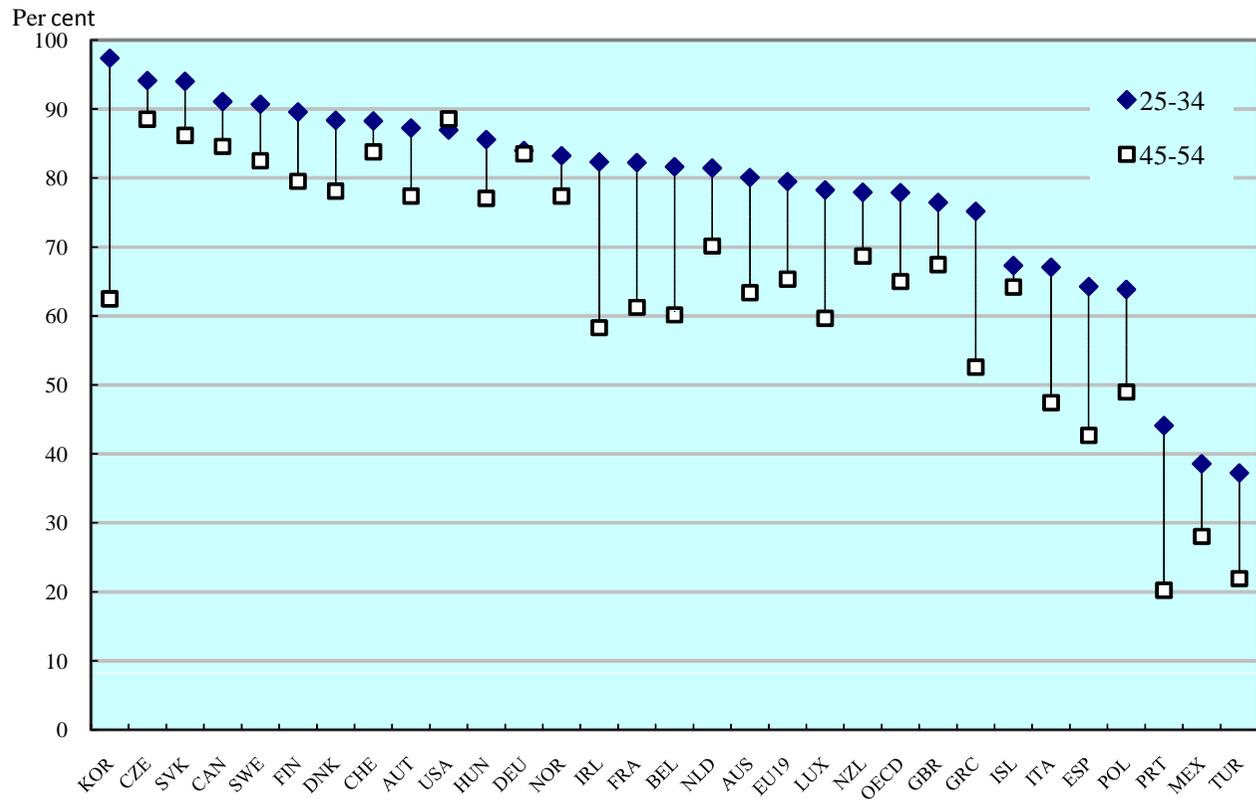


Source: OECD, *Going for Growth*, 2007

The low-income OECD countries have relative weakness in educational attainment (1)

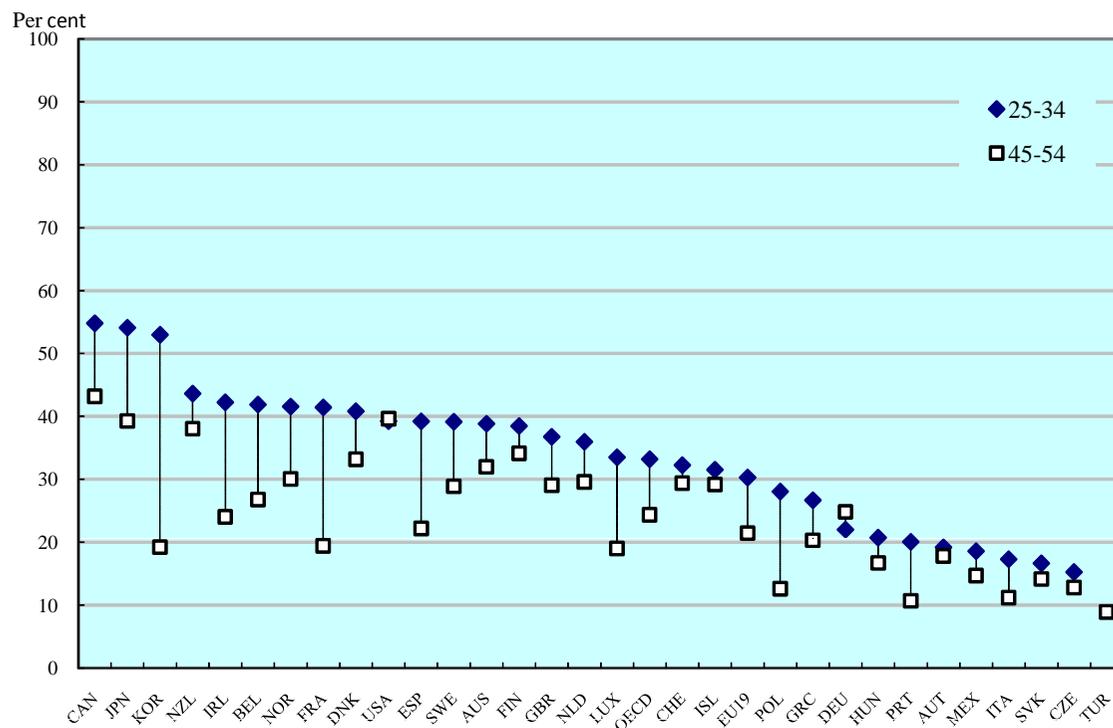
Percentage of population aged 25-34 and 45-54

A. Upper-secondary education



The low-income OECD countries have relative weakness in educational attainment (2)

B. Tertiary education



Source: OECD, *Education at a Glance*, 2008.

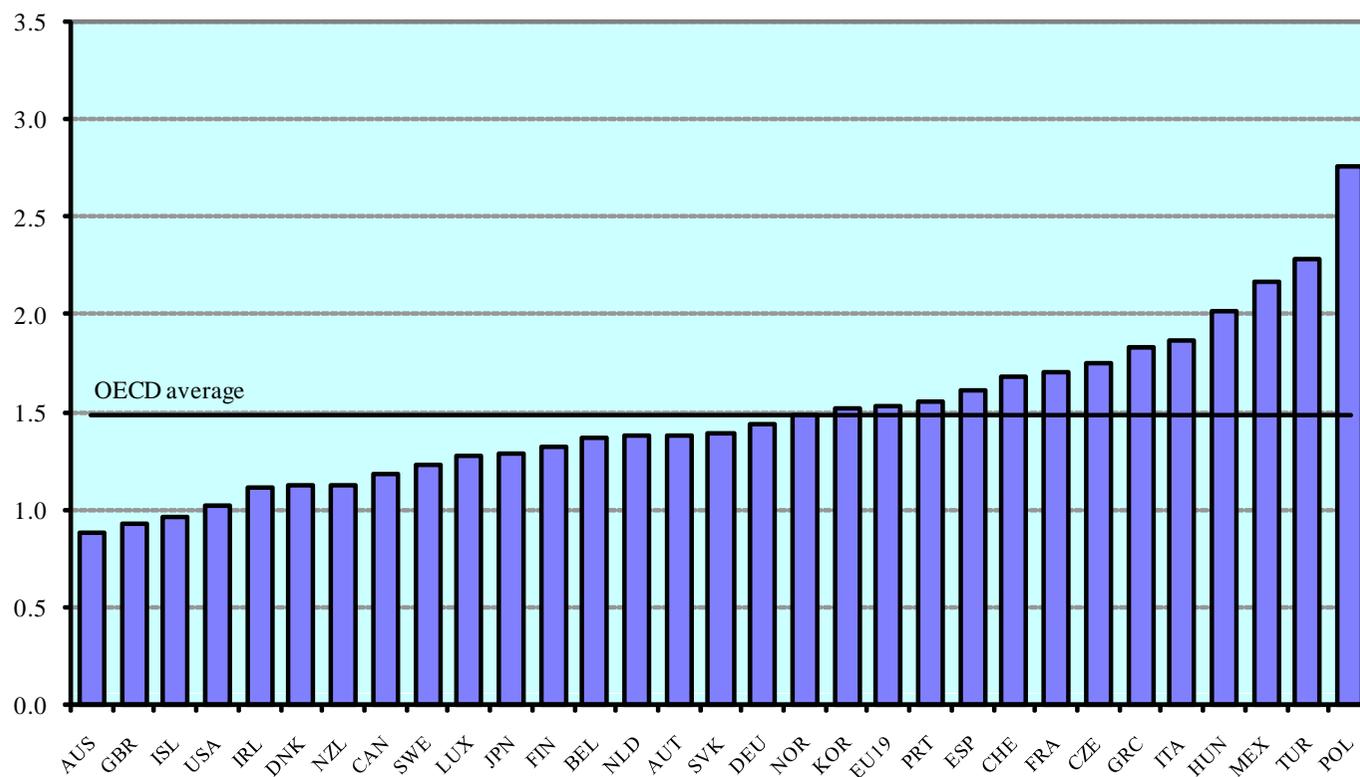




The low-income OECD countries have relatively strict competition-restraining regulations in product markets (2003)

Indicator scale of 0-6 from least to most restrictive

Restrictiveness of economy-wide product market regulation



Conclusion

- Going for Growth methodology identifies productivity to be the main weakness for lower-income OECD countries.
- The corrective policy priorities are to enhance human capital acquisition and strengthen competition in product markets.
- These policies increase the capacity of the workforce to import advanced technology from abroad and to innovate new products and processes.

