Cutting barriers to competition, investment and trade in US and EU would boost GDP - OECD study

Boosting market liberalisation by reducing trade, investment and competition barriers to “best practice” levels could significantly raise GDP per head in the European Union and the United States, according to a new OECD working paper.

The paper estimates that reducing such barriers could increase GDP per head over the medium term by the following amounts:

- 2 to 3½ per cent in the European Union.
- 1¼ to 3 per cent in the OECD area as a whole.
- 1 to 3 per cent in the United States.
- ½ to 1½ per cent in the OECD area outside the United States and the European Union.

These higher levels of GDP, once in place, would have a cumulative effect on earnings. The study estimates that the benefit to workers in OECD countries could amount to the equivalent of a full year’s income across a working lifetime.

The study establishes benchmarks of best practice against which other OECD countries can be measured. Australia, for instance, has the least restrictive level of State control of business, it says, while Denmark and Ireland impose the lightest administrative procedures for start-ups. Ireland, alongside the UK, scores well in openness to competition while Canada has the clearest business regulations.

Matching the best practice benchmarks across a range of competition and trade regulations would require major reform efforts in all OECD countries. However, the need to ease competition restrictions is greater in the EU than in the US. Consequently, the economic benefits of reform would be greater in Europe, the paper adds. In most EU countries competition-restraining regulations need to be reformed in particular in the domestic air, rail and road transport and in the gas and electricity sectors. The US too needs to concentrate reform on its electricity and rail transport sectors.

The paper argues that reforming regulations restraining competition, especially in services, would contribute more to raising GDP than reducing barriers to trade and foreign direct investment.

Commenting on the study, OECD Secretary-General Donald Johnston said: “I welcome this invaluable and timely contribution to the growing body of evidence which shows that more open product markets create higher productivity. Here, as in other areas of the Organisation’s work, OECD analysis has a key role to play not just in undertaking research on closer economic integration, but also in providing concrete, policy-focused results.”

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