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I would like to welcome you to this presentation. As you well know, launching a new publication is something very special. It is both a source of collective pride and anxiety.

I insist on the word collective because this publication has benefited from the involvement of many talented and hard-working economists over many months.

I should also add that we did not start this publication for the sake of escaping daily routine and monotony. We made this substantial investment to address a pressing issue, which is the premature interruption of economic convergence across OECD economies.

It is this issue of fading convergence and how best to deal with it that has dictated the orientation, the contents and the format of our new publication.

The aim of “Economic Policy Reforms” is not just to be instructive or pleasant to read, it is primarily to be useful and to impact both the public debate and the conduct of public policy.

There is indeed a big challenge to be met in all those OECD countries that have failed to catch up with the best performers, in terms of GDP per capita. This is especially the case in Japan and many European economies.

Economic catching up, which was widely believed to be automatic, started to stall during the 1980s and degenerated into relative decline during the 1990s. Today GDP per capita in France, Germany or Italy is 30% below US levels and, at current trends, this gap will increase during the next few years. Over these past two decades, the UK did a better job than its continental counterparts: it managed to close a small portion of the gap with the US. This is encouraging, of course, but the bulk of the catching up still lies ahead, especially in the area of labour productivity.

At the end of the day, being unable to converge is nothing other than losing the capacity to learn from others and their successes. Regaining this capacity to learn implies first an ability to situate oneself on the international scale and to evaluate the gaps that need to be bridged.

In this context, systematic international comparison provides a natural way to stimulate economic progress and convergence. This is why our “Economic Policy Reforms” publication takes the form of a benchmarking exercise, focused on the sources of growth.

Assessing the extent to which one is lagging behind is of course rather unpleasant, even more so if the gap is worsening. And the natural temptation is to minimise the significance of the comparison. In the end, aren't we all unique and truly incomparable! And so proud of our own way of life, which is worth so much more than a vulgar GDP per capita statistic.

This reticence in the face of potentially misleading comparisons can be vastly exaggerated but it is not without legitimacy. And needs to be taken seriously. In this domain of serious comparisons, recent methodological progress can indeed help us.

The OECD has now developed a diversified set of structural indicators in the areas of labour and product markets. As well, financial markets and innovation policy indicators are currently being constructed. When tested through modern and rigorous econometric techniques, these indicators also seem to do a reasonably good job at explaining economic performance. It becomes easier, in this context, to understand what lies behind a comparatively low GDP per capita. And find out what reflects bad policies as opposed to legitimate societal choices. If it turns out that weak GDP reflects weak policies, then ignoring international comparisons becomes a fault.

Learning to situate oneself in order to improve is not just the business of governments, however. It is also necessary for the society at large, since there is no successful reform without public opinion support. And in many countries there is a need to win public opinion. The OECD has a role to play here, with modesty, given the difficulties surrounding complex issues, but with a view to be well understood.

These opening comments may hopefully shed light on the architecture of our new publication, which includes both text and benchmarking tables.

Let me discuss indicators first. The starting point, here, is a set of performance indicators such as GDP per capita and its main components: labour utilisation and labour productivity. These components are in turn subdivided. For instance, labour utilisation indicators are broken down into overall rates of employment – i.e. the share of persons at work – and number of hours worked per employee. Overall rates of employment are themselves split into employment rates by age group: between 25 and 55, above 55, etc.

Following performance indicators, you will find policy indicators, dealing for instance with labour markets. To list just a few of these labour market indicators, we tried to evaluate the stringency of employment protection legislation, the implicit tax on continued activity, the tax wedge on labour income or the relative cost of unskilled labour.

All these indicators are used to produce:

- first, a cross-country synthesis that offers a “group diagnosis” for the OECD as a whole, both in terms of performance and remedies.
- Second, country fiches with 5 priorities for action for each OECD member. Three of these priorities stem from the benchmarking exercise, while the other two come from the specific expertise of our country desks. Relying also on country-specific expertise is essential to avoid what would otherwise be an overly mechanistic assessment.
- Third, a set of thematic notes that document our analytical tools. Where do they come from? How can they shed light on issues?

We have drafted a note that describes, for instance, how our product market regulation indicators have been built and how to use them. Other notes are dealing with employment rates of people aged 55 and over as well as female employment or tax incentives for saving for retirement. These notes are here to exemplify and underscore the link between structural policy indicators on the one hand and economic performance on the other.

What I would like to do now is to help you to move through the report and to make the best use of it. Taking maybe the example of the UK.

Actually, I came here with a fascicule that extracts from the publication what concerns more specifically the UK. Looking at performance indicators, it is clear that this country can legitimately boast about its overall rate of labour utilisation. And here this very good labour market performance is matched by very good policy indicators too. The UK's success is not accidental. But still the UK is one of those countries where the share of people on disability benefits is above the OECD average. And we certainly encourage the UK authorities to make sure that these schemes benefit disabled persons and are not used as alternatives to unemployment benefits or early retirement schemes.

The main challenge for the UK lies of course in the field of productivity. Over the past five years the UK performed better than its counterparts on the continent but no better than in the US, despite a very large initial gap. There are many potential candidates that may explain the persistence of a productivity gap in the UK. But it doesn't seem as a general rule that it stems from a lack of free and open markets. Product market regulation indicators are generally excellent, unlike what is still observed on the continent.

The sources of the productivity may have to be found elsewhere. One of them is the efficiency of the education system. On the positive side, the UK has a relatively large proportion of young people in tertiary education and academic achievements of young Britons reaching the age of 15 are above OECD average. However, the share of youngsters with only lower secondary education is very large and vocational training is not meeting the requirements of a modern workplace. Reforms are underway in these areas but more should be done in terms of quality or coverage.

Among factors that may hamper productivity gains, we have singled out in this report the very low share of investment in public infrastructure, and more especially in transport infrastructure. It may also be the case that over-regulation in the retail sector explains why the UK did not benefit from the kind of surge in productivity that has been observed in this sector over the past decade in the United States.

In this exercise there is, of course, a paradox with the UK: in terms of policy indicators for both labour and product markets it is already a reference, it is leading the way.

But this benchmarking may be useful to a British audience in a different way. In trying, for instance, to assess what are the long-term growth prospects on the Continent. Here as the benchmarking suggests news are mixed:

- There has been noticeable progress in the opening of product markets, markedly under Brussels influence between 1998 and 2003. This should show up in the next few years in terms of productivity increases. But looking at the three largest Continental economies, convergence towards fully open product markets is not yet imminent.

As far as labour markets are concerned, what is noticeable is the difficulty to make progress in areas such as the cost of unskilled labour, EPL, unemployment benefits, the tax wedge on labour. Although this is certainly highly judgemental, it is not obvious that the conditions are met in Continental Europe to stem the ongoing relative decline in terms of GDP per capita.

There are nonetheless glimmers of hope with the very recent reforms in Germany (unemployment insurance, working time) or Italy on EPL. And there is more widespread progress in putting back the so-called ageing workers to work. Through pension reforms. In this area, continental Europe has a large margin of manoeuvre.

As you all know, continental Europe lags behind in terms of GDP per capita, in large part because of a low rate of labour utilisation, and, more specifically, because participation of ageing people is weak. People over 55 are basically absent from the labour markets while they are still very active in Asia, North America and English-speaking countries, as well as in Nordic countries.

Beyond these uncontroversial statistics, there is however a lively debate about what this low labour utilisation on the continent means. Is it a reflection of different cultural choices, a better way of life? Or does it stem from misguided policies that are hampering labour supply?

To shed light on this debate, as I already said, we have computed “implicit tax on continued activity” indicators. This tax represents the income forgone by a person who would like to continue working despite the possibility of joining lofty pre-retirement schemes benefiting from large public transfers.

In the thematic notes we have devoted to this issue, it seems pretty obvious that in those countries where the implicit tax is high, the participation rate of ageing workers is generally well below OECD average.

Through rigorous econometric analysis, we have been able to evaluate more precisely the labour disincentives that these implicit taxes produce. To that end, we have simulated what would happen in a state of the world where social and pension systems are neutral with respect to labour supply all across the OECD.

What we find out in the end is that in the absence of biased public policies, Frenchmen and Belgians may wish to work as long as their American or Scandinavian counterparts. So, here, there is hope.

I would like to say a few more words to conclude on the future of this publication. We plan to publish this type of benchmarking every two years. It is a good periodicity that gives some time for economic reforms to develop and also for our indicators to change. So, the next benchmarking exercise will be delivered in early 2007.

We will publish, however, a special issue at the beginning of 2006. It will be devoted to a qualitative assessment of progress achieved in the area of economic reforms over 2005. And, more importantly, it will give us the opportunity to focus on two areas where we want to deepen analysis and elaborate specific policy priorities. We will first explore the contribution of financial markets to long-term growth and short-term economic resilience. We will also produce a very substantive piece of analysis on innovation policies.

The 2006 issue of Economic Policy Reforms will thus incorporate a benchmarking exercise devoted to financial markets and innovation policies. Investing in these new areas will allow us to extend the set of indicators beyond the fields which are currently covered: labour and product markets, taxation, pension systems and, to some extent, education.