

Chapter 4

Going for Growth ten years after: Taking a longer perspective on reform action

This chapter provides an overview of reform activity since the early 2000s in the policy areas covered by the regular set of indicators featured in Going for Growth. It examines how policy priorities have evolved since the start of Going for Growth in response to actions taken as well as to shifts in challenges. It also gives an idea of the extent to which reforms in these areas have contributed to economic performance over that period.

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.

Main findings

- Since the first publication of *Going for Growth* in 2005, the pace of structural reforms has remained roughly constant on average across OECD countries, with the exception of a notable acceleration in 2011-12.
- The pace of reforms is now on average above its pre-crisis level in the areas of product and labour market regulation, while reforms to raise work incentives occur at a slower pace.
- Reform activity has resulted in substantial improvement in some policy settings. This is the case for product market regulation, the design of pension systems and unemployment income support programmes.
- For a majority of countries, actions taken have often been too modest to lead to the complete removal of the corresponding policy recommendations. For around half of the countries, at least four of the five policy areas identified as priorities in 2007 still prevail in 2015.
- Where the broad priority area is maintained, the nature and orientation of the more specific recommendations has usually changed over time reflecting earlier, albeit partial, progress.
- A higher turnover of priorities has been observed among some of the countries that have been reforming more actively (Australia, Greece, Portugal and the Slovak Republic).
- Overall, structural reforms implemented since the early 2000s have contributed to raising the level of potential gross domestic product (GDP) per capita by around 5%, with most of the gains coming from higher productivity.
- Further reform towards best practice could further raise potential GDP per capita by up to 10% on average across OECD countries, depending on the degree of their ambitions.

Introduction

Ten years after the initial publication of *Going for Growth*, governments in most OECD countries are still struggling to bring their economies back to the growth path that prevailed around 2005. The headwinds are impressive, and include adverse demographics, persistently high unemployment or falling labour force participation, slowing productivity, high public debts and deficits and the lingering effects of the financial crisis which still affect the functioning of the financial sector. Addressing these challenges requires commensurate and steady policy changes. While the crisis has prompted significant reforms, this chapter takes stock of the changes in the many policy areas covered in *Going for Growth* over a longer period, and gives an idea of the extent to which this has contributed to economic performance.

Since 2005, every second year *Going for Growth* has provided member countries with five priorities to lift GDP per capita. This has relied on identifying successful national policy experiences, while making allowance for differences in national preferences, thus avoiding the “one-size-fits-all” pitfall of policy prescriptions. Based on a systematic monitoring,

anchored on a set of indicators of policies and performances, *Going for Growth* tries to assess the extent to which divergences in performance reflect differences in the effectiveness of public policies rather than differences in social preferences.

On the basis of this framework, *Going for Growth* has delivered policy priorities and concrete recommendations for each individual OECD member country, the European Union and, since 2010, for Brazil, the Russian Federation, India, Indonesia and China (BRIICS). This has been a complement to the *OECD Economic Surveys*, which periodically provide an in-depth review of individual member countries economics challenges as well as detailed policy prescriptions. The set of policy priorities and related recommendations have contributed to shaping the policy agenda within countries, but also in the context of the G20 work programme.

A retrospective assessment of reforms in OECD countries

The overview of structural reforms undertaken by OECD countries during the last decade relies to a large extent on information that has been featured in *Going for Growth* over the years (see Chapter 1):

- The so-called “*Reform Responsiveness Index*”, which has been regularly used to monitor progress on country-specific priorities, and presented for its last update in Chapter 1.
- The changes in the policy indicators, across countries and over the last decade – with latest data generally referring to the year 2013.

The analyses that can be drawn from these two sources are different in nature and in fact complement each other (Box 4.1). This section first reviews the extent to which OECD countries have followed up on *Going for Growth* recommendations since 2007¹ and continues by quantifying the importance of the reforms undertaken.

A follow-up on *Going for Growth* recommendations over time

OECD countries appear to have followed up on *Going for Growth* recommendations to a greater extent in labour productivity-enhancing reforms than in labour utilisation-enhancing ones since 2007, but overall differences between the two areas are relatively narrow (Figure 4.1). Policy responses to priorities aimed at boosting productivity levels have been strongest in the fields of innovation and product market regulation. Actions taken to raise labour utilisation have been most widely seen in labour taxation, incentives to work for second earners and active labour market policies.

Over time, reform activity has gone through distinct phases. During the recession (2009-10), reform activity slowed relative to the pre-crisis period (2007-08), reflecting the more urgent focus on macroeconomic stabilisation. The slowdown was visible in most areas (the most notable exceptions being tax structure, labour regulation and labour costs). Then, the aftermath of the crisis (2011-12) saw reform action accelerating significantly, with the bounce-back being strongest in labour productivity-related reforms, as well as in social protection (in part under the pressure of fiscal consolidation) and active labour market policies to cope with the sharp and persistent rise in unemployment following the recession.

However, the post-crisis pick-up in policy actions appears to be losing steam, with OECD countries showing signs of reform slowdown in almost all areas. Still, the intensity of reform remains on average slightly above its pre-crisis level in product market regulation and tax structure areas, while reforms aimed at boosting labour utilisation occur at a markedly lower pace, notably in the fields of labour taxation and work incentives.²

Box 4.1. Qualitative and quantitative assessment of progress in policies

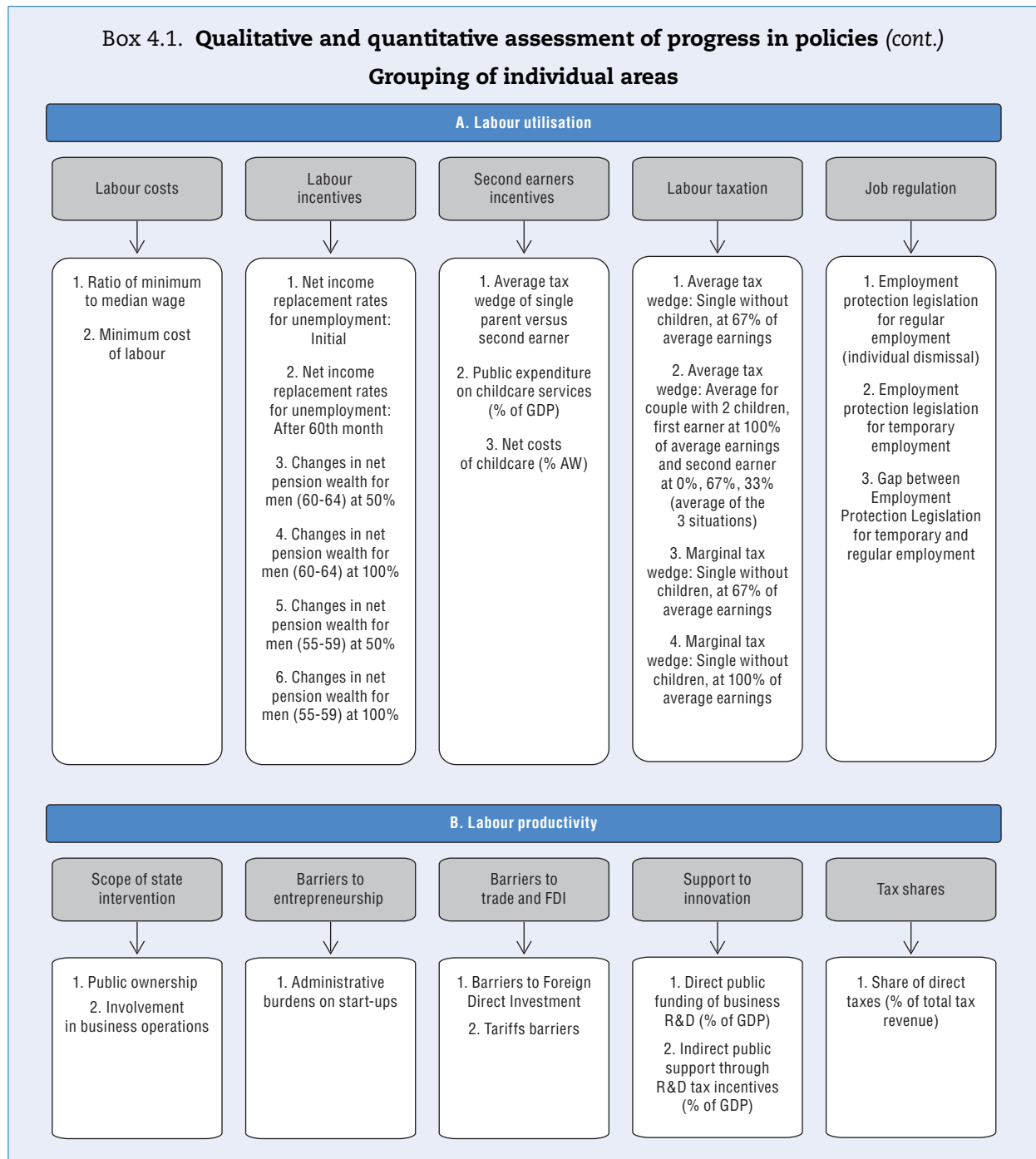
The main sources to measure progress in policies in *Going for Growth* are twofold. The first is the *Reform Responsiveness Index*, a qualitative indicator based on a scoring system in which recommendations set in the previous issues of *Going for Growth* take a value of one if “significant” action is taken and zero if not. For each policy area, the index is therefore calculated as the ratio of the total number of years in which some action towards addressing the policy weaknesses is taken to the total number of years in which some action could potentially be taken.

The second is a set of quantitative policy indicators which are intended to provide a summary of the stance of policy in various areas: product and labour market regulation; social protection; education and training; taxation; foreign trade and investment; and innovation. They are all internationally comparable and have been linked empirically by the OECD to various aspects of economic performance. As such, they form the basis for setting policy priorities.

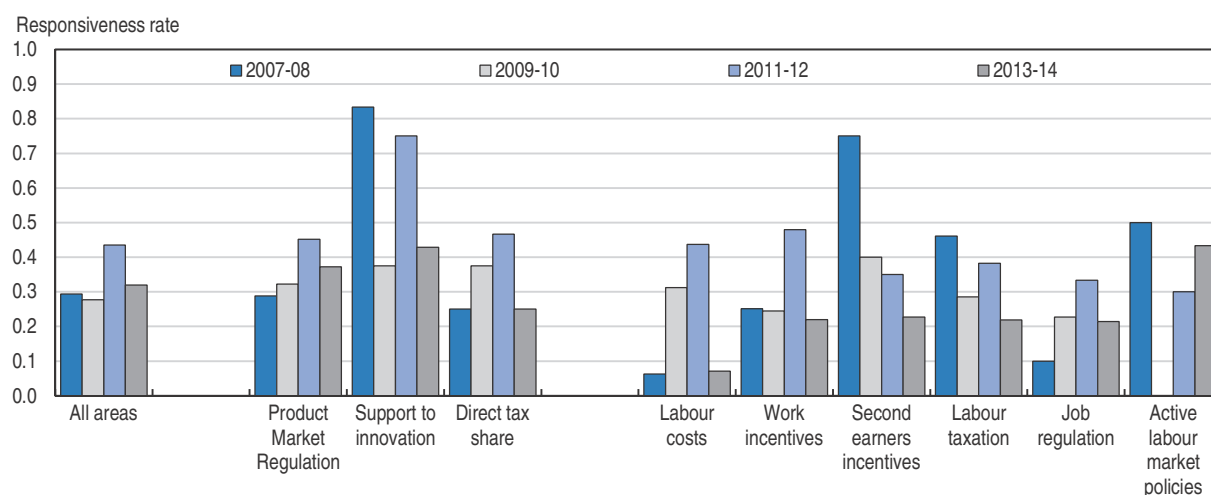
The two main sources complement each other, in part because they bear separate advantages and limitations:

- *Comprehensiveness*: the *Reform Responsiveness Index* allows a comprehensive coverage of all reforms undertaken in priority areas since 2007. By contrast, some quantitative policy indicators lack information that would better reflect the cost-effectiveness of policy settings or programmes. Such is the case of active labour market policies, support to innovation and more generally the provisions of public services. The *Reform Responsiveness Index* also covers progress in the area of education, which is one of the most important and frequent recommendation. But education priorities are set in *Going for Growth* on the basis of educational outcomes data, reflecting the lack of policy indicators in this area. Due to this limitation, this area will not be covered in the remainder of this chapter.
- *Timeliness*: the *Reform Responsiveness Index* is up-to-date and allows tracking reforms in real time, including most recent (2014) information on early stages of reforms. On the contrary, not all quantitative policy indicators are available on a timely basis. Some of them rely on country responses to detailed questionnaires (like product market regulation indicators), which can take some time to be completed and reviewed by the OECD; currently the latest vintage is 2013 for most of the indicators.
- *De facto vs. de jure*: policy indicators are generally *de jure* indicators, reflecting the current stance as given by the law. But *de facto* settings may differ. For example, business perceptions of barriers to competition could be perceived as high despite a relaxed legal environment measured by the policy indicator, due to weak implementations of laws in practice.
- *Intensity*: the *Reform Responsiveness Index* is based on a qualitative assessment of recent reform progress on priorities. This assessment is done in collaboration with country desks experts. But it does not aim to assess overall reform intensity *per se*. This stands in contrast with policy indicators which are better suited to quantify the importance of individual measures.
- *Direction of reform*: The *Reform Responsiveness Index* does not allow for attributing negative scores when reforms are introduced that go against the corresponding recommendation, while policy indicators do.

To ease readability, information on each individual policy area provided by the *Reform Responsiveness Index* and the structural policy indicators have been grouped into eight broader areas in the remainder of the chapter (Figure 4.1). The first five categories regroup policies that are primarily influencing employment whereas the other three comprise productivity-enhancing policies.

Box 4.1. **Qualitative and quantitative assessment of progress in policies (cont.)****Grouping of individual areas**

The time-profile of reform intensity raises the question of whether there has been a shift in policy priorities over time. A look at the share of priorities by policy areas on average across countries shows that they have remained fairly stable over time (Table 4.1). Among policies to boost employment, a substantial increase has been observed in the areas of active labour market policies and unemployment benefits, whereas pension systems and disability benefit schemes have become less important over time, as a result of the more intense actions taken in these areas. In the case of productivity-enhancing

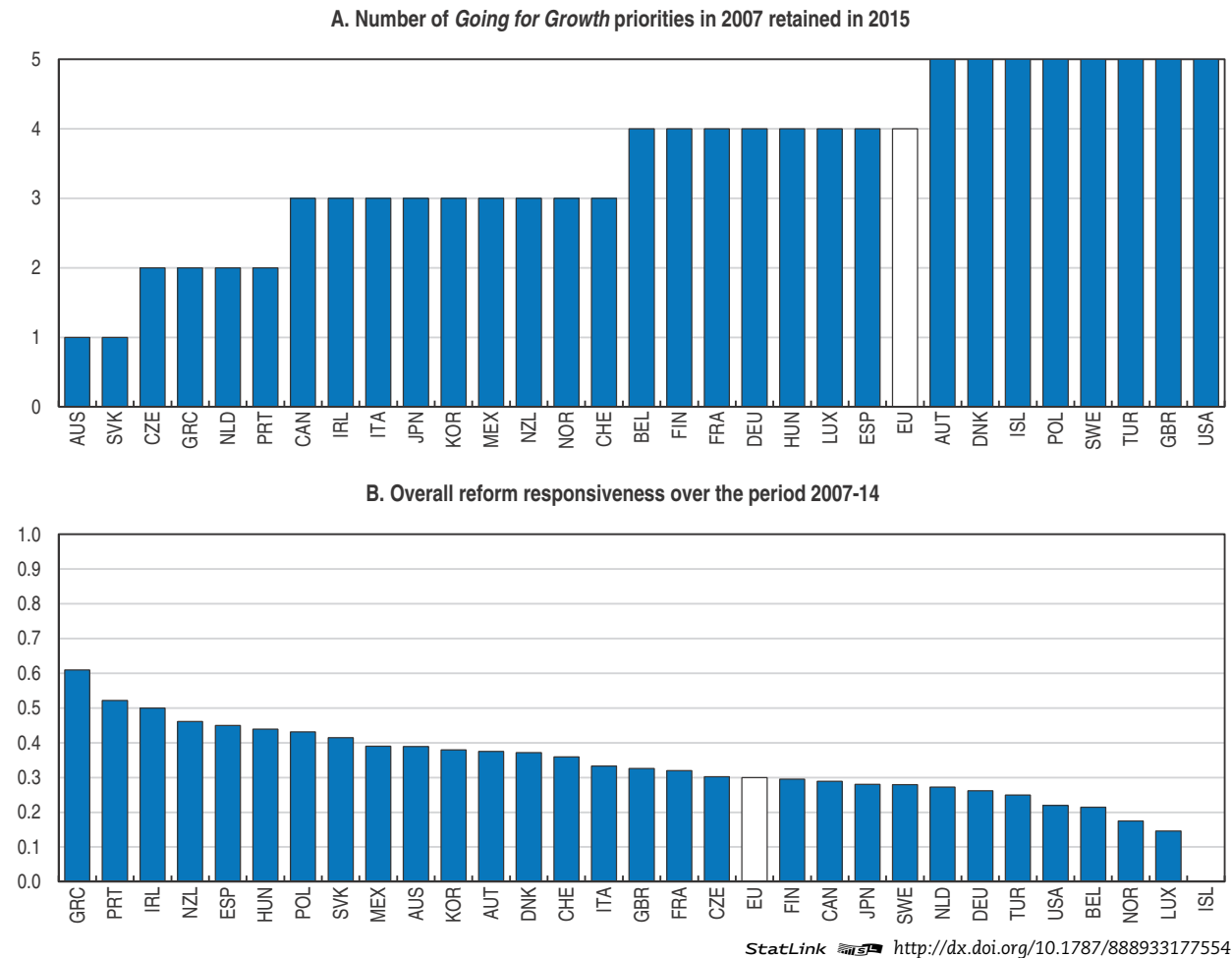
Figure 4.1. **The pace of reforms has varied across policy areas**StatLink  <http://dx.doi.org/10.1787/888933177546>Table 4.1. **Evolution of Going for Growth priorities by area**

The share of <i>Going for Growth</i> priorities by area (percentage)	2007	2011	2015
Labour utilisation			
Tax system – emphasis on the level of labour tax wedges	9	8	7
Social benefits and active labour market policies (ALMPs)	15	14	17
ALMPs and unemployment benefits	4	5	10
Retirement and disability schemes	11	9	6
Retirement systems	6	6	4
Disability and sickness schemes	5	3	2
Policy barriers to full-time female participation	5	3	5
Labour Market Regulation and Collective Wage Agreements	11	11	9
Job protection legislation	6	8	6
Minimum wages and wage bargaining systems	5	3	3
Housing/planning policies/barriers to labour mobility	3	2	2
Total labour utilisation	42	38	39
Labour productivity			
Human capital	14	15	16
R&D and innovation policies	2	2	6
Product market regulation, trade and FDI	24	25	21
Agriculture and energy subsidies	5	4	5
Tax system – structure and efficiency	3	5	5
Efficiency of public spending	5	5	4
General efficiency	3	3	2
Efficiency of the healthcare sector	2	2	2
Public infrastructure	2	2	2
Legal infrastructure and the rule of law	2	1	1
Financial market regulation	1	1	0
Housing/planning policies/barriers to labour mobility	1	1	1
Total productivity	58	62	61
Total number of priorities	155	175	175

reforms, recommendations to improve the size and efficiency of the support to innovation have gained prominence, while the importance of product market reforms has diminished somewhat.

Looking at the evolution of priorities by country, the share of those that have been retained throughout the years is fairly large (Figure 4.2, Panel A). In 2015, 80% of the countries have at least three policy priorities that were already selected in 2007, while for 25% of the countries, all (i.e. the five) priorities set in 2007 are still featured in 2015. Hence, while actions taken in response to *Going for Growth* recommendations have been rising over time, this has not, by and large, resulted in the removal of corresponding policy priorities, except in a few countries.

Figure 4.2. **A large share of priorities has been retained over the years**



The relatively low turnover also indicates that when action is taken, the extent of reform falls short of what is needed to fully address the weakness. Nonetheless, a comparison of the overall reform intensity across countries over the period 2007-14 (Figure 4.2, Panel B) shows that at least for some of the most active countries, a higher turnover of priorities has been observed (Australia, Greece, Portugal and the Slovak Republic). And in many cases where the priority area is maintained, the nature and orientation of the more specific recommendations has changed over time, reflecting earlier, albeit partial, progress. To get a better feel for the importance of reform actions conducted since the early 2000s, the analysis based on responsiveness rates is complemented by information from the quantitative indicators of policy settings.

Summarising reform patterns

Going for Growth covers a broad set of indicators measured with a great deal of heterogeneity. Individual indicators can thus be normalised and regrouped into broader policy categories, in order to highlight patterns and measure magnitudes in ways that are comparable across broad policy areas (Box 4.2). This procedure first converts the indicators into a common scale and then aggregates them across broad policy areas to ease readability and comparability.

Box 4.2. Computing structural policy scores

Structural policy scores computed by broad policy areas build on a bottom-up approach that enable to trace them back to the individual policy indicators, according to the grouping of Figure 4.1. Each individual policy indicator P_{ijt} for country i and policy j at time t is first normalised according to the historical minimum and maximum observed during the period 2000-12 across countries. In particular, the cross-country historical maximum is set as the best practice toward which the position of countries over the years will be gauged. Depending on whether an increase or a decrease in the policy is growth-enhancing according to the *Going for Growth* framework, each P_{ijt} is either normalised from above or below, that is:

$$P_{ijt}^N = 100 * \frac{P_{ijt} - \text{Min}_{\{l,t\}} \{P_{ijt}\}}{\text{Max}_{\{l,t\}} \{P_{ijt}\} - \text{Min}_{\{l,t\}} \{P_{ijt}\}}$$

$$\text{or } P_{ijt}^N = 100 * \frac{P_{ijt} - \text{Max}_{\{l,t\}} \{P_{ijt}\}}{\text{Min}_{\{l,t\}} \{P_{ijt}\} - \text{Max}_{\{l,t\}} \{P_{ijt}\}}$$

This normalisation allows each policy indicators, which now varies between 0 and 100, to measure the distance a country has still to travel in order to achieve what is regarded as the best policy practice, i.e. 100. The scores obtained form then the low-level information of a tree structure, which are then aggregated by broad policy areas into k higher-level composite scores S_{ikt}^N (see Table 4.A1.1 of the annex). Those are calculated as weighted averages of their low-level indicators, using equal weights for the aggregation.

Reform patterns have led to convergence in policy settings across countries

In general, countries have converged toward best practices: that is, countries most distant from best practice in 2000 are the ones that made largest improvements over the period. Areas where strongest convergence has been achieved are also the ones where the magnitude of reforms undertaken has tended to be the highest. Reform actions over the last decade have effectively led to convergence in structural policy settings. This is illustrated in Figure 4.3, which shows the changes observed in countries in specific policy areas over the period 2000-12 against the initial level in 2000. Cases of convergence in policy settings are reflected by downward sloping trend lines with slopes equivalent in this setting to a test of convergence.³ The steeper the downward trend line, the stronger the convergence and thus the greater the reforms intensity. In this setting, the results indicate that some convergence has taken place in most areas, albeit to varying degrees.

Figure 4.3. **Structural policy settings have generally converged across countries**
 Changes in policy indicators over the period 2000-12

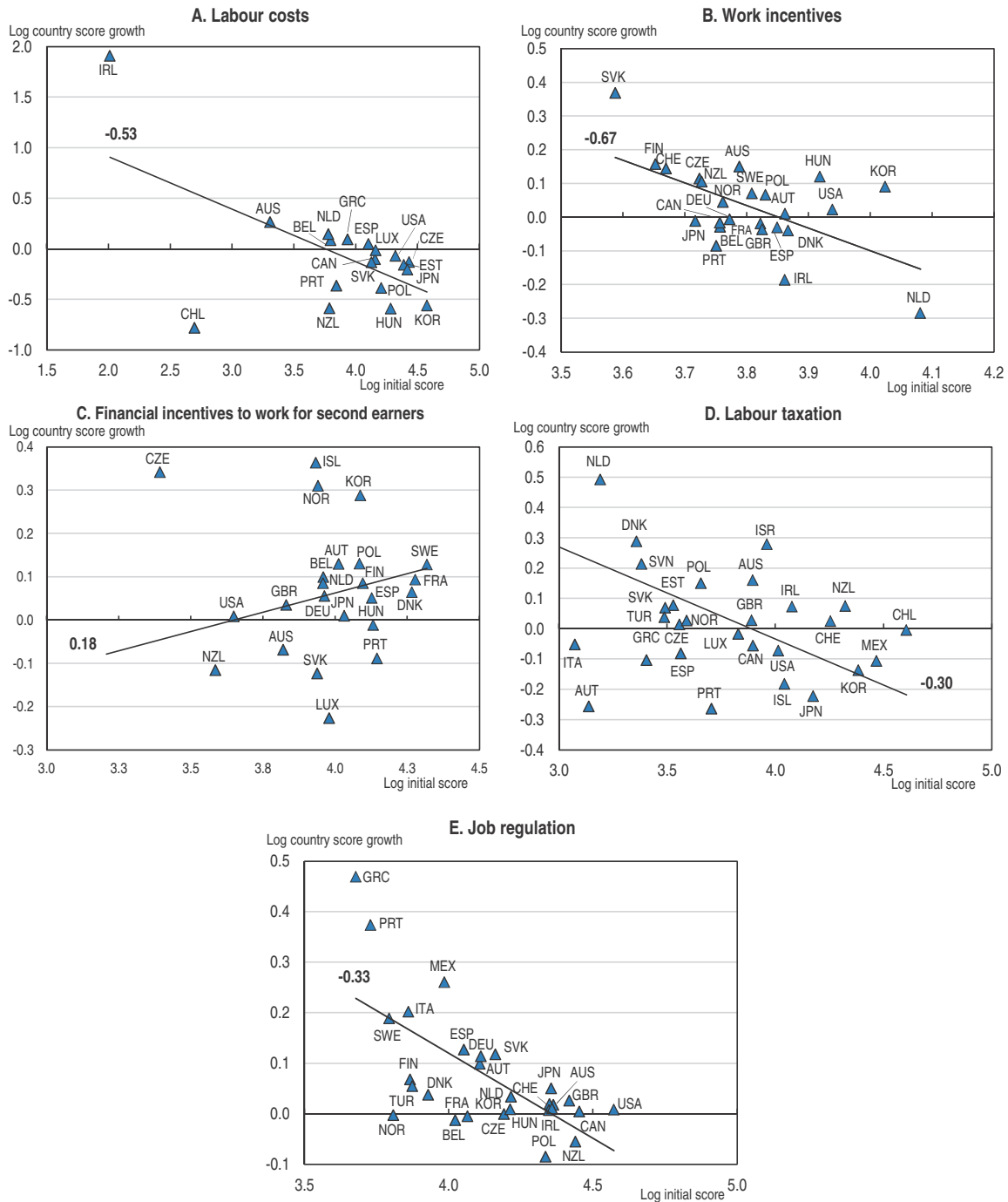
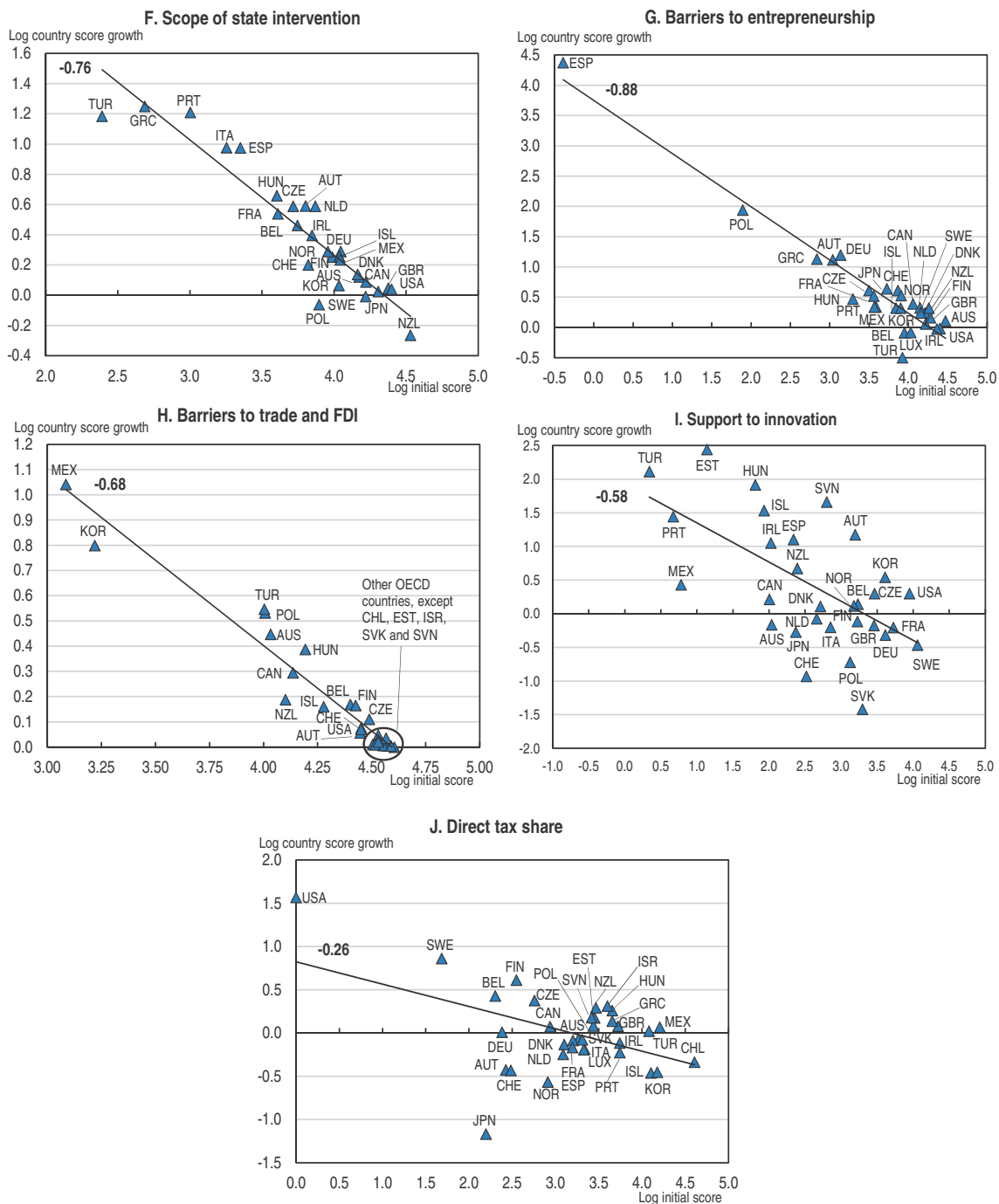


Figure 4.3. **Structural policy settings have generally converged across countries (cont.)**
Changes in policy indicators over the period 2000-12



Note: The slopes of the trend lines, in bold on each graphs, denote (in absolute value) the intensity of convergence that took place (see Endnote 3 for details).

StatLink <http://dx.doi.org/10.1787/888933177569>

Major reforms happened in product market regulation⁴

Product market regulation has been an area where high reform activity as monitored in *Going for Growth* translated into substantial policy change: strong convergence has been reached during the last decade, pointing to an ambitious reform agenda to close the gap vis-à-vis best practices in regulatory barriers to competition. This is the case in particular for the scope of state intervention (with an intensity of convergence of 0.84), barriers to entrepreneurship (0.89), and to a lesser extent for barriers to trade and FDI (0.64). As a result, impediments to aggregate productivity and innovation due to unduly restrictive regulations have been significantly reduced over the last decade, and OECD countries are now relatively close for many regulatory aspects covered in the indicators available.

However, some heterogeneity across countries and areas remains (Figure 4.A1.1):

- Some countries still have a large government influence in firms' operations (in particular Poland and Turkey). But overall, the pervasiveness of state control decreased in the average OECD country and for most of countries individually.
- The current stance of regulatory barriers to entrepreneurship is the result of considerable easing over the past 10-15 years in almost all countries. Some are however still lagging behind, or have even reinforced restrictiveness in this field (Turkey and to a lesser extent Belgium, Chile, Luxembourg and Korea). The lowest barriers to entrepreneurship are found in Denmark, the Netherlands, New Zealand and the Slovak Republic.
- While almost all countries reduced barriers to trade and FDI, former highly restrictive countries, in particular Korea and Turkey, undertook significant reforms.
- Overall, OECD countries who adopted a more competition-friendly regulatory stance in one of the three areas covered by the product market regulation indicators also improved their stance in the other two areas.

Substantial reforms also took place to remove disincentives to work

Despite slightly less reform activity to boost labour utilisation over the years, some of the actions in this area resulted in substantial policy changes. In fact, high convergence took place in the broad category of work incentives (0.63), but with significant differences across the more specific policy instruments covered in this category. For instance, countries have made sizeable progress in making non-employment benefits more work oriented but to a different extent between early retirement schemes, pension systems and disability benefits:

- In most countries where early routes to labour force withdrawal prevailed, they have been significantly curtailed or simply closed. One of the key measures taken in a number of countries has been the phasing out of job search exemptions for workers aged 55 or above, which allowed them to go on unemployment benefits as a bridge to pension. As a result, the labour force participation of older workers has held up surprisingly well during the last crisis, relative to that of other categories of workers.
- Pension systems have also been an area of major reforms since the early 2000s, with small steps towards greater incentives to remain in the workforce taken in several countries. In particular, countries with initially high levels of disincentives to pursue activity at the age of pension eligibility (e.g. Belgium, Greece, Hungary, Italy, France, the Slovak Republic and Sweden) have seen significant improvement in pension settings (Figure 4.A1.2). However, in a number of countries where the main pension is funded on a pay-as-you-go basis, uncertainties remain as regards long-term financial sustainability.

- One area where reforms have been more difficult is disability benefit programmes. In many countries, the closure of early routes to retirement and the tightening of eligibility conditions to unemployment insurance have raised the risk of seeing a substantial increase in the number of disability benefit recipients. While the number of recipients remains high in many countries, governments have focused on reducing the flow into disability through improved gate-keeping measures. Among the countries facing a relatively high percentage of population receiving benefits, substantial reductions have been observed in Hungary and Sweden, and to a lesser extent, the Netherlands and the United Kingdom.

In the provision of income support for the unemployed, the OECD summary measure of net replacement rates indicates that the magnitude of reforms has been fairly modest over the last 15 years (Figure 4.A1.3). Furthermore, aside from the Slovak Republic and Switzerland, significant reductions took place in countries (such as Australia, Greece, Korea, New Zealand and the United States) where the replacement rate in the initial year of unemployment was not comparatively high in the early 2000s. At the same time, many countries have raised the income replacement rate in the initial year of unemployment, with most substantial increases found in Iceland and Italy.

By contrast, reductions in the replacement rate for long-term unemployed have been more widespread and also generally more substantial in countries where the level of support was most generous in the early 2000s (e.g. Denmark, Norway and Slovak Republic). However, reforms in this area have gone well beyond adjustments in replacement rates. In order to reduce disincentives to take-up work, governments have used a mixture of carrots and sticks, combining the tightening of eligibility conditions (e.g. minimum number of work weeks required for entitlement), with the reinforcement of job search requirements and sanctions and the possibility to cumulate benefits and earnings up to a time and threshold limits.

Reforms to remove high labour costs and step-up second earners incentives have been important but only for some countries

At first glance, the overall pattern in the reduction of minimum labour costs points toward a relatively strong convergence (0.76) and thus the implementation of reforms of considerable importance. But this conclusion is almost entirely driven by a small group of countries, in particular Ireland and to a lesser extent Australia, Greece and the Netherlands, which undertook important reforms to reduce initially high labour costs (Figure 4.A1.4).

In the related area of labour taxes, the widespread increases in deficits and debts following the crisis have made more difficult the pursuit of reductions in labour tax wedges in recent years. While tax wedges have been lowered in a majority of countries since 2000, the reductions have been small in most cases (Figure 4.A1.5). To limit budgetary costs, governments have to some extent targeted reductions on low wages, where the impact on employment is likely to be the largest.

The extent of reforms has also been more mixed in the case of disincentives to work for second earners, reflecting substantial differences in the magnitude and sometimes direction of actions across the more specific policy instruments:

- Looking at the relative taxation of household members (Figure 4.A1.6, Panel A), little action has been taken over the years to remove tax bias against second earners. In contrast, public expenditure on childcare services (as a ratio of GDP) has risen significantly

in a large majority of countries, with particularly large increases observed in Iceland and Sweden and, to a lesser extent, Ireland, Korea, New Zealand, Norway and the United Kingdom.

- While this has contributed to increase the provision of childcare services, the net cost for parents depends also on fees as well as benefits in the form of either tax reduction or child-related transfers. Measures affecting the net cost of childcare for lone parents or couples went in different directions. Such costs fell significantly in Korea, Norway and Switzerland, but substantial increases were observed in Luxembourg, the Netherlands and the Slovak Republic (Figure 4.A1.6, Panels B and C).

Reforms to support innovation have been more moderate and scattered

Specific recommendations have been regularly made to increase the level and efficiency of public support to innovation, including regarding the mix between direct and indirect (through tax incentives) support. Since the early 2000s, countries have tended to follow-up on these recommendations and reform activity in this area has been high. However, the mild degree of convergence achieved (0.54) points to relatively low magnitude of reforms.

In fact, indirect support through tax incentives increased in a large set of countries, including in Ireland, Belgium, France and the Netherlands where resources devoted to supporting innovation as a share of GDP have risen substantially (Figure 4.A1.7). But other countries, notably Italy, Mexico and New Zealand, no longer provide indirect support. Reforms in direct support to R&D display an even more scattered pattern, with some countries having markedly reduced their direct support (Germany, France, Israel and Sweden), while others raised it considerably over the period (Austria, Hungary, Korea and Slovenia).

Reforms in taxation and labour regulation have results in fairly modest changes in policy settings

In line with the relatively low reform activity in the areas of taxation and labour regulation, the respective policy stances have not changed markedly since the early 2000s (Figure 4.A1.8):

- In many countries, too stringent procedures and conditions for lay-offs combined with high severance payments have contributed to the persistence of high unemployment by discouraging hiring. In part to reduce persistence, reforms have initially focused on easing the rules and conditions on fixed-term contracts, creating thereby two-tier regimes of employment protection, with different and asymmetric degrees of restrictions on open-ended and fixed-term contracts. The greater use of fixed-term contracts has been facilitated through sizeable reforms in Germany, Italy, Japan, Korea, Portugal, Spain and, more recently Greece and Mexico. But on average, reforms conducted in other countries have been modest.
- Significant reforms of open-ended contracts have been less widespread, with restrictions eased significantly in Austria, the Czech Republic, Greece, Hungary, Ireland, Japan, Portugal and the Slovak Republic. Yet, large differences remain across countries and the adverse consequences of growing labour market duality, notably in terms of equity and productivity, has stressed the need for narrowing the gap in protection between open-ended and fixed-term contracts.

Policy recommendations to improve the efficiency of tax systems have been regularly featured in *Going for Growth*. In particular, shifting the structure of taxation away from direct taxes toward consumption (and immovable property) has been promoted as a measure to raise efficiency and lift output (see OECD, 2009). While some countries moved to a more favourable tax mix (Belgium, Finland, Germany, Sweden and the United States), most countries left their structure of taxation globally unaltered (Figure 4.A1.9). A few countries shifted heavily and away from indirect taxes (Chile and, to a lesser extent, Iceland and Korea).

Realised and potential gains from structural reforms in OECD countries

Accounting for gains in structural reforms

This section provides a rough quantitative assessment of past structural reforms on potential GDP and a set of illustrative scenarios centred on reforms leading to further convergence toward best policy practices. The analysis relies on a simple estimation approach for measuring the effects of structural reforms on output potential in a consistent and comparable way across policy areas (Box 4.3).

Gains from past reforms

The estimated average effects of past structural reforms undertaken between 2000 and 2012 on potential output are sizeable (Figure 4.4). Indeed, they suggest that once their impact has fully materialised structural reforms will have contributed to raise the level of GDP per capita by around 5%, which is about one-fifth of the observed increase on average across OECD countries between 2000 and 2012. In terms of policy areas,⁵ reforms of product market regulation and support to innovation have lifted potential GDP by 4%, while 1% was reaped from labour utilisation-enhancing reforms. This is mostly explained by the strong convergence that took place in product market regulation, an active field of reforms which generated in return significant gains. Lower convergence in labour market policies, due partly to the fact that a number of reforms in this area went in the direction opposite to *Going for Growth* recommendations for some countries, reduced their impacts on average. More generally, productivity-enhancing reforms tend to have a larger cumulative impact on potential output in the long run compared to labour utilisation-enhancing measures (see Bouis and Duval, 2011).

Overall, reforms identified in *Going for Growth* are estimated to have delivered large output gains. The magnitude of the estimated effects varies widely by country, with countries with the initially least growth-friendly policies having obtained considerable gains from reforming, while some countries with more pro-growth initial policy stance have had smaller estimated gains. However, despite the relatively high degree of convergence achieved since the early 2000s in structural reforms, large untapped gains still prevail, should the convergence process continue further.

Potential gains from additional convergence

A recent estimate of the effects of the crisis on productive capacity of OECD countries points to a median loss in the level of potential output of 3.4% in 2014 relative to its pre-crisis path (see Ollivaud and Turner, 2014 and Ball, 2014 for an alternative estimation). Based on these estimates, most of this drop is attributed to lower productivity and lower capital per worker, and to a lesser extent by lower potential employment. This last factor is

Box 4.3. A simple framework to measure the impact of structural reforms on output potential

A wide body of empirical evidence has been generated over the years on the effects of structural reforms on various aspects of economic performance (see e.g. De Mello and Padoan, 2010; Barnes et al., 2011; Bouis and Duval, 2011). The present analysis aims to provide a stylised quantification of the impact of policies. As a result, it uses a framework that is simpler but also far less elaborate than these alternative approaches.

The effect of structural policies on potential GDP per capita is gauged using estimated multipliers for the average OECD country. It starts from potential GDP per capita and its standard decomposition into productivity and labour utilisation components. Each of these terms is normalised through the same procedure as outlined in Box 4.2, i.e. they are transformed so as to range between 0 and 100 according to the cross-country historical minimum and maximum observed between 2000 and 2012 across OECD countries. The impact of structural policies on potential GDP components is then assumed to conform to the following specification:

$$\Delta \ln(\text{SUBGDP}_{iht}^N) = \beta_0 + \beta_1 \Delta \ln(S_{ikt}^N) + \beta_3 \ln(\text{GDP}_{it-1}^N) + \beta_2 D_{2008,2009} + \varepsilon_{iht} \text{ for } h = \{\text{productivity; labour utilisation}\}$$

where:

- $\Delta \ln(\text{SUBGDP}_{iht}^N)$ is the growth rate in potential productivity or labour utilisation scores between year t and $t-1$ for country i .
- $\Delta \ln(S_{ikt}^N)$ is the growth rate of the composite policy score (or the set of policy scores) between year t and $t-1$ for country i in area k .
- GDP_{it-1}^N is the lag of potential GDP score for country i to account for convergence.
- $D_{2008,2009}$ is a time dummy for the years 2008 and 2009.
- ε_{iht} is an error term.

The equation includes country fixed-effects and is estimated using a clustered correction for standard-errors. The time dummy for the years 2008 and 2009 aims at capturing the effects of the recession on post-crisis trend in potential output (see OECD, 2014; Ball, 2014). Assuming there are declining marginal gains in closing the gap with best practices, and so that a country moving from a score of 20 to 40 in a given policy area will not achieved the same gains as a country moving from 70 to 90, the econometric specification uses changes in the growth rate of composite policy scores but not changes in score points.

The product of the estimated parameters of interest β_1 for each composite policy score (table below) with observed or simulated growth rate in the composite policy score gives the effects of structural reforms on potential productivity or labour utilisation. Belgium, Estonia, Italy, Luxembourg and Spain have been excluded from the simulations as those countries turned out to have a disproportionate effect on the estimations. Also, the simulations lead sometimes and for some countries to an overall impact of structural reforms higher than the increase in potential output. These two limitations point to some unobserved heterogeneities and endogeneity issues due to omitted variables not captured in the present framework, and plead for further investigations in order to account for country-specific circumstances.

The simulation framework implies that, across different countries and magnitudes of reforms, the marginal effects of reforms on GDP are homogeneous. It implies also that the simulations provide estimates of the long-run effects of reforms; their short-term dynamics and the transition along the growth paths are not captured (in particular reforms are not assumed to be phased in gradually). Finally, the model also does not consider that actions in different structural policy domains are interconnected and often mutually reinforcing. In particular, it is not possible in such a simple framework to identify the types of transmission channels that can be featured using a general equilibrium approach (e.g. Annicchiarico et al., 2013; Lusinyan and Muir, 2013).

Box 4.3. **A simple framework to measure the impact of structural reforms on output potential (cont.)**

Estimation results

Dependent variable	Labour utilisation					
Composite score	[1]		[2]		[3]	
Labour costs	0.019***	<i>0.002</i>				
Work incentives			0.015***	<i>0.001</i>		
Second earners incentives			0.011**	<i>0.005</i>		
Labour taxation	0.018***	<i>0.004</i>				
Job regulation					0.005*	<i>0.003</i>
R-squared	0.565		0.537		0.507	
Dependent variable	Productivity					
Composite score	[1]		[2]		[3]	
Scope of state intervention	0.029***	<i>0.004</i>				
Barriers to entrepreneurship	0.032***	<i>0.003</i>				
Barriers to trade and FDI	0.022**	<i>0.008</i>				
Support to innovation			0.005*	<i>0.003</i>		
Direct tax share					0.001	<i>0.001</i>
R-squared	0.598		0.564		0.495	

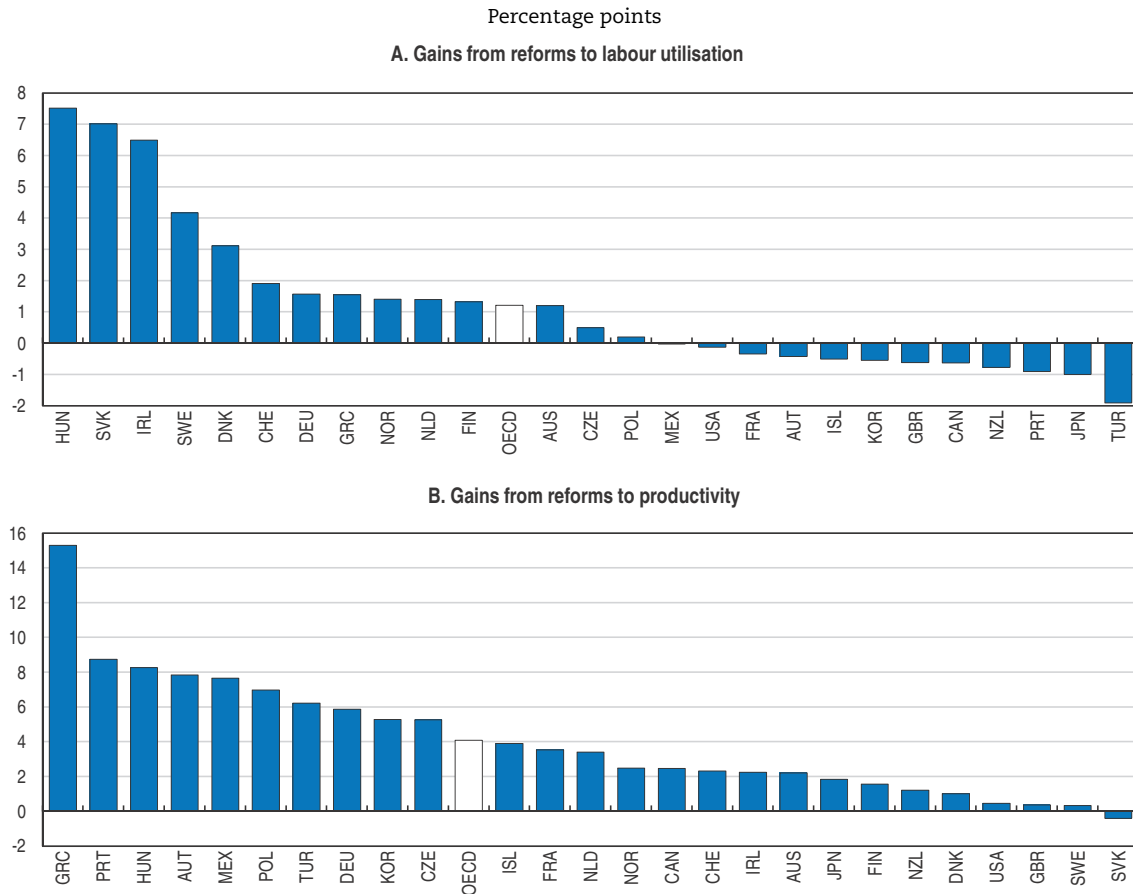
Note: Standard errors in italic. The symbols (*, **, ***) denote respectively statistical significance at 10, 5 and 1% level. Significance levels are cluster-robust. Support to innovation is detrended before estimation.


mainly due to higher cyclical unemployment which, if it persists, partly translates into higher structural unemployment, as workers lose attachment to the labour force and their skills deteriorate during lengthy spells of inactivity.

As a result, a pressing question is whether such effects can be reversed. Notwithstanding its impact on the level of long-term output, for many countries the crisis may not have reduced the potential growth rate, which is currently estimated at close to its old normal, as is the case in the United States (see OECD, 2014). In these countries, the current potential output path is thus below but roughly parallel to the pre-crisis path. However, for some countries such as Ireland and Greece, pre- and post-crisis paths are diverging, reflecting significant differentials in potential output growth. Structural measures could address, and possibly revert, such longer-term consequences of the recession. Based on the estimates reported in the previous section, the overall gains from further convergence in structural policy settings on potential output across the OECD area could be of the order of 3.9 to 9.5% (Figure 4.5)⁶ depending on how much additional convergence toward best policy practice is assumed to take place.

- Under a modest reform scenario, which would bring all countries to a point where the gap in policy settings *vis-à-vis* best practice would be no more than 50% after reforms, an increase of 3.9% in potential GDP could be achieved on average. In this scenario of mild convergence, gains are achieved through greater support to innovation and a more pro-labour utilisation stance in labour incentives and taxation, and to a lesser extent by reducing labour costs. No or weak gains can be expected in the remaining policy areas given the degree of convergence already achieved.

Figure 4.4. **The estimated average effects of past structural reforms are sizeable for some countries**



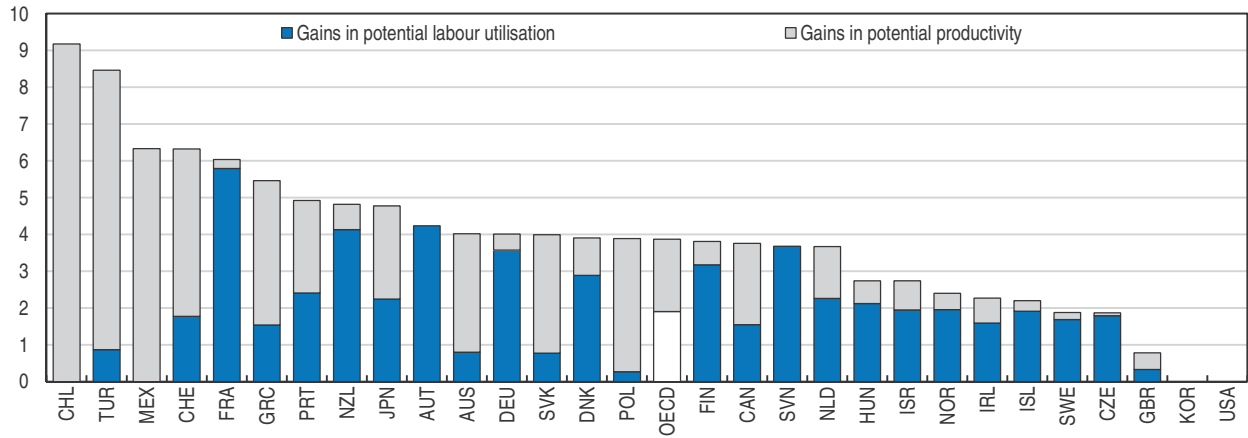
StatLink  <http://dx.doi.org/10.1787/888933177575>

- Under a scenario of more ambitious convergence, where the gap in policy settings *vis-à-vis* best practice would not exceed 34% after reforms, the average gain in potential GDP could reach 7.3%. The relative contribution from the various policy areas would be similar to the first scenario except for the gains achieved through additional convergence in product market regulation.
- Finally, a strong convergence scenario, i.e. where the gaps in policy settings *vis-à-vis* best practice are no more than 25% after reforms, could generate a nearly 10% increase in the level of potential output. In this case, support to innovation would remain the main contributor, as in the other two scenarios. However, labour utilisation-enhancing reforms would account for nearly half of the potential gains.

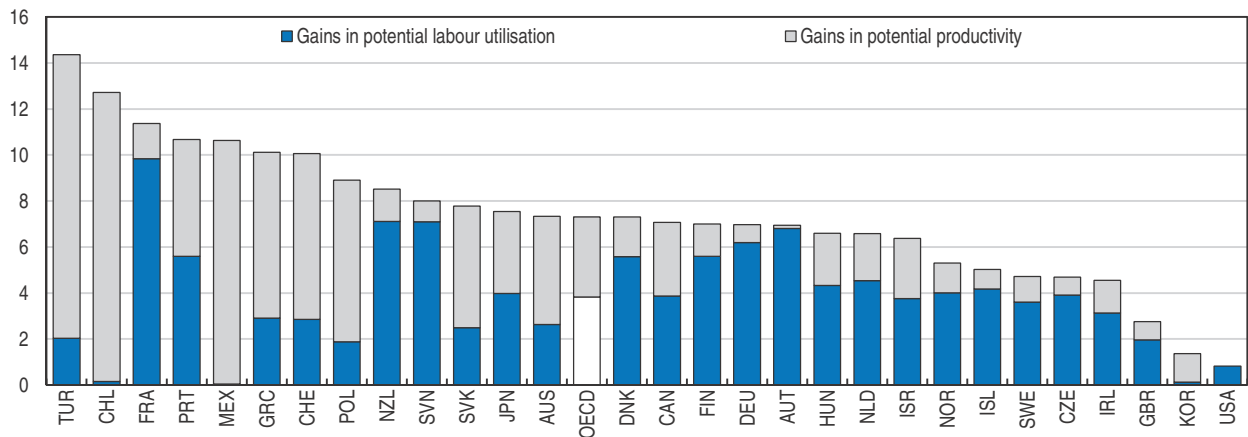
These illustrative scenarios indicate that by moving closer to best practice across a broad range of policy areas, countries could more than offset the loss of output due to the crisis, pushing potential output back to its pre-crisis level.

Figure 4.5. **Further convergence towards policy best practice could yield substantial gains**

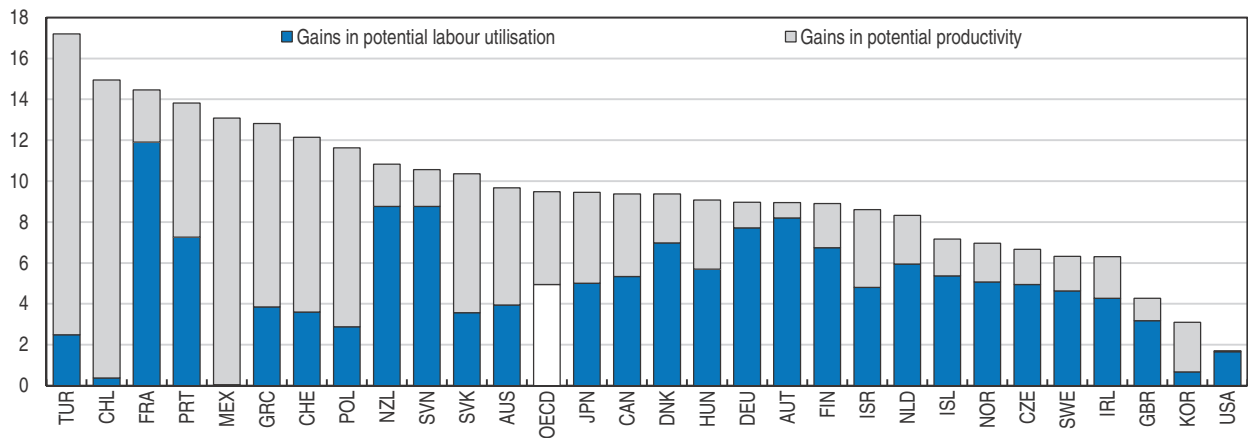
A. Modest reform scenario (50% gap)



B. More ambitious reform scenario (34% gap)



C. Strong convergence scenario (25% gap)



StatLink <http://dx.doi.org/10.1787/888933177586>

Notes

1. Given that the set of indicator-based priority areas was substantially enlarged in 2007 (with notably the introduction of indicators of innovation policies), this is used as a starting point for assessing reform responsiveness and the evolution of priorities over time.
2. See Chapter 1 for a detailed assessment on the recent developments of reform progress in these areas.
3. If convergence in structural reforms holds among OECD countries, the composite score S_{ikt}^N of country i in policy area k at time t can be approximated by the process $\ln(S_{ikt}^N) = a + (1 - b)\ln(S_{ikt-1}^N) + u_{ikt}$ where a and b are constants, with generally $0 < b < 1$ (the negatives of the trend lines' slopes of Figure 1.3), and u_{ikt} is a disturbance term. Testing the condition $b > 0$ is a test of convergence as the score annual growth rate, $\ln(\frac{S_{ikt}^N}{S_{ikt-1}^N})$, is inversely related to $\ln(S_{ikt-1}^N)$ in this case. A value of $b = 1$ implies perfect convergence, $b < 0$ divergence and $b > 1$ characterises a leapfrogging effect (which cannot occur here given the applied normalisation of the policy indicators).
4. In the remainder of this section, figures on changes in policy indicators are gathered in the annex available at the end of the chapter.
5. Detailed results by policy areas are available in Table 4.A1.2 of the annex.
6. Detailed results by policy areas are available in Table 4.A1.3 of the annex.

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ANNEX 4.A1

Additional results on simulations and structural policy indicators developments

Table 4.A1.1. Structural policy scoreboard
2000-12

	Labour utilisation					Productivity				
	Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation	Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation	Tax shares
AUS	42	57	35	58	80	62	98	88	7	22
AUT	..	31	72	18	67	71	64	90	79	8
BEL	50	32	62	5	55	59	48	97	30	16
CAN	59	39	26	47	86	65	85	84	10	21
CHE	..	23	67	72	79	46	88	93	6	6
CHL	..	70	100	100	58	63	91	95	3	67
CZE	78	35	37	36	66	63	61	99	44	22
DEU	..	36	62	19	69	67	76	98	28	12
DNK	..	19	49	38	52	62	86	97	17	22
ESP	60	48	82	32	66	65	54	98	32	18
EST	78	56	75	37	67	70	70	99	36	41
FIN	..	25	83	25	51	59	72	99	23	22
FRA	37	44	83	14	58	55	59	91	34	22
GBR	56	41	67	50	85	72	85	95	27	44
GRC	62	98	99	27	63	50	53	97	6	40
HUN	46	59	62	24	78	63	43	98	42	51
IRL	54	24	0	63	78	60	80	96	22	36
ISL	..	22	50	47	57	63	64	85	32	39
ISR	33	30	87	69	71	43	59	84	32	51
ITA	..	68	65	21	58	60	60	95	15	24
JPN	73	20	87	52	82	67	79	75	9	4
KOR	64	67	97	70	68	53	68	56	64	44
LUX	66	13	44	45	47	62	53	100	1	21
MEX	..	..	100	78	70	56	47	57	4	71
NLD	55	22	70	40	70	77	88	99	14	20
NOR	..	27	75	37	45	57	84	92	28	7
NZL	27	50	15	81	80	60	98	73	22	45
POL	56	48	89	45	70	41	36	94	12	40
PRT	32	45	65	31	61	57	49	100	9	44
SVK	54	52	68	35	73	56	62	96	7	26
SVN	28	28	39	36	63	52	65	100	87	32
SWE	..	38	87	30	53	54	81	95	37	13
TUR	0	88	91	34	51	38	20	95	12	57
USA	73	70	60	51	98	75	77	92	70	9
OECD	51	43	66	43	67	59	68	91	27	30

Table 4.A1.2. **Estimated impact of past reforms on growth potential**

2000-12

	Growth in potential labour utilisation	Contributions from reforms in:					Total contribution from reforms to labour utilisation	Growth in potential productivity	Contribution from reforms in:				Total contribution from reforms to productivity	Growth in potential GDP per capita	Total contribution from reforms
		Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation			Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation			
AUS	6.4	0.7	0.5	-0.4	0.3	0.0	1.2	14.0	0.2	0.3	1.8	-0.1	2.2	20.4	3.4
AUT	7.5	..	-0.1	0.0	-0.4	0.1	-0.4	11.5	2.6	3.9	0.2	1.2	7.8	19.0	7.4
CAN	5.4	-0.2	0.0	-0.3	-0.1	0.0	-0.6	9.0	0.2	1.0	1.1	0.1	2.5	14.4	1.8
CHE	3.9	..	1.9	0.0	0.0	0.0	1.9	8.0	0.5	1.9	0.3	-0.3	2.3	12.0	4.2
CZE	1.5	-0.2	0.3	0.3	0.0	0.0	0.5	35.3	2.8	1.9	0.4	0.2	5.3	36.8	5.8
DEU	5.3	..	0.2	0.2	1.2	0.1	1.6	10.3	0.9	5.1	0.0	-0.1	5.9	15.7	7.4
DNK	-0.8	..	2.3	0.2	0.6	0.0	3.1	9.9	0.3	0.6	0.0	0.1	1.0	9.1	4.1
FIN	6.4	..	0.7	0.1	0.5	0.0	1.3	12.2	0.9	0.1	0.6	-0.1	1.6	18.6	2.9
FRA	-1.2	-0.5	0.3	0.0	-0.1	0.0	-0.3	10.8	2.1	1.5	0.0	-0.1	3.5	9.7	3.2
GBR	2.9	-0.4	-0.2	-0.1	0.1	0.0	-0.6	12.6	0.0	0.4	0.1	-0.1	0.4	15.4	-0.3
GRC	3.9	0.3	1.1	0.0	-0.2	0.3	1.6	9.8	6.6	4.6	0.2	3.9	15.3	13.7	16.9
HUN	0.6	-0.8	0.4	-0.2	8.0	0.0	7.5	24.8	2.6	1.3	1.5	2.8	8.3	25.4	15.8
IRL	2.5	7.7	-0.2	-1.1	0.1	0.0	6.5	27.2	1.3	0.0	0.0	0.9	2.2	29.7	8.7
ISL	-2.0	..	-0.5	0.3	-0.3	..	-0.5	22.2	0.7	0.8	0.6	1.8	3.9	20.3	3.4
JPN	-4.0	-0.3	-0.3	-0.1	-0.4	0.1	-1.0	10.4	-0.1	2.0	0.1	-0.1	1.8	6.4	0.9
KOR	8.3	-0.7	0.3	0.0	-0.2	0.1	-0.5	41.1	0.1	0.8	3.9	0.4	5.3	49.4	4.7
MEX	9.7	..	..	0.0	-0.2	0.2	0.0	4.2	0.8	1.5	5.2	0.2	7.7	13.9	7.6
NLD	4.9	0.4	-0.3	0.1	1.2	0.0	1.4	8.6	2.6	0.8	0.0	0.0	3.4	13.5	4.8
NOR	5.6	..	1.1	0.2	0.1	0.0	1.4	17.9	0.9	1.5	0.0	0.1	2.5	23.5	3.9
NZL	7.9	-0.8	0.7	-0.8	0.1	0.0	-0.8	8.3	-0.8	0.8	0.7	0.5	1.2	16.2	0.4
POL	8.4	-0.4	0.2	0.2	0.3	0.0	0.2	46.3	-0.5	5.5	2.3	-0.3	7.0	54.7	7.2
PRT	-4.2	-0.7	0.2	-0.2	-0.4	0.2	-0.9	14.3	6.5	0.9	0.1	1.3	8.7	10.0	7.8
SVK	5.0	-0.3	7.1	0.0	0.1	0.1	7.0	53.4	..	..	..	-0.4	-0.4	58.4	6.6
SWE	1.8	..	1.3	0.0	2.7	0.1	4.2	21.1	-0.1	0.6	0.1	-0.2	0.3	23.0	4.5
TUR	7.0	-1.9	..	-0.1	0.1	0.0	-1.9	32.3	2.4	-1.1	2.3	2.6	6.2	39.3	4.3
USA	-3.2	-0.1	0.1	0.0	-0.1	0.0	-0.1	22.0	0.1	-0.1	0.2	0.2	0.5	18.8	0.3
OECD	3.5	0.1	0.7	-0.1	0.5	0.1	1.2	19.1	1.4	1.5	0.9	0.6	4.1	22.6	5.3

Table 4.A1.3. **Potential gains from further convergence in structural policy settings**

A. Gains from modest reform scenario (50% gap)

	Gains in potential labour utilisation	Gains from reforms in:					Gains in potential productivity	Gains from reforms in:				Total gains in potential GDP per capita
		Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation		Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation	
AUS	0.8	0.4	0.0	0.5	0.0	0.0	3.2	0.0	0.0	0.0	3.2	4.0
AUT	4.2	..	0.9	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	4.2
CAN	1.6	0.0	0.4	1.0	0.1	0.0	2.2	0.0	0.0	0.0	2.2	3.8
CHE	1.8	..	1.8	0.0	0.0	0.0	4.5	0.3	0.0	0.0	4.3	6.3
CHL	0.0	..	0.0	0.0	0.0	0.0	9.2	0.0	0.0	0.0	9.2	9.2
CZE	1.8	0.0	0.6	0.4	0.7	0.0	0.1	0.0	0.0	0.0	0.1	1.9
DEU	3.6	..	0.6	0.0	3.0	0.0	0.4	0.0	0.0	0.0	0.4	4.0
DNK	2.9	..	2.3	0.0	0.6	0.0	1.0	0.0	0.0	0.0	1.0	3.9
FIN	3.2	..	1.4	0.0	1.8	0.0	0.6	0.0	0.0	0.0	0.6	3.8
FRA	5.8	0.7	0.2	0.0	4.9	0.0	0.2	0.0	0.0	0.0	0.2	6.0
GBR	0.3	0.0	0.3	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5	0.8
GRC	1.5	0.0	0.0	0.0	1.5	0.0	3.9	0.0	0.0	0.0	3.9	5.5
HUN	2.1	0.2	0.0	0.0	1.9	0.0	0.6	0.0	0.5	0.0	0.1	2.7
IRL	1.6	0.0	1.6	..	0.0	0.0	0.7	0.0	0.0	0.0	0.7	2.3
ISL	1.9	..	1.8	0.0	0.1	0.0	0.3	0.0	0.0	0.0	0.3	2.2
ISR	2.0	1.0	0.9	0.0	0.0	0.0	0.8	0.5	0.0	0.0	0.3	2.7
JPN	2.2	0.0	2.2	0.0	0.0	0.0	2.5	0.0	0.0	0.0	2.5	4.8
KOR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MEX	0.0	..	..	0.0	0.0	0.0	6.3	0.0	0.2	0.0	6.1	6.3
NLD	2.3	0.0	1.8	0.0	0.5	0.0	1.4	0.0	0.0	0.0	1.4	3.7
NOR	2.0	..	1.3	0.0	0.6	0.1	0.4	0.0	0.0	0.0	0.4	2.4
NZL	4.1	1.7	0.0	2.5	0.0	0.0	0.7	0.0	0.0	0.0	0.7	4.8
POL	0.3	0.0	0.1	0.0	0.2	0.0	3.6	0.6	1.2	0.0	1.8	3.9
PRT	2.4	1.1	0.2	0.0	1.1	0.0	2.5	0.0	0.0	0.0	2.5	4.9
SVK	0.8	0.0	0.0	0.0	0.8	0.0	3.2	0.0	0.0	0.0	3.2	4.0
SVN	3.7	1.5	1.2	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0	3.7
SWE	1.7	..	0.5	0.0	1.2	0.0	0.2	0.0	0.0	0.0	0.2	1.9
TUR	0.9	..	0.0	0.0	0.9	0.0	7.6	0.9	5.0	0.0	1.7	8.5
USA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OECD	1.9	0.4	0.7	0.2	0.8	0.0	2.0	0.1	0.2	0.0	1.6	3.9

Table 4.A1.3. **Potential gains from further convergence in structural policy settings** (cont.)

B. Gains from more ambitious reform scenario (34% gap)

	Gains in potential labour utilisation	Gains from reforms in:					Gains in potential productivity	Gains from reforms in:				Total gains in potential GDP per capita
		Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation		Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation	
AUS	2.6	1.1	0.3	1.0	0.3	0.0	4.7	0.2	0.0	0.0	4.5	7.3
AUT	6.8	..	1.7	0.0	5.0	0.1	0.1	0.0	0.1	0.0	0.0	6.9
CAN	3.9	0.3	1.1	1.7	0.8	0.0	3.2	0.1	0.0	0.0	3.1	7.1
CHE	2.8	..	2.8	0.0	0.0	0.0	7.2	1.3	0.0	0.0	5.9	10.1
CHL	0.2	..	0.0	0.0	0.0	0.2	12.6	0.1	0.0	0.0	12.4	12.7
CZE	3.9	0.0	1.3	0.9	1.6	0.1	0.8	0.2	0.3	0.0	0.3	4.7
DEU	6.2	..	1.5	0.1	4.6	0.1	0.8	0.0	0.0	0.0	0.8	7.0
DNK	5.6	..	3.6	0.4	1.4	0.2	1.7	0.2	0.0	0.0	1.5	7.3
FIN	5.6	..	2.4	0.0	3.0	0.3	1.4	0.4	0.0	0.0	1.0	7.0
FRA	9.8	1.5	1.0	0.0	7.2	0.2	1.5	0.6	0.4	0.0	0.5	11.4
GBR	2.0	0.4	1.0	0.0	0.6	0.0	0.8	0.0	0.0	0.0	0.8	2.7
GRC	2.9	0.1	0.0	0.0	2.7	0.1	7.2	1.0	0.8	0.0	5.4	10.1
HUN	4.3	0.9	0.2	0.1	3.2	0.0	2.3	0.2	1.8	0.0	0.3	6.6
IRL	3.1	0.4	2.6	..	0.1	0.0	1.4	0.3	0.0	0.0	1.1	4.6
ISL	4.2	..	2.9	0.4	0.7	0.2	0.9	0.2	0.1	0.0	0.6	5.0
ISR	3.8	2.0	1.7	0.0	0.0	0.0	2.6	1.6	0.4	0.0	0.6	6.4
JPN	4.0	0.0	3.5	0.0	0.5	0.0	3.6	0.0	0.0	0.0	3.5	7.5
KOR	0.1	0.1	0.0	0.0	0.0	0.1	1.2	0.8	0.0	0.4	0.0	1.4
MEX	0.0	..	..	0.0	0.0	0.0	10.6	0.6	1.4	0.4	8.3	10.6
NLD	4.5	0.4	2.9	0.0	1.2	0.0	2.1	0.0	0.0	0.0	2.1	6.6
NOR	4.0	..	2.2	0.0	1.4	0.4	1.3	0.5	0.0	0.0	0.8	5.3
NZL	7.1	2.8	0.6	3.7	0.0	0.0	1.4	0.3	0.0	0.0	1.1	8.5
POL	1.9	0.4	0.6	0.0	0.9	0.0	7.0	1.8	2.7	0.0	2.5	8.9
PRT	5.6	2.1	1.2	0.0	2.1	0.1	5.1	0.5	1.1	0.0	3.5	10.7
SVK	2.5	0.4	0.4	0.0	1.6	0.0	5.3	0.6	0.3	0.0	4.5	7.8
SVN	7.1	2.7	2.0	0.8	1.5	0.1	0.9	0.8	0.1	0.0	0.0	8.0
SWE	3.6	..	1.1	0.0	2.2	0.2	1.1	0.7	0.0	0.0	0.4	4.7
TUR	2.0	..	0.0	0.0	1.8	0.3	12.3	2.2	7.7	0.0	2.4	14.4
USA	0.8	0.0	0.2	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.8
OECD	3.8	0.9	1.4	0.3	1.6	0.1	3.5	0.5	0.6	0.0	2.3	7.3

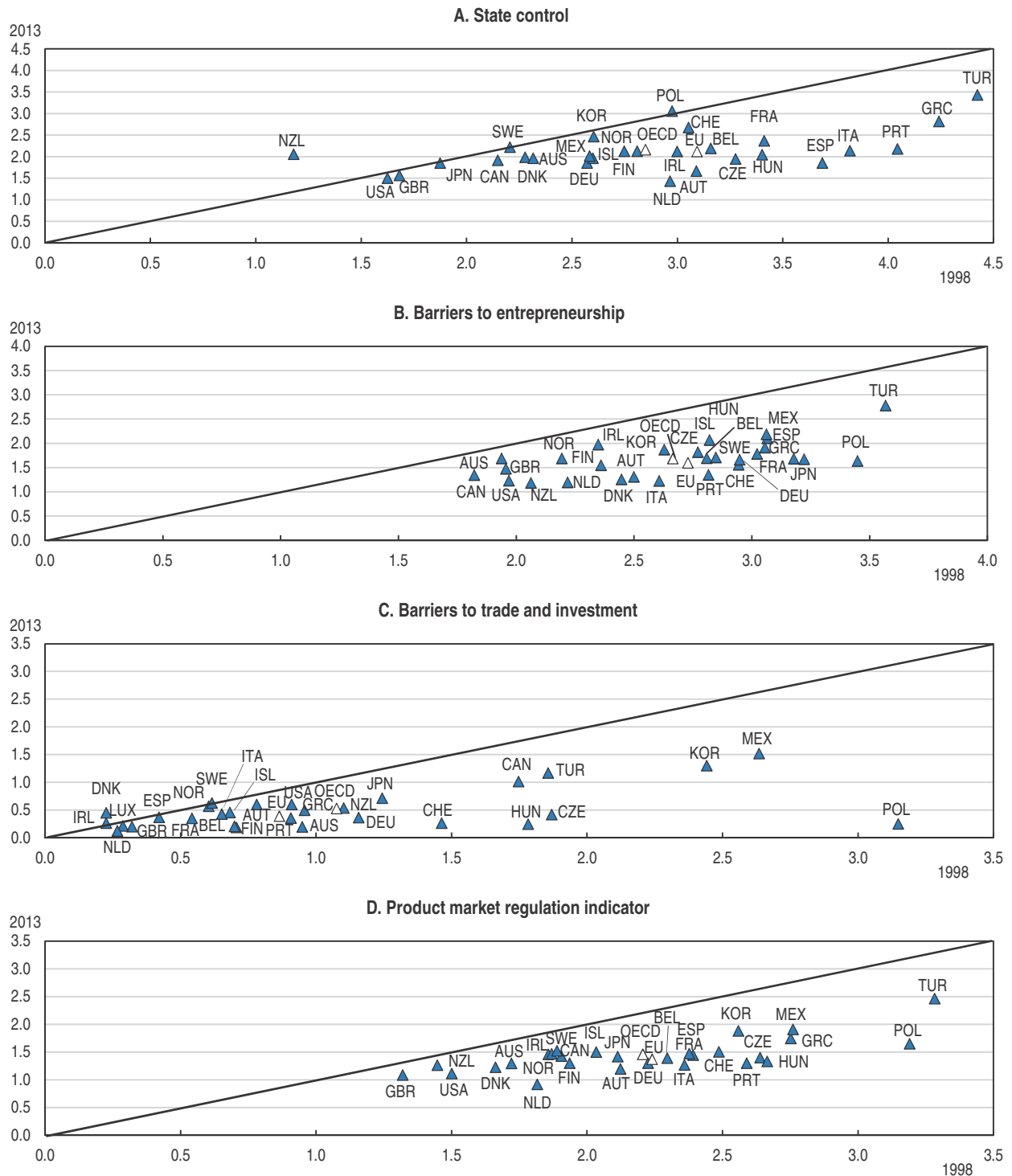
Table 4.A1.3. **Potential gains from further convergence in structural policy settings** (cont.)

C. Gains from strong reform scenario (25% gap)

	Gains in potential labour utilisation	Gains from reforms in:					Gains in potential productivity	Gains from reforms in:				Total gains in potential GDP per capita
		Labour costs	Labour incentives	Second earners incentives	Labour taxation	Job regulation		Scope of state intervention	Barriers to entrepreneurship	Barriers to trade and FDI	Support to innovation	
AUS	3.9	1.5	0.7	1.2	0.5	0.0	5.7	0.6	0.0	0.0	5.1	9.7
AUT	8.2	..	2.2	0.1	5.9	0.1	0.7	0.2	0.6	0.0	0.0	9.0
CAN	5.3	0.5	1.6	2.1	1.1	0.0	4.0	0.5	0.0	0.0	3.6	9.4
CHE	3.6	..	3.4	0.1	0.1	0.0	8.6	1.8	0.0	0.0	6.7	12.1
CHL	0.4	..	0.2	0.0	0.0	0.2	14.6	0.5	0.0	0.0	14.0	14.9
CZE	4.9	0.0	1.7	1.1	2.0	0.1	1.7	0.6	0.7	0.0	0.4	6.7
DEU	7.7	..	2.0	0.2	5.4	0.1	1.3	0.3	0.0	0.0	0.9	9.0
DNK	7.0	..	4.4	0.6	1.8	0.2	2.4	0.6	0.0	0.0	1.8	9.4
FIN	6.7	..	2.9	0.0	3.6	0.3	2.2	0.8	0.1	0.0	1.2	8.9
FRA	11.9	1.9	1.5	0.0	8.3	0.2	2.6	1.1	0.9	0.0	0.6	14.5
GBR	3.2	0.6	1.5	0.1	0.9	0.0	1.1	0.1	0.0	0.0	1.0	4.3
GRC	3.9	0.4	0.1	0.0	3.2	0.1	9.0	1.5	1.3	0.0	6.1	12.8
HUN	5.7	1.2	0.4	0.2	3.8	0.0	3.4	0.6	2.4	0.0	0.4	9.1
IRL	4.3	0.7	3.2	..	0.3	0.0	2.0	0.7	0.0	0.0	1.3	6.3
ISL	5.4	..	3.6	0.5	1.1	0.2	1.8	0.6	0.5	0.0	0.7	7.2
ISR	4.8	2.5	2.1	0.0	0.1	0.0	3.8	2.2	0.9	0.0	0.7	8.6
JPN	5.0	0.1	4.1	0.0	0.8	0.0	4.4	0.4	0.0	0.0	4.1	9.4
KOR	0.7	0.3	0.2	0.0	0.1	0.1	2.4	1.2	0.3	0.8	0.1	3.1
MEX	0.0	..	..	0.0	0.0	0.0	13.1	1.0	1.9	0.7	9.4	13.1
NLD	5.9	0.7	3.5	0.1	1.6	0.0	2.4	0.0	0.0	0.0	2.4	8.3
NOR	5.1	..	2.8	0.0	1.9	0.4	1.9	1.0	0.0	0.0	0.9	7.0
NZL	8.8	3.4	1.1	4.3	0.0	0.0	2.1	0.7	0.0	0.1	1.3	10.8
POL	2.9	0.7	0.9	0.0	1.2	0.0	8.8	2.4	3.4	0.0	2.9	11.6
PRT	7.3	2.6	1.7	0.2	2.6	0.1	6.6	0.9	1.7	0.0	4.0	13.8
SVK	3.6	0.7	0.6	0.1	2.1	0.0	6.8	1.0	0.7	0.0	5.1	10.4
SVN	8.8	3.3	2.5	1.0	1.9	0.1	1.8	1.3	0.5	0.0	0.0	10.6
SWE	4.6	..	1.6	0.0	2.8	0.2	1.7	1.1	0.0	0.0	0.6	6.3
TUR	2.5	..	0.0	0.0	2.2	0.3	14.7	2.9	9.1	0.0	2.8	17.2
USA	1.7	0.1	0.5	0.3	0.8	0.0	0.1	0.0	0.0	0.0	0.0	1.7
OECD	5.0	1.2	1.8	0.4	1.9	0.1	4.5	0.9	0.9	0.1	2.7	9.5

Figure 4.A1.1. **Product market regulation**

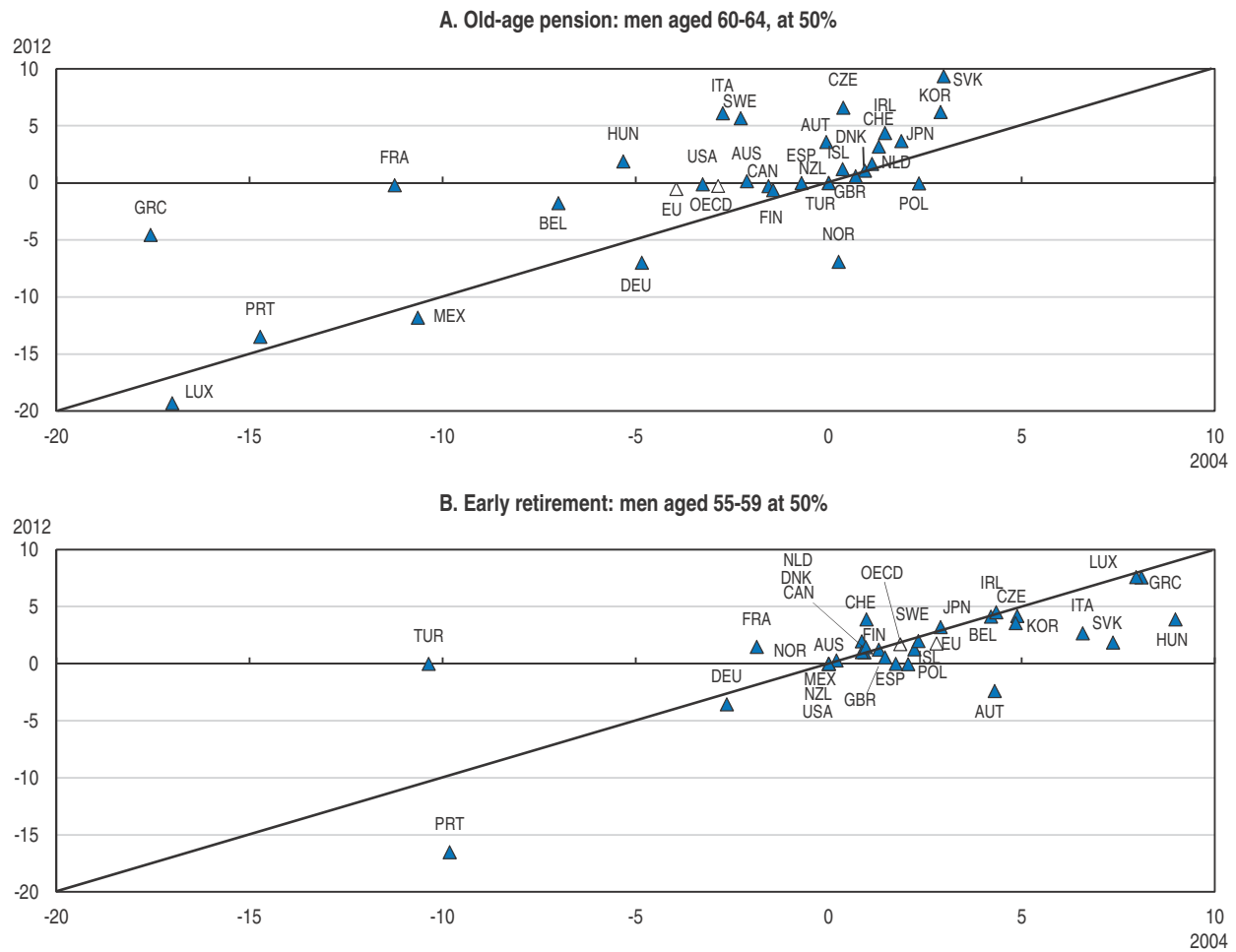
Index scale of 0-6 from least to most restrictive



Source: OECD, Product Market Regulation Database, www.oecd.org/eco/pmr.

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Figure 4.A1.2. **Changes in pension wealth**

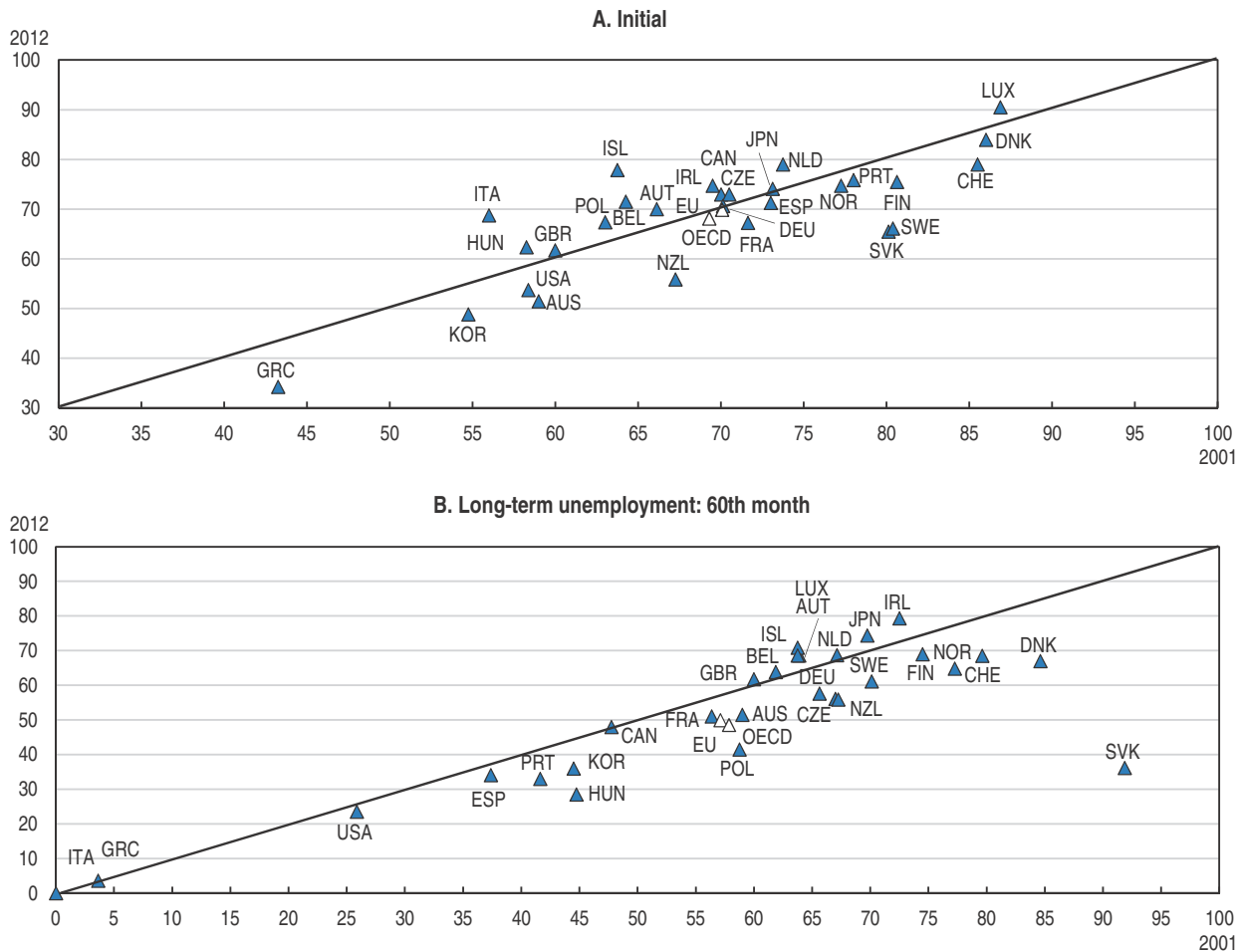


Note: The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. It measures the increase in the level of pension entitlement one gains by remaining in employment for an additional year. The calculation is the annual average increase in males' pension wealth when working from age 60 to 64 and age 55-59. Net pension wealth is the present value of the flow of pension benefits, taking account of the taxes and social security contributions that retirees have to pay on their pensions. It is measured and expressed as a multiple of gross annual individual earnings in the respective country. See OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators* for additional details.

Source: OECD, *Pension Models*.

StatLink <http://dx.doi.org/10.1787/888933177600>

Figure 4.A1.3. **Net replacement rates for unemployment**
 Net income when unemployed as a percentage of net income when working



Note: Simple average of the net replacement rates for the following households situations: single with no child and with two children at 67% and 100% AW, one-earner married couple with no child and with two children at 67% AW and 100% AW. After tax and including unemployment and family benefits. Social assistance and other means-tested benefits are assumed to be available subject to relevant income conditions. Housing costs are assumed equal to 20% of AW. For Panel A, initial phase of unemployment but following any waiting period. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (i.e. monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months. For Panel B, after tax and including unemployment benefits, social assistance, family and housing benefits in the 60th month of benefit receipt.

Source: OECD, *Tax-Benefit Models*.


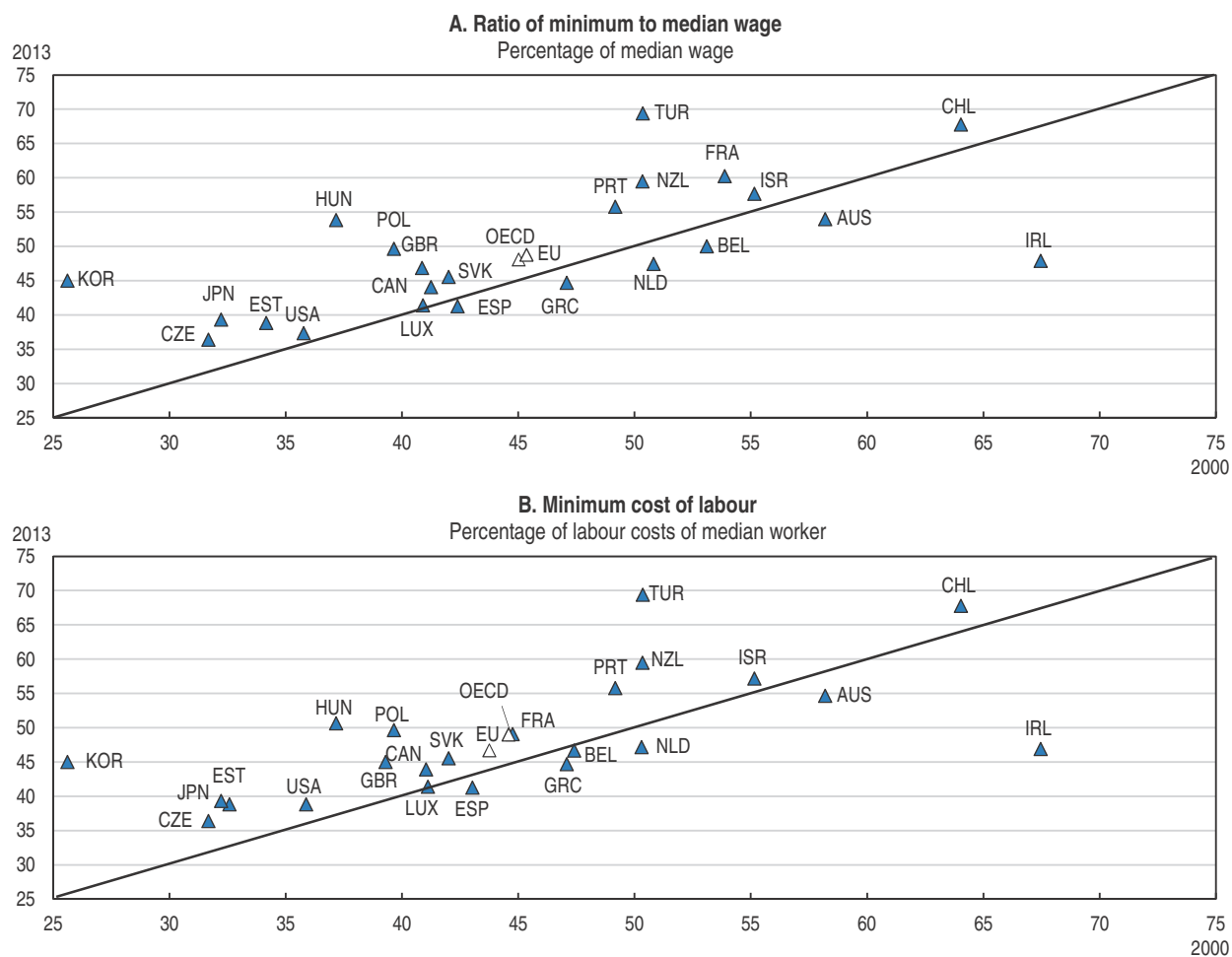
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Figure 4.A1.4. **Minimum wage and cost of labour**



Note: For Panel B, the minimum cost of labour is expressed as a percentage of labour cost of median worker. The cost of labour is the sum of the wage level and the corresponding social security contribution paid by employers.

Source: Panel A: OECD, OECD Employment Outlook Database; Panel B: OECD, OECD Employment Outlook and Taxing Wages Databases.


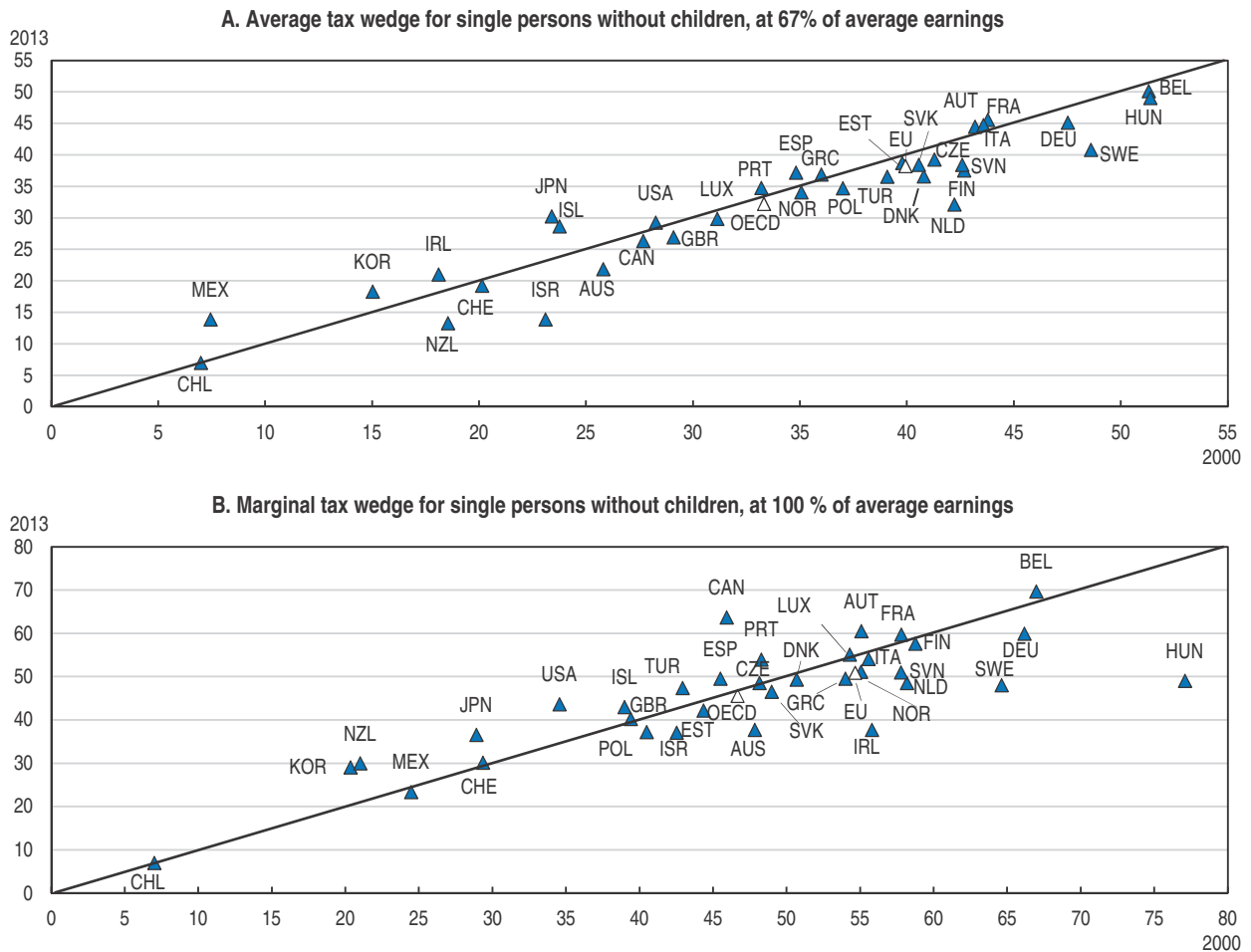
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Figure 4.A1.5. **Labour income taxation**

Percentage of total labour compensation



Note: The average tax wedge is measured as the difference between total labour compensation paid by the employer and the net take-home pay of employees, as a ratio of total labour compensation. It therefore includes both employer and employee social security contributions. The marginal tax wedge is measured as the difference between the change in total labour compensation paid by employers and the change in the net take-home pay of employees, as a result of an extra unit of national currency of labour income. The difference is expressed as a percentage of the change in total labour compensation.

Source: OECD, *Taxing Wages Database*.


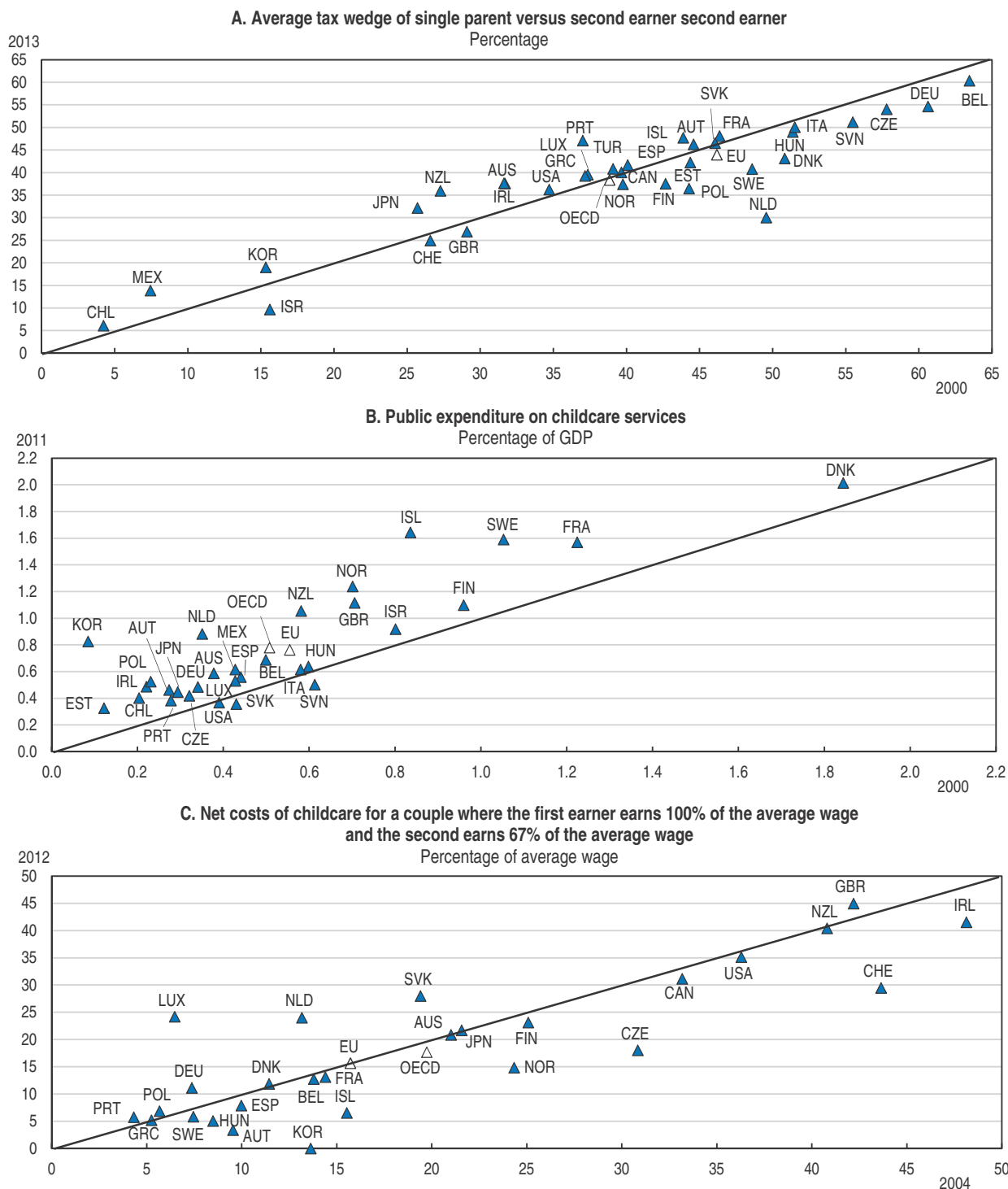
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Figure 4.A1.6. **Financial incentives to work for second earners**



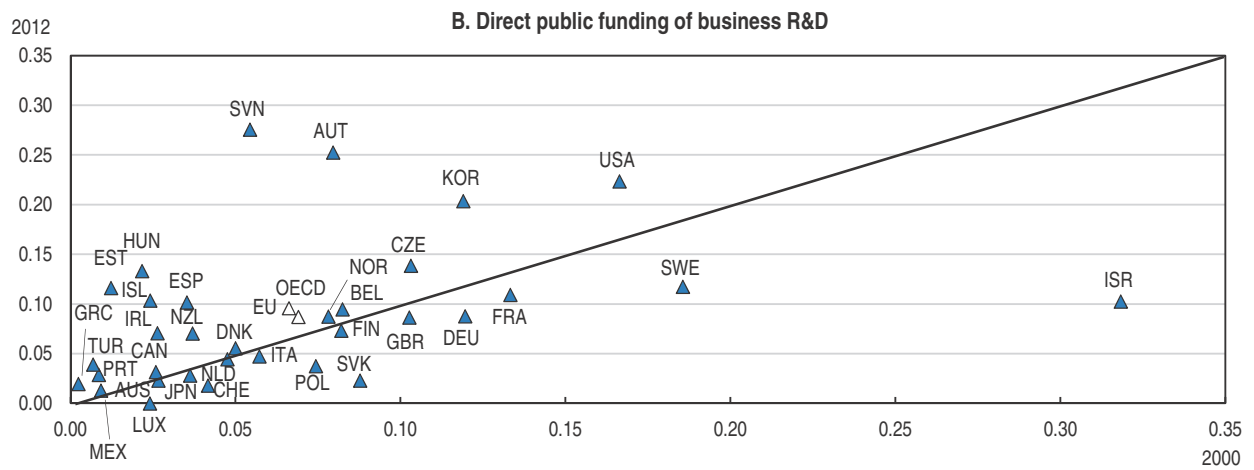
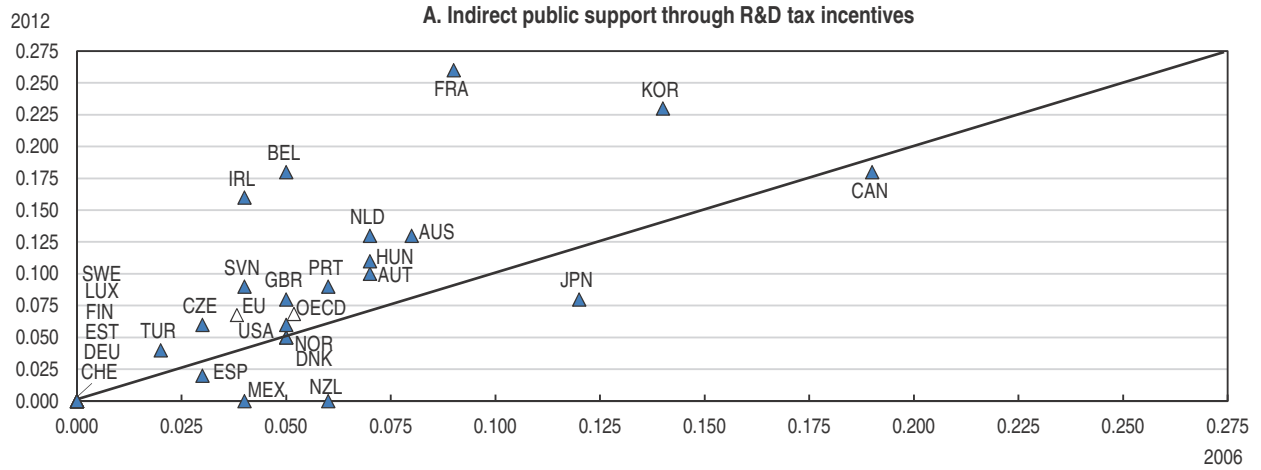
Note: For Panel B, childcare expenditure covers children three enrolled in childcare and children between the ages of three and five enrolled in pre-school. Childcare refers to formal day-care services, such as day-care centres and family day-care. Pre-school includes kindergartens and day-care centres which usually provide an educational content as well as traditional care for children (ISCED 0 under UNESCO's classification system). Local government spending may not be properly captured in the data for federal countries.

Source: Panel A: OECD, *Taxing Wages Models*; Panel B: OECD, *Family Database*; Panel C: OECD, *Tax-Benefit Models*; www.oecd.org/els/social/workincentives.

StatLink <http://dx.doi.org/10.1787/888933177646>

Figure 4.A1.7. **Support to innovation**

Percentage of GDP



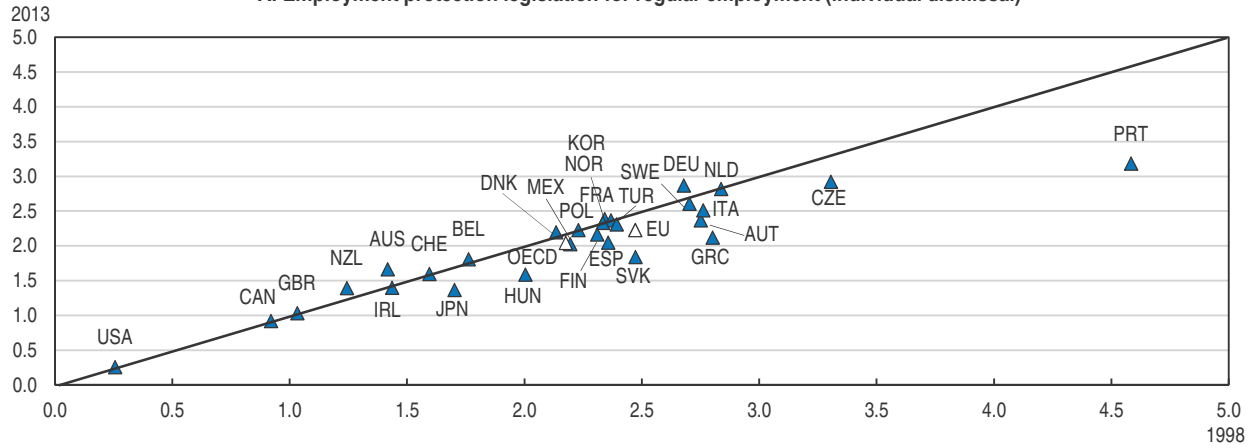
Source: Panel A: OECD, R&D Tax Incentive Indicators, www.oecd.org/sti/rd-tax-stats.htm; Panel B: OECD, Main Science and Technology Indicators Database.

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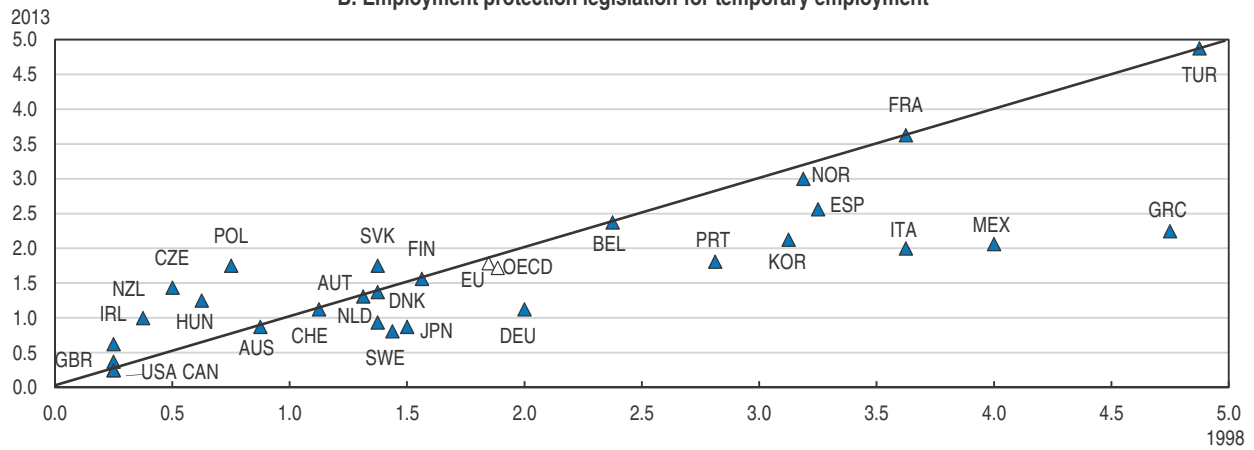
Figure 4.A1.8. **Job protection legislation**

Index scale of 0-6 from least to most restrictive

A. Employment protection legislation for regular employment (individual dismissal)



B. Employment protection legislation for temporary employment



Source: OECD, Employment Protection Database.


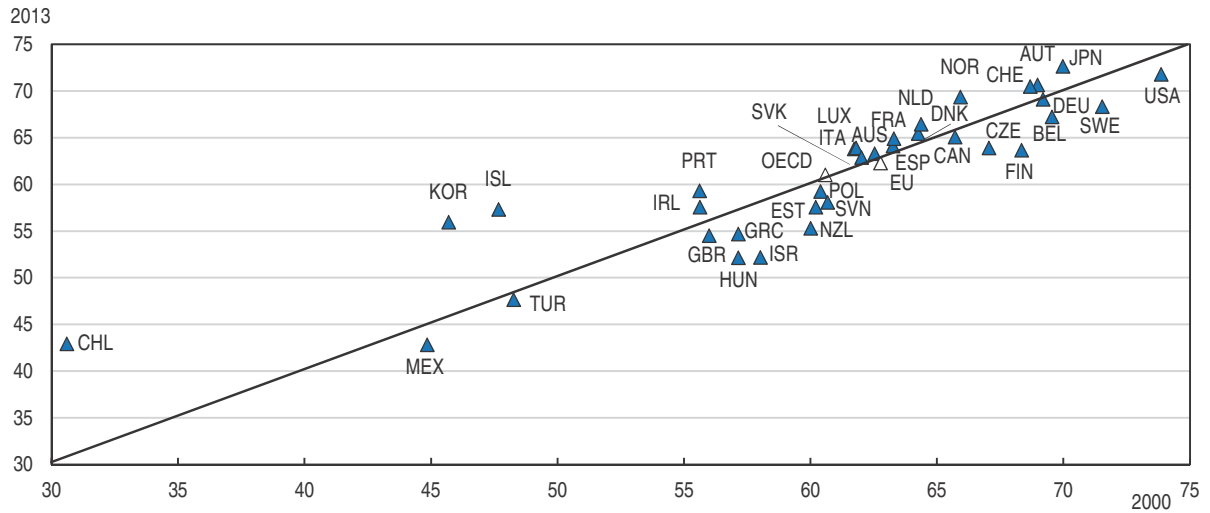
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Figure 4.A1.9. **Share of direct taxes**
Percentage of total tax revenue



Note: Direct taxes aggregate taxes on income, profits and capital gains, social security contributions and taxes on payroll and workforce.
Source: OECD, Revenue Statistics Database.

StatLink <http://dx.doi.org/10.1787/888933177671>