Economic Policy Reforms 2015
Going for Growth

Chapter 1

Taking stock of reform action and identifying priorities in 2015

This chapter assesses progress that countries have made in responding to Going for Growth *policy recommendations since 2013. Against this background, it identifies and discusses new priority areas where structural reforms are needed to lift growth across OECD and partner countries.*

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

- The pace of structural reforms has been slowing in the majority of advanced countries across the OECD over the last two years. This follows a period of significant acceleration in the aftermath of the crisis, partly driven by market pressures during the euro area debt turmoil:
  - For many countries, this slowdown could be attributed to adverse cyclical conditions amid constrained fiscal and monetary policies, which are weighing on governments' capacity to promote and sustain the reform agenda, as well as to the need to ensure that past legislated reforms are implemented.
  - Reform activity remains high, albeit declining, in Greece, Ireland, Portugal and Spain, and has increased in Japan. By contrast, reform activity remains weak and has been even declining in most Nordics and most euro area core countries, although to a varying extent.
  - Across the OECD, countries have given priority to education and active labour market policies (ALMPs), consistent with the importance of knowledge-based capital as a source of growth and the persistence of unemployment in a context of weak recovery.
- The pace of reforms has been accelerating in major emerging-market countries, in particular China and Mexico, reflecting the awareness of bottlenecks and constraints to growth and the need to reduce vulnerability to fluctuations in commodity prices and capital flows.
- New recommendations are set up to address the long-term challenges and potential tradeoffs while supporting the recovery in the short term.
- Labour productivity remains the main driver of growth. Priority should be given to reforms aimed at developing skills and knowledge-based capital. Raising the quality and inclusiveness of education systems will underpin this.
- Improving policy settings in competition and innovation is needed to facilitate the entry of new firms and the smooth reallocation of capital and labour across firms and sectors. In the euro area periphery, product market reforms, especially in services, are needed to reap the benefits of labour market reforms that have been introduced in recent years.
- In lower-income countries, priority should be given to further improving access to quality education as well as the provision and regulation of physical and legal infrastructure. Reforms in these areas are needed to continue narrowing the gap in material living standards *vis-à-vis* advanced economies.
- In many countries, removing obstacles to employment and participation, in particular among still underrepresented groups such as women, youth, the low-skilled and older workers, would boost growth and make it more inclusive.
- Shifting protection from jobs to workers, while achieving a better integration of social protection and active labour market policies, will facilitate both job creation and matching workers and jobs. Reforms in this direction can also reduce labour market duality and informality.

Introduction

Structural reforms are needed to address many of the short and medium-term challenges faced by both advanced and emerging-market countries. More than six years after the onset of the financial and economic crisis, the world economy is still weak. The great recession has dented potential output of most advanced countries, while most emerging-market economies are currently facing a slowdown. In the near term, policy challenges include persistently high unemployment, slowing productivity, high public-sector budget deficit and debt, as well as remaining fragilities in the financial sector and household balance sheets.

In addition, the crisis has increased social distress, as lower-income households were hit hard, with young people suffering the most severe income losses and therefore face increasing poverty risk. Addressing rising hardship is challenging in a context where the pursuit of public finance consolidation objectives in many countries puts pressures on traditional redistributive tools. Looking further ahead, underlying global trends that pre-dated the crisis pose formidable challenges, as discussed in the *OECD 50-Year Global Scenario*. These include the effect of population ageing on the level and sources of growth in gross domestic product (GDP) per capita, as well as the effect of the continuation of skill-biased technical change on income inequalities and the economic impact of environmental degradation (OECD, 2014a).

The *Going for Growth* analysis identifies five areas of structural reform priorities to boost growth and real income for each OECD country, for the European Union as a whole, and for the BRIICS – Brazil, China, India, Indonesia, the Russian Federation and South Africa. Two additional emerging-market countries are covered for the first time in the 2015 edition: Colombia and Latvia, which have started a process of accession to the OECD.

Policy recommendations are identified based on their scope for improving long-term material living standards through higher productivity and labour utilisation. This scope is assessed through the use of policy and performance indicators and their comparison across countries, as well through the expertise of OECD country desks. The recommendations broadly cover the areas of product and labour market regulations, human capital, tax and benefits systems and innovation policies.[1]

While the exercise is focused on improving GDP per capita in the long term through supply-side reforms, there are trade-offs and complementarities with other policy objectives. For example, some pro-growth reforms help to reduce income inequality, improve wider social outcomes and mitigate pressures on the environment, thus delivering stronger growth and greater inclusiveness. Others, however, involve undesirable effects on these objectives.[2] The effects of growth-enhancing reform priorities on income distribution and the environment are covered in Chapters 2 and 3.

This issue of *Going for Growth* includes a special chapter reviewing trends in structural reforms since the early 2000s, including actions taken in areas beyond those directly covered by *Going for Growth* policy priorities (Chapter 4). The current chapter focuses on the recent period and priority areas. It first provides a broad assessment of the progress that countries have made in structural reform priorities identified in the 2013 issue of *Going for Growth*. It then looks briefly at variations in labour productivity and labour utilisation across countries, in order to understand the relative areas of performance weaknesses by country. It then discusses the general orientation and focus of the policy recommendations that result from mapping performance to policy weaknesses for each individual country.

Progress on reform priorities since 2013

Measuring progress on priorities

To give a rough assessment of the progress made by countries in addressing reform priorities, a "responsiveness rate" indicator is constructed for each individual priority area in each country. In a nutshell, it measures the share of total policy recommendations on which governments in each country have taken some action. It considers only legislated as opposed to announced changes (Box 1.1).[3] The reform responsiveness indicator is a measure of the extent to which OECD countries have followed up on *Going for Growth* recommendations, but it does not aim to assess overall reform intensity *per se*, which would require both accounting for reforms carried out in areas not identified as priorities and quantifying the importance of each individual measure. Nor does it aim to assess effective reform implementation, as discussed below. While this indicator is therefore an imperfect substitute for proper reform assessments, it is used in this chapter because of its direct comparability across countries and timeliness. Chapter 4 of this report allows for a complementary assessment of past reform progress along with a tentative quantification of associated growth gains.

Box 1.1. **A qualitative indicator of reform action**

The reform responsiveness rate indicator is based on a scoring system in which recommendations set in the 2013 issue of *Going for Growth* take a value of one if "significant" action is taken and zero if not. An action is considered as "significant" if the associated reform addresses the underlying policy recommendation and if it is actually legislated: announced reforms are not taken into account.

Given that a single priority may entail more than one specific recommendation, the scoring is often based on more than one reform opportunity per priority area. For example, in the area of product market regulation, priorities can cover both economy-wide barriers to competition (e.g. excessive or non-transparent administrative burdens) as well as industry-specific barriers (e.g. weak competition in retail trade); in turn, such priorities can cover different industries (e.g. retail trade and electricity). Changes may concern one or several aspects of regulation. This is reflected in the scoring system rate by assessing reform responsiveness at the lower and more detailed level of specific recommendations (corresponding to reform opportunities) within each priority.

The following section focuses on actions taken on 2013 recommendations. Hence, it covers two years (2013 and 2014). It also offers a partial comparison with the previous period, i.e. reform responsiveness over the period 2011-12. Reform responsiveness cannot be assessed for Colombia and Latvia, because priorities are being identified in 2015 for the first time for those countries.

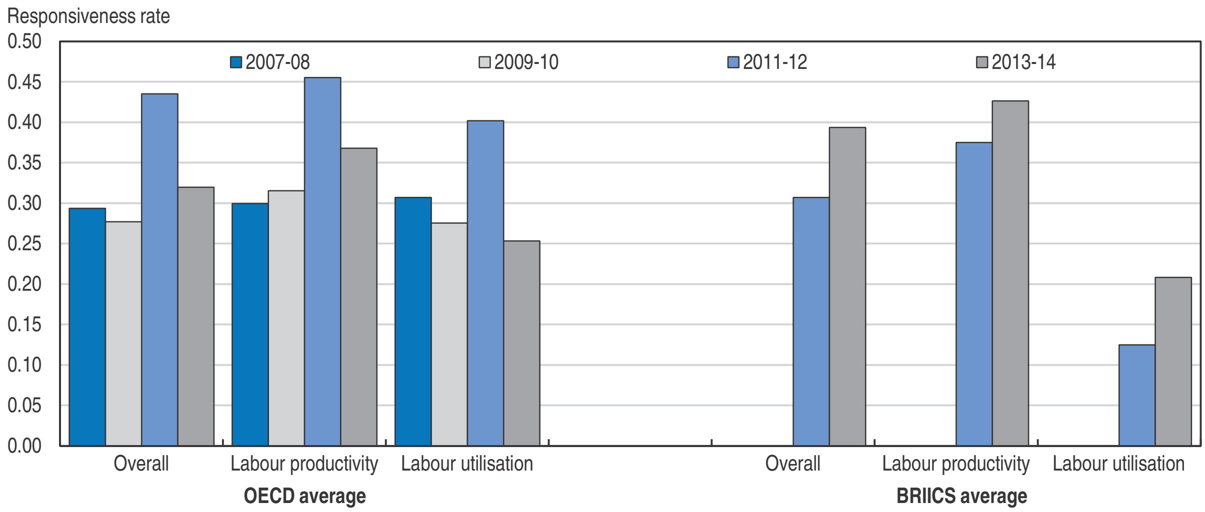
For more details see Box 2.2 and Annex 2.A1 OECD (2010a).

Reform progress across OECD countries and the BRIICS[4]

Following some acceleration in the aftermath of the crisis, OECD countries are showing signs of reform slowdown.[5] On average across the OECD, the pace of reform in areas of *Going for Growth* priorities reverted back to its pre-crisis level; it is slightly above its pre-crisis level in labour productivity-enhancing areas and slightly below in labour utilisation-enhancing areas (Figure 1.1). Reforms have been slowing in the majority of

Figure 1.1. **The pace of reforms has slowed in the OECD but has accelerated in the BRIICS**

Responsiveness to *Going for Growth* recommendations across the OECD and the BRIICS, 2007-14



Note: See Box 1.1 for the definition of the responsiveness rate.

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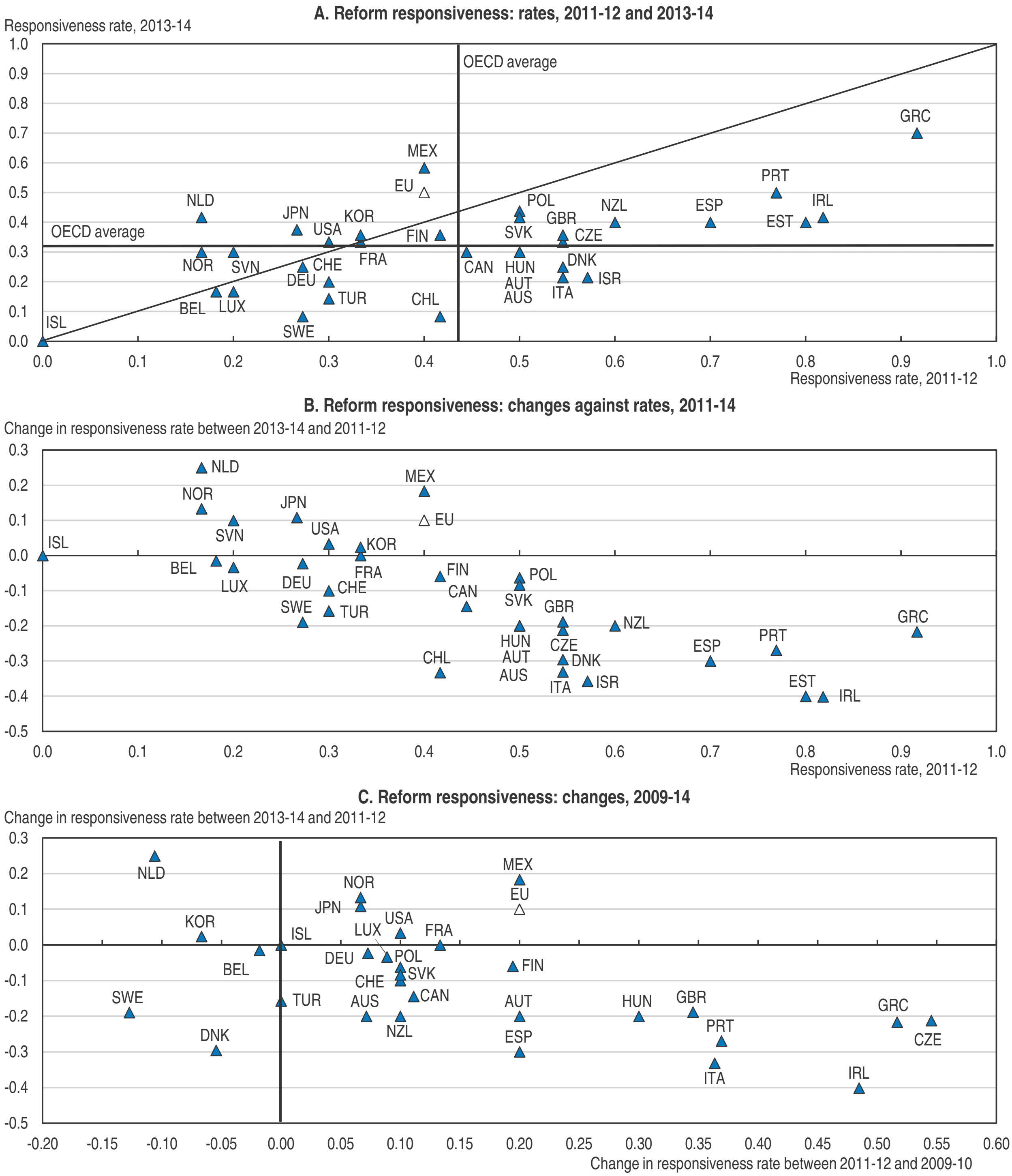
countries in 2013-14 (Figure 1.2, Panel A). This follows a period of intense legislative activity in the aftermath of the crisis, partly driven by financial market pressures in the context of the euro area debt turmoil (OECD, 2012a, 2013a). Indeed, the slowdown is most pronounced in those countries that exhibited highest levels and acceleration in reform responsiveness between 2009 and 2012, notably euro area periphery countries (Figure 1.2, Panels B and C). The pace of reform remains strong at the EU level and, even more so, in Mexico, while it is strengthening in Japan following the launch of the structural component of the “New Growth Strategy” unveiled in June 2013. Acceleration is taking place in the Netherlands and, to a lesser extent, Norway, which in earlier periods had shown little reform action.

Amid a general slowdown, the most and least active reformers across the OECD are generally the same countries in 2013-14 as in 2011-12, albeit with a narrowing of the gap between the two groups (Figure 1.2, Panel A). In other words, the pace of reforms is declining among the most active reformers and increasing somewhat among some of the least active recent reformers.

Fiscal consolidation imperatives may be weighing on the structural reform agenda of many countries, in particular in the European Union (European Commission, 2014a). For example, budgetary imperatives constraint the pursuit of tax reductions and tax shifting reforms, and also the capacity to compensate potential losers from reforms. However, fiscal consolidation and structural reforms objectives should not be traded against each other and can be pursued simultaneously. Many reforms achieve both goals because they strengthen public budgets, either directly or indirectly, via higher output and employment.[6] For example, pension reforms directly improve fiscal balances, while gradually delivering employment gains that further raise tax revenue and reduce public spending. In addition, expectations of enhanced long-term debt sustainability can reduce government borrowing costs and thereby help stimulate the economy.

Figure 1.2. **The slowdown is largest among previously fast-reforming countries**



Note: See Box 1.1 for the definition of the responsiveness rate.

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Concerns associated with possible adverse effects of structural reforms under current cyclical conditions may also contribute to the reform slowdown. One concern is that GDP gains may take time to materialise or be preceded by short-term losses given wide aggregate demand shortages and deflation risks amid constrained macroeconomic policies and impaired fiscal positions in many countries, especially in the euro area. One particular risk is that pro-competition reforms may become counter-productive, namely contractionary, in the short to medium-term if monetary policy is constrained at the zero lower bound (ZLB) and, hence, unable to accommodate supply expansion by the standard means lowering policy rates (Eggertsson et al., 2014).[7] However, previous model and evidence-based analysis on the short-term impact of structural reforms suggests that such concerns could be exaggerated and delivers lessons to bring forward reform-driven gains (OECD, 2012a):

- Most structural reforms appear to boost growth fairly quickly, while usually very few if any have short-term costs.[8] However, in a few cases, growth benefits may take more time to materialise in a downturn, and long-term growth gains can be preceded by short-run losses. For example, in a context of severe labour market slack, social protection reforms aimed at encouraging jobseekers' return to work through a tightening of conditions for receiving unemployment benefits can temporarily depress employment. Postponing such reforms until the labour market shows clear signs of recovery is legitimate in economies still facing weak demand.
- The short-term impact of structural reforms will be stronger if an effective communication strategy and a strong and well-regulated banking sector foster confidence and induce households and firms to spend against future reform-driven income gains. Clear and timely information about reform implementation and its expected benefits can help boost demand.

The reform slowdown could also reflect the need to move from legislation to implementation, which is difficult to measure. In order for reforms to deliver, governments need to ensure that legislated changes are applied. The challenge is particularly acute when many ambitious reforms have been introduced in a short period of time, such as in the euro area periphery countries,[9] where the slowdown appears most pronounced. Recent EU and OECD surveys for those countries emphasise a number of practical obstacles which are creating a discrepancy between formal adoption of reforms and their actual implementation. Such is the case of the approval of necessary secondary legislation, the transmission of laws from central to local governments, court challenges, insufficient or ineffective administrative capacity and inadequate advertising of new measures.[10]

Another factor potentially slowing down the reform agenda is the concern that structural reforms may have contributed to increased income inequality, or may do so in the future. Indeed, data on household incomes suggest that the most vulnerable have been losing relative ground since the onset of the crisis (OECD, 2014d):[11] on average across the OECD, the income of the bottom 10% of the population declined by 1.6% per year between 2007 and 2011. The drop has been twice as large as the decline observed for the top 10% over the same period. Young people have been suffering the most severe income losses, which has increased their poverty risk. Large increases in disposable income inequality and poverty occurred in those countries hit hardest by the crisis: Greece, Iceland, Ireland and Spain, in a context where fiscal consolidation imperatives have constrained the use of taxes and transfers to protect vulnerable households from hardship.[12]

Distributional concerns are more than legitimate and should be addressed. However, such concerns are best addressed through reform strategies that take into account the impact of structural policies on the distribution of wages and household incomes (see Chapter 2). Many reforms can achieve both growth and equity objectives. In fact, empirical evidence shows that most pro-growth reforms either have little net effect or reduce household income inequalities in the medium to long term, especially when they promote job creation and employment opportunities benefiting low-skilled workers.[13] Still, some reforms may hit the most vulnerable in the short run, even if such negative effects are overturned in the medium run. Such may be the case of reforms of wage bargaining institutions aimed at raising the responsiveness of wage adjustments to cyclical and local labour market conditions. The employment gains expected from such reforms may take a longer time to materialise under weak cyclical conditions. This risk makes it all the more important to monitor trends in income inequality in order to ensure that the benefits of these reforms are broadly shared.

The reform agenda will have to be pursued with a view to improve people's material living standards and promote inclusive growth. Reforms that boost productivity should translate into higher wages, while reforms to boost employment should facilitate the integration in the labour force of those systematically left out. Making reform happen may require overcoming deeply-rooted political economy obstacles, but analysis of major past reform experiences has helped identify the main ingredients for success (Box 1.2).

Even if at a slower pace, the reform agenda has nevertheless been pursued in Greece, Ireland, Portugal and Spain in 2013-14 (Figure 1.2). In France, reform responsiveness has been somewhat lower, close to the OECD average for 2013-14, and has not improved from the previous period: priority must be given to implement recently-legislated reforms and pursue announced plans aimed at restoring competitiveness and tackling unemployment, notably by promoting a jobs-rich recovery. Italy's reform efforts have been slowing down compared to the 2011-12 period and are therefore lagging behind compared with the other euro area periphery countries. However, the government has recently completed the initial steps in its comprehensive structural reform programme. Pursuing this programme with determination, along with effectively implementing earlier reforms, should help achieve stronger and more inclusive growth.

A slowdown in the pace of reforms is difficult to justify on the basis of macroeconomic constraints, implementation obstacles or social concerns in other countries. Most of the Nordic and the euro area core countries as well as Canada have been maintaining a relatively low pace of reforms, although to a varying extent. These countries were hit less hard by the crisis and did not experience financial market pressures to reform. Long-term views should prevail to push forward the reform agenda, not least to address future prospects of slowing GDP growth (see *OECD 50-Year Global Scenario*): this requires removing policy obstacles in several areas, including barriers to the broader inclusion of women in the labour market and to the accumulation of knowledge-based capital, a key source of innovation.

The reform slowdown observed for many advanced countries coincides with some reform acceleration for emerging-market countries, Mexico – as mentioned above – and the BRIICS (Figure 1.1). Levels of reform responsiveness in all BRIICS countries are higher than the OECD average and – except for Brazil – increasing (Figure 1.3). China and India have been the most responsive to *Going for Growth* recommendations, a reflection of ambitious reforms by these countries' governments. The pace of reforms is comparatively lower but has accelerated in Indonesia. In contrast with other emerging-market countries though, Chile and Turkey have decelerated the pace of reform efforts.

Box 1.2. **Making reform happen**

Going for Growth provides countries with recommendations about the structural reforms that they should consider implementing. However, the business of actually carrying out reform is complex, and involves a wide range of general political economy and more country-specific considerations. OECD analysis has examined the political economy of reform in 20 country-specific case studies of reform episodes in ten OECD countries as well as thematic treatments of the conditions that can make actual reform possible (see OECD, 2010b). This work builds on earlier OECD work, including a chapter in the 2007 edition of *Going for Growth* that examined the issue using quantitative empirical analysis.

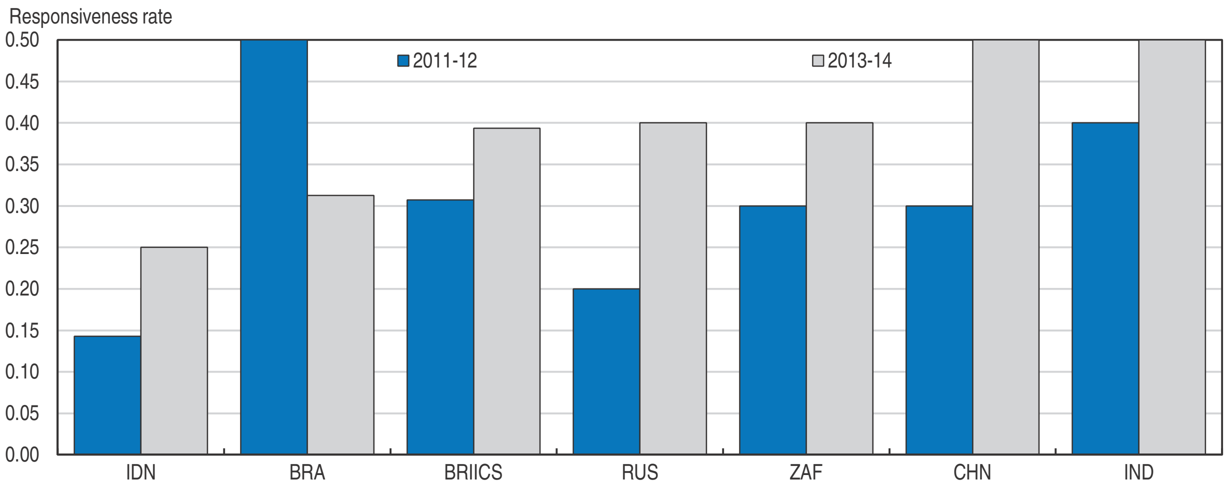
The review of OECD evidence suggests that a number of basic principles have often been successful:

- Governments should have an electoral mandate for reform. Reform "by stealth" has severe limits, and major reforms for which governments have not previously sought public approval tend to succeed only when they generate visible benefits very rapidly, which major structural reforms generally do not. While crises can create opportunities for reform surprises, sustainability is essential for real impact.
- Effective communication by governments is important. Major reforms have usually been accompanied by consistent co-ordinated efforts to persuade voters and stakeholders of the need for reform and, in particular, to communicate the costs of not reforming. Where, as is often the case, the costs of the *status quo* are opportunity costs, they tend to be politically "invisible", and the challenge is all the greater.
- Policy design should be underpinned by solid research and analysis. An evidence-based and analytically sound case for reform serves both to improve the quality of policy and to enhance prospects for reform adoption. Research presented by an authoritative, non-partisan institution that commands trust across the political spectrum appears to have a far greater impact.
- Successful structural reforms take time to implement. The more successful reforms in the case studies generally took over two years to prepare and adopt – and this does not include the preparation work done in the many reform episodes in which problems and proposals had been debated and studied for years before the authorities set to work framing specific reforms.
- Government cohesion is important. If the government undertaking a reform initiative is not united around the policy, it will send out mixed messages, and opponents will exploit its divisions; defeat is usually the result. The case studies suggest that cohesion matters more than such factors as the strength or unity of opposition parties or the government's parliamentary strength.
- Government leadership is essential. Reform progress may sometimes be facilitated by intensive discussions involving the government and the social partners (i.e. unions and business groups) in a formalised process. However, firmness of purpose on the part of the government also seems to be a critical element of success in such situations, though this is unlikely to succeed unless the government is in a position to reward co-operation by the social partners or can make a credible threat to proceed unilaterally if a concerted approach fails.
- The condition of the policy regime to be reformed matters. Successful reforms of established policy regimes often appear to have been preceded by the "erosion" of the *status quo* through smaller piece-meal reforms or reform attempts; where the existing arrangements are well institutionalised and popular, there appears to be no danger of imminent breakdown, reform is far more difficult.
- Successful reform requires persistence. A further important implication of the finding concerning reform ripeness is that blocked, reversed or very limited early reforms need not be seen as failures: they may play a role illustrating the unsustainability of the *status quo* and setting the stage for a more successful attempt later on.

The OECD case studies provide evidence in support of some of the major findings identified by earlier econometric work, particularly with respect to the facilitating effect of crises and sound public finances (Duval, 2008). These findings seem to be confirmed in practice by the pace of reform responsiveness to *Going for Growth* priorities: the immediate post-crisis context and associated financial market pressure, in particular the surge of sovereign risk premia for euro area periphery countries, have catalysed reforms. The easing of such tensions may reduce the pressure while the need to pursue fiscal consolidation may constrain the capacity to reform.

Figure 1.3. **The increase in the pace of reforms was widespread among BRIICS countries**

Responsiveness to *Going for Growth* recommendations across BRIICS countries, 2011-14



Note: See Box 1.1 for the definition of the responsiveness rate.

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Reform acceleration since 2011 in emerging-market countries may have been catalysed by a growing awareness of the bottlenecks and constraints to potential output growth. This may have been spurred also by concerns associated with recent macroeconomic developments which revealed their vulnerability to commodity prices and capital flow fluctuations.

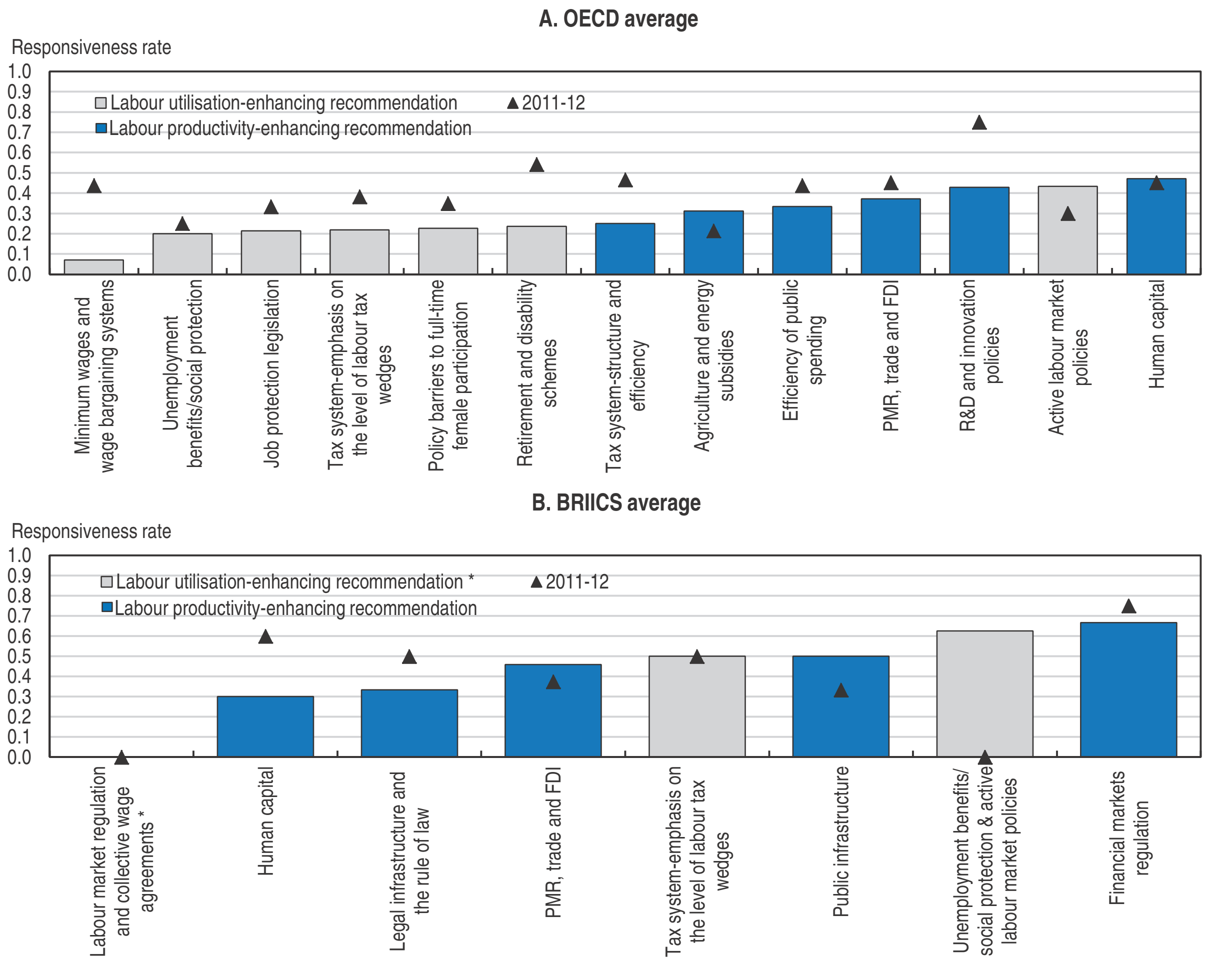
Reform progress across policy areas

Among labour productivity-enhancing areas, OECD countries have been most active at reforming education and innovation policies (Figure 1.4). This is a welcome step, since long-term growth will increasingly depend on multifactor productivity, hence on the accumulation of skills and knowledge-based capital.[14] In many countries such as Estonia, the Slovak Republic and the United Kingdom, priority has been given to improving the school-to-job transition and reducing the shares of young persons who are not in employment, education or training (so-called "NEET"). This has been addressed by expanding vocational education (including workplace training) to raise employability and enhance the alignment between skills and labour market needs. In the area of innovation, priority has been given to increasing the cost-effectiveness of public spending on R&D and therefore encouraging innovation by the private sector. Associated reforms, for instance as pursued in the Czech Republic, have focused on enhancing the efficiency of R&D tax credits and strengthening the co-operation between firms and higher education institutions.

Among policy areas to enhance labour utilisation, OECD countries have given priority to ALMPs. High responsiveness in the area of ALMPs reflects the need to address the sharp increase in unemployment following the crisis and in particular the share of long-term unemployed. The labour market deterioration has spurred policy efforts to develop better-designed and more cost-effective counselling and training services helping the unemployed to look for vacancies matching their skills, and if needed, to requalify. ALMPs were relatively under-developed in some of the countries that experienced the sharpest increases in long-term unemployment, such as Greece, Spain and the United States. In these countries, priority has been given to the progressive development of counselling and

Figure 1.4. **Reform intensity fell most in the areas of innovation, pension and wage-setting policies**

Responsiveness to *Going for Growth* recommendations across policy areas, 2013-14



Note: See Box 1.1 for the definition of the responsiveness rate.

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training services. The focus has been on improving targeting, notably through systematic use of profiling by public employment services (PES) and cost-effectiveness, including via a careful involvement of private providers in delivering job-search assistance.[15]

Progress has also been achieved in the area of retirement and disability schemes, although the frequency of reforms declined sharply compared with the previous peak period (Figure 1.4). Among reformist countries, Austria took significant action to close remaining routes to early retirement; access to disability pension was replaced by medical and job-related rehabilitation aimed at encouraging labour supply and employability among older workers. High responsiveness in the area of disability also partly reflects some labour market and social consequences of the crisis, which led some discouraged job seekers to drop out of the labour force and flow into disability. In this context, countries such as Denmark have focused on rehabilitation measures with a view to better integrating health and employment services.

Wage bargaining reforms and, more generally, reforms to increase wage flexibility and responsiveness to economic conditions, have been rare in the last two years across the OECD. This stands in contrast with the high reform responsiveness recorded in 2011 and 2012. Indeed, the current slowdown can be explained by the introduction of major reforms in these areas in the post-crisis context, especially in Greece, Portugal and Spain (OECD, 2013a). These countries should now ensure full implementation of legislated changes, and, going forward, pursue reform efforts.

Reform intensity has also been low in the area of unemployment benefit systems (UB), as it was in the previous period. Considering the weakness of the labour market recovery after the crisis in a number of countries, governments have put priority on protecting the incomes of the unemployed in a context where job opportunities remain low. Indeed, the only OECD countries taking significant action in this area are to be found among those which were recommended to increase the coverage or generosity of unemployment benefits (and social protection more broadly). Reforms along this line have been implemented for instance in Japan and Korea. By contrast, recommendations to taper UB by duration or to eliminate the age bias (favouring older jobseekers) in UB generosity have been rarely followed-up. As economic activity and labour demand pick up, more emphasis should be put on promoting job search and the return to work. In this respect, some countries need to tighten the conditions to continue receiving benefits as the unemployment spell gets longer.[16]

Tax policy is another area where the pace of reforms has slowed. Indeed, in the 2011-12 period, many OECD countries increased consumption taxes, while in some cases lowering labour taxes, in line with *Going for Growth* recommendations (OECD, 2013a). Such reforms have been welcome steps to make the tax system more growth-friendly while meeting fiscal consolidation objectives. Clearly, there are limits to increases in consumption taxes, not least due to their potential detrimental short-term effects on vulnerable households.[17] Still, the majority of countries for which tax policy is considered a growth priority exhibit considerable room for enhancing the efficiency of their systems. Furthermore, reforms in this area, which are desirable from an economic efficiency standpoint, can have positive side-effects on the income distribution if appropriately designed. Such is the case of measures to close tax loopholes that distort resource allocation and benefit higher-income households the most, for instance mortgage interest rate deductibility.

Reform patterns should be interpreted with caution in the case of the BRIICS, because the corresponding indicators rely on a very limited number of countries.[18] Bearing this caveat in mind, among labour productivity-enhancing priorities, BRIICS countries have been most active in financial market and banking reforms to encourage efficiency in capital allocation. India has been taking steps to ease barriers to domestic and foreign competition in the banking sector and China to reduce government control of interest rate setting. Among the less frequently recommended labour utilisation-enhancing priorities, progress has been achieved in the area of active labour market policies and social protection, in contrast with the previous period. In particular, South Africa is signalling reform efforts to tackle its extremely high level of youth unemployment by establishing public employment services and wage subsidies targeted at young jobseekers. No progress has been achieved in job protection and labour market regulations. The absence of significant reforms in these areas was also observed in the previous period, perhaps an indication of the fierce political-economy obstacles. Yet easing stringent labour market regulations in emerging-market countries would raise formal employment. Reforms in this area would also encourage efficiency in labour allocation and thereby productivity growth.

Reform priorities for OECD and partner countries

This section summarises the 2015 priorities for OECD and partner countries. The identification of such priorities is based on a combination of quantitative analysis, i.e. the mapping of performance and policy weaknesses, and country-specific expertise. The methodology is described in Box 1.3.[19] Associated country-specific recommendations are detailed in separate country notes (Chapter 5). The section begins with a brief overview of how countries rank in terms of GDP per capita and to what extent the differences in living standards can be attributed to gaps in productivity or labour utilisation. This is followed by a brief snapshot of changes in policy priorities from 2013 to 2015. The final section discusses in more details the policy priorities to enhance labour utilisation, and then those aimed at boosting labour productivity.

Box 1.3. **The selection of policy priorities**

The *Going for Growth* methodology identifies policy recommendations based on their ability to improve long-term material living standards through higher productivity and labour utilisation. The reference performance measure in this regard is gross domestic product (GDP) per capita, given its contemporaneous availability and relatively broad coverage and despite its various drawbacks.

Five policy priorities are identified for each country. In each case, at least three of the priorities are selected on the basis of quantitative performance and policy indicators, in areas where performance and policy weaknesses coincide. The remaining two priorities are identified using a combination of indicators and country-specific expertise. This is to ensure that important policy priorities in areas that are not covered by indicators can be included. There is a greater reliance on country expertise for non-member countries, because the set of available performance and policy indicators is more limited in their case.

Priorities aimed at improving labour productivity include: enhancing equity and efficiency of education systems; encouraging innovation, the diffusion of technology and of new ideas; improving the competitive environment and resource allocation by e.g. easing entry restrictions for domestic and foreign firms, controls over business operations and cutting agricultural support; enhancing the efficiency of the tax system and of public expenditure; and addressing physical and legal infrastructure bottlenecks. Priorities aimed at improving labour utilisation include: reforming tax and benefits systems to make work pay, especially for population groups with weak labour market attachment, such as women, the low-skilled and older workers; improving the design and integration of social benefits and ALMPs; reviewing job protection legislation to enhance labour reallocation and tackle labour market duality and encouraging wage flexibility by reforms in minimum wage or bargaining systems.

The dual classification of reform priorities based on their potential to raise either labour utilisation or labour productivity allows a simple and transparent assessment. Many structural reforms are beneficial on both grounds (for instance, job protection and product market reforms), but some of them may have opposite effects on the two dimensions. In particular, boosting overall labour utilisation by encouraging higher participation of working hours by groups with relatively low productive potential (such as the low skilled or disability benefits recipients) may reduce overall labour productivity.

The model for priority selection model does not formally account for policy interactions, such as complementarities between reforms. However, on the basis of the model output and country-specific expertise, the set of country-specific priorities are tailored and bundled with a view to embrace a coherent and consistent reform agenda.

The selection of country-specific policy priorities cannot account for reform spillovers and co-ordination across countries, which is likely to become more and more important in the future, for example in the area of innovation and taxation. This topic is at the core of the *OECD 50-Year Global Scenario* (OECD, 2014a).

Understanding differences in GDP per capita across countries

Gaps in GDP per capita *vis-à-vis* most advanced countries can be decomposed into gaps in labour productivity and labour utilisation (Figure 1.5). This simple accounting exercise underscores the major contribution of labour productivity (relative to labour utilisation) to gaps in GDP per capita (Figure 1.5, Panel B). In fact, for the countries with lowest GDP per capita levels, the difference *vis-à-vis* the average of the upper half of OECD countries is largely accounted for by labour productivity. These countries are in many ways quite heterogeneous, but most of them face the common challenges of tackling widespread informality and addressing bottlenecks in physical and legal infrastructure.

The relative contribution of labour productivity and labour utilisation to the GDP per capita shortfall *vis-à-vis* the average of the upper half of OECD countries is more mixed for higher-income countries. Some of them can be grouped together and this assessment informs the selection of *Going for Growth* policy priorities. For example:

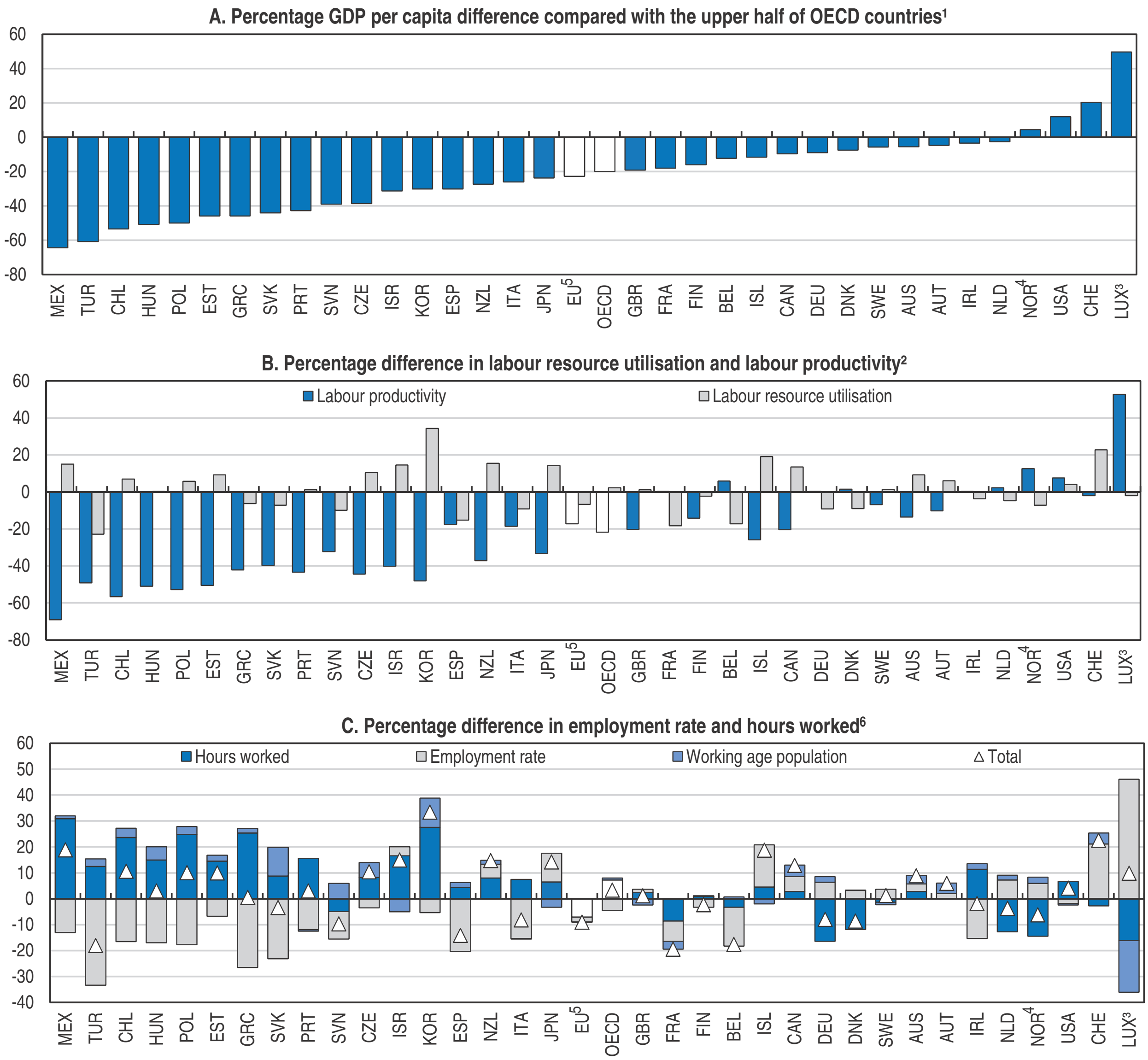
- Many Northern European countries (e.g. Belgium, Denmark, France, Germany and the Netherlands) feature low labour utilisation and high productivity. Low labour utilisation is mainly driven in the majority of these countries by low hours worked among the employed, although Belgium and France are characterised by both low employment and low hours worked (see Figure 1.5, Panel C). Low hours worked often reflect policy impediments to full time work, especially for second earners and lone parents – in general women. These impediments are often embedded in tax and benefit systems (e.g. some features associated with joint income taxation or with the withdrawal benefits as hours worked increase).
- Southern European countries generally feature both low labour productivity and low labour utilisation. Such is the case for Greece, Italy and Spain; Portugal also exhibits a large productivity gap but labour utilisation is at par with the upper half of the OECD (Figure 1.5, Panel C). By contrast with the previous group, all these countries are characterised by low employment but high hours worked among the employed. In most cases, some population groups – in general the low-skilled and youth – are largely excluded from the labour market, a diagnosis that applies to France as well. This can be attributed to policy impediments such as, for example, highly unbalanced employment protection legislation that creates labour market duality: that is, a divide between workers under contracts with strong job protection and those under contracts with little protection and little scope for on-the-job training.
- Countries outside Europe (e.g. Australia, Canada, Japan, Korea and New Zealand) feature high labour utilisation and low productivity. The drivers of low labour productivity are more difficult to identify and measure than those of low labour utilisation. In the case of Japan and Korea, relatively weak performance in services industries seems to constrain productivity growth; in the case of Canada and New Zealand, productivity gains appears to be held back by low returns to investment in knowledge-based capital and tertiary education. This can again be attributed to policy impediments, such as ineffective government support to innovation or barriers to the entry of firms and to the efficient allocation of capital and labour resources across firms and industries.

The fact that productivity is the main driver of growth in the long run should by no means reduce the relevance of labour utilisation-enhancing reforms, in particular to encourage the participation of underrepresented groups in the labour force. In addition to

Figure 1.5. **Large gaps in GDP per capita are mostly due to productivity shortfalls**

The sources of real income differences

A. OECD countries, 2013



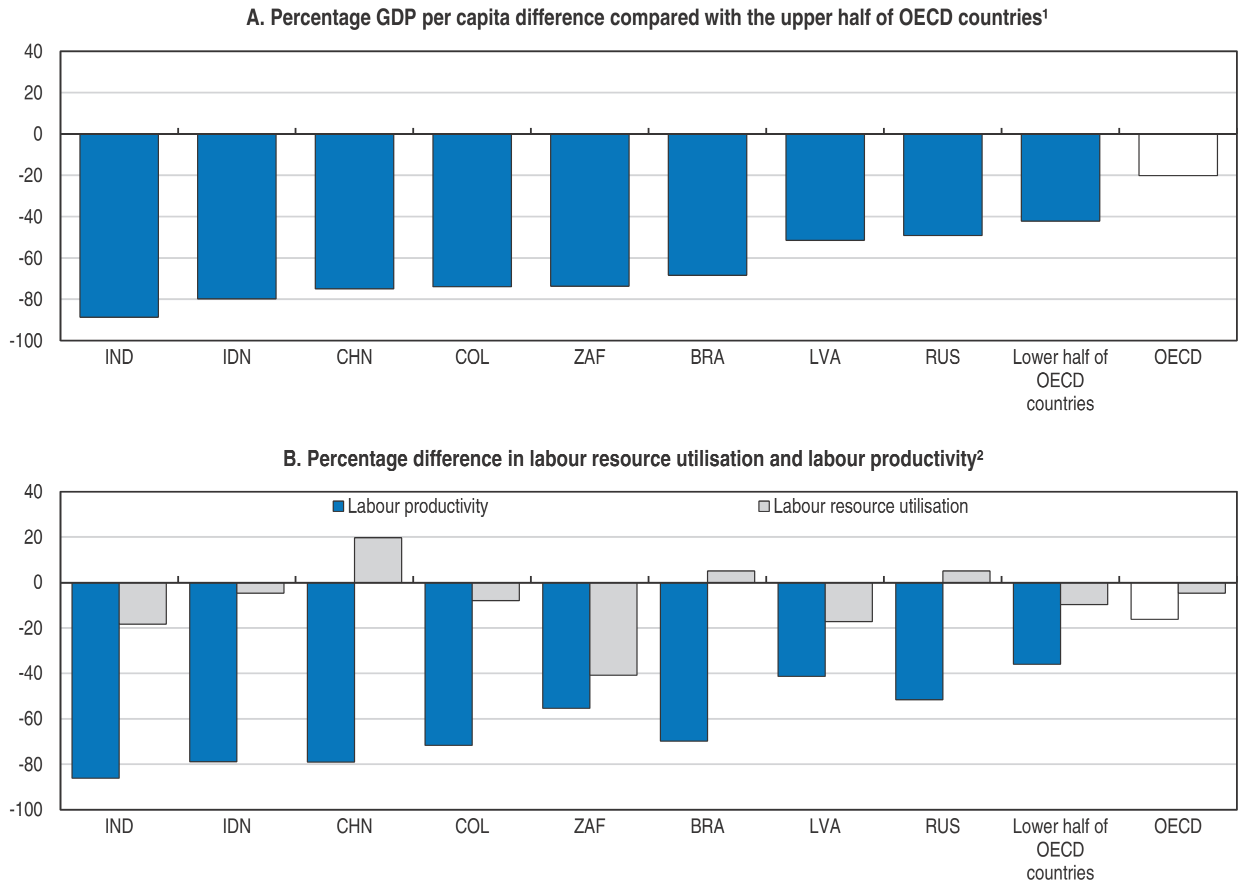
1. Compared to the simple average of the 17 OECD countries with highest GDP per capita in 2013 based on 2013 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity do not add up exactly to the GDP per capita difference since the decomposition is multiplicative.
2. Labour productivity is measured as GDP per hour worked. Labour resource utilisation is measured as the total number of hours worked per capita.
3. 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.
4. Data refer to GDP for mainland Norway which excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on the financial assets held by the petroleum fund abroad are not included.
5. Average of European Union countries in the OECD.
6. Employment rate is measured as total number of employed divided by working-age population. Hours worked are measured as total number of hours worked per employed. Working-age population is measured as working-age population divided by total population. The total of the three components is not equal to labour resource utilisation as presented in Panel B since the decomposition is multiplicative.

Source: OECD, *National Accounts, Productivity, Employment Outlook* and *Economic Outlook 96 Databases*.

Figure 1.5. **Large gaps in GDP per capita are mostly due to productivity shortfalls** *(cont.)*

The sources of real income differences

B. Non-OECD countries, 2013



1. Compared to the simple average of the 17 OECD countries with highest GDP per capita in 2013 based on 2013 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity do not add up exactly to the GDP per capita difference since the decomposition is multiplicative.
2. Labour productivity is measured as GDP per employee. Labour resource utilisation is measured as employment as a share of population.

Source: OECD, *National Accounts Database*; World Bank, *World Development Indicators (WDI) Database*; ILO (International Labour Organization), *Key Indicators of the Labour Market (KILM) Database* for employment data on Brazil, Colombia, Indonesia and Latvia; Statistics South Africa for employment data on South Africa; India National Sample Survey (various years), annual population estimates from the Registrar General and OECD estimates for employment data on India; China Ministry of Human Resources and Social Security for employment data on China.

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help closing gaps and bring higher levels of GDP per capita, progress in this area contributes to achieve other objectives, such as reducing income inequalities and promoting a more inclusive society.

A snapshot of policy priorities for reforms

Overall, the balance of policy recommendations in *Going for Growth* by subject area has remained quite stable for OECD countries since 2013 (Table 1.1).[20] The vast majority of 2013 country-specific priorities are retained. Over the last two years, performance challenges have not changed much and policy reforms to address those challenges have been moderate, as discussed before. In many reform areas, progress remains piecemeal and much more is needed. Some reforms have been taking place only gradually, with incremental policy changes introduced in sequential rounds. This is typically the case for product market

Table 1.1. **Share of priorities by policy area**

Going for Growth edition	2015				2013			
	OECD	Upper-income OECD[1]	Lower-income OECD[2]	Non-OECD[3]	OECD	Upper-income OECD[1]	Lower-income OECD[2]	Non-OECD[3]
Labour utilisation								
Tax system with emphasis on the level of labour tax wedges	7	8	6	3	7	8	6	0
Social benefits and active labour market policies	17	20	14	8	17	19	15	7
UB/social protection and ALMPs	10	11	11	8	9	8	11	7
Retirement and disability schemes	6	9	4	0	7	11	5	0
Retirement systems	4	5	4	0	4	5	4	0
Disability and sickness schemes	2	5	0	0	3	6	1	0
Policy barriers to full-time female labour force participation	5	5	5	0	5	5	5	0
Labour market regulation and collective wage agreements	9	6	11	10	10	6	13	10
Job protection legislation	6	5	7	5	7	5	9	7
Minimum wages and wage bargaining systems	2	1	2	5	2	1	4	3
Housing policies/barriers to geographical labour mobility	2	4	1	0	2	4	1	0
Total labour utilisation	**39**	**42**	**36**	**20**	**40**	**41**	**40**	**17**
Labour productivity								
Human capital	16	13	20	15	16	13	20	17
R&D and innovation policies	6	4	8	8	4	4	5	3
PMR, trade and FDI	22	18	24	23	21	18	22	23
Agriculture and energy subsidies	4	6	2	3	4	6	1	3
Tax system-structure and efficiency	5	7	4	5	5	7	4	3
Efficiency of public spending	4	6	2	0	5	6	5	3
General efficiency	2	4	1	0	3	4	4	0
Efficiency of the healthcare sector	2	2	1	0	2	2	1	3
Public infrastructure	2	2	2	13	2	2	1	10
Legal infrastructure and the rule of law	1	0	1	5	1	0	2	7
Financial markets regulation	0	0	0	8	1	1	0	10
Planning/zoning/housing/policies	1	2	0	3	1	2	0	3
Total productivity	**61**	**58**	**64**	**80**	**60**	**59**	**60**	**83**
Total number of priorities[4]	*175*	*85*	*85*	*40*	*175*	*85*	*85*	*30*

1. Upper-income OECD includes countries with per capita GDP levels above the median.
2. Lower-income OECD includes countries with per capita GDP levels below the median.
3. Non-OECD refers to BRIICS countries plus Colombia and Latvia for 2015 and BRIICS countries for 2013
4. The sum of upper-income and lower-income OECD countries' priorities for doesn't add up to 175 because the EU as a whole is not counted among any of these two groups.

reforms, because countries need to address several policy distortions (such as broad competition versus industry-specific issues – eventually in multiple sectors) which are difficult to tackle simultaneously, not least reflecting political economy obstacles.

As a result, in the vast majority of cases, even "significant" action on policy recommendations (as defined and reflected in the reform responsiveness rate indicator presented above) has not implied the removal of the corresponding priority. While broad priority areas are retained for most countries, the more detailed mix and nature of policy recommendations underpinning each priority is reassessed and, when relevant, refocused. Such reassessment is established on the basis of shifting contexts and actions taken in the past two years. A refocusing of priorities is most frequent in the area of labour utilisation, because associated reforms may produce their effects relatively quickly, underscoring frequent revisions. This is typically the case of active labour market policies and unemployment benefit priorities, for which the frequency of refocusing is the highest (25% of the priorities in these areas have been refocused). In most cases as discussed in the previous section, efforts have been pursued in reforming public employment services and training for the unemployed while less has been achieved in reforming unemployment benefits. Some refocusing of priorities is also relatively frequent in the area of product markets (14%), reflecting in this case the piecemeal nature of the reforms. By contrast, education priorities have been rarely refocused (4%), because reforms in this area require sustained policy efforts to produce their effects.

For non-OECD countries,[21] 80% of policy priorities are aimed at improving productivity, reflecting these countries' relative weakness in this area (Figure 1.5, Panel B). There is a strong focus on product market regulation – which is often much more stringent than in upper-income OECD countries – and education systems, where quality and equity are relatively low. Addressing infrastructure bottlenecks and strengthening institutions to fight corruption are also recurrent recommendations for durably boosting productivity in these countries. Many priorities are intended to address labour informality. These include increasing the coverage of social protection systems, containing labour costs and relaxing overly strict job protection for workers in formal jobs. The distribution of priorities has remained remarkably stable for the BRIICS in spite of the recent acceleration in the pace of reforms. This is not surprising given the prevalence of productivity-enhancing policy reforms which take more time to produce their effects. The magnitude of performance and policy gaps with respect to OECD countries also implies that comparatively stronger action, probably staggered over an extended period of time, is needed for a policy priority to be fully addressed.

The prime purpose of *Going for Growth* is to help governments identify the set of structural reforms that will best address the medium-term growth challenges they face. The extent to which the selected priorities features highly or not in the policy agenda varies across countries. Nevertheless, a large portion of *Going for Growth* priorities are the object of reform commitments made by G20 country governments to meet the additional 2% growth target set in the context of the Brisbane Action Plan in November 2014 (see Box 1.4).

Policies to enhance labour utilisation

The labour market recovery and short-term challenges[22]

The jobs situation has started to improve, but there is still a long way to go. For the OECD as a whole, the jobs recovery has only just begun: the OECD employment rate is currently 1.8 percentage points below its level at the start of the global financial crisis down from the 2.2 percentage points gap reached at the trough of the jobs recession. However, the picture differs significantly across countries. In most euro area countries as well as in Denmark, the employment rate is close to its lowest level since the start of the crisis and the jobs recovery has in many cases yet to begin. The employment rate is currently higher than at the start of the crisis in countries where the decline in employment following the recession has been small (e.g. Austria and Germany). Employment rates have recovered modestly but tend to remain close to their cyclical trough in the remainder of OECD countries, including Japan and the United States. Labour markets have been relatively resilient in emerging-market countries, reflecting the milder effect of the global crisis. Still, the recent growth slowdown in some of them may not bode well for short-term labour market developments, for example

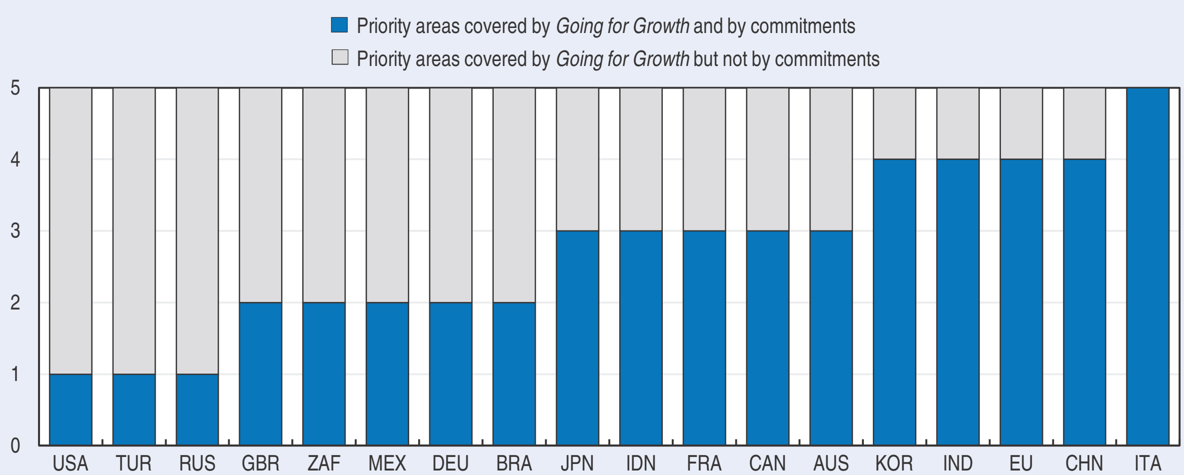
Box 1.4. *Going for Growth* priorities and the G20 Brisbane Action Plan commitment to raise GDP by 2% by 2018

The G20 made a commitment in the November 2014 Brisbane Action Plan to implement new policy measures to lift, by 2018, its collective GDP by more than 2% above the trajectory projected in the October 2013 IMF *World Economic Outlook*. All G20 countries submitted comprehensive national growth strategies, including new structural reform commitments in the areas of product and labour market, policies, as well as investment and trade to achieve the 2% target.

The OECD and IMF provided a joint objective assessment of the impact of new policy commitments. This was based on the set of structural policy indicators and underlying empirical analysis linking specific policy and performance areas used in *Going for Growth*. The OECD and IMF G20 concluded that – if fully implemented – the proposed reform measures can raise overall G20 GDP by 2% by 2018 (OECD and IMF, 2014). This would add more than USD 2 trillion of GDP to the world economy, roughly equivalent to the size of the Australian economy.

How far did G20 countries commit to take action in the priority areas identified by *Going for Growth?* A simple measure is the degree of overlap between the OECD priorities and G20 countries' commitments (see figure below). In around half of the G20 countries and in the European Union, at least three of the five *Going for Growth* priorities are the object of commitments in the comprehensive growth strategies, suggesting that countries are taking action in many of the priority areas.

The degree of overlap between *Going for Growth* priorities and G20 commitments



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At the same time, this measure would suggest that some countries are not taking action in several priority areas identified by *Going for Growth*. This is partly due to the 5-year horizon of the G20 exercise, which means that long-term *Going for Growth* policy priorities, such as reforms of basic education that act over an horizon well beyond five years, are not reflected in G20 commitments. As a result, less than one-third of the *Going for Growth* priorities in the area of skills development and education overlap. In terms of the other major policy areas in *Going for Growth*, the degree of overlap is much higher in the case of product market regulations than labour market policies. G20 countries have clearly made substantial commitments in the Brisbane Action Plan, but it is clear that there remains considerable scope for more ambitious policies in some priority areas.

if it spurs an increase in informality. Fostering job creation in the formal sector can help maintain growth rates that are sufficiently robust to continue narrowing the income gaps *vis-à-vis* advanced countries.

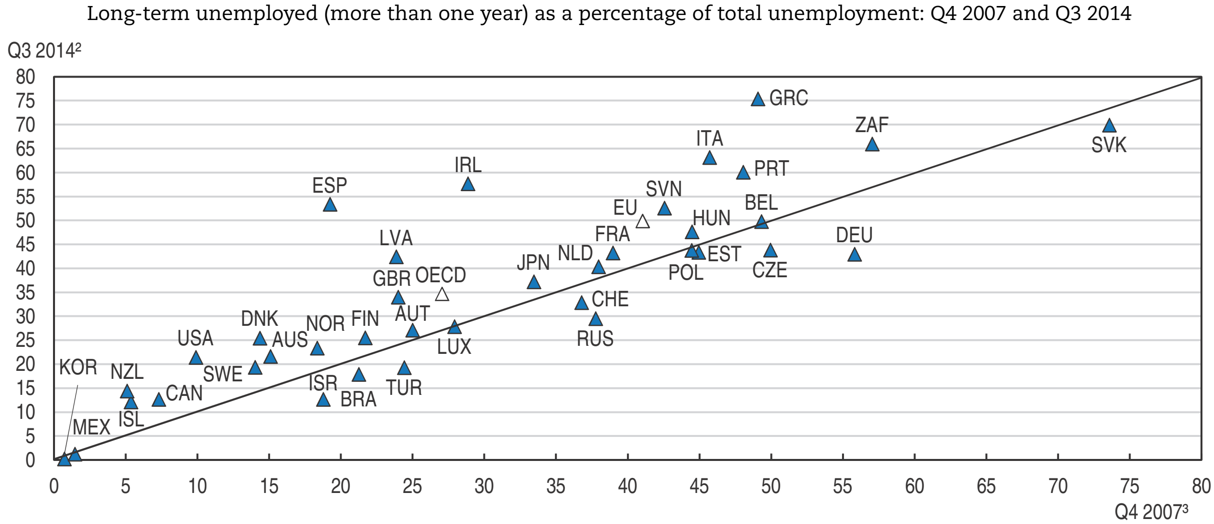
The OECD-wide unemployment rate has started to fall, according to the most recent data. In particular, unemployment rates in countries most severely affected by the euro area crisis as well as in the United States are now considerably below their cyclical peaks. The more vigorous improvement in unemployment relative to employment reflects the decline in labour force participation observed in a number of OECD countries, such as Denmark, Ireland, Portugal and the United States. The extent to which this decline reflects cyclical as opposed to secular factors already at work before the crisis (such as the gradual rise in school enrolment) has been intensively analysed and debated in the case of the United States. Attempts to provide a quantified assessment are clouded by the considerable uncertainty that remains regarding the amount of labour market slack.

Long-term unemployment has increased substantially in countries that were initially hard hit by the financial crisis, including in those where the pre-crisis incidence was relatively low before, such as Latvia, Spain and the United States (Figure 1.6). In others, it remains persistently high though closer to the pre-crisis levels (the Slovak Republic and South Africa) or even below (Germany). Tackling either the sharp rise in or the high level of long-term unemployment (or both as in the case of Greece, Ireland, Italy and Portugal) is therefore a pressing and widespread challenge across the OECD.

Recent analysis indicates that some of the cyclical increase in unemployment has become structural in a number of OECD countries. Matching efficiency, i.e. the ease with which jobseekers find jobs and job vacancies are filled, may have deteriorated. Tentative evidence suggests that this may be the case in New Zealand and the United States, where the incidence of long-term unemployed has increased significantly since the crisis; however, this is difficult to establish empirically and results need to be taken with caution.

Figure 1.6. **The incidence of long-term unemployment remains high**[1]

Long-term unemployed (more than one year) as a percentage of total unemployment: Q4 2007 and Q3 2014



1. For OECD countries, data are smoothed using three-quarter moving averages. OECD is a weighted average excluding Chile.
2. Data refer to 2013 for Israel, Q1 2014 for the Russian Federation.
3. Data refer to Q1 2008 for South Africa.

Source: OECD calculations based on quarterly national Labour Force Surveys (cut-off date: 13 January 2015).

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Reduced matching efficiency may reflect the growing role of mismatch in terms of skills, industries and regions. It can, however, also reflect the possibility that some of the long-term unemployed have become discouraged and are thus reducing their search intensity; and also, that they are being discriminated against by employers.

Going for Growth reform recommendations can mitigate the potential long-term labour market effects of the crisis. Notably, a well-integrated system of passive (i.e. unemployment benefits) and active (i.e. job search support, counselling and training programmes) labour market policies can facilitate the return to work and improve the matching between workers and jobs.

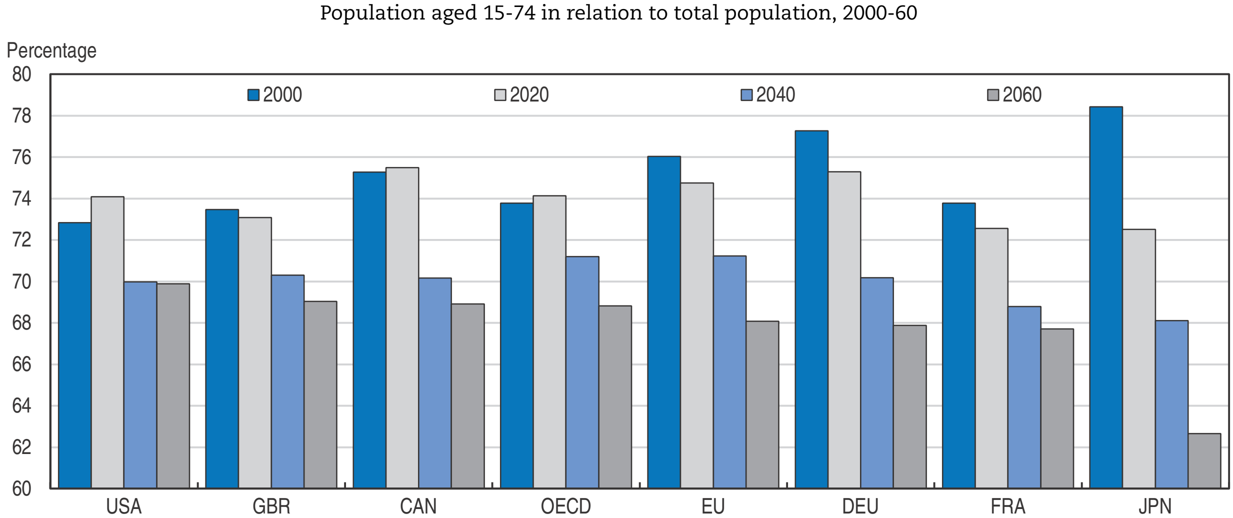
Demographic developments and long-term challenges

The demographic dividend in the form of rising participation rates, fewer dependent children and low shares of elderly citizens is bound to gradually disappear (Figure 1.7).[23] The share of population that is of working age has been falling in Japan since the late 1990s and is close to its peak in many other OECD countries. It is no longer increasing in China, contrasting with the expected continued rise in India, at least until 2050. Between 2010 and 2060, the OECD's population is expected to increase by 17%, but the working-age population (aged 15-74 years) may fall by 7%, according to recent projections developed under the *OECD 50-Year Global Scenario* (OECD, 2014a). Even though further pension and labour market reforms may increase labour force participation rates in the OECD by a few percentage points, labour's contribution to growth in GDP per capita is likely to be near zero throughout the period in the average OECD country.

The demographic challenge can be partly addressed by removing policy impediments to labour force participation in order to better support individual labour supply choices. Priority should be given to achieving stronger inclusion in the labour force by encouraging the participation of under-represented groups such as women and elderly workers. Reforms in this area would raise growth and make it more inclusive. Associated *Going for Growth* reform recommendations cover different areas such as tax and benefit systems but also childcare provisions.

Figure 1.7. **The demographic evolution creates further growth policy challenges**

Population aged 15-74 in relation to total population, 2000-60



Source: OECD, *Economic Outlook 95 Long-term Database*.

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Tax system – levels of labour tax wedges

High average and in particular marginal taxes on labour incomes tend to depress individuals' labour supply by discouraging full-time labour force participation. In addition, high labour tax wedges can reduce firms' labour demand by driving up the cost of labour (due to high employers' contribution or payroll taxes). As a result, high labour tax wedges are associated with lower employment and hours worked as well as higher unemployment. Such detrimental effects are stronger for workers facing foremost labour demand-side obstacles, generally youth and the low-skilled, and those facing supply-side obstacles, generally second earners and lone parents. Too high and ill-designed social security provisions and tax wedges are also major drivers of labour informality, reflecting both labour demand and supply-side obstacles.

Reducing labour taxes, including through cuts in social security contributions, is thus a priority for many advanced and emerging-market countries (Table 1.2). Sometimes financial disincentives to take up work reflect the combined effect of taxes and benefits rather than only that of labour taxes – often in higher-income countries where welfare states are comparatively more developed. In such cases, reforms should focus on improving the design and articulation between taxes and benefits or on the use of earned income tax credits (EITC) with a view to achieving income redistribution without undermining work incentives.[24]

The pace of reforms has been relatively weak in this area (Figure 1.4), a likely reflection of budgetary constraints. In order to avoid deterioration of budget positions, such recommendations are advocated as part of broader reforms to enhance the efficiency of tax systems (see detailed discussion in the productivity section below). These include measures such as: i) broadening the tax base, for instance by eliminating numerous tax exemptions; ii) combating tax evasion; iii) simplifying the tax code; and iv) shifting taxation towards less distortive sources of revenues, such as inheritance, immovable property, consumption and environmental tax bases, found to be less damaging to growth and welfare (Arnold et al., 2011).

Failure to reform in this area could be very costly at the current juncture. This is because high levels of labour taxation are often the counterpart of high expenditure on social protection, which are in large part financed through social contributions weighing mainly on earnings and labour costs (at least in a number of countries, such as France). As a result, in the current context of high public debts, enhancing the efficiency of both social expenditure and tax systems should figure high in the policy agenda. Because reforms aimed at lowering the cost of social protection while increasing the efficiency of the system are difficult to implement and may take time to produce their effects (as is the case with pension reforms), the cost of inaction could be very high.

Policy barriers to the full-time labour force participation of women

A high proportion of women are excluded from the labour market in a number of countries, while in others they are overrepresented among (involuntary) part-time workers (Figure 1.8). Recommendations are made to encourage female labour force participation or hours worked where those are particularly low and can be traced to ill-designed policies. This requires family-friendly policies and working conditions which enable fathers and mothers to balance their working hours and their family responsibilities and facilitate women's participation in employment. The majority of policy recommendations fall in

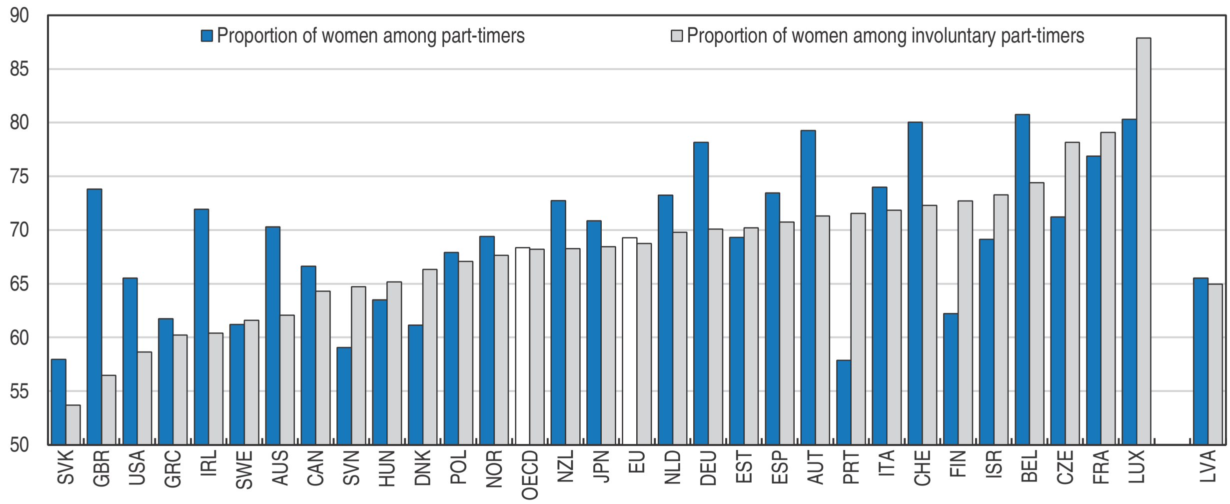
Table 1.2. **Labour taxation and policy barriers to full-time female participation**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Tax system – levels of labour tax wedges and their interaction with transfers and benefits																					
Reduce average/marginal labour tax wedges		✓	✓				✓	✓		✓	✓	✓						✓			
Reduce labour tax wedges by reducing social security contributions		✓									✓	✓		✓							
Reduce marginal labour tax wedges for high wage workers																					
Reduce labour tax wedges for low-wage workers		✓	✓			✓		✓				✓		✓							
Remove tax and benefit disincentives to low earners full-time participation/introduce or expand EITC			✓											✓		✓	✓				✓
Remove tax and benefit disincentives to full-time female/second earners/lone parents participation						✓						✓				✓			✓		
Policy barriers to full-time female participation – other than taxes and benefits																					
Expand access to quality childcare and early education/improve targeting	✓				✓	✓						✓				✓			✓	✓	
Reform parental leave policies						✓														✓	

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Tax system – levels of labour tax wedges and their interaction with transfers and benefits																						
Reduce average/marginal labour tax wedges					✓												✓			✓		
Reduce labour tax wedges by reducing social security contributions												✓					✓					
Reduce marginal labour tax wedges for high wage workers										✓												
Reduce labour tax wedges for low-wage workers		✓			✓							✓										
Remove tax and benefit disincentives to low earners full-time participation/introduce or expand EITC		✓						✓					✓							✓		
Remove tax and benefit disincentives to full-time female/second earners/lone parents participation		✓					✓				✓											
Policy barriers to full-time female participation – other than taxes and benefits																						
Expand access to quality childcare and early education/improve targeting			✓		✓		✓				✓	✓	✓	✓			✓					
Reform parental leave policies							✓															

Figure 1.8. **Part-time work is widespread among women**[1]

Percentage, 2013



1. Involuntary part-time workers are those working part-time either because they cannot find a full-time job or because they cannot work more hours in their current job. In most countries part-timers are those working less than 30 hours a week, except for Japan (less than 34 hours a week). 2012 data for Japan.

Source: OECD, *Labour Force Statistics Database*.

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three main reform areas – with differential thrust reflecting country-specific context (Table 1.2): i) the level and design of taxes and benefits; for example fiscal disincentives to work for second earners such as tax allowances for non-working spouses (e.g. the Slovak Republic) and systems of joint taxation[25] (e.g. Germany); ii) high costs, weak targeting and therefore limited access to childcare (e.g. Ireland); and iii) ill-designed parental leave policies or low take-up of parental leave arising from e.g. lack of flexibility in working-time arrangements such as underdeveloped part-time work (e.g. Korea).[26]

Some reforms have taken place in this area (Figure 1.4). OECD Governments have focused on progressively expanding childcare facilities (OECD, 2014a), but efforts have been very piecemeal and access for children from disadvantaged households remains low, which calls for improved targeting. Removing remaining disincentives to full-time work, especially for second earners and lone parents, would allow for a better balance between work and family and a narrowing of gender-related inequalities. This would bring equity and welfare gains.

Social benefits and measures to facilitate the return to work

Unemployment benefits (UB), social protection and active labour market policies (ALMPs). The goal of UB, social protection and ALMPs is to provide adequate income support during jobless spells while encouraging the return to work with a view to efficiently matching workers and jobs. This implies associating counselling with training services. The main challenge consists in designing social protection systems that minimise trade-offs between financial sustainability, adequacy and efficiency (Fall et al., 2014). At the current juncture, a large number of countries need to address the rise in long-term unemployment before it turns into higher structural unemployment. This requires policies targeted at the long-term unemployed, such as a more intensive and personalised approach to case management (e.g. regular face-to-face interviews and the development of individual action plans) as well as measures to find job opportunities that contribute to skills acquisition and work experience. Examples of such programmes targeted at the long-term unemployed are the Work Programme in the United Kingdom and the Work Experience Phase in Australia.[27]

As discussed above, the importance of ALMPs is increasingly recognised, as reflected in the sustained pace of reforms in this area since the post-crisis period. Despite this encouraging progress, reforms in this area are still needed, with differential emphasis depending on country-specific performance and policy challenges:

- Belgium, Finland, France, Luxembourg, the Netherlands, Portugal and Slovenia need to improve the design and integration of unemployment benefit and activation schemes so as to better support the return to work. Unemployment income replacement rates for both short and long-term unemployment spells are above the OECD average, while in some cases only weak conditionality for receiving benefits is in place (Venn, 2012). Recommendations include: i) reinforcing the link between benefits, job search and participation in active measures; ii) systematically evaluating the effectiveness of such measures; iii) tapering unemployment benefits along the unemployment spell; and iv) reducing the combined generosity of unemployment benefits and other social transfers (including for the inactive).
- Estonia, Israel, the Slovak Republic, South Africa and the United Kingdom need to develop ALMPs to help workers with weak labour market attachment to find jobs and, where needed, to develop appropriate skills. The emphasis of the recommendations is on better targeting of the groups most at risk (in particular youth and the low-skilled), as well as on more accountability and co-operation with employers.
- Greece, Ireland, Italy, Latvia, Portugal, Spain and the United States have experienced a sharp increase in long-term unemployment relative to pre-crisis levels (Figure 1.6) – and there is evidence that this may have reduced matching efficiency, at least in the United States. As a result, these countries should devote more resources to ALMPs in general but programmes should also be systematically evaluated and funding should be allocated to those that are most effective at increasing employability. As introduced above, policies targeted at long-term unemployed, including re-training programmes, are needed at the current juncture, concentrating on measures that work best given country-specific context.
- Italy, Japan, Korea and Portugal need to increase the coverage of social protection and expand job counselling and training programmes, in combination with appropriate activation measures. Incomplete coverage is a particular concern in these countries because of the incidence of labour market duality, reflected in a substantial proportion of the workforce (often those on fixed-term contracts) that is not covered by the system. Low coverage can hamper the return to work and therefore depress labour market performance and matching: inappropriate income support can reduce the intensity of job search, thereby discouraging jobseekers and inducing them to withdraw from the labour market. In the broader area of the social safety net, Greece should ensure timely implementation of the recently agreed minimum income scheme, drawing lessons from its initial pilot phase.
- Some emerging-market economies (Chile, Indonesia and Turkey) are recommended to increase the coverage of social protection because their welfare systems are comparatively underdeveloped, which contributes to labour informality. The

Russian Federation should raise the level of unemployment benefits and reinforce active labour market and training programmes. This would help reducing the high incidence of long-term unemployment (Figure 1.6), hence improve matching between individual and jobs and encourage human capital accumulation. China is encouraged to reduce barriers to mobility and enable internal labour reallocation by increasing social (education and healthcare) transfers and services to internal migrant families.

Retirement and disability schemes. For a decade, pension reform has been high on the agenda of many governments. Countries have launched significant pension reforms, including raising retirement ages, amending the way entitlements are calculated and introducing measures to generate savings in their pension systems. The crisis has been a major accelerator of pension reform, reflecting fiscal consolidation as well as financial market pressure to signal commitment for debt sustainability (OECD, 2013a). It is therefore not surprising that efforts in this area have been less intensive than during the immediate post-crisis period (Figure 1.4).

Long-term rather than short-term considerations should now prevail as a basis for further action in this area. Public spending on pensions is projected to increase in the vast majority of advanced countries as well as in a number of emerging-market countries over the next 40 years (OECD, 2013f; OECD, 2014a). Such a development is natural as the predicted increase in life expectancy at the age of 65 for the next half century will lead to much higher numbers of pensioners than currently. By now it is widely accepted in most countries that pension systems and rules need to change over time, in particular that retirement ages should adjust to longevity.

The need to implement pension reforms in order to boost growth via higher labour utilisation is more pressing and therefore identified as a *Going for Growth* priority for some countries (Table 1.3), which display relatively low levels of labour force participation and are characterised by financial disincentives for workers to remain active at older ages. Routes to early retirement (for example, exemptions and relaxation of benefit rules targeted at the older unemployed) have been closed by many countries in the 2000s, and such reforms have been successful at raising older workers' employment rates. Nevertheless there are exceptions such as Austria, Belgium and Poland. For the rest of the countries that have a priority in this area, most recommendations cover the general system, e.g. adjusting benefits and retirement age in line with life expectancy and making benefits actuarially neutral.

Pension reform can be examined in light of other objectives than boosting GDP growth: such is the case of ensuring appropriate coverage, adequacy and fiscal sustainability and this leads to frequent trade-offs and synergies, as discussed in detail in OECD (2013f). For example, lowering the generosity of the pension premise can encourage working longer and increase fiscal sustainability but is likely to reduce pension income adequacy. On the other hand, widening the coverage of occupational pensions eases the pressure on the state budget to provide pension and helps diversity risk and improve adequacy.

Reducing early labour market withdrawal via pension reform could trigger an increase in the use of other exit routes, such as disability and sickness benefits. These schemes are sometimes misused and poorly targeted but they are needed to ensure appropriate incomes to individuals whose health status temporarily or permanently prevents them from working or searching for jobs. Reforms have been achieved in the latest period, not least reflecting the crisis context and the need to reduce the risk of labour market

Table 1.3. **Social benefits and ALMPs**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Unemployment benefits/social protection and ALMPs																					
Make UB conditional on work availability and job-search criteria/reinforce activation			✓							✓	✓							✓			
Taper UB along duration/reduce age-bias in UB/reduce progressively the combined generosity of UB and other social benefits (i.e. reduce spikes in marginal effective tax rates)			✓							✓						✓					✓
Expand the coverage or level of UB/social protection and social services	✓				✓								✓					✓			
Expand the coverage of UB, job counselling and training programs to e.g. non-regular workers																		✓	✓	✓	
Strengthen resources for job-search assistance and training whilst improving targeting of ALMPs								✓					✓			✓		✓			
Focus on well-targeted training programs/requalification								✓			✓		✓			✓					
Strengthen monitoring and evaluation of PES											✓		✓			✓		✓			
Expand/target job-placement schemes								✓									✓				
Retirement and disability policies																					
Phase out early retirement pathways (via disability or unemployment)		✓	✓				✓			✓				✓							✓
Increase statutory or minimum retirement age			✓							✓											
Lengthen contribution requirements to claim full pension/make benefits actuarially neutral																					✓
Adjust benefits/retirement age in line with life expectancy		✓								✓				✓							✓
Increase the portability of pension rights									✓												
Review criteria to disability benefits, improve monitoring and integration with ALMPs		✓					✓	✓													

Table 1.3. **Social benefits and ALMPs** *(cont.)*

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Unemployment benefits/social protection and ALMPs																						
Make UB conditional on work availability and job-search criteria/reinforce activation		✓																				
Taper UB along duration/reduce age-bias in UB/reduce progressively the combined generosity of UB and other social benefits (i.e. reduce spikes in marginal effective tax rates)						✓		✓														
Expand the coverage or level of UB/social protection and social services												✓				✓			✓		✓	
Expand the coverage of UB, job counselling and training programs to e.g. non-regular workers						✓																
Strengthen resources for job-search assistance and training whilst improving targeting of ALMPs						✓	✓		✓				✓	✓						✓		
Focus on well-targeted training programs//requalification		✓				✓	✓		✓												✓	✓
Strengthen monitoring and evaluation of PES						✓			✓				✓									
Expand/target job- placement schemes							✓															✓
Retirement and disability policies																						
Phase out early retirement pathways (via disability or unemployment)					✓			✓														
Increase statutory or minimum retirement age					✓			✓				✓										
Lengthen contribution requirements to claim full pension/make benefits actuarially neutral								✓				✓										
Adjust benefits/retirement age in line with life expectancy												✓										
Increase the portability of pension rights																						
Review criteria to disability benefits, improve monitoring and integration with ALMPs		✓		✓						✓				✓								

withdrawal via disability schemes. Recommendations in this area are frequent for the Nordics (Table 1.3), for which a high prevalence of disability has historically been a major challenge. Priority should also be given to disability reforms in the United States, for which this has more recently become an issue: indeed, evidence suggests that the increase in (self-reported) disability may account for about one third of the decline in labour force participation since the beginning of the crisis (OECD, 2014d).[28] Priority should be given to enhancing monitoring of eligibility to disability schemes and, where needed, tightening access to such schemes. Enhanced workplace accommodation and rehabilitation services, increased collaboration with employment services and carefully designed activation measures can promote the return to work.[29]

Labour market regulations and collective wage agreements

Job protection. Stringent employment protection legislation (EPL) may slow down the reallocation process and aggregate productivity growth because it raises labour adjustment costs for the firms (Haltiwanger et al., 2006; Bassanini et al., 2009; Autor et al., 2007). It may also have become more undesirable from the perspective of promoting entrepreneurship and risky investment in knowledge-based capital (KBC), as shown in a recent study (Andrews et al., 2013). At the same time, employment protection may raise the worker's commitment and the firm's incentives to invest in firm-specific human capital, which could raise within-firm productivity (Boeri et al., 2014).

OECD countries are showing signs of a pause in reforms, which follows a period of important changes in a number of countries.[30] A clear tendency towards reducing the strictness of employment protection is observable over the past decade, mostly focussed on regulations governing individual and collective dismissals. Between 2008 and 2013, in particular, more than one-third of OECD countries undertook some relaxation of these regulations, with reforms concentrated in countries with the most stringent provisions at the beginning of the period. Moreover, the main policy interventions since 2008 have consisted in limiting the possibility of reinstatement in the case of unfair dismissal and the extension of the duration of the trial period. These have typically been found in the empirical literature to be aspects of EPL most affecting gross worker flows, in general, and job-to-job transitions, in particular (Bassanini and Garnero, 2013).

Only limited action has occurred as regards temporary contracts. This is in marked contrast with developments during the 1990s and early 2000s, whereby in many countries, hiring on temporary contracts was largely deregulated while stringent restrictions on regular contracts were maintained. Such reforms largely contributed to the development of dual labour markets where outsiders tend to move from one temporary contract to another while insiders enjoy high protection and greater job stability. The empirical literature has clearly pointed out the negative consequences of dual labour markets, in both efficiency and equity terms.[31] This suggests that policymakers are increasingly aware of the danger of facilitating workforce adjustments only through temporary contracts and governments now strive to find a new balance between flexibility requirements and the need for employment security.

Despite the progress achieved, reforms in this area are still needed in a number of countries. The emphasis is on simplifying procedures and reducing costs associated with lay-offs but at the same time strengthening the protection of individuals (as opposed to jobs). This requires having in place adequate income support for the unemployed as well as effective job-search counselling and re-employment services. As a result, job protection recommendations are often formulated as part of broader labour market reform packages – with differential emphasis depending on countries' challenges and weaknesses. Priorities in this area often also cover the efficiency of the process of dispute resolution, as this is a key determinant of the costs and effectiveness of employment protection.[32] Resolving disputes early (either through pre-court dispute resolution mechanisms or pre-trial conciliation) saves time and money compared with waiting for a court decision. Establishing specialised courts or procedures to handle unfair dismissal cases (as is currently the case in more than half of OECD countries) and alternative resolution mechanisms are options to increase effectiveness and efficiency of consultations:

Reforming job protection is a common challenge for both advanced and emerging-market countries (Table 1.4):

- They are still recommended in many European countries, though some of them have taken significant action in the post-crisis period (see previous section and OECD, 2013a; 2013e).
- They should be given prominence in Japan and Korea, where progress has been piecemeal. These countries also suffer from pervasive labour market duality, which contributes in their specific context to exclude women from the labour market.
- They are often recommended for emerging-market countries where little action has been taken in this area, as presented above. High firing and hiring costs in these countries reinforce involuntary informality. A reduction in the strictness of job protection combined with a strengthening of the protection of income, via an extension of the coverage of social insurance systems is one way forward to draw labour force out of informality. Labour law enforcement can also be a challenge in lower-income countries and this can be partly addressed by expanding or better targeting labour inspectorates.

Minimum wages and wage bargaining systems. Low-paid employment is a policy concern when it is associated with in-work poverty or reflects situations where workers are unable to get wages in line with their productivity or to find jobs that make full use of their skills. Such may be the case in Germany and the United States: the proportion of low-wage earners (i.e. earning less than two-thirds of the median wage) is close to one-fifth of employees in Germany and one-quarter in the United States. In order to address this problem, Germany has recently introduced a national legal minimum wage and in the United States, the starting level of the minimum wage has been raised substantially.

The benefits of such measures notwithstanding, setting the level of the minimum wage requires a careful balancing. Too low *net minimum wages* (i.e. minimum-wage workers' take-home pay after they pay taxes, social security contributions and, possibly, receive benefits) can fail to assure adequate living standards and is likely to be ineffective in fostering incentives to work for individuals at the margin of the labour market, in particular the low-skilled. Too high minimum *labour costs* (i.e. the gross cost of employing a minimum-wage worker once payroll taxes and employers contributions are added) can reduce firms' incentives to hire or to formalise employment. Countries have shown quite different preferences in this area (Figure 1.9 and OECD, 2014d).

Policies and institutions can help to avoid minimum wages that are too high and minimise any adverse employment effects. This can be achieved by:[33] i) providing differentiated minimum wages (by age to take account of differences in experience,[34] and by region to take account of differences in average income levels); ii) delegating to an independent agency the responsibility for setting the level of minimum wages;

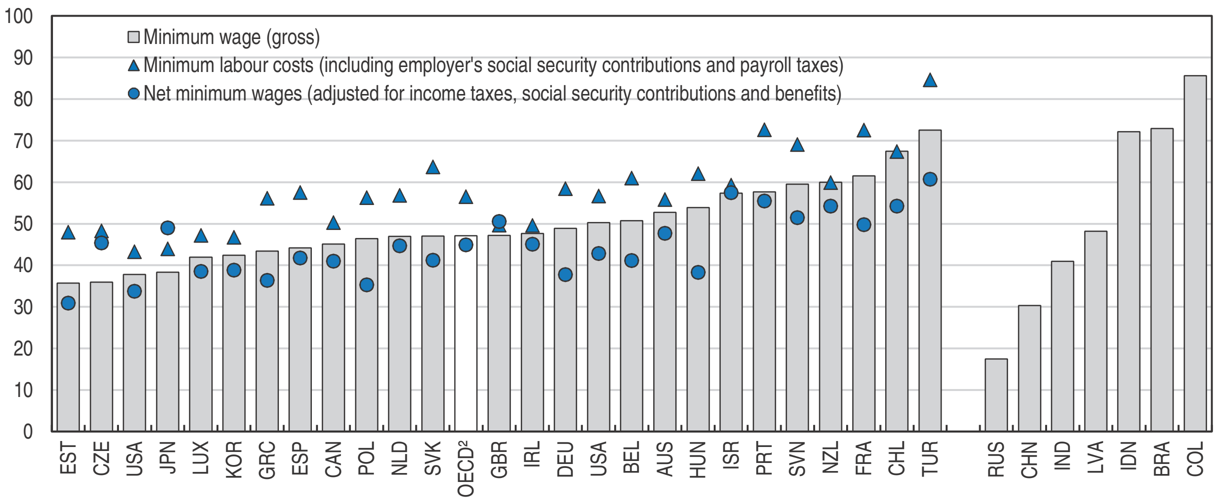
Table 1.4. **Labour market regulation and collective wage agreements**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Job protection																					
Ease EPL on regular workers to narrow the gap with respect to non-regular workers and tackle labour market duality					✓						✓	✓						✓	✓	✓	
Shorten judicial procedures/improve efficiency of the process of dispute resolution											✓							✓	✓	✓	
Lower notice period or severance pay					✓																✓
Ease conditions for justified individual or collective dismissals											✓										✓
Ensure the enforcement of labour laws																	✓				
Minimum wages and wage bargaining systems																					
Reduce the minimum cost of labour/allow for age or regional differentiation																					
Reduce or eliminate administrative extension of collective wage agreements/promote wage bargaining at the firm level			✓																		

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Job protection																						
Ease EPL on regular workers to narrow the gap with respect to non-regular workers and tackle labour market duality									✓	✓								✓				
Shorten judicial procedures/improve efficiency of the process of dispute resolution		✓																				
Lower notice period or severance pay		✓							✓			✓							✓			
Ease conditions for justified individual or collective dismissals		✓								✓								✓	✓			
Ensure the enforcement of labour laws																						
Minimum wages and wage bargaining systems																						✓
Reduce the minimum cost of labour/allow for age or regional differentiation								✓				✓					✓		✓			✓
Reduce or eliminate administrative extension of collective wage agreements/promote wage bargaining at the firm level						✓			✓													

Figure 1.9. **Minimum wages vary widely across OECD and BRIICS countries**[1]

Ratio of minimum to median wage of full-time dependent employees, 2012



1. Countries are ordered by ascending order of the minimum-to-median wage ratio for all countries except for Germany and the United States (ratio after reform proposals). Percentage of minimum to average wage for China, Indonesia, the Russian Federation and India. Data refer to 2013 for BRIICS countries, Latvia and Colombia and to 2009-10 for India.
2. Median ratio for the countries shown.

Source: OECD (2014), *OECD Employment Outlook 2014*, OECD Publishing, Paris; *OECD Employment Outlook Database*; China Ministry of Human Resources and Social Security, National Bureau of Statistics; Instituto Brasileiro de Geografia e Estatística (*Pesquisa Nacional por Amostra de Domicílios*); ILO (International Labour Organization), *Database on Conditions of Work and Employment Laws*; Ministry of Man Power and Transmigration of the Republic of Indonesia and Statistics Indonesia; Russia Federal State Statistics Service; and Rani, U., P. Belser, M. Oelz and S. Ranjbar (2013), "Minimum wage coverage and compliance in developing countries", *International Labour Review*, Vol. 152, No. 3-4.

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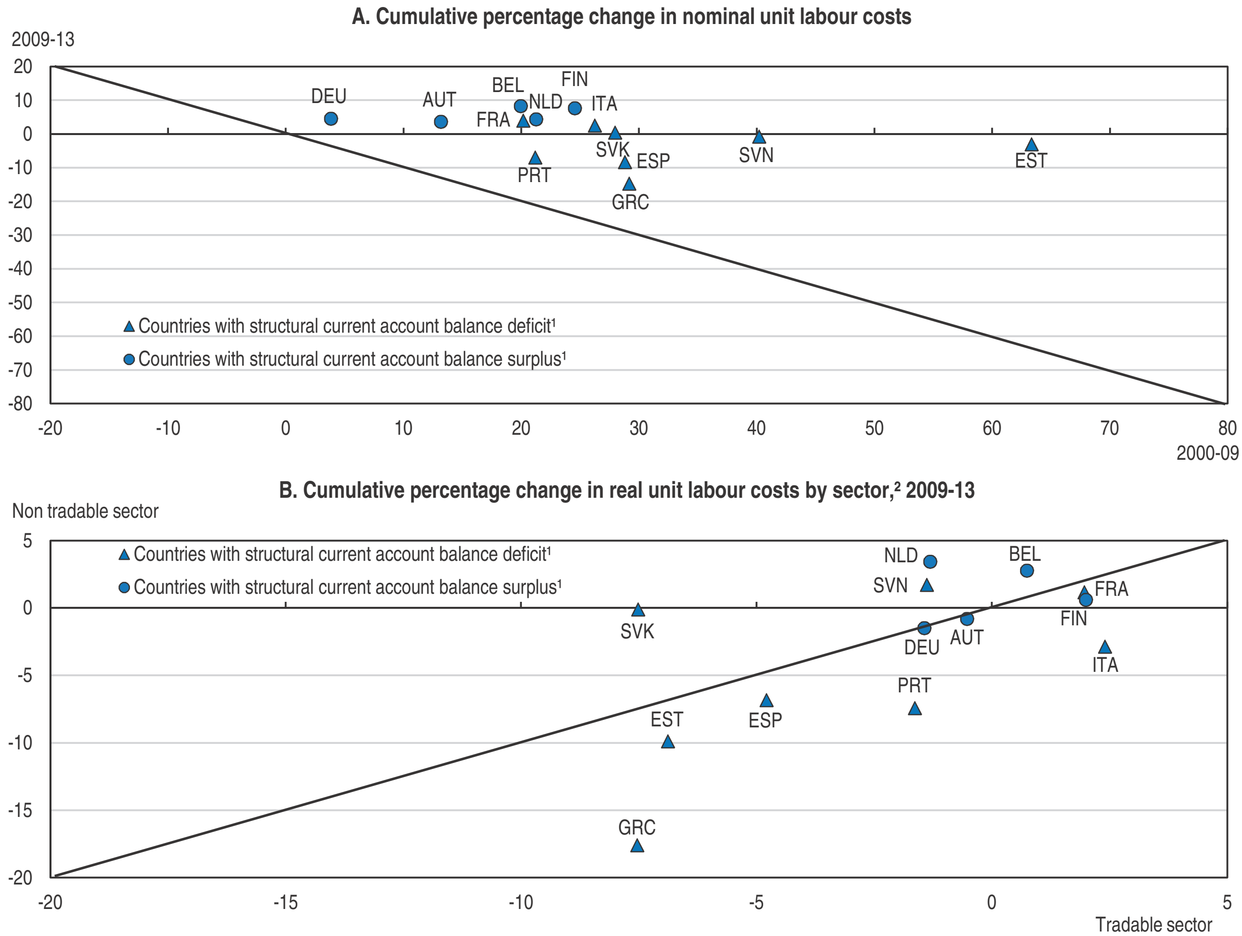
iii) establishing preferential rates to lower non-wage labour costs at the minimum wage; and iv) introducing in-work-benefits for low-paid workers to avoid nominal increases in minimum wages and therefore reduce the real labour costs of minimum wage earners.[35] Reforms in this area are recommended for countries where ill-designed minimum wage policies appear to weigh on low-skilled or formal employment (Table 1.4).

The cost of labour can also be driven to levels that are detrimental to employment by collective wage agreements that in some countries are administratively extended to workers and employers who are not party to the original negotiations and settlements (and who may sometimes be in different sectors and regions). Recommendations emphasise reducing or eliminating automatic extension of wage agreements and, more broadly, promoting wage bargaining at the firm level (Table 1.4). Reforms along these lines increase the responsiveness of wages to labour market conditions and help preserve jobs in downturns.

Despite the more recent slowdown in actions taken (see Figure 1.4), earlier reforms in this area may have contributed to the significant decline in unit labour costs observed since 2009 in Greece, Portugal and Spain.[36] However, this decline remains small relative to the increase that, in the pre-crisis period, led to large losses of competitiveness in these and other euro area countries (Figure 1.10, Panel A).

Continuous monitoring of the effects of the reforms in this area is advisable, and governments must be ready to implement further action if performance worsens.[37] Monitoring trends in income inequality is also needed in order to guarantee that costs and benefits of these reforms are equally shared. Further adjustments based on wage cuts may be difficult to achieve at the current juncture.[38] Restoring competitiveness in euro area periphery

Figure 1.10. **Southern euro area countries have regained some competitiveness**



1. Countries are classified according to their current account balance before the global financial crisis (2007). The last available year is 2012 for Austria, Estonia, France, Italy, Portugal and the Slovak Republic.
2. Tradable sector refers to manufacturing, wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, information and communication, financial and insurance activities, real estate activities, professional, scientific and technical activities, administrative and support service activities. Non-tradable sector refers to construction, accommodation and food service activities, public administration and defence, compulsory social security, education, human health and social work activities, arts, entertainment and recreation, other service activities, activities of households as employers, undifferentiated goods and services producing activities of households for own use, Activities of extraterritorial organisations and bodies.

Source: OECD (2014), *OECD Employment Outlook 2014*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933177394

countries requires complementary measures to stimulate product market competition and facilitate the reallocation of capital and labour resources across firms and sectors:[39]

- Prices eventually adjust in response to wage developments. Yet, available evidence suggests that nominal reductions in wages have not fully transmitted into lower prices in euro area periphery countries where nominal wage adjustments have been large: real unit labour costs have tended to decline, and this decline tends to be largely concentrated in the non-tradable sector. This suggests that lower nominal wages, particularly in the non-tradable sector, were not fully passed onto lower prices, reducing the labour share in overall income (Figure 1.10, Panel B, and OECD, 2014e). This is likely to reflect limited product market competition in the non-tradable sector. As developed below, product market reforms are necessary complements to labour market reforms in this context, by spurring price responsiveness to wage developments.

- To rebalance the economy, activity and jobs need to shift from non-tradable to tradable industries. Again, the data suggest that such reallocation has been particularly slow in euro area periphery countries, potentially reflecting skills mismatch (OECD, 2014e). As a result, reforms of ALMPs are also needed – especially for training and work-experience programmes.

Housing, planning and zoning policies

Ill-designed institutional settings regulating (residential and commercial) property and land-use can discourage labour as well as capital mobility, often by distorting the price responsiveness of construction to supply and demand conditions. Country-specific recommendations in this area are formulated with a view to boost both labour utilisation and labour productivity (Table 1.5).[40] As in other policy areas, some recommendations can raise tradeoffs with other objectives, in particular equity (see Chapter 2). One example is social housing, which is an important tool to improve access to affordable housing among vulnerable households, but may act as a barrier to labour mobility.

The main channels through which policy distortions can depress labour utilisation and productivity include (see Chapter 4 in OECD, 2011a):

- Excessive rent regulations result in under-developed rental markets (e.g. Sweden). This hinders labour mobility and reallocation, reducing in turn matching between workers and jobs. The consequence is lower productivity and higher unemployment.
- Overly stringent planning and zoning regulations raise house price levels and volatility (e.g. the United Kingdom). This undermines financial and economic stability. It also reduces productivity as a result of lower competition – for instance in certain sectors such as retail trade.
- Generous tax treatment of home ownership (such as mortgage interest deductibility without taxation of imputed rents, e.g. the United States) is an inefficient public subsidy: it contributes to capital misallocation, which reduces productivity and raises housing price pressures, with the risk of creating housing bubbles. Furthermore, it is generally a regressive transfer, as lower-income households are less likely to benefit from it (Cournède et al., 2013).

Policies to enhance labour productivity

Short-run challenges

Labour productivity growth has tended to be negative in the large majority of OECD countries during the crisis period, in part as a result of labour hoarding. The gradual recovery in aggregate demand has allowed productivity growth to turn positive during the initial recovery but it remains sluggish in most countries. One of the factors contributing to the slow pick-up in labour productivity is the weak recovery in fixed investment, in particular compared to previous recovery episodes (OECD, 2014g). Macroeconomic policies can help stimulate investment by supporting demand. Structural policies can also play a role in improving short-term prospects, notably by reducing uncertainty about the state of the economy, future policy developments and external financing conditions. Co-ordinated efforts across countries should also be pursued to tackle remaining financial system dysfunctions and ensure that the quality of banks' balance sheets is restored. Efforts in individual countries on areas identified as priorities are also likely to help boosting investment, in particular the lifting of restrictions facing foreign investors, as well as those hindering the funding of infrastructure projects.

Table 1.5. **Housing, planning and zoning policies**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Remove obstacles to the expansion of a private residential market/reduce rent regulation							✓														
Improve targeting or reduce the use of housing subsidies/improve targeting in the provision of social housing							✓														
Reduce/eliminate preferential tax treatment for housing investment/reform property taxation							✓	✓													✓
Loosen/reform land, zoning and planning restrictions							✓			✓						✓					✓

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Remove obstacles to the expansion of a private residential market/reduce rent regulation		✓			✓		✓			✓												
Improve targeting or reduce the use of housing subsidies/improve targeting in the provision of social housing		✓					✓															
Reduce/eliminate preferential tax treatment for housing investment/reform property taxation		✓		✓	✓					✓				✓								
Loosen/reform land, zoning and planning restrictions		✓			✓					✓			✓					✓				

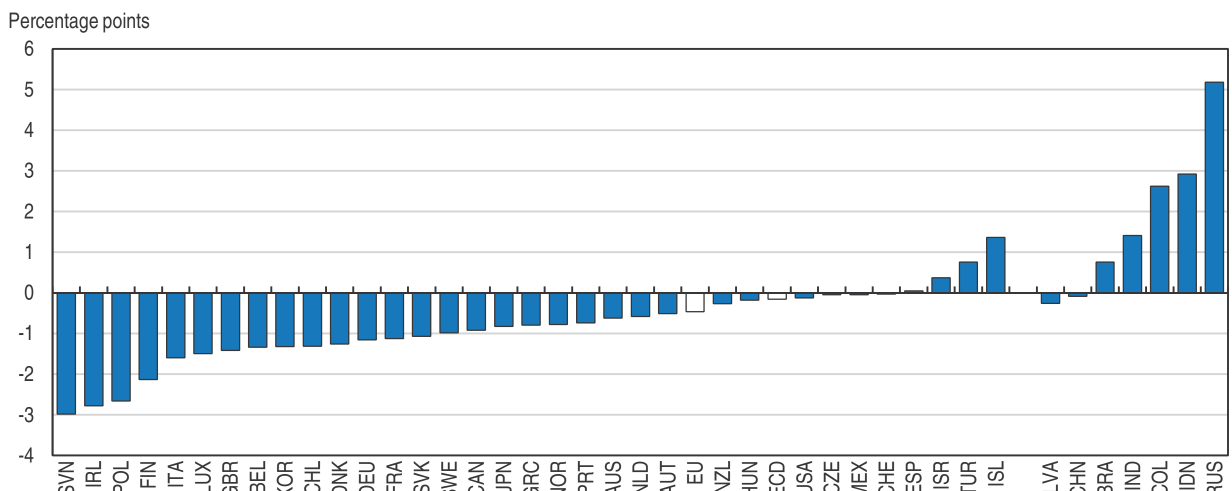
Note: For Finland, Sweden and the United Kingdom, this recommendation is mainly aimed at boosting productivity but is covered here to simplify the presentation.

Long-term challenges

Beyond cyclical developments, there is some evidence of a general slowdown in productivity growth during the 2000s compared with the previous decade (Figure 1.11). In a longer-term perspective, productivity growth is expected to slow in advanced and especially emerging-market countries as detailed in the *OECD 50-Year Global Scenario* (OECD, 2014a). Emerging-market countries have grown rapidly in recent years, but the pace of catching-up is likely to slow sharply as GDP per capita in these countries converges towards higher levels. Because of demographic developments in advanced economies, growth is bound to become increasingly dependent on rising multifactor productivity (MFP): OECD long-term projections suggest that the MFP contribution to GDP per capita could rise from around 54% to 88% in OECD countries between 2010 and 2060.

Figure 1.11. **Trend labour productivity has slowed in a majority of OECD countries since the 1990s**

Difference in average annual growth of GDP per hour worked between 2000-13 and 1990-2000[1]



1. Labour productivity is defined as GDP per employee for Brazil, China, Colombia, India and Indonesia. The first year available is 1991 for Brazil, Chile, Colombia, Hungary, Iceland, Indonesia, Mexico and OECD; 1992 for the Russian Federation; 1993 for the Czech Republic and Poland; 1994 for the European Union; 1995 for Austria, the Slovak Republic and Slovenia; 1998 for Latvia.

Source: OECD, *National Accounts and Productivity Databases*.

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Countries with a higher stock of knowledge-based assets are likely to adapt more easily to changes in the pace of frontier growth. The accumulation of such assets can be encouraged by some of the structural policies identified as priorities, in particular encouraging up-skilling, but also improving framework conditions such as easing barriers to entry and development for domestic and foreign firms. The *Going for Growth* framework identifies such country-specific priorities to be implemented at the national level. Yet closer economic integration and rising cross-country interdependence brings additional challenges that will require stronger international co-ordination on structural policies in a number of areas, not only trade but also R&D, innovation, taxation, competition and other fields affecting the corporate sector. Some of these issues and associated policy requirements at the supra-national level are presented and discussed in detail in OECD (2014a).

Human capital

Knowledge is likely to be the main driver of growth in the future and policies geared towards enhancing skills will be crucial in this respect. Improving education is identified as a priority for a vast majority of OECD and partner countries and the specific recommendations vary depending on the sources of policy weaknesses. Despite widespread and sustained educational reforms (Figure 1.4), country-specific priorities in this area are rarely removed from one to the next issue of *Going for Growth* – as discussed in the previous section. Indeed, education is a fundamental driver of long-term growth and requires pursued efforts over an extended period of time.

Recommendations can be grouped into several areas, as summarised in Table 1.6. In pre-primary, primary and secondary education, the common emphasis is on raising teacher quality and addressing educational inequalities, with a focus on enhancing the targeting and effectiveness of resources devoted to disadvantaged students and schools. Indeed, social returns to education are high, but relate mostly to earlier stages of education and especially for disadvantaged individuals (Heckman et al., 2005). Increasing the quality of lower-level schooling across broad segments of the population is thus important both for securing improved productivity, but also for achieving rising participation in higher education. High-quality primary and secondary education should be prioritised in public funding because those are a prerequisite for raising skill levels and expanding tertiary education. Recommendations to address bottlenecks in schooling infrastructure are relatively frequent for emerging-market countries, which may require raising public investment.

Recommendations in the area of tertiary education are more prevalent for higher-income countries, with a majority of priorities aimed at increasing autonomy and enhancing funding. The emphasis is on increasing co-payments by students. Indeed, funding reforms where students finance a larger share of direct costs could align incentives better and provide additional financing for an expansion of tertiary education because (OECD, 2014a):

- Increasing levels of co-payments are more effective than increasing funds from government or corporate sources at raising tertiary graduation rates and earlier completion. This likely reflects that universities that rely more on co-payments become more focused on "delivery" of degrees, but may also encourage students to finalise studies quickly and discourage entry of students with low probabilities of completing university. This discouragement effect underscores the limitations associated with co-funding, which may eventually reduce tertiary education achievements and therefore productivity.
- Rising internationalisation of higher education – with the number of students from OECD countries enrolled abroad more than doubling between 2000 and 2011 (OECD, 2013g) – and increasing international mobility of skilled labour, further strengthens the rationale for students to cover a larger share of the costs of tertiary education.

Recommendations in the area of vocational education and training (VET) have been on the rise in *Going for Growth* reports. The recent focus on VET partly reflects lessons from the crisis as youth unemployment has remained very low in countries with well-designed VET systems, such as Germany. In the short run, reforms in this area are therefore likely to be particularly useful in countries facing persistently high youth unemployment, such as Italy, Portugal and Spain. In a longer-run perspective, expanding or enhancing the effectiveness of VET will provide a better bridge between education and the labour market. This is needed as the nature of future economic growth will likely entail substantial firm

Table 1.6. **Human capital and R&D/innovation**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Human capital																					
Early childhood education																					
Expand access to quality childcare and early education/improve targeting	✓				✓	✓						✓				✓			✓	✓	
Primary and secondary education																	✓				
Ensure adequate school resources and infrastructure						✓						✓									
Improve teaching quality/improve incentives for talented teachers (especially to work in difficult schools)						✓					✓				✓						
Improve school accountability and autonomy													✓		✓						
Improve curricula and evaluation					✓		✓						✓		✓		✓	✓			
Postpone early tracking						✓						✓		✓							
Limit grade repetition											✓	✓									
Improve incentives to secondary education completion/focus on reduce dropout							✓				✓	✓									
Reduce inequality in educational outcomes and opportunities	✓				✓						✓	✓		✓	✓		✓				
Tertiary education																					
Increase university autonomy and accountability or specialisation by institutions				✓		✓							✓								
Improve curricula and evaluation					✓		✓						✓								
Introduce/raise tuition fees flanked by income-contingent loans/mean-tested grants		✓		✓		✓					✓	✓						✓			
Improve targeting of means-tested financial assistance				✓				✓				✓		✓							
Improve incentives to earlier completion/encourage early admission																					
Expand access/enrolment/reduce inequalities in access		✓		✓	✓			✓						✓							
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs					✓	✓	✓	✓				✓						✓			
Expand access to and effectiveness of lifelong/job-related education and training						✓	✓		✓	✓	✓								✓	✓	
R&D and innovation																					
Increase public support					✓																
Increase and/or reform indirect R&D support – tax incentives				✓																	
Increase and/or direct R&D support				✓																	
Improve targeting of public support/evaluate grant programs				✓		✓		✓								✓					
Move towards a more balanced approach between direct and indirect support				✓																	
Improve access to venture capital																					
Strengthen collaboration between research centres/universities and industry	✓				✓	✓		✓	✓							✓					
Enhance efficiency of immigration policy: education and innovation policies/recognition of professional qualifications									✓												

Table 1.6. **Human capital and R&D/innovation** *(cont.)*

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Human capital																						
Early childhood education																						
Expand access to quality childcare and early education/improve targeting			✓		✓		✓				✓	✓	✓	✓			✓					
Primary and secondary education																						
Ensure adequate school resources and infrastructure	✓										✓	✓			✓			✓	✓			✓
Improve teaching quality/improve incentives for talented teachers (especially to work in difficult schools)	✓		✓	✓						✓				✓	✓			✓	✓			✓
Improve school accountability and autonomy				✓								✓			✓							✓
Improve curricula and evaluation	✓		✓											✓								✓
Postpone early tracking																						
Limit grade repetition						✓																
Improve incentives to secondary education completion/focus on reduce dropout						✓				✓			✓		✓							
Reduce inequality in educational outcomes and opportunities			✓				✓				✓			✓	✓	✓		✓				
Tertiary education																						
Increase university autonomy and accountability or specialisation by institutions					✓		✓	✓	✓			✓					✓					
Improve curricula and evaluation																✓						
Introduce/raise tuition fees flanked by income-contingent loans/mean-tested grants					✓		✓	✓														
Improve targeting of means-tested financial assistance								✓	✓		✓						✓					
Improve incentives to earlier completion/encourage early admission								✓		✓												
Expand access/enrolment/reduce inequalities in access							✓				✓					✓	✓					
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs			✓		✓	✓	✓		✓	✓		✓	✓	✓	✓	✓		✓				✓
Expand access to and effectiveness of lifelong/job-related education and training					✓	✓	✓		✓			✓										✓
R&D and innovation																						
Increase public support							✓										✓			✓	✓	
Increase and/or reform indirect R&D support – tax incentives						✓	✓															
Increase and/or reform direct R&D support			✓				✓										✓					
Improve targeting of public support/evaluate grant programs	✓		✓				✓										✓			✓	✓	
Move towards a more balanced approach between direct and indirect support						✓															✓	
Improve access to venture capital	✓						✓															
Strengthen collaboration between research centres/universities and industry	✓					✓	✓	✓												✓		
Enhance efficiency of immigration policy: education and innovation policies/recognition of professional qualifications			✓																			

turnover. As a result, policies should focus on facilitating job matching, allowing the labour force to adapt more quickly to new skills requirements and changes in industrial and occupational structures.

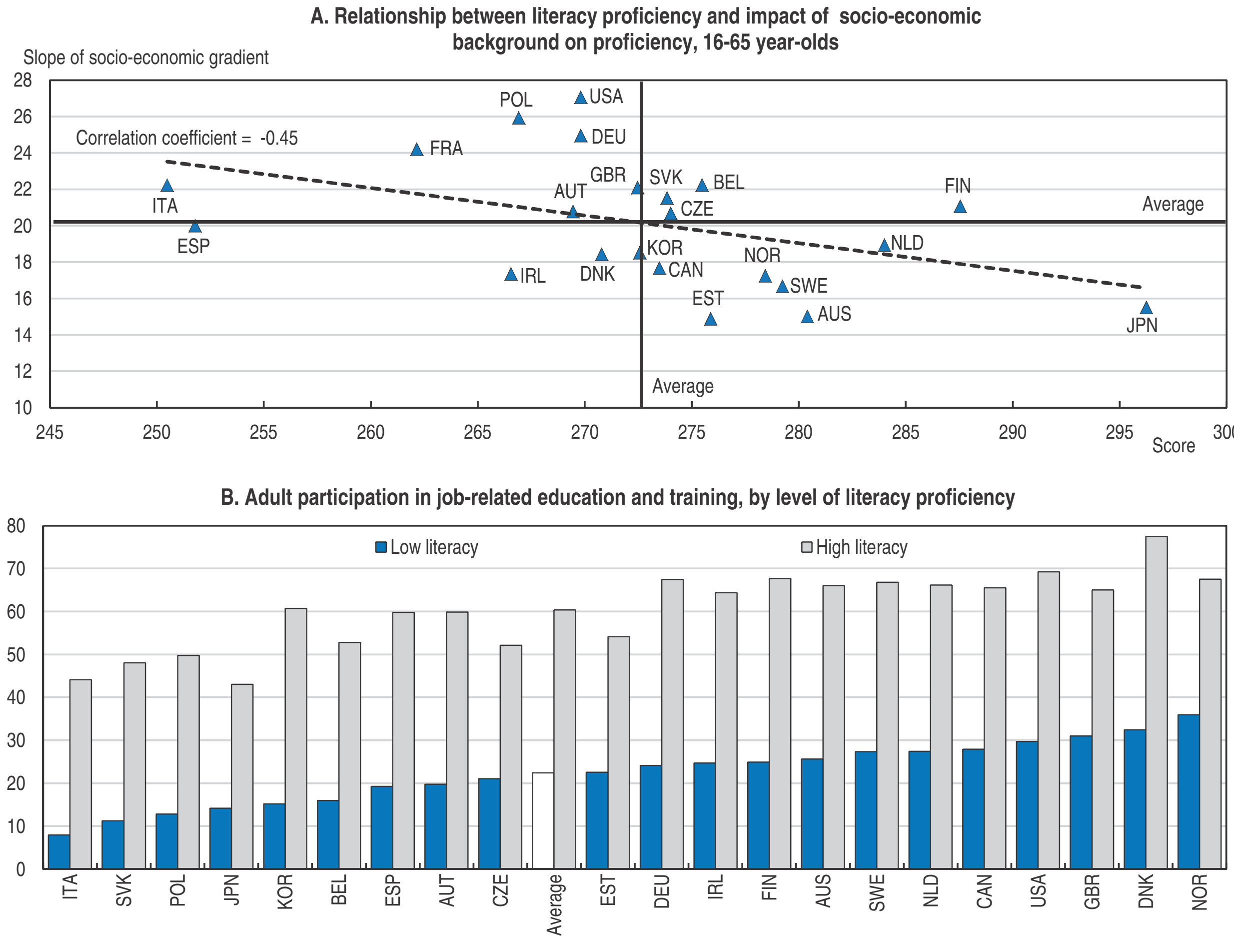
Increasing the adaptability of the labour force will nevertheless be challenged by population ageing. An ageing workforce will likely be less able to adapt to structural change, risking increasing mismatches in the labour market and slow structural change. Longer working-lives will mean a longer period where depreciation of skills and technological change risk making human capital obsolete. This calls for expanding life-long learning. Policies should focus on facilitating the development of labour force skills and competencies: among the unemployed, as discussed in the context of ALMPs; but also among workers throughout their working-lives. The case for government support for life-long learning may be as strong as for tertiary education, considering that lower cross-country mobility among older workers means that the social benefits in terms of higher productivity and longer careers to a larger extent will benefit the domestic economy.

An increase in the supply of lifelong learning must be accompanied by an improvement in the equality of access. Regarding adult skills as measured by the survey of literacy proficiency in the Programme for the International Assessment of Adult Competencies (OECD, 2013h), some countries combine relatively low levels of performance and of equality of opportunities (Figure 1.12, Panel A). Policies are needed to address both challenges. Compulsory education should do as much as possible to ensure that school-leavers have the necessary skills. At later stages, lifelong policies should ensure that there are opportunities to catch up. Across the OECD, the adults that would benefit most from lifelong learning are those that have the lowest probability to participate in job-related training, but there are marked cross-country differences in this respect (Figure 1.12, Panel B). In some countries this is due to the fact that some categories of less skilled workers (in particular non-regular workers) receive very little training. Access to training should be expanded and associated institutions should identify adults who require support and provide them with learning opportunities tailored to their needs.

R&D and innovation

Innovative capacity boosts productivity both by advancing the technology frontier (mainly in advanced economies) and by speeding up the adoption of existing technology (in less advanced countries). Performance in this area is highly heterogeneous across OECD and partner countries (Figure 1.13). While investment in innovation has traditionally been proxied by a few indicators, such as spending on R&D and the purchase of capital embodying new technologies, innovation-based growth relies on a much broader range of knowledge-based assets. These include employee skills, organisational know-how, databases, design, brands and various forms of intellectual property.[41] Well-designed innovation policies are needed to encourage KBC-led growth, because investing in KBC involves considerable uncertainty while associated outcomes are often widely shared within the economy. They should be complemented by appropriate framework conditions, e.g. well-functioning product, labour and financial (especially venture capital) markets that encourage the reallocation of capital and jobs across firms as well as bankruptcy laws that spread the cost of failure broadly.

Figure 1.12. **Improving skill levels across adult population is a challenge for most countries**[1]



1. The averages represent the average scores of OECD countries participating in the survey. The slope of socio-economic gradient represents the score-point difference associated with one unit increase in parents' level of educational attainment. Low literacy refers to "level 1" score and high literacy refers to "level 4/5" score of PIAAC test.

Source: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing, Paris.

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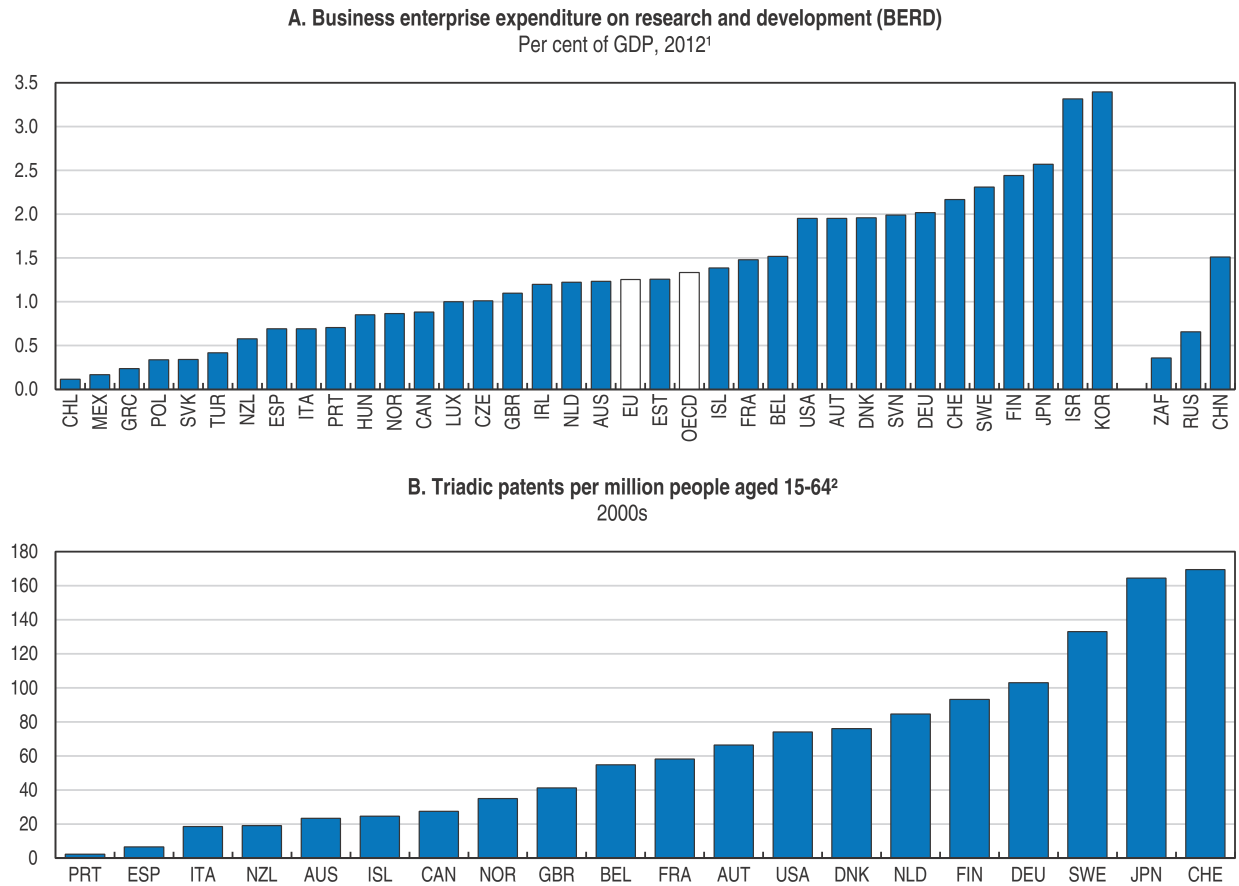
Public support to R&D remains the dominant pillar of innovation policy. A mix of incremental R&D tax incentives and selective direct grants is considered the best approach, but administrative and compliance costs associated with such mix can be substantial. R&D tax incentives tend to have higher deadweight losses, for instance reflecting the unintended consequences of protecting incumbents and thus slowing down the reallocation process and the entry of new dynamic firms, often an important source of knowledge-based capital. R&D tax incentives should thus be refundable and contain carry-over provisions in order to make them more suitable to the needs of young firms (Andrews and Criuscolo, 2013). A common recommendation is to achieve a better balance between tax incentives and direct grants while pursuing a close evaluation of the grant programmes. Innovative capacity requires a strong network of knowledge transmission nurtured through R&D collaboration among firms as well as between higher education institutes and firms. Hence, recommendations often include strengthening collaboration between research institutes/universities and industry.

Figure 1.13. **Innovation efforts and outcomes vary widely across countries**



1. 2011 data for Australia, Iceland, Mexico, New Zealand and South Africa.
2. The patent measure is based on triadic patents, which refer to a series of patents for the one invention filed at the European Patent Office, the United States Patent and Trademark Office and the Japan Patent Office.

Source: OECD, *Main Science and Technology Indicators Database*; and Andrews, D. and C. Criscuolo (2013), "Knowledge-Based Capital, Innovation and Resource Allocation", *OECD Economics Department Working Papers*, No. 1046, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933177421

Reflecting the rising importance of innovation-led growth, priorities in this area have become more prevalent across *Going for Growth* issues and are identified for many advanced and emerging-market countries (Table 1.6). Reforms to boost innovation have been on the rise, as presented above. Efforts in this area should be pursued, not least because associated reforms may require some policy experimentation and thus evaluation (including on cost-effectiveness) to provide guidance for further progress.

Product market reforms

A broad range of firm, industry and macro-level evidence illustrate the impact of product market regulation on the pace of productivity convergence.[42] Pro-competition product market regulations affect aggregate productivity via various channels such as the speed at which new sectors can grow, innovative effort and the incorporation of foreign technologies, as well as skills and managerial ability.[43] Estimates of the potential impacts of product market reform point to a strong pay-off, with the long-term gains in living standards achieved relatively rapidly.[44, 45]

The vast majority of emerging-market countries have at least one product market reform priority. This reflects concomitant large productivity gaps, high barriers to entrepreneurship and pervasive state control, in spite of encouraging and sustained reform progress in this area (Figure 1.4 and OECD, 2013a). Associated recommendations are sometimes targeted at infrastructure sectors with a view to addressing physical and regulatory bottlenecks. Product market reforms remain a priority for many advanced countries. Progress has been uneven across countries and fields of regulation (OECD, 2014b), and, on average, reform intensity has been declining most recently (Figure 1.4). Policy recommendations in this area are summarised in Table 1.7.

Reducing economy-wide regulatory burdens is needed in many countries. Frequent associated recommendations include lifting barriers to firm entry and exit, improving the transparency of regulation, reducing state control and strengthening competition frameworks. Some countries (such as Canada) are advised to reduce the stringency of environmental regulations, as those can affect barriers to entry through several channels (Box 1.5). This is a new policy area covered in *Going for Growth*. The extension in scope is made possible thanks to the availability of a new set of policy indicators measuring administrative burdens and barriers to competition arising from environmental instruments.[46]

Reducing sector-specific regulatory burdens, especially in non-manufacturing, e.g. retail trade and professional services as well as network industries, is also a very frequent recommendation. Product market reforms in this area could facilitate adjustments in unit labour costs and boost jobs creation in European countries facing high structural unemployment and competitiveness challenges, as argued in the previous section. In particular, reducing regulatory barriers to firm entry and competition in sectors where there is pent-up demand such as retail trade and professional services could spur job creation. Stronger competition, especially in services, would ensure that recent wage reductions in euro area periphery countries result in job creation and lower consumer prices rather than higher profits. This would help workers in these countries to reap the benefits from recently-introduced labour market reforms. In fact, product market reforms become even more important now insofar as the lack of competition in product markets risks undermining the success of labour market liberalisation.[47]

Core euro area countries have not taken much action to liberalise sheltered sectors (OECD, 2013a), and this weakens internal euro area rebalancing. Yet high barriers to competition undermine these countries' productive potential and need to be reduced, especially in non-tradable services. Product market liberalisation would help boosting overall productivity by raising the currently very low contribution from services industries in some countries, such as Germany (Figure 1.14). Reforms would also bring benefits outside Europe, in particular Japan and Korea; in the latter case, strong overall productivity growth was entirely due to manufacturing while the contribution from services was null (Figure 1.14). Japan and Korea will not narrow their relatively large productivity gaps with respect to the upper half of the OECD (Figure 1.5) unless they move away from a manufacturing-led growth model to a more balanced growth-model, by encouraging productivity growth in services; this requires reducing policy distortions, in particular barriers to entry and investment for domestic and foreign firms.

Table 1.7. **Regulatory distortions for domestic and foreign firms**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	Denmark	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Reduce economy-wide regulatory burdens																						
Lift barriers to entrepreneurship/reduce cost and legal barriers to entry										✓						✓	✓	✓		✓	✓	
Ease business exit/bankruptcy procedures										✓				✓					✓			
Streamline permit and licensing systems/red tape										✓						✓	✓	✓				
Improve the transparency/fragmentation of regulation					✓										✓	✓					✓	
Strengthen the competition framework					✓	✓			✓						✓					✓		
Reduce the scope of public ownership/state intervention				✓		✓					✓		✓	✓					✓	✓		
Improve corporate governance of state-owned enterprises						✓													✓			
Introduce or expand regulatory impact assessment															✓							
Reduce to the stringency of environmental regulations				✓																		
Reduce sector-specific regulatory burdens																						
Services										✓			✓				✓			✓	✓	✓
Energy and other network sectors		✓	✓	✓	✓			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		
Retail trade and professional services		✓	✓	✓					✓	✓	✓	✓	✓	✓	✓		✓					✓
Reduce barriers to FDI and international trade																						
Relax barriers to FDI				✓												✓				✓	✓	
Relax barriers to trade																		✓		✓	✓	
Encourage trade facilitation measures – reduce transaction costs																						
Reduce/reform public subsidies to agriculture and energy																						
Agriculture										✓						✓		✓		✓	✓	
Energy																						

Table 1.7. **Regulatory distortions for domestic and foreign firms** *(cont.)*

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Reduce economy-wide regulatory burdens																						
Lift barriers to entrepreneurship/reduce cost and legal barriers to entry	✓				✓		✓									✓		✓	✓	✓	✓	✓
Ease business exit/bankruptcy procedures					✓													✓				✓
Streamline permit and licensing systems/red tape							✓													✓	✓	✓
Improve the transparency/fragmentation of regulation								✓	✓									✓	✓			
Strengthen the competition framework	✓							✓								✓						✓
Reduce the scope of public ownership/state intervention				✓	✓		✓	✓								✓					✓	✓
Improve corporate governance of state-owned enterprises					✓			✓												✓	✓	
Introduce or expand regulatory impact assessment																					✓	
Reduce to the stringency of environmental regulations																						
Reduce sector-specific regulatory burdens																						
Services																						
Energy and other network sectors	✓		✓	✓	✓	✓	✓	✓	✓			✓			✓							✓
Retail trade and professional services				✓	✓	✓	✓		✓													
Reduce barriers to FDI and international trade																						
Relax barriers to FDI	✓		✓													✓			✓		✓	
Relax barriers to trade											✓				✓							
Encourage trade facilitation measures – reduce transaction costs																						
Reduce/reform public subsidies to agriculture and energy																			✓			
Agriculture				✓							✓	✓										
Energy																			✓			

Box 1.5. **Environmental policies and barriers to entry and competition**

The channels through which environmental policies can provide advantages to incumbent firms over (potential) new entrants are at least fivefold:

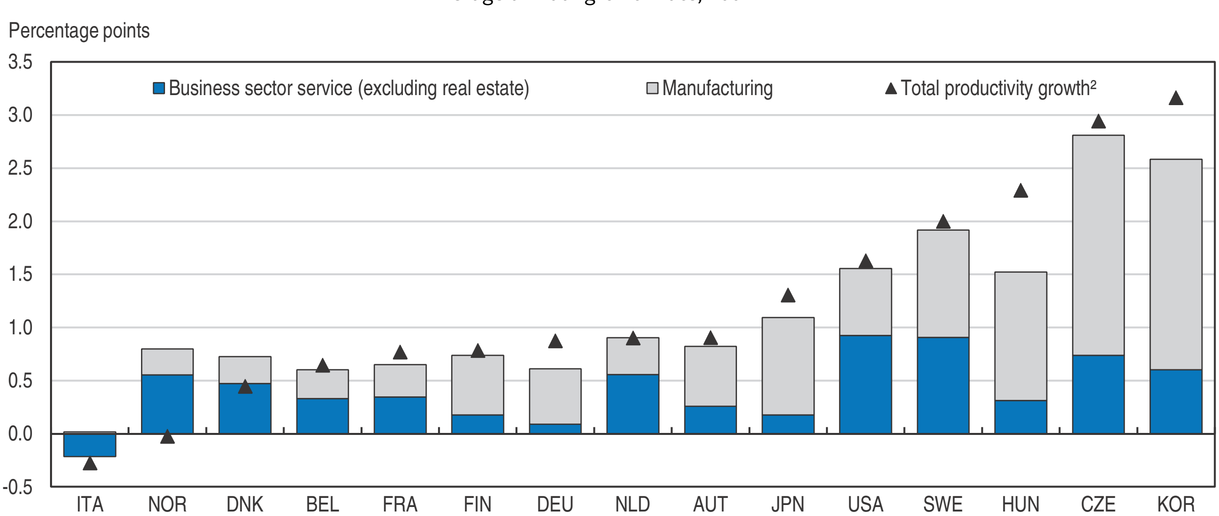
- Direct application of more stringent rules for entrants (e.g. vintage-differentiated regulations) and additional fixed costs, which discriminate against prospective entrants, for example due to the time and resources it takes to learn to comply with the regulation.
- "Rewards" based on historical performance – grandfathered emission rights, public procurement advantages, subsidies or tax breaks in return for improvements in environmental outcomes.
- Increased sunk costs associated with entry, which raise the risks for potential entrants and may encourage entry-deterring practices among incumbents.
- Administrative barriers that slow down the actual process of entry, aside from a monetary cost.
- Prescriptive regulations which may inhibit entrants with new ideas, which were unforeseen by policymakers.

In general, environmental policy instruments concentrate on selected industries associated with "high" environmental impacts or risks, dealing with particular substances and technologies, and in particular locations. However, as proven for other regulatory barriers to competition, minimising the impediments to competition associated with environmental policies for the directly affected industries can trigger much broader overall effects.

Source: Albrizio et al. (2014) and Kozluk (2014).

Figure 1.14. **The contribution of the service sector to overall productivity is weak in several countries**

Average annual growth rate, 2001-11[1]



1. 2001-10 data for Hungary, Korea and United States. 2001-08 data for Japan.
2. Labour productivity is measured as real value added per engaged person.

Source: OECD, *STAN Structural Analysis* and *Labour Force Statistics Databases*.

StatLink http://dx.doi.org/10.1787/888933177431

Trade and foreign direct investment (FDI)

Reducing barriers to trade and FDI should be given priority, especially in emerging-market countries that suffer from large productivity gaps (Table 1.7). Greater openness to trade and FDI can unleash productive potential by raising the scope for cross-border knowledge diffusion and enhancing competition.[48] The participation in Global Value Chains (GVC) – activities where goods and services cross several borders along different value-added stages – has allowed lower-income countries accessing world demand and advanced technologies. Nevertheless, trade within GVCs can magnify the negative impact of tariff and non-tariff trade barriers (OECD, 2013i). This makes it all the more important to reduce such barriers in countries where they remain too high. In addition, enhancing trade facilitation, by e.g. measures to modernise and simplify customs procedures, would improve the capacity to export and import high-quality inputs.[49] Increased exposure to FDI can also encourage integration into GVCs and boost productivity through technology transfer and the provision of sophisticated inputs. Recommendations in this area cover both specific sectors where restrictions are a particular concern – in particular in services, representing almost half of the value-added embodied in the exports of G20 economies[50] – and more broadly, the transparency of screening procedures.

Growth gains would be larger from multilateral than regional trade liberalisation, as illustrated by recent OECD work (Johansson and Olaberria, 2014). Even a partial trade liberalisation deal concluded at a multilateral level via the WTO could raise world GDP by about 3% in the long term relative to a scenario where no further trade liberalisation is achieved. Emerging-market countries would benefit the most: for instance, long-term GDP could rise by almost 4% in China, Mexico, the Russian Federation and Turkey and even more in India and other Asian regions.

Agriculture and energy subsidies

Public subsidies for agricultural production distort efficient resources allocation and limit productivity gains. Reducing producer support – and to de-link it from production – is a priority in the countries where subsidies remain high (Table 1.7). Encouraging progress has been recently achieved in this area, which had proven historically difficult to reform (Figure 1.4 and OECD, 2013a; 2014b). For example, Japan and the United States have been gradually reducing agricultural subsidies. Similarly to agricultural support, energy subsidies are sometimes used as social policy devices, but they distort markets and waste resources that could be more effectively targeted directly at the poor – such as through cash transfers – or at growth-promoting spending. Reducing such subsidies substantially is a priority for Indonesia.

Significant reform progress in this area would prevent environmental damages from slowing down growth, for instance by promoting a shift toward a cleaner development path. Such policies could also generate significant fiscal revenues (OECD, 2013j). Meanwhile, the International Energy Agency has estimated that price-driven subsidies encouraging the consumption of fossil fuels in a selection of developing and emerging-market countries amounted to approximately USD 544 billion in 2012 (IEA, 2013).

Tax system – structure and efficiency

A more growth- and equity-friendly tax system can be achieved by shifting the tax burden away from direct income toward consumption, immovable property and the environment, broadening the tax base and reducing the fragmentation of the tax system.[51] The pace of reform in this area has been slowing most recently across the OECD, following a period of widespread crisis-driven tax reforms, as discussed above. Countries still exhibit wide scope for improvement in this respect, and tax reform feature among frequent priorities. Recommendations vary depending on country-specific performance and policy weaknesses (Table 1.8). Reductions in labour or corporate taxes are recommended alongside increases in indirect taxes; whether it is recommended to increase one or several of these taxes depends on country-specific sources of policy distortions.

Shifting the tax burden towards less mobile tax bases could gain stronger relevance and traction in the future – in a context where further global integration will make some tax bases more mobile, which will put pressure on income and corporate taxes. Furthermore, cross-country co-ordination in tax policy may be needed in view of the rise in globalisation, an issue which is not covered among country-specific *Going for Growth* priorities.[52] In particular, rising trade integration will make international co-operation on taxation more important in areas where global negative externalities are large (such as carbon taxation) and tax bases highly mobile (such as capital and intangible assets).[53]

Simplifying the tax system with a view to raise efficiency and compliance should dominate the tax reform agenda. Combating tax evasion and broadening the tax base is advocated in several countries. Recommendations to eliminate inefficient and often regressive tax exemptions are frequent: for example, deductions for mortgage interest for owner-occupied housing in income taxation (e.g. in the United States). Countries have been relatively unsuccessful at tackling those tax loopholes, which probably reflects political economy obstacles, i.e. opposition by those who benefit from such loopholes. Efforts should be stepped-up, not least because associated changes will probably require incremental implementation. Reforms in this area would in most cases have beneficial equity and fiscal effects.

Efficiency of public spending

Fiscal pressures will build up in several areas over the coming decades. This reflects the high debt levels inherited from the crisis, unfavourable demographics, and rising spending pressures in areas like health and education (OECD, 2014a). Governments will increasingly face the challenge of providing adequate public services while containing tax pressures. This requires reforms to increase efficiency in the delivery of public services. Against the background of budgetary pressures, the pace of reforms has remained strong in this area across the OECD (see Figure 1.4). Reflecting the size of associated long-term challenges, policy efforts need to be pursued over an extended period of time, which also requires careful monitoring and evaluation.

Reforms to raise overall public sector efficiency cover different areas (Table 1.8). Improving monitoring mechanisms of public sector performance (e.g. Finland) and the efficiency of public procurement rules (e.g. Denmark) are frequent recommendations. Some countries (e.g. Greece) need to focus on improving the efficiency of public administration, which can be achieved by well-designed staff performance evaluation systems but also by expanding e-government.

Increasing cost-efficiency in the healthcare sector is a common challenge in the context of future spending pressures, but in some countries the scope for improvement is particularly large and requires priority action (Table 1.8). Reforms to improve hospital efficiency and care management incentives can keep healthcare costs under control (New Zealand, Switzerland and the United Kingdom). High private costs and low coverage of health insurance has been the main issue in the United States. This has been an area of major reform action by the current administration. Policies need now to ensure that the provisions of the Affordable Care Act are effectively implemented and their impact

Table 1.8. **Efficiency of taxation and public spending/services**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Tax system – structure and efficiency																						
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment		✓	✓	✓		✓		✓	✓		✓	✓	✓		✓				✓		✓	
Shift the tax burden from corporate income taxes toward consumption, immovable property and the environment	✓			x				✓												✓		
Broaden the tax base – reduce tax expenditures	✓	✓		✓				✓	✓		✓	✓	✓						✓	✓		
Combat tax evasion/tax base erosion/raise efficiency of tax collection	✓													✓					✓			
Reduce distortions and fragmentation of the tax system									✓			✓							✓			
Efficiency of public spending and services																						
Enhance the efficiency of public administration														✓	✓							
Expand e-government services														✓								
Improve monitoring, performance evaluation or benchmarking mechanisms											✓			✓		✓						
Enhance efficiency and transparency of public procurement			✓					✓							✓							
Increase cost-efficiency in the healthcare sector											✓											
Reduce inequalities in access to public healthcare	✓																					
Encourage the adoption of more healthy lifestyles																						

Table 1.8. **Efficiency of taxation and public spending/services** *(cont.)*

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Tax system – structure and efficiency																						
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment					✓					✓	✓						✓			✓		
Shift the tax burden from corporate income taxes toward consumption, immovable property and the environment											✓											
Broaden the tax base – reduce tax expenditures		✓		✓						✓	✓	✓		✓			✓					
Combat tax evasion/tax base erosion/raise efficiency of tax collection														✓						✓		
Reduce distortions and fragmentation of the tax system				✓										✓	✓					✓		
Efficiency of public spending and services																						
Enhance the efficiency of public administration																						
Expand e-government services																						
Improve monitoring, performance evaluation or benchmarking mechanisms																						
Enhance efficiency and transparency of public procurement																						
Increase cost-efficiency in the healthcare sector			✓								✓		✓	✓								
Reduce inequalities in access to public healthcare			✓											✓								
Encourage the adoption of more healthy lifestyles			✓																			

monitored. Public healthcare challenges can thus be much broader than issues of cost control. In particular, inequalities in health outcomes and in access to public services are major challenges for New Zealand, and this requires prevention efforts to change lifestyles.

Provision and regulation of public infrastructure

Infrastructure development has been lagging behind GDP in a number of emerging-market economies, contributing to slower potential growth. BRIICS countries are signalling strong and rising reform responsiveness in this area (Figure 1.4) and such efforts must be pursued. Encouraging investment is still needed to boost physical capital and narrow the productivity gap (Brazil, Colombia, India, Indonesia and Latvia). Reforms should address both physical and regulatory bottlenecks in infrastructure (Table 1.9). This would help to attract private investment and optimise use. Specific recommendations include: i) streamlining regulatory and land acquisition processes (India); ii) ensuring regulatory bodies' management transparency (Latvia); and iii) promoting more private-sector participation in infrastructure through regular concessions and PPPs (Brazil and Indonesia), based on prior cost-benefit analysis (Colombia).

Enhancing capacity and regulation of infrastructure is a priority in some advanced countries. The emphasis is on addressing infrastructure shortages in a cost-effective way, in the area of transport (Australia and the United Kingdom), energy (Estonia) or both (Poland). Reforms in this area also need optimising the use of infrastructure. This can be achieved through pricing mechanisms such as congestion charges (New Zealand and the United Kingdom) or carbon prices (Poland).

Legal infrastructure and the rule of law

Not only physical but also legal infrastructure bottlenecks hamper potential growth, especially in emerging-market countries (Table 1.1). The "rule of law" is essential for economic growth (Glaeser et al., 2004; Acemoglu et al., 2001; 2005; Johnsson et al., 2005; Djankov et al., 2002); this encompasses different dimensions such as: i) the provision of security of person and of property; ii) the enforcement of contracts; and iii) checks on government as well as on corruption and private capture. Recent evidence also shows that the effective provision of security ("law and order") has strong correlation with the volatility of growth. Better enforcement of the rule of law – implying stronger judiciary independence or an overall strengthening of institutions – is a policy priority for China, Indonesia, Mexico, the Russian Federation and the Slovak Republic (Table 1.9). Reforms in this area would also help to fight corruption, a related obstacle for growth in these countries.

Financial markets regulation and supervision[54]

Even though the role and desirable size of the financial-sector for economic growth is being reconsidered in light of the crisis,[55] further development and reform of the sector is clearly needed in emerging-market countries, in particular Brazil, China and India. The emphasis of previous reforms in these countries has been on promoting financial market liberalisation, but further reforms are needed, to support liberalisation with strong macro prudential regulation and supervision. In China, the banking sector is subject to stringent control, while grassroots liberalisation brought to life numerous competitors exempt from such regulations. Priority should thus be given to striking a better balance between liberalisation and regulation in financial markets, by e.g. removing implicit state guarantees to allow for better pricing of risk.

Table 1.9. **Physical and legal infrastructure and financial markets regulation and supervision**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Provision and regulation of public infrastructure																					
Raise public and private investment in infrastructure																					
Promote private sector participation/concessions/PPPs	✓																				
Simplify the regulatory approval process of infrastructure projects																					
Enhance capacity/quality in transport/connectivity																					
Enhance capacity/quality in energy/connectivity								✓	✓												
Introduce/increase/reform price signals/congestion charges and user fees	✓							✓													
Legal infrastructure and the rule of law																					
Reinforce judiciary independence and accountability																					
Reduce the scope for public officials' interference in decision-making processes/corruption																					
Financial markets regulation and supervision																					
Encourage private participation in financial markets/gradually reduce state intervention while ensuring strong prudential regulation																					
Strike a better balance between liberalisation and regulation in financial markets																					

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	Colombia	India	Indonesia	Latvia	Russian Federation	South Africa
Provision and regulation of public infrastructure																						
Raise public and private investment in infrastructure					✓								✓		✓		✓	✓	✓	✓		
Promote private sector participation/concessions/PPPs													✓		✓		✓		✓			
Simplify the regulatory approval process of infrastructure projects																		✓		✓		
Enhance capacity/quality in transport/connectivity					✓										✓					✓		
Enhance capacity/quality in energy/connectivity					✓										✓		✓					
Introduce/increase/reform price signals/congestion charges and user fees			✓		✓								✓									
Legal infrastructure and the rule of law																						
Reinforce judiciary independence and accountability	✓						✓														✓	
Reduce the scope for public officials' interference in decision-making processes/corruption							✓									✓			✓		✓	
Financial markets regulation and supervision																						
Encourage private participation in financial markets/gradually reduce state intervention while ensuring strong prudential regulation															✓			✓				
Strike a better balance between liberalisation and regulation in financial markets																✓						

Notes

1. Financial market regulation does not generally feature prominently among country-specific priorities, owing to the particular need for strong international co-ordination in this area (see OECD, 2011a, 2012a).

2. See the OECD Initiative on Inclusive Growth, a project which seeks to better identify and understand policies that can deliver improvements in aspects of living standards that aside from income and its distribution matter for people's quality of life (e.g. health, jobs, skills, and the environment). It contributes to the OECD initiative on "New Approaches to Economic Challenges" (NAEC), an organisation-wide reflection exercise launched at the 2012 OECD Ministerial Council Meeting (MCM) to bring continuous improvements to the organisation's analytical frameworks and advice (*www.oecd.org/inclusive-growth*).

3. The country notes (Chapter 5) provide detail on actions taken on areas identified as priorities in *Going for Growth*. An attempt is made to maximise timeliness in the assessment of reform responsiveness. This chapter covers actions taken until the end of 2014.

4. A similar picture emerges from a survey carried out by the Business and Industry Advisory Committee to the OECD (BIAC) in its Member and Observer organisations – i.e. the major national business and employer organisations in OECD countries and a few major non-OECD economies. National business and employer organisations participated from 23 respondent countries: Brazil, Canada, Chile, China, the Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, the Netherlands, New Zealand, Poland, the Russian Federation, Slovenia, South Africa, Spain, Turkey, and the United Kingdom. As of February 2014, BIAC Member/Observer organisations perceive a significant shortfall in countries' implementation of 2013 *Going for Growth* priorities. Respondents perceive full implementation for only 4% of reform priorities, in line with the current finding that policy action has often been piecemeal and would rarely imply the removal of the corresponding priority. The majority of reform priorities are perceived to be partly implemented (61%) while 35% are considered to have not been implemented at all.

5. This confirms the initial findings from the *Going for Growth – Interim Report* published in 2014 (OECD, 2014b). This is also in line with recent findings for EU countries, as reported in a detailed survey of structural reforms in the EU over the period 2008-14 (European Commission, 2014a).

6. See Chapter 2 of *Going for Growth 2013* (OECD, 2013a) for a full assessment of the effects of *Going for Growth* priorities on fiscal balances.

7. The authors use a dynamic stochastic general equilibrium model calibrated to match the salient features of the euro area economies. The model implies that in a crisis that pushes the nominal interest rate to its lower bound, reforms that increase competition in product and labor markets do not support economic activity in the short run and may well be contractionary. Absent the appropriate monetary stimulus, reforms fuel expectations of prolonged deflation, increase the real interest rate, and depress aggregate demand.

8. See Chapter 4 of *Going for Growth 2012* (OECD, 2012a) for an assessment, based on detailed findings in Bouis et al. (2012). This assessment was confirmed recently by analysis conducted on the basis of a 2-sector multi-region (reforming euro area region, rest of euro area, rest of world) macroeconomic model (Vogel, 2014). The European Commission model (QUEST) is used to analyse the impact of structural reforms on economic activity in a macroeconomic environment in which the zero-bound constraint on monetary policy rates is temporarily binding. The simulations suggest that the short-term output response to reforms can indeed be negative, but such negative effects are, however, small and rather short-lived in the model.

9. Recent EU reports provide a detailed survey of reform action in the European Union. First, European Commission (2014a) delivers a detailed review of structural reforms across all policy areas over the period 2008-14. Second, European Commission (2014b) focuses on product market reforms initiated over the last years in Italy, Spain, Portugal and Greece. Such report describes the reform process and presents a number of relevant monitoring indicators on the take-up of product market reforms, with a view to assessing reform implementation and short-term effectiveness.

10. For evidence and discussion on recent implementation issues in euro area periphery, see e.g. *OECD Economic Surveys: Italy* (OECD, 2013b, 2015), *OECD Economic Surveys: Greece* (OECD, 2013b) and *OECD Economic Surveys: Spain* (OECD, 2014c). See discussion on take-up and implementation issues in the area of product market reforms in recent a EU-led survey (European Commission, 2014b).

11. See also Brandolini (2014) for a focus on recent Italian data pointing to alarming increases since 2007 in both relative and absolute poverty.

12. Large increases in disposable income inequality since 2007 have also been taking place in France, Hungary and the Slovak Republic. Large increases in poverty since 2007 have also been taking place in Mexico and Turkey. See OECD (2014d) for details.
13. See Chapter 2 in this report and Causa et al. (2014).
14. See next section on reform priorities and OECD (2014a).
15. The use of private providers in delivering job-search assistance might not always be more cost-effective than the use of public providers and might lead to "creaming" of job-seekers. Associated reforms should thus be closely evaluated.
16. See the next section on policy priorities and country notes (Chapter 5).
17. See Cournede et al. (2013) for an assessment of the choice of consolidation instruments against the adverse side-effects of fiscal adjustment on other policy objectives. Fiscal consolidation instruments are analysed for the likely severity of their side effects on growth and the income distribution. Raising revenues by stepping up consumption taxes may raise disposable income inequality because such taxes fall more heavily on lower-income households.
18. This is especially true for labour utilisation-enhancing priorities since the majority of recommendations are aimed at reducing those countries' large labour productivity gaps (see next section). As a result, Figure 1.4 displays a smaller selection (on the basis of representativeness) of policy areas among the BRIICS than in the OECD.
19. See also Annex 1.A1 of OECD (2013a).
20. The above-cited BIAC survey also provides a set of reform priorities. Differences with *Going for Growth* priorities include: i) overall, higher prevalence of labour utilisation-enhancing priorities according to OECD analysis, while businesses' priorities are largely oriented towards boosting productivity; ii) among labour-utilisation enhancing priorities, stronger emphasis on wage formation and minimum wage priorities according to businesses' views and on job protection priorities according to OECD analysis; and iii) among labour-productivity enhancing priorities, stronger emphasis on public sector efficiency and infrastructure priorities according to businesses' views and on human capital and agricultural support priorities according to OECD analysis.
21. For the purpose of this section, non-OECD countries include the BRIICS as well as Colombia and Latvia.
22. This analysis relies on Chapter 1 of *OECD Employment Outlook 2014* (OECD, 2014e).
23. This analysis is based on projections laid-out in OECD (2014a).
24. In-work benefits that permanently increase net earnings in part-time work make transitions from unemployment to part-time work more attractive and also make transitions from part-time work to full-time work less attractive. They similarly change incentives for working in jobs with relatively low hourly rates of pay. This reduces unemployment but possibly also average productivity. In-work benefits need to be carefully designed, to avoid spikes in marginal effective tax rates that apply over a wide income range.
25. Recent work based on household data suggests that joint taxation of spouses discourages female labour supply (Kabatek et al., 2014). Switching to independent taxation affects spouses' time allocation: in particular such reform increases the wife's labour supply and reduces her housework.
26. Such recommendations are in line with the wider OECD work on gender, such as stated by the OECD Council on Gender Equality in Education, Employment and Entrepreneurship (29 May 2013 – C/MIN(2013)5/FINAL – C/M(2013)12).
27. See Chapter 3 of OECD (2013e) for a summary of recent country-specific reviews in the area of ALMPs.
28. See also French and Song (2014).
29. Reforms to activate recipients of benefits that previously were not conditional on availability for work (such as those on disability benefits) require care and may take time to show up in higher employment rates for these groups. Activation requirements may be targeted on new claimants to test and refine new provisions and only extended later. This reduces the risk that such reforms result in a build-up of long-term unemployment. See Chapter 2 in OECD (2013e).
30. See Chapter 2 in OECD (2013e) for a detailed review of reforms in the area of employment protection over the last decade.

31. Duality leads to labour and capital misallocation as well as to under-investment in training for temporary workers, hence ultimately to lower productivity (Bassanini et al., 2009; Cingano et al., 2010; Lepage et al., 2012; Bentolila et al., 2012; Blanchard and Landier, 2002). The costs of duality are high: excess employment volatility, reduced access to stable jobs, recurrent spells of temporary jobs, and long and frequent unemployment spells among "marginal workers" under temporary or atypical contracts, essentially youth.

32. See OECD (2013e), Chapter 2. For employers, complex or time-consuming legal processes can add significantly to the cost of hiring and especially dismissing workers. But equally, if it is difficult or costly for employees to pursue cases of unfair dismissal, they might be exposed to arbitrary actions from employers.

33. See OECD (2014e). In addition, this can be achieved by lowering social security contributions at the minimum wage, as recommended among *Going for Growth* priorities in the area of labour tax wedges (see Table 1.2).

34. This needs being qualified. Assuming that inexperienced workers are less productive than more experienced workers, it follows that subminima should apply to anybody with little experience in the labour market, including those who have been out of employment for a long time, regardless of age. Targeting the minimum wage on age rather than on recent experience would create an unlevelled playing field with other workers, in particular more mature long-term unemployed for whom finding a job would become even more difficult.

35. Well-designed in-work benefits schemes that complement moderate minimum wage can be more effective in reducing in-work poverty and fostering incentives to work than a high minimum wage, as these schemes are better targeted on the most disadvantaged working households.

36. (OECD, 2013a.) See also OECD (2014f) for an initial evaluation of the comprehensive reform of the Spanish labour market undertaken in 2012.

37. See OECD (2014f) for a detailed assessment in the Spanish case.

38. Inflation is so low in some countries that the only way for reductions in real wages to occur is when nominal wages are cut. Workers and employers are generally reluctant to countenance such reductions, leading to "nominal downward wage rigidity". Nominal wager rigidity has become more binding since the start of the countries in countries such as Estonia, Greece, the Netherlands, Spain and the United Kingdom. See OECD (2014e).

39. See evidence and discussion in Chapter 2 of OECD (2014e).

40. For presentational purposes, they are discussed in the sub-section on labour utilisation.

41. Such assets have been classified more formally under three broad categories, i.e. computerised information, innovative property and economic competencies. See Andrews and de Serres (2012).

42. See Barone and Cingano (2011), Bourlès et al. (2010), Conway et al. (2006), Bas and Causa (2012), Andrews and Criuscolo (2013).

43. Recent empirical analysis has delivered fresh evidence that product market reforms can also increase the returns to education. Such result is obtained at the micro-level based on the recent 2005 Portugal "On the Spot Firm" reform, which reduced the time, cost and complexity of starting a business by establishing one-stop shops where an entrepreneur can register a company in less than an hour in one single office (Fernandes et al., 2014); the reform increased returns to skills in addition to boosting firm creation and reducing industry concentration.

44. Bourlès et al. (2010) simulate average annual gains in MFP growth between 0.2 and 1.7 percentage points within the five years period following reforms to adopt best practice (upstream) regulations.

45. Recent work by the European Commission attempts at assessing the effects of recently-introduced product market reforms in Greece, Italy, Portugal and Spain (European Commission, 2014b). Early adjustment signs are estimated by using short-term monitoring indicators such as firm entry rates and firm registrations by sector and the length of insolvency proceedings. The analysis suggests that encouraging signs are already visible, especially in Spain and Portugal.

46. The proposed indicator sheds light on some areas that could benefit from policymakers' attention in designing future environmental policy proposals or seeking to reform existing setups. The indicator is referred to as "Burdens on the Economy due to Environmental Policies, or BEEP" (see Kozluk, 2014).

47. The economic literature has traditionally defended a reform sequencing where product market liberalisation would ideally precede labour market reform. Theoretical models and empirical results suggest that in the presence of both rigid product and labour markets, reforming product markets first may likely have a large payoff and could also facilitate subsequent labour market reforms. See inter aliia Blanchard and Giavazzi (2003).

48. Bouis et al. (2011), Andrews and Criuscolo (2013), Andrews and Cingano (2012), Bas et al. (2013), Fernandes and Paunov (2012).

49. See Moise and Sorescu (2013) for a comprehensive study on the effects of trade facilitation. The study provides an assessment of the impact of specific trade facilitation measures on countries' trade. This assessment is based on Trade facilitation Indicators (TFIs) developed at the OECD. Such indicators cover the main policy areas under negotiation at the WTO and are aimed at estimating the impact of addressing country-specific specific hurdles to trade and border procedures.

50. This refers to the year 2009. *OECD-WTO Database* on Trade in Value-Added (TiVA).

51. See OECD (2014a). Property taxes have additional benefits. Recent empirical evidence suggests that a greater reliance on property taxes pertaining to sub-national governments contributes to fiscal discipline (Presbitero et al., 2014). This is likely to reflect the relative advantage of this form of taxation in promoting the accountability, responsibility and discipline of sub-national authorities with respect to other forms of local revenues (e.g. income taxes or sales taxes).

52. Associated challenges are presented and discussed in OECD (2014a).

53. In particular, there may be increasing instances of multinational enterprises using cross-border tax strategies to shift profits generated by KBC across countries. Recent OECD work highlights the potential benefits of international co-operation to limit unintended tax relief for R&D stemming from cross-border tax planning (OECD, 2013k). More broadly, see OECD work on Base Erosion and Profit sharing (BEPS).

54. As mentioned in the introduction, financial market reform has generally not featured prominently among country-specific priorities, owing to the particular need for strong international co-ordination in this area. The European Union introduced substantial reform initiatives in banking supervision and resolution, and this is therefore no longer considered as an area for reform priority (see EU country note and euro area survey for in-depth analysis, OECD, 2014h).

55. See *inter alia* Cournède and Denk (2014), Cecchetti and Karrubi (2012) and Arcand et al. (2012).

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