Economic Policy Reforms 2014
Going For Growth Interim Report

Chapter 1

Overview of structural reform actions in the policy areas identified as priorities for growth

This chapter reviews the main growth challenges faced by OECD and major non-OECD countries and takes stock of the progress made since 2012 in the adoption and implementation of structural policy reforms to address these challenges. Progress is assessed on the basis of actions taken in response to Going for Growth *policy recommendations. The chapter also discusses the potential effect of the reforms on policy objectives other than GDP growth, in particular public finance consolidation, narrowing current account imbalances and reducing income inequality.*

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.

Overview of structural reform actions in the policy areas identified as priorities for growth

Main findings

- A comparison of the intensity of structural reform actions over the period 2012-13 with that observed over previous two-year periods indicates that after accelerating significantly in the aftermath of the crisis (2010-11), the pace of reform in areas identified by the OECD as policy priorities for boosting growth appears to be slowing more recently.
- Progress has clearly been made over the past two years on many of the policy priorities, but the process of reform can be characterised as piecemeal and incremental. In most areas considered, actions taken are unlikely to fully address the related performance challenge.
- Among reforms aimed at enhancing productivity, more actions appear to be taken in areas of public sector efficiency, education and product market regulation. In contrast, the pace of reform is slowing in the areas of tax reforms and public infrastructure.
- As regards labour market and social policies, more reform activity is found in the areas of early retirement schemes, activation and assistance for those not working, as well as employment protection legislation.
- With many countries facing substantial public finance consolidation needs, it is perhaps not surprising that reform action has tended to concentrate in areas that do not involve substantial up-front budgetary costs. In fact, many actions taken in the past two years support fiscal consolidation efforts.
- In countries where income inequality is particularly high, actions on policy priorities should for the most part help to narrow income distribution, although this positive side-effect may take time to materialise.
- Actions taken to boost growth in countries facing the largest current account imbalances are overall unlikely to contribute to narrowing these imbalances.

Introduction

Signs of a broadly-based recovery among advanced economies are becoming more tangible, but remain modest and uneven as governments still face a number of policy challenges. The Great Recession has dented most advanced economies' potential growth rate, while emerging market economies are currently facing a slowdown and showing signs of vulnerabilities to the eventual normalisation of monetary policy in major advanced economies. The policy challenges include persistently high unemployment, sluggish productivity, high public-sector budget deficit and debt, as well as remaining fragilities in the financial sector and household balance sheets. The relative importance of these challenges varies considerably across countries, not least between advanced countries and major emerging-market economies. This is reflected in significant differences in the labour market and product market performances in recent years and in the degree of economic resilience through the crisis and its aftermath. The present Chapter provides an overview of these major challenges as well as actions taken over the past two years in areas of structural policies that have been identified as essential for long-term growth for OECD countries and major emerging-market economies (Brazil, Russia, India, Indonesia, China and South Africa or BRIICS).

As noted in the previous two issues of *Going for Growth* an acceleration in the pace of reforms took place in the immediate aftermath of the great recession and during the ensuing euro crisis, in particular in countries put under market pressure. As economic activity gathers momentum and becomes more self-sustained, the pace of reform may diminish along with an easing of the financial market pressures. It is important that the pick-up in the intensity of reforms observed in several countries since 2010 be maintained and extended to countries that have been slower in this respect. Many advanced countries are still confronted with high unemployment hurting youth and low-skilled workers most (OECD, 2013a). The concentration of job losses among low-skilled workers and the weak pace of net job creation have contributed to a further widening of inequality in household income in many countries in recent years, the consequences of which have only been partly mitigated by substantial transfers.

Higher structural unemployment, combined with the observed slowdown in productivity – which to some extent may result from persistently weak investment in both physical and knowledge-based capital – means that potential output growth may have declined markedly relative to the pace observed before the crisis. Weaker trend growth complicates the task of bringing public debt-to-GDP ratios down to more prudent levels. The growth challenge faced by many advanced economies is in a number of cases compounded by demographic trends (Johansson et al., 2012). Indeed, the effects of population ageing on the labour force are already being felt in countries such as Germany, Japan and Poland.

This chapter builds on regular *Going for Growth* publications that every two years re-assess and identify five reform priorities for all OECD countries and the BRIICS. The priorities are selected with a view to improving material living standards through stronger employment and productivity gains. The policy areas covered include product and labour market regulations, tax and benefit systems, rules affecting foreign trade and investment, education and training, as well as innovation.

The next section sets out the main challenges faced by countries and reviews action taken on policy recommendations to address these challenges. It focusses on developments over the period 2012-13. Section 3 examines the effects of these reforms on policy objectives other than GDP growth, i.e. public finance consolidation, narrowing current account imbalances and reducing income inequality.

Progress in structural reforms to boost material living standards

This section examines whether the reforms undertaken over the past two years are broadly in line with the thrust of the country-specific priorities identified in the previous issues of *Going for Growth*. For this interim report, the review of actions taken is organised around groups of countries sharing similar challenges and priorities (see Box 1.1). A full report, including a set individual country notes and an update of the policy priorities, will be presented in the 2015 issue of *Going for Growth*.

Box 1.1. **Selecting country groupings**

For the purpose of this review, countries are grouped according to the common nature of the most pressing challenges as identified in the 2013 issue of *Going for Growth* and summarised here in the following set of tables. Challenges are examined at a level that allows for groupings that are as meaningful as possible, though some degree of arbitrariness remains inevitable. Many countries may be confronted with a similar challenge such as, for instance, high and persistent unemployment. Beyond this broad challenge, countries are also regrouped according to the more specific structural factors and policy weaknesses perceived to be contributing the most to that particular challenge. The country groups are shown in the table below.

With many countries sharing a great deal of challenges, there are some "borderline" cases, i.e. countries that could legitimately belong to another group than the one assigned in this exercise. For instance, Finland has been grouped with Austria, Belgium, France and Luxembourg on the basis of challenges such as low labour force participation of older workers and persistently high unemployment, which require policy adjustments in the areas of early retirement schemes, unemployment benefit programmes and labour taxation. However, it could also be seen as belonging to a group comprising mainly Nordic countries. Conversely, a few countries did not, based on these criteria, fit naturally in any group, and hence may be seen to be coming out as outlier in their group. For example, persistently high unemployment is not as big a concern in Austria as it is for other countries in the group. In fact, one country – Iceland – and the EU could not be fitted in anyone group and are not covered in the report. The European countries form four groups, while the rest of the OECD and BRIICS account for another three groups.

For further details on the identification and selection of reform areas as well as underlying empirical literature see past issues of *Going for Growth*.

	Countries	Main challenges	Strengths
Group 1	ESP, GRC, ITA, PRT, SVN	High structural unemployment, low competitiveness	Productivity levels close to average
Group 2	CZE, EST, HUN, IRL, ISR, POL, SVK	Significant productivity gap, high long-term unemployment, low internal mobility and participation of certain groups	Flexible wage adjustments, high percentage of population with at least secondary education
Group 3	DNK, NOR, NLD, SWE	Low average hours worked and overheated housing market	Good productivity level, above average shares of population with tertiary education
Group 4	AUT, BEL, FIN, FRA, LUX	Low participation of older workers and persistently high unemployment.	Good productivity level, relatively high and broadly-based business R&D intensity
Group 5	AUS, CAN, CHE, GBR, NZL, USA	Low productivity growth, high variance in education outcomes and healthcare costs	High investment in knowledge-based capital and good quality tertiary education
Group 6	DEU, JPN, KOR	Fast population ageing, low participation of women, relatively weak productivity in services	High overall employment rates, strong export base, including of capital goods
Group 7	BRA, CHN, CHL, IDN, IND, MEX, RUS, TUR, ZAF	Widespread informality, uneven access to quality education, infrastructure bottlenecks	Strong potential for productivity catching-up, fast-growing labour force

Group 1: Countries facing high structural unemployment and competitiveness challenges

The adjustment following the crisis has been particularly painful in Southern European countries, a group comprising Greece, Italy, Portugal, Slovenia and Spain. All of them have either been on financial assistance programmes (Greece and Portugal) or faced high borrowing costs (Italy, Slovenia and Spain), and have been going through a sustained period of economic contraction. Several years of fiscal consolidation, adjusting private-sector balance sheets, low confidence and impaired credit supply have left these countries with double-digit unemployment rates and no clear sign of a rapid and self-sustained turnaround.

Even before the crisis, labour market weaknesses prevailed as these countries entered the recession with relatively high structural unemployment rates and, in particular, a high incidence of long-term unemployment (less so in Spain) (see Figure 1.4 below). This, along with export market share losses (with the exception of Slovenia) and widening trade and current account deficits were symptoms of competitiveness falling behind, a common weakness that the crisis laid bare and that has only been partly overcome. In addition, these economies have been characterised by average or below-average labour force participation and a productivity performance that prior to the downturn was for most of them hardly keeping up with the higher productivity countries.

Addressing the job market legacy of the crisis and restoring competitiveness thus remain key policy objectives for these countries. As a result, reform recommendations generally focus on reducing product and labour market barriers to job creation while strengthening job-search assistance for unemployed workers as well as their incentives to pick-up work (Table 1.1).

Table 1.1. **Policy priorities for countries facing high structural unemployment and competitiveness challenges**

	ESP		GRC		ITA		PRT		SVN	
	R[1]	A[1]	R	A	R	A	R	A	A	R
Stimulating labour demand by reducing product and labour market impediments to job creation										
Reduce barriers to entry and competition in:										
– Professional services	✓	•	✓	•			✓	•		
– Retail distribution	✓	•					✓			
– Network industries	✓		✓	•			✓	•	✓	
– All business sectors			✓	•	✓	•	✓	•	✓	•
Lower tax wedge and minimum cost of labour					✓	•			✓	
Reform wage bargaining system	✓	•					✓		✓	
Reform employment protection legislation										
– Shorten judicial procedures					✓	•				
– Lower notice period or severance pay	✓	•					✓	•	✓	•
– Ease conditions for justified individual or collective dismissals	✓	•					✓	•	✓	•
– Move towards unified contracts	✓									
Promoting employment by removing disincentives to labour force participation and job search										
Improve the design and integration of UI benefits and ALMPs										
– Make UI benefits conditional on work availability and job-search criteria	✓	•	✓				✓			
– Extend coverage of UI benefits and/or adjust level according to duration					✓	•				
– Strengthen resources for job-search assistance and individual follow-up					✓		✓			
– Strengthen monitoring and evaluation of Public Employment Services	✓	•	✓		✓					
Facilitate the development of labour force skills, competencies and more broadly, human capital										
Strengthen vocational education and training	✓	•			✓		✓	•		
Improve efficiency and outcomes in:										
– Primary and secondary education	✓	•	✓		✓	•				
– Tertiary education			✓	•	✓				✓	

1. R stands for recommendation in that area, A stands for action taken over the horizon of the past two years.

Lowering barriers to firm entry and competition

One major impediment to job creation arises from regulatory barriers to firm entry and competition in services, in particular in sectors such as retail trade and professional services where rapid job gains from liberalisation could be achieved. All countries in this group have been recommended to lower entry barriers or more generally boost competition in services industries and a number of reforms have been implemented.

- Portugal has revamped its legislation on competition and self-regulated professions and facilitated the entry of virtual network operators in mobile telecoms.
- Italy introduced new regulators for network industries, increased powers for the competition authority and liberalised shop opening hours. However, further efforts are still required to ensure effective implementation.
- In Greece, professional services represent a third of private employment and lifting of unjustified barriers to competition has been slow and uneven across the sectors (OECD, 2013b). Some 75% of the professions have been opened to competition in early 2013, but again much will depend on implementation of this liberalisation.
- Spain has eased licensing for small service outlets and partially also shop opening hours but tackling the entry barriers to professional services remains a challenge. A new legislation simplifying entry requirements across the regions has been approved and a bill on professional associations and services is in the pipeline.

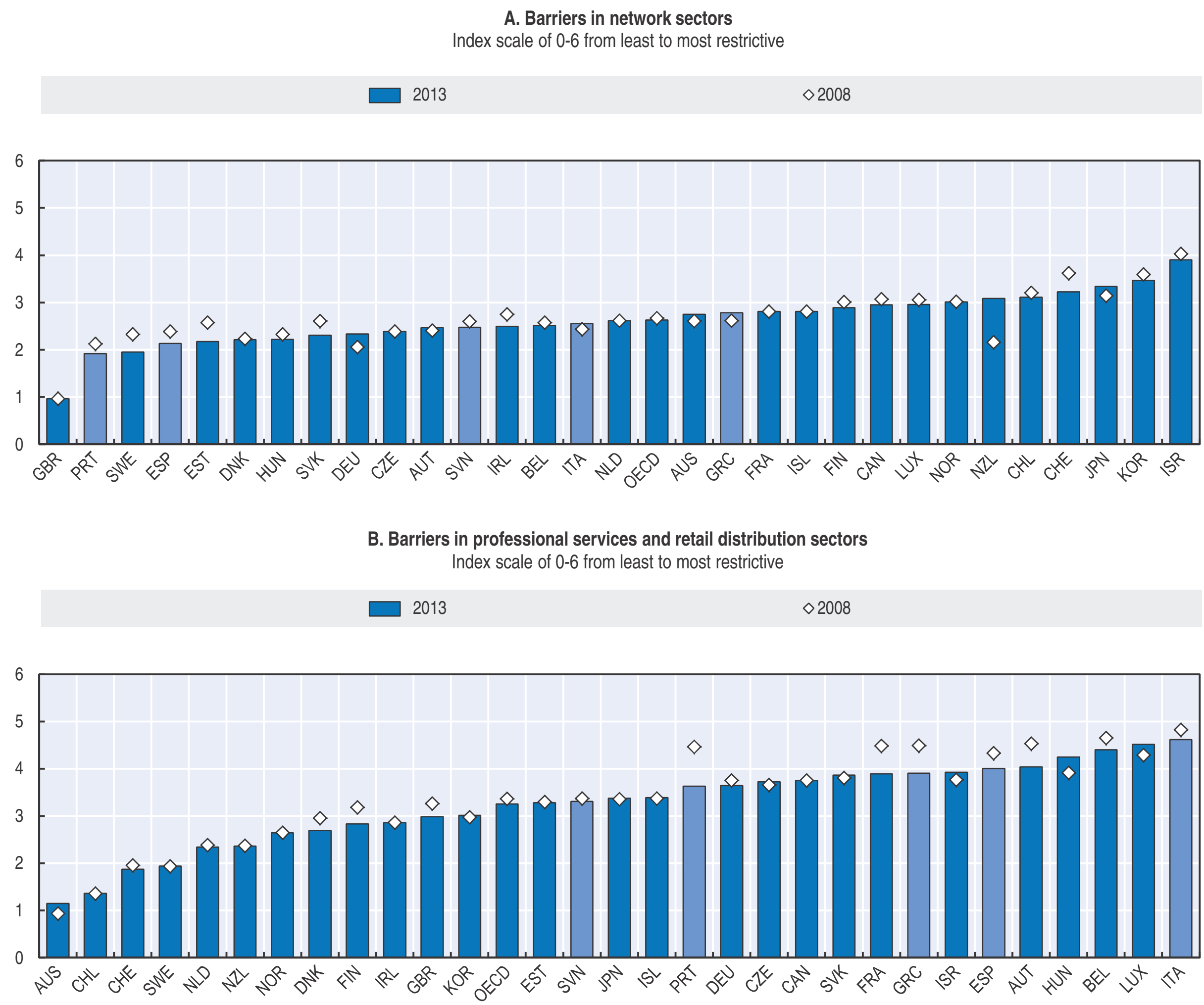
Some of these reforms are reflected in the indicator of product market regulation (PMR), which shows improvement in specific areas (Figure 1.1 and Chapter 2). The regulatory stance in network industries has improved in Portugal, Spain and Slovenia but remained more or less stable or increased in other countries of this group. In professional services there have been declines in the overall strictness of regulation, but for most of these countries it is still above the OECD average. Recommendations to liberalise closed professions thus remain valid, in particular for Greece, Italy and Spain. Also, competition in network industries could be strengthened in Slovenia by reducing outright state ownership.

Reducing the cost of labour and facilitating training

High costs of labour relative to productivity, especially for lower-skilled jobs, has been another commonly shared weakness, eroding competitiveness of these countries. Lowering the tax wedge and minimum cost of labour (Italy, Slovenia), as well as reforming the system of collective wage bargaining in order to increase the responsiveness of wage adjustments to labour market conditions (Portugal, Slovenia and Spain) have been recommended as a remedy.

Reforms in the area of minimum wages and collective bargaining have been particularly difficult to come by prior to the downturn in these countries. Since then, significant progress has been achieved, in particular in Greece and Spain where collective agreements at the firm level are given more priority over those at the sector level, notably through greater opt-out possibilities given to individual firms. As for reductions in tax wedges, in the current context of required public finance consolidations, such measures need to be offset by revenue increases in other areas, preferably those less damaging to employment and growth. As a step in this direction, countries have been recommended to lower social security contributions and offset the change by increasing indirect rates, mainly VAT. Such a shift in tax burden can be characterised as a fiscal devaluation, i.e. an

Figure 1.1. **Product market regulation in services sectors remains restrictive**



Source: OECD (2013), *Product Market Regulation Database*.

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attempt to replicate the effects of currency depreciation through changes in the tax system, the effects of which is likely to be stronger in countries where the minimum cost of labour is relatively high.[1]

The pace of job creation could also benefit from a simplification of procedures and reduction of costs associated with lay-offs. Strict employment protection legislation (EPL) makes firms more reluctant to hire, especially in a context of an uncertain recovery. All countries in the group but Greece have a recommendation in this area, in particular with a view to reducing uncertainty and costs related to the judicial procedures, as well as to ease conditions for lay-offs. In return, governments are encouraged to strengthen the protection of workers (as opposed to jobs) through the unemployment benefits programmes, supported by activation measures to facilitate the return to work. In this vein, measures undertaken include:

- A mandatory conciliation for labour disputes in Italy, introduced in the 2012 reform as well as a universal unemployment benefit to be phased in by 2017.

- A broadening and clarification of dismissals criteria in Spain, as well as lowering compensation for unfair dismissals for all new contracts (OECD, 2013c).
- A reduction in notice periods in Slovenia, making them more dependent on service duration, and an easing of dismissal burdens on employers.
- A decrease in severance pay in Portugal.

All countries but Slovenia share a priority in the area of active labour market policies (ALMPs). While scaling up resources to address the increased work-load in employment services in a timely and effective manner might be difficult in the current budgetary environment, it is important to do so to reduce long-term unemployment as extended spells out of the labour market can have so-called "scarring" effects and result in a permanent downward shift in labour utilisation. By the third quarter of 2013, more than one in two unemployed workers in all these countries had been without a job for one year and longer, with structural unemployment most likely on the rise. Emphasis of the ALMP recommendations is on extending training opportunities, making benefits conditional on participation in activation measures and putting in place comprehensive monitoring and evaluation of existing programmes, so that countries can determine what works best in their specific context. There is a case for creating one-stop shops for the unemployed (modelled on the approach followed for the provision of government services to entrepreneurs) as implemented recently for instance in Ireland and France.

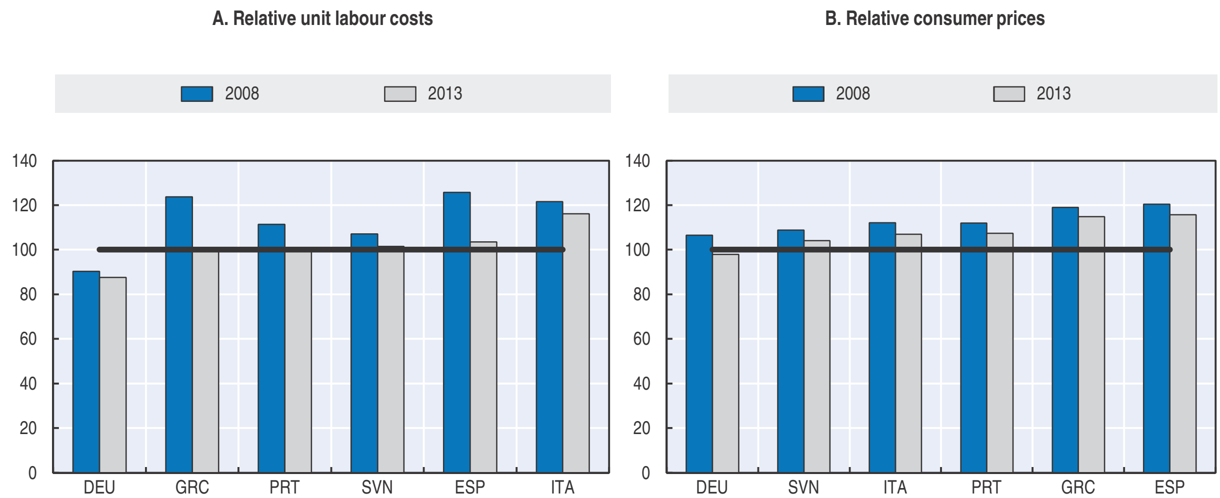
The importance of having the right institutional arrangements – be it through good co-ordination between levels of government or public employment service and benefit agencies – is emphasised in the recent review of several countries (OECD, 2013a). In this regard, a challenging part of the Italian labour market reform will be to combine efficiently all the elements of support and activation, as training and job-search institutions are provided by regional governments, while provision of the benefits remains at the national level. Moreover, in order to address the jobs skills gap, reforms of vocational education are also advocated (Italy and Portugal), as well as addressing early failures and grade repetitions (Spain).

- In this vein, Spain has set up a framework for a gradual establishment of new vocational programmes, aiming at a closer co-operation with businesses in the training and learning process.
- A review of vocational education and training is under way in Portugal where technical and work formation elements should be strengthened in the current school year.

Overall, this group of countries has been fairly active in reforming labour market policies (especially Greece, Portugal and Spain), including in areas where it has proved difficult to reform in the past (wage bargaining and employment protection). To some extent, this has helped these countries to regain competitiveness (Figure 1.2) as measured in terms of unit labour costs. However, the gains are more limited once measured in terms of relative consumer prices, suggesting that to fully benefit workers, especially those in search of a job, more active reforms of product markets are needed, in particular to lower regulatory barriers to firm entry and competition.

Figure 1.2. **Unit labour costs have adjusted more than prices in Southern euro area countries**

Index 2000 = 100



Source: OECD (2013), *OECD Economic Outlook 94 Database*.

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Group 2: Countries facing high long-term unemployment, low labour force participation of specific groups and a large productivity gap

This group includes mainly Central European countries (Czech Republic, Estonia, Hungary, Poland and Slovak Republic) as well as Ireland and Israel. Most of the income gap *vis-à-vis* the upper half of OECD countries is explained by a considerable lag in terms of productivity (Ireland being an exception), though these mainly middle-income economies also face significant labour market challenges, not least in addressing a high incidence of long-term unemployment. Their experience of the great recession and on-going recovery has varied greatly – with extreme severity of the downturn in Estonia and Ireland on the one hand and relative resilience in Poland on the other – but for many the general slowdown of growth momentum in advanced economies and export markets uncovered deeper structural issues. Common policy challenges include raising productivity growth as well as addressing specific shortcomings of their labour markets, such as low internal mobility and excluded population groups.

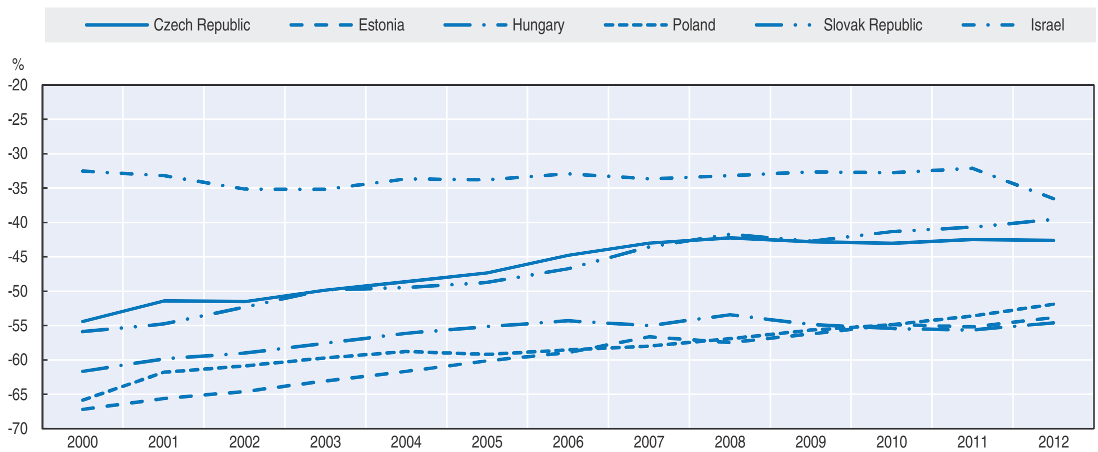
Improving framework conditions for accelerating the productivity catch up

Following a period of rapid catching-up *vis-à-vis* leading countries in the 1990s, the process of economic convergence pursued by Central European economies has stalled somewhat during the 2000s, reflecting primarily a slowing down of productivity (Figure 1.3). As these countries reach a point where the combination of low labour costs and a generally well-trained labour force no longer suffices to attract additional foreign investment, reforms are needed to raise incentives to innovate and to ensure that resources flow to more productive firms. Such policies require facilitating the entry of new firms by reducing regulatory barriers to entrepreneurship and innovative start-ups (Table 1.2).

A recent OECD study on the importance of investment in knowledge-based capital (KBC) to underpin the innovation process illustrated that differences in country levels are associated with diverging patterns of firm-level performance within countries. However,

Figure 1.3. **Catching up in productivity has slowed down**

Gap in GDP per hour worked *vis-à-vis* the upper half of OECD countries



Source: OECD (2013), *Going for Growth Database.*

StatLink http://dx.doi.org/10.1787/888932983699

Table 1.2. **Policy priorities for countries facing high long-term unemployment, low labour force participation of specific groups and (with the exception of Ireland) a large productivity gap**

	CZE		EST		HUN		IRL		ISR		POL		SVK	
	R[1]	A[1]	R	A	R	A	R	A	R	A	R	A	R	A
Fostering stronger efficiency gains in private and public sectors														
Reduce barriers to product market competition and entrepreneurship:														
– Reduce public ownership and state control of business operations							✓	•			✓	•		
– Ease firm entry and administrative burden					✓				✓		✓	•	✓	•
– Reform bankruptcy procedures					✓		✓	•						
Improve public sector efficiency														
– Streamline public administration and facilitate monitoring and evaluation					✓	•								
– Improve efficiency of public procurement	✓	•												
– Raise effectiveness of public R&D	✓		✓				✓	•					✓	
Promoting employment by tackling disincentives to job creation, job search and labour force participation														
Reduce labour tax wedge	✓		✓		✓	•			✓	•	✓			
Improve effectiveness of job search assistance														
– Strengthen resources for job search assistance and individual follow-up			✓	•			✓	•					✓	•
– Better target subsidised job creation			✓	•			✓		✓				✓	
Reduce housing-related restrictions on labour mobility											✓		✓	
Strengthen gate keeping measures for sickness and disability systems			✓								✓			
Boost labour force participation of women														
– Reduce fiscal disincentive to work for second earner and lone parent	✓						✓		✓	•			✓	
– Improve access to childcare services	✓						✓		✓	•			✓	
Reform pensions to reduce disincentive to work at older age					✓	•					✓	•		
Facilitating the development of labour force skills, competencies and more broadly, human capital														
Strengthen vocational education and training			✓	•									✓	•
Improve efficiency and outcomes in:														
– Pre-school education											✓		✓	
– Primary and secondary education:	✓				✓	•			✓	•				
– Tertiary education	✓		✓		✓				✓		✓		✓	•

1. R stands for recommendation in that area, A stands for action taken over the horizon of the past two years.

realising the growth opportunities from investment in KBC requires that capital and labour resources be able to flow to firms and sectors that are most productive. Strong competition on product markets combined with bankruptcy laws that do not overly penalise failure are needed to encourage firms to experiment new ideas with uncertain growth opportunities (Andrews and Criscuolo, 2013). Low barriers to the reallocation of capital and jobs across firms help ensuring that the most innovative and productive firms can achieve their growth potential and that the exit of unsuccessful ones is not unduly hampered. In terms of regulatory barriers to competition, several of these countries perform poorly mainly with respect to the nature of state intervention in the economy – as indicated by the relatively high value of the OECD product market regulation index of state control – but entrepreneurs in Israel are also facing high regulatory barriers to setting-up businesses or obtaining permits and licences, with little or no improvement in recent years (see Chapter 2).

- In Ireland, an important bankruptcy reform is underway with personal proceedings already reformed and reviews of business procedures in the pipeline. Also, the enforcement capacity of the Competition Authority was enhanced in 2012.

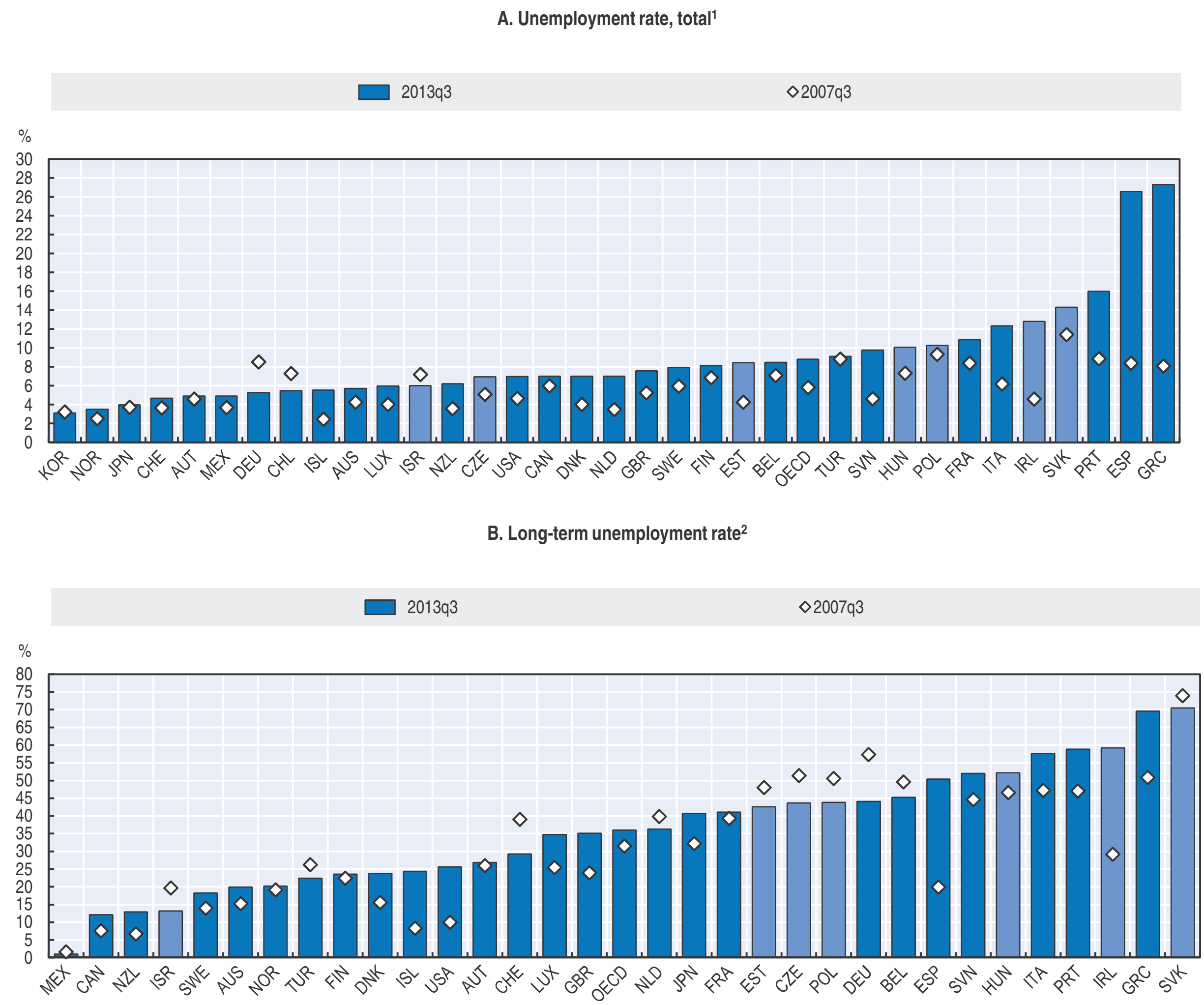
Dealing with long-term unemployment and low mobility of workers

One of the common pre-crisis features of this group of countries, and to some extent similar to the Southern European countries, has been a high share of long-term unemployed (Figure 1.4, panel B). The relatively high cost of labour being a contributing factor, reducing the labour tax wedge is one common recommendation. At the same time, wage flexibility is less of an issue for this group of countries. In most cases, however, boosting labour demand needs to be accompanied by measures to help workers with weak labour market attachment to find jobs and, where needed, to develop appropriate skills. In this regard, weaknesses have been identified in active labour market policies (Estonia, Ireland, Israel, Poland and Slovak Republic) with the recommendations for better targeting of the groups most at risk, as well as for more accountability and co-operation with employers.

- There has been a welcome streamlining of ALMPs in Slovak Republic that resulted in the cancellation of programmes that contributed little to improving labour market performance and a refocusing of resources on marginalised job seekers, in particular for consultation on individual basis.
- Estonia is also refocusing its training and apprenticeship programmes on long-term unemployed. Moreover, the central authority (Estonian Unemployment Insurance Fund) is now working with local municipalities to address long-term unemployment.
- Ireland has introduced one-stop shops for the unemployed and increased resources for job-search assistance and is putting emphasis on a close monitoring of newly unemployed. However, it has also widened access to job creation schemes, which does not contribute to a better targeting of resources.

Furthermore, in many of these countries, there are strong regional disparities in labour market performance and improvement is often hampered by the lack of geographical mobility (OECD, 2011a). While the situation may have improved since, residential mobility was significantly lower in Southern and Central European countries prior to the recession than in English-speaking and Nordic countries, where households move twice as much.[2] With high home-ownership and regulation of the tenant-landlord relations on the stricter

Figure 1.4. **Long term unemployment has been an issue already prior to the downturn**



1. Harmonised unemployment rate, seasonally adjusted. Instead of 2007q3, data refer to 2007q2 for Switzerland; data refer to 2013q4 for Canada and the United States instead of 2013q3.
2. Persons unemployed for one year and over. Data are smoothed using three-quarter centred moving averages. The last available data refer to 2012 for Israel. The OECD average excludes Chile and Korea for which data are not available.

Source: OECD calculations based on quarterly national *Labour Force Surveys* (cut-off date: 15 January 2014) and OECD *Short-Term Labour Market Statistics Database*.

StatLink http://dx.doi.org/10.1787/888932983718

side, the private rental market is under-developed or informal in many central European countries. Reform of housing policies is one of the priorities for Poland, where absence of zoning plans and rent controls hinders flexibility of the housing supply. The Slovak authorities are encouraged to remove obstacles to the expansion of private rental markets to improve labour mobility and thus contribute to lower long-term unemployment. Though not selected as priorities for *Going for Growth*, recommendations for removing regulatory obstacles to housing market developments also apply to other countries of the group, as mentioned regularly in *OECD Economic Surveys*. No significant actions have been taken to address these challenges.

Encouraging participation of under-represented groups

The Czech Republic and Estonia perform relatively well in terms of overall labour force participation, while the rest of the group lags behind. However, in all the countries concerned, there are considerable segments of the population that have only weak labour market attachment. This includes for instance ultra-orthodox men and Arab-Israeli women in Israel, as well as Roma population and younger cohorts of women and elderly workers in Central European countries and Ireland. Aside from the issues of equity, poverty and social cohesion that this situation raises, increasing the labour force participation of under-represented groups will be important looking ahead, as these countries will be dealing with a fast-ageing population, reducing potential output growth. For instance, the Polish old-age dependency ratio (defined as a share of population older than 65 as a share of working age population) is projected to triple by 2060, and total population has already started to decline.

For some of these groups, detachment from the labour market is a result of accumulated weaknesses of the education system, starting with too early stratification or sub-par integration into the mainstream educational channels. For others, such as women and elderly workers, it is partly due to ill-designed tax and benefit systems that result in disincentives to labour force participation. Little action has been taken on policy recommendations in this area.

- Slovakia is testing a project of full-day schooling in 200 primary schools to intensify education of socially disadvantaged, often part of Roma population, to improve conduct, school attendance and grades.

Overall, preparing for population ageing calls for encouraging higher labour force participation and employment in these countries, especially among groups where participation is low. Also, given the substantial productivity gaps (Ireland being the exception), reform efforts need to focus on fostering efficiency gains, be it through a more competition-friendly policy stance or stronger skills development. In the case of Ireland, despite the generally good business environment, there is still room for improvement, and policy reforms aimed at tackling long-term unemployment need to continue (OECD, 2013d).

Group 3: Countries facing low average hours worked and housing market related challenges

A group comprising mainly Nordic countries (Denmark, Norway and Sweden) and the Netherlands has proved fairly resilient to the downturn but given the protracted evolution of the euro area crisis and on-going balance sheet repairs in the financial sector across Europe, recovery in many of them has been subdued so far. These countries fare well in terms of overall labour participation rates, but less so when it comes to average hours worked. The common challenge they face is high shares of people receiving disability and sickness benefits, as well as heavy labour taxation. They also share a feature of low elasticity of housing supply and Norway and Sweden currently face a risk of an abrupt housing market adjustment, while Denmark and the Netherlands have already seen their housing bubbles burst.

Heavy labour tax burden but corporate income taxes are going down

One factor contributing to hours worked being below levels observed in other advanced economies is the relatively high tax burden on labour (Figure 1.5). The emphasis of reform recommendations is on decreasing both marginal and average taxation (Table 1.3). In order to avoid deterioration of budget positions, such reforms are advocated as part of a broader shift in taxation towards less distortive sources of revenues, such as property, consumption and environmental tax bases, found to be less damaging to growth and welfare (Johansson et al., 2008). In particular, there is some scope for revenue increases in property taxation, as the share of total revenues collected from this source is below OECD average for most of these countries (Denmark being an exception). Yet, there has been only little action in this regards. Tax changes that have been implemented in Nordic countries have mainly focussed on corporate rather than labour taxes.

- Sweden has lowered the corporate income tax (CIT) headline rate to 22% (from 26.3%) in 2013. At the same time, increases in the lower threshold of the state income tax are planned.
- Norway has announced a one-percentage point decrease in the current CIT rate of 28%. This is part of a wider corporate tax regime reform that will also broaden the tax base, as a commission to look into the corporate taxation has been established. Meanwhile, tax cuts for self-employed are also planned.
- Denmark will gradually cut the CIT rate to 22% by 2016. A recent comprehensive reform package has already reduced marginal labour tax rates.
- The Netherlands has increased VAT from 19 to 21%, reduced top income tax rates and legislated a very gradual phase-out of tax credits for second-income earners in 2012.

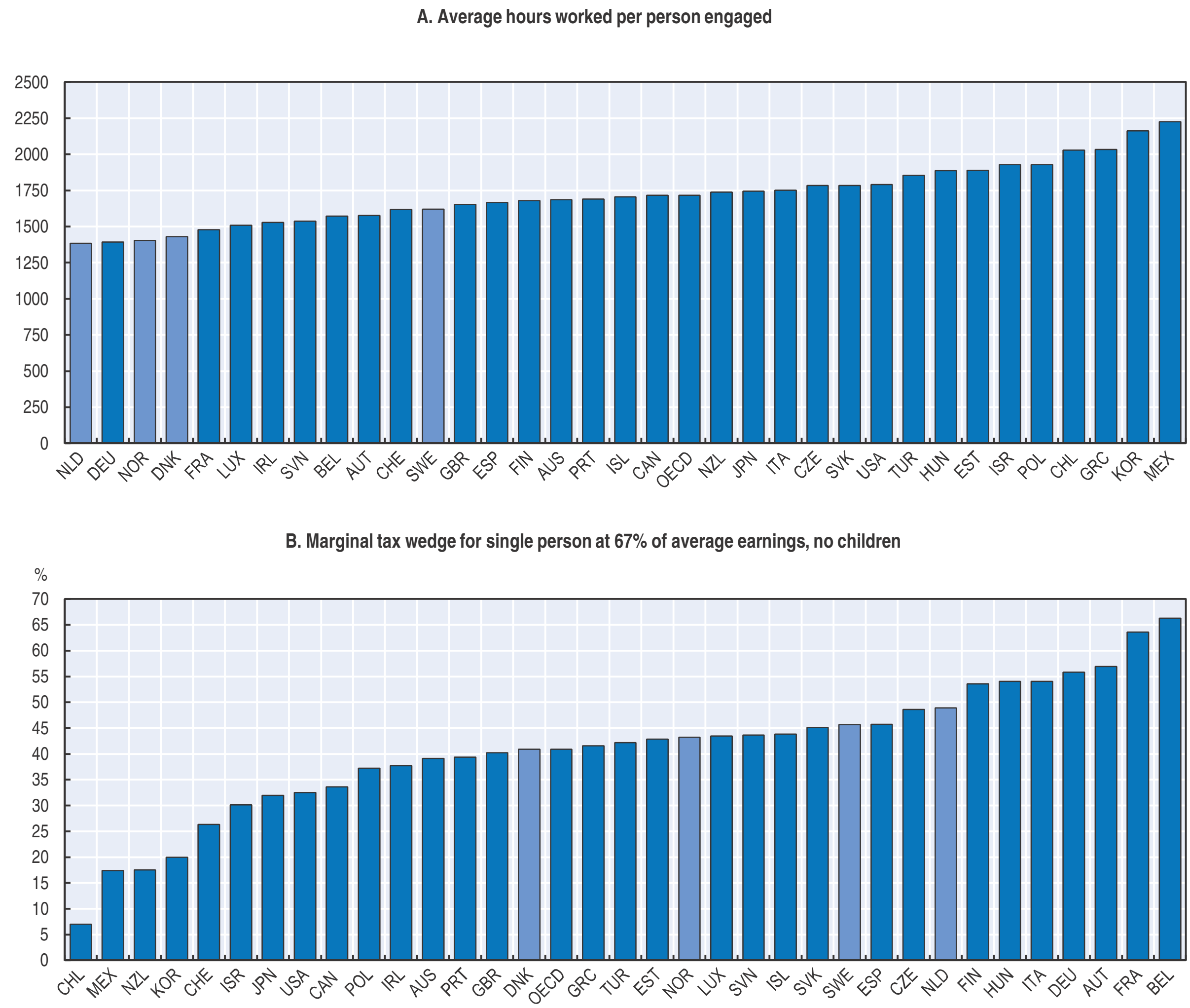
Making sickness and disability schemes more work-oriented

Another factor contributing to the sub-par utilisation of labour resources is the relatively high incidence of individuals with substantial work capacity on leave from the labour market via sickness and disability schemes. Reform in this area has been an on-going priority for all these countries for some time. For instance, Norway has by far the highest rate of work absences of full-time employees in the OECD, with almost 7% of the workforce being on sick leave at any point in time.[3] While Norway clearly stands out, the incidence of sickness absences in 2010 was also above average in other countries of this group. Recommendations in this area generally emphasise the need for tightening the access to such schemes, for better monitoring and regular assessments of benefit entitlements as well as for stronger enforcements of back-to-work plans. In the Netherlands, recommendations include also decoupling benefits from past earnings and excluding them from wage agreements.

- In Denmark, a reform currently under implementation includes tightening conditions for the benefits, strengthening of gate-keeping measures, a new rehabilitation model and substantial reform of the disabled employment programme (*Fleksjob*).
- Norwegian authorities agreed with the social partners to introduce targets for decreasing the number of people on sick leave. Also, a pilot scheme using disability allowance as a wage subsidy has been launched this year (covering 150 persons and lasting for 5 years).

Figure 1.5. **Countries with high tax wedges tend to have lower average hours worked**

2012



Source: OECD (2013), *Productivity and Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888932983737

Reducing barriers to competition in services and distortions in housing market could boost productivity

While performance of these countries in terms of hourly productivity can be seen as relatively enviable by average OECD standards, they nonetheless face a number of obstacles to more rapid efficiency gains. Regulatory barriers to competition in services are generally less of a concern, though extensive state control in specific industries can deter new entrants in Norway, while Denmark is advised to strengthen its competition framework. On the other hand, countries of this group have experienced very large increases in real house prices since the 1980s and tend to have rather low elasticity of housing supply (OECD, 2011a). Rent regulations are particularly restrictive in Denmark, Netherlands and Sweden and there are often issues of zoning and planning restrictions distorting the housing market, hampering development of residential housing as well as labour mobility. Moreover, generous tax treatment of home ownership contributes to housing price pressures and can crowd out more productive resource allocations.

Meanwhile low property taxation adds to the housing bubbles that these countries have experienced or are still experiencing. Significant reforms of housing markets continue to be politically difficult to implement.

- As a small step in the right direction, a gradual reform of social housing is put in place in the Netherlands. It has introduced a means-testing element, whereby higher income households will face higher rent increases. Moreover, the Dutch authorities have lowered the generosity of tax deductibility of mortgage interests.

Overall, reform actions appear to have been notably less intensive in this group than in other OECD countries in recent years, despite the continuous gap *vis-à-vis* best performers in labour utilisation. Reforms in product markets as well as further removal of disincentives to work embedded in the benefits system would be particularly helpful, while more actions should also be taken to prevent housing bubbles.

Table 1.3. **Policy priorities for countries facing low average hours worked and housing market challenges**

	DNK		NLD		NOR		SWE	
	R[1]	A[1]	R	A	R	A	R	A
Reducing financial disincentives to full-time labour force participation and job search								
Review tax and benefit systems to make work pay								
– Reduce labour tax wedge/marginal taxes in general	✓	•	✓	•			✓	
– Reduce implicit income taxes for household second-income earners (affecting mainly women)			✓					
Streamline social benefits								
– Tighten disability benefits	✓	•	✓		✓			
– Exclude disability benefits from wage negotiations			✓					
– Improve return to work of disability benefit recipients					✓		✓	
– Introduce regular assessment of benefit recipient situation	✓				✓			
Improve the design and integration of UI benefits and ALMPs								
– Taper unemployment benefits along duration			✓					
– Strengthen activation programmes			✓					
Reducing product and labour market impediments to job creation and efficiency gains								
Reform employment protection legislation								
– Simplify lay-off procedures			✓	•			✓	
– Move towards unified contracts								
– Lengthen trial periods, cap severance payments			✓					
Reduce barriers to entry and competition in:								
– Professional services	✓							
– Network industries					✓			
– Retail distribution					✓			
Reduce housing market distortions	✓		✓	•			✓	•
Facilitating development of labour force skills, competencies and, more broadly, human capital								
– Strengthen secondary education	✓	•			✓			
– Improve vocational education	✓	•					✓	•
– Shorten completion of tertiary education	✓	•					✓	
– Develop tuition fees with grant systems and income-contingent repayment								

1. R stands for recommendation in that area, A stands for action taken over the horizon of the past two years.

Group 4: Countries facing low employment rates of older workers and persistently high unemployment

The final group of exclusively European countries, which includes Austria, Belgium, France, Finland and Luxembourg, faces challenges that to some extent are similar to Nordic countries. Productivity levels are relatively sound, but overall labour force participation is held back by low participation of older workers, reflecting weak financial incentives to remain in activity. Belgium and France faced issues of long-term unemployment already prior to the downturn (Figure 1.4). With the exception of Austria, the current unemployment rates of this group of countries remain elevated, and are projected to stay so in the medium term (OECD, 2013e).

Unemployment benefit schemes need to better support the return to work

Countries in this group (apart from Austria) share recommendations to improve unemployment benefit schemes as well as active labour market policies (Table 1.4). Unemployment income replacement rates for both short and long-term unemployment spells are above the OECD average, while generally only weak conditionality for receiving benefits is in place (Venn, 2012). The emphasis of the recommendations is on maintaining adequate support in the initial phase of the unemployment spell but gradually decreasing

Table 1.4. **Policy priorities for countries facing low employment rates of older workers and (with the exception of Austria) persistently high unemployment**

	AUT		BEL		FIN		FRA		LUX	
	R[1]	A[1]	R	A	R	R	A	R	A	R
Reducing financial disincentives to labour force participation and job search										
Review tax and benefit system to make work pay										
– Reduce implicit tax on continuing work for older workers	✓	•	✓	•	✓	•			✓	
Improve the design and integration of UI benefits and ALMPs										
– Tighten the unemployment benefits			✓	•	✓	•	✓		✓	
– Strengthen activation programmes			✓		✓		✓		✓	•
Reducing labour and product market impediments to job creation										
Reform employment protection legislation										
– Simplify lay-off procedures							✓	•	✓	
– Move towards unified contracts										
– Lengthen trial periods, cap severance payments									✓	
Reform wage bargaining or minimum wage			✓				✓	•		
Reduce labour tax wedge			✓		✓		✓	•		
– Reduce social security contributions in particular for low incomes	✓									
Reduce barriers to entry and competition in:										
– Professional services	✓						✓		✓	•
– Network industries	✓	•	✓				✓			
– Retail distribution	✓				✓		✓		✓	•
Facilitating development of labour force skills and more broadly human capital										
– Strengthen secondary education							✓			
– Delay tracking and other barriers										
– Improve vocational education							✓			
– Develop/raise tuition fees with grant systems and income-contingent repayment	✓						✓			

1. R stands for recommendation in that area, A stands for action taken over the horizon of the past two years.

replacement rates over time, as well as making the conditions for their eligibility stricter. Introducing such reforms tends to be easier during cyclical upswings but some action has nonetheless been taken:

- In Belgium, the level of benefits after four years of unemployment is being gradually reduced to that of social assistance. Also, activation will now start after one year of unemployment.
- Finland has made unemployment benefits more conditional on participation in activation measures and linked the maximum duration of benefits more closely to previous work history in 2013. In 2012, it has carried out a pilot project that shifted the responsibility of employment services for those unemployed over one year to municipalities and plans to move in this direction nation-wide.
- Luxembourg has reformed public employment service (ADEM) in 2012, effectively stepping up job search assistance.

Addressing early exit of older workers from the labour market

Early exit from the labour force is one other common feature of these countries. For instance, while the official retirement age in Luxembourg is 65, the average effective age of exiting the labour force during 2006-2011 was only 58 for men and 58.6 in the case of women. A similar situation is also observed in the other countries, where effective retirement has been well below the OECD average of 64 years. All the countries is this group, except France, are therefore recommended to limit premature withdrawals of older workers from the labour market by closing remaining avenues to early retirement or reducing disincentives to continued work at older ages embedded in pension regimes. Many early retirement routes go back to the 1970s and 1980s, when governments started to actively encourage older workers to withdraw from the labour force by introducing pre-retirement packages and to facilitate access to other benefit schemes. Over time, various pension reforms have in fact tightened or eliminated these routes, and so far the governments have resisted returning to such policy option in response to the crisis. Nevertheless they still remain important in a number of countries, including Austria, Belgium, Finland and Luxembourg (see Figure 1.6), where the effective retirement ages remain among the lowest in the OECD (OECD, 2013a).

- Luxembourg passed a pension reform in 2012, which extends contributory years but does not address existing early retirement routes and long duration of unemployment benefits that result in low effective retirement age.
- Austria is gradually tightening eligibility conditions for disability pensions. The latest move includes the New Disability Scheme, applicable to those born after 1964, under which a disability pension will be available only to cases of permanent disability. A new competence centre is being established, that will decide on disabilities, and rehabilitation and retraining will become obligatory. Also, the eligibility age for some types of disability pension will rise from 57 to 60 in 2017 (OECD, 2013f).
- In a first step to increase the effective retirement age, Belgium increased the entry age to early retirement from 60 to 62 and working careers from 35 to 40 in the private sector, but longer careers continue to give access at 60. Public sector employees need 40 years but special regimes and unemployment routes continue to exist (OECD, 2013g).

- The Finnish government has agreed with the social partners in 2012 to increase the minimum age for part-time pension to 61 and has abolished a possibility to draw an old-age pension at a reduced level prior to the statutory retirement age.
- A limited pension reform has been legislated in France in 2012 that will extend the contributory period from 41 to 43 years. At the same time, a number of generosity-increasing measures have been included.

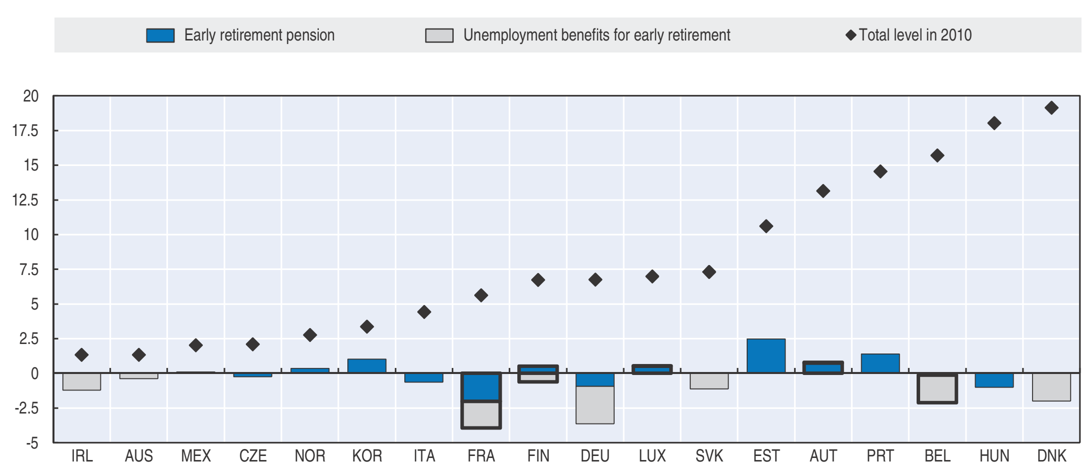
Reducing impediments to job creation

In order to reduce unemployment, countries in this group share a number of policy recommendations that would help stimulate job creation. These include reductions in the labour tax wedge (except Luxembourg), a reform of wage bargaining or the minimum wage (Belgium and France) and reviewing some of some provisions of employment protection legislation (France and Luxembourg), especially those that create uncertainty for employers as regards lay-off costs. Lifting barriers to competition in services is also a fairly widespread priority among this group of countries, in particular in retail distribution and construction sectors.

- Providing more room for wage and working time flexibility has been legislated in France, where a provision allowing social partners to negotiate a firm-level agreement for temporary wage and working time reductions in exchange for a job guarantee in economic downturn has been adopted.
- The French government also lowered labour costs through the introduction of a tax credit based on a company's gross wage bill for low to middle-wage workers, financed by a hike in the standard VAT rate from 19.6% to 20% and the intermediate VAT rate from 7% to 10%. More recently, the government has announced a plan to replace this tax credit by a reduction in social security contributions paid by employers, a measure to be financed by cuts in public spending.

Figure 1.6. **The use of early retirement schemes since the start of the global financial crisis**

Number of participants in early retirement and special unemployment-benefit schemes for older workers as a percentage of the population aged 55-64, change in percentage points between 2007 and 2010[1]



1. Early retirement schemes refer to public programmes for older workers who are entitled to leave before the normal retirement age. Unemployment-benefit schemes refer to special public unemployment-benefit programmes for older workers for which the job-search requirement is relaxed. Data for Germany refer to 2008 instead of 2007 for the unemployment benefit scheme.

Source: OECD (2013), *OECD Employment Outlook 2013*.

StatLink http://dx.doi.org/10.1787/888932983756

Overall, reform efforts for this group of countries have concentrated on raising incentives to work for older workers and boosting public sector efficiency. Given the current context of elevated unemployment rates and subdued labour market performance prior to the crisis in most cases, it is crucial that these efforts be supported by measures to boost job creation and facilitate hiring through stronger product market competition and skills development.

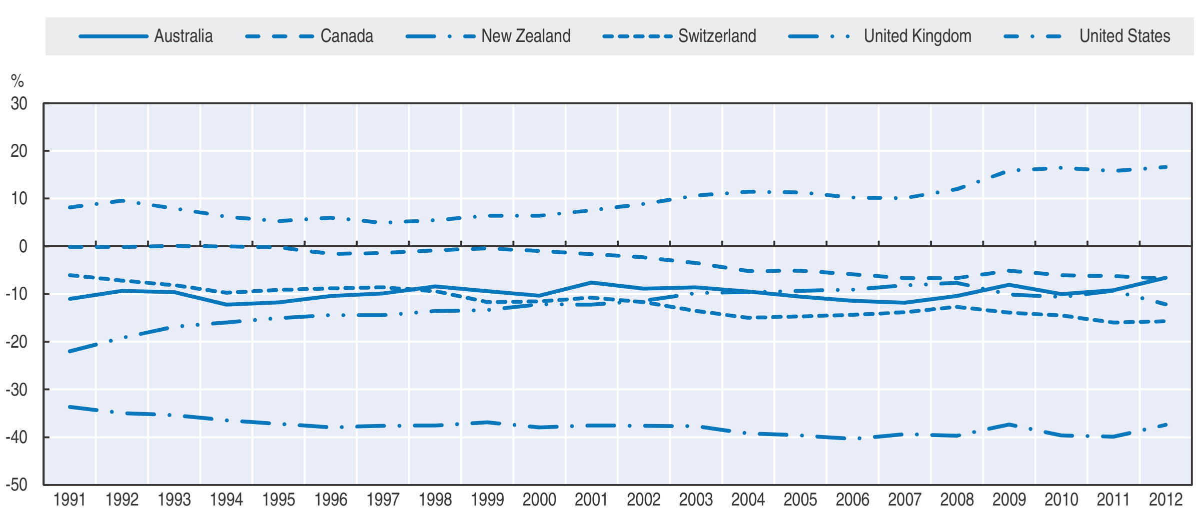
Group 5: Countries facing low productivity growth in spite of relatively high investment in knowledge-based capital

A number of English-speaking countries (Australia, Canada, New Zealand, the United Kingdom and the United States) and Switzerland form a fifth group of countries for the purpose of this review. They have generally high employment rates and average hours worked but in terms of productivity levels they lag behind the top performers, in particular in terms of multi-factor productivity (with the exception of the United States). While these countries have comparatively high investment in knowledge-based capital (though less so in Australia and New Zealand), benefit from good-quality tertiary education, reasonably well-functioning labour markets and a fairly competitive business environment, they have not enjoyed particularly strong returns on these assets as witnessed by a lacklustre efficiency gains performance and a failure to narrow the productivity gap (Figure 1.7). Educational outcomes are generally good on average in terms of high-school level performance in reading and science but – with the exception of Canada – with a relatively high variance across students (Figure 1.8), suggesting that a non-negligible portion leaves school with low skills.

In these countries, the main challenges are to improve the efficiency and equity of education at the compulsory level, opening up to more competition by lifting foreign and domestic barriers to investment and new firm entry in services, improving efficiency of health spending as well as of publicly-funded innovation programmes (Table 1.5).

Figure 1.7. **Productivity has hardly kept pace with best performers**

Gap in GDP per hour worked *vis-à-vis* the upper half of OECD countries

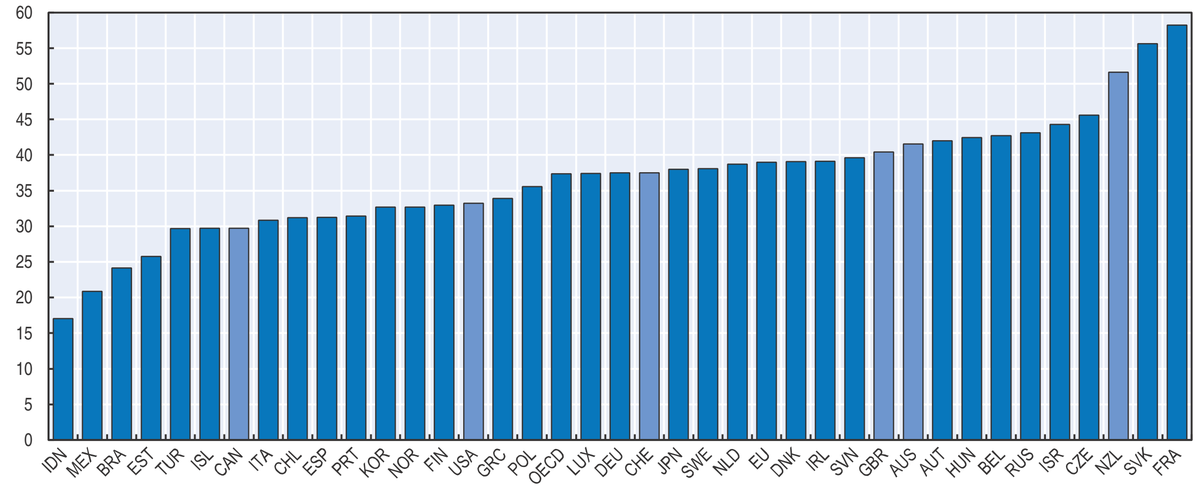


Source: OECD (2013), *Going for Growth Database.*

StatLink http://dx.doi.org/10.1787/888932983775

Figure 1.8. **Influence of socio-economic and cultural background on student reading performance**[1]

Strength of the link between the reading score and the socio-economic index, 2012



1. Defined as the estimated coefficient from the country specific regression of PISA reading performance on corresponding index of economic, social and cultural status (ESCS). For more details see PISA 2012 Results (OECD, 2013).

Source: OECD (2013), *PISA Database*.

StatLink http://dx.doi.org/10.1787/888932983794

Table 1.5. **Policy priorities for countries facing low productivity growth in spite of relatively high investment in KBC**

	AUS		CAN		CHE		GBR		NZL		USA	
	R[1]	A[1]	R	A	R	A	R	A	R	A	R	A
Fostering stronger efficiency gains in private and public sectors												
Reduce barriers to product market competition and entrepreneurship:												
– Relax barriers to foreign direct investment	✓		✓						✓			
– Reduce barriers to entry, capacity and competition in networks			✓						✓	•		
– Reduce barriers in professional services			✓									
Improve efficiency of the tax system												
– Improve corporate tax structure	✓	•	✓	•	✓							
– Simplify the tax code, reduce tax expenditures			✓								✓	
Improve public sector efficiency												
– Enhance efficiency of public infrastructure	✓						✓					
– Improve efficiency of healthcare system							✓	•	✓	•	✓	
– Reduce agriculture and energy subsidies					✓						✓	
– Raise effectiveness of public R&D	✓		✓	•					✓	•		
Promoting employment by tackling disincentives to job creation, job search and labour force participation												
Improve effectiveness of job search assistance									✓		✓	
Reduce housing-related restrictions on labour mobility							✓					
Strengthen gatekeeping measures for sickness and disability systems									✓		✓	
Boost participation of women												
– Reduce fiscal disincentive to work for second earner and lone parent					✓		✓	•				
– Improve access to childcare services	✓	•			✓		✓	•				
Facilitating the development of labour force skills, competencies and more broadly, human capital												
Strengthen vocational education and training					✓		✓	•	✓		✓	
Improve efficiency and outcomes in:												
– Pre-school education	✓						✓		✓	•		
– Primary and secondary education							✓	•	✓		✓	•
– Tertiary education			✓	•	✓							

1. R stands for recommendation in that area, A stands for action taken over the horizon of the past two years.

Closing the small productivity gap by getting the most out of education

A common feature of English-speaking countries (with the exception of Canada) is sub-par educational achievement at the compulsory level, with often uneven student performance across social groups. The United States spends much more on secondary education than most countries but achieve only average results as measured by PISA scores and, in contrast to the practice in the majority of OECD countries, actually fewer resources are spent on students from disadvantaged backgrounds than on more privileged children (Dunn, 2013). In New Zealand and the United Kingdom, the share of young people who have not attained at least upper secondary education is only at around the OECD average. For Canada, the focus of recommendations is on access of disadvantaged groups to tertiary education by increasing need-based financial assistance and facilitating a greater share of foreign students into the tertiary system, while for Switzerland one priority is to improve weak educational outcomes of students from low socio-economic backgrounds across all levels of education.

- As of 2013, youth in the United Kingdom are required to participate in training or education at least until the end of the academic year during which they turn 17, and a year older by 2015.
- In New Zealand, under the so-called Youth Guarantee, trade academies and free tertiary education places have been established in order to increase achievement of the 16-17 year olds.
- The US authorities are implementing common standards and competencies as a part of the "Race to the top" and motivating the states to improve teacher incentives. Also, community colleges are receiving funding to develop programmes with employers for the unemployed. However, remaining property-based local financing of schools should be reformed so that more resources can be directed to disadvantaged students.
- Canada and New Zealand are introducing various initiatives to improve access and targeting of specific, disadvantaged groups.

Controlling health care spending

Keeping health care costs under control has been another challenge common to these countries. While the difficulty concerns public spending and efficiency in New Zealand, United Kingdom and Switzerland, high private costs and low coverage of health insurance is the main issue in the United States. Overall, the growth of healthcare spending has somewhat stalled in these countries – as in most OECD countries – during the recession years, but with the recovery gaining firmer ground, the rising trend is likely to return. Greater hospital efficiency and better chronic care management are notably advocated in New Zealand and Switzerland, as part of a set of recommendations to reduce public healthcare sector inefficiencies.

- In the United States, the implementation of the Affordable Care Act, which extends the health insurance coverage, continues but the launch has been slowed by technical problems that prevented a smooth access to relevant websites. Further reform will be needed to fully address the cost issue.
- The UK authorities are in the process of implementing a potentially far-reaching health care reform, which will re-organise care purchasing in England and Wales. Purchasing of care is newly transferred to clinical commissioning groups led by general practitioners and some parts of the public health budget will be transferred to local governments, with a view to cut down on costs while improving productivity in the sector.

Improving innovation policies

Although these countries can generally be considered as technologically-advanced, supported by strong investment in knowledge-based capital, they tend to lag behind in terms of overall innovation outcomes. For instance, with the exception of Switzerland and the United States, they are below OECD average in both patents and service-related trademark applications (OECD, 2011b), despite the various government policy tools to leverage business R&D, raising questions about the efficiency of the public support (Australia, Canada and New Zealand). There has been a general shift away from direct support across the OECD, with tax incentives becoming more generous but the design and administration varies significantly across countries.

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. Moreover, more generous R&D tax incentives can have the unintended consequences of protecting incumbents and thus slowing down the reallocation process (Bravo-Biosca et al., 2012) and the entry of new dynamic firms, often an important source of knowledge-based capital. It is therefore desirable that R&D tax incentives be refundable (or to allow for payroll withholding tax credits for R&D wages) and that they contain carry-over provisions in order to make them more suitable to the needs of young firms (Andrews and Criscuolo, 2013). While Australia and Canada already rely more on indirect support to business R&D activities through tax incentives, New Zealand uses exclusively grants. A common recommendation is thus to achieve a better balance between the two types of support while pursuing close evaluation of the grant programmes.

- The R&D tax credit was further streamlined in 2012 in Canada, and part of the savings was used to beef-up grants.

Helping specific groups to maintain work activities

In Australia, Switzerland and the United Kingdom, cost and availability of quality early-childhood education is particularly challenging for many parents, creating financial disincentives to return to work for household second earners and lone parents.

- In Australia, all children aged four should be able to enrol for 15 hours a week, 40 weeks a year as of 2013.
- The United Kingdom is extending a similar entitlement to 20% of the 2 year olds as of September 2013, and plans to double the share this year.
- Moreover, a streamlining and integration of numerous existing social benefits is under way in the United Kingdom: A universal credit (i.e. social benefit available to all low income earners or those out of work, including parents using child care) has been rolled out last year, pooling the main means-tested benefits into a single one. While the reform has multiple objectives and is too recent for a thorough assessment, it should improve income and work incentives for a number of people (Pareliussen, 2012).

The 2013 issue of *Going for Growth* introduced also a new recommendation in the area of active labour market policies for the United States. In the aftermath of the crisis, both unemployment benefits and active labour market policies had been temporarily augmented, but are currently being scaled back again, as programmes have expired or are affected by the general fiscal retrenchment under way. Unemployment has been edging down, but not as fast as expected. Also, the depressed labour market has led to people withdrawing from the labour force, discouraged by the poor job prospects. In this context, inflows into disability schemes are becoming an issue. With 7.2% of the population of 20-64 year olds receiving disability benefits, the United States have experienced one of the largest increases since 2006 and comes close to the European levels now, also when measured by incidence of sickness absence among full-time employees. A high share of working-age population on disability benefits has also been an issue in the United Kingdom, where a new work capacity test is bringing people back to the labour market.

Overall, reform efforts in this group of countries have been average, with important potential for improvement in efficiency and equity of education remaining. This is necessary to address sub-par achievements of disadvantaged groups of populations throughout their working careers, and who have been more affected by the recent downturn. In the current context of elevated unemployment, addressing discouraged workers as well as pathways to benefit schemes remains a challenge. In the longer-term perspective, getting more out of innovation policies and education systems should help boost productivity growth in these countries.

Group 6: Countries facing rapid ageing, low participation of women and weak productivity in services

This group consists of Germany, Japan and Korea. Although diverse in terms of overall productivity, labour utilisation and income levels, these countries face similar challenges in the long-term growth perspective and in fact share a majority of the recommendations. Ageing is already being felt in Germany and Japan, and by 2060, together with Korea, they will be on current trends among the oldest OECD countries. All three have been somewhat insulated from the impact of the recession, though Japan has been undergoing a more specific shock more recently (Great East Japan Earthquake). All three also perform well in terms of business R&D, especially in sectors such as motor vehicles and in the case of Japan and Korea, also in terms of ICT equipment.

While finally showing signs of a more robust rebound from the recession and exiting deflation, Japan is still facing an important fiscal consolidation challenge that needs to be underpinned by structural policies to boost potential growth in the face of rapid ageing. Korea's growth has been relatively robust but its more immediate growth prospects are burdened by already high levels of household debt. Germany's recent economic performance has been solid, with record low unemployment and a sound fiscal position, but apart from the cyclical upswing from the recession, medium-term potential growth remains subdued.

Common policy challenges include removing barriers to higher labour force participation of women, in order to boost long-term potential, reforming employment protection on open-ended contracts, which can be conducive to the latter goal, as well as to the objective of increasing competition in services sectors. Reforms in those areas will also help these countries to rebalance their underlying current account surplus which remains large, notably in Germany and Korea (see Section 3).

Narrowing the productivity gap in services sectors

Narrowing the still substantial productivity gap requires in the case of Japan and Korea further reduction of barriers to entry of domestic and foreign firms, in particular in services, where productivity lags behind and reform has been slow (Table 1.6). To a certain extent, the low productivity in the services sector is the legacy of an export-led growth strategy that has historically attracted the most productive resources into manufacturing (in particular in Korea). This is also true for Germany, where productivity growth in non-manufacturing sectors over the past decade has lagged that of manufacturing. There has been only limited progress on these reform priorities:

- Korea's 2012 free trade agreement with the United States should enhance its limited openness and help to attract inward FDI.
- Japan is experimenting with deregulation of certain professions in specialized zones. More importantly, it is participating in Trans-Pacific Partnership negotiations, while also engaged in talks on trade agreements with both the European Union and the United States that could be instrumental to much needed opening up of the protected sectors.
- Germany has de-regulated long-distance bus services as of January 2013.

Another common reform recommendation aimed at boosting the potential growth is a general rebalancing of the tax system. Japan applies high corporate taxation and Korea's stands at around the OECD average while their indirect taxes, in particular consumption tax rate, are low. The Japanese government faced with more immediate fiscal consolidation needs, has indeed decided to implement a significant increase in the consumption tax rate (from 5 to 8%) in April 2014. A further increase to 10% rate is planned for October 2015 under the condition that the economic situation remains favourable. Also, a temporary surcharge on the CIT that was introduced to fund earthquake reconstruction costs is lifted a year earlier, which will help to ease the tax burden on businesses. Meanwhile, German tax structure is skewed towards labour, notably because of high social security contributions. While its standard VAT rate stands at 19%, there is a scope for raising more revenues through the abolition of reduced rates VAT rates, as well as via higher environmental and real estate taxes.

Table 1.6. **Policy priorities for countries facing rapid ageing, low participation of women and weak productivity in services**

	DEU		JPN		KOR	
	R[1]	A[1]	R	A	R	A
Fostering stronger efficiency gains in private and public sector						
Reduce barriers to entry and competition in:						
– Relax barriers to foreign direct investment			✓		✓	•
– Retail distribution						
– Network industries	✓	•	✓	•	✓	
– Reduce barriers in professional services	✓				✓	
Improve efficiency of the tax system						
– Rebalance the tax mix towards indirect taxes	✓		✓	•	✓	
Reform agricultural protection						
– Reduce and shift composition towards direct support			✓	•	✓	
– Reduce barriers to agricultural imports			✓			
Promoting employment by removing disincentives to labour force participation and job search						
Improve the design and integration of UI benefits and ALMPs						
– Expand social security coverage for non-regular workers			✓	•	✓	
– Upgrade training programmes for non-regular workers			✓		✓	•
Boost participation of women						
– Reduce tax and benefit disincentives to second earners	✓		✓		✓	
– Improve childcare services	✓	•	✓		✓	•
– Address labour market duality through reform of EPL	✓		✓		✓	

1. R stands for recommendation in that area, A stands for action taken over the horizon of the past two years.

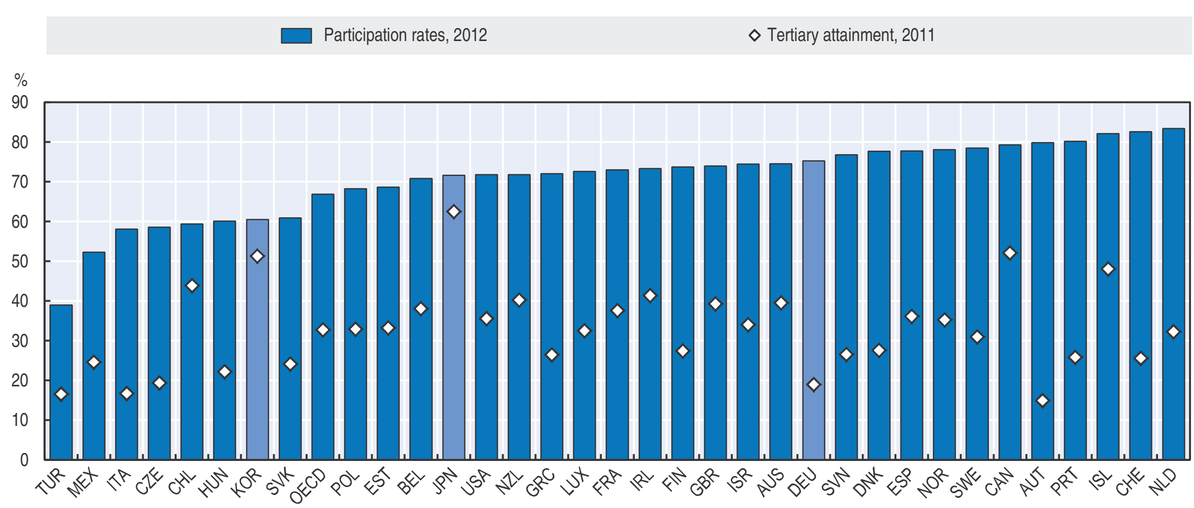
Easing the demographic pressures by facilitating the entry of women on the labour market

The longer-term challenge of ageing requires all possible measures to boost labour force participation. All three countries are among the fastest ageing economies in the OECD. For instance, in Japan the working-age population is projected to diminish by 40% by 2050. Extending working life careers is an obvious policy option, especially since Japan has the highest life-expectancy in the world. The government has introduced measures to encourage longer work, including a 2013 law requiring firms to keep all workers wishing to work until 65 (OECD, 2013h). Moreover, in all three economies, women – who particularly in Japan and Korea tend to have high graduation rates but very low labour market participation – represent an important potential pool of skilled labour (Figure 1.9). Female full-time employment lags significantly behind the OECD average also in Germany, with large shares of women working mainly part time. This often means non-regular employment with lower wages and less social protection, while the earnings gap between men and women is among the largest in the OECD. Indeed, reform recommendations focus on improving prospects for women in the labour market, be it in terms of a better balance in the employment and social protection as well as increasing availability of affordable, high-quality of childcare and reducing tax-benefit system disincentives for second-income earners.

- Raising the employment of women is one of the policy objectives of the current administration in Korea, and an expansion of public subsidies to early childcare education is under way, along with an increase in the number of childcare centres, with the aim to boost the share of children enrolled. Moreover, new mothers have a right to reduced working hours for one year following their return from a year-long maternity leave.
- Encouraging more women to work is also one of the objectives of the structural reforms of "Abenomics" in Japan, with more places in pre-school care announced. The New Growth strategy, unveiled in June 2013, has set a goal of eliminating waiting lists at

Figure 1.9. **Outstanding educational attainment of women but not employment rates in Japan and Korea**

Women, aged 20-34



Source: OECD (2013), *Labour Force Statistics* and *Education at a Glance Databases*.

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public childcare centres by 2017, in part by increasing resources as well as improving working conditions in childcare centres.

- Germany has introduced a legal guarantee for childcare places for children older than one year (although this might be in effect only part-time) and it is significantly increasing places for provision of full-day schooling. The new government has committed resources to continue this policy over the next four years. At the same time a subsidy for parents staying home has been introduced in 2013.

More importantly, much needed reform of employment protection, one of the sources of labour market duality that affects not only women, is so far missing from the structural reforms plan of the respective governments. In Japan and Korea, more than a third of total employees are so called non-regular workers who face lower social protection, a significant wage gap and less firm-based training, thus often experiencing higher inequality.

- An extension of the public pension scheme was legislated in 2012 in Japan. Coming into effect as of 2016, it will also cover the non-regular types of contract. At the same time, further restrictions of temporary agency workers have been introduced and are likely to result in the use of other types on non-regular workers, such as experienced in Korea (OECD, 2013h).

Overall, the reform agenda should give more prominence to employment protection legislation, with an emphasis on protecting individuals as opposed to jobs, and to addressing income inequality issues. At the same time, such steps should be accompanied by measures to spur more competition in many closed and over-regulated sectors in order to promote job creation and increase the growth potential.

Group 7: Countries facing uneven access to quality education, infrastructure bottlenecks and widespread informality

The final group of countries comprises major non-OECD emerging-market economies (Brazil, China, India, Indonesia, Russia and South Africa – or BRIICS) and lower-income OECD countries (Chile, Turkey and Mexico). These countries have generally demonstrated good resilience during the crisis – growth in GDP per capita has been stronger over the 2006-2011 period than the earlier 5-year period – though they have shown signs of slowing more recently, related for some of them to commodity price developments, but also to weaknesses in fundamentals. At the current juncture, they face significant risks, arising from planned withdrawal of unconventional monetary policies in major economies that could have particularly de-stabilising effects on emerging markets. Moreover, having experienced a surge in credit growth in recent years (Brazil, China, Russia and Turkey), some of them show signs of potential vulnerabilities in the banking sector.

Maintaining growth rates that are sufficiently robust to continue narrowing the income gaps *vis-à-vis* advanced countries at a sustained pace may be harder to achieve in the future, unless a number of constraints and bottlenecks on potential output are addressed (Table 1.7). Common policy challenges include addressing infrastructure shortfalls, decreasing pervasive state control in business activities, improving access to quality education, achieving a better balance in social protection for working population in order to foster job creation in formal sectors and (with the exception of China) addressing informality.

Table 1.7. **Policy priorities for countries facing uneven access to quality education, infrastructure bottlenecks and (with exception of China) widespread informality**

	BRA		CHL		CHN		IDN		IND		MEX		RUS		TUR		ZAF	
	R[1]	A[1]	R	A	R	A	R	A	R	A	R	A	R	A	R	A	R	A
Fostering stronger efficiency gains in private and public sectors																		
Reduce barriers to product market competition and entrepreneurship																		
– Relax barriers to foreign direct investment							✓		✓	•	✓	•	✓					
– Reduce barriers to entry, capacity and competition in network industries	✓		✓		✓	•					✓	•	✓		✓		✓	
– Reduce barriers to entrepreneurship							✓				✓						✓	
– Reduce state involvement					✓								✓				✓	•
Improve public sector efficiency																		
– Address infrastructure bottlenecks	✓	•					✓	•	✓	•								
– Improve legal infrastructure							✓				✓		✓		✓			
– Reduce public subsidies to agriculture and energy							✓	•							✓			
– Raise effectiveness of public R&D													✓					
– Financial sector reform	✓				✓	•			✓									
Promoting employment by tackling disincentives to job creation and formal labour force participation																		
Reduce labour tax wedge	✓	•																
Reform wage formation and bargaining							✓				✓				✓		✓	
Reform UI benefits and ALMPs																		
– Extend coverage of UI benefits			✓				✓								✓		✓	
– Reform/rebalance employment protection of temporary and regular contracts			✓				✓		✓		✓	•			✓			
– Decrease implicit taxes for second income earners and elderly	✓	•	✓												✓			
Facilitation development of labour force skills, competencies and more broadly human capital																		
Strengthen vocational education and training	✓								✓						✓		✓	•
Improve efficiency and outcomes in:																		
– Primary and secondary education	✓	•	✓	•	✓		✓		✓		✓	•			✓	•	✓	•
– Tertiary education			✓	•	✓				✓						✓			

1. R stands for recommendation in that area, A stands for action taken over the horizon of the past two years.

Addressing both physical and legal bottlenecks

A significant share of the productivity gap in several emerging-market countries comes from lower levels of physical capital. In particular, given the positive impact of network infrastructure on long-term income levels, over and above the contribution from higher capital stock (Sutherland et al., 2009), bottlenecks in this area can hamper the growth potential of these economies. This is particularly the case in Brazil, India and Indonesia where investment in infrastructure has lagged economic development and is now contributing to slow potential output growth.

- In Brazil, a so-called Growth Acceleration Plan put in place in 2007 is being implemented, but several large projects are suffering from significant delays. More recently, the authorities have made some progress with an expansion of concessions and simplified procedures for public works, but more needs to be done (OECD, 2013i).
- In India, where priorities concern mainly the energy and transport sectors, the latest investment plan (2007-2012) saw a doubling of investment in private-sector dominated projects, but only a modest increase in the publically-funded areas, notably water and sanitation (OECD, 2012a). Since then, the authorities have appointed a cabinet committee focusing on speeding up the approval of large infrastructure projects, which is a welcome step forward.

- Indonesia has added new financing for rural infrastructure projects in its 2013 supplementary budget, but this falls short of the acceleration of infrastructure building that is needed.
- In China, reform of network industries is under way, with some of the responsibilities for it being devolved to lower levels of government while other administrative approvals have been abolished altogether. However, for instance, in railways, this concerns only rural lines and implementation will depend on local administrations.

Other factors potentially hindering the allocation of resources to most productive firms and sectors include pervasive state control of major parts of the economy – distorting competition – weak legal infrastructure and shallow financial markets. Despite recent improvements, China, Russia, South Africa and Turkey continue to have among the highest regulatory barriers to competition in the form of public ownership and poor governance of state-owned enterprises. In terms of legal infrastructure, weak and variable contract enforcements (China, Mexico) and protection of property rights (Mexico) create legal uncertainty, deterring investment and, in some cases, preventing the most productive firms from achieving their growth potential (Dougherty, 2013). Better enforcement of the "rule of law" – implying stronger judiciary independence or an overall strengthening of institutions – is thus a policy priority for China, Mexico and Russia. Progress is often slow in these areas, as they require the build-up of human capital and institutional capacity in the public sector. Nonetheless, some action has been taken:

- In China, government control over financial markets has been eased with measures such as the introduction of certificates of deposits and a prime lending rate. Also, the recent Third Plenum issued a long list of reform priorities that includes further liberalisation of interest rates, capital account opening and eased rules for FDI. The concrete details of these reforms are being elaborated and implementation is meant to be gradual, through 2020.
- A potentially important reform of the energy sector has been approved in Mexico, allowing for private investment and ending the state monopoly in oil and electricity. This year, a number of secondary legislation needs to be passed and to ensure effective implementation, an efficient regulatory framework will have to be established, with new terms for private (including foreign) investors fully spelled out.
- Russia is taking steps to improve the general business environment and the judiciary. It has revamped its public procurement bill, increased judicial salaries and created a Federal Business Ombudsman office to protect businessmen from administrative and legal abuse by the authorities. On the other hand, previous privatisation plans that included several largest companies in key sectors such as banking, telecoms and transport have been substantially scaled down.

Unlocking the education potential

Education is central to increasing long-term living standards and narrowing the productivity gap *vis-à-vis* the higher-income countries. Despite the considerable progress achieved in the recent decades, priorities in this area continue to be centred on improving access to basic education for all children. The more specific policy prescriptions vary across countries. For Indonesia and South Africa, the focus is on eliminating secondary school fees and on making programmes of cash transfers to families conditional on school attendance, along the lines of the successful example in Brazil. Improving the quality of teaching through better teacher training and motivation are key recommendations for

Brazil, Mexico and South Africa. But there are also issues of outright "physical" access to education, be it in the Chinese context of allowing children to enrol into school at their place of residence, or ensuring adequate school equipment in South Africa.

- Mexico has passed a reform in January 2013, introducing national standards for primary and secondary teacher performance, introducing a teacher evaluation system and professionalising the training and selection of principals.
- In Turkey, compulsory education has been lengthened from 8 to 12 years.

Dealing with informality

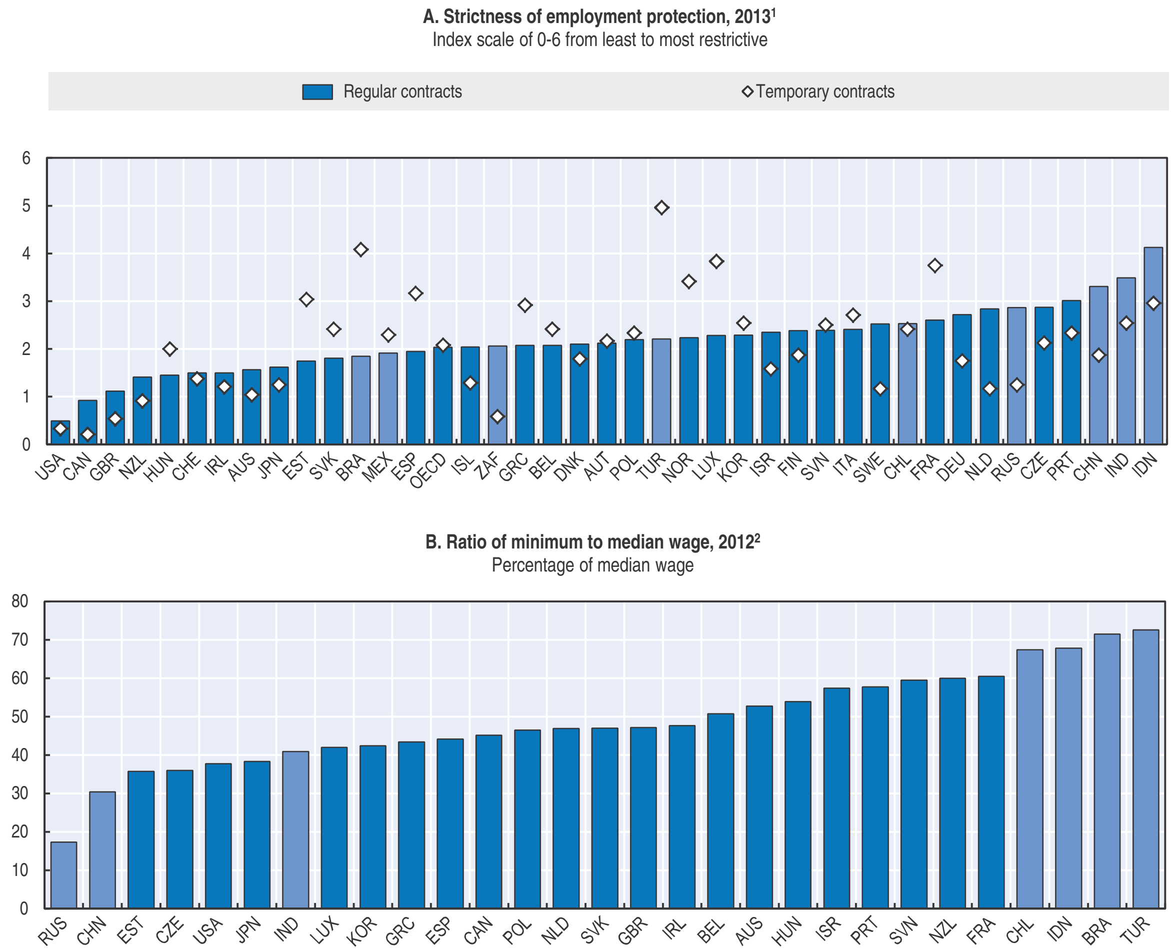
With the exception of China, labour markets across this group of emerging-market countries share two distinctive features: informality and much stronger gender differences in terms of labour participation. Also, most of these countries have generally good levels of labour utilisation but South Africa and Turkey stand out in terms of the share of people not working at all even when trying to gauge the informal labour market activity. Stemming from a combination of factors, many of these economies have a recommendation to ease job protection. High firing and hiring costs in these countries reinforce the involuntary informality. Countries such as India and Indonesia face among the highest informality rates and have the most restrictive costs and procedures for dismissals of individuals on permanent contracts, as measured by the EPL indicator (Figure 1.10, panel A). Turkey and Brazil fare the same also when it comes to temporary contracts and agency work. In Turkey and Chile, this is partly an issue of high severance payments.

Furthermore, just like in many higher-income countries, a general re-balancing of the protection between temporary and permanent contracts, as well as from jobs to workers, is needed. High protection of workers on permanent contracts tends to hurt the youth most, making their labour force participation and employment more difficult (Pagés and Montenegro, 2007). 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.

- Mexico has approved a labour law reform in 2012 that should reduce the stringency of job protection for formal employment with a potential to reduce informality. New contracts allow for more flexibility in wage adjustments, bringing also less judicial uncertainty (OECD, 2013j).
- The Chilean authorities have announced a bill to increase replacement rates of unemployment benefit schemes, as well as the maximum and minimum benefits. This should be accompanied by effective job-search monitoring and assistance, so that such reform does not weaken work incentives (OECD, 2013k). These incentives are already good in the Chilean system of unemployment savings account, as workers first draw from their own savings before accessing the publicly funded benefits.

Another feature that contributes to the larger share of informal employment is the relatively high minimum cost of labour induced by the minimum wage, in particular in Brazil, Chile, Indonesia and Turkey (Figure 1.10, panel B). Too high minimum wages – especially if set uniformly across age groups and regions – truncate the earnings distribution and reduce demand for lower skilled workers in the formal sector (OECD, 2004), with particularly adverse effect in economies characterised by relatively young and less-educated workforce (Kantor et al., 2006). In Indonesia, the minimum wage – at the level of over 60% of the average wage – is linked to inflation, which can result in further increases relative to the median

Figure 1.10. **Some EMEs have strict employment protection legislation, high minimum wages**



1. Data refer to 2012 for BRIICS countries.
2. For non-OECD countries: percentage of minimum to average wage for China, Indonesia, the Russian Federation and India. 2011 data for Chile.

Source: OECD (2013), *Employment Protection* and *Employment Outlook Databases*; China Ministry of Human Resources and Social Security, National Bureau of Statistics; Instituto Brasileiro de Geografia e Estatística (Pesquisa Nacional por Amostra de Domicílios); *International Labour Organisation (ILO) 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.

StatLink http://dx.doi.org/10.1787/888932983832

wage. The minimum wage in Turkey stands at over 70% of the median, creating challenges given the regional disparities in productivity. In South Africa, the wage bargaining system more broadly contributes to high labour costs relative to productivity, low wage flexibility and strong labour market duality. This is because it allows for wages negotiated between large established firms and unions to be extended to all (including non-unionised) firms in the sector by bargaining councils, putting small firms at a disadvantage and hampering job opportunities for the unemployed (OECD, 2013l). Except for the implementation of a wage subsidy for youth in South Africa, there has been no significant action taken recently in other countries the area of wage setting.

Overall, this group of countries has taken relatively few reform actions in the areas seen as priorities for sustaining high growth rates. Despite the relatively good performance at the onset of the recent downturn, many of these countries have run into domestic bottlenecks – not least in terms of infrastructure – that are hampering the catching-up process as well as the flexibility of the economy. Progress on a number of recommendations to extend social protection has been piecemeal, despite the help it could provide in addressing informality, and thereby in raising public revenues, as well as in allowing workers to increase their skills. Mexico, however, stands out, with a significant reform agenda adopted thanks to notable cross-party support (*Pacto por Mexico*). Also, in China, last year's Third Plenum outlined an ambitious and potentially comprehensive reform plan, although details of the numerous reforms are still to be spelled out.

Cross-country policy issues with implications for international trade

Public subsidies for agricultural production distort efficient resources allocation and limit productivity gains in many countries or regions covering a large part of the OECD (European Union, Iceland, India, Japan, Korea, Norway, Turkey, Switzerland and the United States). Overall, producer support increased slightly after reaching a historical low in 2011. The highest public support to farm receipts is recorded in Japan, Korea, Norway and Switzerland where it spans from 56-63%, while the EU's support is at the OECD average of 19% and other countries with a reform recommendation in this area are below the average, with 7% in the United States. Among advanced economies, producer support has been on a long-term declining trend, but in some of the emerging market economies (notably China and Indonesia) the support has been increasing, albeit from low levels. Changes in recent years were in many other countries driven by developments on international markets rather than by explicit policy changes (OECD, 2013m) so important scope for progress remains. In the United States, the recently approved Farm bill could have potentially far reaching impact, as subsidies are set to decrease over the next five years. In Japan, the government has proposed phasing out certain subsidies related to rice production.

International trade represents an essential policy area with scope for boosting the long-term growth potential worldwide. In the wake of the downturn countries seemed to have refrained from outright national barriers and traditional protectionist policies, as pledged for instance by the G20, but more recent reports highlight the growing incidence of subtle "behind-the-border" obstacles that continue to hinder worldwide trade. A significant portion of them concern anti-dumping and countervailing duties, but several measures introduced in the aftermath of the crisis have also been in areas such as standards and technical regulations, public procurement, export subsidies and firm bailouts (Global Trade Alert, 2013). And, since 2009, the year that saw a peak in the incidence of trade-distorting policies, the introduction of new trade restrictions continue to exceed the number of trade-facilitating measures. The total number of trade-restricting measures implemented by G20 countries between 2009 and 2013 – and that are still in place – account for nearly 4 per cent of world merchandise trade.[4]

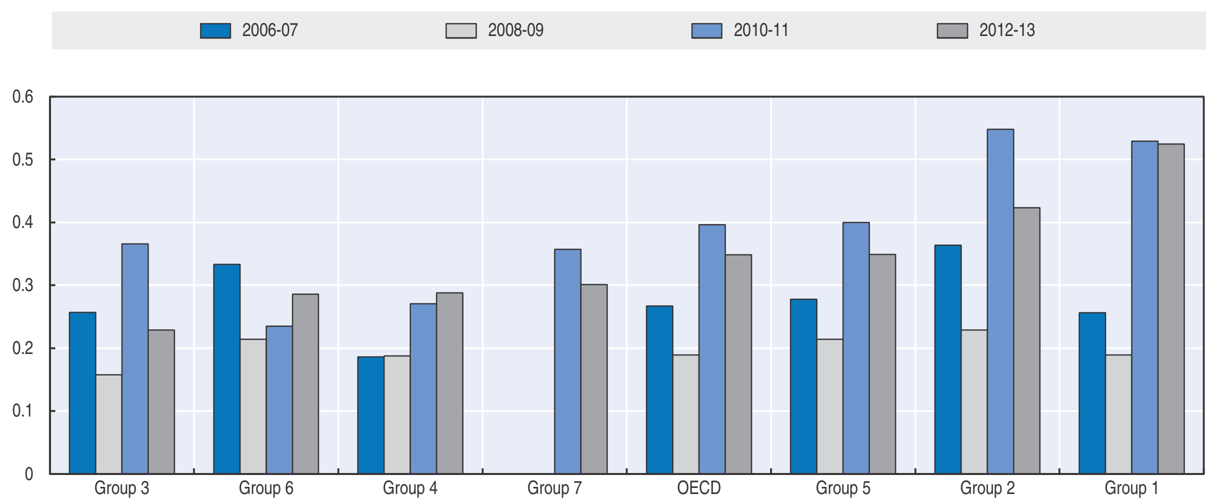
A welcome progress has been achieved by the World Trade Organisation in Bali at the end of last year, with an agreement on "trade facilitation", which will modernise and simplify customs procedures, with the aim of reducing transaction costs. While estimated long-run annual benefits from the trade facilitation agreement vary, there is no doubt that this deal is a step in the right direction in the on-going multilateral talks, in particular for the conclusion of the more comprehensive Doha round that is still pending. Recent OECD work on long-term trade developments and specialisation has suggested that even a partial trade liberalisation deal concluded at a multilateral body such as the WTO could raise world GDP by 2.8 per cent in the long term relative to a scenario where no further trade liberalisation is achieved (Johansson et al., 2014 forthcoming). Also the gains in the long-term GDP would be greater for mostly non-OECD countries and could reach 4% in India and other Asian regions.

The pace of reforms appears to be slowing somewhat

A comparison of the intensity of reform actions over the period 2012-13 with that observed over previous two-year periods indicate that after accelerating significantly in most country groups in the aftermath of the crisis (2010-11), the pace of reform in areas of *Going for Growth* priorities appears to be slowing somewhat more recently. Exceptions are Group 4 (Austria, Belgium, Finland, France, Luxembourg) and Group 6 (Germany, Japan and Korea), which on average were among the least intensive reformers in the earlier periods. Even so, for most groups, and for the OECD countries taken as a whole, the intensity of actions taken remains well above that observed in earlier periods. Maintaining the pace is crucial considering that the structural reform agenda is as important as ever to make the weak recovery a far more sustained one and for countries to escape the low trend growth prospects plaguing many advanced countries.

Figure 1.11. **Reform activity in structural policies**

Reform responsiveness to past *Going for Growth* recommendations



Note: Reform responsiveness indicator is a measure of the extent to which countries have followed up on recommendations for structural reforms as given in past *Going for Growth*. It does not aim to assess overall reform intensity per se. The indicator is based on a scoring system in which recommendations set in the previous edition of *Going for Growth* take value of one if "significant" action is taken and zero if not. A priority may entail more than one specific recommendation, the scoring is often based on more than one reform opportunity per priority. For more details see OECD: *Economic Policy Reforms 2010: Going for Growth*. There is no data prior to 2011 for BRIICS countries, Chile, Estonia, Israel and Slovenia, hence for the Groups 1, 2 and 7 in which they are included, 2010-2011 responsiveness rates have been calculated assuming 2010 rates are equal to 2011.

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The effects of structural policies on other policy objectives

While *Going for Growth* recommendations are primarily focused on achieving higher level and growth of GDP per capita, governments are typically pursuing a broader economic policy agenda. For instance, G20 countries are engaged in co-ordinated efforts to realize strong, sustainable and balanced growth, which involves, among other objectives, restoring fiscal sustainability and rebalancing current accounts. Furthermore, countries are not only concerned with improvement in their citizens' material living standard but also with other dimensions of their well-being such as income equality and environmental quality. This section takes stock of the possible "side-effects" from actions taken in response to *Going for Growth* recommendations on those additional policy objectives. This section does not deal in detail with the impacts on environment, as there is overall only little to be said about this impact over the last two years.

Much progress remains to be made in achieving more balanced and inclusive growth

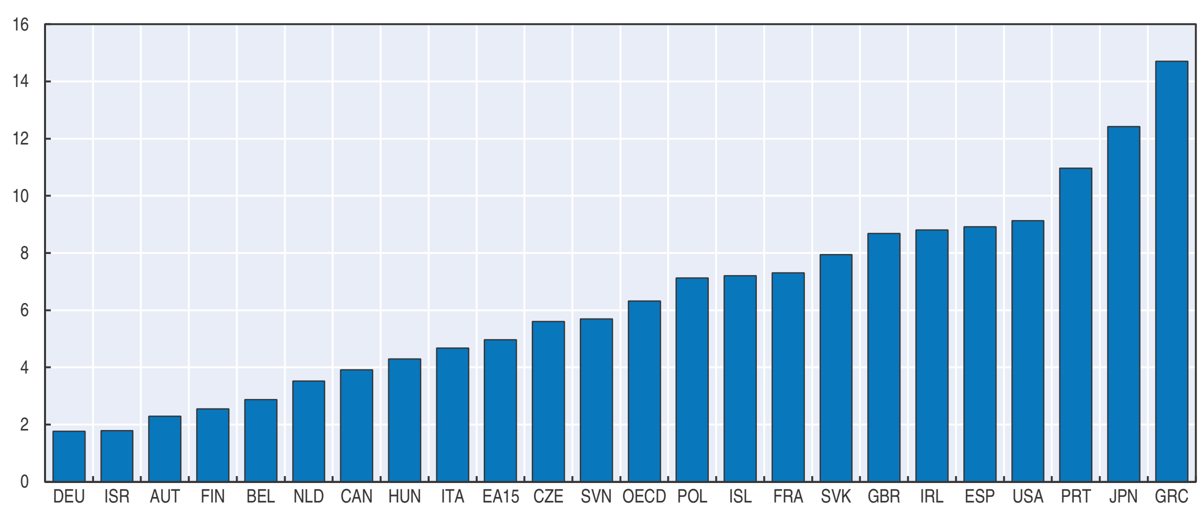
Many countries have made progress towards achieving more balanced growth. Yet, many of them still face substantial consolidation needs to put government debt on a firm path towards a more prudent level, for instance to 60% of GDP (Figure 1.12). Also, current account imbalances among major groups of countries have narrowed substantially since pre-crisis peaks. However, a sizable fraction of the narrowing in the headline current account imbalances can be attributed to cyclical factors (Ollivaud and Schwellnus, 2013), such as negative output gaps and depressed housing investments in deficit countries (Figure 1.13). Hence, global imbalance may well widen again in medium term, since the structural component of global imbalance does not appear to have changed by as much.

Income inequality, which has grown continuously over the past three decades, widened further during the great recession. The increase in inequality in household's market income (income from employment, capital and self-employment) between 2007 and 2010 was larger than that seen in the previous 12 years (OECD, 2013n). Although such rise was largely mitigated by social transfers, the group at the lowest income level has suffered a larger loss in disposable income than the top-income group, or saw a smaller improvement (Figure 1.14).

Against this background, it is legitimate to ask to what extent reform recommendations and actions taken to boost GDP growth may conflict with other policy objectives. To shed some light on this issue, this section focuses on the set of *Going for*

Figure 1.12. **Budgetary consolidation requirements to reduce government debt to 60% of GDP**

Average change in the underlying primary balance (2010-2030), percentage points of GDP



Note: The average measure of consolidation is the difference between the underlying primary balance in 2010 and the average underlying primary balance between 2015 and 2030, except for those countries for which the debt target is only achieved after 2030, in which case the average is calculated up until the year that the debt target is achieved.
Source: OECD (2013), *OECD Economic Outlook 93 Long-Term Database*.

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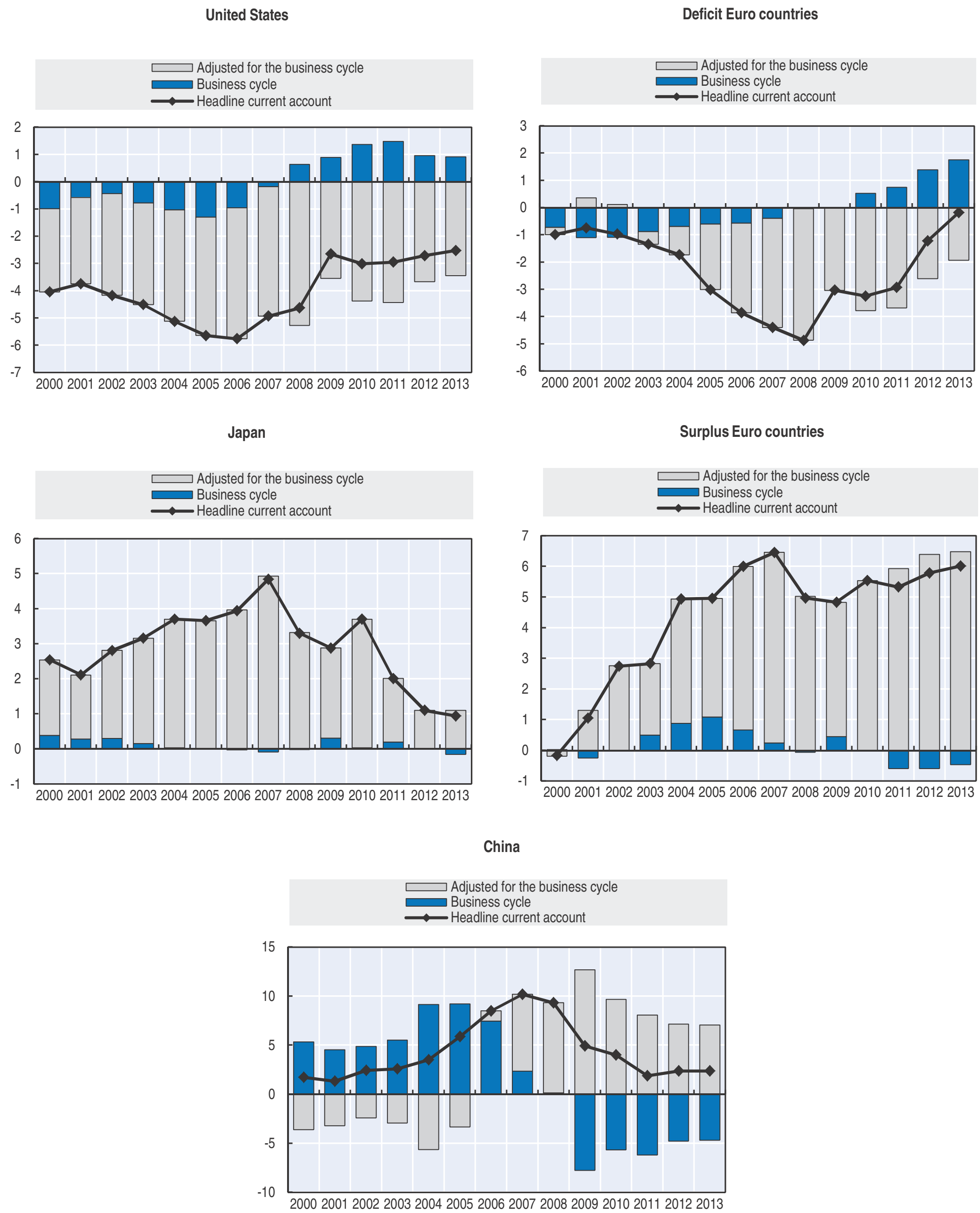
Figure 1.13. **The narrowing of external imbalances is in part due to cyclical factors**

Business-cycle adjusted current account balances (2000-2013), per cent of GDP



Note: The 2013 values are estimates based on latest quarterly data.

Source: Ollivaud, P. and C. Schwellnus (2013).

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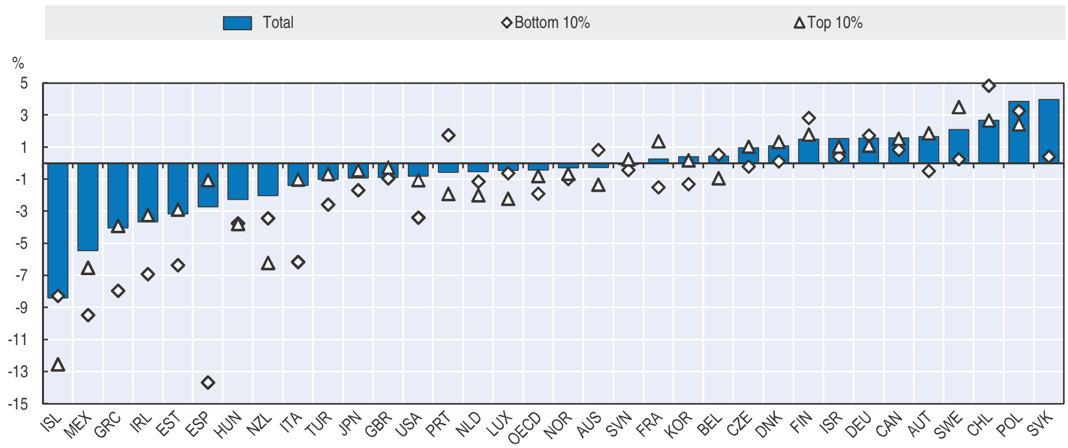
Growth priorities which, in previous studies, have been identified as potentially having substantial effects on one or more of these non-growth objectives.[5] An overview of the reforms and their possible consequence to other policy objectives are provided in Annex Table 1.A1.

For example, measures advocated to boost labour force participation – such as actions to facilitate full-time participation of women through improved access to affordable

Figure 1.14. **Bottom income deciles have taken a hit in the crisis**

Annual percentage changes in disposable income between 2007 and 2010, by income group



Source: OECD (2013), "Crisis squeezes income and puts pressure on inequality and poverty: New Results from the *OECD Income Distribution Database*".

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childcare or those to reduce informality by extending social protection to categories of workers not covered – can improve the budget balance in the medium-to-long run through stronger private sector employment but also entail substantial up-front budgetary costs and are therefore deficit-increasing in the short run. In addition to reducing public savings, these measures may also lower household savings for precautionary motives and thus contribute to weaken the current account position in the short term. On the other hand, such reforms are generally seen as desirable from an income distribution perspective as they can contribute to narrow income gap between genders and between workers with different labour contracts. Box 1.2 discusses the main channels through which pro-growth structural reforms impact other policy objectives.

How actions taken on Going for Growth 2013 *recommendations are likely to affect other objectives*

The side-effects of growth-enhancing structural reforms on other policy objectives may be seen as particularly important for countries facing most acute needs for fiscal consolidation, for a rebalancing of current accounts and for alleviating income inequality. This sub-section focuses on those countries' various objectives (given their starting point) and provides a stylised overview of the extent to which actions taken are helpful or not in addressing these objectives. A more comprehensive overview of *Going for Growth* recommendations and their side-effects for each country is provided in Annex Table 1.A2.

Table 1.8 lists recommendations in *Going for Growth 2013* and actions taken by the eleven countries whose short- to medium-term fiscal consolidation needs are estimated to exceed the OECD average that is 6.2% of GDP (see Figure 1.12).[6] These are Greece, Japan, Portugal, the United States, Spain, Ireland, United Kingdom, Slovak Republic, France, Iceland and Poland.

- On balance, Greece, Portugal, Spain and Iceland have taken more measures that contribute to fiscal consolidation in the short term than measures that do not. However, these countries could further support fiscal consolidation by implementing

Box 1.2. **Impact of growth enhancing reforms on other policy objectives – main channels**

To assess the implications of growth-oriented structural reforms on public budgetary positions, current account imbalances, income distribution and the environment, it is helpful to summarize the main channels through which policies have an impact as well as in some cases, the horizon of their effects.

- Budgetary implications of reforms in the short term depend on the extent to which their implementation entails initial expenditure cutbacks or – more often the case – additional public resources at least in the short term. In the long term, however, the effect on budget will much depend on whether reforms raise income via higher employment or stronger productivity. Policy actions that boost growth through stronger job creation and employment gains in the private sector may improve the government budget balance (as a ratio of GDP). They do so by increasing tax revenues as well as by reducing the relative size of the public sector in the overall economy, which may offset initial budget costs of the reform. In contrast, reforms that boost potential growth through stronger productivity gains do not necessarily improve the budget balance in the long run. The reason is that while stronger productivity brings more tax revenues, it also raises major components of spending such as public-sector wages – which tend to follow private-sector wages and hence productivity – as well as many types of transfers, which are often indexed to income.
- The impact of policy reforms on current account positions is best analysed through their influence on national saving and investment flows and hence via the balance between investments and saving in household, firms and government sectors. The structural component of the current account can be biased toward a surplus or deficit when policy-induced distortions in domestic markets result in excessive saving, consumption or investment. Structural reforms that correct such biases can contribute to rebalancing the current account. Policy reforms can more generally influence household savings for precautionary or retirement motives or stimulate corporate investments by altering expected rate of return and capital cost.
- The impact of structural reforms on income inequality is shaped by their impact on employment and earnings distribution. For example, reforms designed to boost the job opportunities of low-skilled workers reduce income inequality between the employed and the unemployed by increasing employment. However, they also increase income inequality among those in employment through higher wage dispersion. It is usually presumed that the wage dispersion effect materialises more rapidly and therefore that such reforms are more likely to exacerbate inequalities in the short run, especially if introduced in a weak conjuncture. However, the evidence suggests that in the longer term the benefits from higher employment on inequality either dominates or offsets the rise in earnings dispersion (OECD, 2011c).
- Structural reforms often have little or no direct impacts on environment. The environmental consequence of a reform often depends on initial framework of environmental policy. For example, when strict environmental policies are in place, reforms that lower entry barrier and enhance competition are more likely to encourage development and use of a more environmentally-friendly technologies. A reform to enhance tax efficiency through shift of revenue weight to indirect tax can directly contribute to environmental protection, if it involves increase in environmental tax, or environmentally-harmful subsidy reductions. In any case, there is overall little to be said about the environmental impact of policy reforms undertaken over the last two years, and hence this aspect is not discussed in what follows.

Table 1.8. The contribution of *Going for Growth* recommendations on fiscal consolidation

Countries needing a short- to medium-term consolidation larger than OECD average to reduce debt to 60% of GDP by 2060 (GRC, JPN, PRT, USA, ESP, IRL, GBR, SVK, FRA, ISL, POL)

Recommendations that help consolidation	Recommendations that do not help consolidation
Countries taking action during 2012-13 in bold	
• Tighten the eligibility of disability benefits and remove the tax disincentives for labour participation (USA, **GBR**, SVK, POL) • Reduce duration of unemployment benefits or strengthen their conditionality to active job search (GRC, PRT, **ESP**, **IRL**, FRA) • Reduce implicit tax on working at old age by reforming pension and early retirement schemes (**POL**) • Enhance the efficiency in education system (**GRC**, **PRT**, **GBR**, **ESP**, **SVK**, FRA, ISL) • Introduce or increase tuition fee with income-contingent grants in tertiary education (**ESP**, SVK, FRA, POL) • Cut tax expenditures and subsidies (to housing, energy, agriculture etc.) (**GRC**, **JPN**, USA, **FRA**, ISL,POL) • Enhancing the efficiency in public sector service (**GRC**, USA, **GBR**, **ISL**)	• Promote female labour participation by subsidising and increasing childcare (JPN, **GBR**, IRL, SVK) • Increase spending on active labour market policy (ALMP) (USA, PRT, **IRL**, **SVK**) • Reduce the duality in labour market by extending social protection to temporary or non-regular workers. (**JPN**) • Increase provision of early, primary and secondary education (USA, **GBR**, SVK, **POL**) • Increase provision of tertiary education and vocational education and training (**ESP**, **GBR**, **FRA**, **SVK**) • Increase investments in infrastructure (GBR, **POL**)

Note: Countries were selected based on estimation reported in OECD (2013d). This table lists *Going for Growth* recommendations that have an impact on fiscal consolidation for the selected 11 countries. When a specific recommendation applies, the country is mentioned in brackets and when action has been taken, the country is highlighted in bold.

recommended reforms, such as boosting employment through stronger conditionality or reduced duration on unemployment benefits (Greece and Portugal).

- For Japan, Ireland, France and the United Kingdom, the overall impact of actions taken on fiscal balance is less clear, with the number of measures contributing to fiscal consolidation being more or less the same as those that do not. For instance, while Japan decided to extend public pension to non-regular workers from 2016 onward, it may realise significant fiscal saving in the long-run from reforming agriculture subsidies, which remain well above OECD average (OECD, 2013n). Ireland has tightened access to unemployment benefits but also expanded its active labour market programmes, which entails up-front costs.
- Slovak Republic and Poland have taken more actions that are deficit-increasing in the short-run, such as stepping up expenditure on education services and infrastructure. However, both countries have ample room to exploit the positive side-effects from other recommended reforms. For instance, they could enhance the effectiveness of tertiary education by introducing or increasing tuition fees, even if this were to be flanked by income-contingent loans and mean-tested grants in order to avoid poverty trap.

Table 1.9 lists *Going for Growth* recommendations and where actions have been taken for the five countries with the largest current account surpluses (China, Germany, Netherlands, Norway and Switzerland) as well as for the five countries with the largest deficits (Brazil, Canada, India, United Kingdom and the United States). The size of current account imbalances for the purpose of this exercise is measured by an indicator that incorporates the ratio of a country's current account balance to its GDP as well as to world GDP, in line with Cournède *et al.* (2013). The latter element captures the global dimension of imbalances that countries are expected to incorporate in their policy objective as part of the sustainable global growth agenda.[7] In general, the potential of structural reforms to reduce global imbalance through saving and investments is more limited in countries

Table 1.9. **The effect of *Going for Growth* recommendations on current account balances**

Recommendations that help rebalancing	Recommendations that do not help rebalancing
Countries taking action during 2012-13 in bold	
5 countries with largest surplus (DEU, CHN, CHE, NLD, NOR)	
• Promote female labour participation by subsidising and increasing childcare and removing tax disincentive (DEU, CHE, NLD) • Reduce labour market duality by reducing job protection on permanent contracts and extending protection to temporary or non-regular workers (DEU, NLD) • Reduce entry barriers, public ownership and enhance competition in network industries and professional service (**DEU**, **CHN**, NOR) • Reform financial markets (**CHN**)	• Tighten the entitlement of disability benefit (NLD, NOR) • Strengthen the conditionality of unemployment benefit (NLD) • Shifting the weight of taxation from labour or corporate income to property, consumption or environmentally harmful activities/products (DEU, CHE, NLD)
5 countries with largest deficit (USA, IND, GBR, CAN, BRA)	
• Shifting the weight of taxation from labour or corporate income to property, consumption or environmentally harmful activities/products (USA, **CAN**) • Tighten the entitlement of disability benefit (USA)	• Reduce implicit tax on working at old age by increasing the retirement age (**BRA**) • Promoting investments in infrastructure (**IND**, GBR, **BRA**) and innovation (**CAN**) • Reduce barriers to FDI (**IND**, CAN) • Reduce entry barrier, public ownership and enhance competition in network industries and professional service (CAN) • Reform financial markets (IND, BRA)

Note: Countries selected are those with the largest current account surpluses and deficits, in line with estimations of Cournède et al. (2013). This table lists *Going for Growth* recommendations that have an impact on current account balances for the selected 10 countries. When a specific recommendation applies, the country is mentioned in brackets and when action has been taken, the country is highlighted in bold.

running large deficits than for surplus countries (Kedrian et al., 2010). The main reason is that many of the reforms recommended to boost growth do so notably by raising investment.

- Germany and China have taken more measures that help reduce external imbalance. For instance, they eased regulation in network industries and professional services, which is likely to stimulate private investment and therefore help narrowing the current account surplus. Germany can further exploit the positive side-effects on external accounts rebalancing by encouraging further full-time labour force participation of women.
- For Canada, the overall impact of actions taken on external rebalancing is undetermined. It implemented tax reforms that encourage saving and therefore strengthen the current account, but also conducted reforms that promote private investment in innovation.
- India and Brazil have taken more measures that may increase the current account deficit in the short run. Such measures include a reduction of barriers to FDIs (India) or the promotion of investment in infrastructure (India and Brazil).

Table 1.10 lists the recommendations in *Going for Growth* 2013 for the five OECD countries with largest income inequality as well as for BRIICS countries. The five OECD countries are selected on the basis of both the Gini coefficient and an indicator of the poverty gap (the distance between threshold income level, defined here as 60% of median income, and the average income of the population under this threshold).[8] They are Chile, Israel, Mexico, Turkey and the United States.

- Mexico, Chile, Turkey, Israel as well as Brazil, Indonesia and South Africa have all implemented growth-enhancing reforms that also contribute to reducing income

Table 1.10. **The contribution of *Going for Growth* recommendations on income distribution**

Recommendations that reduce inequality	Recommendations that widen inequality
Countries taking action during the 2012-13 period in bold	
OECD countries with largest income inequality (MEX, CHL, TUR, ISR, USA) and BRIICS	
• Promote female labour participation by extending child care (**ISR**, **CHL**) • Increase the coverage and replacement rate of unemployment benefit (CHL,TUR, IDN) • Reduce duality between regular and non-regular workers in social protection (**MEX,** TUR, IND, IDN) • Expand active labour market policies (ISR, USA, ZAF) • Increase the provision and efficiency of education services. (**MEX**, **CHL**, **TUR**, **ISR**, USA, **BRA**, CHN, IND, IDN, **ZAF**) • Cut subsidies on agriculture and energy (TUR, USA, **IDN**)	• Shift the weight of tax revenue from direct tax on labour and corporate income to indirect tax on consumption, property and environmentally harmful activities/ products (USA) • Tighten the entitlement of disability benefit (USA) • Reduce collective wage bargaining and/or minimum cost of labour (TUR, ISR, IDN, ZAF)

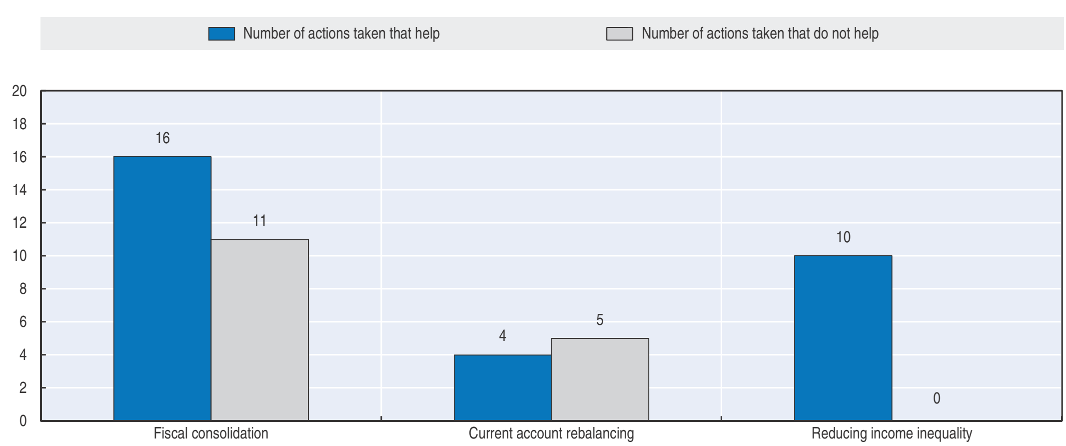
Note: Countries selected are those with the largest income inequality, measured by both the Gini coefficient and poverty gap. This table lists *Going for Growth* recommendations that have an impact inequality for the selected 11 countries. When a specific recommendation applies, the country is mentioned in brackets and when action has been taken, the country is highlighted in bold.

inequality. However, these countries can further exploit the favourable impact on income distribution by taking for instance measures that introduce or expand unemployment benefits (Chile, Turkey and Indonesia), reduce duality between regular and non-regular workers (Turkey and Indonesia) and expand active labour market programmes (Israel and South Africa).

Figure 1.15 provides an overview of the likely impact – mostly in the short term – of policy actions implemented in line with *Going for Growth* recommendations in the respective set of countries identified above as having the most acute need of fiscal consolidation, current account rebalancing and reduction in income inequality. The figure is only indicative of the direction of the side-effects and no attempt is made to gauge their magnitude. Nevertheless, it indicates that actions taken are for the most part contributing

Figure 1.15. **Policy actions related to *Going for Growth* recommendations with impact on other policy objectives**

Number of actions that help and that do not help addressing other policy objectives



Note: The chart summarises the number of policy actions related to *Going for Growth* recommendations in the countries with most acute needs of fiscal consolidation, or current account rebalancing, or reduction in income inequality.

StatLink http://dx.doi.org/10.1787/888932983927

to reducing income inequality. Recent reforms are also on balance likely to support fiscal consolidation, but much less so the objective of current account rebalancing. Still, the room for these countries to exploit the favourable side-effects of pro-growth reforms remains large. For instance, actions have yet to be taken on about half of recommendations that would support fiscal consolidation and more than half of those that would help reducing external imbalances and income inequality.

Notes

1. The effectiveness of such measures depends on a number of conditions (accommodative monetary policy, nominal exchange rate rigidities, openness of the economy, etc.) and is likely to be small even if these conditions are met. This policy tool cannot be a substitute for a deeper structural reform of labour, product and financial markets (Koske, 2013).
2. Prior to the great recession, on average around 6% of households moved residence every year in the OECD (OECD, 2012b).
3. The *OECD Review of Mental Health at Work* recommends extending the employers' responsibility for paying the benefit beyond the current 16 days to at least around three months, or introducing a co-payment in order to develop financial incentives for retaining the employees at work (OECD, 2013o).
4. Around 20% of the trade-restriction measures introduced between 2008 and 2013 have been removed (OECD/WTO/UNCTAD, 2013).
5. These effects have been summarised in Chapter 2 of the 2013 issue of *Going for Growth*.
6. These estimates are obtained on the basis of an assumed target for the debt-to-GDP ratio that may differ from the objective pursued by the authorities. Hence, they do not necessarily reflect the current fiscal stance in each country.
7. The indicator is the equally weighted average of the two elements, which are first normalised by subtracting the sample mean and divided by standard deviation.
8. The indicator is an equally weighted average of the two elements, which are first normalised by subtracting the sample mean and divided by standard deviation.

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Appendix

Table 1.A1. **The short-run side-effects of *Going for Growth* 2013 policy recommendations on other policy objectives**

Going for Growth priorities	Budget balance	Current account position	Income distribution	Countries with priorities in this area **(countries taking related action in 2012-2013 in bold)**
Raising labour force participation				
Reduce the entitlement of disability benefits, and disincentives for low income earners' labour participation	+	+	–	AUT, **DNK**, EST, NLD, NOR, POL, **SWE**, **GBR**, USA
Reduce implicit tax on continued working at old age (by increasing statutory retirement age etc.)	+	~	~	**AUT**, **BEL**, **FIN**, **HUN**, LUX, **POL**, **SVN**, TUR, **BRA**
Foster female labour market participation (by expanding child care, reducing tax disincentives, etc.)	–	–	+	**AUS**, CHE, **CHL**, CZE, DEU, IRL, **ISR**, JPN, **KOR**, NLD, SVK, TUR, **GBR**
Reducing unemployment				
Reduce the generosity of unemployment benefits and increase spending for (and improve effectiveness of) active labour market policies (ALMP)	~		~	**BEL**, BRA, CZE, **EST**, **FIN**, FRA, GRC, **IRL**, ISR, ITA, **LUX**, PRT, **SVK**, **ESP**, NLD, USA, **ZAF**
Reform wage formation system, reduce the cost of labour			–	**FRA**, MEX, PRT, SVN, **ESP**, TUR, IDN, ZAF
Reform employment protection legislation (EPL) for regular workers and extend social protection to non-regular workers	–	–	~	CHL, **FRA**, DEU, **ISR**, **ITA**, **JPN**, **KOR**, LUX, **MEX**, NLD, **PRT**, **SVN**, **ESP**, SWE, TUR, IND, IDN
Raising productivity: Improving infrastructure, human capital and innovation				
Increase investments in (and raise quality of) infrastructure	–	–		AUS, **BRA**, GBR, **IND**, **IDN**, **POL**
Increase provision and efficiency in early, primary and secondary education	~		+	**CHL**, CZE, **DNK**, FRA, DEU, **GRC**, **HUN**, ISL, **ISR**, **ITA**, **MEX**, **NZL**, NOR, **POL**, **ESP**, SVK, **TUR**, **GBR**, USA, **BRA**, CHN, IND, IDN, **ZAF**
Increase provision and efficiency in tertiary education and vocational educational training	~		+	AUT, **CAN**, CHE, **CHL**, CZE, **DNK**, **EST**, **FRA**, DEU, **GRC**, HUN, ISR, ITA, **NZL**, POL, **PRT**, **SVK**, SVN, **ESP**, **SWE**, TUR, **GBR**, CHN, IND, **ZAF**
Expand (and increase the efficiency of) support for innovation	–	–		AUS, **CAN**, CZE, EST, **IRL**, **NZL**, SVK, RUS
Raising productivity: Boosting competition and efficiency				
Reduce product market regulations (reduce entry barrier, permits/licences, public ownership/intervention) and strengthen competition framework		–		**AUT**, BEL, CAN, **CHL**, **DEU**, DNK, FIN, FRA, **GRC**, HUN, ISL, **IRL**, **ISR**, **ITA**, **JPN**, KOR, **LUX**, **MEX**, NZL, NOR, **POL**, **PRT**, **SVK**, **SVN**, **ESP**, TUR, BRA, **CHN**, IDN, RUS, **ZAF**
Reduce barriers to international trade and FDI		–		AUS, CAN, ISL, JPN, **KOR**, **MEX**, NZL, IND, **IDN**, **RUS**
Reform the tax structure by shifting the tax burden from direct taxes (on labour or corporate income) to indirect taxes (on property, consumption or environmentally harmful activities)		+		**AUS**, AUT, BEL, **CAN**, CHE, CZE, DEU, **DNK**, EST, **FIN**, **FRA**, **GRC**, HUN, **ITA**, **ISR**, **JPN**, KOR, NLD, NOR, POL, **PRT**, SWE, USA, **BRA**
Cut tax expenditures and subsidies (to housing, energy, agriculture, etc.)	+	+		CAN, CHE, DEU, DNK, **FRA**, **GRC**, **IDN**, ISL, **ITA**, **JPN**, KOR, LUX, **NLD**, NOR, POL, SWE,TUR, USA
Promote the function of financial markets		–		BRA, IND, **CHN**
Improve the efficiency of government service and healthcare, enforce the rule of law	+			CHE, CZE, **FIN**, **GBR**, **GRC**, HUN, **ISL**, MEX, NZL, USA, **RUS**, CHN

Note: + indicates positive contribution to policy objective whereas – indicates negative contribution, except for current account, where + indicates strengthening of current account and – indicates the weakening. Therefore, reforms with + signs help deficit countries to rebalance their current account but do not help surplus countries. Conversely, reforms with – signs help surplus countries to rebalance their current account but do not help deficit countries. ~ indicates ambiguous contribution often due to coexistence of opposing contributions or strong dependence on the circumstance under which the reform is implemented. Blank cell corresponds to the case where no direct impact is expected.

Table 1.A2. Overview of *Going for Growth* 2013 policy recommendations and their impact on other policy objectives

	Budget balance (short run)	Current account position	Income distribution (short run)	Income distribution (long run)
OECD member countries				
Australia				
Enhance capacity and regulation in infrastructure	+	–		
Relax screening procedure for foreign direct investment		–		
Shift the tax burden from direct to indirect taxes		+	–	–
Expand support to innovation	–	–		
Improve performance of early childhood education	+			+
Austria				
Lower marginal tax rate on labour income		+	–	~
Reduce incentives to exit early from the labour force	+	+	~	~
Reduce barriers to entry in network industries		–		
Improve graduation rates from tertiary education by introducing tuition fee	+		~	+
Reduce barriers to competition in professional services and retail trade		–		
Belgium				
Shift the tax burden from direct to indirect taxes		+	–	~
Reform the unemployment benefit system and strengthen activation	+	+	–	~
Reform wage bargaining		+	–	~
Reduce implicit taxes on continued work at older ages	+	–	~	~
Increase competition in network industries		–		
Canada				
Enhance competition in network industries and professional services		–		
Reduce barriers to foreign direct investment		–		
Improve the effectiveness of R&D support	~	–		
Increase the provision and efficiency of tertiary education	–			+
Shift the tax burden from direct to indirect taxes		+	–	~
Chile				
Improve secondary and tertiary education outcomes	+			+
Ease employment protection legislation for regular workers				+
Strengthen policies to foster female labour participation	–	–		+
Strengthen competition law		–		
Increase the duration and replacement rate of unemployment benefits	–	–	+	+
Czech Republic				
Strengthen policies to support female labour force participation	–	–		+
Reform the tax system		+	~	~
Improve the efficiency of the education system	+			+
Improve efficiency in public procurement process				
Raise effectiveness of public R&D expenditure	+			
Denmark				
Shift the tax burden from labour to indirect taxes		+	–	~
Reform sickness leave and disability benefit schemes	+	+	–	~

Table 1.A2. **Overview of *Going for Growth* 2013 policy recommendations and their impact on other policy objectives** *(cont.)*

	Budget balance (short run)	Current account position	Income distribution (short run)	Income distribution (long run)
Enhance the competition framework and relax product market regulation		–		
Improve the efficiency of the education system	+			+
Reduce housing subsidies and abolish rent regulation	+		–	–
Estonia				
Increase spending and efficiency in active labour market policies	–			+
Shift the tax burden from labour to indirect taxes		+	–	~
Enhance the efficiency of the R&D support measures	~	–		
Reform the disability benefits system	+	+	–	~
Improve quality of vocational training and access to tertiary education	+			+
European Union				
Increase competition in network industries		–		
Increase competition in the services sector		–		
Reduce producer support to agriculture	+	–	+	+
Reform regulation to create a more stable and integrated financial system		–		
Remove barriers to labour mobility within the EU				+
Finland				
Strengthen the effectiveness of the active labour market policies	~			+
Shift the tax burden from labour to indirect taxes		+	–	~
Enhance competition in the retail sector		–		
Increase productivity in municipalities	+			
Reduce disincentives to work at older ages	+	–	~	~
France				
Reform job protection and strengthen active labour market policies	+		–	+
Shift the tax burden away from labour and reduce the minimum cost of labour		+	–	~
Improve equity and outcomes in primary and secondary education	+			+
Reduce regulatory barriers to competition		–		
Improve the quality and efficiency of the tertiary education	+		~	+
Germany				
Shift the tax burden from labour to indirect taxes		+	~	~
Improve tertiary education outcomes	+		~	+
Reduce regulatory burdens to competition, especially in the services sector		–		
Ease job protection for regular workers				+
Remove fiscal disincentive to full-time female labour participation	+	–		+
Greece				
Reduce regulatory barriers to competition		–		
Reduce widespread tax evasion and broaden the tax base	+			+
Improve the quality and efficiency of the education system	+			+
Enhance the effectiveness of active labour market policies	+			+
Enhance the efficiency of public administration				

Table 1.A2. **Overview of *Going for Growth* 2013 policy recommendations and their impact on other policy objectives** *(cont.)*

	Budget balance (short run)	Current account position	Income distribution (short run)	Income distribution (long run)
Hungary				
Reduce the tax wedge on labour income			~	~
Reduce disincentives on continued work at older ages	+		~	~
Improve the efficiency and equity of the education system	+			+
Enhance business environment by reducing various regulations		–		
Increase public sector efficiency	+			
Iceland				
Reduce barriers to product market competition		–		
Lower ownership restrictions for domestic and foreign firms		–		
Reduce producer support to agriculture	+	–	+	+
Improve the quality and efficiency of the education system	+			+
Increase public sector efficiency	+			
Ireland				
Strengthen work incentives for women (prioritise childcare to working parents)				+
Strengthen competition in non-manufacturing sectors		–		
Expand active labour market policy and strengthen the conditionality of unemployment benefits on job search	~			+
Enhance the efficiency of supports on R&D and innovation	+	–		
Reform bankruptcy procedures				
Israel				
Improve the quality and efficiency of education system	+			+
Cut red tape for business		–		
Complete network industry reform		–		
Reform benefits, wage formation and job-placement scheme to increase employment among low-income households	–		+	+
Enhance competition and corporate governance		–		
Italy				
Reform the employment protection legislation and reduce duality in the labour market	–			+
Improve the efficiency and equity in education	~		~	+
Improve the efficiency of the tax structure (cut tax expenditures, etc.)	+		+	+
Reduce barriers to competition		–		
Expand active labour market policy and the social safety net	–			+
Japan				
Ease barriers to entry for domestic and foreign firms in the services sectors		–		
Reduce producer support to agriculture	+	–	+	+
Shift the tax burden from direct to indirect taxes		+	–	~
Strengthen policies to support female labour force participation	–	–		+
Reform job protection and upgrade training programs	–	–	+	+

Table 1.A2. **Overview of *Going for Growth* 2013 policy recommendations and their impact on other policy objectives** *(cont.)*

	Budget balance (short run)	Current account position	Income distribution (short run)	Income distribution (long run)
Korea				
Reduce barriers to entry for domestic and foreign firms in networks and services		–		
Strengthen policies to support female labour force participation	–	–		+
Reform employment protection to reduce labour market dualism	–	–	+	+
Shift the tax burden from direct to indirect taxes		+	–	~
Reduce producer support to agriculture	+	–	+	+
Luxembourg				
Reform active labour market policies and the social benefit system	+		–	~
Reduce disincentives to continued work at older ages	+	–	~	~
Increase competition in the domestically-oriented services sector		–		
Improve functioning of the housing market	+			
Ease job protection legislation				+
Mexico				
Improve the efficiency and quality of education system	+			+
Reduce job protection on formal contracts				+
Reduce barriers to foreign direct investment		–		
Improve the rule of law				
Reduce barriers to entry in network industries		–		
Netherlands				
Shift the tax burden from labour to indirect taxes			–	~
Ease employment protection legislation for regular contracts				+
Reform disability benefit schemes	+	+	–	~
Increase the scope of the unregulated part of the housing market				
Reform the unemployment benefit system	+	+	–	~
New Zealand				
Reduce barriers to FDI and regulatory opacity		–		
Enhance capacity and competition in network sectors		–		
Increase the provision and efficiency of education service	–			+
Increase the effectiveness of R&D support	–	–		
Improve health sector efficiency	+			+
Norway				
Reform disability and sickness benefit schemes	+	+	–	~
Increase product market competition		–		
Reduce producer support to agriculture	+	–	+	+
Strengthen performance in secondary education	+			+
Improve the efficiency of the tax structure	+	+	–	~
Poland				
Reduce public ownership and lower barriers to product market competition		–		
Reduce labour taxes and reform the welfare system	+	+	–	~

Table 1.A2. **Overview of *Going for Growth* 2013 policy recommendations and their impact on other policy objectives** *(cont.)*

	Budget balance (short run)	Current account position	Income distribution (short run)	Income distribution (long run)
Upgrade transport, communication and energy infrastructure		–		
Improve equity and efficiency of the education system	+		~	+
Reform housing policies	+	+		
Portugal				
Reduce job protection on regular contracts and reform wage bargaining			–	~
Reform unemployment benefits and enhance active labour market policies	~		~	+
Improve the efficiency and equity in education	+			+
Reduce administrative burdens at the local level				
Strengthen competition in non-manufacturing sectors		–		
Slovak Republic				
Improve the funding and effectiveness of the education system	~		~	+
Strenghten policies to promote labour mobility and activation	–			+
Reduce barriers to female labour participation	–	–		+
Reduce regulatory barriers to competition		–		
Improve the innovation support framework		–		
Slovenia				
Ease employment protection legislation				+
Raise the statutory retirement age and reduce disincentives to work at older ages	+	–	~	~
Limit wage growth in the public sector and for minimum wage workers	+	+	–	~
Increase the efficiency of tertiary education	+		~	+
Reduce state involvement in the economy		–		
Spain				
Improve the efficiency of education system	+		+	+
Enhance the effectiveness of active labour market policies	+			+
Reduce the gap in job protection between permanent and temporary contracts			+	+
Make wages more responsive to economic and firm-specific conditions		+	–	~
Strengthen competition in professional services and retail		–		
Sweden				
Reform sickness and disability benefit schemes	+	+	–	~
Reduce the gap in job protection between temporary and permanents contracts			+	+
Shift the tax burden from labour income to indirect taxes		+	–	~
Reduce housing market distortions	+	+	–	~
Improve the efficiency of the education system	+			+
Switzerland				
Reduce producer support to agriculture	+	–	+	+
Increase the provision and efficiency of education service	~		~	+
Shift the tax burden from direct to indirect taxes		+	–	~
Increase the efficiency of the health system	+			
Facilitate full-time labour force participation of women	–	–		+

Table 1.A2. **Overview of *Going for Growth* 2013 policy recommendations and their impact on other policy objectives** *(cont.)*

	Budget balance (short run)	Current account position	Income distribution (short run)	Income distribution (long run)
Turkey				
Reduce the minimum cost of labour		+	−	~
Improve educational achievement and equity	−			+
Reform employment protection legislation			+	+
Improve competition in network industries and agriculture		−		
Reduce incentives for early retirement	+	−	~	~
United Kingdom				
Increase the provision and efficiency of education service	+			+
Improve public infrastructure, especially for transport	−	−		
Enhance labour participation by reducing sickness leave and expanding childcare	−	−		+
Strengthen public sector efficiency	+			
Reform land planning regulations				
United States				
Expand (and improve efficiency of) active labour market policies	~		−	+
Improve the efficiency of the health care sector	+			+
Shift the tax burden from direct to indirect taxes and cut tax expenditure		+	−	~
Increase the provision and quality of primary and secondary education	−			+
Reduce producer support to agriculture	+	−	+	+
Key non-member countries				
Russian Federation				
Lower barriers to foreign direct investment		−		
Reduce state control over economic activity and other barriers to competition		−		
Raise the effectiveness of innovation policy	−	−		
Raise the quality of public administration		−		
Increase the public funding and efficiency of the health care system	−			
Brazil				
Increase the provision and quality of education service	−			+
Improve incentives for formal labour force participation, especially for seniors		−	~	~
Reduce distortions in the tax system and tax complexity		~	~	~
Increase private investment in infrastructure and remove remaining barriers to competition		−		
Improve the efficiency of financial markets		−		
China				
Open the state-controlled sectors to private investment		−		
Extend upper-secondary education across regions and within urban area	−			+
Ease government controls in financial markets		−		
Reduce barriers to labour mobility				+
Enhance the rule of law				

Table 1.A2. **Overview of *Going for Growth* 2013 policy recommendations and their impact on other policy objectives** *(cont.)*

	Budget balance (short run)	Current account position	Income distribution (short run)	Income distribution (long run)
India				
Reform employment protection legislation				+
Increase the provision and efficiency of education service	+			+
Reduce barriers to trade and FDI		–		
Promote more effective infrastructure-related regulation		–		
Undertake wide-ranging financial sector reforms		–		
Indonesia				
Increase the provision and quality of education service	~			+
Improve the regulatory environment for infrastructure		–		
Reform labour regulation and cap minimum wage increases to address the problem of informality		~	~	+
Reduce energy subsidies	+	+	+	+
Ease barriers to entrepreneurship and investment and strengthen institutions to fight corruption		–		
South Africa				
Increase the provision and quality of education service	–			+
Enhance competition in network industries		–		
Reduce regulatory barriers to entrepreneurship		–		
Strengthen active labour market policies	–			+
Reform the wage bargaining system		+	–	+

Notes: + indicates positive contribution to policy objective whereas – indicates negative contribution. For current account position, + indicates strengthening of current account and – indicates the weakening. Therefore, reforms with + signs help deficit countries to rebalance their current account but do not help surplus countries. Conversely, reforms with – signs help surplus countries to rebalance their current account but do not help deficit countries. ~ indicates ambiguous contribution often due to coexistence of opposing contributions or strong dependence on the circumstance under which the reform is implemented. Blank cell corresponds to the case where no direct impact is expected.
The predicted side-effects from similar recommendations can be different across countries depending on their country-specific details.