Economic Policy Reforms

Going for Growth

2013

OECD

Economic Policy Reforms 2013

GOING FOR GROWTH

BETTER POLICIES FOR BETTER LIVES

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Going for Growth *was launched in 2005 as a new form of structural surveillance complementing the OECD's long-standing country and sector-specific surveys. In line with the OECD's 1960 founding Convention, the aim is to help promote vigorous sustainable economic growth and improve the well-being of OECD citizens.*

This surveillance is based on a systematic and in-depth analysis of structural policies and their outcomes across OECD members, relying on a set of internationally comparable and regularly updated policy indicators with a well-established link to performance. Using these indicators, alongside the expertise of OECD committees and staff, policy priorities and recommendations are derived for each member and, since the 2011 issue, six key non-member economies with which the OECD works closely (Brazil, China, India, Indonesia, Russia and South Africa). From one issue to the next, Going for Growth *follows up on these recommendations and priorities evolve, not least as a result of governments taking action on the identified policy priorities.*

Underpinning this type of benchmarking is the observation that drawing lessons from mutual success and failure is a powerful avenue for progress. While allowance should be made for genuine differences in social preferences across OECD members, the uniqueness of national circumstances should not serve to justify inefficient policies.

In gauging performance, the focus is on GDP per capita, productivity and employment. As highlighted in the past and again in this issue, this leaves out some important dimensions of well-being. For this reason, Going for Growth *regularly features thematic chapters dedicated to these other dimensions, and increasingly looks at the side effects of growth-enhancing priorities on other government policy objectives.*

Going for Growth *is the fruit of a joint effort across a large number of OECD Departments.*

www.oecd.org/economics/goingforgrowth

Editorial
Reforming for a strong and balanced recovery

At a time when macroeconomic policies are under acute pressure in many countries, the role of structural policies has come more into focus. Structural reforms are important both on the conventional grounds that they boost long-term growth and welfare but also because they can take some pressure off macroeconomic policies. Better structural policies will help achieve fiscal sustainability and provide greater leeway for monetary policy. Importantly, structural reforms can bolster confidence. For these reasons they are more than ever a priority for the OECD and feature prominently in G20 action plans and work agendas.

Many countries have been actively reforming in recent years. The pick-up in the overall pace of reforms reported in last year's issue has since been confirmed and action on policy priorities stands at its highest level since the onset of Going for Growth *surveillance in 2005. This year's issue shows that action in areas covered by OECD policy recommendations has been particularly intense among euro area countries that have been under financial assistance programmes or direct market pressures. Furthermore, reform efforts have reached politically-sensitive areas such as labour market regulation and social welfare systems. This has helped to shore up confidence and bring market relief in these countries and beyond. Recent declines in sovereign bond spreads owe much to measures taken by the European Central Bank in a context of stronger euro area governance. However, further reducing and keeping spreads at manageable levels will require continuing reform efforts, which are starting to pay-off as witnessed by improved competitiveness and export performance in some of the countries under market stress.*

In contrast, a far more moderate pace of reforms has been observed in other euro area countries, especially those with a current account surplus, as well as in countries enjoying particularly high living standards and the BRIICS (Brazil, Russia, India, Indonesia, China and South Africa). Yet, to achieve stronger and more balanced growth, both in the euro area and globally, action on structural policy priorities needs to be pursued in both external deficit and surplus countries. One special feature of this report is to explore the effect of growth-oriented policy recommendations on current account imbalances. It shows that for some countries with large imbalances, acting on priorities can help to narrow them.

The motivation for stepping up and broadening reform efforts goes well beyond the need for durably reducing global imbalances. Most OECD countries face acute domestic challenges, perhaps chief among them addressing the job market legacy of the crisis. The absence of a vigorous and sustained recovery in economic activity has pushed a rising share of workers to the margin of the labour market in many OECD countries, hurting youth and the low-skilled most. Even in countries such as the United States and Canada, where unemployment has receded from its post-recession peak, the number of long-term unemployed and discouraged job seekers remains high. Many countries face a genuine risk of seeing a sizeable share of youth losing attachment to the labour market, with dire social consequences and measurable implications for future potential growth.

Reflecting these concerns, the set of policy priorities identified for individual countries in this issue of Going for Growth emphasises the need to beef-up and redesign active labour market and social policies to adequately cushion the impact of job losses in the short term, but also to facilitate the return to work and reduce unemployment before it becomes entrenched. This is particularly the case for most European countries, where unemployment remains well above its pre-crisis level and where such measures should be part of a comprehensive set of reforms aimed at lowering the barriers to jobs creation, hiring and labour mobility, while improving incentives to take up work. Steps in this direction have been made in a number of euro area countries through changes in tax and benefit systems, wage bargaining and job protection legislation. Even so, more needs to be done, including with respect to product market regulation where lowering entry barriers in services can generate rapid employment gains. It is important also that legislated changes and announcements be effectively implemented to ensure that the benefits from stronger employment, not least for budget consolidation, be fully reaped.

In some other countries, such as Japan and Korea, boosting labour productivity has been identified as the main challenge. Still, the low participation rates of specific groups such as women are no longer affordable given the pressures from population ageing. Bringing more women into the labour market and ensuring that they are fully integrated calls for changes in benefit systems (including childcare policies) and employment protection legislation, in particular to narrow the gap in protection across different types of workers. In lower-income OECD countries and the BRIICS, one common challenge is to reduce informality by improving incentives to create and take up jobs in the formal sector. Extending the coverage of social protection, reforming labour market regulation and ensuring adequate resources for primary and secondary education are key policy recommendations.

More generally, Going for Growth provides a wealth of recommendations aimed at fostering efficiency gains through higher investment in skills, technology and infrastructure. In this regard, earlier gains from greater openness to international trade and investment should not be rolled back, openly or covertly, as this would undermine efforts to sustainably boost productivity. Raising economy-wide productivity also comes through a shift in resources from inefficient sectors and firms to more productive ones. Policies can assist this process with reforms in the areas of product market regulation, general taxation, subsidies as well as a more efficient provision of public services.

Policy priorities are identified primarily with a view to boosting growth in average material living standards as measured by GDP per capita. This has been the hallmark of Going for Growth since its launch in 2005. The ultimate aim, however, is a genuine and broadly-shared improvement in living conditions, which implies that stronger growth in average income does not come at the expense of other important aspects of well being. There may be concerns that the growth-enhancing reforms promoted in this report may entail excessive environmental damage or result in a further widening of income inequality, to a point where the benefits from income growth accrue mostly to a minority of households. These concerns are heightened by the growing trend in inequality observed before the crisis in a majority of countries, and have been examined in past issues of Going for Growth.

This issue goes one step further and directly explores the side effects of policy recommendations on income inequality and the environment. As it turns out, many of the suggested reforms to boost growth also help with achieving policy objectives in these domains, or at least do not undermine them. This is clearly the case of policies that foster greater equity in access to good-quality education, as is recommended in many OECD countries to improve the general skills level and employment opportunities. However, there are also many cases where growth policies may clash with income distribution or environmental objectives. For instance, shifting part of the tax burden from labour to *consumption is good for growth but likely to widen income inequalities. Such trade-offs must be borne in mind when designing growth policy packages, so that undesirable effects can be alleviated or minimised.*

In order for planned reforms to be fully implemented, it is also important that they be supported as broadly as possible by citizens, especially in the current environment where some of the benefits may take even more time than usual to bear fruit given the weak short-term growth prospects prevailing in many countries. A package of reforms is more likely to garner popular support if it is seen as broadly equitable and respectful of the environment, and if its objectives are well communicated.

Pier Carlo Padoan
Deputy Secretary-General and Chief Economist, OECD

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Country code	Country name	Currency code
AUS	Australia	AUD
AUT	Austria	EUR
BEL	Belgium	EUR
BRA	Brazil	BRL
CAN	Canada	CAD
CHE	Switzerland	CHF
CHL	Chile	CLP
CHN	China	CNY
CZE	Czech Republic	CZK
DEU	Germany	EUR
DNK	Denmark	DKK
ESP	Spain	EUR
EST	Estonia	EUR
FIN	Finland	EUR
FRA	France	EUR
GBR	United Kingdom	GBP
GRC	Greece	EUR
HUN	Hungary	HUF
IDN	Indonesia	IDR
IND	India	INR
IRL	Ireland	EUR
ISL	Iceland	ISK
ISR	Israel	ILS
ITA	Italy	EUR
JPN	Japan	JPY
KOR	Republic of Korea	KRW
LUX	Luxembourg	EUR
MEX	Mexico	MXN
NLD	Netherlands	EUR
NOR	Norway	NOK
NZL	New Zealand	NZD
POL	Poland	PLN
PRT	Portugal	EUR
RUS	Russian Federation	RUB
SVK	Slovak Republic	SKK
SVN	Slovenia	EUR
SWE	Sweden	SEK
TUR	Turkey	TRL
USA	United States	UDS
ZAF	South Africa	ZAR

Executive summary

Going for Growth builds on OECD expertise on structural policy reforms and economic performance to provide policymakers with a set of concrete recommendations on reform areas identified as priorities for sustained growth.

The OECD has identified reform recommendations to boost real incomes and employment through the *Going for Growth* analysis for each OECD country since 2005 and, more recently, for the BRIICS. This benchmarking exercise provides a tool for governments to reflect on policy reforms that affect their citizens' long-term living standards.

Since the 2009 Pittsburgh Summit, *Going for Growth* has contributed to the G20 regular work programme to achieve Strong, Sustainable and Balanced Growth, notably through the so-called Mutual Assessment Process.

For each country, five policy priorities are identified based on their ability to improve long-term material living standards through higher productivity and employment. The priorities broadly cover product and labour market regulations; education and training; tax and benefit systems; trade and investment rules; and innovation policies.

This issue reviews the progress made on previous recommendations and identifies new priorities for the near term. It also looks at the potential impact of *Going for Growth* policy recommendations on public policy goals other than GDP growth.

Chapter 1 first reviews progress that countries have made since 2011 to address the policy priorities identified in past issues of *Going for Growth* and then takes a fresh look at reform priorities to sustainably revive growth and boost employment in a context of a weak near-term economic outlook.

Chapter 2 examines the potential side effects of growth-enhancing policy recommendations on two other aspects of well-being – income distribution and the environment. It also explores the potential impact of the recommended reforms on internal (budgetary) and external (current account) imbalances. This is done with a view to describing the main channels of influence and identifying possible policy trade-offs and complementarities.

The five policy priorities identified for each country are briefly summarised in individual country notes regrouped in Chapter 3. The selection of policy priorities is based to a large extent on a comprehensive set of quantitative indicators, presented in Chapter 4, which allow for a comparison of policy settings across countries.

Key policy messages

Policy reform progress and priorities

- For OECD countries, action on priorities stands at its highest levels since the start of the *Going for Growth* exercise, reflecting the growing recognition of the need for structural reforms to restore competitiveness and fiscal sustainability, conditions for a return to a healthy post-crisis growth path.
- The pace of reforms has been particularly high in euro area countries under financial assistance programmes or direct market pressures (*e.g.* Greece, Ireland, Italy, Portugal and Spain), including in politically-sensitive areas such as labour regulation and welfare systems. These countries are also implementing significant fiscal consolidation programmes. This contrasts with the much more moderate pace of reforms in other euro area countries, in particular those with a current account surplus, as well as in countries enjoying highest living standards (*e.g.* Norway, Switzerland and the United States). Yet, more active reforms in these countries would help achieve rebalancing, both within the euro area and more globally. It would also help support the credibility of fiscal consolidation plans.
- Action on priorities has been relatively high in Central European countries but more moderate on average across the BRIICS, reflecting in part the milder crisis-induced pressures to reform in these countries. Even so, progress has been achieved in reducing the scope of state control on businesses, in improving the transparency of product market regulation, and in strengthening basic education systems.
- Comparing the 2011 and 2013 *Going for Growth* priorities, the most notable change is a marked increase in the share of priorities aimed at boosting employment for OECD countries, especially in the areas of social benefits and active labour market policies, reflecting the growing focus on dealing with the job market legacy of the post-crisis weak recovery and associated challenges of helping unemployed people returning to work. The stronger emphasis on active labour market and social benefit policies is largely consistent with countries' own structural reform commitments and core priorities, as expressed in the context of the G20 action plans.
- Especially in the euro area, the need to reduce unemployment remains a pressing challenge. Recommendations to reform tax and benefit systems, active labour market policies and job protection legislation are therefore quite common, even though product market reforms also feature prominently, not least in services sectors where they can deliver fairly rapid employment gains. In the remaining relatively wealthy OECD countries, in particular Japan and Korea, there is greater emphasis on boosting labour productivity, and the focus is on reforming network sector regulations, tax structures, FDI restrictions and agricultural subsidies. Reforming the tax structure is also a priority for the United States, along with the need to improve efficiency and equity in the education and health sectors.
- For lower-income countries such as Mexico, Turkey and the BRIICS, growth has generally been strong until more recently, but one set of common challenges concerns the quality and inclusiveness of education systems, the capacity and regulation of infrastructures and the prevalence of high barriers to competition and investment, for both domestic and foreign firms. Labour informality also imposes economic and social damage in most of these countries, and there are a number of recommendations *e.g.* in the areas of tax and benefit systems and job protection aimed at reducing the extent of informal employment.

Potential side effects of growth-enhancing reforms

- Many of the policy changes recommended for growth are found to either help with achieving other well-being objectives or to have no clear impact. Still, a number of recommendations may conflict with re-distributional or environmental objectives and policymakers must be aware of such trade-offs in order to design policy packages that best meet their objectives.
- Shifting the tax mix away from direct taxes towards consumption, environmental and real estate taxation, such as recommended for many countries as a means to improve work and investment incentives, could clash with equity objectives, unless accompanying measures are designed to alleviate or minimise the adverse impacts on income distribution.
- Measures in the areas of employment protection legislation, wage bargaining institutions and the minimum wage, which are recommended to improve employment opportunities for low-skilled workers and young people, may widen the wage distribution and thus exacerbate income inequality in the short run. This effect, however, may be partly or even fully offset in the longer run as job prospects brighten for such workers, especially those weakly attached to the labour market.
- Reforms that boost economic activity will in general put stronger pressures on environmental resources, for instance through rising greenhouse gas emissions, waste production or water abstraction. Nonetheless, some of the recommendations will also help to make future GDP growth more sustainable by raising the production costs of environmentally-harmful activities. This is the case notably of recommendations to shift taxation from labour to pollution emissions. Also, reforms that promote greater competition in markets for goods and services and facilitate resource reallocation will underpin the effectiveness of market-based environmental instruments by raising the responsiveness to price signals.
- Growth-enhancing structural reforms have a direct, short-term impact on government budgets when their implementation requires additional public resources or – less frequently – entails initial expenditure cutbacks or revenue increases. In the longer term, the effect of structural reforms on the budget will differ mainly according to whether they boost growth through employment or productivity. In both cases, reforms generate higher tax revenues, but only in the case of employment are they likely to significantly improve the budget balance.
- Reform action to reduce obstacles to full-time female labour force participation and regulatory barriers to entry in specific sectors such as recommended for a number of external surplus countries would weaken the current account position by reducing saving and boosting investment. Conversely, policy measures more likely to strengthen the current account include reforms that raise competitiveness of export-oriented sectors through changes in taxation or stronger exposure to domestic competition.

Economic Policy Reforms 2013
Going for Growth

Chapter 1

Taking stock of reform action and identifying priorities in 2013

This chapter assesses progress that countries have made in responding to Going for Growth policy recommendations since 2011. Against this background, it identifies and discusses new priority areas where structural reforms are needed to lift growth across OECD and BRIICS countries.

Key policy messages

- Structural reforms have accelerated over recent years, with the euro area debt crisis acting as a potent catalyst.
  - ❖ For OECD countries, action on reform priorities stands currently at its highest levels since the launch of the *Going for Growth* exercise in 2005. This achievement is to be seen in a context where a number of euro area periphery countries who urgently need to revive post-crisis growth have been actively reforming to regain price competitiveness and restore fiscal sustainability. By contrast, progress has been weak in other euro area countries, where reforms are also needed in order to achieve intra-euro area rebalancing.
  - ❖ Appetite for reform in the BRIICS is varied but on average only moderate, potentially reflecting the comparatively milder crisis-induced pressure to reform.
  - ❖ Reform intensity has been noticeably high in the areas of wage bargaining and job protection legislation as countries seek to reduce labour market duality, boost job creation and facilitate the reallocation of resources towards growing sectors. Pension reforms were already ongoing at the onset of the crisis and have accelerated under the pressures to ensure debt sustainability.
  - ❖ The need to put public budgets on a sustainable path and regain competitiveness has also been a major driver of productivity-enhancing reforms in a number of OECD countries. Governments have increased the efficiency of taxation, encouraged competition in product markets and improved cost-efficiency in the public sector.
- Against the background of reform action and with a view to sustainably revive growth and reduce unemployment in a context of quasi-stagnation, the general orientation of the new structural policy priorities can be summarised as follows:
  - ❖ For most European countries, the need to raise labour utilisation remains a pressing challenge. Recommendations to reform tax and benefit systems, active labour market policies and job protection legislation are therefore quite common. Product market reforms also feature prominently, not least in areas where they can deliver rapid employment gains. A number of these recommendations, *e.g.* in the area of active labour market and training policies and regulatory barriers to entry in retail trade or professional services, would also help countries that have suffered a sharp increase in the unemployment rate and in the incidence of long-term unemployment.
  - ❖ In other advanced OECD countries, especially in Asia, there is a greater focus on labour productivity and hence reforms of network sector regulation, of foreign direct investment (FDI) restrictions and of public support to agriculture.
  - ❖ For relatively low-income OECD countries and the BRIICS, the main challenges concern the quality and inclusiveness of education systems, the capacity and regulation of infrastructures and the prevalence of high barriers to competition and

investment for domestic and foreign firms. Also, a number of recommendations (*e.g.* in the areas of tax and benefit systems and job protection) are formulated with a view to reducing the heavy economic and social costs associated with informality.

Introduction

Structural reforms have gained momentum in the aftermath of the recent recession. This has been driven in part by market pressures in the context of the euro area crisis and by discussions and co-ordinated efforts in multilateral settings such as the G20.[1] There is increasing awareness of the necessity to accompany macroeconomic stabilisation policies with structural reforms. Yet, given the weakness of near-term demand prospects, the limited scope for macro policies to further stimulate demand and the still less than fully functioning financial sector in many countries, there is a risk that the benefits from reform may take more time to materialise than in a normal conjuncture. Some of them may even depress short-term growth despite their beneficial long-term effects (see Chapter 4 of *Going for Growth* 2012, OECD, 2012a). It is therefore important that structural reforms be well motivated and communicated so as to boost confidence and maximise the short-term positive impact.

Going for Growth reports have been published by the OECD every year since 2005. The analysis identifies five structural reform priorities to boost real income for each OECD country, for the European Union as a whole, and starting with the 2011 edition, the BRIICS – Brazil, China, India, Indonesia, Russia and South Africa – key non-member countries with which the OECD works closely. Policy recommendations are identified based on their ability to improve long-term material living standards through higher productivity and labour utilisation and broadly cover the areas of product and labour market regulations, human capital, tax and benefits systems and innovation policies. Financial market regulation does not generally feature prominently among country-specific priorities, owing to the particular need for strong international co-ordination in this area (see OECD, 2011a, 2012a).

Even though policy priorities are established with a view to foster long-term economy-wide gains in living standards, some of them may also help addressing other objectives. For instance, some structural reforms can help to tackle global and intra-euro area macroeconomic imbalances, or ease concerns about growing inequality, as discussed in Chapter 2 of this report.

This chapter first provides a broad assessment of the progress that countries have made in structural reform priorities identified in 2011– *i.e.* in the last priority-setting exercise. It then looks briefly at variations in labour productivity and labour use across OECD and BRIICS countries, in order to understand the relative areas of performance weaknesses by country. Against this background, it finally discusses the general orientation and focus of the policy recommendations that result from mapping performance weaknesses to policy deficiencies for each individual country.

Progress on reform priorities since 2011

Measuring progress on priorities

In order to summarise progress on implementing priorities, a "responsiveness rate" indicator is constructed for each individual priority area, each broad reform field (labour-productivity or labour-utilisation enhancing reforms) and each individual country (Box 1.1).

Box 1.1. **Two indicators of reform action**

The reform responsiveness rate indicator is based on a scoring system in which recommendations set in the previous edition of *Going for Growth* take a value of one if "significant" action is taken and zero if not. Given that a single priority may entail more than one specific recommendation, the scoring is often based on more than one reform opportunity per priority area.

The following section focuses on actions taken on 2011 recommendations, hence it covers two years (2011 and 2012). It also offers a partial comparison with earlier periods. However, such longer comparison can be established neither for the countries that joined the OECD during 2010 (Chile, Estonia, Israel* and Slovenia) nor for the BRIICS because priorities were identified in 2011 for the first time for those countries.

Some policy areas have traditionally been politically more difficult to reform than others. Thus, the extent to which countries have followed up on priorities may be shaped by their nature. For instance, a country with recommendations in the areas of innovation and infrastructure might be expected to be more responsive than another country with similar appetite for reform but with priorities in the areas of job protection and wage formation, where political economy obstacles to reform are stronger. In order to account for this possibility an "adjusted" responsiveness rate has also been computed. This weighs responsiveness on each individual priority according to the difficulty of undertaking the relevant reform. The difficulty is measured by the inverse of average responsiveness to priorities in this area in non-crisis circumstances across the OECD or the BRIICS. The adjusted indicator is based on the hypothesis that the difficulty to reform in each policy area is the same across countries, clearly a debatable assumption, but one that cannot be easily avoided.

Both reform responsiveness indicators are a measure of the extent to which OECD countries have followed up on *Going for Growth* recommendations, but they do not aim to assess overall reform intensity *per se*, which would require both accounting for reforms carried out in non-priority areas and quantifying the importance of each individual measure. While the indicators are imperfect substitutes for proper reform assessments, they are used here because of their direct comparability across countries and timeliness.

For more details see Box 2.2 and Annex 2.A1 in *Going for Growth 2010*. The cut-off date for the information feeding into the indicators was 31 December 2012.

* 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.

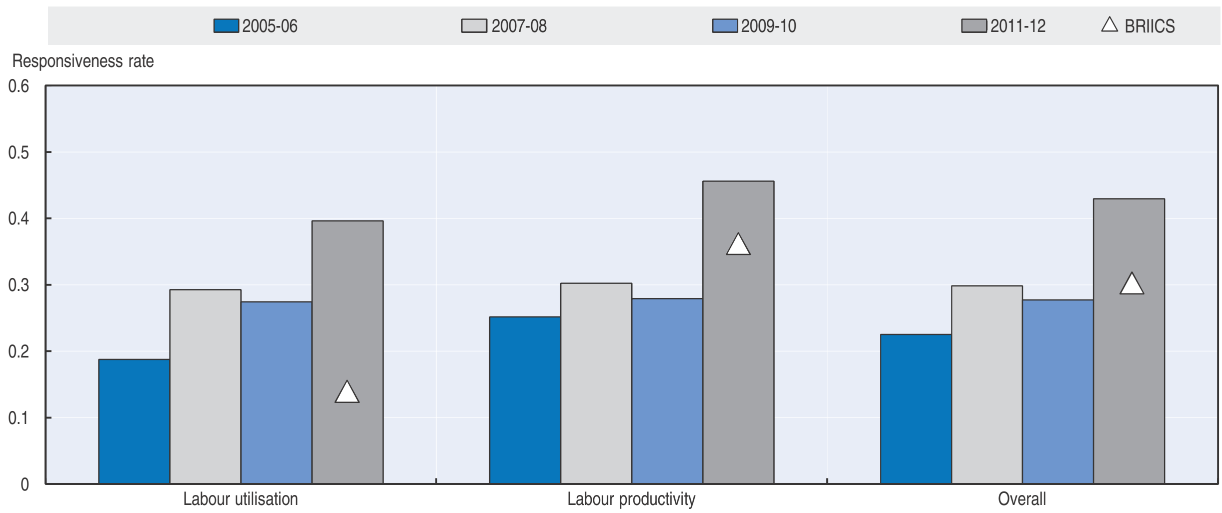
Source: OECD (2010), *Economic Policy Reforms 2010: Going for Growth*, OECD Publishing.

Reform patterns across OECD countries and the BRIICS

Overall, reform patterns show that the weak post-crisis recovery and, especially, the euro area debt turmoil, continue to act as catalysts for structural reforms in OECD countries, reinforcing the findings from last year's edition (OECD, 2012a). Following an initial slowdown in the early stage of the recession (2008-10), there has been a substantial pickup in reform intensity on average across the OECD, with responsiveness reaching its highest rate since 2005 (Figure 1.1), reflecting an increase in response to both labour productivity and labour utilisation – enhancing priorities.

Figure 1.1. **Impetus for reform has strengthened**

Responsiveness to *Going for Growth* recommendations across the OECD and the BRIICS, 2005-12



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

StatLink http://dx.doi.org/10.1787/888932775421

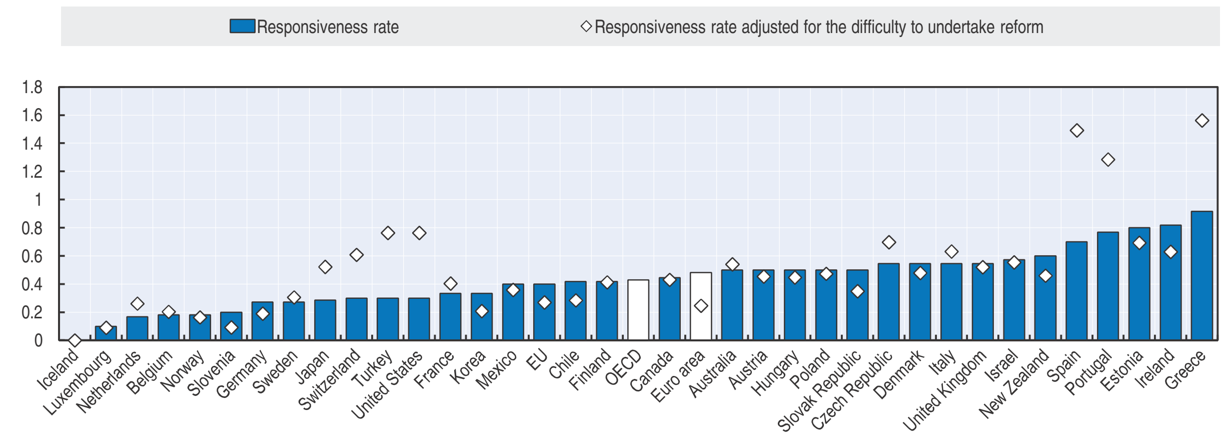
Market pressures appear to have played an important role in the intensification of reforms, as indicated by the significant correlation between reform responsiveness and changes in government bond yields over the 2011-12 period:[2]

- Euro area countries under financial assistance programmes or direct market pressures (*e.g.* Greece, Ireland, Italy, Portugal and Spain), are among the OECD countries whose responsiveness was highest (Figure 1.2, Panel A), and also where it increased most compared with the previous period (Figure 1.2, Panel B). Accession to the Euro area in 2011 – in concomitance with a steep recession – may have acted as reform catalyst for Estonia, who also ranks among the most responsive countries.
- Furthermore, as reflected in the comparison between *simple* and *adjusted* responsiveness rates, the crisis led most countries under financial markets pressure to enact reforms in traditionally politically-sensitive areas, *e.g.* labour market regulation and social welfare systems.[3]
- In contrast, less progress has been achieved in other euro area countries, in particular those with a current account surplus (*e.g.* Germany, Luxembourg and the Netherlands).[4] Yet, reforms are also needed in these countries, in particular in areas that may help intra-euro area rebalancing, such as boosting competition in non-tradable sectors.
- Despite exposure to financial market scrutiny, Iceland and Slovenia have made no or very little reform progress in the areas identified in 2011.

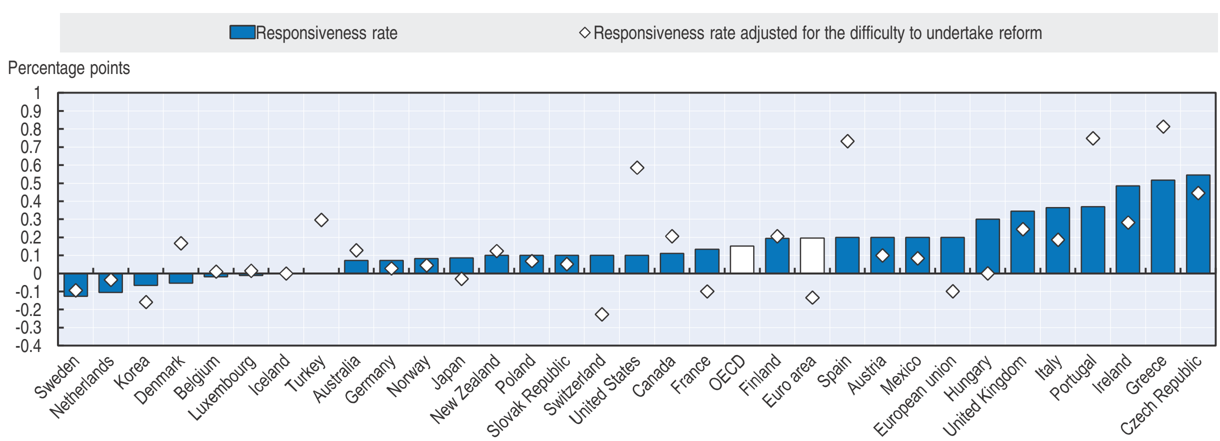
While market pressures have played a catalyst role, allowing for long-overdue reforms to be undertaken, some concerns may arise over the effects of reforms in a context of strong budgetary retrenchment and weak activity. Yet, it can be argued that some of the measures taken have already helped by boosting confidence and bringing some market relief. This may have been particularly the case of policy changes, such as pension reforms, that directly contributed to restore medium-term public debt sustainability, though reforms aimed at restoring competitiveness over time will also help to underpin confidence. Still, it is clear that the broader benefits from reforms may take more time

Figure 1.2. **The European crisis has been a major driver of reform action**

A. Responsiveness to *Going for Growth* recommendations across OECD countries, 2011-12



B. Change in responsiveness to *Going for Growth* recommendations across OECD countries from 2009-10 to 2011-12[1]



1. OECD and Euro area aggregates do not include Chile, Estonia, Israel and Slovenia. European Union refers to the country note addressed to the EU as a whole.

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

StatLink http://dx.doi.org/10.1787/888932775440

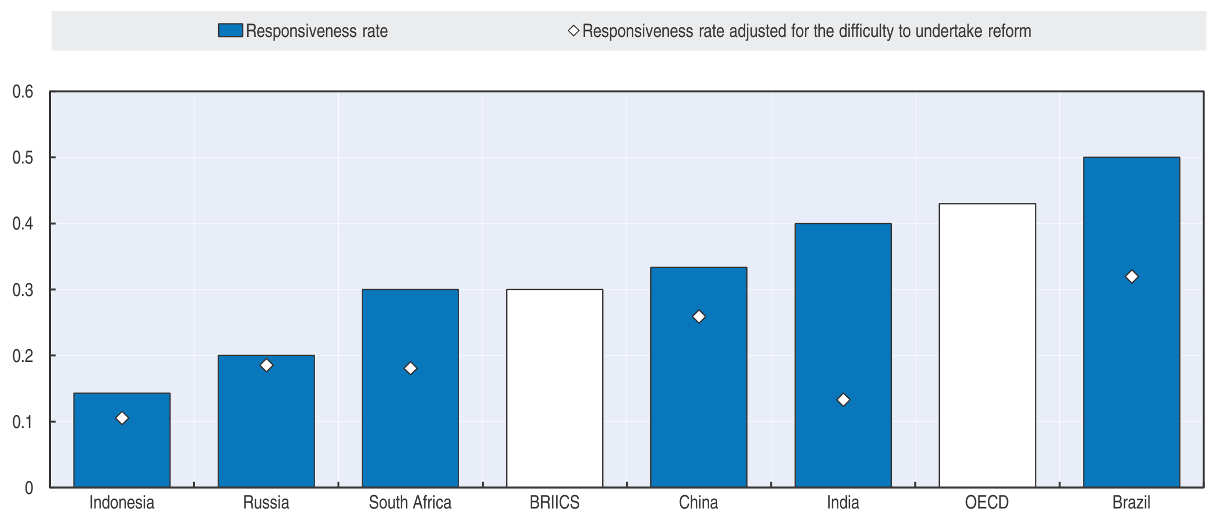
than usual to materialize in the current environment, in part due to possible delaying effects from remaining dysfunctions in financial markets. It is important to avoid such delays eroding popular support and to ensure that legislated changes be effectively implemented in order to reap the long-term gains and preserve the positive initial confidence effects.

Financial markets pressure was not the only driver of accelerated reform action. Indeed, even excluding countries under direct pressure or assistance programmes, the responsiveness rate across OECD countries remains at its highest since 2005. Still, the wealthiest countries (*e.g.* Luxembourg, Norway, Switzerland and United States) have shown moderate appetite for reform, although there has been a slight acceleration more recently in the United States (Figure 1.2, Panel B). Among the low-income OECD and BRIICS countries, where the necessity of structural reforms to achieve higher living standards is in principle the highest, reform intensity has varied:

- Central European countries (Czech Republic, Hungary, Poland and Slovak Republic), whose income gap with respect to the upper-half of OECD countries remains above 50%, have showed fairly good reform responsiveness. Progress has been more limited in Chile, Mexico and Turkey, but Mexico has of late experienced acceleration in reform action.
- Appetite for reform varied across the BRIICS but was on average comparatively lower than in the OECD since 2011 (Figure 1.1). This pattern is particularly marked in the area of labour utilisation while significant progress was achieved in the area of labour productivity. This is confirmed by comparing the *simple* and *adjusted* responsiveness rates, since the latter is systematically lower than the former in BRIICS countries, contrary to OECD countries (Figures 1.2 and 1.3).

Figure 1.3. **Reform responsiveness since 2011 has been uneven across the BRIICS**

Responsiveness to *Going for Growth* recommendations across BRIICS countries, 2011-12



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

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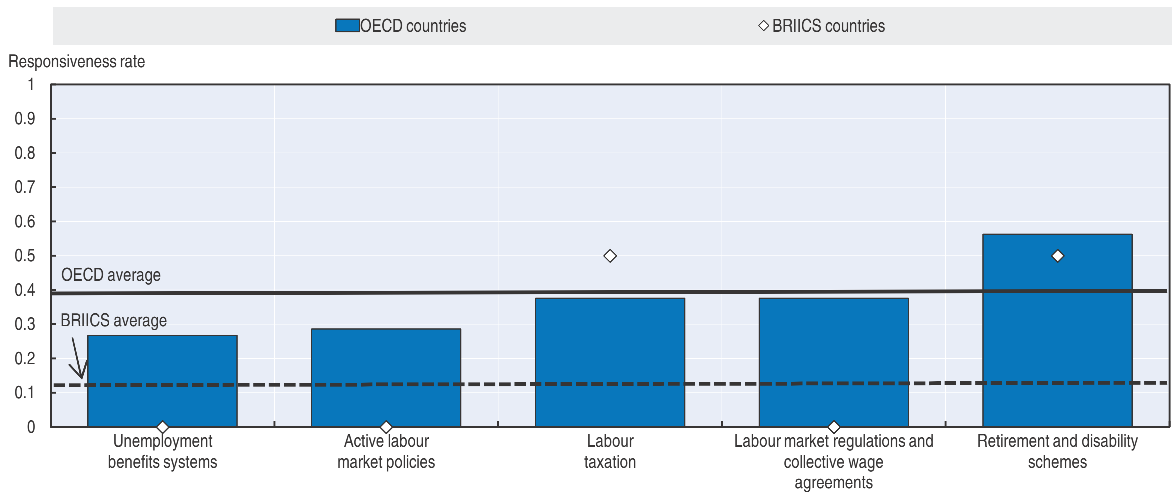
Progress in reforming policies to improve labour utilisation

Among the different labour utilisation-enhancing priorities, OECD countries have been most active in the areas of retirement and disability schemes, labour market regulations and collective wage agreements and labour taxation (Figure 1.4). Pension reforms were already on top of policy agendas at the onset of the crisis (see OECD, 2012a) and subsequently became more urgent to signal and ensure debt sustainability. Significant reforms aimed at boosting incentives to working longer were implemented in euro area countries, *e.g.* France and Spain, where this resulted in the removal of the corresponding policy priority. Labour taxation reforms have also been going on for some time now, first in response to the surge in unemployment, by *e.g.* introducing targeted reductions in social security contributions, and several countries have subsequently done so in the context of fiscal consolidation reform packages, notably by cutting labour taxes while raising taxes on consumption, property or the environment.

Figure 1.4. **Reforms to boost job creation and take-up have been more intense in some policy areas**

Responsiveness to *Going for Growth* recommendations across labour utilisation-enhancing areas, 2011-12



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

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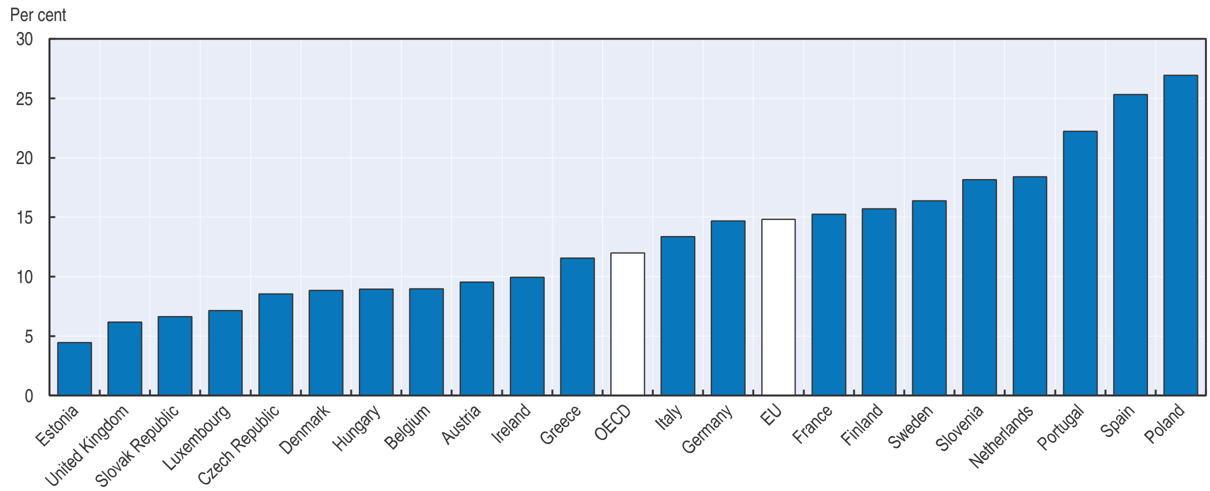
By contrast, high reform responsiveness in the area of labour market regulations and collective wage agreements is a new feature (OECD, 2012a).[5] It reflects the growing need and policy recognition to increase the responsiveness of wages to labour market pressures in order to boost growth but also to facilitate the necessary adjustment of the real exchange rate in euro area countries. Labour market regulation reforms were long advocated in a number of countries to reduce labour market duality, *i.e.* the existence of separate segments where comparable workers enjoy differential wage conditions and job protection. Such policy priorities have become even more topical in countries where the crisis highlighted major need for reallocation, for instance following downsizing of certain sectors, *e.g.* construction.

In line with recommendations, Portugal and Spain have raised the responsiveness of wage adjustments to labour market conditions by allowing firms in weak markets to deviate from collective bargaining outcomes and by reducing administrative extensions of collective agreements. Reforms in the important area of job protection were also implemented over the last two years in European countries that needed to regain competitiveness and where labour market duality is high, not least in Italy, Portugal and Spain (Figure 1.5). Progress has been notable but legislated changes were often less ambitious than initial announcements, reflecting their unpopularity and associated civil and political opposition. Further reforms in these areas are still needed and are therefore generally retained as 2013 *Going for Growth* priorities.

On the other hand, less progress has been achieved in the area of unemployment benefit systems. This likely reflects concerns to protect the incomes of the unemployed in a context where job opportunities remain dramatically low. Governments may have opted to postpone reforms until labour market conditions improve decisively. This is sensible insofar as reducing the level or duration of unemployment benefits when labour markets are depressed may result in employment losses, as suggested by empirical evidence,[6] and excessive hardship. At the same time, too generous and long-lasting benefits could prevent

Figure 1.5. **The incidence of temporary employment differs markedly across European countries**

Share of employees on fixed-term contracts in total dependent employment, 2011



Source: OECD, *Labour Force Statistics Database*.

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the return to work once the labour market recovers, requiring renewed policy focus as economic activity picks-up – at which point, though, political economy mechanisms may weaken reform opportunities. Perhaps surprisingly in view of this situation, no country opted to introduce state-contingent elements in its unemployment insurance (see below).

Reform patterns across labour utilisation and labour productivity-enhancing priorities should be interpreted with caution for the BRIICS, because the corresponding indicators rely on a very limited number of countries.[7] Bearing this caveat in mind, BRIICS countries have been most active at removing obstacles to formal labour market participation through retirement and labour taxation reforms (Figure 1.4). In Brazil, the revision of the public sector pension regime through the introduction of savings-based benefits should improve incentives for continued work. No significant progress has been achieved in other areas, typically job protection and labour market regulations, probably reflecting political-economy obstacles, combined with the absence of crisis-induced pressure to reform.

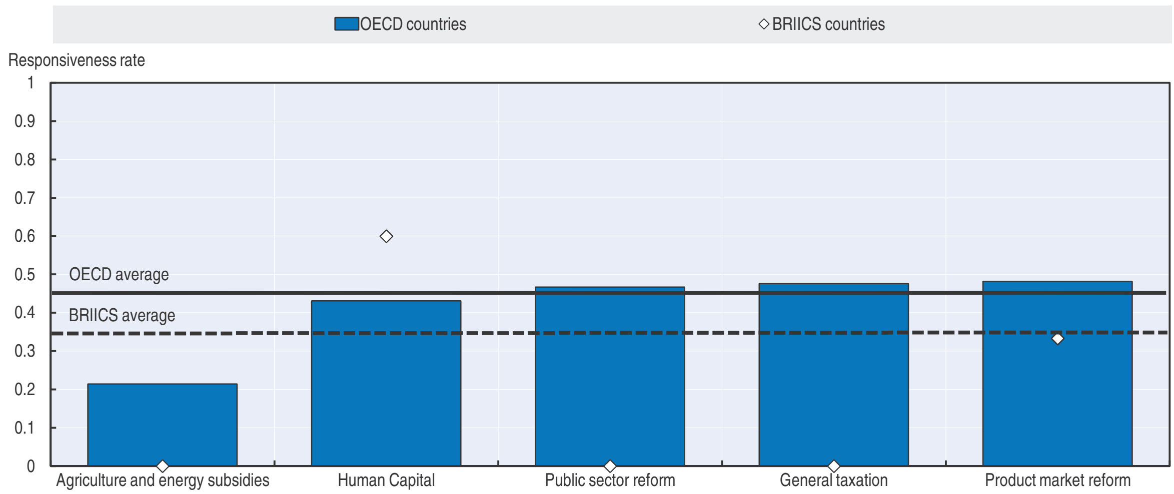
Progress in reforming policies to improve labour productivity

As found in last year's edition (OECD, 2012a), reform responsiveness has been higher on labour productivity than labour utilisation priorities in both OECD and BRIICS countries (Figure 1.6). On average, progress has been similar across major categories of labour productivity priorities except agriculture (Figure 1.6). Reform responsiveness partly reflects the growing role of growth-enhancing structural reforms implemented as part of fiscal consolidation packages:

- Tax reform has been frequent across OECD countries, with major changes taking place not only in euro area countries (*e.g.* Greece, Italy and Portugal) but also in Australia, Canada and Japan. Reform action mostly reflects the implementation of revenue-increasing and growth-friendly tax measures, *e.g.* a shift from labour to consumption, immovable property or environmental taxation (see section above).

Figure 1.6. **Reforms to boost productivity have been more evenly spread across policy areas**

Responsiveness to *Going for Growth* recommendations across labour productivity-enhancing areas, 2011-12



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

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- Against the background of budgetary pressures, most countries have followed up on their public-sector reform priorities, with a focus on improving cost-efficiency in public healthcare, given the wide scope to increase efficiency in this sector.

Fiscal consolidation imperatives were not the only drivers of policy action. In particular, some progress has been achieved on (budget-neutral) product market regulation recommendations.[8] A number of countries undertook reforms aimed at both boosting productivity and potential output but also short-term growth, *e.g.* through liberalisation of retail trade or liberal professions, as well as more broadly measures to spur competitive pressure, encourage investment and firm growth. Despite the progress achieved, actions taken in this area have rarely implied the removal of the corresponding policy priority in 2013, because major obstacles to competition remain, notably in non-tradable services but also in energy markets. Furthermore, while important actions have been achieved in a number of external deficit countries, *e.g.* Greece, Ireland, Italy and Portugal, much less has been achieved in external surplus countries where product market liberalisation is a major policy priority and could not only spur growth but also contribute to reducing current account imbalances, *e.g.* Germany, Japan and Korea.

Short-term imperatives have not constrained OECD countries' commitments to policy reform with longer-time payoffs, and reform intensity has been quite high in the area of education. Despite widespread reforms across OECD countries, corresponding priorities were not removed in 2013, since education is a fundamental driver of long-term growth and an area requiring pursued efforts over an extended period of time. By contrast, less has been achieved on agriculture and energy subsidies, confirming the political economy obstacles to reform in these areas.

All BRIICS countries that had a recommendation in the area of human capital[9] took some action to reform education (Figure 1.6). These are most welcome steps, though more needs to be done to close the wide educational gap with respect to OECD countries. The relatively high responsiveness to product market regulation priorities is an encouraging signal given the difficulty to overcome political barriers to reforms in this area. Positive steps to limit state intervention in product markets were taken in China and Brazil, including measures to encourage private-sector participation in infrastructure.

Reform priorities for OECD countries and the BRIICS

This section summarises the 2013 priorities for OECD countries and the BRIICS (based on the methodology described in Box 1.2 and Annex 1A.1). The associated country-specific recommendations are detailed in separate country notes (Chapter 3). The section begins with a brief overview of how countries rank in terms of GDP per capita and to what extent the differences in living standards can be attributed to gaps in productivity or labour utilisation. This is followed by a brief snapshot of changes in policy priorities between 2013 and 2011. The final section discusses policy priorities to enhance labour utilisation, and then those aimed at boosting labour productivity. While the dual classification of reform priorities based on their potential to raise either labour utilisation or labour productivity allows a simple and transparent assessment, it is important to keep in mind that a number of structural reforms are beneficial on *both* grounds (*e.g.* job protection and product market reforms, see Box 1.2).

Box 1.2. **The selection of policy priorities**

The *Going for Growth* methodology identifies policy recommendations based on their ability to improve long-term material living standards through higher productivity and labour utilisation. The reference performance measure in this regard is gross domestic product (GDP) per capita, given its contemporaneous availability and relatively broad coverage and despite its various drawbacks. Recognising the need to go beyond GDP per capita, *Going for Growth* is progressively integrating additional aspects of well being. As a starting point to this process, Chapter 2 covers the side effects of structural reform priorities on income distribution and the environment. Chapter 2 also examines the side effects of structural reform priorities on current account and fiscal imbalances.

Five policy priorities are identified for each country across the OECD and the BRIICS. In each case, at least three of the priorities are selected on the basis of quantitative performance and policy indicators, in areas where performance and policy weaknesses coincide. The remaining two priorities are identified using a combination of indicators, where available, and country-specific expertise (see Annex 1.A1 for a description of the process for identifying policy priorities). This is to ensure that important policy priorities in areas that are not covered by indicators are not left out. Since the set of available performance and policy indicators remains more limited for non-member countries, there is a greater reliance on country expertise for these countries.

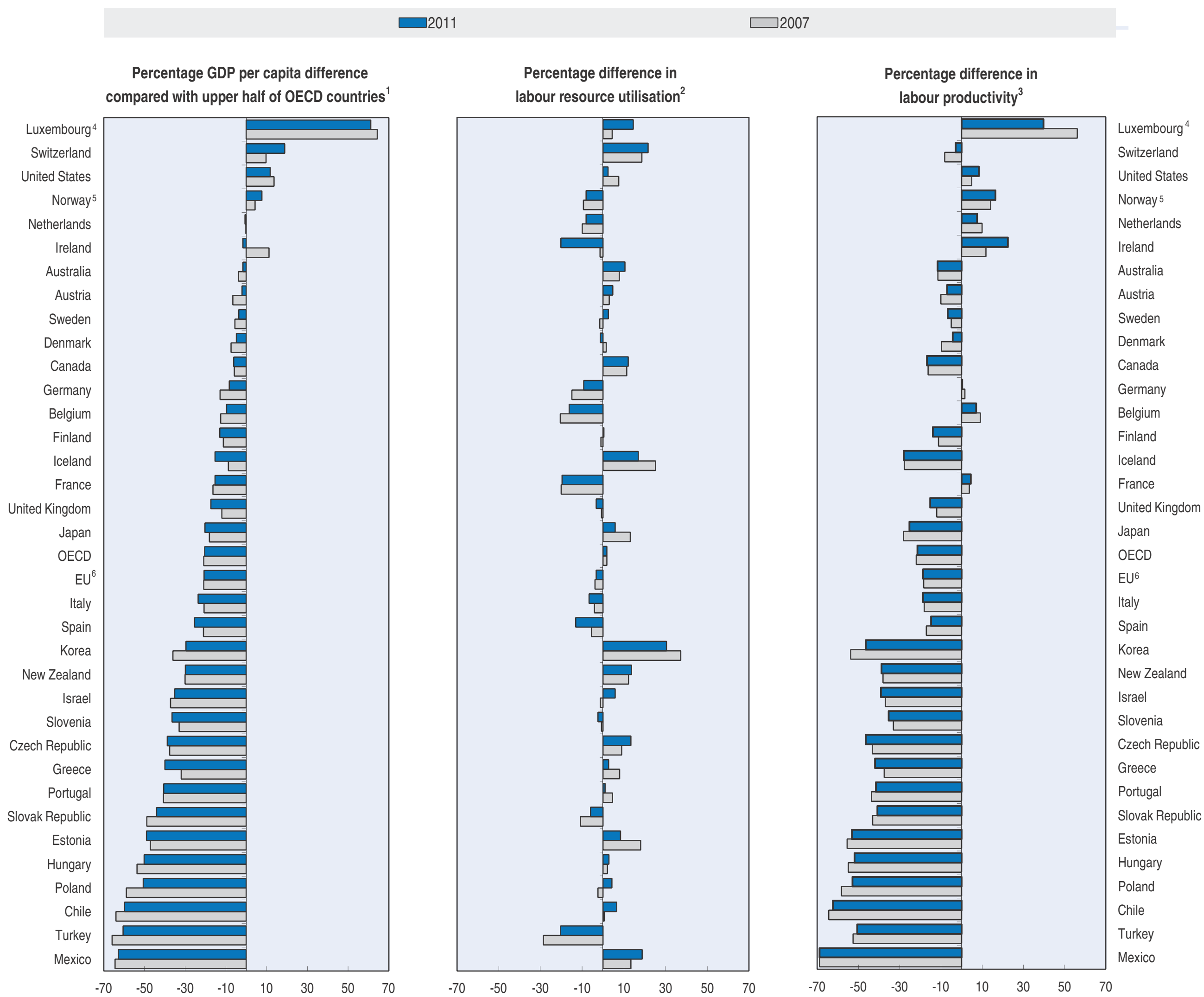
Policy priorities aimed at improving labour productivity performance include the easing of entry restrictions and controls over business operations in specific product markets, policies to boost educational outcomes, cuts in agricultural support to improve resource allocation throughout economies, and various other measures such as tax reforms and innovation policies. Policy priorities aimed at improving labour utilisation generally include reducing disincentives to work at older ages, obstacles to female labour force participation, and labour taxation, as well as improving the design of disability and sickness benefit schemes and other labour market policies such as job protection, unemployment benefits and activation policies. The mapping is not always clear cut though, as a number of policies affect *both* labour productivity and labour utilisation, *e.g.* in the areas of product market regulation and job protection.

Understanding differences in GDP per capita across countries

Gaps in GDP per capita relative to the simple average of the upper half of OECD members can be decomposed into contributions from hourly labour productivity and labour utilisation (Figure 1.7, Panel A). Cross-country patterns have remained quite stable

Figure 1.7. **Large differences in income per capita are mostly accounted for by productivity gaps**

A. OECD countries



1. Compared to the simple average of the 17 OECD countries with highest GDP per capita in 2011 and 2007, based on 2011 and 2007 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity do not add up exactly to the GDP per capita difference since the decomposition is multiplicative.
2. Labour resource utilisation is measured as the total number of hours worked per capita.
3. Labour productivity is measured as GDP per hour worked.
4. In the case of Luxembourg, the population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.
5. Data refer to GDP for mainland Norway which excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on the financial assets held by the petroleum fund abroad are not included.
6. Average of European Union countries in the OECD.

Source: *OECD National Accounts Statistics (Database)*; OECD (2012), *OECD Economic Outlook No. 92 Statistics and Projections (Database)*; OECD, *Employment Outlook (Database)*.

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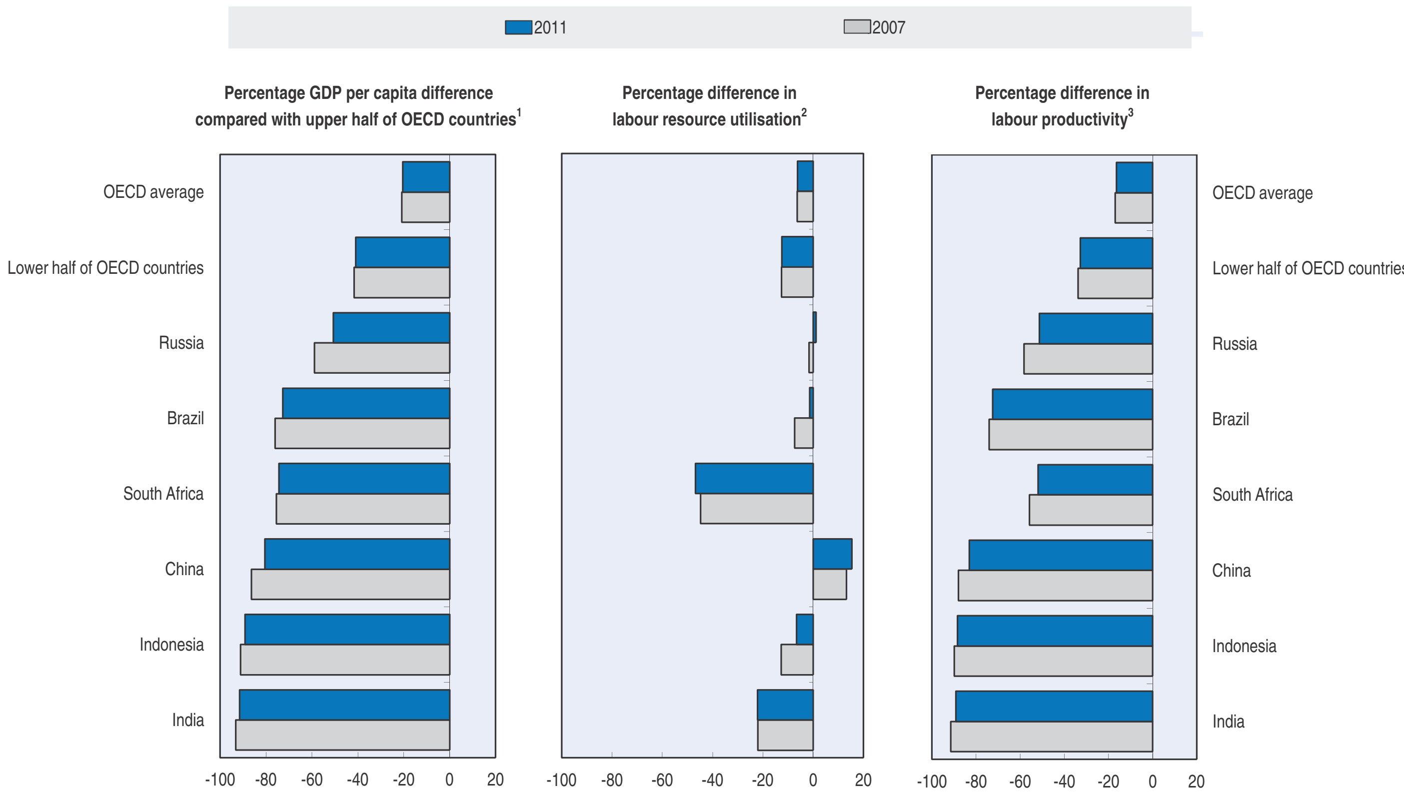
Figure 1.7. **Large differences in income per capita are mostly accounted for by productivity gaps** (*cont.*)

B. BRIICS countries *vis-à-vis* the OECD (using headcount productivity data)



1. Compared to the simple average of the highest 17 OECD countries in terms of GDP per capita in 2011 and 2007, based on 2011 and 2007 purchasing power parities (PPPs). The OECD average is based on a simple average of the 34 member countries. The sum of the percentage gap in labour resource utilisation and labour productivity does not add up exactly to the GDP per capita gap since the decomposition is multiplicative.
2. Labour resource utilisation is measured as employment as a share of population.
3. Labour productivity is measured as GDP per employee.

Source: OECD National Accounts Statistics (Database); World Bank (2012), *World Development Indicators (WDI) (Database)*; ILO (International Labour Organisation) (2012), *Key Indicators of the Labour Market (KILM) (Database)* for employment data on Brazil and Indonesia; Statistics South Africa for employment data on South Africa; India National Sample Survey (various years), annual population estimates from the Registrar General and OECD estimates for employment data on India; China Ministry of Human Resources and Social Security for employment data on China.

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despite the depth of the crisis (Figure 1.7 and OECD, 2012a). What stands out from the GDP per capita decomposition is the strong link between the cross-country dispersion of income per capita and that of labour productivity, and the absence of such link with labour utilisation.[10] The decomposition reveals different groups of countries:

- For both *top income countries* (Luxembourg, Norway, Switzerland and the United States in particular) and the dozen or so countries *with lowest GDP per capita levels*, the difference *vis-à-vis* the average of the upper half is, but to a few exceptions, accounted for by labour productivity.
- *Average income countries* can be split in several groups. In the case of many Northern euro area countries (*e.g.* Belgium, France, Germany, Ireland and the Netherlands), relatively low labour utilisation is offset by high productivity[11] while the opposite pattern is

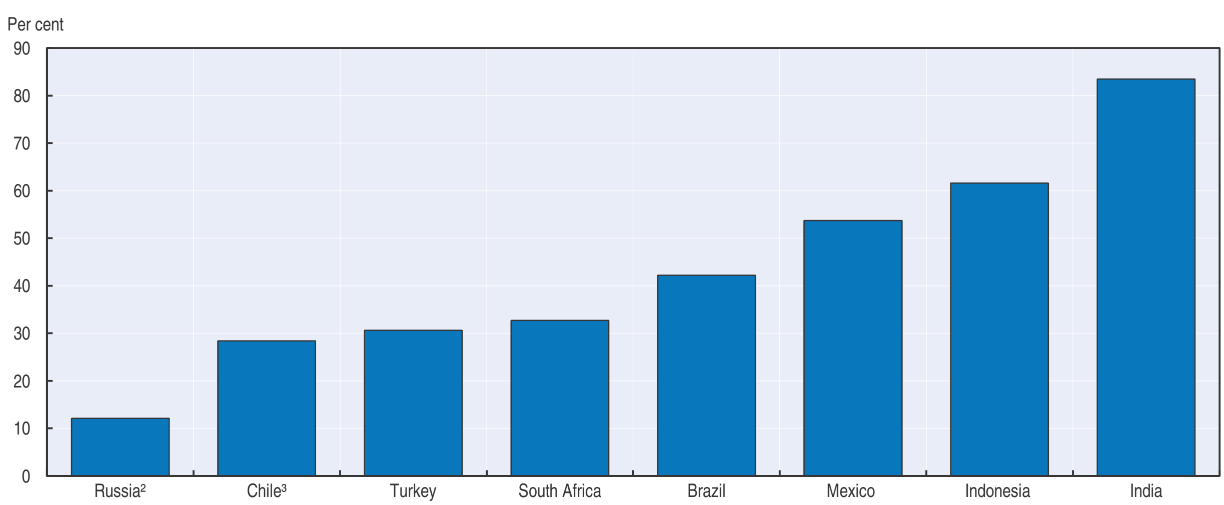
generally seen for countries outside Europe such as Australia, Canada, Japan, Korea and New Zealand. Nordic countries (other than Norway) as well as Austria and the United Kingdom have close to average levels of labour utilisation but lag behind the best performers in terms of productivity.

Despite rapid convergence in some of the BRIICS, all of them still have income gaps of between 60% and 90% to the upper half of OECD countries and continue to face large labour productivity shortfalls, even when compared with the average OECD country (Figure 1.7, Panel B). Among the BRIICS, labour resource under-utilisation is also a major challenge in India and, especially, South Africa. In contrast, labour utilisation in China is high even compared with most advanced OECD countries.

Low productivity and relatively high employment are often associated with widespread informality in the BRIICS[12] and a number of lower-income OECD countries. Although the extent of informality is difficult to measure, available data suggest that informal economic activities are particularly widespread in India and Indonesia and to a lesser, albeit still sizeable, extent in Brazil, Chile, Mexico, South Africa and Turkey (Figure 1.8). Not only emerging economies but also a number of richer OECD countries may face relatively high levels of informality, as for instance Greece, Italy and Poland.[13] Most often informality is not a choice but a fall back option, particularly in emerging countries. Informal work can play a buffer role on a cyclical basis and can be an important source of income in countries where the formal sector is still underdeveloped. However informality is associated with lower productivity[14] and also means that many workers remain outside the reach of labour market regulations and social protection schemes, often resulting in higher inequality (OECD, 2011b). Recommendations for those countries therefore include

Figure 1.8. **Informality is widespread in some emerging economies**

Share of persons in informal employment in total non-agricultural employment,[1] 2009



Note: Informal employment refers to total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households. Employment in the informal sector refers to all jobs in informal sector enterprises, or all persons who were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job.

1. Data refer to 2010 for the Russian Federation and South Africa and to 2005 for India.
2. Share of persons employed in the informal sector in total non-agricultural employment.
3. The share of self-employment in total employment is taken as a proxy for informality in the case of Chile because the most recent data on informal employment refer to the year 2000.

Source: ILO (International Labour Organisation) (2012), *Key Indicators of the Labour Market (KILM) (Database)*.

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measures aimed at boosting formal-sector activities and employment while reducing informality, *e.g.* through easing administrative barriers to the formalisation of firms, simplifying the tax system, improving revenue collection procedures, increasing the coverage of social protection systems and relaxing overly strict job protection for formal workers (see below and Country notes in Chapter 3).

A snapshot of policy priorities: 2013 versus 2011

Compared with the 2011 priorities, there has been a slight increase in the share of labour utilisation-enhancing priorities for OECD countries, especially among lower-income countries (Table 1.1). Indeed, the crisis has raised unemployment and the risk that it turns structural, hence some refocusing of priorities towards active labour market and social benefit policies aimed at softening the impact of unemployment while avoiding that it becomes entrenched. Otherwise, despite growing reform action among OECD countries as mentioned above, the vast majority of 2011 priorities are retained.[15] One reason is that structural reforms in many areas often take place gradually, with incremental policy changes introduced in sequential rounds. Indeed, in the vast majority of cases, "significant" action on policy recommendations – as defined and reflected in the reform responsiveness rate indicator presented above – has not implied the removal of the corresponding priority (Table 1.2).

The most frequent change in priorities is rather a narrowing or broadening of their scope to better reflect partial progress already made and shifts in country-specific circumstances that led to an update or reformulation of the associated policy challenges – again often dictated by the crisis context and in particular its labour market and budgetary

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

Per cent

Going for Growth edition	2011				2013			
	OECD	Upper-income OECD[1]	Lower-income OECD[2]	BRIICS	OECD	Upper-income OECD[1]	Lower-income OECD[2]	BRIICS
Labour productivity								
Product market regulation	26	19	30	33	22	18	24	33
Agriculture and energy subsidies	4	6	1	3	4	5	1	3
Human capital	15	12	17	17	16	13	20	17
Other policy areas	16	18	16	30	16	20	13	27
Total labour productivity	61	55	65	83	58	55	58	80
Labour utilisation								
Average and marginal taxation of labour income	7	11	5	0	7	9	5	3
Social benefits and ALMPs	17	21	13	7	22	24	22	7
Labour market regulation and collective wage agreements	11	7	14	10	10	6	14	10
Other policy areas	5	6	3	0	3	6	1	0
Total labour utilisation	39	45	35	17	42	45	42	20
Total number of priorities[3]	175	85	85	30	175	85	85	30

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

Source: OECD (2011), *Economic Policy Reforms 2011: Going for Growth*, OECD Publishing.

Table 1.2. **Progress on 2011 policy priorities**

	Priority areas where significant action has been taken		Priority areas where such action was sufficient to imply the removal of the corresponding priority	
	OECD	BRIICS	OECD	BRIICS
Labour productivity				
Product market regulation	24	5	6	1
Agriculture and energy subsidies	1	0	0	0
Human capital	19	3	1	0
Other policy areas	12	0	4	0
Total labour productivity	56	8	11	1
Labour utilisation				
Average and marginal taxation of labour income	4	0	1	0
Social benefits and ALMPs	18	2	4	0
Labour market regulation and collective wage agreements	8	0	2	0
Other policy areas	1	0	0	0
Total labour utilisation	31	2	7	0

implications. In the case of four countries (Italy, Japan, Mexico and the United States) two separate 2011 priorities in closely-related policy areas have been "merged" into one priority covering a somewhat broader set of recommendations. This has provided the scope for introducing a new priority for these countries.[16]

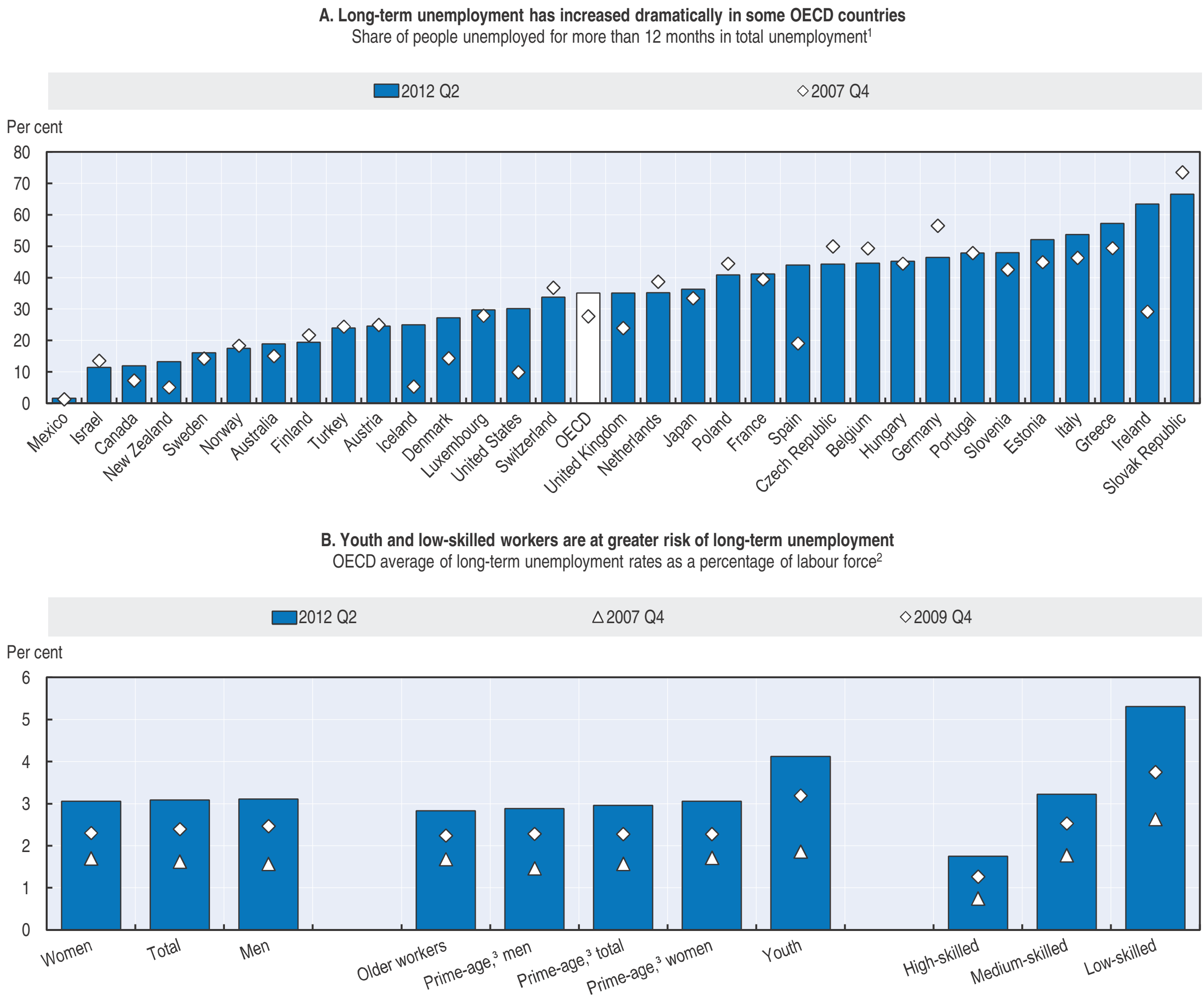
The distribution of priorities has remained remarkably stable for the BRIICS. This pattern reflects the magnitude of performance and policy gaps with respect to OECD countries, which implies that comparatively stronger action – presumably staggered over an extended period of time – is needed to justify the removal of a policy priority. To some extent, this stability also reflects the relatively mild impact of the crisis on BRIICS's labour markets compared with those of OECD countries. The bulk of priorities are aimed at improving productivity (80%, see Table 1.1), with a strong focus on product market regulation, as well as on education systems, where quality, equity and achievement levels are relatively low. Government/governance reform, strengthening institutions to fight corruption and basic financial liberalisation are also recurrent recommendations for durably boosting productivity in the BRIICS.

Policies to enhance labour utilisation

The 2008-09 global recession brought about substantial labour market deterioration everywhere, but developments in both participation and employment diverged strongly across countries (OECD, 2011a, 2011c). Together with the weak and uneven recovery in many OECD countries the implications for the labour market include:

- The absence of a vigorous and sustained recovery in aggregate demand has pushed a rising share of workers to the margin of the labour market, as witnessed by the increase in the number of long-term unemployed and discouraged jobseekers (Figure 1.9, Panel A, and OECD, 2012c):
  - ❖ Youth and low-skilled are at greater risk of long-term unemployment (Figure 1.9, Panel B), which has risen dramatically for such groups, particularly in Greece, Italy, the Slovak Republic, Spain and the United States.
  - ❖ The risk of seeing a rising share of workers losing attachment to the labour market has also showed up in the form of increased dropping-out from the labour force, which

Figure 1.9. **Long-term unemployment has been a concern since the onset of the crisis**



1. Series are smoothed using three-quarter centred moving averages. 2011q4 for Israel.
2. OECD is the weighted average of 30 countries (excluding Australia, Chile, Korea and New Zealand) for data by age and gender and of 29 countries (also excluding Japan) for data by education. Data refer to age 25-64.
3. Data refer to age 25-54.

Source: OECD (2012), *Quarterly Labour Market Indicators (Database)*, Directorate for Employment, Labour and Social Affairs unpublished data (October) and OECD estimates based on quarterly national labour force surveys, cut-off date: 7 December 2012.

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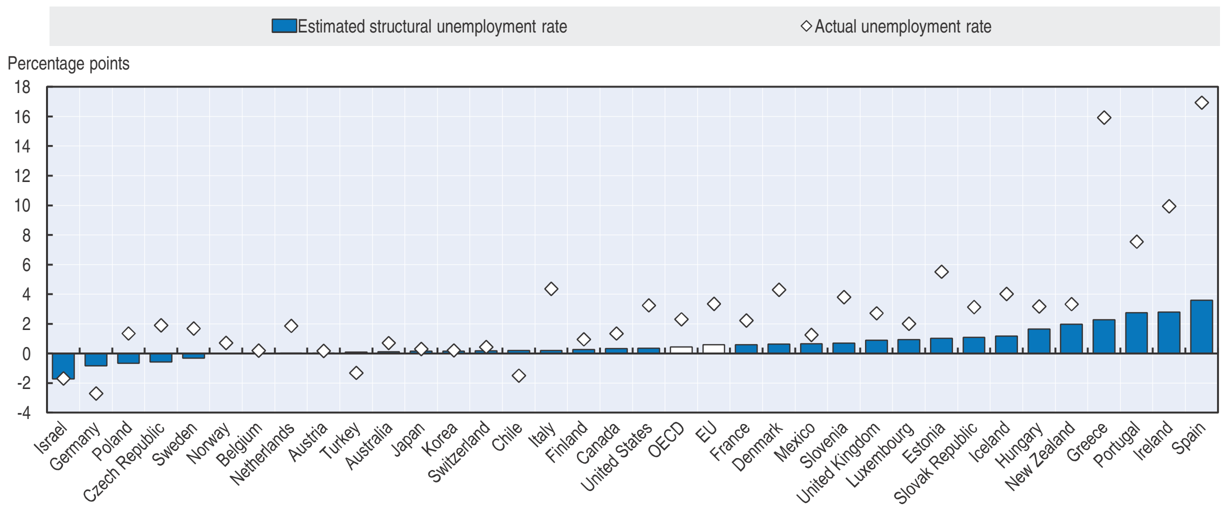
was particularly pronounced in Estonia, Ireland, Spain and the United States. Of mounting concern is the rise in the number of young persons who are neither in employment nor in education or training, the so-called "NEET", particularly so in Estonia, Ireland, Greece and Italy (Box 1.2 in Chapter 1 of OECD, 2012c).

- While there are growing concerns that the cyclical increases in unemployment may become structural over time, there is no clear evidence of this so far.[17] Bearing in mind the caveats associated with providing an accurate measure of structural unemployment, recent estimates point to a more significant increase in Spain, Ireland, Portugal and Greece, all countries hard hit by the crisis and where the increase in long-term unemployment has also generally been particularly sharp (Figure 1.9, Panel B and Figure 1.10).

Figure 1.10. **Increases in structural unemployment are widespread but uneven**

Change in percentage points between 2007 Q4 and 2012 Q2[1]



1. Change between 2007q4 and 2012q3 for Canada, Chile, Germany, Israel, Japan, Korea, Luxembourg, Norway, Spain, Sweden, the United Kingdom and the United States.

Source: OECD, *OECD Economic Outlook No. 92: Statistics and Projections (Database)*.

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Going for Growth priorities are mainly aimed at raising labour utilisation over the long-term, but many would also help alleviate the labour market effects of the crisis and boost competitiveness, *e.g.* well-designed active labour market policies could reduce unemployment persistence and encourage the return to work while increasing the responsiveness of wages to labour market pressures would encourage rebalancing and euro area real exchange rate adjustment. More generally, addressing these concerns calls for action in several policy domains, spanning taxation, social benefits and activation policies, labour market regulation and wage bargaining arrangements. Table 1.3 provides a synthetic summary of main labour utilisation-enhancing recommendations across OECD and BRIICS countries.

Average and marginal taxation of labour income

High average and – in particular – marginal taxes on labour incomes can reduce workforce participation and raise unemployment, especially for workers with low incomes. Despite some action taken on nearly 40% of previous priorities in this area, lowering such taxes (including through cuts in social security contributions) is a priority for more than half of OECD countries (Table 1.3). Reductions in labour taxes are often recommended as part of policy actions aimed at reducing labour supply distortions sometimes embedded in the overall tax and benefit system, especially for specific groups of the labour force, *e.g.* low earners and second earners or lone parents.

Given the substantial fiscal consolidation challenges that many countries face, efforts in that direction can only be pursued gradually and with the reductions funded by expenditure cuts, base broadening, as well as through shifts in the structure of taxation more towards growth-friendly forms of taxation, such as taxes on consumption, immovable property or pollution emissions. Reductions in labour taxes are therefore generally recommended within broader revenue-neutral or revenue-raising policy packages aimed at improving the efficiency of taxation (see below), and/or in association with measures to generate public spending efficiency gains. Outside OECD countries, labour taxes are generally lower and thus pose less of a disincentive to work, with the exception of Brazil where reducing them is seen as a priority.

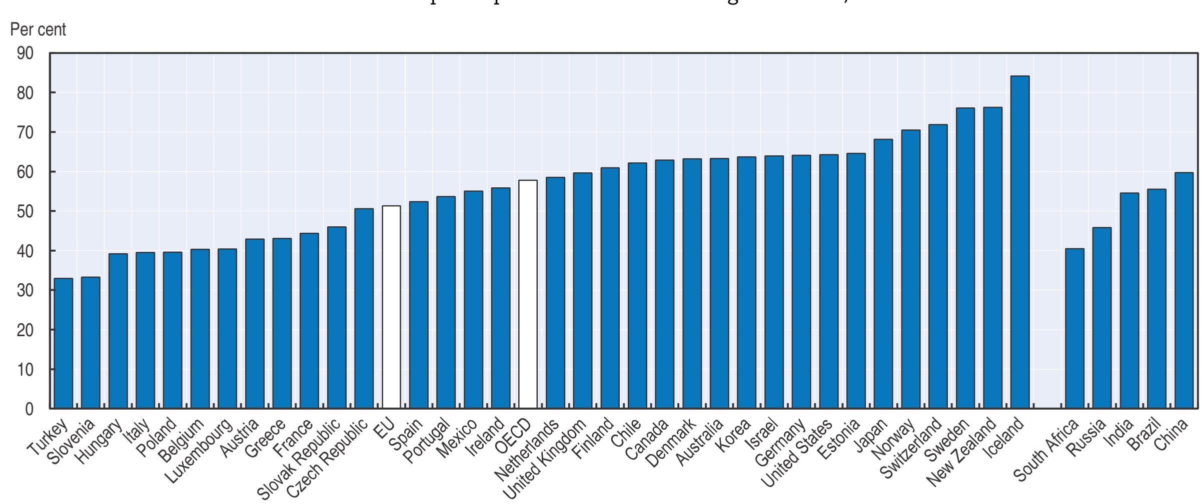
Social benefits and active labour market policies

Retirement and disability schemes. One notable feature of this crisis has been that employment rates of older workers have held up surprisingly well, in contrast with previous recessions where premature labour market withdrawal was often encouraged by early retirement incentives (OECD, 2011d). To some extent, the current trend reflects the benefits of earlier reforms that have resulted in the closing of many pathways to early retirement (see OECD, 2012a). More recently, in the context of fiscal consolidation (see previous section), significant reforms took place in this area, *e.g.* in France and Spain reforms have included increases in retirement age and in contribution periods required for a full pension. Still, given that less severe recessions have in the past led to significant labour market withdrawal with a notable lag (Duval *et al.*, 2011), further reductions of financial disincentives to continued work are still being recommended across OECD and BRIICS countries (Table 1.3). In the short run, reforms in this area may help ensure that laid-off older workers remain attached to the labour market. Over the longer term, such reforms will allow raising older workers' participation rates, which are currently very low in some countries (Figure 1.11).

Linking pensions to life expectancy can be seen as a partial substitute for *discretionary* increases in pension ages in ensuring retirement-income provision is financially sustainable. *Automatic* links between pensions and life expectancy are now in place in at least 20 of the 34 OECD countries. However, countries have overwhelmingly chosen to link benefit levels to life expectancy rather than pension ages – as only five of them have life-expectancy links in their mandatory pension system. On balance, a link between pension age and life expectancy, rather than benefit levels is a preferable option (see Chapter 5 in

Figure 1.11. **Raising senior labour market participation remains a challenge for many countries**

Labour force participation rate of workers aged 55 to 64, 2011[1]



1. The last available year is 2009 for Brazil and 2010 for China and India.

Source: OECD, *Labour Force Statistics Database*.

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Table 1.3. **Labour utilisation-enhancing reform recommendations in OECD and BRIICS countries**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Retirement and disability policies																					
Phase out early retirement schemes		✔	✔							✔				✔							✔
Increase statutory or minimum retirement age			✔							✔											
Lengthen contribution requirements to claim full pension/ make benefits actuarially neutral										✔											✔
Adjust benefits/retirement age in line with life expectancy														✔							✔
Review criteria to disability benefits, improve monitoring		✔					✔	✔													
Unemployment benefits, ALMPs, social protection																					
Reduce replacement rates over the unemployment spell/ reduce benefit duration			✔							✔	✔										✔
Expand the coverage/generosity of social safety nets, unemployment benefits					✔													✔	✔	✔	
Strengthen ALMPs			✔					✔		✔	✔		✔			✔	✔	✔			✔
Labour taxation																					
Reduce average or marginal labour taxation		✔	✔	✔			✔	✔		✔	✔	✔		✔				✔			
Remove tax and benefit disincentives to full-time female/ second earners/lone parents participation						✔						✔							✔		
Remove tax and benefit disincentives to low earners participation		✔	✔			✔		✔									✔				
Labour market regulation and institutions																					
Reform job protection legislation to reduce duality											✔	✔						✔	✔	✔	✔
Reduce the minimum cost of labour											✔						✔				
Reform wage bargaining to raise wage responsiveness to labour market conditions			✔																		
Strengthen public support for childcare and pre-school education and reform parental leave policies	✔				✔	✔						✔				✔			✔	✔	

Table 1.3. **Labour utilisation-enhancing reform recommendations in OECD and BRIICS countries** (*cont.*)

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	India	Indonesia	Russian Federation	South Africa
Retirement and disability policies																				
Phase out early retirement schemes					✔			✔				✔			✔					
Increase statutory or minimum retirement age								✔				✔								
Lengthen contribution requirements to claim full pension/make benefits actuarially neutral								✔				✔								
Adjust benefits/retirement age in line with life expectancy																				
Review criteria to disability benefits, improve monitoring		✔		✔	✔					✔			✔	✔						
Unemployment benefits, ALMPs, social protection																				
Reduce replacement rates over the unemployment spell/reduce benefit duration		✔				✔														
Expand the coverage/generosity of social safety nets, unemployment benefits												✔						✔		
Strengthen ALMPs						✔	✔		✔					✔						✔
Labour taxation																				
Reduce average or marginal labour taxation		✔			✔					✔										
Remove tax and benefit disincentives to full-time female/second earners/lone parents participation		✔					✔				✔		✔							
Remove tax and benefit disincentives to low earners participation												✔			✔					
Labour market regulation and institutions																				
Reform job protection legislation to reduce duality	✔	✔				✔		✔	✔	✔		✔					✔	✔		
Reduce the minimum cost of labour												✔						✔		✔
Reform wage bargaining to raise wage responsiveness to labour market conditions						✔		✔	✔											✔
Strengthen public support for childcare and pre-school education and reform parental leave policies					✔		✔				✔	✔	✔							

OECD, 2011d). Indeed, benefit cuts may push low-income retirees onto social assistance and other safety-net programmes, at the risk of offsetting some or all the savings achieved through linking public-pension benefits to life expectancy. It will also put additional burden on private defined contribution plans. Linking both pension ages and benefits with life expectancy is, however, a potentially attractive option to ensure financial stability, improved incentives to working longer and income adequacy at older ages (see OECD, 2011d).[18]

Likewise, a tightening of some early exit routes from the labour market risks triggering an increase in the use of others. In particular, disability and sickness benefits are needed to ensure appropriate incomes to individuals whose health status temporarily or permanently prevents them from working or searching for jobs, but these schemes are sometimes misused and poorly targeted. Moreover, persistently high unemployment is adding renewed pressure on systems that do not enforce strict health criteria for eligibility and are insufficiently monitored. Better monitoring of eligibility for and tightening of access to disability schemes are identified as priorities for Austria, the Netherlands, Norway, Poland and the United States – in the latter country enhanced workplace accommodation and rehabilitation services are also necessary. More frequent reviews of individual work capacity are a priority in the Netherlands, Norway and the United Kingdom. Denmark is being recommended to closely monitor the effects of the *Fleksjob* reforms and move towards regular entitlement assessments and Estonia to open activation measures to disability recipients and strengthen the role of employers in prevention and rehabilitation measures. Sweden undertook a substantial reform of its sickness and disability pension schemes and priority should be given to monitor its impact.

Unemployment benefit (UB) and social protection systems. Restructuring unemployment benefit systems is a particular challenge in the post-recession context due to the heightened risk of unemployment persistence and early withdrawal from the labour force. Unemployment benefit systems have been an important device for mitigating the income losses caused by the crisis, reflecting concerns to protect the incomes of the unemployed and avoid excessive hardship (see above and OECD, 2012a). Some countries have for instance extended the coverage of unemployment benefits to workers previously not covered, raised the level or lengthened the duration of benefits, especially where these were comparatively low or short. However, too-high or long-lasting unemployment benefits reduce job-search incentives and may push wages up, thereby potentially increasing structural unemployment (for recent evidence, see de Serres *et al.*, 2012). Unemployment insurance reform or, more broadly, reform of social protection aimed at improving work incentives are identified as priorities in Belgium, Finland, France, Luxembourg, the Netherlands and Portugal (Table 1.3). In these countries, stricter limits on benefit duration or a reduction in their level over the unemployment spell are typically recommended, although implementation should take place only once labour market conditions have sufficiently improved.

Although not part of the priorities identified, there is rationale for extending benefit duration during recessionary periods when unemployment spells typically are longer, such that benefit exhaustion rates remain roughly in line with the rates observed during non-recessionary times, especially for programmes with short durations, and then returning to normal duration limits as the labour market recovers. Canada, Iceland, Israel[19] and the

United States provide recent examples of adjusting the UB programme parameters in response to changing labour market conditions. For example, in the United States, under the extended benefits programme, some states have laws that automatically extend the unemployment insurance benefit duration when the unemployment rate is above a certain level (OECD, 2011c). Similarly to state-contingent unemployment benefit duration, short-time working schemes (STW) may provide a useful buffer that can be activated depending on the economic situation and several OECD countries have introduced STW schemes as a response to the 2008 crisis. Although an empirical assessment of the long-term effects of STW schemes is not yet available, the crisis experience – and in particular the German example – suggests that having such options in place and being able to activate them in severe downturns can be useful, insofar as they may avoid losses of specific human capital in the wake of shocks that are temporary and do not imply a need for reallocation (Hijzen and Venn, 2011). By contrast, when shocks imply a need for reallocation across sectors, STW schemes may hinder labour reallocation and thus limit employment variability over the cycle at the expense of productivity in the long run.[20]

In contrast to increases in levels of benefit duration, some of the extensions in the coverage of unemployment benefits from previously low rates should be made permanent provided they are coupled with conditionality and activation measures. Indeed, a number of OECD countries fail to ensure an appropriate coverage of unemployment benefits, often due to strict entitlement conditions (*e.g.* associated with employment and contribution records and sanctions for voluntary unemployment).[21] Incomplete coverage is a particular concern in countries characterised by labour market duality, where a substantial proportion of the workforce (those on fixed-term contracts) is often not covered by the system. Yet low coverage raises not only equity and exclusion concerns but also the risk of labour market withdrawal and discouragement effects, possibly hampering return to work and efficient job search. Reforms to expand the coverage or generosity of social safety nets and in particular unemployment benefit systems are recommended for Italy, Japan and Korea (Table 1.3), in association with job protection and active labour market policies aimed at reducing duality. Such reforms are also of mounting importance in emerging economies and the BRIICS where welfare systems are comparatively underdeveloped and contribute to labour informality (*e.g.* in Chile, Indonesia and Turkey). China is advised to reduce barriers to mobility and enable internal labour reallocation, *e.g.* by enhanced provision of social rights and public services to migrants.

Active labour market policies. OECD countries have been increasingly endorsing the need to develop sound active labour market policies (ALMP) to strengthen jobseekers' attachment to the labour market and, in association with well-designed unemployment benefit systems, encourage the return to work. In the wake of the crisis, more than two-thirds of OECD countries boosted resources for job-search assistance and training programmes in order to facilitate re-employment and re-deployment (OECD, 2012a). The weak and uneven recovery in many OECD countries raises the importance of using these resources most effectively so as to facilitate the return to work and reduce the risk that the cyclical increase in unemployment becomes structural (Figure 1.10).

Active labour market and training policies are identified as new priorities for two groups of countries: *i)* countries that have experienced construction and housing bubble bursts (*e.g.* Ireland, Spain and the United States) and where policies should focus on addressing skill mismatches by encouraging requalification; and *ii)* countries that are experiencing a pronounced and persistent surge in unemployment, especially among youth (*e.g.* Greece and Italy), and which should focus on preventing discouragement effects. All these countries also feature either a sharp rise in long-term unemployment, in the estimated structural unemployment, or in the proportion of NEET (see above). Stepping-up the level and efficiency of ALMPs is reiterated for Belgium, Estonia, Finland, France, Ireland, Israel, Luxembourg, the Slovak Republic and South Africa (Table 1.3).

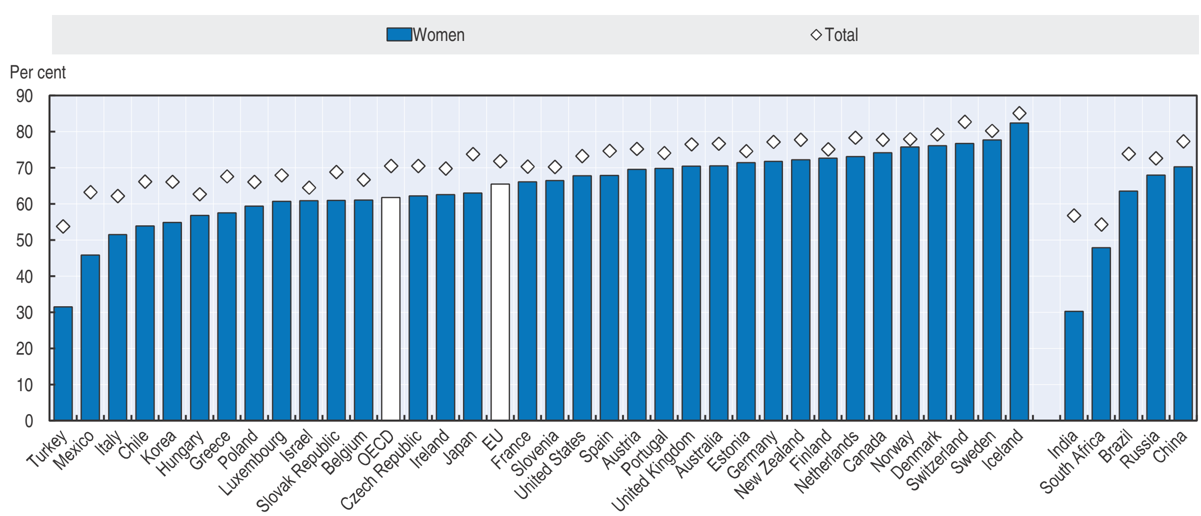
Policy barriers to full-time female participation. A high proportion of women are largely excluded from the labour market in a number of countries (Figure 1.12) while in others they are overrepresented among (involuntary) part-time workers. Recommendations are made to encourage female labour force participation or hours worked where those are particularly low. Beyond disincentives embedded in the level and design of taxes and benefits along with stringent job protection regulations, improving access to childcare and reforming parental leave policies would facilitate the integration of women in the labour market (Jaumotte, 2004). Strengthening childcare programmes and related policies is a priority for more than a third of OECD countries (see Table 1.3).

Labour market regulations and collective wage agreements

Reforming labour market regulations and collective wage agreements would not only help employment to pick-up but also reduce unemployment persistence in countries where the jobless rate is high. Reforms in these areas could also reduce labour market duality (Figure 1.5) for instance in parts of Europe (*e.g.* in France, Italy, Spain and Portugal).

Figure 1.12. **Labour utilisation is held back by low female participation in a number of countries**

Labour force participation rate, 2011[1]



1. Aged 15-64. The last available year is 2009 for Brazil and 2010 for China and India.

Source: OECD, *Labour Force Statistics Database*.

StatLink http://dx.doi.org/10.1787/888932775630

Job protection. Firing restrictions have cushioned unemployment during the crisis, but an excessive gap in protection between permanent and temporary contracts is one of the main institutional features contributing to duality in the labour market. Duality leads to labour and capital misallocation as well as to underinvestment in training for temporary workers, hence ultimately to lower productivity (Bassanini *et al.*, 2009; Cingano *et al.*, 2010; Lepage *et al.*, 2012; Bentolila *et al.*, 2012; Blanchard and Landier, 2002). The costs of duality are high: excess employment volatility, reduced access to stable jobs, recurrent spells of temporary jobs, and long and frequent unemployment spells among "marginal workers" under temporary or atypical contracts, essentially youth. All these factors undermine the career prospects of workers on temporary contracts and hence contribute to the entrenchment of duality.

Despite progress achieved in this area over the last two years – in particular in European countries affected by the sovereign debt crisis (c.f. OECD, 2012a, and above) – further reforms to rebalance job protection between permanent and temporary contracts are needed in France, Germany, Japan, Korea, Luxembourg, the Netherlands, Portugal, Spain, Slovenia, and Sweden. In Italy, the parliament has recently approved an important labour market reform which should help reduce duality and priority must now be given to reducing judicial delays in labour settlements, a recommendation also advanced for Mexico and Portugal. Job protection reforms are also encouraged in emerging economies (India, Indonesia, Mexico and Turkey) to tackle the problem of informality which can be considered as an extreme form of duality.

The idea of introducing a single labour contract so as to achieve job protection convergence between different types of workers has been advocated by prominent academics but controversies remain about its practical implementation, including legal and political economy obstacles.[22] Austria may provide a model of *de facto* convergence, under which unpredictable dismissal costs for employers are converted into a system of individual savings accounts, funded from a set of employers' contributions from the first day of employment until contract termination. This separation allowance can be cumulated by the employee over an entire working life, and does not harm job mobility given that workers do not lose their entitlements to severance payments when quitting to take a new job. One of the key advantages of the system – which can be thought of as a form of mandatory savings – is to offer workers severance payments that rise gradually with tenure while reducing uncertainty as regards dismissal costs faced by employers.[23] The latter feature should encourage hiring on regular rather than temporary contracts and ultimately reduce labour market duality.

Minimum wages and wage bargaining systems. Set at a moderate level, and implemented in a flexible manner (*e.g.* differentiated rates across regions or between youth and prime-age workers), a statutory minimum wage can encourage the labour force participation of low-skilled workers, especially if combined with in-work benefits. However, overly high minimum labour costs, which can result from a combination of legal minimum wages and labour taxes, can limit the jobs available for young workers and the low-skilled.[24] Reductions in the relative level or growth rate of minimum wages *vis-à-vis* median wages are recommended as a means to encourage low-skilled and formal employment in both some OECD and large emerging-market countries where the minimum wage appears to weigh on (formal) employment (France, Indonesia, Israel, Slovenia and Turkey). In South Africa priority should be given to introducing age-differentiated minimum wages in sectors where these are not set by collective bargaining.

The cost of labour can also be driven to levels that are detrimental to employment by collective wage agreements that in some countries are administratively extended to workers and employers who are not party to the original negotiations and settlements (and who may sometimes be in different sectors and regions). Reforms in this area are being recommended for Belgium, Portugal, Slovenia, South Africa and Spain in order to better align wages with productivity conditions at aggregate, regional, firm and skill-specific levels.

Housing policies

Housing policies can affect both labour productivity and labour utilisation.[25] Restrictive housing policies such as strict rent regulation can hamper housing investment and supply, limit labour mobility and potentially raise structural unemployment, especially in the current recovery context where reallocation of labour across different sectors and regions is needed in a number of OECD countries. Overly stringent planning and zoning can raise house price levels and volatility, and thereby contribute to financial and economic instability as well as undermine competition and productivity in certain sectors such as retail trade (see special Chapter 4 in *Going for Growth* 2011; OECD, 2011a). Housing policies and rent regulation need to be revised in Denmark, Israel, Luxembourg, the Netherlands, Poland, Slovak Republic, Sweden and the United Kingdom.

Policies to enhance labour productivity

The likely permanent GDP loss from the 2008-09 recession – estimated at some 3% for the OECD on average (OECD, 2009) – is driven by lower potential employment, but also by lower capital accumulation resulting from the long-lasting elevation of risk *premia* and the cost of capital usually observed in the aftermath of a financial crisis. This in turn may hamper investment in both tangible and intangible assets – including innovation activity – hence ultimately productivity.[26] Also worryingly for future productivity developments, the recent crisis seems to have raised pressures for adopting protectionist measures and there may be some evidence that various subtle barriers to cross-border trade are being set-up.[27]

At the same time, the crisis also provides opportunities to boost long-term productivity through reallocation effects, *i.e.* by shifting resources away from inefficient sectors towards more productive ones. Such transition is by nature protracted, but public policies can help accelerate the reallocation and set the conditions for faster medium-term growth with reforms in the areas of product market regulation, general taxation as well as the efficient provision of public services and infrastructure. Achieving the highest degree of efficiency in the delivery of public services is all the more important in the current budgetary environment.

Policy priorities aimed at improving productivity performance are mainly concentrated on countries with a large productivity gap *vis-a-vis* the best performers (Figure 1.7) or weak productivity growth. Economy-wide convergence in productivity levels has been unevenly distributed across OECD countries over the last decade (Figure 1.13), with stronger convergence observed in Central European countries, Estonia and Turkey as opposed to *e.g.* Greece, Japan, Mexico and New Zealand. Among the BRIICS, convergence has been strongest for China, India and Russia, while it has been weakest for Brazil and South Africa. As noted already, despite the progress achieved, productivity levels in the

BRIICS remain far below OECD average and explain the bulk of their income gap *vis-à-vis* OECD countries (Figure 1.7).

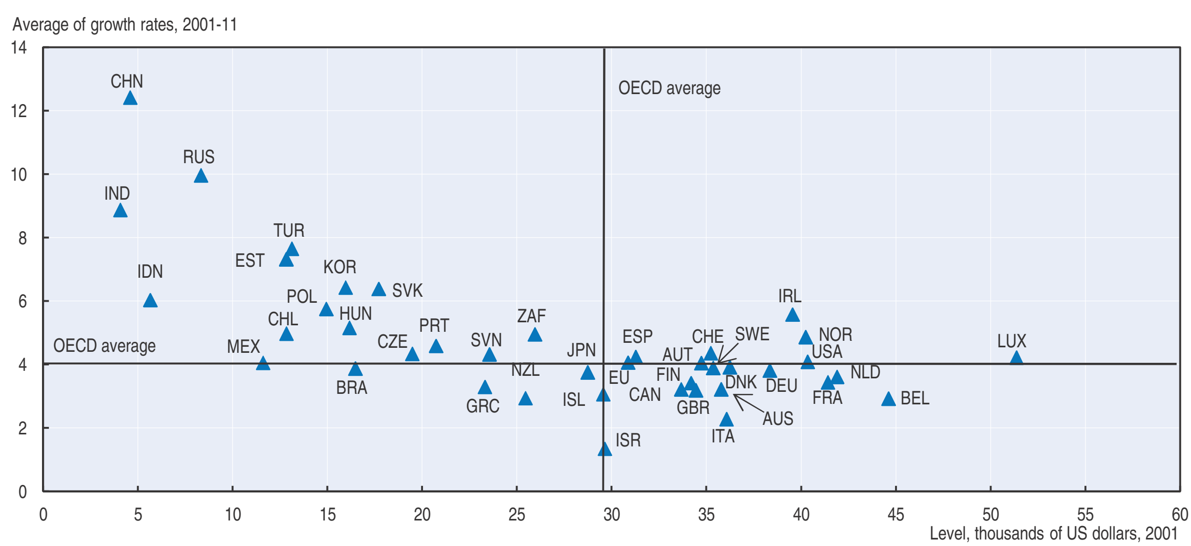
Product market reforms

A broad range of firm, industry and macro-level evidence illustrate the impact of product market regulation on the pace of convergence in productivity levels to technologically advanced economies.[28] Product market regulation can also affect aggregate productivity through its impact on the capacity of the economy to allocate capital and labour resources to fast-growing sectors. Estimates of the potential impacts of product market reform point to a strong pay-off, with the long-term gains in living standards realised relatively rapidly (see Bourlès *et al.*, 2010, on OECD countries; Bas and Causa, 2012, for recent evidence on China).

Against the background of large productivity gaps despite rapid convergence (Figure 1.13), all of the BRIICS have at least one product market reform priority and even two for many of them.[29] Moreover, a number of such reforms are targeted at network and infrastructure sectors where lower-income countries face substantial shortages. Such recommendations are therefore often formulated in association with increases in infrastructure provision. Despite encouraging progress over the recent period (see above), product market reforms remain a priority for many OECD countries – in particular in Europe. At the current juncture they could facilitate adjustments in unit labour costs and the reallocation of resources across firms, as well as boost short-term growth and jobs creation (see Bouis *et al.*, 2012). Stronger competition and lower barriers to entry would help ensure that recent wage reductions result in greater job creation. Hence, product market reforms are not only important *per se*, but also as a necessary complement to labour market reforms.[30] By lifting productivity and potential growth, pursuing such reforms

Figure 1.13. **There has been uneven convergence in productivity levels over the last decade**[1]

Average productivity growth over the past decade against the initial level



1. Labour productivity is measured as GDP per hour worked for OECD countries and Russia and as GDP per employee for the remaining BRIICS.

Source: *OECD National Accounts Statistics (Database)*; OECD (2012), *OECD Economic Outlook No. 92: Statistics and Projections (Database)*; OECD, *Employment Outlook (Database)*.

StatLink http://dx.doi.org/10.1787/888932775649

would have beneficial effects on debt dynamics and fiscal sustainability in euro area peripheral countries. Rebalancing across the euro area requires reforms to be undertaken in *both* core and non-core countries. Product market reforms – in particular encouraging competition in non-tradable sectors – are also needed in euro area core countries, where appetite for reform has stalled over recent years.

Table 1.4 summarises policy recommendations in the area of product markets for OECD and BRIICS countries. For the majority of countries, recommendations are made to reduce economy-wide regulatory burdens, *e.g.* by lifting barriers to firm entry and exit, improving the transparency of regulation and strengthening competition frameworks. Reducing the scope of public ownership is specifically advocated for some countries where state intervention is particularly widespread, with evidence that this hurts efficiency. Not only economy-wide but also sector-specific administrative burdens are still a problem in many countries, and most countries are advised to further reduce sector-specific barriers to competition, *e.g.* in network industries, retail trade and professional services. Evidence suggests that aside from the boost to productivity, reducing barriers to entry in the latter sectors can generate fairly rapid employment gains (OECD, 2012a). Finally, in a more limited number of OECD and BRIICS countries, barriers to foreign investment and international trade remain stringent and may hamper catch-up and productivity growth. Recommendations in this area cover both specific sectors where restrictions are a particular concern or more broadly the transparency of screening procedures.

Human capital

Reforms that facilitate the accumulation of human capital are among the most important for enhancing long-run living standards (see, *e.g.* Cohen and Soto, 2007; Bouis *et al.*, 2011). However, the productivity benefits from education reforms typically take time to materialise while potential labour utilisation benefits may be felt sooner, *e.g.* for Vocational Education and Training (VET) that effectively enhance employment prospects among youth and the low skilled. Education has been an area of fairly active reform over the past few years, but changes have often been incremental, reflecting perhaps the high cost and uncertainty of comprehensive reforms. And, the costs of some education reforms can be a major concern at a time of fiscal consolidation. However, cost efficiencies can be achieved within many countries' education systems while maintaining, or even raising, output levels as discussed in the 2011 edition of *Going for Growth* (OECD, 2011a). Policy priorities include both reforms aimed at improving the performance of the education system and those that seek to reduce inequality of educational opportunities, as the latter may also contribute to lower labour productivity and utilisation (Causa and Johansson, 2009).

Policy priorities in education are identified for a vast majority of OECD countries, as well as all of the BRIICS countries except Russia. However, the recommendations vary across countries according to the more specific nature of the weaknesses. They can be grouped into several areas as summarised in Table 1.5.[31] There is a strong focus on primary and secondary education for the BRIICS but also for a number of OECD countries who still need improvement at compulsory levels of education, with a common emphasis on recommendations aiming at raising teacher quality and a higher prevalence of priorities to ensure adequate school resources and infrastructure in lower-income countries. Addressing educational inequalities is also a frequent priority in both BRIICS and OECD countries, with a focus on enhancing the targeting and effectiveness of resources devoted

Table 1.4. **Product market reform recommendations in OECD and BRIICS countries**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	European Union	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Reduce economy-wide regulatory burdens																					
Reduce cost and legal barriers to entry													✔	✔			✔	✔	✔	✔	
Ease business exit														✔							
Improve the transparency of regulation															✔						
Streamline permit and licensing systems												✔			✔		✔				
Strengthen the competition framework					✔		✔									✔	✔				
Reduce the scope of public ownership/state intervention															✔			✔	✔		
Reduce sector-specific regulatory burdens																					
Energy and other network sectors		✔	✔	✔					✔		✔		✔	✔	✔	✔	✔		✔	✔	
Retail trade and professional services		✔		✔			✔		✔	✔	✔	✔	✔	✔		✔			✔	✔	✔
Reduce barriers to FDI and international trade	✔			✔											✔				✔	✔	

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	India	Indonesia	Russian Federation	South Africa
Reduce economy-wide regulatory burdens	✔																			
Reduce cost and legal barriers to entry				✔	✔	✔	✔													✔
Ease business exit																				
Improve the transparency of regulation			✔														✔			✔
Streamline permit and licensing systems				✔		✔												✔		
Strengthen the competition framework								✔												✔
Reduce the scope of public ownership/state intervention	✔				✔			✔								✔			✔	
Reduce sector-specific regulatory burdens																				
Energy and other network sectors	✔		✔	✔	✔	✔	✔	✔	✔			✔			✔	✔	✔			✔
Retail trade and professional services				✔	✔	✔	✔		✔											
Reduce barriers to FDI and international trade	✔		✔														✔	✔	✔	

Table 1.5. **Human capital reform recommendations in OECD and BRIICS countries**

	Australia	Austria	Belgium	Canada	Chile	Czech Republic	Denmark	Estonia	France	Germany	Greece	Hungary	Iceland	Ireland	Israel	Italy	Japan	Korea	Luxembourg
Primary and secondary education																			
Ensure adequate school resources and infrastructure																			
Improve teaching quality					✔				✔		✔	✔	✔						
Improve school accountability and autonomy						✔					✔		✔			✔			
Improve curricula and evaluation					✔		✔				✔		✔		✔				
Postpone early tracking						✔				✔		✔							
Limit grade repetition									✔										
Improve incentives to secondary education completion							✔					✔							
Reduce inequality in educational opportunities					✔	✔			✔										
Tertiary education																			
Increase university autonomy									✔										
Introduce an evaluation system for universities											✔								
Introduce/raise tuition fees with income-contingent repayment loan		✔				✔		✔	✔	✔					✔	✔			
Improve incentives to earlier completion/encourage early admission							✔												
Expand access/enrolment/reduce inequalities in access		✔		✔	✔			✔		✔									
Expand/enhance the effectiveness of vocational education and training								✔	✔			✔				✔			

	Mexico	Netherlands	New Zealand	Norway	Poland	Portugal	Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Brazil	China	India	Indonesia	Russian Federation
Primary and secondary education																			
Ensure adequate school resources and infrastructure	✔											✔					✔		
Improve teaching quality	✔		✔	✔										✔			✔	✔	
Improve school accountability and autonomy			✔	✔								✔					✔		
Improve curricula and evaluation						✔								✔	✔				
Postpone early tracking							✔												
Limit grade repetition									✔										
Improve incentives to secondary education completion													✔						
Reduce inequality in educational opportunities			✔			✔	✔					✔	✔	✔		✔		✔	
Tertiary education																			
Increase university autonomy					✔												✔		
Introduce an evaluation system for universities																			
Introduce/raise tuition fees with income-contingent payback					✔		✔	✔	✔		✔								
Improve incentives to earlier completion/encourage early admission										✔									
Expand access/enrolment/reduce inequalities in access																✔			
Expand/enhance the effectiveness of vocational education and training			✔			✔	✔		✔	✔	✔	✔	✔		✔				

to disadvantaged students and schools. Recommendations in the area of tertiary education are more prevalent for OECD countries, with a majority of priorities aimed at increasing autonomy and enhancing funding, *e.g.* by introducing or raising tuition charges and, in order to alleviate their adverse effects on enrolment, combining these with income-contingent payback.[32]

The pay-off from policy reforms in the area of VET can be particularly important at the current juncture. A number of countries are being advised to expand or enhance the effectiveness of VET so as to address the skill mismatch and to provide a better bridge between education and the labour market. Not only can well-designed VET systems improve the overall quality and equity of secondary and tertiary education systems, but they can be particularly useful at raising employability among youth and the low skilled, an attractive property at a time when several countries face substantial levels of youth unemployment and a need to encourage requalification and redeployment. An example of good practice can be found in Germany, where the dual system is especially well developed, integrating work-based and school-based learning to prepare apprentices for a successful transition to full-time employment. One major strength is the high degree of commitment and ownership on the part of employers and other social partners (see *OECD Policy Reviews* of VET, OECD, 2010b and OECD, 2012e). Germany has maintained strong financial support for VET and apprenticeship even during fiscal consolidation, and youth unemployment has remained very low by international standards (see Quintini and Manfredi, 2009).

General taxation

Tax reforms have gained a prominent role on countries' policy agenda (see above). This reflects in part the pressing need to restore fiscal sustainability in many OECD countries, which calls for designing growth-friendly fiscal consolidation strategies – or for implementing revenue-neutral tax reforms where there is fiscal space. There is mounting evidence of the impact of the tax structure on economic growth, through effects not only on labour utilisation (discussed above) but also private investment and productivity (see, *e.g.* Arnold *et al.*, 2011; Bouis *et al.*, 2012). Hence policy recommendations to improve the tax structure often include reductions in labour (see above), or corporate (Australia, Canada, Japan and the United States) income taxation. Policies to combat tax evasion as well as to broaden the tax base are advocated in several countries (Australia, Austria, Canada, Denmark, Germany, Greece, Finland, France, Italy, Japan, the Netherlands, Switzerland, Turkey and the United States) as a way to reduce distortions while enhancing revenues. Reforms in this area would also have beneficial equity effects, as discussed in Chapter 2.

A more growth-friendly tax system can be achieved by shifting the tax burden away from direct income toward consumption, immovable property and the environment, as recommended to most countries featuring a priority in the tax area[33] (Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Japan, Korea, Netherlands, Poland, Sweden, Switzerland and the United States).[34] The scope for such reforms may be limited in some cases, as they may increase inequality, implying the need to cautiously address associated policy trade-offs (see Chapter 2). Some countries are also recommended to reduce distortions or fragmentation in their taxation systems (*e.g.* Norway and the United States) by aligning the taxation of different asset classes and in particular by reducing the implicit tax subsidy for owner-occupied housing, or by introducing an integrated nationwide value-added tax (VAT) system for domestic goods while reducing the labour tax wedge (Brazil).

Public sector reform

Reforms to improve the efficiency of government expenditure are expected to boost productivity performance in the long term. But they are also particularly attractive at a time of fiscal consolidation, which probably explains why they have been gaining momentum over the recent period (see above). Recommendations include rationalisation of local government (Hungary), improved monitoring mechanisms of public sector performance (Hungary, United Kingdom), for instance by introducing performance assessment (Greece and Iceland) and benchmarking (Finland), the development of e-services (Czech Republic) and increased transparency and competition in public procurement (Belgium, Czech Republic, Denmark and the European Union).

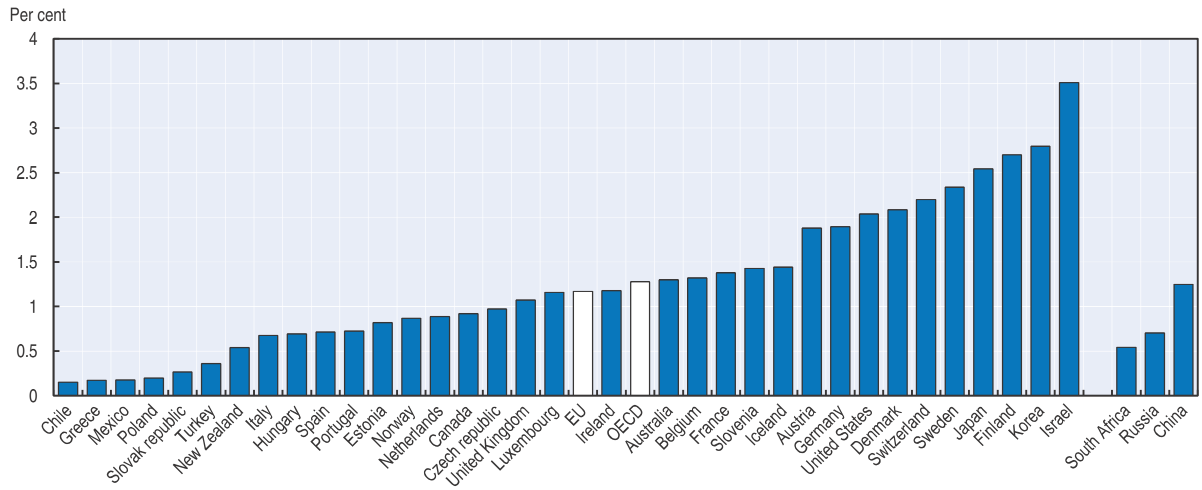
A number of public sector recommendations focus on the healthcare sector, given the considerable scope to increase cost-efficiency in a number of countries (OECD, 2011a). Reforms in this area cover the reinforcement of competition among healthcare providers (United Kingdom), the promotion of incentives to reduce administration and procurement costs (New Zealand) and moving from mixed to insurer-based hospital funding (Switzerland). The United States is being recommended to ensure that that the provisions of the Affordable Care Act aimed at increasing health insurance coverage and achieving cost savings are effectively implemented and their impact monitored. Major healthcare sector reforms are needed in Russia to improve its very weak outcomes, especially among the poor; beyond focusing on prevention efforts to change lifestyles, policy recommendations include increased funding and associated higher wages for medical professionals, but also the introduction of cost-sharing mechanisms and a shift from hospital to primary care.

Innovation

Innovation-related reforms boost productivity both by advancing the technology frontier (mainly in advanced OECD economies) and by speeding up the adoption of existing technology (in less advanced OECD and non-member countries). Alongside appropriate framework policies, *e.g.* in the area of education, infrastructure and product market regulations,[35] reforms of specific innovation policies – including public support measures – could help raise business expenditure on R&D in countries where it is relatively low (Figure 1.14). Specific recommendations are made to increase R&D tax incentives (New Zealand and Russia) or to reform their design *e.g.* by assessing them on changes instead of levels of activity (Ireland); to improve targeting of government support with a view to encourage firm growth through economies of scale (Canada), to foster export performance and energy savings (Estonia); to regularly assess the effectiveness of publicly funded projects (Czech Republic and New Zealand) and to take a balanced approach to supporting high- and low-technology sectors (Russia); to make greater use of competitive funding for research (Czech Republic and Russia) and improve access to venture capital (Slovak Republic). Successful innovation requires a strong human capital base, not least in science and engineering. Hence, priorities in this area often include strengthening collaboration between research institutes/universities and industry (Australia, Czech Republic, Ireland, New Zealand, Russia and the Slovak Republic).

Figure 1.14. **Business expenditure on R&D is uneven across countries**

Business enterprise expenditure on R&D as a percentage of GDP[1]



1. 2010 or last available year. 2007 for Greece and Mexico; 2008 for Chile, Iceland, South Africa and Switzerland; 2009 for Australia, New Zealand and the United States; 2011 for Canada, Germany and Italy.

Source: OECD, *Main Science and Technology Indicators Database*.

StatLink http://dx.doi.org/10.1787/888932775668

Agriculture and energy subsidies

Very little progress has occurred towards reducing agricultural subsidies, which explains why priorities in this area are renewed for Japan, Iceland, Korea, Norway, Switzerland, Turkey and the United States, who all need to further reduce the level of producer support and to de-link it from production (especially Japan and Korea) to mitigate its adverse effects on the efficiency of resource allocation. Similar recommendations are made for the European Union, in association with a reduction in barriers to market access for non-EU countries and of biofuel subsidies. Similarly to agricultural support, energy subsidies are sometimes used as social policy devices, but they distort markets and waste resources that could be more effectively targeted directly at the poor – such as through cash transfers – or at growth-promoting spending.[36] Reducing such subsidies substantially is a priority for Indonesia.

Other policies

- *Public infrastructure*: Enhancing the capacity of infrastructure – primarily transport systems – is a priority in some member countries, and this requires sparing infrastructure investment from expenditure cuts in the United Kingdom, expanding user and congestion charges in Australia and New Zealand and enhancing transport and communication infrastructure in Poland. Infrastructure provision levels are still low in many non-member countries, and an increase in investment is recommended in Brazil, India and Indonesia. While raising public investment is important, a reform of the regulatory environment for infrastructure would help to attract private investment and optimise use, *e.g.* by streamlining land acquisition processes (India), ensuring regulatory bodies' independence and accountability (Indonesia) and promoting more private-sector participation in infrastructure through more public-private partnerships and concessions (Brazil).

- *Financial services*: As discussed in the introduction, financial market reform has generally not featured prominently among country-specific priorities, owing to the particular need for strong international co-ordination in this area. There are nonetheless specific idiosyncratic cases where financial reform priorities feature in *Going for Growth*. The European Union has achieved considerable progress in the area of financial services, not least with the increasing integration of supervision as proposed by the Council of EU finance ministers. Still, further reforms to make the system more stable and integrated are needed, *e.g.* ensuring robust regulatory requirements, and continuing progress towards adopting a consistent set of rules, common supervisory practices covering all banks, and an EU-wide deposit insurance scheme while establishing bank resolution mechanisms based on common financing. Reflecting the lessons learnt from the housing crisis, a new priority in this area is identified for Ireland, where improved insolvency laws are recommended to help clean up bad loans faster and strengthen the banking system's capacity to provide credit to support future growth. More generally, basic financial-sector liberalisation is needed to sustain high growth in most non-member economies, including Brazil, China and India, where bank credit is not fully allocated by the market. However, in order to deliver their full benefits, such liberalisations should be gradual and accompanied by strong prudential regulation.
- *Reforms of governance systems and legal infrastructure:* Reform priorities in these areas are being made for some OECD countries, *e.g.* for Mexico to strengthen the "rule of law" by improving the accountability and professionalism of the judicial sector and for Israel to enhance corporate governance in large and complex groups, for instance by strengthening the rights of minority shareholders. Such types of recommendations are common to many non-member countries, including China where a strengthening of contract enforcement and some improvement in the effectiveness of courts is advocated to improve the predictability of the business environment. Institutional reforms that would help to fight corruption are recommended for Indonesia and Russia with the latter country being advised to simplify administrative regulations, reduce in the extent of bureaucratic discretion and reinforce judicial independence.

Notes

1. Structural reform commitments under the G20 Framework for Strong, Sustainable and Balanced Growth cover – with some cross-country variations – many of the same policies as the 2011 reform priorities (OECD, 2012b).
2. Specifically, the correlation coefficient between the 2011-12 responsiveness rate and trough-to-peak variation in yields on 10 year government bonds (computed based on quarterly averages constructed from daily data over the period 1Q2011-2Q2012), is equal to 0.6 and significant at the 1% level. Bond yield data are available for 21 countries only.
3. See Box 1.1 for methodological details on these indicators and country notes for details on actions taken in these countries.
4. The average responsiveness rate over 2011-12 is 0.25 for these countries as opposed to 0.48 for the whole euro area and 0.59 for the European countries under financial markets pressure (Greece, Estonia, Iceland, Ireland, Italy, Portugal, Slovenia and Spain).
5. These findings are broadly in line with recent analysis by the European Commission (EC). See Chapter 1, Part II in EC (2012).
6. See Chapter 4 of OECD (2012a) based on Bouis *et al.* (2012).

7. This is especially true for labour utilisation-enhancing priorities since the majority of recommendations identified for BRIICS countries are aimed at reducing their large labour productivity gap (see Table 1.1).
8. Despite being budget-neutral in the short term, product market reforms can improve debt sustainability over the long term *via* their positive impact on productivity and potential output.
9. All BRIICS countries except Russia have a policy priority in the area of human capital.
10. Labour productivity differences can be further decomposed into contributions from physical capital per worker, human capital per worker and total factor productivity (TFP), the residual measure of efficiency. There is large consensus in the literature that the bulk of labour productivity differences is explained by TFP and also that differences in income and TFP across countries are large and highly correlated. See Hsieh and Klenow (2010) and Jones and Romer (2010).
11. The relatively high level of measured productivity in these countries is, to some extent, a direct consequence of the relatively low share of lower-skilled workers in the labour force. In this regard, improvements in labour utilisation may not lead to one-for-one gains in overall income levels (see *e.g.* Boulhol, 2009).
12. South Africa is an exception though, combining relatively high informality with relatively low employment.
13. This assessment is based on indirect evidence such as the share of self-employment in total employment taken an as a proxy for informality because timely International Labour Organisation (ILO) informality statistics are not available for OECD countries apart from Mexico and Turkey.
14. Informality is often concentred in low-skill jobs and also prevents an efficient allocation of workers across firms and industries. For recent evidence on the detrimental effect of informality on productivity growth, see de Vries *et al.* (2012).
15. Roughly comparable reform priorities emerge from a concomitant survey carried over the same period by the Business and Industry Advisory Committee to the OECD (BIAC) in its Member and Observer organisations – *i.e.* the major national business and employer organisations in OECD countries and certain emerging economies. The survey included the assessment of businesses' perceptions of structural policy priorities in their country. There is a large degree of correspondence between BIAC's reported priorities and the *Going for Growth* 2013 priorities. However, there is a higher prevalence of labour utilisation-enhancing priorities in *Going for Growth* than in business and employers' organisations perceived priorities, with the latter being largely oriented towards boosting productivity through *e.g.* product market reforms.
16. For example, in the case of Italy, the recommendation to *reduce public ownership* (a separate priority in last edition) is now introduced as a part of a more general priority covering a somewhat broader set of recommendations to *reduce regulatory barriers to competition*. This has provided the scope for a new priority on *enhancing active labour market policies*.
17. However recent estimates for the euro area suggest that most countries experienced an increase in the structural unemployment rate, possibly reflecting labour market mismatch (ECB, 2012).
18. Introducing state-contingent policies such as automatic linkages between pensions and life expectancy may also improve policy predictability.
19. 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.
20. As with any form of public wage subsidy, STW schemes also entail some risks *e.g.* of deadweight losses and displacement effects (see OECD, 2012a).
21. See Venn (2012) for an in-depth review of eligibility criteria across OECD countries.
22. See *e.g.* Barthélémy *et al.* (2006); Lepage-Saucier *et al.* (2012); Lemoine and Wasmer (2010); Cahuc and Kramarz (2005); Boeri and Garibaldi (2008).
23. However one of the potential shortfalls of the Austrian model is that the savings account is transferred to an investment fund and consequently severance pay partly depends on the capital market performance of the fund. Recent empirical evidence suggests that this can distort the labour market behaviour of workers (see *e.g.* Hofer *et al.*, 2011).
24. This can also be a problem in countries with informality problems, although minimum wages can also help attract workers to the formal sector.

25. Depending on country-specific circumstances, reforms in the housing area are considered to improve either of these two dimensions of overall economic performance. Because on balance most of the housing recommendations refer to the labour utilisation channel, they are presented in the current section.

26. OECD estimates (OECD, 2009) suggested that two-thirds of the OECD-wide decrease in potential output came from a permanently higher cost of capital with the remainder coming from lower potential employment. See also a recent McKinsey Global Institute report, where it is argued that behind Europe's growth stagnation is an unprecedented weakness in private investment which should be unlocked by removing regulatory barriers *e.g.* in energy and network industries (McKinsey Global Institute, 2012).

27. See recent reports *e.g.* on G20 trade and investment measures (OECD, WTO OMC and UNCTAD, 2012) and Global Trade Alert (GTA) on protectionism (GTA, 2012).

28. See *e.g.* Barone and Cingano (2011); Bourlès *et al.* (2010); Conway *et al.* (2006); Bas and Causa (2012).

29. While it may be argued that the negative effect of any particular regulatory burden is smaller than in more advanced economies, because the adverse impact on innovation incentives is less critical farther from the technological frontier (Aghion and Howitt, 2009; Bourles *et al.*, 2010), the magnitude and scope of existing regulatory burdens are particularly large in these countries, implying that they can be highly damaging for productivity. Bas and Causa (2012) provide recent evidence of the substantive gains from product market reforms in China.

30. See Bassanini and Duval (2009) for evidence on complementarities between labour and product market reforms.

31. Early education recommendations are discussed in the section on policy barriers to female participation though reforms in this area may also bring growth benefits *via* other channels *e.g.* productivity, for instance by boosting the benefits of later education (Causa and Johansson, 2009; OECD, 2011e).

32. The differential focus between primary and secondary versus tertiary education priorities is consistent with empirical findings showing that the pay-off from the latter is higher in advanced countries producing new (frontier) technology while the former is more productivity enhancing for catching-up countries, which generally import existing (frontier) technology (Aghion and Howitt, 2009; Vandenbussche *et al.*, 2006)

33. Depending on countries' situation, it is not necessarily being recommended to increase the three taxes at the same time, see country notes (Chapter 3).

34. The ongoing debate on how to minimize the negative short-run effects of fiscal consolidation has also focused on "growth-friendly" tax reforms aimed at raising revenue in the least distortionary way. Recent empirical analysis by de Mooij and Keen (2012) point to a potential positive effects (in particular for euro area countries) of so-called "fiscal devaluation" – *i.e.* e reduction in employers" social security contributions financed by increased VAT – on net exports. However, this favourable trade effect is found to disappear in the long run as wages adjust to lower social security contributions.

35. The OECD's Innovation Strategy has highlighted the importance of a broad range of education, regulatory, infrastructure and other policies that can help strengthen innovation systems, potentially durably enhancing productivity growth (OECD, 2010c). See also *Going for Growth 2006*, containing a special policy focus on innovation (OECD, 2006).

36. Energy subsidies may also lead to higher green house gas (GHG) emissions by encouraging overconsumption of fossil fuels.

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ANNEX 1.A1

How policy priorities are chosen for Going for Growth

The *Going for Growth* structural surveillance exercise seeks to identify five policy priorities for each OECD member country, the BRIICS (Brazil, China, India, Indonesia, Russia and South Africa) and the European Union. Three of these policy priorities are identified based on internationally comparable OECD indicators of policy settings and performance. The additional two priorities are often supported by indicator-based evidence, but draw principally on country-specific expertise. They are meant to capture any potential policy imperatives in fields not covered by indicators.

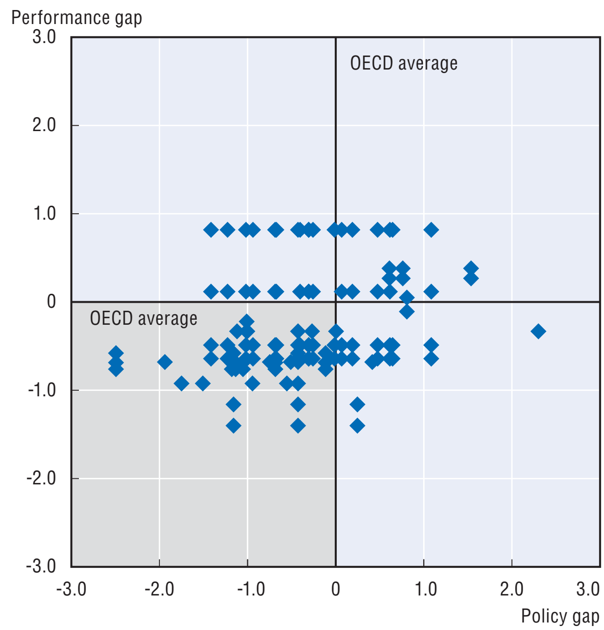
For the selection of the three indicator-based policy priorities, the starting point is a detailed examination of labour utilisation and productivity performance along with some of their underlying components (*e.g.* for the former, labour market outcomes of specific groups such as youth, women and older workers and, for the latter, multifactor productivity growth or investment in information and communications technology) so as to uncover specific areas of relative strength and weakness for individual countries. Each performance indicator is juxtaposed with corresponding policy indicators, where empirical research has shown a robust link to performance, to determine where performance and policy weaknesses appear to be linked.

For instance, based on empirical evidence provided in *e.g.* Bourlès *et al.* (2010) and Arnold *et al.* (2008), multifactor productivity growth (performance indicator) is matched with specific areas of product market regulation such as administrative burdens on start-ups or barriers to entry in retail or professional services (policy indicators). In the case of labour utilisation, aggregate employment (performance indicator) is paired for example with the level of the labour tax wedge (policy indicator) while female employment (performance indicator) is matched with childcare related costs embedded in tax and benefits systems (policy indicator). Empirical support for such relationships is reported in *e.g.* Bassanini and Duval (2006) and Jaumotte (2004).

This evaluation process is carried out for each of the approximately 50 areas where OECD policy indicators provide coverage. Since many of the policy indicators are associated with more than one performance area, there are more than 100 potential pairings examined, against a benchmark of the OECD average in given policy and performance areas.

As an example, Figure 1.A1.1 below shows, for a sample country, a scatter plot of pairings of policy indicators (on the horizontal axis) with corresponding performance indicators (on the vertical axis). The indicators are standardised by re-scaling them so that each has a mean of zero and a cross-country standard deviation of one, with positive numbers representing positions more growth-friendly than the OECD average. The scatter plot is thus divided into four quadrants, depending on whether a country's policy-performance pairing is below or above the average policy or performance score.

Figure 1.A1.1. **Selection of candidates for *Going for Growth* priorities**



Candidates for recommendations thus fall into the lower left quadrant (shaded area), where policy indicators and corresponding performance are *both* below the OECD average. In most countries there are more than three unique policy areas that qualify as potential priorities (for instance, Australia had 14 candidate priorities in 2013). Given the overall limit of five in the number of priorities per country, a selection is required. The policy priorities list is narrowed based on: *i)* country expertise; *ii)* the normalised distance of the policy stance from the benchmark (the OECD average), and *iii)* recent trends in policy and performance. Hence the priority selection process is mainly done with a focus on maximizing long-run level of GDP per capita, but consideration is also given to the current macroeconomic situation – in particular budgetary constraints – which could for example imply that certain 'costly' policy priorities may need to be phased in or postponed against a more urgent need to restore healthy public finances.

The linking of specific policy and performance areas is well grounded from a theoretical and empirical perspective in a vast body of academic literature. Also, the main empirical relationships have been the object of OECD studies, some of which are listed below in the Bibliography. At the same time, strengthening and developing the empirical analysis and underpinnings is an ongoing process. Some new empirical evidence on the policy drivers of labour market performance is provided for instance in de Serres *et al.* (2012) and Bouis *et al.* (2012). Moreover, subject on data availability, research efforts are also being undertaken in providing empirical evidence including or focusing on the BRIICS (*e.g.* Bouis *et al.*, 2011; Bas and Causa, 2012).

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Chapter 2

The effects of growth-enhancing structural reforms on other policy objectives

This chapter examines the potential side effects of the growth-enhancing policy recommendations reviewed in Chapter 1 on two other aspects of well-being, namely income distribution and the environment, as well as on government budget balances and current accounts. In doing so, the chapter describes the main channels of influence and identify possible policy trade-offs and complementarities.

Key policy messages

Income inequality

- Some reforms are good for both growth and equity. Policies that foster equity in access to education are a case in point as are certain policies that entail higher progressivity in taxation, such as reductions in tax wedges for low-wage earners or cutbacks in tax expenditures that benefit mainly high-income groups.
- Other growth-enhancing structural reforms may lead to trade-offs with respect to income inequality. For instance, shifting the tax mix away from direct taxes towards consumption, environmental and real estate taxation would improve work and investment incentives, but could clash with equity objectives. This said, in most cases, the tax shift could be designed to alleviate regressivity.
- Labour market reforms designed to improve employment opportunities of low-skilled workers and young people, through reforms of employment protection, wage bargaining or the minimum wage may exacerbate income inequality in the short run through a wider wage distribution. However, this effect may be partly or even fully offset in the longer run as the job prospects improve for such workers, in particular those weakly attached to the labour market.
- In several cases, the full impact of policy recommendations on income inequality is difficult to assess with a great deal of confidence. This is because the net impact of many structural reforms results from multiple offsetting effects, but also because recommended reforms often do not cause substantial shifts in countries' income distribution.

The environment

- Growth-enhancing reforms generally involve a higher use of environmental resources. However, those that raise the production costs of environmentally-harmful activities (such as the removal of some subsidies) will help to ensure that future gross domestic product (GDP) growth is on a sustainable path.
- Priorities aiming at strengthening competition and increasing the flexibility of resource allocation increase the responsiveness to market-based environmental policy instruments, and hence are complementary to the latter by making green growth policies more cost effective.

Government budget and external accounts

- Growth-enhancing reforms improve the public-sector budget balance, but their effect will likely differ in the medium run depending on whether they boost growth primarily through employment or productivity. In both cases reforms generate higher revenues, but only in the case of employment are they likely to significantly improve the budget balance.

- Growth-enhancing policies will weaken the current account to the extent they contribute to reduce saving or raise investment. This is the case of policies that reduce barriers to investment (including foreign direct investments [FDI]), or that reduce private incentives to save, such as extending the coverage and level of social protection.
- Conversely, policies that are likely to strengthen the current account include reforms that raise competitiveness through tax changes or stronger exposure to domestic competition, and reforms of benefit entitlements that ensure the sustainability of welfare systems.

Introduction

The previous chapter has provided an overview of the structural reform priorities to achieve higher levels and growth in GDP per capita (see also individual country notes in Chapter 3). The purpose of this chapter is to examine the potential side effects of these recommendations on other objectives of public policy such as reducing income inequality, achieving environmental sustainability and unwinding macro-economic imbalances, with a view to identifying possible trade-offs and complementarities.

The focus of *Going for Growth* is on maximising material living standards, more specifically the flow of goods and services produced in the economy. Despite its shortcomings, GDP per capita has so far been an indicator of choice, thanks to its wide availability and comparability both across countries and over time. However, beyond material living standards, citizens are concerned also with other dimensions of well-being, such as income distribution, environmental quality, leisure, health, self-sufficiency, social inclusion and stability. Indeed, several broader measures of well-being are being developed in the context of the OECD *Better Life Initiative* on welfare and progress.[1] Many of these aspects can go hand in hand with GDP growth, but sometimes this is not the case. For instance, previous work has shown that the inclusion of proxies for income distribution in a broader measure of well-being can give a picture of cross-country economic performance that is quite different from that based on GDP per capita alone.[2]

At the same time, the recent crisis exposed the contributing role of large macroeconomic imbalances – both within and between countries – to the severity of the recession and the weakness of the recovery. External (current account) and internal (fiscal position) imbalances partly reflect side effects of structural policies that have consequences on the budget, competitiveness and saving and investment decisions.

In looking at the side effects of growth-enhancing policy recommendations on macro-economic imbalances and well-being, this chapter draws to the extent possible on recent empirical work.[3] The analysis thus focuses on two aspects of well-being that have been more thoroughly examined, namely income inequality and the environment. Given that the focus is on the effect of growth-oriented reforms on other objectives, the analysis leaves aside the potential links between the different non-GDP dimensions, such as the impact of policies aimed at reducing fiscal deficits on income inequality or the effect of pursuing environmentally-friendly policies on income growth and inequality. The main goal of the chapter is to provide a qualitative assessment of the effects of selected structural policies, assuming a typical policy design, leaving aside the impact of specific recommendations on individual countries and the overall effect of the policy mix. Providing a quantitative evaluation of the side effects is thus beyond the scope of this exercise as this would entail elaborate assumptions about the specific policy design and the intensity with which the proposed reforms are pursued in individual countries. Ultimately, the aim would be to consider both growth and other objectives simultaneously when designing public policies. Looking at the side effects of growth oriented reforms can be seen as a first step in this direction.

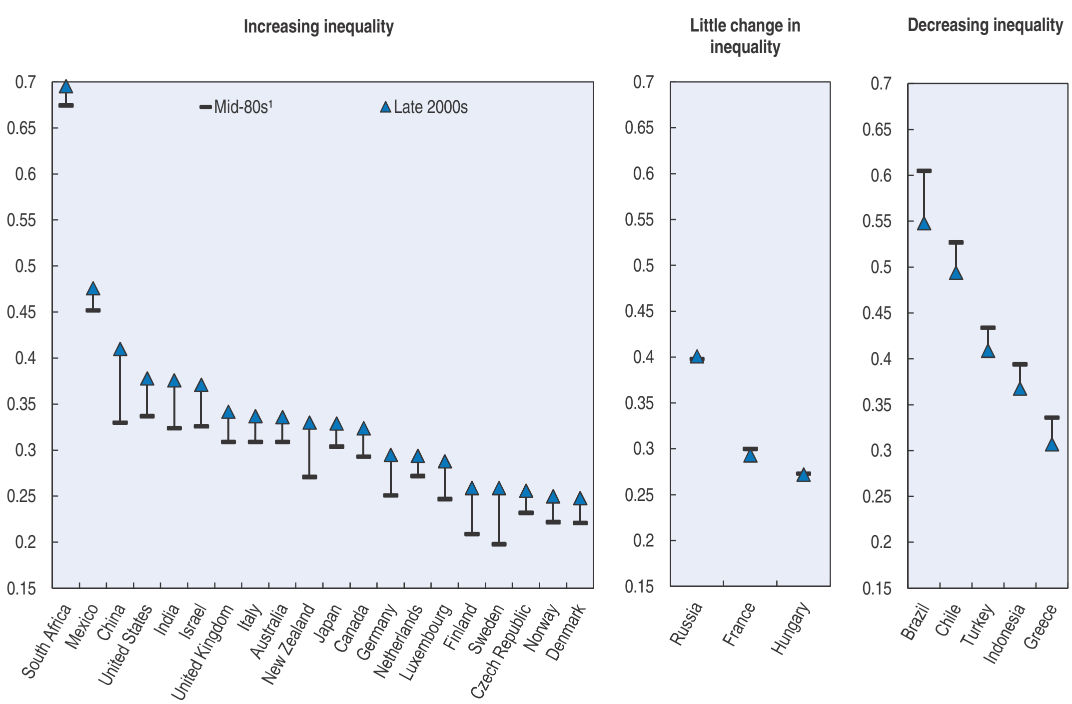
The chapter is organised as follows. The next section looks at the side effects of growth-enhancing measures on income distribution and the environment. The subsequent section looks at the potential impact of priorities and recommendations on macro-economic imbalances, more specifically budget deficits and current account positions. The assessment only covers those structural policies where a clear assessment of trade-offs and complementarities can be drawn, recognising that theoretical and empirical knowledge is still limited in some potentially important areas of reform. Each section provides a summary of the extent to which the 2013 policy recommendations help with respect to the additional policy objective and where they create tensions.

The effects of growth-enhancing policies on other dimensions of well-being

Income inequality

In a majority of OECD countries income inequality has increased over the past decades (Figure 2.1 and OECD, 2011a). In addition, poverty is still an important policy issue in many countries (OECD, 2008a), not least due to the adverse effects of the economic crisis and its aftermath. However, as both individuals and societies as a whole differ in their preferences

Figure 2.1. **Income inequality has increased in most OECD countries**[1]



1. Income inequality is measured by the Gini coefficient based on equivalised household disposable income, after taxes and transfers for total population. Data refer to 1994/95 for Australia, to 1996 for Chile, to 1992 for Czech Republic, to 1991 for Hungary and to early 1990s for the BRIICS. For BRIICS countries, income inequality is measured by the Gini coefficient based on per capita income, except for India and Indonesia for which the Gini coefficient is based on per capita consumption. Hence the data are not strictly comparable.

Source: *OECD Income Distribution Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing; World Bank, *World Development Indicators (WDI) Database.*

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concerning various definitions of equity, any discussion on equity-related economic developments necessarily involves value judgments. This sub-section investigates the potential impact of growth-enhancing structural reforms on one aspect of equity, namely income distribution.

In doing so, the analysis distinguishes between two key channels through which policies can affect income dispersion across individuals and households: *i)* the wage distribution of those having a job and, *ii)* the employment rate of the working-age population. A number of policy recommendations to boost growth have opposing income distribution effects *via* these channels, *i.e.* they reduce income inequality by boosting employment, especially among workers with low earnings potential, but they also widen the wage distribution of those in employment (see below). While it is often difficult to determine which of these effects dominates in the long run, there is a presumption that the wage distribution effect generally materialises more rapidly and therefore that such reforms are more likely to exacerbate income inequality in the short run, while the employment effect offsets at least part of the initial increase in inequality in the longer term. Accordingly, the analysis also attempts to distinguish between the short- and long-run impacts of structural reform priorities on income inequality, taking into account that the full effects of most structural reforms take time to materialise. Aside from the presence of multiple offsetting effects, other factors explain why precise effects on income inequality are in many cases difficult to gauge with great confidence:

- Different definitions of income as well as quantitative indicators can be used to measure the stance of income distribution (see Box 2.1). This section focuses on household labour income and household disposable income and relies mostly on the Gini index as an indicator of inequality, largely because of their use in the main empirical studies that this analysis draws on. Some of the findings about the effect of reforms might differ if income was defined so as to include in-kind transfers, such as education and health care benefits, but firm evidence is limited by the difficulties in measuring the redistributive impact of such transfers.[4]
- Most of the underlying evidence is based on empirical analysis looking at the impact of general structural policy changes on income inequality, using data spanning over the last two or three decades. While these policy changes do, by and large, reflect the spirit of *Going for Growth* policy priorities, they may not fully capture more specific aspects of the associated recommendations, or the combined effects of separate recommendations, which could lead to a somewhat different impact.

Box 2.1. **Defining and measuring income inequality**

According to the 2009 Stiglitz-Sen-Fitoussi report (Stiglitz *et al.*, 2009) the most appropriate income concept for analysing income distribution is household disposable income adjusted for publicly-provided in-kind services, such as education and health care spending. This measure is the most comprehensive income concept, and includes several policy and non-policy factors shaping inequality. Different concepts of income dispersion can be distinguished depending on which factors and population subgroups are included:

- Dispersion of hourly wages among full-time (or full-time equivalent) workers.
- Wage dispersion among employees (*e.g.* annual wages, including wages from part-time or seasonal work).
- Dispersion of individual earnings among all workers (including the self-employed).

Box 2.1. **Defining and measuring income inequality** *(cont.)*

- Dispersion of individual earnings among the entire working-age population.
- Dispersion of household earnings (including the earnings of all household members).
- Dispersion of household market income (including income from capital, savings and private transfers).
- Dispersion of household disposable income (including public cash transfers received and deducting direct taxes paid).
- Dispersion of adjusted disposable income (including in-kind transfers, such as education and health care spending).

Structural policies are likely to have a different impact on different segments of the population, by and large due to the fact that they often target age- or gender-specific groups in society. This section focuses mainly on income inequality among the working-age population, using household labour income and household disposable income as the main income concepts, as they are the focus of recent OECD work on income inequality (OECD, 2012a; OECD, 2011a). However, some structural reforms, such as measures to liberalise trade and (foreign) investment, are likely to affect the entire population, and not only *via* the income channel, but also *via* the price channel (for instance, by lowering the price of available goods and services) and the increase in product variety.

There are several summary measures which can be used to assess the overall shape of the income distribution, given by the Lorenz curve:*

- *Gini index* (or coefficient): Measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of zero represents perfect equality and an index of one, extreme inequality (where one individual or household would get all income in the economy).
- *Mean log deviation*: Is the average value of the natural logarithm of the ratio of mean income to the income of each decile.
- *Squared coefficient of variation*: Is the variance of average income of each decile, divided by the square of the average income of the entire population.
- *The P90/P10 inter-decile ratio*: Is the ratio of the upper bound value of the ninth decile to that of the first.
- *The P50/P10 inter-decile ratio*: Is the ratio of median income to the upper bound value of the first decile.

The Gini index is the most popular measure due to its wide availability and comparability across country and overtime. Because different summary indices are especially sensitive to different parts of the Lorenz curve, country rankings may partly depend on the specific inequality measure used. However, at least for OECD countries, these measures tell a consistent story as evidenced by very high cross-country correlations between each of these alternative inequality measures and the Gini index (OECD, 2008a).

* The Lorenz curve plots the cumulative percentages of total income received against the cumulative percentages of recipients, starting with the poorest individual or household.

The remainder of the section discusses the likely effects on income inequality of growth-enhancing structural policies in five key areas: labour-market and income-support policies, human capital, product market regulations, taxation, and subsidies. The main conclusions and channels through which structural reforms are likely to impact on inequality are synthesised in Table 2.1.

Table 2.1. **The effects of *Going for Growth* 2013 policy recommendations on income inequality**

Going for Growth Policy recommendations		Potential channels	Countries with a Going for Growth priority in this area
	A. Reforms that are likely to reduce income inequality		
Labour market and income-support policies	Reduce labour market duality by easing job protection for permanent workers.	Increase in human capital and job opportunities of workers at the margin.	CHL, DEU, ESP, FRA, IDN, IND, ITA, JPN, KOR, LUX, MEX, NLD, PRT, SVN, SWE, TUR
	Increase spending for and improve effectiveness of active labour market policies (ALMP).	Reduced likelihood of long spells out of employment.	BEL, ESP, EST, FIN, FRA, GRC, IRL, ISR, ITA, LUX, PRT, SVK, USA, ZAF
	Foster female labour market participation (by expanding childcare, reforming taxation…).	Increase in female labour force participation and in human capital accumulation.	CHE, CHL, CZE, DEU, GBR, IRL, JPN, KOR, NLD, SVK, TUR
	Increase (the coverage, replacement rate of) unemployment benefits.	Replacement rates are often higher at the bottom of the wage distribution, and the bargaining power of low-income workers is increased. These effects seem to more than offset possible adverse effects via lower employment when replacement rates and/or coverage is very low.	CHL, IDN, ITA, JPN, KOR, TUR
Taxation	Cut tax expenditures.	Tax expenditures that reduce taxable income benefit people according to their marginal tax rate and therefore the high-income groups disproportionately (credits, such as in-work tax credits, particularly fully refundable and capped do not have negative redistributive effects).	CAN, DNK, DEU, FRA, ITA, USA
	Reform tax and benefit systems so as to better target low-income workers and households.	Lower income dispersion and increase in employment.	AUT, BRA, BEL, CZE, EST, DEU, HUN, ISR, TUR
Human capital	Increase quality and provision of early, primary and secondary education.	Increase in human capital and employability. Increase in the share of secondary education. There are offsetting composition and rate-of-return effects, with net impact depending on countries but mostly beneficial for upper-secondary education.	AUS, BRA, CHL, CHN, CZE, DNK, ESP, FRA, GBR, GRC, HUN, IDN, IND, ISL, ISR, ITA, JPN, KOR, MEX, NZL, NOR, POL, PRT, SVK, TUR, ZAF, USA
	Expand/Improve vocational education and training (VET).	Greater human capital accumulation, higher employability of youth and the low skilled.	BRA, CHE, ESP, EST, FRA, GBR, HUN, ITA, NZL, PRT, SVK, SWE, TUR, ZAF
	Promote equity in access to (all levels of) education.	Greater human capital accumulation by disadvantaged students.	BRA, CAN, CHE, CHL, CHN, CZE, DNK, EST, FRA, HUN, IDN, ISL, ISR, NZL, SVK, USA, ZAF
Other policy areas	Reform producer support to agriculture toward more direct support instead of support to production.	Lower-income farmers may benefit relative to their higher-income counterparts.	CHE, EU, ISL, JPN, KOR, NOR, TUR, USA
	B. Reforms that are likely to raise income inequality		
Human capital	Introduce student fees accompanied by income-contingent repayment loans.	More disadvantaged students tend to underestimate the net benefits of tertiary education.	DEU, ESP, ISR, ITA, SVK, SVN
Other policy areas	Reduce housing subsidies.	Housing subsidies target those with lower income.	DNK, NLD
	C. Reforms that have undetermined impact on income inequality		
Product market regulations	Relax product market regulation (by easing entry restrictions in non-manufacturing sectors, reducing barriers to entrepreneurship).	Possibly higher wage dispersion but increase in employment.	AUT, BEL, BRA, CAN, CHN, DNK, ESP, EU, FIN, FRA, DEU, GRC, HUN, IDN, IND, IRL, ISL, ISR, ITA, JPN, KOR, LUX, MEX, NOR, NZL, POL, PRT, RUS, SVK, SVN, TUR, ZAF
	Reduce barriers to trade and FDI.	Impact on wage distribution may depend on the nature and destination of flows.	AUS, CAN, IND, IDN, ISL, JPN, KOR, MEX, NZL, RUS

Table 2.1. **The effects of *Going for Growth* 2013 policy recommendations on income inequality** *(cont.)*

Going for Growth Policy recommendations		Potential channels	Countries with a Going for Growth priority in this area
Labour market policies	Reduce the level or the duration of unemployment benefits.	Increase in employment but higher labour earnings dispersion as lower income workers are more likely to be and remain unemployed and often enjoy higher replacement rates.	BEL, FIN, FRA, LUX, NLD, PRT
	Restrain access to disability benefits and facilitate return to work.	Widen inequality in the short run but possibly increase lifetime income.	AUT, DNK, NLD, NOR, POL, USA
	Reform wage setting/bargaining by decreasing legal extensions of collective wage agreements.	Higher wage dispersion but increase in employment, with the former effect possibly dominating the latter.	BEL, ESP, PRT, ZAF
	Decrease the minimum cost of labour.	Decline in unemployment for certain groups but possible increase in wage dispersion.	FRA, IDN, ISR, TUR, ZAF
	Increase the effective retirement age by increasing the statutory retirement age/indexing it to longevity.	Increase in senior employment which depends crucially on senior citizens' ability to find work and hold on to their jobs. Possible increase in wage dispersion.	BEL, FIN, HUN, LUX, SVN, TUR
Human capital	Improve enrolment and graduation rates in tertiary education.	The increase in the share of tertiary graduates among the working age population can potentially widen income dispersion but this can be more than offset by a decline in the returns to education relative to those of workers with lowers levels of education.	AUT, CAN, CHL, DEU, DNK, ESP, EST, FRA, SWE
Taxation	Reform the tax structure by increasing the share of property or indirect taxes and reducing the share of direct (corporate and labour income) taxes.	In general, shift from progressive taxes towards less progressive or flat taxes on consumption or property, unless progressivity is explicitly introduced through appropriate policy design.	AUS, AUT, BEL, CAN, CHE, CZE, DEU, DNK, EST, FIN, FRA, HUN, JPN, KOR, NLD, POL, SWE, USA

Labour market and income-support policies

Labour market institutions affect labour income inequality through their impact on the distribution of wage rates and on employment. For some reforms, these impacts may be offsetting, with greater inequality of wage rates likely to be felt in the short term while the equity-enhancing employment channel operates in the longer run. In the case of other policies, however, wage and employment effects may reinforce each other:

- *Unemployment benefits*: Recommendations in the area of unemployment benefits go in opposite directions. In a number of countries, recommendations are to introduce unemployment benefits, or bolster the system in place, notably by extending coverage to all workers (Indonesia, Japan, Korea, Italy and Turkey). In such cases the impact on income equality is generally favourable, given that the positive effect on labour force participation and formal-sector employment is reinforced by higher equality of income. In contrast, when benefits are high, reducing income support to the unemployed, a priority for some OECD countries (Table 2.1), is likely to have an adverse impact in income equality. Recent evidence suggests that less generous unemployment insurance replacement rates are associated with both higher wage dispersion and employment rates, which results in a very small change on inequality among the working-age population while the impact on inequality between workers and non-workers is uncertain (OECD, 2011a). The effect on rising inequality will be more pronounced when effective replacement rates are initially high for lower income levels or if lower-income earners are more likely to receive benefits (Koeniger *et al.*, 2007).[5]
- *Minimum wages*: Likewise, when set too high, minimum wages can limit the job market opportunities for young and low-skilled workers. Lowering the statutory minimum wage relative to the median wage, a priority for France, Indonesia, Israel[6] and Turkey, may raise employment levels by enhancing the job opportunities of these marginal groups (Neumark and Wascher, 2007). However, recent OECD analysis (Koske *et al.*, 2012) suggests that a fall in the minimum wage risks widening the dispersion of wages at the bottom of the distribution among those who are already employed, so that the net impact on labour income inequality among the working age population is also ambiguous.
- *Wage bargaining*: The impact of reforming wage-setting agreements on income inequality is ambiguous. For instance, reducing legal extensions of collective wage agreements (as recommended for Belgium, Portugal, Spain and South Africa) can reduce labour costs and therefore stimulate employment, especially among low-paid workers. On the other hand, the reduction in the scope of collective agreements may contribute to widen the wage distribution, raising inequality among those having a job.[7]
- *Pension systems and the effective retirement age*: Raising the statutory retirement age (and indexing it to longevity) is recommended for a number of countries (Belgium, Finland, Hungary, Luxembourg, Slovenia and Turkey). To the extent that such a policy increases senior employment and that pension income is typically lower than labour income individuals receive while in employment, this policy should narrow income distribution.[8] This outcome hinges on older workers being employed – with an increased inflow to early retirement schemes or eventual higher unemployment likely to lower their pension replacement rates, which will in turn increase income dispersion.[9] This consideration suggests that in order to be favourable to both growth and income equality, increases in the statutory retirement age should be accompanied by measures

to close subsidised pathways to early retirement and to prevent barriers against employment of seniors.

- *Employment protection and labour market duality*: Several OECD countries have recommendations aimed at easing the strictness of job protection legislation on regular contracts, with a view to reducing labour market duality (Table 2.1). Duality in labour markets disproportionately affects low-wage earners. Workers on temporary contracts typically earn less than workers with similar characteristics on permanent contracts and this gap is particularly high for low-income earners (Fournier and Koske, 2012). At the same time, there is little evidence to suggest that promoting the use of temporary contracts yields sustainably higher employment levels: when employment protection is much stronger for regular than temporary contracts, workers employed under the latter – such as young people – risk getting trapped in a situation where they move between temporary work and unemployment, without getting fully integrated in the labour market. This can have adverse implications for human capital and career progression (OECD, 2004) and ultimately for both income equality and economic growth. In this case, policy reforms that reduce differences in job protection between regular and temporary workers lower inequality through smaller wage dispersion and possibly also *via* higher employment (Koske *et al.*, 2012).
- *Active Labour Market Policies (ALMP)*: Several countries are recommended to either beef-up or improve the efficiency of resources devoted to activation policies, in part reflecting growing concerns over the scars left by the recent crisis on labour markets and the difficulties faced by the unemployed in resuming work (Table 2.1). Active labour market policy reforms can help to reduce income inequality by raising job seekers' employment chances and their wages once in employment as a result of job-search support, monitoring and skills upgrade *via* training programmes. However, the effectiveness of ALMPs in reducing unemployment appears to vary widely across different types of programmes, suggesting that programme design is crucial (Martin and Grubb, 2001; Kluve and Schmidt, 2002).
- *Female labour market participation*: One recommendation common to several OECD countries is to improve the availability of formal care for children and the elderly (Table 2.1). Women are less likely to be employed than men, and those who are working typically earn less than their male counterparts.[10] Women's shorter working hours partly reflect that they assume more caring obligations for children and elderly relatives than men (OECD, 2011b) which in turn plays an important role in explaining differences in the earnings gap.[11] Hence, policies to increase women's labour market participation can contribute to narrow the earnings gap between men and women. Other recommendations to encourage female labour market participation include reforming the tax and benefit system (Germany, Japan) and making childcare support provisions more dependent on second earners' income rather than family income (Netherlands).

Policies to boost human capital

There is evidence that employment rates rise with the level of education (Figure 2.2, OECD 2010a) and that policies promoting the accumulation of human capital are key to improving long-run living standards.[12] However, the theoretical relationship between education and labour income inequality is far from straightforward. Upgrading the educational composition of the workforce can have two separate effects (Knight and Sabot, 1983): *i*) a composition effect, whereby a rise in the share of highly-educated (high-wage) workers raises earnings inequality up to a certain point, but will then lower it as fewer low-education (low-wage) workers remain; and *ii*) a rate-of-return effect, whereby a rise in the share of highly-educated workers changes the returns to education, with an unclear effect on inequality.[13] Still, many reforms intended to improve living standards through higher human capital are also likely to reduce income inequality. Structural policy recommendations in the area of education include:

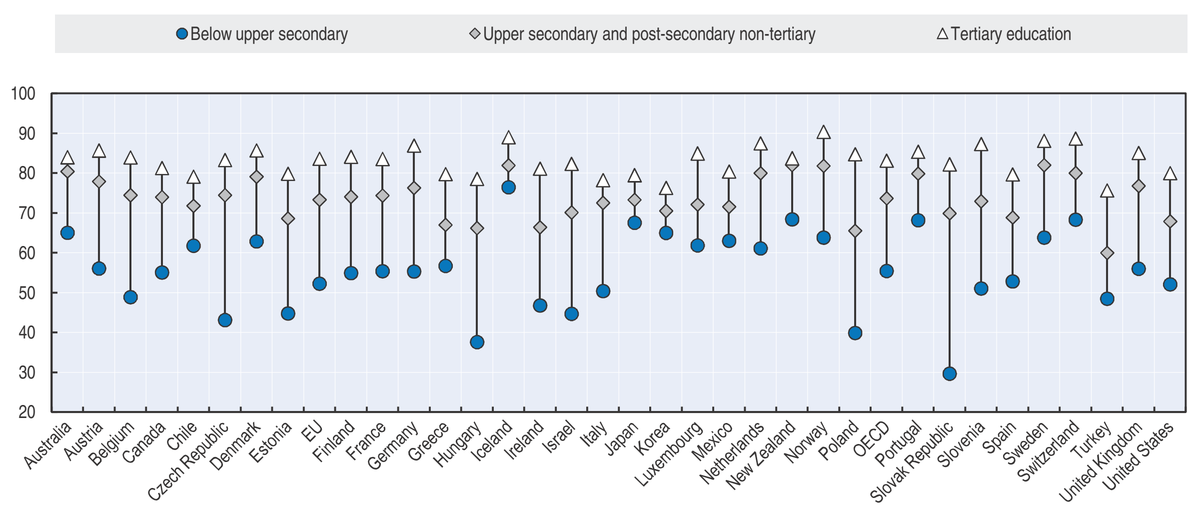
- *Increasing the quality and extending the provision of early, primary and secondary education*: Recent OECD analysis shows that a rise in the share of workers with upper-secondary education is associated with a decline in labour earnings inequality (Fournier and Koske, 2012). Given the evidence showing the importance of upper-secondary attainments on employment prospects, policies at all levels of compulsory education that contribute to increase good-quality attainment at upper-secondary level, may unambiguously contribute to boost GDP per capita as well as reducing wage dispersion. Examples of policy recommendations include better teacher recruitment, training and assessment (Chile, France, India, Indonesia and South Africa), early identification and special support for pupils at risk of dropping out (Denmark), development of individualised teaching (France), enhancing school accountability (Czech Republic, Iceland, New Zealand and Norway) and raising incentives to attract and retain high-school principals and teachers in disadvantaged schools (Czech Republic, France, Iceland).
- *Raising tertiary education attainment*: Several OECD countries are being recommended to improve enrolment, graduation rates or quality in tertiary education (Table 2.1). Encouraging more students to pursue tertiary studies has a more ambiguous effect on earnings inequality. Recent evidence tentatively indicates that a rise in the number of tertiary graduates in most OECD countries may lower the relative returns to tertiary education (the rate-of-return effect) enough to more than offset the composition effect (an increase in the share of high-wage earners), so that a rise in tertiary graduation rates is associated with lower earnings inequality (Koske *et al.*, 2012; OECD, 2011a).[14]
- *Promoting equity in access to education*: Raising equity in access to all levels of education is a priority for many OECD and BRIICS countries (Table 2.1). Improving general access to education by poorer households contributes to reducing socio-economic segregation, making educational achievement less dependent on economic and social background. Research has also shown that a more equitable distribution of educational opportunities also results in a more equitable distribution of labour income (de Gregorio and Lee, 2002). In this respect, policies that facilitate access to education and enhance learning skills for individuals from disadvantaged backgrounds, such as strengthening links between schools and home, and delaying tracking in education should contribute to reduce income inequality. These policy initiatives are likely to deliver large positive returns over an individual's entire lifetime, particularly for the underprivileged (Chetty *et al.*, 2011; OECD, 2006a).
- *Introducing or raising tuition fees in tertiary education*: Another common recommendation which is likely to affect equity in access to education is the introduction or increase of tuition fees in tertiary education in combination with student loans whose repayment is contingent on income (Table 2.1). Given the positive expected (private) returns to higher education, introducing tuition fees to make students pay at least part of the cost of tertiary education can lower disposable income inequality measured over the life cycle, especially in countries where income taxation is not very progressive. Considering that

enrolment in tertiary education typically rises with household income, tuition fees may also compensate for the fact that public funding of tertiary education is regressive. In any case, to preserve access to tertiary education for the disadvantaged, tuition fees need to be accompanied by a carefully-designed mixed system of means-tested grants and income-contingent-repayment loans.[15] This is a recommendation in only a handful of OECD countries (Austria, Denmark, Estonia, France, Poland and Switzerland).

- *Expanding vocational education and training* (VET) is a general recommendation to many OECD and BRIICS countries alike (Table 2.1). Specific recommendations include strengthening the involvement of employers (Estonia, Turkey), establishing an obligation to offer learning opportunities for youth neither in education, employment or training (Estonia), ensuring that vocational education programmes provide relevant skills for the labour market (United Kingdom), merging vocational training and vocational secondary schools (Hungary), expanding training and apprenticeships in high-unemployment areas (New Zealand), strengthening the VET evaluation system on tracking individual outcomes over time, especially for individuals from disadvantaged backgrounds (Portugal), and developing work place training (Slovak Republic). Insofar as more effective VET is likely to deliver adapted skills formation and higher employability, contributing thereby to address labour market mismatches and reduce unemployment, it is seen as helping both growth and income equality.

Figure 2.2. **Higher employment rates are associated with higher education attainment**

Number of 25-64 year-olds in employment as a percentage of the population aged 25 to 64, 2010



Source: OECD, *Education at a Glance 2012 Database*.

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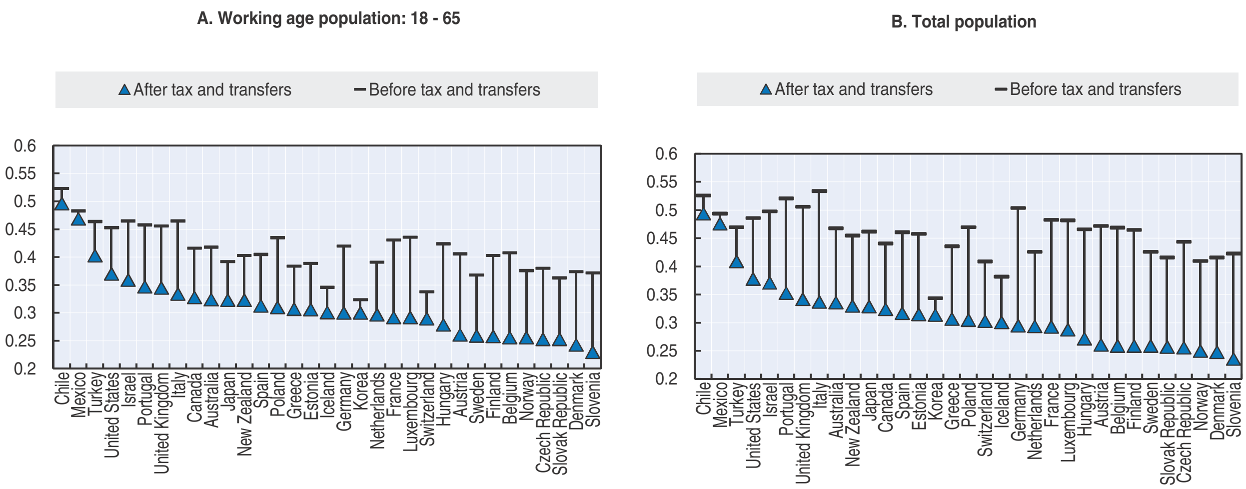
Tax and transfer policies

Tax and transfer policies have a sizeable redistributive impact: in the late 2000s, income inequality after taxes and transfers was on average about 31% lower than income before taxes and transfers for total population and 25% for the working-age population in the OECD area (Figure 2.3). Most of the redistributive impact is achieved through cash transfers (pensions, unemployment and child benefits) with taxes contributing by one quarter to inequality reduction (Joumard *et al.*, 2012). But the structure of taxation can lead to distortions in the incentives to save, work and invest, reducing economy-wide

Figure 2.3. **Tax and benefit system have a sizeable redistributive impact in OECD countries**

Late 2000s



1. Income inequality is measured by the Gini coefficient based on equivalised household disposable income.

Source: OECD, *Income Distribution Database*.

StatLink http://dx.doi.org/10.1787/888932775725

productivity and the use of labour, or both (Johansson *et al.*, 2008). Many growth-oriented recommendations concern taxation, and those likely to exert an impact on inequality include:

- *Shifting the tax structure away from direct taxes* (labour and corporate income taxes) towards consumption, environment and immovable property strengthens incentives to work and invest, and hence economic growth. It is a recommendation for many OECD countries (Table 2.1). The likely positive effects on employment levels helps reducing income inequality, albeit they may take some time to materialise. However, since personal income taxes are progressive while real estate and consumption taxes are at best neutral from a lifetime perspective and in many cases tend to be regressive, such reform potentially hurts equity. The net impact on income inequality depends on the magnitude of these two opposing effects. This recommendation can however be made progressive by appropriate tax design, for instance, through the introduction of thresholds in the taxation of immovable property.[16] The distributional impact of environmental taxation is likely to vary across countries depending on factors such as the interaction with other elements of the tax structure. While the impact on inequality ultimately depends on the type of goods that are taxed, environmental taxes are in general found to be regressive in high-income countries (Johnstone and Alavalapati, 1998).[17]
- *Curbing tax expenditures*: The use of tax expenditures which often most benefit higher-income groups – such as tax breaks for health, tertiary education, owner-occupied housing and retirement savings – has been growing (OECD, 2010b). Reducing or eliminating these tax breaks, including the preferential tax treatment of home ownership, with features such as tax reliefs on mortgage interest, reduced taxation of capital gains from the sale of a principal residence and non-taxation of imputed rents, may bring both higher productivity – by reducing policy-induced distortions in resource allocation – and lower inequality. Reducing or eliminating tax expenditures is a priority in Canada, Denmark, Germany, France, Italy, Luxembourg and the United States.

Product market regulation

Relaxing anti-competitive product market regulation brings productivity and sometimes employment gains, therefore spurring economic growth (*e.g.* Bourlès *et al.*, 2013; Conway *et al.*, 2006). Hence, it is a fairly common recommendation for both OECD and BRIICS countries (Table 2.1). However, its impact on labour income inequality is uncertain. On the one hand, lower barriers to entry curb market power and rents of incumbents, which fosters the entry of new firms and in turn the expansion of economic activity, labour demand and thus employment (Bassanini and Duval, 2006; Griffith *et al.*, 2007; Nicoletti and Scarpetta, 2005; Fiori *et al.*, 2007; Nicoletti *et al.*, 2001). This positive effect on employment may be, at least partially, offset by higher wage dispersion. This is because more intense product market competition tends to reduce the bargaining power of workers and hence the economic rents which accrued in part to workers in formerly protected sectors, with an effect on labour income inequality that depends on the relative wage position of the reformed sector.

Greater competition may also induce firms to innovate and, to the extent that technological progress favours high-skilled workers, could raise wage dispersion. All this implies that effects on income dispersion may vary across sectors. For instance, the redistributive impact of lowering barriers to entry is more likely to be positive in professional services, as the reduction in prices benefit consumers at the expense of a small number of often high-earning incumbents. In sectors where low-skilled labour prevails, such as the retail sector, increased competition may widen the wage distribution, but only insofar as these workers initially benefited from rents. Not surprisingly, the empirical evidence on the impact of product market regulation on inequality is far from conclusive (OECD, 2011a; Nicoletti *et al.*, 2001; Guadalupe, 2007; Koske *et al.*, 2012).

Lowering barriers to trade and FDI: Reducing remaining barriers to FDI or aligning screening procedures with what is granted to the most favoured nation is a policy priority in Indonesia, New Zealand and Australia. Lifting more specific sector barriers to FDI is a priority for Iceland (electricity and fisheries), Mexico (transport, media and fixed-line telecom and financial services), Japan and Korea (in the service sector) and India (aviation, multi-brand retail), where targeted barriers to trade should also be removed. Insofar as some of the rising trend in inequality in many advanced OECD countries can be attributed to growing economic integration of emerging market economies, recommendations aimed at further enhancing productivity through lower barriers to trade and FDI could in principle exacerbate wage inequality. However, lower prices resulting from competitive pressures and the increase in product variety makes all consumers unarguably better off, which may entail some redistribution in favour of low-income groups, depending on the goods concerned and their share in the consumption basket of the various income groups.[18]

Agriculture and energy subsidies

Reducing support to agriculture (such as recommended for the European Union, Iceland, Japan, Norway, Switzerland, Turkey and the United States) by lowering tariffs and excise duties, abolishing quotas on agricultural products and delinking producer support from production (by shifting agricultural support away from price measures towards direct support to farmers) could disproportionally benefit lower income households, insofar as it lowers food prices. As well, the rents created by agricultural support sometimes accrue to high-income farmers – especially when it is granted in the form of price support.

As regards energy subsidies, Indonesia is recommended to substantially reduce fossil-fuel subsidies and to consider also lowering electricity subsidies, coupled with targeted compensation schemes to the poor. Energy subsidies are often motivated on equity grounds, as poorer households' income tends to be spent disproportionally on basic consumption goods, such as food and energy. However, there is a large body of evidence showing that fossil fuel subsidies are regressive. For instance, one study found that in 20 developing countries, the 20% richest households capture 43% of such subsidies (del Granado *et al.,* 2010). Estimates by the International Energy Agency (IEA, 2011) reveal that only 8% of global fossil fuel reaches the lowest income quintile.[19] Substantially reducing electricity and fossil-fuel subsidies and compensating directly the poor would result in a better resource allocation and simultaneously achieve a more equitable distribution of income.

Assessing the net effect on inequality of growth-friendly structural policies

Table 2.2 presents the likely effect of 2013 *Going for Growth* priorities on income inequality in terms of their short-term and long-run effects. The table does not intend to assess the intensity of the impact on inequality of the different policy recommendations, but to illustrate the direction – either reducing or raising inequality – of growth enhancing structural reforms. Several recommendations have an undetermined impact on inequality. This is due to the fact that a specific policy may produce opposing effects on income inequality, so that the final prevailing effect is unknown (*e.g.* lowering barriers to competition in network industries, shifting the tax burden from direct to indirect taxes) or because the effect on inequality of a particular policy has not been investigated (*e.g.* increasing infrastructure spending). For many structural reforms, the short-term impact appears to be less clear than the longer term effect, as shown in Table 2.2 by the higher number of policies with an uncertain impact in the short *vis-à-vis* the longer term. This is typically the case of education policies, where the more favourable effects on human capital accumulation and income distribution appears in the longer term. However, more cases of policy trade-offs appear in the short term.

The environment

Over the past two decades, economic growth has continued to increase the pressure on many natural assets – for instance through rising greenhouse gas (GHG) emissions, waste production or water abstraction (Figure 2.4). And, structural reforms aimed at boosting GDP can further increase the use of natural resources and generate higher pollution. On the other hand, many of the environmental pressures associated with growth in the past may not be sustainable in the future, implying potential growth bottlenecks and environment-related risks to growth. Preventing such outcomes may be costly – in terms of growth in the shorter term – but achieving the *Going for Growth* objective of boosting GDP in the longer term requires a better understanding of the environmental pressures related to growth.

Economic growth does not necessarily imply increased pressures on the environment but most often it does. Even so, these do not need to be detrimental for longer-term well-being as long as the value of generated benefits exceeds that of the total current and future costs of the damage. Sustainable growth can be achieved only if the environmental considerations are appropriately taken into account in economic agents' decisions (OECD, 2011b). In practice however, pricing and regulation of environmental externalities and

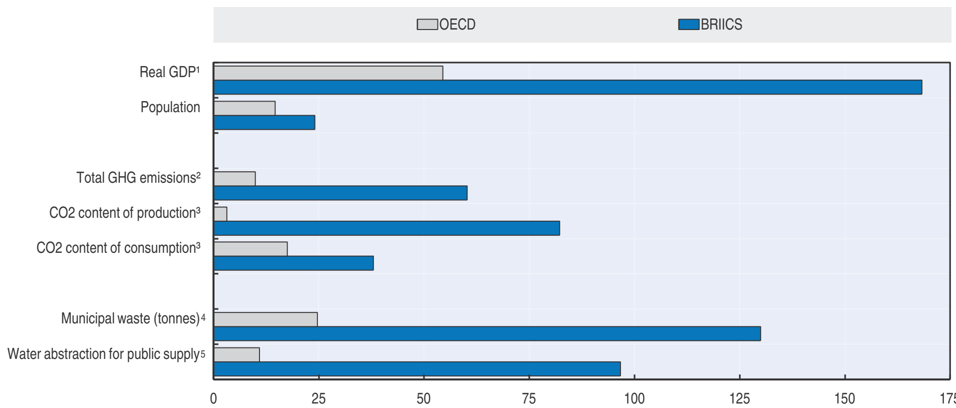
Table 2.2. **Many *Going for Growth* 2013 priorities have an undetermined impact on income inequality**

	Potential short-term effects			Estimated long-term effects		
	Number of priorities likely to reduce inequality	Number of priorities likely to raise inequality	Number of priorities with undetermined impact	Number of priorities likely to reduce inequality	Number of priorities likely to raise inequality	Number of priorities with undetermined impact
Australia	1	1	3	1	0	4
Austria	0	0	5	1	0	4
Belgium	1	3	1	0	0	5
Canada	0	0	5	1	0	4
Chile	2	0	3	4	0	1
Czech Republic	1	0	4	4	0	1
Denmark	0	1	4	1	1	3
Estonia	2	0	3	3	0	2
EU	1	0	4	2	0	3
Finland	0	1	4	0	0	5
France	0	0	5	2	0	3
Germany	2	0	3	3	0	2
Greece	1	0	4	2	0	3
Hungary	0	1	4	1	0	4
Iceland	1	0	4	2	0	3
Ireland	2	0	3	2	0	3
Israel	0	0	5	1	0	4
Italy	1	0	4	2	0	3
Japan	2	1	2	3	0	2
Korea	2	1	2	3	1	1
Luxembourg	1	0	4	1	0	4
Mexico	0	0	5	2	0	3
Netherlands	0	2	3	1	0	4
New Zealand	0	0	5	1	0	4
Norway	2	1	2	3	0	2
Poland	0	0	5	1	0	4
Portugal	1	1	3	2	0	3
Slovak Republic	2	0	3	3	0	2
Slovenia	0	0	5	1	0	4
Spain	1	2	2	2	0	3
Sweden	0	2	3	1	2	2
Switzerland	2	1	2	3	0	2
Turkey	0	0	5	2	0	3
United Kingdom	1	0	4	3	0	2
United States	2	0	3	3	0	2
Brazil	0	0	5	1	0	4
China	0	0	5	2	0	3
India	0	0	5	2	0	3
Indonesia	1	0	4	3	0	2
Russia	1	0	4	1	0	4
South Africa	1	1	3	2	0	3

Note: The formal empirical evidence underpinning this analysis focuses only on the longer-term effects of structural policies on income inequality. The distinction between short-term and long-term effects is based on the assumption that the wage-inequality impacts of some reforms materialise faster than employment-equity enhancing benefits.

Figure 2.4. **GDP growth in OECD and BRIICS has been accompanied by rising pressures on the environment**

Growth between 1990 and 2006-10 average, unless otherwise stated (per cent change)



1. GDP in constant prices, 2005 PPPs.
2. Growth between 1990 and average of years 2005, 2008 and 2010.
3. Growth between 1995 and 2005 for CO_2 content of consumption and between 1995 and 2009 for CO_2 content of production.
4. Growth between 1990 and 2005-10 average. China and Russia only for BRIICS, OECD excludes Estonia, Israel and Slovenia.
5. Does not include industry and agricultural use. OECD growth between 1990-95 and 2005-08. BRIICS excludes Brazil, growth between 1990-95 and 2005-09 (available years only).

Source: OECD, *Green Growth Indicators, International Energy Agency and Food and Agriculture Organization (FAO) Aquastat Databases.*

StatLink http://dx.doi.org/10.1787/888932775744

natural resources use are often inadequate, implying that more growth is likely to bring about more environmental pressures that risk threatening sustainability.

Against this background, concerns about the environmental effects of growth-enhancing structural reforms are warranted. Still, it is often not straightforward to assess the effects of reforms on environment *a priori*. The main reasons include:

- *Reform design*. Environmental outcomes will often depend on the details of the reform and its implementation, but in most cases, the level of detail of *Going for Growth* recommendations does not allow a precise assessment of the effects on environment.
- *The overall policy setup*. Existing policies, in particular environmental policies, and their interaction will often be crucial in determining the outcome. Examples include the existing pricing mechanisms for services of natural assets, the prevalence of subsidies to environmentally harmful activity (*e.g.* fossil fuels) or the strictness of environmental regulation and its enforcement, both home and abroad.
- *Different types of environmental effects*. The effects may vary in terms of different environmental externalities and often will be difficult to value and compare. For example, there may be trade-offs among local pollution and (global) emissions or air pollution and land-use changes. A further complication arises from the need to compare environmental effects that may occur at different places and time horizons.
- *Uncertainty and knowledge gaps*. The effects of economic activity on the environment, of the environment on economic activity and of policy actions are often not fully known, in particular as many of the effects may only materialise in the longer term.

This section assesses the potential side effects of *Going for Growth 2013* policy priorities on the natural environment. Many of these priorities, aimed at maximising GDP per capita, are likely to have no direct effect on the environment, beyond that due to increasing economic growth. Priorities that raise the costs of environmentally-harmful activity – such as an increase in environmental taxation (*tax reform priority*), road pricing and congestion charges (*infrastructure management*), a phasing-out of environmentally harmful subsidies and improvements in the enforcement of (environmental) laws (Table 2.3), can lead to lower use of selected environmental inputs or lower pollution relative to economic activity (*cleaner growth*) or, in some cases, overall (*cleaner GDP*). There is no recommendation which

Table 2.3. **The effect of *Going for Growth* priorities on the environment is often uncertain**

	Number of recommendations likely to result in more environmentally friendly growth	Number of recommendations with likely effect on environment, but the direction depending on implementation details and policy setting	Number of recommendations with little or no direct effect on environment
Australia	2	0	3
Austria	1	1	3
Belgium	1	1	3
Canada	1	1	3
Chile	0	0	5
Czech Republic	1	0	4
Denmark	0	1	4
Estonia	1	0	4
European Union	0	2	3
Finland	1	0	4
France	1	1	3
Germany	1	0	4
Greece	0	1	4
Hungary	1	1	3
Iceland	0	2	3
Ireland	0	1	4
Israel	0	1	4
Italy	0	1	4
Japan	0	1	4
Korea	1	2	2
Luxembourg	0	1	4
Mexico	1	1	4
Netherlands	0	1	4
New Zealand	1	1	3
Norway	0	1	4
Poland	1	3	1
Portugal	0	1	4
Slovak Republic	0	1	4
Slovenia	0	1	4
Spain	0	1	4
Sweden	0	1	4
Switzerland	1	1	3
Turkey	0	1	4
United Kingdom	1	2	2
United States	1	1	3
Brazil	0	2	3
China	1	1	3
India	0	1	4
Indonesia	2	1	2
Russia	1	0	3
South Africa	0	1	4

directly and unambiguously hurts the environment. However, for a large number of priorities, there are likely to be effects, but those are mixed and unclear *ex ante*, due to reasons mentioned above. Below, the relevant priorities are reviewed one by one, emphasising the potential environmental consequences.

Reforming the tax system

One of the most common priorities is to make the tax structure more growth-friendly, by reducing the taxation on income, particularly labour income, while increasing less-distortive sources of revenue, such as property, consumption and environmental taxation (Table 2.4, approximately a third of the countries). The latter can be considered a "*win-win*" priority, benefiting both growth and reducing its environmental footprint, insofar as higher environmental taxation should discourage environmentally harmful or unsustainable activity (OECD, 2010c). The positive effects on the environment may however be weakened at the global level by possible cross-border leakage and increased emissions from international transport (OECD, 2010d), as some of the economic activity is shifted to countries with less strict environmental standards and enforcement (Box 2.2). Finally, in some cases new or higher environmental taxation would replace or make redundant environmental regulations already in place, limiting the positive effects on environment.

The reliance on environmentally-related tax revenues varies among countries (Figure 2.5), and has generally been decreasing. Of the countries with a recommendation to rely more on such tax sources, France, Belgium and the United States tend to have relatively low environmentally-related revenues (both with respect to total revenues and to GDP), with Finland, Estonia and Korea at the other end of the spectrum. Notably, the bulk of environmentally-related tax revenues concern fuel taxes (on average over 70%, mainly from transport) which in some countries may already be taxed beyond the associated environmental (and non-environmental) externalities.[20] On the other hand, many opportunities to tax environmental externalities are foregone or pursued inefficiently, and various forms of subsidies to environmentally-harmful activity can be seen as a negative (environmental) taxation.[21]

Tax reform recommendations often also encourage the broadening of tax bases, by getting rid of tax expenditures and rate differentiation (Denmark, France, Germany, Greece and Italy). The effects on the environment will depend on the nature of exemptions that are scrapped. Countries have in place, for various reasons, numerous special tax treatments of activities linked with negative environmental consequences, such as commuting by private cars, company car provisions, use of emission-intensive fuels (*e.g.* coal, heavy oils) and use of pesticides or fertilisers, while at the same time a number of tax preferences may concern activities with positive environmental consequences, such as public transport, cleaner and more efficient heating.

Improving infrastructure provision and management

Improving the provision or management of infrastructure is a priority for several countries. The environmental effects will depend on implementation details. In countries where congestion charges or road pricing are recommended as a mean to increase economic efficiency and growth (Australia, New Zealand, Switzerland and the United Kingdom), they are likely to also benefit the environment, with the magnitude of the effects linked to the introduced prices as well as the availability of alternatives, such as public transport, more efficient vehicles or opportunities for teleworking. Benefits are

Table 2.4. **The effects of *Going for Growth 2013* policy recommendations on the environment**

Going for Growth Policy recommendations		Potential channels	Countries with a Going for Growth priority in this area
	A. Reforms that are likely to improve environmental performance of growth		
Tax policy	Shift tax structures away from income taxation towards less distortive taxation (including environmental taxation)	+ Higher environmental taxation likely to reduce environmentally-harmful activity.	AUT, BEL, CAN, CZE, EST, FIN, FRA, DEU, HUN, KOR, POL, CHE, USA
Infrastructure and network sector policies	Introduce congestion pricing/road pricing	+ Likely to reduce road use and related emissions, including local pollution.	AUS, CHE, GBR, NZL
Other policies	Reduce energy subsidies (fossil-fuels)	+ Lower energy consumption, hence less GHG emissions and local pollution.	IDN
	Improve the rule of law	+ Can help improve the enforcement of environmental policies.	CHN, MEX, IDN, RUS
	B. Reforms that have undetermined impact on environmental performance – the outcome depending on the way they are implemented or due to offsetting effects		
Tax policies	Broaden tax bases and reduce tax expenditures	+ Tax preferences for polluting behaviour can be scrapped, (e.g. commuting by car, heating with coal), possibly – Tax exemptions for cleaner activities can be scrapped (e.g. commuting by public transport)	DNK, FRA, DEU, GRC, ITA
Infrastructure and network sector policies	Reduce entry barriers and enhance competition in network sectors (e.g. energy, rail)	+ Can facilitate entry of more efficient (and potentially cleaner) producers and suppliers, in particular of renewable energy producers or rail operators. Reducing price controls may curb use of some users (e.g. of energy) and related environmental externalities. – With inappropriate pricing of environmental externalities, can facilitate entry of less-environmentally friendly producers. Lower prices may lead to higher use (rebound effects). +/– Further complicated due to the presence of EU emission trading system (ETS) in some countries (Box 2.2).	AUT, BEL, BRA, CHN, CAN, EU, FRA, GRC, HUN, ISL, IND, IDN, IRL, ISR, KOR, MEX, NZL, POL, PRT, SVK, SVN, ZAF, TUR
	Improve infrastructure provision and management	+ Increasing availability and efficiency of public transport is likely to reduce associated emissions. Easing congestion by enhancing the quantity and quality of infrastructure may reduce local pollution and facilitate entry of cleaner production (e.g. renewables). New or improved infrastructure can reduce electricity losses, water leakage and improve water quality. – More infrastructure provision (e.g. road, airports) is likely to increase its use contributing to higher transport-related emissions. Infrastructure construction will often require land use change (e.g. deforestation).	AUS, BRA, CAN, GBR, EU, IND, IDN, NZL, POL
Other policies	Reduce producer support to agriculture	+ Likely to limit oversupply, decreasing GHG emissions (e.g. from husbandry) and fertiliser/pesticide use. May also reduce the demand for land used for (intensive) agriculture. – The reduction of support to eco-farming may discourage cleaner agriculture, and increasing reliance on imports may shift pollution (and emissions) abroad and increase pollution from international transport.	EU, ISL, KOR, JPN, NOR, TUR, CHE, USA
	Streamline land regulation and planning laws, reduce barriers to mobility	+ Less strict zoning regulation (e.g. for retailers) could result in improved traffic patterns. Devoting more land to nature (e.g. rather than agriculture) can improve biodiversity, etc. – The direction of land-use change is often likely to be environmentally harmful (e.g. deforestation, reduction of potential for environmental services).	CHN, IND, IDN, LUX, NLD, POL, SWE, GBR
	Reduce rent regulation and housing subsidies	+ Can reduce car commuting and related emissions if people move closer to their work places. – Can increase car commuting and related emissions if people move further from their work places and public transport availability is not sufficient.	DNK, LUX, NLD, POL, SWE

Box 2.2. **Some environmental aspects may be difficult to assess in a national policy context**

Pollution and natural resource depletion may occur at different levels: local, national, regional or global and be influenced by international trade patterns. *Going for Growth* recommendations, with their focus on national policies and national growth outcomes, will often be hard to assess in such contexts.

For global or regional issues, common pool resource sustainability requires that the common environmental burden – for example, gas emissions in case of climate change or fish catch in case of fisheries – needs to be under control, while the distribution among countries is less relevant, at least from the environmental point of view. In principle, this implies that emission reductions are not strictly necessary in each single country and some countries may have, or develop, a competitive advantage in emission-intensive production, within the limits of the overall sustainable environmental burden. In fact, from an overall economic efficiency perspective, it would make sense that reductions are made where they are least costly.

Cross-border leakage and the relationship among trade, growth and the environment have been given significant attention since the 1970s (see for instance Copeland and Taylor, 2004 or Baker *et al.*, 2007), with overall little consensus on the importance of the phenomenon. While in principle, natural conditions and societal choice can imply varying valuations of environmental externalities across countries; this can underlie co-ordination failure in terms of management of global or regional environmental resources and risks.

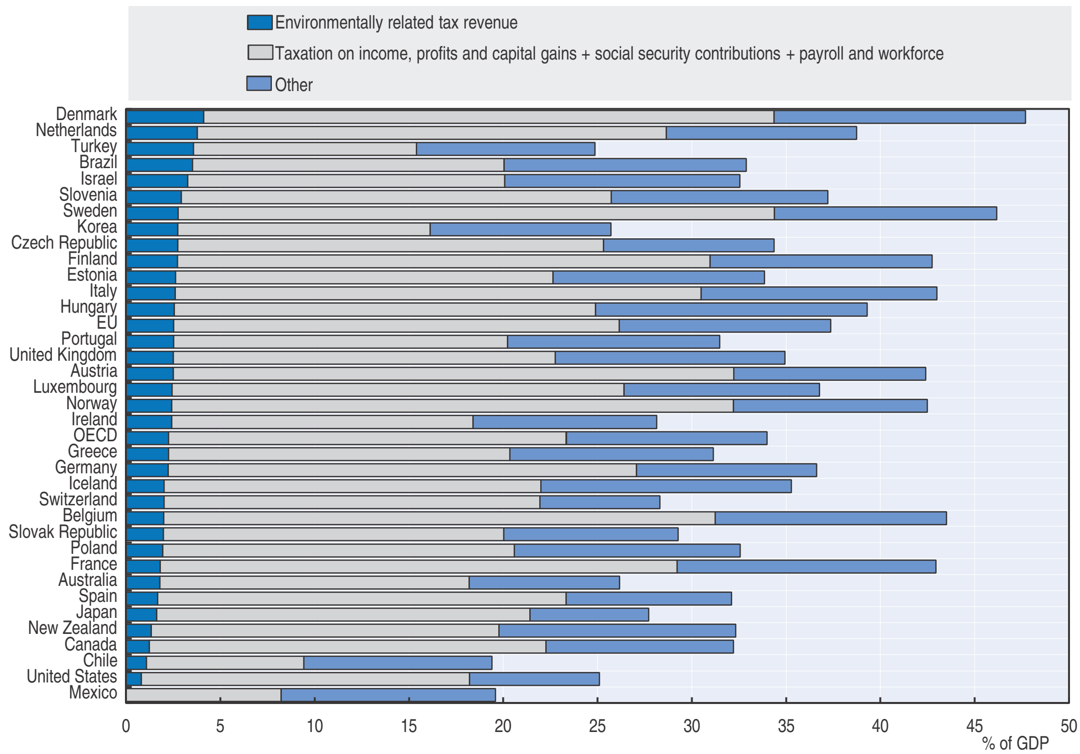
In case of the thirty European countries (EU27 plus Norway, Iceland and Liechtenstein) where about half of CO_2 emissions are capped, with permits traded under the EU Emission Trading Scheme, the pricing mechanisms should guarantee the reduction as stipulated by the cap in the zone as a whole and at a uniform abatement cost. Any additional country-specific policy instruments that address emissions under the cap may reduce them in a given country, but, as long as the cap is binding, will not affect overall emissions. Hence for instance, measures facilitating entry of renewable energy producers – which can have various other benefits – will have no effect on the total emission levels. By lowering the price of emissions, the additional measures can however yield less tangible, though not necessarily less important benefits, such as facilitating future tightening of the cap (Braathen, 2011).

likely to materialize both on a global scale (lower CO_2 emissions from fuel combustion) and more locally in terms of reducing local pollution and the pressure on devoting new land to infrastructure.

Improving the investment climate and opportunities in order to increase the capacity and quality of infrastructure are recommended, in various forms, for a number of OECD and BRIICS countries (Table 2.4). Expanding network infrastructure is generally likely to require allocating new land and to encourage use, increasing associated externalities. More roads or airports will lead to more traffic, and expanding electricity grids in countries such as India or Indonesia,[22] will increase the use of fossil-fuel generated electricity. However, investment into improved, more-efficient infrastructure solutions (*e.g.* public transport or ring roads) can help reduce congestion bottlenecks, contributing to lower local pollution for instance around cities, a significant problem in many countries (Figure 2.6). Investment in electricity grids and storage may be necessary to reduce losses and accommodate energy produced from intermittent renewable sources, such as wind or solar. In developing

Figure 2.5. **The reliance on environmentally-related tax revenue differs across countries**

Average over the period 2008-10[1]



1. Average over 2008-09 for Canada and the Slovak Republic.

Source: OECD, *Revenue Statistics Database* and *OECD/European Environment Agency Database* on instruments used for environmental policy and natural resources management, *www.oecd.org/env/policies/database.*

StatLink http://dx.doi.org/10.1787/888932775763

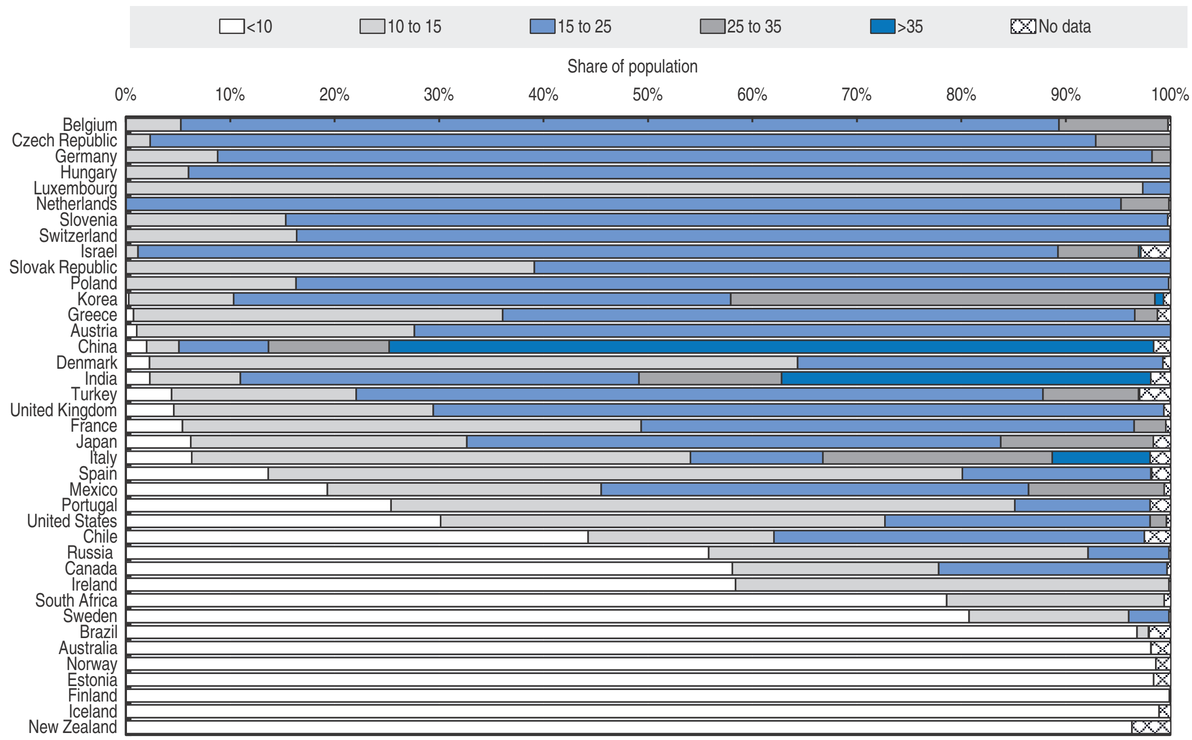
countries, access to electricity grids can displace heavily polluting diesel generators, reducing the overall environmental damage. Similarly, improved, more efficient water distribution and sewage treatment infrastructures can reduce water leakage and improve water quality. In the case of infrastructure expansion, potential trade-offs between environmental effects and economic and development goals, as well as risks associated with long-term lock-in into dirty technologies, underline the need for a thorough assessment of environmental impacts as part of the planning and decision making process to assure that net benefits outweigh the potential costs of adverse impacts (OECD, World Bank and UN, 2012), and for adequate pricing to prevent the overutilization of underpriced networks.

Reducing entry barriers and enhancing competition in network sectors

Many priorities aim at improving competition in network sectors, in particular reducing barriers to entry (a priority for roughly half of the countries, Table 2.4). To the extent these result in lowering prices, *e.g.* in the energy or rail sectors, they can stimulate demand through a so-called rebound effect. In countries where environmental externalities are underpriced (*e.g.* due to environmentally harmful subsidies), this will bring about excess negative environmental consequences, as there will be an unwarranted competitive advantage for supplying energy from less-environmentally friendly sources.

Figure 2.6. **Air pollution is a problem in many BRIICS and OECD countries**

Population exposure to harmful PM2.5 levels, 2001-06 annual averages[1]



Note: Based on satellite data and population counts in grids within TL2 regions.

1. World Health Organisation (WHO) thresholds, in micrograms of particulate matter smaller than 2.5 microns in diameter. Exposure to air pollution exceeding 10 micrograms of PM2.5 per cubic meter is considered by the WHO as significantly increasing health risks.

Source: OECD (2011), *OECD Regions at a Glance 2011*, OECD Publishing.

StatLink http://dx.doi.org/10.1787/888932775782

Overall, the stricter the environmental externality pricing and regulation in a country, the more likely the reduction of entry barriers and strengthening competition is to benefit cleaner and more efficient producers or service providers. Lower relative prices of train travel and freight may displace transport from roads, with potentially positive net environmental effects. In European countries participating in the EU emission trading system (ETS), lower electricity prices will not increase total emissions (as long as the ETS cap is binding), and may actually even reduce them, for instance if households would switch from heating or cooking with fossil fuels, where emissions are uncapped to electricity, where emissions are covered by the ETS (Box 2.2). Furthermore, electricity sector liberalisation can remove implicit barriers to the expansion of renewable energy such as in *e.g.* Belgium, France, where the effects of widespread support for renewable energy have been constrained by the barriers to grid access (OECD, 2011d, 2012b). In a similar manner, recommendations to improve the integration of electricity markets (in Canada and among European Union countries) may facilitate the entry and improve the competitiveness of renewable energy producers (Benatia *et al.*, 2013).

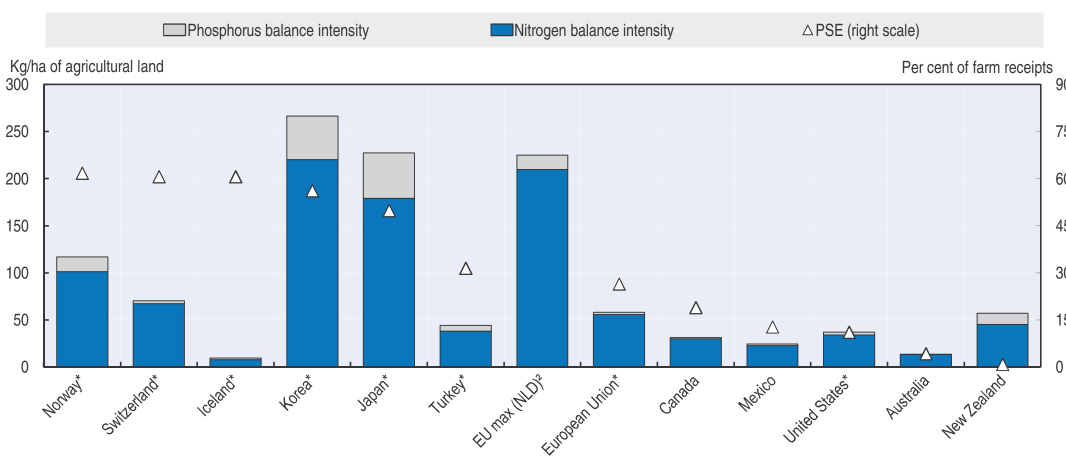
Reducing producer support in agriculture

Agriculture has significant impacts on the environment and producer support, particularly the part linked to output, can amplify the negative environmental effects (OECD, 2005; 2008b). For instance, producer support can encourage higher production levels, more land allocation to agriculture, or more intensive use of fertilisers and pesticides. At the same time, some existing support schemes are designed to limit some of the negative environmental effects, for example through encouraging more (environmentally) sustainable farming practices or by being conditional on environmental improvements (*e.g.* afforestation). The reduction of protection of domestic producers, while beneficial for growth and most likely for the domestic environment, may also mean increased cross-border leakage of environmental damage and increased emissions from international transport.

Currently, reducing producer support is a growth priority for Iceland, Japan, Korea, Norway, Switzerland, the United States and the European Union. For Turkey, the recommendation focuses on delinking support from production and shifting away from price support measures. In the majority of countries concerned, high support is coupled with high nutrient surpluses (Figure 2.7), which are responsible for local water and soil pollution, and would likely be reduced if the support is withdrawn.

Figure 2.7. **Agriculture puts strong pressure on the environment, in particular in countries with high producer support**

Producer support estimates and nutrient balance intensities in OECD countries, (2005-08)[1]



1. The symbol * denotes countries with a priority recommendation on reducing producer support to agriculture.
2. EU MAX (NLD) indicates the European Union country with the maximum nitrate surpluses (Netherlands). Data on PSE for individual EU countries is not available.

Source: OECD, *Producer and Consumer Support Estimates and Green Growth Indicators Databases.*

StatLink http://dx.doi.org/10.1787/888932775801

Reducing energy subsidies

A substantial reduction in fossil fuel subsidies, as recommended for Indonesia, is a "win-win" recommendation in terms of stimulating GDP growth and improving environmental outcomes. Fossil fuel subsidies encourage wasteful use of energy, blur market signals and undermine the competitiveness of fuel efficient or cleaner technologies, for instance of renewable energy (IEA, OPEC, OECD and World Bank, 2011). As a result, they contribute to higher GHG emissions and air pollution. In Indonesia, such subsidies amount to over USD 15.8 billion per year or roughly 2¾ per cent of GDP (2008-10 average of energy consumption subsidies).[23]

Reforming the housing market and land regulation

Several countries have GDP-enhancing recommendations regarding land regulation and the housing market. Reforms of land planning and zoning laws and building permit procedures are likely to result in changes in the use of land and in transport patterns and various related environmental impacts such as on pollution, GHG emissions or biodiversity. To the extent they reduce the amount of land devoted to "nature", these are likely to be negative, but the overall effect will depend on how environmental considerations are taken into account in planning procedures, transport policies, policies addressing urban sprawl and building codes. A similar caveat concerns the effects of reducing subsidies to home ownership and easing rent regulation, which will influence commuting and housing patterns in the longer term.

Framework conditions for green growth

A large number of countries have *Going for Growth* recommendations without any clear, direct impacts on the intensity of use of environmental services, but are important for facilitating a shift to green growth over the longer term. Such framework policies include:

- Enhancing competition and lowering entry and exit barriers *in the area of product market regulation*.
- *Labour market reforms* that aim at improving its ability to adjust to economic challenges and opportunities.
- Improved *education policies* can facilitate finding and hiring of workers with appropriate skills.
- *Removing obstacles to investment*, both domestic and foreign, and improving the business climate.
- *Improving the framework conditions for innovation* combined with *more effective and efficient R&D policies* to stimulate the actual development and deployment of new, cleaner technologies – a crucial aspect of achieving more growth coupled with sustainable environmental externalities.

Good framework structural policies are likely to increase the responsiveness to the pricing of environmental externalities and to environmental regulation by improving the transmission of price signals and the efficient reallocation of resources. Similarly, the adequate enforcement of environmental laws and regulations will be crucial for improved environmental outcomes. In this light the recommendations for China, Indonesia, Mexico and Russia to improve law enforcement, are likely also to reduce the environmental burden of growth.

The effects of priorities on government budgets and external accounts

One factor contributing to the severity of the crisis was the prior build-up of large and unsustainable fiscal and current account imbalances, in part mirroring credit excesses fuelled by capital flows, which resulted in growing financial instability. Both government and external imbalances have to some extent narrowed over the past two or three years, and given widespread commitments and – in some cases – market pressures for budget consolidation, government imbalances are expected to continue to diminish over the next few years. But in the case of current account imbalances, the extent to which the recent narrowing reflects cyclical rather than structural factors remains unclear. Insofar as they affect economy-wide saving and investment, the set of structural policy priorities identified to boost productivity and employment also have implications for external imbalances, in a way that may or may not contribute to further unwinding. This section highlights the likely impact on budget deficits and current account imbalances of recommendations for OECD and BRIICS' countries in the areas identified as country-specific policy priorities and reported in Chapter 1.

Even though concerns about financial fragilities also include the state of the financial sector, the extent to which growth-focused recommendations contribute to underpin or undermine stability in the financial sector is not examined in this chapter. The reason is that while some structural policies have an impact on financial sector stability (see Box 2.3), those having the most significant influence concern specific areas of financial sector policies – such as banking supervision and macro-prudential regulations – that require strong international co-ordination. Such policies are thus treated separately in *Going for Growth* as they are priorities common to all countries.

Box 2.3. **The effect of policy priorities on financial stability**

Growth-enhancing structural policies can also foster financial stability *via* their impact on international capital flows. Recent work has shown that restrictions on FDI, product market regulation, and biases embedded in the tax system affect the financial account structure, which in turn affects the likelihood of a crisis occurring (OECD, 2012*c*). This impact comes over and above the effect of macroeconomic imbalances, such as misaligned exchange rates or fiscally unsustainable positions.[1]

Barriers to FDI and strict product market regulation have been found to increase the likelihood of systemic banking crisis by encouraging a shift in external liabilities towards bank debt and away from FDI. In this regard, recommendations in the direction of easing such barriers can be expected to strengthen financial stability, even though the contribution is likely to be modest in most cases.

The structure of taxation can also have an impact on the composition of the financial account. Many countries allow for larger tax deductibility of interest payments than of dividends or capital gains, which bias corporate financing towards debt, including towards external debt, which again increases the risk of a crisis event. Thus, removing the bias in corporate taxation favouring debt financing, such as recommended in Australia can support financial stability.

In a similar vein, the favourable tax treatment of home ownership, such as allowing for mortgage-interest relief without parallel taxation of imputed rents may encourage excessive credit growth to the non-financial sector, contributing to the formation of housing bubbles, increasing in turn the external debt share and the probability of a systemic banking crisis.[2] Removing special tax treatments of owner-occupied housing as recommended in a number of countries would also go in the direction of stronger financial stability.

1. Financial market reforms, domestic banking supervision and macro-prudential regulations designed to reduce financial fragility are not covered in country-specific *Going for Growth* priorities as this in an area where collective rather than isolated action is needed (see Box 1.1 in *Going for Growth 2011*).
2. A growing body of research highlights that rapid increases in domestic credit have can have predictive power over subsequent crisis (Gourinchas and Obstfled, 2012; Jordà, Schularick and Taylor, 2011; Schularick and Taylor, 2012; Borio and Lowe, 2002).

Structural reforms that improve the fiscal balance may also contribute to reducing current account deficits by increasing the economy-wide saving rate. In looking at the implications for the current account, the section considers the impact of structural reforms on both public and private investment and saving rates, and hence including the effect occurring through a change in the fiscal balance.

The budgetary implications of policy priorities

Growth-enhancing structural reforms can have both a direct (first-round) impact and an induced (second-round) effect on government budgets. They have a direct impact when their implementation either requires additional public resources or – less frequently – entails initial expenditure cutbacks or revenue increases. The direct impact will thus vary across specific policy recommendations. As for the induced effect, the magnitude is likely to differ depending on whether reforms boost growth mainly through employment or productivity (Elmeskov and Sutherland, 2012). In both cases, the result is higher public revenues through tax base expansion. However, reforms that raise growth mainly through productivity gains will also increase public spending insofar as public and private sector wages grow more or less in parallel, and that social transfers are set as a proportion of income (*e.g.* replacement rates as in the case of retirement or unemployment benefits). The net induced effect on the budget is likely to be moderate, except perhaps when efficiency gains are achieved directly in public-sector activities.

In contrast, when the boost to growth comes mainly through sustainably higher employment rates, the induced effect is more likely to be a permanent increase in the budget balance, provided the employment gains are concentrated in the private sector (OECD, 2010f). In such a case, both the wage and non-wage components of public-sector spending fall as a share of GDP, in addition to the potential reduction in social transfers, such as unemployment or retirement benefits. Estimates based on past sensitivity of government revenues and expenditures to changes in employment suggest that a 1 percentage point permanent increase in the employment rate could generate a sustained improvement in the budget balance of between 0.3 to 0.8 percentage points. Countries expected to benefit the most are those with a high initial level of public-sector expenditures relative to GDP (*e.g.* continental Europe and Nordic countries).

The scope for budgetary gains from reform is therefore substantial – in particular for countries with relatively low employment rates – but the overall size will also depend on the direct budgetary impact of the policies recommended to boost growth, *i.e.* how much public resources need to be spent up-front to implement the reform. The main policy recommendations likely to have significant direct effect on the budget are listed in Table 2.5, along with the set of countries concerned by the suggested reforms. The recommendations are grouped according to the more specific challenge they address and the direction of their direct budgetary impact. Given that policy suggestions in the domain of taxation are made to be initially revenue-neutral, the recommendations listed in Table 2.5 are those affecting public outlays. That said, while being neutral in the short term, the most common recommendation in the area of taxation – shifting the composition away from direct (labour and capital) and towards indirect (consumption, property and environment) sources – may improve budget positions in the long run insofar as it raises both overall efficiency and employment.

Of all the recommendations that are made primarily with a view to raise employment rates, those aimed at boosting job creation, notably through reforms of labour and product

Table 2.5. **The effects of *Going for Growth* 2013 policy recommendations on public spending**

Going for Growth Policy recommendations		Countries with a Going for Growth priority in this area
	A. Reforms likely to entail higher public spending	
Policies to encourage labour force participation	Expand provisions of (affordable) childcare services	CHL, CZE, IRL, JPN, KOR, SVK, CHE, GBR
	Reform tax-benefit system and introduce in-work benefits to make work pay	JPN, KOR, NLD
	Increase the coverage and/or the replacement rates of unemployment insurance benefits	CHL, IDN, ITA, JPN, KOR, TUR
Policies to improve job-search incentives and outcomes	Intensify activation measures such as job-search assistance programmes and/or targeted job subsidies	IRL, FIN, FRA, GRC, LUX, PRT, SVK, ESP, ZAF, USA
Policies to foster human capital development and skills formation	Ensure adequate school resources and infrastructure	MEX, IND, ZAF
	Reduce inequality in educational opportunities through increased resources devoted to students from disadvantaged background at primary and secondary school levels	CHN, CZE, FRA, IDN, NZL, PRT, SVK, ZAF, USA CHN, DEU
	Expand enrolment and reduce inequalities in access to tertiary education	BRA, EST, FRA, GBR, HUN, ITA, NZL, PRT, SVK, ZAF
	Enhance the provision and/or effectiveness of VET	ESP, CHE, TUR
Policies to stimulate investment and productivity	Bolster investment in public infrastructure	BRA, IDN, POL
	Enhance support for R&D investment	AUS, EST, IRL, RUS
	B. Reforms providing scope for reducing public spending	
Policies to encourage labour force participation	Lower replacement rates of unemployment insurance and taper them with duration	FIN, LUX, NLD
	Raise statutory retirement age/or close path to early retirement	AUT, FIN, HUN, LUX, POL, SLO
	Reduce length of parental leave	CZE, SVK
	Review access to disability programmes and monitor degree of work capacity of benefit recipients	DNK, EST, NLD, NOR, POL, SWE, GBR, USA
Policies to foster human capital development and skills formation	Introduce or raise tuition fees at the tertiary level with income-contingent student loan programmes	AUT, CAN, CHL, CZE, DEU, EST, FRA, POL, SVK, ESP, CHE, SVN
Policies to raise productivity	Review the functioning of public sector services to improve efficiency of deliveries and quality of outcomes	CZE, GRC, HUN, ISL, NZL, RUS, CHE, GBR, USA
	Phase-out subsidies in agriculture, energy and housing	DNK, EU, ISL, IDN, JPN, KOR, LUX, NOR, POL, CHE, USA
	Expand user charges for road infrastructure	AUS, NZL, GBR

market regulations and wage bargaining arrangements, are less likely to have significant direct budgetary impacts. In contrast, recommendations to encourage labour force participation and improve job-search incentives and effectiveness may have significant implications, and these are covered in Table 2.5.

- Among the various recommendations aimed at raising labour force participation, those that concern women more directly, such as the provisions of childcare services and reforms of the tax-benefit system, can entail substantial direct budgetary costs.[24] The recommendations to extend the coverage or to raise replacement rates of unemployment insurance benefits also imply higher direct government transfers, the magnitude of which depends not only on the level and evolution of unemployment, but also on whether additional resources are required to administer the programme. Conversely, the two most common recommendations to foster the participation of older workers – raising retirement age and closing paths to early retirement – have the potential to generate substantial direct budgetary saving.
- Several countries facing high unemployment rates and a large proportion of long-term unemployed are recommended to strengthen ALMPs, in particular job-search assistance and training programmes. The direct budgetary cost of such measures can be substantial. As an illustration, earlier empirical analysis has suggested that the unemployment rate in the average OECD country could be reduced by 1 percentage point if spending on ALMPs was raised to the level observed in Sweden (OECD, 2007).[25] In most

countries where this is recommended, current spending on job placement services is between 0.1 to 0.2 per cent of GDP below the level observed in Sweden, with a particularly large gap in Greece, Luxembourg, Slovak Republic, South Africa and the United States. In Finland and Luxembourg, higher spending on activation measures could be partly funded in the short term by savings achieved through reductions in the level and duration of unemployment benefits, such as recommended for these countries (Table 2.5).

As mentioned above, the induced (longer-term) effect of productivity-enhancing reforms on government budgets is not clear, as the rise in tax revenues generated tends to be at least partially offset by higher spending. At the same time, most of the recommendations directed at raising productivity have little direct budgetary impact, and some may even entail spending cutbacks.

- In countries where this is recommended, a reduction in subsidies to agriculture (European Union, Iceland, Japan, Korea, Norway and Switzerland), energy (Indonesia) and housing (Denmark, Luxembourg, Poland and the United States) will generate direct savings to the budget, even if poorer households are compensated as suggested in the case of energy. The same goes for the recommendations to introduce or expand user fees for public services, in particular tuition fees in tertiary education (12 countries) and road pricing (Australia, New Zealand and the United Kingdom).
- In principle, reforms to improve the efficiency of public administrations, as recommended for several countries (see Table 2.5), will also directly improve the budget position. In the short term, however, such reform may entail initial costs if investment in modern equipment and reorganisation is required.
- In other countries, a number of recommendations aimed at boosting human capital and productivity do imply a direct cost to the budget. This is notably the case of suggestions to raise public investment in physical infrastructure (including schools) and innovation (R&D), as well as to devote more resources in education, in particular to help students from disadvantaged background and to increase access to vocational education and training.

The effect of policy priorities on current accounts through their impact on saving and investment

From a national accounts perspective, a surplus or deficit in a country's current account is reflected in a corresponding gap between domestic saving and investment as well as in an offsetting balance in the capital account. In many cases, structural reforms have effects on private and public saving and investment, and thereby on the external balance (see OECD, 2011e, Fournier and Koske, 2010). The main recommendations likely to either weaken or strengthen the current account are reported in Table 2.6.

Labour market and income-support policies influence current accounts mainly via saving

One of the main motives for households' saving is to provide a financial buffer in the event of a sudden drop in income – for instance resulting from a job loss – or of unforeseen spending such as in the case of a health incident involving costly and uninsured care. Virtually all OECD countries provide fairly extended social insurance against these risks, albeit to varying degrees of coverage and generosity. Another key motive for saving is to maintain consumption after working life. In this regard, the nature of public pension

Table 2.6. **The effects of *Going for Growth* 2013 policy recommendations on current account balances**

Going for Growth Policy recommendations			Countries with a Going for Growth priority in this area
	A. Reforms likely to weaken the current account		
Policies to encourage labour force participation	Reforms aimed at extending and beefing-up the coverage of social protection, in particular the scope of unemployment benefits.	Contributes by reducing households' saving for precautionary motives.	CHL, IDN, ITA, JPN, KOR, TUR
	Reforms aimed at raising labour force participation of women, notably through reform of tax and benefit systems and improved access to affordable childcare	Contributes also to reduce precautionary saving by providing households with better diversified source of incomes	CHE, CHL, CZE, DEU, GBR, IRL, ISR, JPN, NLD, SVK,
	Postponing retirement age to raise labour participation of older workers	Reduce private saving as workers have extra years to build retirement income.	FIN, HUN, LUX, SLO
Policies to boost investment and productivity	Foster public and private investment in public infrastructures Raising support to innovation Lowering of barriers to trade and FDI	Contribute to raise total investment in the short and medium term. Saving is also expected to rise as productivity gains are realised, but by less than investment	BRA, IND, IDN, POL AUS, EST, IRL, RUS AUS, CAN, IND, IDN, JPN, KOR, MEX, NZL, RUS
Policies to reduce barriers to competition in services sectors	Reforms of product market regulation aimed at lowering barriers to entry in network industries as well as (retail trade and professional services	Contributes by raising private investment in the short run.	All countries except CZE, EST,NLD, SWE, CHE, GBR, USA
Policies to improve resource allocation	Reforms aimed at increasing the depth, sophistication and resilience of financial sector, including through stronger competition in banking and better regulation.	Contributes mainly by raising investment, but also by lowering saving in countries where the financial system is under-developed.	BRA, CHN, IDN.
	B. Reforms that are likely to strengthen the current account		
Policies to improve job-search incentives	Reforms of benefit entitlements that result in reduced access and/or lower level of benefits (e.g. closing of early retirement pathways, pension reform that lower benefits, reduce levels or duration of unemployment replacement rates).	Aside from raising public saving, contributes by increasing household saving for precautionary motives.	CAN, FIN, HUN, LUX , NLD, POL, SLO
Policies to raise competitiveness and efficiency	Shift in the composition of taxation away from labour and capital and towards consumption, property and environmental bases.	Contributes by raising private saving by more than investment in the short term. The effect can fade in the medium term.	DNK, FIN, HUN, JPN, KOR, NOR, SWE, USA

systems as well as the extent to which they are perceived to deliver adequate income at retirement also determines the saving behaviour of individuals and households.

Against this background, reforms having an impact on the coverage and level of social protection can be expected to affect current account positions in the short and medium term as they influence the need for precautionary and retirement saving by households. Recent empirical evidence found this effect to be most substantial and robust in the case of public spending on health care, but some support was also uncovered for saving effects from unemployment benefits and pensions (Kerdrain *et al.*, 2010).

- In countries characterised by dual labour markets and low participation of specific groups, or where formal-sector employment rates remain well below average, one priority is to increase the levels and duration of unemployment benefits (*e.g.* Chile and Indonesia) or to extend the coverage to poorly protected workers (*e.g.* Italy, Japan, Korea and Turkey). Given that such measures reduce the need for precautionary saving, they are likely to lower private saving in the short and medium run. And, since they also entail higher government transfers, their impact on total saving, and thus on the current account could be even larger, depending on if and how they are funded.

- Conversely, in countries where the design and extent of social protection has resulted in weak job-search incentives or in early exit from the labour force, suggested reforms are likely to encourage higher private saving for precautionary motives. These include, for example, recommendations to lower the level and duration of unemployment income support (*e.g.* Belgium, Finland, France, Ireland, Luxembourg, the Netherlands and Portugal) or to tighten access to disability programmes (*e.g.* Austria, Denmark, Estonia, the Netherlands, Norway, Poland, the United Kingdom and the United States). Since they can also contribute to raise public saving, they can be expected to strengthen the current account.
- In a number of countries (*e.g.* Chile, Czech Republic, Ireland, Japan, Korea, the Netherlands, Slovak Republic, Switzerland and the United Kingdom), recommendations aimed at raising labour force participation of women through reforms of the tax and benefit systems or improved access to affordable childcare could lower household saving. This is because as the sources of household income get better diversified, there may be less perceived need for precautionary saving. However, the magnitude of this effect could be tempered by the fact that some of these measures are often targeted at low-income households who often have little saving capacity in the first place.
- Reforms to the health system are advocated in New Zealand, Switzerland, the United Kingdom and the United States, but in most cases recommendations focus on reducing costs through efficiency gains. The effect of such reforms on private saving is thus far from clear, but insofar as this may reduce public expenditures, total saving may be higher.
- In countries where reform of the general pension systems is seen as a priority, the most common recommendation consists in postponing retirement age (*e.g.* Finland, Hungary, Luxembourg and Slovenia), which is expected to reduce private saving, at least temporarily, as workers have extra working years to build adequate retirement income. In the medium term, however, this effect on total saving and the current account can be more than offset by the favourable impact of the reform on public saving.

Product and financial market policies affect current accounts primarily through their impact on investment

Recommendations that seek to strengthen incentives to invest in physical capital, intangible assets (human and knowledge capital) and public infrastructures will tend to weaken the current account position independently of whether they are recorded in national accounts as investment (tangible assets) or consumption (and thus lower saving as in the case of many intangible assets). While the bulk of recommendations in these areas focus on using existing resources more efficiently and on improving the return on investment – in which case the effect on total investment and the current account may only be felt in the medium term – some may entail a short-term increase in resources invested, either public or private.

- This is the case for instance with recommendations aimed directly at fostering investment in infrastructure (Brazil, India, Indonesia and New Zealand) or at increasing support for innovation (Australia, Estonia, Ireland and Russia). In the area of education, recommendations to ensure adequate school resources (Mexico, Turkey, India and Indonesia) may also require a short-term boost in public or private resources.

- In a number of countries, a reduction in corporate taxation is advocated as part of a broader reform of the tax system. Since this is favourable to private investment, it would tend to weaken the current account. However, given that the broader reform involves a shift in the composition from corporate income tax towards consumption tax, it also reduces the price of domestically-produced goods relative to imported goods (the so-called fiscal devaluation effect), possibly boosting thereby net exports and the current account in the short run.[26] Considering that the competitiveness effect may partly eroded by nominal exchange rate adjustments, the effect could be stronger for euro area countries.
- For countries where this is recommended (see Table 2.6), the removal of barriers to FDI is expected to raise total domestic investment, though the magnitude of the overall effect depends on whether the recommendation applies to economy-wide activities or to a specific sector.
- One set of recommendations which applies to most countries consist in reforming product market regulation to achieve efficiency gains through stronger exposure to competition. By favouring new firms' entry, price reductions and higher demand, a more competitive environment can stimulate investment, in particular if this is accompanied by a lower regulatory burden (Alesina *et al.*, 2005). At the same time, by reducing internally-generated funds, lower mark-ups may depress investment, at least in the short term. Since many of the recommendations to reduce regulatory barriers to competition are directed at specific sectors, which of these effects will dominate initially is likely to depend on industry-specific characteristics such as the existing market structure and the degree of exposure to rapid technological changes. For instance, the opening-up of markets in sectors dominated by large (public or private) incumbents may initially lead to restructuring and thus a temporary fall in investment. It may also depend on whether reductions in barriers to competition affect primarily tradable or non-tradable industries. In the case of trade-exposed sectors, an intensification of competition may improve net exports through competitiveness channels. However, the majority of recommendations concern sectors such as network industries, professional services and retail distribution, whose exposure to foreign trade is for the most part relatively low. In any case, empirical evidence suggests that product market liberalisation (as measured by a decline in the OECD index of product market regulation) tends on average to stimulate aggregate investment even in the short run, but that the impact is small (Kerdrain *et al.*, 2010).

Insofar as they successfully induce future productivity gains, these recommendations will contribute to further raise investment in the medium term, which would tend to weaken the current account. The net effect on the latter thus depends on if and how saving is affected. In principle, private households can anticipate future productivity (and income) gains and raise consumption above current income. Such consumption-smoothing behaviour would reduce saving in the short term, thereby further weakening the current account (Fournier and Koske, 2010; Vogel, 2011). In practice, however, this effect is not supported by empirical evidence, which rather suggests that stronger productivity tends to be associated with an increase in private and total saving in both the short and medium run, implying that households gradually adjust consumption as income gains are realised.

Hence, given the simultaneous rise in saving and investment, productivity-enhancing reforms may not have a large net effect on the current account in the short term, but may lead to a gradually widening deficit over time as consumption catches-up with the rise in income and the initial boost on saving partly fades away.[27]

Reforms designed to foster the development of the financial sector can raise investment by improving access to better diversified sources of credit at lower costs, a view which tends to be supported by empirical evidence. Given that at the same time empirical studies generally point to either a negative or no impact of financial development on saving, the net effect is likely to be a weakening of the current account. Promoting the development and efficiency of the financial sector is seen as a priority for a number of BRIICs countries. However, the more specific recommendations concern policy distortions such as those regarding lending and deposit rates (China), mandated credit provisions (Brazil, India), the prevalence (China) or limited exposure of state-controlled financial institutions to competition (Brazil) that may have contributed to a misallocation of capital. Hence, the aggregate effect from removing these distortions on investment and the current account may not be very significant, at least in the short run.

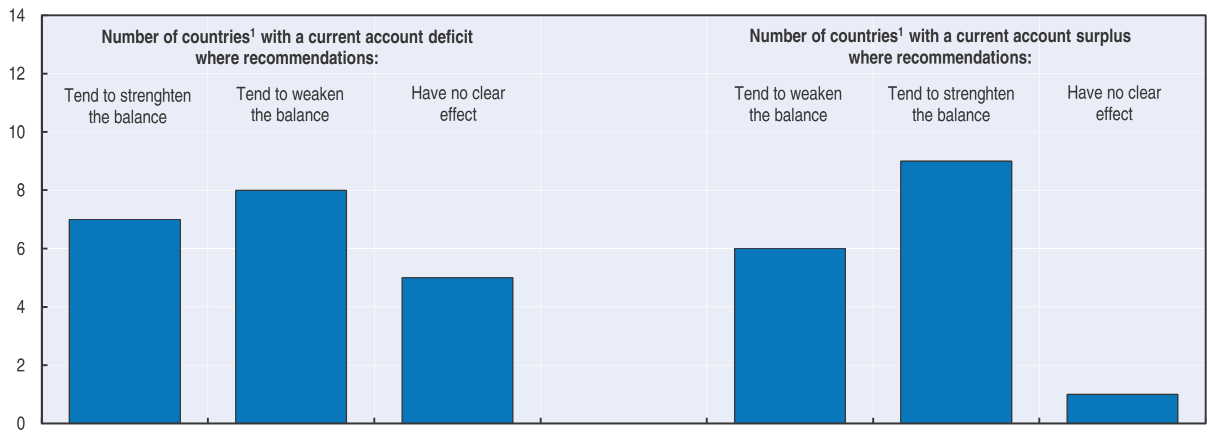
Assessing the overall impact of growth-oriented policies on current account balances

Table 2.7 provides an overview for individual countries of the likely impact in the short term of recommended reforms on the current account. As in the case of income inequality and the environment (see above), the table is only indicative of the likely direction of the effects and no attempt is made to gauge their magnitude. Overall, for around half of the recommended reforms, the direction of the effect on the current account balance is difficult to determine *a priori*. The other half is split more or less equally between those that weaken the current account and those more likely to strengthen it. Taking these results at face value, and ignoring potential differences in the magnitude of effects, Figure 2.8 provides an illustration of the extent to which the set of recommendations might contribute to narrow imbalances or, in contrast, create conflict (trade-offs) with this objective. Among deficit countries, the number of cases where the recommendations would lead to complementarities between the growth and external account objectives is nearly the same as for cases where trade-offs would arise. As for surplus countries, there would be somewhat more cases of trade-offs than complementarities, although the latter group would include some of the larger countries (*e.g.* Germany, Japan and Korea).

Table 2.7. Number of *Going for Growth* 2013 priorities likely to weaken or strengthen the current account

	Number of recommendations likely to weaken the current account	Number of recommendations likely to strengthen the current account	Number of recommendations with an undetermined impact on the current account
Australia	2	1	2
Austria	1	2	2
Belgium	1	1	3
Canada	2	1	2
Chile	2	0	3
Czech Republic	1	1	3
Denmark	1	2	2
Estonia	0	2	3
Finland	1	2	2
France	1	1	3
Germany	2	1	2
Greece	0	1	4
Hungary	0	3	2
Iceland	1	0	4
Ireland	3	0	2
Israel	1	1	3
Italy	0	2	3
Japan	2	1	2
Korea	2	1	2
Luxembourg	1	2	2
Mexico	2	0	3
Netherlands	0	3	2
New Zealand	2	0	3
Norway	0	2	3
Poland	1	2	2
Portugal	1	2	2
Slovak Republic	1	0	4
Slovenia	0	2	3
Spain	1	1	3
Sweden	0	2	3
Switzerland	1	1	3
Turkey	2	0	3
United Kingdom	1	0	4
United States	0	1	4
Brazil	1	2	2
China	2	0	3
India	3	0	2
Indonesia	1	1	3
Russia	1	2	2
South Africa	1	2	2

Figure 2.8. **Recommended reforms have a mixed impact on current account imbalances**



1. This includes countries where the current account balance is estimated to have exceeded 1 percentage point of GDP in 2012.
Source: *OECD Economic Outlook 92 Database.*

StatLink http://dx.doi.org/10.1787/888932775820

Notes

1. Highlights of this work includes the 2011 report "How's Life?" (OECD, 2011f) and the interactive well-being assessment tool "Your Better Life Index".
2. For a revision of the limitations of GDP to gauge material living standards and well-being see also Chapter 6 of the 2006 edition of *Going for Growth* on "Alternative Measures of Well-Being" (OECD, 2006b). Some measures that extend GDP numbers to non-market production, and thereby may come closer to indicators of well-being, have also been explored the 2011 edition of *Going for Growth* (Annex 1 of OECD, 2011e). See also Jones and Klenow (2010) for a summary statistic for nations' flow of welfare.
3. On income inequality see Chapter 5 of *Going for Growth* 2012 (OECD, 2012a), OECD (2011a) and OECD (2008a); on green growth see OECD (2011c), de Serres *et al.* (2010) and OECD (2008b); on fiscal and current account balances see Chapter 1 and Chapter 5 of *Going for Growth* 2011 (OECD, 2011e) and Kerdrain *et al.* (2010).
4. These difficulties notwithstanding, an attempt to assess the redistributive impact of in-kind transfers can be found in Chapter 9 of OECD (2011a).
5. Given that such a policy may also strengthen the attachment to the labour market of individuals at higher risk of being unemployed – improving thereby their human capital development and career progression – the effect on inequality may not be so clear from a life-time perspective.
6. 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.
7. For an extensive discussion of the trade-off between higher overall employment rates and higher wage dispersion brought about by less generous unemployment benefit replacement rates, declining union coverage and lower minimum-to-median wage rates, see OECD (2011a).
8. This is assuming that the income distribution of pension income is not too different from that of labour income. In fact, in several countries, pension replacement rates are significantly higher at low than at higher income levels, suggesting a more compressed income distribution. Furthermore, in ten OECD countries, the share of individuals below the poverty threshold is found to be lower among pensioners than among the working population (OECD, 2011g).
9. One recent study has shown that once older workers lose employment, it can be very difficult for them to find work, especially those with low education, and that when they find work, they generally experience sharp wage declines (Johnson and Mommaerts, 2011).

10. The relative poverty rate of women is higher than that of men in most OECD countries. The difference is more pronounced for pension-age than for working-age women as a result of lower labour market participation of women, especially in the past (which translates in less pension rights), and their longer life expectancy (OECD, 2008a).
11. See, for instance, Fournier and Koske (2012); Ponthieux and Meurs (2005).
12. See Chapter 1 of the 2011 edition of *Going for Growth* (OECD, 2011e). Although it can take up to a generation until all the GDP per capita gains from such reforms are realised, small improvements labour force skills can produce large gains in future GDP per capita (OECD, 2010b).
13. The direction of the change in relative returns depends on many factors, in particular the substitutability or complementarity between low- and highly-educated workers.
14. It needs also to be borne in mind that while the returns to lower-secondary education have declined over time, those to post-secondary education have risen (Lemieux, 2006; Machado and Mata, 2001), an indication that the demand for skills has outpaced its supply, which is possibly associated with skill-biased technological change.
15. Empirical evidence suggests that any negative effects of tuition fees on participation rates can be fully offset through improvements in the financial support for students (OECD, 2008c; Heller, 1999). For a discussion on the practical implementation of income-contingent loans and student financial support schemes see OECD (2008c). Also where this leads to better funding of higher-education institutions, the rise in tuition fees should take place in a context where the governance of these institutions is conducive to transparent and accountable management of funds.
16. The introduction of thresholds is important also to avoid that higher property taxation feed through higher tenant's rents for poor individuals.
17. For instance, electricity and water taxes are particularly regressive, while car registration duties and petrol taxes may even be progressive.
18. In this case, the effect is not on income distribution but on inequality in consumption.
19. In the case of Indonesia, World Bank (2012) analysis shows that in 2009 40% of the gasoline subsidies went to the richest 10% and less than 1% to the bottom 10%. See also G20 Green Growth Strategy for an extensive and well-documented discussion on the regressivity of fossil fuels subsidies (IEA, OPEC, OECD and World Bank, 2011).
20. For instance, this is often claimed to be the case for many European OECD countries (Parry and Small, 2005; Ley and Boccardo, 2010). For several OECD countries, excise taxation is considered exceeding the externalities related to petrol, but underpricing diesel (Égert, 2012). In addition, a large share of environmentally-related revenues comes from motor vehicle taxes (over 20% on average).
21. Revenues can also be generated from auctioned tradable (emission) permits (Duval, 2008; de Serres *et al.*, 2010).
22. According to the IEA, some 370 million people in India and Indonesia combined lack access to the electricity grid (Database on 2009 electricity access, IEA, 2011).
23. More broadly, support to the consumption of fossil fuels in OECD countries is estimated to reach some USD 55-90 billion annually (about 0.2% of GDP), while exceeding USD 100 billion in the BRIICS (some 1½ per cent of GDP).The figures for fossil fuel support in OECD and BRIICS countries are calculated using different methodologies and hence not directly comparable. BRIICS data is 2008-10 average and is based on the price-gap methodology (IEA, 2011). OECD data (2005-11) comes from OECD inventories of fossil fuel support (OECD, 2013).
24. For instance, empirical estimates based on past country experience suggest that an increase of 20% in childcare spending may be required to raise female participation rates by 1 percentage point (Jaumotte, 2003).
25. This is an average result based on past experience with reforms among OECD countries. The analysis shows that countries that spend more on activation measures per unemployed worker (as a share of GDP per capita) tend to have significantly lower unemployment rates (see also Bassanini and Duval, 2006).
26. In the short term, assuming unchanged government expenditures, private consumption must fall sufficiently relative to income to accommodate the rise in investment and exports, implying that private saving must increase by more than investment.

27. This is consistent with evidence showing that higher productivity growth tends to boost both saving and investment in the short and longer run, but with the impact on saving falling short of that on investment (Kerdrain *et al.*, 2010).

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Economic Policy Reforms 2013
Going for Growth

Chapter 3

Country notes

This chapter contains individual notes that provide, for each country, a rationale for the selection of the five policy priorities in terms of the performance weaknesses they are intended to address, as well as concrete recommendations to remedy the perceived shortcomings in the related policy area.

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.

AUSTRALIA

- Over the past decade, per capita income grew strongly in Australia, fostered by high terms of trade and employment rates. As a result, it has significantly surpassed the average of the most advanced OECD countries. However, productivity gains have substantially weakened over this period, partly due to temporary effects linked to the on-going mining boom.
- Employment performance has remained remarkable over the past years, thanks to structural reforms which brought many long-term unemployed, older workers, lone mothers and partly-disabled people into employment.
- Sustaining past trend growth of living standards would be helped by improving the long-term drivers of productivity such as the tax system, infrastructure and innovation policy.
- Raising enrolment in pre-primary education would help boosting female employment while improving equality of opportunities and social mobility.

Growth performance indicators

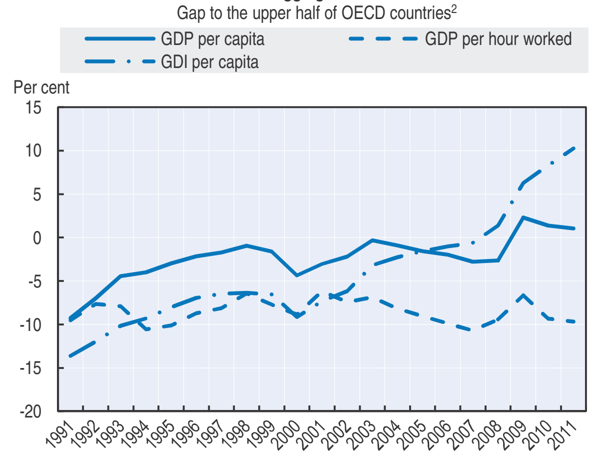
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.6	1.3
Potential labour utilisation		0.5	0.2
of which:	Labour force participation rate	0.3	0.2
	Employment rate[1]	0.2	0.0
Potential labour productivity		1.1	1.1
of which:	Capital intensity	0.7	1.1
	Labour efficiency	0.3	-0.2
	Human capital	0.1	0.2

B. The gap in GDP per capita has been closed but productivity has been lagging somewhat

Gap to the upper half of OECD countries[2]



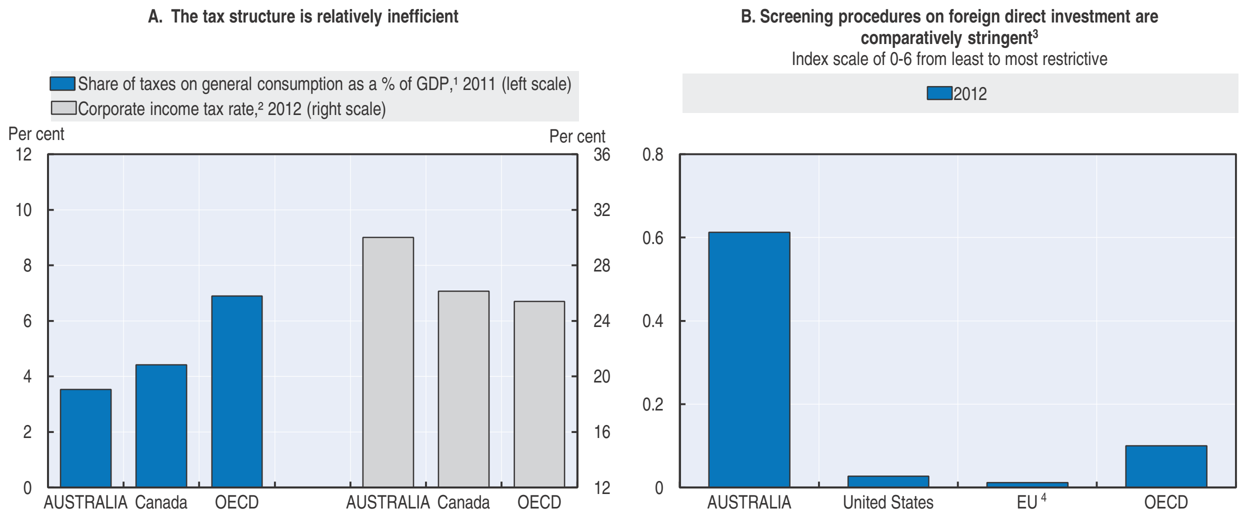
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932775839

AUSTRALIA

Policy indicators



1. Data refer to 2010 for Australia.
2. Combined central and sub-central (statutory) corporate income tax rate.
3. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.
4. Average of 21 EU countries members of the OECD.

Source: OECD, *Revenue Statistics and Tax Databases*; *www.oecd.org/social/inequality.htm*.

StatLink http://dx.doi.org/10.1787/888932775858

Going for Growth 2013 priorities

Priorities supported by indicators

Improve the efficiency of the tax system. General consumption tax burden is relatively low while headline company tax is comparatively high for a capital-importing country like Australia.

Actions taken: To ease the tax burden on businesses and on SMEs in particular, simplified and more generous amortisation rules are in place since July 2012 and it is now possible to "carry back" losses to offset past taxable income.

Recommendations: Reduce the corporate tax rate. To enlarge the room for manoeuvre, measures to offset the fiscal revenue losses should go beyond the increases in other business taxes currently envisaged and include a higher goods and services tax (GST), whose rate is low and base narrow, and/or cuts in subsidies, for instance, for the automotive sector and irrigation infrastructure.

Relax barriers to foreign direct investment. Screening procedures on foreign direct investment are comparatively stringent.

Actions taken: No action taken.

Recommendations: Apply to other countries the lighter screening procedures granted to the United States. Provide for the formal involvement of specialised agencies (*e.g.* national security) in the screening procedure to enhance transparency.

Enhance capacity and regulation in infrastructure. Addressing infrastructure service shortfalls in a cost-effective way will help productivity performance and sustainable growth.

Actions taken: Efforts have been made to attract greater private participation in financing infrastructure projects, including by introducing a more favourable tax treatment of business losses for projects in the 2011-12 Budget.

Recommendations: Expand user and congestion charges in transport.

Other key priorities

Improve performance of early childhood education. Enrolment rates in pre-primary education are lower in Australia than in the best-performing OECD countries in this domain.

Actions taken: Access to pre-school education for all children aged four should be available by 2013 for 15 hours a week, 40 weeks a year.

Recommendations: Reform childcare support to better account for the higher costs of pre-primary education for very young children. Enhance targeting of childcare support by making it more conditional on employment and job search equipments for parents without special disadvantages.

****Enhance innovation policy*.***[1] Innovation performance is weakened by the limited collaboration between firms and universities.

Recommendations: Fiscal savings allowing, introduce new measures to complement existing support mechanisms to boost business-research collaboration, *e.g.* well-designed innovation vouchers for academic contracting. Ensure that additional measures take into account the local context in which they are implemented, that they are simple to use and effectively advertised with efficient brokering.

Previous *Going for Growth* recommendation no longer considered a priority

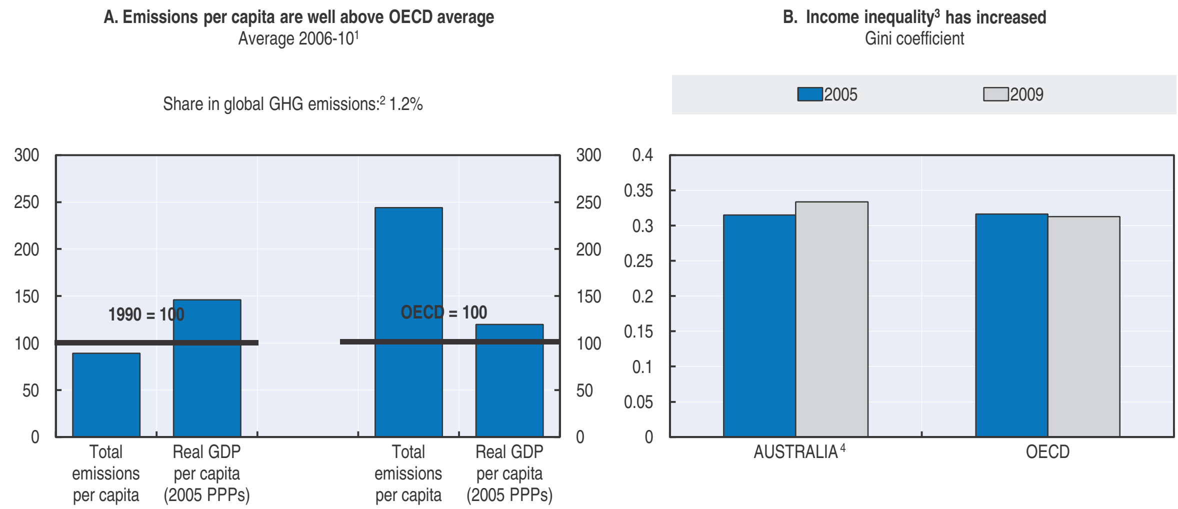
Increase incentives for workforce participation. In order to raise labour market participation it was recommended that disincentives embedded on the tax and benefit system be removed.

Actions taken: Recent reforms to promote workforce participation have included a further reduction of personal income tax for low-income earners in the 2012-13 Budget, a phasing out of tax offsets for the dependent spouse since July 2011, changes in income support for single parents as from 2013, a gradual change in the retirement age from 65 in 2017 to 67 in 2023, new rules to foster partly-disabled people search for jobs since July 2012 and higher wage subsidies for employers hiring people with disability.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

AUSTRALIA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2004 and 2009/2010.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data, *www.oecd.org/social/inequality.htm*.

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AUSTRIA

- The small GDP per capita gap *vis-à-vis* leading OECD economies has continued to narrow, reflecting labour productivity gains. Improvements in labour force participation – especially of older workers – have been partly offset by cyclically declining average hours worked.
- Progress has been made to tighten eligibility to early retirement schemes. In contrast, little has been achieved to reduce the labour tax burden and to enhance competition in the service sector.
- Reducing effective marginal income tax rates, in particular for the low-skilled, would improve work incentives and together with further steps towards eliminating all subsidised avenues to early retirement, would strengthen labour utilisation. Enhancing competition in the service sector and improving the general level of education by facilitating higher tertiary graduation rates would foster productivity growth.
- Improving educational outcomes and access to higher education for immigrants and disadvantaged youth would also boost human capital accumulation and reduce inequality. Shifting taxation from labour income towards environmental externalities would support sustainable growth.

Growth performance indicators

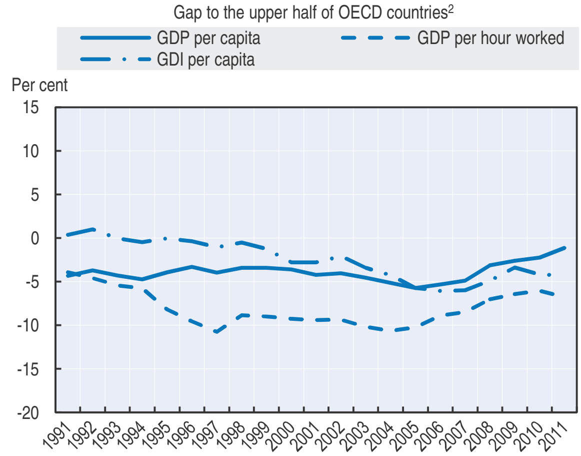
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.4	1.3
Potential labour utilisation		0.2	0.4
of which:	Labour force participation rate	0.3	0.4
	Employment rate[1]	0.0	0.0
Potential labour productivity		1.2	0.9
of which:	Capital intensity	0.3	0.2
	Labour efficiency	0.7	0.6
	Human capital	0.2	0.1

B. The small gaps in GDP per capita and productivity have been reduced

Gap to the upper half of OECD countries[2]



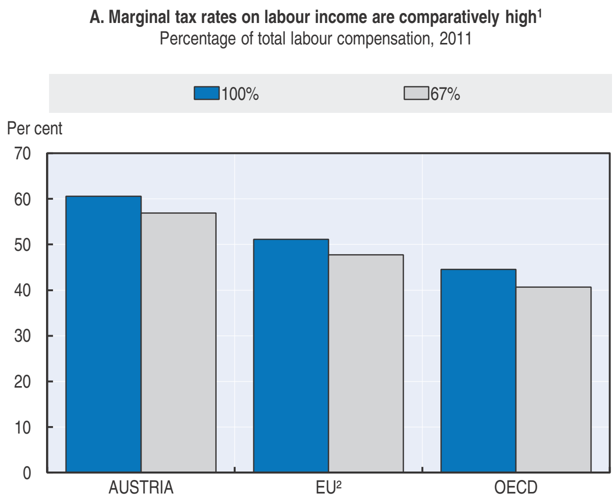
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

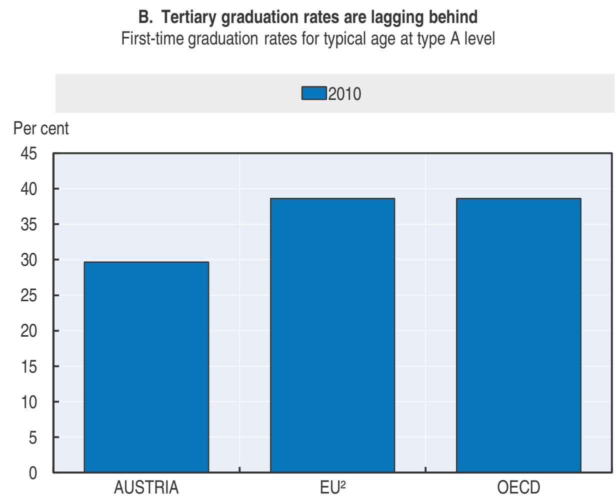
Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932775896

AUSTRIA

Policy indicators





1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Evaluated at 100% and 67% of average earnings for a single person with no child.
2. Average of 21 EU countries members of the OECD.

Source: OECD, *Taxing Wages Database and Education at a Glance 2012: OECD Indicators.*

StatLink http://dx.doi.org/10.1787/888932775915

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Lower marginal tax rates on labour income. High effective marginal income tax rates especially at low income levels undermine work incentives.

Actions taken: The 2012 consolidation package includes increases in social security contributions and income taxation for high-income earners and the abolition of exemptions from unemployment contributions for older workers.

Recommendations: Reduce marginal income tax rates especially for low-skilled workers, by partly or fully waiving social security contributions, financed by a further broadening of the tax base and increases in consumption, environmental and recurrent property taxes.

Reduce incentives to exit early from the labour force. The effective retirement age remains low and several subsidised avenues to early retirement still exist.

Actions taken: In 2011 and 2012 eligibility to early retirement schemes, in particular to invalidity pensions, has been tightened. In addition, initiatives to improve the health-related employability of older workers have been launched, such as consulting services on health at the workplace ("fit2work") and better streamlined occupational medical examinations ("*Gesundheitsstraße*").

Recommendations: Eliminate all remaining subsidised avenues to early retirement. Tighten eligibility to disability pensions also for those above 50 and help partially disabled to better use their remaining work capacity.

AUSTRIA

Reduce barriers to entry in network industries. Limited competition in network industries slows productivity growth and innovation.

Actions taken: A Natural Gas Act strengthening competition was adopted in 2011. A new regulation to facilitate switching suppliers from 2013 onward has been issued by the regulator.

Recommendations: Ensure that network access prices are not kept artificially high. Stimulate competition in railways. Eliminate or reduce all remaining cross-subsidies in all network industries.

Other key priorities

Improve graduation rates for tertiary education. Tertiary attainment – including of immigrants – is below EU average, in contrast to high post-secondary non-tertiary graduation rates. Drop-out rates from tertiary education are also high, holding back productivity growth and innovation.

Actions taken: The 2012 consolidation package envisages additional public funds for tertiary education of about EUR 1 billion over 2013-16, partly allocated based on performance indicators. The New Secondary School ("Neue Mittelschule"), which unifies formerly separated pupils aged 10-14, is planned to replace general secondary schools nation-wide by 2018-19.

Recommendations: Clarify the legal basis to allow universities to re-introduce tuition fees accompanied by a comprehensive grant and income-contingent student loan system to avoid socio-economic segregation.

Reduce barriers to competition in professional services and retail trade. Restrictive regulations (including self-imposed ones) in many services hinder competition and productivity growth.

Actions taken: The Horizontal Services Act implementing the EU Services Directive was adopted in 2011. The social partners have submitted proposals to reform the competition law and strengthen the competition authority.

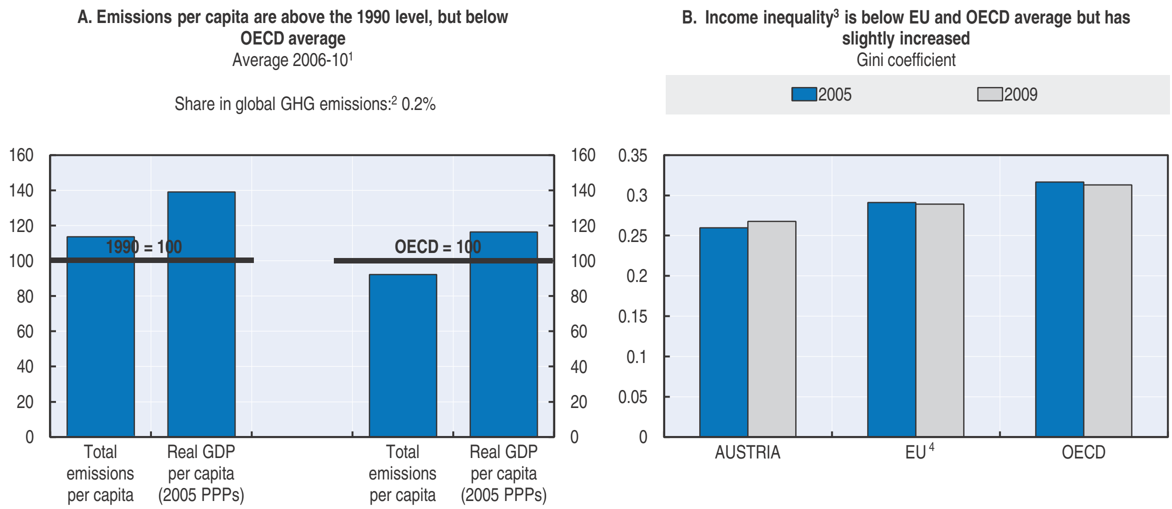
Recommendations: Reduce the statutory regulations of trades and professions and curb sectoral self-regulations. Abolish compulsory membership to professional associations in liberal professions.

Previous *Going for Growth* recommendations no longer considered as a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

AUSTRIA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932775934

BELGIUM

- The small income gap *vis-à-vis* the upper half of the OECD has remained steady in recent years, with a decline in the (positive) labour productivity differential and hours worked offset by higher employment rates.
- The government aims at increasing the low effective retirement age by raising the standard (as well as the special regimes) minimum retirement age and the number of contribution years to be eligible for a full pension. Also, pensions for public employees will be brought closer to that of the standard pension system. In addition, unemployment benefits are declining over four years to a level just above that of social assistance, which in combination with activation measures taking place at an earlier stage of the unemployment spell, provide for enhanced job-search incentives and prospects.
- A better performance hinges on removing unemployment and other labour market traps, including by reducing taxation of labour as well as through greater efficiency in policies aimed at helping unemployed workers to return to work and older workers to remain active. In addition, the wage determination process should ensure that wage and productivity developments are broadly aligned. Promoting product market competition in network industries by reducing regulatory layers would bolster productivity growth.
- At the same time, shifting the tax structure from labour to environmental taxes could favour higher and more sustainable growth.

Growth performance indicators

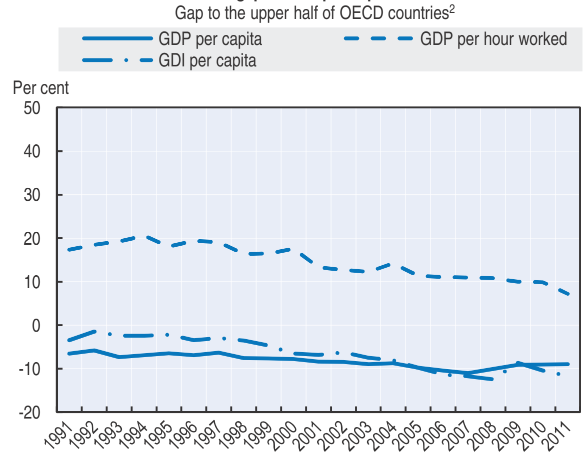
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.2	0.6
Potential labour utilisation		0.4	0.1
of which:	Labour force participation rate	0.4	0.1
	Employment rate[1]	0.0	0.0
Potential labour productivity		0.8	0.5
of which:	Capital intensity	0.1	0.3
	Labour efficiency	0.2	-0.1
	Human capital	0.4	0.4

B. There has been little progress in narrowing the gap in GDP per capita

Gap to the upper half of OECD countries[2]



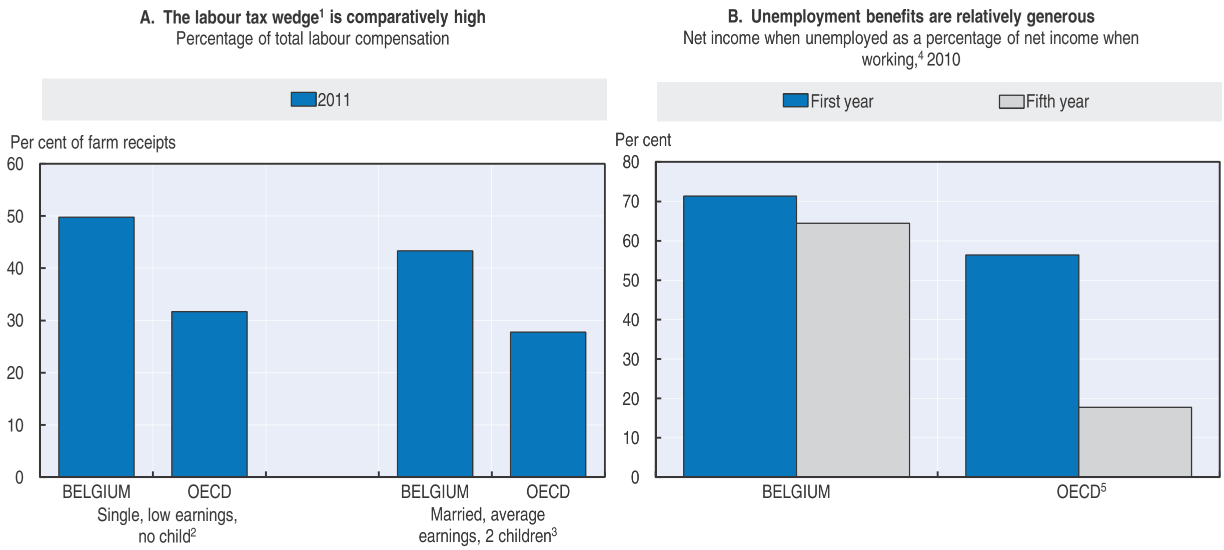
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932775953

BELGIUM

Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. Low earnings refer to two-thirds of average earnings.
3. At 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
4. Average of net replacement rates for single, one-earner couple, at 67% and 100% of average wage with and without children.
5. OECD average excludes Chile and Mexico.

Source: OECD, *Labour and Taxing Wages Databases*; *Tax-Benefit Models*.

StatLink http://dx.doi.org/10.1787/888932775972

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce the labour tax burden and enhance work incentives in the tax system. The interaction of the tax and social security contribution systems creates numerous labour market traps.

Actions taken: Existing cuts in social security contribution have been expanded to include the first three recruited employees in SMEs.

Recommendations: Remove spikes in effective marginal tax rates. Narrow the scope of wage subsidies and reductions of social security contributions to low-wage workers. Reduce taxes on labour income and offset the revenue shortfall by a higher reliance on property and environmentally related taxes.

Reform the unemployment benefit system while strengthening the efficiency of activation. The unlimited duration of unemployment benefits undermines search incentives.

Actions taken: Since November 2012, unemployment benefits are being reduced gradually to a level slightly above social assistance after four years and activation starts after one year of unemployment. The waiting period for youth to receive unemployment benefits after graduation has been expanded to one year and the entitlement period limited to three years. Control of search activity is being transferred to the regions.

Recommendations: Shorten the still long benefit period and lower generous ceiling for higher income workers. Furthermore, activation should start even earlier in the unemployment spell and be effectively applied to all age groups.

Reform wage bargaining. The highly coordinated wage bargaining system prevents the alignment of wages to productivity developments and automatic wage indexation erodes external competitiveness.

Actions taken: No action taken.

Recommendations: Decentralise wage negotiations and encourage social partners to phase out the automatic wage indexation mechanism.

Other key priorities

Reduce the implicit tax on continued work. Employment rates for older workers are low due to the widespread use of early retirement schemes and other possibilities for early exit from the labour market.

Actions taken: The minimum age for early retirement is being gradually increased to 62 with 40 years of career, but earlier exit is still possible for longer careers. These changes were approved in 2012 and will be fully implemented in 2015. The minimum age (and career requirement) in the pre-pension system is also being increased to 55 years. Moreover, pre-pension years prior to the age of 60 will no longer be fully included in the calculation of pension rights.

Recommendations: Increase the minimum retirement age further and phase out occupational exemptions. Reduce the use the unemployment benefit system as a gateway to early retirement by extending the surtax on employer-provided top-ups to unemployment benefits to all wage agreements.

Increase product market competition in network industries. Competition in network industries is hampered by the multi-layered regulatory setup.

Actions taken: The energy regulator's access to information was improved in 2011 and its powers enlarged the following year, including right to approve energy suppliers' proposed tariff increases.

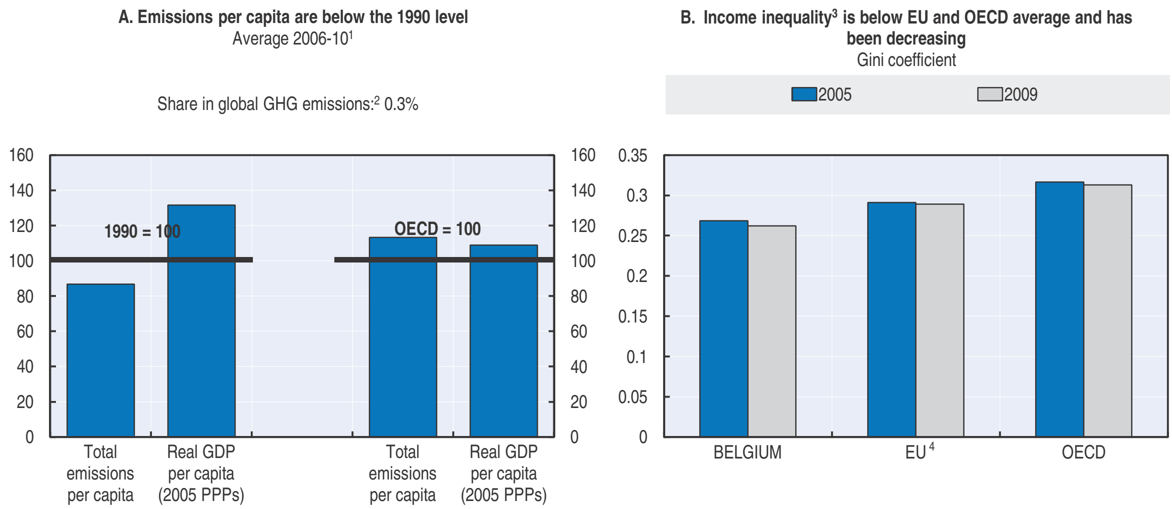
Recommendations: Establish a single independent regulator for each network industry. Simplify universal service obligations, including competitive tendering and government financing.

Previous *Going for Growth* recommendations no longer considered as a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

BELGIUM

Other dimension of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; *OECD, Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932775991

BRAZIL

- The GDP per capita gap with OECD countries is slowly diminishing but remains large and is mainly due to comparatively weak labour productivity performance.
- Among key priority areas, progress has been made in improving access to education (notably through the effects of conditional cash transfers), in promoting infrastructure investment and in reducing informality in labour market. However, the areas of tax reform and financial markets have seen less progress.
- A more educated workforce, better infrastructure, less tax distortion and more efficient financial intermediation would support productivity improvements, while labour utilisation could be enhanced by raising effective retirement ages.
- Educational attainment displays a highly uneven distribution, although better access to education has contributed to decreasing income inequality in recent years. Additional action in this area would not only increase economic growth, but could at the same time lead to further reductions in income inequality.

Growth performance indicators

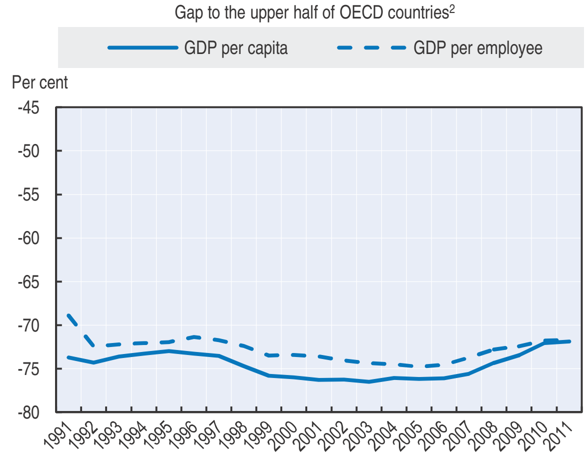
A. Average annual growth rates

Per cent

	2001-06	2006-11
GDP per capita	2.1	3.3
Labour utilisation[1]	1.4	0.9
Labour productivity	0.7	2.4

B. Gaps in GDP per capita and productivity are large but have started to decline

Gap to the upper half of OECD countries[2]



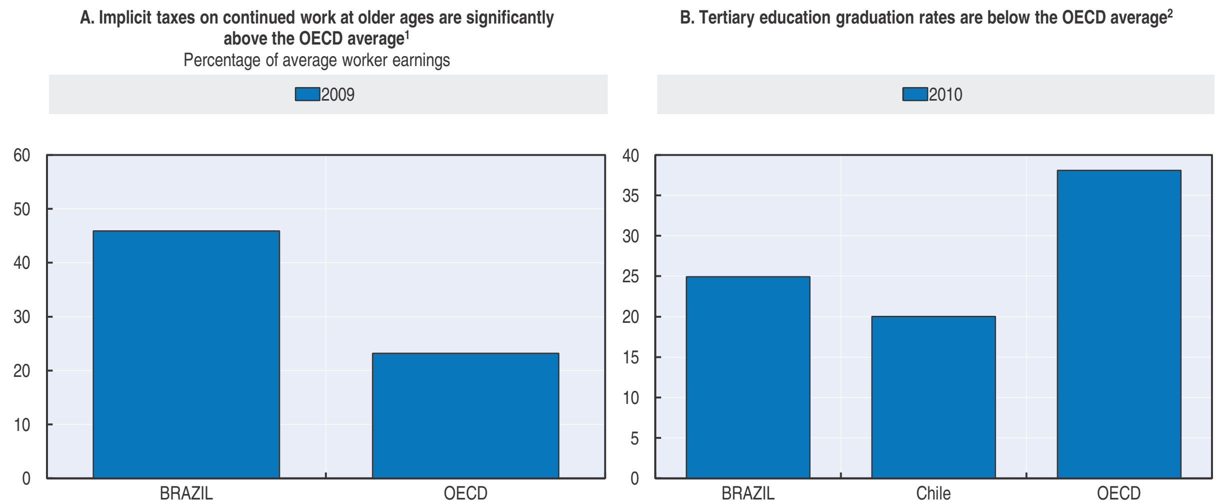
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*; World Bank (2012), *World Development Indicators* (WDI) and ILO (2012), *Key Indicators of the Labour Market (KILM) Databases*.

StatLink http://dx.doi.org/10.1787/888932776010

BRAZIL

Policy indicators



1. Implicit tax on continued work for five more years embedded in the regular old-age pension scheme for 60 year-olds.
2. First degree graduation rates for typical age at tertiary-type A level.

Source: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", *OECD Economics Department Working Papers*, No. 370, OECD Publishing; OECD calculations and OECD Pension models; OECD, *Education at a Glance 2012: OECD Indicators*.

StatLink http://dx.doi.org/10.1787/888932776029

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Enhance outcomes and equity in education. Increasing the overall education level of the workforce would accelerate productivity growth.

Actions taken: The 2011-20 National Education Plan continues to provide additional funding and incentives for basic and professional education. New programmes, established in 2011, finance vocational training of low-skilled workers and scholarships for tertiary education.

Recommendations: Focus on improving the quality of education through better teacher pay, training and stronger performance incentives. Expand tertiary vocational and professional training programmes to address skill shortages and reduce drop-out rates.

Improve incentives for formal labour force participation, especially among seniors. Reforming public benefit programmes would raise the currently low formal-sector participation levels.

Actions taken: The March 2012 reform of the public-sector pension regime introduced savings-based benefits and will improve incentives for continued work. Payment of unemployment benefits to repeated claimants has been made conditional on training participation in July 2012.

Recommendations: Remove disincentives to formal labour force participation ensuing from benefit programmes and related contributions. In particular, introduce a general minimum retirement age, contain pension increases and reduce social contributions for low-paid workers.

Reduce distortions in the tax system and lower the labour tax wedge. A less onerous tax system and lower labour tax wedges would contribute to faster productivity gains.

Actions taken: In 2012, labour contributions have been cut in tradable sectors such as automotive parts, textiles and electronics. Indirect taxes on imports have been harmonised across states.

Recommendations: Reduce fragmentation and complexity of the tax system. Unify state-level value-added tax (VAT) rates and bases for domestic goods, and ease the tax burden on labour income more broadly.

Other key priorities

Increase private investment in infrastructure and remove remaining barriers to competition. Better infrastructure, accessible at competitive prices, would lead to higher productivity growth.

Actions taken: New concessions for airports have been successfully offered to the private sector in 2012. Furthermore, sale of concessions for 9 highways and 12 railways has been announced.

Recommendations: Promote private-sector participation in infrastructure, through more public-private partnerships and concessions. Promote competition where possible, including by regulating network access charges. Improve management capabilities for infrastructure projects at the state and municipality level. Scale down public current expenditures to promote infrastructure investment.

Improve the efficiency of financial markets. Long-term financial markets are underdeveloped, hampering capital allocation and productivity.

Actions taken: Despite measures to encourage private engagement in long-term credit markets and a slight decrease in directed lending volumes by the public development bank in 2011, the public sector remains dominant in this segment. Public banks have taken the lead in cutting intermediation spreads.

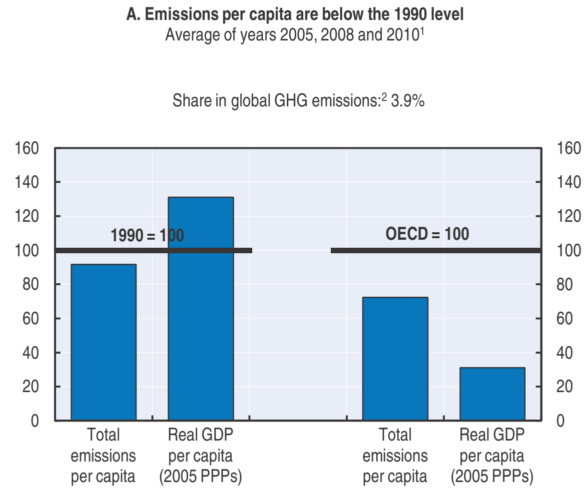
Recommendations: Gradually phase out mandated credit provisions to certain sectors, including agriculture and housing. Allow private banks to compete on equal terms with public entities in long-term lending. Ease bank reserve requirements to lower intermediation costs over the medium term, in accordance with the objective of ensuring both the stability and development of financial markets.

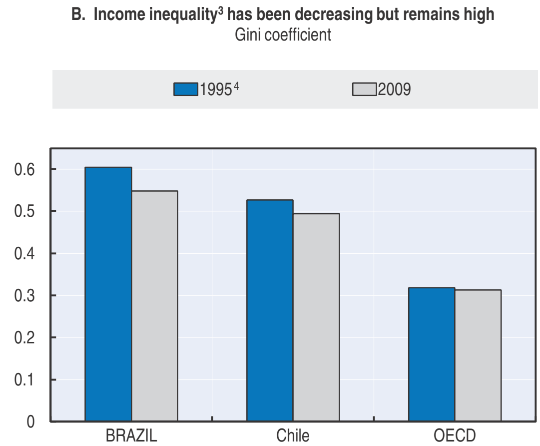
Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

BRAZIL

Other dimensions of well-being: Performance indicators





1. Total GHG emissions in CO_2 equivalents from the *International Energy Agency (IEA) Database*. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on per capita income for Brazil.
4. Data refer to 1993 for Brazil and to 1996 for Chile. The OECD average excludes Estonia, Iceland, Korea, Poland, Slovak Republic, Slovenia and Switzerland.

Source: OECD, *Energy (IEA) Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776048

CANADA

- GDP per capita continues to trail just below that of the average of the upper half of the OECD member countries. This performance is entirely related to the gap in productivity.
- Revisions to the Employment Insurance programme should help to raise labour mobility. Less progress has been achieved to reduce barriers to entry for domestic and foreign firms.
- Policies must be initiated to raise productivity by, most notably, reducing barriers to foreign direct investment, enhancing business research and development (R&D) expenditures and strengthening tertiary education attainment rates.
- Improved access to tertiary education for disadvantaged students and immigrants could raise their employment and wage prospects while boosting labour utilisation and productivity. Shifting the tax structure towards environmentally related taxation could improve incentives for greener growth.

Growth performance indicators

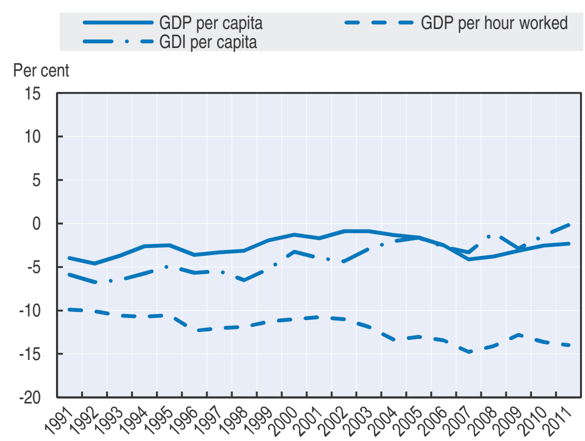
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.2	0.5
Potential labour utilisation		0.4	0.0
of which:	Labour force participation rate	0.3	0.0
	Employment rate[1]	0.1	-0.1
Potential labour productivity		0.8	0.6
of which:	Capital intensity	0.7	0.9
	Labour efficiency	-0.1	-0.4
	Human capital	0.2	0.1

B. The small gap in living standards persists

Gap to the upper half of OECD countries[2]



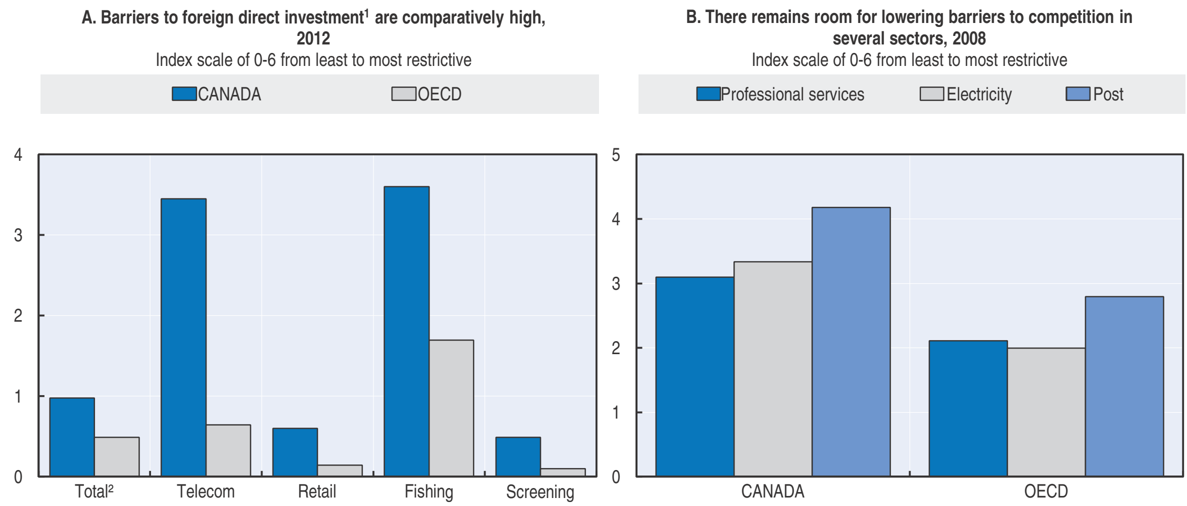
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts* and *OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932776067

CANADA

Policy indicators



1. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.
2. "Total" FDI restrictiveness includes the "screening" sub-component.

Source: OECD, *www.oecd.org/social/inequality.htm* and *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932776086

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce barriers to entry and enhance capacity in network sectors and professional services. Poor regulation in network sectors and professional services deters investment and innovation.

Actions taken: No significant action taken.

Recommendations: Move towards more integrated and competitive electricity markets. Eliminate Canada Post's legally protected monopoly. Take steps to apply the renegotiated Labour Mobility Chapter of the Agreement on Internal Trade as broadly as possible, and review aspects of the regulation of professions and skilled trades that continue to hinder interprovincial mobility and competition.

Reduce barriers to foreign direct investment. Barriers to competition in key industries can be reduced to facilitate a rise in inward foreign direct investment (FDI).

Actions taken: The government announced that it would lift foreign investment restrictions for telecommunications companies that hold less than 10% of the market.

Recommendations: Continue to lift FDI restrictions in key sectors, such as telecommunications, airlines and broadcasting. Clarify the net benefit test for FDI, and apply it strictly.

Reform the tax system. The tax structure could be made more growth-friendly by shifting the burden from direct to indirect taxes.

Actions taken: The Harmonized Sales Tax has by now been implemented in half of the ten provinces. The federal government has gradually reduced the general corporate income tax

CANADA

rate to 15% by early 2012. Also, the 2012 federal budget extends the capital cost allowance, among others, to a broader range of bio-energy equipment.

Recommendations: Increase environmental and value-added taxes, and reduce regressive and distortive income tax expenditures, to further lower corporate and/or personal income tax rates.

Other key priorities

**Enhance tertiary education outcomes*.*[1] Strengthened tertiary outcomes would boost innovation and respond to future labour-market needs.

Recommendations: Improve access for disadvantaged groups by increased need-based financial assistance and better information provision. Allow a greater share of immigrants to enter *via* the tertiary system as foreign students. Promote quality and efficiency through greater differentiation in terms of the comparative advantages between institutions that excel in research and those more dedicated to teaching.

Improve R&D support policies. Greater and more targeted investments in R&D may effectively raise the ability of firms to innovate and commercialise their products.

Actions taken: Following the 2011 report of the Expert Panel on federal support to R&D, the 2012 budget streamlined R&D tax credits and used part of the savings to increase direct grants.

Recommendations: Further improve targeting of government support for business R&D by shifting funding at the margin away from the Scientific Research and Experimental Development (SR&ED) tax subsidies *via* a lowering of the refundable small-firm SR&ED rate toward the large-firm rate. Use savings to reinstate capital costs in the eligible base and scale up direct grants. Ensure that grants are competitively allocated.

Previous *Going for Growth* recommendation no longer considered a priority

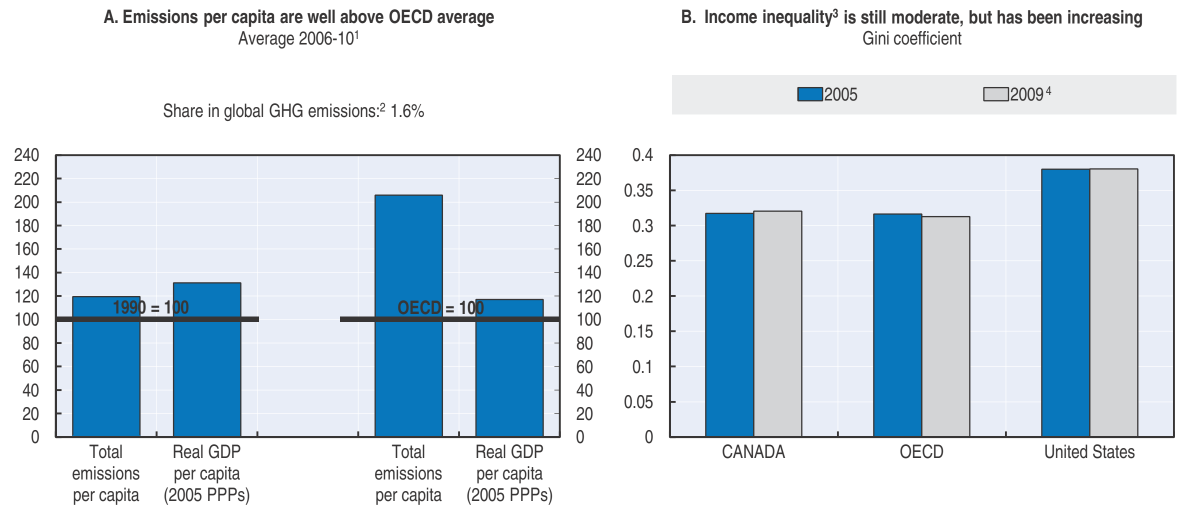
Reform the Employment Insurance programme. In order to reduce unemployment persistence and foster labour mobility, it was recommended to introduce experience rating into Employment Insurance or to scale back access for seasonal or temporary workers in high-unemployment regions.

Actions taken: The 2012 federal budget introduced significant tightening of Employment Insurance (EI) rules based on a worker's history of use of EI benefits: the longer and more frequently workers have previously claimed employment insurance, the broader their job search will have to be and the lower the wages they must be willing to accept.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

CANADA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2010 for Canada and the United States.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, Energy (IEA) Database and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776105

CHILE

- A rapid catching up in GDP per capita gap *vis-à-vis* leading OECD economies has continued, reflecting employment growth, but the gap still remains wide, owing to low average hours worked and weak labour productivity performance.
- Great progress has been achieved in easing product market regulation. Efforts have been done to improve the quality and access to education and to increase female labour force participation. By contrast, no progress has been made in the areas of competition law and job protection.
- Strengthening policies to foster female labour force participation would increase labour utilisation. Reducing labour market duality by easing job protection for permanent workers, bolstering competition law and improving education outcomes further would foster productivity growth. Higher levels and longer duration of unemployment benefits could also contribute to higher productivity growth by allowing workers to search longer for a better job match.
- In addition to boosting productivity, encouraging access to education to students of disadvantaged background and increasing the generosity of unemployment benefits could contribute to reduce inequality.

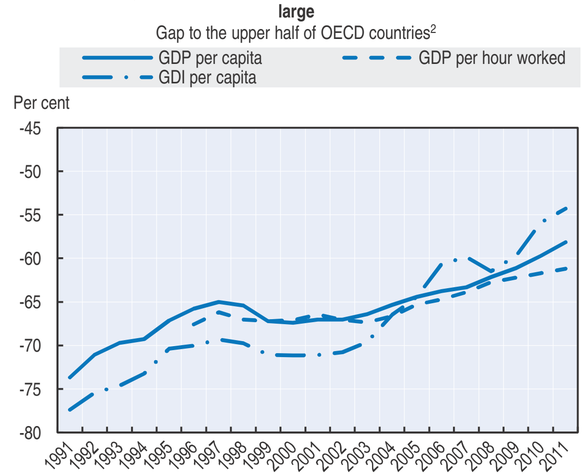
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.0	2.9
Potential labour utilisation		0.5	1.1
of which:	Labour force participation rate	0.5	1.1
	Employment rate[1]	-0.1	0.0
Potential labour productivity		1.6	1.8
of which:	Capital intensity	1.2	2.6
	Labour efficiency	-0.1	-1.3
	Human capital	0.5	0.5

B. The gap in GDP per capita has declined but remains quite large



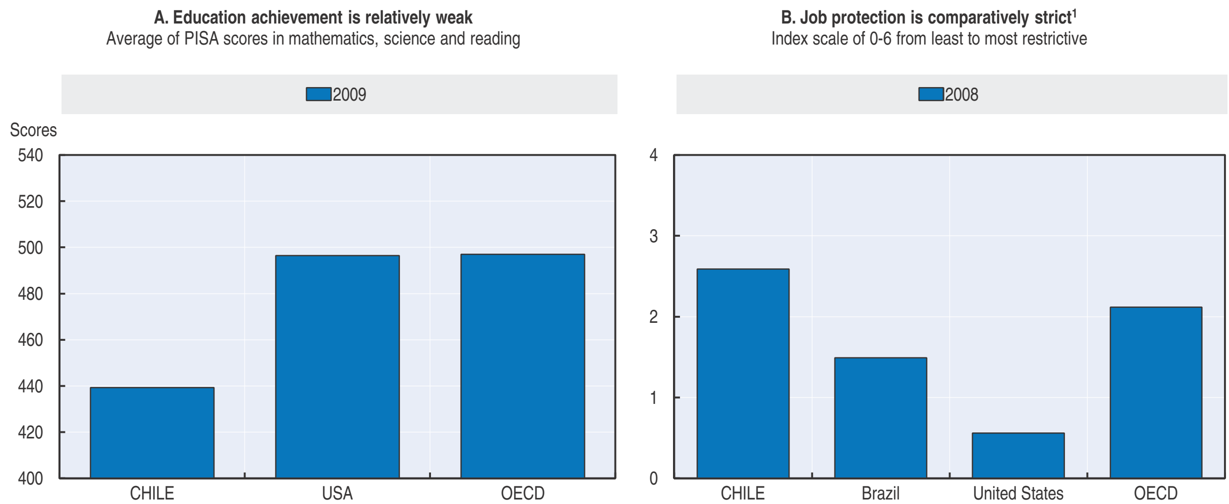
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932776124

CHILE

Policy indicators



1. Employment protection legislation on regular contracts.

Source: OECD, *PISA 2009* and *Employment Databases*.

StatLink http://dx.doi.org/10.1787/888932776143

Identifying *Going for Growth* 2013 priorities

Priorities supported by indicators

Improve secondary and tertiary education outcomes. Better education outcomes would help lifting employment rates and strengthen productivity.

Actions taken: In 2011, several wide-ranging initiatives aimed at increasing the quality of education. A new law reduces interest rates on the guaranteed student loan scheme for higher education to one third of their value and aims at expanding its coverage to 90% of students. Access to scholarships is being expanded. Two new agencies to supervise the quality of education will start operating in 2013.

Recommendations: Upgrade teachers' qualifications through minimum standards and rigorous quality assurance in initial teacher education. Streamline and extend existing student loans and scholarship schemes, while strengthening quality standards for all institutions that enrol students benefiting from subsidies. Make all loans repayments income-contingent.

Ease employment protection legislation for regular workers. High severance pay for regular workers contributes to labour market duality, reduces youth employment and hinders productivity.

Actions taken: No action taken.

Recommendations: Lower the relatively high severance pay for regular workers to ease the adjustment of the regular labour workforce and thereby encourage the formalisation of employment relationships.

Strengthen policies to foster female labour participation. Greater female participation rates would increase labour supply and employment rates contributing to higher growth.

Actions taken: In 2011, a law was passed that extends paid maternity leave to at least 24 weeks, extends the right to maternity leave to workers on temporary contracts and creates a paternity leave. In 2012 the Government introduced hiring subsidies targeted at low-income women. The 2013 government budget increases the coverage of childcare and early education by 10 000 and 25 000 new places, respectively, and the value of subsidies for low-income families by 20%.

Recommendations: Facilitate the reconciliation of work and family life, including by further extending publicly-financed childcare and early education together with strong quality control, and by reviewing relatively strict part-time work regulation.

Other key priorities

Strengthen competition law. A reinforced competition framework would encourage firms to reduce inefficiencies and innovate, fostering productivity growth.

Actions taken: No action taken since the 2009 reform of competition law.

Recommendations: Increase the maximum level of fines and make price fixing a criminal offence in order to improve enforcement of the competition law.

****Reform the unemployment benefits system*.*** [1] Strengthened unemployment benefits can enhance labour market efficiency and productivity.

Recommendations: Consider increasing unemployment benefits duration and/or replacement rates further.

Previous *Going for Growth* recommendation no longer considered a priority

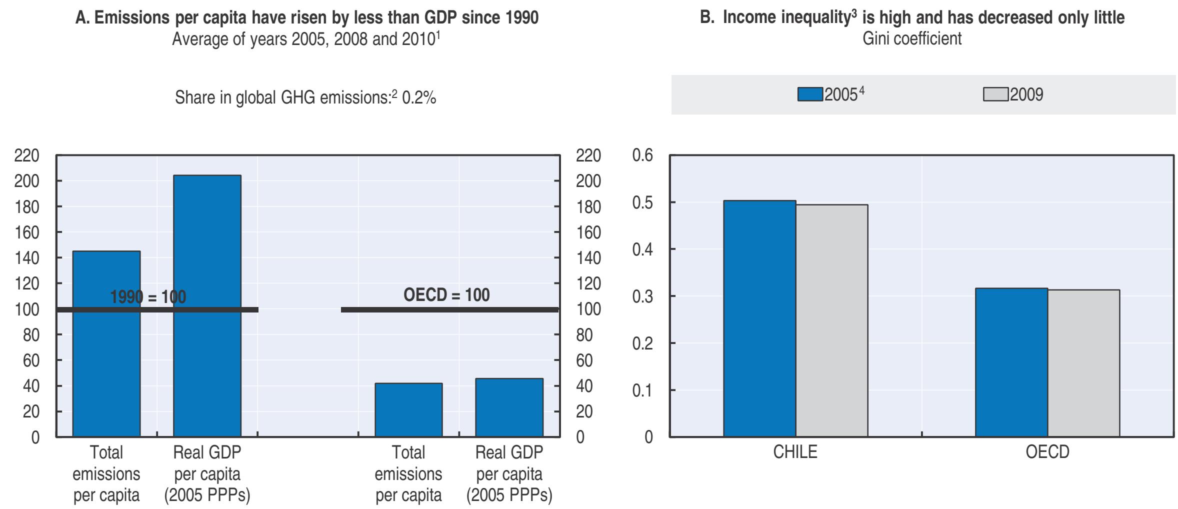
Ease product market regulation. In light of the adverse impact of strict product market regulations on productivity growth, it was recommended that the administrative burden on start-ups be further reduced, that registration and notification requirements be eased and bankruptcy law be simplified.

Actions taken: Regulatory barriers for start-ups and the time to start a business were substantially reduced in 2011 (from 22 to 7 days) by easing the obtainment of permits and the payment of taxes as well as by streamlining notification requirements, reducing total costs by 25%. The announced reform to the bankruptcy law will significantly reduce the costs of bankruptcy procedures.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

CHILE

Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) Database. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2006 for Chile.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/els/social/inequality*).

StatLink http://dx.doi.org/10.1787/888932776162

CHINA

- GDP per capita soared by close to 55% in the five years to 2012, substantially narrowing the gap with OECD countries. Labour force participation rates remain above OECD average and the difference in income per head essentially reflects lower capital per worker.
- Progress has been made in key priority areas, *e.g.* some reduction of state intervention in product markets by easing administrative burdens on companies and the adoption of measures to facilitate internal population flows by issuing guidelines concerning the rights of migrants.
- However, more needs to be done to lower barriers to entry for private firms, for instance, by further reducing state intervention in the private sector and in financial markets and by enhancing the rule of law. In addition, encouraging labour mobility by reducing educational inequalities and enabling reallocation of labour to high-productivity sectors should also help boost productivity.
- Strengthening migrants' social protection and rights and reducing human capital differentials across the country should improve productivity while also reducing income inequalities.

Growth performance indicators

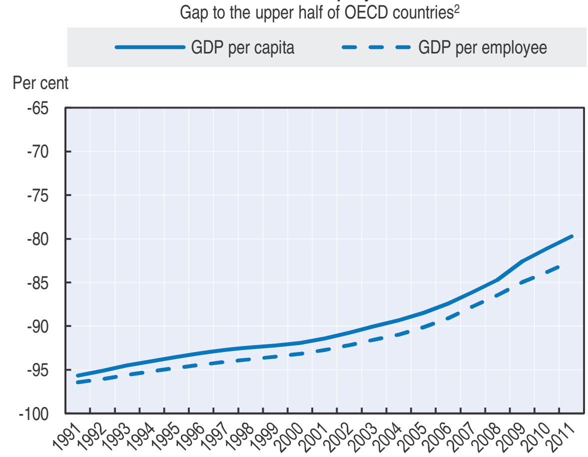
A. Average annual growth rates

Per cent

	2001-06	2006-11
GDP per capita	10.0	10.0
Labour utilisation[1]	0.0	-0.1
Labour productivity	10.0	10.1

B. The large gaps in GDP per capita and productivity continue to narrow rapidly

Gap to the upper half of OECD countries[2]



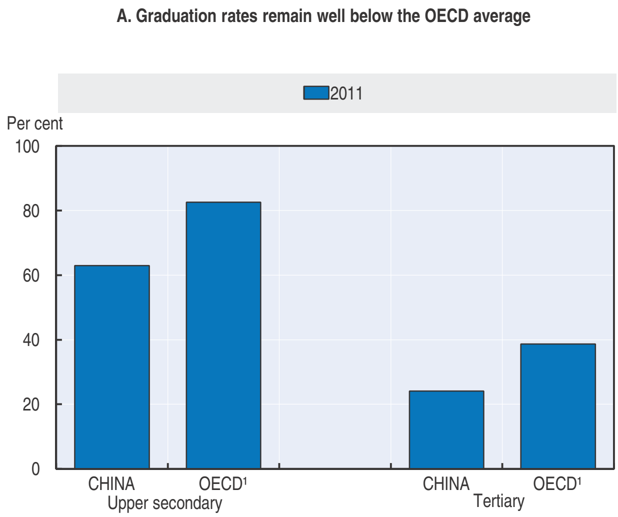
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2005 PPPs).

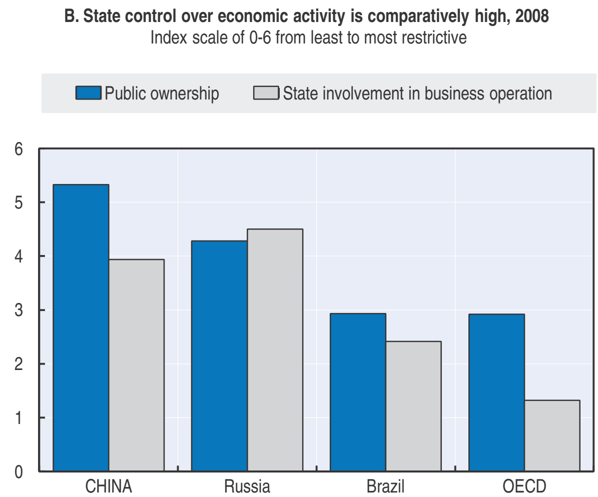
Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*; World Bank (2012), *World Development Indicators (WDI) Database* and China Ministry of Human Resources and Social Security.

StatLink http://dx.doi.org/10.1787/888932776181

CHINA

Policy indicators





1. Data refer to 2010. Graduation rate at upper secondary level (first-time graduate) and graduation rate for typical age at tertiary-type A level (first-time graduate).

Source: OECD, *Education at a Glance 2012* and *Product Market Regulation Databases*; *China Statistical Yearbook*.

StatLink http://dx.doi.org/10.1787/888932776200

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Open the state-controlled sector to private investment. State-owned companies dominate a number of sectors and are less efficient than private companies, harming efficiency.

Actions taken: The State Council issued new guidelines for opening a number of sectors to private enterprises in February 2012. A set of regulations to implement this decision is to being issued.

Recommendations: Encourage the establishment of new privately-owned companies in areas such as electricity distribution, telecommunication and airlines – which are currently dominated by large state-controlled enterprises.

Enhance outcomes and equity in education. Participation in upper secondary education is still low and variable according to place and family background, damaging human capital accumulation.

Actions taken: In February 2012, the State Council issued guidelines to cities that provision of education should not be linked to the registration status of an individual. Some local governments have started to pay a grant for each pupil attending a school for migrant children, but the amount is generally well below the cost of education for local children.

Recommendations: Reduce inequalities in access to upper secondary education across regions and within urban areas. Abolish fees and lift regional quotas for university admission and allow all children to attend upper secondary school in their place of residence.

******Ease government controls over financial markets**.[1] Interest rates in the banking sector are government-controlled, as is access to capital markets, distorting capital allocation and reducing productivity growth.

Recommendations: Widen the extent to which bank lending and deposit rates can differ from the regulated rate progressively and allow residents and non-residents to invest in foreign and domestic equities and bonds.

Other key priorities

Reduce barriers to labour mobility. Urban areas benefit from economies of scale but population flows are held back by the household registration system and constraints on the supply of land, contributing to inefficient labour allocation across sectors and regions.

Actions taken: A number of cities are experimenting with a new form of resident card that gives some of the benefits associated with local registration.

Recommendations: Enhance the provision of public services and de-link them gradually from the registration status of an individual in megacities. Assess fiscal transfers from higher to lower government levels on the basis of actual rather than registered population.

Further enhance the rule of law. The enforcement of laws varies considerably across the country which creates legal uncertainty, deters profitable investment, holds back efficiency and has adverse impacts on the environment.

Actions taken: In April 2012, the Supreme Court issued summaries of major intellectual property right (IPR) decisions which offered general guidance and aid for lower courts trying IPR cases.

Recommendations: Strengthen further judicial institutions, *e.g.* by reducing local bias in commercial cases, to enhance the effectiveness of law enforcement.

Previous *Going for Growth* recommendation no longer considered a priority

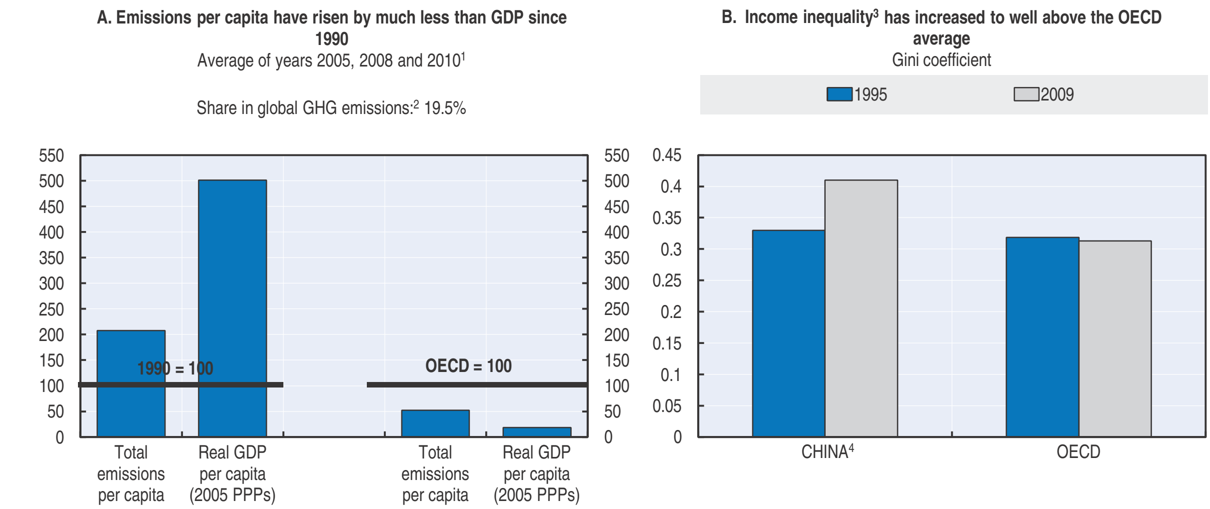
Reduce administrative burdens on companies. In order to encourage the entry of new firms, spur competition and productivity growth, it was recommended to reduce administrative burdens on companies, for instance by reducing the time needed to obtain regulatory permits and the required minimum capital.

Actions taken: Both the cost of starting a new company and the required minimum capital has fallen markedly in the past three years and the time to complete the necessary procedures has been reduced.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

CHINA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) Database. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. The National Bureau of Statistics does not publish a national inequality series. It considers that the urban and rural household surveys are not conducted on a similar basis and so should not be aggregated as has been done in the series shown in the chart. In addition, the Chinese figure is based on per capita disposable income with no adjustement for household size.
4. Data refer to 1993 and 2008. For 1995, the OECD average excludes Estonia, Iceland, Korea, Poland, Slovak Republic, Slovenia and Switzerland.

Source: OECD, *Energy (IEA) Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising, OECD Publishing*, and *OECD Income Distribution Database*, provisional data (*www.oecd.org/els/social/inequality*).

StatLink http://dx.doi.org/10.1787/888932776219

CZECH REPUBLIC

- The closing of the income and productivity gaps relative to the upper half of OECD countries has stalled since 2008. The income gap reflects a large productivity shortfall, while there is also room for raising labour utilisation.
- Much has been done to ease product market regulation and job protection, while less progress has been achieved in reducing the high labour tax wedge and enhancing the education outcomes.
- Reforms of the tax-benefit system to foster female labour force participation as well as job creation would raise labour utilisation. Improving the quality and the equity of the education system would promote human capital accumulation. Public support to research and development (R&D) should be made more efficient in view of increasing the pace of innovation.
- Providing a more equitable secondary education system would boost employment of low-skill workers and contribute to further reduce inequality. Shifting the tax structure towards environmental taxation could help promote sustainable growth.

Growth performance indicators

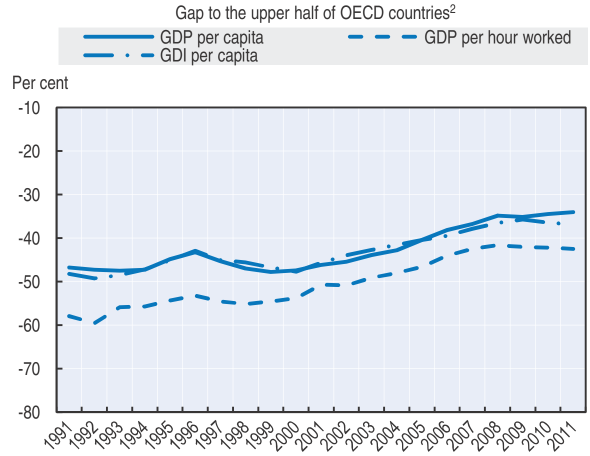
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		3.3	2.0
Potential labour utilisation		-0.2	0.0
of which:	Labour force participation rate	-0.3	-0.2
	Employment rate[1]	0.1	0.2
Potential labour productivity		3.5	2.0
of which:	Capital intensity	0.9	1.0
	Labour efficiency	2.4	0.9
	Human capital	0.2	0.1

B. Convergence of income and productivity levels has recently stalled

Gap to the upper half of OECD countries[2]



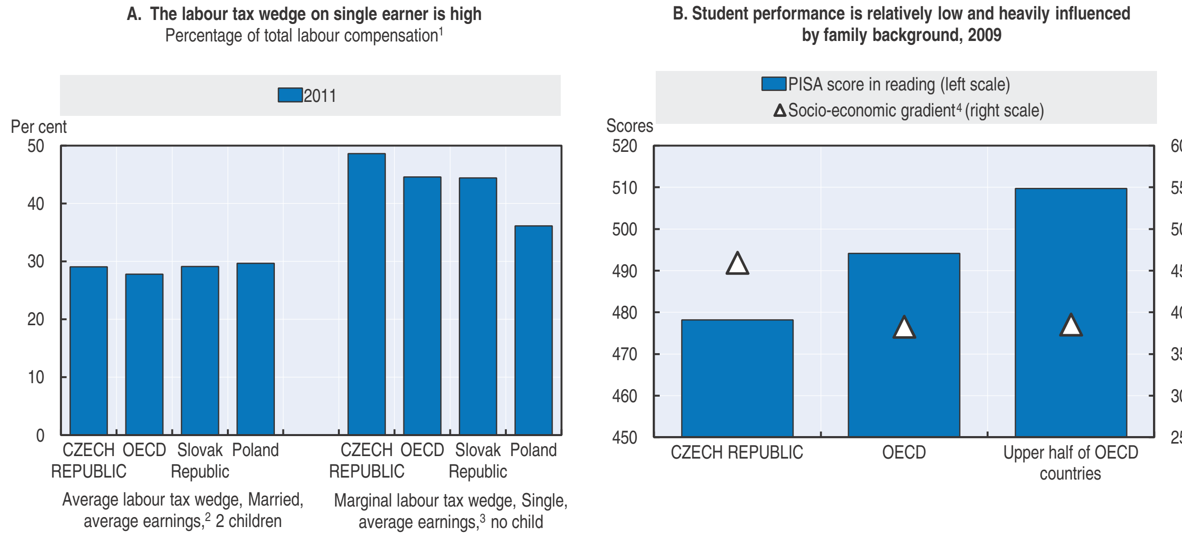
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts* and *OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932776238

CZECH REPUBLIC

Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. At 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
3. At 100% of the average worker earnings.
4. Defined as the estimated coefficient from the single bivariate regression of PISA reading performance of all participating students on their corresponding index of economic, social and cultural status (ESCS) and measured by the change in the reading score per unit of the socio-economic index. The average of the socio-economic gradient shown in the chart refers to the upper half of OECD countries in terms of PISA scores.

Source: *OECD, Taxing Wages and Education at a Glance Databases.*

StatLink http://dx.doi.org/10.1787/888932776257

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

**Strengthen policies to support female labour force participation*.*[1] Raising female labour force participation would foster economic growth.

Recommendations: Reduce the implicit tax on returning to work for single parents and households' second earners by raising public expenditures on childcare services. Support earlier return of parents with children to the labour market by promoting flexible working arrangements. Decrease the duration of combined maternity and parental leave to two years.

Reform the tax system. A high tax wedge on labour income can have adverse employment effects.

Actions taken: VAT rates have been increased with unification planned for 2016. Temporary tax hikes for top earners and a percentage point increase in property taxes are in the legislative process.

Recommendations: Lower the average labour tax wedge for low income earners and increase the progressivity of the tax system. Shift the tax burden from direct to less

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

distorting taxes by increasing environmental and immovable property taxation while linking the latter to actual market prices.

Enhance education outcomes. A more equitable education system would help to raise employment rates among low-skill workers.

Actions taken: No significant actions taken in recent years to address the continuous deterioration in average student performance over the last decade. A reform of tertiary education aiming at improving quality and diversification of universities and introduction of tuition fees along with a new system of financial assistance for students is still under discussion.

Recommendations: Phase out streaming at the age of eleven and avoid elitism in secondary education. Raise incentives to attract and retain high-quality principals and teachers in schools with low social and economic status, enhance schools' accountability. Implement the proposed tertiary education reform.

Other key priorities

Improve efficiency in public procurement. More efficient public procurement practices support productivity while preserving fiscal objectives.

Actions taken: A reform of the act on public tenders to increase transparency and competition by improving access to small tenders and tightening publication requirements for major public procurements, has been adopted in 2012.

Recommendations: Ensure adequate support for the development of e-government services that are particularly important in public procurement procedures.

Raise effectiveness of public R&D expenditure. Relatively high public R&D expenditure does not translate into strong innovation outcomes.

Recommendations: Reinforce industry-science linkages by strengthening cooperation between public and private research in line with past reforms, continue the shift from public R&D spending on institutions towards competitively-awarded project funding, expand the evaluation of public R&D spending effectiveness including for R&D tax expenditure, and reinforce international collaboration in R&D.

Previous *Going for Growth* recommendations no longer considered a priority

Reduce barriers to business entry. Considering the adverse impact of barriers to business entry on job creation and productivity growth, it was recommended to reduce minimum capital requirements for business start-ups and to reduce the cost of judicial proceedings for contract and bankruptcy enforcement.

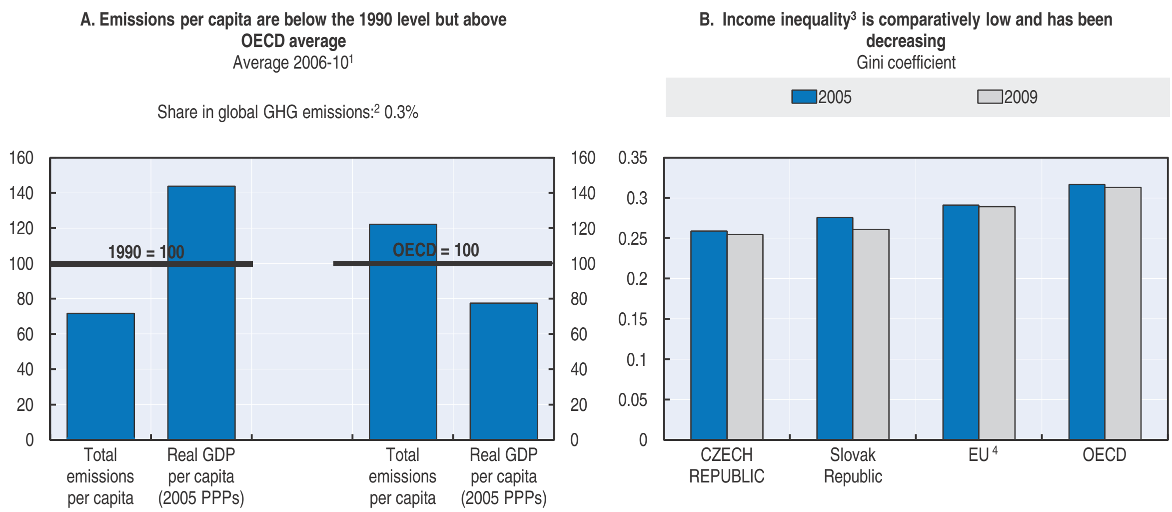
Actions taken: Several amendments to the acts on business corporations, trade licensing, insolvency and protection of competition have been adopted in 2012 in order to ease business entry, reduce the administrative burden on entrepreneurs, improve firm management and expose cartel agreements.

CZECH REPUBLIC

Relax employment protection legislation. Given that overly strict employment protection legislation on regular workers discourages businesses from hiring them, it was recommended to relax associated regulations, notably by linking severance pay and the notice period to job tenure as well as by easing dismissal procedures.

Actions taken: In 2012, amendment of the labour code linked severance pay to job tenure, enabled employers to condition severance payment on a judicial decision, extended the trial period for managerial employees, and increased the maximum length of a fixed term employment from two to three years.

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; *OECD, Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776276

DENMARK

- The income gap *vis-à-vis* leading OECD economies has widened over the past decade, driven mainly by slower productivity growth. Although labour utilisation decreased in recent years, it is still relatively high. Employment rates are high, but hours worked are low.
- Progress has been made in priority areas to reduce marginal taxes on labour income, enhance product market competition and improve the efficiency of the education system. Recent reforms of disability benefits and early retirement schemes should increase employment. However, less has been achieved in the area of the housing market.
- Continuing with shifting the tax burden away from labour and effective implementation of the disability benefit reform would increase hours worked and employment rates. Enhancing the competition framework and reducing housing market rigidities, as well as improving the efficiency of the education system would boost productivity growth.
- Reforms to decrease drop-out rates in upper secondary education would boost human capital formation and help keep poverty rates low.

Growth performance indicators

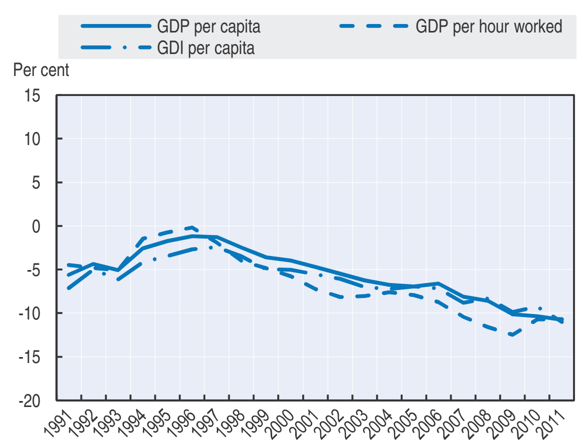
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.2	0.4
Potential labour utilisation		0.2	-0.2
of which:	Labour force participation rate	0.2	-0.1
	Employment rate[1]	0.0	-0.1
Potential labour productivity		1.0	0.6
of which:	Capital intensity	0.7	0.5
	Labour efficiency	0.1	-0.1
	Human capital	0.2	0.1

B. Gaps in GDP per capita and productivity have tended to widen

Gap to the upper half of OECD countries[2]



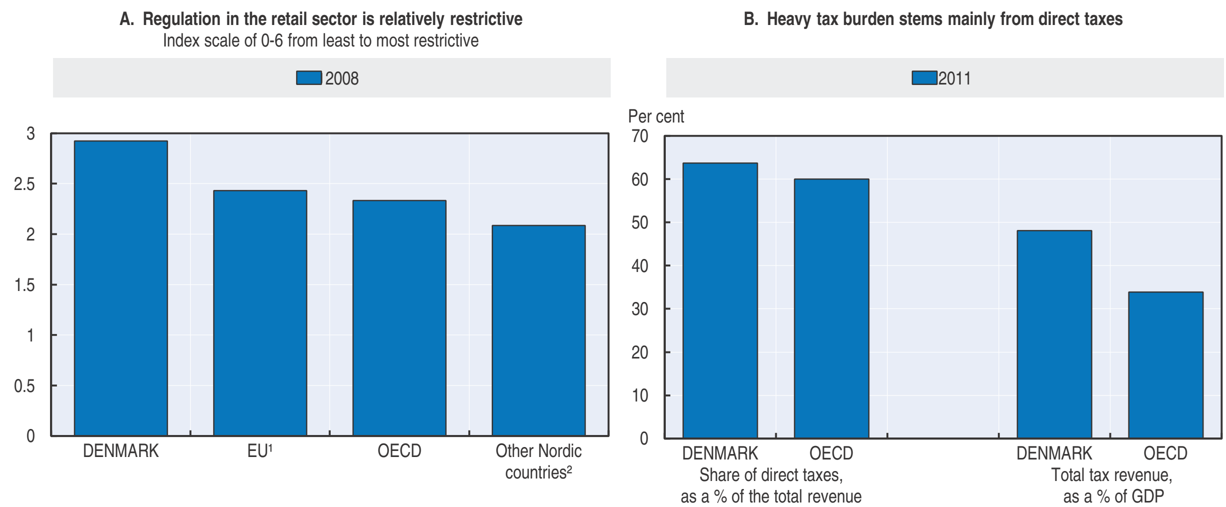
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: *OECD, National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932776295

DENMARK

Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Average of Finland, Norway and Sweden.

Source: OECD, Product Market Regulation and Revenue Statistics Databases.

StatLink http://dx.doi.org/10.1787/888932776314

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Shift the tax structure away from direct sources. The overall tax burden is high. Lowering and shifting taxation from direct to indirect taxes would help boost growth.

Actions taken: In June 2012, an extensive tax package, including an increase in the top tax threshold, was agreed, decreasing gradually marginal taxes on high incomes and increasing in-work tax credits. Excise taxes were increased in 2012 but the Budget Bill for 2013 repealed the "fat tax" introduced in 2011 and decreased the tax on electric heating, which will be financed by an increase in the basic income tax rate and a reduction in income tax deductions.

Recommendations: Shift the tax burden further away from labour towards consumption and property taxes. Streamline tax expenditures. Contain public expenditure to lower the overall tax burden.

Reform sickness leave and disability benefit schemes. Reducing the share of the working-age population receiving disability and sickness benefits would increase labour force participation.

Actions taken: Access to disability benefit schemes was eased for seniors as part of the early retirement reform in December 2011. In June 2012, an agreement was reached to reduce inflows into disability benefit schemes, introduce a rehabilitation model, and substantially reform the disabled employment programme (*Fleksjob*).

Recommendations: Rigorously implement the disability benefit and *Fleksjob* reforms and closely monitor their effects; move towards regular entitlement assessments.

Enhance the competition framework and ease regulation in specific services sectors. Enhancing competition in some sectors, especially retail trade, would boost productivity.

Actions taken: In April 2011, competition was increased *e.g.* by opening the Danish electricity market to international power plugs and allowing the provision of retail services from places other than regular stores. In 2012, competition law was strengthened with stricter penalties for violations of competition policy and a taskforce was set up to explore ways to improve public procurement.

Recommendations: Enhance competition in the service and construction sectors by easing zoning and planning regulations; streamline the institutional set-up of the competition authorities; improve competition in the public sector *via* greater tendering.

Other key priorities

Improve the efficiency of the education system. Enhancing the efficiency of the education system would contribute to higher labour productivity.

Actions taken: The Budget Bill for 2012 allocated funds to implement reforms to reduce drop-out rates and increase apprenticeship placements in vocational training.

Recommendations: Continue to develop the evaluation framework in compulsory education. To lower drop-out rates in upper secondary education, improve the early identification of weaker students, develop targeted initiatives towards them and reinforce vocational education. Provide incentives to shorten completion time in tertiary education by moving to a system combining grants and loans.

Reduce housing subsidies and abolish rent regulation. Distortions in the housing market can hinder labour market mobility and productivity.

Actions taken: No actions taken.

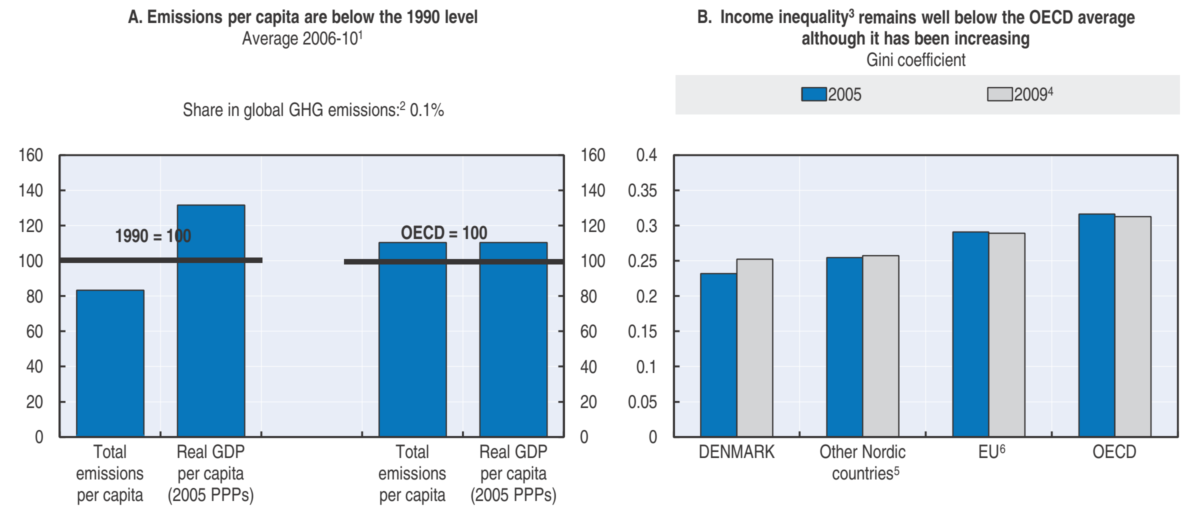
Recommendations: Ease rent regulations; cut housing subsidies; increase housing taxation.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

DENMARK

Other dimensions of well-being performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2010 for Denmark.
5. Average of Finland, Norway and Sweden.
6. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; *OECD, Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data *www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776333

ESTONIA

- After the major setback during the economic crisis, economic convergence *vis-à-vis* the upper half of the OECD has resumed. However, the productivity and output per capita gaps remain substantial.
- Important progress has been already achieved in reducing product market regulation, including by opening the electricity market, removing remaining obstacles to foreign direct investment (FDI) and extending e-services to reduce administrative costs. Appropriate legislative action has been made to tackle the bad loans problem, even though these will remain a drag on growth for some time.
- Strengthening active labour market policies, reducing the labour tax wedge for low-wage earners and reforming the disability benefits system would be important to recover crisis-related employment losses. At the same time, higher quality vocational training, more accessible tertiary education, and increased R&D spending would be essential to reduce the productivity gap.
- Strengthened active labour market and education policies, as well as a pro-poor tax wedge reduction would not only stimulate growth, but also make it more inclusive. A shift to environmental taxation and targeted innovation support would likely improve energy and resource efficiency while boosting GDP growth.

Growth performance indicators

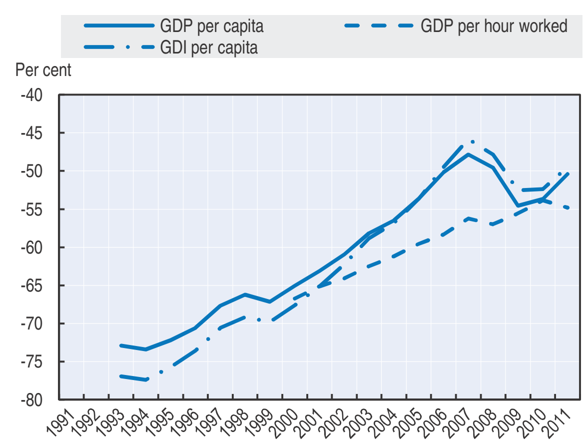
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		5.2	2.3
Potential labour utilisation		1.0	0.5
of which:	Labour force participation rate	0.6	0.7
	Employment rate[1]	0.5	-0.2
Potential labour productivity		4.2	1.8
of which:	Capital intensity	2.6	1.7
	Labour efficiency	1.3	0.1
	Human capital	0.2	0.0

B. Convergence in GDP per capita has recently resumed

Gap to the upper half of OECD countries[2]



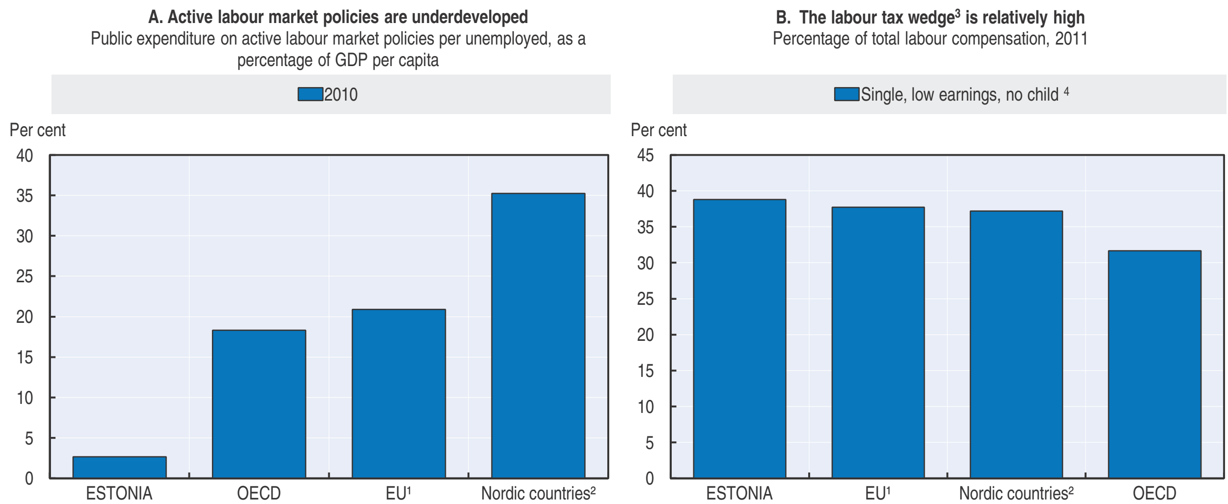
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: *OECD, National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932776352

ESTONIA

Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Average of Denmark, Finland, Norway and Sweden.
3. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
4. Low earnings refer to two-thirds of average earnings.

Source: OECD, Public expenditure and participant stocks on LMP, *OECD Economic Outlook and Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888932776371

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Strengthen active labour market policies. High long-term unemployment and skills mismatches reduce potential output.

Actions taken: Spending on activation policies increased strongly in the aftermath of the crisis, but remains low in international comparison. Higher flexibility in individual action plans allows for better addressing specific job-search and counselling needs. A full range of job-search activities has been made available online and the training voucher programme extended.

Recommendations: Increase further overall spending on activation policies and target them at key risk groups. Raise efficiency by allowing public procurement of training courses to take greater account of the quality of service providers, by encouraging stronger involvement of employers and enhanced ex-post evaluation. Target wage subsidies at net hiring of low-wage earners.

****Reduce the labour tax wedge*.***[1] High labour tax wedges reduce employment opportunities, particularly among the low-skilled.

Recommendations: Reduce labour taxation by shifting the burden to environmental and property taxation, including by taxing houses and apartments and using market-based

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

land valuation. Target the initial labour tax cuts to low-wage earners so as to maximise employment gains.

Strengthen support to R&D*. Estonian firms tend to spend relatively little on innovation, missing on important productivity gains.

Recommendations: Rebalance public resources for innovation support to prepare Estonian firms to export and make sure the necessary services for small exporting firms are available at reasonable costs. Promote firm-level innovation through better pricing of environmental externalities and *via* direct support targeted at energy saving to reduce the very high energy- and resource-intensity of production.

Other key priorities

Reform the disability benefits system*. The share of disability benefit recipients is very high and on the rise as a result of the crisis.

Recommendations: Reform the disability system by opening activation measures to disability benefit recipients and strengthening the role of employers in prevention and rehabilitation measures.

Improve quality of vocational training and access to tertiary education*. Low vocational education quality and poor access to tertiary education complicate school-to-job transitions.

Recommendations: Strengthen the involvement of employers for offering subsidised apprenticeship places while monitoring their quality. Establish an obligation to offer learning opportunities for youth not in education, employment or training. Reduce the negative funding gap *vis-à-vis* general education. Ensure that a means-tested student support and student loan system allow all talented youth to engage in full-time tertiary education. Consider making repayment contingent on incomes.

Previous *Going for Growth* recommendations no longer considered a priority

Reduce entry barriers in network industries. Given the detrimental effects of high barriers to entry in electricity sector on economic efficiency, it was recommended to open the market to more suppliers and to use market incentives to increase energy efficiency.

Actions taken: The integration with regional Nordic-Baltic electricity networks has been improved, notably with the construction of a new large-capacity power connection with Finland. The power market will be fully liberalized in January 2013.

Reduce administrative burdens on businesses. In order to boost entrepreneurship, it was recommended to further improve the regulatory environment for businesses and to ease restrictions on land purchases by non-EU citizens who are permanent residents.

Actions taken: Restrictions on land purchase have been abolished and legislation changes reducing administrative burdens were adopted in several areas, including administration, social and environmental laws. Ongoing development of e-services included the launch of a Central Commercial Register portal that allows companies to prepare and submit reports online.

ESTONIA

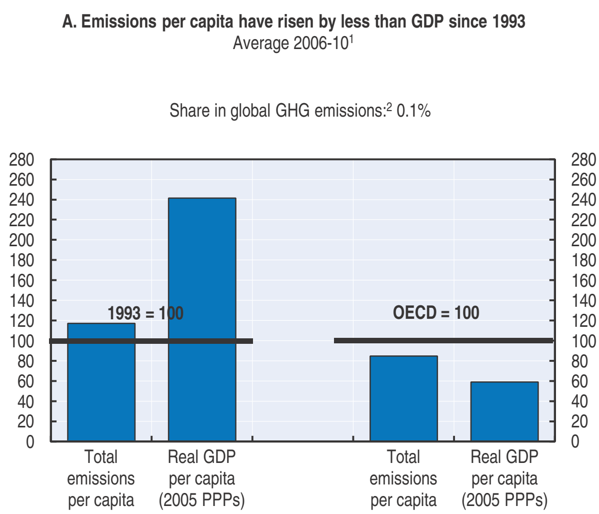
Improve the attractiveness for FDI in export-oriented manufacturing. To encourage FDI flows, it was recommended to monitor the effectiveness of entrepreneurship policies, in particular the grants-based approach to supporting businesses which requires the ability to pick winners.

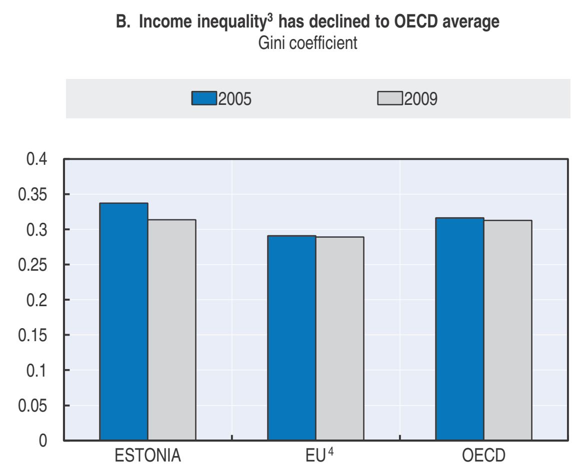
Actions taken: Enterprise Estonia evaluated economic results of all completed support projects conducted between 2006 and 2010.

Improve private bankruptcy procedures. To help reduce unsustainably high household debt burdens, it was recommended that bankruptcy procedures be reviewed, including those pertaining to debt restructuring.

Actions taken: The Debt Restructuring and Debt Protection Act came into force in April 2011, facilitating debt restructuring. An amendment to the Bankruptcy Act shortened the minimum period after which the court may partially relieve a person of remaining obligations.

Other dimensions of well-being: Performance indicators





1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; *OECD, Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776390

EUROPEAN UNION

- The income gap *vis-à-vis* leading OECD economies has remained essentially unchanged, and reflects lower productivity and especially weaker labour utilisation. Average hours worked have continued to decline.
- Much has been done in terms of Community policies to improve market integration, including the transposition of the Services Directive and facilitating the recognition of professional qualifications throughout the Union. However, many areas of the internal market are still fragmented.
- Strengthening the Single Market should be at the centre of actions to raise productivity, including increasing integration in network industries, services and the financial sector. Reducing and reforming support for agriculture would boost efficiency. Removing policy barriers to labour mobility would help to tackle unemployment.
- In addition to improving efficiency, better targeting and rebalancing agricultural support could help meet environmental objectives.

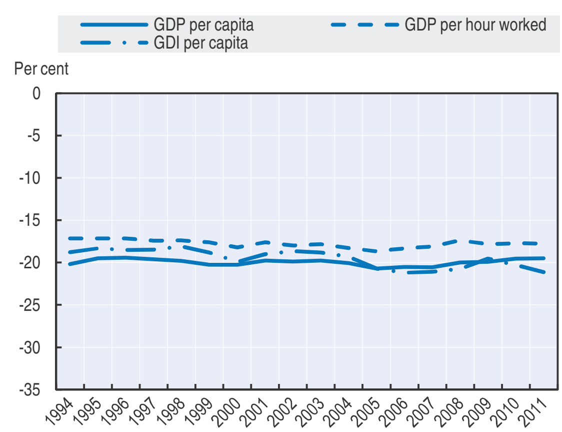
Growth performance indicators

A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.5	0.9
Potential labour utilisation		0.3	0.1
of which:	Labour force participation rate	0.2	0.2
	Employment rate[1]	0.1	-0.1
Potential labour productivity		1.1	0.8
of which:	Capital intensity	0.5	0.6
	Labour efficiency	0.3	-0.1
	Human capital	0.3	0.3

B. Gaps in GDP per capita and productivity persist
Gap to the upper half of OECD countries[2]



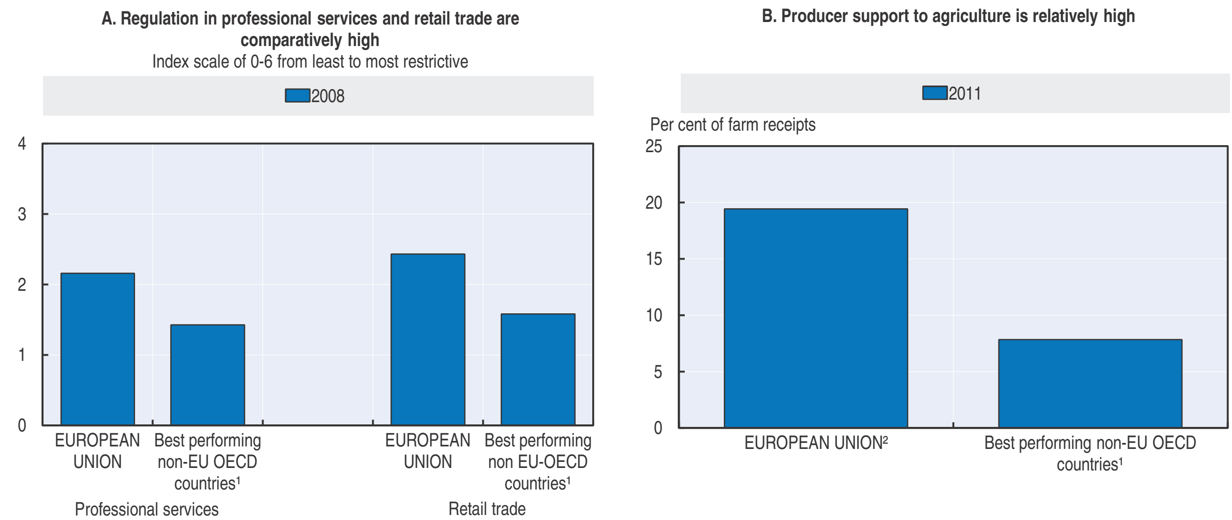
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: *OECD, National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932776409

EUROPEAN UNION

Policy indicators



1. The six non EU OECD countries with the lowest barriers to entry in professional services and retail trade in Panel A and with the lowest producer support to agriculture in Panel B.
2. Average of 21 EU countries members of the OECD.

Source: *OECD, Product Market Regulation and Producer and Consumer Support Estimates Databases.*

StatLink http://dx.doi.org/10.1787/888932776428

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Increase competition in network industries. Network industries are still fragmented across borders and barriers to entry remain, hampering competition and thereby productivity.

Actions taken: New liberalisation packages for electricity and telecommunication came into force in 2011. Postal services were fully liberalised in 2012.

Recommendations: Ensure effective implementation of policies to increase competition in transport (notably in rail), postal, telecommunications, port services and energy markets, and complete with targeted sector-specific measures, including full unbundling of network ownership in electricity and gas sectors. Improve regulatory co-operation across states. Invest in cross-border infrastructure.

Increase competition in the services sector. Restrictive regulations hinder cross-border competition and efficiency gains.

Actions taken: The EU Services Directive has been transposed into national law in all countries, national regulations have been reviewed and one-stop shops established for administrative procedures.

Recommendations: Further reduce administrative barriers to entry and ease the regulatory burdens that damp cross-border trade. Improve legal and practical implementation of Single Market commitments. Specific sectoral measures are required, and tendering procedures for government procurement should be simplified.

EUROPEAN UNION

Reduce producer support to agriculture. Markets for some agricultural products are distorted by price support and barriers to market access.

Actions taken: The European Commission has made three proposals for 2014 to 2020 to improve efficiency and environmental performance with rebalancing the direct payment support.

Recommendations: Extend full decoupling of payments to livestock meat production. Further decouple payments from production across other areas. Reduce barriers to market access for non-EU countries. Lower support prices, reduce bio-fuel subsidies.

Other key priorities

Reform regulation to create a more stable and integrated financial system. Stability and competition in financial services are hindered by regulatory and oversight gaps in the single market.

Actions taken: In 2011, European Supervisory Authorities and a European Systemic Risk Board responsible for the macro-prudential oversight of the financial system were created.

Recommendations: Implement a single supervision mechanism as proposed by the Council of EU finance ministers and continue to make progress towards a more consistent set of rules and common supervisory practices covering all banks as well as towards stronger capital requirements. Establish a bank resolution mechanism along with common financing and shared deposit insurance.

Remove barriers to labour mobility within the EU. Labour mobility in the EU is low, contributing to high unemployment and low productivity.

Actions taken: The EURES employment service network and portal is being upgraded to build bridges between national employment services.

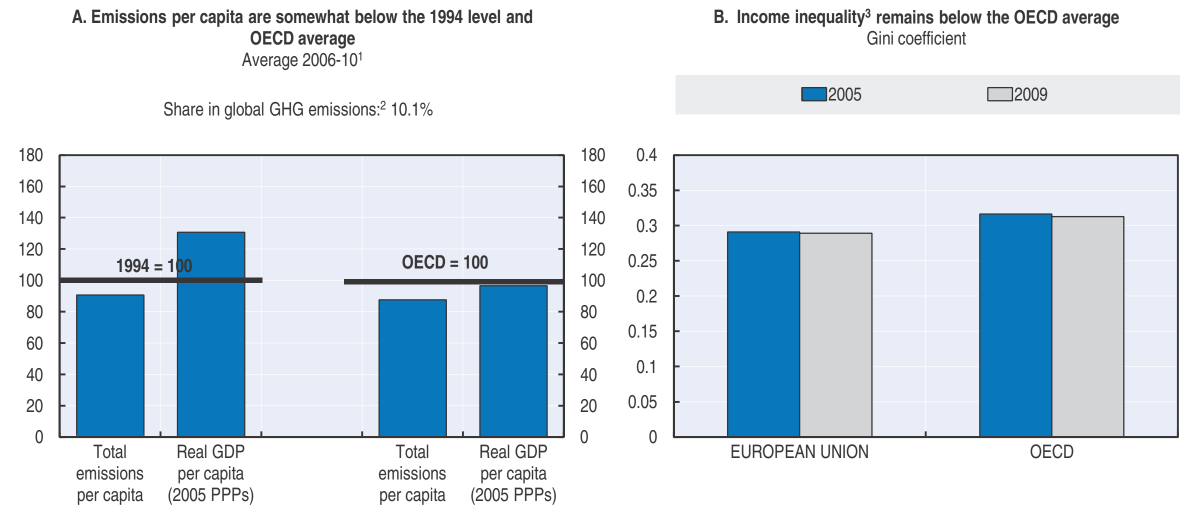
Recommendations: Increase the portability of pension rights, including by reducing vesting periods and eliminating double and discriminatory taxation. Increase the automaticity in the recognition of professional qualifications. Open up public sector employment to all EU citizens.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

EUROPEAN UNION

Other dimensions of well-being: Performance indicators



1. EU excludes Chile, Israel, Korea and Mexico. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776447

FINLAND

- The GDP per capita gap *vis-à-vis* leading OECD economies widened somewhat during the financial crisis due to a sharp fall in labour productivity and a smaller decline in employment, with some recovery lately. The remaining GDP per capita gap mainly reflects a shortfall in labour productivity, although labour utilisation also remains low compared to best-performing OECD countries.
- University admission and funding are being reformed to improve efficiency. The planned municipal mergers could yield significant productivity gains, if implemented successfully.
- Boosting labour productivity should be a priority, especially in the less efficient services sector. Stronger competition in retail trade and public services could contribute to higher productivity. Disincentives to work at older ages should be reduced to boost labour utilisation. Active labour market policies should be strengthened to facilitate labour reallocation and therefore sectoral changes.
- Continued shift of taxes from labour towards indirect taxes, including green ones, could boost GDP growth while enhancing environmental sustainability.

Growth performance indicators

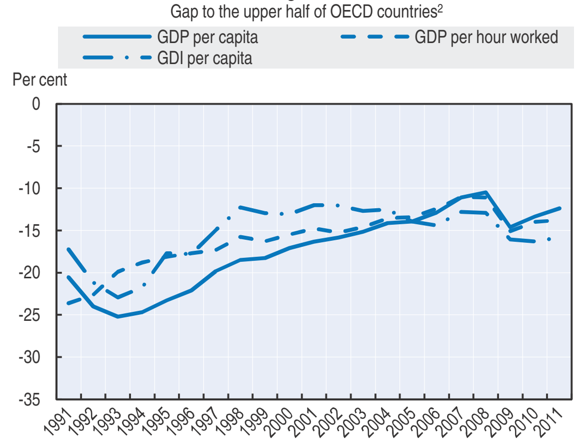
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.0	0.7
Potential labour utilisation		0.2	-0.2
of which:	Labour force participation rate	0.0	-0.3
	Employment rate[1]	0.3	0.1
Potential labour productivity		1.8	0.9
of which:	Capital intensity	0.3	0.6
	Labour efficiency	1.1	0.0
	Human capital	0.4	0.3

B. Gaps in GDP per capita and productivity widened somewhat during the crisis

Gap to the upper half of OECD countries[2]



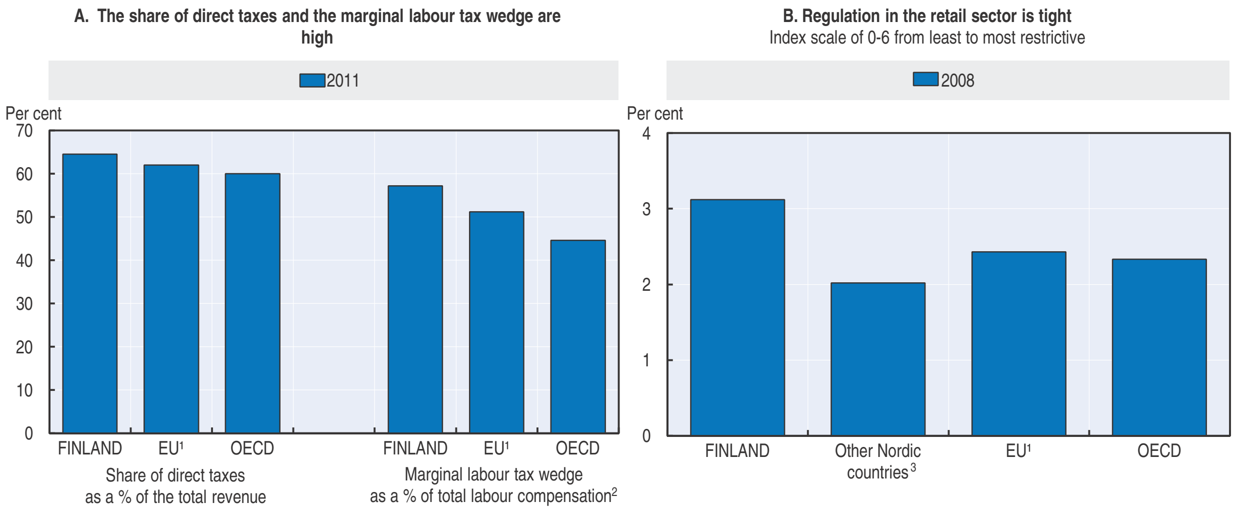
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, National Accounts and OECD Economic Outlook 92 Databases.

StatLink http://dx.doi.org/10.1787/888932776466

FINLAND

Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Evaluated at 100% of average earnings for a single person with no child.
3. Average of Denmark, Norway and Sweden.

Source: *OECD, Revenue Statistics, Taxing Wages and Product Market Regulation Databases.*

StatLink http://dx.doi.org/10.1787/888932776485

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

***Enhance competition in the retail sector*.**[1] Regulatory barriers in the retail sector are tight and labour productivity is low.

Recommendations: Loosen zoning and planning restrictions on retail development to encourage competition and to increase store-level scale economies. Ensure that the competition authority has sufficient resources to fulfil its mandate.

Strengthen active labour market policies. Insufficient activation of unemployed workers and high unemployment benefits are holding back employment.

Actions taken: As of 2013, youth and recent graduates under the age of 30 unemployed for more than three months will be guaranteed a tailored response from the employment offices. Shift of the responsibility of employment services to municipalities after 12 months of unemployment, with individual follow-up and monitoring, will be experimented.

Recommendations: Continue to adjust active labour market policies so that activation takes place earlier, reduce replacement rates and taper them off throughout the unemployment spell.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

FINLAND

Reduce the labour tax wedge and improve efficiency of the tax structure. Marginal tax wedges on labour income remain high, hampering improvements in labour utilisation.

Actions taken: Value-added tax (VAT) rates will be increased by 1 percentage point in 2013, some exemptions have been removed and excise duties on some goods have increased. Taxes on transport fuels and the annual vehicle tax have been raised, and the car tax scale has been adjusted to reinforce environmental steering.

Recommendations: Lower labour taxation. Offset the revenue loss with higher indirect – including green – taxes. Increase property tax rates and align assessment values with market valuations. Raise the revenue efficiency of the VAT by eliminating reduced rates.

Other key priorities

Increase productivity in municipal services. Municipal services' productivity is declining, which weighs on public finances.

Actions taken: The government has announced an ambitious reform of municipalities and services, including through mergers, which could yield significant productivity gains, if implemented successfully.

Recommendations: Pursue further municipal mergers to increase efficiency and economies of scale in basic service provision. Further develop benchmarking to enhance municipal-level productivity.

Reduce disincentives to work at older ages. Implicit taxes on continued work are still high, contributing to low employment rates among older workers compared with other Nordic countries.

Actions taken: No action taken.

Recommendations: Raise the minimum statutory retirement age, review the disability pension system and fully close the unemployment pathway into retirement. Strengthen work incentives for older workers by increasing pension accrual rates after 65 and extending the actuarial adjustment of pensions to the full working life, including the period after the minimum retirement age.

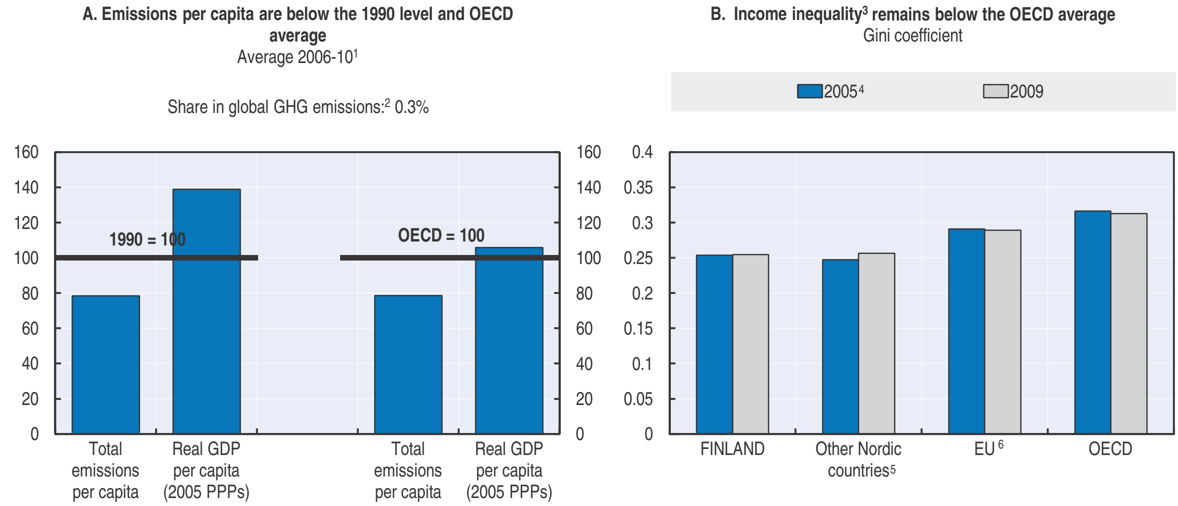
Previous *Going for Growth* recommendation no longer considered as a priority

Improve the efficiency of the tertiary education system. To improve efficiency it was recommended to reform selection procedures and the financing of upper education.

Actions taken: A major reform of the student selection process is underway including the development of a joint electronic admission system for both universities and polytechnics. A reformed university funding model, based on performance, will be adopted in 2013. The student financial aid system will be reformed from the beginning of 2014 to create incentives to shorten study times.

FINLAND

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2004 for Finland.
5. Average of Denmark, Norway and Sweden.
6. Average of 21 EU countries members of the OECD.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776504

FRANCE

- The gap in GDP per capita relative to the leading OECD countries has stabilised since the mid-2000s at a sizeable level, reflecting weak employment rates for youth and older workers as well as short working time.
- The end-of-2010 pension reform and the 2012 elimination of the job-search exemption for older unemployed have significantly reduced disincentives to work at older ages. Labour taxes will be reduced by 6 percentage points on earnings up to 2.5 times the minimum wage, financed by spending cuts, and value-added tax and environmental tax increases. Incentives have been put in place to facilitate the emergence of high-quality universities and research centres.
- Combining enhanced active labour market policies with the reduction of employment protection for permanent contracts, adopting a more efficient tax structure and limiting the increase in the minimum wage would promote employment and improve job reallocations. Improving the quality of the education system is also critical to increasing both employment and productivity over time. Deregulation in the product markets could yield short-term gains in both labour productivity and labour utilisation.
- Improving education outcomes entails essentially increasing the performance of disadvantaged students, thus both boosting total income and lowering inequality. Reducing labour market duality would mostly benefit the low-skilled and youth, who are currently forced to assume a disproportionate share of the needed adjustment in the workforce. Shifting of the tax structure could be achieved in part by increasing environmental taxes, which would lower pollution and waste.

Growth performance indicators

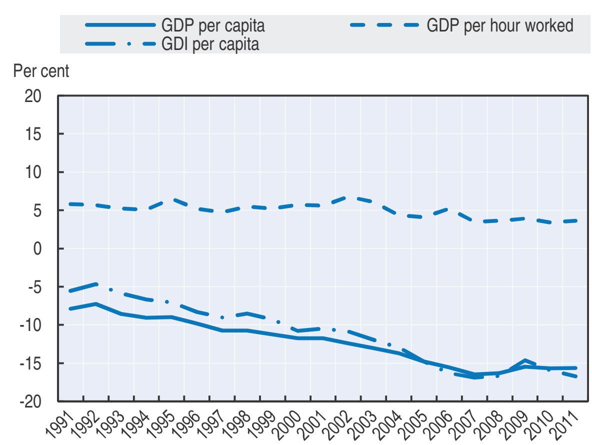
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.9	0.7
Potential labour utilisation		0.0	-0.1
of which:	Labour force participation rate	0.0	0.0
	Employment rate[1]	0.0	-0.1
Potential labour productivity		0.9	0.8
of which:	Capital intensity	0.4	0.5
	Labour efficiency	0.0	-0.1
	Human capital	0.5	0.5

B. The gap in GDP per capita widened before the recession

Gap to the upper half of OECD countries[2]



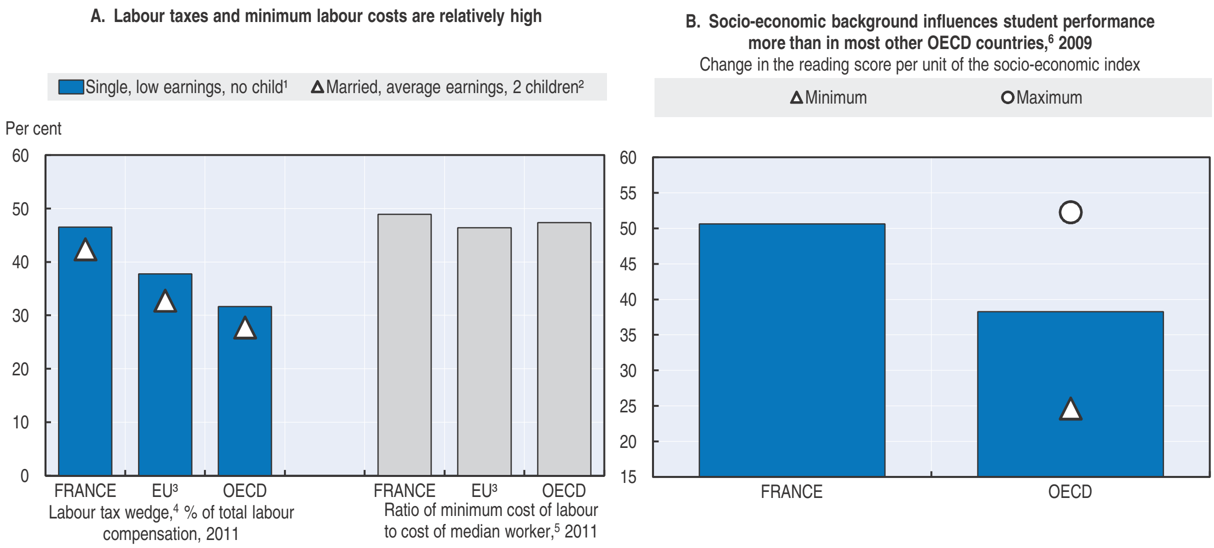
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932776523

FRANCE

Policy indicators



1. Low earnings refer to two-thirds of average earnings.
2. At 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
3. Average of 21 EU countries members of the OECD.
4. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
5. Exactly half of all workers earn less than the median wage for the OECD countries. The cost of labour is the sum of the wage level and the social security contributions paid by employers. The OECD average excludes some OECD countries which do not have a statutory minimum wage, as well as Mexico for which data are not available.
6. Defined as the estimated coefficient from the single bivariate regression of PISA reading performance of all participating students on their corresponding index of economic, social and cultural status (ESCS). Minimum and maximum represent the estimated coefficients for the countries which have the lowest and highest values respectively.

Source: OECD, *OECD Employment Outlook, Taxing Wages and Education at a Glance Databases*.

StatLink http://dx.doi.org/10.1787/888932776542

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reform job protection and strengthen active labour market policies. The deeply ingrained labour market duality reduces firms' ability to adapt to shocks, thus hindering productivity, and unfairly distributes the burden of adjusting the workforce to changes in activity.

Actions taken: The government intends to pass into law the agreement reached by social partners in January 2013, which would simplify part-time unemployment schemes, provide flexibility to adjust wages and working time to preserve jobs in downturns and ease regulation on collective dismissals.

Recommendations: Reduce the protection of permanent contracts (extend the trial period, broaden the definition of economic redundancy, shorten layoff and judicial procedures, reduce redeployment obligations) while reinforcing the link between benefits, job search and participation in enhanced active measures. Reform unemployment benefits to ensure they are generous in the short term, and less so later in the spell and for the older unemployed, while improving professional training.

Shift the tax burden away from labour, and continue to reduce the minimum cost of labour. High labour taxes undermine both labour demand and supply, and the high relative minimum cost of labour reduces job opportunities, especially for youth and low-skilled workers.

Actions taken: Labour taxes will be reduced by 6 percentage points on earnings up to 2.5 times the minimum wage by 2014, financed by spending cuts, and VAT and environmental tax increases.

Recommendations: Allow the minimum cost of labour to fall relative to the median, especially for youth. In the medium term, reduce social security contributions further while cutting public spending and inefficient tax expenditures, and increasing environmental, real property and inheritance taxes.

**Improve equity and outcomes in primary and secondary education*.*[1] Education outcomes are average within the OECD on aggregate, but the dispersion and the impact of socio-economic background are large, weighing on employment, productivity and equity.

Recommendations: Combat school failure at an early stage, limit repetition drastically, and develop individualised instruction. Improve teachers' training by focusing on knowledge transmission and creativity, and boost incentives to attract high-quality teachers in disadvantaged schools.

Other key priorities

Reduce regulatory barriers to competition. Competition is restricted by the regulatory framework, hindering both productivity and employment.

Actions taken: No significant actions taken.

Recommendations: Reduce the regulations of professional services that go beyond the strict protection of users. Ease restrictions to price competition and to setting up of new stores in the retail sector. Remove regulatory entry barriers in potentially competitive segments of network industries.

Improve the quality and efficiency of tertiary education. The tertiary education system is segmented with universities contributing to high student drop-out rates and lacking funding despite their new, albeit limited, autonomy.

Actions taken: Increased public spending aims at promoting the emergence of top level universities.

Recommendations: Extend the autonomy of universities. Allow them to select students and raise tuition fees while providing student loans with income-contingent repayment and adjusting means-tested grants to ensure equitable access. Incorporate information on labour market prospects into career guidance, and expand vocational education to address skills mismatches.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

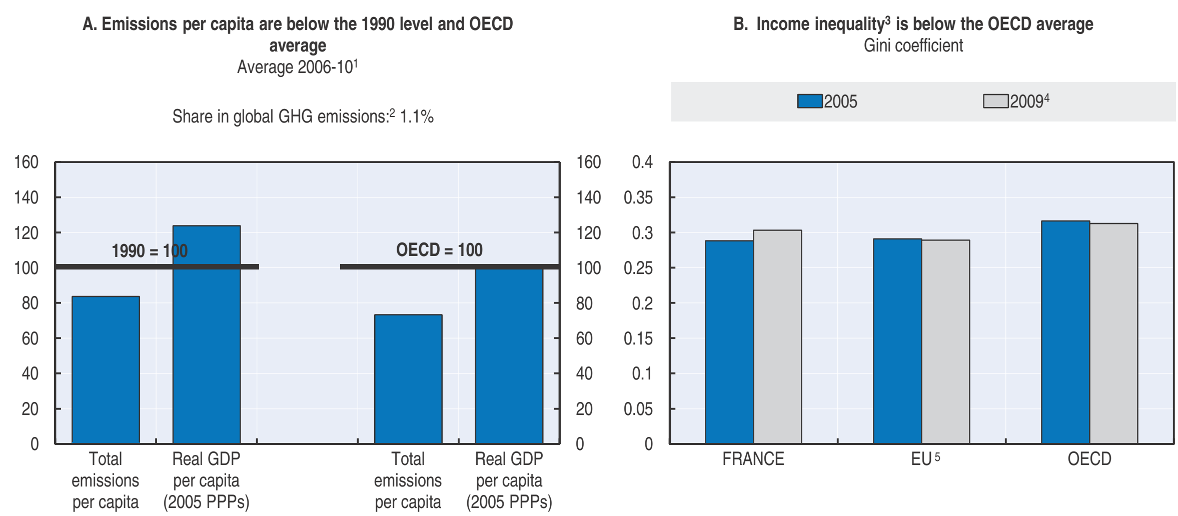
FRANCE

Previous *Going for Growth* recommendation no longer considered a priority

Reduce disincentives to work at older ages. In order to reduce disincentives to pursue work activity at older ages, it was recommended to continue phasing out pathways to early retirement, to further increase the contribution period for full pension and to strengthen the return-to-work strategy based on job search requirements and other active measures.

Actions taken: The October 2010 pension reform – which included a two-year increase in the legal retirement age and an extension of the contribution period for a full pension in line with rising life expectancy – seems to be helping to change employers' and workers' attitudes towards working at older ages, and the employment rate of older workers has increased throughout the crisis. The job-search exemption for the older unemployed disappeared in January 2012; however, the generous unemployment insurance for this group and the mechanism for a mutually agreed separation in place since 2008 are liable to favour disguised early retirement.

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2010 for France.
5. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776561

GERMANY

- The GDP per capita gap has continued to narrow relative to the upper half of the OECD. Notwithstanding some recent decline, Germany ranks among the best performing countries in terms of hourly productivity. Labour utilisation has increased but remains significantly below OECD highs.
- Some progress has been achieved in improving education outcomes and increasing work incentives but these areas remain core priorities. Less was done on employment protection or regulation in the services sectors.
- Reducing the labour tax wedge, job protection for regular workers and impediments to female labour market participation would lift labour utilisation from its relatively low level. Productivity growth in services sectors could be supported by removing barriers to competition. Improving tertiary education outcomes would stimulate both the productivity and the employability of workers.
- Shifting the taxation system away from labour and towards environmental tax bases would contribute to better pricing of negative externalities. Beyond their impact on labour utilisation, reforms supporting female participation and easing protection of regular workers would reduce inequalities.

Growth performance indicators

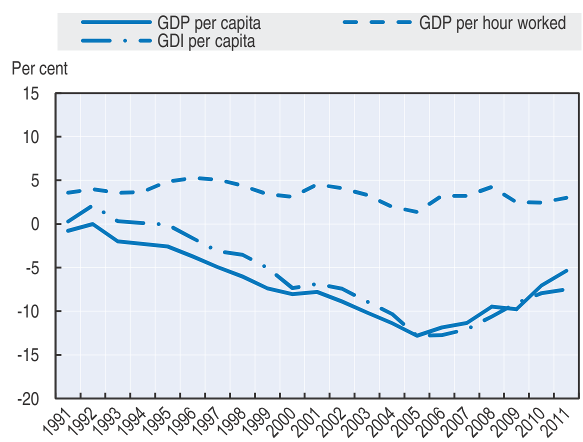
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.9	1.3
Potential labour utilisation		0.0	0.3
of which:	Labour force participation rate	0.1	0.2
	Employment rate[1]	-0.1	0.2
Potential labour productivity		0.9	1.0
of which:	Capital intensity	0.2	0.2
	Labour efficiency	0.7	0.8
	Human capital	0.0	0.0

B. The GDP per capita gap has continued to narrow

Gap to the upper half of OECD countries[2]



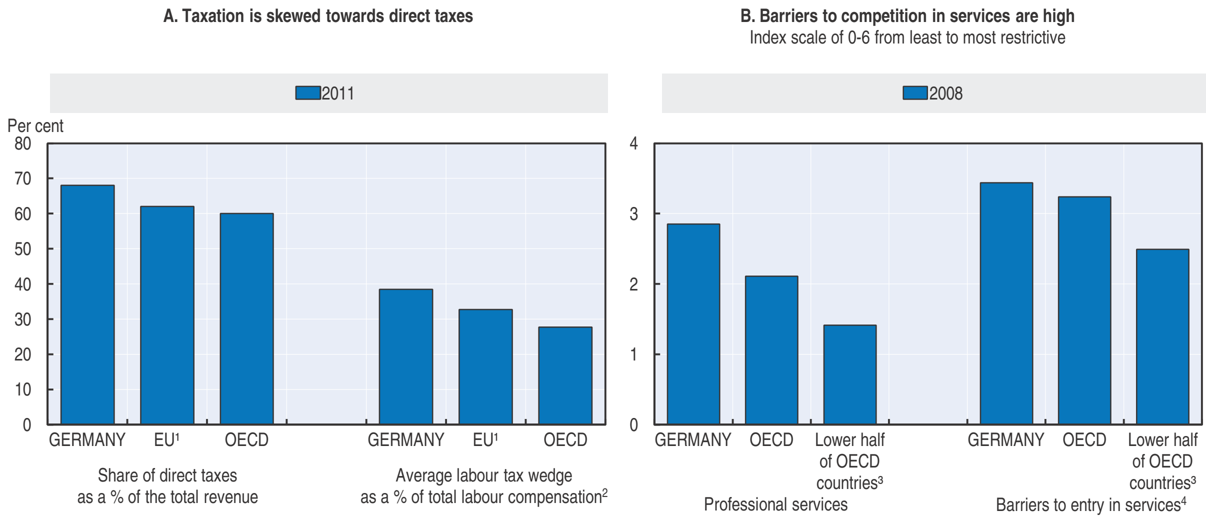
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932776580

GERMANY

Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Couple with two children, at 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).
3. Average over the half of OECD countries with the lowest regulatory barriers to competition in professional services.
4. Barriers to entry in services cover barriers to entry in professional services and retail trade.

Source: OECD, *Revenue Statistics*, *Taxing Wages* and *Product Market Regulation Databases*.

StatLink http://dx.doi.org/10.1787/888932776599

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce tax wedges on labour income and shift taxation towards less distortive sources. The labour tax wedges remain high and taxation is skewed towards direct taxes on mobile bases.

Actions taken: The pension contribution rate has been reduced in 2012 and income taxes will be lowered in 2013 and 2014.

Recommendations: Reduce social security contributions further, in particular for low incomes. Shift the tax burden more towards less distortive taxes, for example by raising real estate and/or environmental taxes, by eliminating exemptions or reduced energy tax rates or by phasing out some of the reduced VAT rates.

Improve tertiary education outcomes. Tertiary attainment rates increased among vocational and educational training graduates but remain low overall, hampering both productivity growth and labour utilisation.

Actions taken: Since 2011, additional financial support for students has been introduced (the Germany Scholarship programme).

Recommendations: Reduce remaining stratification in the school system by delaying the tracking decision further and monitor the measures taken to reduce entry barriers in tertiary education. Develop tuition fees in combination with student loans with income contingent repayments.

Reduce regulatory barriers to competition, especially in the services sector. Barriers to competition in services limit productivity growth.

Actions taken: No action taken.

Recommendations: Deregulate professional services, including by rethinking compulsory membership in professional chambers. Apply the "silence is consent" rule for issuing licences and establish an advisory body in charge of identifying other regulatory hurdles to entrepreneurship.

Other key priorities

Ease job protection for regular workers. Strict protection of regular workers combined with a low level of protection for non-regular workers increases the risk of labour market duality.

Actions taken: No action taken.

Recommendations: Ease provisions of regular work contracts by simplifying layoff procedures. Consider moving towards a unified job contract with the degree of protection rising with tenure.

Remove obstacles to full-time female labour participation. While female labour participation is high, the average working hours of mothers and married women are significantly below the OECD average.

Actions taken: Measures to increase significantly the number of childcare places and the provision of full-day schooling by 2013 are being implemented. However, the government has proposed to subsidise parents who choose not to use childcare facilities (*Betreuungsgeld*), which would incentivize them to stay home.

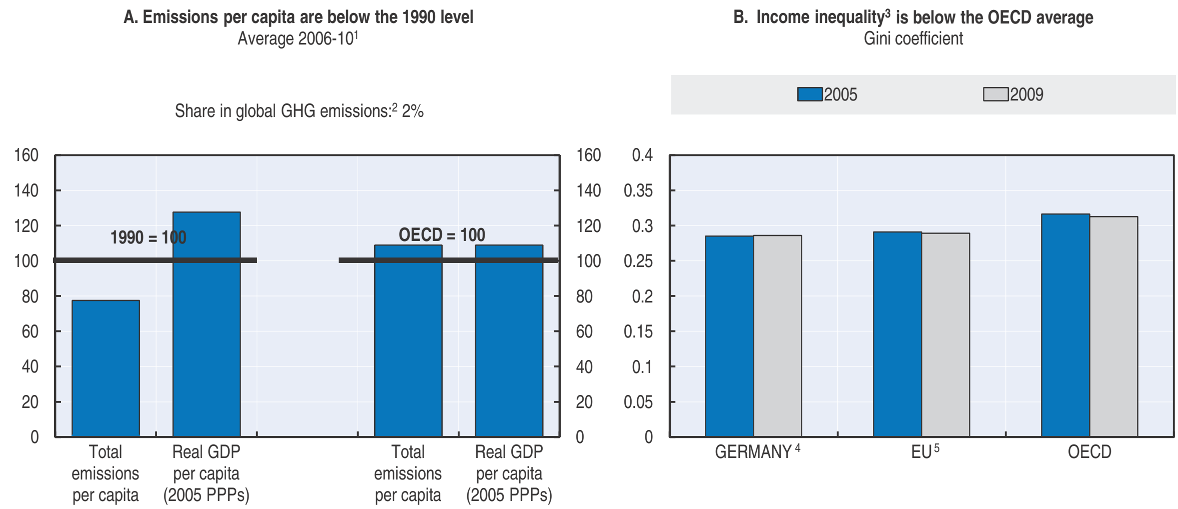
Recommendations: Reduce fiscal disincentives to work by introducing mandatory healthcare contributions for non-working spouses and by reforming the joint taxation. Refrain from introducing cash-for-care subsidies.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

GERMANY

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2004 and 2010.
5. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/els/social/inequality*).

StatLink http://dx.doi.org/10.1787/888932776618

GREECE

- After narrowing steadily during the 2000s, the GDP per capita gap relative to the best performing OECD countries has widened sharply in recent years due to the deep and protracted economic crisis. Declines in both labour productivity and labour utilisation have contributed to the widening of the gap.
- Recent pension reforms are a welcome step towards improving labour utilisation and reducing income inequality. The recent reduction in the minimum labour costs for new entrants should foster gains in competitiveness, and boost employment especially among young people.
- Comprehensive structural reforms are needed to restore competitiveness, raise welfare and incomes. Product market reforms along with well-targeted and closely-monitored active labour market policies (ALMPs) are critical in this regard, as are improvements in the quality of the education system. Bolstering the efficiency of public administration is needed to enhance the quality of services and cut public spending.
- Strengthening ALMPs could allow enhancing the job opportunities of vulnerable jobseekers, hence reducing inequality while encouraging return to work.

Growth performance indicators

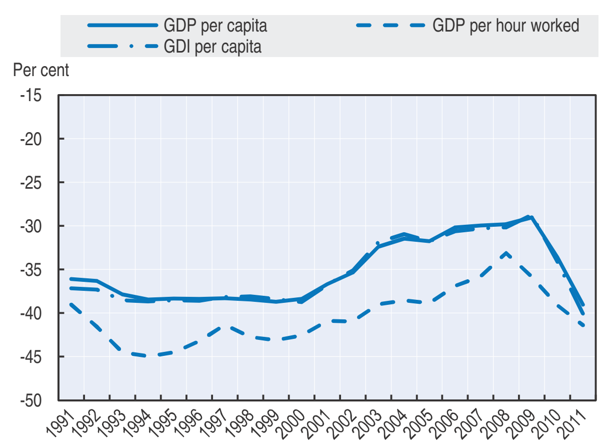
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.5	0.3
Potential labour utilisation		0.6	-0.3
of which:	Labour force participation rate	0.5	0.1
	Employment rate[1]	0.1	-0.5
Potential labour productivity		1.8	0.6
of which:	Capital intensity	1.3	1.7
	Labour efficiency	-0.1	-1.6
	Human capital	0.7	0.5

B. Gaps in GDP per capita and productivity have widened sharply

Gap to the upper half of OECD countries[2]



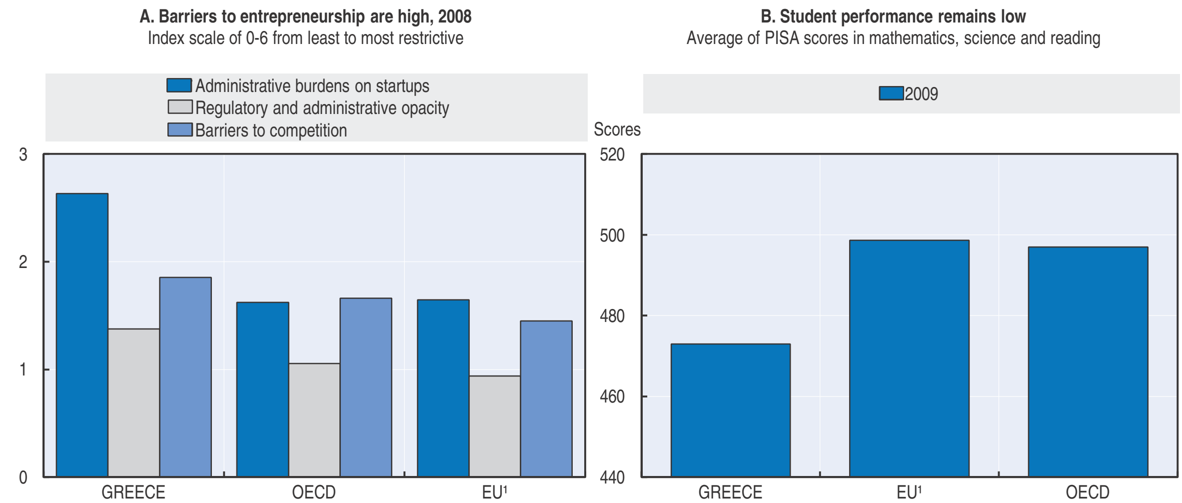
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932776637

GREECE

Policy indicators



1. Average of 21 EU countries members of the OECD.
Source: OECD, *Product Market Regulation and PISA 2009 Databases.*

StatLink http://dx.doi.org/10.1787/888932776656

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce regulatory barriers to competition. Strict business regulations and weak competition in network industries hamper productivity.

Actions taken: The privatisation programme underway focuses on key network sectors, such as transport and energy. Road haulage has been liberalised in January 2012. Further steps were taken to simplify regulatory procedures through the "business-friendly Greece" action plan.

Recommendations: Implement swiftly and in full the "business-friendly Greece" action plan. Liberalise closed professions with no delay. Remove barriers to competition in network industries, for example, by unbundling the generation, transmission and distribution segments of the electricity sector.

Reduce widespread tax evasion and broaden the tax base. Tax evasion is widespread, hampering the needed increase in tax revenue to address fiscal imbalances.

Actions taken: A tax reform has been approved broadening the tax base by eliminating several tax exemptions and simplifying the tax structure. A draft bill aiming to combat tax evasion by restoring tax discipline and enhancing compliance has been submitted to Parliament.

Recommendations: Proceed with the reform of the tax system without delay, along with continued and effective efforts to fight tax and social security evasion. A more transparent system for taxing self-employed is essential. Enhance the efficiency of tax collection.

Improve the quality and efficiency of the education system. Weaknesses at various levels of education lower outcomes and inhibit productivity improvements.

Actions taken: Announced reforms for schools introduce more flexible curricula and a system for teachers' performance evaluation. A new tertiary education framework law, including measures for better governance and performance-based funding for universities, was approved in 2012.

Recommendations: Ensure rapid implementation of the efficiency-enhancing reforms for the education system. Improve the quality of teachers by linking teaching evaluation to effective professional development. Make schools more autonomous and accountable. Introduce a well-performing evaluation system of universities.

Other key priorities

****Enhance the effectiveness of active labour market policies*.***[1] Well-targeted active labour market policies are critical to reduce high unemployment.

Recommendations: Evaluate rigorously and systematically the effectiveness of adopted activation programmes. Make unemployment benefits conditional on job-search requirements.

****Enhance the efficiency of public administration.*** An efficient public administration is essential for improving service quality and containing costs.

Recommendations: Develop a broad strategy to strengthen co-ordination between and within ministries. Adopt performance-based staff evaluation. Monitor rigorously reform implementation.

Previous *Going for Growth* recommendations no longer considered a priority

Pursue efforts to reduce the implicit tax on continued work . To encourage stronger labour force participation at older age, it was recommended to proceed with full implementation of the then pending pension bill and to ensure that parametric changes to the pension system were sufficient for long-term sustainability.

Actions taken: A recent pension bill increases the statutory retirement age, raises the penalties for those retiring before 65, and reduces the generosity of pension benefits. The list of professions under arduous occupations has been revised.

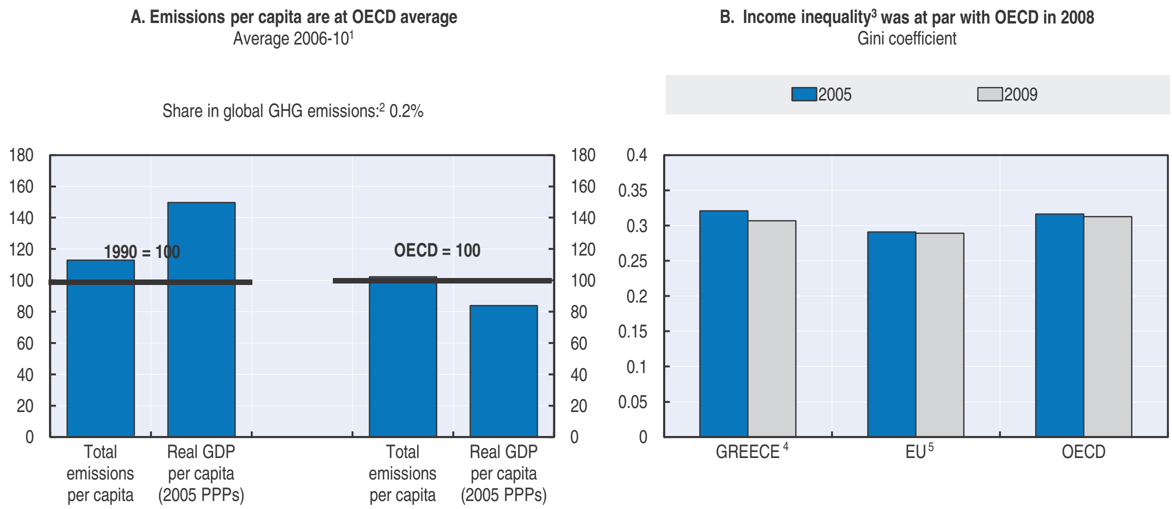
Ease entry into the labour market. To reduce the relatively high minimum labour cost for new entrants, it was recommended to ensure full implementation of the new bill introducing sub-minimum wages and to better align severance costs for white-collar employees with those of blue-collar workers.

Actions taken: A new bill in 2012 stipulates a reduction of 22% in the minimum wage for all levels, with an additional 10% for the young below 25.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

GREECE

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2004 and 2008.
5. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776675

HUNGARY

- Closing of the income gap *vis-à-vis* the upper half of OECD countries had stopped before the global recession. The gap reflects a large shortfall in productivity. Overall labour resource utilisation is comparable to the most affluent OECD countries, but significantly higher average hours worked are offset by one of the lowest participation rates in the OECD.
- Progress has been made with an elimination of early retirement options for men in the general pension system and a lowering of the average tax wedge. However, recent changes in the tax and benefit system have made it far more regressive, though this partly being offset by targeted reductions in social security contributions for groups weakly attached to the labour market.
- Easing business regulations, fostering the predictability of the policy environment, enhancing public sector efficiency and increasing educational attainment would bolster productivity growth. Combining study and work and reducing disincentives to continued work at older ages by closing all pathways into early retirement and taxing all pensions would enhance activity and employment rates.
- Reinstating a recently removed earned-income tax credit would increase income for low-income earners, hence reduce inequality, while enhancing work incentives.

Growth performance indicators

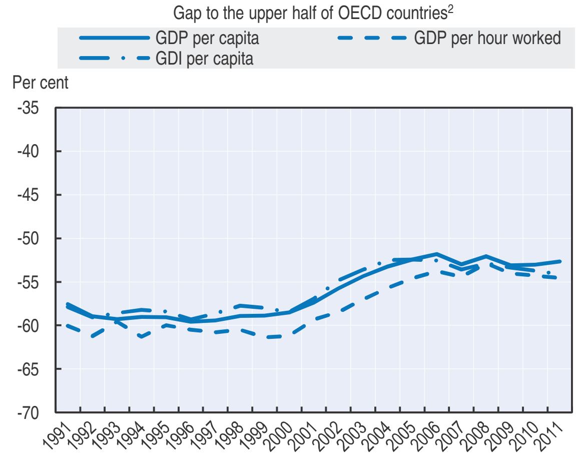
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.7	0.9
Potential labour utilisation		0.1	0.3
of which:	Labour force participation rate	0.3	0.7
	Employment rate[1]	-0.3	-0.4
Potential labour productivity		2.7	0.5
of which:	Capital intensity	1.2	0.9
	Labour efficiency	1.0	-0.7
	Human capital	0.4	0.3

B. The large gaps in GDP per capita and productivity have ceased to narrow

Gap to the upper half of OECD countries[2]



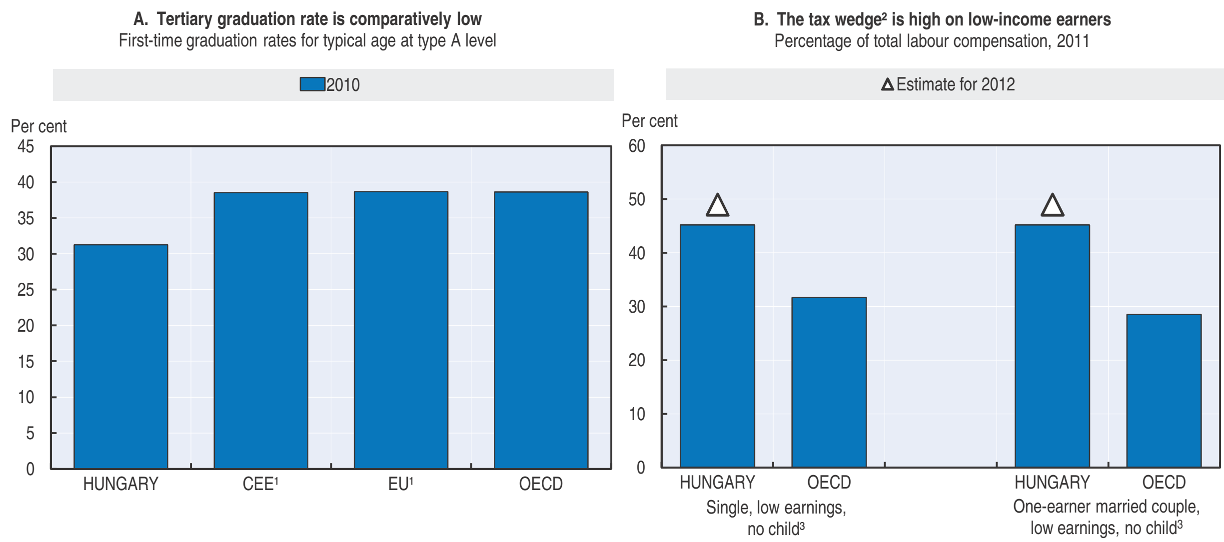
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, National Accounts and OECD Economic Outlook 92 Databases.

StatLink http://dx.doi.org/10.1787/888932776694

HUNGARY

Policy indicators



1. Central and Eastern European countries is the average of Czech Republic, Hungary, Poland and Slovenia. EU is the average of 21 EU countries members of the OECD.
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
3. Low earnings refer to two-thirds of average earnings.

Source: OECD, *Education at a Glance 2012* and *Taxing Wages Databases*; Ladányi, T. and R. Kierzenkowski (2012), "Work Incentives and Recent Reforms of the Tax and Benefit System in Hungary", *OECD Economics Department Working Papers*, No. 944, OECD Publishing.

StatLink http://dx.doi.org/10.1787/888932776713

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce the tax wedge on labour income. The average tax wedge is high, mainly for low-income earners, deterring work incentives.

Actions taken: In 2011, a shift to a flat-rate personal income tax and tax reliefs for families with children lowered the tax wedge. In 2012, despite the narrowing of the tax base below the average wage, the wedge on low-income workers increased with the removal of the earned-income tax credit. A "job protection action plan" has introduced targeted reductions in social security contributions for groups weakly attached to the labour market.

Recommendations: Lower the labour tax wedge by reducing social charges and reinstating an earned-income tax credit that is more narrowly targeted than the one recently removed. Finance the measures by raising energy taxes and property taxes for high-income individuals.

Reduce disincentives to continued work at older ages. Pensions are tax exempt in the general regime and women and some professions can retire early.

Actions taken: The unwelcomed dissolution of the second pillar of the pension system in 2011 incidentally diminished expected replacement rates. Meanwhile, the statutory retirement age will increase from 62 to 65 years by 2022. Early retirement options in the general pension regime were eliminated for men in 2011 and from 2012, and new and existing retirement benefits of special pension regimes have been be reduced by the amount of the income tax (up to the statutory retirement age).

Recommendations: Make all pension benefits liable to income tax, index the statutory retirement age to gains in life expectancy and close pathways into early retirement for women and special regimes.

Make the education system more efficient and equitable. Tertiary education attainment is low and the system is not attuned enough to labour market needs.

Actions taken: The age of compulsory education has been lowered from 18 to 16 and the funding for tertiary education has been cut, though placements in science and engineering have been favoured. Some progress has been made in improving the system of vocational education and training.

Recommendations: Postpone early tracking of students and reform teachers' lifelong training. Continue to diversify educational pathways by alternating study and on-the-job training. Merge vocational training and vocational secondary schools.

Other key priorities

Ease business regulations. Administrative burden on businesses and the market power of incumbents in network sectors are high. Tax regulations applied to banks hamper business financing.

Actions taken: A comprehensive programme has been launched in 2011 to diminish compliance costs for existing businesses.

Recommendations: Enhance business environment stability. Ease entry and exit procedures and regulations on the size of retail outlets and in professional services. Reduce price controls in the competitive segments of network industries and banks' tax regulations. Further cut compliance costs.

Increase public sector efficiency. The share of public sector employment is high but overall efficiency of public administration is low.

Actions taken: Public employment has been reduced, yet partly offset by large-scale public works programmes. A restructuring of local governments has started creating scope for economies of scale.

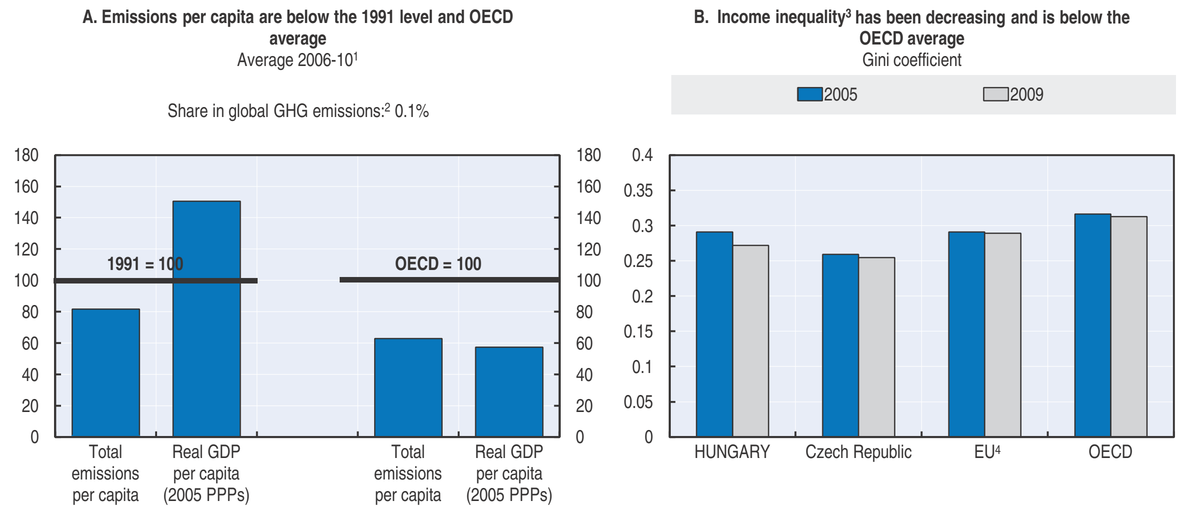
Recommendations: Continue staff reductions, in particular in local governments. Ensure cost-efficient delivery of services and facilitate the monitoring and evaluation of the public sector.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

HUNGARY

Other dimensions of well-being: Performance indicators



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4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776732

ICELAND

- The income gap *vis-à-vis* leading OECD economies has grown in recent years owing to relatively weak growth in employment and hours worked. The gap in GDP per capita reflects relatively low labour productivity. Employment rates and average hours worked are high.
- There has been no progress on the policy priorities identified in the 2011 issue of *Going for Growth*.
- Reducing barriers to product market competition, including by lowering entry barriers in the electricity and fisheries sectors and reducing agricultural protection, as well as increasing public sector efficiency would increase productivity. Similarly, improving education outcomes would foster human capital accumulation and productivity.
- In addition to boosting productivity, reducing producer support to agriculture would lower food prices, disproportionately benefiting lower-income households. Moreover, improving the performance of the education system, especially where it is weakest would help reduce income inequality.

Growth performance indicators

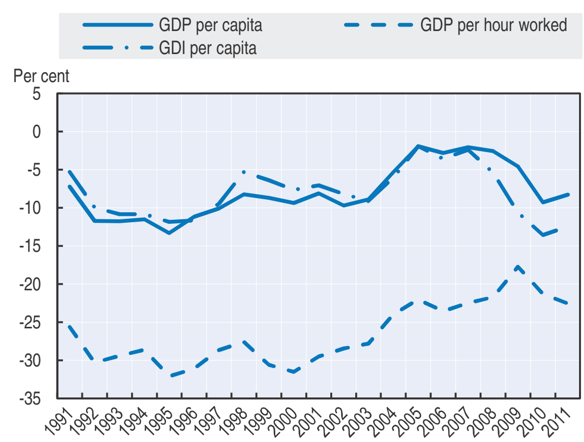
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.1	0.8
Potential labour utilisation		-0.1	-0.7
of which:	Labour force participation rate	0.0	-0.4
	Employment rate[1]	-0.1	-0.3
Potential labour productivity		2.2	1.5
of which:	Capital intensity	1.3	0.7
	Labour efficiency	0.3	0.2
	Human capital	0.6	0.6

B. The gap in GDP per capita has widened in recent years

Gap to the upper half of OECD countries[2]



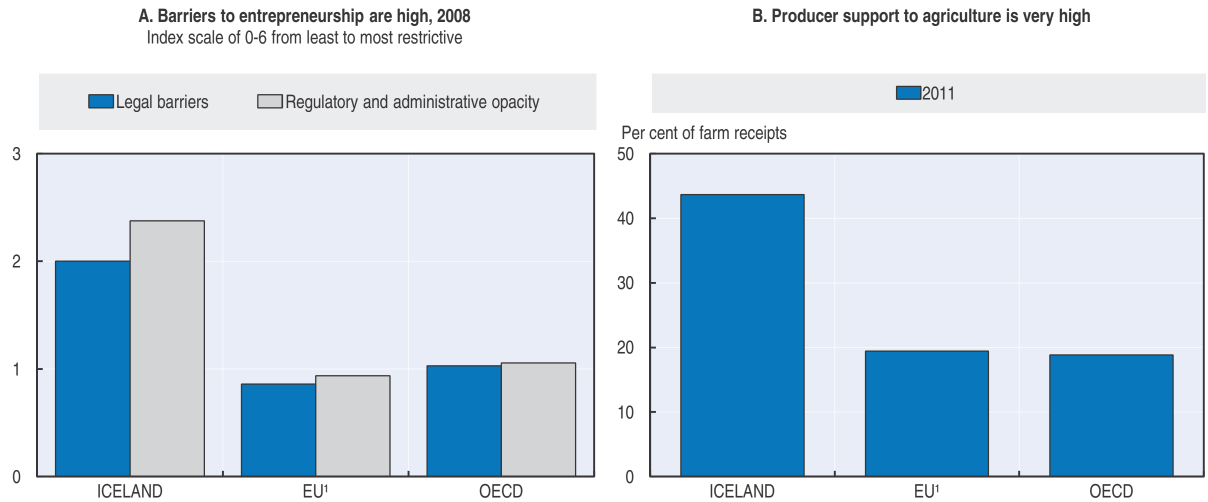
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932776751

ICELAND

Policy indicators



1. Average of 21 EU countries members of the OECD.
Source: OECD, *Product Market Regulation and Producer and Consumer Support Estimates Databases.*

StatLink http://dx.doi.org/10.1787/888932776770

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce barriers to product market competition. Regulatory opacity and legal barriers to entry, restrain entrepreneurship, competition and productivity growth.

Actions taken: No action taken.

Recommendations: Review and reduce the number of licences and permits required and use plain language in regulations. Reduce legal barriers to entry in the electricity, air-transport and airport, and seaport sectors.

Lower ownership restrictions for domestic and foreign firms. Restrictions on domestic private and/or foreign ownership inhibit competition in the electricity and fisheries sectors, weakening investment and productivity growth.

Actions taken: No action taken.

Recommendations: Reduce foreign ownership restrictions in the electricity and fisheries sectors. Divest the National Power Company's generation activities, which benefit from a cost-of-capital advantage conferred by government ownership, to create a competitive market in electricity generation.

Reduce producer support to agriculture. Agricultural producer support is high, burdening consumers and taxpayers and weighing on productivity.

Actions taken: No action taken.

Recommendations: Reduce agricultural support by lowering tariffs and excise duties, abolishing quotas on agricultural products, reducing other forms of producer support and delinking it from production.

ICELAND

Other key priorities

Increase public sector efficiency. Inadequate performance information undermines programme management and productivity.

Actions taken: No action taken.

Recommendations: Introduce performance indicators for government programmes to identify and correct programmes that are not meeting their objectives. Strengthen conflict of interest disclosure.

Improve education outcomes. Below OECD average achievement in reading and science and low efficiency of the education system reduce productivity.

Actions taken: No action taken.

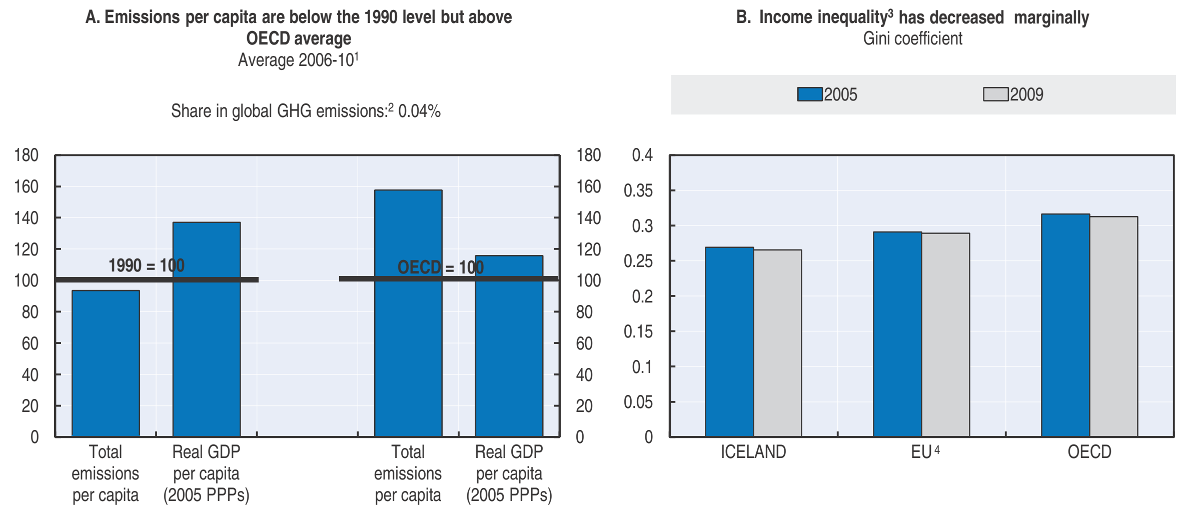
Recommendations: Strengthen school accountability for education outcomes. Adjust curricula to improve performance in reading and mathematics. Raise teacher quality in rural areas. Increase effective teaching time and student-teacher ratios to increase efficiency.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

ICELAND

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
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4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776789

INDIA

- The Indian economy continues to grow faster than OECD countries but GDP per capita remains far below owing to low labour productivity.
- Education provision is improving, especially at the elementary level, though access and quality need further strengthening. Financial reforms are being implemented incrementally. By contrast, little progress has been made in reforming labour market regulation.
- Foreign direct investment (FDI) barriers in some sectors have been reduced but further trade and investment liberalisation is needed to strengthen competition and encourage the diffusion of more advanced technology and management practices. Reforms to employment protection legislation would improve labour market dynamism. Further reform of the financial sector is essential for promoting a more efficient allocation of capital. Streamlining infrastructure-related regulation would provide a much-needed boost to investment in this sector.
- In addition to supporting growth, a more inclusive education system would help reducing severe poverty and inequality more generally, while labour market reforms would help reducing informality.

Growth performance indicators

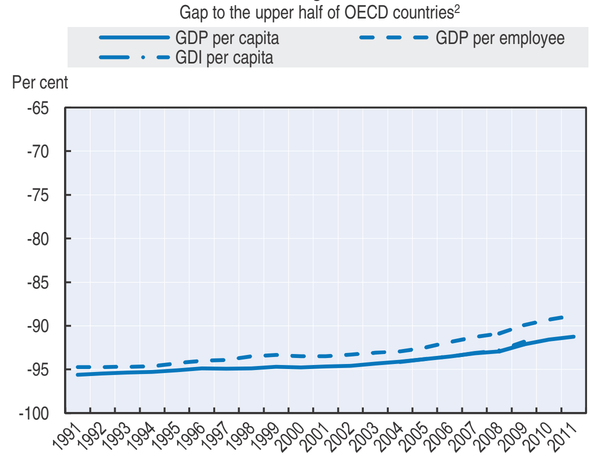
A. Average annual growth rates

Per cent

	2001-06	2006-11
GDP per capita	6.0	6.1
Labour utilisation[1]	0.0	-0.6
Labour productivity	6.0	6.8

B. Very large gaps in GDP per capita and productivity are being reduced

Gap to the upper half of OECD countries[2]



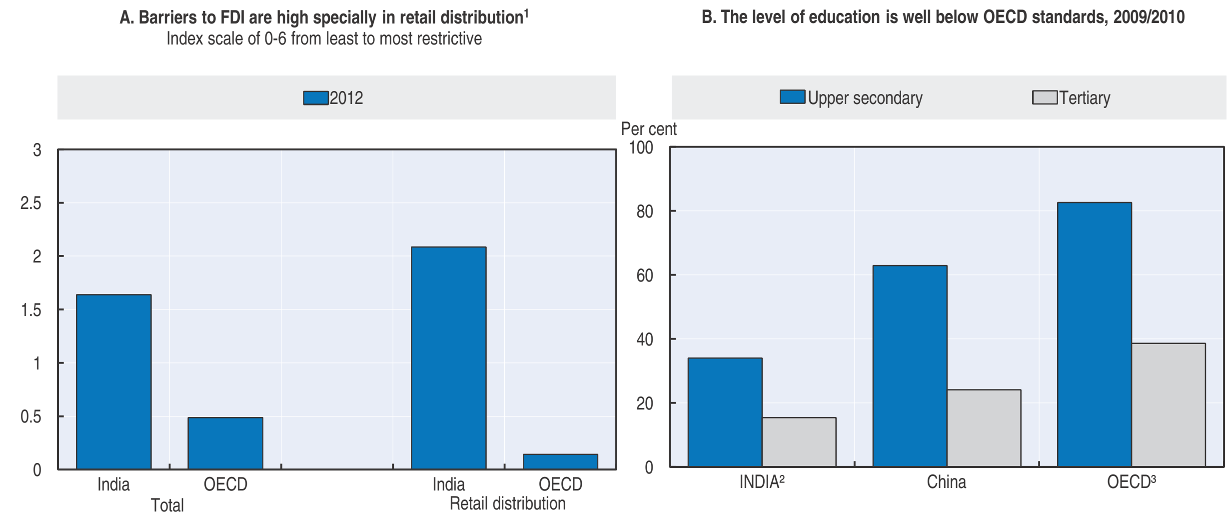
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*; World Bank (2012), *World Development Indicators (WDI) Database*, National Sample Survey (various years), annual population estimates of the Registrar General and OECD estimates.

StatLink http://dx.doi.org/10.1787/888932776808

INDIA

Policy indicators



1. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.
2. For India, data refer to the share of those aged 19-years-old who have completed upper secondary schooling and the share of those aged 24-years-old who have completed tertiary studies.
3. Graduation rate at upper secondary level (first-time graduate) and graduation rate for typical age at tertiary-type A level (first-time graduate).

Source: www.oecd.org/social/inequality.htm; OECD, *Education at a Glance 2012*; *India National Sample Survey (2009/10)* and *China Statistical Yearbook*.

StatLink http://dx.doi.org/10.1787/888932776827

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Enhance effectiveness in the education system. Though rising, participation in education remains low while the quality of provision is often poor.

Actions taken: By 2012 most of the state governments had issued crucial rules clarifying the implementation of the 2009 Right to Free Education Act, which calls for free, compulsory education of all children between 6 and 14. The Parliament is considering legislation to establish a new higher education regulator as well as legislation to broaden the quality assessment framework, reduce false advertising and provide a clearer regulatory framework for foreign education providers.

Recommendations: Improve teacher effectiveness by strengthening accountability and improving quality of and access to training. Further expand teaching resources in the most cost-effective manner. Provide tertiary institutions with greater managerial autonomy.

Reform employment protection legislation. Large firms face onerous dismissal requirements, reducing labour market dynamism and entrenching duality.

Actions taken: No action taken.

Recommendations: Reduce discrimination against large firms by easing provisions requiring government approval to terminate employment contracts.

Reduce trade and FDI barriers. Trade and FDI barriers remain high in some key sectors, impairing productivity improvements.

Actions taken: In September 2012 the government eased some FDI barriers, allowing minority foreign ownership in the aviation sector and up to 51% foreign ownership in multi-brand retail subject to restrictions such as approval by state governments and local procurement provisions.

Recommendations: Further ease FDI restrictions in aviation, multi-brand retail and other sectors. Complete the move to a 5% tariff for all manufactured products including motor vehicles.

Other key priorities

Promote more effective infrastructure-related regulation. Severe infrastructure bottlenecks endure, particularly in the energy and transport sectors.

Actions taken: The central government has prepared legislation to reform land titling and arrangements for public land acquisition. It has taken steps to speed-up the approval of large infrastructure projects. The government also raised limits for foreign institutional investment in debt issued by Indian infrastructure companies.

Recommendations: Streamline land acquisition processes, including through improved land registration, to reduce costs and delays. Reduce regulatory uncertainty to promote more private sector investment.

Undertake wide-ranging financial sector reforms. Reforms to further promote the development of a dynamic and efficient financial sector are needed to support investment and growth.

Actions taken: In 2012, restrictions on access to Indian capital markets were eased with foreign individuals allowed to invest directly in local stock markets.

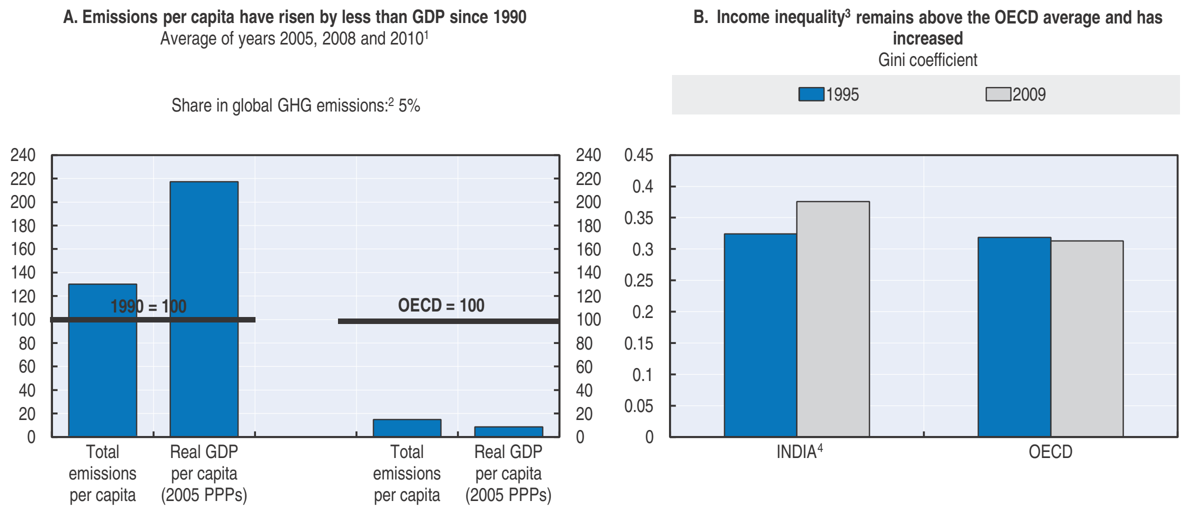
Recommendations: Ease bank portfolio restrictions including by gradually reducing the share of government bonds held by banks and establishing a plan to phase out priority lending. Allow greater participation by foreign investors in the financial services sector and promote the entry of new private banks.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

INDIA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the *International Energy Agency (IEA) Database*. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on per capita consumption for India.
4. Data refer to 1993 and 2008. For 1995, the OECD average excludes Estonia, Iceland, Korea, Poland, Slovak Republic, Slovenia and Switzerland.

Source: OECD, *Energy (IEA) Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932776846

INDONESIA

- The income gap *vis-à-vis* OECD economies has continued to narrow, reflecting strong factor accumulation. The remaining GDP per capita gap stems mainly from a productivity shortfall.
- Among priority areas, progress has been made to improve the quality of education and promote infrastructure. By contrast no significant action has been taken to reform stringent labour market regulations, and policy changes in the areas of foreign direct investment (FDI) and international trade as well as minimum wage determination have sometimes gone in the wrong direction.
- Easing barriers to entrepreneurship and investment and fostering infrastructure development are crucial to boosting long-term productivity growth. Reforming the labour code and resisting excessive increases in the minimum wage could encourage formalisation. Better access to high-quality education could raise the pool of qualified workers and enhance labour productivity.
- In addition to increasing productivity, removing energy subsidies could free resources to finance programmes in key development areas and help to move the economy toward a greener development path. Easier access to high-quality education would raise long-term growth and reduce income inequality.

Growth performance indicators

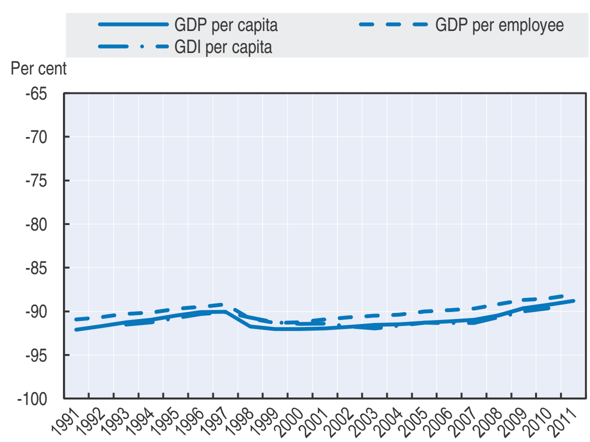
A. Average annual growth rates

Per cent

	2001-06	2006-11
GDP per capita	3.8	4.8
Labour utilisation[1]	0.1	1.2
Labour productivity	3.7	3.6

B. Gaps in GDP per capita have diminished rather slowly

Gap to the upper half of OECD countries[2]



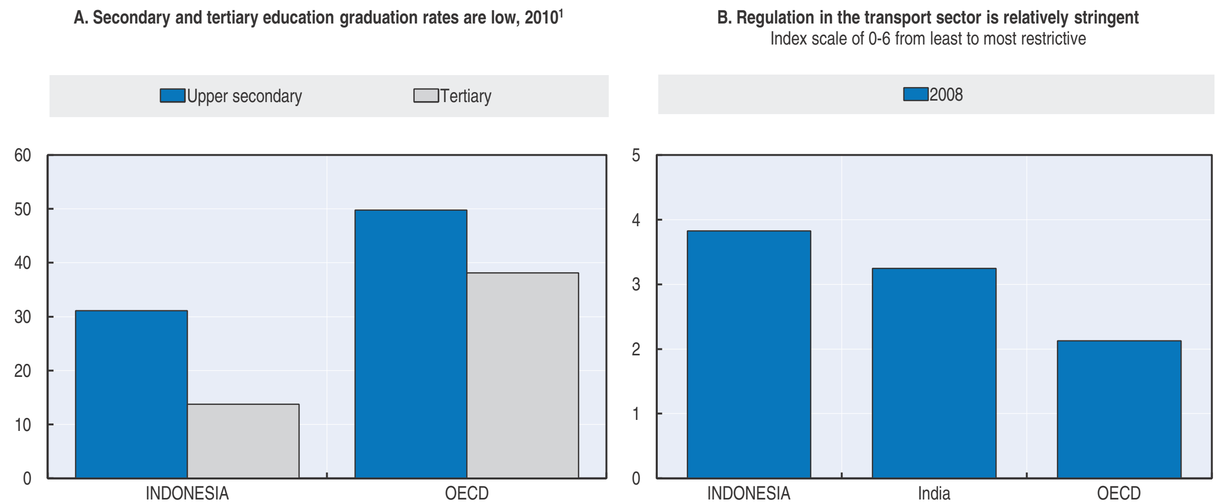
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*; World Bank (2012), *World Development Indicators* (WDI) and ILO (2012), *Key Indicators of the Labour Market (KILM) Databases*.

StatLink http://dx.doi.org/10.1787/888932776865

INDONESIA

Policy indicators



1. Graduation rate at upper secondary level for typical age from the general programmes and graduation rate for typical age at tertiary-type A level (first degree).

Source: OECD, *Education at a Glance 2012: OECD Indicators*; OECD, *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932776884

Going for Growth 2013 priorities

Priorities supported by indicators

Enhance outcomes and equity in education. Public spending has risen markedly but is still relatively low at higher levels of education. Teaching quality is low.

Actions taken: Funds to ease poor students' access to education are channelled to provinces to improve disbursement. A Higher Education Bill has been passed that will increase university autonomy.

Recommendations: Make income transfer programmes conditional on children attending secondary school, and eliminate the secondary school enrolment fee for disadvantaged children in order to boost enrolment rates. To improve teaching quality, assess teachers' pedagogical skills regularly.

Improve the regulatory environment for infrastructure. Regulatory authorities' lack of independence and regulatory uncertainties, in particular on land acquisition processes, hinder investment.

Actions taken: The Master Plan, unveiled in May 2011, identifies priorities to develop infrastructure, relying mostly on private investors. The Land Acquisition Law, passed in December 2011, allows the government to take over land for development while owners are guaranteed compensation.

Recommendations: Grant independence to regulatory bodies and strengthen their public accountability. Increase public outlays on good-quality infrastructure projects.

Reform labour regulation and cap minimum wage increases to address the problem of informality. Onerous severance payments for permanent workers and restrictive dismissal procedures encourage informality. In certain provinces, rapid increases in minimum wages cannot be justified in terms of productivity catch-up.

Actions taken: No action taken.

Recommendations: Introduce unemployment benefits, initially at a low level, ease dismissal procedures and reduce severance payments. Limit increases in the inflation-adjusted minimum wage to labour-productivity gains in provinces where it is already at a decent level.

Other key priorities

Reduce energy subsidies. Energy subsidies are costly, inequitable and inconsistent with the government's green strategy.

Actions taken: Parliament has authorised an increase in the price of subsidised fuel in 2012 if the world oil price exceeds a certain level.

Recommendations: Follow through on the commitment to substantially reducing fossil-fuel subsidies and extend the commitment to electricity subsidies, while offering targeted compensation schemes to the poor.

Ease barriers to entrepreneurship and investment and strengthen institutions to fight corruption. Despite some progress, excessive administrative burdens, high FDI restrictions in some sectors and corruption hamper entrepreneurship.

Actions taken: Rules on FDI in mining have been made more restrictive. A new regulation restricts the range of products a general importer can import.

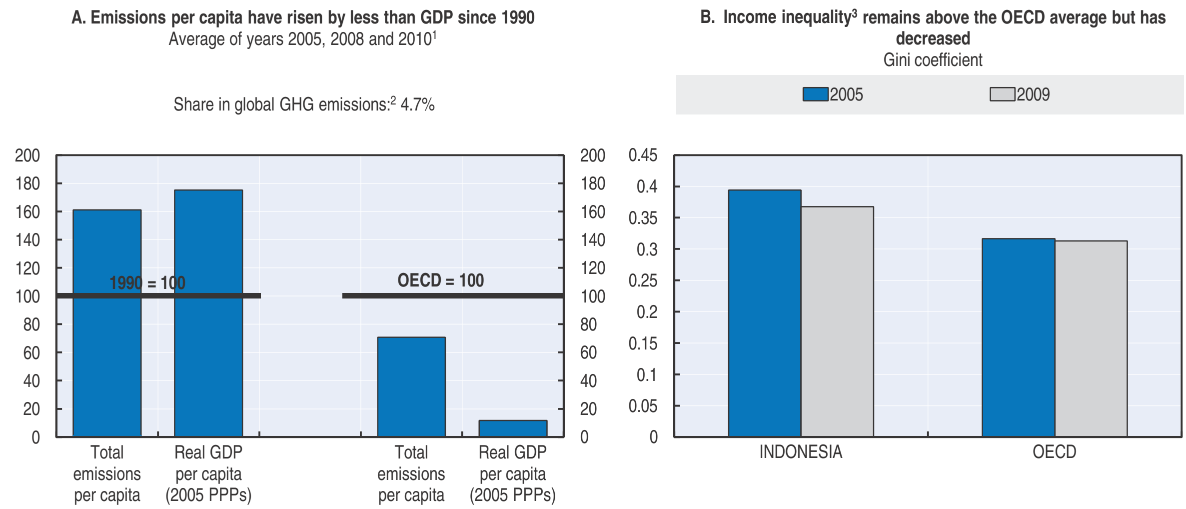
Recommendations: Simplify the business licensing system to lower compliance costs. Reconsider the recent cross-border restrictions related to mining and specific imports and reduce remaining FDI restrictions. Continue efforts to fight corruption, especially at the local level.

Previous *Going for Growth* recommendations no longer considered as a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

INDONESIA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) Database. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on per capita consumption for Indonesia.

Source: OECD, *Energy (IEA) Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, and OECD *Income Distribution Database*, provisional data (*www.oecd.org/els/social/inequality*).

StatLink http://dx.doi.org/10.1787/888932776903

IRELAND

- Income per capita has fallen somewhat below the level of leading OECD economies, reflecting a decline in employment that has more than offset continued growth in labour productivity.
- High past capital spending has significantly upgraded Ireland's infrastructure reducing many bottlenecks. By contrast, despite some recent progress, labour market activation policies have ample room for improvement, research and development (R&D) activity is below the OECD average and the energy sector is over regulated.
- Better job-search assistance and retraining opportunities for the unemployed would help to raise employment. Improved insolvency laws would allow for a faster clean up of bad loans, strengthening the banking system's capacity to provide credit and support future growth. More competitive product markets and dynamic innovation would underpin long-run productivity gains.
- Improved labour market activation policies would not only boost employment but could also reduce inequality and poverty by enhancing the job prospects of vulnerable individuals.

Growth performance indicators

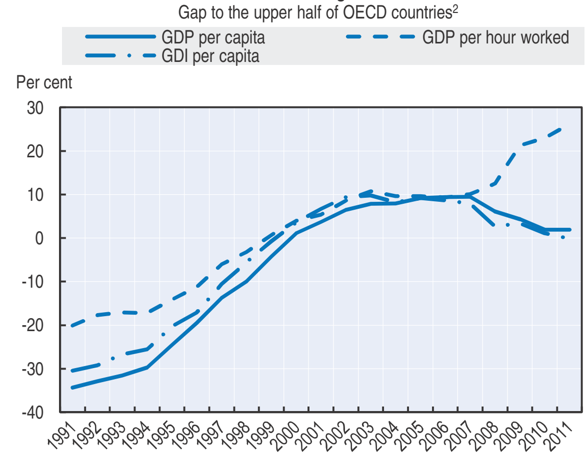
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		3.3	1.6
Potential labour utilisation		0.9	-0.8
of which:	Labour force participation rate	0.7	-0.2
	Employment rate[1]	0.1	-0.6
Potential labour productivity		2.4	2.4
of which:	Capital intensity	0.9	1.3
	Labour efficiency	1.1	0.7
	Human capital	0.5	0.4

B. The positive gap in GDP per capita prior to the crisis has become negative

Gap to the upper half of OECD countries[2]



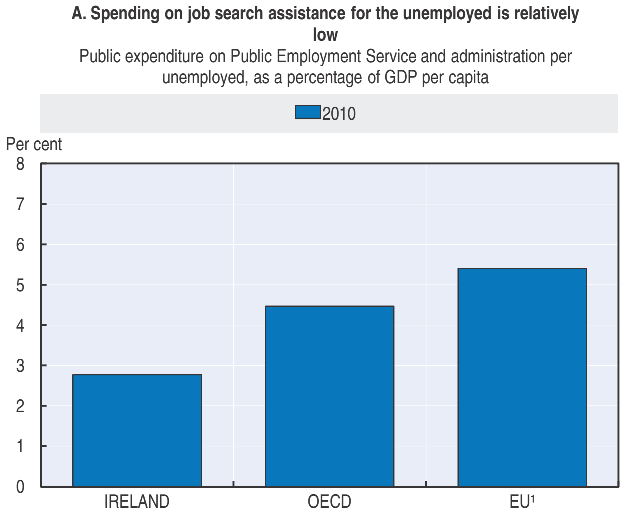
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

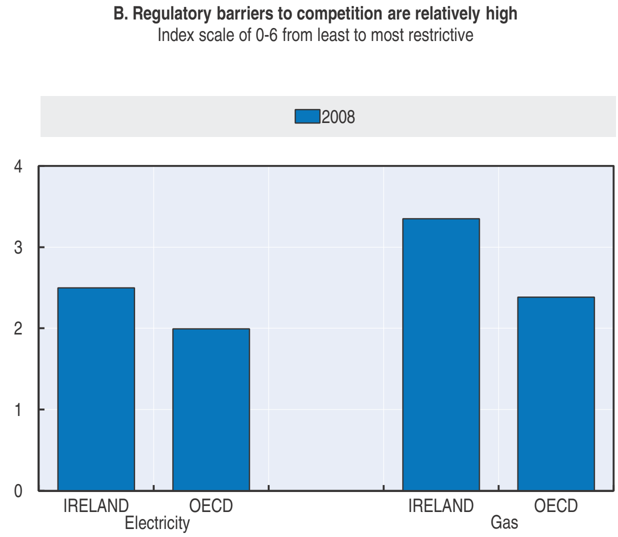
Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932776922

IRELAND

Policy indicators





1. Average of 21 EU countries members of the OECD.

Source: OECD, *Public expenditure and participant stocks on LMP*, *OECD Economic Outlook and Product Market Regulation Databases*.

StatLink http://dx.doi.org/10.1787/888932776941

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Strengthen work incentives for women. Female participation rates are below those of best-performing OECD countries, especially for mothers.

Actions taken: No action taken.

Recommendations: Prioritise access to community childcare to working parents, especially lone parents.

Strengthen competition in non-manufacturing sectors. Competition in utilities and some sheltered service sectors remains relatively weak.

Actions taken: The Competition law was amended in 2012 to enhance the enforcement capacity of the Competition Authority. Legislation to establish an independent regulator for the legal profession was introduced to the Parliament in 2011. Restrictions on the number of general practitioners qualifying were eliminated in 2011 by agreement with the Irish College of General Practitioners. In February 2012 the government announced the partial privatisation in 2013 of the incumbent electricity and gas companies.

Recommendations: Further reduce surface area restrictions in retail distribution. Decrease vertical integration in electricity and gas. Introduce civil fines in competition law.

Enhance R&D spending and innovation. R&D spending remains relatively low and most activity is undertaken by foreign firms.

Actions taken: The R&D tax credit was given greater scope and flexibility in the 2012 Budget.

IRELAND

Recommendations: Concentrate resources for promoting cooperation between industry and researchers in a smaller number of centres of excellence. Make the R&D tax credit more focussed on additional activity.

Other key priorities

Enhance active labour market policies (ALMPs). Implementation of conditionality under activation measures is relatively weak.

Actions taken: In 2011 sanctions were increased for refusing a job offer or training, profiling of jobseekers was introduced to better target those at risk of becoming long-term unemployed and the number of training places expanded. Rollout of one-stop shops (benefits, job-search, profiling and training) for the unemployed started in October 2012.

Recommendations: Increase resources for job-search assistance while enforcing tighter requirements for job search and participation in ALMPs. Increase the workplace training component of vocational education. Enlarge the set of trades covered by apprenticeship programmes. Reduce participation periods in job creation schemes. Re-skill the unemployed using training programmes aligned with labour market skill needs and participant backgrounds.

****Reform bankruptcy procedures*.***[1] Bankruptcy law is ill-equipped to resolve widespread non-performing loan problems, impeding the healthy functioning of credit markets and ultimately growth.

Recommendations: Introduce a structured non-judicial debt settlement and enforcement system for personal insolvency cases.

Previous *Going for Growth* recommendation no longer considered a priority

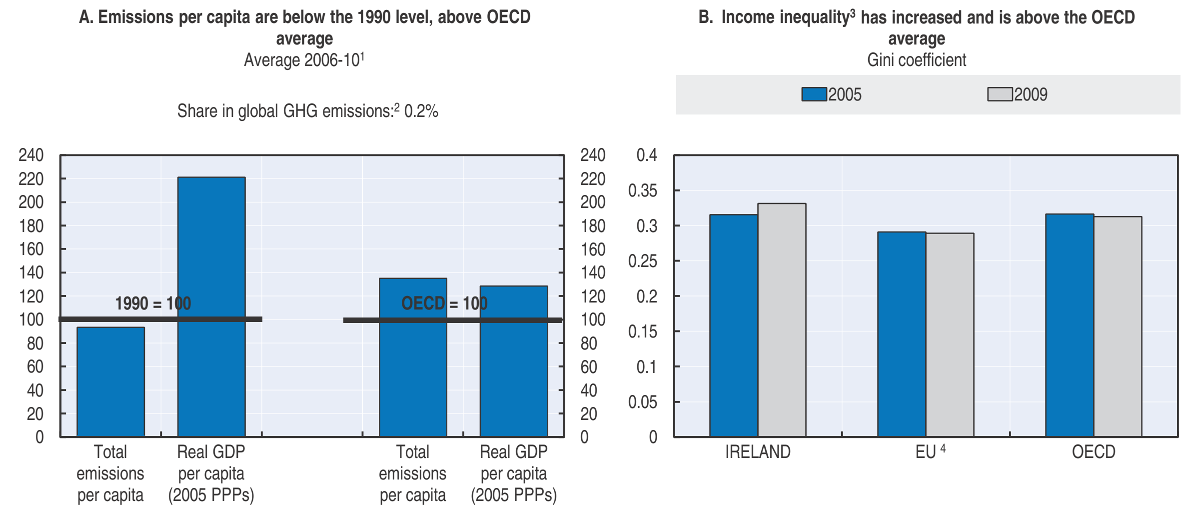
Further improve infrastructure. In order to lift infrastructure quality and quantity, it was recommended that the scope of user charges be increased, not least with respect to water usage, and road congestion charges be considered.

Actions taken: Electricity generation capacity and grid interconnection with the UK have been increased. An upgrade and major expansion of Dublin airport was opened at the end of 2010. The government started to set up Irish Water, a national water utility, to take over from local authorities at the end of 2012 and will introduce water metering for homes from late 2013 to facilitate charging by the start of 2014.

1. New policy priority identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*).

IRELAND

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/els/social/inequality*).

StatLink http://dx.doi.org/10.1787/888932776960

ISRAEL[1]

- The income gap *vis-à-vis* leading OECD economies has narrowed in recent years, with growth in the employment rate and productivity both playing substantial roles.
- Progress has been achieved in reducing income and corporate taxes and adjusting the tax composition. Progress in reforming mainstream education is reasonable, but not so as regards the Ultra-orthodox sector. Developments in welfare policies have been mixed. Good intentions predominate in reforms on other fronts, but progress has often been sluggish.
- Further reduction in the income gap requires continued education reform and welfare-to-work measures to raise earnings capacity and labour force participation, particularly among Arab-Israeli women and ultra-orthodox men. Cutting red tape for businesses, addressing corporate governance in large corporations and applying further pressure for more vigorous competition will also help.
- Raising the quality of education, particularly for minorities, in combination with welfare reforms can potentially ease Israel's high rate of poverty and deep socio-economic divides while promoting long-term growth.

Growth performance indicators

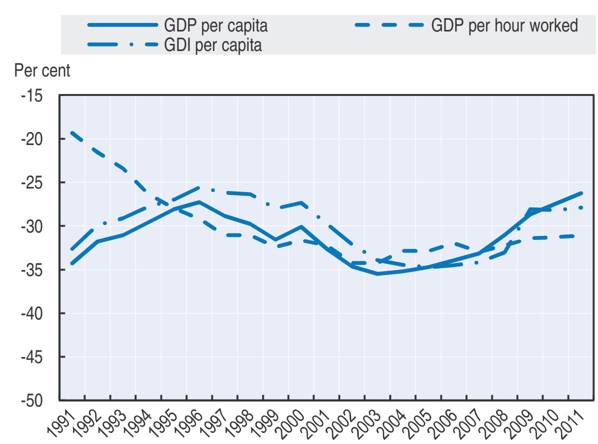
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.2	1.5
Potential labour utilisation		0.6	0.6
of which:	Labour force participation rate	0.4	0.2
	Employment rate[1]	0.2	0.4
Potential labour productivity		0.6	0.9
of which:	Capital intensity	0.2	0.6
	Labour efficiency	0.2	0.3
	Human capital	0.1	0.0

B. Sizeable gaps in GDP per capita and productivity remain

Gap to the upper half of OECD countries[2]



1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

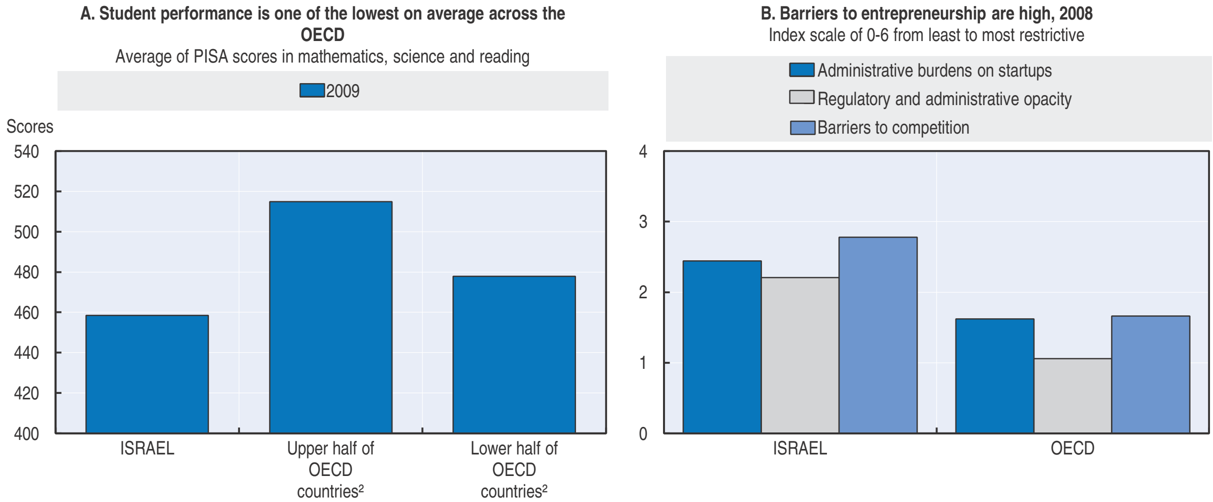
Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932776979

1. 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.

ISRAEL

Policy indicators



1. 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.
2. Upper and lower half of OECD countries in terms of PISA scores in mathematics, science and reading.

Source: OECD, *PISA 2009* and *Product Market Regulation Databases*.

StatLink http://dx.doi.org/10.1787/888932776998

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Improve education outcomes. Weak core skills are diminishing potential productivity and employment growth.

Actions taken: Reforms to primary and secondary education, including increases in working hours, reductions in class size and raising the school-leaving age, are underway.

Recommendations: Continue reform efforts in state-run education, notably for Arab pupils. For the independent Ultra-orthodox schools, expand and properly enforce curriculum requirements for state funding. Introduce tuition fees in tertiary education backed up by income-contingent repayment loans.

Cut red tape for businesses. Cumbersome red tape, for instance in planning regulation, is hampering business sector activity.

Actions taken: Streamlining and decentralising planning regulation continues, but at a slow pace. Measures to expedite housing construction to help cool the housing market continue. A one-stop shop system for small and medium-sized enterprises is being developed.

Recommendations: Follow through on plans to liberalise building regulations, and continue efforts to streamline the number of business licences and processing times.

Complete network industry reforms. Moving towards a market-based approach in network industries regulation would help boost investment and productivity.

Actions taken: In telecommunications, a series of regulatory measures has intensified competition; for example, in June 2011 telecom companies were banned from charging exit fees.

Recommendations: Resolve the reform deadlock in the electricity sector, establish an independent telecommunications regulator, and increase competition in post, rail and water services.

Other key priorities

Encourage employment among low-income households. Growth potential is hampered by weak labour-force attachment in some segments of the population, notably Ultra-orthodox men and Arab-Israeli women.

Actions taken: As of 2011 the earned-income tax credit (EITC) has applied nationwide, and the value of the credit for mothers and single parents has been substantially increased.

Recommendations: Pursue welfare-to-work programmes more vigorously. Increase the coverage and value of the EITC, combine stronger enforcement of labour regulation with lowering the value of the minimum wage relative to median earnings, and re-introduce a job-placement scheme.

****Enhance competition and corporate governance*.***[1] Some dimensions of corporate governance in Israel's large and complex company groups pose a general risk of market collusion and inefficient capital allocation, and high prices for some retail goods indicate weak competition.

Recommendations: Implement the recommendations of the 2011 Concentration Committee, in particular the proposals to limit linkages between financial and non-financial entities and to strengthen the rights of minority shareholders in pyramidal business structures. Continue to investigate retail supply chains with a view to taking concrete steps to enhance competition.

Previous *Going for Growth* recommendation no longer considered a priority

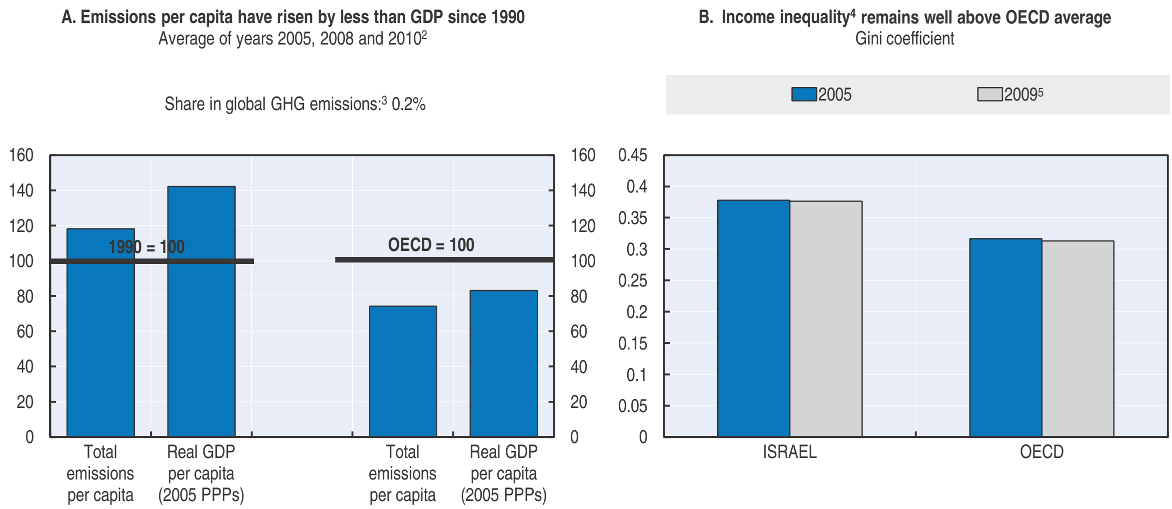
Shift the burden of taxation away from direct taxes. To encourage both domestic and inward investment, it was recommended to pursue feasible avenues for raising indirect taxes and to contemplate further income tax cuts.

Actions taken: Some corporate and income tax reductions have taken place in 2011 but plans for further cuts have been put on hold, and both direct and indirect taxes are being raised to tackle fiscal problems. However, on balance, the tax mix has become satisfactory from a growth perspective which is why tax reform is no longer a considered a priority.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

ISRAEL

Other dimensions of well-being: Performance indicators



1. 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.
2. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) Database. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
3. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
4. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
5. Data refer to 2010 for Israel.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; *OECD, Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777017

ITALY

- GDP per capita has continued to fall further behind the upper half of the OECD. Despite increasing capital intensity, labour productivity has barely grown while labour utilisation remains low.
- Legislation in 2011 and 2012 has addressed many reform priorities, with significant improvements in product market regulation, *e.g.* through the introduction of new regulators, liberalisation in some services sectors, and changes in several labour market provisions.
- Pursuing rebalancing of protection from jobs to workers' income should improve productivity by promoting a better allocation of labour to the most productive uses. Lower regulatory and ownership barriers to competition can encourage investment and productivity growth.
- Better vocational education and support for apprenticeship programmes can increase human capital and improve income equality by increasing prospects for the low-skilled. Labour market reforms aimed at reducing duality, and in particular achieving full implementation of a universal social safety net could also reduce inequalities. Shifting the tax burden away from labour towards environmental externalities can promote sustainable growth.

Growth performance indicators

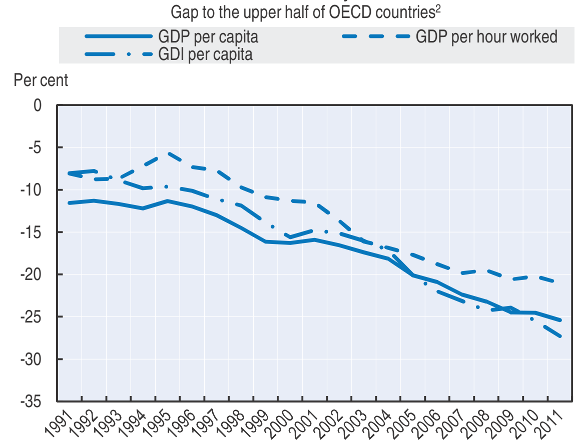
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.6	-0.1
Potential labour utilisation		0.2	-0.1
of which:	Labour force participation rate	0.0	-0.1
	Employment rate[1]	0.3	0.0
Potential labour productivity		0.4	-0.1
of which:	Capital intensity	0.5	0.3
	Labour efficiency	-0.7	-0.8
	Human capital	0.6	0.4

B. Gaps in GDP per capita and productivity have widened substantially

Gap to the upper half of OECD countries[2]



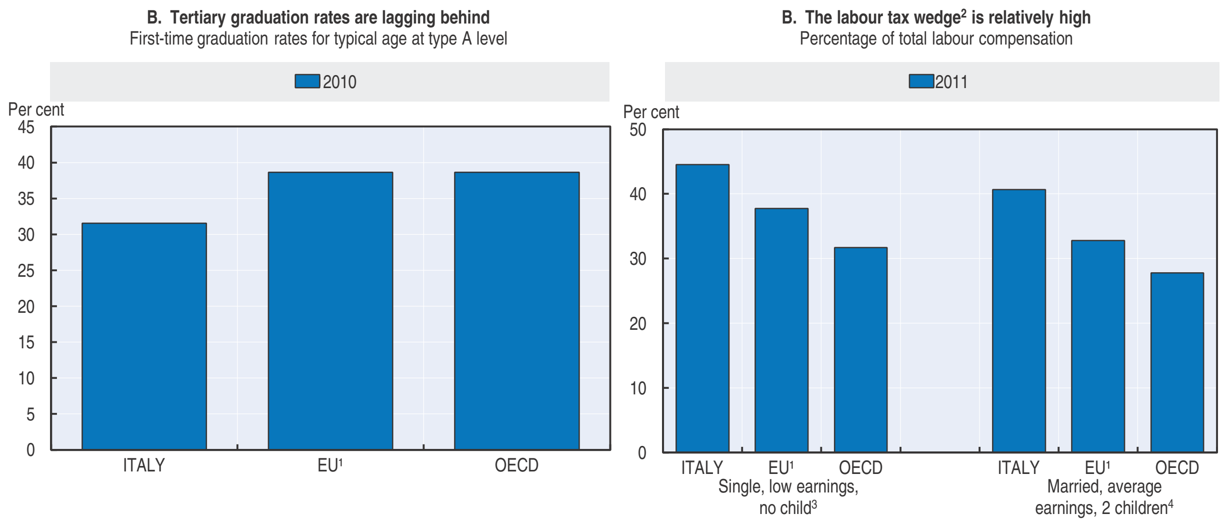
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932777036

ITALY

Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Labour income taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
3. Low earnings refer to two-thirds of average earnings.
4. At 100% of the average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average earnings).

Source: OECD, *Education at a Glance* and *Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888932777055

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Pursue rebalancing of protection from jobs to workers' income. Job protection of workers on some types of contracts is high, and the social safety net is relatively fragmented, resulting in a dual labour market, with implications for the efficient allocation of labour.

Actions taken: The 2012 reform makes conciliation for labour disputes mandatory, widened the cases in which courts can order financial penalties for dismissing a worker on an indefinite contract instead of reinstatement, and introduces a universal unemployment benefit system, to be phased in by 2017.

Recommendations: Continue reforming the labour market with more flexible hiring and firing and shorter legal procedures, backed up with the planned universal social safety net.

Improve equity and efficiency in education. Education gives low value for money and should do more to improve the chances of the low-skilled.

Actions taken: Twenty-seven specialised post-secondary vocational schools have now been opened.

Recommendations: Pursue enhanced evaluation at the secondary level with a view to convincing teachers of its benefits. Further expand post-secondary vocational education. Increase university tuition fees and introduce a system of income-contingent-repayment student loans.

Improve the efficiency of the tax structure. The tax wedge on low-wage labour is high, the tax code is over-complicated and evasion is high.

Actions taken: Some necessary tax increases have focused on indirect taxation. In 2012 a reformed municipal housing tax was introduced.

Recommendations: Reduce distortions and incentives to evade by reducing high nominal tax rates and abolishing many tax expenditures. Tax a wider range of environmental externalities and reaffirm a strong commitment to eschewing tax amnesties. When the fiscal situation permits, reduce direct taxation on labour.

Other key priorities

Reduce barriers to competition. Business perceptions of barriers to competition are high, possibly reflecting weak enforcement. Public ownership remains relatively high.

Actions taken: Wide-ranging product market reforms introduced in 2011 and 2012 include new regulators for network industries, increased power for the competition authority and liberalisation of shop opening hours. Some specialisation in civil courts on commercial cases is being introduced.

Recommendations: Ensure that laws are implemented in practice and at all levels of government, pursue privatisation and eliminate ownership links between local government and service providers. Reduce delays in the civil courts.

**Enhance active labour market policies*.*[1] Enhanced active labour market policies (ALMPs) would accelerate the return to work and reduce the risk of unemployment persistence.

Recommendations: Expand ALMPs by concentrating resources on measures that work best in the Italian context: some experimentation with monitoring and assessment could help to identify these. Introduce co-financing between the social security agency (INPS) and sub-national governments responsible for training to help align incentives.

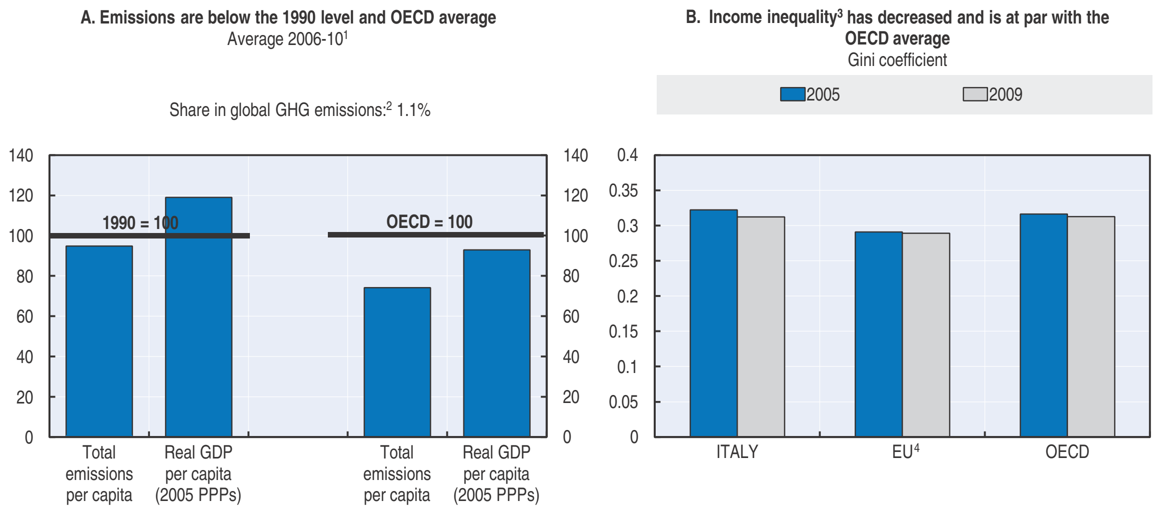
Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

ITALY

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777074

JAPAN

- The income gap relative to the upper half of the OECD has been persistent, as a decline in labour inputs has offset relative productivity gains. Nevertheless, average labour productivity remains nearly a quarter below the leading OECD economies, while labour utilisation is slightly above.
- The corporate income tax rate was reduced, although the cut has been temporarily offset by a surcharge to pay for reconstruction spending. Measures to boost inward foreign direct investment (FDI) have been introduced, although less progress has been made in reforming the service sector.
- Narrowing the productivity gap requires reforms to reduce entry barriers and encourage inward FDI, particularly outside manufacturing, where productivity has lagged behind. Other priorities include breaking down labour market duality, making the tax system more pro-growth and enhancing the competitiveness of agriculture, which would also facilitate Japan's participation in trade agreements. Increasing female labour force participation would mitigate the demographic headwinds from a falling population.
- In addition to boosting productivity, breaking down labour market duality would reduce inequality.

Growth performance indicators

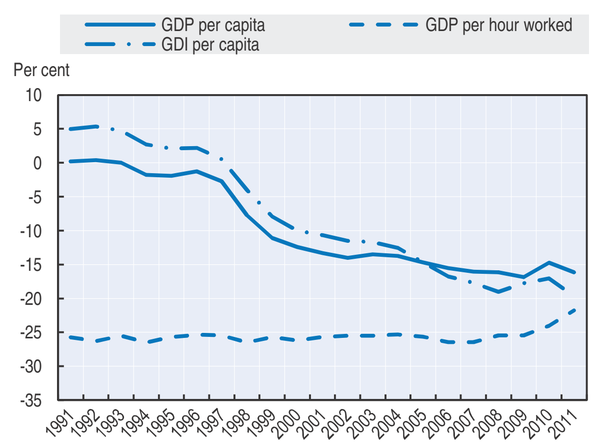
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.4	0.5
Potential labour utilisation		-0.5	-0.4
of which:	Labour force participation rate	-0.5	-0.4
	Employment rate[1]	0.0	0.0
Potential labour productivity		1.0	1.0
of which:	Capital intensity	0.5	0.3
	Labour efficiency	0.1	0.3
	Human capital	0.4	0.4

B. The gap in GDP per capita persists

Gap to the upper half of OECD countries[2]



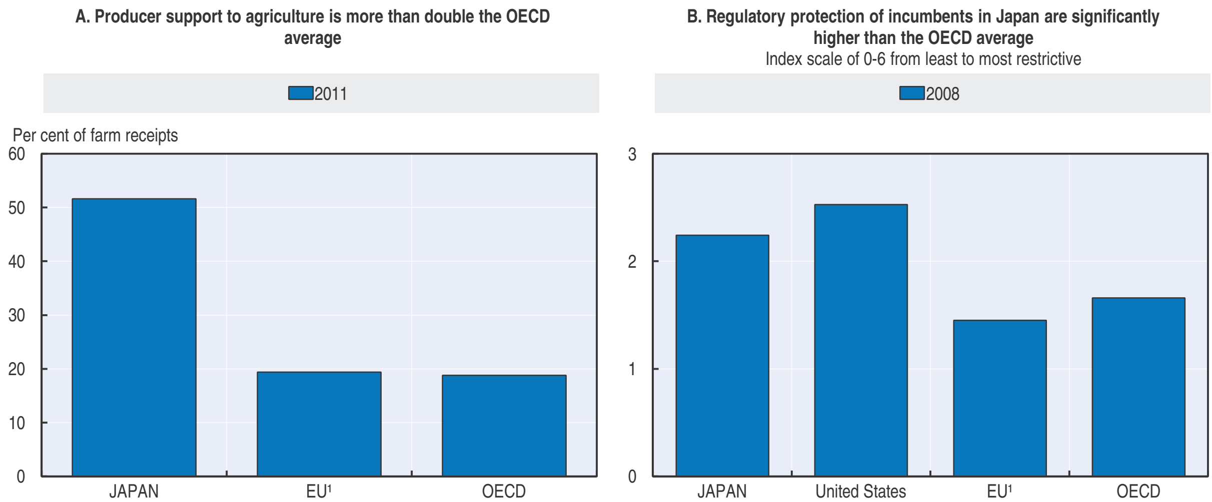
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts* and *Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932777093

JAPAN

Policy indicators



1. Average of 21 EU countries members of the OECD.

Source: OECD, *Producer and Consumer Support Estimates and Product Market Regulation Databases.*

StatLink http://dx.doi.org/10.1787/888932777112

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Ease barriers to entry for domestic and foreign firms in the services sector. Product market regulations limit competition and investment in services, reducing productivity.

Actions taken: In 2011, the government introduced incentives, including fiscal measures, to boost inward FDI. The 2012 revised Japan Post Privatisation Law resumed the privatisation process, while taking account of the business conditions of Japan Post Bank and Japan Post Insurance.

Recommendations: Relax entry barriers, while reducing restrictions on service imports and inward FDI, including those on ownership. Increase fines on violators of the Anti-Monopoly Act (AMA) and reduce exemptions from the AMA. Follow through on the full privatisation of Japan Post, including its banking and insurance companies, as outlined in the 2005 law.

Reduce producer support to agriculture. Support for agricultural producers is double the OECD average, distorting trade and production.

Actions taken: In October 2011, the government announced a plan to enhance the competitiveness of agriculture, notably by boosting the number of young, full-time farmers and consolidating farms.

Recommendations: Scale back agricultural protection and shift its composition away from price support to direct support for farmers, thereby facilitating Japan's participation in trade agreements.

Improve the efficiency of the tax system. With the highest corporate tax rate among OECD countries and a narrow base and the lowest consumption tax rate, the tax system lowers Japan's growth potential.

Actions taken: In 2012, the government cut the corporate tax rate (central and local) from 40% to 35% and the Diet approved a hike in the consumption tax rate in two steps, from 5% to 10%, by 2015, conditional on improvement in economic conditions.

Recommendations: Implement the government's proposal to hike the consumption tax rate as planned, while broadening the income tax bases and further reducing the corporate tax rate.

Other key priorities

****Strengthen policies to support female labour force participation*.*** [1] The participation rate of women aged 25 to 54 in 2010 was the sixth lowest in the OECD.

Recommendations: Encourage women's labour participation, *e.g.* by increasing the availability of affordable, high-quality childcare, reducing labour supply distortions in the tax/benefit system and addressing labour market duality.

Reform job protection and upgrade training programmes. Non-regular workers, who constitute more than a third of total employment, tend to hold precarious jobs, to have limited social protection coverage and to receive less training.

Actions taken: The 2012 revised Dispatched Workers Law restricted the use of such workers for less than 30 days. However, this does not address the need for employment flexibility and will encourage firms to shift to other types of non-regular workers. A law enacted in 2012 expanded the coverage of the public pension programme for employees, including non-regular workers, from 2016.

Recommendations: Reduce effective employment protection for regular workers, while expanding the social protection coverage of non-regular workers and upgrading training programmes for them.

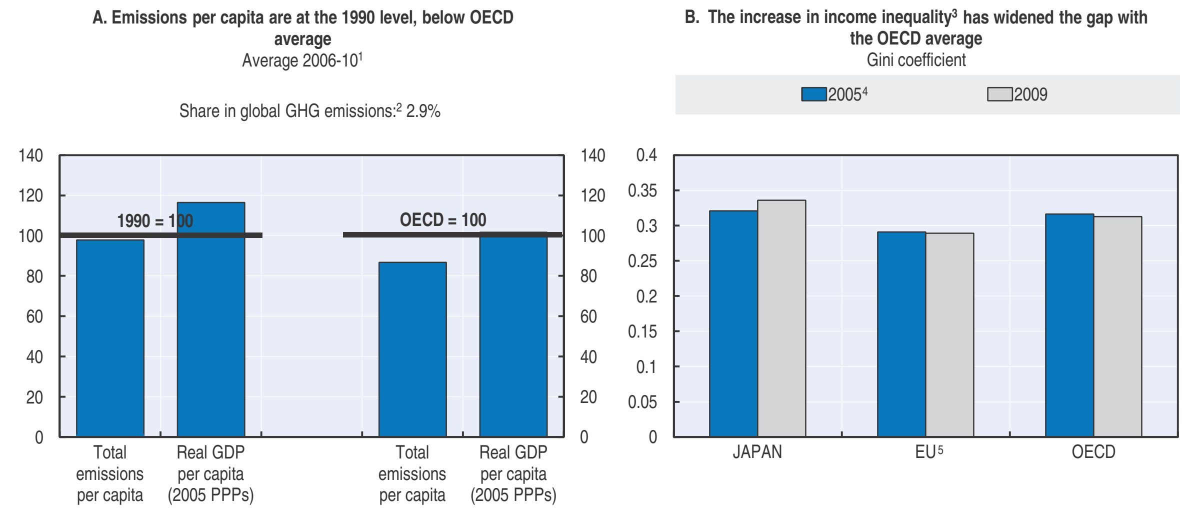
Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

JAPAN

Other dimenstions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2003 for Japan.
5. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777131

KOREA

- GDP per capita continues to increase rapidly, rising to within a quarter of the upper half of the OECD countries. Productivity in Korea is only about one-half as high but working hours are the longest among OECD countries.
- The recent free trade agreements with the European Union and the United States have reduced barriers to imports of services and agricultural products, as well as to foreign direct investment. Expanded subsidies for childcare and kindergarten fees are facilitating increases in female employment.
- Narrowing the productivity gap requires policies to reduce entry barriers and encourage inward foreign direct investment (FDI), particularly in services, where productivity has lagged behind. In addition, it is important to break down labour market duality, make the tax system more favourable for growth and enhance the competitiveness of agriculture. Another priority, in the face of rapid population ageing and declining working hours, is to increase women's labour force participation.
- Further improvements in access to early childhood care and education would enhance opportunities for disadvantaged children and could reduce inequality in the long term. Breaking labour market duality would also help reducing inequality by improving employment and wage prospects of youth and the low-skilled.

Growth performance indicators

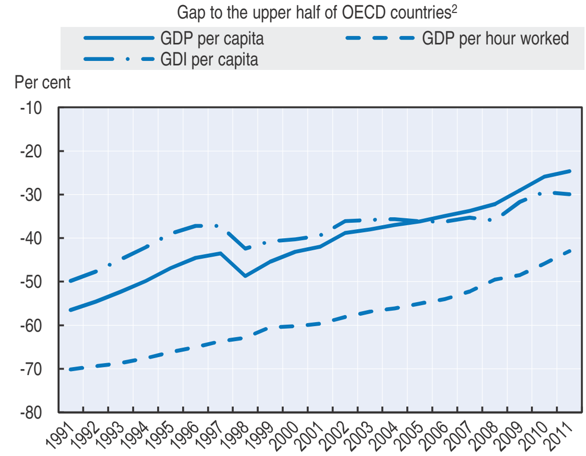
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		3.3	2.7
Potential labour utilisation		0.2	0.0
of which:	Labour force participation rate	0.1	0.0
	Employment rate[1]	0.1	0.0
Potential labour productivity		3.1	2.8
of which:	Capital intensity	1.2	1.0
	Labour efficiency	1.3	1.3
	Human capital	0.7	0.5

B. The narrowing of the gap in GDP per capita has recently accelerated

Gap to the upper half of OECD countries[2]



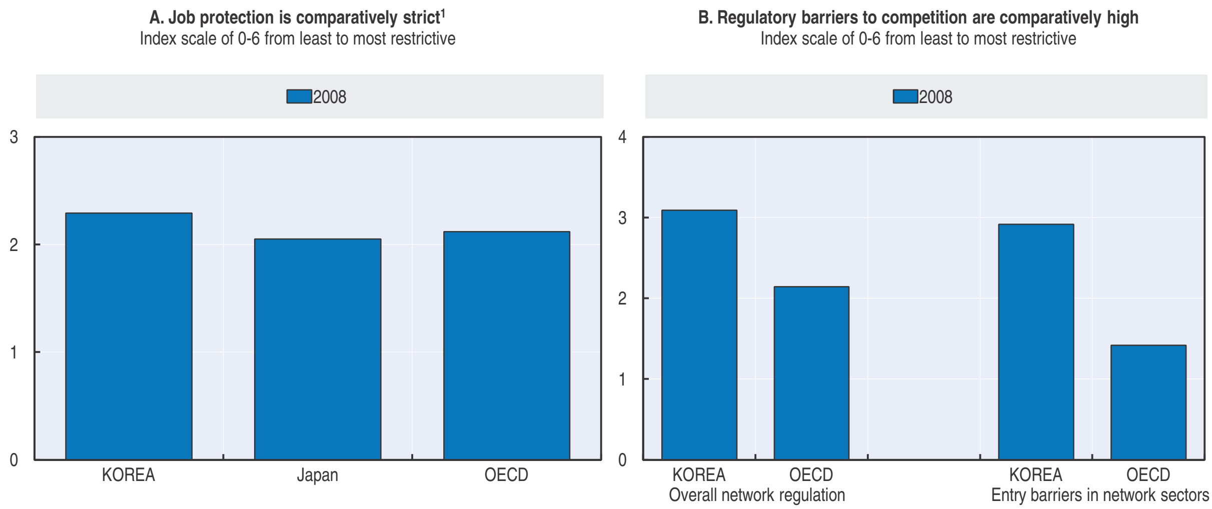
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932777150

KOREA

Policy indicators



1. Employment protection legislation on regular contracts.
Source: OECD, Employment and Product Market Regulation Databases.

StatLink http://dx.doi.org/10.1787/888932777169

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce barriers to entry for domestic and foreign firms in network industries and services. High barriers to entry hinder competition, holding back productivity in various services sectors.

Actions taken: The introduction of mobile virtual network operators in 2011 is strengthening competition in telecommunications. The 2012 Korea-US Free Trade Agreement (FTA) will reduce the ceiling on foreign ownership of programme providers from 50% beginning in 2015.

Recommendations: Continue to lower entry barriers in services and network industries, *e.g.* by increasing penalties for violating the Anti-Monopoly and Fair Trade Act and reducing exemptions to it. Improve the business climate to attract FDI in services, in part by reducing obstacles to cross-border mergers and acquisitions and enhancing the transparency of tax and regulatory policies.

Strengthen policies to support female labour force participation. Increasing the labour force participation of women, currently the third lowest in the OECD area, is a priority to boost labour utilisation and mitigate the negative impact of rapid ageing.

Actions taken: The government introduced subsidies for tuition fees for childcare and kindergarten for all children below the age of 2 and for 5 year-olds in 2012, regardless of household income.

Recommendations: Promote female labour participation by expanding the availability of affordable, high-quality childcare, encouraging maternity and parental leave and reducing labour market duality.

Reform employment protection to reduce labour market duality. The large gap in the degree of job protection between regular and non-regular contracts is one of the main causes of labour market duality.

Actions taken: The government launched a scheme in late 2011 to subsidise contributions to social insurance schemes for low-wage workers in firms with less than five workers. The government's on-the-job training programme was extended to non-regular workers from 2012.

Recommendations: Reduce effective employment protection for regular workers, while expanding the social protection coverage of non-regular workers and upgrading training programmes for them.

Other key priorities

Improve the efficiency of tax system by relying more on indirect taxes. The tax burden is low but the current tax structure, which relies too heavily on direct taxes, could be made more growth-friendly by relying more on indirect sources of taxation.

Actions taken: No action taken.

Recommendations: Rely primarily on indirect taxes, notably the value-added tax, environmental taxes and property-holding taxes, while keeping taxes on labour income low to promote jobs and growth.

Reduce producer support to agriculture. High producer support, which is twice the OECD average, imposes a large burden on consumers and reduces Korea's growth potential by misallocating resources.

Actions taken: Korea has implemented three FTAs since mid-2011 that significantly reduce barriers to agricultural imports, while increasing transfers to compensate farmers.

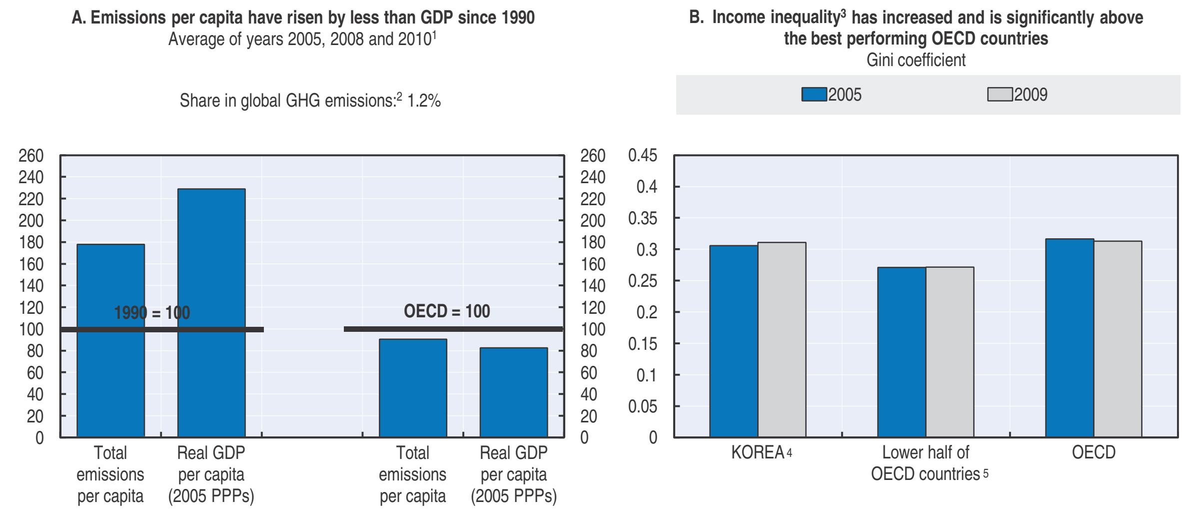
Recommendations: Further reduce barriers to agricultural imports and scale back the high level of agricultural support, while shifting its composition away from price measures toward direct support.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

KOREA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the *International Energy Agency (IEA) Database*. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2006 and 2011.
5. Lower half of OECD countries in terms of income inequality.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777188

LUXEMBOURG

- Income per capita has remained significantly above the level of other OECD countries. Measured productivity has fallen, mainly reflecting lower equity prices. Employment and productivity remain high, but participation is weaker.
- The competition authority has been reorganised and strengthened, while implementation of the EU Services Directive has led to changes in business regulation.
- To address rising unemployment of residents, reforming the welfare system would strengthen work incentives while job protection reforms could also make the labour market more adaptable. Reducing early retirement incentives is needed to raise activity among older workers. Easing product market regulation would help maintain competitiveness and better designed housing policies would reduce commuting costs and facilitate resource allocation.
- In addition to improving work incentives, changes to non-targeted social benefits would help to better focus support towards low-income families and therefore reduce inequality. Reducing planning restrictions in housing supply in urban areas would help to reduce transport-related emissions.

Growth performance indicators

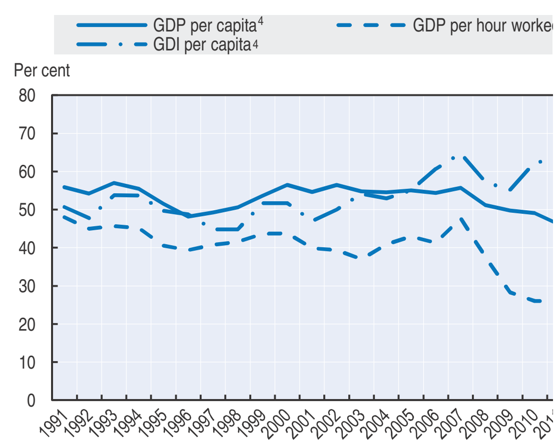
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.6	-0.1
Potential labour utilisation		1.9	1.1
of which:	Labour force participation rate	0.6	0.6
	Employment rate[1]	-0.3	-0.2
	Trend employment coefficient[2]	1.6	0.8
Potential labour productivity		0.6	-1.2
of which:	Capital intensity	0.7	0.2
	Labour efficiency	-0.2	-1.6
	Human capital	0.2	0.2

B. The positive gap in GDP per capita remains large

Gap to the upper half of OECD countries[3]



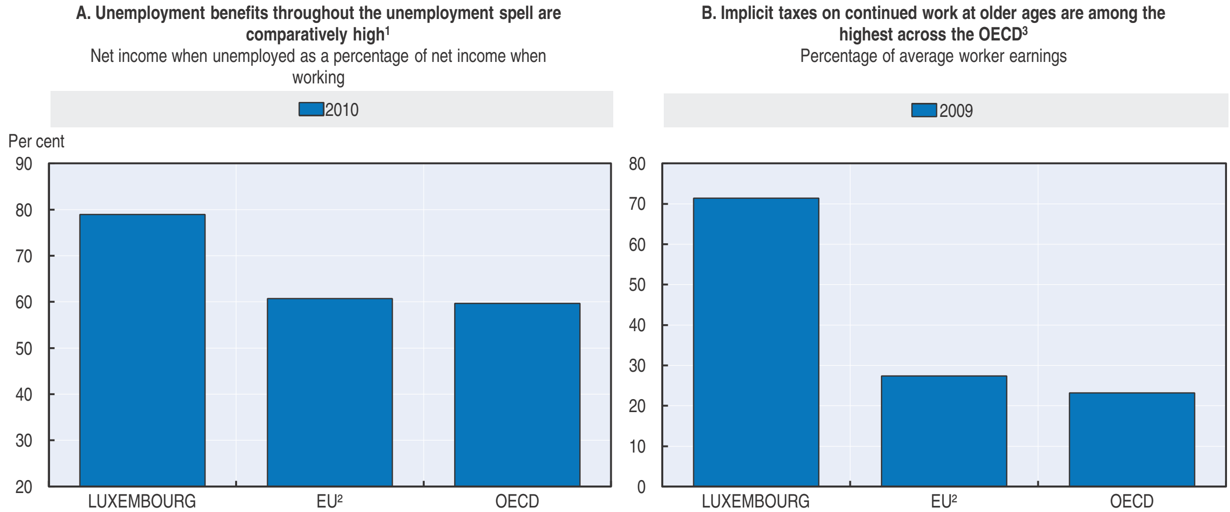
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. In the case of Luxembourg, an adjustment variable is added to the decomposition to capture the substantial impact of cross-border workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).
4. The population is augmented by the number of cross-border workers in order to take into account their contribution to GDP.

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932777207

LUXEMBOURG

Policy indicators



1. Average of net replacement rates for one-earner married couples and single with two children and without children, short and long-term unemployed persons who earned 67% and 100% of average worker earnings at the time of losing job.
2. Average of 21 EU countries members of the OECD.
3. Implicit tax on continued work for five more years embedded in the regular old-age pension scheme for 60 year-olds.

Source: OECD, *Tax-Benefits Models*; Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", *OECD Economics Department Working Papers*, No. 370, OECD Publishing, OECD calculations and OECD pension models.

StatLink http://dx.doi.org/10.1787/888932777226

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reform active labour market policies and the social benefit system. High effective marginal tax rates associated with the design of social benefits, especially for the low-skilled, discourage work.

Actions taken: A major reform of the public employment service (ADEM) was put in place in 2012, increasing the number of case workers and local offices, effectively stepping-up job search assistance.

Recommendations: Lower unemployment benefit replacement rates and make them progressively decline throughout the entitlement period. Tighten eligibility conditions for young people without work histories. Reform the minimum income scheme (RMG) to reduce effective marginal tax rates. Strengthen activation requirements and improve the cost-effectiveness of labour market programmes.

Reduce disincentives to continued work at older ages. Labour force participation among older workers is low as a result of early retirement schemes and high implicit taxes on continued work embedded in the old age pension system.

Actions taken: No action taken.

Recommendations: Abolish early retirement schemes to raise the effective retirement age. A major pension reform should include a progressive reduction of the replacement rate, limited credits for time spent outside work, actuarial neutrality around the statutory retirement age and indexation of the latter to longevity.

Increase competition in the domestically-oriented services sector. Strict regulations hinder entry and competition, especially in retail trade and professional services.

Actions taken: In 2012, a new Competition Council with greater resources was created to replace the existing two competition authorities. In 2011, the EU Services Directive was transposed and a large number of existing regulations were reviewed and modified.

Recommendations: Remove restrictions on advertising for professional services, facilitate co-operation between professions, and scrap minimum or reference prices. Make shop opening hours more flexible.

Other key priorities

Improve the functioning of the housing market. The pressures from cross-border workers on the transport system are increased by cumbersome planning regulations and property tax features that contribute to high housing prices in Luxembourg.

Actions taken: No action taken.

Recommendations: Overhaul the planning system to facilitate residential construction. Reduce implicit tax subsidies to home ownership and incentives to hoard building plots.

Ease job protection legislation. Strict job protection legislation hinders job opportunities for under-represented groups in the labour market and undermines the overall flexibility of the economy.

Actions taken: No action taken.

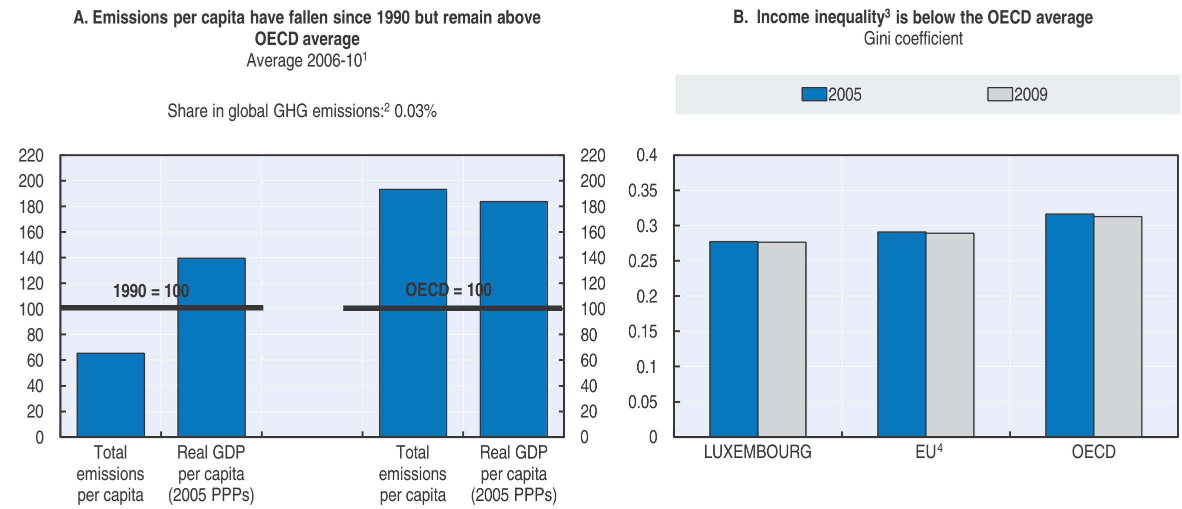
Recommendations: Ease conditions on collective dismissal and social plans. Lengthen trial periods under regular contracts for the low-skilled.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

LUXEMBOURG

Other dimensions of well being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777245

MEXICO

- The persistently wide gap in GDP per capita relative to the upper half of the OECD is driven primarily by a low level and growth rate of labour productivity.
- The 2011 competition policy reform has reduced the scope for anti-competitive behaviour but further action is needed to overcome remaining barriers to entry. Significant reforms have also been implemented to boost formal employment and raise educational outcomes, yet they remain priority areas. No progress has been achieved in reducing the very high barriers to foreign direct investment.
- Raising educational achievement and reducing job informality is needed to boost productivity and improve labour market performance. Reducing barriers to foreign direct investment and lowering entry barriers in network industries would also help to stimulate investment and further strengthen competition. More broadly, legal institutions need to be improved to provide a more supportive environment for businesses.
- In addition to boosting productivity, improving primary and secondary educational achievement outcomes would foster human capital accumulation and reduce the degree of earnings inequality. Labour and product market reforms to promote formal employment could help to improve equity.

Growth performance indicators

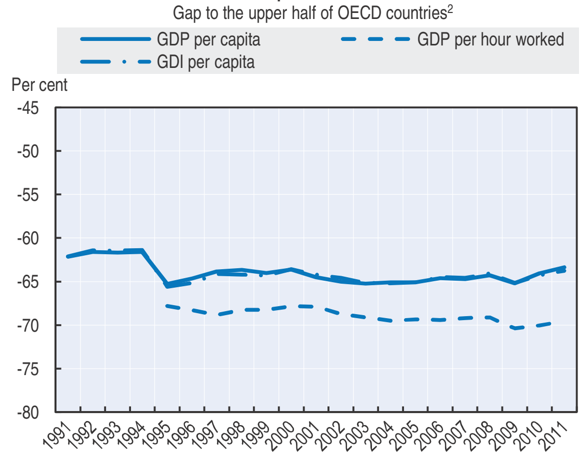
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.4	0.6
Potential labour utilisation		-0.2	0.0
of which:	Labour force participation rate	-0.1	0.2
	Employment rate[1]	-0.2	-0.2
Potential labour productivity		0.6	0.6
of which:	Capital intensity	0.8	1.0
	Labour efficiency	-0.9	-0.9
	Human capital	0.6	0.5

B. Gaps in GDP per capita and productivity are wide and persistent

Gap to the upper half of OECD countries[2]



1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

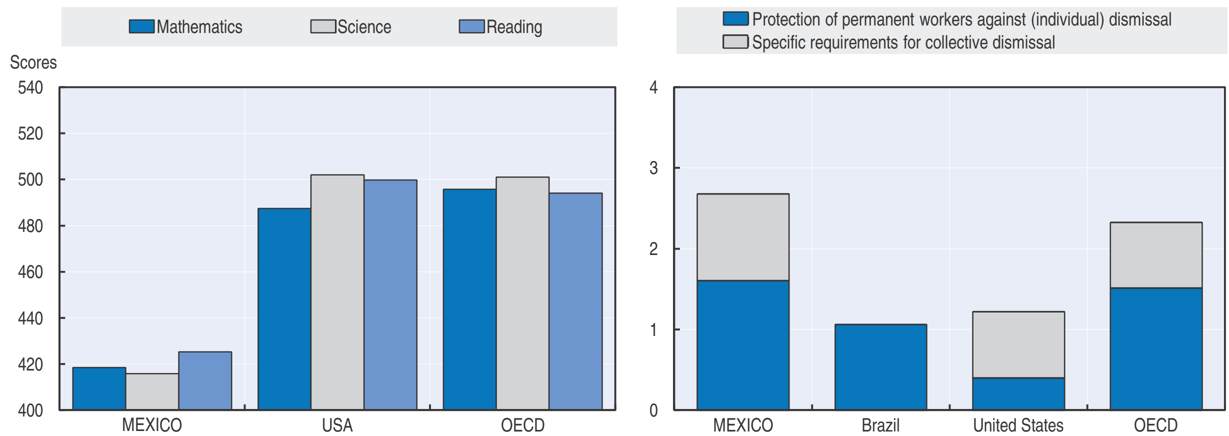
StatLink http://dx.doi.org/10.1787/888932777264

MEXICO

Policy indicators

A. Education achievement is lagging, 2009
PISA scores

B. Job protection for regular workers is relatively strict, 2008
Index scale of 0-6 from least to most restrictive



Source: OECD, *PISA 2009 and Employment Databases.*

StatLink http://dx.doi.org/10.1787/888932777283

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Raise education achievement. Low educational enrolment and quality limit productivity gains and contribute to high inequality.

Actions taken: Reforms have been introduced over the past two years to establish competency-based standards for student achievement based on a national assessment. Teacher and school leadership standards have been enunciated. Most states are now allowing competition in teacher selection.

Recommendations: Apply national standards for primary and secondary teacher performance, introduce a teacher evaluation system, and professionalise the training and selection of principals. Provide schools with reliable financing through a more efficient allocation of resources.

****Reduce job protection on formal contracts*.*** [1] Institutional rigidities in the labour market hurt productivity growth and aggravate informality, harming equity.

Recommendations: Reduce hiring and firing costs for regular workers, and ease restrictions on shorter-term contracts. Simplify labour court procedures and make their outcomes more predictable.

Reduce barriers to foreign direct investment. Barriers to foreign direct investment in services and infrastructure are among the most stringent in the OECD, harming trade, investment and technological upgrading.

Actions taken: No action taken.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

Recommendations: Relax foreign equity restrictions in transport, media and fixed-line telecom, as well as in financial services.

Other key priorities

Improve the rule of law. Weaknesses in the legal system hurt the efficacy of contracts and the security of property rights, reducing firm size and investment.

Actions taken: Seven additional states have begun to implement judicial procedural reforms that make use of oral trials since 2010, but major efforts are still needed in the lagging states. Only the federal government and the Federal District have started to implement the new civil law procedures.

Recommendations: Improve the accountability and professionalism of the judicial sector. Further promote state-level implementation of the 2008 constitutional amendments that revamped the framework for penal justice, and the extension of these to civil cases that began in 2011.

Reduce barriers to entry and competition. Anti-competitive product market regulation hampers productivity and formal employment. Costly registration procedures and lack of contestability in key network sectors drag on growth.

Actions taken: A set of reforms to centralise business entry procedures under a single ministry are being carried out and have already helped simplify new business approval, reduce the required fees and eliminate minimum capital requirements. A 2011 Supreme Court decision limited the ability of telecom companies to ignore rulings of the regulator while challenging them in court, and has given more weight to the public interest in *amparo* rulings.

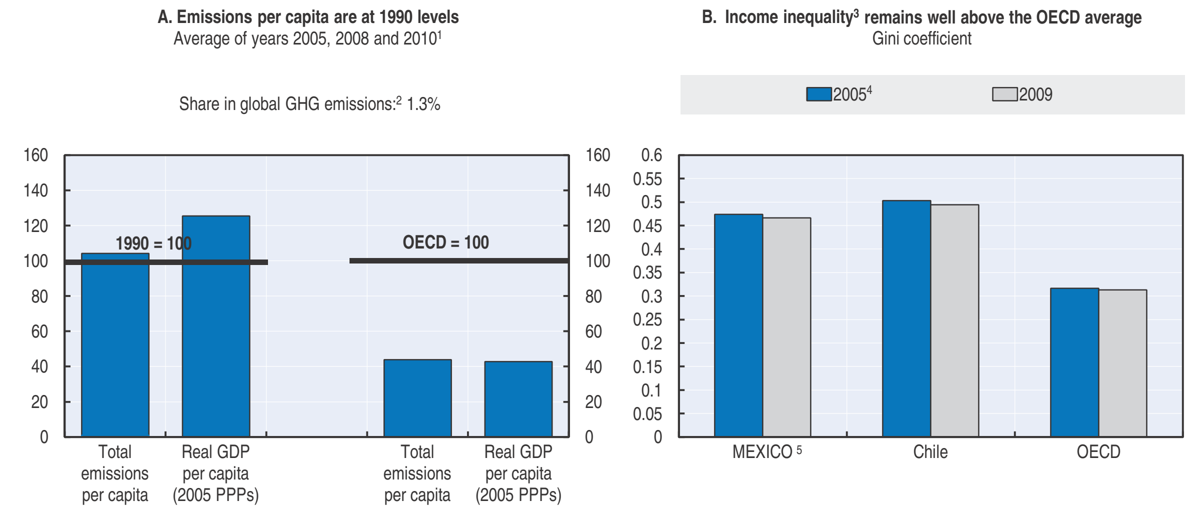
Recommendations: Reduce barriers to entrepreneurship and start-ups to promote formal sector employment. Further reduce barriers to entry operation in multiple network sectors. Relax restraints to private investment in the national oil company, PEMEX, and improve its governance.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

MEXICO

Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the *International Energy Agency (IEA) Database*. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2006 for Chile.
5. Data refer to 2004 and 2010.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777302

NETHERLANDS

- Over the past two decades, GDP per capita has remained broadly in line with that of the upper half of OECD countries. The high hourly productivity has slowed somewhat since the mid-2000s, while the number of hours worked per employee has declined further.
- Measures have been taken to lower housing tax distortions and facilitate residential property transactions, though more is needed to address housing market rigidities. The government's coalition agreement contains welcome plans to simplify dismissal procedures and to reduce the duration of unemployment benefits.
- The priority should be to stimulate the labour supply by further lowering the marginal effective tax rates on labour income, reforming disability benefits schemes and easing employment protection legislation for regular contracts. The latter would also encourage labour turnover and thus enhance productivity.
- Increasing employment among disabled people would benefit labour supply and growth, while at the same time contributing to reduce income inequality in the long run.

Growth performance indicators

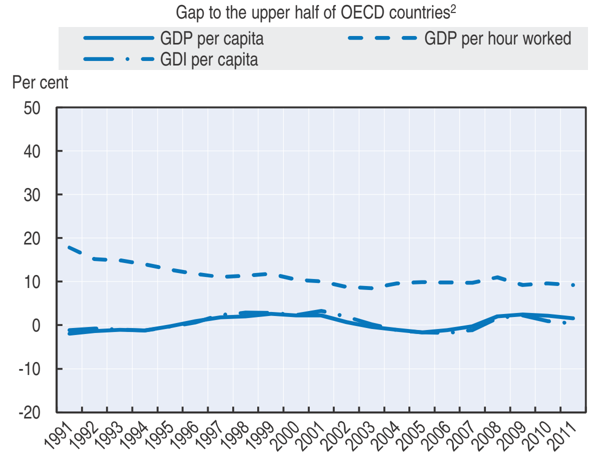
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.3	0.7
Potential labour utilisation		0.3	0.0
of which:	Labour force participation rate	0.3	0.0
	Employment rate[1]	0.0	0.0
Potential labour productivity		1.0	0.7
of which:	Capital intensity	0.2	0.4
	Labour efficiency	0.5	0.1
	Human capital	0.2	0.2

B. Income per capita has remained comparable to leading OECD countries

Gap to the upper half of OECD countries[2]



1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932777321

NETHERLANDS

Policy indicators

1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. Evaluated at 67% and 100% of average earnings for a single person with no child.
3. 2009 data.
4. Average of 21 EU countries members of the OECD.

Source: OECD, *Taxing Wages Database*; OECD (2013), *Mental Health and Work: Belgium* (forthcoming).

StatLink http://dx.doi.org/10.1787/888932777340

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Lower marginal effective tax rates on labour income. High marginal effective tax rates hamper work incentives for low-income households and second income earners.

Actions taken: The transferability of the individual tax credit is being phased out gradually (by 2025). Workers will enjoy an additional income tax allowance. The two highest income tax rates are reduced.

Recommendations: Increase reduced value-added tax rates to further finance lower labour taxes. Phase out more rapidly the transferability of the individual tax credit. Reduce the effective marginal tax rate arising from the family-income-based tax credit and make childcare support more dependent on second earners' income rather than family income.

Ease employment protection legislation for regular contracts. Dismissal procedures are complex and costly, especially for older workers, hindering labour turnover.

Actions taken: The coalition agreement stipulates a shortening and simplification of dismissal procedures by closing the judicial route, except for appeals, and a EUR 75 000 cap on severance pay.

Recommendations: As envisaged, make the dismissal system simpler, more predictable and less time-consuming. Cap severance payments, with a cap decreasing as workers approach retirement to prevent severance payment from being used as an early retirement route.

Reform the disability benefit schemes. The share of the working-age population receiving disability benefits remains high.

Actions taken: The coalition agreement stipulates that a quota of 5% of disabled employees in companies, except small ones, will be introduced, with fines in case of unfilled quotas.

Recommendations: Apply the tightened entry criteria introduced in 2009 to all existing disability benefit recipients and enhance monitoring mechanisms. Decouple benefits from past earnings over the disability spell and exclude them from wage agreements.

Other key priorities

Increase the scope of the unregulated part of the housing market. The rigid housing market hinders labour mobility, generating congestion and hampering productivity.

Actions taken: In 2011, the housing transaction tax was lowered from 6% to 2%. From 2014, tax deductibility of mortgage interest will be progressively reduced. Social rental housing has been restricted (for new tenants) to households with an income up to EUR 33 000.

Recommendations: Extend means-testing to social housing tenants and give the housing associations incentives to sell off dwellings. Further ease strict rent and land regulation.

Reform the unemployment benefit system. The high level and duration of unemployment benefits reduce job-search incentives.

Actions taken: The coalition agreement stipulates a reduction in the maximum duration of unemployment benefits from 36 to 24 months. Benefits will decline over the unemployment spell as they will be based on the minimum wage (instead of the last salary) after 12 months of unemployment.

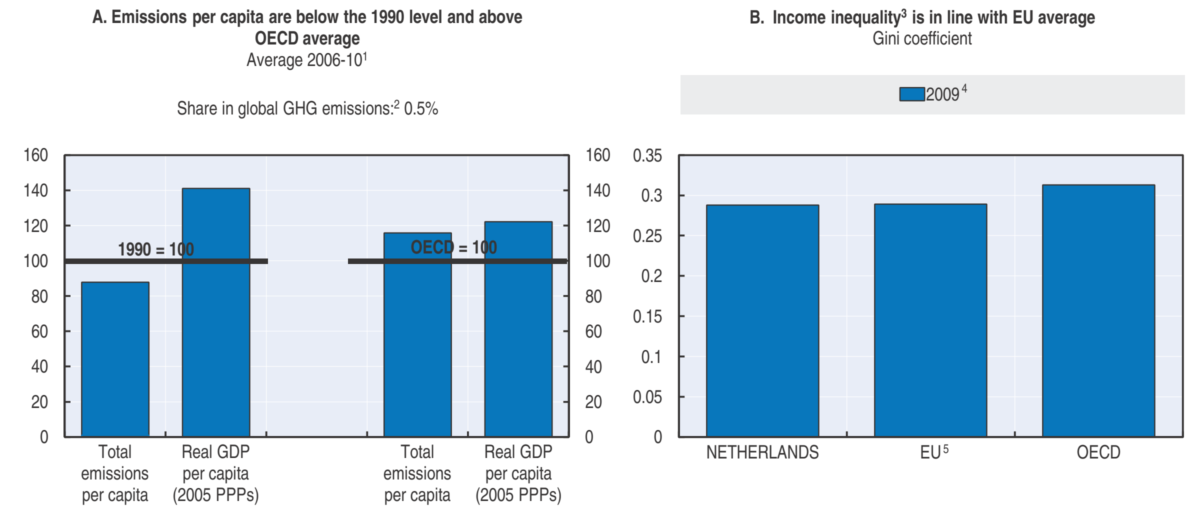
Recommendations: As envisaged, reduce unemployment benefit duration and make benefits decline more rapidly throughout the unemployment spell. Lower the cap on unemployment benefits to further enhance job-search incentives for the high-skilled.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

NETHERLANDS

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2010 for the Netherlands.
5. Average of 21 EU countries members of the OECD.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777359

NEW ZEALAND

- The income gap *vis-à-vis* leading OECD economies remains considerable. Since rates of labour utilisation are among the highest in the OECD, the income gap is entirely explained by a significant shortfall in hourly labour productivity.
- Among key priorities, much is being done to achieve more efficient public spending and reduce state ownership in network sectors. By contrast, little has been done to reduce barriers to inward foreign direct investment (FDI).
- Policies to strengthen competition in network industries and to reduce regulatory opacity and barriers to FDI could help to attract new investment. Improving education and health outcomes of disadvantaged minorities would foster human capital accumulation. Stronger policy support to research and development (R&D) could boost innovation intensity.
- Reducing educational underachievement, particularly among low socio-economic and minority groups, would boost growth *via* human capital accumulation and at the same time help to reduce inequality and poverty.

Growth performance indicators

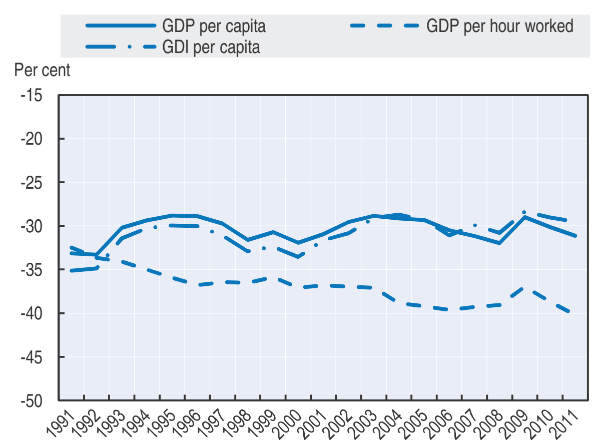
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.5	0.2
Potential labour utilisation		0.7	-0.2
of which:	Labour force participation rate	0.4	0.2
	Employment rate[1]	0.3	-0.4
Potential labour productivity		0.8	0.4
of which:	Capital intensity	0.6	0.7
	Labour efficiency	-0.1	-0.5
	Human capital	0.3	0.2

B. Gaps in GDP per capita and productivity remain wide

Gap to the upper half of OECD countries[2]



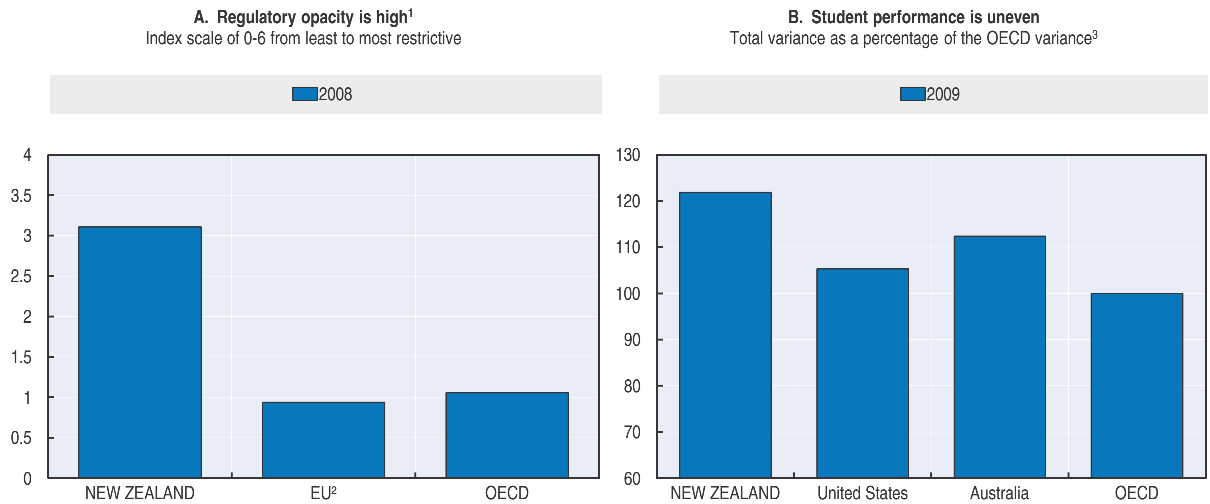
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932777378

NEW ZEALAND

Policy indicators



1. Regulatory and administrative opacity.
2. Average of 21 EU countries members of the OECD.
3. The variance components in maths, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the students used in the analysis.

Source: OECD, *Product Market Regulation and PISA 2009 Databases*.

StatLink http://dx.doi.org/10.1787/888932777397

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce barriers to FDI and regulatory opacity. A non-transparent FDI screening regime and opaque regulation may deter investments.

Actions taken: A recent judicial ruling on a foreign farmland acquisition toughened the net benefit test. The government is revising the Regulatory Standards Bill.

Recommendations: Ease FDI screening requirements, clarify the criteria for meeting the national net benefit test for major FDI bids in sensitive land, and remove ministerial discretion in their application. Pass the revised Regulatory Standards Bill to promote enhanced transparency and accountability.

Enhance capacity and competition in network industries. Barriers to competition in electricity, transport and telecoms deter investment and innovation.

Actions taken: The government is proceeding with sales of minority stakes in three electricity generators, a coal mining company and Air New Zealand. The government has committed NZD 1.35 billion to its Ultrafast Broadband Initiative, with private co-investments, but failed to provide a full cost-benefit analysis.

Recommendations: Remove legal exemptions in international freight transport. Use tolls and congestion pricing to manage demand in road, energy and water sectors. Abolish the "Kiwi Share" in Telecom.

NEW ZEALAND

Reduce educational underachievement among specific groups. Maori and Pacific students disproportionately leave school without basic job-market skills.

Actions taken: A range of initiatives, including free tertiary education places and Trade Academies are being established under the Youth Guarantee to increase achievement of 16-17 year-olds. Some funding for early childhood education is being targeted at low socio-economic communities.

Recommendations: Improve standards, appraisal and accountability in the schooling system. Improve the school-to-work transition by further enhancing the quality of teaching, career advice and pathways and by expanding the Youth Guarantee. Better target early childhood education (ECE) on population groups with poor participation. Expand training and apprenticeships in high-unemployment areas.

Other key priorities

Raise effectiveness of R&D support. Relatively low public funding of business R&D contributes to below-average R&D intensity.

Actions taken: A publicly-funded Advanced Technology Institute (ATI) is being created to better serve the needs of innovative New Zealand businesses, in line with recommendations of an independent report.

Recommendations: Reinstate the R&D tax credit. Boost funding for business R&D and rigorously evaluate all grant programmes for efficiency. Coordinate immigration and education policies with business skill needs for innovation. Ensure close linkages between the new ATI and industry.

Improve health-sector efficiency. The public health-care sector is relatively inefficient and health inequalities are high.

Actions taken: The 2012 Budget provided funding for new models of integrated family care and of chronic-care management. Recent reforms at the District Health Boards (DHBs), notably the introduction of performance targets and tighter budget controls, have helped to cut costs.

Recommendations: Increase DHBs' incentives and autonomy to pursue greater hospital efficiency, improve workforce utilisation, integrate primary and secondary care, and better manage chronic care. Provide education, assistance and incentives to adopt healthy lifestyles, especially among minority populations.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

NEW ZEALAND

Other dimensions of well-being: Performance indicators

1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2003 and 2009/2010.
5. Data refer to 2004 and 2009/2010.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777416

NORWAY

- The large positive gaps in mainland and total GDP per capita relative to leading OECD countries have slightly fallen. For the mainland economy, the contribution of labour productivity to income growth has declined somewhat, through both lower capital intensity and multifactor productivity growth, while an increasing employment rate has raised labour utilisation.
- The government took some important measures that could lower the inflows into sickness and disability. By contrast, relatively little has been done in the areas of product market competition, agricultural support, secondary education and the tax system.
- Pursuing reform of the sickness and disability benefit schemes would increase labour utilisation, while a stronger performance in secondary education would foster human capital accumulation. Raising product market competition, reducing agricultural support and improving the design of capital taxation would boost labour productivity.
- In addition to improving the allocation of capital, removing the current tax discrimination of rental relative to owner-occupied housing would be suitable to lower income inequality, as the less well-off tend to rent and hence are likely to bear a significant fraction of the tax due on rental housing.

Growth performance indicators

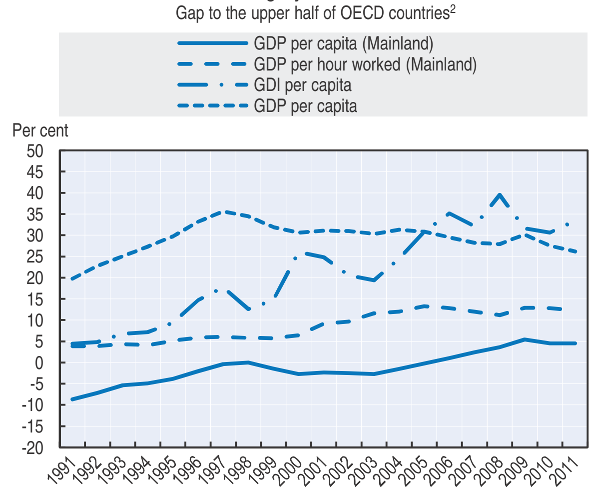
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.1	1.4
Potential labour utilisation		0.3	0.1
of which:	Labour force participation rate	0.3	0.2
	Employment rate[1]	0.0	0.1
Potential labour productivity		1.8	1.3
of which:	Capital intensity	0.6	0.8
	Labour efficiency	1.1	0.3
	Human capital	0.2	0.2

B. The positive gaps in GDP per capita and productivity have slightly decreased

Gap to the upper half of OECD countries[2]



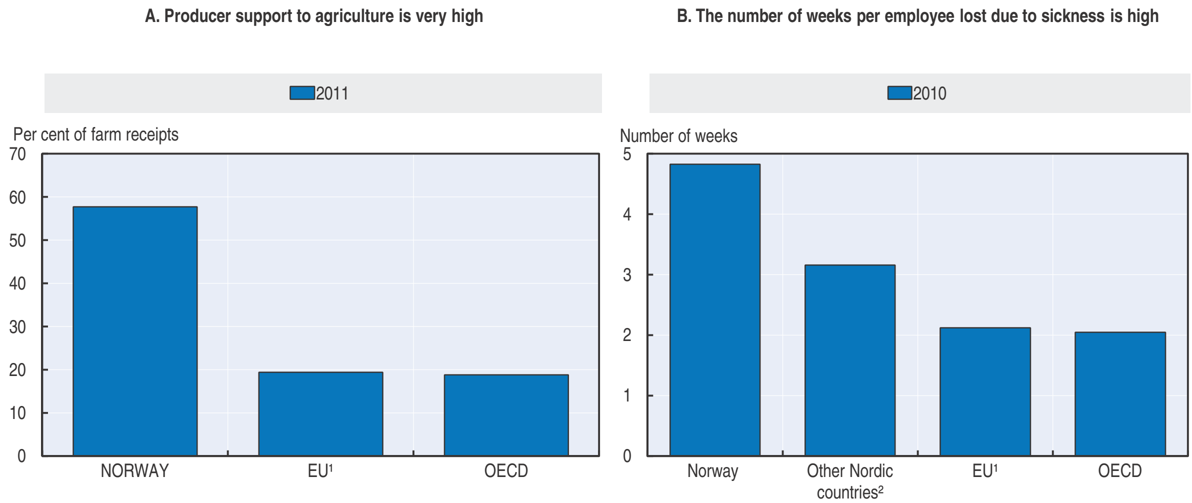
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs). GDP per capita (Mainland) excludes petroleum production and shipping. While total GDP overestimates the sustainable income potential, mainland GDP slightly underestimates it since returns on the financial assets the petroleum fund holds abroad are not included.

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932777435

NORWAY

Policy indicators



1. Average of 21 EU countries members of the OECD.
2. Average of Denmark, Finland and Sweden.

Source: OECD, *Producer and Consumer Support Estimates Database*; OECD (2013), *Mental Health and Work: Denmark* (forthcoming).

StatLink http://dx.doi.org/10.1787/888932777454

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reform disability and sickness benefit schemes. High levels of sickness absence and disability benefit recipients reduce labour utilisation.

Actions taken: In July 2011, measures to better monitor sick leave were introduced, with provision for sanctions against the employee, employer and doctor for failure to follow up.

Recommendations: Tighten access to sickness and disability schemes, with stronger enforcement of back-to-work plans and independent checks of GPs' assessments. If such action does not lower take-up, reduce the replacement rate for long-term sickness absence and shift more costs onto employers.

Increase product market competition. Public ownership and entry barriers reduce competition and may result in lower productivity growth.

Actions taken: State ownership in Norsk Hydro ASA, a global supplier of aluminium, was reduced. Some (backward) measures increased barriers to entry: exemptions allowing booksellers to set fixed prices for fiction and educational books were extended to 2014.

Recommendations: Reduce public ownership and entry barriers in some services, notably in retail by lowering the costs of licences needed to engage in commercial activity and avoiding using environmental concerns to protect incumbents from entrants. Ensure that the market power of the partially publicly-owned former telecom monopoly does not hinder entry.

Reduce producer support to agriculture. The heavy protection of the agricultural sector encourages inefficient use of resources.

Actions taken: Some import restrictions have been relaxed as of January 2012 due to an agreement with the European Union, effectively lowering the protection of domestic products.

Recommendations: Progressively cut price support and import restrictions to bring domestic food prices more in line with international levels. Where support is for regional, social or environmental purposes, use more targeted and transparent policies, cutting the link with agricultural output.

Other key priorities

Strengthen performance in secondary education. Educational outcomes, as measured by PISA scores, are poor considering the high expenditure level.

Actions taken: No action to encourage reduction in school numbers, although some small schools are closing. In 2011, the support for teachers' continuous professional development was improved.

Recommendations: Reduce the number of schools to benefit from scale economies. Raise school and teacher accountability through wider use of performance information. Include school performance measures as a criterion in assessing school principals. Improve teacher training and career structures.

Improve the efficiency of the tax structure. The tax system distorts capital allocation and puts very high effective tax rates on some asset classes.

Actions taken: The 2013 budget proposes to increase the tax-assessed value of second homes and commercial property in the wealth tax from 40% to 50% of the market value. This implies a small reduction of the favourable tax treatment of real estate but also an increase in the overall tax on capital.

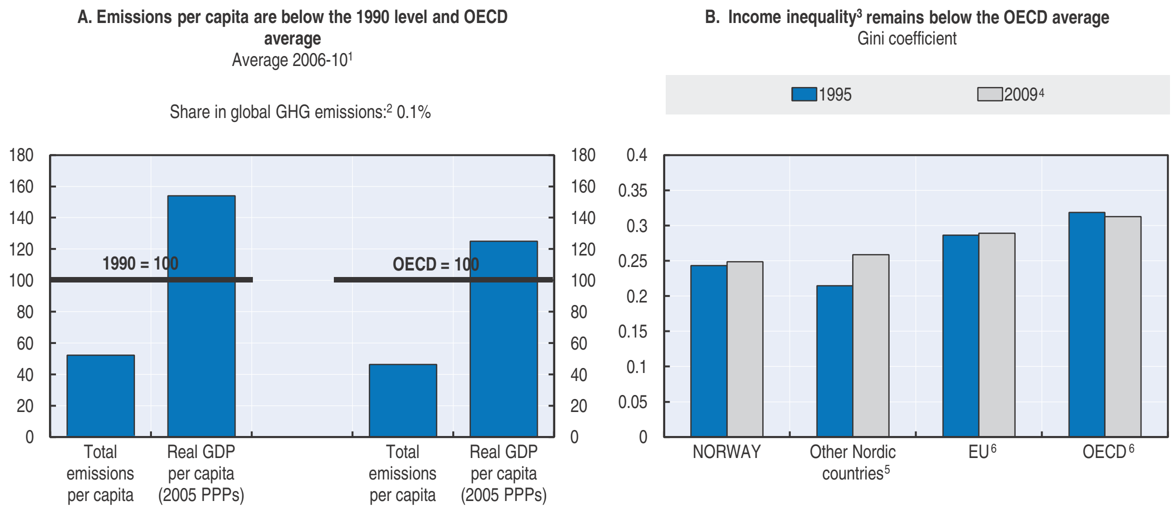
Recommendations: Align the taxation of different asset classes, in particular reduce the implicit tax subsidy for owner-occupied housing. Investigate the impact of the combination of wealth and capital income taxes on effective tax rates, on tax avoidance/evasion and on incentives to save and invest.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

NORWAY

Other dimensions of well being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2010 for Norway.
5. Average of Denmark, Finland and Sweden.
6. EU is the average of 21 EU countries members of the OECD. For 1995, EU and OECD averages exclude Estonia, Iceland, Korea, Poland, Slovak Republic, Slovenia and Switzerland.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777473

POLAND

- GDP per capita has been converging steadily towards the upper half of the OECD countries due to strong labour productivity growth and improved labour utilisation. But the shortfall relative to the best-performing countries remains substantial, chiefly because of a large labour productivity gap and the low employment rate of older workers.
- Some progress has been achieved in reducing public ownership, cutting red tape for businesses, upgrading the transport infrastructure and improving pre-school education. By contrast, previous cuts in the tax wedge and closing of early retirement schemes have been partially reversed recently, though the retirement age was increased in 2012.
- Further reducing public involvement in the economy and easing regulation of professional services would enhance productivity *via* increased competition and reduced inefficiencies. Lowering the tax wedge and tightening eligibility criteria for early retirement and disability pension schemes would raise employment. Continuing to enhance the transport and telecommunication infrastructure would reduce transactions costs.
- In addition to boosting productivity and female labour force participation, improving the provision of pre-school education would also reduce inequality in educational attainments and earnings.

Growth performance indicators

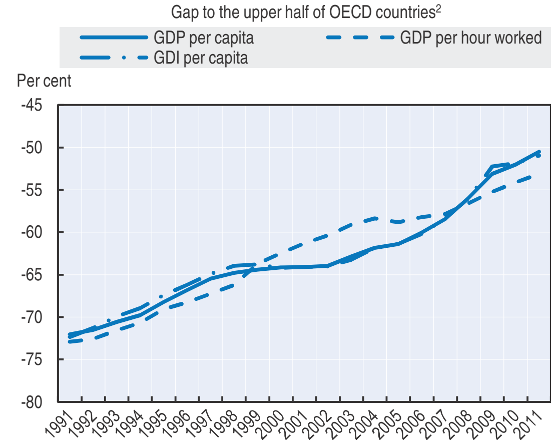
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		3.4	3.7
Potential labour utilisation		0.2	1.0
of which:	Labour force participation rate	-0.5	0.2
	Employment rate[1]	0.7	0.8
Potential labour productivity		3.1	2.6
of which:	Capital intensity	0.8	1.0
	Labour efficiency	2.0	1.4
	Human capital	0.3	0.2

B. The large gaps in GDP per capita and productivity continue to narrow

Gap to the upper half of OECD countries[2]



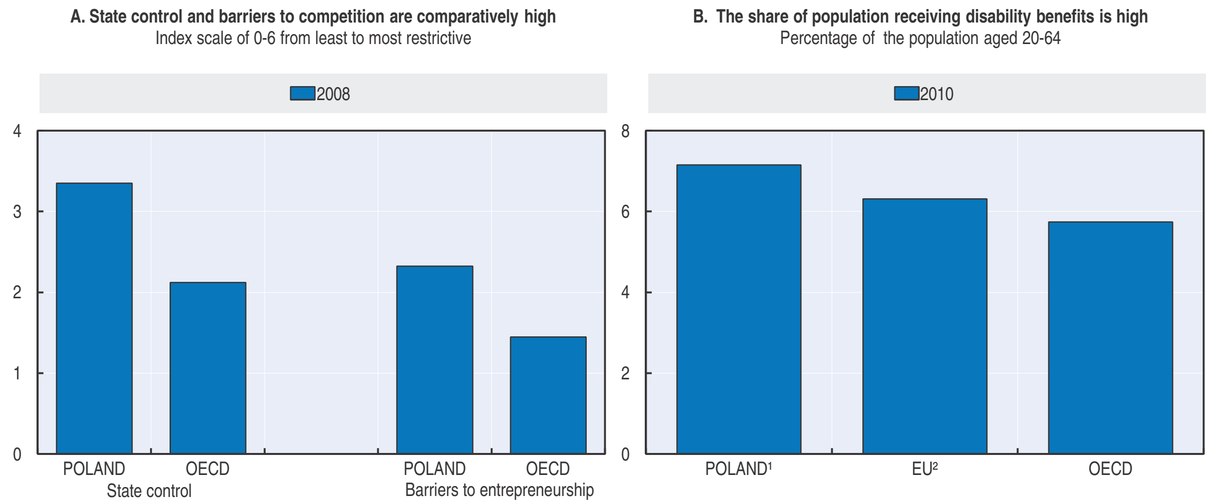
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932777492

POLAND

Policy indicators



1. 2007 data.
2. Average of 21 EU countries members of the OECD.

Source: OECD, *Product Market Regulation Database* and OECD (2013), *Mental Health and Work: Belgium* (forthcoming).

StatLink http://dx.doi.org/10.1787/888932777511

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce public ownership and lower barriers to product market competition. The state still plays an important role in the economy and starting a business remains burdensome.

Actions taken: A privatisation programme was pursued in 2011 yielding proceeds of 1% of GDP and is expected to raise cumulative revenues of more than 1% of GDP in 2012-14. Business registration procedures, in particular information requirements, were simplified in 2011.

Recommendations: Reduce public ownership in the competitive segments of network industries, in financial institutions, airport operators, and in mining and chemical companies. Reduce registration time and the administrative burden for companies. Ease regulation of professional services.

Reduce labour taxes and reform the welfare system. The tax wedge on labour income is higher than the OECD average, disability schemes cover a considerable part of the population, and early retirement is likely to become more common.

Actions taken: The rise in disability pension contributions and the nominal freeze of the tax brackets increased the tax wedge in 2012. The 2012 pension reform has raised the statutory retirement age to 67 and reduced pension privileges for uniformed services but has opened up new possibilities for potentially generous early retirement at 62 for women and 65 for men.

Recommendations: Reduce the tax wedge on labour income in a budget-neutral way by shifting the tax burden to green and property taxes. Eliminate generous early retirement schemes, integrate uniformed services, judges and miners into the general system, and reform the social security system for farmers. Restrict disability pensions to the truly disabled.

Upgrade transport, communication and energy infrastructure. The quality of transport infrastructure and fixed broadband penetration are among the lowest in the OECD, and electricity generation relies heavily on ageing coal-fired plants.

Actions taken: Transport infrastructure is being upgraded with the help of EU funds.

Recommendations: Enhance transport and communication infrastructure. Facilitate competition in telecommunications and energy generation. Increase the responsiveness to the price signal from the EU-ETS for investment in generation capacity to reduce greenhouse gas abatement costs.

Other key priorities

Improve equity and efficiency of the education system. The number of places in pre-school childcare facilities is insufficient, public higher-education institutions (HEI) have little financial autonomy, and access to student loans is restricted.

Actions taken: Pre-school education for 5 year-olds became compulsory in 2011.

Recommendations: Improve provision of pre-school education. Introduce tuition fees in public HEIs along with a more accessible system of means-tested grants and student loans with income-contingent repayment. Reinforce quality assessment, strengthen HEI autonomy and make promotion criteria for professors more transparent.

Reform housing policies. The housing market suffers from the absence of zoning plans and a large informal rental market.

Actions taken: A new law sets forth the principles of procedures involving the financial resources of buyers in the event of bankruptcy of the developer.

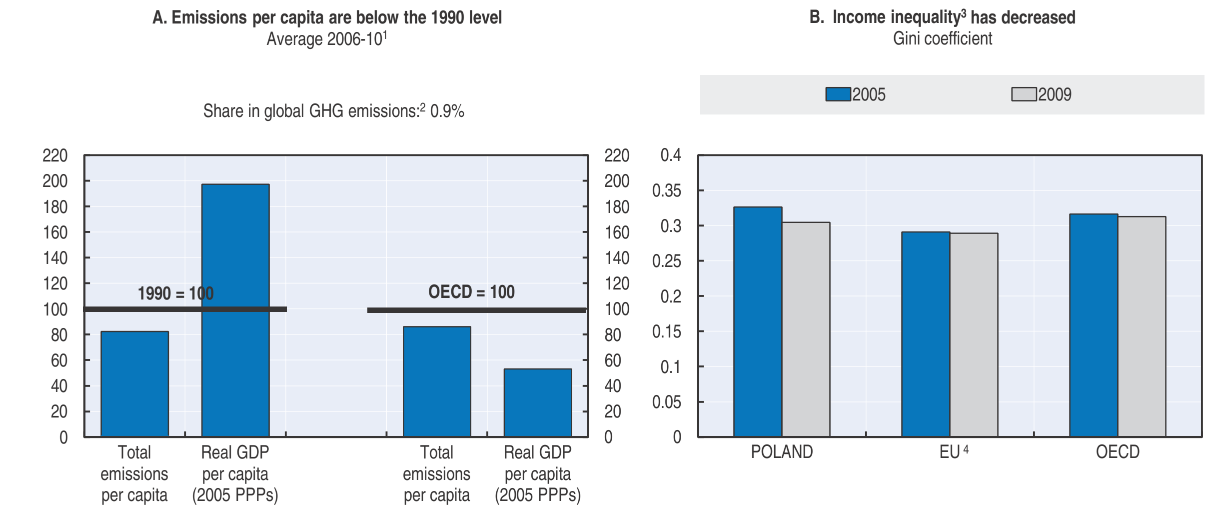
Recommendations: Make the release of zoning plans by municipalities mandatory, introduce compulsory escrow accounts to protect buyers' advances, and further relax rent controls. Remove fiscal incentives (reduced value-added tax rate) supporting the residential sector.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

POLAND

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777530

PORTUGAL

- GDP per capita relative to the upper half of the OECD has declined over the past decade, mainly due to falling labour utilisation. However, lower productivity alone continues to explain the large gap in income levels.
- Considerable progress has been made to broaden tax bases. Much has also been achieved in reforming employment protection and to improve educational attainment, though further efforts are needed. The areas of local licensing and competition in non-tradables have witnessed less progress.
- Improving education outcomes, increasing competition in sheltered sectors and reducing administrative burdens at the local level remain priorities for faster productivity growth. Tackling labour market duality and administrative extension in wage bargaining would also help on this count, while promoting job creation. Furthermore, fighting high and rising unemployment calls for reform and better integration of unemployment benefits and active labour market policies.
- Removing labour market duality through broad labour market reforms would also reduce inequality by promoting the employment and wage prospects of youth and the low-skilled. Improving outcomes and equity in education would also contribute to lower income inequality by helping to break down the inter-generational cycle of poverty and school under-achievement.

Growth performance indicators

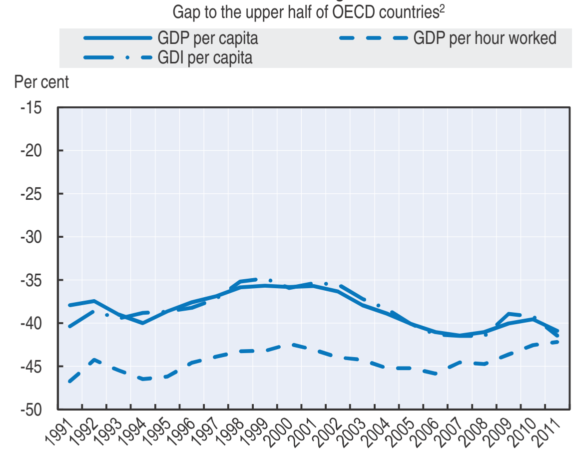
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.9	0.2
Potential labour utilisation		-0.2	-0.8
of which:	Labour force participation rate	0.2	-0.1
	Employment rate[1]	-0.4	-0.7
Potential labour productivity		1.1	1.0
of which:	Capital intensity	0.9	0.9
	Labour efficiency	-0.5	-0.4
	Human capital	0.6	0.5

B. Gaps in GDP per capita and productivity remain large

Gap to the upper half of OECD countries[2]



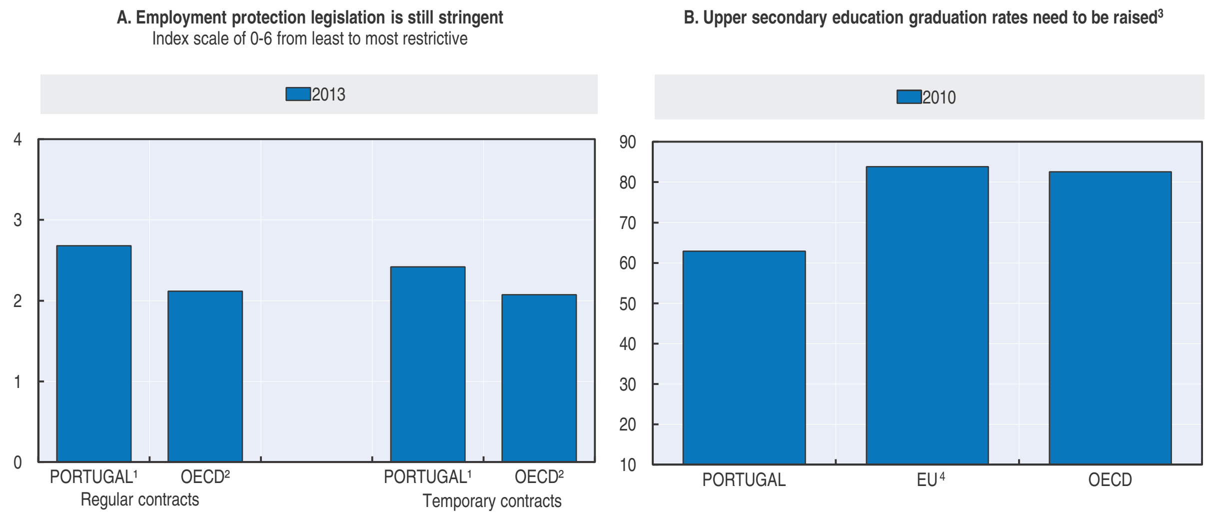
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932777549

PORTUGAL

Policy indicators



1. The EPL indicators for 2013 are based on an update conducted in the context of the 2012 *OECD Economic Survey of Portugal*.
2. Year 2008.
3. First-time graduation rates for typical age at upper secondary level. For Portugal, data refer to 2008.
4. Average of 21 EU countries members of the OECD.

Source: OECD, *Employment and Education at a Glance Databases*.

StatLink http://dx.doi.org/10.1787/888932777568

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Improve outcomes and equity in education. Improving educational attainment is essential for a productive and adaptable labour force.

Actions taken: The authorities have taken steps during 2012 to better attune vocational education and training (VET) to labour market needs and are introducing a new monitoring tool of education outcomes to inform decision making.

Recommendations: Strengthen the focus of the general and VET evaluation system on tracking individual outcomes over time, especially for individuals from disadvantaged backgrounds.

Reduce job protection on regular contracts and reform wage bargaining. Labour market duality and administrative extension of collective agreements hurt productivity and employment for vulnerable groups.

Actions taken: The authorities have lowered job protection for permanent workers by reducing severance pay (2011, 2012) and easing rules for individual dismissals (2012). They have also largely frozen administrative extension of collective agreements since May 2011.

Recommendations: Further reduce severance pay and introduce binding arbitration in conflicts over dismissals. Abolish administrative extension of wage agreements.

PORTUGAL

***Reform unemployment benefits and strengthen active labour market policies*.**[1] Long benefit duration for older workers and poor job-search assistance increase long-term unemployment.

Recommendations: Make unemployment benefit duration age-independent and fully implement plans to step up job-search assistance, supported by monitoring and sanctions. Focus training on maximising employability gains.

Other key priorities

Strengthen competition in non-manufacturing sectors. Increasing competition in network industries, retail distribution and professional services would foster innovation and lower prices.

Actions taken: In 2012, the authorities have reformed legislation on competition and on self-regulated professions, carried out privatisations in network sectors and took some steps to curb excessive electricity generation support and liberalize older non-residential rental contracts.

Recommendations: Make electricity generation support cost-effective and introduce a full Mobile Virtual Network Operator agreement in telecommunications to facilitate the entry of more operators. Introduce an independent regulator for professional services and abolish rent controls for retailers.

Reduce administrative burdens at the local level. Slow and costly local licensing procedures hamper entrepreneurship and productivity.

Actions taken: The authorities have been rolling out a Zero Authorization initiative which abolishes licensing for some services, and are planning to extend it to industrial projects, with automatic licensing for small firms and reduced deadlines for more complex requests.

Recommendations: Fully implement the Zero Authorisation initiative and eliminate licensing surcharges levied by municipalities.

Previous *Going for Growth* recommendation no longer considered a priority

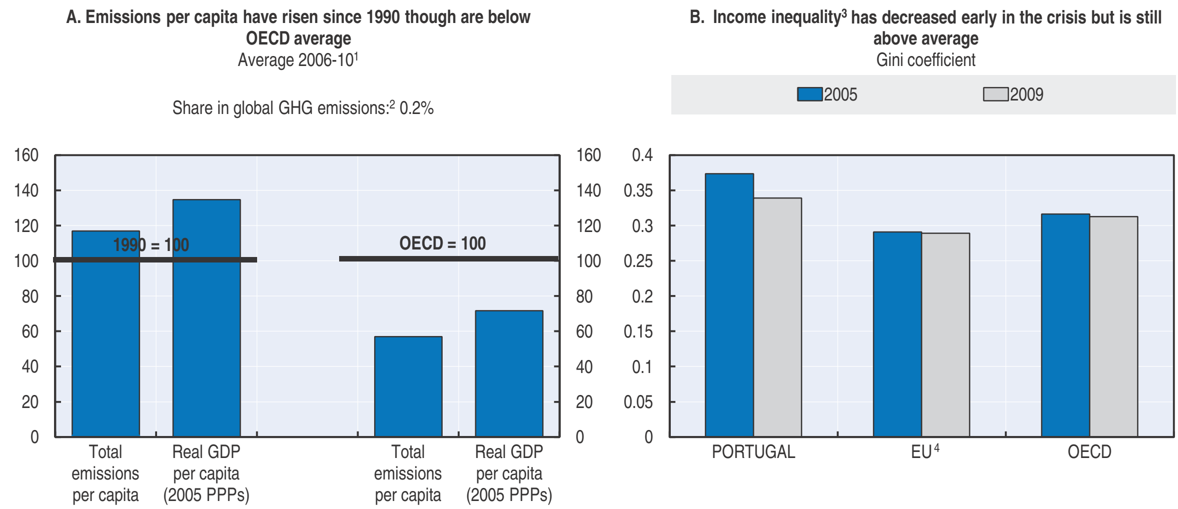
Simplify the tax system and broaden tax bases. In order to simplify the tax system and reduce compliance costs, it was recommended to substantially curb tax expenditures for different types of taxes, as well as to increase coordination between tax and social security agencies and to reduce tax reporting requirements for small firms.

Actions taken: The authorities have implemented major base-broadening reforms in income, consumption and property taxes in 2012.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

PORTUGAL

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and OECD *Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777587

RUSSIAN FEDERATION

- The GDP per capita gap relative to the upper half of the OECD narrowed rapidly during the boom period of 2000-08, before widening during the global crisis. The resumption of relatively rapid output growth in 2010-11 has resulted in renewed convergence. The per capita income gap is exclusively accounted for by lower productivity, as Russia has a relatively high labour utilisation rate.
- The government has ongoing initiatives to improve public administration, reduce corruption and stimulate innovation, and health care funding has been improving. The results are not always clearly visible, however, and major implementation challenges remain.
- There is considerable scope to raise productivity growth, especially by reducing the role of the state in the economy, with greater integrity and efficiency in the provision of public services and less restrictive product market regulation.
- A more efficient and better-funded healthcare system would both facilitate faster growth of human capital and reduce income inequality, since the poor suffer most from weak health care services.

Growth performance indicators

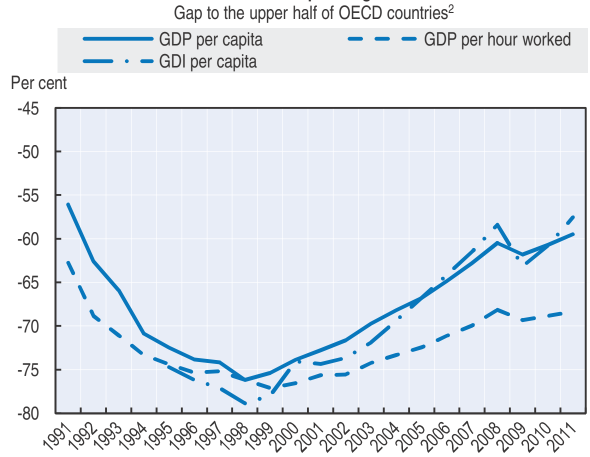
A. Average annual growth rates

Per cent

	2001-06	2006-11
GDP per capita	7.3	2.8
Labour utilisation[1]	1.6	0.6
Labour productivity	5.6	2.2

B. Gaps in GDP per capita and productivity have narrowed but remain quite large

Gap to the upper half of OECD countries[2]



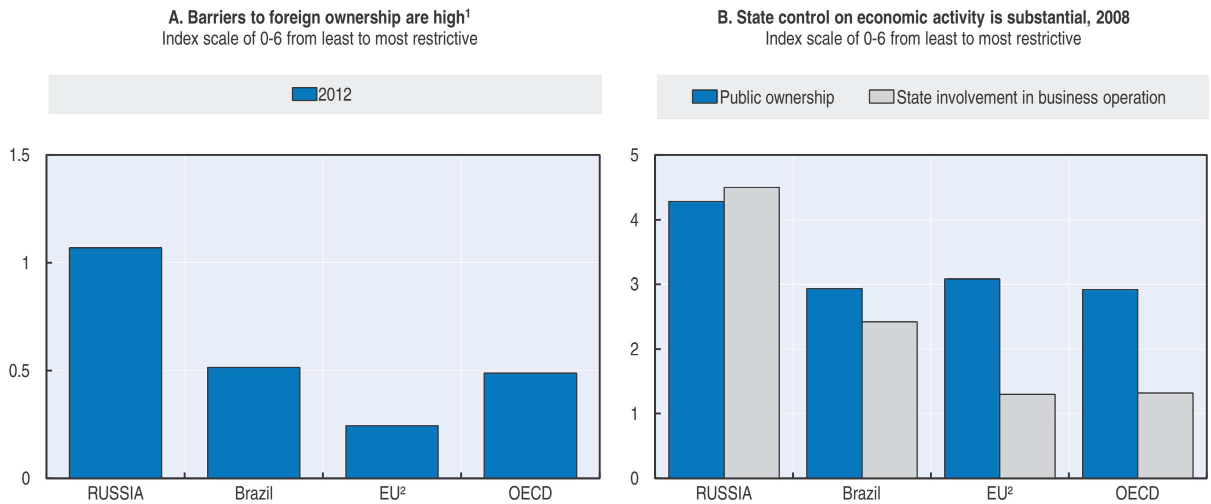
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*; World Bank (2012), *World Development Indicators (WDI)* and ILO (2012), *Key Indicators of the Labour Market (KILM) Databases*.

StatLink http://dx.doi.org/10.1787/888932777606

RUSSIAN FEDERATION

Policy indicators



1. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.
2. Average of 21 EU countries members of the OECD.

Source: OECD, *www.oecd.org/social/inequality.htm* and *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932777625

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Lower barriers to foreign direct investment. A more liberal foreign direct investment regime would enhance competition and innovation, spurring faster productivity growth.

Actions taken: In March 2011 the minimum share of foreign capital requiring prior government approval was raised from 10% to 25% and some barriers to foreign investment in the banking sector were removed.

Recommendations: Shorten the list of strategic sectors in which foreign acquisitions require prior government approval.

Reduce state control over economic activity and other barriers to competition. Restrictive product market regulation, especially *via* the pervasive role of the state in the economy, holds down innovation and productivity growth.

Actions taken: According to the latest privatisation plan, all non-fuel, non-defence and non-natural-monopoly sectors will be privatised before 2016. The institution of national and regional business ombudsman was created in the fall of 2012. A Presidential Decree issued in May 2012 will expand mandatory Regulatory Impact Assessment to regional authorities in 2014 and municipalities in 2015.

Recommendations: Accelerate privatisation, and yield majority control in cases where the state maintains partial ownership. Increase the use of regulatory alternatives to direct state interventions.

Raise the effectiveness of innovation policy. Raising the low level of innovation would improve productivity growth.

Actions taken: The new government strategy "Innovative Russia 2020" foresees large increases for funding for research, commercialisation and innovation infrastructure. In April 2012 the government adopted a list of innovative territorial clusters that would receive public support until 2018.

Recommendations: Support private-sector innovation activities through universally applied and regularly assessed fiscal incentives and legislative framework. Increase the share of competitive funding and explore options for privatising research institutes. Avoid the "high-tech myopia".

Other key priorities

Raise the quality of public administration. More efficient public administration would contribute to faster productivity growth.

Actions taken: Salaries of judges were increased in October 2012. The 2012-13 National Anti-Corruption Action Plan includes a requirement to introduce greater protection of whistleblowers. Since November 2011, members of legislative bodies have to report their incomes and assets, and banks are obliged to provide information about public officials' accounts, including family members.

Recommendations: Reduce potential for corruption by minimising the need for subjective decision-making by officials. Strengthen the protection of whistleblowers. Reinforce judicial independence.

Reform the health care system. Poor health outcomes are holding back labour productivity.

Actions taken: The rate of contribution to health insurance was increased in 2011. The patient's choice of health service providers was introduced in 2012. Regular wage increases for doctors are decreed until 2018. Excise taxes on alcohol and tobacco are being systematically increased.

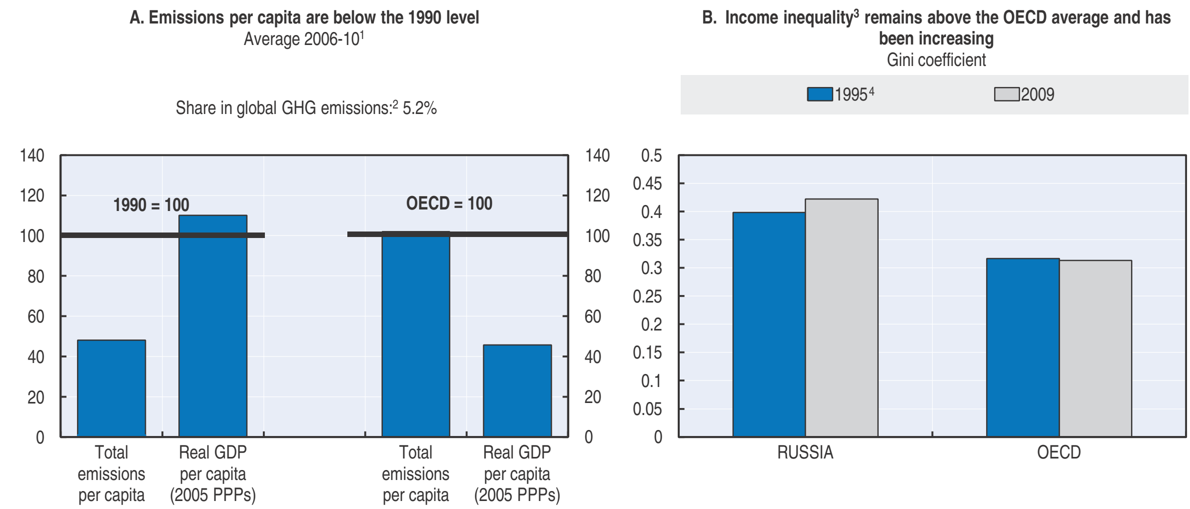
Recommendations: Further increase public funding of health care and enhance the efficiency of the system, shifting from hospital to primary care. Step up efforts to encourage healthy lifestyles.

Previous *Going for Growth* recommendations no longer considered as a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

RUSSIAN FEDERATION

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005 and 2008.
3. Income inequality is measured by the Gini coefficient based on per capita income for the Russian Federation.
4. Data refer to 1993 for the Russian Federation. The OECD average excludes Estonia, Iceland, Korea, Poland, Slovak Republic, Slovenia and Switzerland.

Source: OECD, *Energy (IEA) Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777644

SLOVAK REPUBLIC

- The substantial income per capita gap relative to the upper half of OECD countries has further narrowed, thanks to strong labour productivity growth. However, labour utilisation is still lagging behind.
- Some progress has been achieved in reforming public funding for universities, removing barriers to competition, supporting innovation and reforming childcare subsidies. More needs to be done, especially regarding mobility barriers in the housing market, the innovation framework and active labour market policies.
- Policies aiming at activating jobseekers, improving labour mobility and reducing barriers to female labour force participation would increase overall labour utilisation by providing employment opportunities to more vulnerable groups. Improving the effectiveness of the education system, removing regulatory hurdles to competition and strengthening the innovation framework would contribute to a closing of the productivity gap.
- Beyond their impact on aggregate labour utilisation, activation programmes and education policies would reduce income inequality by improving employment rates of vulnerable groups, and fostering integration of groups most at risk of social exclusion, such as the Roma children.

Growth performance indicators

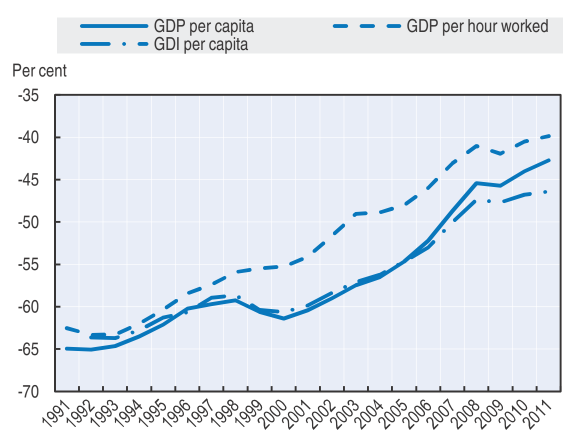
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		3.8	3.3
Potential labour utilisation		0.4	0.0
of which:	Labour force participation rate	-0.1	0.0
	Employment rate[1]	0.5	0.0
Potential labour productivity		3.4	3.3
of which:	Capital intensity	0.7	1.0
	Labour efficiency	2.6	2.3
	Human capital	0.0	-0.1

B. Convergence in GDP per capita and productivity has resumed

Gap to the upper half of OECD countries[2]



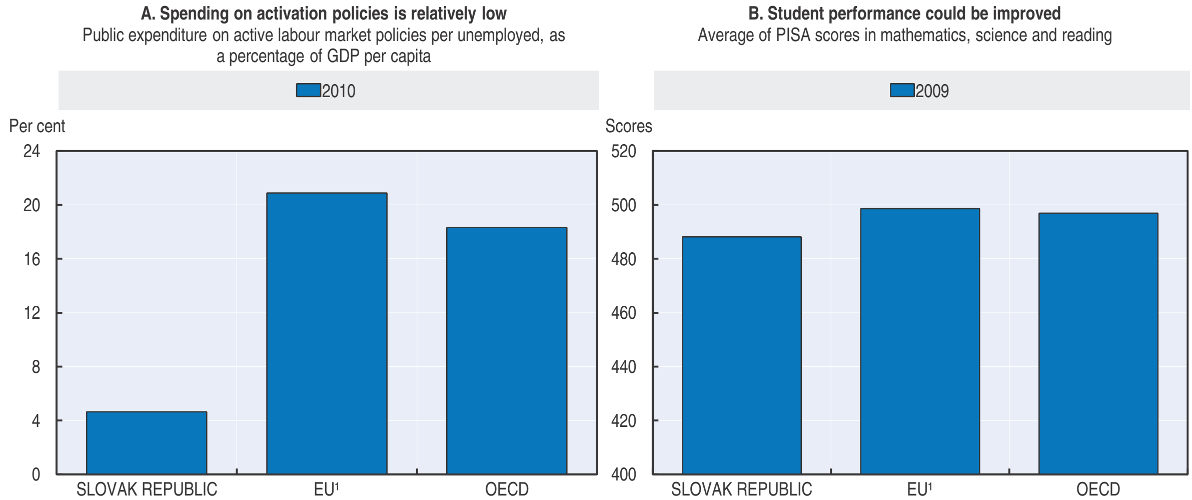
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932777663

SLOVAK REPUBLIC

Policy indicators



1. Average of 21 EU countries members of the OECD.

Source: OECD, *Public expenditure and participant stocks on LMP, OECD Economic Outlook and PISA Databases.*

StatLink http://dx.doi.org/10.1787/888932777682

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Improve funding and effectiveness of the education system. International student test (PISA) scores are below the OECD average and school-to-job transition is weak, hampering both productivity and labour utilisation.

Actions taken: Since 2012, information on the educational outcomes of schools and the labour market performances of tertiary graduates is published. Funding rules for universities were reformed to create incentives for quality improvement.

Recommendations: Reduce stratification of the education system. Foster integration of Roma children, notably by expanding their enrolment in pre-school education. Develop workplace training in vocational education and training and extend tuition fees in tertiary education backed-up by income-contingent repayment loans.

Strengthen policies to promote labour mobility and activation. Low labour mobility and high long-term unemployment depress both labour utilisation and productivity.

Actions taken: No action taken.

Recommendations: Strengthen the capacity of the public employment service, target more narrowly subsidised job creation and start-up support, expand training measures, remove obstacles to the expansion of a private residential rental market, and improve the targeting of housing subsidies.

Reduce barriers to female labour force participation. Women with young children and of older ages have low employment rates.

Actions taken: Since 2011, working parents are eligible for childcare subsidies.

Recommendations: Shorten the duration of parental leave entitlements, expand availability of childcare facilities and remove fiscal disincentives to work for second earners notably by cutting the tax allowance for non-working spouses.

Other key priorities

Reduce regulatory barriers to competition. Existing impediments to entrepreneurship and competition limit productivity growth.

Actions taken: Single contact points are fully operational since 2012. Administrative procedures to start a business were simplified in 2011.

Recommendations: Reduce further administrative burdens on corporations and resume the privatisation process in network industries, abolish compulsory chamber membership for professional services while maintaining required standards of professional qualifications.

Improve the innovation support framework. Low research and development (R&D) expenditure and innovation activity in the business sector constrain productivity growth.

Action taken: In co-operation with the European Investment Fund, the government launched in 2011 the JEREMIE initiative, an EU program providing funding to innovative small and medium-sized enterprises.

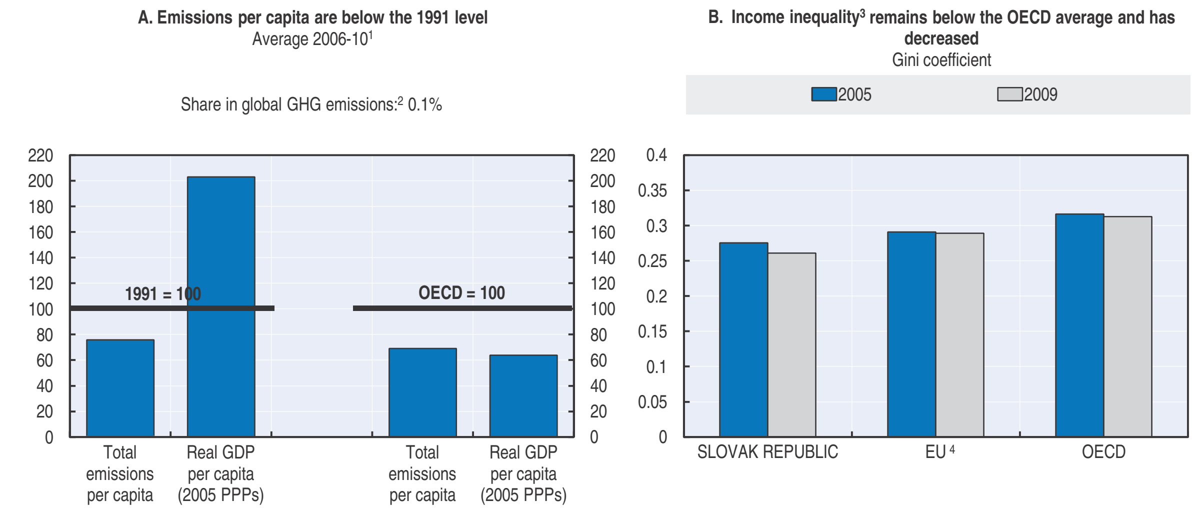
Recommendations: Facilitate access to venture capital and information and communications technology, encourage cooperation between the public and private R&D institutions, and improve the efficiency of R&D public funding.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

SLOVAK REPUBLIC

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777701

SLOVENIA

- After having narrowed steadily prior to the crisis, the GDP-per-capita gap *vis-à-vis* the upper half of OECD countries, which primarily reflects a labour productivity shortfall, has widened since 2008.
- Limited progress has been recorded on past priorities and attempts to reform the labour market and pension system failed in 2011. Progress has been particularly slow in reducing state involvement in the economy. However, there has been some pick-up in the reform momentum recently, notably with the adoption of a new pension reform.
- Improving tertiary education outcomes and reducing excessive state involvement in the economy would help boost labour productivity. Faster increases in effective retirement ages and reform of wage determination allowing better alignment of wage and labour market developments would help further close the labour utilisation gap.
- Reducing job protection on regular employment with a view to narrowing the differences in contract provisions across workers would help to improve the labour market inclusion of younger and low-skilled workers, reducing thereby inequality.

Growth performance indicators

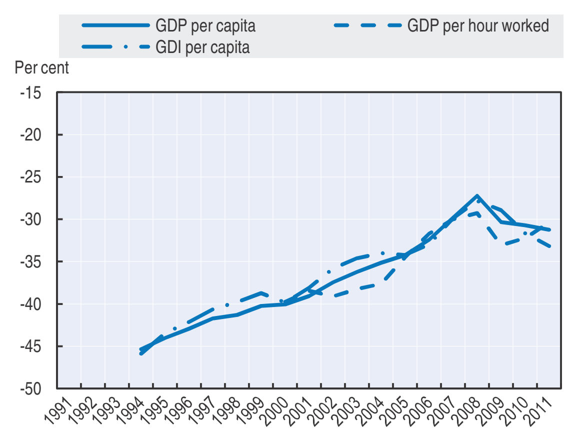
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.7	1.0
Potential labour utilisation		0.3	-0.5
of which:	Labour force participation rate	0.3	-0.4
	Employment rate[1]	0.1	-0.1
Potential labour productivity		2.3	1.5
of which:	Capital intensity	1.2	1.2
	Labour efficiency	1.1	0.2
	Human capital	0.1	0.1

B. Convergence in GDP per capita has stalled in recent years

Gap to the upper half of OECD countries[2]



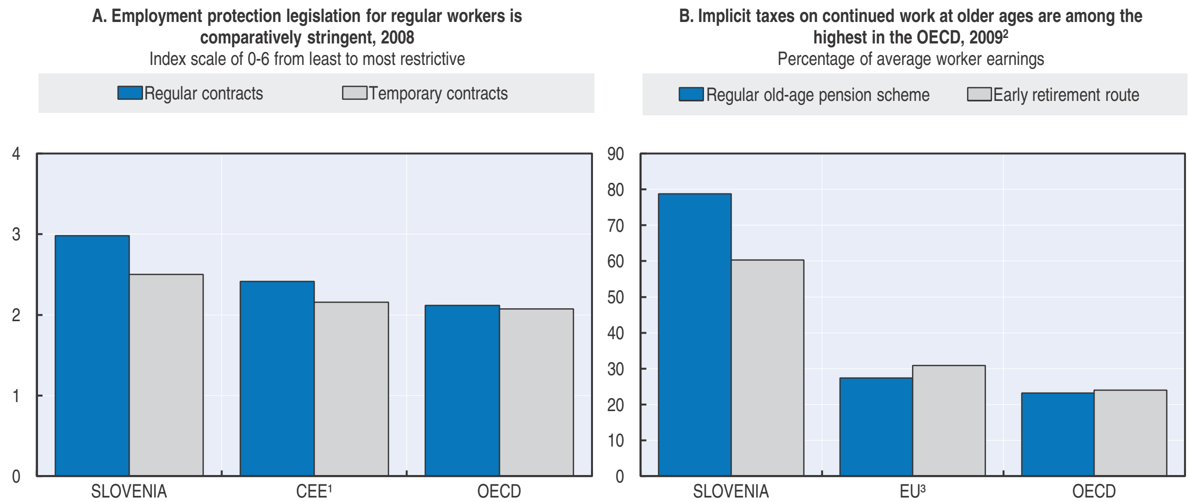
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932777720

SLOVENIA

Policy indicators



1. Central and eastern European countries is the average of Czech Republic, Estonia, Hungary, Poland and Slovenia.
2. Implicit taxes on continued work for five more years embedded in the regular old-age pension scheme for 60 year-olds and in "early retirement route" (as defined in Duval, 2003) for 55 and 60 year-olds.
3. Average of 21 EU countries members of the OECD.

Source: OECD, *Employment Database*; Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", *OECD Economics Department Working Papers*, No. 370, OECD Publishing, OECD calculations and OECD pension models.

StatLink http://dx.doi.org/10.1787/888932777739

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Ease employment protection legislation. The wide gap in job protection between regular and temporary contracts that has resulted from past reforms creates labour market duality and damages productivity.

Actions taken: No action taken since the "mini-jobs" bill, which aimed at further easing temporary contracts, was rejected by referendum in April 2011.

Recommendations: Further reduce notice periods and administrative burdens on individual dismissals and relax the conditions under which individual dismissals are legitimate. Phase out the preferential tax and regulatory treatment of student work to reduce labour market inequities.

Raise the statutory retirement age and reduce disincentives to work at older ages. The old-age pension system does not sufficiently incentivize older workers to remain active.

Actions taken: New pension reform was adopted in December 2012, which is expected to increase the effective retirement age by around two and a half years to 62 for women and by nearly a year to 63 for men by 2020. Pensions indexation has been cut to 60% of wage growth and 40% of inflation.

Recommendations: Adopt a significantly more ambitious reform to increase the statutory retirement age and contributory period, limit access to early retirement, introduce greater financial incentives to defer retirement, and give more weight to inflation in the pension benefit indexation formula.

Limit wage growth in the public sector and for minimum wage workers. The statutory minimum wage relative to the median wage is high by OECD standards. The horizontal equalisation of public sector wages led to higher wage growth than warranted by macroeconomic conditions in the past and limited the adjustment of wages during the recent downturn.

Actions taken: The minimum wage was increased by 23% in early 2010, while allowing gradual implementation over two years. The remaining steps of the horizontal equalisation of public sector wages were implemented in May 2012, but overall net public sector wages were cut by 3%.

Recommendations: Ensure that the minimum wage rises no faster than inflation for a while and adopt a new social agreement introducing wage moderation over an extended period of time.

Other key priorities

Improve tertiary educational outcomes. Tertiary completion rates are low, weighing in on human capital formation and productivity.

Actions taken: No action taken.

Recommendations: Introduce tuition fees in public higher education institutions, along with student loans with income-contingent repayment. Tie access to student benefits to adequate progress in studies.

Reduce state involvement in the economy. Public ownership and control of enterprises is widespread, hampering productivity and foreign direct investment inflows.

Actions taken: A Slovenia Sovereign Holding was created to centralise state-owned assets and allow their easier privatisation, but the legislation could be challenged by referendum in early 2013.

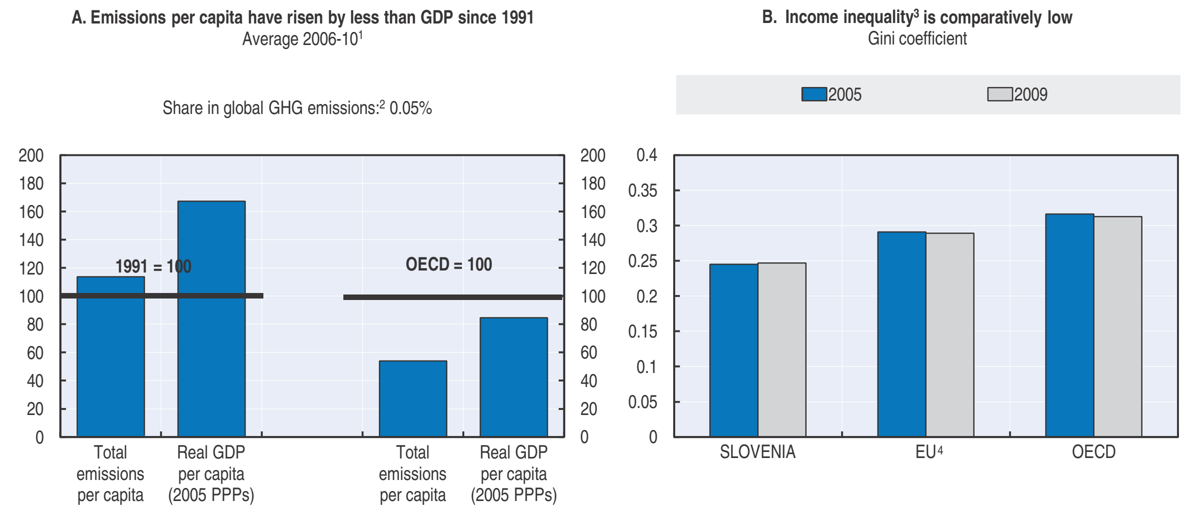
Recommendations: Devise a rigorous and transparent regime for determining which state assets should remain in public hands and ensure autonomy of the board and management of the Holding. Privatise state-owned banks to bolster the stability of the banking sector. Facilitate new entry in network industries by reducing state ownership and boosting competition. In this context, allow competition authorities to be completely independent and provide them with adequate resources.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

SLOVENIA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777758

SOUTH AFRICA

- The GDP per capita gap *vis-à-vis* the upper half of the OECD has narrowed only gradually since around 2000, and income per capita has grown somewhat more rapidly given a sustained improvement in the terms of trade. The contribution of low labour utilisation to the GDP per capita gap, which was already large, increased further in the wake of the global crisis.
- Some progress has been made in improving the quality of and access to basic education, while little action has been taken to reform wage bargaining or make product market regulation less restrictive.
- There is an urgent need for policies to boost employment by reforming areas such as activation, training and wage bargaining. Productivity growth must also improve in order to raise living standards over the long term. Complementary reforms of product and labour markets would erode the sharing of rents between incumbent firms and labour market insiders, unleashing faster employment growth in the short term and higher productivity growth in the medium to long term, by spurring innovation and improving resource allocation.
- Raising the quality of education and facilitating school-to-job transitions would both strengthen employment growth and reduce income inequality.

Growth performance indicators

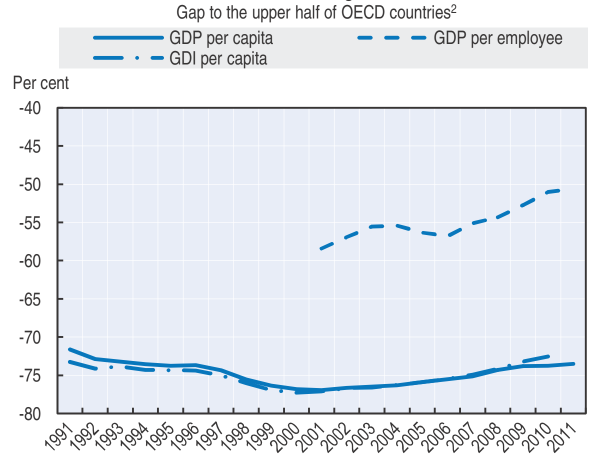
A. Average annual growth rates

Per cent

	2001-06	2006-11
GDP per capita	3.1	1.5
Labour utilisation[1]	0.9	-1.4
Labour productivity	2.2	2.9

B. Gaps in GDP per capita and productivity are large, though narrowing

Gap to the upper half of OECD countries[2]



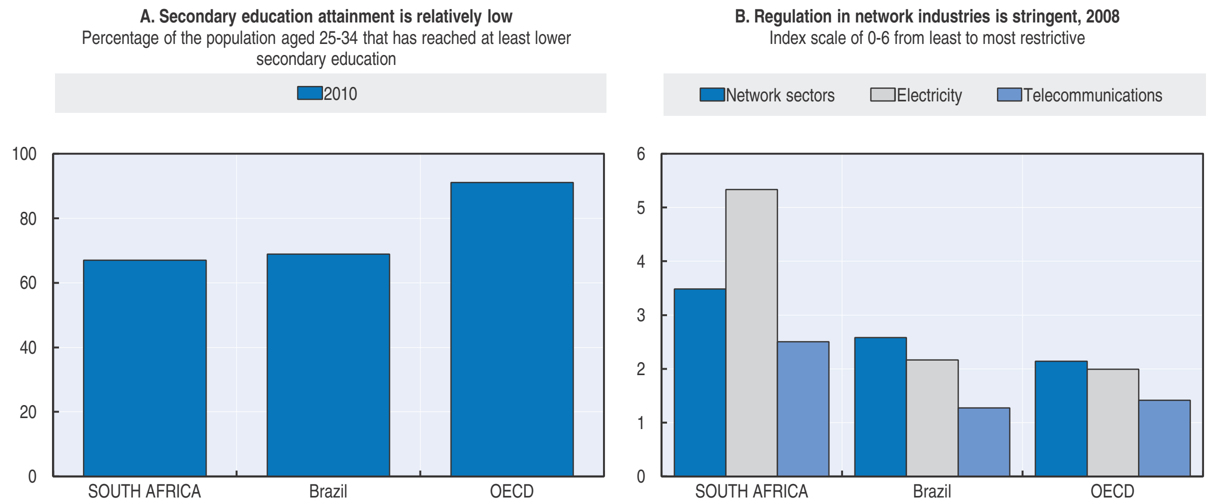
1. Labour utilisation is defined as the ratio of total employment over population.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per employee and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases*; World Bank (2012), *World Development Indicators (WDI) Database* and Statistics South Africa.

StatLink http://dx.doi.org/10.1787/888932777777

SOUTH AFRICA

Policy indicators



Source: Samir *et al.* (2008), "Projection of Population by Level of Education Attainment, Age and Sex for 120 countries for 2005-2050", *International Institute for Applied Systems Analysis Interim Reports*; OECD, *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932777796

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Raise efficiency and equity in education. Improving the quality of education would boost human capital accumulation, and hence productivity, while also reducing inequality.

Actions taken: Funding of trainee teachers and school infrastructure is being increased during 2012-14. In 2011 new national assessment exams were introduced and the roll-out of workbooks to improve literacy and numeracy in Grades 1-6 began, and in 2012 a schools evaluation unit was created.

Recommendations: Improve teacher training, enhance accountability and monitoring of school leadership. Begin teaching English as a second language earlier while maintaining mother-tongue instruction for longer. Gradually phase out school fees in the public school system. Upgrade infrastructure. Expand vocational education and training.

Enhance competition in network industries. Greater competition in network industries would ease bottlenecks to productivity growth.

Actions taken: A draft bill to establish an independent system and market operator for electricity is undergoing public consultation.

Recommendations: Rule out granting state-owned enterprises exemptions from competition laws. Move towards separating generation, transmission and distribution of electricity. Strengthen the independence of the telecoms regulator. Unbundle the divisions of the state-owned transport conglomerate Transnet and open public infrastructure to private users.

Reduce barriers to entrepreneurship. Unnecessarily heavy administrative burdens on firms hinder productivity growth.

Actions taken: The institutional framework for conducting regulatory impact assessments is under development within the National Treasury.

Recommendations: Introduce systematic regulatory impact assessment for all new regulation, and review existing legislation with a view to reducing administrative burdens. Reduce the complexity and increase the transparency of existing regulation.

Other key priorities

Strengthen active labour market policies to tackle youth unemployment. Extremely high youth unemployment erodes human capital and exacerbates inequality.

Actions taken: Draft legislation has been introduced to the Parliament to establish public job centres. The government has proposed a youth employment committee to consider measures to boost youth employment.

Recommendations: Implement a wage subsidy for the hiring of young workers, possibly linked to an expansion of the learnership programme. Provide for age-differentiation of minimum wages in sectors where these are set by the state. Expand placement assistance for young job-seekers and expand support for young entrepreneurs while linking it to management training.

Reform the wage bargaining system. Moving away from sectoral bargaining with administrative extension could boost employment.

Actions taken: No action taken.

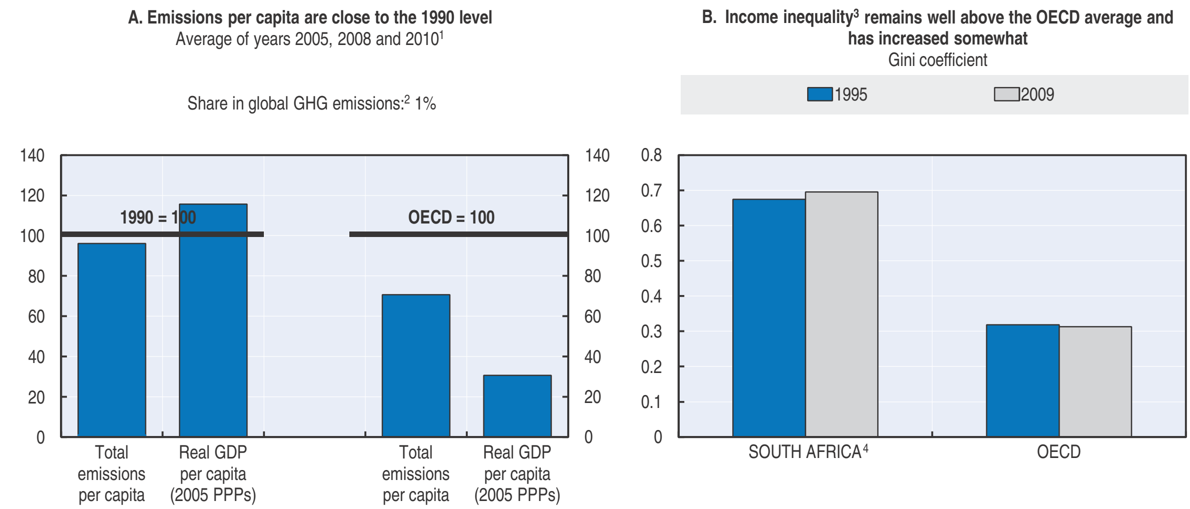
Recommendations: Weaken administrative extension of collective bargaining in sectors covered by bargaining councils. Provide for indicative guidelines for wage bargains at a centralised level consistent with inflation targets.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

SOUTH AFRICA

Other dimensions of well-being: Performance indicators



1. Total GHG emissions in CO_2 equivalents from the *International Energy Agency (IEA) Database*. These data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using IEA data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on per capita income for South Africa.
4. Data refer to 1993 and 2008. For 1995, the OECD average excludes Estonia, Iceland, Korea, Poland, Slovak Republic, Slovenia and Switzerland.

Source: OECD, *Energy (IEA) Database*; OECD (2011), "Special Focus: Inequality in Emerging Economies", in *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777815

SPAIN

- The income gap *vis-à-vis* leading OECD economies has widened, reflecting large employment losses. The recent improvement in productivity reflects labour shedding in low-productivity activities.
- Progress has been made in raising the retirement age, lowering employment protection of permanent workers and making wages more flexible. Little has been achieved to reduce early school drop-outs and to strengthen activation.
- Measures to improve educational attainment, strengthen activation policies and make wages more responsive to economic conditions would increase employment. Lowering labour market duality would reduce unemployment spells between repeated temporary jobs and improve the matching of worker skills to jobs. Lowering entry barriers in services would strengthen productivity in these sectors and raise labour demand.
- Reforms in priority areas could meet both growth and equity objectives. Reducing the number of school drop-outs would improve income prospects for the most disadvantaged youth. Narrowing the gap in job protection between temporary and permanent contracts would help integrating young and immigrant workers in the labour market and hence reduce inequality.

Growth performance indicators

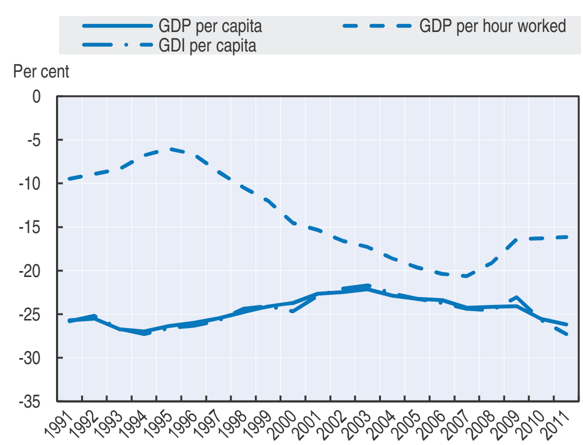
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		2.0	0.8
Potential labour utilisation		1.8	0.0
of which:	Labour force participation rate	1.7	1.0
	Employment rate[1]	0.1	-1.0
Potential labour productivity		0.2	0.9
of which:	Capital intensity	0.6	1.1
	Labour efficiency	-1.0	-0.8
	Human capital	0.7	0.5

B. The gap in GDP per capita has widened

Gap to the upper half of OECD countries[2]



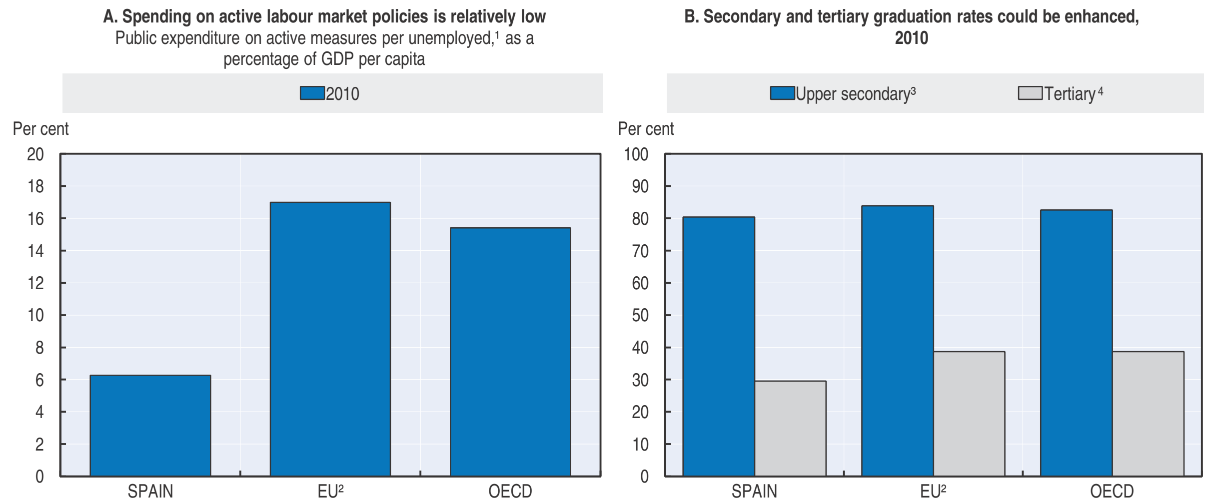
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932777834

SPAIN

Policy indicators



1. Active measures excluding the category employment incentives.
2. Average of 21 EU countries members of the OECD.
3. First-time graduation rates for typical age at upper secondary level.
4. First-time graduation rates for typical age at type A level.

Source: OECD, Public expenditure and participant stocks on LMP, *OECD Economic Outlook* and *Education at a Glance 2012 Databases*.

StatLink http://dx.doi.org/10.1787/888932777853

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Improve educational attainment in secondary education and access to tertiary education. Low upper secondary and tertiary attainments reduce worker employability and productivity.

Actions taken: The government is planning to reform compulsory education, including introducing a vocational track in the last year and strengthening the teaching of core subjects. University tuition fees are rising and eligibility to grants has been tightened.

Recommendations: Lower grade repetition by focusing grade advancement criteria on key competencies. Combine school-based vocational education and training contracts within a single scheme. Introduce loans with income-contingent repayments for all tertiary students.

***Improve active labour market policies*.**[1] Low effectiveness of public employment services holds back employability of the unemployed.

Recommendations: Introduce comprehensive monitoring and evaluation of employment services and labour market programmes at the regional level. Monitor benefit recipients' job search efforts more closely and link benefit payments to results. Phase out hiring subsidies and extend training measures for the unemployed.

1. New policy priorities identified in Going for Growth 2013 (with respect to Going for Growth 2011) are preceded and followed by an "*".

SPAIN

Make wages more responsive to economic and firm-specific conditions. Legal extension of collective bargaining limits the responsiveness of wages to economic conditions.

Actions taken: In 2012, firm-level wage agreements were given priority over higher-level agreements in all cases. Firms whose revenues decline over two quarters can unilaterally alter employment contracts. The scope for opt-outs from collective bargaining outcomes was also increased by introducing compulsory arbitration. The validity of collective agreements beyond their expiry was limited to one year in 2012.

Recommendations: Consider abolishing legal extension of collective wage agreements.

Other key priorities

Reduce the gap in job protection between temporary and permanent contracts. Large gaps in job protection between permanent and temporary contracts harm employment prospects especially among the young.

Actions taken: In 2012, criteria for dismissals to be accepted as justified have been clarified and broadened, resulting in lower dismissal costs. Compensation for unfair dismissal has been lowered for all new contracts. Small firms can hire workers on permanent contracts with a one-year probation period. The requirement of administrative authorisation for collective dismissals was removed.

Recommendations: Consider moving towards a uniform contract with initially low but gradually increasing severance pay.

Lower entry barriers in services industries. Entry barriers hold back productivity and job creation.

Actions taken: The government shortened procedures to create limited liability companies. It eased licensing for small service outlets and to some extent limits on shop opening hours in 2012. It plans to lower entry barriers, reduce the range of reserved activities in professional services and administrative burdens on road transport operators. Passenger rail services will be open to entrants in 2013.

Recommendations: Ease restrictions on the entry of large-surface retailing outlets and deregulate shop opening hours comprehensively and nation-wide. Reduce specific qualification requirements in professional services. Improve access of entrants to road transport licenses.

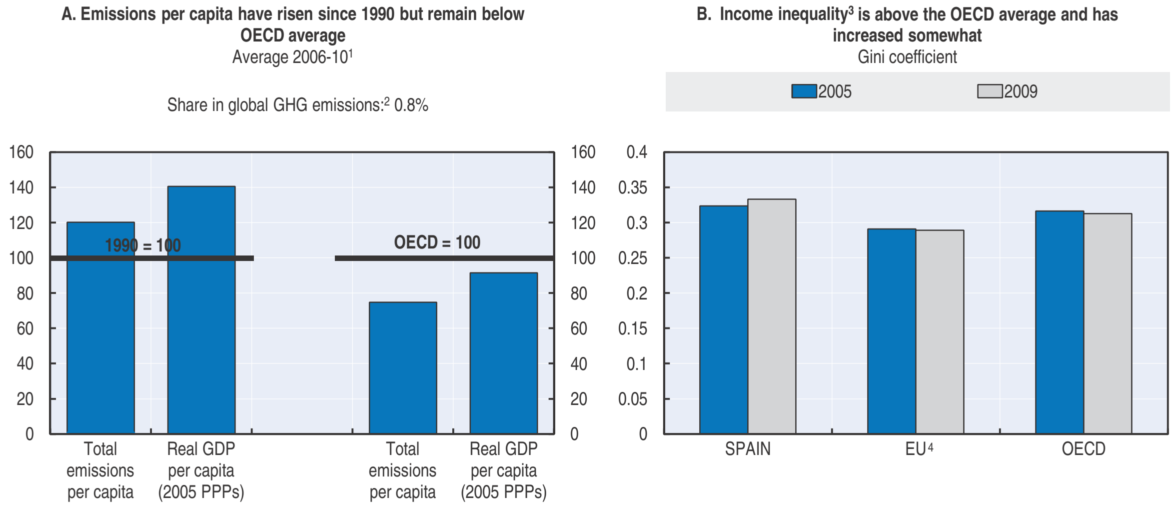
Previous *Going for Growth* recommendation no longer considered as a priority

Reduce the disincentives for older workers to continue working. To reduce disincentives to continue working at older age, it was recommended to lengthen the contribution periods required for a full pension, to index retirement age to increases in life expectancy and to reduce the duration of extended unemployment benefits paid to workers before eligibility to old-age pension.

Actions taken: The legal retirement age was raised from 65 to 67 years for workers with contribution records of less than 38.5 years in 2011. Access to early retirement was limited and subsidies for partial early retirement reduced. Contribution periods required for a full pension were lengthened somewhat.

SPAIN

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777872

SWEDEN

- The income gap *vis-à-vis* leading OECD economies has narrowed, reflecting strong productivity and employment growth. Employment rates are high, but average hours worked low. The remaining GDP per capita gap reflects mainly a productivity shortfall.
- Much has been done to lower inflows into sickness and disability schemes and efforts to improve the efficiency of the education system have been made. By contrast, little has been achieved in the area of job protection and the housing market.
- Marginal income tax cuts and reforms of the sickness and disability benefit system would continue to raise hours worked and employment. Reducing labour market duality by lowering job protection on permanent workers and improving the functioning of the housing market would ease labour mobility and boost productivity growth. Enhancing the efficiency of the education system would foster human capital accumulation.
- In addition to boosting productivity, narrowing the gap in job protection between temporary and permanent contracts would help low-skilled, young and immigrant workers to gain a strong footing in the labour market and hence, reduce inequality.

Growth performance indicators

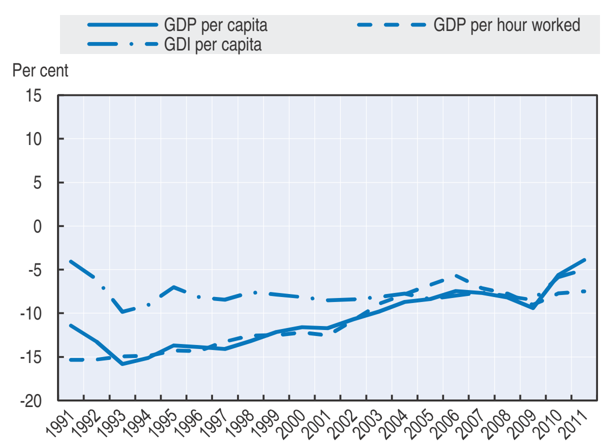
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.9	1.4
Potential labour utilisation		0.1	0.2
of which:	Labour force participation rate	0.0	0.1
	Employment rate[1]	0.0	0.1
Potential labour productivity		1.8	1.2
of which:	Capital intensity	0.4	0.4
	Labour efficiency	1.2	0.6
	Human capital	0.2	0.2

B. Gaps in GDP per capita and productivity have narrowed recently

Gap to the upper half of OECD countries[2]



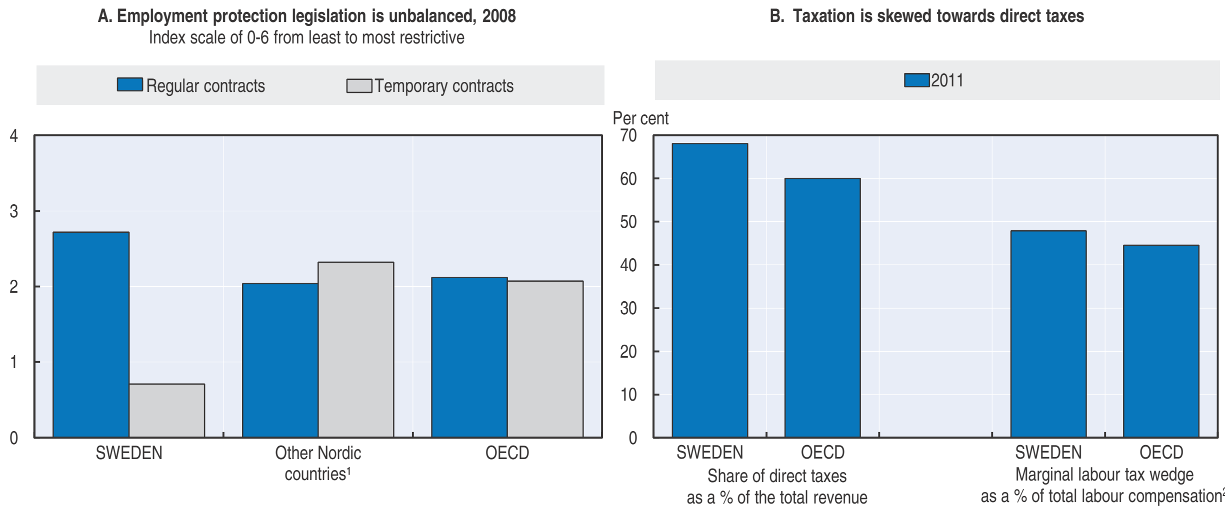
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, National Accounts and *OECD Economic Outlook 92 Databases*.

StatLink http://dx.doi.org/10.1787/888932777891

SWEDEN

Policy indicators



1. Average of Denmark, Finland and Norway.
2. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Evaluated at 100% of average earnings for a single person with no child.

Source: OECD, *Employment, Revenue Statistics and Taxing Wages Databases.*

StatLink http://dx.doi.org/10.1787/888932777910

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reduce marginal tax rates on labour and shift the tax structure towards property and consumption. High marginal tax rates on above-average incomes dampen hours worked and productivity growth.

Actions taken: No action taken.

Recommendations: Cut income taxes for earnings above average by raising the threshold of the state income tax or lowering its rate and shift some of the tax burden towards immovable property and consumption taxes.

Reduce the gap in job protection between temporary and permanent contracts. Large gaps in job protection between permanent and temporary contracts raise labour market duality risks, with potential adverse consequences for labour reallocation and productivity growth.

Actions taken: No significant action has been taken on permanent contracts.

Recommendations: Reduce job protection on permanent contracts, for instance, by removing the obligations related to internal reassignment and the priority for dismissed workers to be re-hired while helping transitions from temporary jobs to permanent ones.

Reform sickness and disability benefit schemes. A large share of the working-age population receiving disability benefits reduces labour force participation.

Actions taken: In 2011, the government asked the relevant institutions to develop an internship programme for people with disabilities and in 2012 it increased resources for rehabilitation.

Recommendations: Monitor the impact of the sickness and disability pension reform to ensure that the substantial drops in inflows are sustainable. Improve co-operation between the Public Employment Service and the Social Insurance Authority to promote the return to work.

Other key priorities

Improve the efficiency of the education system. A more efficient education system would help raising employment rates and fostering productivity.

Actions taken: In 2011, the government started a reform of upper secondary school that includes changes in the content of vocational education to make it more targeted to labour market needs. The Budget Bill for 2013 introduced measures to develop further vocational education and apprenticeship programmes.

Recommendations: Monitor the impact of the reform. Continue to develop apprenticeship programmes and work placement in vocational education. Improve incentives to enter into tertiary education at a younger age and to shorten completion times.

Reduce housing market distortions. Housing supply rigidities impede labour mobility and increase the risk of the build-up of imbalances.

Actions taken: In 2011, a new Planning and Building Act and a court of appeal were introduced to speed up the construction of new buildings. Since 2011, rent levels set by public housing companies are no longer the standard for all rents, which is likely to more closely align rents with market values. The Budget Bill for 2013 proposed additional measures to relax restrictions in rent setting.

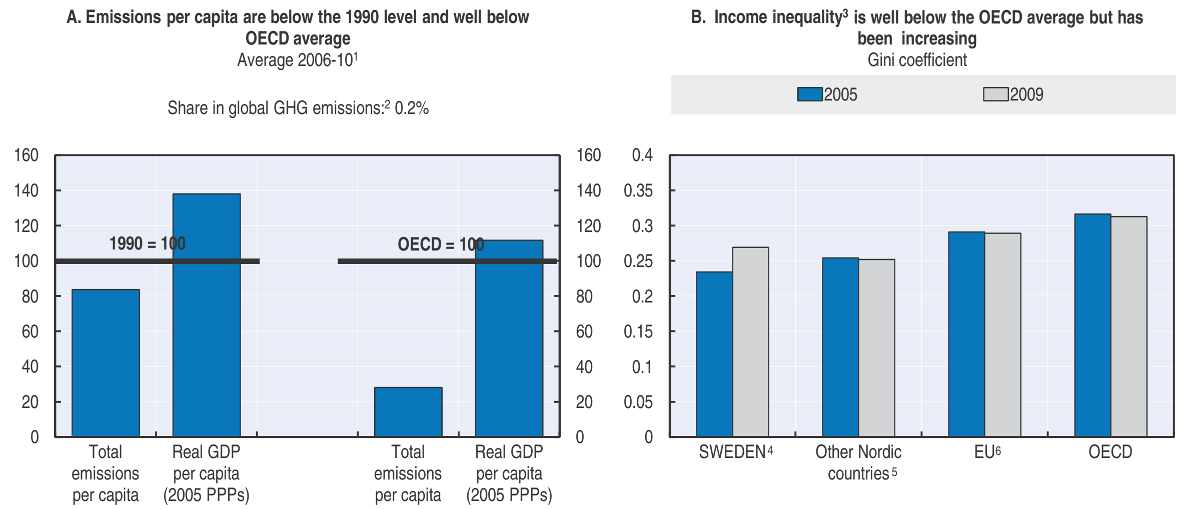
Recommendations: Continue to ease rent regulation, boost competition in the construction sector and simplify the land planning process. In parallel, increase owner-occupied housing taxation to minimise the risk of creating imbalances in the housing market.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

SWEDEN

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2004 and 2010 for Sweden.
5. Average of Denmark, Finland and Norway.
6. Average of 21 EU countries members of the OECD.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777929

SWITZERLAND

- Real GDP per capita has grown somewhat more strongly than in the best performing countries over the past five years, notably on account of labour utilisation, driven by immigration. However, the productivity gap has persisted.
- Considerable progress has been made in opening up network industries to competition and strengthening the independence of sector regulators, which should help raise productivity growth.
- Some shifting of taxation from income taxes to indirect taxes could be beneficial for economic growth, through increased labour utilisation, investment, innovation, as well as through firm entry and expansion. There remains wide scope for reducing the cost of health care provision and the protection of agricultural production so as to increase productivity growth through more efficient resource allocation.
- On top of the positive effects on growth, shifting the tax burden from labour income towards environmental taxes and further decoupling producer support from agricultural production would also help achieving environmental objectives. Further improving education outcomes would not only increase human capital accumulation and hence productivity growth, but would also reduce inequality.

Growth performance indicators

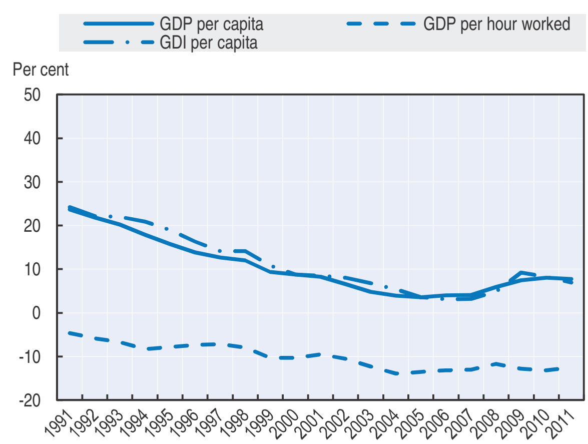
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		0.8	0.8
Potential labour utilisation		-0.1	0.0
of which:	Labour force participation rate	0.0	0.1
	Employment rate[1]	-0.1	0.0
Potential labour productivity		0.9	0.8
of which:	Capital intensity	0.3	0.3
	Labour efficiency	0.5	0.3
	Human capital	0.1	0.1

B. A productivity gap persists

Gap to the upper half of OECD countries[2]



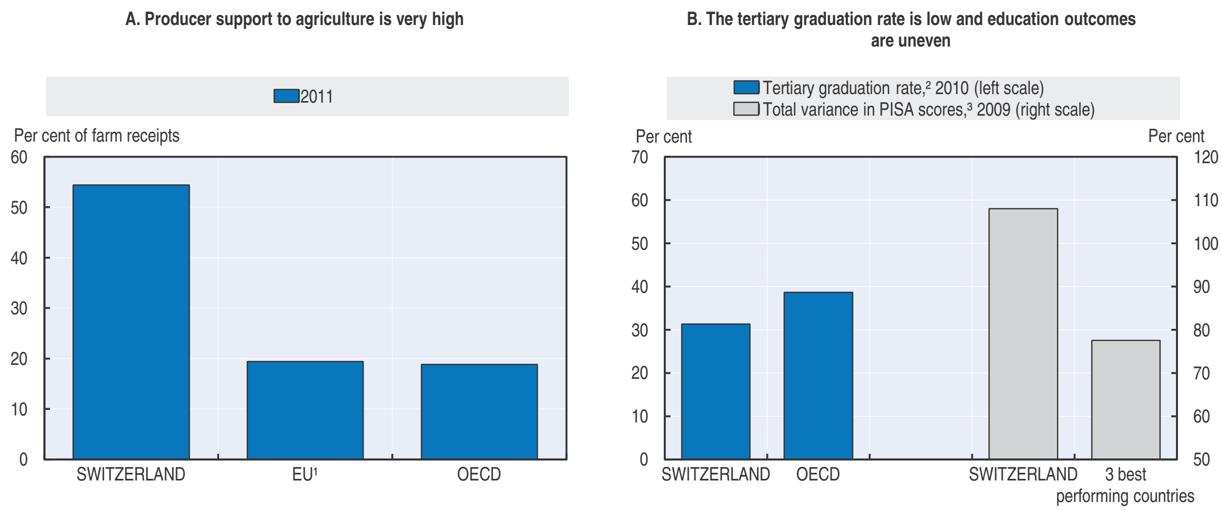
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932777948

SWITZERLAND

Policy indicators



1. Average of 21 EU countries members of the OECD.
2. First-time graduation rates for typical age at type A level.
3. Total variance of the average of PISA scores in mathematics, science and reading as a percentage of the OECD variance. The variance components in maths, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the students used in the analysis.

Source: OECD, *Producer and Consumer Support Estimates*, *PISA 2009 Databases* and *Education at a Glance* 2012: OECD Indicators.

StatLink http://dx.doi.org/10.1787/888932777967

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Reform the tax system.[1] Shifting some of the tax burden away from direct towards indirect taxation could be more beneficial for economic activity and would help meeting greenhouse gas emission targets at lower cost.

Recommendations: Increase the standard value-added tax rate and remove exemptions from it. Introduce a CO_2 levy on transport fuels, combined with a variable congestion charge. Give more room for local governments to generate revenues from real estate taxes. Lower personal income taxes and improve the corporate tax structure to remove disincentives for small firms to grow.

Reduce producer support to agriculture. High producer support to agriculture has adverse effects on productivity and the environment.

Actions taken: 2012 legislation foresees to continue shifting from input and output-based subsidies towards direct payments to farmers, and towards support for environmentally-friendly production processes, although a significant share of support will remain linked to inputs or outputs.

Recommendations: Further reduce input- and output-based support and target remaining support at those projects with the least economic and environmental distortions. Consider introducing a levy on inputs generating pollution emissions. Remove impediments to

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

shifting agricultural land to other uses. Further lower the border protection of domestic production.

Improve access and equity in education. Low graduation from tertiary education and weak educational outcomes of pupils from low socio-economic background limits growth in the long term.

Actions taken: In 2011, the Swiss Conference of Cantonal Ministers of Education adopted national education standards for compulsory education in key competencies.

Recommendations: Make government-sponsored loans to students widely available, coupled with an income-contingent repayment scheme, and raise fees in tertiary academic education. Review the mix of vocational and academic education content within upper-secondary vocational tracks. Promote access for children from low socio-economic background to childcare facilities.

Other key priorities

Increase the efficiency of the health system. Health care spending per capita is among the highest in the OECD, even in comparison with countries with similarly high health outcomes.

Actions taken: Possible ways to introduce uniform hospital funding are being discussed.

Recommendations: Do away with the mixed hospital funding, making insurers responsible for all hospital funding. Allow insurers more freedom to contract with providers individually, and widen the extent to which insurers are compensated for differences in risk characteristics.

Facilitate full-time labour force participation of women. Costly childcare and high marginal income tax for second-income earners hold back female labour force participation.

Actions taken: The central government's co-funding of childcare facilities will continue until 2014.

Recommendations: Further increase funding for childcare facilities and provide it through a national voucher scheme to pay for accredited facilities. Move from joint to individual tax assessment of spouses' incomes.

Previous *Going for Growth* recommendation no longer considered a priority

Remove barriers to competition in network industries. To seek efficiency gains in network industries, it was recommended that the power of regulators be strengthened, vertical separation be further pursued, and benchmark regulation be introduced in electricity. In telecommunications, it was recommended to remove legal restrictions on competitors' access to the local loop. It was also recommended to sell government stakes in both industries and to privatise the incumbent postal service provider.

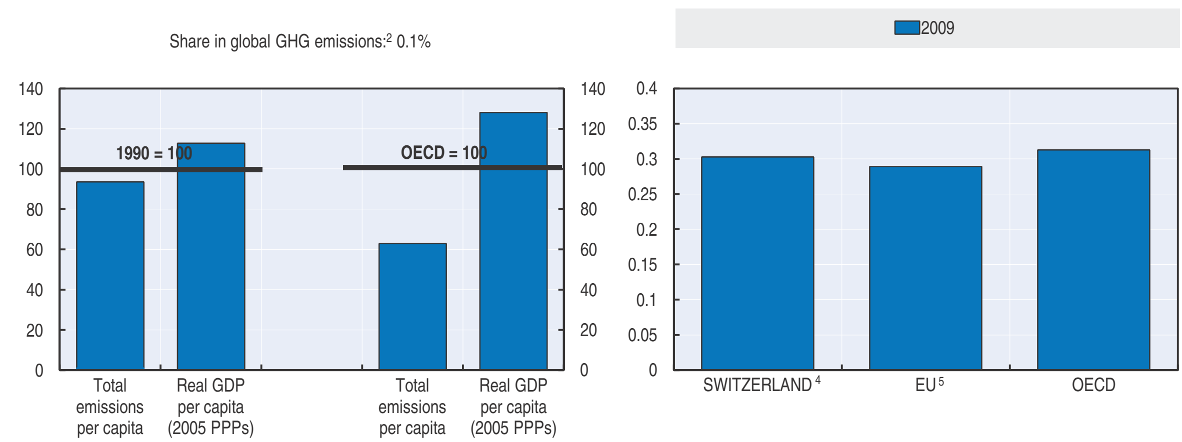
Actions taken: Opening up of network sectors to competition has continued in recent years, in particular of postal services as well as electricity generation, transport and trade. 2012 legislation made of the postal and the electricity market regulator independent.

SWITZERLAND

Other dimensions of well-being: Performance indicators

A. Emissions per capita are below 1990 level and OECD average
Average 2006-10[1]

B. Income inequality[3] is close to the OECD average
Gini coefficient



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population. For Switzerland, a break in the series prevents comparison with earlier periods.
4. Data refer to 2008.
5. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932777986

TURKEY

- The income gap *vis-à-vis* the upper half of the OECD countries narrowed in the 2000s but remains large. The strong catch-up in the 2000s has been driven by productivity gains in most of the period, and by the acceleration of job creation outside agriculture in recent years.
- The authorities have started to address the labour market reform agenda with important crisis measures, which have significantly reduced relative labour costs for youth and women as well as in certain regions. These measures have begun to pay off and should be further developed and made permanent.
- Strong employment growth is essential for the convergence of the still low employment rate with OECD benchmark. Improving educational achievement, reducing labour costs, reforming employment regulations and reducing incentives for early retirement are core priorities. Product market reforms to improve productivity growth in the sheltered sectors are also needed.
- Further progress with vocational education in close co-operation with the business sector and effective life-long education for adults whose schooling has been inadequate, would not only improve productivity and employability but also help reduce the still wide income gaps between social groups and across regions.

Growth performance indicators

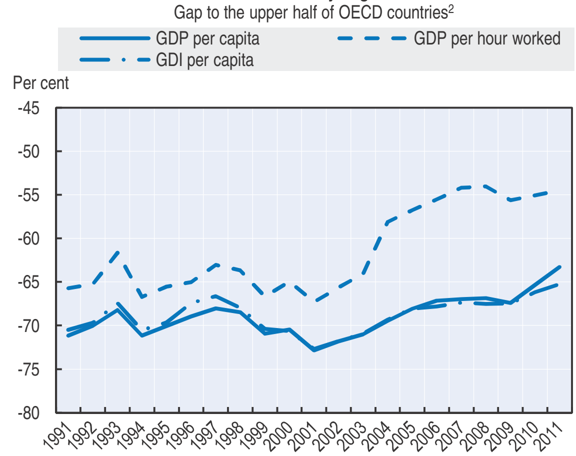
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.8	2.9
Potential labour utilisation		-0.8	0.6
of which:	Labour force participation rate	-0.6	0.6
	Employment rate[1]	-0.1	-0.1
Potential labour productivity		2.6	2.4
of which:	Capital intensity	0.7	0.9
	Labour efficiency	1.2	0.8
	Human capital	0.7	0.6

B. Gaps in GDP per capita and productivity have narrowed but remain very large

Gap to the upper half of OECD countries[2]



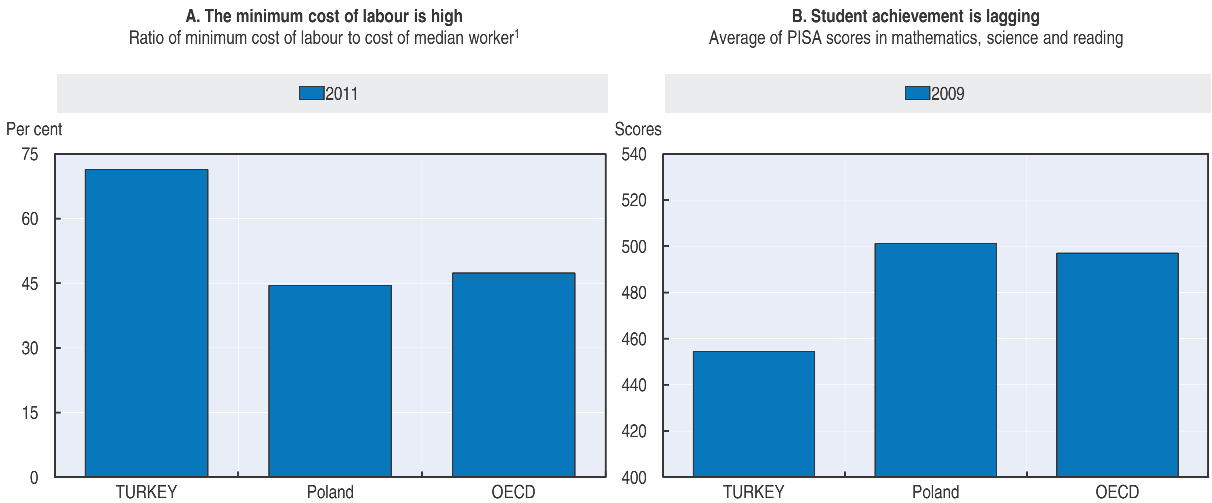
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932778005

TURKEY

Policy indicators



1. Exactly half of all workers earn less than the median wage for the OECD countries. The cost of labour is the sum of the wage level and the social security contributions paid by employers.

Source: OECD, *OECD Employment Outlook*, *Taxing Wages* and *PISA 2009 Databases*.

StatLink http://dx.doi.org/10.1787/888932778024

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Improve educational achievement at all levels. School enrolment rates have risen but there is ample scope to improve quality and equity.

Actions taken: Enrolment capacity in primary and secondary schools were further increased. In 2012, the length of compulsory education was extended to 12 years.

Recommendations: Reduce the large quality gaps among both schools and universities by granting them more autonomy and resources per student, against greater performance accountability. Develop pre-school education. Strengthen vocational education in co-operation with the business sector. Develop effective life-long education programmes for inadequately schooled adults.

Reduce the cost of employment of the low-skilled. Relatively high minimum costs of labour discourage employment of the low-skilled in the formal sector.

Actions taken: In response to the crisis, social security contributions were cut significantly for the early years of employment in certain regions as well as for youth and women.

Recommendations: Limit the growth of the official minimum wage and differentiate it across regions. Further reduce social security contributions and make permanent part of the cuts granted during the crisis, financed by a widening of the tax base.

Reform employment protection legislation. Rigid employment rules for permanent and temporary workers nurture a large informal sector.

Actions taken: A comprehensive draft Law to liberalise temporary and agency work was submitted for discussion to social partners in November 2011.

Recommendations: The severance payment regime for permanent workers should be re-designed with the help of "portable" severance saving accounts. The scope and eligibility for unemployment insurance should be broadened.

Other key priorities

Improve competition in network industries and agriculture. Obstacles to competition in network industries and agriculture undermine productivity growth.

Actions taken: Earlier liberalisation plans in the electricity, natural gas and telecommunications sectors continue to be implemented slowly.

Recommendations: Speed up the implementation of liberalisation of network industries. Delink agricultural support from production and shift its composition away from price measures toward direct support.

Reduce incentives for early retirement. The statutory pensionable age is still 45, which creates disincentives to continued formal sector work at older ages, as the phasing in of the pension reform is only very gradual.

Actions taken: The "Strategy of Fight Against the Informal Economy, 2012-2013" reinforced administrative capacities for employment registration and reduced incentives for early retirement.

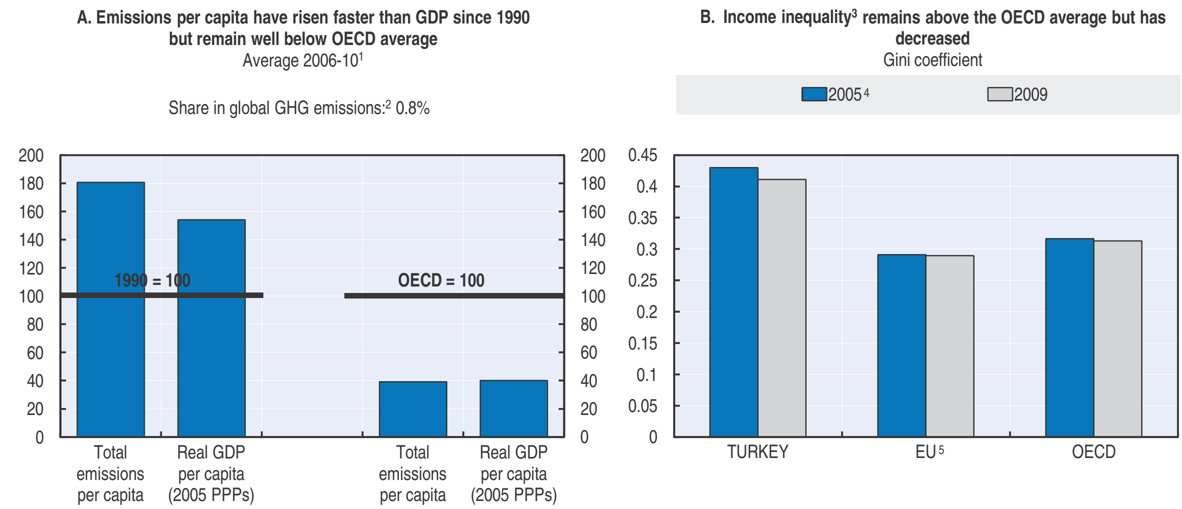
Recommendations: Make pension benefits more actuarially neutral and establish a health insurance contribution for young retirees. Speed up increases in the statutory retirement age.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

TURKEY

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2004 for Turkey.
5. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932778043

UNITED KINGDOM

- The gap in GDP per capita relative to the upper half of OECD countries has widened somewhat. Labour utilisation remains at par with best-performing OECD countries, but output per hour worked is relatively low and has fallen.
- Progress has been made on reducing the number of disability benefit recipients. The Universal Credit, which will be rolled out as from 2013, will simplify the social benefit system and increase work incentives, if effectively implemented.
- Investing in human capital, developing infrastructure, loosening planning restrictions and strengthening public sector efficiency would help boost productivity. Priorities to enhance labour utilisation should focus on pursuing welfare reforms, improving work incentives, especially for lone parents and households' second earners.
- Improvements in education for disadvantaged children would enhance workforce skills, contributing to growth, and reduce inequality by providing more equal opportunities. Land-use planning reform could boost output growth by facilitating construction, while reducing inequality in access to housing.

Growth performance indicators

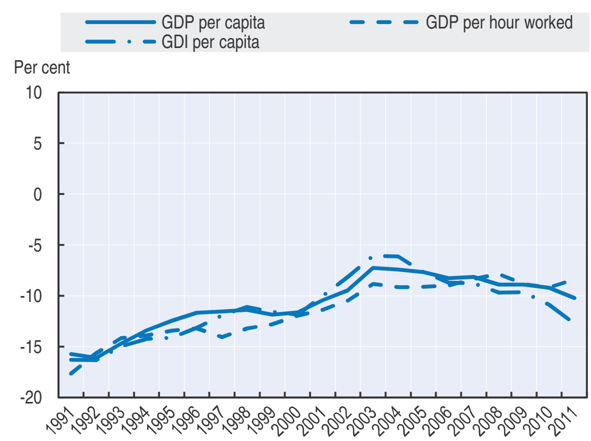
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.7	0.3
Potential labour utilisation		0.2	-0.1
of which:	Labour force participation rate	0.2	0.2
	Employment rate[1]	0.0	-0.2
Potential labour productivity		1.6	0.3
of which:	Capital intensity	0.8	0.9
	Labour efficiency	0.5	-0.8
	Human capital	0.2	0.2

B. The gap in GDP per capita has widened somewhat

Gap to the upper half of OECD countries[2]



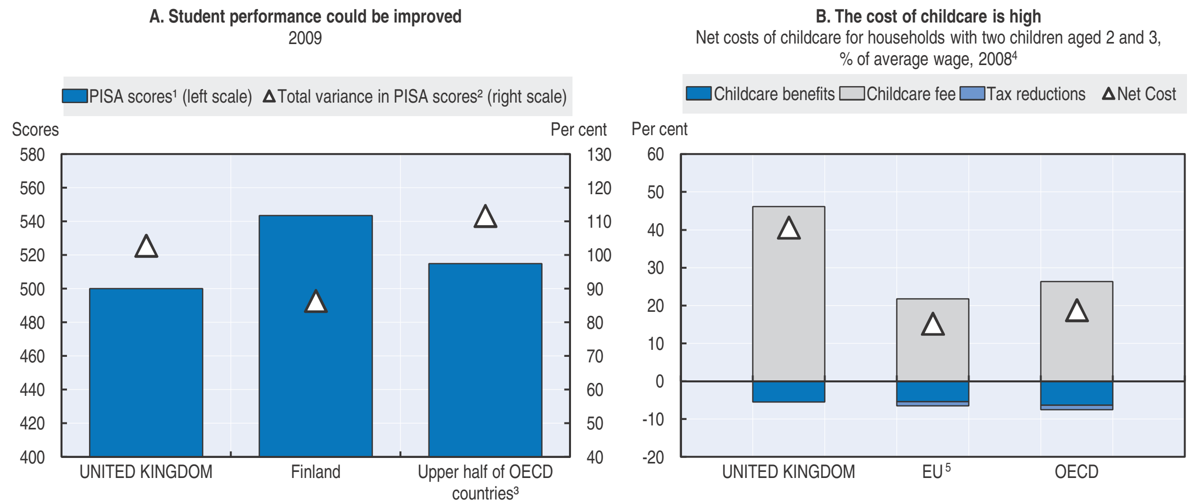
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: *OECD, National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932778062

UNITED KINGDOM

Policy indicators



1. Average of PISA scores in mathematics, science and reading.
2. Total variance of the average of PISA scores in mathematics, science and reading as a percentage of the OECD variance. The variance components in maths, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the students used in the analysis.
3. Upper half of OECD countries in terms of PISA scores in mathematics, science and reading and in terms of the total variance as a percentage of the OECD variance.
4. First earner at 100% of average wage and second earner at 67% of average wage.
5. Average of 21 EU countries members of the OECD.

Source: OECD, *PISA 2009 Database* and *OECD Tax-Benefit Models*.

StatLink http://dx.doi.org/10.1787/888932778081

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Improve outcomes and equity in education. Student performance is uneven across social groups. Also, secondary school completion rates are low and youth unemployment has risen.

Actions taken: A pupil premium targeting disadvantaged children was introduced in April 2011. The funding and coverage will increase significantly in 2012-13. Apprenticeship funding is being increased and programmes are being introduced to support low-attaining and disadvantaged children in education (Youth Contract, Care to Learn). The compulsory age of participation in education or training will be raised to 17 in 2013 and 18 in 2015.

Recommendations: Increase participation in quality early-childhood education and ensure effective implementation of increase in compulsory school leaving age. Ensure that vocational education programmes provide relevant skills for the labour market.

Improve public infrastructure, especially for transport. Low investment in public infrastructure has contributed to congestion, hampering productivity.

Actions taken: Current spending plans have been designed to protect the most productive infrastructure spending. Although total infrastructure investment is envisaged to fall over the coming years, transport investment is set to rise. Forty key infrastructure projects and programmes have been prioritised (National Infrastructure Plan 2011). Private investment is being encouraged through public guarantees.

Recommendations: Seek further opportunities to reprioritise spending in coming expenditure cuts in order to spare infrastructure investment.

Strengthen work incentives by reforming welfare and childcare policies. The share of the working-age population that receives disability benefits as well as the implicit tax on returning to work for second earners and lone parents remain high.

Actions taken: A new work capability test has brought people back to the labour force. The introduction of the Universal Credit from October 2013 will improve work incentives, though not for all categories of workers.

Recommendations: Introduce early independent occupational assessment and advice for people with health problems. Improve work incentives for parents by lowering the cost of childcare and enhancing childcare support.

Other key priorities

Strengthen public sector efficiency. Public sector efficiency is weak compared to other OECD countries, contributing to low productivity.

Actions taken: The Education Act 2011 increases autonomy for schools and streamlines administration. The Health Care Act 2012 generalises clinically-led commissioning in the National Health Service.

Recommendations: Reinforce competition among health care providers to mitigate price pressures. Improve monitoring of education performance.

Reform planning regulations. Tight planning regulations hamper construction development and investment growth.

Actions taken: The National Planning Policy Framework introduces a presumption in favour of sustainable development and streamlines the planning process.

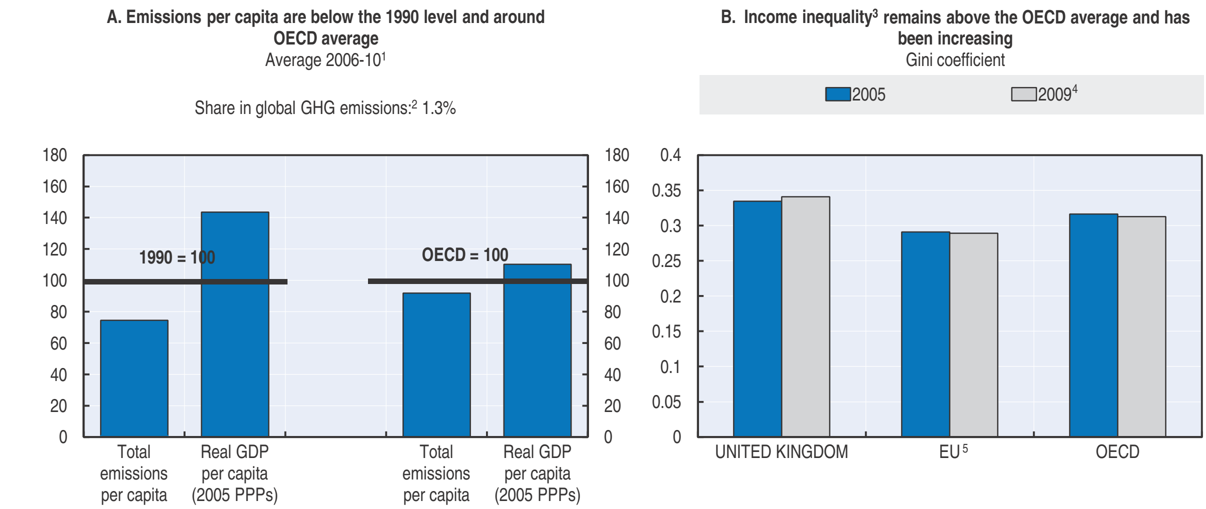
Recommendations: Make sure that the implementation of new planning rules at the local level allows adequate balance between economic, social and environmental considerations.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

UNITED KINGDOM

Other dimensions of well-being: Performance indicators



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2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2010/11 for the United Kingdom.
5. Average of 21 EU countries members of the OECD.

Source: United Nations Framework Convention on Climate Change (UNFCCC) Database; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932778100

UNITED STATES

- The positive gap in GDP per capita between the United States and the upper half of OECD countries has persisted throughout the last decade, although it has decreased somewhat during the financial crisis. Gains in labour productivity have been well maintained, but employment rates and average hours worked have both contributed to low labour utilisation.
- Important reforms have been initiated in the areas of healthcare, activation policies and education, but follow through is critical. Some progress has been achieved in the area of agricultural subsidies. Little has been done to reform the tax system.
- Priorities to strengthen labour utilisation should focus on active labour market policies to provide jobseekers with opportunities for skills upgrading and employment. Increasing the quality and inclusiveness of the education system and reducing distortions in the tax structure would help boost productivity growth.
- In addition to boosting productivity, widening access to high-quality education would help reduce inequality by providing disadvantaged students with valuable skills for work or higher education.

Growth performance indicators

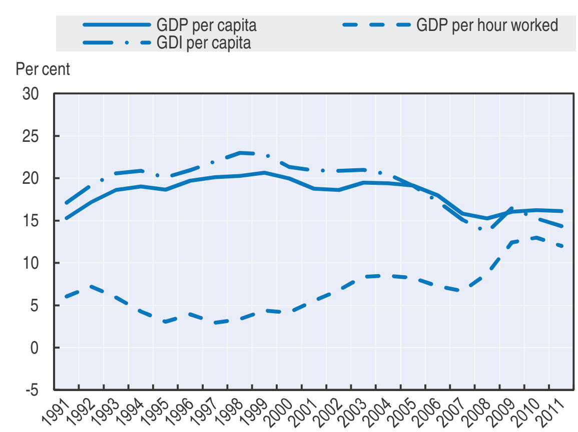
A. Average annual trend growth rates

Per cent

		2001-06	2006-11
Potential GDP per capita		1.3	0.9
Potential labour utilisation		-0.2	-0.4
of which:	Labour force participation rate	-0.2	-0.3
	Employment rate[1]	0.0	-0.1
Potential labour productivity		1.5	1.3
of which:	Capital intensity	0.5	0.5
	Labour efficiency	0.9	0.7
	Human capital	0.1	0.1

B. The positive gap in GDP per capita persists

Gap to the upper half of OECD countries[2]



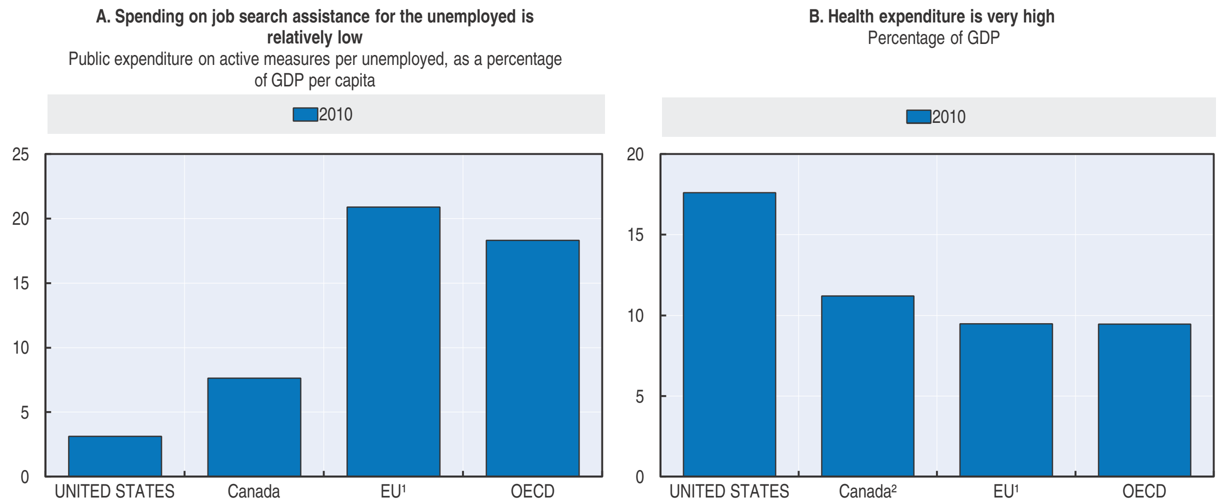
1. The employment rate is defined with respect to the economically active population and therefore captures the (inverse) changes in the structural unemployment rate.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: OECD, *National Accounts and OECD Economic Outlook 92 Databases.*

StatLink http://dx.doi.org/10.1787/888932778119

UNITED STATES

Policy indicators



1. Average of 21 EU countries members of the OECD.
2. 2011 for Canada.

Source: OECD, Public expenditure and participant stocks on LMP, *OECD Economic Outlook and Health Databases*.

StatLink http://dx.doi.org/10.1787/888932778138

Identifying *Going for Growth 2013* priorities

Priorities supported by indicators

Enhance active labour market policies.[1] Enhanced activation programmes would reduce unemployment persistence and the incidence of long-term unemployment. More effective disability programmes would raise labour force participation.

Recommendations: Broaden and enhance the set of activation programmes to guide unemployed individuals to high-quality re-employment or training. Provide objective, easy-to-access information on how graduates from various programmes fare in the labour market. Consolidate and streamline the existing programmes that provide training and employment services. Tighten eligibility requirements for disability programmes, enhance workplace accommodations and rehabilitation services.

Improve the efficiency of the healthcare sector. Healthcare spending is comparatively high and inefficient while coverage is low.

Actions taken: Various provisions of the 2010 Affordable Care Act (ACA) were implemented, including the establishment of agencies to recommend ways to enhance quality and/or reduce costs in government healthcare programmes.

Recommendations: Implement remaining provisions of the ACA, which will increase coverage. Ensure that the cost-saving measures are put in place and their impact monitored.

1. New policy priorities identified in *Going for Growth 2013* (with respect to *Going for Growth 2011*) are preceded and followed by an "*".

Improve the efficiency of the tax system. Effective tax rates on income from different asset classes vary greatly, distorting investment decisions and facilitating tax avoidance.

Actions taken: Tax rates on dividends and capital gains were increased in 2013, accentuating the tax penalty on equity-financed investment.

Recommendations: Reduce distortions by treating interest income in the same way as dividend income at both the corporate and recipient levels while lowering the corporate tax rate. Broaden the tax base by limiting tax expenditures, for instance by gradually phasing out the mortgage-interest deduction on owner-occupied housing. Rely more on consumption-based and environmental taxation.

Other key priorities

Increase access to high-quality primary and secondary education. A more efficient and inclusive education system would foster gains in productivity and income.

Actions taken: In exchange for funding received as part of the 2010 Race to the Top programme, many states are taking steps to improve teacher quality, develop new evaluation systems and raise student achievement.

Recommendations: Replace remaining property-based local financing of schools with state-level financing so that more resources can be directed towards disadvantaged students. Develop and implement common standards for all subjects in the core curriculum. Select, train and retain high-quality teachers.

Reduce producer support to agriculture. Agricultural supports distort trade and production and lead to inefficiencies that hamper productivity.

Actions taken: The tariff on sugarcane-based ethanol and domestic subsidies for corn-based ethanol expired at the end of 2011. However, the 2012 Farm Bill increases production-related subsidies.

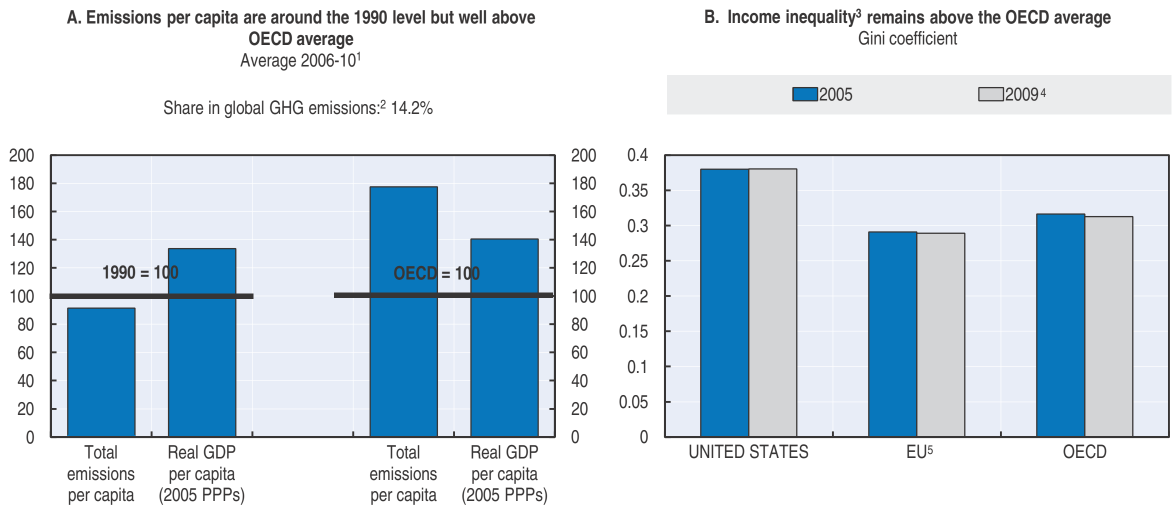
Recommendations: Reduce production-related subsidies, including subsidised crop insurance programmes, and remaining agricultural-product import barriers.

Previous *Going for Growth* recommendations no longer considered a priority

For this country, all 2011 *Going for Growth* recommendations remain as priorities.

UNITED STATES

Other dimensions of well-being: Performance indicators



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data and is an average of years 2005, 2008 and 2010.
3. Income inequality is measured by the Gini coefficient based on equivalised household disposable income for total population.
4. Data refer to 2010 for the United States.
5. Average of 21 EU countries members of the OECD.

Source: *United Nations Framework Convention on Climate Change (UNFCCC) Database*; OECD, *Energy (IEA) Database* and *OECD Income Distribution Database*, provisional data (*www.oecd.org/social/inequality.htm*).

StatLink http://dx.doi.org/10.1787/888932778157

Economic Policy Reforms 2013
Going for Growth

Chapter 4

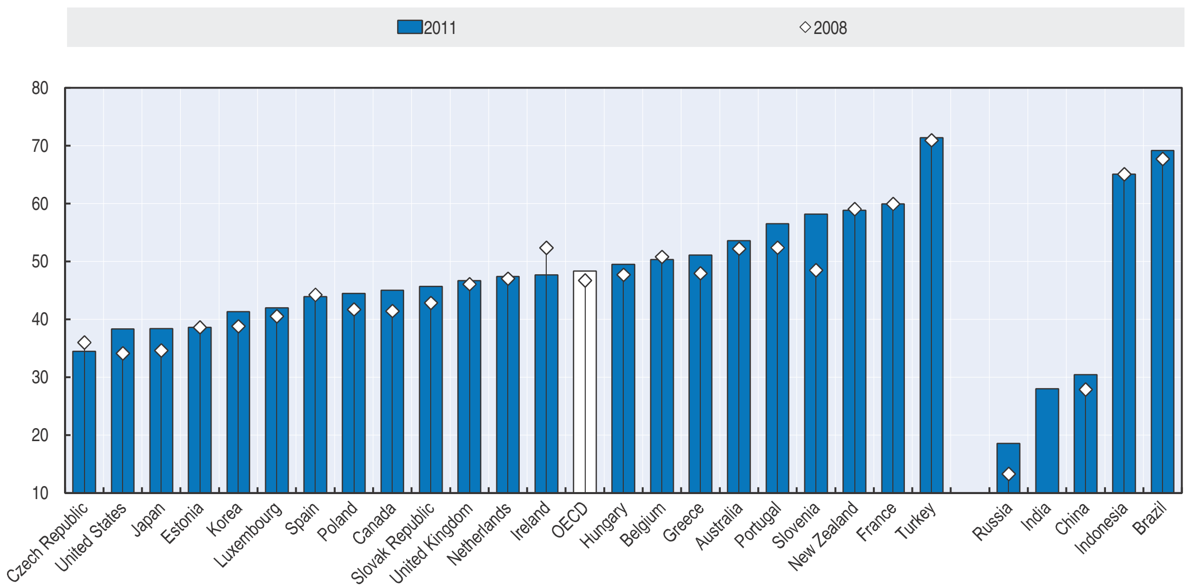
Structural policy indicators

This chapter contains a comprehensive set of quantitative indicators that allow for a comparison of policy settings across countries. The indicators cover areas of taxation and income support systems and how they affect work incentives, as well as product and labour market regulations, education and training, trade and investment rules and innovation policies. The indicators are presented in the form of figures showing for all countries the most recent available observation and the change relative to the previous observation.

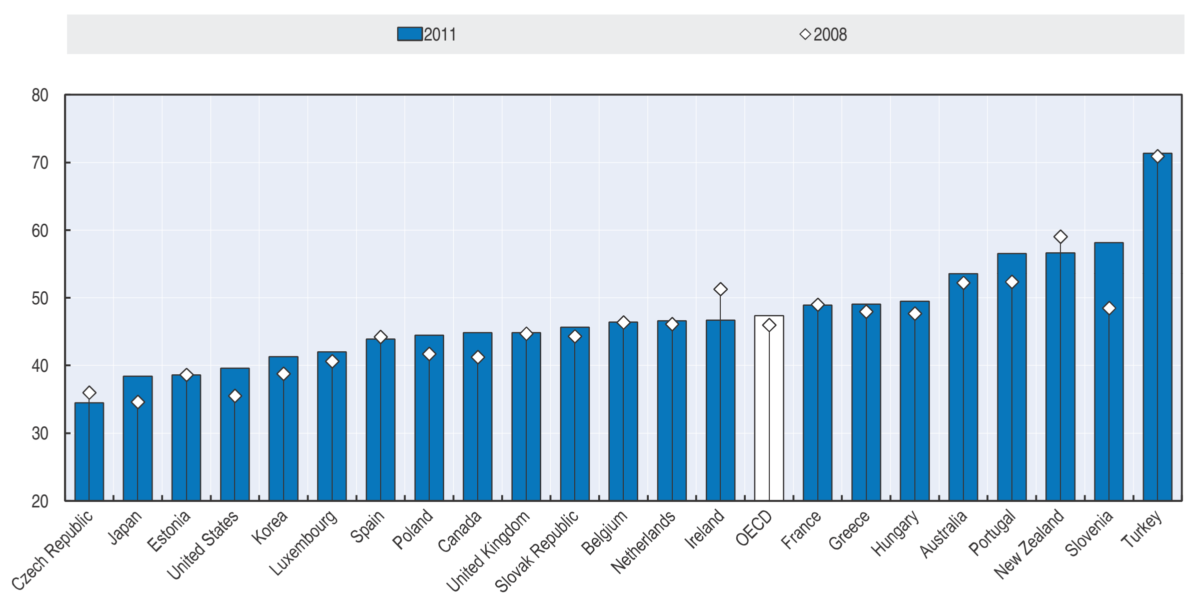
The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Figure 4.1. **Cost of labour**

A. Minimum wages[1]
Percentage of median wage[2]



B. Minimum cost of labour[3]
Percentage of labour cost of median worker[2]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. Missing countries do not have a national statutory minimum wage except for Mexico, Chile and Israel for which data are not available.
2. Exactly half of all workers have wages either below or above the median wage for the OECD countries. For non-OECD countries: percentage of minimum to average wage for China (2007 instead of 2008), Indonesia and Russia; percentage of minimum to average manufacturing sector wage for India (2004).
3. The cost of labour is the sum of the wage level and the corresponding social security contribution paid by employers. 2010 data for Greece.

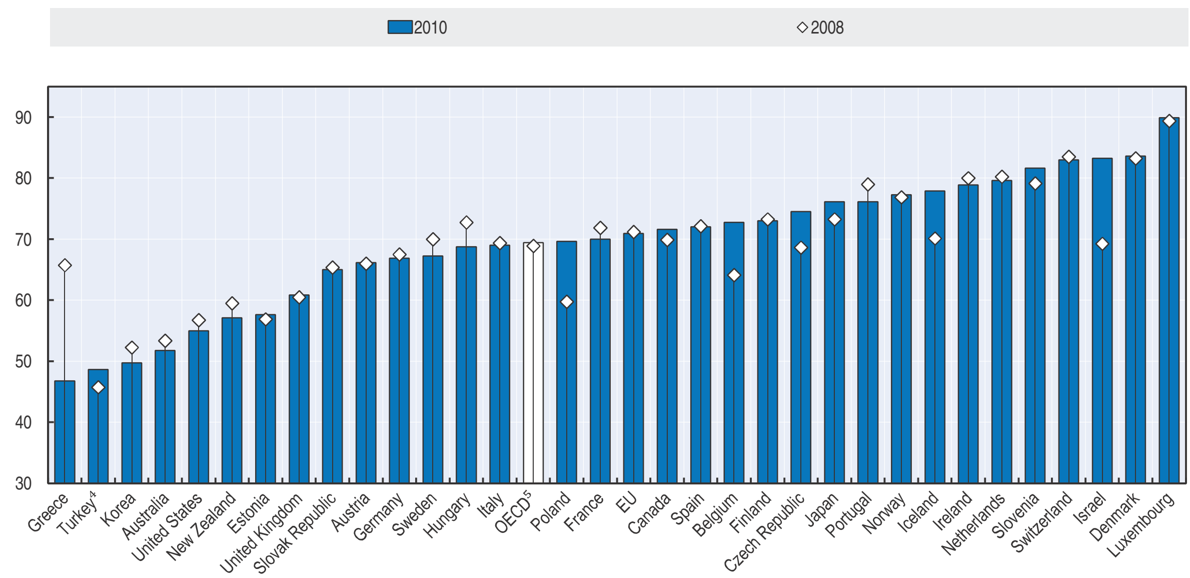
Source: Chart A: OECD (2012), *OECD Employment Outlook Database*; China Ministry of Human Resources and Social Security; *Instituto Brasileiro de Geografia e Estatística (Pesquisa Nacional por Amostra de Domicílios)*; *International Labour Organisation (ILO) Database on Conditions of Work and Employment Laws*; Ministry of Man Power and Transmigration of the Republic of Indonesia and Statistics Indonesia; Russia Federal State Statistics Service and OECD (2007), *OECD Employment Outlook 2007* (Box 1.3); Chart B: OECD (2012), *OECD Employment Outlook and Taxing Wages Databases*.

StatLink http://dx.doi.org/10.1787/888932778176

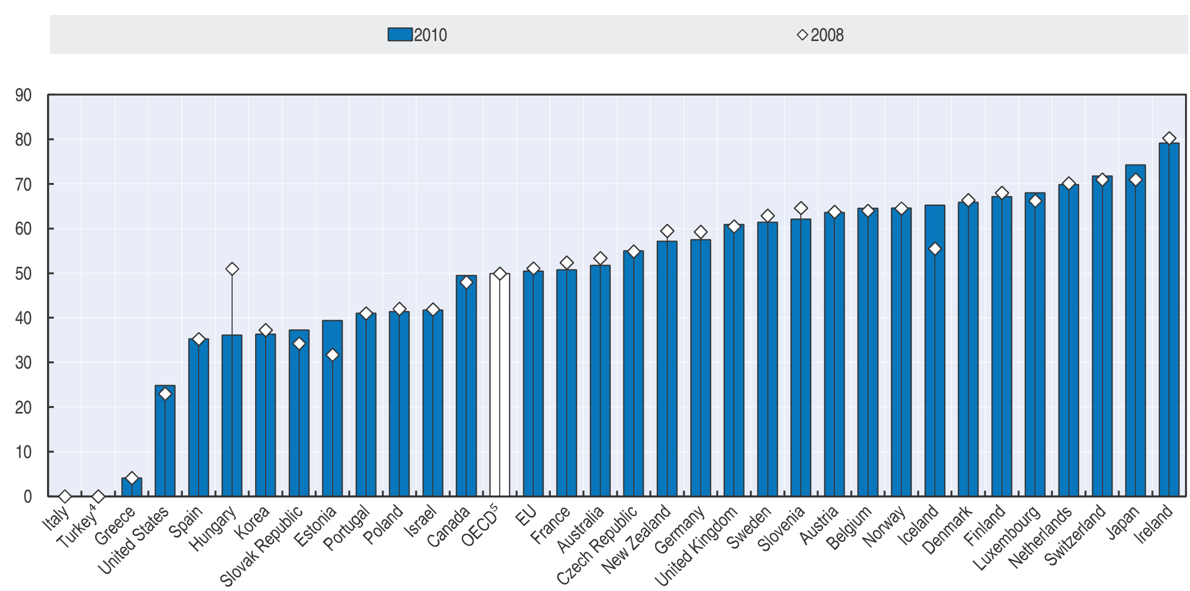
Figure 4.2. **Net income replacement rates for unemployment**[1]

Net income when unemployed as a percentage of net income when working

A. Initial[2]



B. 60th month[3]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. Simple average net replacement rates of the following households situations: single with no child and with two children at 67% and 100% AW, one-earner married couple with no child and with two children at 67% AW and 100% AW.
2. Initial phase of unemployment but following any waiting period. Any income taxes payable on unemployment benefits are determined in relation to annualised benefit values (*i.e.* monthly values multiplied by 12) even if the maximum benefit duration is shorter than 12 months. After tax and including unemployment and family benefits. Social assistance and other means-tested benefits are assumed to be available subject to relevant income conditions. Housing costs are assumed equal to 20% of AW.
3. After tax and including unemployment benefits, social assistance, family and housing benefits in the 60th month of benefit receipt. Values for Italy and Turkey are equal to zero in 2008 and 2010.
4. For Turkey, the average worker earnings (AW) value is not available. Calculations are based on average production worker earnings (APW).
5. The OECD average excludes Chile and Mexico.

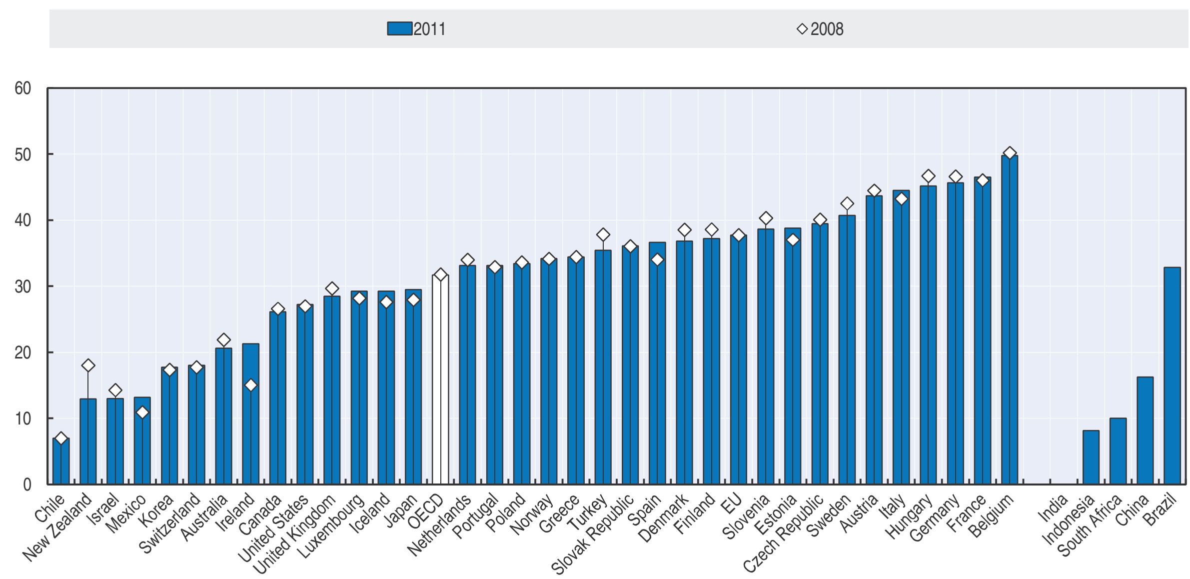
Source: OECD (2012), *Tax-Benefit Models*.

StatLink http://dx.doi.org/10.1787/888932778195

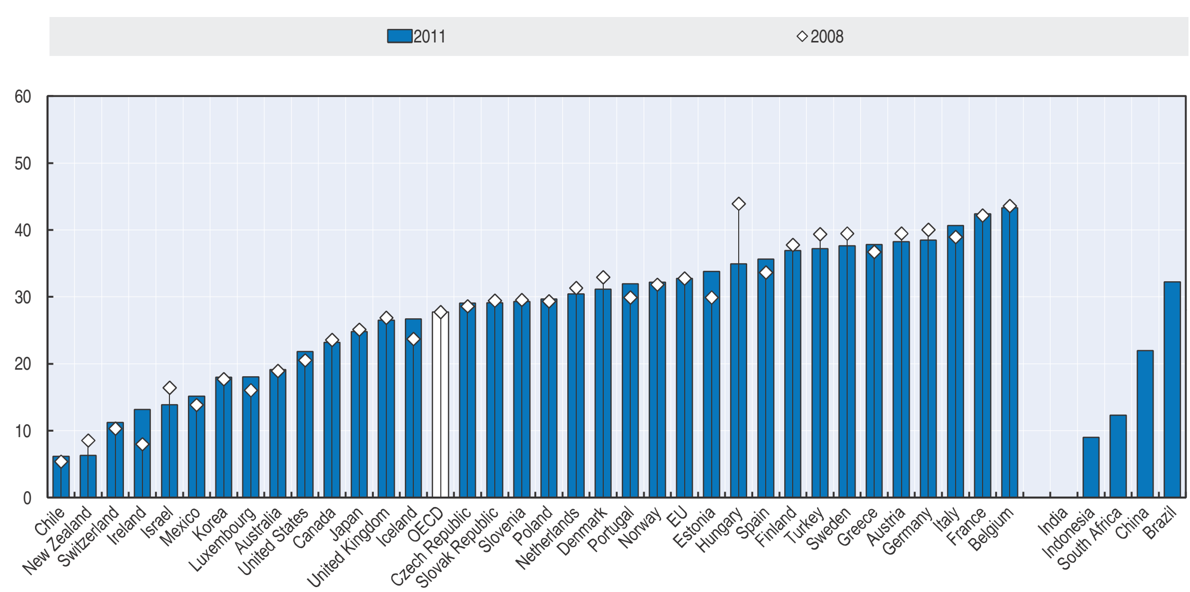
Figure 4.3. **Average tax wedge on labour**[1]

Percentage of total labour compensation

A. At 67% of average worker earnings, single person without children



B. At 100% of average worker earnings, couple with two children[2]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

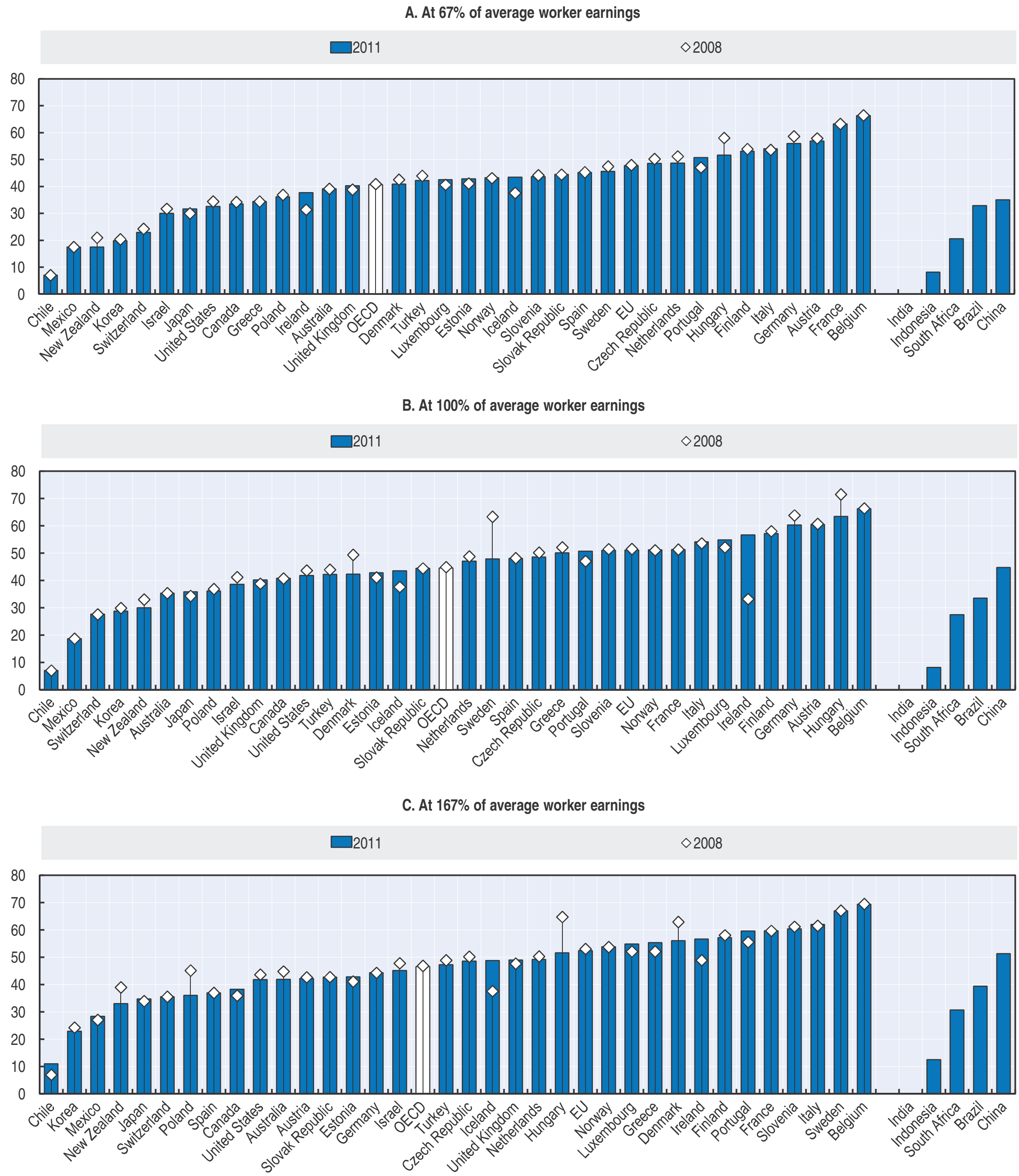
1. Measured as the difference between total labour compensation paid by the employer and the net take-home pay of employees, as a ratio of total labour compensation. It therefore includes both employer and employee social security contributions. Data for Greece are for 2010. A solidarity tax was introduced in Greece in 2011 which would increase the tax burden compared to the previous year, and hence change its position regarding other OECD countries in 2011. Data refer to 2010 for the BRIICS except for Indonesia for which data refer to 2009. The value for India is equal to zero in 2010. For India, the data refer to employees in the 95% of companies in the manufacturing sector with less than ten employees. In firms with over 10 employees, the tax wedge would be no more than 5%. In China, a significant portion of workers are not covered by the social security system and their tax wedge would be significantly lower than the figure reported here.
2. Couple with two children, at 100% of average worker earnings for the first earner. Average of three situations regarding the wage of the second earner (0%, 33% and 67% of average worker earnings)

Source: OECD (2012), *Taxing Wages Database*; Gandullia, L., N. Iacobone and A. Thomas (2012), “Modelling the Tax Burden on Labour Income in Brazil, China, India, Indonesia and South Africa”, *OECD Taxation Working Papers*, No. 14.

StatLink http://dx.doi.org/10.1787/888932778214

Figure 4.4. **Marginal tax wedge on labour**[1]

Percentage of total labour compensation for single persons without children



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. Measured as the difference between the change in total labour compensation paid by employers and the change in the net take-home pay of employees, as a result of an extra unit of national currency of labour income. The difference is expressed as a percentage of the change in total labour compensation. Data for Greece are for 2010. A solidarity tax was introduced in Greece in 2011 which would increase the tax burden compared to the previous year, and hence change its position regarding other OECD countries in 2011. Data refer to 2010 for the BRIICS except for Indonesia for which data refer to 2009. The value for India is equal to zero in 2010. For India, the data refer to employees in the 95% of companies in the manufacturing sector with less than ten employees. In firms with over 10 employees, the tax wedge would be no more than 5%. In China, a significant portion of workers are not covered by the social security system and their tax wedge would be significantly lower than the figure reported here.

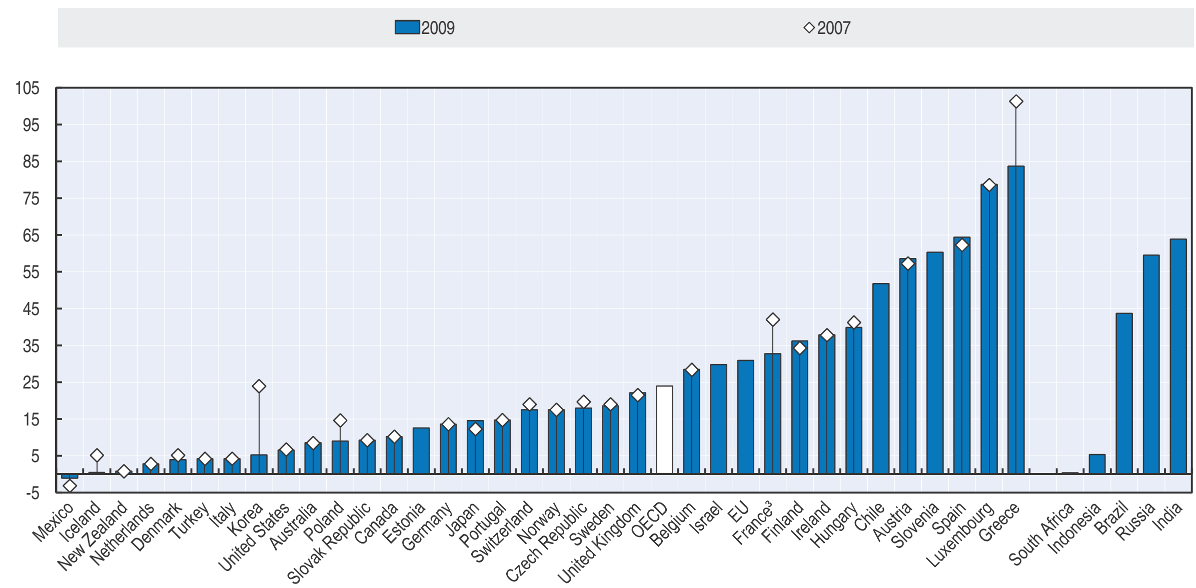
Source: OECD (2012), *Taxing Wages Database*; Gandullia, L., N. Iacobone and A. Thomas (2012), "Modelling the Tax Burden on Labour Income in Brazil, China, India, Indonesia and South Africa", *OECD Taxation Working Papers*, No. 14.

StatLink http://dx.doi.org/10.1787/888932778233

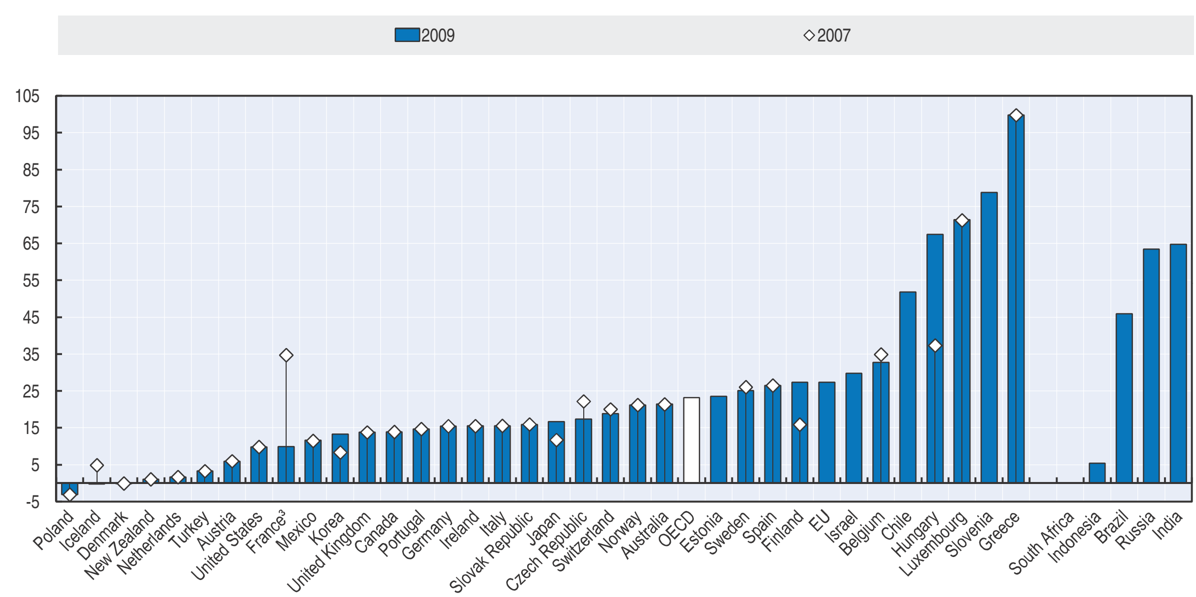
Figure 4.5. **Implicit taxes on continued work at older ages**

Percentage of average worker earnings

A. Implicit tax on continued work: early retirement[1]



B. Implicit tax on continued work: old-age pensions[2]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

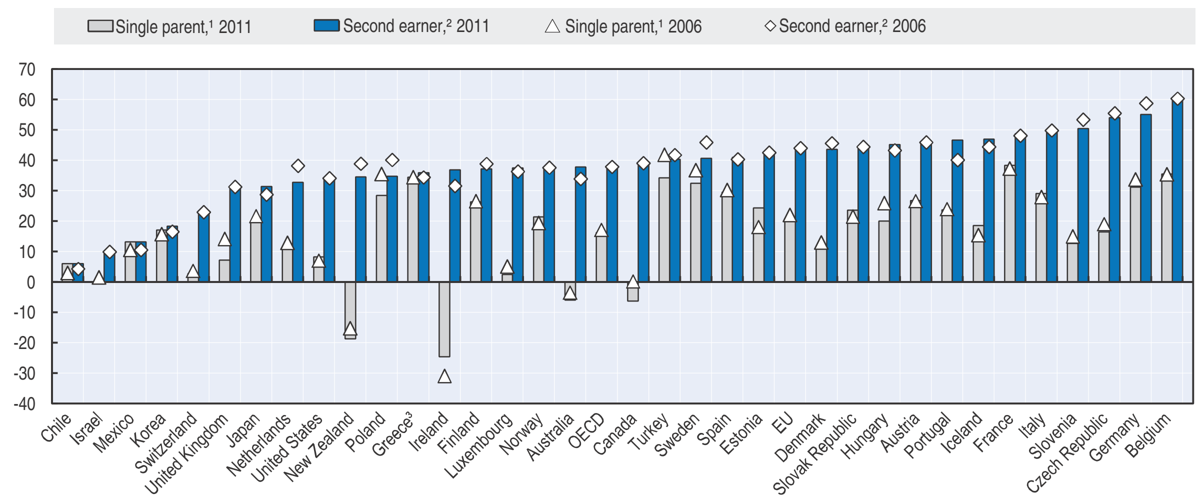
1. Average for 55 and 60 year-old workers of implicit tax on continued work for five more years in "early retirement route", as defined in Duval (2003).
2. Implicit tax on continued work in regular old-age pension system, for 60 year-olds. The value for South Africa is equal to zero in 2009.
3. For France, year 2010.

Source: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", *OECD Economics Department Working Papers*, No. 370 and OECD calculations.

StatLink http://dx.doi.org/10.1787/888932778252

Figure 4.6. **Average tax wedge – single parent versus second earner**

Percentage



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

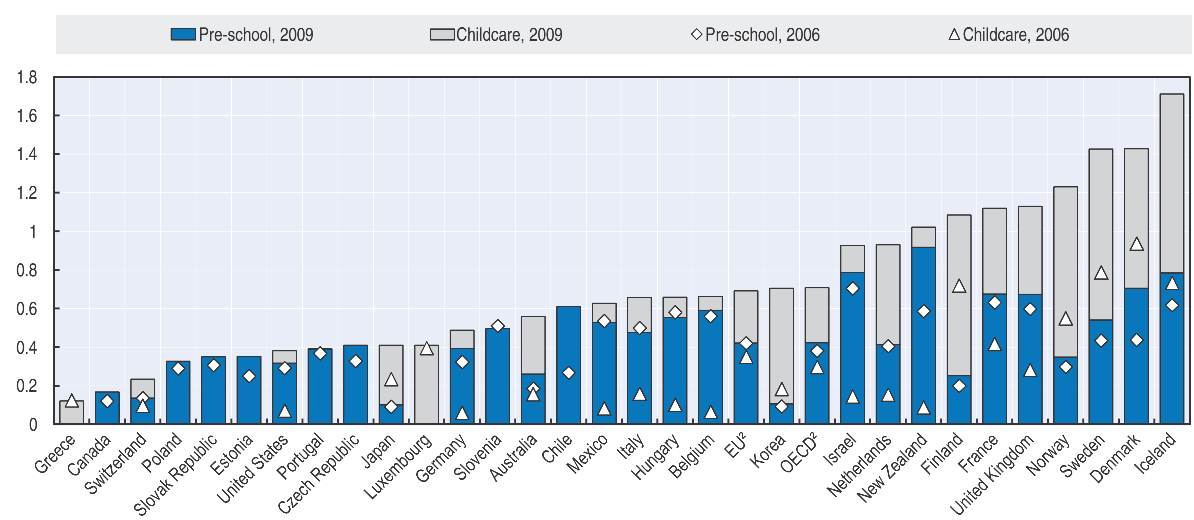
1. Single parent with two children earning 67% of the average wage.
2. Family with two children where the primary earner earns 100% of the average wage and the secondary earner earns 67% of the average wage.
3. Data for Greece are for 2010. A solidarity tax was introduced in Greece in 2011 which would increase the tax burden compared to the previous year, and hence change its position regarding other OECD countries in 2011.

Source: OECD (2012), *Taxing Wages Models.*

StatLink http://dx.doi.org/10.1787/888932778271

Figure 4.7. **Public expenditure on childcare services**[1]

Percentage of GDP



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. Childcare expenditure cover children under three years old enrolled in childcare and children between three and five years old enrolled in pre-school. Childcare refers to formal day-care services, such as day care centres and family day care. Pre-school includes kindergartens and day-care centres which usually provide an educational content as well as traditional care for children (ISCED 0 under UNESCO's classification system). Local government spending may not be properly captured in the data for federal countries.
2. OECD and EU averages exclude Austria, Ireland, Spain and Turkey. For Switzerland, data refer to 2008.

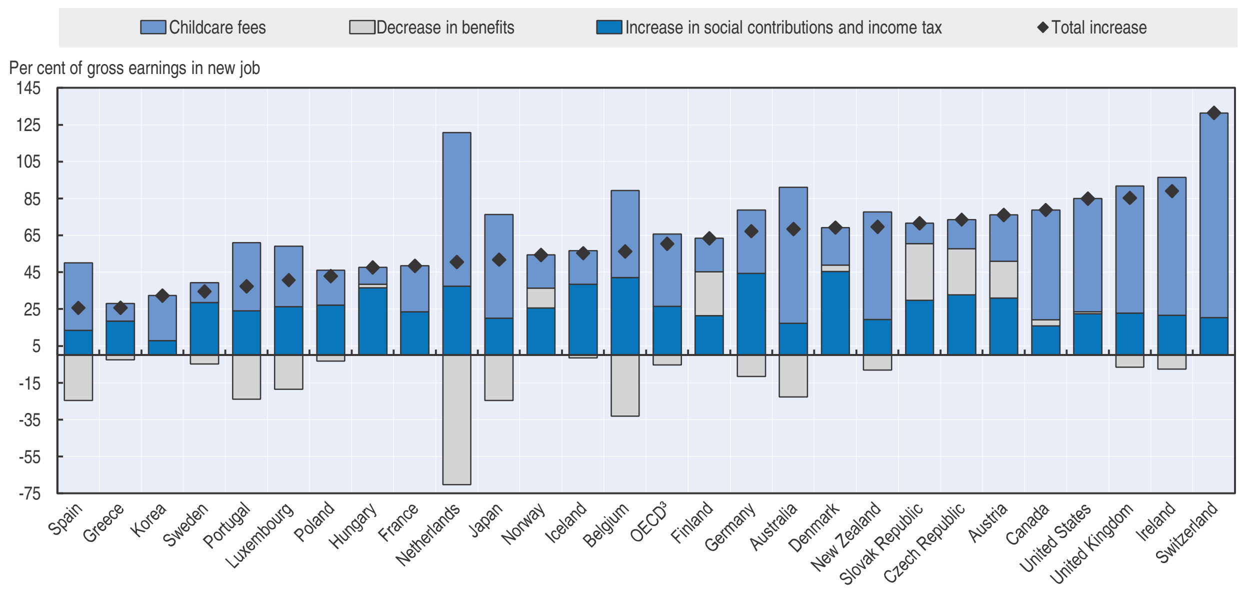
Source: OECD (2012), *Family Database.*

StatLink http://dx.doi.org/10.1787/888932778290

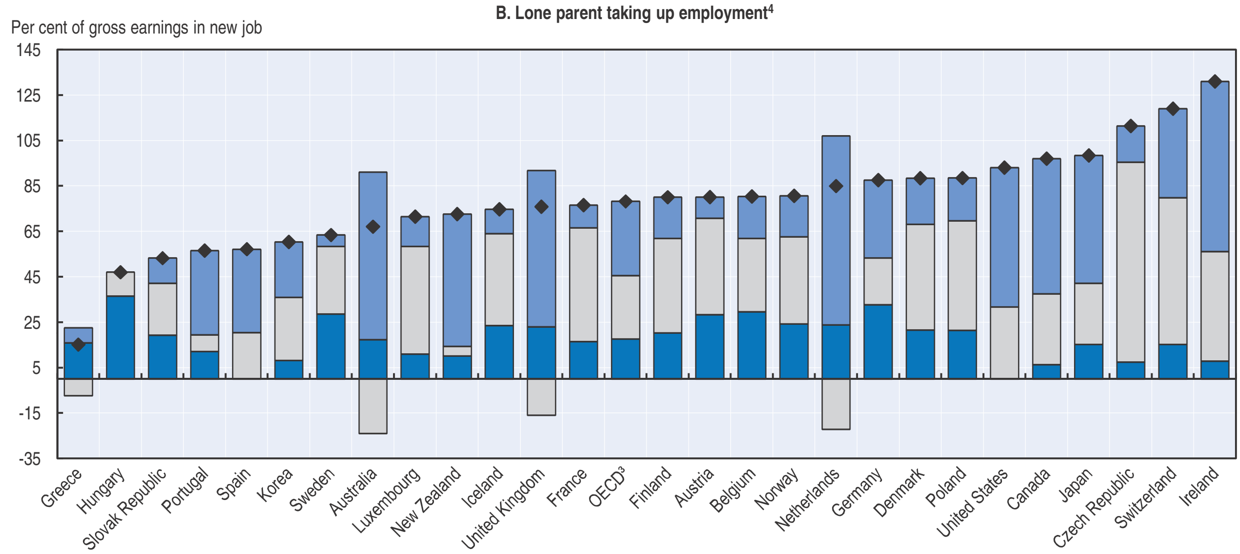
Figure 4.8. **Implicit tax on returning to work**[1]

Net transfers and childcare fees for households with two children aged 2 and 3, 2008

A. Second earner taking up employment[2]



B. Lone parent taking up employment[4]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

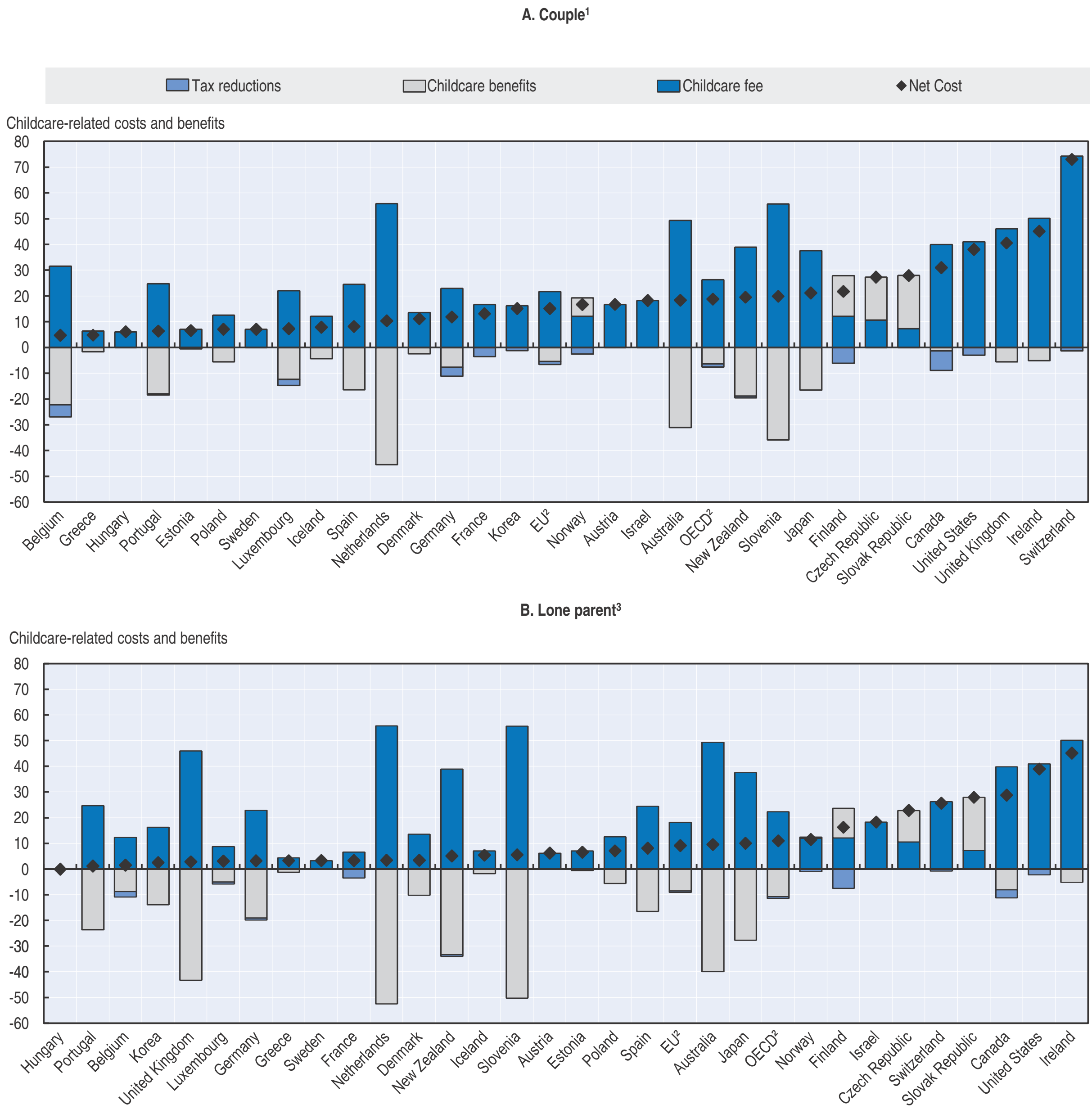
1. Taking into account childcare fees and changes of taxes and benefits in case of a transition to a job paying two-thirds of average worker earnings.
2. Second earner taking up employment at 67% of average wage and the first earner earns 100% of average wage.
3. The OECD average excludes Chile, Estonia, Israel, Italy, Mexico, Turkey and Slovenia.
4. Lone parent taking up employment at 67% of average wage.

Source: OECD (2012), *Benefits and Wages Database*.

StatLink http://dx.doi.org/10.1787/888932778309

Figure 4.9. **Net costs of childcare**

Percentage of average wage, 2008



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

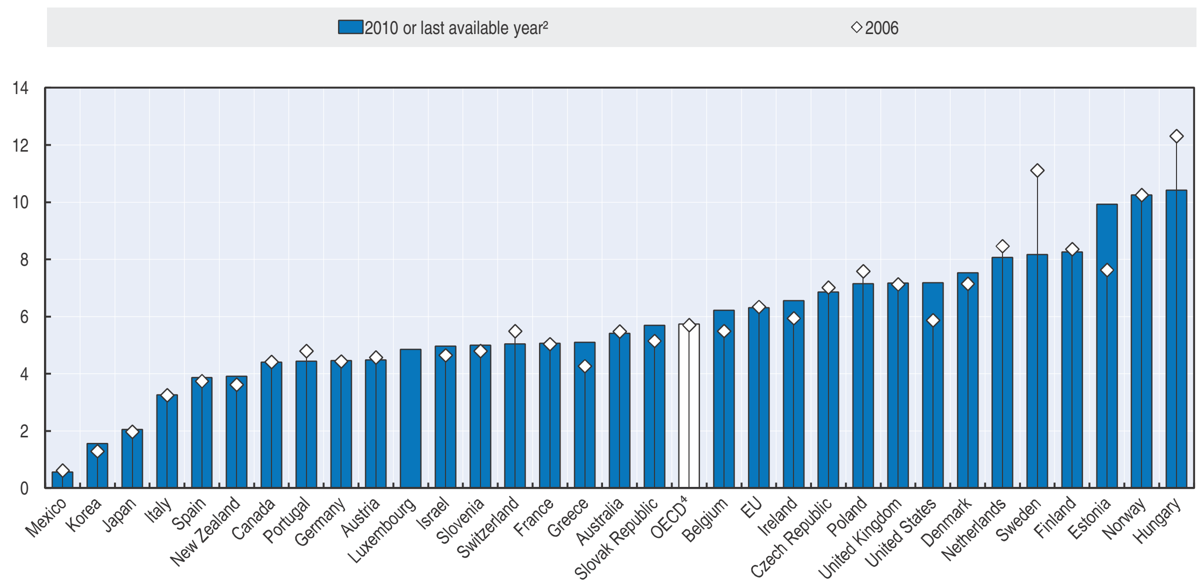
1. Couple where the first earner earns 100% of the average wage and the second earns 67% of the average wage. For Canada, Finland, Slovak Republic and the United Kingdom, childcare benefits refer to childcare and other benefits.
2. EU and OECD averages exclude Chile, Italy, Mexico and Turkey.
3. Lone parent earning 67% of the average wage. For Canada, Czech Republic, Finland, Slovak Republic and the United Kingdom, childcare benefits refer to childcare and other benefits.

Source: OECD, *Tax-Benefit Models*; *www.oecd.org/els/social/workincentives*.

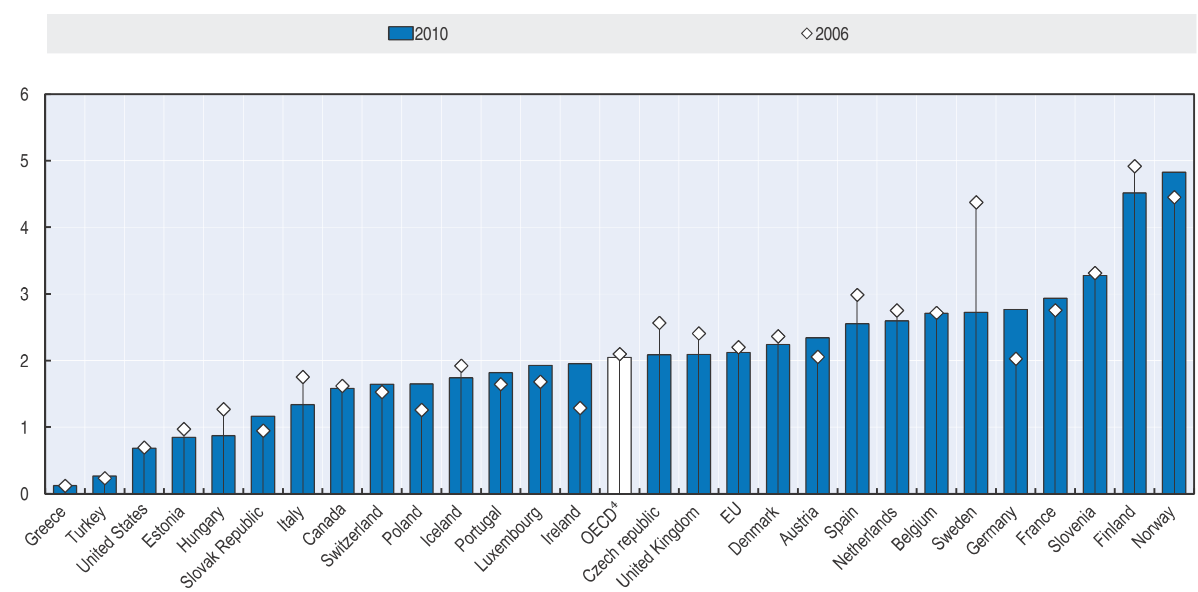
StatLink http://dx.doi.org/10.1787/888932778328

Figure 4.10. **Income support for disability and sickness**

A. Per cent of population aged 20-64 years old receiving disability benefits[1]



B. Number of weeks lost due to sickness leave[3]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

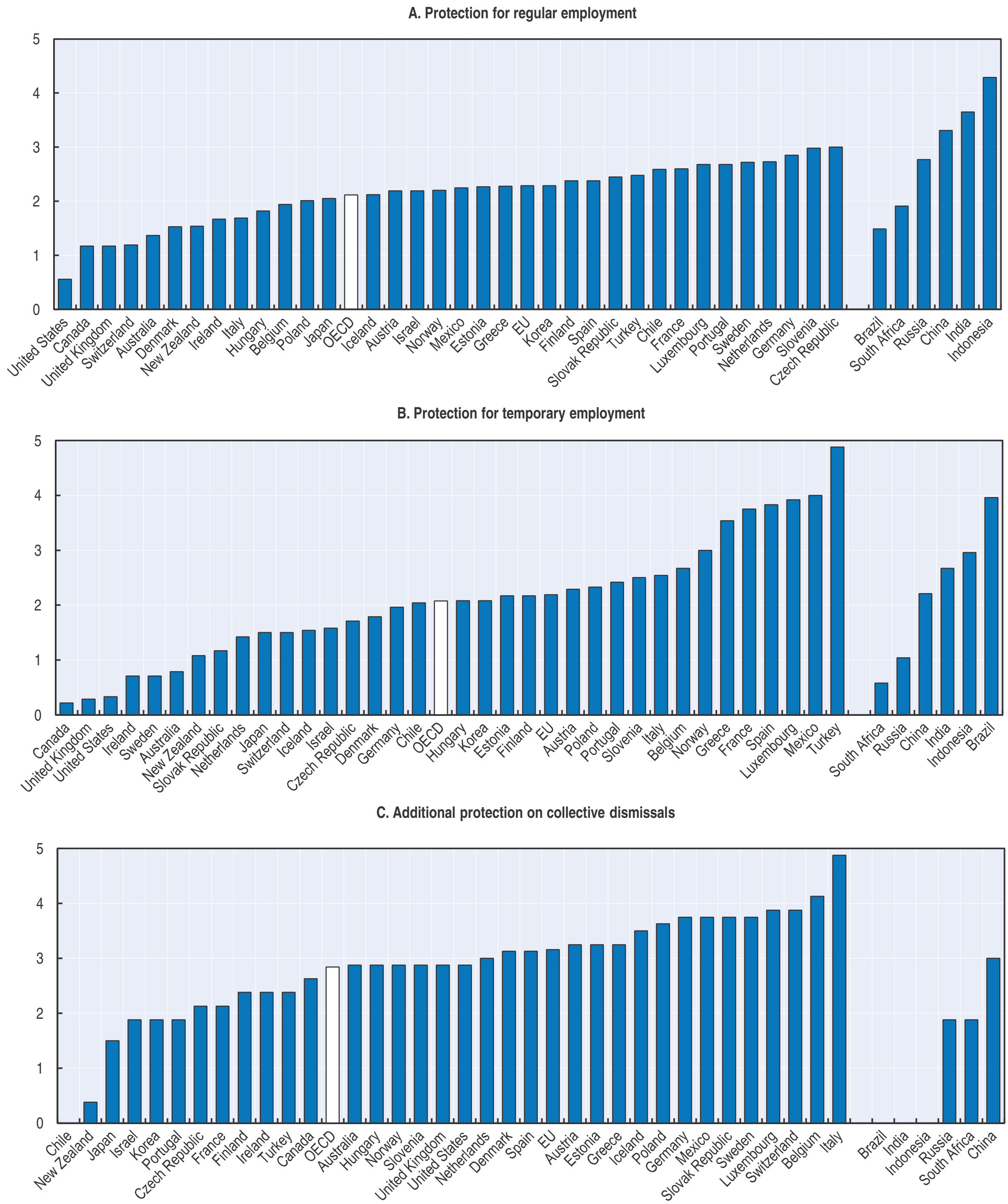
1. Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes.
2. The last available year is 2005 for Luxembourg; 2007 for Canada, France, Italy and Poland; 2008 for Australia, Austria, Greece, Japan, Korea and Slovenia; 2009 for Germany, the United Kingdom, Mexico, Netherlands, Norway, New Zealand, the Slovak Republic and the United States; 2011 for Switzerland and Estonia.
3. For the United States and Canada, data refer to 2008 instead of 2010 and to 2007 instead of 2006.
4. In Panel A, the OECD average excludes Chile, Iceland and Turkey. In Panel B, the OECD average excludes Australia, Chile, Israel, Japan, Korea, Mexico and New Zealand.

Source: Chart A: OECD (2013), *Mental Health and Work: Belgium* (forthcoming); Chart B: OECD (2013), *Mental Health and Work: Denmark* (forthcoming).

StatLink http://dx.doi.org/10.1787/888932778347

Figure 4.11. **Employment protection legislation**[1]

Index scale of 0-6 from least to most restrictive, 2008



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

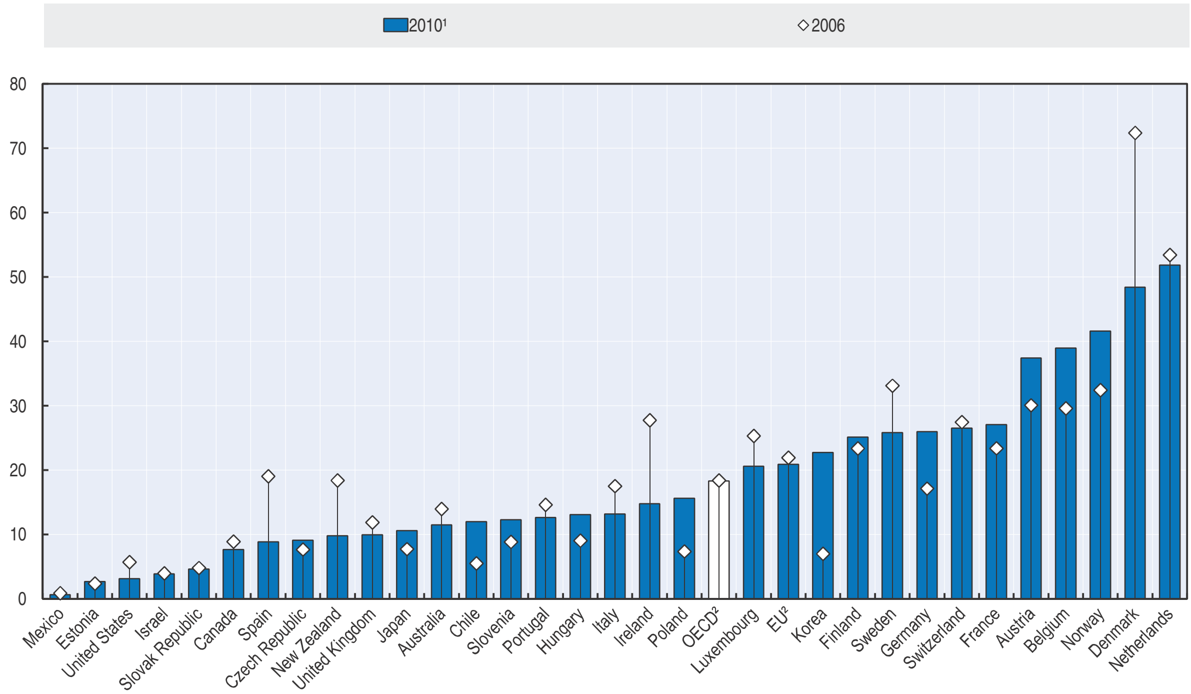
1. 2009 for France and 2013 for Portugal. In Panel C, values for Brazil, Chile, India and Indonesia are equal to zero.

Source: OECD (2012), *Employment Database*.

StatLink http://dx.doi.org/10.1787/888932778366

Figure 4.12. **Public expenditure on active labour market policies per unemployed**

Percentage of GDP per capita



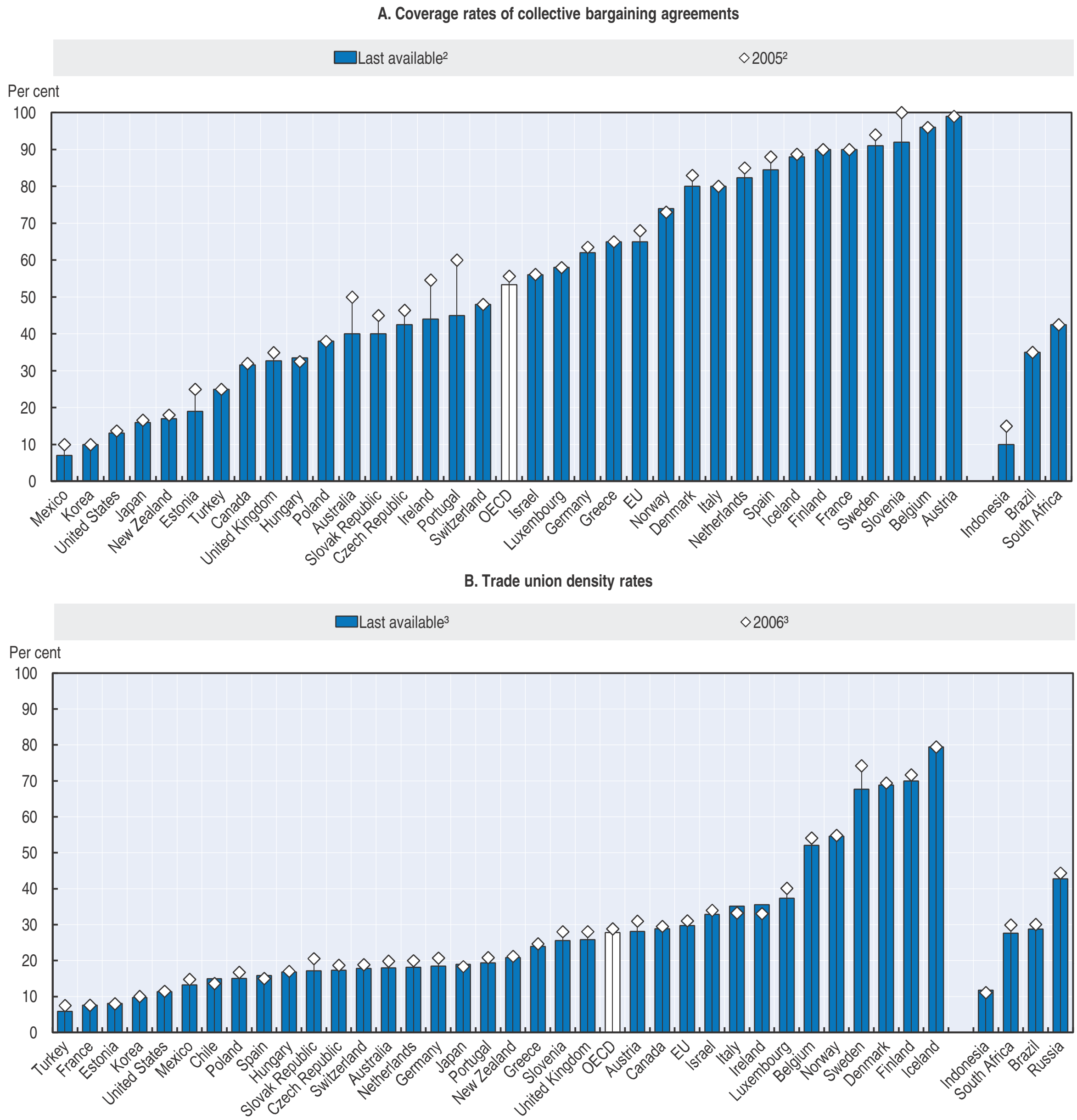
Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. The last available year is 2007 for Norway and Switzerland, 2009 for the United Kingdom.
2. OECD and EU averages exclude Iceland, Greece and Turkey.

Source: OECD, *Public expenditure and participant stocks on LMP and Economic Outlook Databases*.

StatLink http://dx.doi.org/10.1787/888932778385

Figure 4.13. **Coverage rates of collective bargaining agreements and trade union density rates**[1]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. The coverage rate is measured as the percentage of workers who are covered by collective bargaining agreements, regardless of whether or not they belong to a trade union. The union density rate is the percentage of workers belonging to a trade union. The rates refer to wage and salary workers.
2. The last available year is 2010 for the United States and Austria; 2009 for Canada, Czech Republic, Estonia, Germany, Hungary, Italy, Portugal, Slovak Republic, Slovenia and the United Kingdom; 2008 for Belgium, Brazil, France, Greece, Iceland, Indonesia, Ireland, Japan, Korea, Luxembourg, Mexico, the Netherlands, Norway, Poland, South Africa, Spain, Sweden and Switzerland; 2007 for Australia, Denmark, Finland and New Zealand; 2006 for Israel and Turkey. For 2005, data refer to 2006 for Korea, Switzerland and Slovak Republic; 2004 for Spain; 2003 for Brazil, Indonesia, Luxembourg and New Zealand; 2002 for Austria, Belgium, Denmark, France, Iceland, Ireland, Mexico and Turkey; 2001 for Australia and Chile; 2000 for Israel.
3. The last available year is 2011 for Australia, Canada, Ireland, Japan, Mexico, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom and the United States; 2010 for Austria, Chile, Estonia, Finland, Germany, Italy, Korea, Poland, Portugal and Turkey; 2009 for Belgium, Czech Republic, Denmark, Slovenia, Spain and Switzerland; 2008 for Brazil, France, Greece, Hungary, Iceland, Luxembourg, Russia, Slovak Republic and South Africa; 2007 for Indonesia and Israel. For 2006, data refer to 2008 for Iceland and Slovenia, 2005 for Indonesia and 2007 for the Russian Federation.

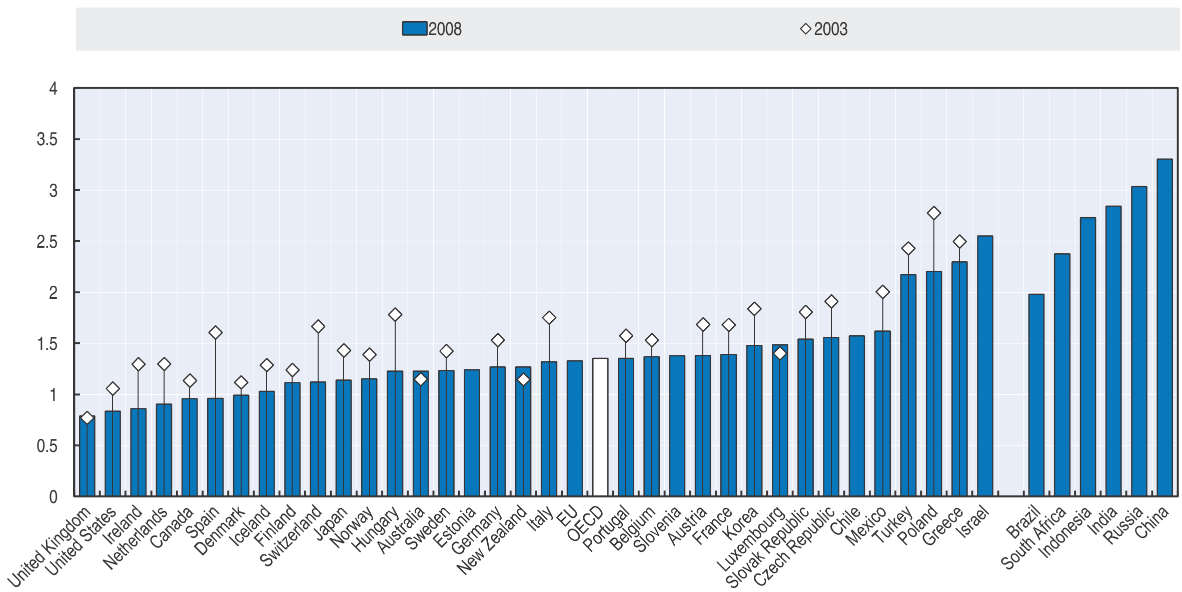
Source: OECD estimates and J. Visser, Amsterdam Institute for Advanced Labour Studies (2011), *ICTWSS Database on Institutions, Coordination, Trade Unions, Wage Setting and Social Pacts* (version 3.0).

StatLink http://dx.doi.org/10.1787/888932778404

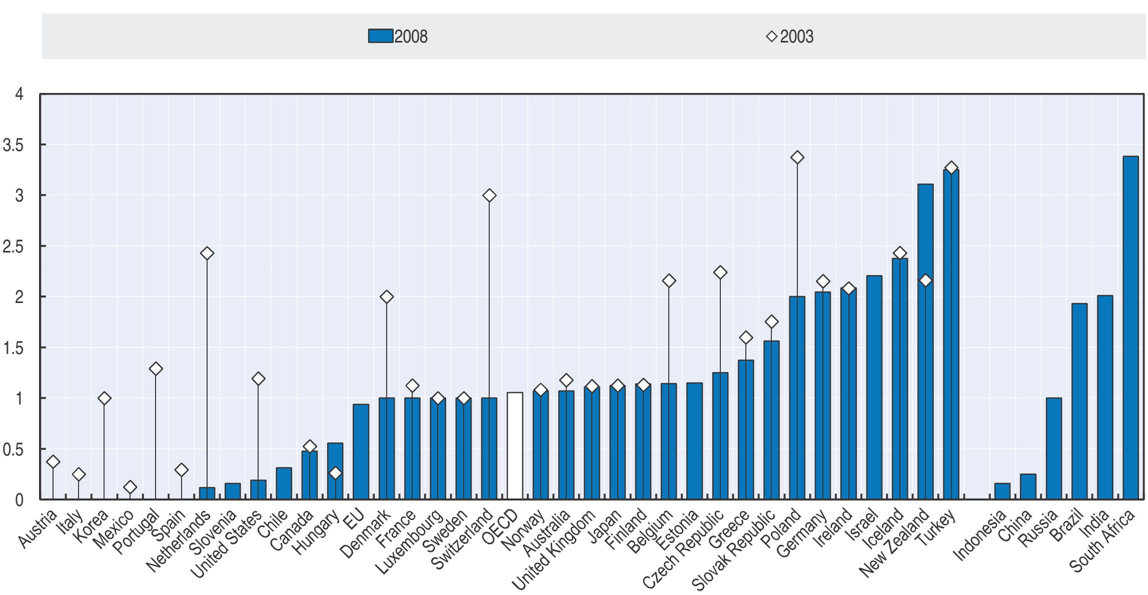
Figure 4.14. **Product market regulation**

Index scale of 0-6 from least to most restrictive

A. Restrictiveness of economy-wide product market regulation



B. Complexity of regulatory procedures[1]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

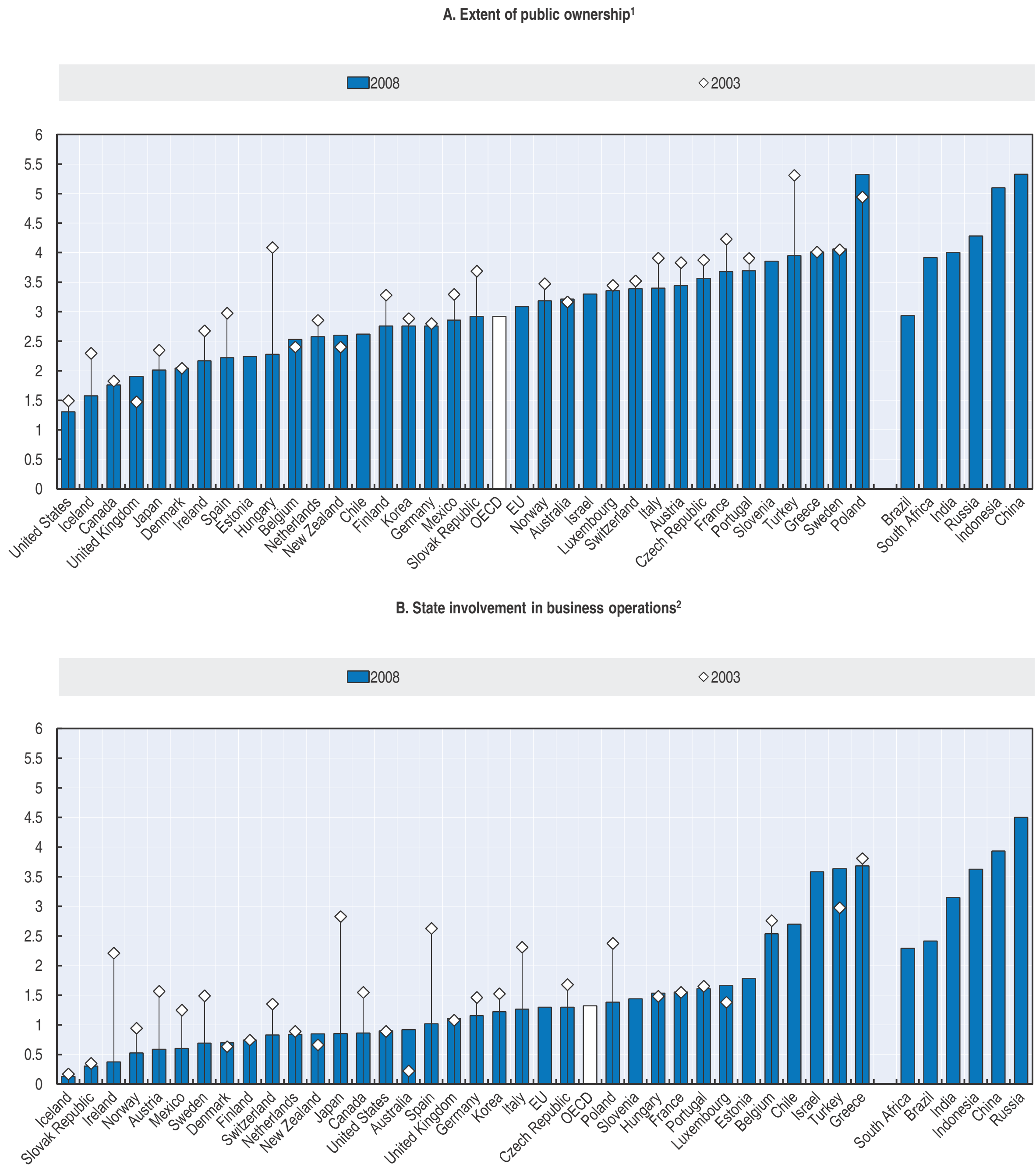
1. Concerns complexity of government communication and simplification of rules and procedures as well as the licences and permits system. Values for Austria, Italy, Korea, Mexico, Portugal and Spain are equal to zero in 2008.

Source: OECD (2011), *Product Market Regulation Database*; Woelfl, A. *et al.* (2010), "Product Market Regulation: Extending the Analysis Beyond OECD Countries", *OECD Economics Department Working Papers*, No. 799.

StatLink http://dx.doi.org/10.1787/888932778423

Figure 4.15. **State control of business operations**

Index scale of 0-6 from least to most restrictive



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

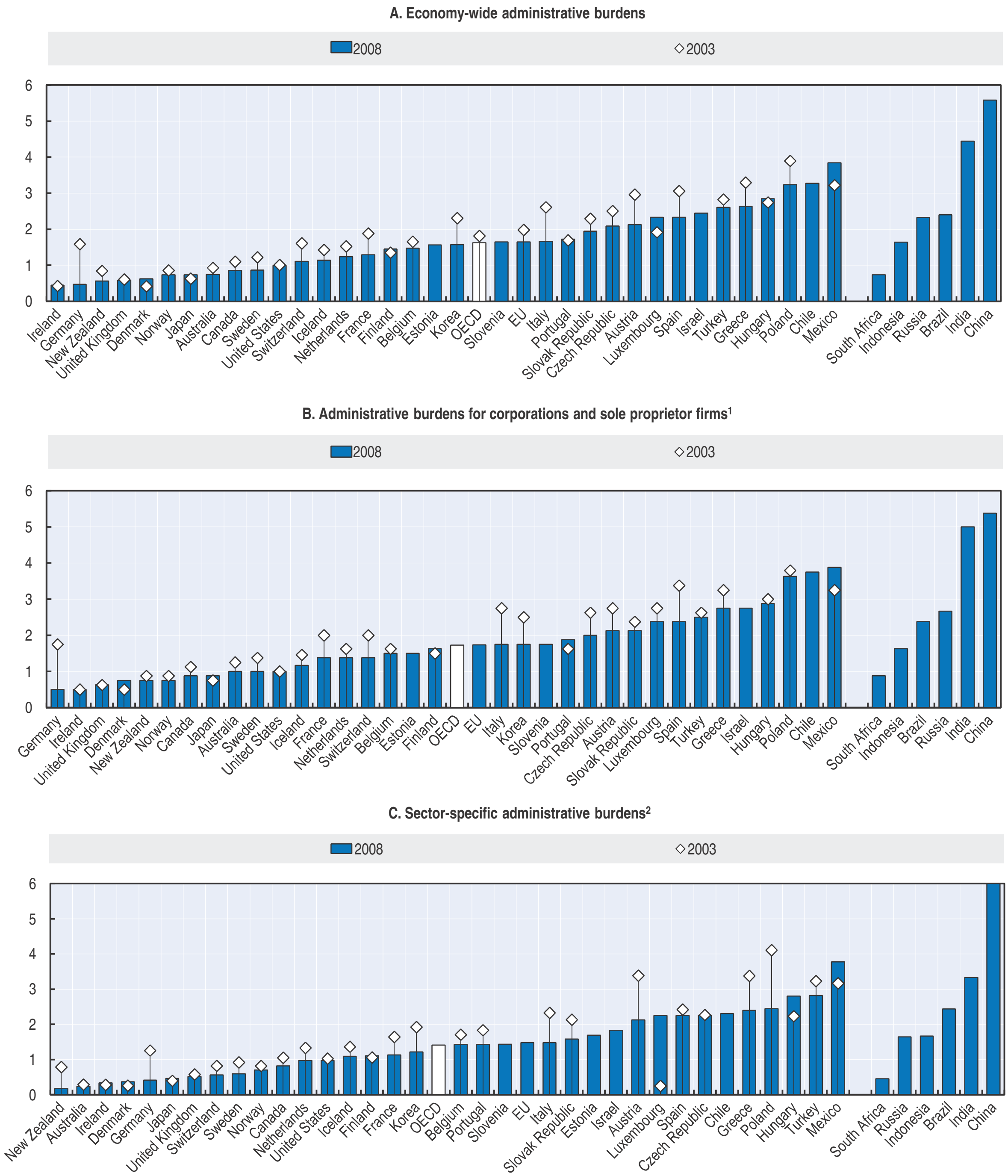
1. Covers scope of public enterprise and government's involvement in network sectors as well as the direct state control over business enterprises (*via* voting rights or legislative bodies).
2. Concerns the involvement of the state in business operations *via* price controls and the use of command-and-control regulation.

Source: OECD (2011), *Product Market Regulation Database*; Woelfl, A. *et al.* (2010), "Product Market Regulation: Extending the Analysis Beyond OECD Countries", *OECD Economics Department Working Papers*, No. 799.

StatLink http://dx.doi.org/10.1787/888932778442

Figure 4.16. **Administrative burdens on start-ups**

Index scale of 0-6 from least to most restrictive



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

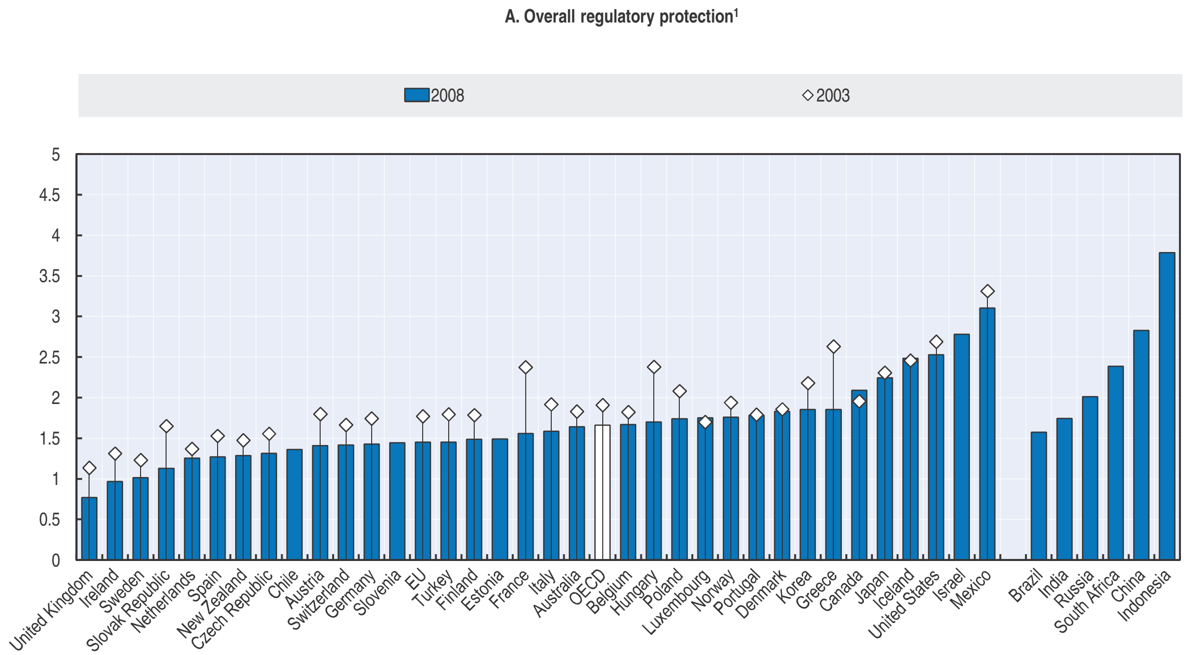
1. Simple average of administrative burdens for corporations and for sole proprietor firms under the product market regulation sub-domain "administrative burdens on start-ups".
2. This index refers to administrative burdens in the road transport and retail distribution sectors.

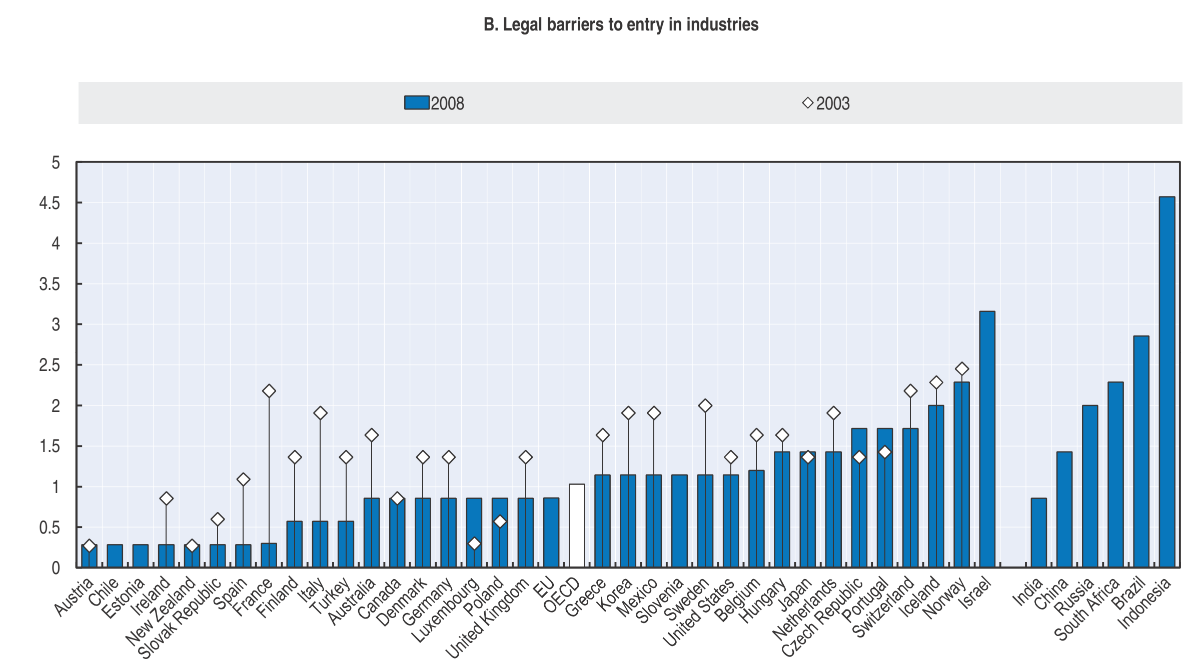
Source: OECD (2011), *Product Market Regulation Database*; Woelfl, A. *et al.* (2010), "Product Market Regulation: Extending the Analysis Beyond OECD Countries", *OECD Economics Department Working Papers*, No. 799.

StatLink http://dx.doi.org/10.1787/888932778461

Figure 4.17. **Regulatory protection of incumbents**

Index scale of 0-6 from least to most restrictive





Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

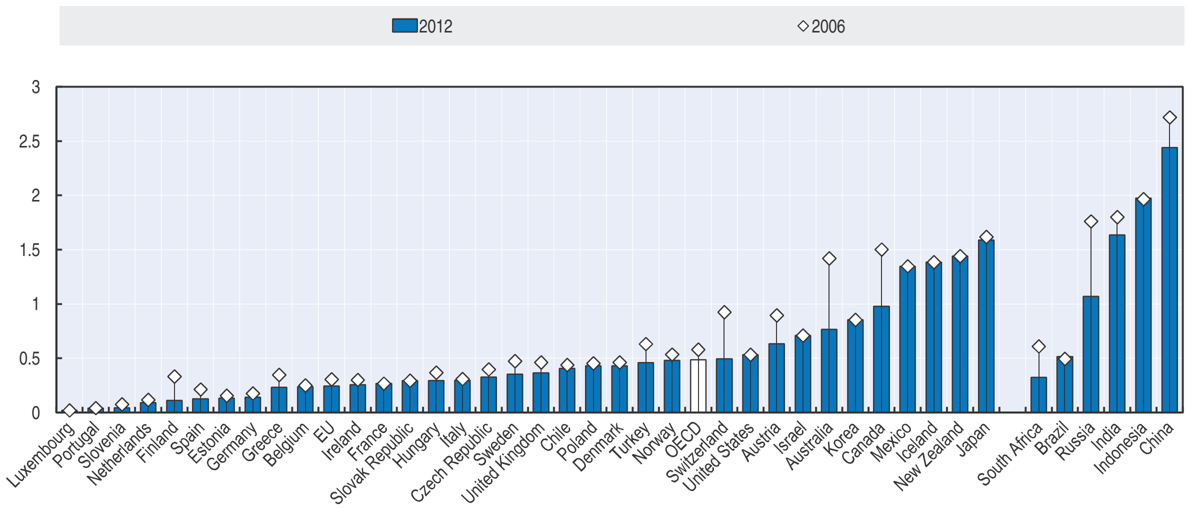
1. Overall regulatory protection covers legal barriers to entry, antitrust exemptions, as well as regulatory barriers to entry in network industries, retail trade and professional services.

Source: OECD (2011), *Product Market Regulation Database*; Woelfl, A. *et al.* (2010), "Product Market Regulation: Extending the Analysis Beyond OECD Countries", *OECD Economics Department Working Papers*, No 799.

StatLink http://dx.doi.org/10.1787/888932778480

Figure 4.18. **Barriers to foreign direct investment**[1]

Index scale of 0-6 from least to most restrictive



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

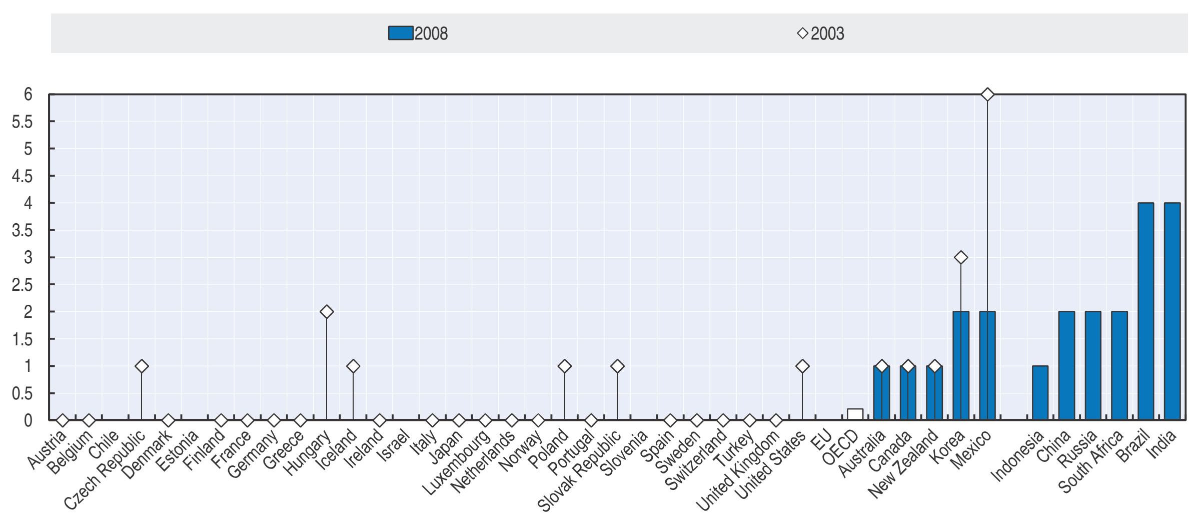
1. The OECD FDI regulatory restrictiveness index looks only at statutory restrictions and does not assess the manner in which they are implemented.

Source: OECD, the OECD FDI Regulatory Restrictiveness Index (FDI Index), *www.oecd.org/investment/index*.

StatLink http://dx.doi.org/10.1787/888932778499

Figure 4.19. **Restrictiveness of external trade tariffs**[1]

Index scale of 0-6 from least to most restrictive



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

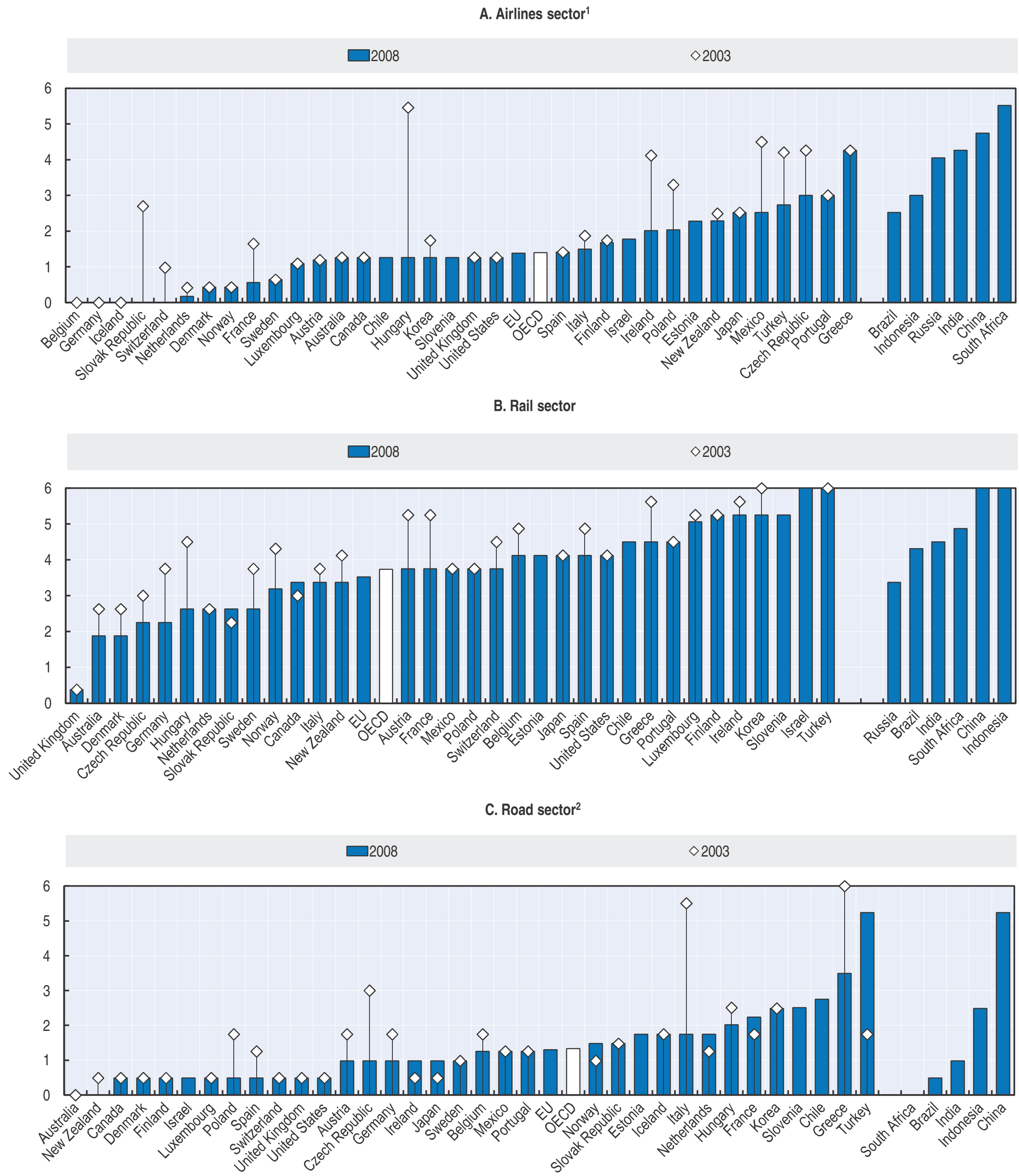
1. Values are equal to zero in 2008 for the EU average and for all OECD countries except Australia, Canada, Korea, Mexico and New Zealand.

Source: OECD (2011), *Product Market Regulation Database*; for methodology see Woelfl, A. *et al.* (2010), "Product Market Regulation: Extending the Analysis Beyond OECD Countries", *OECD Economics Department Working Papers*, No. 799. Tariffs reflect the simple average of effectively applied tariffs. See World Trade Organization's (WTO), *Integrated Database* (IDB).

StatLink http://dx.doi.org/10.1787/888932778518

Figure 4.20. **Sectoral regulation in the transport sector**

Index scale of 0-6 from least to most restrictive



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. Values for Belgium, Germany, Iceland, Switzerland and the Slovak Republic are equal to zero in 2008.
2. Values for Australia, New Zealand and South Africa are equal to zero in 2008.

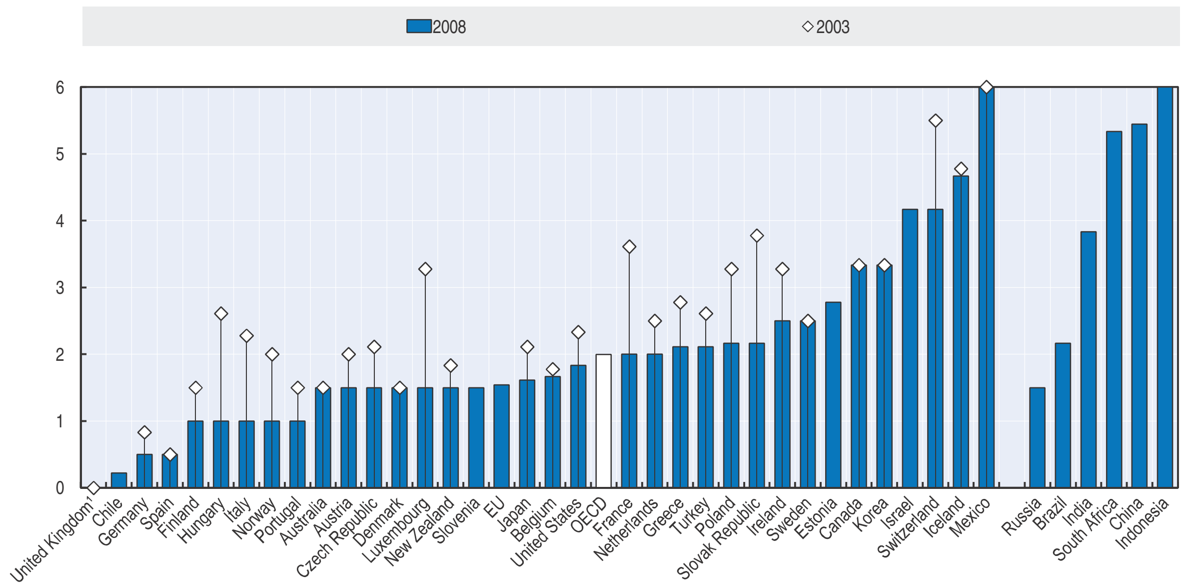
Source: OECD (2011), *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932778537

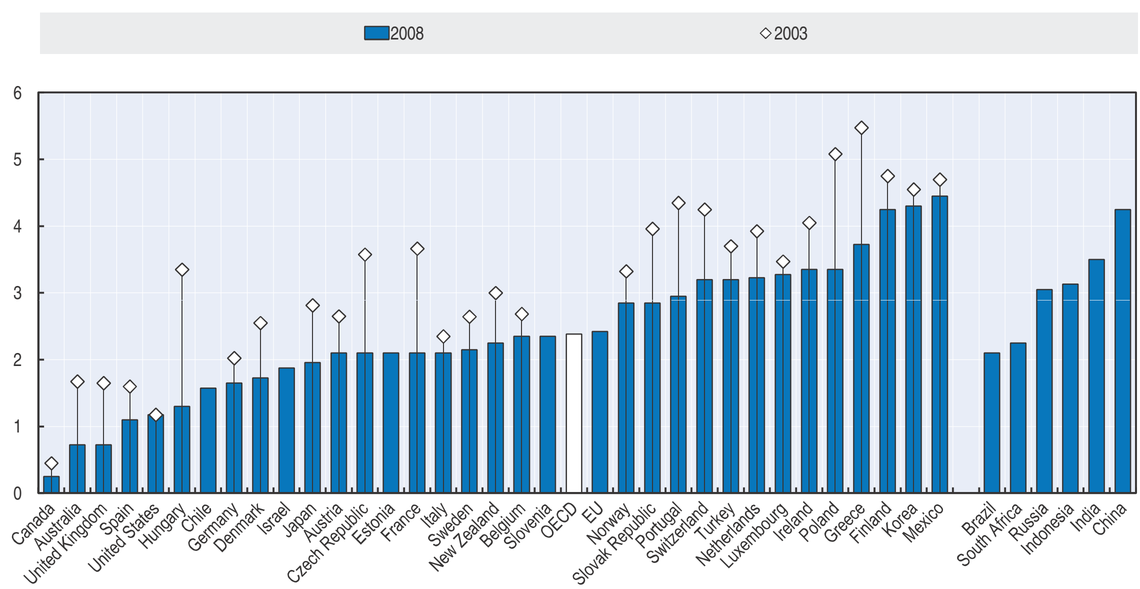
Figure 4.21. **Sectoral regulation in the energy sector**

Index scale of 0-6 from least to most restrictive

A. Electricity sector



B. Gas sector



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. The value for the United Kingdom is equal to zero in 2008.

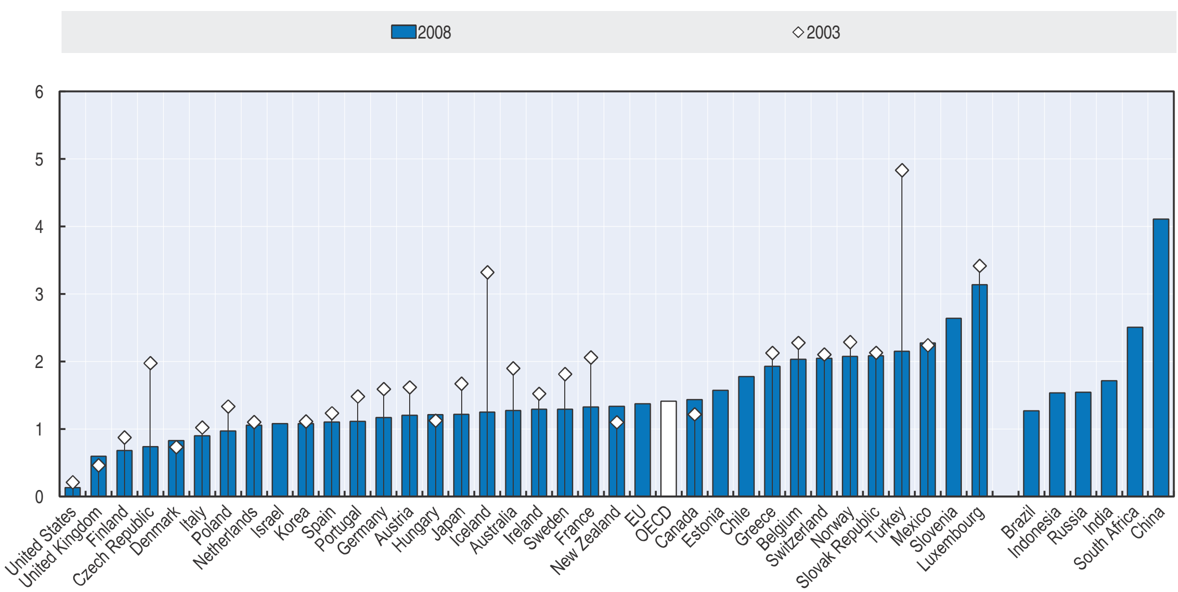
Source: OECD (2011), *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932778556

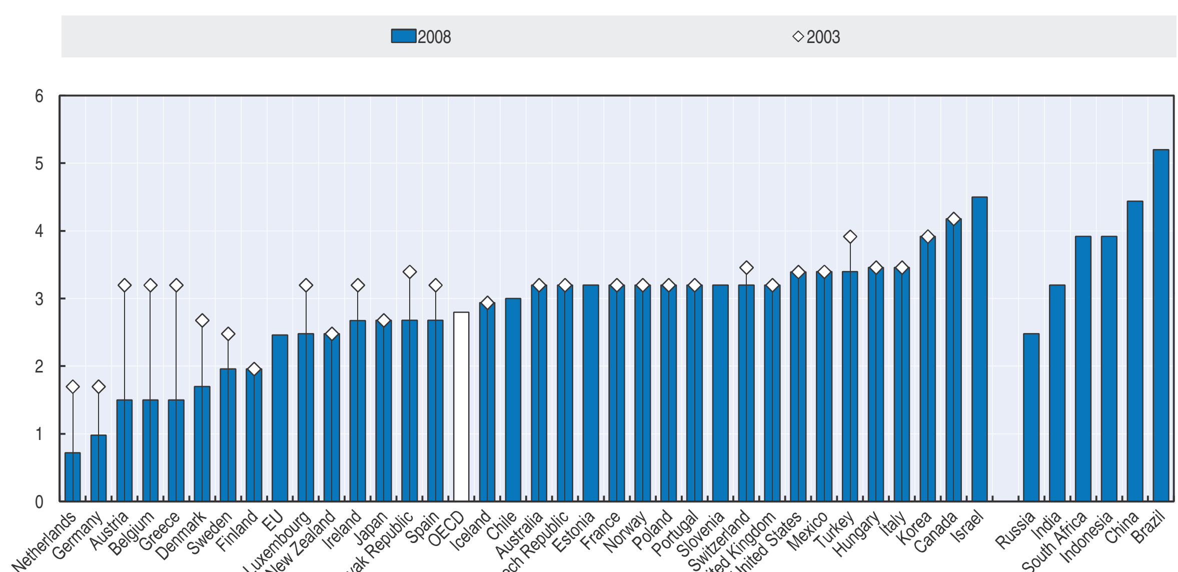
Figure 4.22. **Sectoral regulation in the post and telecommunications sector**

Index scale of 0-6 from least to most restrictive

A. Telecommunications sector



B. Post sector



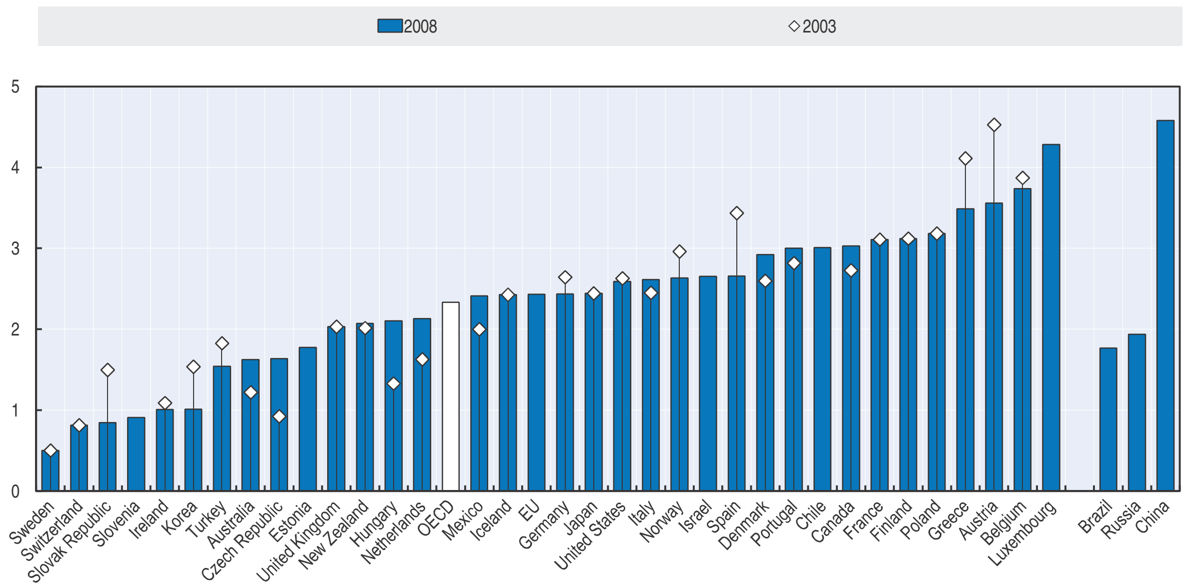
Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.
Source: OECD (2011), *Product Market Regulation Database*.

StatLink http://dx.doi.org/10.1787/888932778575

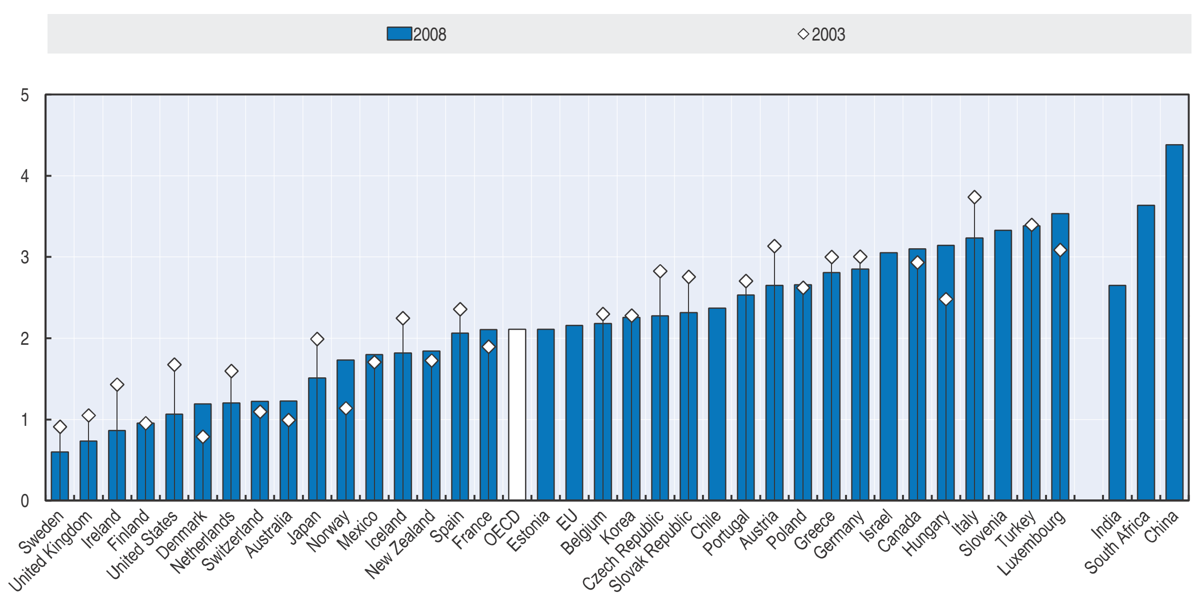
Figure 4.23. **Sectoral regulation in retail and professional services**

Index scale of 0-6 from least to most restrictive

A. Retail sector



B. Professional services



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

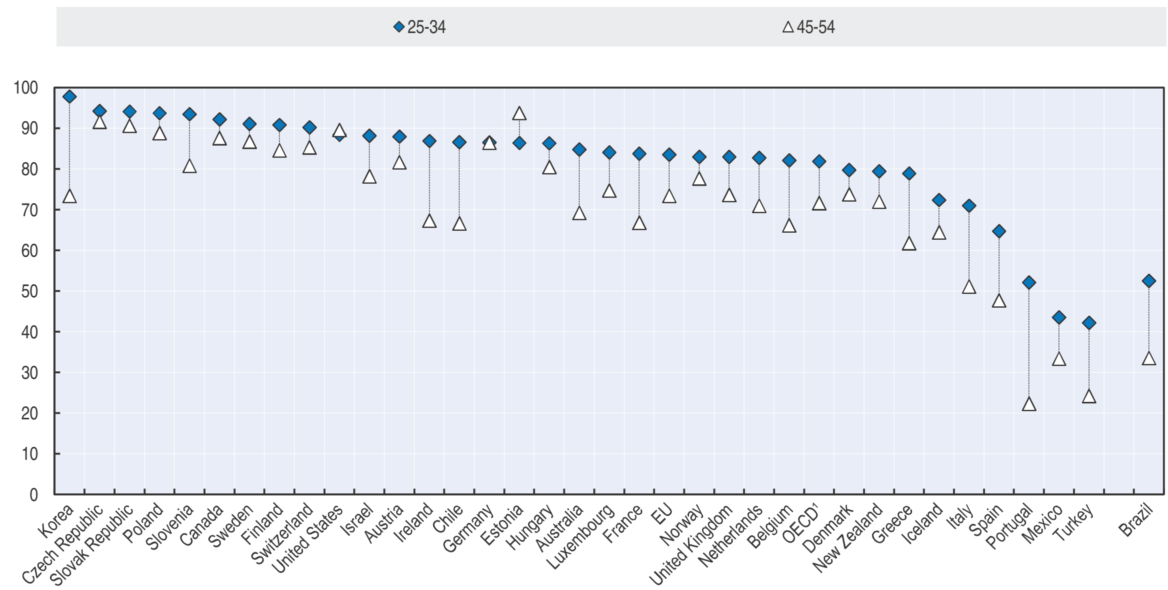
Source: OECD (2011), *Product Market Regulation Database.*

StatLink http://dx.doi.org/10.1787/888932778594

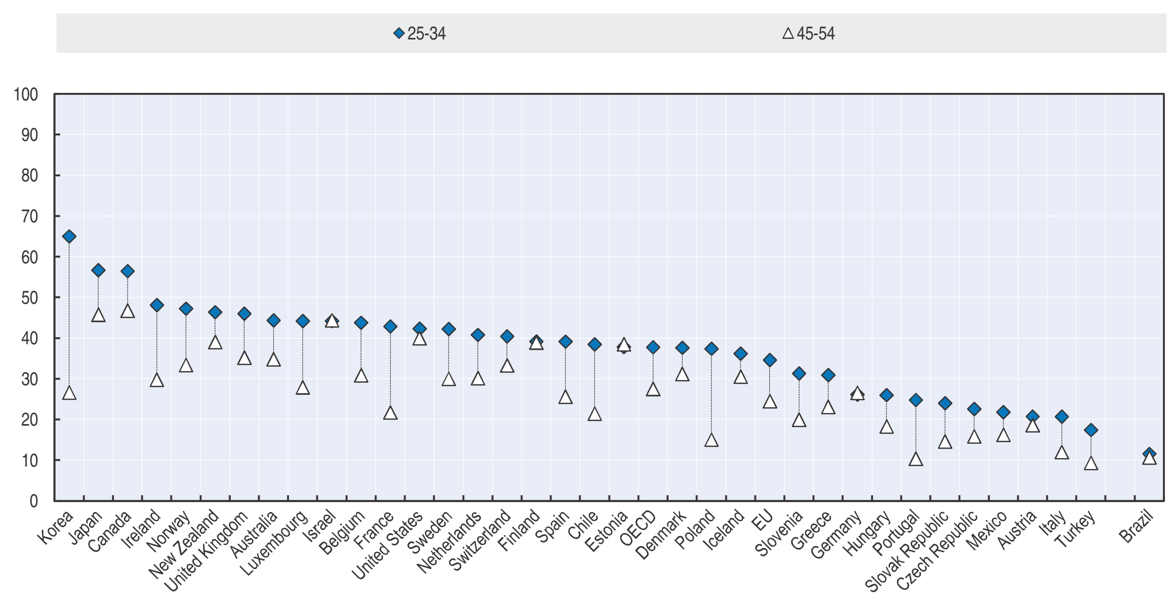
Figure 4.24. **Educational attainment, 2010**

Percentage of population aged 25-34 and 45-54

A. Upper secondary education



B. Tertiary education[2]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

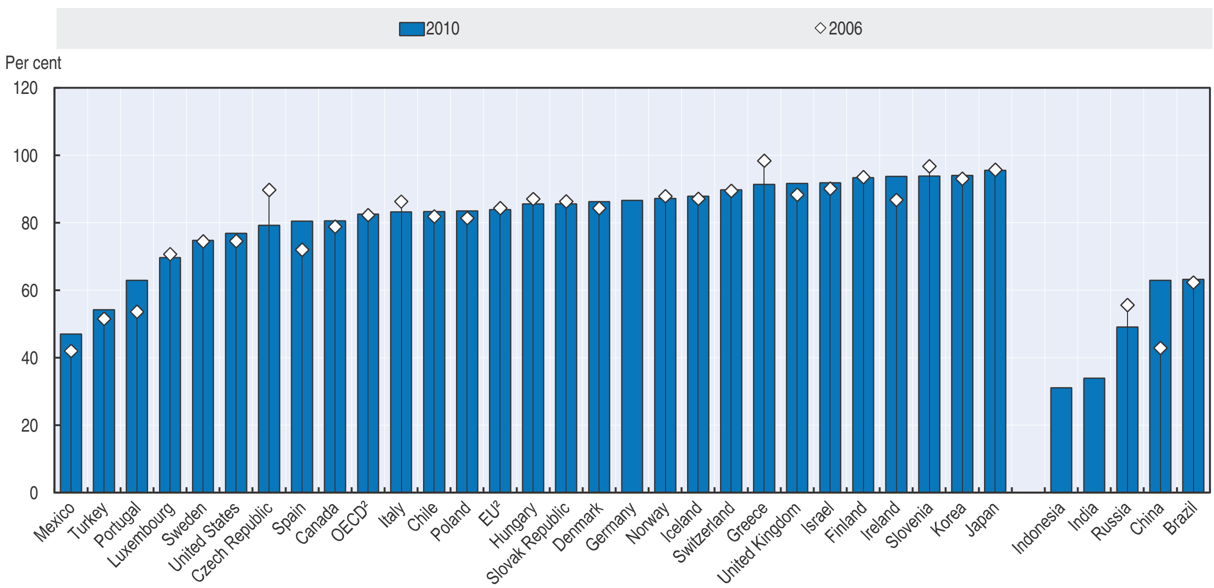
1. Data are missing for Japan.
2. The reference year is 2009 for Brazil.

Source: OECD (2012), *Education at a Glance 2012: OECD Indicators*.

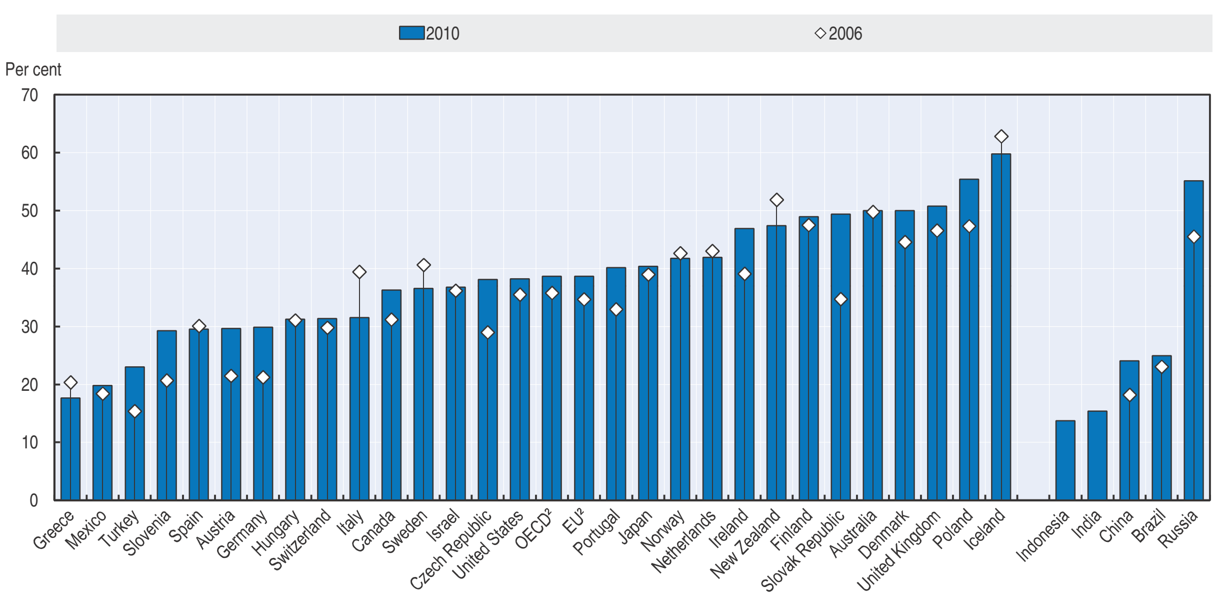
StatLink http://dx.doi.org/10.1787/888932778613

Figure 4.25. **Graduation rates in upper secondary and tertiary education**

A. Upper secondary education[1]



B. Tertiary education[3]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

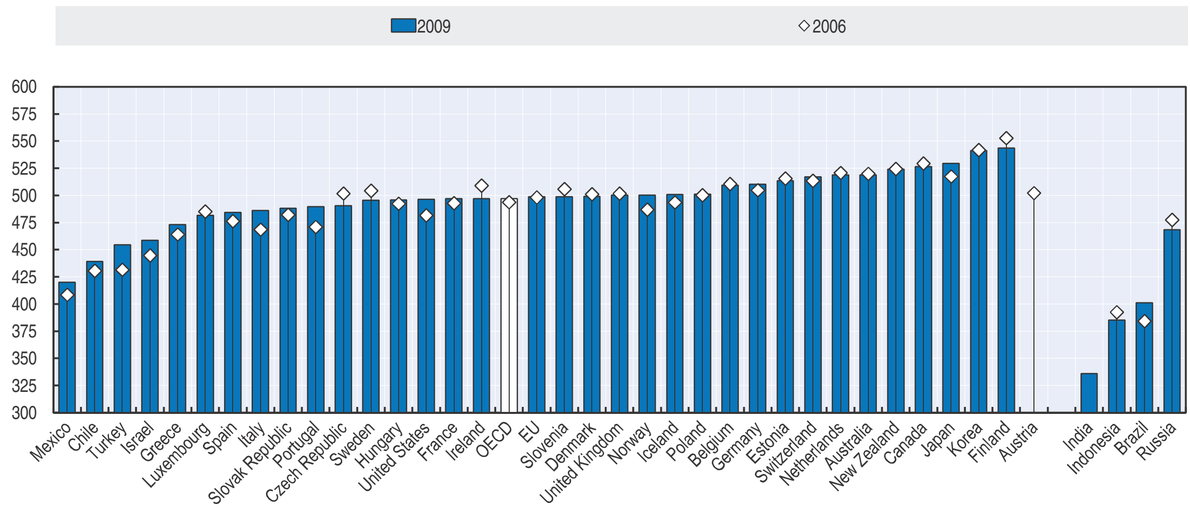
1. First-time graduation rates for typical age at upper secondary level. The last available year is 2011 for China, 2008 for Greece and Portugal and 2009 for Switzerland; for the BRIICS, data refer to graduation rate at upper secondary level for typical age from the general programmes except for India for which upper secondary education is defined as persons aged 19 year-olds who completed upper seconday education.
2. In Panel A, OECD and EU averages exclude Australia, Austria, Belgium, Estonia, France, the Netherlands and New Zealand. In Panel B, OECD and EU averages exclude Belgium, Chile, Estonia, France, Korea and Luxembourg.
3. First-time graduation rates for typical age at the tertiary-type A level. The last available year is 2011 for China, 2009 for Australia and Canada, 2007 for Greece; for the BRIICS, data refer to graduation rate for typical age from tertiary-type A programmes (first degree) except for India for which tertiary education refer to the 24 year-olds and over who have graduated.

Source: OECD (2012), *Education at a Glance 2012: OECD Indicators; China Statistical Yearbook* and India National Sample Survey (2009/10).

StatLink http://dx.doi.org/10.1787/888932778632

Figure 4.26. **Educational achievement**

Average of PISA scores in reading, mathematics and science[1, 2]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

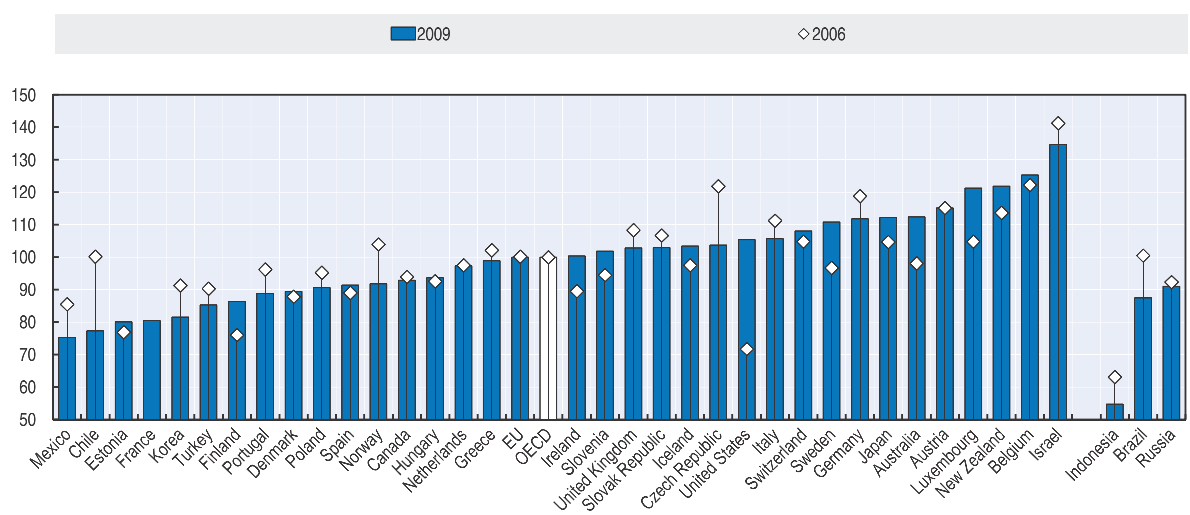
1. PISA is the Programme for International Student Assessment.
2. For the United States, average of PISA scores only in mathematics and science for 2006. Data for India is the average for 2010 of the states of Tamil Nadu and Himachal Pradesh and therefore may not be representative of nation-wide outcomes.

Source: OECD, *PISA 2006 and 2009 Databases*.

StatLink http://dx.doi.org/10.1787/888932778651

Figure 4.27. **Variance of educational achievement**

Total variance in PISA scores in reading, mathematics and science[1, 2]



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

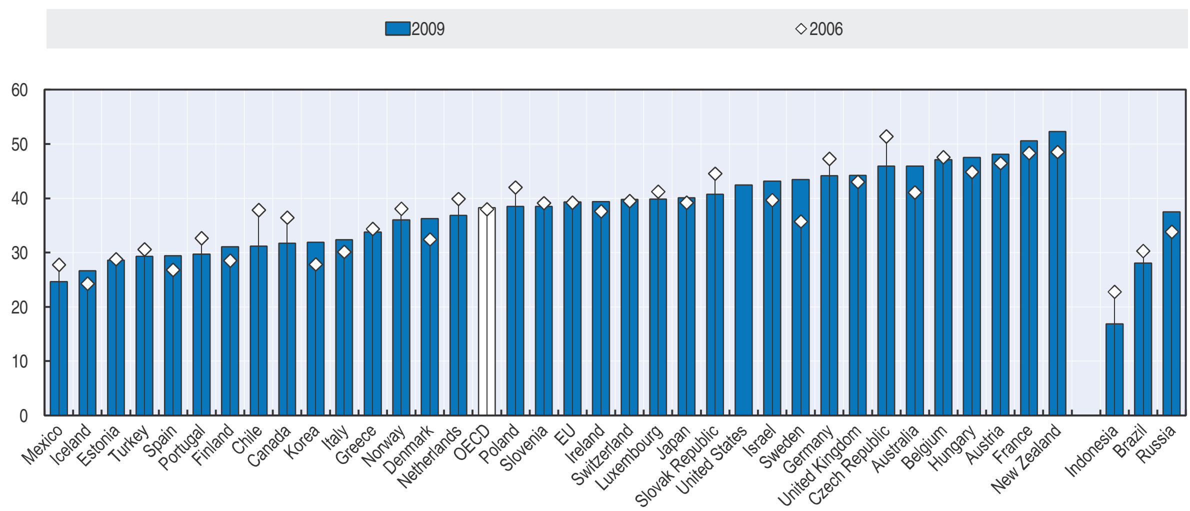
1. PISA is the Programme for International Student Assessment. OECD = 100. Average of PISA scores in mathematics and science in 2006 for the United States and in 2009 for France.
2. The variance components in mathematics, sciences and reading were estimated for all students in participating countries with data on socio-economic background and study programmes. The variance in student performance is calculated as the square of the standard deviation of PISA scores in reading, mathematics and science for the students used in the analysis.

Source: OECD, *PISA 2006 and 2009 Databases*.

StatLink http://dx.doi.org/10.1787/888932778670

Figure 4.28. **Influence of socio-economic and cultural background on student reading performance**[1]

Change in the reading score per unit of the socio-economic index



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

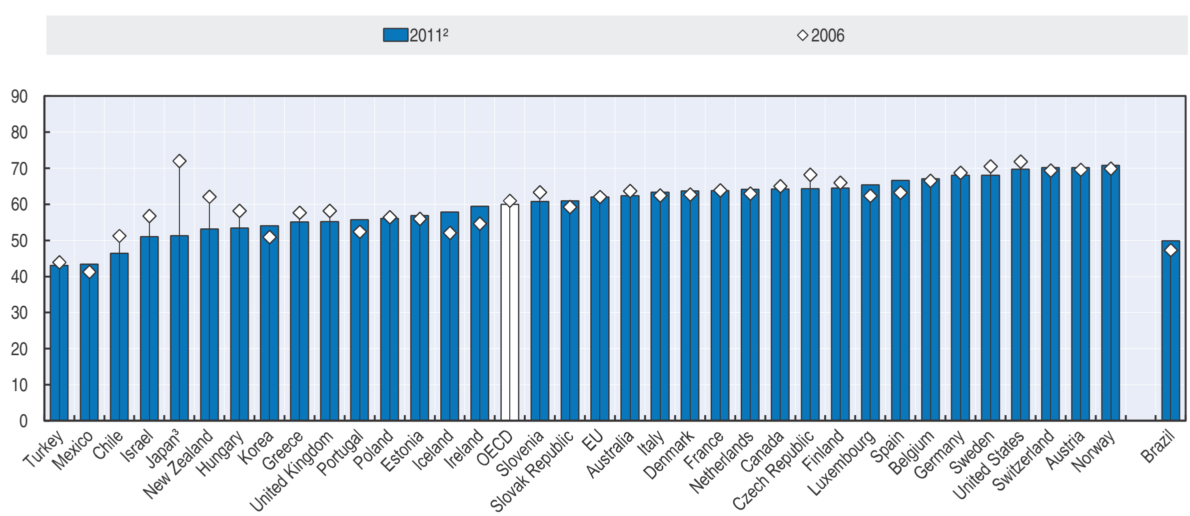
1. Defined as the estimated coefficient from the single bivariate regression of PISA reading performance of all participating students on their corresponding index of economic, social and cultural status (ESCS).

Source: OECD, *PISA 2006 and 2009 Databases.*

StatLink http://dx.doi.org/10.1787/888932778689

Figure 4.29. **Share of direct taxes**[1]

Percentage of total tax revenue



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

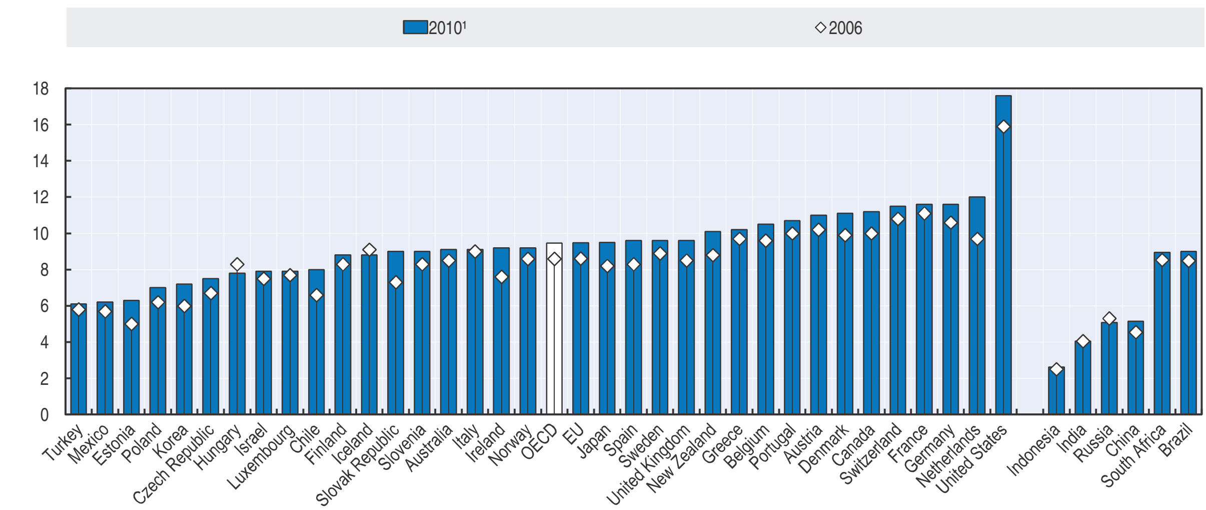
1. Direct taxes aggregate taxes on income, profits and capital gains, social security contributions and taxes on payroll and workforce.
2. The last available year is 2010 for Australia, Brazil, the Netherlands, Poland and Portugal.
3. In 2011 the total tax revenue excludes revenues for Social Security funds for which data are not available.

Source: OECD, *Revenue Statistics Database.*

StatLink http://dx.doi.org/10.1787/888932778708

Figure 4.30. **Health expenditure**

Percentage of GDP



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

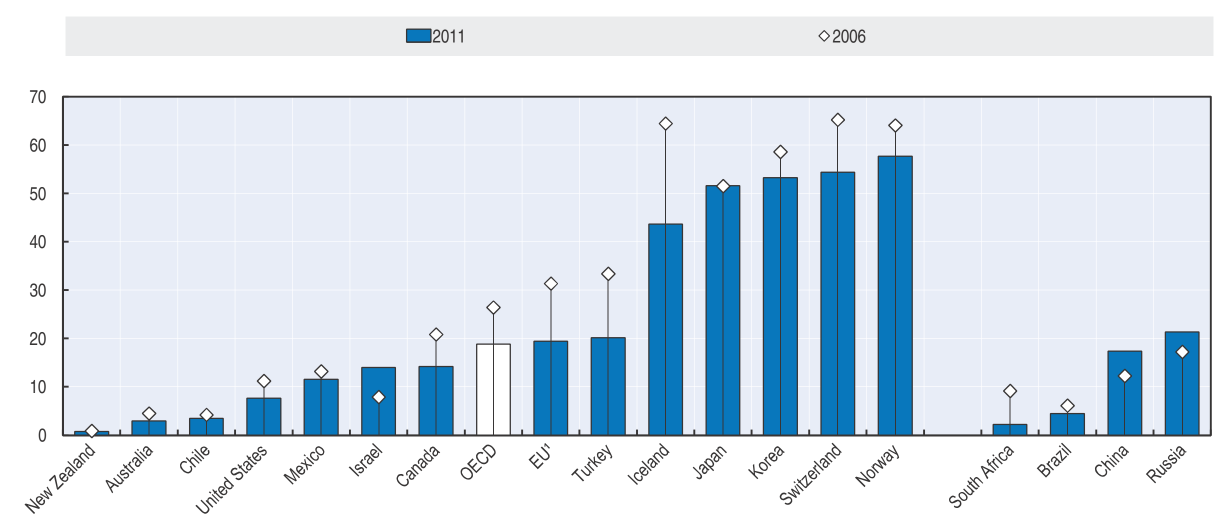
1. The last available year is 2009 for Australia, Luxembourg and Spain; 2011 for Canada, China, Finland, Iceland, Italy, Korea, Norway and Switzerland.

Source: OECD (2012), *Health Database*; World Bank (2012), *World Development Indicators Database* and *China Statistical Yearbook 2012*.

StatLink http://dx.doi.org/10.1787/888932778727

Figure 4.31. **Producer support estimate to agriculture**

Percentage of farm receipts



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

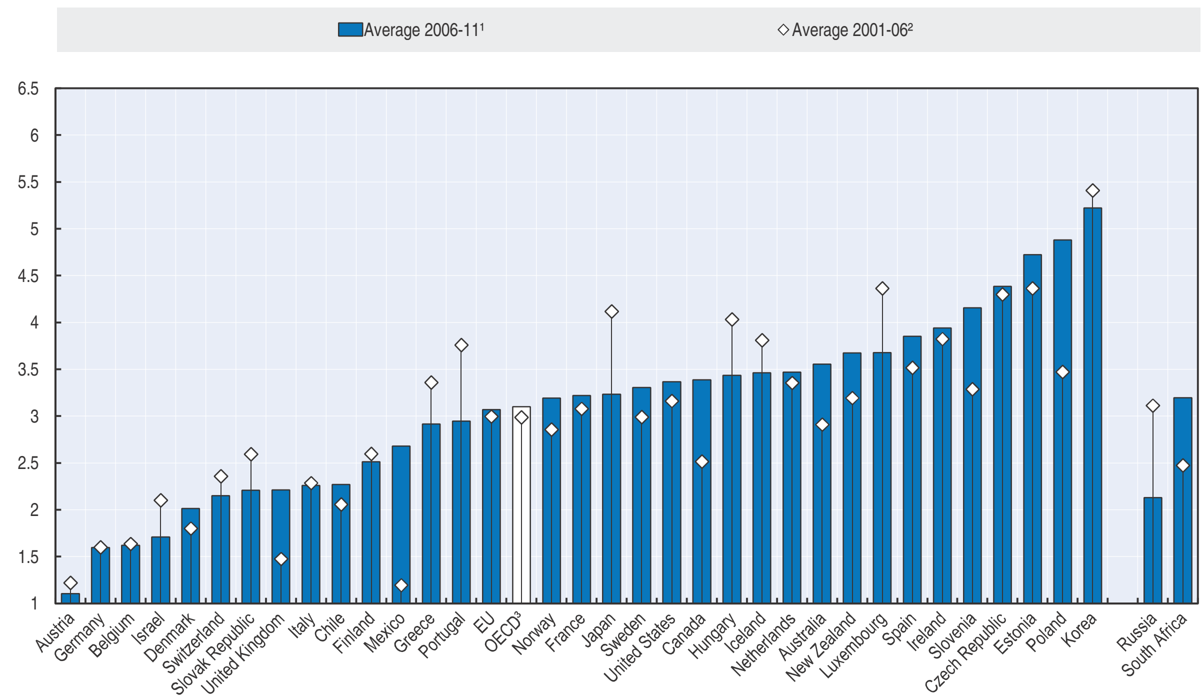
1. EU is the aggregate of 21 EU countries members of the OECD.

Source: OECD (2012), *Producer and Consumer Support Estimates Database*.

StatLink http://dx.doi.org/10.1787/888932778746

Figure 4.32. **Public investment**

Percentage of GDP



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

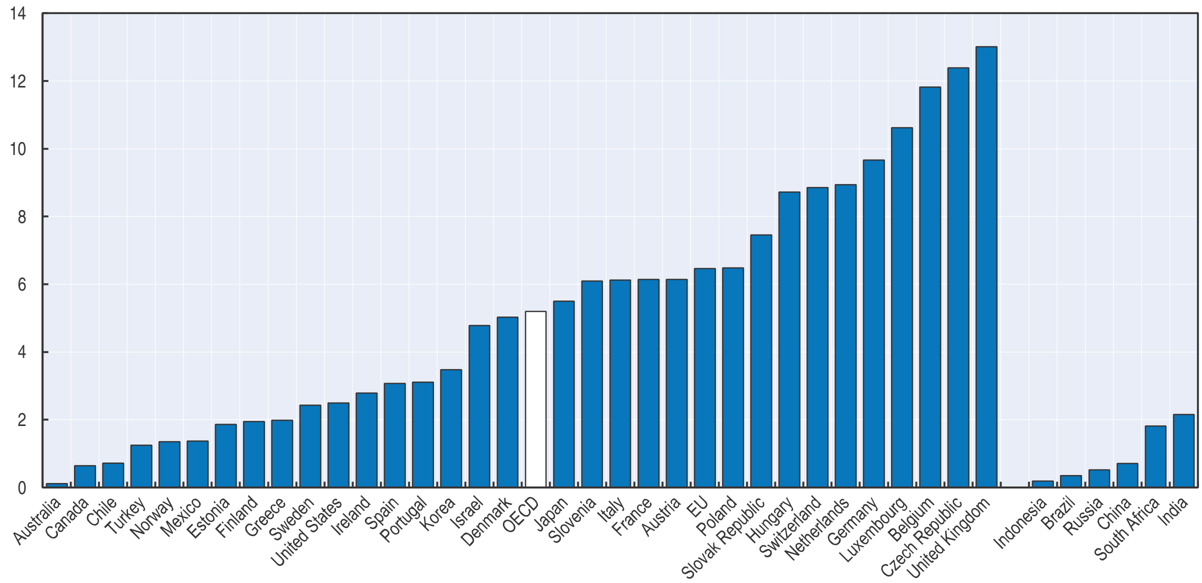
1. Average 2006-10 for Chile, Japan, Korea, Mexico and average 2006-09 for New Zealand and the Russian Federation.
2. Average 2002-06 for the Russian Federation.
3. The OECD average excludes Turkey.

Source: OECD (2012), *OECD Economic Outlook*, Vol. 2012/2.

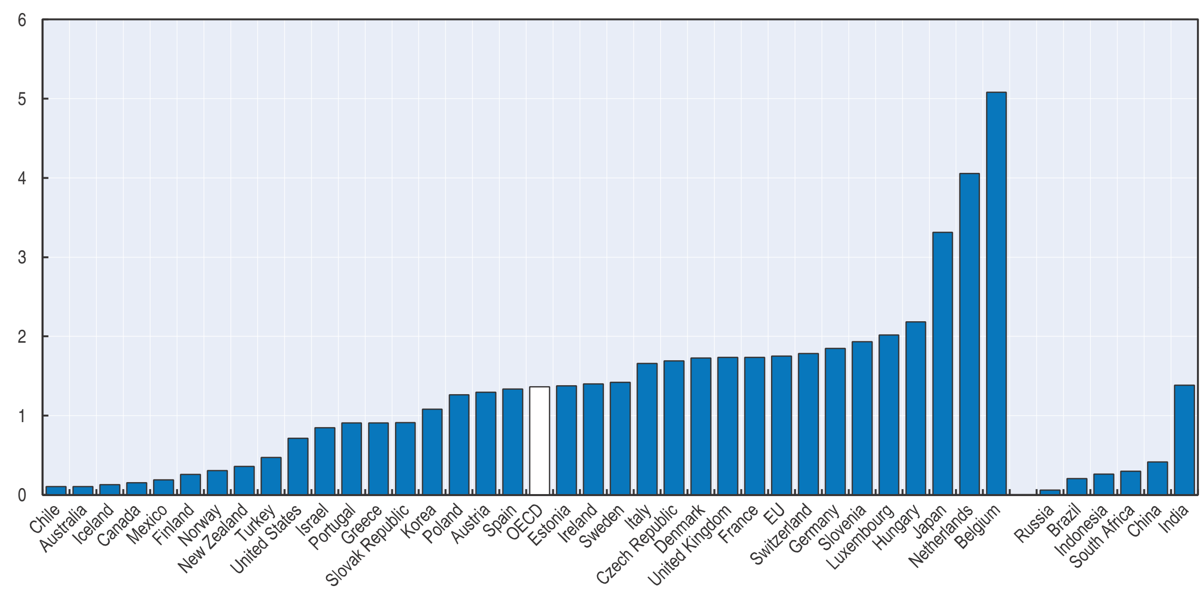
StatLink http://dx.doi.org/10.1787/888932778765

Figure 4.33. **Infrastructure**

A. Rail density, 2010[1]
Km per 100 square km



B. Road density, 2009[2]
Km per square km



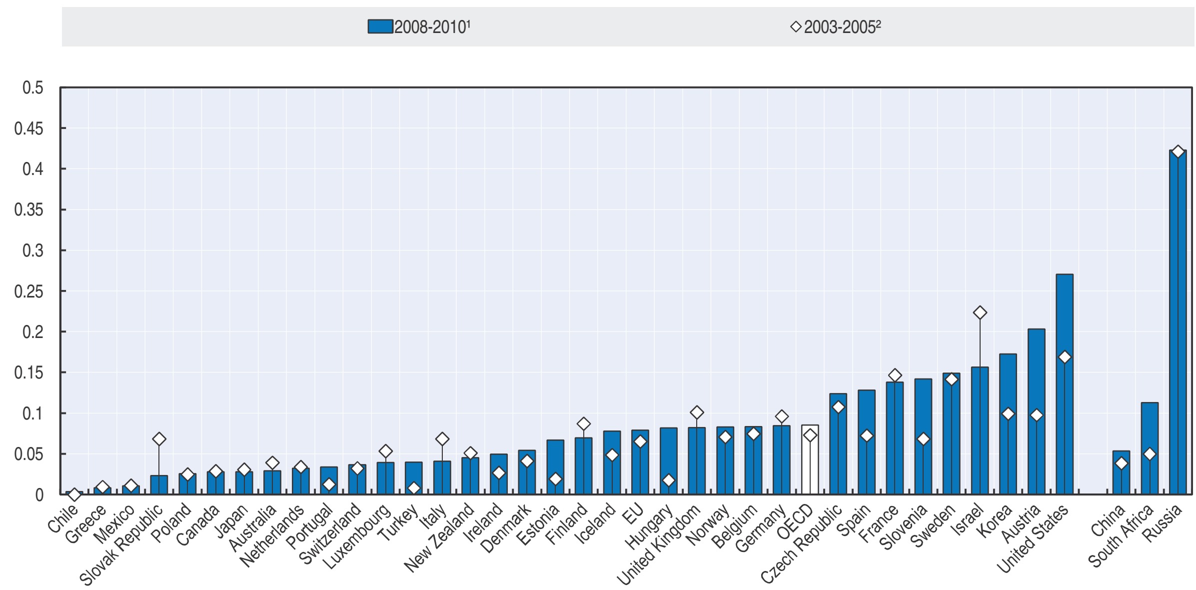
Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.
1. 2008 for Indonesia. The OECD average excludes Iceland and New Zealand.
2. 2000 for South Africa; 2004 for Brazil and Luxembourg; 2005 for Italy and Portugal; 2007 for Spain; 2008 for Czech Republic, Ireland and India.

Source: World Bank (2012), *World Development Indicators* (WDI).

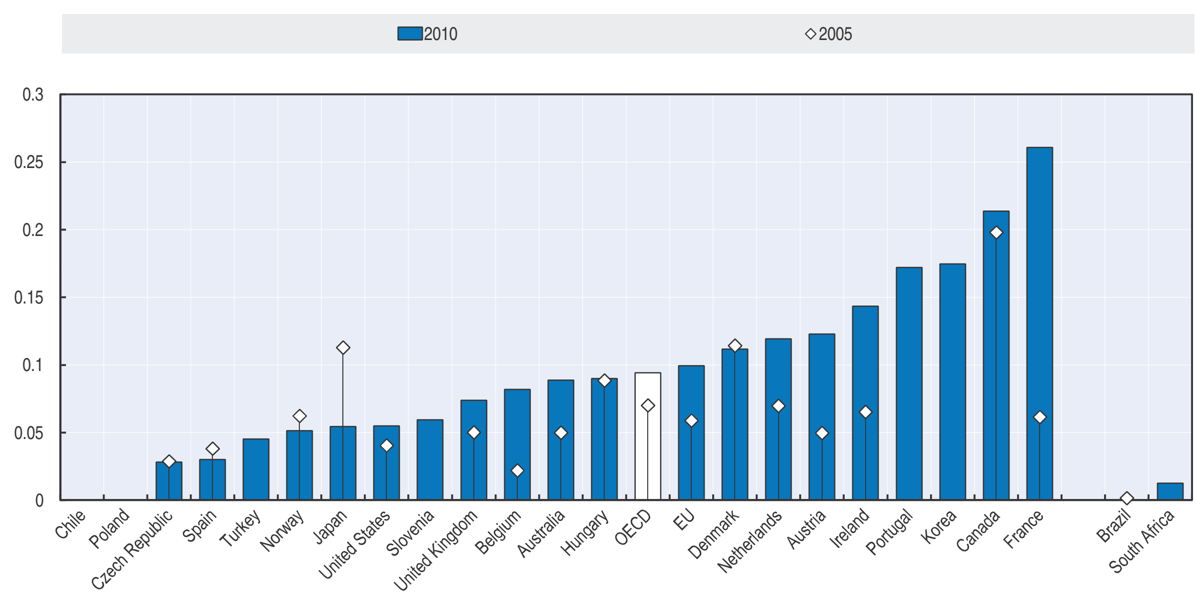
StatLink http://dx.doi.org/10.1787/888932778784

Figure 4.34. **Financial support for private R&D investment**

A. Direct public funding of business R&D
Percentage of GDP



B. Indirect public support through R&D tax incentives
Percentage of GDP



Note: Users of the data must be aware that they may no longer fully reflect the current situation in fast-reforming countries.

1. 2007 for Greece and Mexico; 2008 for Chile, Iceland, Israel, Switzerland and South Africa; 2009 for Austria, the Netherlands, New Zealand and Sweden; average of years 2008 and 2009 for Australia, Belgium, Italy, Portugal, Spain and the United States; average of years 2009 and 2010 for Luxembourg and Poland.
2. 2004 for Austria and Switzerland; average of years 2003 and 2005 for Denmark, Greece, Iceland, Luxembourg, the Netherlands, New Zealand, Norway and Sweden.

Source: Chart A: OECD (2012), *Science and Technology Indicators Database*; Chart B: OECD (2012), *OECD Science, Technology and Industry Outlook 2012*.

StatLink http://dx.doi.org/10.1787/888932778803

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