Economic Policy Reforms 2016
Going for Growth Interim Report

Chapter 1

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

This chapter reviews the main growth challenges faced by OECD and selected non-OECD countries and takes stock of the progress made since 2015 in the adoption and implementation of structural policy reforms to address these challenges. Progress is assessed on the basis of actions taken in response to Going for Growth policy recommendations. The chapter also discusses the potential effect of the reforms on policy objectives other than GDP growth, in particular public finance consolidation, narrowing current account imbalances and reducing income inequality.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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

Main findings

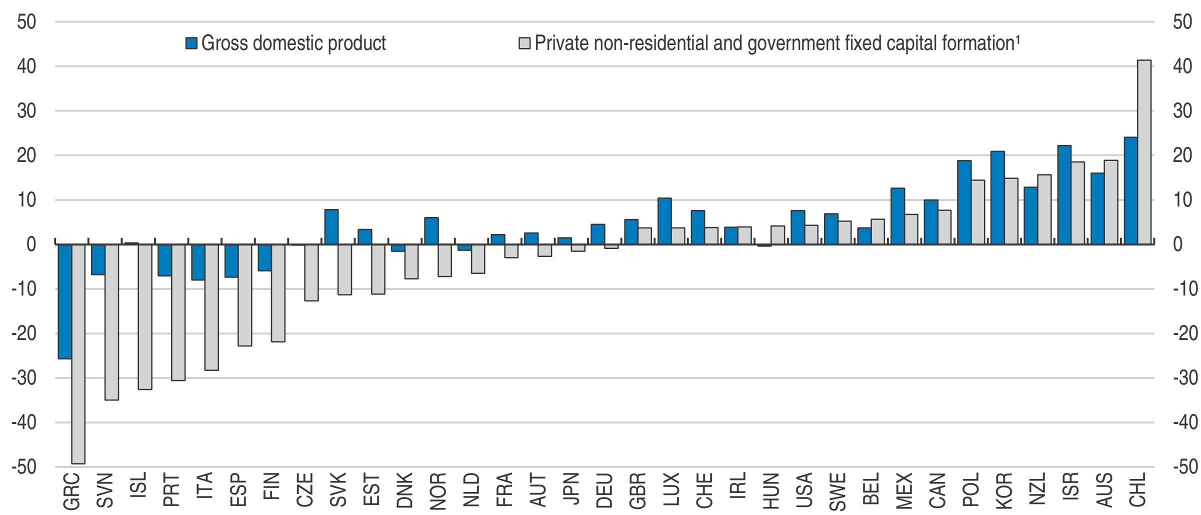
- The slowdown in the pace of reforms observed in 2013-14 has continued in 2015, even after taking into account measures that are in the pipeline but that have yet to be fully implemented.
  - On average across advanced economies, about 14% of the reform recommendations found in *Going for Growth* have been fully implemented in 2015, while another 36% are in the process of implementation.
  - For emerging economies, fewer recommendations have been fully implemented in 2015 but initial steps have been made on around 44% of recommendations.
  - The share of implemented recommendations has generally been higher in Southern European countries (in particular Italy and Spain) than in Northern European countries.
  - Outside Europe, countries where a relatively high number of measures related to *Going for Growth* recommendations have been taken include Japan among advanced economies and China, India and Mexico in the case of emerging economies.
- The intensity of reforms has also varied across policy areas. Relatively more actions have been taken to lift the labour force participation of women, reduce the labour tax wedge and to improve educational outcomes, while fewer actions were observed in the areas of innovation policy, public sector efficiency or labour market regulation.
- Against the background of weakening global economic prospects, there is a good case for prioritising reforms that in addition to stimulate employment and productivity, can best support activity in the short term.
  - Aside from higher investment in public infrastructure, these include reductions of barriers to entry in services sectors with pent-up demand as well as reforms in the area of housing policies and job-search assistance to facilitate geographic and job mobility.
  - Countries with very limited budgetary room may have to prioritise on high short-term returns or on low-cost measures and ensure that others are financed through means that are as friendly as possible to employment and growth.
- In countries where income inequality is a particular concern, the majority actions taken on policy priorities are likely to help narrowing the income distribution.
- Recent actions taken to boost growth are unlikely to help the countries with largest current account deficits to narrow their large external imbalances.

Introduction

Global growth is set to disappoint in the near term, with emerging-market economies losing steam and the recovery in output and employment in advanced economies remaining uneven. While labour market weaknesses are still a major challenge for many countries, a key contributing factor across a majority of them has been the slowdown of productivity growth, reflecting both weak investment in physical capital (machines and equipment, physical infrastructure) and poor growth in multi-factor productivity. In most advanced countries, the recovery in non-residential investment is lagging behind that of GDP, substantially so among European countries (Figure 1.1). Lingering doubts about the strength and sustainability of domestic demand, a difficult access to finance and subdued growth prospects for the world economy are weighing down on investment (OECD, 2015a).

Figure 1.1. **Investment is lagging behind the recovery of GDP in most European countries**

The difference between the 2014 and 2008 levels, as a percentage of the 2008 level



1. The last available year is 2013 for Switzerland and Chile; 2012 for Mexico.

Source: OECD, *Economic Outlook Database*.

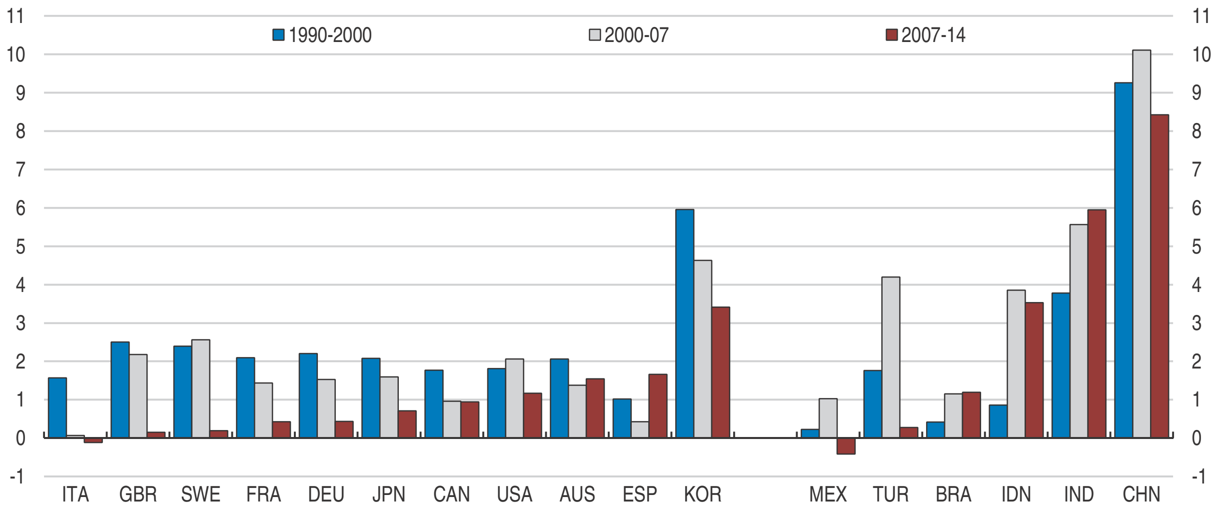
StatLink http://dx.doi.org/10.1787/888933323716

While the weakness of investment coincided with the crisis, the slowdown in multi-factor productivity among advanced countries goes all the way back to the early 2000s (Figure 1.2), an indication that deep structural weaknesses may cast a shadow on future growth prospects. The contributing factors deserving most attention include a slowdown in the diffusion of innovation from firms at the technological frontier – mostly multinationals which have enjoyed steady productivity growth – to lagging firms, weaker investment in knowledge-based capital and a decline in the pace of business start-ups (OECD, 2015b). Yet, in many OECD countries facing stagnant or falling working-age population and declining returns to higher education, the role of innovation as a source of productivity gains and medium-term rises in material living standards will become even more prevalent. In addition, many countries are still facing high long-term unemployment or relatively high rates of labour market withdrawals, in both cases contributing to skills erosion, social exclusion and income inequality.

Against this background, the case for ambitious structural reforms, combined with supportive demand policies, remains strong to lift potential growth. The 2015 issue of *Going for Growth* identified priorities and formulated explicit recommendations to address the

Figure 1.2. **Labour productivity growth slowed even before the crisis in advanced economies**

Average annual growth rate of GDP per hour worked,[1] percentage



1. GDP per employee for non OECD countries. For Brazil, Indonesia and Mexico data refer to 1991-2000 instead of 1990-2000.

Source: OECD, *National Accounts and Productivity Databases* and *International Labour Organisation (ILO) Database*.

StatLink http://dx.doi.org/10.1787/888933323721

key challenges. In essence, recommendations have been made i) to develop skills and knowledge-based capital, underpinned by the quality and inclusiveness of the education system, ii) to improve policy settings in competition and innovation to facilitate the entry of new firms and the smooth reallocation of capital and labour towards the most productive firms and sectors, iii) to make growth more inclusive by removing obstacles to higher employment and labour force participation of underrepresented groups such as women, youth, low-skilled and older workers and by encouraging faster reallocation to new jobs and ensuring that workers can up-grade skills.

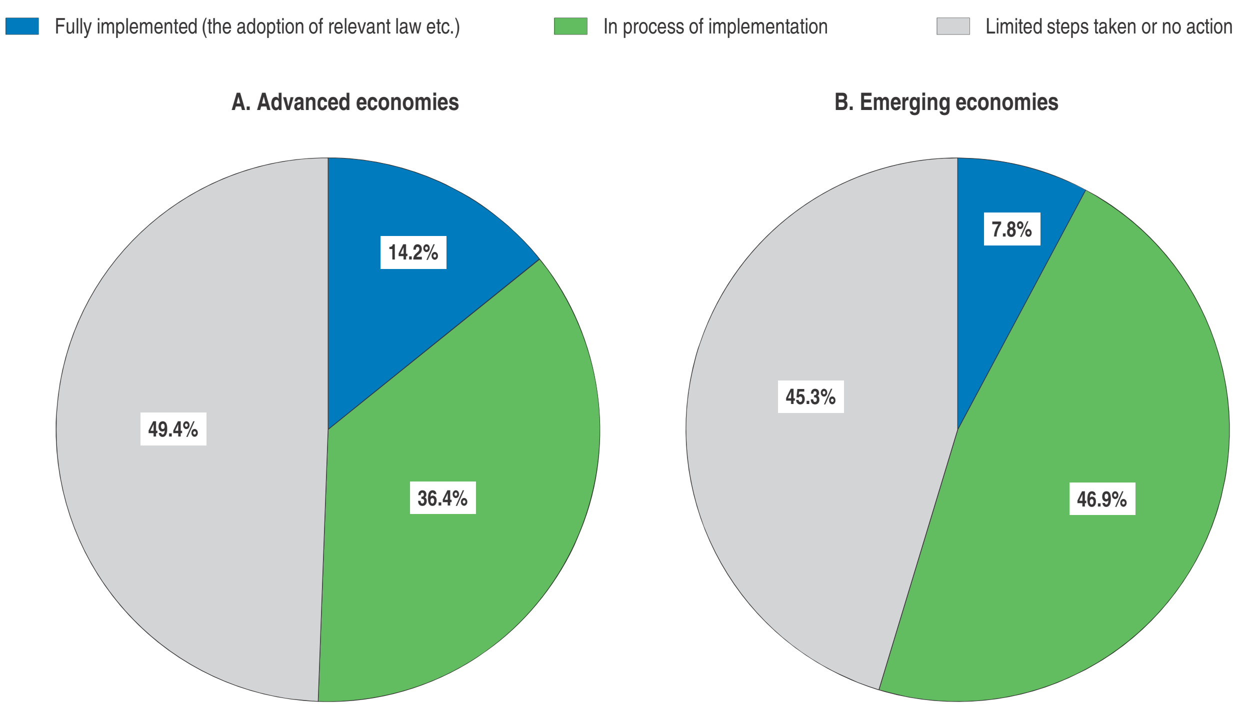
This chapter reviews the main growth challenges faced by OECD countries and selected non-OECD economies and takes stock of actions taken that relate to policy recommendations on reform priorities laid out in the 2015 issue of *Going for Growth*. The priorities are selected with a view to improving material living standards through employment and productivity gains. The policy areas covered include product and labour market regulations, tax and benefit systems, rules affecting foreign trade and investment, education and training, as well as innovation. The chapter specifically evaluates the extent to which the countries have addressed such reform priorities, mainly focusing on the actions taken in 2015. The implementation of reforms is defined as the introduction of relevant laws and decrees or appropriate measures (such as budgetary provisions) put in place for the reform to come into effect. It does not, however, evaluate how effectively those legislations or measures are enforced in practice.

The next section provides a global overview of the reform momentum in 2015 compared to previous periods. The subsequent section discusses the main challenges faced by countries and reviews actions taken on policy recommendations to address these challenges, with a special focus on developments that have taken place in 2015. The final section discusses the possible impact of recommendations on other important policy objectives, namely the reduction of income inequality as well as of budgetary deficits and current account imbalances.

A global overview of the progress on reform priorities

On average across advanced economies, about 14% of the reform recommendations found in the 2015 issue of *Going for Growth* have been fully implemented (that is, they were met with relevant legislation or significant budgetary provision) in 2015, while 36% were in the process of implementation (Figure 1.3 panel A). For emerging economies, although the share of the *Going for Growth* recommendations that have been fully implemented remained lower than in advanced economies, a higher proportion (44%) was in the process of implementation (Panel B). Taken at face value, these numbers indicate a marked slowdown in the pace of reforms in 2015 relative to the pace observed during the period 2013-14 (Figure 1.4, "fully implemented actions"). However, considering that legislative intensity can vary significantly from one year to the next, caution is needed in comparing the pace reported in one year (2015) relative to the pace averaged over a two-year period.[1] Still, even if one takes into account not only the policy measures fully implemented but also the ones in the process of implementation – which may or may not end up as fully implemented – the pace of reforms would remain below that of the past two years (Figure 1.4, "full-implementation of in-process measures").

Figure 1.3. **About 50 % of the *Going for Growth* recommendations have been implemented or are in the process of implementation**

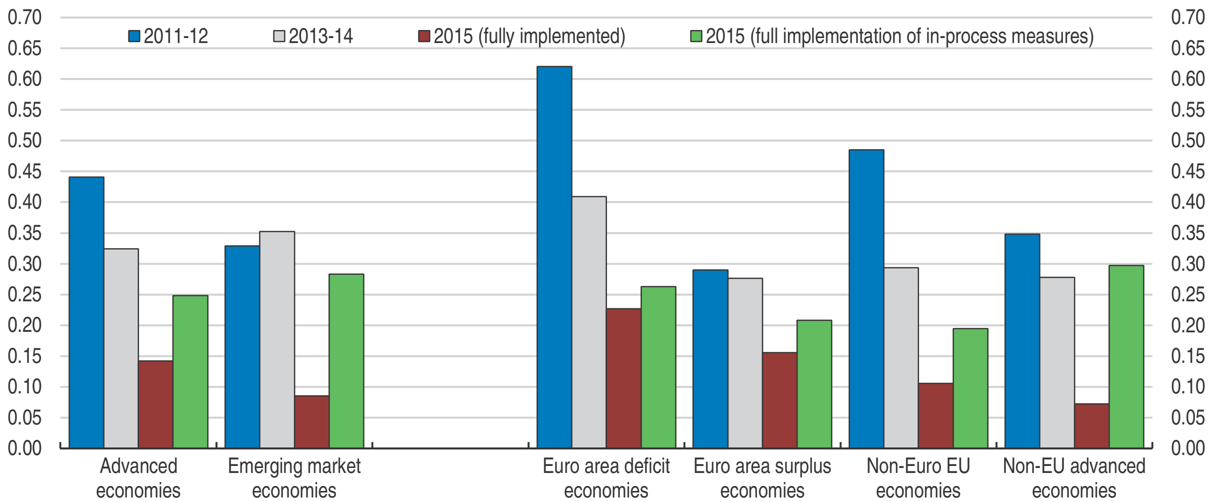


StatLink http://dx.doi.org/10.1787/888933323735

The actual pace of reform is more likely to lie somewhere between these two cases, confirming the slowdown of the reform momentum observed since the peak of 2011-12. The deceleration is most apparent in euro area economies, where it is now similar to the pace observed elsewhere. Furthermore, the pace of reform in the euro area (current account) surplus economies continues to be substantially below that of euro area deficits economies.

Figure 1.4. **The pace of reform has decelerated in 2015**

The share of implemented *Going for Growth* recommendations[1]

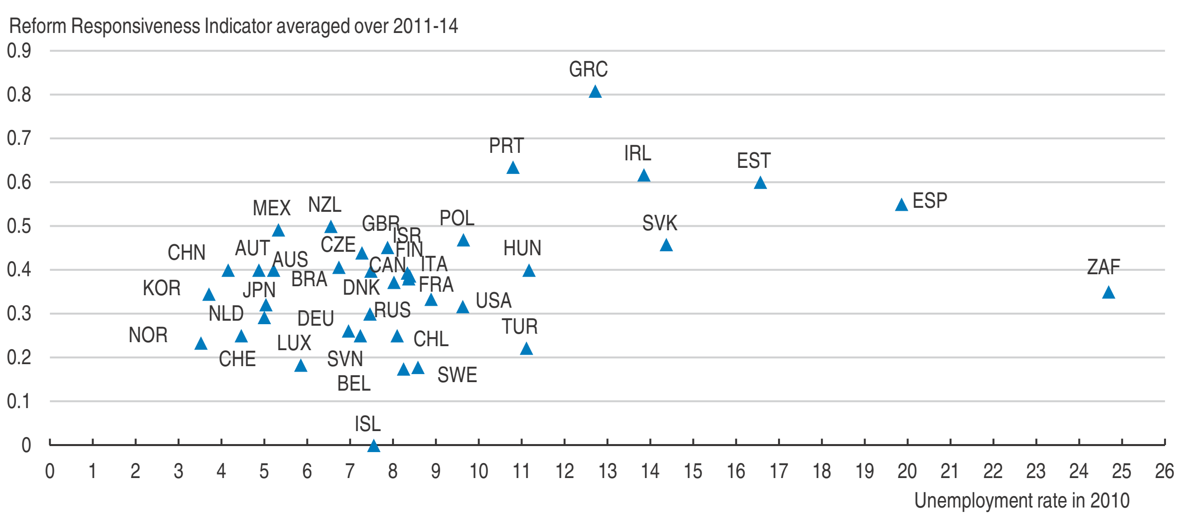


1. The chart illustrates the pace of reform in previous periods captured by the indicator of reform responsiveness (RRI) and the estimated level of responsiveness in 2015 based on two different scenarios to ensure comparability with previous two-year periods. See the *Going for Growth* 2010 issue for an explanation on RRI, and the main text on how the hypothetical RRI is computed. Following Ollivaud and Schwellnus (2013), the euro area surplus economies are defined as the euro area members for which the current account surplus was on average larger than 1% of GDP over the period 2000-05 (Austria, Belgium, Germany, Finland, Luxembourg and the Netherlands). The euro area deficit economies include the remaining members of the OECD euro area (France, Estonia, Greece, Ireland, Italy, Portugal, the Slovak Republic, Slovenia and Spain).

StatLink http://dx.doi.org/10.1787/888933323740

While in the aftermath of the crisis, the responsiveness to *Going for Growth* recommendations tended to be higher in countries that faced more difficult macroeconomic conditions – in particular a very high unemployment rate (Figure 1.5) – such relationship has been less apparent more recently: a high responsiveness has been observed across countries facing diverse macroeconomic conditions.

Figure 1.5. **The pace of reforms has been faster in countries facing hardest macroeconomic conditions**



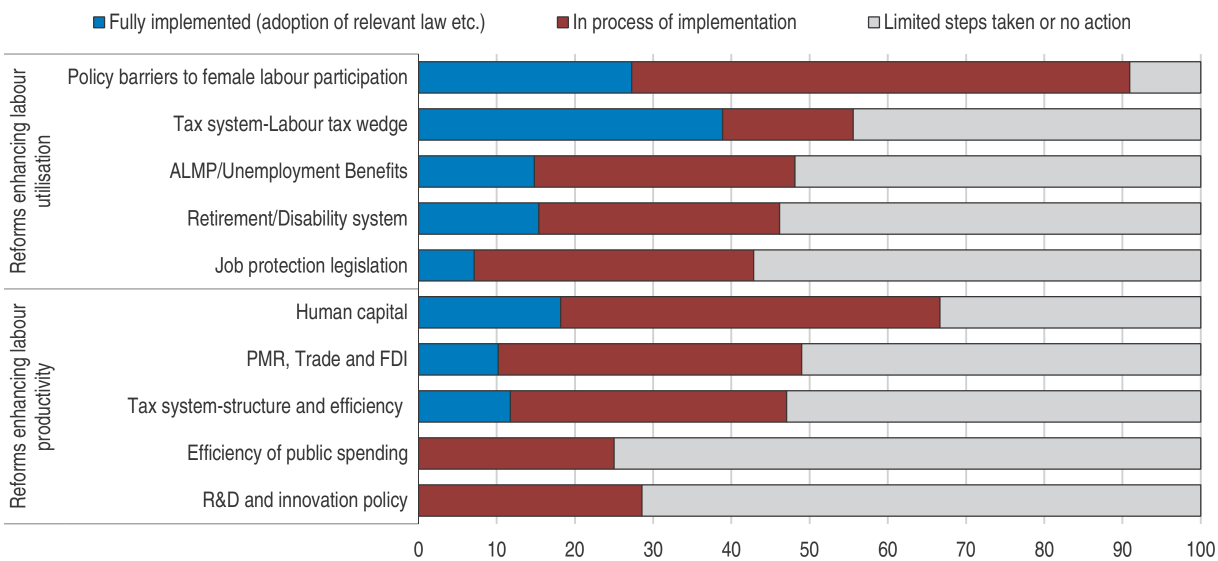
Source: OECD, *Going for Growth* 2013, 2015 and *Labour Force Statistics Databases*.

StatLink http://dx.doi.org/10.1787/888933323752

There is also notable heterogeneity in the responsiveness to *Going for Growth* recommendations across the main policy areas. Among the reforms that boost employment, the largest share of recommendations with actions implemented or in the process of implementation is observed in the area of barriers to the labour force participation of women, where action has focused on improving access to childcare services. On the other hand, labour taxation, especially on low-wage earners, is the area where the share of fully implemented recommendations is the highest. In the case of reforms that enhance labour productivity, the area where most action has taken place is education, with an emphasis on upgrading the contents of vocational training, improving teaching quality via revised curriculum and new evaluation system, or increasing provision of early childhood education. In contrast, relatively few actions have been taken in the areas of labour market regulation – where more substantial actions had been seen during the past few years – as well as in the area of innovation support and product market regulation (Figure 1.6).

Figure 1.6. **Reform intensity has been highest in the areas of education and of full-time labour force participation of women**[1]

Share of implemented recommendations, percentage



1. The chart summarises the share of recommendations made in *Going for Growth* 2015 by the status of their implementation. Full implementation refers to the adoption of relevant laws or equivalent measures.

StatLink http://dx.doi.org/10.1787/888933323765

Yet, the weak global economic prospect calls for a stronger and more broadly-based reform efforts across countries, not least to improve confidence and prop up investment. The case is particularly compelling for reforms that in addition to stimulate employment and productivity can best support demand in the short term. Aside from a shift in the composition of public spending towards infrastructure investment, this includes reductions of barriers to firm entry in services sectors with pent-up demand as well as reforms in the areas of housing market policies and job-search assistance that can facilitate geographic and job mobility, thereby easing frictions in the reallocation of resources.

A welcome initiative promoting concerted actions to step up the intensity of reforms across major economies has been launched in November 2014 by G20 governments, which have committed to raise their collective GDP by 2018 by an additional 2% through an ambitious package of structural measures and macroeconomic policies (see Box 1.1). The structural policies were assessed by the IMF and OECD as contributing more than 2% to G20 GDP by 2018 relative to the baseline if fully implemented. According to the joint assessment by the International Monetary Fund, OECD and World Bank, G20 countries are making progress towards implementing their commitments but more effort is needed for the full and timely implementation that would be needed to meet the GDP objective.

Box 1.1. **G20 Growth strategy and its implementation**

In November 2014, the leaders of G20 countries agreed to "ambitious but realistic" policies with the aim to lift the G20's collective GDP by at least 2% above the trajectory implied by the existing policies over the coming five years. All G20 countries submitted Growth Strategies (GS) that consist of macroeconomic policies to stimulate demand in the near term and structural reforms to lift employment and productivity through stronger competition, trade, as well as public and private investment. A wide range of reforms in product and labour markets, investments in public infrastructure, tax reforms and innovation policies were included in the GS.

This process brought a new level of ambition to global economic cooperation in this area. It was based on a clear quantitative target and backed up by specific and detailed reform commitments. While the process is member-led and based on peer review, it has been supported by analysis from international organisations including the OECD. This included an initial assessment of the policy priorities, based in part on *Going for Growth*.

Many measures committed by G20 countries in their GS overlap with reform priorities recommended in *Going for Growth*. Examples of such measures include regulatory reforms to reduce administrative burdens to business activities, increase spending on active labour market policies, vocational training and childcare service, and opening up service sectors to foreign competition.

This process was also supported by a joint quantification exercise by the IMF and the OECD that estimated the impact of the specific policy commitments. This estimated that the full implementation of GS would raise the G20's collective GDP by 2.1 per cent by 2018.

The OECD, together with the IMF and World Bank, is also supporting G20 countries to track progress on the commitments and has provided a quantitative assessment of impact of measures implemented before the 2015 G20 Summit in Antalya, Turkey.

Assessment of reform progress by country groups

This section reviews the main challenges and actions taken by countries on priorities identified in *Going for Growth*. For this purpose, the review of actions taken is organised around groups of countries sharing similar challenges and priorities (Box 1.2).

Group 1: Countries with extremely high long-term and youth unemployment (Greece, Ireland, Italy, Portugal, Slovak Republic and Spain)

Those countries, particularly hard hit by the crisis, have seen a recovery in output (with Greece being a notable exception) as a substantial reduction in unit labour costs improved their competitiveness. However, their unemployment rate remains painfully high, in particular the incidence of long-term and youth unemployment, which is the

Box 1.2. **Country grouping by common challenges**

For the purpose of this review, countries are grouped according to the common nature of the most pressing challenges as identified in the 2015 issue of *Going for Growth* and summarised here in the following set of tables. Challenges are examined at a level that allows for groupings that are as meaningful as possible, though some degree of arbitrariness remains inevitable. Many countries may be confronted with a similar challenge such as, for instance, high and persistent unemployment. But beyond this broad challenge, countries are also distinguished according to the more specific structural factors and policy weaknesses perceived to be contributing the most to that particular challenge. The country groups are shown in the table below.

With many countries sharing a great deal of challenges, there are some "borderline" cases, i.e. countries that could legitimately belong to another group than the one assigned in this exercise. For instance, Finland has been grouped with Austria, Belgium, France, Luxembourg and Slovenia on the basis of challenges such as low labour force participation of older workers and persistently high unemployment. However, it could also be seen as belonging to a group comprising mainly of Nordic countries.

Similarly, a few countries only share part of the characteristics on their group. For example, persistently high unemployment is not as big a concern in Austria as it is for other countries in the group. In fact, one country – Iceland – could not be fitted in any group and is not covered in the report. The European countries form four groups, while the rest of the OECD and BRIICS account for another four groups. The EU as such is not considered as a country and not covered in this report, although it is given recommendations in the *Going for Growth*.

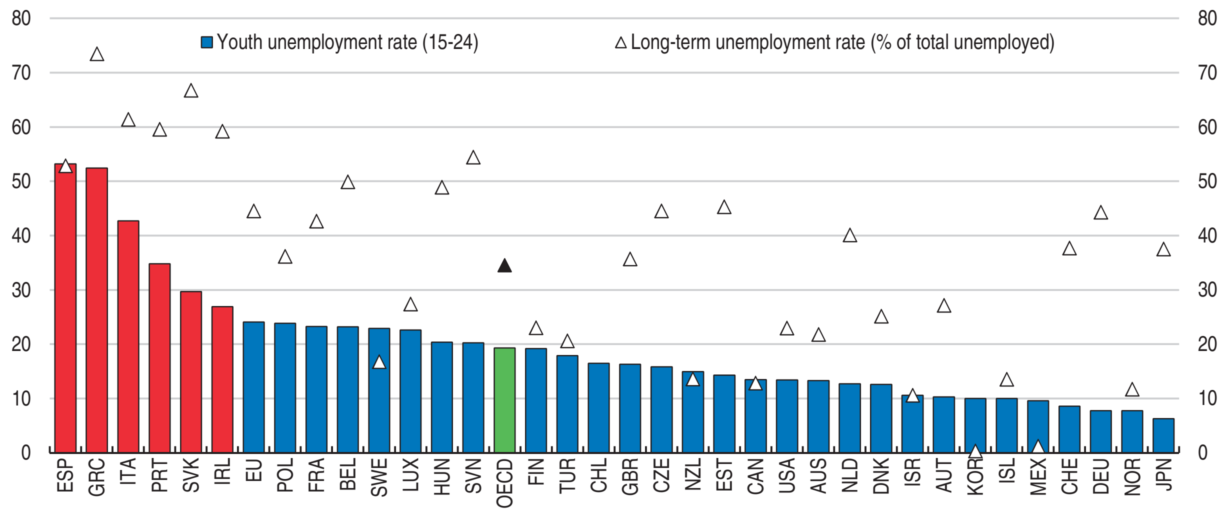
For further details on the identification and selection of reform areas as well as underlying empirical literature, see past issues of *Going for Growth*.

Country Group	Countries	Main challenges	Strengths
Group 1	Greece, Ireland, Italy, Portugal, Slovak Republic, Spain	Extremely high youth and long-term unemployment	Past labour market reforms improved cost competitiveness
Group 2	Czech Republic, Estonia, Hungary, Israel, Poland, Latvia	Large productivity gap vis-à-vis advanced OECD countries	High cost competitiveness and strong manufacturing base
Group 3	Denmark, the Netherlands, Norway, Sweden	Low average working hours and risks in housing markets	Highest productivity level among the OECD countries
Group 4	Austria, Belgium, Finland, France, Luxembourg, Slovenia	High unemployment and early exit from labour market	High productivity levels
Group 5	Australia, Canada, New Zealand, Switzerland, United Kingdoms, United States	Sluggish productivity growth and low return to KBC investment	Relatively flexible product and labour markets
Group 6	Germany, Japan, Korea	Low productivity in services sectors and limited full-time labour participation by women	Good manufacturing export performance and relatively low unemployment
Group 7	Chile, China, Mexico, Russian Federation	Large productivity gap vis-à-vis the advanced OECD countries	Large room for catch-up and strong manufacturing base or abundant natural resources
Group 8	Turkey, Brazil, Colombia, Indonesia, India, South Africa	High labour informality, infrastructure shortages and low educational attainments	Large room for catch-up and high population growth

highest among OECD countries (Figure 1.7). Such high long-term unemployment undermines long-run growth through skills erosion and reduces the prospect of career building and social mobility for affected youth, with the risk of a further widening of income inequality (OECD, 2015c).

Figure 1.7. **Youth unemployment rate and the share of long-term unemployed remain very high**

Percentage, 2014[1]



1. Data for long-term unemployment for Korea refer to 2013.

Source: OECD, *Labour Force Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933323779

Addressing youth and long-term unemployment requires the mobilisation of a broad range of policies…

The most pressing agenda for these countries is to mobilise a broad range of policies to improve job opportunities for the unemployed and to facilitate their return to work. Furthermore, reforms that raise productivity must be pursued to ensure mid- to long-term recovery in output and employment. All countries in this group should extend and improve the effectiveness of active labour market policies (ALMPs), in particular those related to job-search assistance, training programmes and hiring subsidies. Resources allocated to ALMPs in comparison to the caseloads are well below OECD average in those countries.

Recent policy actions in this area include:

- As the part of the *Jobs Act*, Italy has established the Active Labour Market Policies Agency (*Agenzia Nazionale per le Politiche Attive del Lavoro* or ANPAL) that coordinates ALMPs implemented by local authorities and those by the authority of the Ministry of Labour. Measures to ensure more effective monitoring and evaluation of ALMPs are also in the pipeline.
- Portugal launched in April 2015 the 43 million Euro programme "Reactivar" that seeks to improve job prospects for the long-term unemployed over 30 years of age by financing internships in the private sector during six months.
- The Slovak Republic implemented subsidies to support the first jobs for youth under 29. Furthermore, it is engaging in several reforms to enhance the effectiveness of ALMPs such as establishing a first point contact in Public Employment Services that allows more individualised job-search support or reallocation of labour officers in order to reduce the caseload per officer by half.

- Spain launched a new activation programme targeted at the long-term unemployed. It also introduced a reform of vocational training programmes that focuses on the specific needs of firms, while opening to competition the provision of training programs. The quality control of activation measures were also strengthened.

Other important labour market reforms recommended to those countries would enhance the effectiveness of ALMPs. They include expanding the coverage of unemployment benefits to workers not covered (Greece, Italy and Portugal), narrowing the gap in job protection between regular and non-regular workers (Italy and Spain) and increasing the flexibility of wage formation by reducing further the administrative extension of sectorial bargaining (Portugal and Spain). These countries have been quite active in those areas in recent years: notably Spain and Portugal have been engaging in reforms of employment protection and wage bargaining systems (OECD, 2014a and 2014b). Most recently, Italy introduced a new employment contract with a less costly dismissal procedure, along with the new social insurance for employment extending its coverage while making benefits conditional on participation in active labour market programmes.

… together with reforms that increase educational attainment and employability of youth.

Raising graduation rates from higher education – while ensuring that the skills acquired better match labour market needs – will also improve youth employment prospects and long-run productivity growth. Common priorities include raising the quality of compulsory education and tertiary education by improving autonomy and accountability of schools and universities. A particularly important related reform is to increase the provision of vocational education and training (VET) with a better curriculum and participation of employers and, beyond schooling, to improve access to job-related training.

Recent policy actions in this area include:

- In Spain, the reform of vocational training programmes mentioned above provides life-long training opportunities for employed workers.
- The Slovak Republic introduced a new funding system for secondary vocational schools which allocates funds according to the performance of students in the labour market.

Reducing administrative burdens and entry barriers to specific sector would contribute to job creation and competitiveness

Reducing the regulatory barriers to entry as well as the compliance costs associated with complex regulations can stimulate business expansion and job creation. The employment gains can be particularly rapid in industries with large pent-up demand and low entry costs (such as some professional services) (See Chapter 2). Stronger competition also fosters the reallocation of jobs from lower- to higher-productivity firms within sectors, thereby improving the allocation of skills (OECD, 2015b; Adalet McGowan and Andrews, 2015). The productivity gain expected from improving the matching between workers' skills and the skills level required for their job is particularly large in some of these countries (Figure 1.8). Stronger product market competition would also facilitate labour market reforms (Blanchard and Giavazzi, 2003). This allows for lower unit labour costs which translate into lower prices, improving competitiveness as well as real wages in these countries.

Table 1.1. **Reform priorities for countries with high long-term and youth unemployment**

	GRE		IRL		ITA		PRT		SVK		ESP	
	R[1]	A[1]	R	A	R	A	R	A	R	A	R	A
Unemployment benefits/social protection and ALMPs												
Make UB conditional on work availability and job-search criteria/reinforce activation					✓	•						
Taper UB along duration/reduce age-bias in UB/reduce progressively the combined generosity of UB and other social benefits (i.e. reduce spikes in marginal effective tax rates)			✓				✓					
Expand the coverage or level of UB/social protection and social services	✓				✓	•	✓					
Strengthen resources for job-search assistance and training whilst improving targeting of ALMPs	✓		✓		✓	•	✓	•	✓	•	✓	•
Focus on well-targeted training programs/requalification	✓		✓				✓		✓	•	✓	•
Strengthen monitoring and evaluation of PES	✓				✓	•	✓				✓	
Job protection												
Ease EPL on regular workers to narrow the gap with respect to non-regular workers and tackle labour market duality					✓	•					✓	
Minimum wages and wage bargaining systems												
Reduce or eliminate administrative extension of collective wage agreements							✓				✓	
Human capital												
Early childhood education												
Expand access to quality childcare and early education/improve targeting			✓	•					✓	•		
Primary and secondary education												
Improve curricula and evaluation	✓				✓	•						
Other recommendations (reduce dropout, reduce inequality in educational outcomes and opportunities)							✓		✓			
Tertiary education												
Increase university autonomy and accountability or specialisation by institutions	✓								✓		✓	
Introduce/raise tuition fees flanked by income-contingent loans/mean-tested grants, Improve targeting of means-tested financial assistance					✓				✓		✓	
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs					✓		✓		✓	•	✓	•
Expand access to and effectiveness of lifelong/job-related education and training							✓		✓		✓	•
Reduce economy-wide regulatory burdens												
Reduce administrative burden on start-ups/complexity of regulatory procedure	✓		✓						✓	•	✓	•
Reduce the scope of public ownership/state intervention	✓	•			✓				✓			
Ease business exit/bankruptcy procedures					✓	•						
Reduce sector-specific regulatory burdens												
Network sectors (energy, transport, telecoms)			✓				✓		✓		✓	•
Retail trade and professional services	✓		✓	•			✓		✓		✓	
R&D and innovation												
Increase public support/Improve targeting of public support/evaluate grant programs			✓						✓	•		
Increase and/or reform indirect R&D support – tax incentives, seek balance between direct and indirect support							✓		✓	•		
Strengthen collaboration between research centres/universities and industry			✓				✓		✓	•		

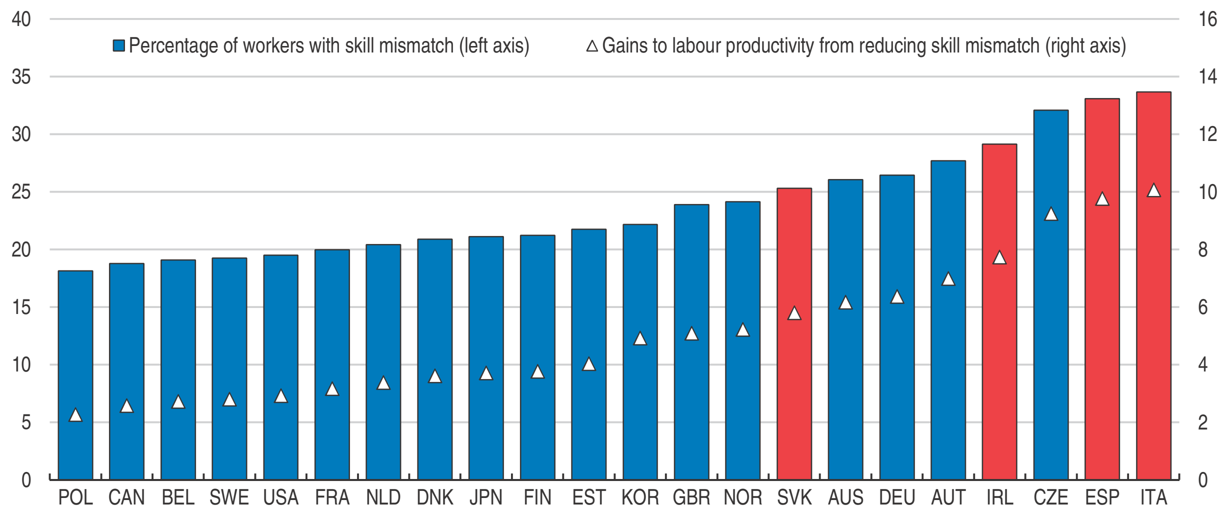
1. R stands for recommendation in that area, A stands for any actions that are implemented or in the process of implementation.

Recent policy actions taken in this area include:

- Ireland introduced the Legal Service Regulation Bill which would establish an independent regulator for the legal profession.
- Italy introduced relevant decrees aimed at improving the efficiency in the civil courts and at streamlining bankruptcy procedures.
- Spain is implementing the Market Unity Law that addresses internal market fragmentation for product and service markets and simplifies business licencing and other administrative burdens. It also took steps to liberalise passenger transport in railways.

Figure 1.8. **A significant share of workers face skill mismatch, implying a large scope for productivity gains**

Percentage of workers with skill mismatch and implied gain in productivity from reducing mismatch, selected OECD countries,[1] 2011-12



1. The figure shows the percentage of workers who are either over or under-skilled and the simulated gains to allocative efficiency from reducing skill mismatch in each country to the best practice level of mismatch. The figures are based on OECD calculations using OECD, *Survey of Adult Skills* (2012). Data for Greece and Portugal are missing.

Source: M. Adalet McGowan and D. Andrews (2015), "Labour Market Mismatch and Labour Productivity: Evidence from PIAAC Data", OECD *Economics Department Working Papers* No. 1209.

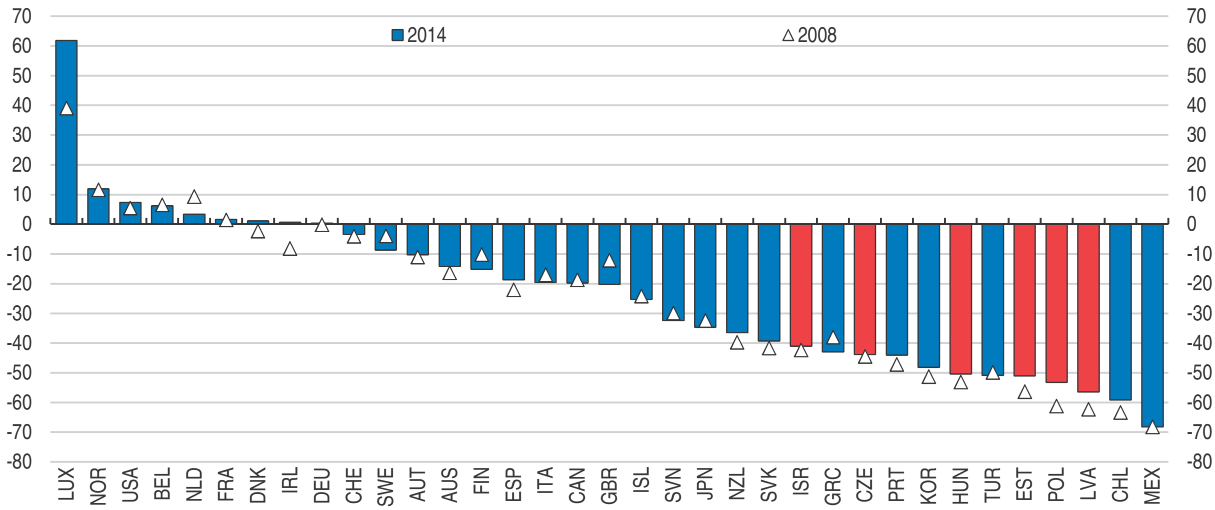
StatLink http://dx.doi.org/10.1787/888933323785

Group 2: Countries with a large labour productivity gap vis-à-vis OECD average (Czech Republic, Estonia, Hungary, Israel, Poland and Latvia)

Those countries have most recently enjoyed relatively strong growth led by household consumption and exports. They also benefit from strong trade linkages with more advanced European economies, in particular in the case of the Czech Republic, Slovak Republic and Hungary, which are deeply integrated into their global value chains. Israel boasts a competitive and innovation-intensive manufacturing sector. However, the gap in labour productivity *vis-à-vis* the upper half of OECD countries remains large and with the exception of Poland, convergence has been slow or even stalled since the crisis (Figure 1.9). Weak productivity in the protected sectors accounts for much of productivity gap and slow catch-up, especially in Israel (OECD, 2016).

Figure 1.9. **The productivity gap remains large with ample room for catch-up**

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



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

StatLink http://dx.doi.org/10.1787/888933323792

While these countries are considerably more competitive than other European countries in terms of labour costs, this advantage is expected to wane as their wage level is likely to rise with their further economic development. In order to remain competitive, they must therefore reinvigorate productivity growth via a wide range of reforms in product and labour markets, investment in human capital and innovation.

Regulatory reforms to boost competition and entrepreneurship

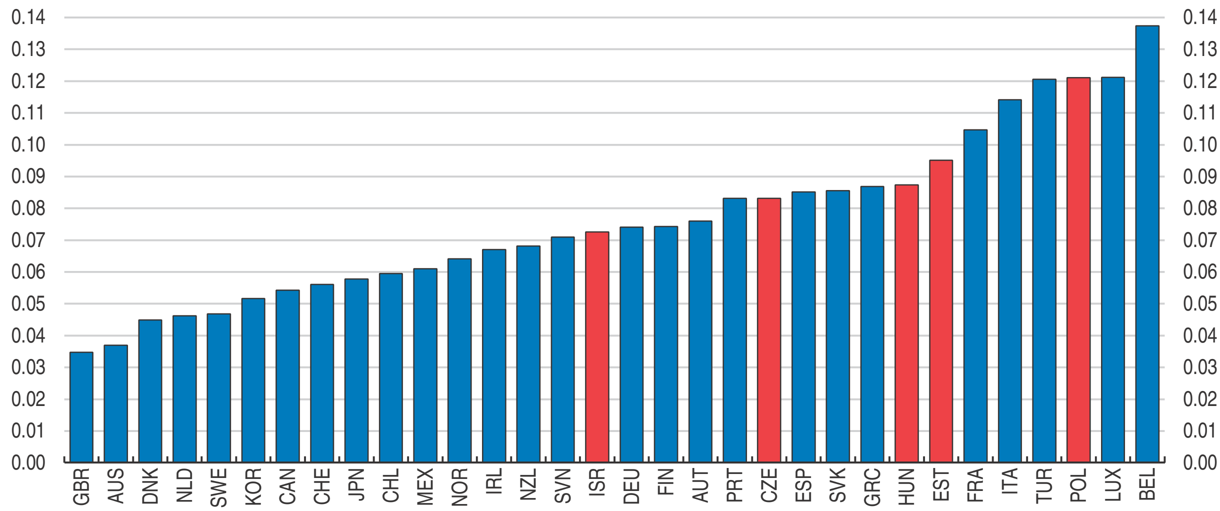
In the product market, those countries are recommended to remove red tapes across the board (Hungary and Israel), reduce the scope of public ownership (Czech Republic, Poland and Latvia), and to lower entry barriers in network industries and professional services (Czech Republic, Hungary, Israel, Poland and Latvia). Easing the strictness of regulation in network industries (e.g. energy, telecommunications and transport) as well as in retail and professional services would improve productivity and competitiveness in downstream sectors, not least manufacturing, which use services from these upstream industries as inputs for their own production (Bourles et al., 2010). This “knock-on” effect of regulation in upstream industries on manufacturing through input-output linkages is particularly strong in several of the countries of this group (Figure 1.10). Furthermore, such product market reforms would put greater emphasis on new firm entry as a means to strengthen competition, encouraging incumbents to increase innovation efforts to protect their market shares.

Recent actions in this area include:

- Poland introduced a law facilitating seaport customs clearance and compliance to tax laws and information obligations, lowering thereby trade barriers. It also enacted laws stipulating further reductions of entry barriers in professional services while improving the legal framework for corporate restructuring.
- Latvia introduced a law requiring specific measures to improve the governance of state-owned enterprises.

Figure 1.10. **Regulations in non-manufacturing sector have significant impact on the manufacturing sector**

The indicator of regulatory impact on manufacturing sector,[1] index scale from 0 to 1, 2013



1. The figure compares the impact of regulation in upstream network industries (ETCR) as well as in retail and professional services, on manufacturing sector. The impact indicator is computed using the 2013 definition of PMR indicator and domestic input-output coefficients (except that of Korea which uses US input-output coefficient) and normalised across countries as an index that takes a value between 0 (minimum value across observations) and 1 (maximum value). Data for Latvia are missing.

Source: Égert and Wanner (2015), "The Regulatory Impact Indicator: the 2013 Vintage", OECD *Economic Department Working Papers*, forthcoming.

StatLink http://dx.doi.org/10.1787/888933323807

Higher investment in human capital and innovation capability

Ensuring a sufficient supply of skilled workers is essential for these countries to retain and upgrade their comparative advantage in manufacturing. Raising the quality of tertiary education and vocational education and training (VET) is of particular importance in smooth school-to-work transition and skills development.

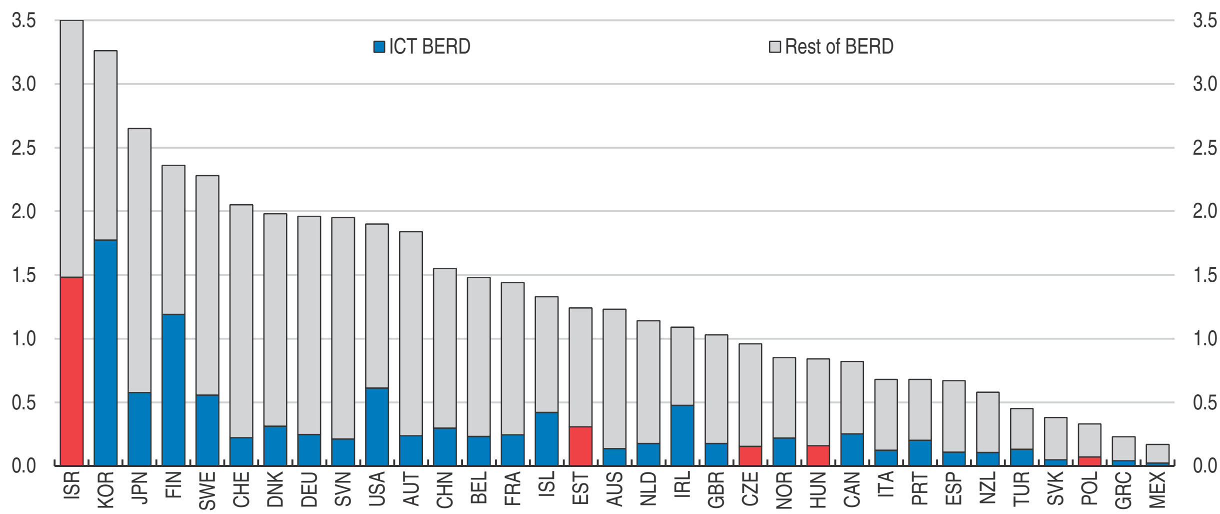
Recent policy actions in this area include:

- The Czech Republic made an amendment to the Higher Education Act, aimed at increasing the quality of higher education by reforming the accreditation of institution and study programmes.
- Estonia approved a law introducing quality standards and increasing the visibility of adult training. A system for labour market monitoring and forecasting will be operational in 2016. It also introduced a new grant system for university students which offers flexible conditions and strengthened support to students of poor socio-economic background.
- In Hungary, the transition from secondary to upper-secondary vocational school has been facilitated and the share of practice-oriented training in VET programmes has been increased.
- Poland implemented measures to engage employers to provide more workplace training for secondary vocational education, such as an obligation for vocational university programmes to contain at least a three-month apprenticeship or for companies operating in special economic zones to collaborate with schools to develop their educational programmes.

With the notable exception of Israel, the intensity of business-based R&D in those countries remains below the level in advanced OECD countries (Figure 1.11). An increase in investment in innovation, especially in the ICT sector that often experiences high productivity growth and acts as an input driving productivity growth in other sector, would strengthen their competitiveness in the medium- to long-run. While a better targeting of R&D support and a stronger university-industry linkage would enhance the effectiveness of innovation system in those countries, significant actions have not yet been observed in area of innovation policy.

Figure 1.11. **The intensity of business-based R&D is low compared to advanced OECD countries**

Business based R&D as a percentage of GDP,[1] 2013



1. BERD refer to Business expenditure on R&D. Data refer to 2012 for Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Israel, Italy, the Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Spain Switzerland and the United Kingdom; 2011 for Australia, Austria, Belgium, Greece, Iceland, Ireland, Mexico, New Zealand and the United States. The ICT sector is defined according to the OECD ICT sector definition based on ISIC Rev.4. Data for Latvia are missing.

Source: OECD (2015), *OECD Digital Economy Outlook* 2015, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933323813

Growth-friendly tax reform that reduces the labour tax wedge would enhance employment

Those countries also share persistently high long-term unemployment that is partly due to the high labour tax wedge discouraging the return to work. They are thus recommended to reduce the burden of labour income taxation by relying more on less distortive taxes such as VAT, environmental and immovable property taxation. Recent policy actions in this area are:

- Estonia raised the level of tax-free allowance and will allow low-income full-time workers to apply for a tax rebate from 2017. At the same time, taxes on alcohol, fuel and gas are to be raised.
- Hungary approved a legislation that reduces its flat income tax rate from 16% to 15% from 2016.
- Poland reformed the fragmented tax and social security regimes across different labour contracts by a law that makes all civil law contracts subject to the same social security contributions up to the minimum wage.

Table 1.2. **Reform priorities for countries with a large labour productivity gap *vis-a-vis* OECD average**

	CZE		EST		HUN		ISR		POL		LVA	
	R[1]	A[1]	R	A	R	A	R	A	R	A	R	A
Reduce economy-wide regulatory burdens												
Reduce administrative burden on start-ups/complexity of regulatory procedure					✓		✓		✓	•	✓	
Strengthen the competition framework	✓				✓							
Reduce the scope of public ownership/state intervention	✓								✓			
Improve corporate governance of state-owned enterprises	✓								✓		✓	•
Reduce sector-specific regulatory burdens												
Network sectors (energy, transport, telecoms)			✓		✓		✓		✓			
Retail trade and professional services					✓				✓	•		
Reduce barriers to FDI and international trade			✓				✓	•				
Human capital												
Early childhood education												
Expand access to quality childcare and early education/improve targeting	✓	•					✓	•	✓	•		
Primary and secondary education												
Postpone early tracking	✓				✓							
Other recommendations (Improve teaching quality, reduce inequality in educational outcomes and opportunities)	✓	•			✓		✓	•				
Tertiary education												
Increase university autonomy and accountability or specialisation by institutions	✓	•							✓			
Introduce/raise tuition fees flanked by income-contingent loans/mean-tested grants, Improve targeting of means-tested financial assistance	✓		✓	•	✓				✓			
Expand access/enrolment/reduce inequalities in access			✓	•	✓							
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs	✓		✓	•					✓	•		
Expand access to and effectiveness of lifelong/job-related education and training	✓								✓			
Provision and regulation of public infrastructure												
Raise public and private investment in infrastructure									✓		✓	
Enhance capacity/quality in transport, energy or telecommunication/enhance connectivity			✓						✓	•	✓	
Introduce/increase/reform price signals/congestion charges and user fees			✓						✓			
R&D and innovation												
Improve targeting of public support/evaluate grant programs	✓	•	✓								✓	
Strengthen collaboration between research centres/universities and industry	✓	•	✓								✓	
Tax system – labour tax wedges												
Reduce average/marginal labour tax wedges			✓	•					✓		✓	•
Reduce labour tax wedges for low-wage workers (introduce/expand EITC)	✓		✓	•	✓	•	✓	•	✓			
Tax system -structure and efficiency												
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment	✓		✓	•	✓				✓		✓	

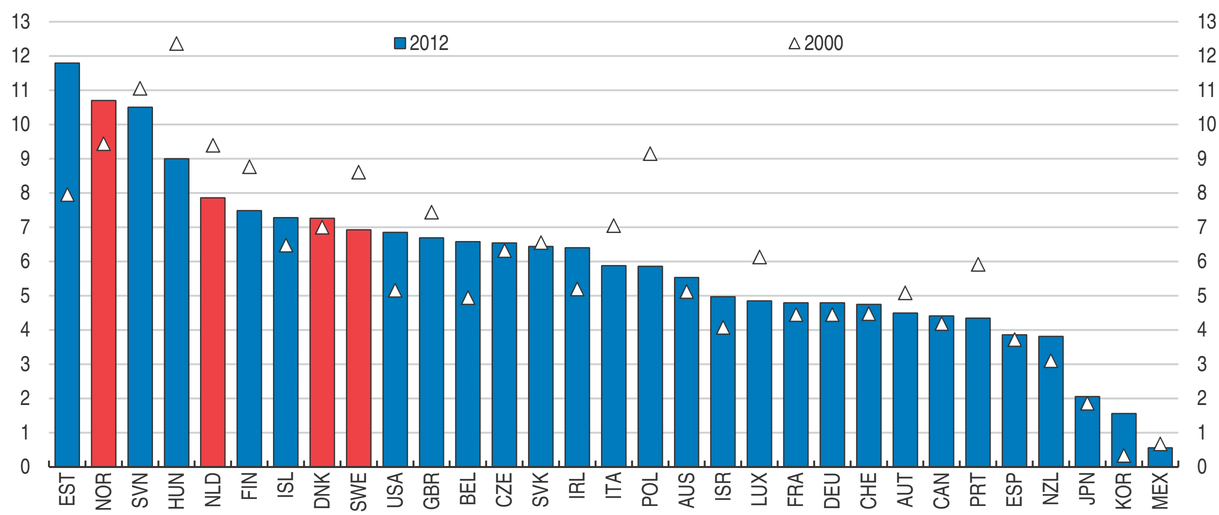
1. R stands for recommendation in that area, A stands for any actions that are implemented or in the process of implementation.

Group 3: Countries with low working hours and housing market distortions (Denmark, the Netherlands, Norway and Sweden)

These countries enjoy the highest labour productivity among OECD countries and also a relatively high employment rate thanks to strong labour force participation of women. However, their average working hours remain substantially below the OECD average and a relatively high share of working-age population are receiving disability benefits compared to other OECD countries (Figure 1.12). These indicate further room to improve labour resource utilisation. Therefore, the reform priority for these countries is to reduce the policy disincentives to work longer hours and to remain in the labour force, namely the high tax burden on labour and the generous sickness and disability benefit system.

Figure 1.12. **The share of disability benefit recipients is among the highest in OECD countries**

Percentage of population aged 20-64 years old receiving disability benefits[1]



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. The last available year is 2014 for Estonia; 2013 for Australia, Czech Republic, Finland and the United States; 2010 for Spain; 2009 for Mexico; 2008 for Austria, Japan and Korea; 2007 for Canada and France; 2005 for Luxembourg. For 2000, data refer to 2004 for Poland; 2003 for Japan and Mexico; 2002 for the Netherlands; 2001 for Ireland.

Source: Secretariat updates of figures published in OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933323821

Making work pay more while preventing early withdrawal from labour market

Countries in this group are recommended to reduce the relatively high corporate and labour income tax rates by shifting the tax burden to property and indirect taxation, such as value-added tax (VAT), and also to remove tax expenditure on owner-occupied housing. The high marginal tax wedge on labour income is hindering the work incentives of low-income households and second-income earners in the Netherlands, while it is discouraging above-average income earners to work longer hours in Sweden (OECD, 2015d). As an example of recent actions in this area, Norway has increased the tax value of secondary homes to 80% of market value and has streamlined tax expenditures while reducing the income tax rates in a step-wise manner.

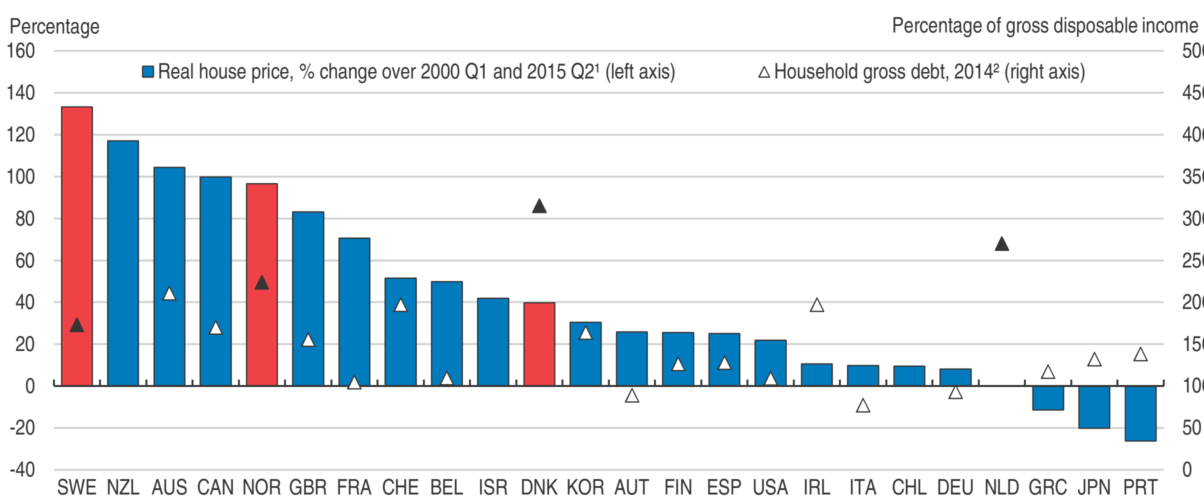
Tightening access to sickness and disability schemes and re-orienting them towards back-to-work and job-search objectives would help maintaining workers in the labour force. Taking a step in this direction, Norway has reduced the generosity of disability benefit calculation and is implementing a faster tapering rule for disability benefits and new medical assessment for sickness benefits. Also, complementary reforms to curb alternative channels to withdraw early from the labour market are needed, such as a tightening of unemployment benefit entitlements. No action has been observed recently in this area.

Removing housing market rigidities to promote labour mobility and macroeconomic stability

Another reform priority for those countries is to address housing market rigidities. Stringent regulation on land planning and rent control as well as tax subsidies for owner-occupied housing are depressing housing supply. This not only impedes efficient labour mobility but also results in elevated housing prices, posing macroeconomic risks via higher household debt level. The rise in housing price has been remarkably fast in some of these countries contributing to an elevated household debt, especially in Denmark (Figure 1.13). Recent actions in this area include:

- The Netherlands reformed its rent control by increasing the extent to which the rent reflects the property value.
- Sweden has put forth a new housing plan that includes measures to streamline land-use planning and incentives for municipalities to release land.

Figure 1.13. **House prices have risen fast amid large household debt**



1. The last available data refer to 2015 Q3 for Canada, Finland, the United Kingdom, Greece, Korea, Norway and the United States; For Chile, data refer to 2002 Q1 and 2014 Q3.
2. The last available year is 2013 for Japan and Switzerland.

Source: OECD, *Prices and Purchasing Power Parities* and *Economic Outlook Databases*.

StatLink http://dx.doi.org/10.1787/888933323832

Better resource allocation and improved human capital would help further boost productivity

In order to sustain their relatively high productivity level in the medium run, Nordic countries need to reduce the scope of public ownership in network industries and entry barriers in retails and professional services. They also have room to enhance the performance of their education system by developing school evaluation frameworks, in particular by improving teacher quality and strengthening vocational education and training. Norway and Sweden have increased budget resources to raise teacher qualification and salaries. The Netherlands and Sweden are recommended to reduce the strictness of employment protection of regular workers, which would improve productivity by enhancing the allocation of labour resource.

Table 1.3. **Reform priorities for countries with low working hours and housing market distortions**

	DNK		NLD		NOR		SWE	
	R[1]	A[1]	R	A	R	A	R	A
Unemployment benefits/social protection and ALMPs								
Make UB conditional on work availability and job-search criteria/ reinforce activation			✓					
Retirement and disability policies								
Phase out early retirement pathways (via disability or unemployment)	✓							
Review criteria to disability benefits, improve monitoring and integration with ALMPs	✓		✓		✓	•	✓	
Job protection								
Ease EPL on regular workers (shorten judicial procedure, reduce severance pay), narrow the gap with respect to non-regular workers and tackle labour market duality			✓				✓	
Ease conditions for justified individual or collective dismissals			✓	•			✓	
Tax system – labour tax wedges								
Reduce labour tax wedges	✓		✓	•			✓	
Tax system -structure and efficiency								
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment	✓						✓	
Broaden the tax base – reduce tax expenditures/subsidies	✓		✓		✓	•	✓	
Housing/Planning/Zoning policies and regulations								
Remove obstacles to the expansion of a private residential market/reduce rent regulation	✓		✓	•			✓	
Improve targeting or reduce the use of housing subsidies/improve targeting in the provision of social housing	✓		✓	•				
Reduce/eliminate preferential tax treatment for housing investment/reform property taxation			✓		✓	•	✓	
Loosen/reform land, zoning and planning restrictions	✓	•	✓				✓	
Reduce economy-wide regulatory burdens								
Reduce the scope of public ownership/state intervention					✓	•	✓	
Reduce sector-specific regulatory burdens								
Network sectors (energy, transport, telecoms)					✓	•	✓	
Retail trade and professional services					✓	•		
Human capital								
Primary and secondary education								
Improve teaching quality/improve incentives for talented teachers (especially to work in difficult schools)					✓	•	✓	•
Improve incentives to secondary education completion/focus on reduce dropout	✓						✓	•
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs	✓						✓	
Expand access to and effectiveness of lifelong/job-related education and training	✓							

1. R stands for recommendation in that area, “A” stands for any actions that are implemented or in the process of implementation.

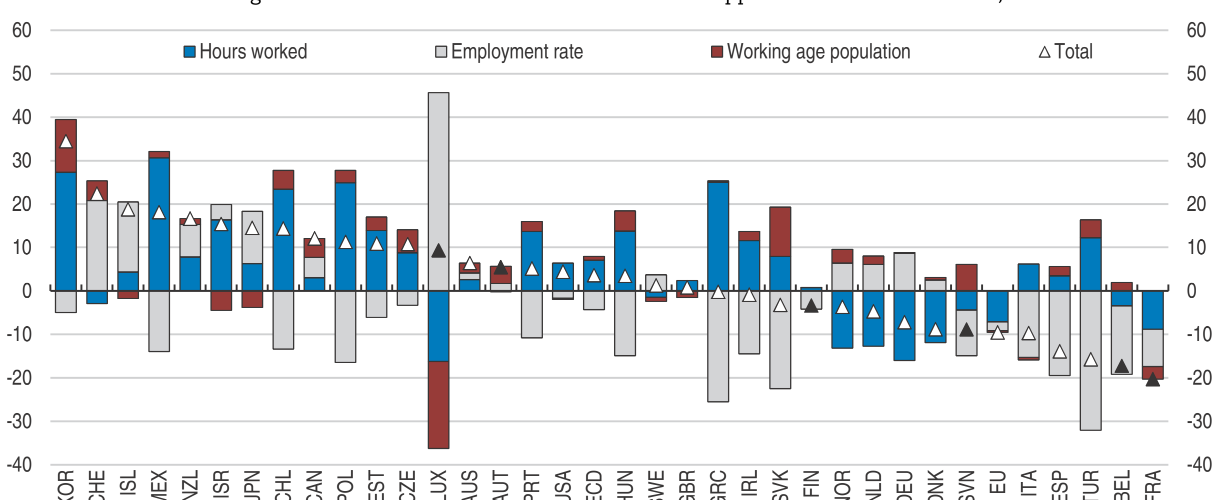
Group 4: Countries with high structural unemployment and/or low participation of older workers (Austria, Belgium, Finland, France, Luxembourg and Slovenia)

The countries in this group are also enjoying levels of productivity that are among the highest within OECD countries (Slovenia being an exception), but their unemployment rates remain considerably above pre-crisis levels (except Austria), which along with low labour force participation rates and low average working hours, contribute to low overall labour resource utilisation (Figure 1.14). To a large extent, the low labour force participation rate reflects the early exit of older workers from labour markets.

An important reform agenda for those countries is to boost employment by reducing the institutional disincentives to labour embedded in the unemployment benefits and pension systems. To ensure that reforms enhancing labour supply result in increased employment, measures to remove impediments to job creation are also advocated, such as lowering tax wedges for low-income earners and reducing entry barriers to industries with strong potential growth.

Figure 1.14. **Shorter average hours worked and lower employment rates reduce overall labour utilisation**

Percentage difference in labour utilisation[1] *vis-à-vis* the upper half of OECD countries, 2014



1. Employment rate is measured as total number of employed divided by working-age population. Hours worked are measured as total number of hours worked per employed. Working-age population is measured as working-age population divided by total population. The total of the three components is not equal to labour resource utilisation since the decomposition is multiplicative.

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

StatLink http://dx.doi.org/10.1787/888933323847

Institutional disincentives to job search and labour supply should be removed

In order to encourage more intensive job search, these countries are recommended to reduce the generosity of unemployment benefits as the duration of the spell lengthens and to activate job-search assistance and conditions at an earlier stage of the spell. Furthermore, they also need to reduce labour tax wedges, which are among the highest in OECD countries, and are particularly reducing job opportunities and incentives to take-up work for low-income earners.

Recent policy actions include:

- Austria in its latest tax reform has reduced the bottom statuary income tax rate. Furthermore, earners with income below the first income bracket will be eligible for a reimbursement of half of their social security contributions, up to EUR 400 per year.
- Belgium has reduced the level of part-time unemployment benefits and tightened the access to unemployment benefits for young people who have insufficient work experience. It also introduced a revenue-neutral shift in the tax burden from labour income to consumption and capital.
- Finland has put in place a joint service involving central and local government bodies that targets the long-term unemployed to improve the labour market skills and employability.
- In France, the earned-income tax credit providing incentives for workers to join the labour force has been raised through the integration and a better targeting of two existing measures.

Closing the pathway to early exit from labour markets

Encouraging older workers to remain in the labour market requires that a number of measures be taken to raise financial incentives to pursuing activity, but also that the working life evolves along with increases in life expectancy. The most essential reform is to increase the statutory retirement age and to re-design contribution and disbursement of pension so that it does not penalise continued work. Furthermore, these countries need to tighten access to programmes such as unemployment insurance or disability benefits that are often used as pathways to early retirement. On the other hand, provision of activation measures such as job placement services and life-long training are also important to support the attachment of older workers to labour market. Significant pension reforms were put in place during the 2010-12 period, notably to help restore public finance sustainability, but further action is needed to encourage the pursuit of activity at older age. More recent policy actions in this area include:

- In Belgium, pension age is gradually increased to 67 years by 2030 and incentives for early retirement are being curbed.
- Finland reoriented the wage subsidy system to those who are in the most difficult labour market situations, namely to the long-term unemployed over 60 years old.
- In France, an agreement reached by social partners will raise incentives for workers covered by complementary pensions to remain in the labour force at older age.

Removing impediments to job creation will help to absorb more workers into employment

Reforms to increase labour supply may not increase employment in the short run, especially during difficult macroeconomic conditions (See Chapter 2). To this end, complementary reforms that boost hiring and job creation are needed, such as reducing regulatory barriers to entry in industries with large scope for job creation.

- In France, a recent reform (*Loi Macron*) eases somewhat entry regulation in legal services and facilitates the creation of firms that can offer a wide range of legal and accounting services in the same entity. It also expands the possibility for stores to open on Sundays, especially in specific areas defined as touristic zones (albeit subject to agreements between store management and unions) and introduces a partial liberalisation of long-distance passenger coach services.

Table 1.4. **Reform priorities for countries with high structural unemployment and low participation of old workers**

	AUT		BEL		FIN		FRA		LUX		SVN	
	R[1]	A[1]	R	A	R	A	R	A	R	A	R	A
Unemployment benefits/social protection and ALMPs												
Make UB conditional on work availability and job-search criteria/reinforce activation			✓		✓		✓	•				
Taper UB along duration/reduce age-bias in UB/reduce progressively the combined generosity of UB and other social benefits (i.e. reduce spikes in marginal effective tax rates)			✓	•	✓				✓		✓	
Tax system – labour tax wedges												
Reduce average/marginal labour tax wedges	✓	•	✓	•	✓		✓	•				
Remove tax and benefit disincentives to low earners full-time participation/introduce or expand EITC			✓						✓		✓	
Tax system -structure and efficiency												
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment	✓	•	✓	•	✓		✓	•				
Broaden the tax base – reduce tax expenditures	✓				✓		✓	•				
Retirement and disability policies												
Phase out early retirement pathways (via disability or unemployment)	✓	•	✓	•	✓	•			✓		✓	
Increase statutory or minimum retirement age			✓	•							✓	
Lengthen contribution requirements to claim full pension/make benefits actuarially neutral					✓	•			✓	•	✓	
Adjust benefits/retirement age in line with life expectancy	✓				✓	•			✓			
Job protection												
Ease EPL on regular workers to narrow the gap with respect to non-regular workers and tackle labour market duality							✓		✓			
Ease conditions for justified individual or collective dismissals							✓	•	✓	•		
Minimum wages and wage bargaining systems			✓								✓	
Reduce sector-specific regulatory burdens												
Network sectors (energy, transport, telecoms)	✓		✓		✓		✓	•			✓	•
Retail trade and professional services	✓		✓		✓		✓	•	✓			
Human capital												
Primary and secondary education												
Improve teaching quality/improve incentives for talented teachers (especially to work in difficult schools)							✓	•				
Other recommendations (reduce inequality in educational outcomes and opportunities, etc.)							✓	•				
Tertiary education												
Increase university autonomy and accountability or specialisation by institutions											✓	
Introduce/raise tuition fees flanked by income-contingent loans/mean-tested grants, improve targeting of means-tested financial assistance	✓						✓				✓	
Other recommendations (reduce inequalities in access etc.)	✓										✓	
Expand access to and effectiveness of lifelong/job-related education and training					✓		✓	•				

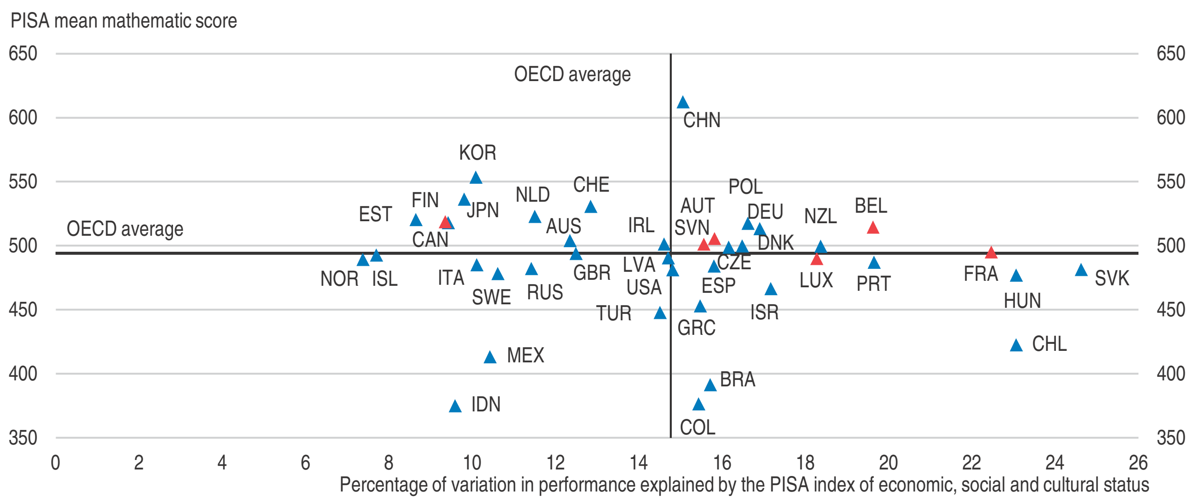
1. R stands for recommendation in that area, A stands for any actions that are implemented or in the process of implementation.

Stronger equity in educational attainment and access to skills formation would increase employability and productivity

While the education systems in those countries yield relatively high performance on average, the individual scores are also strongly influenced by the pupil's socio-economic background (Figure 1.15). Education reforms that promote successful outcomes for all students, in particular those allocating more resource to schools with larger concentrations of students from disadvantaged background, would promote equality of opportunities, social mobility and long-term growth. Similarly, better access to higher education and skills formation opportunities such as VET and life-long training would facilitate school-to-work transitions and enhance the employability of the low-skilled workers. As an example of recent policy actions, France introduced a new individualised guidance system designed for secondary-school students to prevent early drop out. It also put in place priority education networks that allocate funding and teacher trainings across schools based on the social characteristics of their students.

Figure 1.15. **Inequality in educational outcomes is relatively high**

2012



Source: OECD (2013), *PISA 2012 Results: Excellence through Equity (Volume II): Giving Every Student the Chance to Succeed.*

StatLink http://dx.doi.org/10.1787/888933323852

Group 5: Countries with sluggish productivity growth despite relatively high investment in knowledge-based capital (Australia, Canada, New Zealand, Switzerland, United Kingdoms and United States)

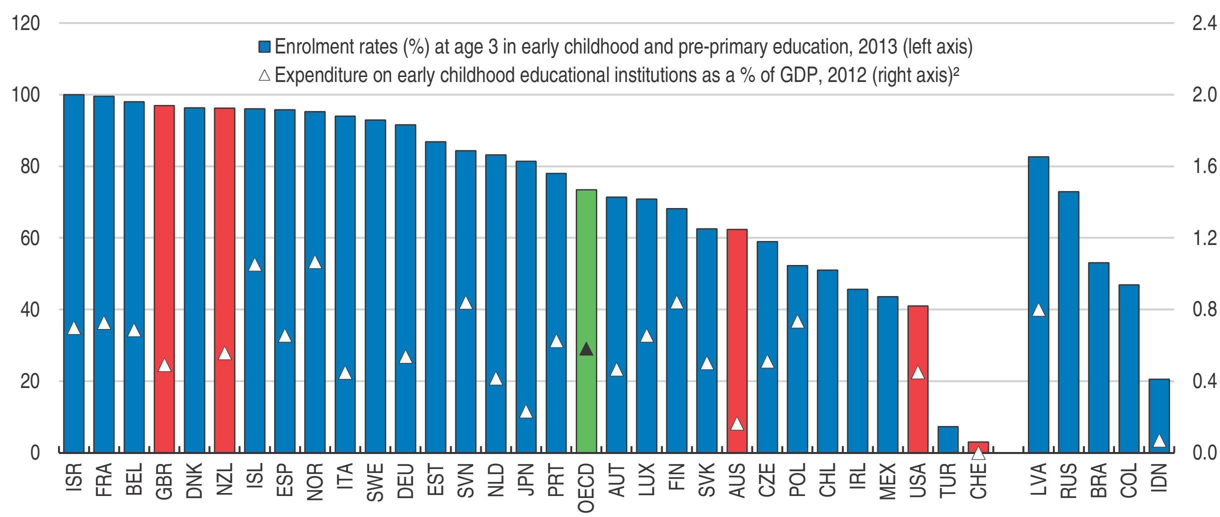
Countries from this group have recently seen a slowdown in growth (except New Zealand and the United Kingdom), as investment remained subdued, contrasting with a comparatively good employment performance. Relatively low rates of youth and long-term unemployment indicate that these countries have generally been successful at keeping lower-skilled workers in the labour force. The flip side is persistently weak productivity growth, in particular gains in multifactor productivity, despite comparatively high investment in knowledge-based capital and a business environment generally favourable to entrepreneurship, in addition to flexible labour markets.

At the same time, boosting productivity requires that a number of common structural weaknesses be addressed, in particular in the areas of educational outcomes – to ensure that educational qualification translates into skills – public spending efficiency, tax revenue structure and public infrastructure.

Ensuring further equity in access to high quality education would enhance human capital

The performance of high-school students from these countries in PISA tests in science and reading proficiency is only around the international average and with a tendency in some cases (Australia, New Zealand and the United Kingdom) to show a high variation across students. These countries need to reduce inequality in access to education at all levels. Increasing the supply and quality of early childhood education and care (ECEC) is of particular importance, as it influences the participation and performance of students at higher education levels. In these countries, expenditure on early childhood education is relatively low, which in some cases is reflected in enrolment rates (Figure 1.16). Reforms should be targeted to minorities and less advantageous social groups, in order to raise equality of opportunities and social mobility. Efforts are made by these countries to expand the supply of, and to raise enrolment in ECEC. For example, the United Kingdom has committed to double the entitlement to free childcare for working families with 3 and 4 year-old children from 2017.

Figure 1.16. **Expenditure on early childhood education is relatively low while enrolment rates can be raised for some countries**[1]



1. Early childhood education target children aged below the age of entry into ISCED level 1. There are two categories of ISCED level 0 programmes: early childhood educational development (ISCED 01) and pre-primary education (ISCED 02). Data for Canada are missing.
2. Public and private expenditure. The last available year is 2013 for Indonesia. Public expenditure only for Switzerland and public institutions only for Italy, Poland, Portugal and Switzerland. Data for Canada are missing.

Source: OECD (2015), *Education at a Glance* 2015: *OECD Indicators*.

StatLink http://dx.doi.org/10.1787/888933323869

Most countries in this group have faced substantial increases in income inequality during the past few decades. In some cases, there is evidence (the United States in particular) that strong investment in ICT and complementary organisational changes have resulted in faster replacement of workers by machines and software to perform specific tasks, while increasing the demand for workers with complementary skills, favouring those with higher skill levels (Brynjolfsson and McAfee, 2011). A wider access to higher education and effective VET programmes can help mitigate the impact of skill-biased technological progress on income inequality. As an example of recent actions in this area, the United States enacted the Workforce Innovation and Opportunity Act which consolidates job training programmes and aims to streamline services to assist job seekers. This reform involves concentrating resources on programmes that have proved to be effective and become more responsive to business needs.

Growth-friendly and efficient tax system supports productivity growth

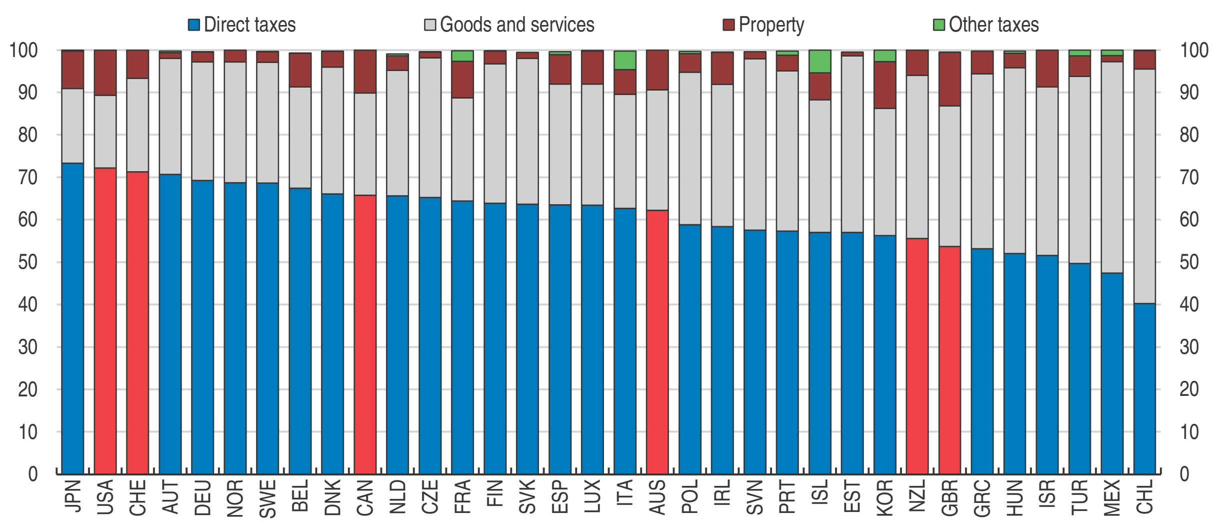
Tax reforms that shifts the burden from direct taxation such as income tax to indirect taxation such as VAT, Goods and Service tax (GST) or property taxation contributes to productivity growth by reducing distortion on labour supply and corporate investments (Arnold et al., 2012). The tax revenue in these countries relies considerably more on income taxation and social security contributions compared to other OECD countries (Figure 1.17). They have room to expand the role of indirect taxation, for instance, by harmonising the sales tax rate across regions (e.g. in Canada) or introducing environmental taxes. The efficiency of taxation can be also enhanced by broadening tax base and scrapping ill-targeted tax expenditures, such as the deduction of mortgage interest for owner-occupied housing from income taxation (e.g. in the United States).

Recent actions in this area include:

- Australia introduced in its 2015-16 Budget several measures to reduce corporate taxation, notably a lower rate of corporate-income for small businesses and a more generous capital write-off rule.
- Canada introduced some measures to reduce direct taxation, such as increasing the annual contribution limit for Tax-Free Savings Accounts (TFSAs) and a gradual lowering of the small business tax rate from 11% currently to 9% by 1 January 2019.

Figure 1.17. **The share of direct taxes in total tax revenues is relatively higher**[1]

Structure of general government tax revenue, percentage, 2014



1. Direct taxes refer to an aggregate of taxes on income, profits and capital gains, social security contributions and taxes on payroll and workforce. The last available year is 2013 for Australia, Japan, Mexico, the Netherlands and Poland.

Source: OECD, *Revenue Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933323873

Enhancing the effectiveness of public services and infrastructure

Providing effective public services in the face of mounting budgetary pressures while containing tax increases is a challenge shared by many OECD countries, including those from this group. An important reform priority is to enhance the cost efficiency of healthcare while ensuring equity to access. Furthermore, in some countries such as Australia and the United Kingdom, congested and depleted infrastructure calls for an increased provision of infrastructure as well as regulatory reforms that enhance its efficient use such as introduction of congestion fee.

Table 1.5. **Reform priorities for countries with sluggish productivity growth in spite of favourable institutional settings**

	AUS		CAN		NZL		CHE		GBR		USA	
	R[1]	A[1]	R	A	R	A	R	A	R	A	R	A
Human capital												
Early childhood education												
Expand access to quality childcare and early education/ improve targeting	✓	•			✓	•	✓		✓	•	✓	•
Primary and secondary education												
Improve teaching quality/improve incentives for talented teachers (especially to work in difficult schools)					✓						✓	
Improve curricula and evaluation					✓						✓	•
Reduce inequality in educational outcomes and opportunities	✓				✓		✓					
Tertiary education												
Introduce/raise tuition fees flanked by income-contingent loans/mean-tested grants, improve targeting of means-tested financial assistance			✓				✓					
Expand access/enrolment/reduce inequalities in access			✓	•			✓					
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs					✓	•			✓		✓	•
Unemployment benefits/social protection and ALMPs												
Strengthen resources for job-search assistance and training while improving targeting of ALMPs									✓	•	✓	•
Tax system -structure and efficiency												
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment			✓	•			✓					
Shift the tax burden from corporate income taxes toward consumption, immovable property and the environment	✓	•	✓	•			✓	•				
Broaden the tax base – reduce tax expenditures	✓		✓				✓				✓	
Efficiency of public spending and services												
Increase cost-efficiency in the healthcare sector					✓	•	✓		✓		✓	•
Reduce inequalities in access to public healthcare	✓	•			✓						✓	
Reduce sector-specific regulatory burdens												
Network sectors (energy, transport, telecoms)			✓		✓							
Reduce barriers to FDI and international trade			✓		✓		✓					
R&D and innovation												
Increase and/or direct R&D support			✓		✓							
Improve targeting of public support/evaluate grant programs			✓		✓							
Strengthen collaboration between research centres/universities and industry	✓											
Provision and regulation of public infrastructure												
Raise public and private investment in infrastructure, promote private sector participation/concessions/PPPs	✓	•							✓	•		
Introduce/increase/reform price signals/congestion charges and user fees	✓				✓				✓	•		

1. R stands for recommendation in that area, A stands for any actions that are implemented or in the process of implementation.

Some policy actions in these areas include:

- The United States expanded the pilot project "Bundled Payments for Care Improvement Initiative" conducted by Centers for Medicare and Medicaid Services to over 2000 additional hospitals and medical establishments.

- Australia is implementing its Infrastructure Growth Package which includes an initiative encouraging State and Territory governments to privatise assets to finance new investments.
- The United Kingdom, in its Productivity Plan put forth in July 2015, prioritises the upgrading of road network, to be achieved partly by spending GBP 15 billion on new roads over the rest of this decade. It also sets as a target that superfast broadband be made available to 95% of UK households and businesses by 2017.

Some reforms can increase the return to investment in knowledge-based capital

These countries are among those with relatively high rates of investment in knowledge-based capital (KBC), a wide range of intangible assets that includes, beside R&D, data, brand, design, firms-specific skills and quality managerial practices. While KBC is observed to have contributed substantially to GDP growth in advanced OECD countries (Corrado et al., 2012), KBC also generate knowledge spill-overs due to their non-exclusive nature, thereby acting as an important source of productivity growth (OECD, 2013a). Despite their high intensity in KBC investment, the subdued productivity growth suggests that these countries are enjoying only limited return on their investment.

In order to strengthen the economy-wide impact of KBC investment, these countries should encourage a stronger interaction between industries and research institutes, with a view to improving the commercialisation of new technologies. Also, reducing entry barriers and enhancing competition in industries (such as network and service industries) allows innovative firms that leverage KBC to play a larger role as the driver of productivity growth and the source of knowledge spill-overs. Similarly, reducing barriers to trade and FDI would encourage foreign firms closer to the technological frontier to enter the domestic market, facilitating the diffusion of new knowledge. However, limited policy actions have been observed in those policy areas recently.

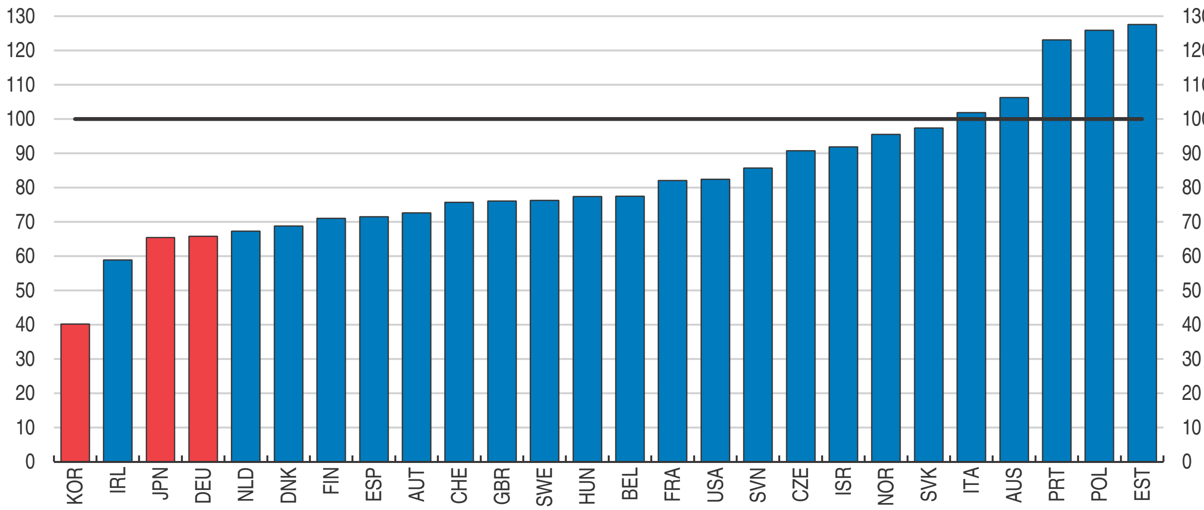
Group 6: Countries with relatively low productivity in non-manufacturing sectors, fast population ageing and high barriers to female labour force participation (Germany, Japan and Korea)

Countries in this group generally have a productivity level in services that is low relative to the level in manufacturing, with the productivity gap being particularly large compared to other countries (Figure 1.18). Lagging productivity in services is contributing to economy-wide labour productivity being significantly below the average of the upper-half of OECD countries (Germany being an exception) (Figure 1.19). Therefore, reducing regulatory barriers to competition and innovation in network industries as well as professional services and retail distribution remains a key common priority.

Another challenge shared by these countries is the rapid ageing of population. The share of working-age population plus the older population under the age of 75 in those countries will fall significantly faster than in other OECD countries (Figure 1.19). Given the need to mitigate the impact of labour force shortages, boosting the full-time labour participation of women has been high on the policy agenda of these countries. However, this requires comprehensive reforms that not only remove institutional disincentives for full-time labour participation but also that promote a working environment that can best help to reconcile work and family responsibilities.

Figure 1.18. **The productivity in services sectors is low compared to manufacturing**

Value-added per employee of business sector services,[1] manufacturing sector = 100, 2014



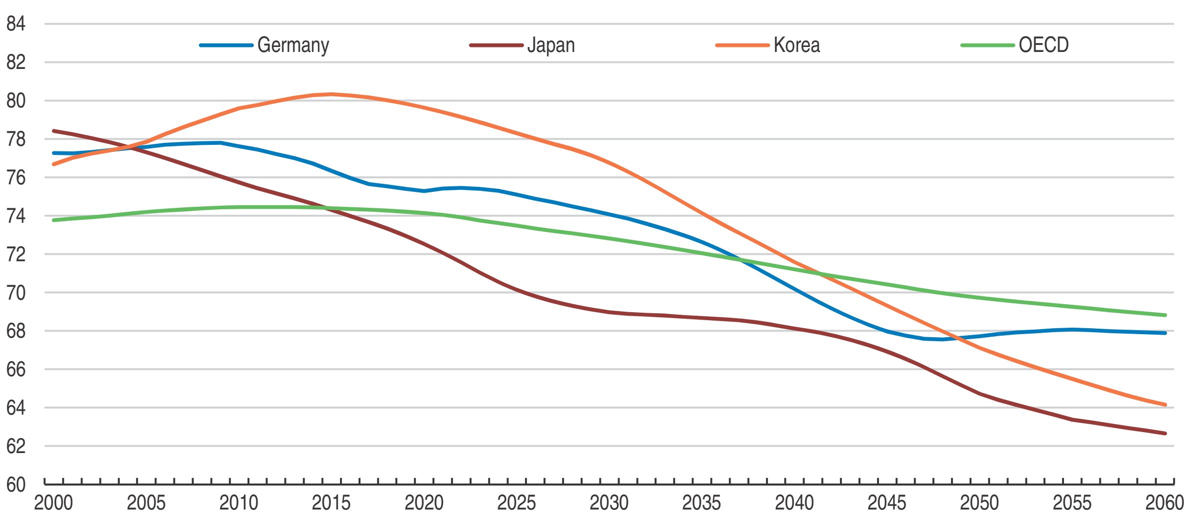
1. Business sector services cover distributive trade, repair, accommodation, food and transport services; information and communication; financial and insurance; professional, scientific and support activities. Data refer to 2013 for Belgium, Denmark, France, Israel, Italy, Japan, Korea, Poland, Portugal, Slovak Republic, Spain, Switzerland, the United States; 2012 for Australia and the United Kingdom. The observation on business sector services in Japan is an estimate based on National Accounts for 2013 and the 2014 JIP Database. The data on manufacturing sector for Israel include mining and quarrying while the data on business sector services include real estate activity.

Source: *OECD National Accounts Database*, Cabinet Office (Japan) 2013 National Accounts, Central Bureau of Statistics (Israel) "Product, Productivity Compensation of Employed Persons and Capital Return 2005-13".

StatLink http://dx.doi.org/10.1787/888933323888

Figure 1.19. **A faster population ageing is expected compared to other OECD countries**

Projection of the share of population aged 15-74 in total population, percentage



Source: OECD, *Economic Outlook 96 Long-term Database*.

StatLink http://dx.doi.org/10.1787/888933323895

Strengthening competition in non-manufacturing sector boosts productivity in services and the competitiveness of the manufacturing sector

Regulatory barriers to entry and competition have held back productivity growth in non-manufacturing sector by discouraging innovation and impeding efficient resource allocation. Such regulatory barriers have also undermined the competitiveness of downstream industries, especially manufacturing, given that 30% or more of the total value added in exports of manufactured goods is created with services as intermediate inputs. This indicates that substantial efficiency gains could be achieved in services industries by easing regulatory barriers to entry, which could in turn help boosting competitiveness of the manufacturing sector. To this end, those countries are recommended to facilitating entry and competition in network industries and other services, namely in retail. In Germany, abolishing price regulations and reducing exclusive rights in professional services is also a priority. Recent policy actions in this area include:

- Japan passed a law ensuring the neutrality of the electricity transmission and distribution sectors with regard to generation and retail through legal unbundling. It also passed a law that facilitates the establishment of foreign enterprises and promotes entrepreneurship in the National Strategic Special Zones.
- Korea reviewed nearly 800 regulations and amended the laws underpinning 2 377 regulations under the Regulatory Reform *Shinmungo*, a system allowing citizens to request reform directly to the government. It also launched the "Regulatory Reform for Foreign Investment."

Duality in social protection and training opportunity constrains productivity growth

Stringent employment protection on regular workers lowers labour productivity by impeding a smooth reallocation of labour resource (Bassanini et al., 2009). Furthermore, the significant gap in employment protection and training opportunities between regular and non-regular workers has a negative impact on income equality and human capital in those countries, due to the limited mobility from non-regular to regular contracts. These countries thus need to reduce labour market duality by increasing the transparency in dismissal procedure of regular workers while strengthening the job protection and training opportunities of non-regular workers.

While there are few reforms in the area of dismissal procedure of regular workers, some steps have been taken to strengthen the social protection of non-regular workers: For instance, Japan is to expand Employees' Pension Insurance and has extended the coverage of health insurance to 250 thousand non-regular workers beginning from 2016. Germany is considering a reform that limits the duration of employment on jobs filled by temporary work agency workers to 18 months. Those workers are to receive the same remuneration as comparable regular workers after 9 months.

Multi-dimensional efforts are needed to increase full-time labour participation of women

Full-time labour participation of women in these countries remains limited for various reasons: fiscal disincentives such as the joint taxation system or benefits and allowances conditional on spouse's non-employment; high costs, insufficient supply or ill-targeted childcare services; lack of flexibility in working-time arrangement and long working hours that prevent the take up of maternity leave. Duality between regular and non-regular workers also discourages labour participation, given that women are overrepresented in part-time workers (which are mostly non-regular contracts) in these countries (OECD, 2015e). Therefore, reforms to boost women's full-time participation should extend to multiple dimensions covering tax/benefits system, public services and labour regulations, whereas increasing the supply of childcare facilities or maternity leave alone may not be sufficient.

Table 1.6. **Reform priorities for countries with low productivity in non-manufacturing sectors and high barriers to female labour participation**

	DEU		JPN		KOR	
	R[1]	A[1]	R	A	R	A
Reduce economy-wide regulatory burdens						
Reduce administrative burden on start-ups/complexity of regulatory procedure			✓	•	✓	•
Other recommendations (strengthen the competition framework, reduce the scope of public ownership)			✓			
Reduce sector-specific regulatory burdens						
Network sectors (energy, transport, telecoms)	✓		✓	•		
Retail trade and professional services	✓		✓		✓	
Reduce barriers to FDI and international trade			✓	•	✓	•
Reduce/reform public subsidies to agriculture			✓	•	✓	
Job protection						
Ease EPL on regular workers to narrow the gap with respect to non-regular workers and tackle labour market duality	✓		✓	•	✓	
Ensure the enforcement of labour laws						
Unemployment benefits/social protection and ALMPs						
Expand the coverage of social protection and ALMPs to e.g. non-regular workers			✓	•	✓	
Expand/target job- placement schemes						
Tax system – labour tax wedges						
Remove tax and benefit disincentives to full-time female/second earners/lone parents participation	✓	•	✓			
Other recommendations (reduce labour tax wedge/disincentives to low income earners' full-time participation)	✓					
Tax system -structure and efficiency						
Shift the tax burden from personal income taxes toward consumption, immovable property and the environment	✓				✓	
Shift the tax burden from corporate income taxes toward consumption, immovable property and the environment			✓	•		
Broaden the tax base – reduce tax expenditures	✓		✓	•		
Policy barriers to full-time female participation – other than taxes and benefits						
Expand access to quality childcare and early education/improve targeting	✓	•	✓	•	✓	•
Reform parental leave policies/work place arrangement					✓	
Human capital						
Primary and secondary education (Ensure adequate school resources and infrastructure, etc.)	✓					
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs	✓	•				
Expand access to and effectiveness of lifelong/job-related education and training			✓		✓	

1. R stands for recommendation in that area, A stands for any actions that are implemented or in the process of implementation.

Recent policy actions include:

- Germany boosted federal expenditure to expand the childcare services supply for children aged 0-3 years and to raise the quality of childcare, in particular with regards to facilities and equipment. It also abolished the cash-for-care subsidy.
- Japan is increasing the number of childcare places in order to accommodate about 0.5 million children by March 2018. Also, after-school childcare centres are being created to provide care for 0.3 million children by March 2020.

- Korea introduced the provision of free childcare for up to 12 hours per day for all children under five, regardless of the employment status of the mother and family income. Free childcare will be prioritised toward families whose both parents work.

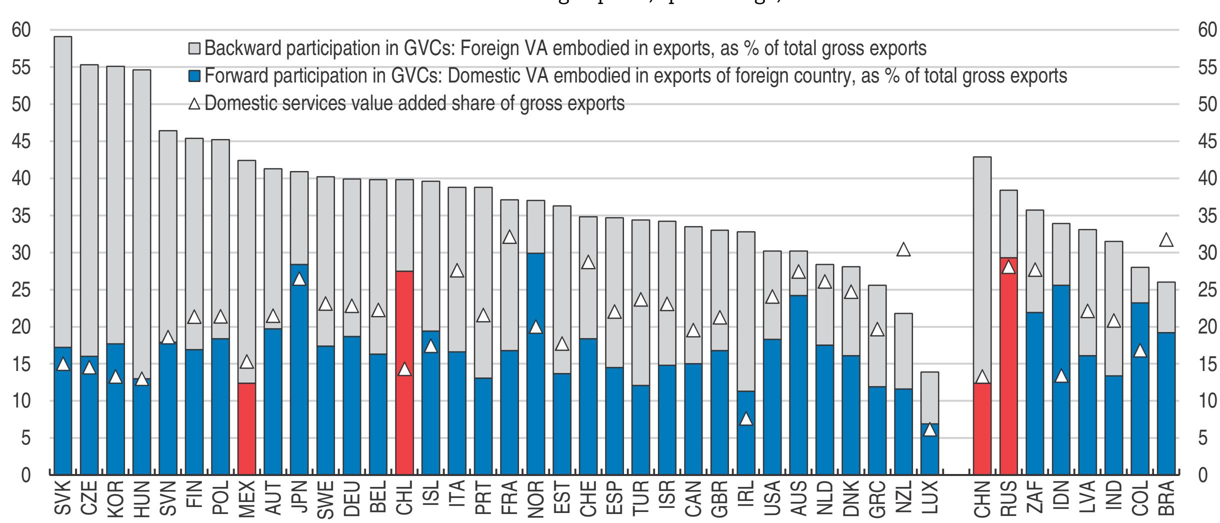
Group 7: Emerging-market economies with ample room for productivity catch-up through investment in knowledge-based capital and better resource allocation (Chile, Mexico, China and Russia)

Following several years (or decades in the case of China) of strong growth, these emerging-market economies need to shift to new sources of growth to continue to catch up with advanced economies. Productivity gains driven by resource reallocation away from agriculture to manufacturing, capital deepening, integration into the global trade system and the associated technology transfer have largely run their course. As the productivity gap between those countries and advanced OECD countries remains large, those countries need to step up investment in knowledge-based capital, improve resource allocation and encourage a more widespread development of skills and human capital.

These economies benefited greatly from their high integration in global value chains (GVCs) as suppliers of base materials (Chile and Russian Federation) or assemblers of final products (China and Mexico) (Figure 1.20). However, except Russian Federation, their manufacturing exports embody a relatively small share of domestic value-added arising from services, where the value-added created by GVCs is often concentrated (OECD, 2013b). To draw more value-added from their global engagement, these countries need to further improve their capabilities in knowledge and skill-intensive activities within GVCs (such as new product development, manufacturing of core components, or brand development).

Figure 1.20. **Strong participation into GVCs but considerable room to move up the value chain**

Index of GVC participation and the share of domestic service value-added in manufacturing exports,[1] percentage, 2011



1. The index of GVC participation consists of Backward participation, which is the share of foreign value-added embodied in a country's exports, and Forward participation, which is a country's value-added embodied in other countries' exports, as the share of its exports. Backward participation tends to be higher for small countries or those engaging heavily in assembly of final goods (ex: China, Mexico and some central European countries). Forward participation tends to be higher for countries exporting natural resource and base material (ex: Norway or Australia) and those participating in GVC as providers of core components (ex: the United States or Japan).

Source: *OECD-WTO Trade in Value Added Database (TiVA)*, October 2015.

StatLink http://dx.doi.org/10.1787/888933323901

Table 1.7. **Reform priorities for countries with a large room for productivity catch-up through investment in knowledge-based capital and better resource allocation**

	CHL		MEX		CHN		RUS	
	R[1]	A[1]	R	A	R	A	R	A
R&D and innovation								
Increase public support	✓	•	✓	•			✓	
Increase and/or reform indirect R&D support – tax incentives, improve balance between direct and indirect support							✓	
Improve targeting of public support/evaluate grant programs							✓	
Strengthen collaboration between research centres/universities and industry	✓		✓					
Reduce economy-wide regulatory burdens								
Reduce administrative burden on start-ups/complexity of regulatory procedure	✓		✓	•	✓	•	✓	
Strengthen the competition framework	✓	•	✓		✓	•		
Reduce the scope of public ownership/state intervention					✓	•	✓	
Reduce sector-specific regulatory burdens								
Network sectors (energy, transport, telecoms)	✓		✓	•				
Reduce barriers to FDI and international trade			✓	•			✓	•
Legal infrastructure and the rule of law								
Reinforce judiciary independence and accountability			✓	•			✓	•
Reduce the scope for public officials' interference in decision-making processes/corruption, increase business transparency					✓	•	✓	•
Financial markets regulation and supervision								
Strike a better balance between liberalisation and regulation in financial markets					✓	•		
Human capital								
Early childhood education								
Expand access to quality childcare and early education/improve targeting	✓	•						
Primary and secondary education								
Improve curricula and evaluation	✓		✓	•				
Reduce inequality in educational outcomes and opportunities	✓	•			✓			
Other recommendations (ensure adequate school resources and infrastructure, etc.)			✓	•				
Tertiary education								
Improve curricula and evaluation	✓				✓			
Expand access/enrolment/reduce inequalities in access	✓				✓			
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs	✓				✓	•		
Unemployment benefits/social protection and ALMPs								
Expand the coverage or level of UB/social protection and social services	✓	•			✓		✓	

1. R stands for recommendation in that area, A stands for any actions that are implemented or in the process of implementation.

Effective innovation policies stimulate business investment in knowledge-based capital

In order for innovation to play a larger role in economic growth, business-based investment in KBC must be stimulated through effective support measures and a strong innovation system including better networking between research institutions and firms to facilitate the commercialisation of new technologies. These countries are recommended to revamp or reallocate their R&D support and enhance university-industry or public-private sector linkages. Increasing their stock of KBC conditions their ability to innovate and move up the value chain, but also enhances their ability to absorb and assimilate the diffusion of advanced technology from the global frontier.

As an example of recent actions in this area, Chile launched an agenda for productivity, innovation and growth that includes the creation of a productivity commission, designed to lay the ground work for more balanced and diversified development across sectors, and to increase investment in R&D activities. Mexico launched the National Entrepreneur Fund to foster productivity and innovation in small and medium sized enterprises.

Reforms that enhance resource allocation boost productivity and maximise the economy-wide impact of KBC

Economy-wide productivity growth is shaped importantly by the extent to which more productive firms can grow in size (Bartelsman et al., 2013). Also, reforms that strengthen an economy's ability to allocate resources to innovative firms magnify the impact of KBC investment, for these firms can act as a larger source of knowledge spill-overs (OECD, 2015b). By reducing further the scope of command and control regulations as well as the weight of state ownership and entry barriers, these countries can better use market mechanisms that reward competitive firms with larger market shares. Such reforms, together with those in financial and labour markets to improve the allocation of skills and capital toward more productive firms, would unleash productivity growth.

Recent policy actions in this area include:

- Chile introduced a new competition bill that strengthens the sanctions for cartels, introduces a more effective and transparent merger control regime and grants the competition authority formal powers to perform market studies.
- China lifted price controls on 24 commodities and services, including for some categories of freight and passenger transport. It reduced the administrative burden by abolishing or delegating to the sub-national level over 350 administrative approval processes. Furthermore, with the removal of the ceiling on short-term deposits, interest rates have been liberalised except for some policy rates.
- Mexico is implementing the License and Production Sharing Contracts in energy sector and has concluded three tenders. It is also opening up the insurance and telecom industry to FDI. Furthermore, it launched a one-stop online shop for government services and information that would reduce the administrative costs of start-ups.

A robust legal infrastructure is a foundation of economic growth, especially for innovation-driven growth. A transparent and fair legal environment that ensures protection of intellectual property and contract enforcement is crucial for investment in KBC considering that new ideas can often be easily replicated, denying those who invested in the development of such ideas the possibility to recoup their initial investment. Reforms that combat corruption and enforce the rule of law would also stimulate entrepreneurship by reducing the *de facto* entry barriers.

Recent policy actions in this area include:

- China increased the transparency in business conduct by replacing the annual review of enterprises by a requirement of annual disclosure of corporate reports to all enterprises.
- Mexico passed its new anti-corruption framework and has accelerated the implementation of a new justice system at state level.

- The Russian Federation enacted the amendments to the anti-corruption law that broadened the categories of public officials forbidden to have foreign bank accounts. Also, Judges' salaries are to be increased by 30% in 2016.

Reforms enhancing educational outcome and labour mobility complement KBC in realising higher productivity growth

An intensive use of new technologies or other types of KBC increases the demand for workers with skills that complements KBC in achieving higher productivity. A shortage of such skills can be a bottleneck for countries in this group in translating investment in innovation into significant productivity gains. On the other hand, new technologies will inevitably displace workers with skills that are substituted by new technologies. This underscores the importance of education reforms that enable more students and workers with ample opportunities to acquire relevant skills. To this end, those countries ought to further raise the quality of primary and secondary education and ensure equity in access. They are also need to re-orient tertiary education to the skills demanded in labour markets and to upgrade VET by improving teaching quality and curriculum.

Recent policy actions include:

- Chile is processing bills to reform early childhood education, pre-primary education and improve teacher pay conditions. The government has also introduced new legislation that eliminates profits, tuition fees, and selective admission practices in primary and secondary schools receiving state subsidies.
- Mexico implemented the new national standard for primary and secondary teacher performance, in spite of delay in some states. It also launched the Educational Infrastructure Certificates, a new bond to finance the improvement of school infrastructure.

Reforms that remove barriers to labour mobility, such as granting equal access to public services by migrant workers irrespective of their registration status, also boost productivity growth by making it easierfor skilled workers to relocate to higher productivity jobs in urban areas (OECD, 2015e). To this end, China should allow equal access to education for the children of all migrants. Steps are taken as few cities have issued residential permits to migrants.

Group 8: Emerging-market economies with high labour informality and infrastructure bottlenecks (Turkey, Brazil, Colombia, India, Indonesia and South Africa)

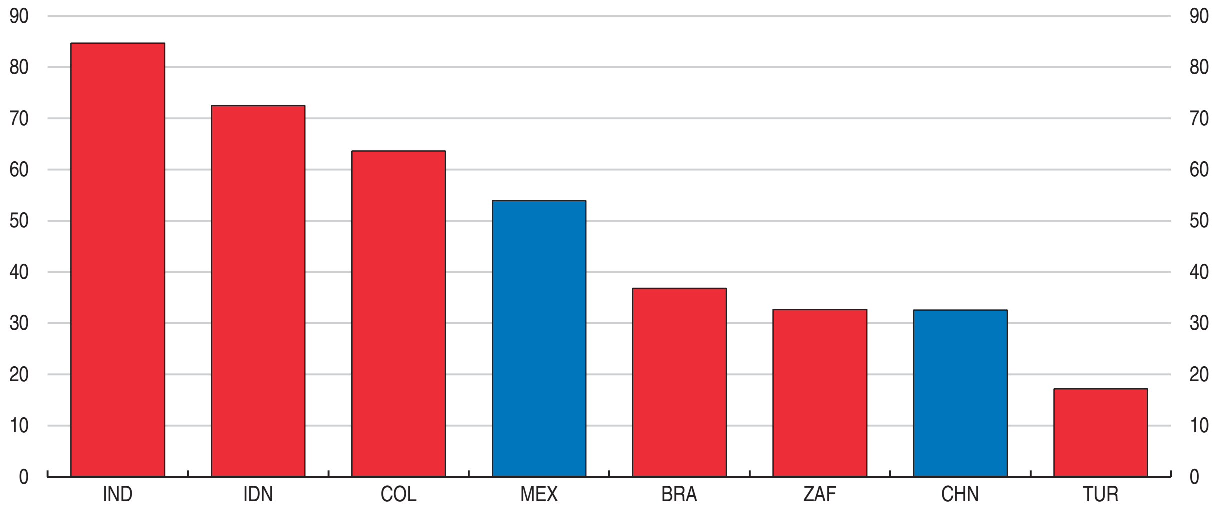
The last group consists of emerging-market economies in need of addressing a wide range of structural bottlenecks in order to sustain strong medium-term growth. The most binding bottlenecks include high labour informality and youth unemployment, severe shortages in public infrastructure and low educational attainment.

Various institutional barriers to formal employment must be removed

Labour informality is often associated with poor employment conditions such as a lack of protection against wage non-payment or hazardous work, lay-offs without notice or compensation, and the absence of benefits such as pensions, sick pay and health insurance. Informal employment, especially prevailing in India, Indonesia and Colombia (Figure 1.21), and high youth unemployment (especially serious in South Africa) are rooted on various rigidities affecting the formal labour markets: onerous labour regulation and stringent employment protection (e.g. in India and Indonesia); high minimum wage and

Figure 1.21. **Informal employment represents a high share of total employment**

Percentage of total employment, 2013[1]



1. Data refer to 2009 for Indonesia; 2010 for South Africa and China; 2012 for India. For China, the figure is an official estimate for urban area.

Source: International Labour Organisation (ILO).

StatLink http://dx.doi.org/10.1787/888933323918

non-wage hiring costs (e.g. in Colombia, Indonesia, Turkey and South Africa); and stringent regulatory entry barriers and administrative burden that impede entrepreneurship and job creation (e.g. in South Africa). In Turkey, the low statutory retirement age is discouraging formal work at older ages.

The scope of reforms to reduce labour informality and unemployment in those countries is wide, given the need to address both the high costs of formal employment and weak job creation. Essential reforms include shifting worker protection from jobs to workers by reducing the rigidities in severance procedures while introducing or expanding the coverage of unemployment benefits; cutting social security contributions and other non-tax compulsory employer payments; capping increases in minimum wages and weakening administrative extension of collective bargaining; cutting red tape and the administrative burden on business operations and strengthening active labour market policies such as job placement services.

Recent policy actions in those areas include:

- India amended its Apprentices Act, relaxing some rigid norms related to the hiring of apprentices. Also, the firm size threshold below which companies can lay off employees without prior government approval has been raised in some states. Furthermore, a unified online portal for 16 central government labour laws was launched while making labour inspection processes more transparent.
- Turkey has granted permanent social security contribution cuts and wage subsidies for the employment of young workers. The wages of workers receiving on-the-job vocational training will be paid by the government for six months, and the employer social security contributions for these workers will be fully subsidised for 3½ years, if the training ends up in hiring.
- In order to reduce the barriers to entrepreneurship, South Africa lowered turnover taxes for micro businesses and increased tax credits for the venture capital scheme.

Addressing infrastructure bottlenecks through efficient regulatory settings and better targeting

The large infrastructure gap that constrains productivity growth in these countries should be addressed by crowding in private investments for instance, in the form of private-public partnerships. Essential reforms in this area include resolving the inefficiencies in regulation concerning tender, concession, land acquisition or project approval as recommended to India and Indonesia. Also, a better prioritisation of investment through an ex-ante cost-benefit evaluation (as recommended to Colombia) would enhance the contribution of infrastructure investment to productivity growth.

Recent policy actions in this area include:

- Brazil launched the second stage of the Logistics Investment Programme PLI, with planned investments of BRL 70 billion through concessions by 2018.
- Colombia expanded the incentives to coordinate better regional infrastructure projects, namely prioritising larger regional projects in need. The plan also included general guidelines for evaluating and prioritising PPPs with a methodology to be issued by the National Planning Department.
- As part of the "Make in India" initiative, India took measures that could encourage private investment, such as relaxing FDI regulations in some sectors including railways, construction, air transport services. It also introduced regulatory reforms in the energy sector such as an enhanced transparency in coal allocation, a partial privatisation of Coal India and the auctioning of oil and gas fields.

Raising educational attainment by allocating more resource and improving teaching quality

As regards the performance of teenage students, the results from the PISA tests reveal the poor international ranking of these countries, in particular in maths (Figure 1.15). This undermines productivity growth but in some cases also contributes to high youth unemployment (e.g. South Africa). There is considerable scope for increasing the resources devoted to education (on a per student basis) and to improve the quality of teachers through more comprehensive training and evaluation programmes. Furthermore, vocational training must be revamped both in supply and quality in order to address the low youth employability and skill shortage.

Recent policy actions include:

- Columbia increased new fellowships for tertiary education and introduced a new system of targeting student loans. It also foresees extending early childhood care to 1.1 million infants as opposed to 400 thousand today.
- Turkey adopted its Vocational and Technical Education Strategy and Action Plan 2014-18 which includes 24 specific goals to be monitored by performance indicators, including revisions of curricula according to national professional standards.
- Indonesia introduced a new syllabus while increasing the funding for education.
- India launched the Skill India Initiative that includes expansion in quantity and scope of skill training programmes and financial incentives for youth attending and completing those programmes.

Table 1.8. **Reform priorities for countries with high labour informality and infrastructure**

	TUR		BRA		COL		IND		IDN		ZAF	
	R[1]	A[1]	R	A	R	A	R	A	R	A	R	A
Job protection												
Ease EPL on regular workers (reduce severance payment) to narrow the gap with respect to non-regular workers and tackle labour market duality	✓						✓	•	✓			
Ease conditions for justified individual or collective dismissals							✓	•	✓			
Minimum wages and wage bargaining systems												
Reduce the minimum cost of labour/allow for age or sector differentiation	✓				✓				✓		✓	
Unemployment benefits/social protection and ALMPs												
Expand the coverage or level of UB/social protection and social services	✓								✓			
Tax system – labour tax wedges												
Reduce average/marginal labour tax wedges					✓							
Reduce labour tax wedges by reducing social security contributions	✓	•			✓							
Human capital												
Primary and secondary education												
Ensure adequate school resources and infrastructure	✓		✓				✓		✓	•	✓	
Improve teaching quality/improve incentives for talented teachers (especially to work in difficult schools)			✓				✓		✓		✓	
Improve school accountability and autonomy	✓		✓								✓	
Reduce inequality in educational outcomes and opportunities			✓				✓					
Other recommendations (improve curricula and evaluation, reduce dropout)			✓								✓	
Tertiary education												
Increase university autonomy and accountability or specialisation by institutions	✓				✓							
Improve targeting of means-tested financial assistance					✓	•						
Expand access to and effectiveness of apprenticeships and VET and their relevance to labour market needs	✓	•	✓				✓	•			✓	
Expand access to and effectiveness of lifelong/job-related education and training	✓	•									✓	
Reduce economy-wide regulatory burdens												
Reduce administrative burden on start-ups/complexity of regulatory procedure							✓	•	✓		✓	•
Ease business exit/bankruptcy procedures							✓				✓	•
Other recommendations (Strengthen the competition framework etc.)											✓	
Reduce sector-specific regulatory burdens												
Network sectors (energy, transport, telecoms)	✓	•	✓								✓	
Reduce barriers to FDI and international trade			✓						✓	•		
Provision and regulation of public infrastructure												
Raise/improve targeting of public and private investment in infrastructure			✓	•	✓	•	✓	•	✓	•		
Promote private sector participation/concessions/PPPs			✓	•	✓	•			✓			
Financial markets regulation and supervision												
Encourage private participation in financial markets/ gradually reduce state intervention while ensuring strong prudential regulation			✓	•			✓	•				
Reduce/reform public subsidies to agriculture and energy	✓								✓	•		

1. R stands for recommendation in that area, A stands for any actions that are implemented or in the process of implementation.

Cross-country policy issues with implications for international trade and FDI

Global trade growth has slowed and, compared to past trends, is particularly weak relative to GDP growth, which may reflect a structural shift in the relationship between the two aggregates (OECD, 2015f, Constantinescu et al., 2015). Yet, trade plays a fundamental role in the diffusion of technology and access to high-quality imported intermediate goods boosts productivity and competitiveness within GVCs (OECD, 2013b). Therefore, collective efforts to remove structural impediments to international trade, such as non-tariff barriers, are required to boost growth both in the short and in the longer term.

Some progress is observed at the global level, and to a lesser extent, at the regional and country levels. At the global level, the negotiation on the Trade Facilitation Agreement (TFA), which contains various provisions for improving the speed and efficiency of border procedures, was concluded in December 2013, followed by the adoption of a Protocol of Amendment in November 2014.The full implementation of the TFA is expected to reduce worldwide trade costs by 12.5 to 17.5% (OECD, 2015g). Furthermore, some important aspects of trade facilitation such as the availability of advanced rulings or streamlining of border and custom procedures strengthen significantly countries' integration into GVCs via increased use of foreign inputs in exported goods or higher exports of intermediate goods used as inputs in foreign exports (Moïsé and Sorescu, 2015).[2]

Another breakthrough came in October 2015, when 12 Asia-Pacific countries reached the Trans-Pacific Partnership (TPP) agreement which covers nearly 40% of the world economy. Aside from the reduction of tariff barriers, the TPP agreement includes provisions that improve intellectual property protection, remove barriers to investment in services, and increase consistency and transparency of regulatory regimes across partner countries. While the immediate impact of the agreement on trade and FDI flows remains uncertain given that many tariffs are abolished only gradually, the prospect of better access to foreign markets may stimulate investment in the relatively short run. In the medium term, stronger competition and increased inward and outward investment are likely to stimulate innovation and productivity growth in previously shielded sectors, namely services and parts of agriculture (Jorgensen et al., 2015).

At the regional level, the European Commission has taken a step toward the Digital Single Market by adopting a strategy that lays out legislative process toward further harmonisation in regulations and reduction of administrative burdens concerning cross-border e-commerce and telecom markets. Another strategy related to the Energy Union was also adopted, aiming for a fully integrated European energy market that involves interconnections and a common regulatory framework. While tremendous efforts are required to push through regulatory harmonisation in Europe, the return to such reforms is large, involving substantial boost in trade and FDI across EU countries (Fournier et al., 2015). The harmonisation in service sector is of particular importance, given that it accounts for up to half of the value-added embodied in gross exports. The stringency of regulatory barriers to service trade reduces not only imports but also exports of services, for such restrictions are mainly behind the border and therefore weakens the competitiveness of local firms as well (Nordås and Rouzet, 2015).

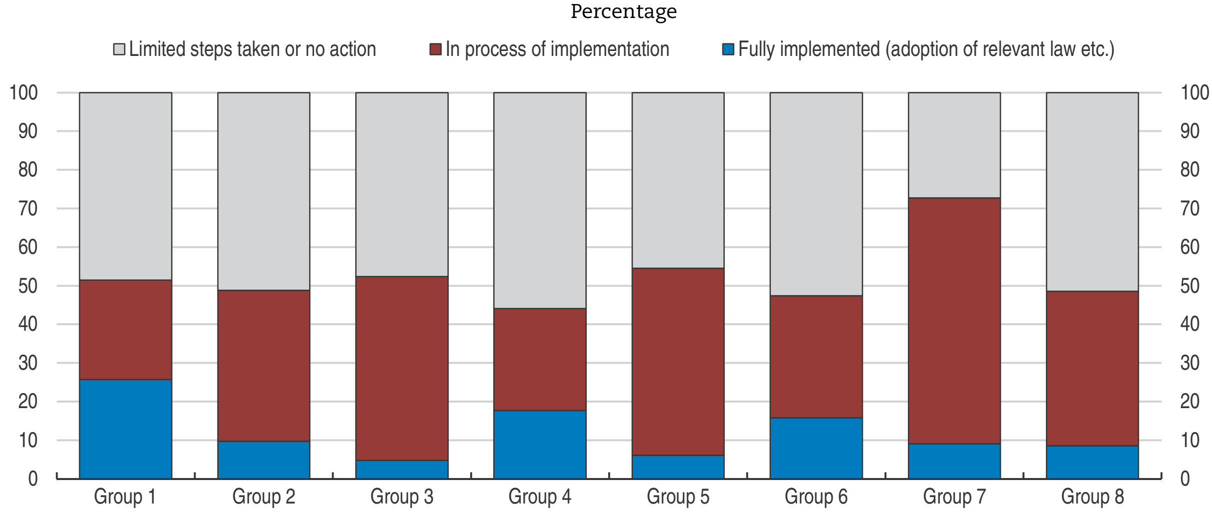
At the country level, some reforms in the highly protected agriculture sector and energy subsidies have taken place. For instance, Japan has reformed its Agricultural Co-operative system and relaxed some of the limits on corporate farm ownership, steps that may promote competition and boost productivity. Norway raised production-level caps in some agriculture support mechanisms so as to encourage a shift to larger-scale units. Indonesia scrapped subsidies on gasoline and capped those on diesel – a welcome move that contributes both to the efficiency of budget allocation and the environment. However, the administrative price setting regime that replaced subsidies is cumbersome and still inhibits the adjustment of domestic fuel prices to world prices. Furthermore, Indonesia sharply increased import tariffs on food, clothes, cars and other consumer goods, which pushes-up inflation and has a negative impact on household income.

Summing-up: a great variation in the implementation of reforms across and within country groups

During 2015, the highest share of full implementation of structural reforms corresponding to the recommendations made in *Going for Growth 2015* has been observed in country group 1 consisting mostly of Southern European countries (Figure 1.22). Among the countries in this group, Italy and Spain have been most active, while the intensive pace of reforms observed in Greece in previous years basically came to a halt in 2015 in part due to the political transition in the first half of the year. Despite a slower share of completed reforms, other country groups could also end-up with a pace of reforms that is comparable to the average observed across OECD countries over the past two years, if preliminary steps in a number of areas are fully implemented. Within each country group, some countries have been more active, for instance Norway (group 3), France (group 4) and Japan (group 6). In the case of the two country groups comprising emerging-market economies (groups 7 and 8), relatively few reforms have been fully implemented but initial action has been taken on a substantial number of recommendations, in particular in China, India and Mexico.

Figure 1.22. **A large variance in the share of the *Going for Growth* recommendations implemented or in process of implementation**[1]

Percentage



1. The chart summarises the share of recommendations made in *Going for Growth* 2015 by the status of their implementation at the end of 2015. Full implementation refers to legislation of relevant laws or equivalent measures.

StatLink http://dx.doi.org/10.1787/888933323929

The implications of growth-enhancing structural reforms for inclusive growth and macroeconomic rebalancing

This section briefly discusses the potential impact of *Going for Growth* recommendations and actions taken on policy objectives other than growth in GDP per capita agenda, more specifically the narrowing of income distribution as well as of fiscal and current account imbalances.[3]

Many structural reforms yield double dividends in term of boosting growth and reducing income inequality

The fact that in many countries growth in GDP per capita over the past three decades has benefitted little low-income households points to the importance of structural reforms that promote inclusive growth. The contribution of structural policies to trends in income inequality has been well documented (see *inter alia* OECD, 2008, 2011, 2014c, 2015h), providing many insights on how reforms could be tailored so as to yield the double dividend of higher growth and reduced income inequality (see Chapter 2 of *Going for Growth* 2015).

Many of the recommendations made in the 2015 issue of *Going for Growth* are expected to reduce income inequality, especially those aimed at increasing employment (Table 1.9, column 1). However, some reforms encouraging the labour participation of low income earners and low-skilled workers can lead to higher wage dispersion at the lower end of the distribution. Other reforms enhancing competition and innovation are often found to be associated with wider earning gaps (OECD, 2011), partly through their role in stimulating skilled-biased technology changes. This underscores the importance that such reforms be complemented with measures to facilitate worker's up-skilling and reduce skill mismatch, such as better provisions of vocational trainings and lifelong learning programmes.

Across the ten OECD countries facing the highest degree of income inequality, the number of reforms implemented or in the process of being implemented that are likely to reduce inequality is twice as high as those that are more likely to increase them (Figure 1.25).[4]

The short-run budgetary pressures can be mitigated by a good design and packaging of reforms

In many OECD countries, not least those with a very high level of government debt relative to GDP, the need to pursue public finance consolidation remains high, especially those where population ageing is likely to put additional budgetary pressures. Under a stylised scenario of interest rates normalisation and a rising expenditure on healthcare, long-term care and pension, government debt ratios are expected to rise in about two-third of OECD countries even in the case where interest rates remain at par with GDP growth rates from 2020 onward (OECD, 2015a). And the debt dynamic gets worse in the case where interest rates exceed GDP growth (Figure 1.23).

Although *Going for Growth* recommendations generally contribute to fiscal consolidation in the long run – in particular those that boost private-sector employment (OECD, 2013c) – some of them are associated with non-negligible up-front increases in public expenditure (or declines in revenues) and their implementation can thus pose challenge to fiscal consolidation in the short run (Table 1.9, column 2). Countries with very limited budgetary room may have to focus on low-cost measures or ensure that others are financed through means that are as friendly as possible to employment and growth. The

Table 1.9. The implication of the *Going for Growth* recommendations and actions taken on other objectives

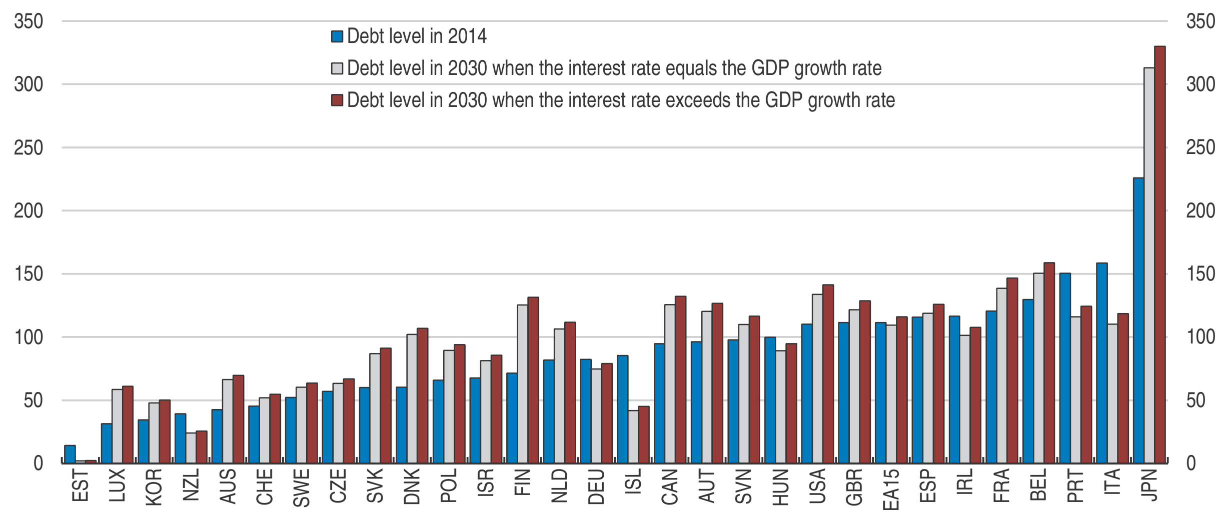
	Income distribution	Budget balance	Current account position	Countries with priorities in this area (**countries taking related action in bold**)
Labour market policies				
Reducing the duality between regular and non-regular workers (in job protection, training opportunity, etc.)/ reducing informal labour participation	+		~	CHL, DEU, ESP, **FRA**, **ITA**, **IND**, IDN, ISR, **JPN**, KOR, **LUX**, **NLD**, SWE,TUR
Reforming minimum wage and wage bargaining	~		+	BEL,COL, ESP, IDN, PRT,SVN, TUR, ZAF
Extending the coverage of unemployment insurance and social protection	+	-		**AUS**, **CHL**, CHN, GRC, IDN, **ITA**, **JPN**, KOR, PRT, RUS,TUR
Reducing the replacement rate and duration of unemployment benefits/strengthening conditionality on job-search	~	+		**BEL**, FIN, FRA, IRL, LUX, NLD, PRT, SVN
Improving effectiveness of ALMPs (job-search assistance/individual follow-up/training and re-skilling)	+	-/~		**ESP**, **EST**, **FRA**, GRC, **GBR**, IRL, **ISR**, **ITA**, LVA, **NLD**, **PRT**,RUS, **SVK**, **USA**, ZAF
Reforming the tax-benefits system to encourage labour force participation of the low-skilled	+/~	-/~		**AUT**, **BEL**, COL, CZE, DEU, **EST**, FIN, **FRA**, **GBR**, **HUN**, IRL, **ISR**, **ITA**, LUX, LVA, **NLD**, POL, SVN, SWE, **TUR**
Reducing barriers to female labour force participation (increasing provision of childcare, reducing fiscal disincentives)	+	-/~	-	**AUS**, CHE, **CHL**, COL, **CZE**, **DEU**, **GBR**, **IRL**, **JPN**, **KOR**, NLD, NZL, **POL**,**SVK**, TUR, USA
Reducing disincentive for continued work at old age and tightening the eligibility to disability benefits	~	+	-	**AUT**, **BEL**, DNK, EST, **FIN**, HUN, **LUX**, NLD, **NOR**,POL, SVN, SWE, TUR, **USA**
R&D and Innovation				
Boosting innovation activities (R&D and other investments in KBC)	-	-	-	AUS, CAN, **CHL**, COL, **CZE**, EST, IRL, LVA, **MEX**, NZL, PRT, RUS, **SVK**, SVN
Education/Human capital				
Increasing the provision and quality of early, primar and secondary education	+	-		AUS, BRA, CHE, **CHL**, CHN, **COL**, **CZE**, **DEU**, DNK, **FRA**, GBR, GRC, HUN, IRL, ISL, **IND**, **IDN**, **ISR**, **ITA**, **JPN**, KOR, **MEX**, **NZL**, **NOR**, POL,PRT, SVK, **SWE**, TUR, **USA**, ZAF
Increasing the outcome of tertiary education/broadening access to VET and life-long training	+	-/~		AUT, BRA, **CAN**,CHE, CHL, **CHN**, **COL**, **CZE**, **DEU**, DNK, **ESP**,**EST**, FIN, **FRA**, GBR, GRC, HUN, **IND**, ITA, JPN, KOR,**NZL**, **POL**, PRT, **SVK**, SVN, SWE, **TUR**, **USA**, ZAF
Product Market Reform				
Reforming product market regulation (PMR) to enhance competition, trade and FDI	-		-/~	AUT, BEL, BRA, CAN, **CHL**, **CHN**, CZE, DEU, **DNK**, **ESP**, EST, FIN, **FRA**, GRC, HUN, **IND**, **IDN**, **IRL**, **ISR**, **ITA**, **JPN**, **KOR**, LUX, **LVA**, **MEX**, NZL, **NOR**, **POL**, PRT, **RUS**, **SVK**, **SVN**, **TUR**, **ZAF**
Reducing agricultural and energy subsidy	+	+	~	CHE, **IDN**, **ISR**, **JPN**, KOR, **NOR**, TUR, USA
Tax reform				
Shifting the burden from direct to indirect taxation (including fiscal devaluations, etc.)	-/~	~	+	**AUS**, AUT, BEL, **CAN**, **CHE**, COL, CZE, DNK, DEU, **EST**, FIN, FRA, **ITA**, **JPN**, KOR, LVA, POL, SWE
Enhancing the efficiency of tax system (cutting back tax expenditure, broadening tax base, fighting tax evasion)	+/~	+	+	AUS, AUT, **BRA**, CAN, CHE, COL, DEU, DNK, EST, FIN, FRA, GRC, ITA, JPN, **LVA**, NLD, **NOR**, SWE, TUR, USA
Infrastructure				
Increasing investment in public infrastructure		-	-	**AUS**, **BRA**, **COL**, EST, **GBR**, **IDN**, **IND**, LVA, MEX, **POL**

Note: The table summarises the expected short- to medium-run impact of each type of reform in attaining the policy objectives. "+" corresponds to the case where the reform is likely to contribute to the objective whereas "-"corresponds to the case where it is unlikely to help or generate a short-run trade-off. "~" corresponds to the case where the impact is ambiguous due to opposing effects. Blank corresponds to the case of no direct effects. The country code in bold corresponds to the case where policy action is taken.

short-run impacts on fiscal expenditure can be also mitigated by implementing in tandem reforms that enable fiscal savings. An example of such "packaging" is a strengthening of conditionality of unemployment benefits on activation measures while expanding ALMPs, as is being done in Italy. Furthermore, some reforms can be implemented in a cost-efficient manner through adequate regulatory reforms. For instance, enabling competition and adequate pricing in network sector can stimulate private investment in public infrastructure.

Figure 1.23. **Government debt levels will likely rise in a majority of OECD countries with normalisation of interest rates and population ageing**

Debt level in 2014 and simulated debt levels in 2030,[1] as a percentage of GDP



1. The chart compares the government debt level in 2014 and the simulated level in 2030 under two alternative scenarios on the evolution of the interest rate and the GDP growth rate. See the source for the details of assumptions made in the simulation.

Source: OECD (2015), *OECD Economic Outlook*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933323931

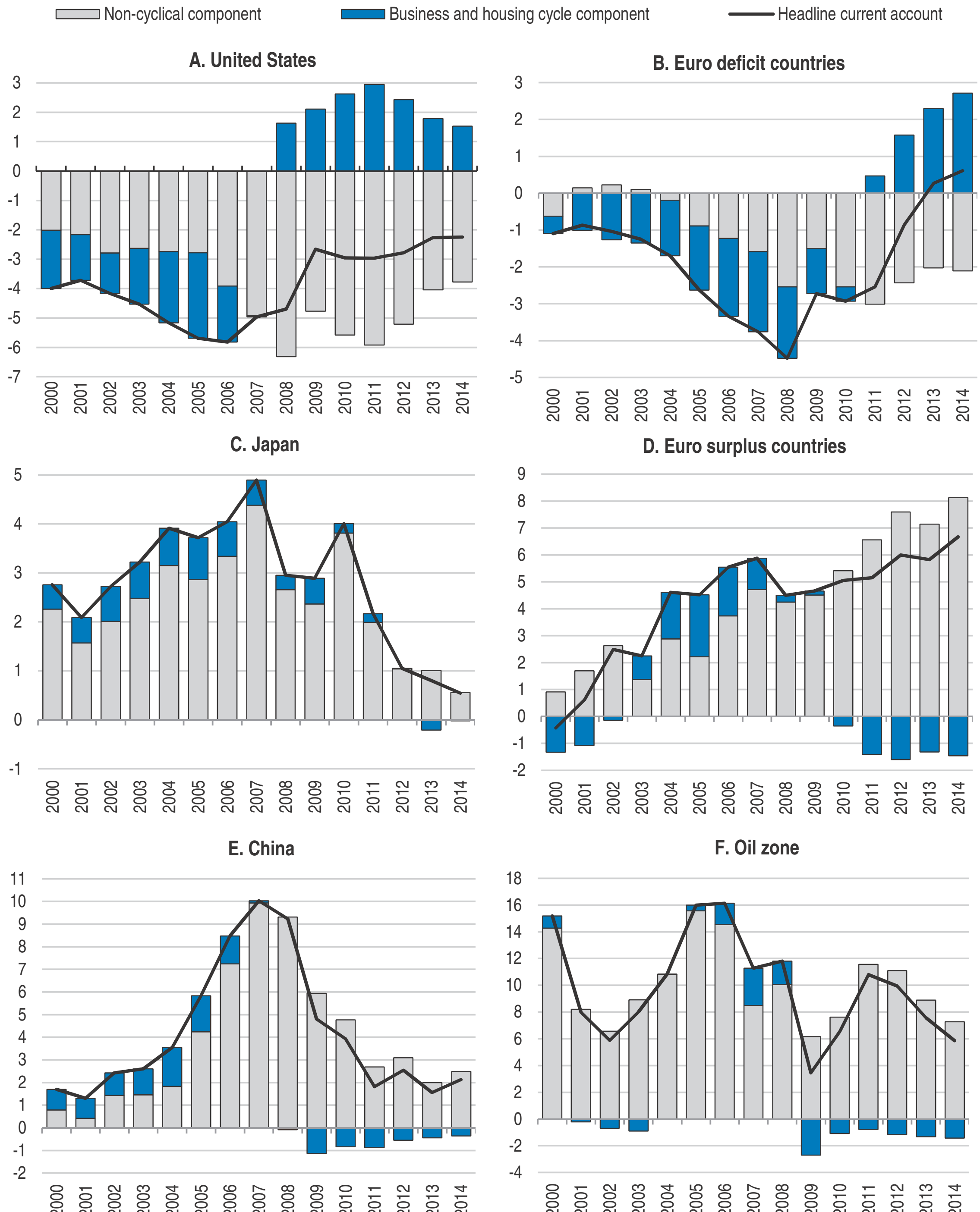
Among the ten OECD countries with the largest primary deficits and the highest government debt levels, the majority of reforms implemented or in the process of implementation are likely to put short-term pressures on the budgetary balance (Figure 1.25).[5]

Reforms can help rebalancing the structural component of current account deficits or surplus

While current account imbalances declined substantially after the crisis, about one half of the decline is explained by cyclical factors, namely large contractions in domestic demand on the back of bursting housing bubbles in a number of deficit countries (Ollivaud and Schwellnus, 2013). The narrowing of cyclically-adjusted global current account imbalances reflects a substantial narrowing for all major trading areas except the euro area, where the cyclically-adjusted balance of surplus countries continued to widen while that of deficit countries narrowed by about one percentage point (Figure 1.24).This underscores the importance of removing the institutional distortions that alter households' saving behaviour or return to private investment. For deficit countries, reforms in labour and product markets that reduce labour or business costs may also help to reduce imbalances by improving competitiveness.

Figure 1.24. **The non-cyclical component of external imbalances remain substantial**

Business and housing-cycle adjusted components of current account balances, as a percentage of GDP[1]



1. The chart decomposes the headline current account imbalances to the component explained by business and housing cycle and the non-cyclical component. Following Ollivaud and Schwellnus (2013), the euro area surplus countries are defined to include euro area members for which the current account surplus was on average larger than 1% of GDP over the period 2000-05 (Austria, Belgium, Germany, Finland, Luxembourg and the Netherlands). The euro area deficit zone includes the remaining members of the OECD euro area (France, Estonia, Greece, Ireland, Italy, Portugal, the Slovak Republic, Slovenia and Spain).

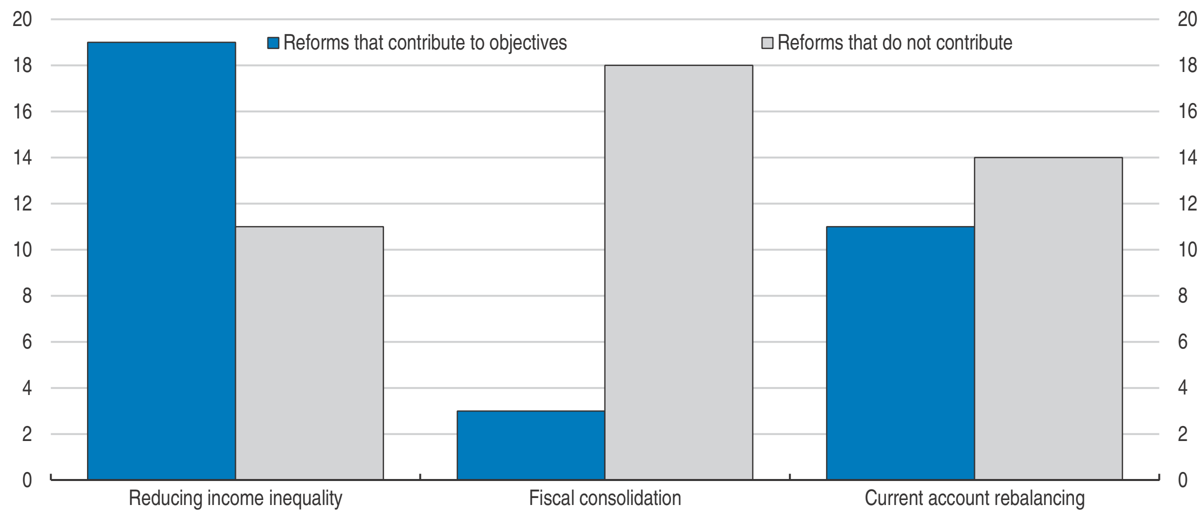
Source: Updated calculations based on P. Ollivaud and C. Schwellnus (2013), "The Post-crisis Narrowing of International Imbalances: Cyclical or Durable?" OECD *Economics Department Working Papers*, No. 1062, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933323943

The expected contribution of structural reforms to a stronger current account summarised in the third column of Table 1.9 suggests that reducing the minimum costs of labour by reforming worker's bargaining power help deficit countries to rebalance the non-cyclical component of imbalances. Similarly, cutting back subsidies or tax incentives that lead to excessive consumption or investment in specific products may also help. For countries with a large current account surplus, regulatory reforms and fiscal supports that boost investment in physical and knowledge-based capital as well as higher investment in public infrastructure can contribute to reducing the structural component of the current account. Furthermore, promoting the full-time labour force participation of women and older workers may also work towards rebalancing by increasing income of those groups and thereby reducing the need for precautionary or retirement saving.

Figure 1.25. **The actions taken are likely to help reduce inequality but not macroeconomic imbalances**

Number of *Going for Growth* recommendations implemented or in process of implementation[1]



1. The chart summarises the number of recommendations implemented or in the process of implementation by the group of countries facing highest income inequality, fiscal and external imbalances. See footnotes in the text for the methodology for selecting those countries.

StatLink http://dx.doi.org/10.1787/888933323951

Across countries facing largest external imbalances, there are similar numbers of reforms that have been implemented or are in process of implementation that are likely or unlikely to help reducing those imbalances in the short run (Figure 1.25).[6] However, while the reforms undertaken by countries with largest external surpluses are overall likely to help the rebalancing, none of those undertaken by countries with largest deficits are expected to contribute to the narrowing of imbalances.

Notes

1. This may be particularly the case when the indicator is compiled and averaged over a relatively small group of countries such as the group of emerging-market economies.
2. The TFA will enter into force once two-thirds of members have completed their domestic ratification process of the Protocol. Some of the largest trading countries such as the United States, European Union and its member states, China and Japan have completed the ratification process.
3. The implication on the environment are not covered in this chapter, given that there are only very few reforms that directly affects environment and that such impacts are importantly shaped by

the environmental regulations in place (see Chapter 3 of the 2015 issue of *Going for Growth* for an in-depth discussion).

4. The 10 OECD countries with highest income inequality are chosen on a basis of an index that combines the standardised values of Gini coefficients and relative poverty rate. They are: Mexico, Chile, Turkey, the United States, Israel, Japan, Greece, Spain, Australia and Portugal.
5. The 10 OECD countries with the largest fiscal imbalance are chosen on basis of an index that combines the standardised value of cyclically-adjusted primary balance deficits (percentage of potential GDP) and of government debt (percentage of GDP). They are: Japan, the United Kingdom, the United States, France, Canada, Ireland, Belgium, Slovenia, Spain and the Netherlands.
6. The group of countries with the largest external imbalances are the 10 countries selected on the basis of an index that combines the standardised value of current account deficits (averaged over 2010-14) and external debt (both as percentage of GDP) and the 10 countries with the largest current account surplus. The largest deficit countries are: Greece, Turkey, Portugal, Poland, New Zealand, Australia, Spain, Latvia, Colombia and the Slovak Republic, while the largest surplus countries are: Norway, Switzerland, the Netherlands, Sweden, Germany, Denmark, Luxembourg, Korea, Russian Federation and Slovenia.

Bibliography

Adalet McGowan, M. and D. Andrews (2015), "Labour Market Mismatch and Labour Productivity: Evidence from PIAAC Data" *OECD Economics Department Working Paper* No. 1209.

Arnold, J. et al. (2011), "Tax Policy for Economic Recovery and Growth", The Economic Journal, Vol. 121, 59-80.

Bartelsman, E. et al. (2013), "Cross-Country Differences in Productivity: The Role of Allocation and Selection", American Economic Review 2013, 103(1): 305-334.

Bassanini, A. et al. (2009), "Job Protection Legislation and Productivity Growth in OECD Countries", Economic Policy, April 2009 pp. 349-402.

Blanchard, O. and F. Giavazzi (2003), "Macroeconomic Effects of Regulation and Deregulation in Goods and Labour Markets", *The Quarterly Journal of Economics*, Vol. 118(3), pp. 879-907.

Brynjolfsson, E., and A. McAfee. (2011), Race Against the Machine. Lexington: Digital Frontier Press.

Constantinescu, C., A. Mattoo, and M. Ruta (2015), "The Global Trade Slowdown: Cyclical or Structural?" *IMF Working Paper* WP15/6.

Corrado, C., J. Haskel, C. Jona-Lasinio and M. Iommi (2012), "Intangible Capital and Growth in Advanced Economies: Measurement Methods and Comparative Results", INTAN-Invest Mimeo.

Fournier, J. et al. (2015), "Implicit Regulatory Barriers in the EU Single Market: New Empirical Evidence from Gravity Models", OECD *Economics Department Working Papers*, No. 1181, OECD Publishing. *http://dx.doi.org/10.1787/5js7xj0xckf6-en*.

Jorgenson, D.W., K. Nomura and J.D. Samuels (2015), "Trade Agreements and Trans-Pacific Competition" EU-VOX Column, 8 July 2015.

Moïsé, E. and S. Sorescu (2015), "Contribution of Trade Facilitation Measures to the Operation of Supply Chains", OECD *Trade Policy Papers*, No. 181, OECD Publishing, Paris. *http://dx.doi.org/10.1787/5js0bslh9m25-en*.

Nordås, H. K. and D. Rouzet (2015), "The Impact of Services Trade Restrictiveness on Trade Flows: First Estimates", *OECD Trade Policy Papers*, No. 178, OECD Publishing Paris, *http://dx.doi.org/10.1787/5js6ds9b6kjb-en*.

OECD (2008), Growing Unequal? Income Distribution and Poverty in OECD Countries, OECD Publishing, Paris. *http://dx.doi.org/10.1787/9789264044197-en*.

OECD (2011), Divided We Stand: Why Inequality Keeps Rising, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264119536-en*.

OECD (2013a), Supporting Investment in Knowledge Capital, Growth and Innovation, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264193307-en*.

OECD (2013b), Interconnected Economies: Benefiting from Global Value Chains, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264189560-en*.

OECD (2013c), Economic Policy Reforms 2013: Going for Growth, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2013-en*.

OECD (2014a), The 2012 Labour Market Reform in Spain: A Preliminary Assessment, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264213586-en*.

OECD (2014b), OECD *Economic Surveys: Portugal 2014*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-prt-2014-en*.

OECD (2014c), All on Board – Making Inclusive Growth Happen, OECD Publishing, Paris, *www.oecd.org/inclusive-growth/All-on-Board-Making-Inclusive-GrowthHappen.pdf*.

OECD (2015a), OECD Economic Outlook June 2015, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_outlook-v2015-1-en*.

OECD (2015b), The Future of Productivity, OECD Publishing, Paris. Accessible from: *www.oecd.org/economy/the-future-of-productivity.htm*.

OECD (2015c), 2015 *Employment Outlook*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/empl_outlook-2015-en*.

OECD (2015d), 2015 *Going for Growth*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2015-en*.

OECD (2015e), OECD *Economic Surveys: China 2015*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/growth-2015-en*.

OECD (2015f), *OECD Economic Outlook November 2015*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_outlook-v2015-2-en*.

OECD (2015g), "Implementation of the WTO Trade Facilitation Agreement: The Potential Impact on Trade Costs" available from *www.oecd.org/trade/tradedev/WTO-TF-Implementation-Policy-Brief_EN_2015_06.pdf*.

OECD (2015h), In It Together: Why Less Inequality Benefits All, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264235120-en*.

OECD (2016), OECD *Economic Surveys: Israel 2016*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_surveys-isr-2016-en*.

Ollivaud, P. and C. Schwellnus (2013), "The Post-crisis Narrowing of International Imbalances: Cyclical or Durable?", *OECD Economics Department Working Papers*, No. 1062, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5k44t7j9sdtc-en*.

Sakellaris, P. and D.J. Wilson (2004), "Quantifying Embodied Technological Change" Review of Economic Dynamics 7 (2004) 1-26.