ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Structural Reforms that Matter: *Going for Growth* with the OECD

NIPFP-DEA Meetings
New Delhi, India
1 September 2010

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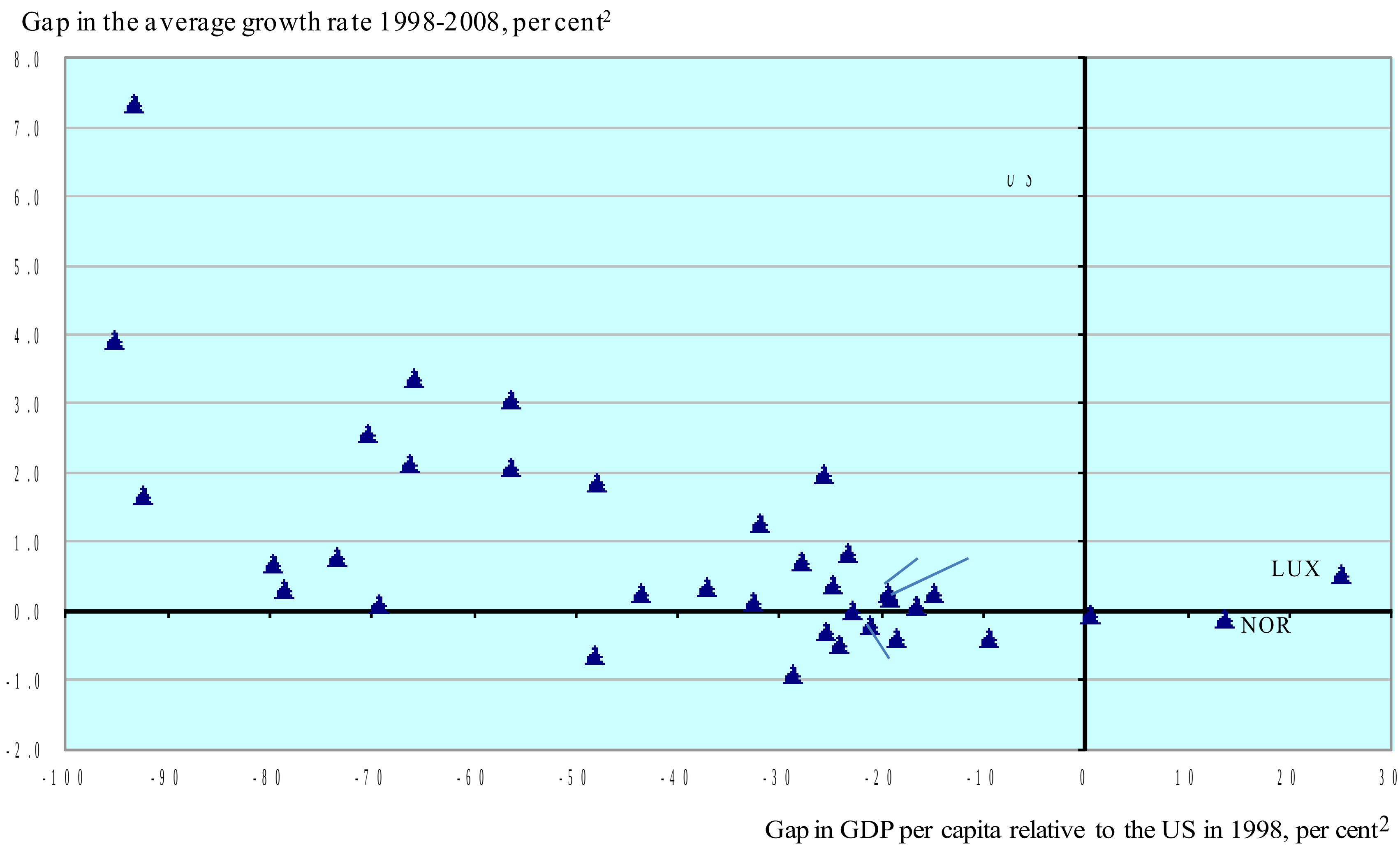
Promoting structural reforms

- Encouraging countries to undertake structural reforms is the OECD's mandate
- Main vehicle is *Going for Growth*, plus country surveys and thematic work
- *Going for Growth* is being extended to major non-members, including India
- Inputs into the G-20's Framework for Stronger, Sustainable and Balanced Growth

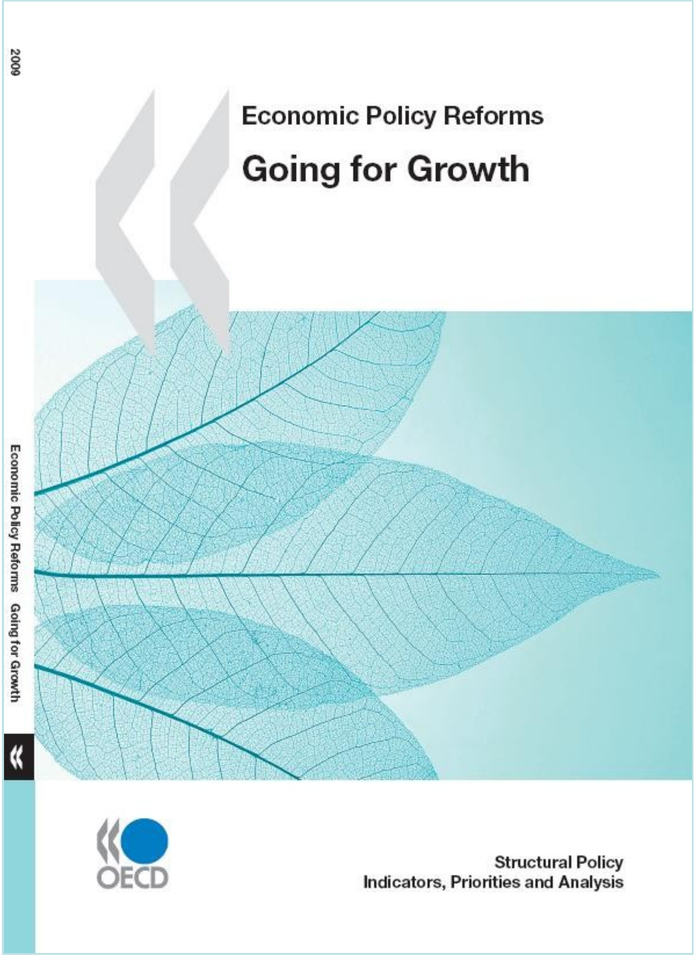
The OECD as a convergence club



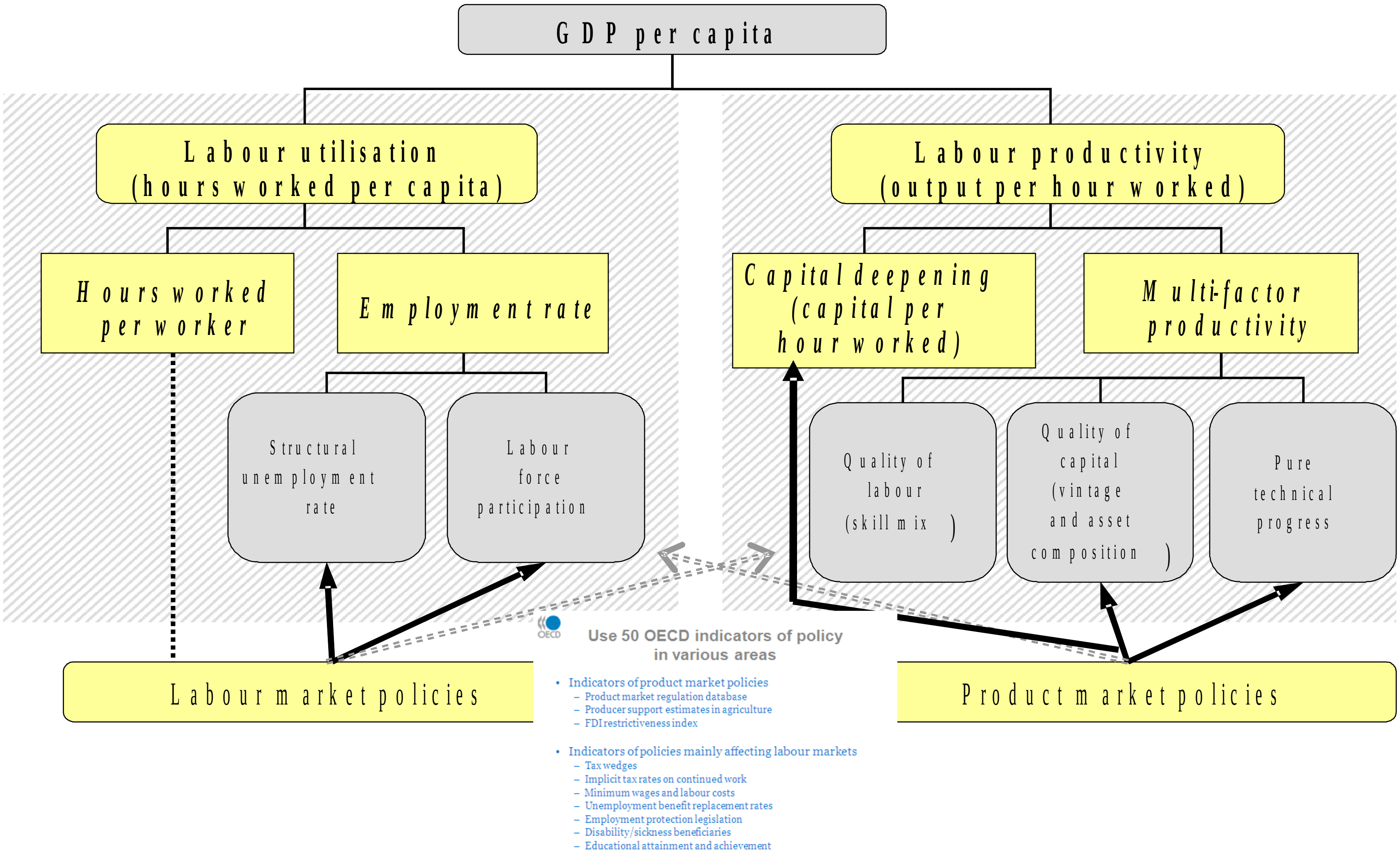
The Going for Growth process

- Systematic policy and performance benchmarking using indicators
- Identifies five priorities per country
- Follow-up and review

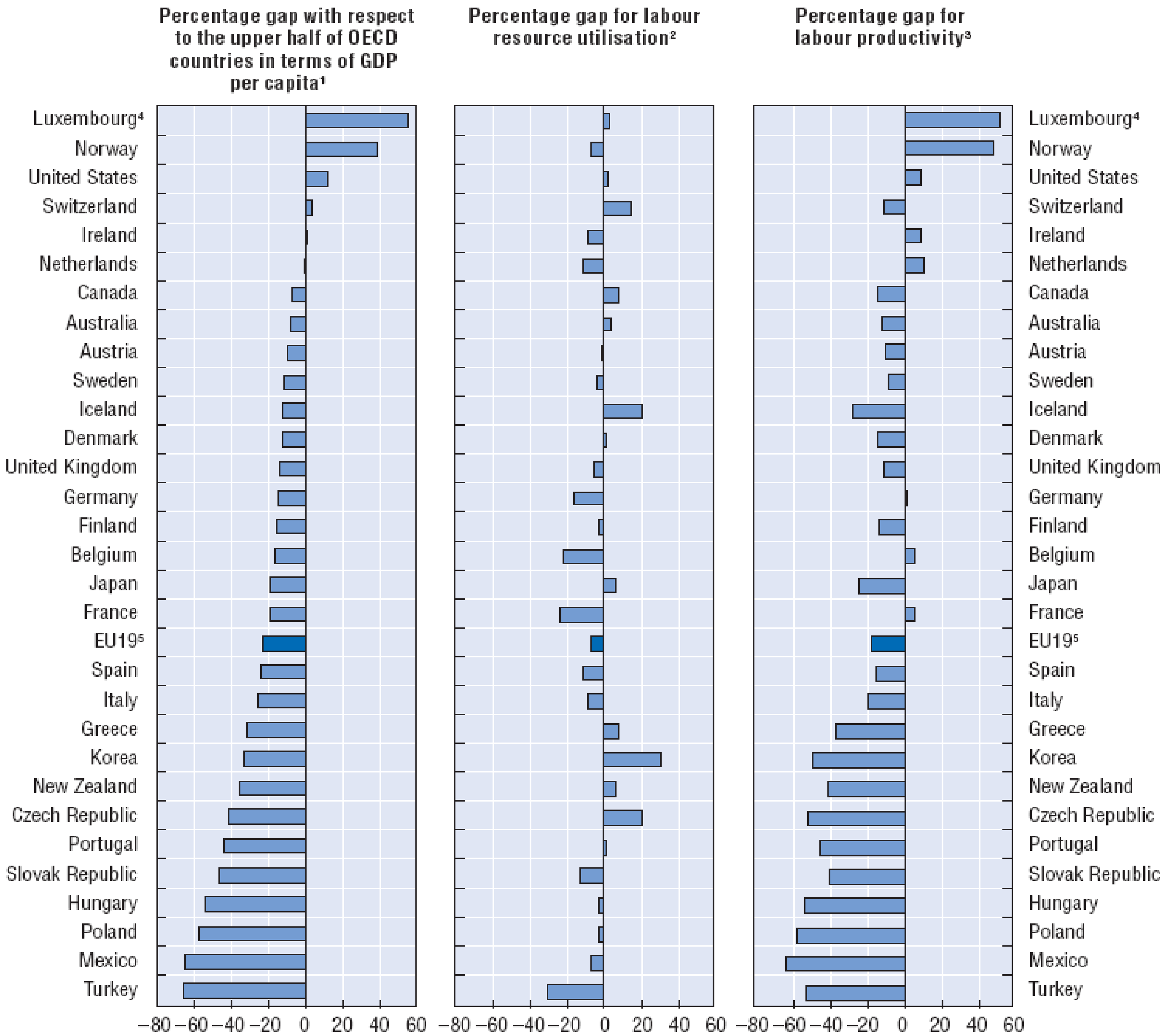
⇒ ***To promote long-run economic growth***



The basic growth accounting framework



Sources of differences in living standards

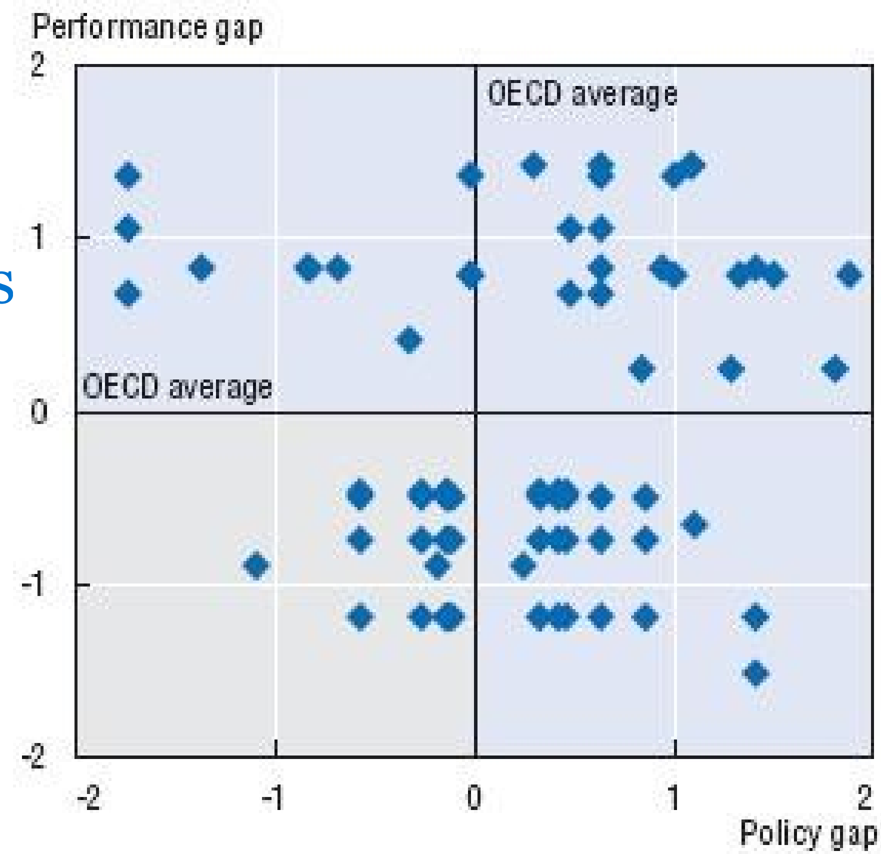


http://dx.doi.org/10.1787/786610417714

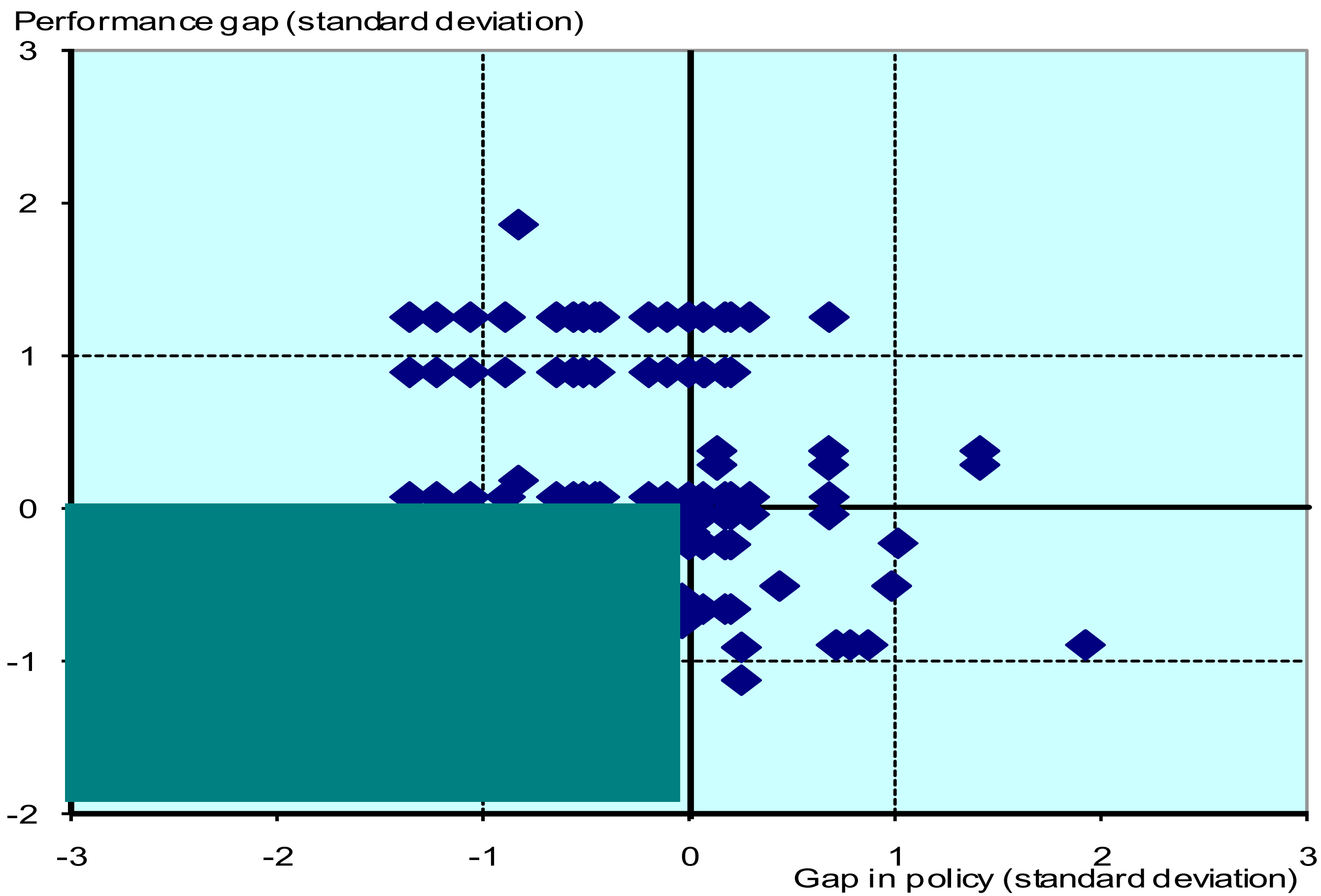
Going for Growth methodology

Three steps:

- Identify performance weaknesses associated with GDP/capita
- Identify policy weaknesses based on policy indicators and analysis establishing links between policy and performance
- 3 of the 5 based primarily on indicators
- Select most important policy weaknesses as priorities for reform

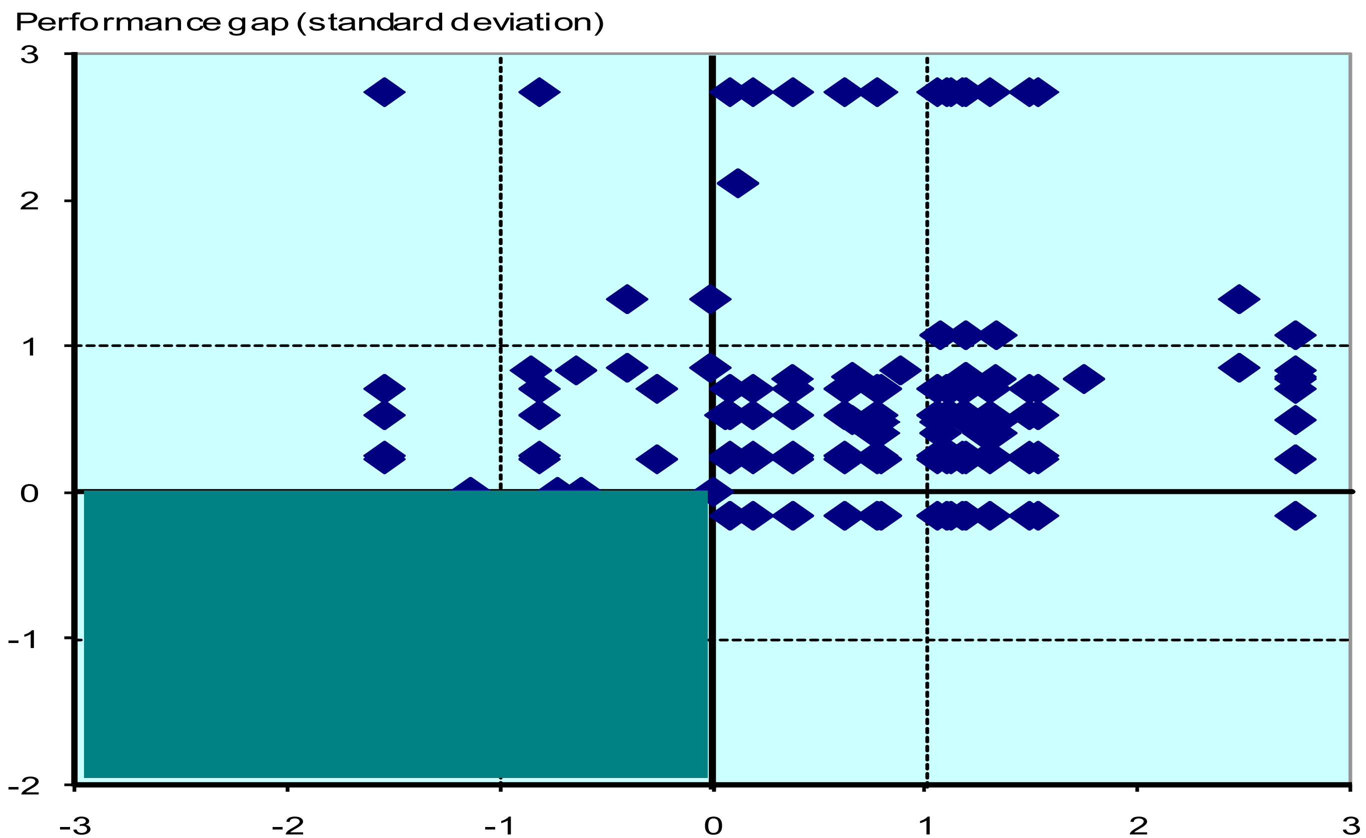


Matching of performance and policy for France



Many cases of below-average performance and policy

Matching of performance and policy for United States

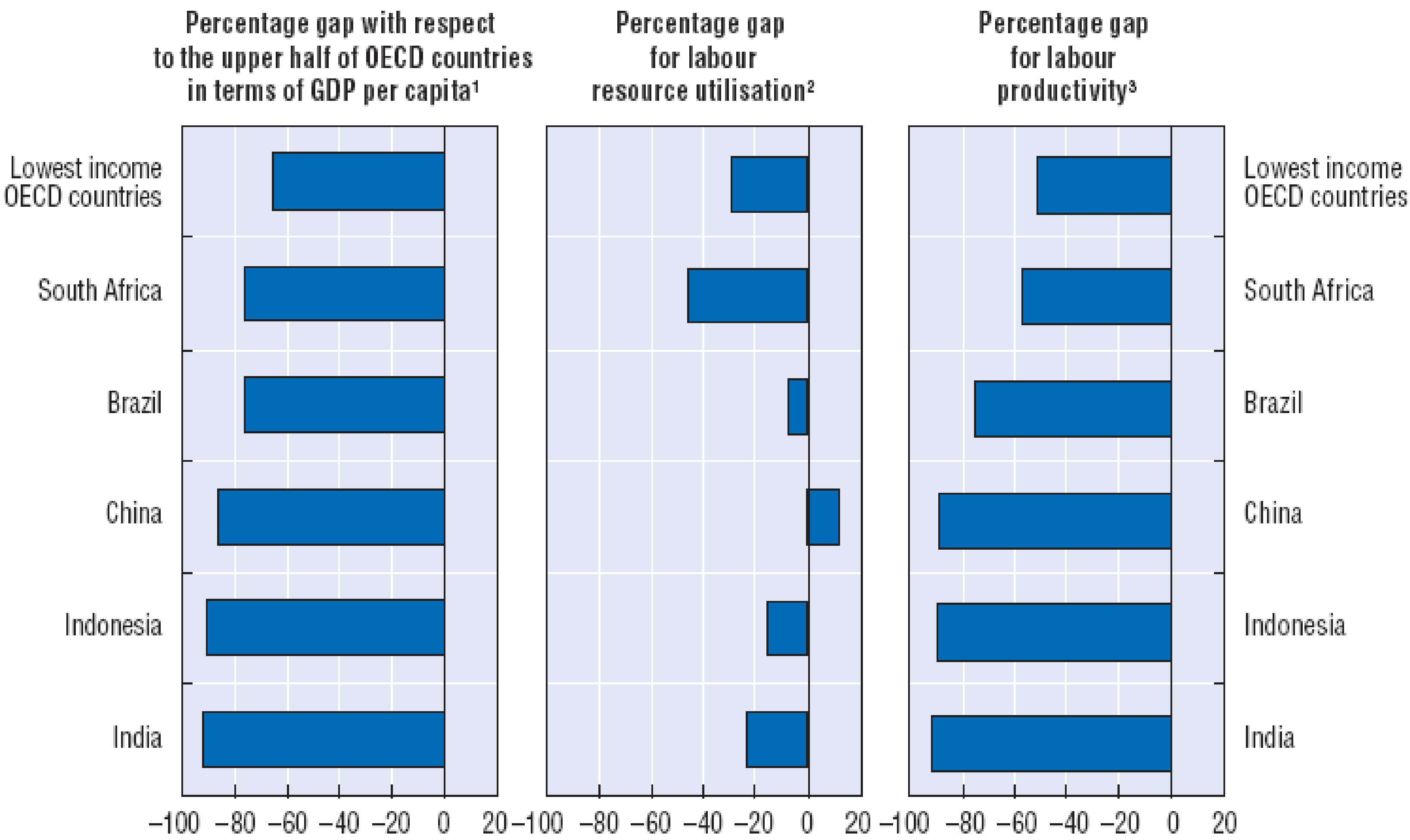


Fewer cases of below-average policy and performance

Going for Growth policy recommendations evolve over time

Going for Growth edition	2005	2007	2009	2011	2011	
	Pre-enlargement OECD				OECD in 2011	BRIICS
Productivity						
Product market regulation	30	25	25	24	26	33
Agriculture	5	5	5	5	4	0
Human capital	10	14	15	15	15	17
Other policy areas	17	15	14	17	16	33
Total	63	59	58	61	61	83
Labour utilisation						
Average and marginal taxation on labour income	8	7	8	8	7	0
Social benefits	17	20	17	16	17	7
Labour market regulation and collective wage agreements	10	12	13	11	11	10
Other policy areas	2	2	3	5	5	0
Total	37	41	42	39	39	17
Overall	100	100	100	100	100	100
Overall (*number of priorities*)	155	155	155	155	175	30

Income differentials reflect sizeable productivity gaps in major non-OECD countries



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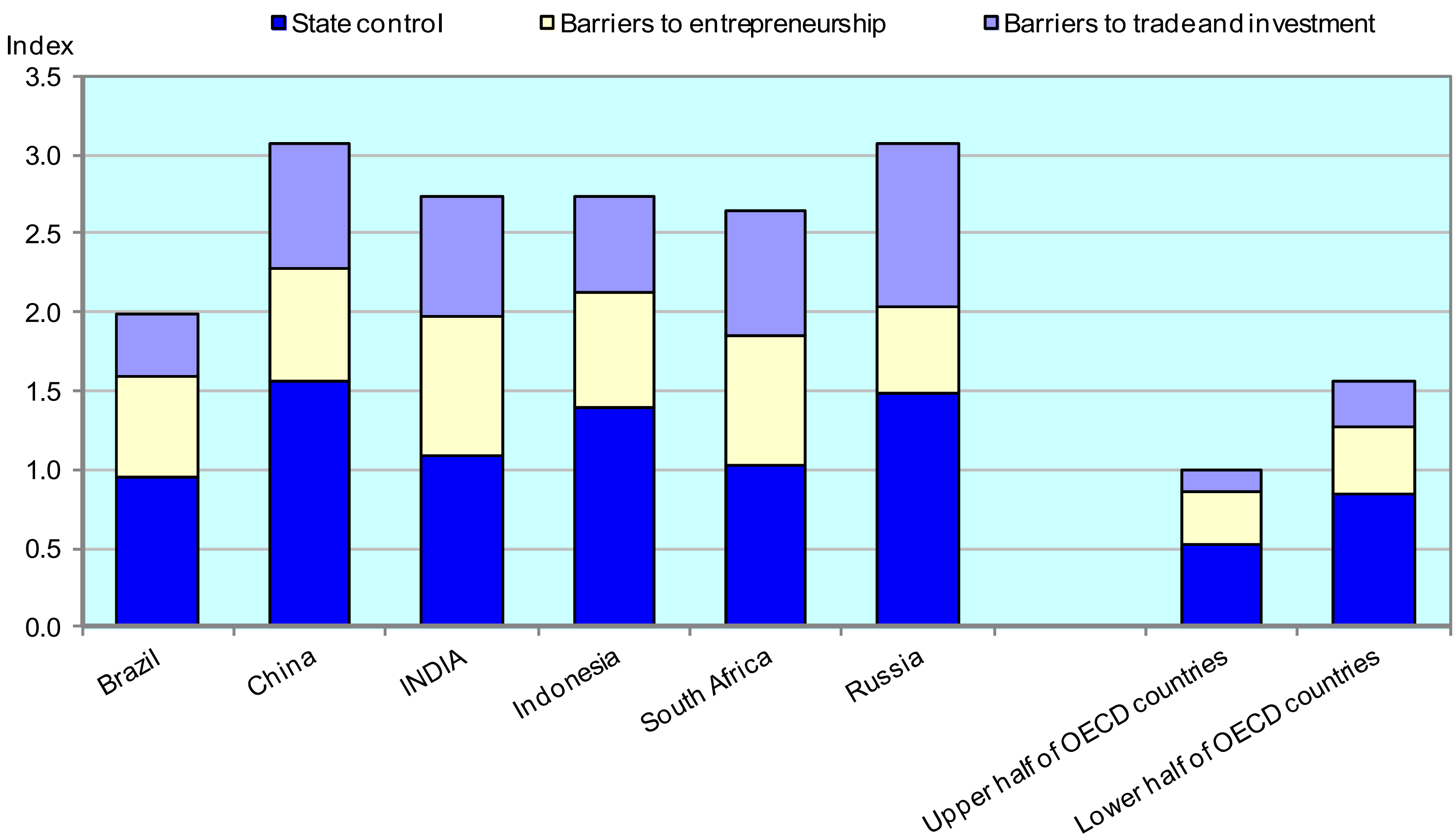
Going for Growth preliminary policy recommendations for India

India

- *Reduce trade and FDI barriers as well as administrative burdens*
- *Improve educational attainment*
- *Improve labour market flexibility in the formal sector*
- *Enhance infrastructure provision*
- *Undertake wide-ranging financial sector reforms*

The stance of product market regulation is highly restrictive (stringency in 2008)



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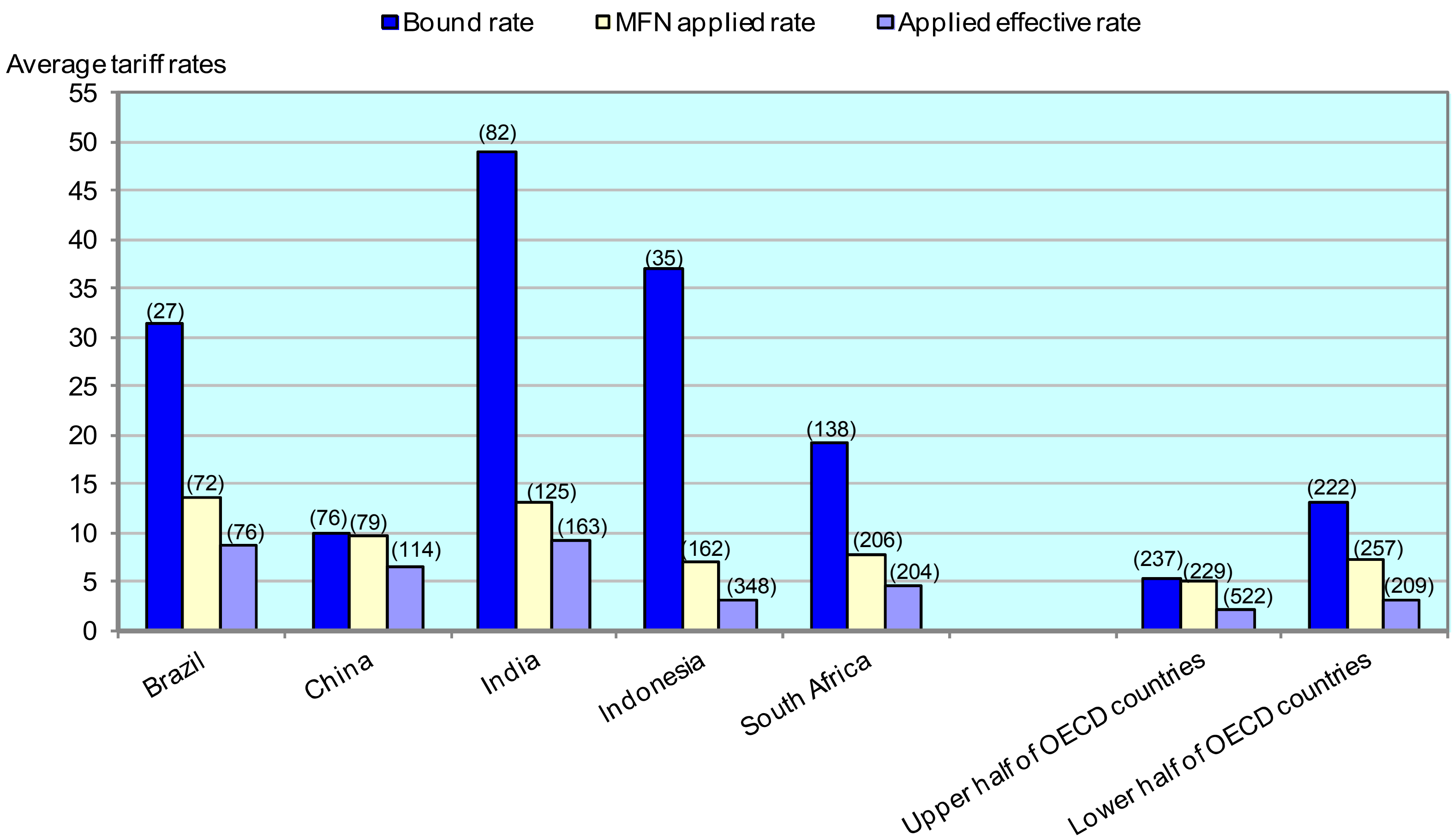
Tariff rates are still relatively high (rate in 2008)



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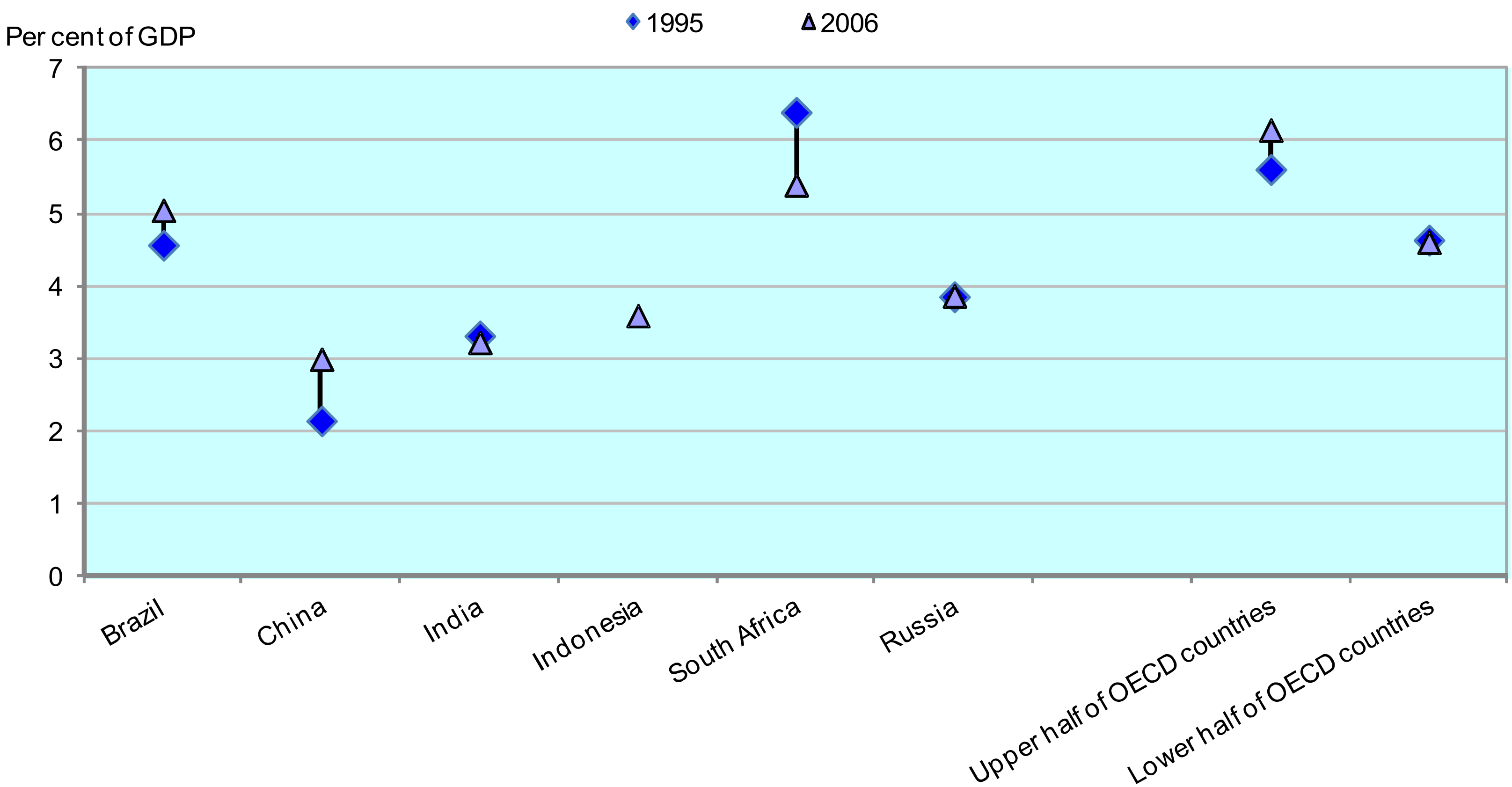
Public expenditure on education (spending in 2006)



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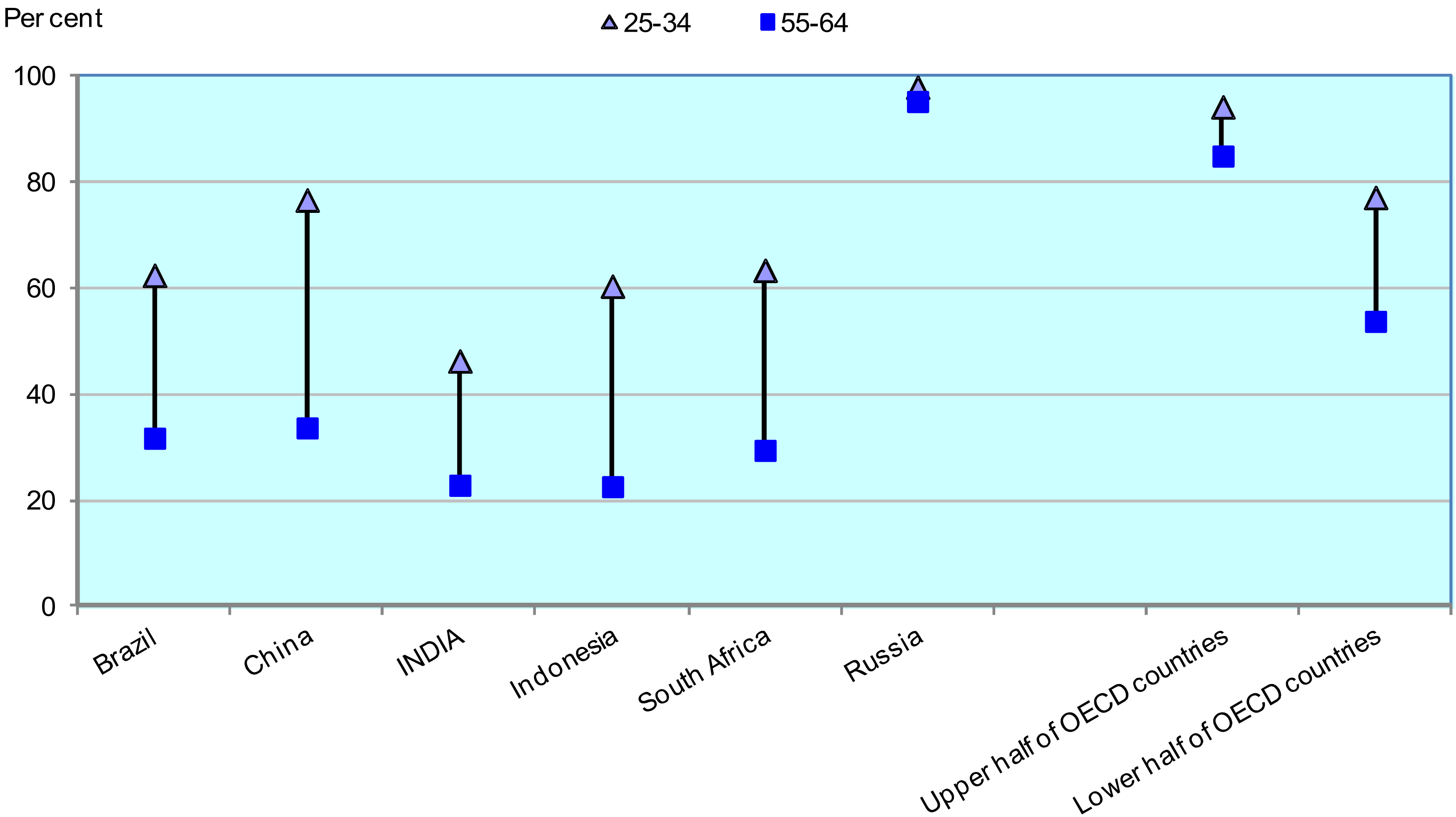
India

Secondary level education gaps are still substantial for the younger cohorts (attainment in 2007)



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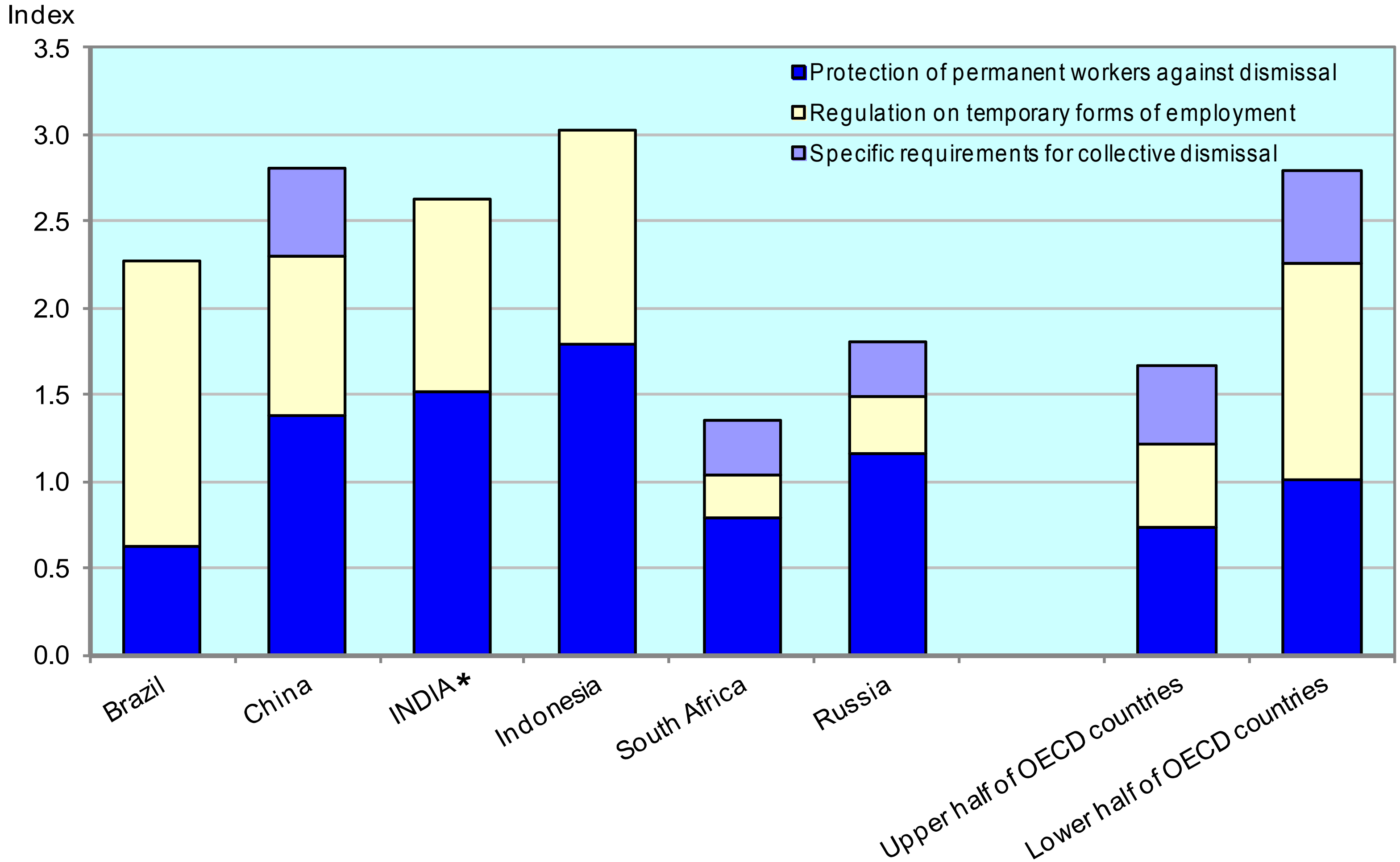
India

Job protection legislation is highly restrictive (stringency in 2008)

India



*Indicator for India does not fully capture the effects of collective dismissal regulation under the IDA act

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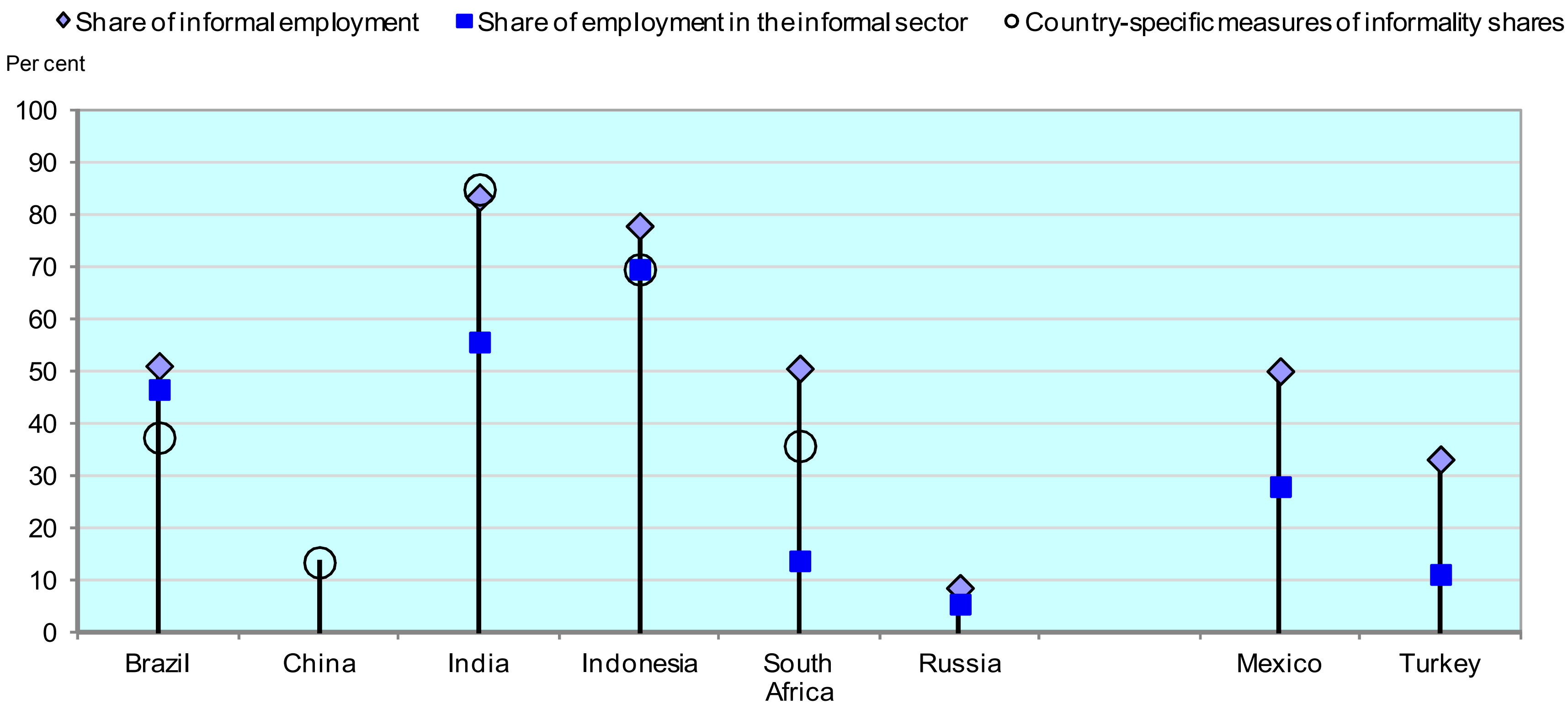
Informality is very high
(various estimates for mid-2000s)

India



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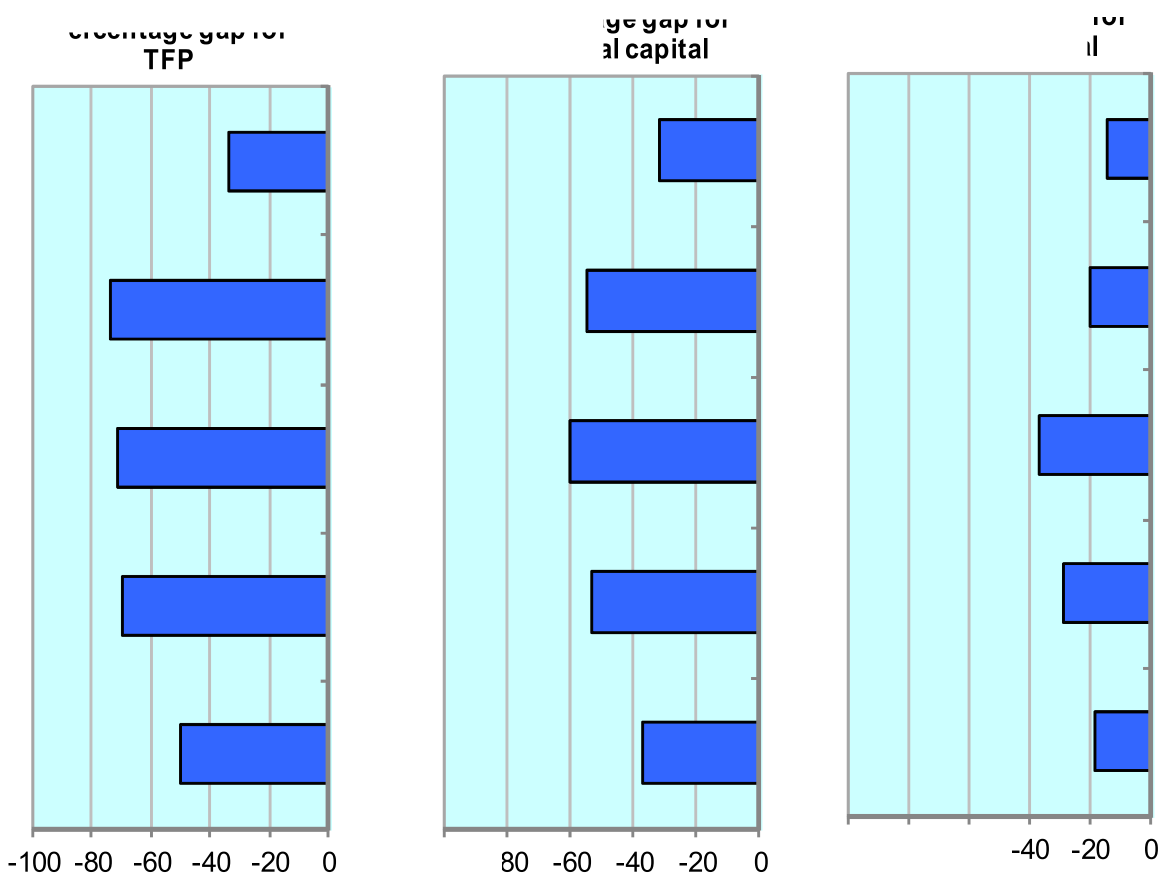
Physical capital is at a relatively low level (breakdown of labour productivity gaps)

India



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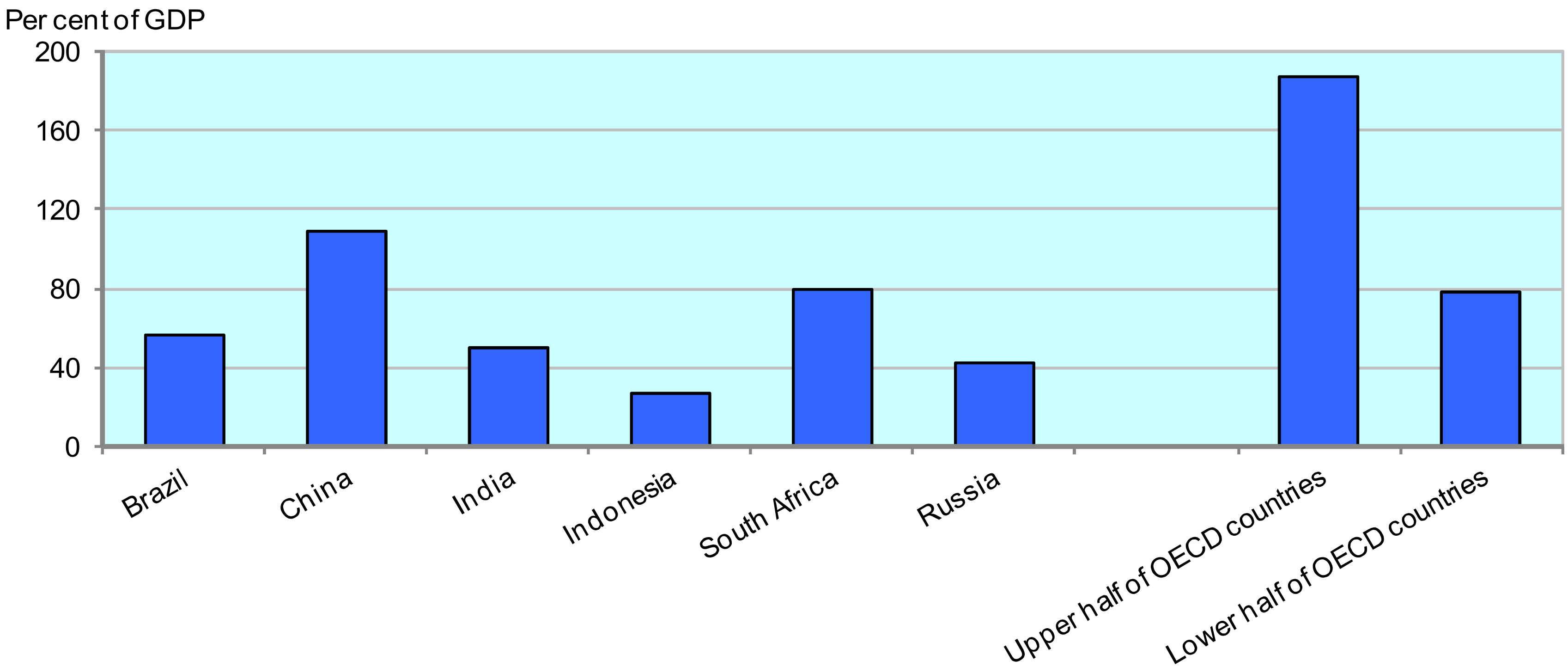
Financial markets remain relatively shallow (domestic credit to the private sector in 2008)



India

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G-20 Contributions

- Identifying reform priorities based on *Going for Growth*
- Estimating the impacts of structural reform
- Inputs into the G-20's Framework for Stronger, Sustainable and Balanced Growth

Simulated impacts of structural reforms

	Definition of "unit" shock	OECD average	OECD standard deviation	Simulated effect (unit changes)		Simulated effect (one-standard deviation changes)	
				After 10 years	Steady-state	After 10 years	Steady-state
Labour market policies							
Average replacement rate	-10 ppt.	27.2	11.0	1.9	3.0	2.0	3.2
Employment protection legislation (EPL)	-1 index point	2.2	0.8	0.3	0.4	0.2	0.3
Maternal leave weeks	+10 weeks	27.0	20.5	0.1	0.2	0.2	0.3
Childcare benefits	-0.1 ppt.	0.6	0.1	0.0	0.0	0.0	0.0
Childcare support	+0.1 ppt.	0.6	0.1	0.0	0.0	0.0	0.0
Standard retirement age	+1 year	64.3	2.3	0.2	0.3	0.3	0.6
Implicit tax on continued work	-10 ppt.	26.9	19.9	0.2	0.4	0.4	0.8
Average weekly normal hours and overtime	+1 hour	44.3	4.7	0.1	0.1	0.4	0.4
Taxation							
Average tax wedge	-10 ppt.	30.0	9.9	3.3	5.2	3.1	5.0
Marginal tax	-10 ppt.	32.4	9.5	1.1	1.1	1.1	1.1
Product market regulation							
Gas	-0.1 index point	3.3	1.1	0.1	0.1	1.1	1.0
Electricity	-0.1 index point	1.8	1.3	0.1	0.1	1.0	1.2
Road	-0.1 index point	1.6	1.4	0.1	0.1	1.5	1.3
Rail	-0.1 index point	3.6	1.5	0.1	0.1	1.5	1.4
Air	-0.1 index point	2.0	1.6	0.1	0.1	1.7	1.5
Post	-0.1 index point	3.0	0.5	0.1	0.1	0.4	0.4
Telecommunications	-0.1 index point	1.6	0.9	0.1	0.1	0.9	0.9
Overall	-0.1 index point	2.5	0.8	0.73	0.67	5.7	5.1
Human capital							
PISA score	+10 points	496	21.4*	0.1	2.0	0.3	4.1
Average years of schooling (16-24 cohort)	+1 year	12.6	1.0	0.6	8.1	0.6	8.3

OECD is looking at the current account effects of structural reforms

	Total saving	Total investment	Current account	Surplus countries (2009) with priority in these areas
Increase in productivity growth	+	+	-	
Product market deregulation		+	(-)	Austria, Belgium, China, Chile, Estonia, Germany, Denmark, Israel, Indonesia, Japan, Korea, Luxembourg, Norway, Russia, Switzerland, Hungary
Improvement in coverage/quality of social welfare system	-		(-)	Switzerland, Russia, Hungary
Increase in statutory retirement age	-		(-)	Finland, Belgium
Lowering of employment protection for regular workers	-	-	0	Germany, Japan, Korea, Luxembourg, Netherlands, Sweden, Chile
Financial market deregulation	0/-	+/-	(+/-)	

Balancing multiple objectives

External surplus	
Fiscal deficit	Fiscal surplus
▼ Product market regulation ▼ State control of potentially competitive activities ▼ Support to agriculture ▲ Efficiency public spending in health and pensions ▲ Retirement age Change in tax structure : ▲ increase indirect taxes and : ▼ Corporate income taxes ▼ Tax wedge	▲ Public spending (education, innovation, infrastructure) ▲ ALMP spending ▼ Tariffs on international trade
External deficit	
▼ Unemployment benefits ▼ Disability/ sickness benefits ▼ FDI restrictions	

For more information

www.oecd.org/goingforgrowth