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

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OECD Economics Department
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

Gap in the average growth rate 1998-2008, per cent

Gap in GDP per capita relative to the US in 1998, per cent
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

GDP per capita

Labour utilisation (hours worked per capita)
- Hours worked per worker
- Employment rate
  - Structural unemployment rate
  - Labour force participation

Labour productivity (output per hour worked)
- Capital deepening (capital per hour worked)
  - Quality of capital (vintage and asset composition)
- Multi-factor productivity
  - Quality of labour (skill mix)
  - Pure technical progress

Labour market policies

Product market policies

Use 50 OECD indicators of policy in various areas

- Indicators of product market policies
  - Product market regulation database
  - Producer support estimates in agriculture
  - FDI restrictiveness index
- Indicators of policies mainly affecting labour markets
  - Tax wedges
  - Implicit tax rates on continued work
  - Minimum wages and labour costs
  - Unemployment benefit replacement rates
  - Employment protection legislation
  - Disability/sickness benefits
  - Educational attainment and achievement
Sources of differences in living standards

Percentage gap with respect to the upper half of OECD countries in terms of GDP per capita

Percentage gap for labour resource utilisation

Percentage gap for labour productivity

Luxembourg
Norway
United States
Switzerland
Ireland
Netherlands
Canada
Australia
Austria
Sweden
Iceland
Denmark
United Kingdom
Germany
Finland
Belgium
Japan
France
EU19
Spain
Italy
Greece
Korea
New Zealand
Czech Republic
Portugal
Slovak Republic
Hungary
Poland
Mexico
Turkey

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
Many cases of below-average performance and policy for France
Fewer cases of below-average policy and performance
## Going for Growth policy recommendations evolve over time

<table>
<thead>
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</thead>
<tbody>
<tr>
<td></td>
<td>Pre-enlargement OECD</td>
<td>OECD in 2011</td>
<td>BRIICS</td>
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<tr>
<td><strong>Productivity</strong></td>
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<tr>
<td>Product market regulation</td>
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<td>Average and marginal taxation on labour income</td>
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<td>Social benefits</td>
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<td>Labour market regulation and collective wage agreements</td>
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<td>12</td>
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<td>3</td>
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<td>100</td>
<td>100</td>
<td>100</td>
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<td><strong>Overall (number of priorities)</strong></td>
<td>155</td>
<td>155</td>
<td>155</td>
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</table>
Income differentials reflect sizeable productivity gaps in major non-OECD countries
Going for Growth preliminary policy recommendations for 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)

Index

State control
Barriers to entrepreneurship
Barriers to trade and investment

Brazil, China, INDIA, Indonesia, South Africa, Russia, Upper half of OECD countries, Lower half of OECD countries

http://dx.doi.org/10.1787/786673262253
Tariff rates are still relatively high (rate in 2008)

Average tariff rates

- **Bound rate**
- **MFN applied rate**
- **Applied effective rate**

### Countries
- **Brazil**
  - Bound rate: (27)
  - MFN applied rate: (72)
  - Applied effective rate: (76)
- **China**
  - Bound rate: (79)
  - MFN applied rate: (6)
  - Applied effective rate: (114)
- **India**
  - Bound rate: (163)
  - MFN applied rate: (125)
  - Applied effective rate: (82)
- **Indonesia**
  - Bound rate: (204)
  - MFN applied rate: (206)
  - Applied effective rate: (206)
- **South Africa**
  - Bound rate: (237)
  - MFN applied rate: (229)
  - Applied effective rate: (237)
- **Upper half of OECD countries**
  - Bound rate: (257)
  - MFN applied rate: (257)
  - Applied effective rate: (257)
- **Lower half of OECD countries**
  - Bound rate: (222)
  - MFN applied rate: (222)
  - Applied effective rate: (222)

Source: [http://dx.doi.org/10.1787/786673262253](http://dx.doi.org/10.1787/786673262253)
Public expenditure on education (spending in 2006)
Secondary level education gaps are still substantial for the younger cohorts (attainment in 2007)

http://dx.doi.org/10.1787/786673262253
Job protection legislation is highly restrictive (stringency in 2008)

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

http://dx.doi.org/10.1787/786673262253
Informality is very high
(various estimates for mid-2000s)

- Share of informal employment
- Share of employment in the informal sector
- Country-specific measures of informality shares

Per cent

0 10 20 30 40 50 60 70 80 90 100

Brazil | China | India | Indonesia | South Africa | Russia | Mexico | Turkey

http://dx.doi.org/10.1787/786673262253
Physical capital is at a relatively low level (breakdown of labour productivity gaps)

http://dx.doi.org/10.1787/786673262253
Financial markets remain relatively shallow (domestic credit to the private sector in 2008)
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

<table>
<thead>
<tr>
<th>Definition of “unit” shock</th>
<th>OECD average</th>
<th>OECD standard deviation</th>
<th>Simulated effect (unit changes)</th>
<th>Simulated effect (one-standard deviation changes)</th>
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<tbody>
<tr>
<td></td>
<td>After 10 years</td>
<td>Steady-state</td>
<td>After 10 years</td>
<td>Steady-state</td>
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<td>Labour market policies</td>
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<td>Average replacement rate</td>
<td>-10 ppt.</td>
<td>27.2</td>
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<td>2.2</td>
<td>0.8</td>
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<td>Maternal leave weeks</td>
<td>+10 weeks</td>
<td>27.0</td>
<td>20.5</td>
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<td>0.1</td>
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<td>Standard retirement age</td>
<td>+1 year</td>
<td>64.3</td>
<td>2.3</td>
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<td>19.9</td>
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<td>+1 hour</td>
<td>44.3</td>
<td>4.7</td>
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<td>Taxation</td>
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<td>Average tax wedge</td>
<td>-10 ppt.</td>
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<td>3.3</td>
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<tr>
<td>Marginal tax</td>
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<td>32.4</td>
<td>9.5</td>
<td>1.1</td>
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<td>Product market regulation</td>
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<tr>
<td>Gas</td>
<td>-0.1 index point</td>
<td>3.3</td>
<td>1.1</td>
<td>0.1</td>
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<td>Electricity</td>
<td>-0.1 index point</td>
<td>1.8</td>
<td>1.3</td>
<td>0.1</td>
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<tr>
<td>Road</td>
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<td>1.6</td>
<td>1.4</td>
<td>0.1</td>
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<tr>
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<td>3.6</td>
<td>1.5</td>
<td>0.1</td>
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<tr>
<td>Air</td>
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<td>2.0</td>
<td>1.6</td>
<td>0.1</td>
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<tr>
<td>Post</td>
<td>-0.1 index point</td>
<td>3.0</td>
<td>0.5</td>
<td>0.1</td>
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<tr>
<td>Telecommunications</td>
<td>-0.1 index point</td>
<td>1.6</td>
<td>0.9</td>
<td>0.1</td>
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<tr>
<td>Overall</td>
<td>-0.1 index point</td>
<td>2.5</td>
<td>0.8</td>
<td>0.73</td>
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<td>Human capital</td>
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<tr>
<td>PISA score</td>
<td>+10 points</td>
<td>496</td>
<td>21.4*</td>
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<tr>
<td>Average years of schooling (16-24 cohort)</td>
<td>+1 year</td>
<td>12.6</td>
<td>1.0</td>
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OECD is looking at the current account effects of structural reforms

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

<table>
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<tr>
<th>External surplus</th>
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<tbody>
<tr>
<td>Fiscal deficit</td>
</tr>
<tr>
<td>▼ Product market regulation</td>
</tr>
<tr>
<td>▼ State control of potentially competitive activities</td>
</tr>
<tr>
<td>▼ Support to agriculture</td>
</tr>
<tr>
<td>▲ Efficiency public spending in health and pensions</td>
</tr>
<tr>
<td>▲ Retirement age</td>
</tr>
<tr>
<td>Change in tax structure: ▲ increase indirect taxes and:</td>
</tr>
<tr>
<td>▼ Corporate income taxes</td>
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<tr>
<td>▼ Tax wedge</td>
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</table>

<table>
<thead>
<tr>
<th>External deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>▼ Unemployment benefits</td>
</tr>
<tr>
<td>▼ Disability/ sickness benefits</td>
</tr>
<tr>
<td>▼ FDI restrictions</td>
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</table>
For more information

www.oecd.org/goingforgrowth