

PART I

*Chapter 2*

**Progress in Responding  
to the 2007 Policy Priorities:  
Country Notes**

*This chapter contains information about progress in implementing reforms in line with the 2007 priorities for individual OECD member countries and the European Union.*

## AUSTRALIA

*Despite strong and steady growth, the GDP-per-capita gap persists vis-à-vis the leading countries owing to a significant productivity shortfall. Employment rates are relatively low for the low-skilled and older workers, even though they have increased recently.*

### Policy priorities

#### **Reform disability benefit schemes**

**Challenge and recommendations:** To raise the low participation rate for persons aged 55 and over and those receiving the Disability Support Pension (DSP), it was recommended that the application of the tighter eligibility requirements for new entrants to the DSP programme be extended to all recipients, after assessing their employability on the basis of medical criteria.

**Actions taken:** No action taken since the 2006 reform which increased work obligations and tightened eligibility for new claimants of DSP. The effects of the reform are being evaluated.

#### **Improve upper-secondary educational attainment**

**Challenge and recommendations:** To reduce the share of early school-leavers who face dim job prospects, it was recommended that enrolment in the vocational and training system be promoted and additional support for children who have difficulties – especially those from disadvantaged groups with low educational attainment – be provided.

**Actions taken:** The 2007-08 budget increased financial support for remedial classes, permitting more children with problems to benefit. Three technical colleges will also be created, bringing the total to 28. Incentive payments and the extension of the income-contingent loan scheme will raise opportunities for individuals to take up vocational training.

#### **Strengthen competition in network industries**

**Challenge and recommendations:** To stimulate competition and efficiency in infrastructure sectors, it was recommended that a uniform national regulation for the interstate rail network be established and the competitive neutrality between rail and road transportation be reinforced; the retail electricity price regulation for households be removed and the producers still owned by the states be privatised; and the reform of the water sector be accelerated.

**Actions taken:** The Council of Australian Governments (COAG) agreed to implement uniform national rail safety regulation. With a view to enhancing the national energy market, the COAG agreed to establish a national operator for both electricity and gas with new national transmission planning functions. It also encouraged the states still controlling enterprises in the electricity sector to privatise them. A reform to enhance the management of the main Australian hydraulic basin (the Murray Darling Basin) was adopted.

#### **Further reduce marginal effective tax rates for low-income earners**

**Challenge and recommendations:** To reduce the impact of low-wage traps for low-income earners and encourage them to move from part-time to full-time work, it was recommended that the lower rates of income tax be reduced and personal allowances be raised or withdrawal rates for means-tested family benefits be reduced.

**Actions taken:** The 2007-08 budget provided for a further personal income tax cut for lower and middle-income families, thus improving incentives for the second earner to work longer hours. Financial support aimed at improving the affordability of childcare facilities has also been raised.

#### **Increase the flexibility of wage bargaining and determination**

**Challenge and recommendations:** To promote employment of the low-skilled and to enhance the resilience of the economy, it was recommended that the complex system of “award wages” – which creates a relatively high wage floor – be phased out, or be simplified.

**Actions taken:** Simplification of awards is underway, but the 2006 reform of the wage bargaining system has been partially reversed to strengthen the safety net for employees. Individual and collective wage agreements signed for workers earning less than a certain threshold will have to fulfil a set of minimum award conditions.

## AUSTRIA

*GDP per capita is high, but the gap vis-à-vis the best performing countries is widening because of a deteriorating relative productivity performance. Labour market performance outside of core groups is weak.*

### Policy priorities

#### **Reduce barriers to entry in network industries**

**Challenge and recommendations:** To promote competition in network industries and to lower network access prices, it was recommended that ownership restrictions on the production and distribution of electricity be relaxed, and the telecommunications and electricity sectors be gradually privatised.

**Actions taken:** No action taken.

#### **Reduce implicit taxes on continued work at older ages**

**Challenge and recommendations:** In order to reduce the financial disincentives to pursue work at older ages, it was recommended that: i) old age pensions be made more actuarially neutral around the statutory retirement age of 65; ii) the “heavy workers” entry scheme into early retirement be revised; iii) pension schemes throughout the public sector be harmonised with the existing private sector pension scheme; iv) higher unemployment benefits for older jobless workers be eliminated; and v) subsidies for part-time employment at older ages be phased out.

**Actions taken:** Negotiations are to be undertaken with the states and municipalities to harmonise the pension system across the public sector with the private sector pension scheme; the option of early retirement for “heavy workers” is to be re-evaluated; and a study group is to draw up and submit proposals for reform of the disability pension law in the first half of 2008. At the same time, the government reversed some measures of the 2003-04 pension reforms, thus making early retirement more generous. Subsidies for part-time employment at older ages are currently being evaluated.

#### **Improve graduation rates from tertiary education**

**Challenge and recommendations:** The share of the labour force with tertiary education is low, and the quality of some vocational and tertiary education programmes remains sub-standard. To remedy this, it was recommended that performance-based funding in tertiary education be extended and strengthened and university student fees be raised, combined with the introduction of a loan scheme with income-contingent repayments.

**Actions taken:** No action taken; indeed, the government intends to grant exemptions from existing tuition fees to those students undertaking voluntary social work, such as tutoring younger students.

#### **Lower marginal income tax rates and further broaden the tax base**

**Challenge and recommendations:** To strengthen work and entrepreneurship incentives, it was recommended that marginal income tax rates be lowered and the numerous existing tax allowances be reduced so as to broaden the tax base.

**Actions taken:** The government intends to undertake a major tax reform in 2010, although it is to be conditional on achieving fiscal consolidation by that year.

#### **Reduce regulatory restrictions to competition in the services sectors**

**Challenge and recommendations:** To enhance competition and foster productivity growth, it was recommended that restrictive regulations of trades and professions be reduced, compulsory chamber membership for the liberal professions be abolished, and shop opening hours be further liberalised.

**Actions taken:** The new government’s programme states that it intends to remove barriers to competition in the liberal professions and to review the corresponding regulatory framework. From January 2008 legal shop opening hours were extended, with maximum opening hours raised to 72 hours per week.

## BELGIUM

*The GDP-per-capita gap vis-à-vis best performing countries remains substantial. This reflects low employment rates of older workers and immigrants as well as geographical labour market mismatches.*

### Policy priorities

#### **Further reduce the implicit tax on continued work at older ages**

**Challenge and recommendations:** In order to raise the effective retirement age, which is low by international standards, it was recommended that the measures outlined in the 2005 Solidarity Pact Between Generations be supplemented by the phasing out of alternative routes to early retirement via realigning access conditions to such schemes with those for standard old-age pensions; the removal of the possibility for accumulating pension rights for persons in special early retirement schemes; and making early receipt of old-age pensions more actuarially neutral.

**Actions taken:** Two key measures of the 2005 Solidarity Pact were legislated in 2007: a pension supplement for those continuing to work beyond the age of 62, and a gradual increase in the minimum age of entry into early retirement via the old-age pension system from 58 to 60. No measures aside from the Solidarity Pact have been introduced.

#### **Further reduce the tax wedge on low-income workers**

**Challenge and recommendations:** To improve labour market participation rates among low-income workers and immigrants, it was recommended that further targeted cuts in social security charges and personal income tax rates for low-income workers be implemented together with offsetting spending cuts.

**Actions taken:** The multi-year tax reform has been fully implemented. Additional measures taken to make work pay include a reduction in individual social security contributions targeted at low-income workers (the “employment bonus”).

#### **Ease regulation in the retail sector**

**Challenge and recommendations:** To stimulate job creation and competition in the retail sector, it was recommended that regulations of zoning and shop opening hours, which remain stringent even after the 2006 reforms, be relaxed.

**Actions taken:** No action taken since the reforms in 2006.

#### **Make wages more responsive to local labour market conditions**

**Challenge and recommendations:** To reduce the large and persistent geographical mismatches in the labour market, it was recommended that the scope for individual companies to opt out from sectoral agreements be increased.

**Actions taken:** No action taken.

#### **Strengthen efficiency of active labour market policies**

**Challenge and recommendations:** To facilitate return to work, it was recommended that job-search requirements for the unemployed be strengthened, funds for active labour market policies be redirected from subsidised employment to training and co-ordination between placement agencies in different regions be improved.

**Actions taken:** In July 2007, the regional placement agencies created an interregional association with the purpose to exchange job offers and to enhance cooperation in the field of training.

## CANADA

*The GDP-per-capita gap with the United States has not narrowed in recent years and remains significant, reflecting weak labour productivity performance.*

### Policy priorities

#### **Further reduce barriers to competition in professional services**

**Challenge and recommendations:** To strengthen competition in professional services, it was recommended that the remaining obstacles to inter-provincial trade be dismantled and the number of “regulated occupations” be reduced.

**Actions taken:** At a meeting of the Council of the Federation in August 2007, provincial premiers reiterated their commitment to remove all remaining barriers to labour mobility in regulated occupations by April 2009. Premiers further agreed to consider legislative action to ensure full compliance, should some occupational groups fail to meet the deadline.

#### **Further reduce barriers to foreign ownership**

**Challenge and recommendations:** To ease restrictions on foreign direct investment (FDI), which remain higher than in the majority of OECD countries, it was recommended that ownership restrictions in telecommunications and transport be eliminated and a majority of board members be allowed to be non-residents in sectors where this is currently prohibited.

**Actions taken:** The federal government has established an independent panel to review key elements of competition and investment policies, including sectoral restrictions on FDI and the screening mechanism under the Investment Canada Act. The parliament also passed a bill, in April 2007, which relaxed the residency requirements for directors of Canadian financial institutions from two-thirds to a majority.

#### **Liberalise provincial electricity markets**

**Challenge and recommendations:** Electricity markets are exposed to only limited competition in most provinces, suppliers are often vertically integrated and public ownership is prevalent. To increase competition, it was recommended that full retail markets be developed, price regulation in the retail market be removed and inter-connection among both provincial and North American markets be increased.

**Actions taken:** No action taken.

#### **Reduce inefficiency in the employment insurance system**

**Challenge and recommendations:** The current parameters of the employment insurance system have led to persistent cross-subsidies between businesses, with firms engaged in temporary or seasonal work benefiting from the system. To end cross-subsidies and encourage further labour mobility, it was recommended that a firm-level employer experience rating be introduced or benefit entitlements for temporary or seasonal workers be scaled back.

**Actions taken:** The introduction of the Working Income Tax Benefit in Budget 2007 increased work incentives for low-income earners and reduced the need to provide special support for low-skilled unemployed in Eastern provinces.

#### **Improve the efficiency of the tax system**

**Challenge and recommendations:** To further reduce effective taxes on capital, it was recommended that provincial taxes on firms' ownership of capital be abolished, provincial retail sales taxes be switched to value-added taxes and the corporate tax base be broadened while treating all business sizes equally.

**Actions taken:** The federal government eliminated its capital tax, will eliminate the corporate surtax in 2008 and will reduce the general corporate income tax. It has also been increasing capital cost allowance rates to better reflect the useful life of assets, and recently improved tax fairness by evening the playing field between income trusts and corporations. It has also encouraged provinces to eliminate their capital taxes and has re-iterated its commitment to work with provinces that would like to eliminate their retail sales taxes and move to a harmonised value added tax system.

## CZECH REPUBLIC

*Trend growth remains high, allowing for a narrowing of the sizeable gaps in GDP per capita and labour productivity vis-à-vis the OECD average.*

### Policy priorities

#### **Reduce the tax wedge for low-income workers**

**Challenge and recommendations:** To encourage employment creation and reduce incentives for subcontracting with “self-employed” workers, it was recommended that the high tax wedge on low earnings be cut. It was also recommended that the pension system be reformed, *inter alia* to prevent future increases in contribution rates.

**Actions taken:** A wide-ranging package of fiscal reforms includes the introduction of a “flat tax” on personal incomes. The new system is expected to benefit mainly higher-income earners. Political agreement on a specific pension reform has yet to be reached.

#### **Reduce the cost of EPL for regular workers**

**Challenge and recommendations:** Some aspects of employment protection legislation are reducing labour turnover, thus contributing to high long-term unemployment. In particular, it was recommended that notice period and severance pay requirements at short job tenures be reduced and dismissal procedures lightened.

**Actions taken:** No significant measures have been taken, but the new less constraining labour code came into force in January 2007, as decided earlier.

#### **Reduce the administration burden for businesses**

**Challenge and recommendations:** To encourage the development of domestic businesses and reduce corruption, it was recommended that legal procedures and administrative processes, such as business registration, be simplified.

**Actions taken:** There has been some follow-up to the significant cuts in red tape made in 2005 through amendments of the civil and commercial codes. Notably, one-stop shops for setting up a business have since become operational. Also, new insolvency legislation will strengthen the position of creditors (effective from January 2008).

#### **Improve public sector efficiency**

**Challenge and recommendations:** To raise public sector efficiency, it was recommended that the health care system be reformed and incentives for cost effectiveness of sub-national government be strengthened.

**Actions taken:** The government’s reform package includes changes to the sickness benefit system. In addition, health care reforms aiming at improving efficiency, *e.g.* via introduction of user payments for doctors’ visits, medical prescriptions and hospital stays have been approved. Also, legislation extending the standard retirement age has been drafted.

#### **Improve the system of tertiary education**

**Challenge and recommendations:** In order for the education system to better cope with the increasing demand for tertiary-level education, it was recommended that elite streaming in secondary schooling be removed and a fee system for tertiary courses be introduced, backed by income-contingent student loans.

**Actions taken:** No significant measures have been taken. However, reforms are being prepared with a view to widening access and attracting more private funding in tertiary education.

## DENMARK

*GDP per capita remains stable relative to the best performing OECD countries. Productivity growth is modest and, while employment rates are generally high, average working hours are short, and labour utilisation is weak for some groups.*

### Policy priorities

#### **Reduce marginal taxes on labour income**

**Challenge and recommendations:** Social security contributions and income taxes combine to a marginal rate of above 60%, even for incomes modestly above average full-time earnings. To reduce high marginal rates, it was recommended that the income threshold from where the top tax rate is applied be lifted when the cyclical position permits and real estate taxes be increased to allow for further income tax cuts.

**Actions taken:** In 2008, ¼ per cent of GDP will be spent on an enhanced in-work tax credit, but the effects on labour supply will be muted by a simultaneous increase in benefits paid to those not working. In 2009, the threshold from where the middle tax bracket applies will be raised, financed by letting energy taxes grow in line with inflation. However, for the 40% of the full-time employed paying the top tax rate, marginal rates will be unchanged. The government has also decided to establish a tax commission to review reform options.

#### **Improve the efficiency of the education system**

**Challenge and recommendations:** To improve learning outcomes in compulsory schooling, it was recommended that the educational content of the introductory year for six-year-olds be increased and the voluntary 10th form (for 16-year-olds) be abolished. As taxes and grants encourage university students to start and end studies late, it was also recommended that tuition charging and loans for tertiary education be developed to encourage completion, while reducing high marginal income tax rates.

**Actions taken:** The 10th form is now targeted at youth with special needs, and a bill has been presented to parliament that would enhance the educational content of the introductory year. As of 2008, university funding and study programmes will be adjusted to encourage early completion; as of 2009, students applying for university places within two years after ending their secondary degree will be given priority.

#### **Reform disability benefit schemes**

**Challenge and recommendations:** To avoid overuse of schemes giving wage subsidies and other support to keep disabled people with significant remaining work capacity in employment, it was recommended that Flexjob subsidies be further reduced, and that disability pension and Flexjob cases be reviewed on a regular basis with a view to bringing more beneficiaries back to unsubsidised employment. It was also recommended that prevention and rehabilitation be developed further to facilitate declines in the number of disability recipients.

**Actions taken:** No further action since the maximum wage subsidy under the Flexjob scheme was reduced from July 2006, even though the subsidy is still well above the disability pension. Flexjob eligibility assessment has also been tightened, but a recent government report still indicates substantial problems with the scheme.

#### **Enhance competition, notably in publicly funded services**

**Challenge and recommendations:** While regulation in the business sector is relatively liberal, it was recommended that publicly funded services be opened to competition, privatisation be continued, and access to permits via one-stop shops be broadened. It was also recommended that competition agencies be streamlined and interest-group representatives be removed from their boards.

**Actions taken:** A broad reform of publicly funded services was announced in August 2007, with enhanced benchmarking and a few measures to ensure a more level playing field for public and private providers, but most publicly funded services will nonetheless remain sheltered from competition.

#### **Reduce housing subsidies and abolish rent regulation**

**Challenge and recommendations:** Starting from a highly subsidised and regulated housing market, it was recommended that resources be freed up by reducing housing subsidies for individuals and rental housing, as well as by raising the real estate tax rate to be neutral vis-à-vis interest deductibility and other capital taxation. It was also recommended that rent regulation be abolished.

**Actions taken:** No action taken.



## EUROPEAN UNION

*The gap in GDP per capita vis-à-vis the United States remains substantial, reflecting lower levels of both productivity and labour utilisation.*

### Policy priorities

#### **Ease the regulatory burden on business operations**

**Challenge and recommendations:** To remove substantial barriers to internal trade in service sectors, it was recommended that EU-wide standards be adopted where mutual recognition is difficult.

**Actions taken:** The Services Directive is being implemented and is to be transposed into national law by the end of 2009. The Commission has proposed improvements to the mutual recognition principle for traded goods.

#### **Raise competition in network industries**

**Challenge and recommendations:** To raise competition in network sectors, it was recommended to create an EU-wide energy market, liberalise ports and postal services, enhance directives in the telecommunications and energy sectors, and ensure that support for national champions does not compromise competition.

**Actions taken:** The Commission has proposed legislation to separate energy transmission and generation activities and to integrate European electricity markets by tackling cross-border issues. Infringement proceedings were launched against 20 countries in 2006 for failure to implement directives on the deregulation of energy markets. Deregulation of the market for standard letters has been postponed to 2011.

#### **Reduce producer support to agriculture**

**Challenge and recommendations:** To reduce the distorting effect of the Common Agriculture Policy (CAP), which keeps resources in low-productivity activities, it was recommended that market access for non-EU countries be improved and the reduction in production-linked support be continued.

**Actions taken:** No major action since the 2003 CAP reforms. The Commission proposed in 2007 to bring vegetables and fresh fruit into the single payment scheme. To help reduce greenhouse gas emissions, the EU Council has adopted a target of 10% by 2020 for the share of biofuel in total fuel consumption for transportation, which will increase prices of agricultural products.

#### **Raise labour mobility within the European Union**

**Challenge and recommendations:** To increase employment and better allocate labour resources, it was recommended that the mobility of workers be raised by improving the portability of occupational pension and social welfare benefit rights.

**Actions taken:** The Commission is to review regularly the progress made in improving the portability of pensions and has proposed new minimum requirements for the acquisition and preservation of pension rights. The Job Mobility Action Plan, announced in December 2007, sets out a series of additional actions to improve labour mobility, including measures to strengthen the European Employment Services (EURES) network.

#### **Improve financial market integration**

**Challenge and recommendations:** To increase competition and make the financial sector more efficient, it was recommended that the Financial Services Action Plan be fully implemented and efforts to integrate retail financial markets, especially mortgage lending, be accelerated.

**Actions taken:** Most of the Financial Services Action Plan has now been implemented. New initiatives were proposed by the Commission in December 2007 to stimulate competition and consumer choice in retail financial services. The Payment Services Directive has been adopted by the European Parliament.



## FINLAND

*Convergence in GDP per capita to the best performing countries has continued. However, structural unemployment remains high, and employment of older and low-skilled workers is relatively low.*

### Policy priorities

#### **Reduce the tax wedge on labour income**

**Challenge and recommendations:** To lower the average and marginal tax wedges on labour income, which are among the highest in the OECD, it was recommended that the lowering of taxes on labour income be continued, while ensuring fiscal sustainability by shifting the tax burden towards less distortionary taxes, such as property taxes.

**Actions taken:** The government has announced that it will lower labour taxation in the period 2008 to 2011, but, because of the buoyant cyclical situation, it has postponed the tax cuts towards the end of the period.

#### **Phase out early retirement pathways**

**Challenge and recommendations:** To lengthen working lives, which are well below the Nordic country average, it was recommended that: workers over the age of 59 be made subject to the same activation requirements as younger workers in order to qualify for unemployment benefits; the disability pension be granted only on medical grounds, rather than on “social criteria” as permitted under the current system; and the activation of older workers and persons on disability schemes with some work capacity be increased.

**Actions taken:** No action taken since the wide-ranging pension reform in 2005, which appears to have lengthened working lives so far by 0.4 years and is estimated by the government to increase the average retirement age by 1.2 years by 2012.

#### **Reform the unemployment benefit system**

**Challenge and recommendations:** To increase incentives to take up work after long unemployment spells, it was recommended that the financial support available to the long-term unemployed be reduced.

**Actions taken:** A comprehensive reform of social security has been launched. Various issues are being analysed by a broad-based working group, and the first legislative proposals are scheduled to be presented to parliament in the autumn of 2008.

#### **Promote wage negotiations at the firm level**

**Challenge and recommendations:** To promote employment and labour market flexibility, it was recommended that a larger share of annual wage increases be negotiated at the firm level and opt-out clauses from central collective agreements be allowed, thus making wages more responsive to local conditions.

**Actions taken:** The 2007 wage round took place at the sectoral level; some incremental progress has been made in increasing the prevalence of workplace-level negotiations.

#### **Continue with product market deregulation as well as privatisation**

**Challenge and recommendations:** To increase competition, it was recommended that product markets be further deregulated, in particular by easing regulations on shop opening hours and relaxing zoning laws to facilitate entry in retail distribution, and that the on-going privatisation process be continued.

**Actions taken:** The government is planning to review the rules for shop opening hours, though no concrete steps have been taken to date. Management of state-owned enterprises has been moved from ministries into a unit in the Prime Minister's Office.

## FRANCE

*Low labour utilisation more than offsets high output per hour worked, leaving a wide gap vis-à-vis the GDP per capita of the best performing countries. Productivity growth itself has been weak.*

### Policy priorities

#### **Reduce the minimum cost of labour**

**Challenge and recommendations:** Compared with other OECD countries, the cost of employing low-skilled labour relative to that of employing average workers is high. To stimulate employment opportunities of youth and low-skilled workers, it was recommended that the minimum wage be reduced relative to the median wage and that in-work benefits be further developed to improve living standards in low-income households.

**Actions taken:** No specific action taken on the minimum wage, but given that the automatic or statutory increase was smaller than for the median wage, the minimum wage fell in relative terms for the first time in many years. Also, the government has announced the creation of an independent commission that will make recommendations every year on the minimum wage.

#### **Reform employment protection legislation**

**Challenge and recommendations:** Procedures for dismissals of permanent workers are complex, costly, slow and uncertain. This is bad for groups such as youths and the long-term unemployed, creating a segmented labour market. It was recommended that job protection be eased, and legal procedures be simplified and made more predictable. One possibility is a single contract with protection increasing with the length of service.

**Actions taken:** In January 2008, the social partners agreed on a number of modifications to employment protection legislation which will ease firing procedures, in particular by reducing the frequency of cases requiring a court ruling and by introducing a new fixed-term contract designed for specific projects and selected categories of professionals. In return, severance payments will be raised and dismissed workers will be able to maintain and/or transfer some of their fringe benefits.

#### **Reduce regulatory barriers**

**Challenge and recommendations:** In a number of sectors, mainly retail distribution and some network industries, competition is restricted by regulations that reduce productivity growth and employment. It was recommended that the notion of consumer welfare be reinforced as the guiding principle for regulatory policy, that specific restrictions on selling below cost be abolished, and entry and access barriers in network industries be removed.

**Actions taken:** Further modifications to price regulation in retail distribution were introduced in early 2008: although individual distributors cannot freely negotiate prices with suppliers, their legal margin for selling below cost has been widened. Implementation of EU directives for network industries has continued, reducing entry and access barriers, and increasing competition.

#### **Increase labour force participation of older people**

**Challenge and recommendations:** Despite pension reforms, only 56% of those aged 55-59 and 17% of those aged 60-64 are working. It was recommended that the Delalande contribution – a penalty for dismissing workers over 50 but which acts as a disincentive to their recruitment – be abolished, that the job-search exemption for older workers receiving unemployment benefits be removed and incentives for continuing work be increased.

**Actions taken:** The Delalande contribution is to be phased out between 2008 and 2010, and the pension bonus for working beyond the “normal” length of career has been raised. A special type of work contract for older workers has been introduced. In the course of 2008, the government is legally committed to assess the impact of the 2003 reform and to decide on whether or not to modify the timing and extent of future increases in the minimum contribution period to be eligible for a full pension.

#### **Improve the efficiency of tertiary education**

**Challenge and recommendations:** Per-student funding for tertiary education, especially in the non-selective institutions which take the majority of students, is relatively low. To increase funding it was recommended that tuition fees in public higher education institutions be raised simultaneously with the introduction of an improved system of means-tested grants and student loans with income-contingent repayment.

**Actions taken:** No action has been taken on tuition fees, but public funding of higher education will be raised by around 8% in 2008. Also, legislation has been passed to increase university autonomy in managing budgets and recruitment.

## GERMANY

*The gap in GDP per capita vis-à-vis best performing countries remains wide. Long-term unemployment is still high and hours worked per employed worker are low.*

### Policy priorities

#### **Reduce average tax wedges on labour income**

**Challenge and recommendations:** To reduce the high tax wedge on both two-earner households and single earners, it was recommended that social charges be lowered and the reductions be financed by cutting tax expenditures and subsidies as well as by increasing the efficiency of government expenditure.

**Actions taken:** The government used a significant proportion of revenues from the 2007 VAT increase to lower social charges. Subsidies and tax expenditures have been reduced further. A health care reform has been agreed which introduces more competition into the system and is expected to produce efficiency gains and thus increase the scope to reduce tax wedges.

#### **Improve the efficiency of the education system**

**Challenge and recommendations:** Educational results for a large share of 15-year-olds are weak, and the tertiary graduation rate is low. It was recommended that performance of all schools be evaluated against nation-wide standards, schools be given more autonomy and the large degree of segmentation of the school system be reduced, and participation in early childhood education be increased. It was also recommended that universities be given more autonomy, including in setting tuition fees, and their funding be made more outcome-oriented.

**Actions taken:** Almost all of the states that did not have standardised secondary school exit exams have introduced them. National education standards and evaluation instruments to ensure compliance also have been agreed.

#### **Reduce regulatory barriers to competition**

**Challenge and recommendations:** Product market competition is weak in professional services, retailing, most network industries, as well as in crafts. It was recommended that the liberal professions be deregulated, by abolishing compulsory membership in associations, and non-discriminatory entry in the network industries be improved. It was also recommended that restrictions on large-scale outlets in retailing be relaxed, qualification-related entry requirements in the crafts be abolished and overall administrative burdens on enterprises be reduced.

**Actions taken:** No action has been taken at the federal level, but further progress has been made in some states in auditing existing and new regulations to reduce the burden on business.

#### **Improve job placement of the long-term unemployed**

**Challenge and recommendations:** As long-term unemployment remains high, it was recommended that administrative responsibilities related to job placement be assigned more effectively, that conditionality of benefit receipt on willingness to take up work be strengthened and that benefit levels be revisited.

**Actions taken:** No action taken since the 2005 reform, which tightened sanctions significantly.

#### **Reduce impediments to full-time female labour force participation**

**Challenge and recommendations:** Female labour force participation is high but often with very short working time. It was recommended that access to childcare facilities and full-day schooling be improved and the tax burden on second earners be lowered (by introducing a health insurance charge for the coverage of non-working spouses).

**Actions taken:** The government is providing subsidies for a sharp increase in the number of childcare places, with the share of children in childcare facilities expected to treble to 35% by 2013. The government is also promoting full-day schools, and the proportion of children in such schools is rising quickly, albeit from a low base.

## GREECE

*Over the past decade, the income gap with the best performing OECD economies has been narrowing rapidly, but the scope to improve labour utilisation and productivity performance remains large.*

### Policy priorities

#### **Reduce the implicit tax on continued work at older ages**

**Challenge and recommendations:** To remove disincentives to work at older ages, it was recommended that pension benefits be better linked to lifetime contributions so as to increase the degree of actuarial fairness, stricter eligibility criteria for disability pensions be introduced and the categories benefiting from the arduous-work clause be defined more narrowly.

**Actions taken:** The government has initiated a consultation process on the long-term sustainability of the system. The arduous work clause is being examined.

#### **Reform employment protection legislation**

**Challenge and recommendations:** To reduce the large gender/age imbalances in unemployment, it was recommended that employment protection for different occupations be rebalanced, and, in particular, the high severance costs for white-collar workers be reduced and brought into line with those for blue-collar workers.

**Actions taken:** No action taken.

#### **Reduce barriers to entry in network industries**

**Challenge and recommendations:** To foster competition in key network industries, it was recommended that privatisation limits be abolished for all public enterprises and competition in the newly liberalised markets be assured, particularly through strong and independent regulators and a reduction in vertical integration, where appropriate.

**Actions taken:** The role of the energy sector's regulator was enhanced by giving it increased responsibility for setting network tariffs. Steps were also taken to reduce the dominance of the majority state-owned incumbent in electricity generation by allowing more competition through the development of a wholesale market. The minimum limit of the state's ownership in the Hellenic Telecommunications Organisation was abolished. Earlier legislation (end-2005) has paved the way for the full liberalisation of the electricity market (from July 2007) and for the gradual opening of the natural gas market (by November 2009).

#### **Improve the efficiency of the higher education system**

**Challenge and recommendations:** To make the higher education system more efficient and raise its standards to international levels, it was recommended that performance-based funding be introduced and the establishment of private universities be allowed. It was also recommended to limit study duration and to introduce tuition fees accompanied by a loan scheme with income-contingent repayment.

**Actions taken:** The government has enacted a higher education reform which includes a series of measures that will improve the governance of universities, ensure independent evaluation, limit the duration of academic study and raise the provision of student loans.

#### **Ease entry to the labour market**

**Challenge and recommendations:** To facilitate labour market entry, it was recommended that the minimum cost of labour be reduced, through the setting of sub-minimum wages that take into account high unemployment rates of youth, and greater scope to opt out of the national minimum wage in regions with high unemployment. It was also recommended that social security contributions for the low-paid be reduced, financed by savings elsewhere in the budget.

**Actions taken:** No action to reduce the minimum cost of labour since the 2004 legislation reducing employers' social security contributions for vulnerable groups, including unemployed young people and women with children.

## HUNGARY

*The gap in GDP per capita vis-à-vis the OECD average has continued to narrow, but it remains substantial, reflecting both low levels of productivity and labour utilisation.*

### Policy priorities

#### **Reduce the tax wedge on labour income**

**Challenge and recommendations:** To cut labour costs and stimulate job creation, it was recommended that the relatively high tax wedges be reduced over the medium term, financing the loss in revenues by cutting public spending.

**Actions taken:** Urgent need for budget consolidation has resulted in increases in some elements of the tax wedge although the schedule of the marginal tax rate has been smoothed.

#### **Reform disability benefit schemes**

**Challenge and recommendations:** The disability system provides welfare to a much wider group than originally intended, contributing thereby to the low employment rate especially among older cohorts. It was recommended that more account be taken of remaining abilities when assessing the extent of disability and the emphasis on rehabilitation be increased to reduce the numbers of the registered disabled.

**Actions taken:** Reforms of the disability benefit system, effective in 2008, requires new claimants who have remaining working capacity to participate in a rehabilitation programme while receiving benefits.

#### **Strengthen the efficiency of the education system**

**Challenge and recommendations:** To meet the rapidly rising demand for tertiary education, it was recommended that curricula reform be continued, and that plans to increase the share of students making a contribution to tuition costs be implemented. In secondary education, it was recommended that incentive problems in teacher pay scales be addressed and job protection be scaled back.

**Actions taken:** From September 2008, more students will pay a contribution to tuition costs, and market forces will play a more significant role in the allocation of teaching funds to providers. Other regulatory changes have focused on primary and secondary education, where the number of teaching hours per teacher has been increased from 20 to 22 hours per week.

#### **Increase public sector efficiency**

**Challenge and recommendations:** To improve public sector efficiency, it was recommended that the 2006 reform proposal to make the public administration more accountable and to ensure the cost efficient delivery of public services be implemented. It was also noted that there remained room for strengthening co-operation at the municipal level by reinforcing the joint provision of services.

**Actions taken:** The government introduced cuts in the number of ministries as well as consolidation of the regional network of public offices. There have also been reforms in healthcare, including the wider application of user fees, the re-organisation of health services according to a tiered insurance structure and the restructuring of the hospital network. More emphasis is being put on improving mechanisms to encourage the joint provision of municipal services.

#### **Reduce shadow-economy activity**

**Challenge and recommendations:** To reduce activity in the shadow economy, it was recommended that access to healthcare services be tied to the payment of contributions, social benefits be rebalanced towards more employment-friendly forms and sanctions against abuse be raised to deterrence levels. Also, it was recommended that the recently introduced system of minimum wages according to educational achievements be closely monitored because the new minima may risk pricing jobs out of the market and driving some jobs underground.

**Actions taken:** The campaign against shadow activities has intensified, including more checks on individuals whose lifestyle appears inconsistent with their personal income declarations. Healthcare reform, notably the new tiered coverage based on social security contributions, should also help to bring more workers into registered activities.

## ICELAND

*Convergence with the best performing countries has resumed over the past decade, but – contrary to per capita GDP – labour productivity is still relatively low.*

### Policy priorities

#### **Reduce producer support to agriculture**

**Challenge and recommendations:** To shift resources to higher-productivity activities and ease the burden on consumers and taxpayers, it was recommended that the very high levels of agricultural support be reduced and that market access be facilitated.

**Actions taken:** In order to reduce prices, excise taxes on imported food (other than sugar and sweets) were abolished, and the general import tariff on imported meat products was lowered significantly as from March 2007.

#### **Improve upper-secondary education attainment**

**Challenge and recommendations:** To avoid a weakening in core competencies while taking measures aimed at reducing dropout rates, it was recommended that a reduction in the length of upper-secondary education be matched by increasing effective teaching time and adjusting curricula.

**Actions taken:** A reduction in the duration of upper-secondary education, which is long by international comparison, is still being prepared.

#### **Lower barriers to entry for domestic and foreign firms**

**Challenge and recommendations:** In order to boost competition and productivity, it was recommended that foreign ownership restrictions in fisheries and the energy sector be reduced and that consideration be given to privatising the generation activities of the National Power Company.

**Actions taken:** While the sale of government assets continues, the authorities have ruled out a privatisation of the National Power Company.

#### **Reduce government support to housing**

**Challenge and recommendations:** To reduce distortions in the mortgage market, it was recommended that the Housing Financing Fund be charged a fee reflecting the benefits of a government guarantee.

**Actions taken:** No action taken.

#### **Accelerate public sector reform**

**Challenge and recommendations:** With a view to enhancing efficiency and curbing spending creep, it was recommended that outcome-based budgeting be introduced, and that performance measurement and management reforms in the public sector be accelerated.

**Actions taken:** No action taken.



## IRELAND

*Growth in GDP per capita over the past decade, albeit not fully matched by real income gains, has been the fastest in the OECD. However, there is scope to raise labour force participation, and further efficiency gains can be achieved in some areas.*

### Policy priorities

#### **Strengthen work incentives for second earners and lone parents with young children**

**Challenge and recommendations:** To raise the female participation rate, it was recommended that the financial incentives for low-income women to work be improved, childcare support be tied to employment and job-search assistance for lone parents be provided.

**Actions taken:** The Equal Opportunities Childcare Programme has substantially expanded childcare provision, and the Early Childcare Supplement was increased in the 2007 Budget, although neither measure ties support to employment. The Employee Tax Credit has risen more rapidly than earnings. This, and other budget measures, has reduced the number of lower-income households paying tax.

#### **Strengthen competition in network industries**

**Challenge and recommendations:** To lower prices and reduce bottlenecks that hold back growth, it was recommended that electricity generation and transmission be separated, competition in the telecommunications sector be encouraged and bus routes be liberalised.

**Actions taken:** Operation of the electricity transmission grid has been transferred to a new state-owned company, EirGrid, and an Energy White Paper proposes to transfer full ownership of the grid to the new company. A very limited introduction of competitive tendering for buses has also been proposed, only covering new routes in Dublin.

#### **Improve access to education**

**Challenge and recommendations:** To improve skills, it was recommended that pre-primary education be generalised from the age of three, that efforts to help children with learning difficulties be stepped-up and tertiary education funding be increased by levying tuition fees backed by student loans with income-contingent repayment.

**Actions taken:** The National Development Plan for the years 2007 to 2013 includes additional spending on training for specific groups with low skills and education support for those of working age. Funds will also be allocated to modernise primary and secondary level schools, as well as tertiary education.

#### **Improve infrastructure**

**Challenge and recommendations:** To remove bottlenecks to economic growth, it was recommended that infrastructure gaps be closed in a cost-efficient way. This would be supported by speeding up the planning process, fully charging users of water and sewage services, and introducing a congestion charge in Dublin.

**Actions taken:** The National Development Plan for the years 2007 to 2013 sets out plans for additional investment of just under EUR 90 billion (at current prices) on economic and social infrastructure.

#### **Enhance R&D spending and innovation**

**Challenge and recommendations:** To enhance the effectiveness of R&D activities and boost innovation, it was recommended that the governance of research institutions be improved and programmes be streamlined to concentrate on a few centres of excellence.

**Actions taken:** Additional spending on innovation activities has been proposed in the new National Development Plan.



## ITALY

*Labour productivity growth has been weak, contributing to a widening GDP-per-capita gap vis-à-vis best performing countries. The employment rate has risen, but remains one of the lowest in the OECD.*

### Policy priorities

#### **Reduce regulatory barriers to competition**

**Challenge and recommendations:** To increase productivity, it was recommended that: divestiture programmes be accelerated in public utilities, transportation and media; golden shares be replaced with arm's length regulation; and regulators be strengthened further. It was also recommended that the planned liberalisation of market and local government services be fully implemented, and statutory and official authorisations giving anti-competitive powers to professional associations be removed.

**Actions taken:** Two major liberalisation packages have been passed in the areas of professional services, pharmaceuticals, taxis, local public services, retail trade and banking. These should help to reduce entry barriers, cut bureaucratic red tape, expand consumer choice, strengthen consumer protection, and diminish rents in sheltered sectors. A financial market supervision reform has streamlined the regulatory authorities and passed to the Competition Authority the power to deter anti-competitive practices in the banking sector. The powers of the Competition Authority and sectoral regulators have been strengthened.

#### **Improve access to, and graduation from, tertiary education**

**Challenge and recommendations:** To boost tertiary graduation rates and improve university teaching and research quality, it was recommended that teachers' careers be linked to performance, student co-payments and loans with income-contingent repayments be introduced, financing and management of universities be decentralised, and international teacher and student exchanges be increased.

**Actions taken:** No significant action taken, though a government Green Paper recognises the need to improve spending efficiency in higher education.

#### **Reduce the tax wedge on labour income**

**Challenge and recommendations:** To encourage formal employment of the low-skilled, it was recommended that high tax rates and pension contributions, notably on low and middle-earners, be reduced, and that such reductions be financed by lowering tax expenditures, strengthening tax enforcement and accelerating pension reforms.

**Actions taken:** The 2008 Budget reinforced measures in the 2007 Budget that included a cut in the labour tax wedge targeted on low-skilled workers and poorer regions. Measures to counter tax evasion have been stepped up, with the ultimate savings used for tax cuts and to maintain spending growth.

#### **Improve the framework for risk taking**

**Challenge and recommendations:** To encourage innovation and restructuring, it was recommended that the corporate governance framework be further improved, and the 2005 bankruptcy reform be fully implemented and extended to small companies.

**Actions taken:** Since the introduction of the 2005 bankruptcy reform for medium and large companies, new codes have been enacted to improve minority shareholders' rights and financial-market transparency.

#### **Make wage setting more flexible**

**Challenge and recommendations:** To reduce marked regional disparities in labour utilisation, it was recommended that economy-wide decentralisation in wage bargaining be promoted, notably by taking regional differences in productivity and cost of living into account in public sector wage-setting.

**Actions taken:** No action taken.

## JAPAN

*Despite continuous growth over the past five years, a large GDP-per-capita gap remains vis-à-vis the best performing countries, reflecting a major productivity shortfall.*

### Policy priorities

#### **Further liberalise retail and professional services**

**Challenge and recommendations:** To boost competition in the retail sector and professional services, it was recommended to ease entry restrictions and zoning regulations and to facilitate the entry of foreign workers.

**Actions taken:** The new zoning regulations that took effect in autumn 2007 are intended to re-vitalise urban areas, but may limit the entry of large stores in suburban areas. The Economic Partnership Agreements with the Philippines and Indonesia (which have not yet entered into force) allow nurses and care-givers from these countries to provide services in Japan on a temporary basis if they pass qualification examinations in Japanese.

#### **Reform employment protection legislation for regular employment**

**Challenge and recommendations:** To reduce labour market dualism, it was recommended that more transparent statutory guidelines on the dismissal of workers be introduced and that employment protection for regular workers be relaxed, thereby lowering incentives to circumvent strict conditions for dismissal by hiring non-regular workers.

**Actions taken:** No action has been taken to ease employment protection for regular workers. The revised legislation on part-time workers, which will come into force in 2008, aims at achieving more balanced treatment between part-time and regular workers. While this may improve the treatment of non-regular workers, it may also discourage firms from hiring part-time workers, thus depressing overall employment.

#### **Reduce producer support to agriculture**

**Challenge and recommendations:** To reduce distortions to trade and production and lower prices for consumers, it was recommended that the level of support to agriculture be decreased, while shifting its composition away from market price support and towards direct support for farmers.

**Actions taken:** The proportion of agricultural support linked to market prices may be reduced by the introduction of three new direct payments in 2007 as part of the effort to concentrate support on more efficient farms. The system of administered prices for wheat and barley was relaxed in 2007, although the impact will be limited by the continued high level of border protection for these products.

#### **Encourage innovation**

**Challenge and recommendations:** To increase the return on investment in innovation, it was recommended that framework conditions be improved by removing obstacles to developing venture capital markets, upgrading the education system through further reducing regulations and abolishing barriers to the entry of foreign researchers.

**Actions taken:** The government's "Innovation 25" plan, announced in June 2007, aims to encourage innovation up to 2025 by enhancing the mobility of researchers among universities, public research institutes and private firms, expanding the use of competitive research grants and extending the length of visas for foreign researchers.

#### **Raise productivity through higher foreign direct investment**

**Challenge and recommendations:** To encourage greater foreign direct investment (FDI), it was recommended that obstacles to inflows be removed by fully opening the mergers and acquisitions (M&A) market to foreign firms and by easing product market regulations, especially in the service sector and network industries.

**Actions taken:** The revision of the Corporation Law will facilitate cross-border M&As by allowing "triangular mergers" in which foreign companies establish subsidiaries in Japan, which can then use their parent company's stock to acquire a Japanese company. The decision to permit, under certain circumstances, deferral of related capital gains taxes should further encourage such mergers.

## KOREA

*Convergence in GDP per capita has continued, but the gap with the best performing countries remains large, reflecting a still low level of productivity.*

### Policy priorities

#### **Lower barriers to entry for domestic and foreign firms**

**Challenge and recommendations:** To promote competition and thereby higher productivity, it was recommended that entry barriers be reduced through regulatory reform and the remaining obstacles that might discourage potential foreign investors be removed.

**Actions taken:** Regulations on the creation of new enterprises were relaxed by the “Comprehensive Strategy to Improve the Business Environment” announced in September 2006 and this was followed by a second programme in June 2007. The government revised 962 of the 1 422 regulations (out of a total of 8 043) that were targeted during 2006. In December 2007, the government created three free economic zones (in addition to the three existing zones), which are aimed at attracting foreign investors through financial incentives and exemptions from certain restrictive regulations.

#### **Reduce producer support to agriculture**

**Challenge and recommendations:** To reduce distortions to trade and lower prices for consumers, it was recommended that the composition of assistance to farmers be shifted from market price support to direct payments, while lowering the overall level of support.

**Actions taken:** No major action. Under the Korea-US free trade agreement, completed in April 2007 but yet to be approved, tariffs are to be lifted immediately on 38% of agricultural tariff lines, covering 55% of food imports from the United States, including wheat. Tariffs on other important products, notably beef, will be gradually phased out, thus helping to reduce market price support.

#### **Strengthen competition in the energy sector**

**Challenge and recommendations:** To strengthen competition in the electricity and gas sectors, it was recommended that distribution companies that are independent of the transmission system be created, independent sectoral regulators be established and the pricing system be adjusted to reduce cross-subsidisation between sectors.

**Actions taken:** No major action. However, under the December 2006 plan to develop service industries, the cost of electricity for the service sector will be lowered by 30%, thereby matching the level in manufacturing. In addition, prices of electricity set by the government for industrial users and households were adjusted to better reflect costs.

#### **Improve the innovation system**

**Challenge and recommendations:** To increase the return on investment in innovation, it was recommended that linkages among research institutes in the business, university and government sectors be strengthened, intellectual property right protection be enhanced and the tertiary education sector be upgraded.

**Actions taken:** The government announced a plan in May 2007 to expedite the investigation of potential violations of intellectual property rights. A law aimed at increasing the transparency of university performance through objective assessments was enacted in May 2007.

#### **Increase female labour force participation**

**Challenge and recommendations:** To encourage greater labour force participation by women, it was recommended that the role of private childcare facilities be expanded by allowing more flexibility in their management and eliminating the ceiling on fees.

**Actions taken:** In 2006, the government expanded a subsidy to private childcare facilities for children under the age of three. The coverage of the income-tested support provided to families for childcare and education of children under the age of five will be expanded from half of the children in that age group in 2006 to 80% by 2009.

## LUXEMBOURG

*GDP per capita, adjusted for cross-border workers, has accelerated again from a level that is already one of the highest in OECD countries. However, labour force participation of some groups remains low and productivity growth is weak.*

### Policy priorities

#### **Reduce disincentives to take up work in the income support system for the unemployed**

**Challenge and recommendations:** To strengthen job-search incentives and close exit routes from the labour market, it was recommended that access conditions to unemployment benefits be tightened and unemployment benefit replacement rates be gradually reduced.

**Actions taken:** No action taken on reforming the unemployment benefit system. Indexation of certain social benefits (birth allowance, parental leave allowance, education allowance) has been suspended until 2009.

#### **Improve achievement in primary and secondary education**

**Challenge and recommendations:** To improve education outcomes and increase overall attainment, it was recommended that all educational tracks be offered by schools to facilitate track switching (besides supplementary German-language classes) and that the proportion of courses in the vocational track of secondary education taught in French be increased.

**Actions taken:** A language action plan has been prepared that aims at reinforcing language capacity in Luxembourgian for younger children, starting at pre-school age (three years). Pre-school has been made mandatory from age four onwards.

#### **Reduce the implicit tax on continued work at older ages**

**Challenge and recommendations:** To reduce the high replacement rates for old-age pensions, in particular for lower and average income earners, it was recommended that the degree of actuarial fairness of the pension system be raised by linking pensions to lifetime contributions.

**Actions taken:** No action on linking pensions to lifetime contributions. However, indexation of old-age pensions to inflation is now applied with a lag, implying a one-off reduction in replacement rates.

#### **Reduce barriers in professional services**

**Challenge and recommendations:** To boost competition in professional services, it was recommended that conduct regulation be eased, and licensing and education requirements be lowered.

**Actions taken:** No action taken.

#### **Reform employment protection legislation**

**Challenge and recommendations:** To improve labour market flexibility, it was recommended that strict employment protection be eased by simplifying rules for individual dismissals and enlarging the scope for using temporary contracts, for instance by allowing more renewals.

**Actions taken:** No action taken.

## MEXICO

Growth in GDP per capita has been barely sufficient to prevent the large gap vis-à-vis the wealthier countries from widening further. The low level of labour productivity is the main source of the income gap.

### Policy priorities

#### **Raise achievement in primary and secondary education**

**Challenge and recommendations:** Given poor educational outcomes, it was recommended that a better allocation of education spending be sought, with more focus on non-wage spending and secondary schooling, and that better use be made of existing incentives for teachers to perform.

**Actions taken:** The conditional transfer programme, *Oportunidades*, has been extended and is fostering participation in upper-secondary education of students from low-income families. Steps have been taken to reform curricula and teaching practices up to and including lower-secondary education.

#### **Reduce barriers to entry in network industries**

**Challenge and recommendations:** To improve the business environment and strengthen cost competitiveness, it was recommended that competition be further strengthened and regulations improved, with a focus on key network industries (e.g. telecommunications, electricity and railways) and the media sector.

**Actions taken:** The government issued licences to cable TV companies to operate telephony services. It is preparing the ground for issuing new broadcasting licences to promote competition following the Supreme Court's ruling in 2006 against some of the amendments to the media law that had given benefits to the incumbents at the expense of new entrants. No action taken in the other areas, but the government is launching a broad review of existing laws and regulations to eliminate unnecessary restraints on competition, using the OECD *Competition Assessment Toolkit* as a framework.

#### **Reduce barriers to foreign ownership**

**Challenge and recommendations:** To promote competition and innovation, it was recommended that restrictions on foreign direct investment (FDI) still in place in many sectors be eased, with a focus on telecommunications, transport and the electricity sectors.

**Actions taken:** No action taken.

#### **Reform the tax system**

**Challenge and recommendations:** To strengthen tax revenue and secure resources for growth-enhancing programmes while reducing distortions, it was recommended that a comprehensive reform be launched, including a broadening of the tax base and simplification of the system by limiting exemptions and preferential regimes.

**Actions taken:** A tax reform was approved in September 2007. It goes some way to broadening the tax base and reinforcing more stable sources of revenue. Steps are also being taken to improve spending efficiency.

#### **Strengthen the “rule of law”**

**Challenge and recommendations:** To facilitate business activity and enhance FDI inflows, it was recommended that measures be taken to improve the “rule of law”, with greater transparency, more secure property rights and more predictable law enforcement, in particular. A tightening of procedural rules for litigation (*amparos*) would make policy enforcement more effective – in areas such as competition law, collecting fines, and the application of the legal framework for bank guarantees.

**Actions taken:** The government and state governors are taking action to address security problems; no action taken in the other areas.

## NETHERLANDS

*The GDP-per-capita gap vis-à-vis the best performing countries can mostly be explained by relatively low labour utilisation, arising from short hours worked and low participation of specific groups.*

### Policy priorities

#### **Reform disability benefit schemes**

**Challenge and recommendations:** To lower the extensive use of disability and sickness leave schemes, it was recommended that work capacity reassessment, introduced for those below the age of 50 in the 2006 reform, be extended to beneficiaries above the age of 50 and the reintegration of the partially disabled into the workforce be assisted. It was also recommended that the administrative extension of wage agreements that include clauses for topping up disability benefits be terminated.

**Actions taken:** Rather than extending reassessment to people above the age of 50, the government has decided to exempt people aged between 46 and 50 from being reassessed under the new rules.

#### **Strengthen work incentives for second earners**

**Challenge and recommendations:** High effective marginal tax rates weaken incentives to increase hours worked and deter low-income earners and particularly second earners from full-time participation. It was recommended that effective marginal tax rates be lowered, for example through further reducing the taper rate for withdrawing childcare subsidies for second earners.

**Actions taken:** In 2007, the employer contribution to child care was made compulsory and the government has reserved extra funds to further lower the costs of child care. Furthermore, the government has decided to phase out the transferability of the tax credit for non-working partners over a 15-year period.

#### **Strengthen competition in network sectors**

**Challenge and recommendations:** Local government ownership in public transport, electricity and gas constitutes effective barriers to entry. It was recommended that effective vertical separation be secured in these network industries, cost-based access pricing be introduced and such activities be privatised.

**Actions taken:** Full ownership separation of the energy distribution networks from the supply companies will be implemented from July 2008. Companies are given two and half years to accomplish such separation. Competitive tenders have opened up public transport activities to private operators. In several bigger cities, however, public transport companies are still owned by local governments.

#### **Promote competition in retail distribution services**

**Challenge and recommendations:** In order to strengthen competition and employment in retail distribution, it was recommended that restrictions on large-format retail stores be eased, and remaining obstacles to shop opening hours be removed, in particular on Sundays.

**Actions taken:** No action taken.

#### **Reform residential zoning regulation**

**Challenge and recommendations:** To stimulate supply of housing, it was recommended that restrictions for residential zoning be eased.

**Actions taken:** No action taken since early 2006 when the new National Spatial Strategy (*Nota Ruimte*) was adopted, allowing for somewhat less restrictive zoning and decentralised decision making.

## NEW ZEALAND

*Trend growth of GDP per capita has slowed, and its level remains significantly below the OECD average, reflecting essentially low hourly labour productivity.*

### Policy priorities

#### **Improve the performance of electricity markets**

**Challenge and recommendations:** To remove ongoing uncertainties about the future regulatory regime and climate change policies, it was recommended that a transparent and durable framework providing incentives for efficient market-based outcomes be established as rapidly as possible.

**Actions taken:** In October 2007, the government released its Energy Strategy and Energy Efficiency and Conservation Strategy, and draft legislation for a comprehensive emissions trading scheme was presented to parliament in December 2007.

#### **Facilitate access to childcare for working parents**

**Challenge and recommendations:** Given high out-of-pocket costs and the impact of rising regulatory standards on supply, it was recommended that greater efforts be made to ensure access, especially for disadvantaged children and for all three and four-year-olds. It was also recommended that funding be switched away from income-tested transfers to reduce out-of-pocket costs for childcare.

**Actions taken:** As decided earlier, since July 2007, subsidies provide up to 20 hours per week early childhood education for three and four-year-olds in early childhood education services run by qualified teachers that opt into the scheme. No other action has been taken to reduce out-of-pocket costs.

#### **Reduce the extent of educational under-achievement observed among specific groups**

**Challenge and recommendations:** To help lift the educational attainment of Maori and Pacific Island school-leavers, it was recommended that teachers' pay be linked to ongoing professional development and to success in improving educational outcomes for groups at risk of under-achievement.

**Actions taken:** A report on teachers' professional learning and development was published in 2007, and the government is working with unions to address "career path" issues for teachers.

#### **Improve public sector efficiency**

**Challenge and recommendations:** To raise public sector efficiency, it was recommended that public sector managers be given stronger incentives to identify and implement efficiency improvements through well-designed performance targets supported by robust information systems, especially in health and education.

**Actions taken:** In the health sector, new national targets have been established and this has been accompanied by a review of the accountability framework for managers in the sector. Information systems are being developed in education.

#### **Improve road infrastructure**

**Challenge and recommendations:** To help reduce road-transport bottlenecks and localised urban pollution, it was recommended that road-pricing arrangements, such as tolls and congestion pricing, be adopted.

**Actions taken:** The government has ruled out congestion charges in Auckland for the present but will make it possible for regions to raise funds through a regional fuel tax for specific transport capital projects. The first toll road is expected to open in 2008.



## NORWAY

Mainland GDP per capita is among the highest in the OECD, thanks to high productivity. However, labour utilisation is mediocre, reflecting low annual average hours worked.

### Policy priorities

#### **Reduce the scope of public ownership**

**Challenge and recommendations:** To promote competition and help ensure sustained productivity growth, it was recommended that the process of privatisation be restarted with a priority on telecommunications, banking and industry.

**Actions taken:** No action taken. In contrast, the government expressed in a White Paper its intention to maintain broad, or even full, public and national ownership in some oil, telecommunications, banking and electricity companies. Furthermore, the government recently acquired significant shareholding in a private company operating in the petroleum-based supply industry.

#### **Reform disability and sickness benefit schemes**

**Challenge and recommendations:** To raise hours worked in the economy, it was recommended that stricter regulation on the entitlement to sickness benefits be enforced and that the involvement of independent medical specialists in disability assessment be made mandatory. It was also recommended that the medical/vocational rehabilitation and temporary disability programmes be made more effective in getting people back to work. This could be achieved by further tightening eligibility criteria for entry into each partial and full disability category, providing clear information on the duration of subsidies, improving co-ordination between medical and vocational programmes, and requiring compulsory job search where feasible.

**Actions taken:** The government issued several reports proposing measures aimed at better integrating the disabled in the labour market and reducing sick leave absence. Reform of disability pensions is also under consideration, the timing of its implementation being conditional on reforms of early retirement schemes.

#### **Reduce producer support to agriculture**

**Challenge and recommendations:** To reduce resources tied up in low-productivity activities, it was recommended that high external tariffs on agricultural products be cut and public subsidies to domestic production be reduced. To reduce trade distortions and make policy objectives more transparent, it was also recommended that support be decoupled from production levels and moved to a system of income transfers targeted to less well-off farmers, or those in remote regions.

**Actions taken:** No significant action taken.

#### **Complete the pension reform**

**Challenge and recommendations:** To raise the effective retirement age, it was recommended that a comprehensive pension reform be implemented in line with the 2004 proposals of the Pension Commission and the parliament's agreements of 2005-06, promoting an actuarially more neutral pension system overall, including old-age, disability and early-retirement pensions.

**Actions taken:** A new White Paper on pension reform was presented in late 2006, promoting the actuarial principle for old-age pensions, with a flexible retirement age from 62 onwards.

#### **Strengthen competition policy**

**Challenge and recommendations:** To promote competition and innovation, it was recommended that the independence of the competition authority be upheld and state aid be reduced.

**Actions taken:** No action taken.

## POLAND

*Despite strong trend growth and rapidly falling unemployment, GDP per capita remains well below the OECD average, reflecting gaps in both productivity and labour utilisation.*

### Policy priorities

#### **Reduce public ownership**

**Challenge and recommendations:** To promote greater competition, it was recommended that privatisation be stepped up and that residual state controls in many privatised companies, such as special shares, be eliminated in most cases.

**Actions taken:** Privatisation continues, but at a slow pace. Major sell-offs in the power supply industry have been delayed, and the two major entities in banking and insurance remain state-owned.

#### **Reform the tax and benefit system to make work pay**

**Challenge and recommendations:** Tax wedges remain high, and internal labour mobility still seems to be hampered by poor incentives. To strengthen work incentives, it was recommended that work-availability and job-search requirements be tightened in the unemployment benefit system, and tax rates be lowered through a broadening of the tax base.

**Actions taken:** No action taken.

#### **Improve efficiency of tertiary education**

**Challenge and recommendations:** To improve both equity and efficiency, it was recommended that tuition fees in public higher education institutions be increased in parallel with an improved system of means-tested grants and student loans with income-contingent repayment.

**Actions taken:** No significant action taken.

#### **Promote competition in professional services and telecommunications**

**Challenge and recommendations:** To strengthen competition, it was recommended that regulation in professional services be simplified and third-party access to the telecommunications network be facilitated.

**Actions taken:** The telecommunications regulator has made progress in increasing competition, and some prices fell significantly in 2006 and 2007.

#### **Upgrade transport, communication and housing infrastructure**

**Challenge and recommendations:** To improve geographical mobility, it was recommended that transport infrastructure and urban planning be improved, while taking account of environmental factors.

**Actions taken:** Spending on transport infrastructures (in particular roads) has risen and will increase significantly over the next few years, financed in part by EU funds. No major action has been taken to improve urban planning nor, in particular, housing infrastructure.

## PORTUGAL

*Living standards have fallen vis-à-vis the OECD average in recent years, with the widening GDP-per-capita gap essentially reflecting low productivity.*

### Policy priorities

#### **Improve upper-secondary and tertiary education attainment**

**Challenge and recommendations:** To improve human capital formation, it was recommended that a greater proportion of primary and secondary education spending be allocated to non-wage spending and a systematic evaluation of higher education institutions be implemented.

**Actions taken:** As decided earlier, very small and inefficient primary schools are being closed. A new career scheme for primary and secondary teachers, including new performance assessment procedures, has been approved by the Council of Ministers. The authorities have commissioned reviews of the higher education sector, including the current accreditation and quality-assurance processes.

#### **Reduce barriers to competition**

**Challenge and recommendations:** To increase competition in network industries and the services sector, it was recommended that the ownership of the largest fixed-telephony and cable networks be separated, the restructuring of the energy sector be continued, and entry controls and licensing requirements in non-manufacturing sectors be eased.

**Actions taken:** Some steps have been taken to ease regulatory restraints in some network industries (gas and telecommunications), although no action has been taken to separate the ownership and control of the fixed-telephony and cable networks, nor to ease entry controls and licensing requirements in services sectors.

#### **Reform employment protection legislation**

**Challenge and recommendations:** To facilitate higher productivity growth and encourage hiring of workers under regular contracts, it was recommended that employment protection legislation be eased, particularly for individual dismissals.

**Actions taken:** No action taken.

#### **Continue public administration reform**

**Challenge and recommendations:** To increase the efficiency of the public sector and reallocate labour to the private sector, it was recommended that the number of public sector employees be reduced, public sector employment conditions be aligned with those in the private sector and a performance-based system be introduced in the public sector.

**Actions taken:** A recruitment rule of one new worker for every two departures was implemented in 2006 and the number of public employees fell. The reform of the civil servants' social security system has been approved, bringing it closer to the general social security scheme. The reorganisation of the public administration continues. An employee mobility scheme is in operation. Implementation of a new system for careers, contracts and pay is starting, introducing elements of performance pay in salaries.

#### **Simplify the tax system and broaden the corporate tax base**

**Challenge and recommendations:** To reduce compliance costs and informal activities, it was recommended that the tax code be simplified and modified less frequently, and that tax expenditures be reduced.

**Actions taken:** To reduce compliance costs, the authorities have streamlined tax administration procedures and have encouraged greater use of the Internet for taxpayer-tax administration interaction.

## SLOVAK REPUBLIC

*Significant convergence in GDP per capita vis-à-vis the OECD average has been achieved in recent years, but substantial gaps remain in labour utilisation and productivity.*

### Policy priorities

#### **Reduce the tax wedge for low-income workers**

**Challenge and recommendations:** To promote employment of the low-skilled, it was recommended that an in-work benefit for low-income households with children be introduced and that the minimum wage be kept sufficiently low so as not to hamper employment prospects.

**Actions taken:** No measures have been taken to reduce the tax wedge on low-income households. The 2007 increase in the minimum wage leaves it sufficiently low (42% of the median wage) to avoid unduly harming employment prospects.

#### **Improve funding and effectiveness of the education system**

**Challenge and recommendations:** To improve education achievement, especially among children from less favourable socio-economic backgrounds, it was recommended that pre-school education be expanded, additional funding for schools with a high proportion of groups at risk of under-achievement be provided, and that the age at which children are selected into different tracks be postponed. It was also recommended that the value of vocational education be increased by making it more relevant to labour-market requirements and that tuition fees for all tertiary studies be introduced, accompanied by student loans with income-contingent repayment.

**Actions taken:** The government has decided to make kindergarten free of charge for five-year-olds from 2008 onwards. Some reduction in segregation is being achieved by encouraging the integration of technical and vocational secondary schools.

#### **Reduce the implicit tax on continued work at older ages**

**Challenge and recommendations:** In order to discourage premature withdrawal from the labour market, it was recommended that the 2003 pension reform which gradually increases the retirement age for women to 62 (the same as for men), be complemented by indexing the retirement age to life expectancy and by making pension-benefit adjustments for earlier and later retirement actuarially fairer.

**Actions taken:** No action taken. The government does not plan to make any change until the current reform is complete in 2014.

#### **Reform housing markets**

**Challenge and recommendations:** To facilitate labour mobility and improve the functioning of housing markets, especially the establishment of an effective private rental market, it was recommended that regulation be reviewed, resolution of tenancy disputes be speeded up, competition in construction be strengthened, and housing subsidies be better targeted.

**Actions taken:** No action taken.

#### **Strengthen law enforcement**

**Challenge and recommendations:** To reduce the costs of doing business and increase the efficiency of government spending, it was recommended that law enforcement be strengthened by improving accountability of the justice system, and that greater use be made of transparent and open procedures for public procurement.

**Actions taken:** A new law makes the requirement to publish a public procurement contract notice more widely applicable.

## SPAIN

*Convergence in GDP per capita vis-à-vis best performing OECD countries has continued in recent years, albeit at a slower pace. Substantial labour utilisation and productivity gaps remain.*

### Policy priorities

#### **Limit the extent of administrative extension of collective agreements**

**Challenge and recommendations:** To avoid creating nominal rigidities and excessive wage increases in some sectors, it was recommended that firms be given a legal right to opt out of the application of regional and sectoral wage agreements and that the use of inflation catch-up clauses be eliminated.

**Actions taken:** No action taken.

#### **Reform employment protection legislation for permanent workers**

**Challenge and recommendations:** To reduce the segmentation of the labour market and its negative effect on productivity growth and innovation, it was recommended that severance payments be reduced for workers with permanent contracts and a single contract be promoted by bringing in gradual increases in required severance payments linked to length of service.

**Actions taken:** No action since the reform that was enacted in July 2006. It raised fiscal incentives for new permanent contracts offered to target groups and restricted the successive use of temporary contracts.

#### **Strengthen competition in the retail distribution sector**

**Challenge and recommendations:** To foster competition in retail distribution, it was recommended that the various barriers to the establishment of new hypermarkets and shopping centres put in place by regional governments be eliminated.

**Actions taken:** No action taken.

#### **Reform the higher education system**

**Challenge and recommendations:** To improve human capital formation, it was recommended that the higher-education system be reformed by giving universities more freedom and holding them more accountable for their results. Indicators of university performance should be made easily available to teachers, students and employers.

**Actions taken:** A new framework law on universities was approved in March 2007 that gives universities greater autonomy, seeks to remove obstacles to the movement of teachers into the private sector and improves the governance of the system.

#### **Reform the pension system**

**Challenge and recommendations:** To avoid sharp increases in taxes and hence labour costs required in the future to cover the fiscal costs of population ageing, it was recommended that the pension system be made actuarially fairer.

**Actions taken:** The reform that entered into force in early 2007, agreed by the social partners and the government, contains additional restrictions on partial retirement, a modest increase in the effective contribution period to acquire pension rights and stronger incentives to extend work beyond the current age at which full pension rights can be acquired. Survivors' pension entitlements have been extended to unmarried couples.

## SWEDEN

*Convergence of GDP per capita has resumed in recent years, but the gap with the best performing countries remains somewhat larger than before the 1990s crisis, because of lower labour utilisation and productivity.*

### Policy priorities

#### **Reduce marginal taxes on labour income**

**Challenge and recommendations:** Social security contributions and income taxes combine to a marginal rate above 60%, even for incomes modestly above average full-time earnings. To reduce distortions to hours worked, effort and human capital formation, it was recommended that the threshold from where the state income tax is paid be raised or its rate reduced, and that this be financed by spending cuts, elimination of some tax exemptions and higher real-estate taxes.

**Actions taken:** The in-work tax credit, introduced in January 2007, will be increased by a fifth in 2008 (to 1.5% of GDP), reducing marginal tax rates slightly for lower and middle income groups. No specific initiatives have so far been announced on the state income tax.

#### **Reform sickness and disability benefit schemes**

**Challenge and recommendations:** To bring down the extent of sickness absence from work and the number of disability pensioners, it was recommended to continue efforts to enforce implementation of tighter rules by local insurance offices. It was also recommended that a time limit on receipt of disability benefits be introduced, with subsequent renewal subject to re-assessment of rehabilitation options.

**Actions taken:** A comprehensive reform programme for sickness and disability benefits was announced in September 2007. It includes a one-year time limit on sickness benefits, stricter rules for qualifying for sickness and disability benefits, measures to ensure swifter administration and measures to increase the incentives to work for people receiving disability benefits. Measures to combat over-use and fraud are also being prioritised.

#### **Reform employment protection legislation**

**Challenge and recommendations:** To stimulate labour mobility and entrepreneurship, it was recommended to reconsider those elements of employment protection legislation that are most likely to hinder business formation and flexibility. Moreover, the strict criteria for fair dismissal under regular contracts makes it risky to hire immigrants and others whose capabilities can be difficult to gauge.

**Actions taken:** From 2007, temporary contracts can be made for up to 24 months compared with 12 months previously. No action has been taken on regular contracts.

#### **Encourage students to start and complete tertiary education earlier**

**Challenge and recommendations:** To increase the supply of skilled labour and the efficiency of the education system, it was recommended to reduce the average age at which students begin tertiary education and speed up completion. This should be achieved by reforming admission rules, phasing out fiscal subsidies for overly-long course durations and developing tuition charges and loans for tertiary education.

**Actions taken:** The admission rules will change in 2008 and 2010, focusing on increasing the direct transition of students from upper-secondary school to higher education, stimulating student performance in upper-secondary school and reducing incentives to repeat courses in, for example, adult education.

#### **Reform housing policies to reduce distortions and facilitate labour mobility**

**Challenge and recommendations:** Starting from a highly regulated housing market, it was recommended to allow rents to be determined by market conditions, in particular for private rental housing, increase competition in the construction sector and improve the land planning process.

**Actions taken:** Subsidies for rental housing were cut in 2007. No national measures have been taken to ease regulations of rent setting, construction sector competition or land planning.

## SWITZERLAND

*GDP per capita has fallen steadily in relative terms to below the best performing countries, with the widening gap reflecting weak productivity performance.*

### Policy priorities

#### **Further reduce barriers to competition in network industries**

**Challenge and recommendations:** It was recommended that the liberalisation process be accelerated, in particular in the energy, postal and telecommunications sectors, by removing barriers to entry.

**Actions taken:** A sector-specific regulatory framework for the electricity industry was approved by parliament, setting up an independent regulator, introducing limited vertical separation requirements as well as free choice of supplier by 2013. In telecommunications markets, entrants were granted access to the unbundled local loop subject to restrictions. The scope of the legally protected monopoly in letter delivery was reduced somewhat. The government intends to present draft legislation to parliament to reduce entry barriers for foreign providers of rail-transport services and to increase the use of tendering of contracts for providing regional passenger-transport services.

#### **Reduce producer support to agriculture**

**Challenge and recommendations:** In order to reduce high domestic food prices and excessive resources in agriculture, it was recommended that the reduction of producer support to agriculture be accelerated and subsidies be de-linked from production.

**Actions taken:** Parliament has voted to maintain the level of subsidies to farmers broadly constant in nominal terms between 2007 and 2011 but to partly shift production subsidies to income support. Trade barriers for a few agricultural products were eliminated vis-à-vis EU countries in 2007.

#### **Facilitate full-time labour force participation for women**

**Challenge and recommendations:** To help reconcile work with raising children, it was recommended that affordable full-time care for both very young and school-age children be developed.

**Actions taken:** The cantons have signed an agreement lowering the starting age for compulsory, free schooling to four years of age. The reform of personal income taxes, in force since January 2008, reduces the large difference in marginal tax rates between second and main earners of married couples.

#### **Remove non-tariff trade barriers**

**Challenge and recommendations:** To stimulate foreign competition, it was recommended that technical regulations deviating from those of EU members in areas such as production, packaging and labelling, be reduced by accepting products conforming to EU standards (the “Cassis de Dijon principle”).

**Actions taken:** The government has proposed draft legislation to adopt the “Cassis de Dijon principle”, subject to a few restrictions, largely resulting from stricter health, safety and environmental standards.

#### **Reduce health-system costs through better regulation**

**Challenge and recommendations:** To contain health care costs through greater scope for differentiating fees and better control of medical interventions, it was recommended that the requirement for insurers to contract with all health care providers collectively be abolished and barriers between cantons created by the canton-based organisation of both health-care supply and the insurance system be removed.

**Actions taken:** Parliament has postponed discussions on allowing selective contracting in ambulatory services. Draft legislation to widen patient hospital choice across cantonal borders is being discussed.



## TURKEY

*Despite a pick-up in trend growth in recent years, GDP per capita remains well below the OECD average. Productivity is very low and labour utilisation is weak.*

### Policy priorities

#### **Reduce the minimum cost of labour**

**Challenge and recommendations:** To reduce minimum employment costs and increase employment in the formal sector, particularly in regions where labour productivity is low, it was recommended that payroll taxes be substantially reduced and the rate of increase of the minimum wage be slowed and differentiated across regions.

**Actions taken:** No significant action taken on the minimum cost of labour. However, according to the government's Action Plan announced in late 2007, costly requirements on employers to hire workers from disadvantaged groups will be reduced. Also, the government's 2008 Programme contains plans to gradually reduce social security contribution rates.

#### **Reform employment protection legislation**

**Challenge and recommendations:** To increase employment in the formal sector, it was recommended that the level of severance payments for dismissed permanent workers be reduced and restrictions for temporary workers be eased.

**Actions taken:** The 2008 Programme of the government aims to increase flexibility in the labour market. In this context, special attention will be given on measures to facilitate temporary employment contracts.

#### **Improve access to, and quality of, primary and secondary education**

**Challenge and recommendations:** To ensure that the entire youth population receive a good education, it was recommended that spending on education be increased, financed through cuts in lower-priority areas. It was also recommended that schools be funded on a per pupil basis, taking into account varying needs of the student population, and be provided with greater managerial responsibility and accountability.

**Actions taken:** Following curriculum reforms in primary and secondary education in 2005, university entrance was reformed in order to give more weight to students' secondary school performance.

#### **Simplify product market regulations**

**Challenge and recommendations:** To improve productivity performance, it was recommended that product market regulations be simplified, in particular the sectoral licensing rules which hinder market entry, and greater competition be encouraged in network industries.

**Actions taken:** No action taken on administrative simplification. However, in its 2008 Programme, the government announced the start of privatisation of public electricity production and distribution plants in order to create a competitive electricity market.

#### **Reduce early retirement incentives for workers in the formal sector**

**Challenge and recommendations:** To strengthen labour utilisation, it was recommended that early-retirement incentives for workers in the formal sector be reduced by lowering net pension benefits and replacing retiring workers' entitlement to severance payments with a saving scheme.

**Actions taken:** The Social Security and General Health Insurance Law, which is expected to come into force in 2008, will raise the statutory retirement age to 65 for both men and women by 2048.

## UNITED KINGDOM

*Trend growth in GDP per capita has slowed and the sizeable income gap vis-à-vis the best performing countries is wide, reflecting low productivity levels.*

### Policy priorities

#### **Further reform disability benefit schemes**

**Challenge and recommendations:** To reduce the number of disability-related benefit recipients, it was recommended that the interview-based Pathways to Work programme – which facilitates access to back-to-work programmes and benefits – be extended to the stock of existing claimants on a mandatory basis; the monitoring of the health status of people reaching the end of sickness pay and benefits be improved; and the medical assessment of claims be brought forward.

**Actions taken:** The Pathways to Work programme will be made mandatory for all new claimants and offered to existing claimants on a voluntary basis by April 2008. New welfare legislation will replace the current system of incapacity benefits with a simplified disability employment allowance at the end of 2008.

#### **Improve the education achievement of young people**

**Challenge and recommendations:** To raise the skill level of young people, it was recommended that the emphasis on the acquisition of core literacy and numeracy skills for young people be continued, so as to improve prospects for further education achievement beyond lower-secondary school; and that work be undertaken with universities to ascertain how the skills and competencies acquired via the new vocational diplomas would compare with those obtained from following a more traditional academic path.

**Actions taken:** The recently introduced Education Maintenance Allowance, which pays a small allowance to 16 and 17-year-olds from poor families who continue in education, has helped to raise education participation. New vocational diplomas are being developed. The government is raising the age for leaving education or training from 16 to 18.

#### **Improve public infrastructure, especially for transport**

**Challenge and recommendations:** To raise productivity growth, it was recommended that road congestion be reduced and rail system reliability be improved by maintaining investment in transport infrastructure at least at levels envisaged in spending plans and by continuing with preparations for a national road pricing scheme.

**Actions taken:** Spending on transport infrastructure has picked up, but remains lower than envisaged by the government's Ten Year Plan for Transport. An independent review of long-term business infrastructure and transport needs (the Eddington Transport Study) has argued in favour of extending road pricing and for better targeting spending on key strategic growth areas.

#### **Improve work incentives for low-paid lone parents and second income earners**

**Challenge and recommendations:** To improve incentives for lone parents to work longer hours or to up-skill, it was recommended that the tax and benefit system be modified to lower marginal effective tax rates. Also, to encourage labour force participation of low-skilled second earners, it was recommended that the barrier posed by high child-care costs be reduced.

**Actions taken:** The 2007 Budget announced an increase in the threshold for the Working Tax Credit which should reduce the marginal effective tax rate for those moving into work. The government has also initiated public consultations on a proposal to introduce more stringent work testing for lone parents receiving out-of-work benefits.

#### **Improve public sector spending efficiency**

**Challenge and recommendations:** To ensure that higher expenditure results in higher standards of service delivery in health and other publicly funded services, it was recommended that performance targets be more carefully designed and incentives to achieve them strengthened.

**Actions taken:** After years of strong public sector spending increases, the 2007 Comprehensive Spending Review projected a small decrease in total public spending as a per cent of GDP and further efficiency gains are being sought over the coming three years through improved performance management.

## UNITED STATES

*Material living standards are high on average, and trend growth remains strong despite indications of a slowdown. Nevertheless, further efficiency gains can be achieved in several areas.*

### Policy priorities

#### **Improve primary and secondary education**

**Challenge and recommendations:** To lift school performance, it was recommended that schools be made accountable for results, students at under-performing schools be free to choose other schools and pressures to lower students' performance standards be resisted.

**Actions taken:** No action taken since the 2002 "No Child Left Behind Act", which aims to raise standards, increase accountability and facilitate choice, and which is being implemented by the states.

#### **Restrain health care costs**

**Challenge and recommendations:** To reduce the overuse of health services, it was recommended that the current open-ended tax deductibility of health insurance premiums be limited. To ensure the long-term solvency of Medicare, it was recommended that reform should focus on reducing cost per enrollee.

**Actions taken:** The administration's 2008 Budget proposed a standard deduction for health insurance, which would cap the tax exemption of employer health insurance premiums and a downward adjustment in Medicare provider payments, encouraging providers to take advantage of new technologies.

#### **Reduce agricultural subsidies**

**Challenge and recommendations:** To strengthen market forces and reduce trade distortions, it was recommended that subsidies for agricultural producers be reduced and not tied to specific inputs or outputs.

**Actions taken:** The 2008 Budget proposed a reduction in farm subsidies, in particular by tightening both payment limits and eligibility requirements for higher income producers. To reduce greenhouse gas emissions, the administration has proposed to change mandatory fuel standards to increase the share of renewables in overall fuel use, with the aim of displacing 15% of projected gasoline use by 2017. This will put upward pressure on prices of agricultural products.

#### **Reform the tax system**

**Challenge and recommendations:** To reduce distortions and discourage pollution, it was recommended that the tax base be broadened and that personal income tax be reduced and replaced with taxes on consumption, especially of carbon-based energy.

**Actions taken:** No action taken.

#### **Reform disability benefits**

**Challenge and recommendations:** Given that rising replacement rates and relaxed eligibility conditions are encouraging many workers to leave the labour force, it was recommended that disability insurance be made less generous and more selective.

**Actions taken:** No action taken.

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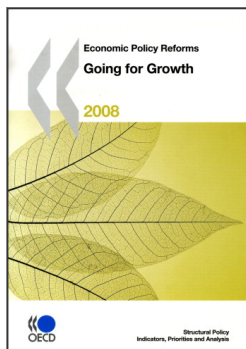
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The codes for country names and currencies used in this volume are those attributed to them by the International Organization for Standardization (ISO). These are listed below in alphabetical order by country code.

ISO country code	Country name	ISO currency code
AUS	Australia	AUD
AUT	Austria	EUR
BEL	Belgium	EUR
CAN	Canada	CAD
CHE	Switzerland	CHF
CZE	Czech Republic	CZK
DEU	Germany	EUR
DNK	Denmark	DKK
ESP	Spain	EUR
EU	European Union	n.a.
FIN	Finland	EUR
FRA	France	EUR
GBR	United Kingdom	GBP
GRC	Greece	EUR
HUN	Hungary	HUF
IRL	Ireland	EUR
ISL	Iceland	ISK
ITA	Italy	EUR
JPN	Japan	JPY
KOR	Republic of Korea	KRW
LUX	Luxembourg	EUR
MEX	Mexico	MXN
NLD	Netherlands	EUR
NOR	Norway	NOK
NZL	New Zealand	NZD
POL	Poland	PLN
PRT	Portugal	EUR
SVK	Slovak Republic	SKK
SWE	Sweden	SEK
TUR	Turkey	TRL
USA	United States	USD



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