



Economic Policy Reforms
Going for Growth - 2008 Edition

Summary in English

GDP is not equivalent to welfare. But high productivity and employment do contribute to welfare – directly as well as indirectly, by providing resources that can be deployed to other welfare-enhancing activities. It is important, therefore, that government policies do not get in the way of productivity and employment except where this can be justified with reference to other aspects of welfare.

The 2007 issue of *Going for Growth* presented five structural policy priorities for each OECD country and the European Union to remedy shortcomings in terms of productivity or employment. The current issue reviews progress in implementing these priorities. Depending on inclination, the conclusion may be that the glass is either half full or half empty. A year is not a long period in structural-policy making and in that light progress on almost two-thirds of the 2007 policy priorities may be seen as quite an achievement. However, some of this progress is not very material, and progress has been much slower in thornier policy areas such as labour market regulation. As well, buoyant economic activity might be seen as having provided a propitious background to reform by reducing the associated adjustment costs. But, as discussed in last year's issue, the good times may also have reduced the sense of urgency to reform.

The current issue contains five special chapters, dealing with specific policies and factors that influence employment and productivity.

As concerns employment, the main focus in *Going for Growth* has so far been placed on the number of persons in work with less emphasis on how many hours they work. One of the special chapters attempts to redress the balance by studying the factors that explain the wide disparity and, in some cases, diverging trends in working hours across countries.

The study presents a new, and more internationally comparable, dataset on working-hours which confirms the much-discussed stylised fact that annual working hours are

considerably longer in the United States than in Europe. The gap amounts to some 15% and about half reflects more annual work-days in the United States with the remainder due to a higher number of hours per week. Differences in average weekly hours reflect to a large extent working hours by women and the analysis shows that these are importantly influenced by marginal tax rates. The study also identifies a number of other policy influences on working hours, including working-time regulation. In thinking about policies, however, it is important to keep in mind both the hours and the head-count dimensions of employment. Indeed, policies that lead to lower labour force participation by certain groups who typically work short hours will tend to raise average working hours but that does not make them desirable.

Human capital accumulation is an important motor of economic growth. Two special chapters present analysis, done in conjunction with the OECD Education Directorate, on investment in education at, respectively, the primary and secondary level and the tertiary level. The former study uses PISA scores to establish a metric for the efficiency of school systems as a whole as well as for individual schools. The results point to substantial efficiency gains to be had from schools in individual countries catching up to best national performance and from national school systems catching up to best international performance. Overall economic activity benefits through the higher productivity and employment of better educated youth cohorts and/or through cost savings and correspondingly lower taxes. The study also identifies some of the policy settings that appear to drive efficiency and which relate to user choice, managerial autonomy and accountability, efficient school size, and the avoidance of early streaming.

The chapter on tertiary education presents estimates of the associated private returns, which appear to be one of the drivers of investment in tertiary education. In most countries, the estimated returns are high compared with those of alternative investments but there is also substantial variation across countries. The co-existence of high returns with, in some cases, relatively low graduation rates may indicate that prospective students are held back by liquidity constraints and concerns about risk. Indeed, student income and availability of liquid financial resources come across as another major determinant of investment in tertiary education. The flexibility and scope for innovation of educational institutions are a third important factor. In addition to these findings, however, policy settings in the area of tertiary education need to take into account also pressures on public financing, the increased international mobility of graduates, and the wish to reduce support that mainly benefits the better-off part of the population. This combination of factors points towards policies that provide greater autonomy and accountability for individual institutions, a greater role for students in financing their tuition and measures to ease liquidity constraints and to reduce the riskiness of investing in tertiary education.

Two chapters deal with the role of external openness in driving economic activity. The chapter on economic geography reveals that distance continues to be a main determinant of international trade patterns. Indeed, countries at a remove from centres of economic activity trade less than those located closer by. As a result, the distant countries benefit less from the advantages that stem from trade in the form of greater specialisation, exploitation of scale economies, and competitive pressures. The effects on GDP are potentially large.

The chapter also analyses the role of natural resources and shows that resource-rich OECD countries tend to have higher GDP. This finding contrasts with results which suggest that resource endowments can be a curse for developing countries, possibly reflecting that OECD countries generally have stronger governance structures. The role played by distance and resource endowments needs to be kept in mind when comparing economic performance across countries. Some have it easier than others. But being either advantaged or disadvantaged should not serve as an excuse for inappropriate policies and in fact the analysis does not find evidence that the Going for Growth policy priorities are affected by distance or resource endowments.

The other chapter on openness, based on analysis carried out in the OECD Trade and Agriculture Directorate, explores the role that regulation of domestic markets plays for trade in services. Not surprisingly, restrictive regulation turns out to hamper trade in services. Service trade flows between two countries are also reduced when their respective regulatory structures are very dissimilar. The study estimates that service trade could almost double on average if countries were to align regulations on the least restrictive stance in the OECD. As with trade in goods, greater trade in services should provide a boost to GDP.

The analysis in the special chapters of this issue contributes towards the evolving analytical basis for identifying policy priorities in future issues of Going for Growth. Ultimately, sound policy advice has to rest on as solid and comprehensive analysis as possible.

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