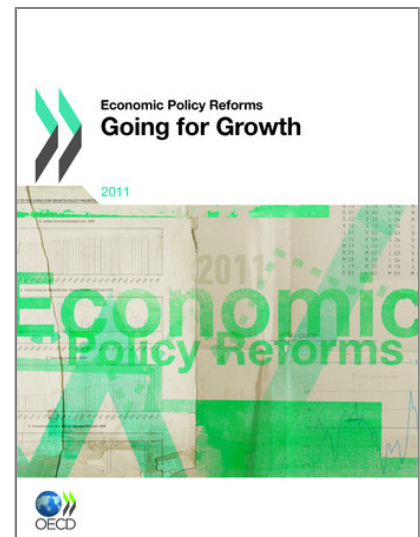


# OECD *Multilingual Summaries*

## Economic Policy Reforms 2011: Going for Growth

*Summary in English*



- The global recovery from the deepest recession since the Great Depression is under way, but it remains overly dependent on macroeconomic policy stimulus and has not yet managed to significantly reduce high and persistent unemployment in many countries. Going for Growth 2011 highlights the structural reforms needed to restore long-term growth in the wake of the crisis. For each OECD country and, for the first time, six key emerging economies (Brazil, China, India, Indonesia, Russia and South Africa), five reform priorities are identified that would be most effective in delivering sustained growth over the next decade. The analysis shows that many of these reforms could also assist much-needed fiscal consolidation and contribute to reducing global current account imbalances.
- The internationally comparable indicators provided here enable countries to assess their economic performance and structural policies in a wide range of areas.
- In addition, this issue contains three analytical chapters covering housing policies, the efficiency of health care systems and the links between structural policies and current account imbalances.

The global recovery from the deepest recession since the Great Depression has been underway for some time now, but it remains overly dependent on macroeconomic policy stimulus and has so far been insufficient to address high and persistent unemployment in many countries. With fiscal stimulus bound to be gradually withdrawn to address unsustainable public debt dynamics and little if any further support to be expected from monetary policy, the main challenge facing OECD governments today is turning a policy-driven recovery into self-sustained growth. Speeding up the structural reform process, which outside the financial regulation area has slowed during the global recession, could make a decisive contribution in this regard. In a context of crisis recovery, priority may be given to reforms that are most conducive to short-term growth and help the unemployed and those outside the labour force to remain in contact with the labour market.

This new edition of *Going for Growth* identifies for each OECD country and, for the first time, for key emerging economies (Brazil, China, India, Indonesia, Russia and South Africa, the so-called BRIICS), five reform priorities that would be most effective in delivering sustained growth over the next decade. These recommendations are determined based on a mapping between the performance shortfalls – measured by labour productivity and labour utilisation gaps vis-à-vis best performers – and policy weaknesses of each individual country. The main conclusions from this priority-setting exercise, which are summed up in an overview chapter (Chapter 1) and described in greater detail in individual country notes (Chapter 2) are as follows:

- Higher income OECD countries face a range of policy challenges and can roughly be broken down into two groups. The first group consists primarily of continental European countries, which need to raise labour utilisation. In consequence, improving the design of benefit systems, addressing labour market dualism through job protection reform and shifting the tax burden away from labour are common recommendations, although product market reforms also feature prominently. The remaining relatively wealthy OECD countries face a more balanced set of challenges, with a greater focus on labour productivity – especially for the Asian member countries – and with reforms of network sector regulation, FDI restrictions, tax structure and public sectors frequently recommended.
- Lower income OECD countries – including Chile, Estonia, Israel and Slovenia that joined the OECD in 2010 – and the BRIICS face far more challenges related to their education systems and product market regulation. Reforms in these areas are aimed at enhancing productivity. Labour informality also raises specific policy challenges in these countries. In many cases, the nature of policy priorities for the BRIICS is similar in content to that for low-income OECD countries, though the amount of needed reform is typically greater in the BRIICS. Recommendations for the BRIICS and some lower-income OECD countries also include in several cases reforms of legal systems and contract enforcement as well as improvements in governance systems that would address corruption.
- Reforms that would deliver quick income and job gains come at a premium in post-crisis circumstances. Among the identified policy priorities, such reforms include lower barriers to competition (e.g. in retail trade or liberal professions), fewer administrative burdens on business and removal of barriers to foreign direct investment. Some of the identified priorities could also go a long way towards preventing high unemployment from becoming permanent, another important concern in the current environment. Many of the labour market policy responses to the crisis – such as the scaling-up of short-time work schemes or extensions in the length and coverage of unemployment benefits – helped dampen the unemployment impact of the recession and mitigated hardship on workers. As the economic conditions evolve, new policy initiatives could help strengthen the job content of the recovery. Such reforms include increased spending on and reform of active labour market policies, reduced labour market dualism through job protection reform and improved design of social transfer programmes.
- The current economic situation has ambiguous implications for the ability of governments to undertake reforms, with the post-crisis context making their necessity more apparent but the weaker fiscal positions in many countries possibly being an obstacle. Against this background, it is essential to ensure that reforms are consistent with the pressing need for fiscal consolidation.
- Structural reforms are mainly aimed at enhancing long-term income levels but could also yield important co-benefits for fiscal balances. For example, reforms that boost employment levels are likely to be helpful to fiscal consolidation. Unsustainable public finances have also made many other types of structural reforms more urgent. In particular, improvements in tax systems, or education and health care efficiency gains could ease fiscal deficits.

Growth-enhancing structural reforms can also have beneficial knock-on effects on current account imbalances, as examined in detail in Chapter 5. Despite some narrowing during the crisis, global imbalances are still wide in both OECD and non-OECD countries and are likely to remain so in the absence of policy action. While structural reforms are not generally designed to address global imbalances, they can affect current accounts by influencing households' and firms' saving and investment decisions, as well as by altering public saving and investment. New empirical analysis

presented in this chapter suggests that a number of structural reforms that are desirable per se could also reduce global imbalances by narrowing the gaps between domestic saving and investment in several major economic areas:

- Developing social welfare systems in China and other Asian economies would fulfil an important social goal, and as a side-effect would reduce the need for precautionary saving, thus curbing the large current account surpluses of some of these countries.
- Pension reforms that increase the age of retirement would boost income levels while also helping to reduce saving and current account surpluses (but raise deficits in external deficit countries).
- Product market reforms in network industries, retail trade or professional services could encourage capital spending and thereby reduce current account surpluses in countries such as Japan and Germany.
- Removal of policy distortions that encourage consumption, such as tax deductibility of interest payments on mortgages in the absence of taxation of imputed rent, could help increase household saving and reduce external deficits in a number of countries, not least the United States, though implementation would have to await greater stabilisation of the economy.
- Financial market reforms that increase the sophistication and depth of financial markets could relax borrowing constraints in emerging economies and thereby boost consumption and investment, thus helping to reduce the current account surpluses observed in some of them. Such reforms need to be accompanied by appropriate prudential controls.
- Overall, a combination of fiscal tightening in OECD countries, product market reforms in Germany and Japan, and increased public health spending (by 2 percentage points of GDP) and financial market liberalisation in China could reduce the size of global imbalances by about one-third.

This issue of *Going for Growth* contains a special chapter on housing (Chapter 4), an area where misguided policies contributed to trigger the recent crisis and could now slow down labour mobility and the job recovery. The chapter presents new housing market policy indicators and OECD empirical analysis, with the following main findings:

- Innovations in mortgage markets should be coupled with appropriate regulatory oversight and prudent banking regulations. Financial liberalisation and mortgage innovations have boosted the access to housing of previously credit-constrained households, but regulatory reforms in mortgage markets may also be behind noticeable increases in house prices – by an average of 30% in OECD countries between the early 1980s and the mid-2000s – and in house price volatility.
- Housing supply could be made more responsive to demand in many OECD countries, for example by streamlining cumbersome construction licensing procedures. This would help to avoid excessive volatility in house prices. At the same time, greater responsiveness may also translate into more volatile residential investment unless volatility of demand can be curbed.
- Housing policies can facilitate residential mobility, allowing a better match of workers with jobs and thereby helping the labour market recover from the recent crisis. Reducing the high costs involved with buying a residence would improve access to credit and housing supply responsiveness. It could also enhance residential mobility, as would some easing of relatively strict rent controls and tenant-landlord regulations.
- Housing policies should be designed to be efficient and equitable. Tax distortions should be removed by taxing housing and alternative investments in the same way. Provided they are carefully designed, targeted social housing systems can achieve their goals at least cost, and well-designed portable housing allowances may be preferable to the direct provision of social housing as they do not seem to directly hinder residential mobility.

Last but not least, this year's issue of *Going for Growth* features a chapter on health care (Chapter 6), a key contributor to individual well-being and an important driver of long-term economic growth. The OECD has assembled new cross-country comparative data on health policies and health care system efficiency, which show that there is room in all countries surveyed to improve the effectiveness of their public health care spending:

- On average across the OECD, life expectancy at birth could be raised by more than two years, while holding health care spending steady, if every country were to become as efficient as the best performers.
- For more than one-third of countries, better efficiency could improve life expectancy as much in the ten years to 2017 as in the previous ten years, while keeping health care spending constant.
- Alternatively, improving the efficiency of health care systems could result in large public spending savings approaching 2% of GDP on average in the OECD.
- There is no single type of health care system that performs systematically better in delivering cost-effective health care. It may thus be less the type of system that matters but rather how it is managed. Policymakers should aim for coherence in policy settings by adopting best practices from the different health care systems

and tailor them to suit their own circumstances. Nevertheless, the international comparison highlights a number of sources of potential efficiency gains, such as from improving the coordination of the bodies involved in health care management, strengthening gate-keeping, increasing out-of-pocket payments, enhancing information on quality and prices, reforming provider payment schemes or adjusting regulations concerning hospital workforce and equipment.

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