# Reigniting growth: the role of structural policy

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# In brief: Reigniting growth and structural policy

1. Situation: marked deterioration in economic growth prospects
2. Complication: not purely cyclical; symptomatic of deeper structural issues
   - Changes at the microeconomic level suggest a less competitive environment
   - Past headwinds remain relevant for growth prospects, even in the AI era
3. Resolution: need to revisit the foundations of growth and ask whether our structural policy settings appropriate
   - Performance policy benchmarking can help identify reform priorities
   - Much scope to improve policies to support human capabilities and economic dynamism and mobility
   - SAF can materially boost aggregate growth via dynamism-enhancing regulatory reforms

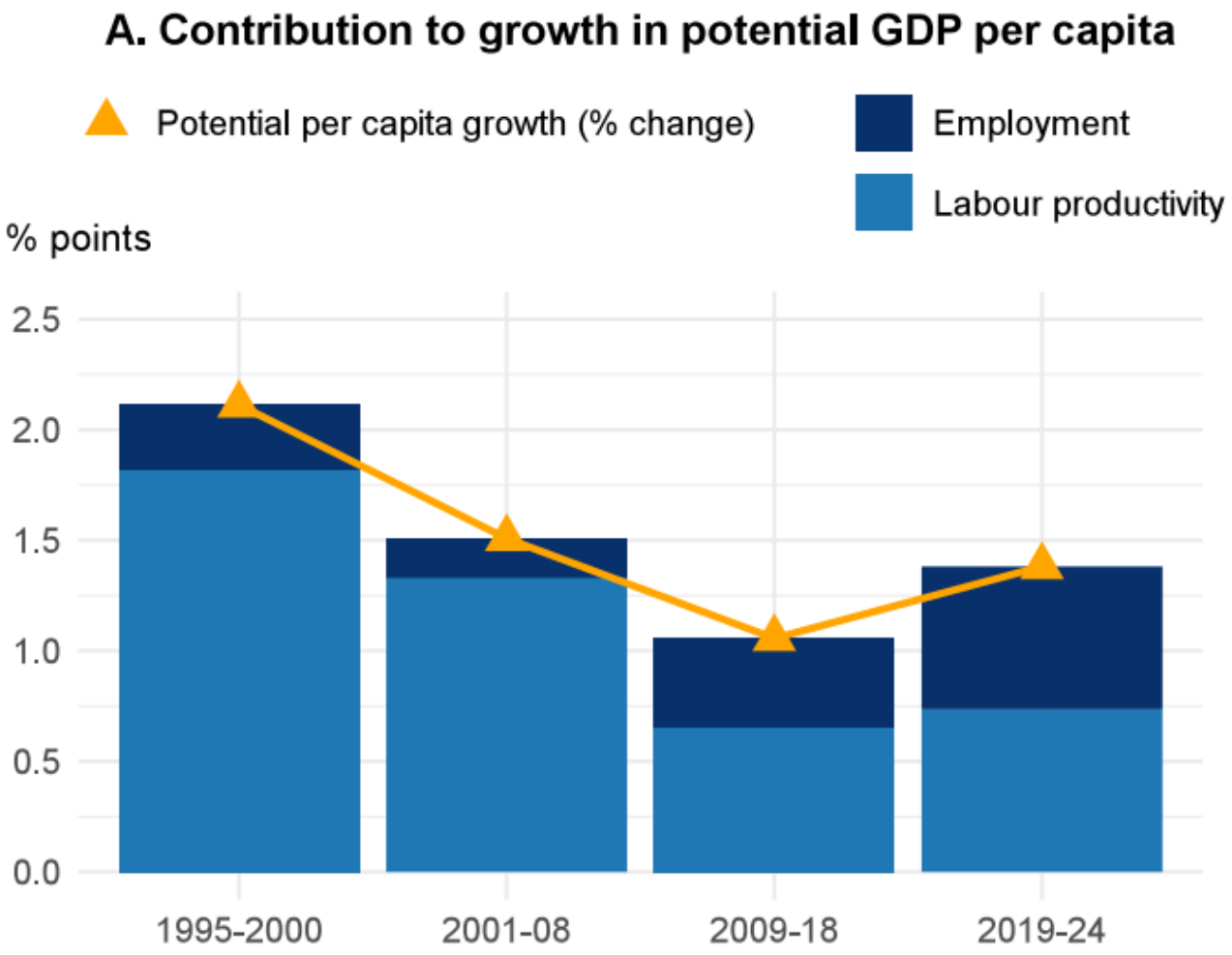
# Roadmap

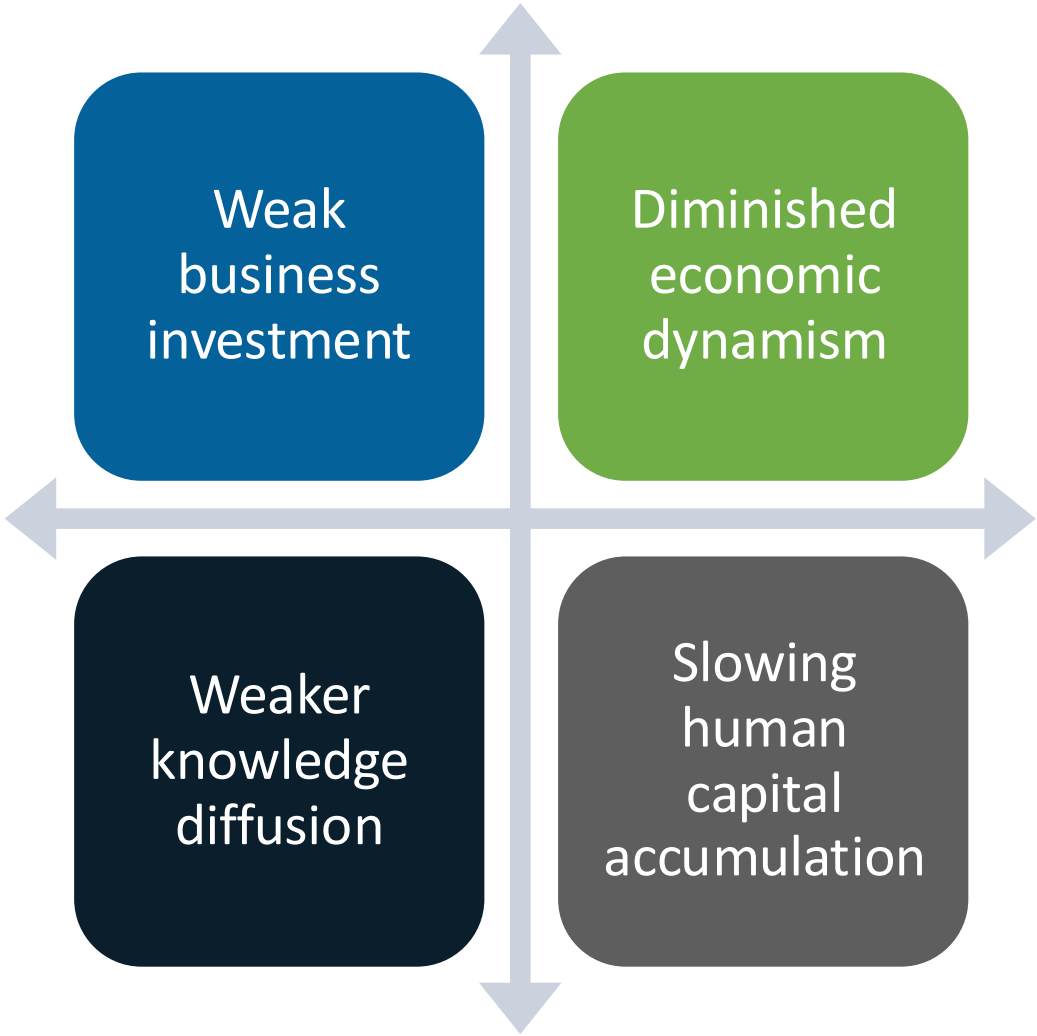
1. The economic context
2. Reviving growth prospects
   a. What types of policies?
   b. Role of human capital
3. Time for regulatory reset?
   a. Regulatory Compliance costs
   b. Product market regulations and insolvency (emphasis on SAF)

# 1. THE ECONOMIC CONTEXT

## A. The challenge*: headwinds to growth*

# *The economic context*: structural headwinds to growth



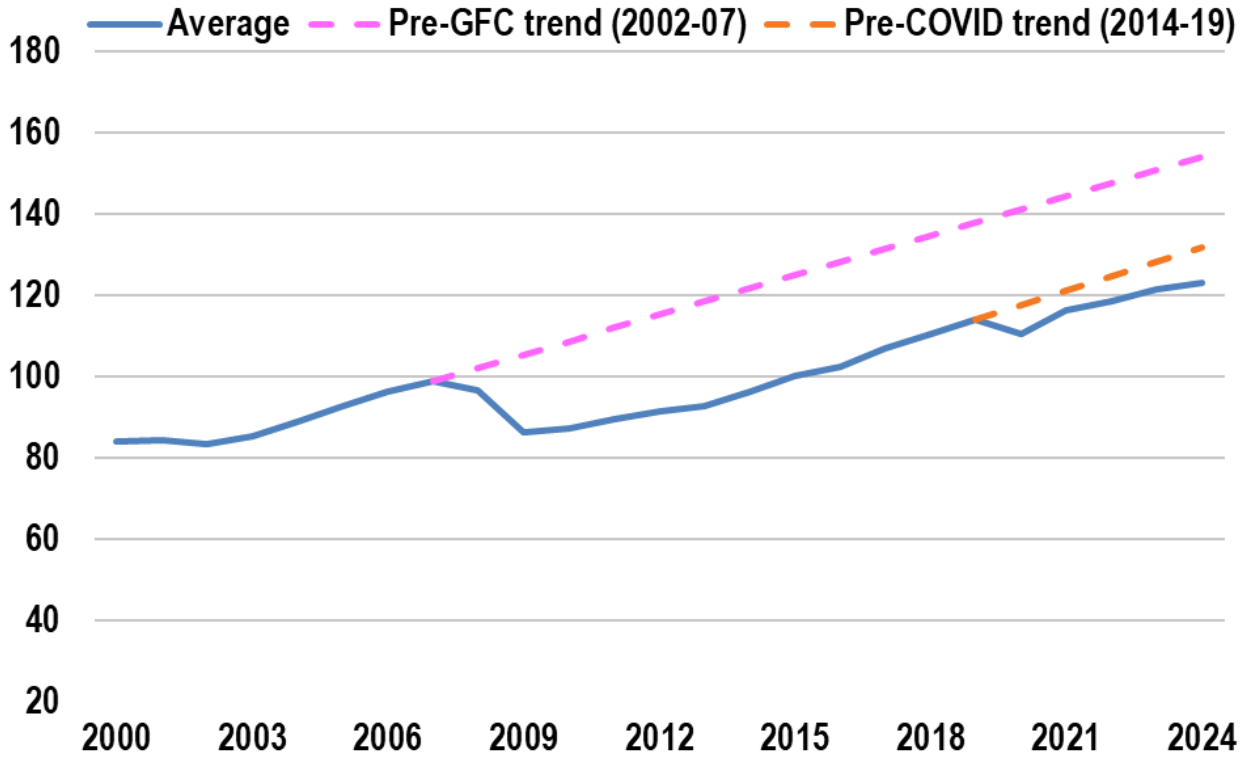




Source: OECD, Economic Outlook Database 117.

# Real investment remains below pre-GFC and pre-pandemic trends

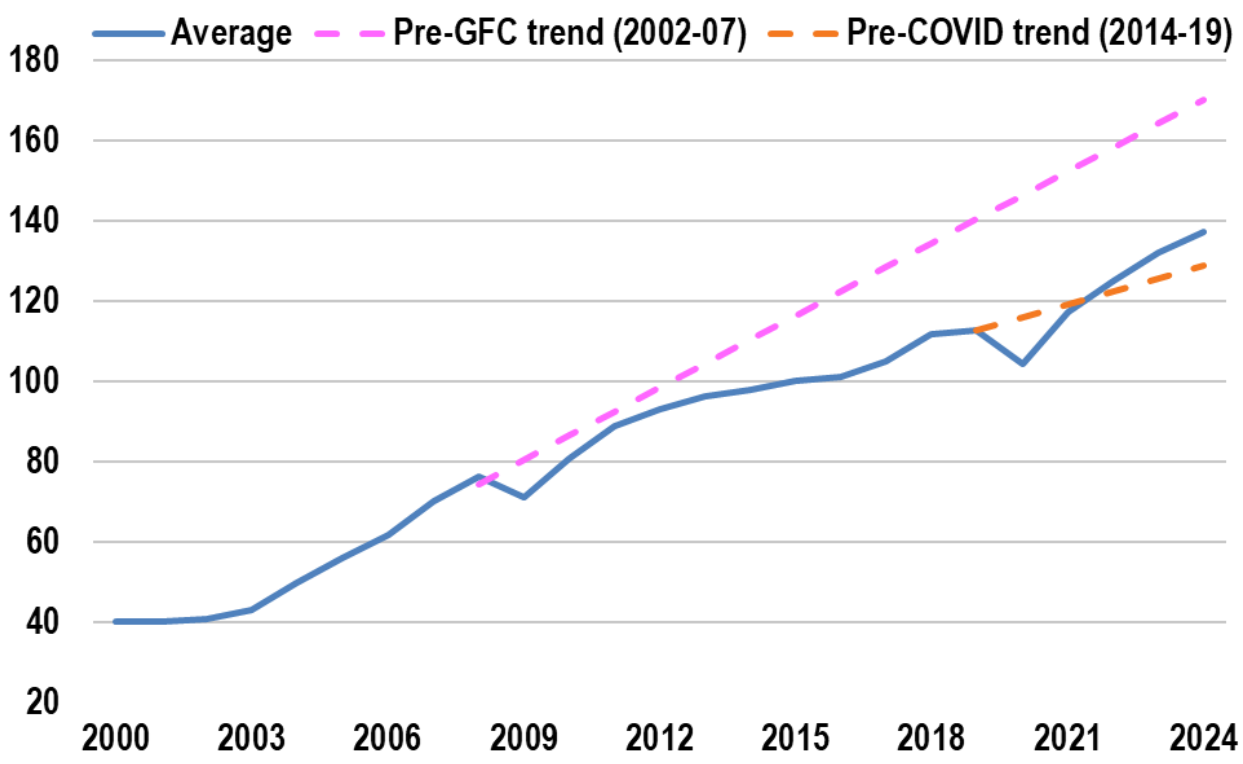
## OECD Advanced economies

Index 2015=100




## OECD Emerging Market Economies

Index 2015=100



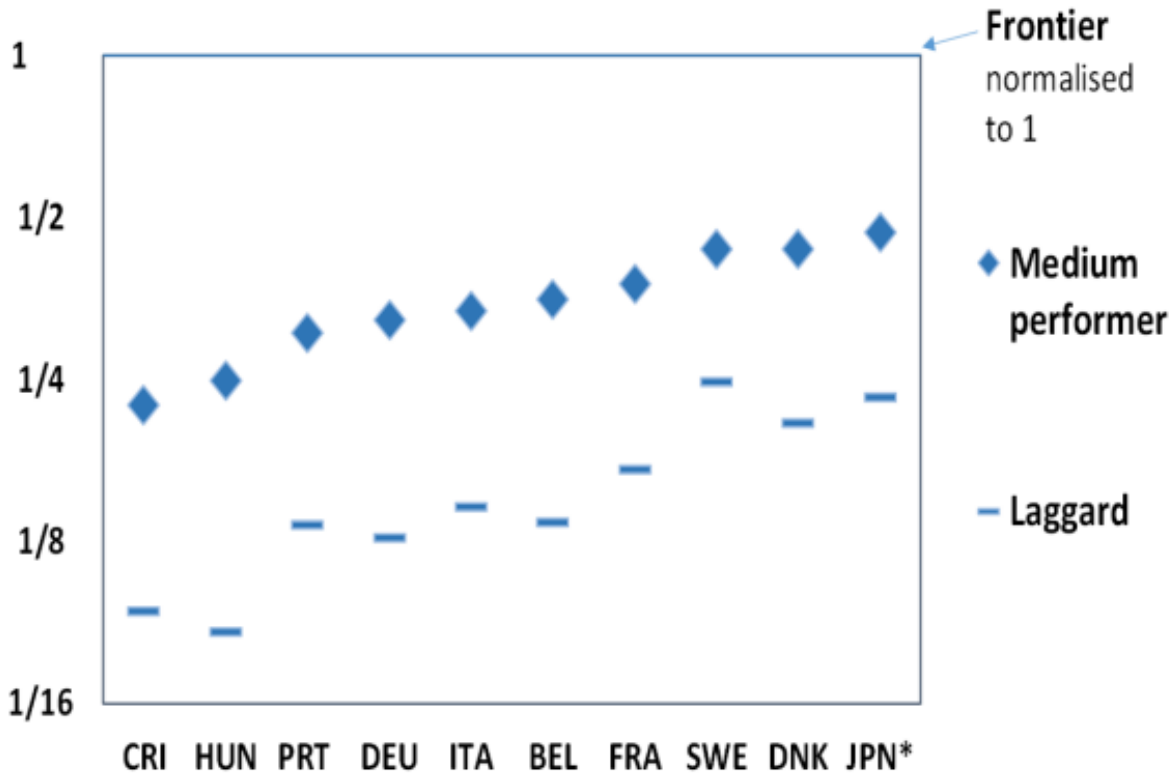

Note: Real investment across 33 OECD advanced economies and 13 OECD and non-OECD emerging market economies (Argentina, Brazil, Bulgaria, Chile, Colombia, Costa Rica, India, Indonesia, Mexico, Romania, South Africa, Thailand, and Türkiye). Average is calculated using GDP PPP weights in 2015.

Source: OECD Economic Outlook 117 database; and OECD calculations.

# Looking beyond averages: the consequences of widespread firm heterogeneity

- High productivity firms coincide with low productivity firms, even within narrowly defined sectors
- Aggregate total factor productivity growth will thus be driven by:
  1. Innovation at the frontier
  2. Diffusion of leading ideas to firms below the frontier
  3. Reallocation of scarce resources from low to high productivity firms, including *entry and exit* of firms
- These margins are sensitive to structural policy, especially #2 and #3

**Large differences in firm-level labour productivity within sectors**

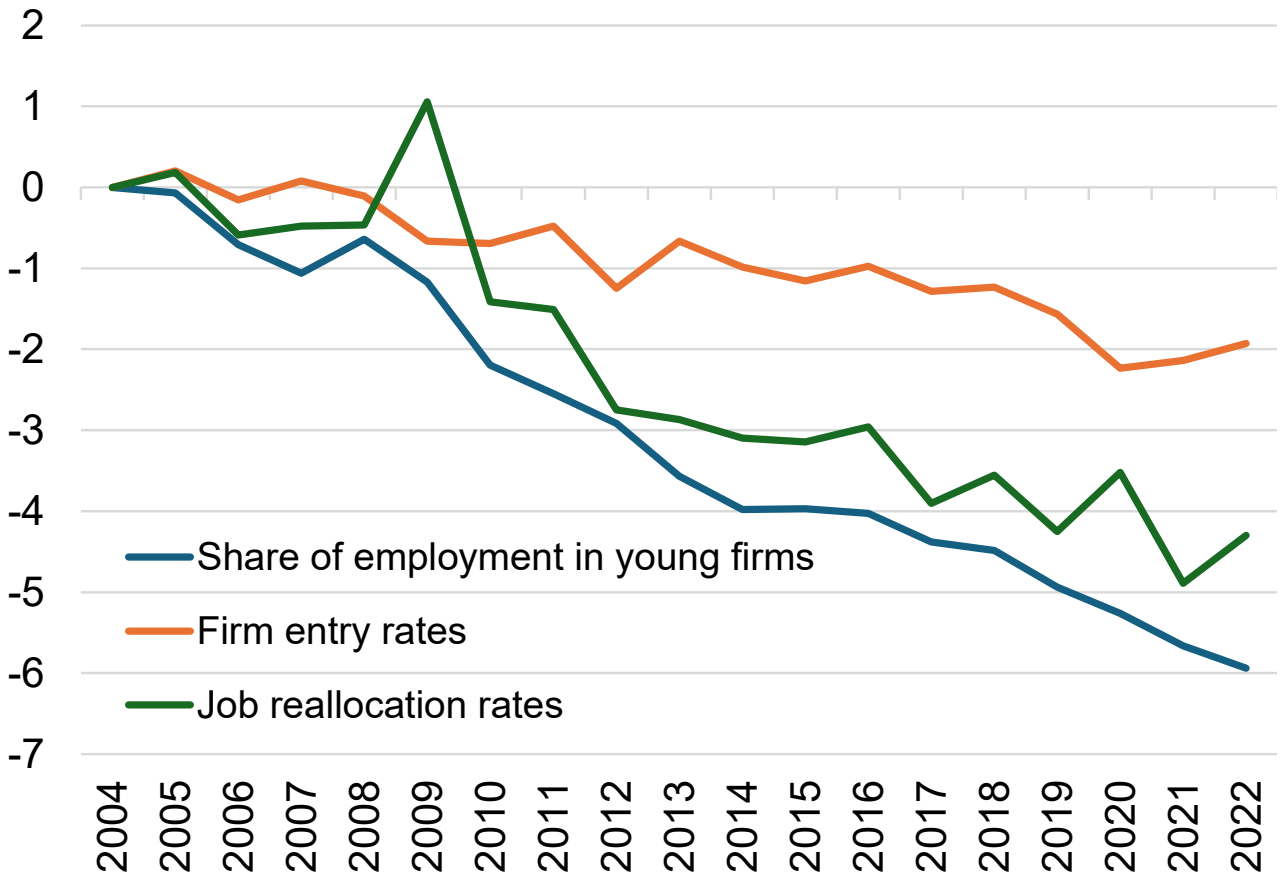



Note: Averages across detailed industries of the non-farm, non-financial business sector, on average over the period 2000-2019 (exact range depending on the country) , using microeconomic data on firms. For more details, see (Criscuolo et al., 2021[17]), Appendix A. *Firms with at least 50 employees.
Source: (Criscuolo et al., 2021[17]) in the context of the Human Side of Productivity project of the GFP

# Diminished economic dynamism and knowledge diffusion

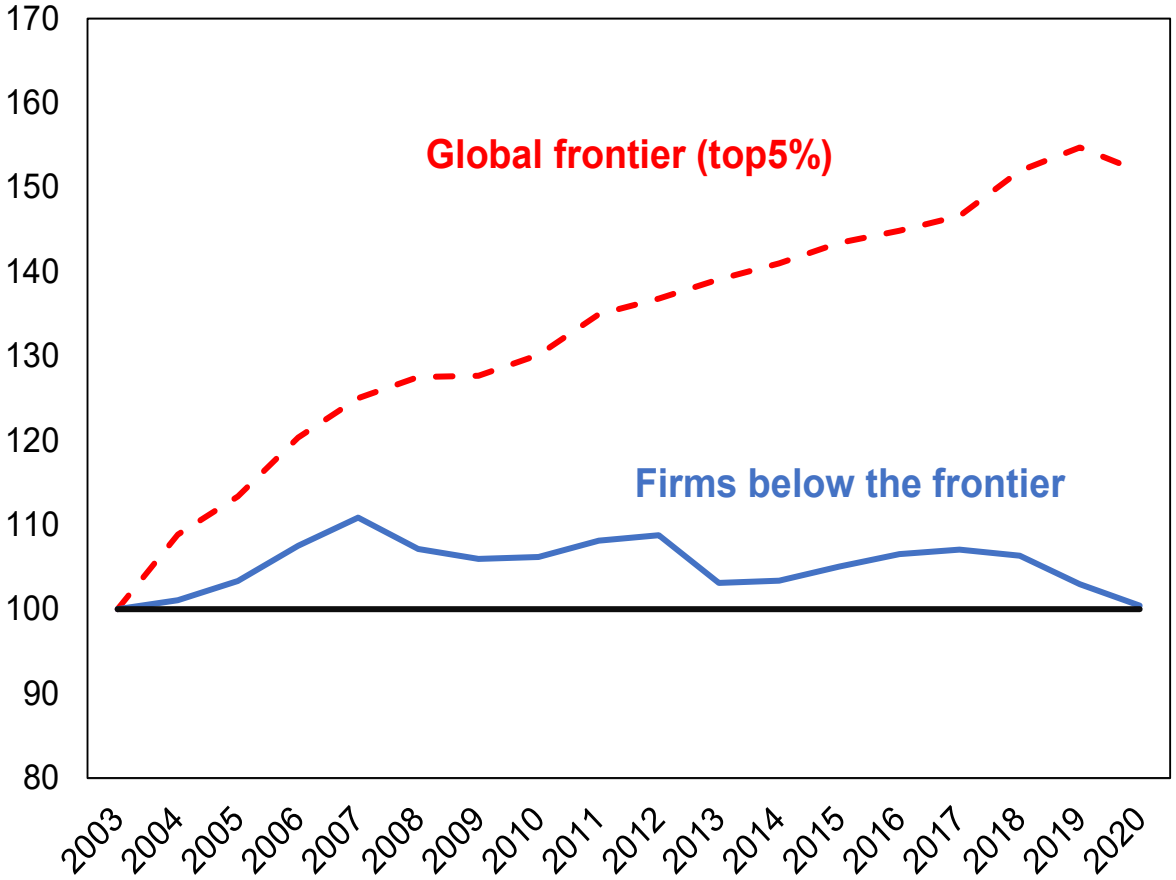
## Declining economic dynamism

Cumulative (%pt) change since 2002; 12 OECD countries




## Firm level multi-factor productivity divergence

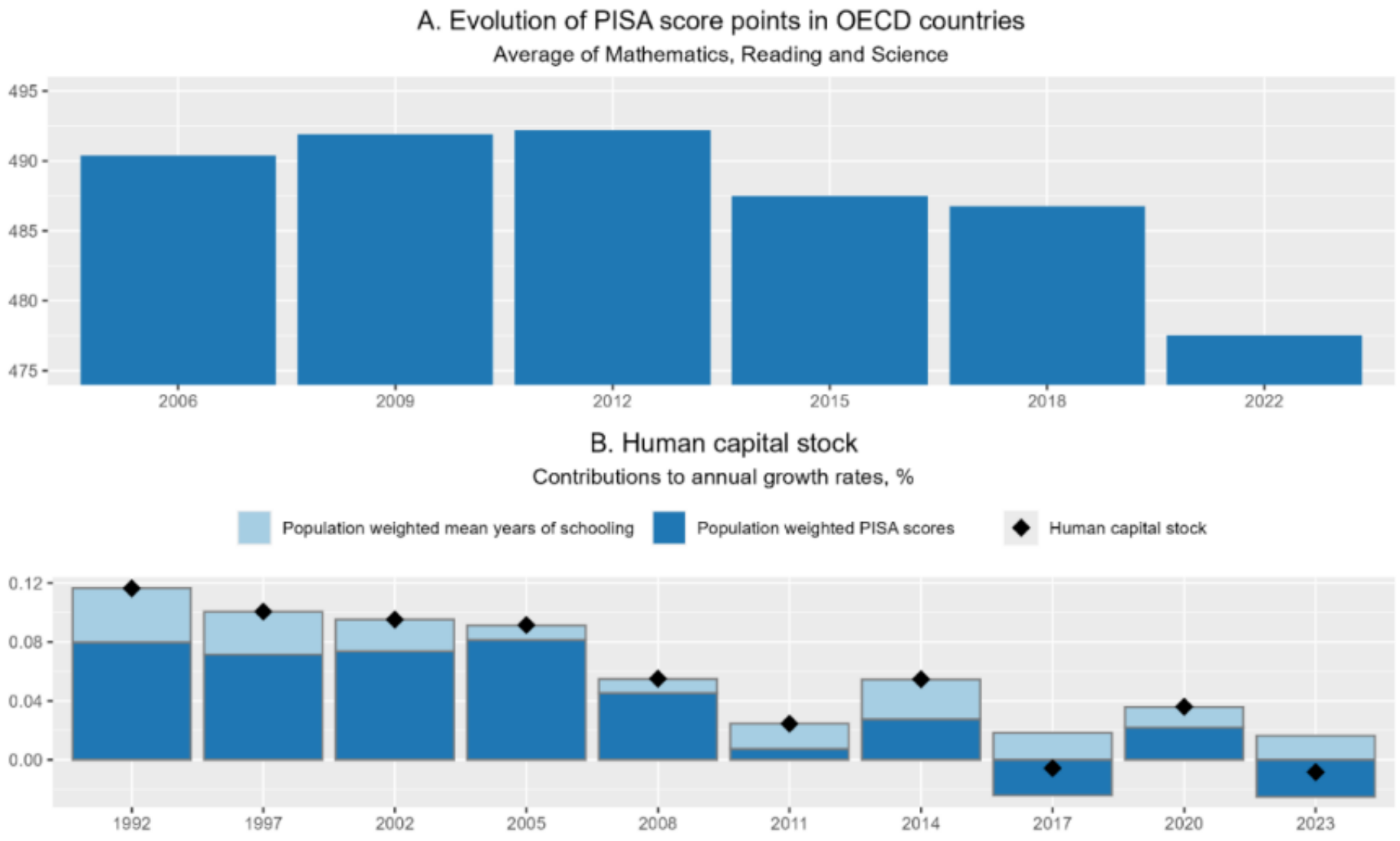
Index 2003=100




Note: In Panel A, the figure reports the average of within-country–industry cumulative changes in percentage points relative to 2004. Estimates are based on data for 12 countries (Austria, Belgium, Finland, France, Germany, Italy, Hungary, Portugal, Slovenia, Spain, Türkiye and the United Kingdom) over the period 2004–2022.

Source: Calvino, F., C. Criscuolo and R. Verlhac (2020); Cho, W. et al. (2024); and OECD calculations; Updated version of Andrews, Criscuolo and Gal (2016)

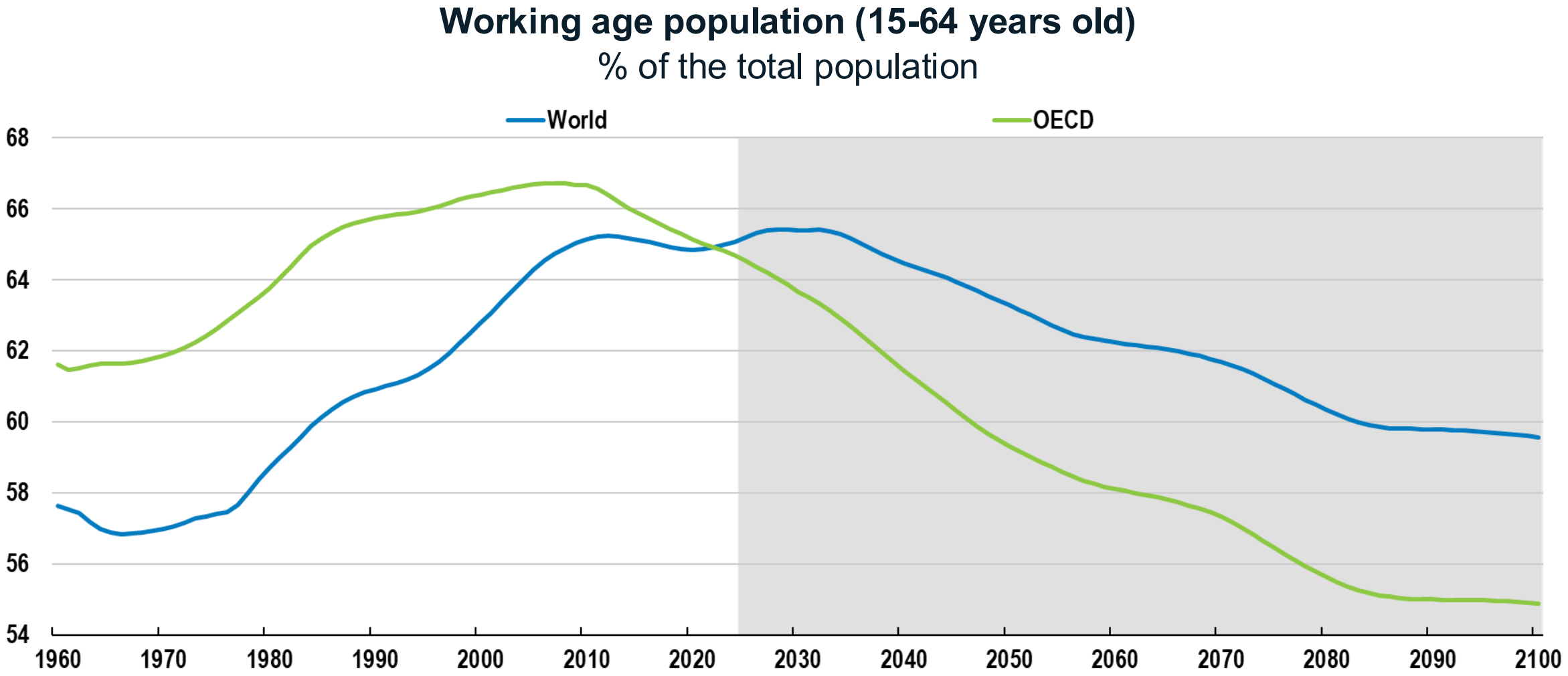
# A slowdown in the rate of human capital accumulation




Note: Panel A: Data are missing for Austria in 2009, Costa Rica in 2006 and Spain in 2018; Panel B: PISA scores and mean years of schooling are cohort weighted averages such as they enter the measure of human capital stock.

Source: OECD, PISA Database and Andrews, D., Égert, B. and de La Maisonneuve, C. (2024), "From decline to revival: Policies to unlock human capital and productivity", OECD Economics Department Working Papers, No. 1827, OECD Publishing, Paris, https://doi.org/10.1787/8d0d232c-en.

# Don’t forget demographics: ageing is putting pressure on the supply of workers




Note: Working age refers to the share of the population between 15-64 years old. The highlighted area refers to the projection period. Projections are based on the “medium variant” population projections from the United Nations.

Source: United Nations World Population Prospects: The 2024 Revision.

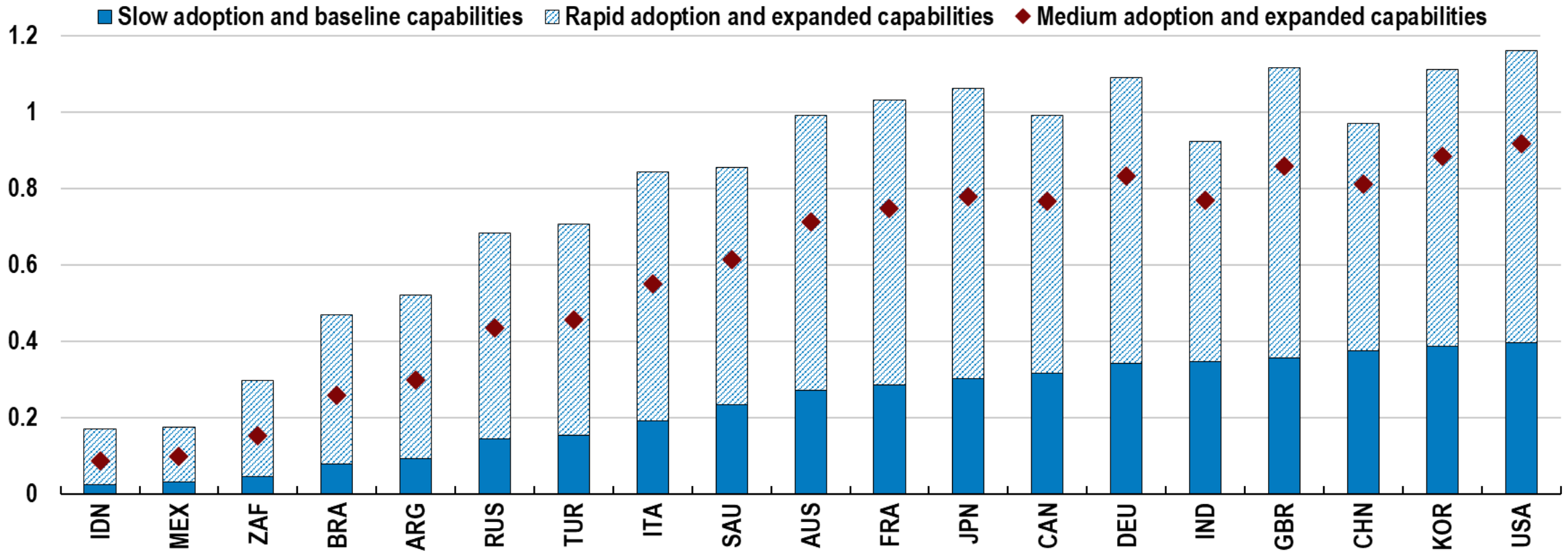
# 1. THE ECONOMIC CONTEXT

## B. The opportunity*: tailwinds to growth*

# AI can boost productivity growth but gains will vary widely across countries

## Predicted per capita real income gains due to AI over the next 10 years

Annualised (%pts)



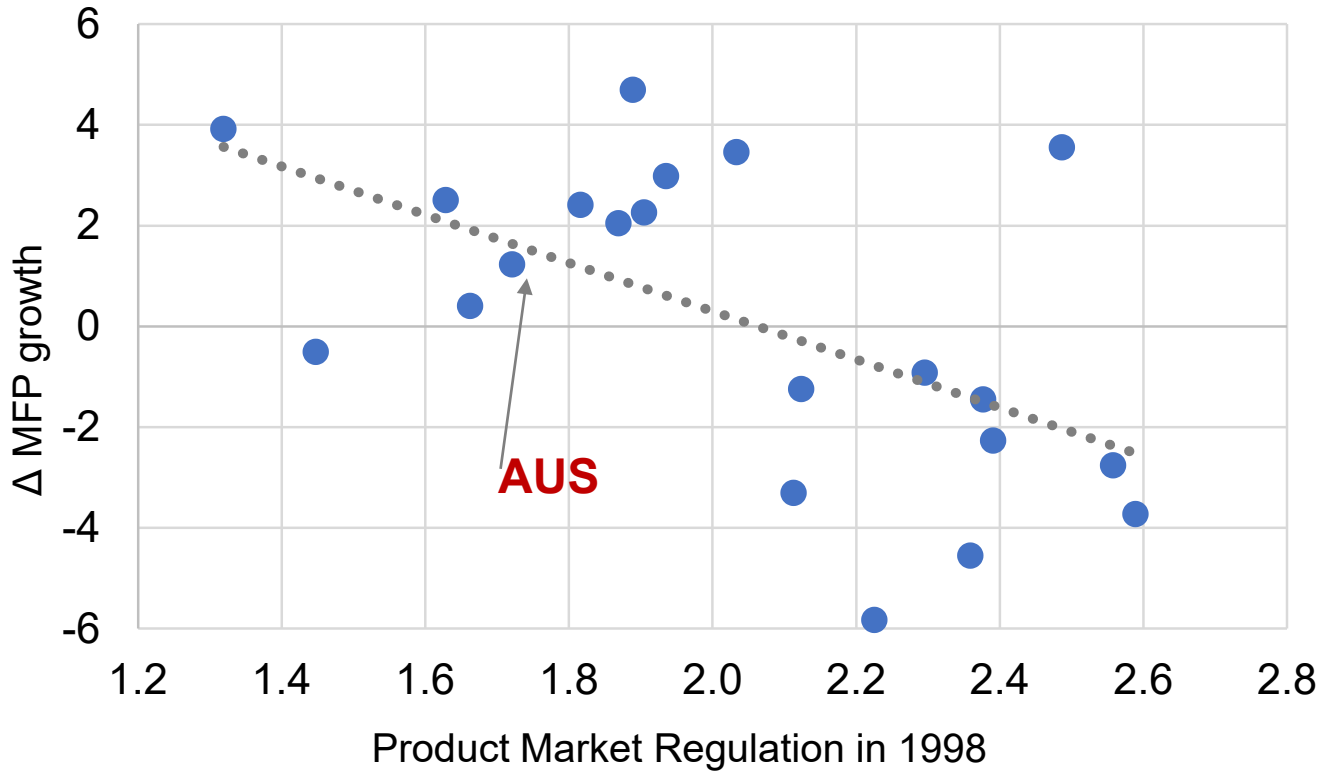

Note: The graph shows predicted per capita real income gains due to AI over the next 10 years, in percentage points and annualised terms. Slow adoption assumes an adoption speed for AI that follows the historical one of electricity and increases by 23% over 10 years. Medium adoption and expanded AI capabilities assume adoption follows the same trajectory as ICT technologies, increasing 40% over 10 years, and that AI reaches higher capabilities thanks to synergies with additional software. Rapid adoption assumes AI is adopted at a speed comparable to mobile phones, reaching 60% over 10 years.
Source: Filippucci et al. (forthcoming)

# Reaping the productivity gains of AI will depend upon policy

1. AI could boost US TFP growth by *at least as much* as the mid-90s ICT boom
2. Elsewhere, the size of these gains will depend upon the speed/shape of adoption
3. Much will depend upon policy *vis-a-vis*:
   a) Attitudes to frontier innovation
   b) Frictions in labour markets and competition more generally
   c) Human capabilities and AI applicability

**Mid-1990s productivity boom* and PMR**

*Cumulative MFP growth (95-00 *minus* 90-95)




High barriers to entry and Continental Europe stifled ICT diffusion because **new firms** are crucial to the productive deployment of new technologies

# 2. REIGNITING GROWTH PROPSECTS

## A. What types of policies?

# Three types of policies

# Structure of the F4GC database

## Enabling factors

### Macroeconomic stability and financial markets
- Macroeconomic Stability
- Financial Institutions
- Financial Markets

### Physical infrastructure
- Density of Infrastructure
- Environmentally Sustainable and Climate-resilient Infrastructure
- Management of Threats to Public Integrity in Decision Making
- Regulatory Frameworks for Public Infrastructure
- Transport Regulation

### Governance and Institutions
- Digital Government
- Public Integrity
- Rule of Law
- Evaluation of Regulatory Quality
- Stakeholder engagement in laws and regulations

### Digital infrastructure
- Access to Digital Infrastructure
- E-Communications Regulation
- Information and Communication Technology (ICT) Policies

### Education, skills and human capital
- Adult Competencies
- Continuing Education and Lifelong Learning
- Digital Skills
- Early Childhood Education
- Educational Attainment
- Student Performance

## Market incentives and allocative efficiency

### Tax system efficiency
- Tax Structure
- Tax Complexity

### Openness to trade & FDI
- Regulatory Restrictiveness of FDI
- Restrictiveness of Digital Services Trade
- Restrictiveness of Services Trade
- Tariff Barriers
- Trade Facilitation

### Housing
- Housing Policies

### PMRs & insolvency
- Administrative and Regulatory Burden
- Barriers in Service & Network Sectors
- Distortions Induced by Public Ownership
- Insolvency
- Involvement in Business Operations

### Labour mobility & participation
- Adaptability and Mobility
- Workforce Participation Incentives
- Pension and Retirement Policies

## Targeted and sectoral policies

### Innovation
- Expenditure on R&D: Basic Research
- Expenditure on R&D: Business
- Expenditure on R&D: Higher education
- Expenditure on R&D: Personnel
- Tax Treatment of R&D
- Innovative firms

### Energy, Environment & Natural Capital
- Energy Regulation
- Design and Evaluation of Environmental Policies
- Energy Intensity
- Renewable Energy
- Water, Biodiversity and Waste
- Technology Support

# The F4GC policy prioritisation model

*Over 800 performance-policy matching relationships*

**F4GC Database**



**Quantitative selection of reform candidates**

**Performance gaps**

*Matching model*

**Policy gaps**

*Country-specific lens to avoid one size fits all*

**Qualitative selection with country experts**

**Top 5 national reform recommendations**

For 48 countries, including all 38 OECD members

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# 2. REIGNITING GROWTH PROPSECTS

## B. Human capital policies: a necessary but not a sufficient condition for success

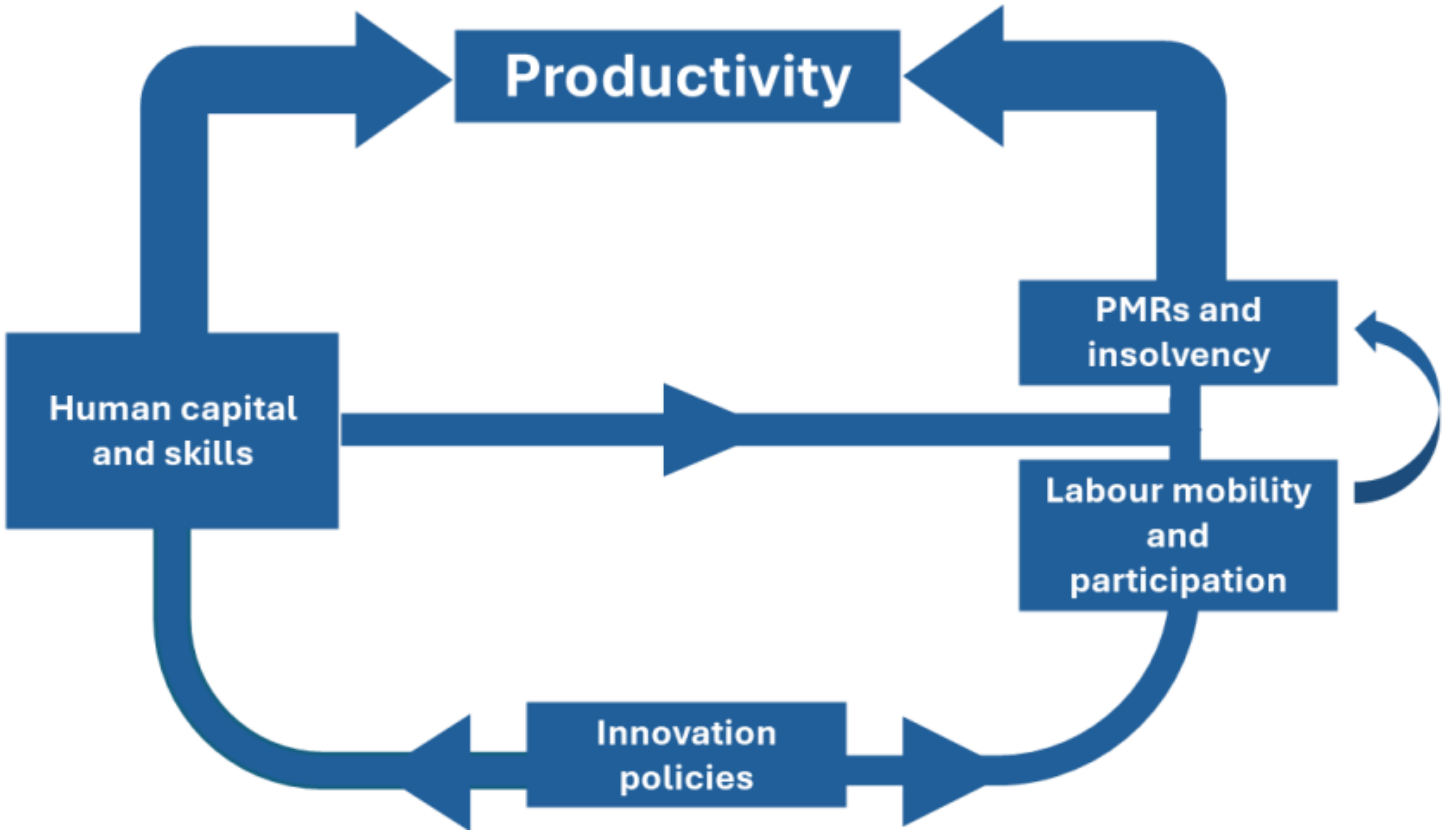
# Policy complementarities in action: *why competition and human capital matters so much?*

Human capital will boost productivity directly and indirectly by amplifying the returns to innovation subsidies.

Pro-competitive product market regulations will boost productivity directly and indirectly, by:

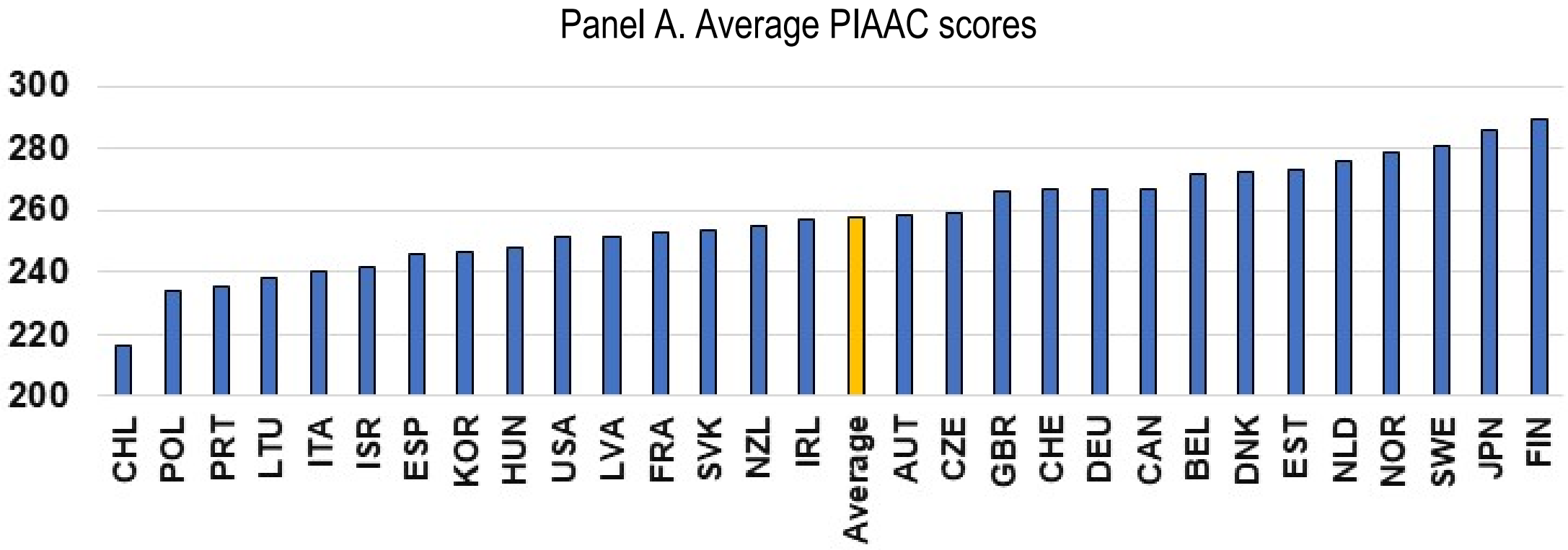
- Amplifying the returns to innovation subsidies; and
- Supporting the efficient allocation of human capital

**An illustration of policy interactions**



# Fact #1: Large cross-country differences in the level of adult skills

## PIAAC scores in 2023 in the OECD, in points




Average PIAAC scores in the top three performing countries are: i) around 10 percent higher than the OECD average; and ii) 25 percent higher than in the bottom three countries.

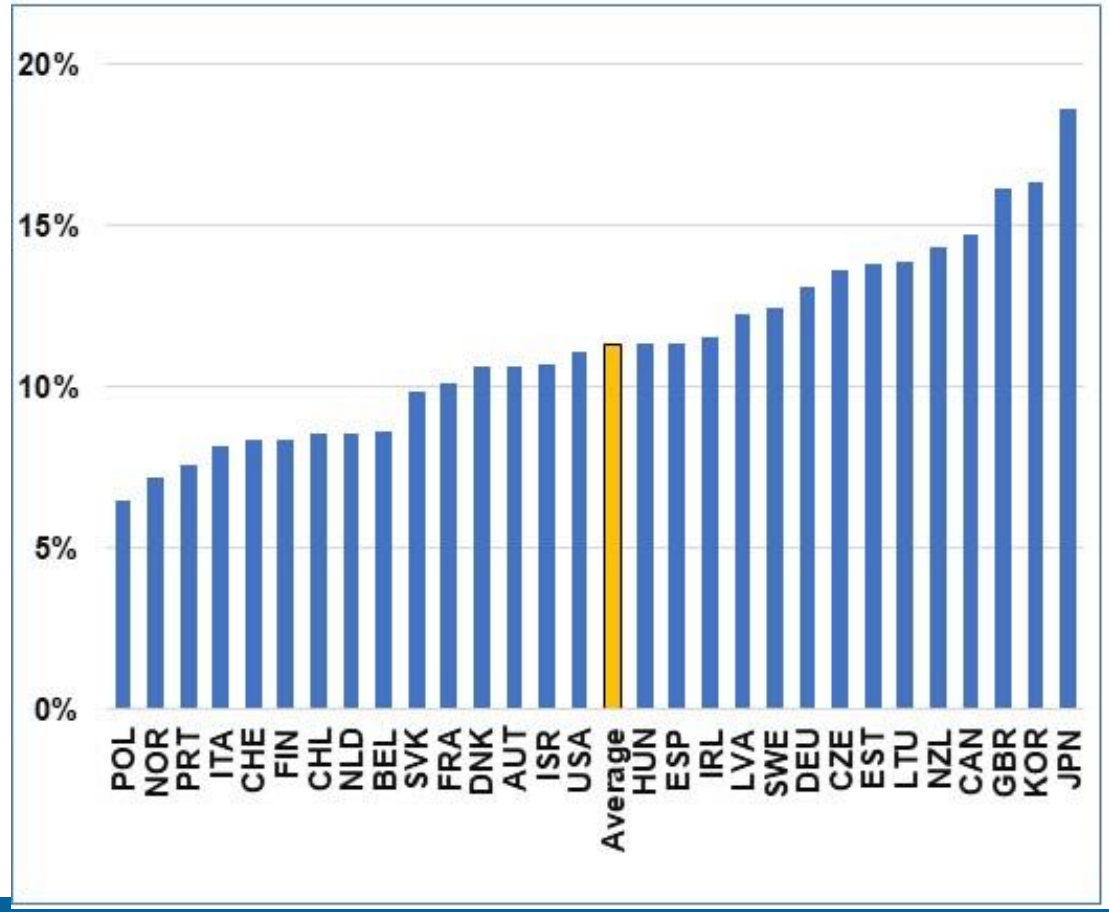
Source: Andrews, D., B. Égert and C. de la Maisonneuve (2025), "Adult skills and productivity: New evidence from PIAAC 2023", OECD Economics Department Working Papers, No. 1834, OECD Publishing, Paris, https://doi.org/10.1787/12ac6e8c-en.

OECD

# Fact #2: Large cross-country differences in the allocation of skills

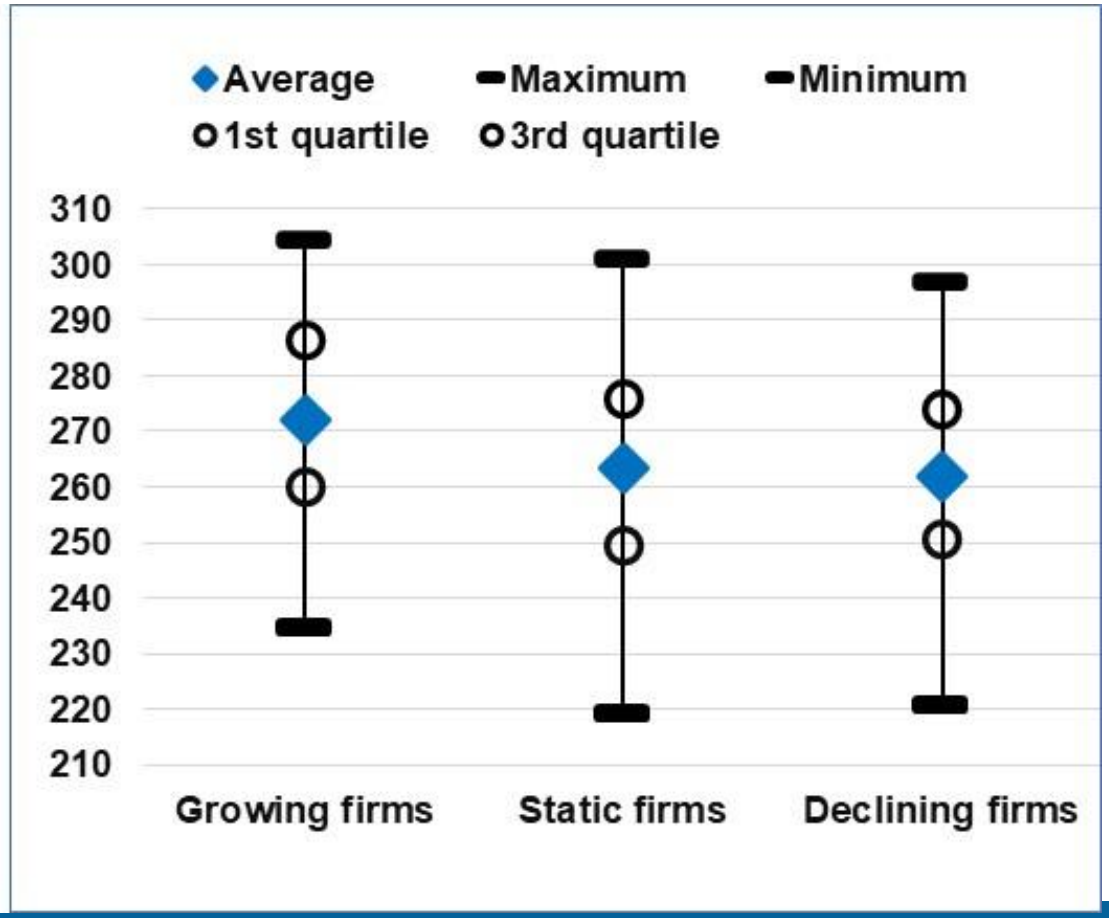
## Labour market mismatch (job roles)

% of mismatched workers




## Allocation of skills by firm dynamism

Average PIAAC points




Source: Andrews, D., B. Égert and C. de la Maisonneuve (2025), "Adult skills and productivity: New evidence from PIAAC 2023", OECD Economics Department Working Papers, No. 1834, OECD Publishing, Paris, https://doi.org/10.1787/12ac6e8c-en.

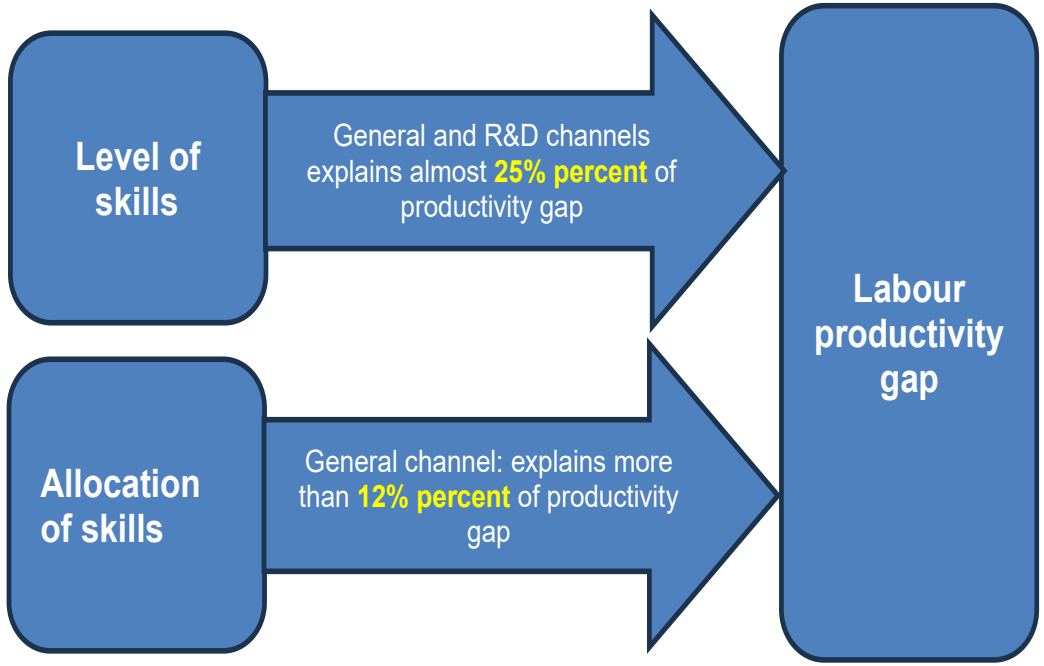
OECD

# Fact #3: Both the level and the allocation of skills explain cross-country differences in productivity

Table 2. Labour productivity and the allocation of skills

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| **Dependent variable** | | | **log(labour productivity)** | | | |
| PIAAC = average of literacy, numeracy and problem solving | | | | | | |
| Constant | -0.651 | 0.874 | 1.329 | -0.069 | 0.008 | -0.902 |
| **Adult skills effects** | | | | | | |
| Log (PIAAC) | 2.328** | 2.072** | 3.719** | 2.084** | 2.922** | 2.243** |
| **Allocation of skills effects** | | | | | | |
| **Labour market mismatch** | | | | | | |
| Labour market mismatch (qualification and field-of-study) | | -1.019** | -0.972** | -0.980** | -1.046** | -1.000** |
| Log(PIAAC small firms) | | | -1.736* | | | |
| Log(PIAAC large firms) - log(PIAAC small firms) | | | | 0.688** | | |
| **Allocation of skills across firms** | | | | | | |
| Log(PIAAC declining firms) | | | | | -0.828** | |
| Log(PIAAC growing firms) - log(PIAAC declining firms) | | | | | | 0.568** |
| R-squared | 0.881 | 0.885 | 0.888 | 0.887 | 0.888 | 0.887 |
| No. of observations | 278 | 278 | 278 | 277 | 273 | 272 |
| No. of countries | 25 | 25 | 25 | 25 | 25 | 25 |
| Country fixed effects | YES | YES | YES | YES | YES | YES |
| Sector fixed effects | YES | YES | YES | YES | YES | YES |

*Note:* * and ** denote statistical significance at the 10% and 5% levels, respectively, based on robust standard errors.
Average PIAAC scores used in the regressions are the simple average of the PIAAC scores on literacy, numeracy and problem solving.

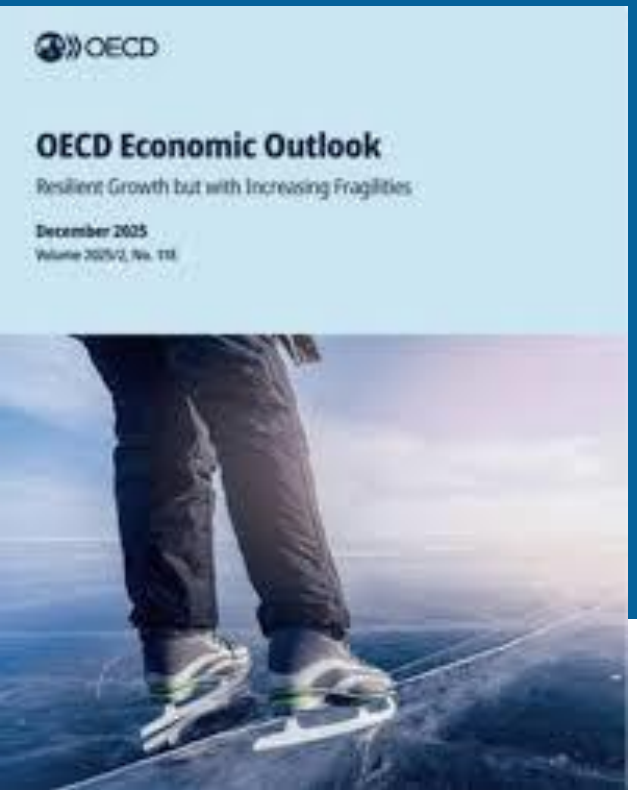



**Policy upshot: we need policies that boost human capital AND reallocation/dynamism/adaptability**

Source: Andrews, D., B. Égert and C. de la Maisonneuve (2025), "Adult skills and productivity: New evidence from PIAAC 2023", OECD Economics Department Working Papers, No. 1834, OECD Publishing, Paris, https://doi.org/10.1787/12ac6e8c-en.

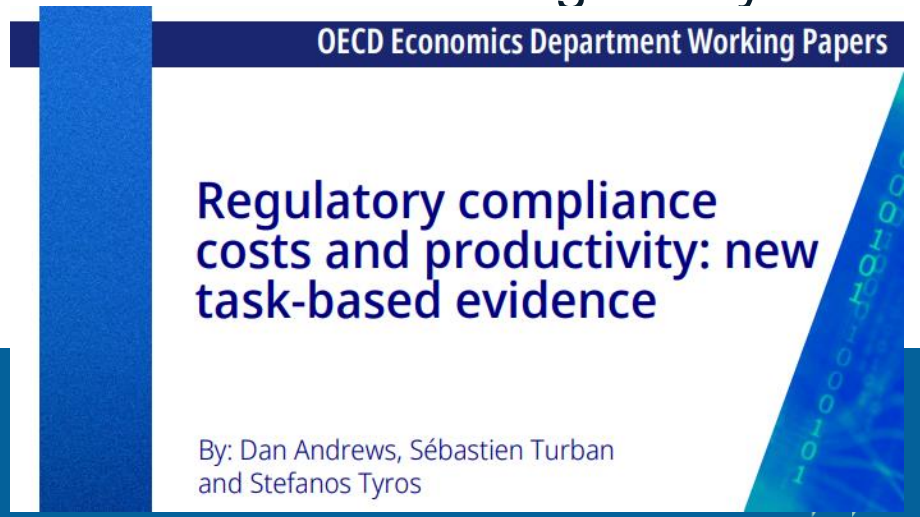
# 3. TIME FOR A REGULATORY RESET

## A: The broad story



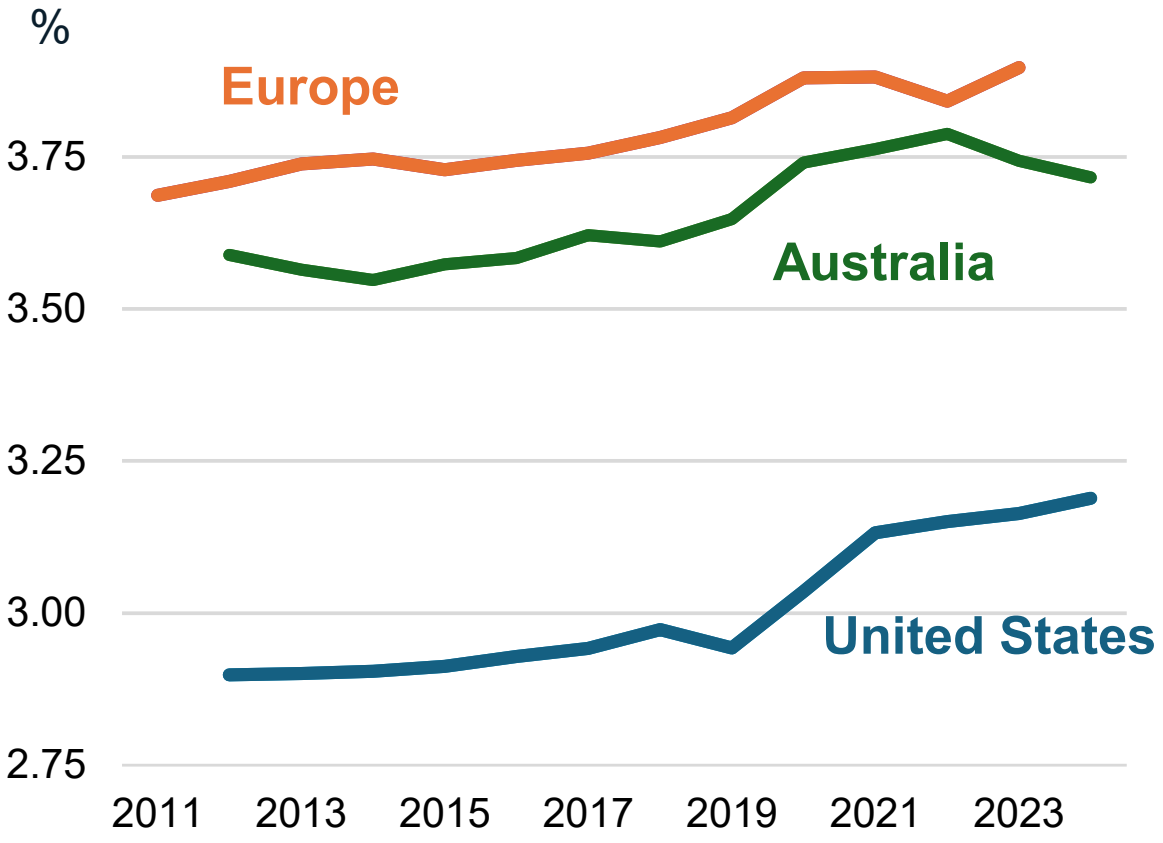
# *The broad story*: Time for a regulatory reset?

1. Regulations are essential to achieve societal goals and can support economic activity when they address key market failures
2. The policy challenge is to meet those goals effectively while minimising any economic distortions generated by regulatory interventions
3. But the economic resources devoted to regulatory compliance are material and rising, stifling productivity growth and economic dynamism
   - ➢ OECD Simplying for Success (2025): business and government respondents in many countries characterise the level of regulation in their country as “excessive”
   - ➢ New task-based evidence on the share of labour resources dedicated to regulatory compliance activities (Andrews et al., 2026)

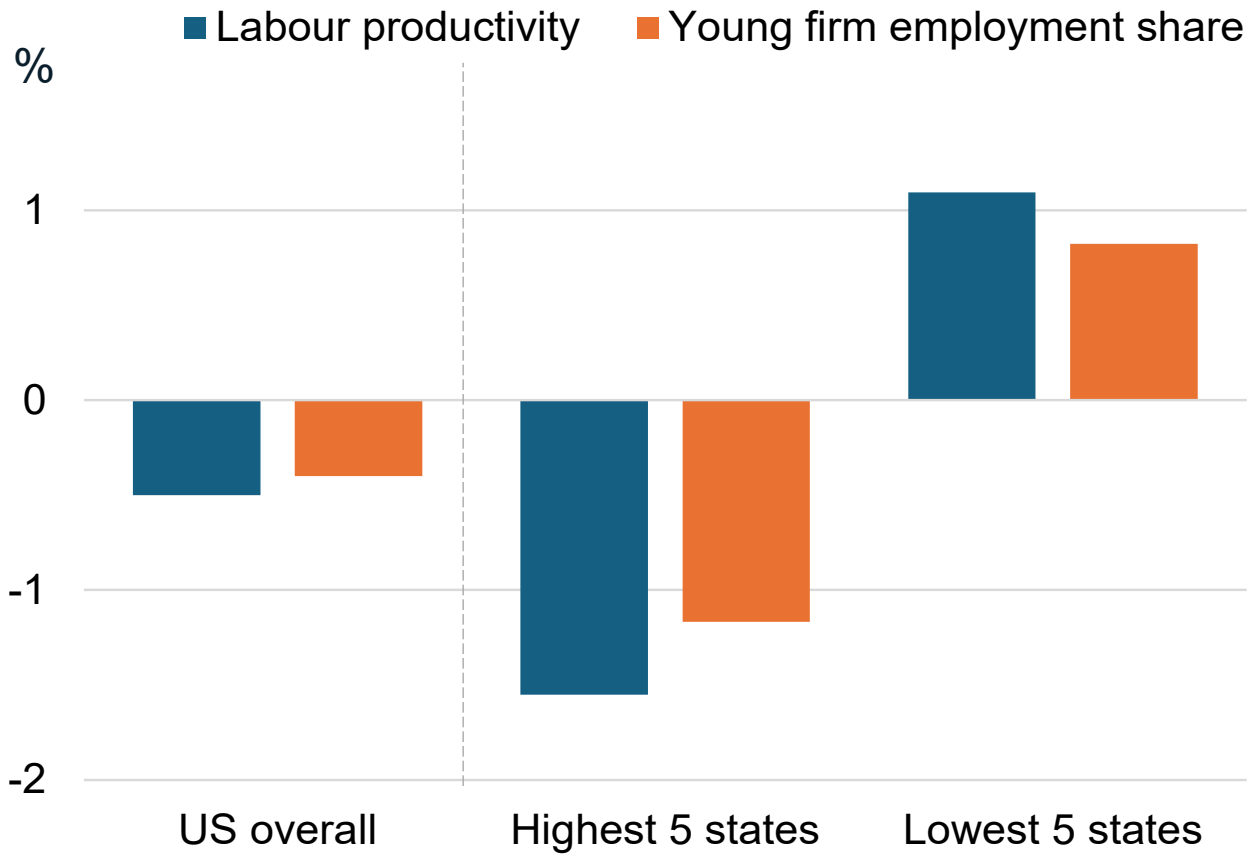


# A growing regulatory environment has sapped dynamism

## Share of employment devoted to regulatory compliance tasks




## Estimated economic impact of the change in regulatory compliance costs since 2012




Regulation imposes fixed costs which disproportionately burdens young firms

Highlights the need to better manage the existing stock of regulation (e.g. via ex post regulatory reviews)

Source: Andrews, D., S. Turban and S. Tyros (2026), "Regulatory compliance costs and productivity: new task-based evidence" OECD Economics Working Paper No 1856..

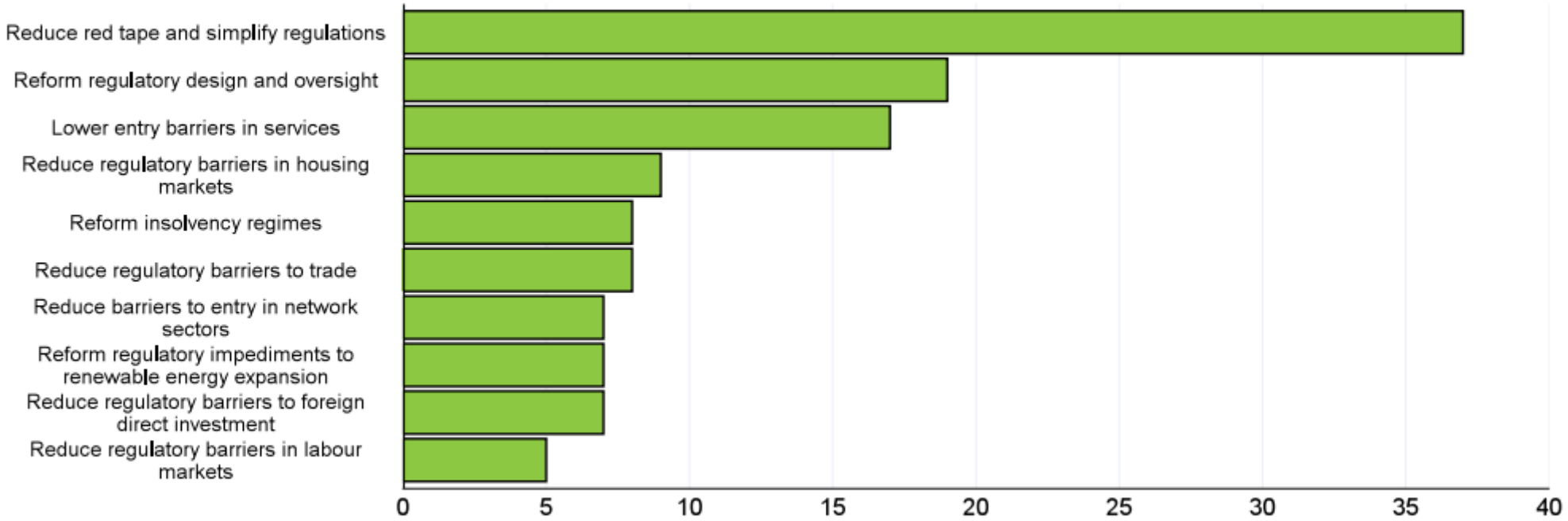
# *The broad story*: Time for a regulatory reset?

1. Regulations are essential to achieve societal goals and can support economic activity when they address key market failures
2. The policy challenge is to meet those goals effectively while minimising any economic distortions generated by regulatory interventions
3. But the economic resources devoted to regulatory compliance are material and rising, stifling productivity growth and economic dynamism
4. Policymakers can revive productivity and dynamism prospects by:
   - More effectively managing the stock of existing regulations (e.g. RIAs – ex post, removing unnecessary admin burdens, streamlining redundant/overlapping regulations, “goldplating”)
   - Ensure that regulations are sufficiently responsive to an evolving economic environment
   - Consider whether a regulatory response is required to increase transparency with respect to lobbying activity and the broad application of non-compete clauses

# Country desk recommendations

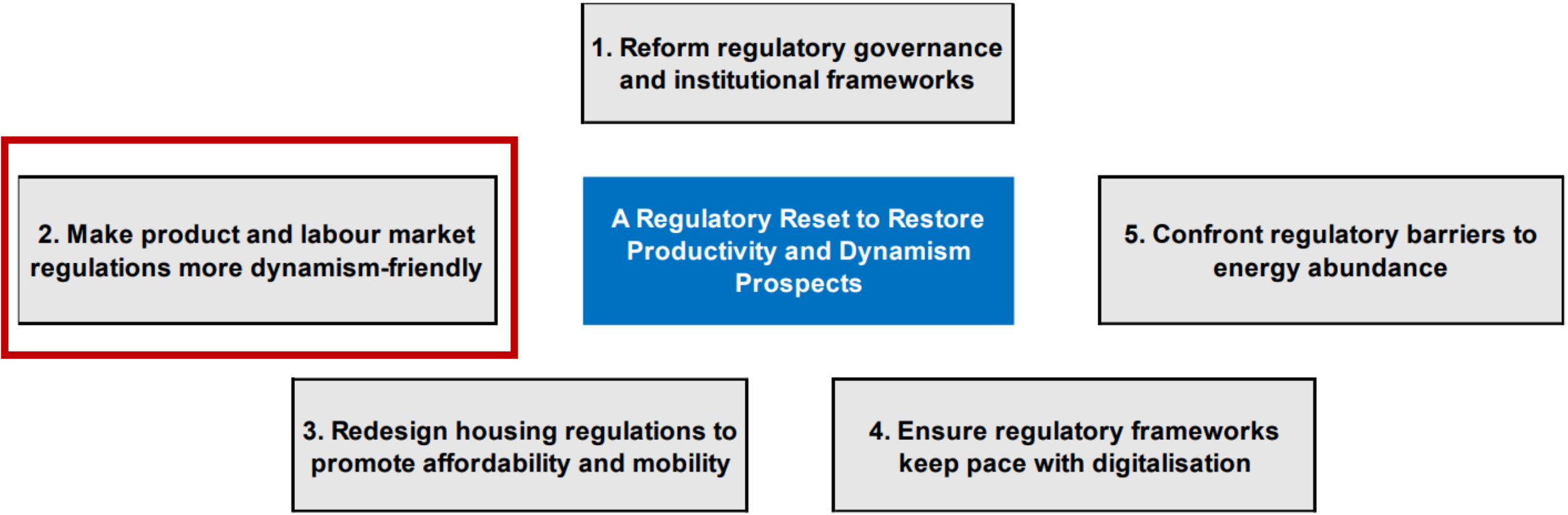

## Figure 1.39. Simplifying regulations is a reform priority in many economies

Policy recommendations for regulatory reforms, number of countries




Note: Policy recommendations are taken from the Economic Outlook 118 country notes (see details in the Chapter 3 "Developments in individual OECD and selected non-member economies") for 55 countries and the euro area. The figure shows the number of countries with policy recommendations for regulatory reforms in each given category.
Source: OECD Economic Outlook 118 database.

# A five-pronged plan to confront regulatory impediments to economic dynamism



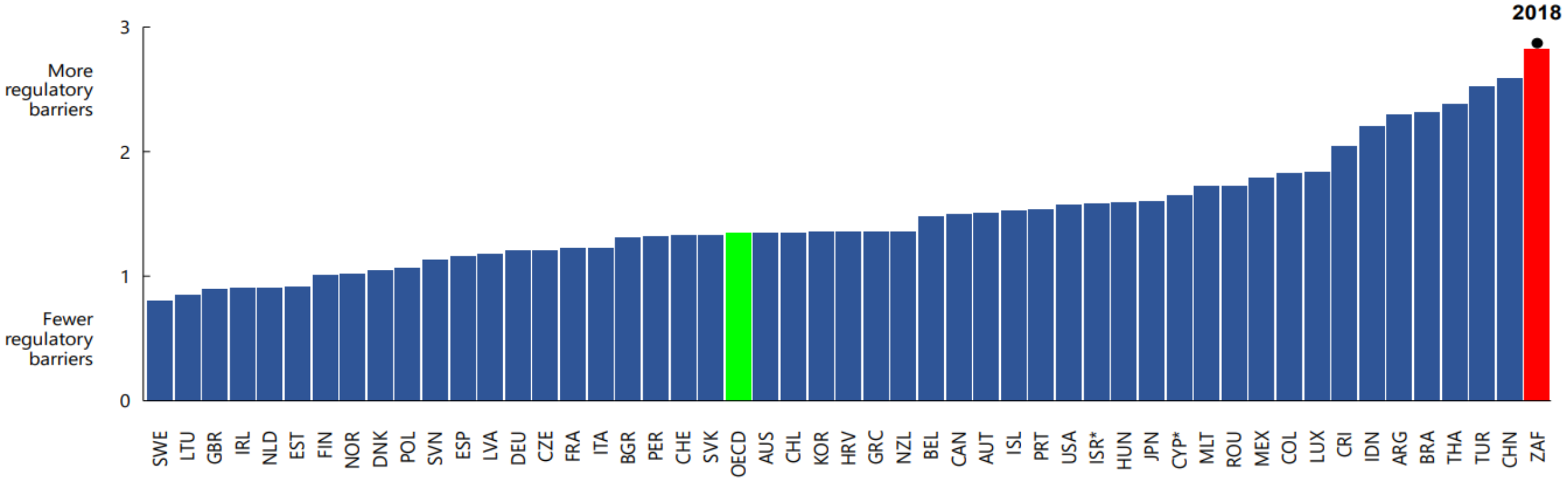

Source: OECD Secretariat

# 3. TIME FOR A REGULATORY RESET

# B: Product Market Regulations in South Africa are anti-competitive

# Anti-competitive product market regulations in South Africa

## Overall economy-wide Product Market Regulation indicator

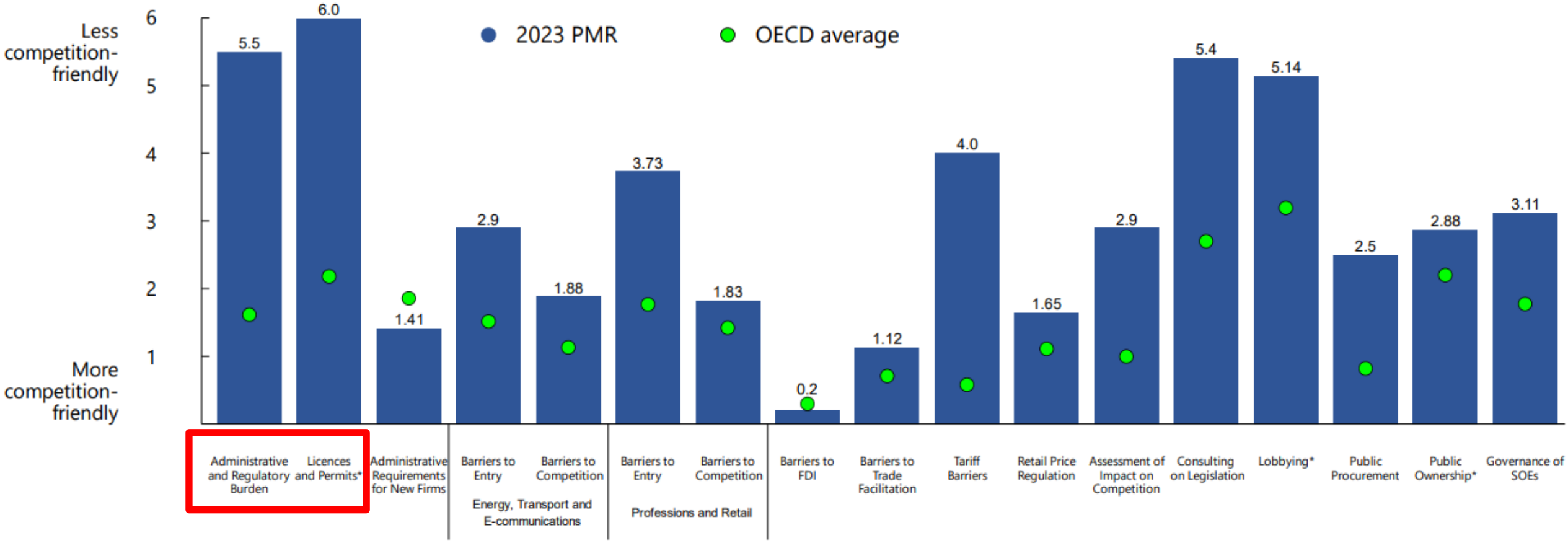



The PMR measures the extent to which the entry and growth of firms is constrained by “unnecessary regulatory barriers” – i.e. where there is no a priori reasons for government interference or where regulatory goals could plausibly be achieved by less coercive means

Source: OECD PMR Database

# Anti-competitive product market regulations in South Africa

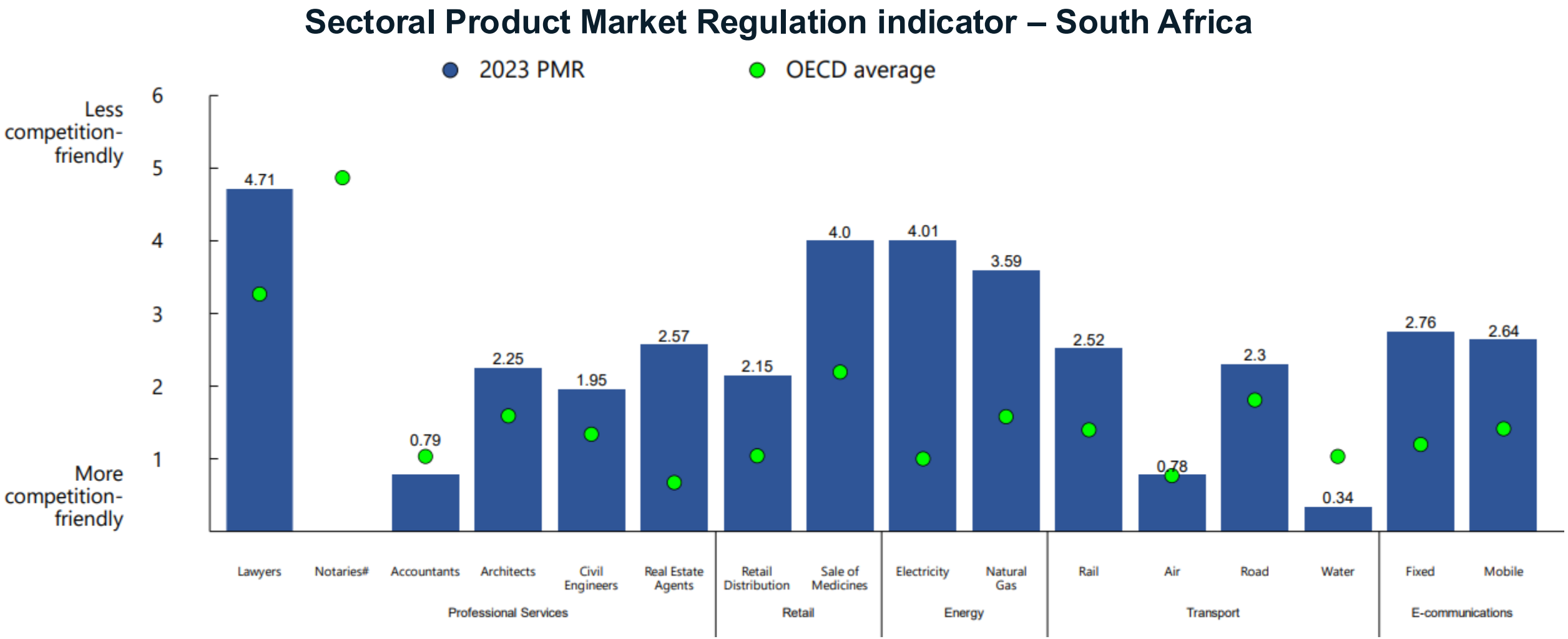
## Product Market Regulation indicator – South Africa




Best practice: updated public register of licensing requirements for firms + silence is consent principle

Source: OECD PMR Database

# Anti-competitive product market regulations in South Africa

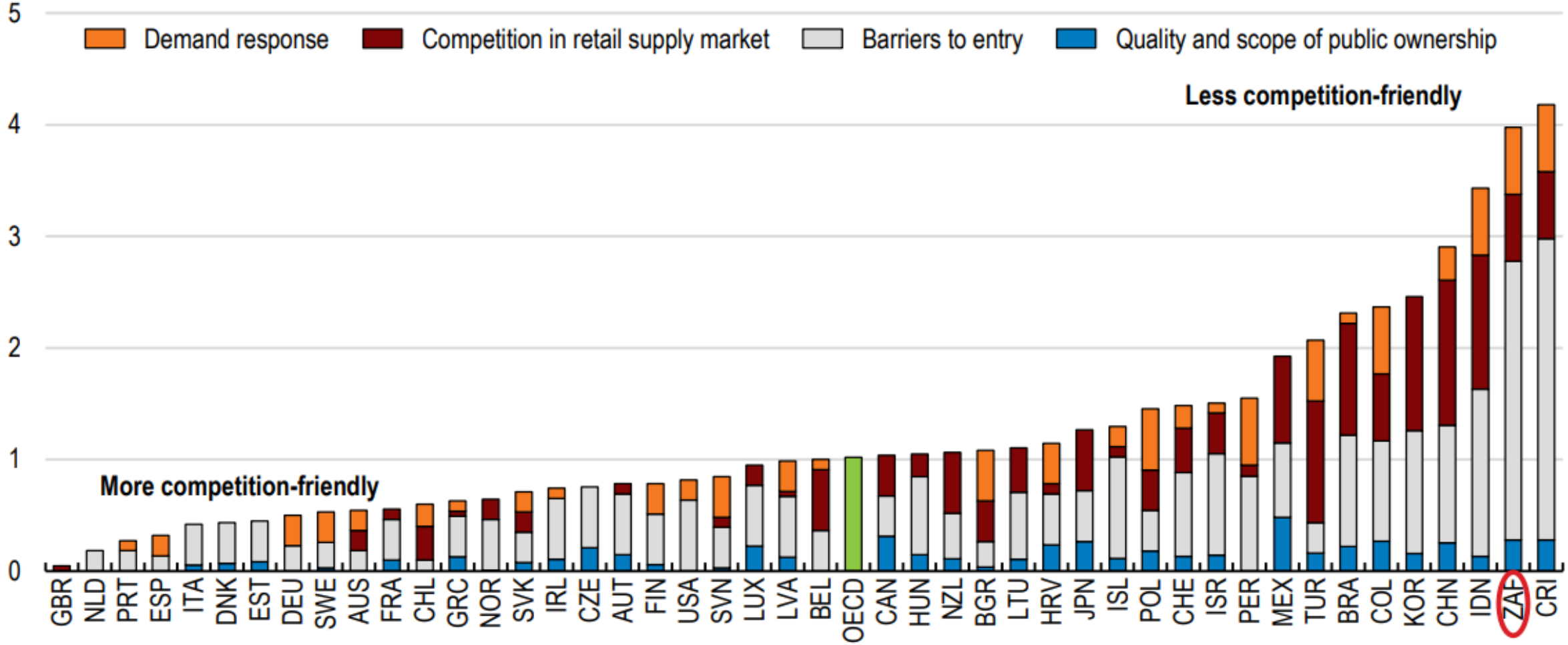



Entry barriers into many professions: occupational licensing and limited mutual recognition

Restrictive regulation in network sectors

OECD

# Barriers to competition in the electricity sector are high




**Best practice: regulatory frameworks that reduce entry barriers in those segments of the supply chain where competition is viable – generation, storage and retail supply – while ensuring non-discriminatory access to transmission and distribution infrastructure (which has natural monopoly characteristics).**

Source: OECD Product Market Regulation database and OECD-WBG Product Market Regulation database for 2023/2024

# 3. TIME FOR A REGULATORY RESET

# C: Product Market Regulations are crucial for growth

# POTENTIAL OUTPUT GROWTH

**Multi-Factor Productivity** | **Investment** | **Employment**

Innovation and diffusion

Allocative efficiency

Expanded capacity

Experimentation with new ideas

Contest for scarce capital & labour

Erosion of market power and rents

Input-output structure

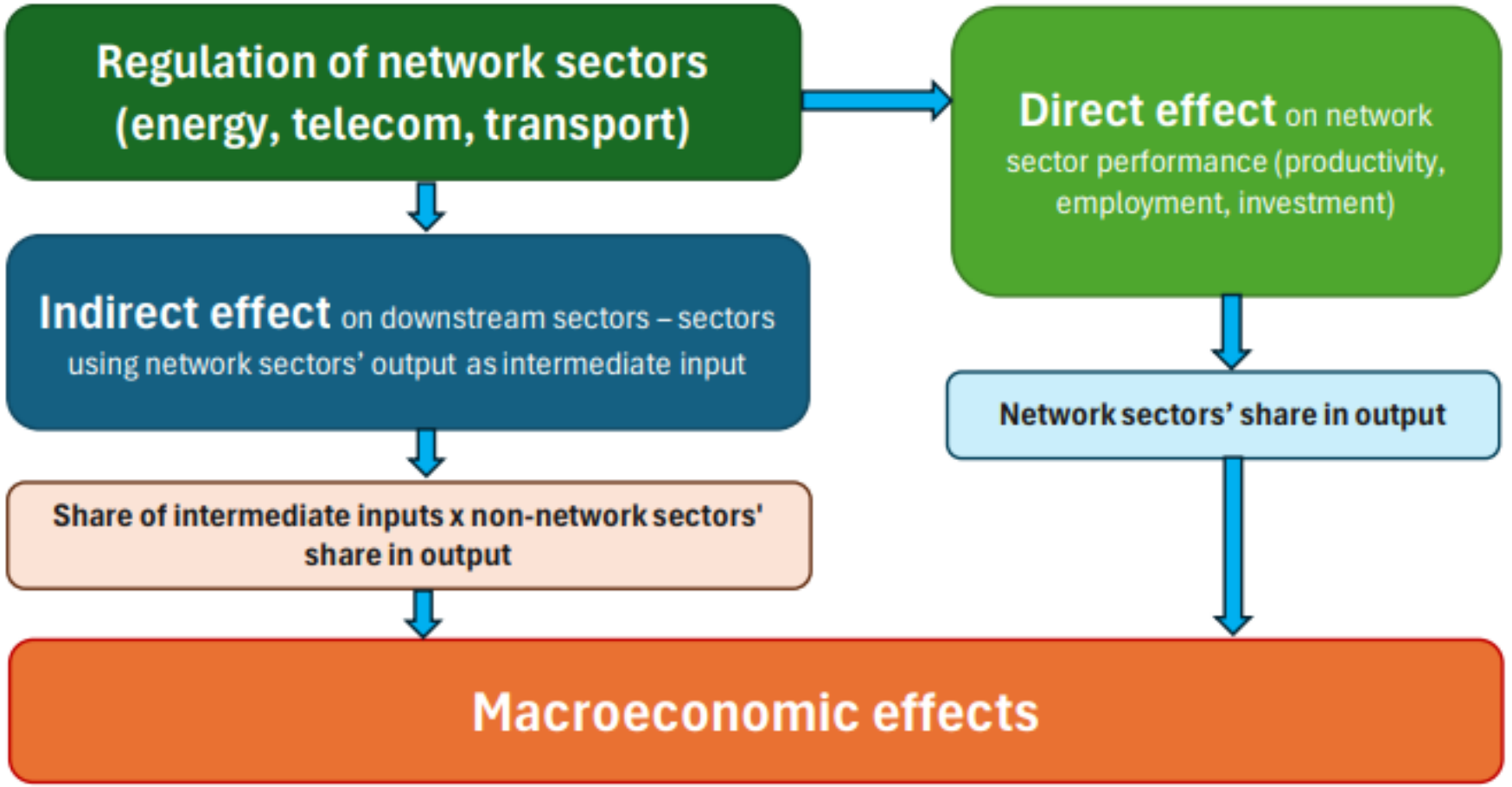
Young firms

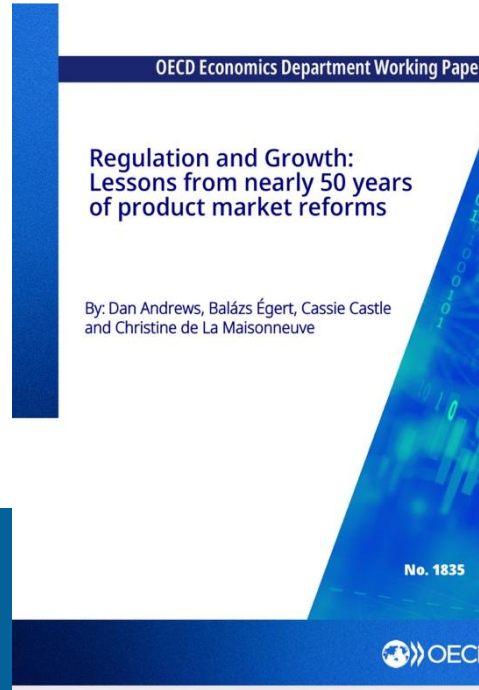
Incumbent firms

Administrative burdens on new firms | Licenses & Permits | Network Regulation | Regulation of Professions & Retail | Lobbying regulation | Governance of SOEs | Barriers to Trade & FDI

## PRO-COMPETITIVE PRODUCT MARKET REGULATIONS

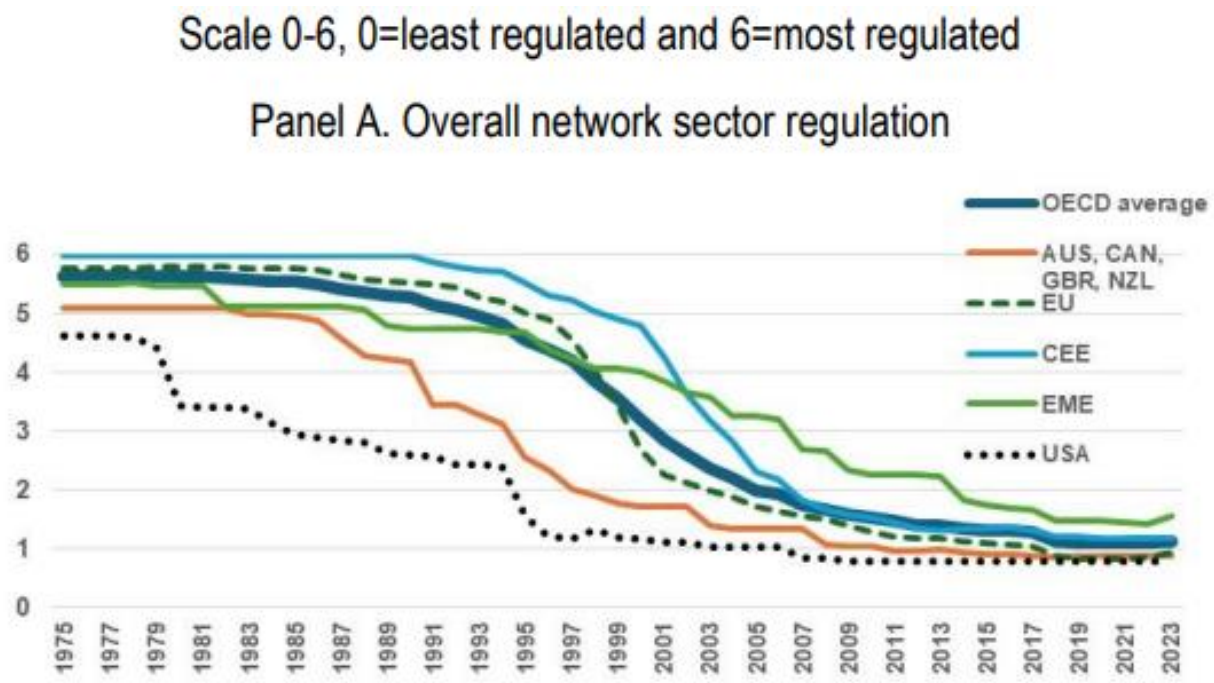
# The macroeconomic effects of upstream sector regulation



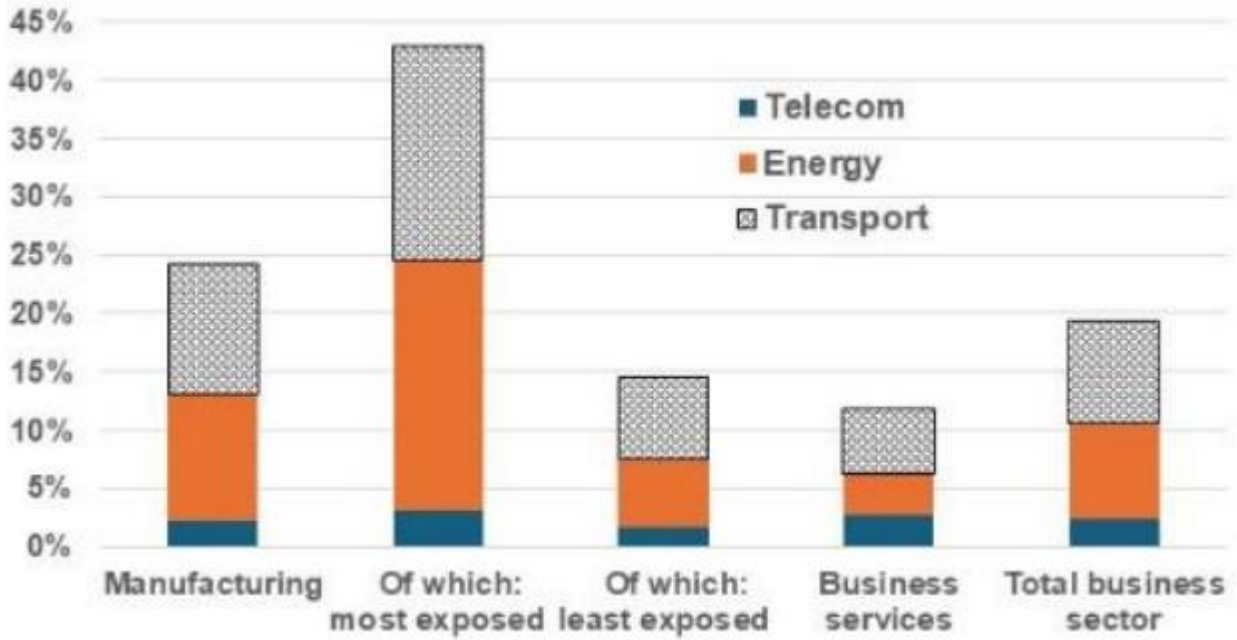



# Anti-competitive network sector regulation has implications for downstream sectors via input-output linkages

## The path of network sector deregulation




## Downstream sectors reliance on network sector for intermediate inputs




Key idea: the impact of upstream regulations on downstream performance should increase with the use of intermediate inputs from regulated upstream industries

Approach: cross-country industry level regressions that controls for unobserved factors that vary at the country-year, industry-year and country-industry levels

Source: Andrews, D. et al. (2025), "Regulation and Growth: Lessons from nearly 50 years of product market reforms", OECD Economics Department Working Papers, No. 1835, OECD Publishing, Paris, https://doi.org/10.1787/3b3285df-en.

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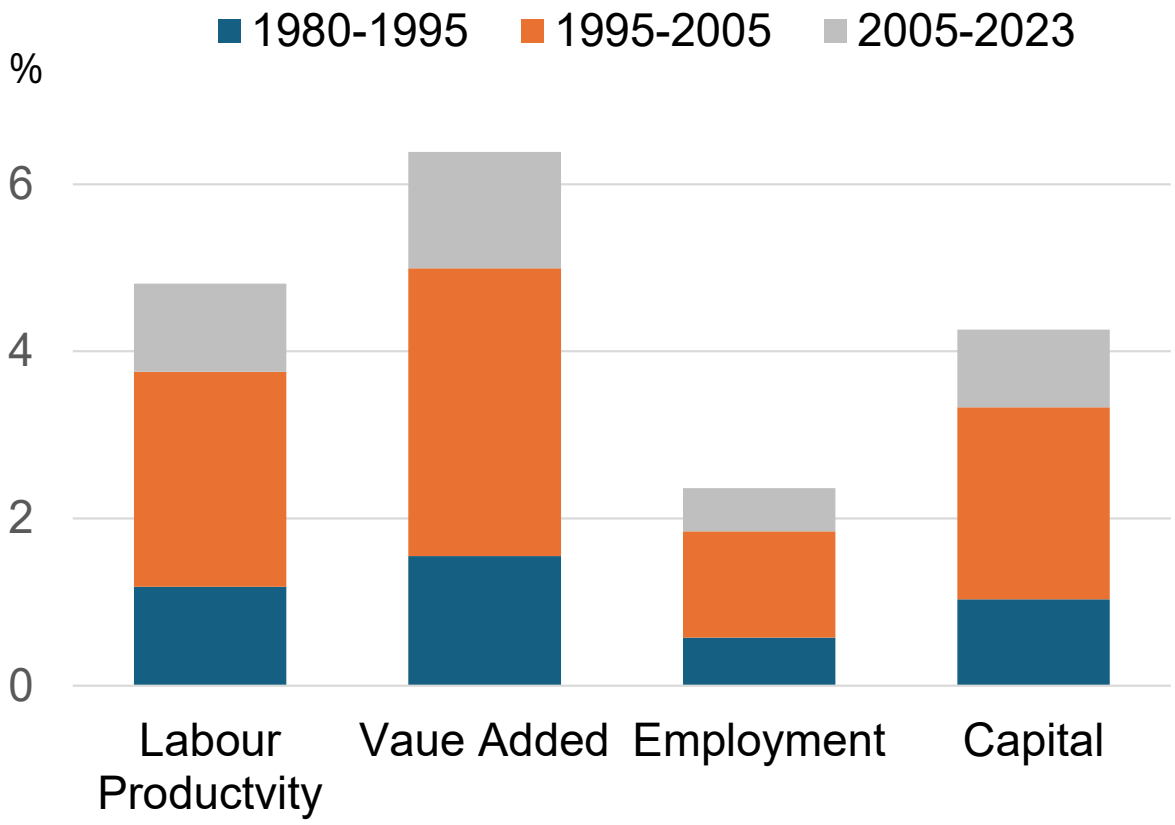
# Network sector deregulation propelled growth downstream, especially from 1995-2005

1. Clear evidence that anti-competitive network regulation curbs downstream growth, especially in manufacturing
2. The impact of network deregulation on aggregate growth was material
   - Deregulation boosted annual labour productivity growth by ~0.25%pts from 1995-2005, and by ~0.05%pts after 2005.
3. Slowing reform after 2005 could account for one-sixth of the labour productivity slowdown
4. There remains scope for network sector deregulation to boost growth

**Aggregate gains from network sector deregulation**

Average across OECD countries; cumulative % change

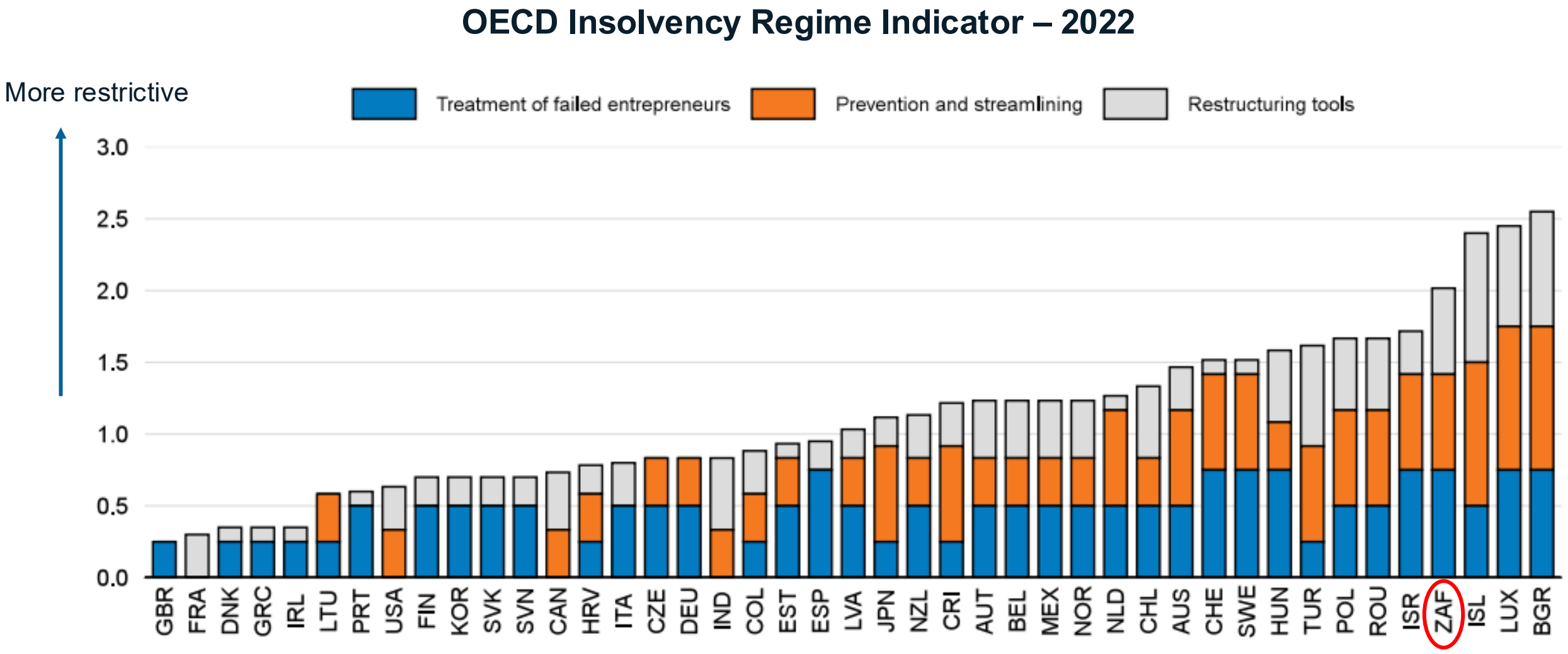



Source: Andrews, D. et al. (2025), "Regulation and Growth: Lessons from nearly 50 years of product market reforms", OECD Economics Department Working Papers, No. 1835, OECD Publishing, Paris, https://doi.org/10.1787/3b3285df-en.

# 3. TIME FOR A REGULATORY RESET

## D: And don’t forget the importance of firm restructuring and exit

# An inadequate insolvency framework hinders restructuring




Source: OECD Insolvency Regime Indicator

OECD

# FINAL THOUGHT

*We never observe the firms that choose not to enter because the deck is stacked against them.*