

ERSA-SARB CONFERENCE

Finding a Path to Growth and Employment in South Africa

5–6 March 2026 | Hazendal Hotel, Stellenbosch

SESSION REPORT

KEYNOTE ADDRESS

Session 3: Reigniting Growth Prospects: The Role of Structural Policy

Keynote Speaker: Dan Andrews, Head of Growth, Competitiveness and Regulation, OECD

Date: Thursday, 5 March 2026

Note: This report synthesises the key arguments, ideas, and exchanges from the session. It reflects the substance of what was presented and discussed, not necessarily the settled views of all participants. Time constraints meant that not all points could be fully debated or responded to.

Key Takeaways

- Potential output per capita growth has halved across the OECD since the late 1990s, driven primarily by a slowdown in labour productivity. This is not a cyclical phenomenon but reflects structural issues — declining business dynamism, weakening knowledge diffusion, and slowing human capital accumulation.
- South Africa has the most stringent product market regulation in the OECD's measurement framework. Barriers to firm entry, restrictive licensing, limited competition in network sectors, and the absence of basic regulatory tools such as a public registry of licensing requirements or a silence-is-consent principle represent significant untapped potential for growth.
- Anti-competitive regulation in network sectors - energy, transport, and telecommunications - has downstream effects across the entire economy. OECD research estimates that network sector deregulation delivered a cumulative 5 percentage point gain to aggregate labour productivity in reforming countries; the subsequent halt of reform can account for roughly one-sixth of the post-2005 productivity slowdown.
- Human capital is a necessary but not sufficient condition for growth. Around 25% of cross-country differences in labour productivity reflect differences in the level of skills, but a further 12% reflect how those skills are allocated - how well workers are matched to firms and roles. Regulatory reform that improves matching and mobility can extract more growth from the existing stock of human capital.
- AI has the potential to significantly boost productivity, but its diffusion will depend on the same structural policy settings - competition, regulation, human capital, energy reliability - that have determined the gains from previous technological revolutions. Countries with more competitive regulatory environments captured disproportionate gains from the 1990s ICT boom.

The Keynote: Structural Policy and the Foundations of Growth

The Productivity Slowdown and Its Structural Roots

The keynote set out the OECD's diagnosis of the growth challenge facing advanced and emerging economies alike. Since the late 1990s, the rate of growth in potential output per capita - the key metric of living standards - has halved across OECD countries. The primary driver is a pronounced slowdown in labour productivity growth, underpinned by weak business investment, declining total factor productivity growth, and slowing human capital accumulation. Employment prospects have actually improved in many OECD countries over the same period, so the problem is squarely about productivity.

Business investment has fallen significantly short of what pre-crisis trends would have predicted. About a third of the shortfall can be attributed to weaker aggregate demand, but the remainder points to structural impediments - competition, regulation, and the business environment. South Africa was included in the cross-country comparison and shows a similar deviation from its early-2000s investment trajectory.

The microeconomic evidence is central to the diagnosis. Within narrowly defined sectors - even a product as homogeneous as ready-mixed concrete - firm-level productivity differences are enormous, with the firm at the 90th percentile often twice as productive as the firm at the 10th. This heterogeneity has profound implications for growth policy: aggregate productivity growth is the weighted average of every firm's productivity, so redirecting resources from less productive to more productive firms can generate substantial gains even without any firm improving individually.

The Decline of Dynamism

One of the most troubling features of the productivity slowdown is the decline in economic dynamism. Across OECD countries, firm entry rates have fallen by about 2 percentage points since the mid-2000s - significant given average entry rates of around 10%. The share of employment in young firms (under six years old) has fallen by 6 percentage points, meaning that not only is it harder to enter, but conditional on entering, it is harder for young firms to attract resources and grow. Labour market dynamism - job reallocation, job-to-job mobility - has also declined.

This matters because new and young firms are the primary agents of innovation and the vehicles through which new technologies enter the economy. They drive the process of creative destruction that forces incumbents to improve. And labour mobility between firms is a key channel for knowledge diffusion - when workers move, they carry ideas, practices, and organisational routines with them. The decline of dynamism is therefore simultaneously a decline in innovation, diffusion, and resource reallocation.

Underpinning this is a marked divergence between the globally most productive firms and everyone else. Research presented showed that the top 5% of firms in each sector have continued to advance their productivity, but the gap between them and the rest has widened dramatically since the early 2000s. The problem is not that innovation has stopped at the frontier; it is that frontier knowledge is not diffusing to the rest of the economy.

Human Capital: Necessary but Not Sufficient

The keynote treated human capital as a foundational driver of growth but explicitly cautioned against viewing it as a panacea. Cross-country evidence shows that differences in the level of adult skills explain about 25% of differences in labour productivity - a significant share, but far from everything. A further 12% is explained by the allocation of skills: how well workers are matched to firms and roles. About 12% of workers across OECD countries are skills-mismatched, and there are large cross-country differences in how effectively human talent is allocated to young, high-growth firms versus established incumbents.

The practical implication is that increasing the stock of human capital takes decades - it depends on decisions made for children in school today. But better regulation and policies that support mobility and dynamism can extract more growth from the existing stock of

human capital in the near term. This framing of policy complementarity - human capital as the foundation, but regulatory reform as the mechanism that unlocks its productive use - was a recurring theme.

Product Market Regulation: South Africa as an Outlier

The core of the keynote's South Africa-specific message concerned product market regulation. The OECD's Product Market Regulation (PMR) indicator, constructed from over 600 survey questions across multiple domains, places South Africa as the most stringently regulated economy in the OECD measurement framework. South Africa scores worse than the OECD average on every component: administrative and regulatory burdens, licensing and permits, barriers to competition, and regulation in network sectors.

Specific deficiencies were identified. South Africa has no updated public registry of licensing requirements for firms. There is no silence-is-consent principle - the mechanism by which a licence application is deemed approved if the regulator fails to respond within a set period. Professional services face entry barriers well above the OECD average, compounded by very limited mutual recognition of foreign-acquired qualifications. Network sector regulation in energy, transport, and telecommunications is far from best practice, with insufficient competition across the different segments of these supply chains and inadequate non-discriminatory access to transmission and distribution infrastructure.

The economic consequences are substantial. OECD research estimates that network sector deregulation delivered a cumulative 5 percentage point gain to aggregate labour productivity in countries that reformed between 1995 and 2005. In manufacturing, roughly 25% of inputs come from network sectors - rising to 45% for energy-intensive manufacturers - so anti-competitive regulation upstream cascades directly into downstream competitiveness. The halt of regulatory reform after 2005 can account for approximately one-sixth of the subsequent productivity slowdown in OECD countries. South Africa, given the stringency of its current regulation, could expect gains at least as large.

Additional evidence was presented on the economic cost of regulatory compliance. Using a task-based methodology that identifies occupations and roles dedicated to servicing regulatory requirements, OECD work shows that in Europe, the labour resources devoted to regulatory compliance are twice the level of spending on research and development. Econometric analysis at the US state level confirms that increases in regulatory compliance burden are associated with weaker labour productivity and weaker economic dynamism - consistent with regulation imposing fixed costs that disproportionately hurt smaller and younger firms.

Firm Exit and Insolvency

The keynote also drew attention to the exit margin. Barriers to restructuring and exiting are high in South Africa. Insolvency regimes that penalise failed entrepreneurs and make it difficult to restructure failing firms impede the process of creative destruction. The observation was made that the firms that choose not to enter because the environment is hostile are never observed - the cost of deterred entry is invisible but potentially very large.

AI and the Next Productivity Wave

The keynote concluded with the opportunity presented by artificial intelligence. OECD modelling using a task-based approach estimates that AI could deliver up to 1.2 percentage points of additional annual labour productivity growth in advanced economies over the next decade, with smaller but still significant gains for emerging economies including South Africa. But the extent to which countries capture these gains will depend on the same structural policy settings that determined the distribution of gains from the 1990s ICT revolution. Countries with more competitive product market regulation captured disproportionate productivity gains from ICT. Energy reliability is also critical: the energy intensity of AI data centres means that countries with underperforming energy sectors will struggle to diffuse AI at scale.

Audience Discussion

The audience discussion honed in on two issues of particular relevance to South Africa. The first was the distinction between the design of regulation and its implementation. The point was made that South Africa in some cases has reasonably well-designed regulation that is implemented so poorly that firms face multi-year delays for permits - a burden that shows up in attitudes and behaviour regardless of what the statute says. The response distinguished between the de jure policy stance, measured by the PMR indicator, and the de facto compliance burden, captured by the task-based methodology. On both dimensions, South Africa has substantial scope for improvement. The OECD economic survey also identifies problems with how legislation is communicated to stakeholders, including the complexity and clarity of regulatory language.

The second exchange probed a puzzle in the South African data: business churn, when measured using tax administrative data, does not appear to be unusually low by OECD standards. The question was why, if entry and exit rates are broadly in line with comparators, the expected growth and productivity outcomes are not materialising. The response emphasised that entry rates alone are not the binding issue - what matters is who enters, the conditions they encounter post-entry, and the extent to which young firms can attract resources and scale. **Cross-country differences in post-entry growth explain far more of the variation in productivity performance than differences in entry rates.** In South Africa's context, with mass unemployment and a large labour productivity gap relative to leading economies, the issue may be less about the volume of churn and more about the quality of what that churn produces.

A question on the distributional implications of network sector deregulation - specifically whether energy sector liberalisation might raise prices for households - drew a clear response: the evidence strongly supports the opposite conclusion. The threat of new entry alone tends to reduce prices, and there is a substantial body of evidence linking a lack of competition to inequality through rent-seeking by incumbents. The distinction was drawn between inequality arising from innovation, which can be broadly welfare-enhancing, and inequality arising from market power, which reduces both efficiency and inclusion.

Implications for Growth and Employment

The keynote provided the analytical architecture that connected much of what followed at the conference. The OECD's framework - distinguishing between frontier innovation, technology

diffusion, and resource reallocation as the three drivers of aggregate productivity - gave subsequent sessions a common language for discussing why South Africa's growth has stalled. The firm-level evidence on heterogeneity, the decline of dynamism, and the divergence between frontier and laggard firms mapped directly onto the patterns described in later sessions on manufacturing, trade, agriculture, and competition policy.

For South Africa specifically, the keynote's most significant contribution was to frame product market regulation as arguably the single highest-return area for structural reform. South Africa is an extreme outlier on the OECD's PMR measure, and the estimated productivity gains from network sector deregulation alone are substantial. Combined with reforms to licensing, administrative burdens, professional entry barriers, and insolvency regimes, the potential is significant. Critically, regulatory reform of this kind does not involve the growth-equity trade-offs that complicate other policy domains: reducing barriers to entry supports both productivity and inclusion by creating options for new firms, new workers, and new competitors to incumbents.

The concept of policy complementarity is equally important. Human capital investment is necessary but slow-acting; regulatory reform can unlock near-term gains by making better use of the skills that already exist. Neither is sufficient alone, but together they represent a credible path to reigniting growth. The AI opportunity adds urgency: countries that fail to reform their product markets and energy sectors will be unable to diffuse AI at scale, missing a productivity wave that could be at least as consequential as the ICT revolution of the 1990s.