



OECD ECONOMIC SURVEY 2014

Labour market and competition policies

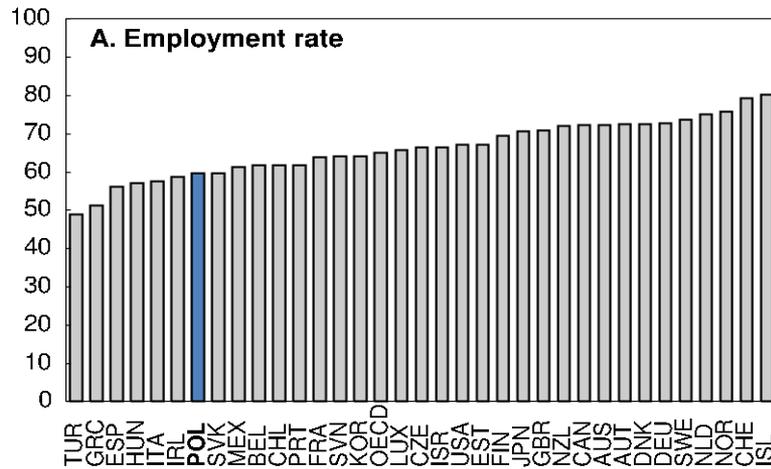
Presentation to CASE/PTE/TEP seminar,
11 March 2014

Peter Jarrett and Antoine Goujard

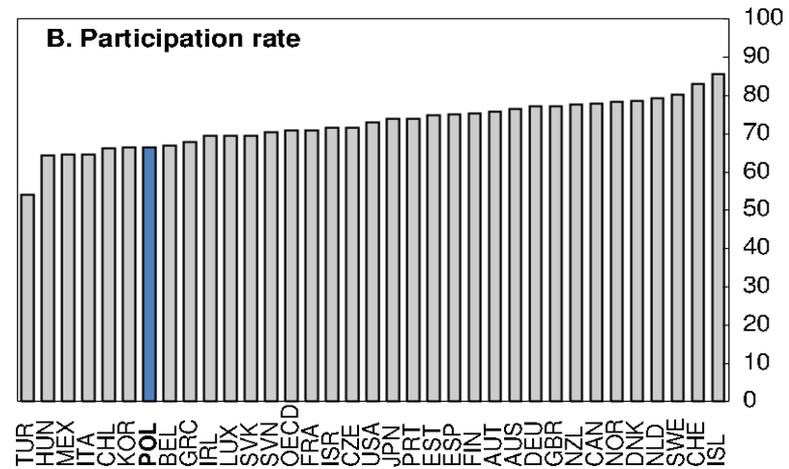


The labour market is functioning poorly

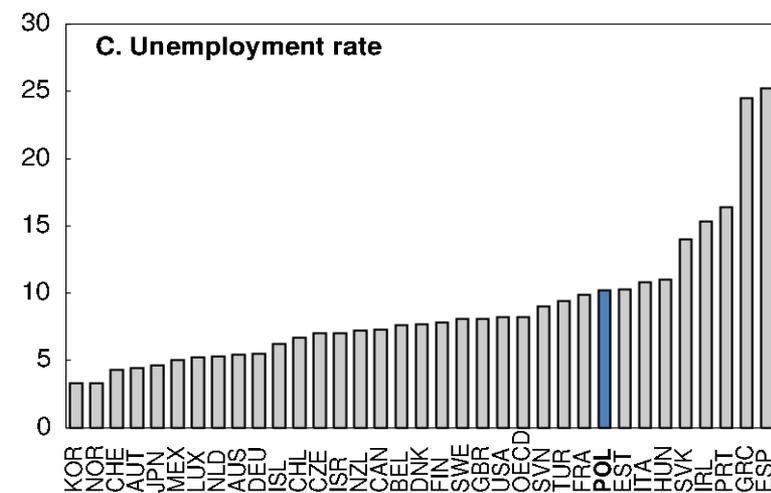
Per cent of the working-age population



Per cent of the working-age population

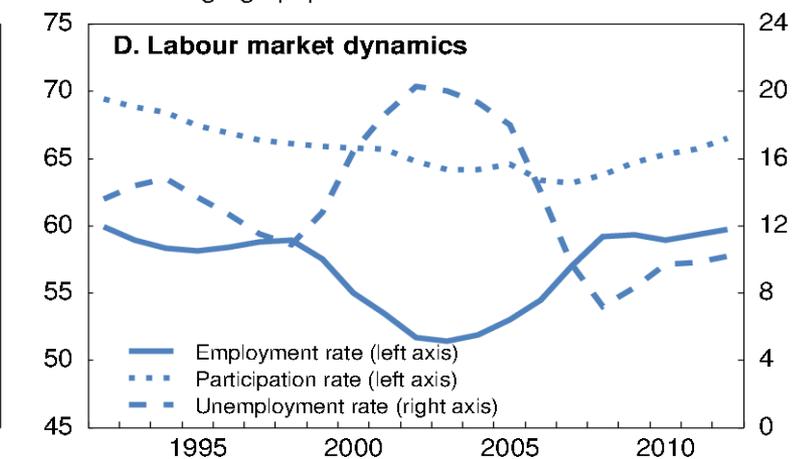


Per cent of the labour force



% of the working-age population

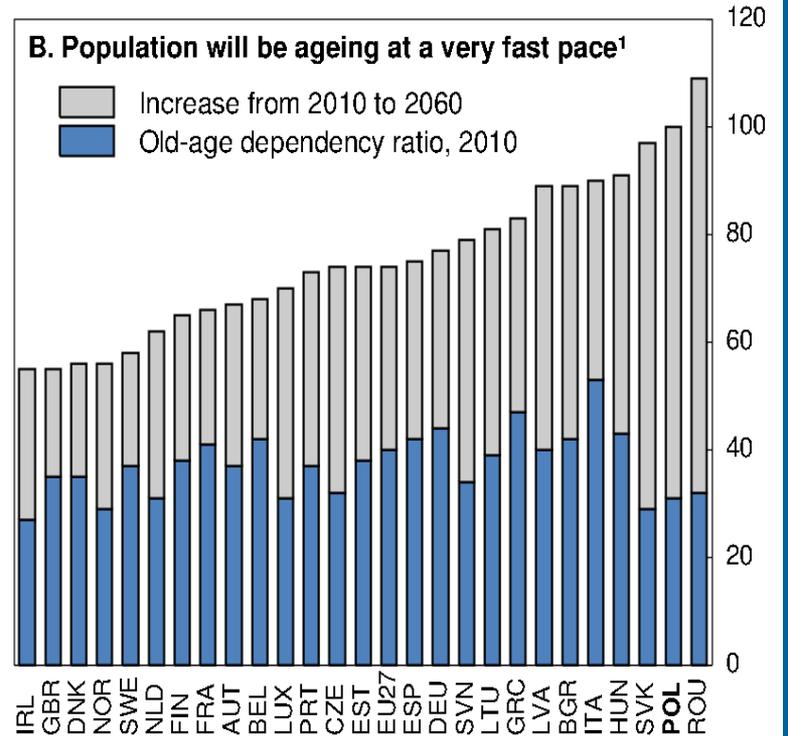
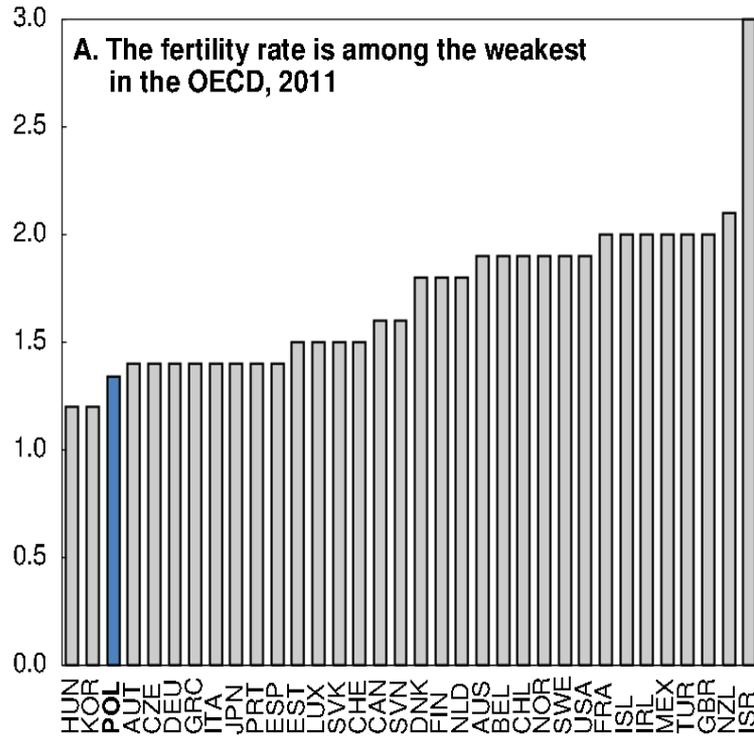
Per cent of the labour force





Demographic prospects are unfavourable

Children per woman aged 15 to 49 years old



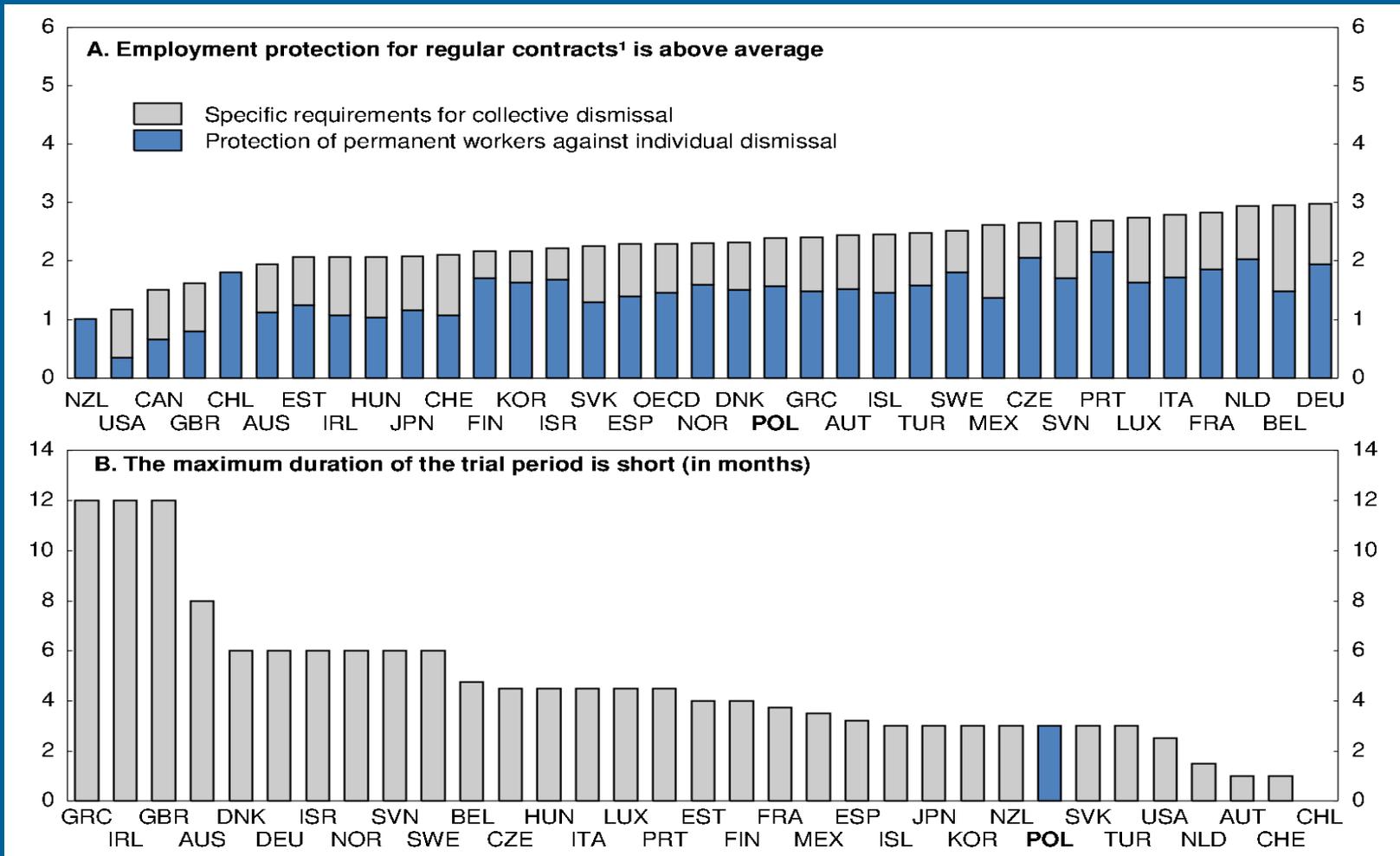


It is not only labour market settings and policies that are at fault

- Competition is weak in many sectors, preventing new entry and the jobs that could go with it
- There are impediments to labour mobility
 - ✓ Poor transport infrastructure limits commuting
 - ✓ A lack of urban private rental housing (though poor housing is a more general concern)
 - ✓ Heavy transactions taxes on house purchases
 - ✓ Poorly designed social insurance
 - KRUS is especially egregious



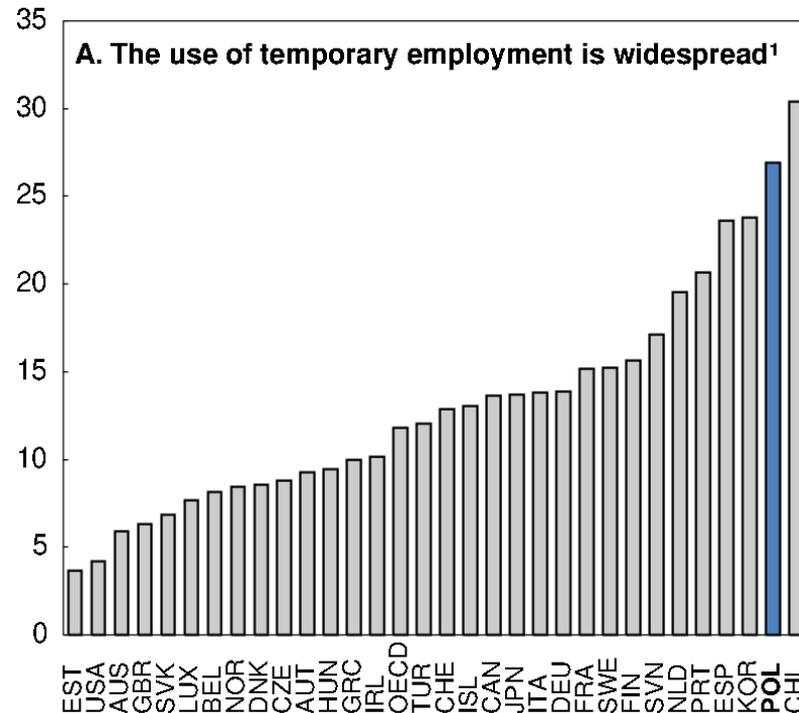
Employment protection is near average



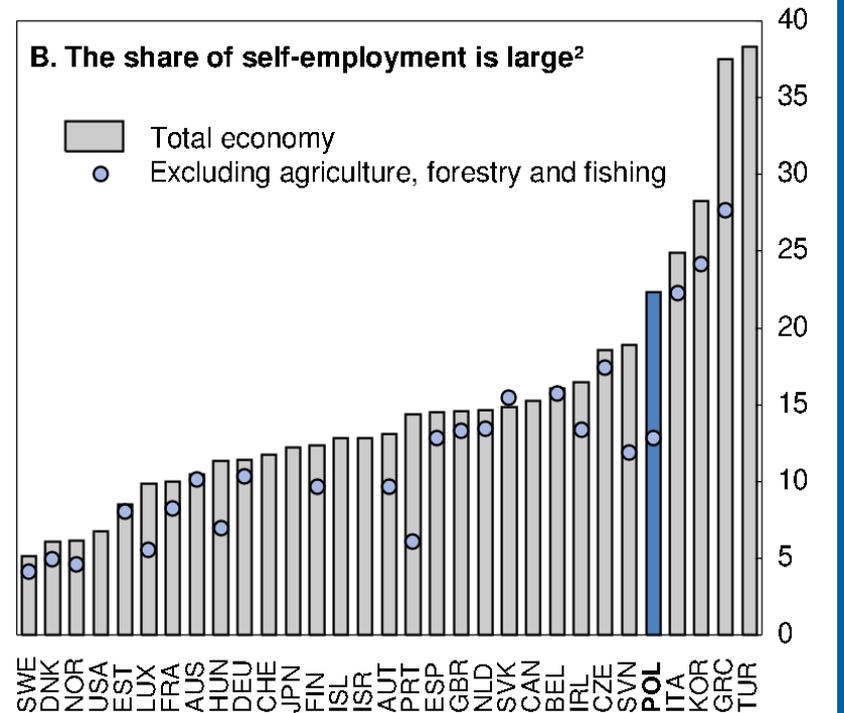


The labour market is heavily segmented

Per cent of total dependent employment, all workers



Per cent of total employment

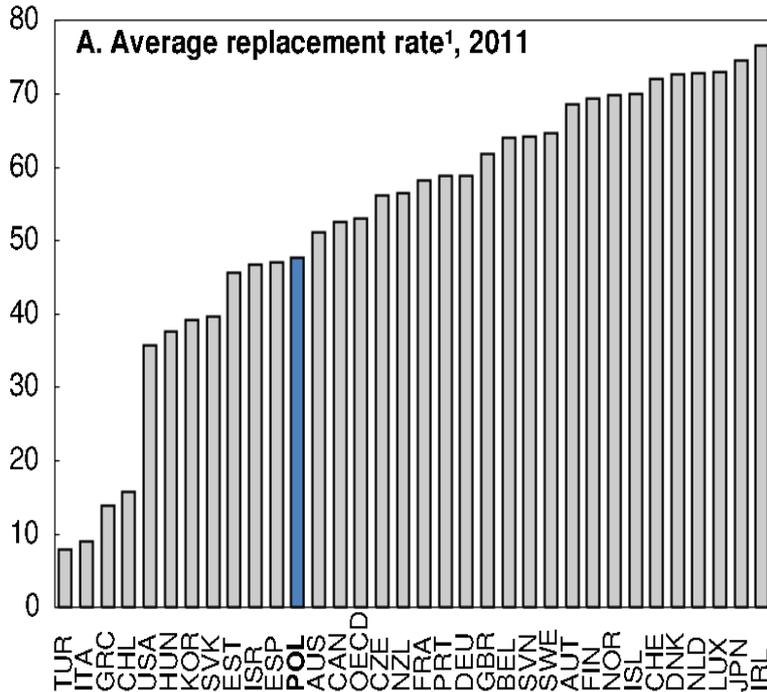




Unemployment benefit is not generous

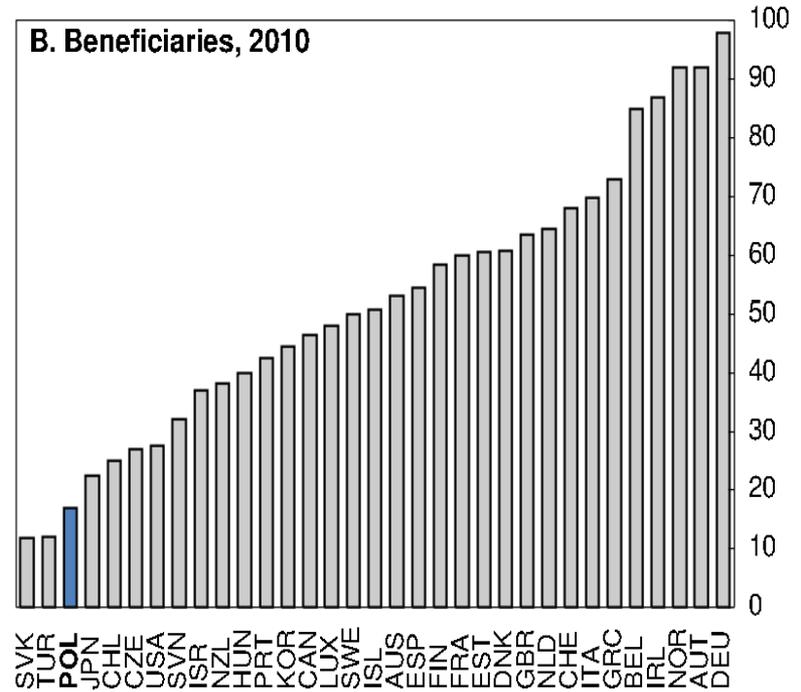
Per cent of earnings

A. Average replacement rate¹, 2011



As a % of the unemployed

B. Beneficiaries, 2010



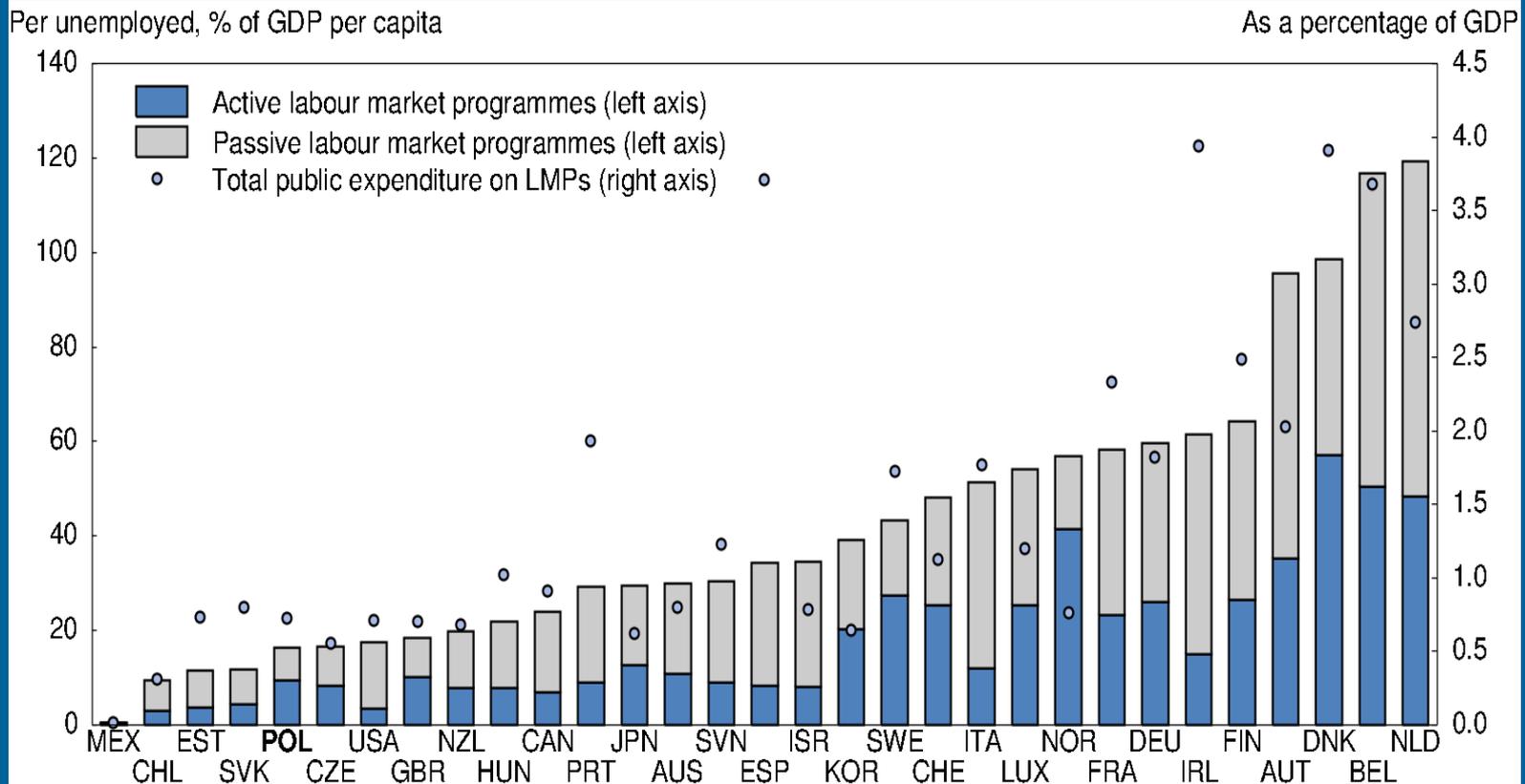


The public employment service functions poorly

- It lacks human resources to do a good job
 - ✓ Each staff member looks after 600 unemployed
- It uses its resources inefficiently
 - ✓ Too many are used for back-office functions
- It lacks good information systems
- It faces serious coordination problems
 - ✓ Local labour offices should be merged with unemployment benefit and welfare offices
- They need to be benchmarked, as the government intends

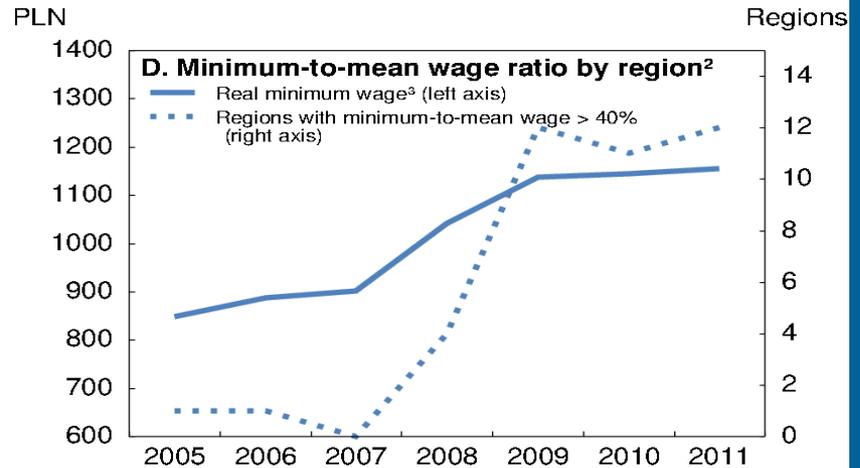
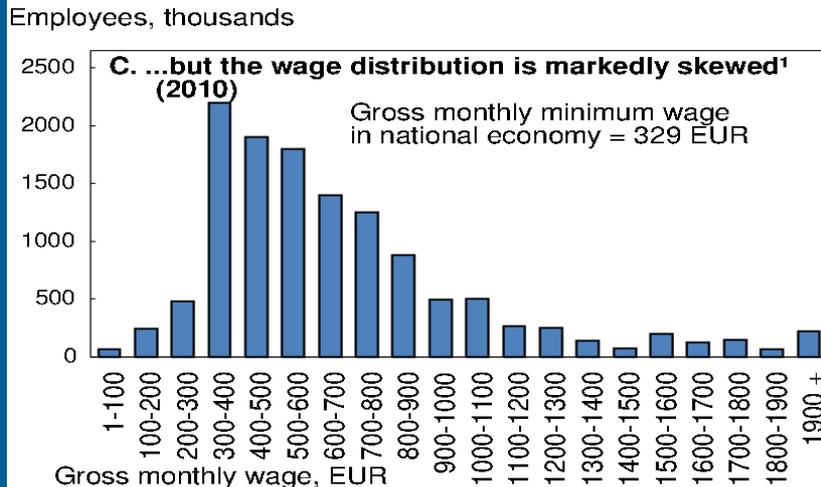
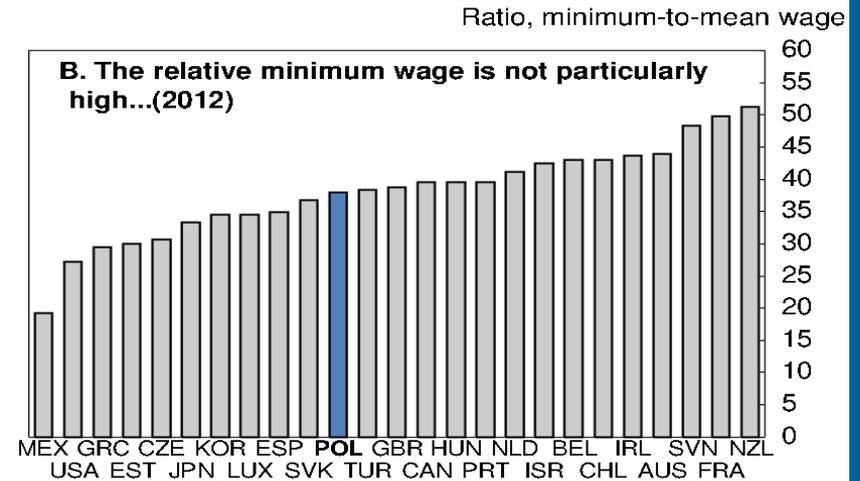
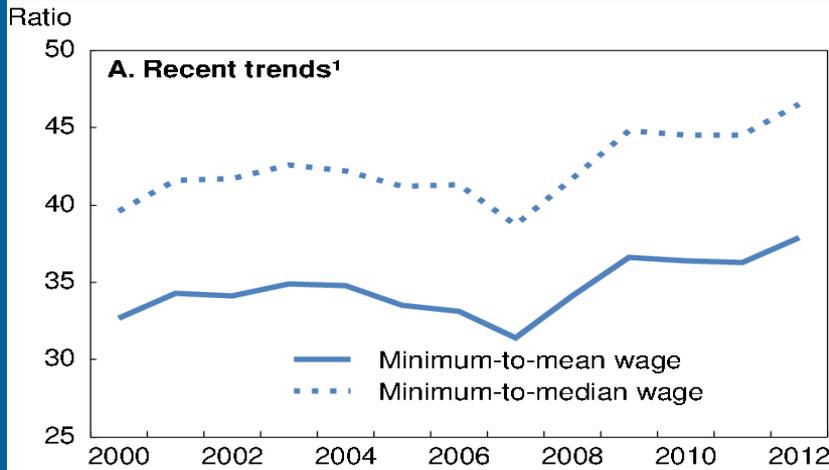


Labour market spending is low



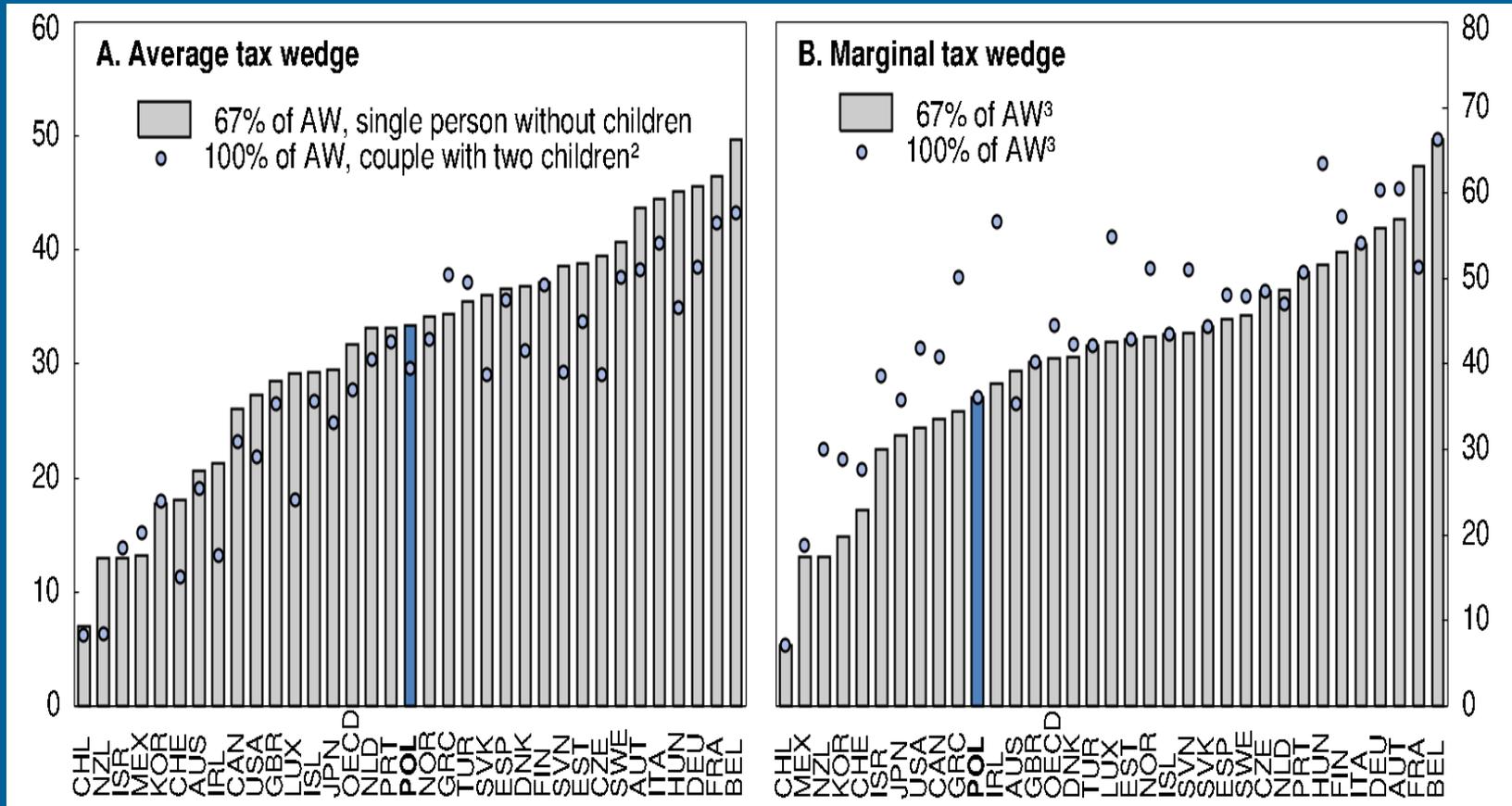


The minimum wage is not a large burden



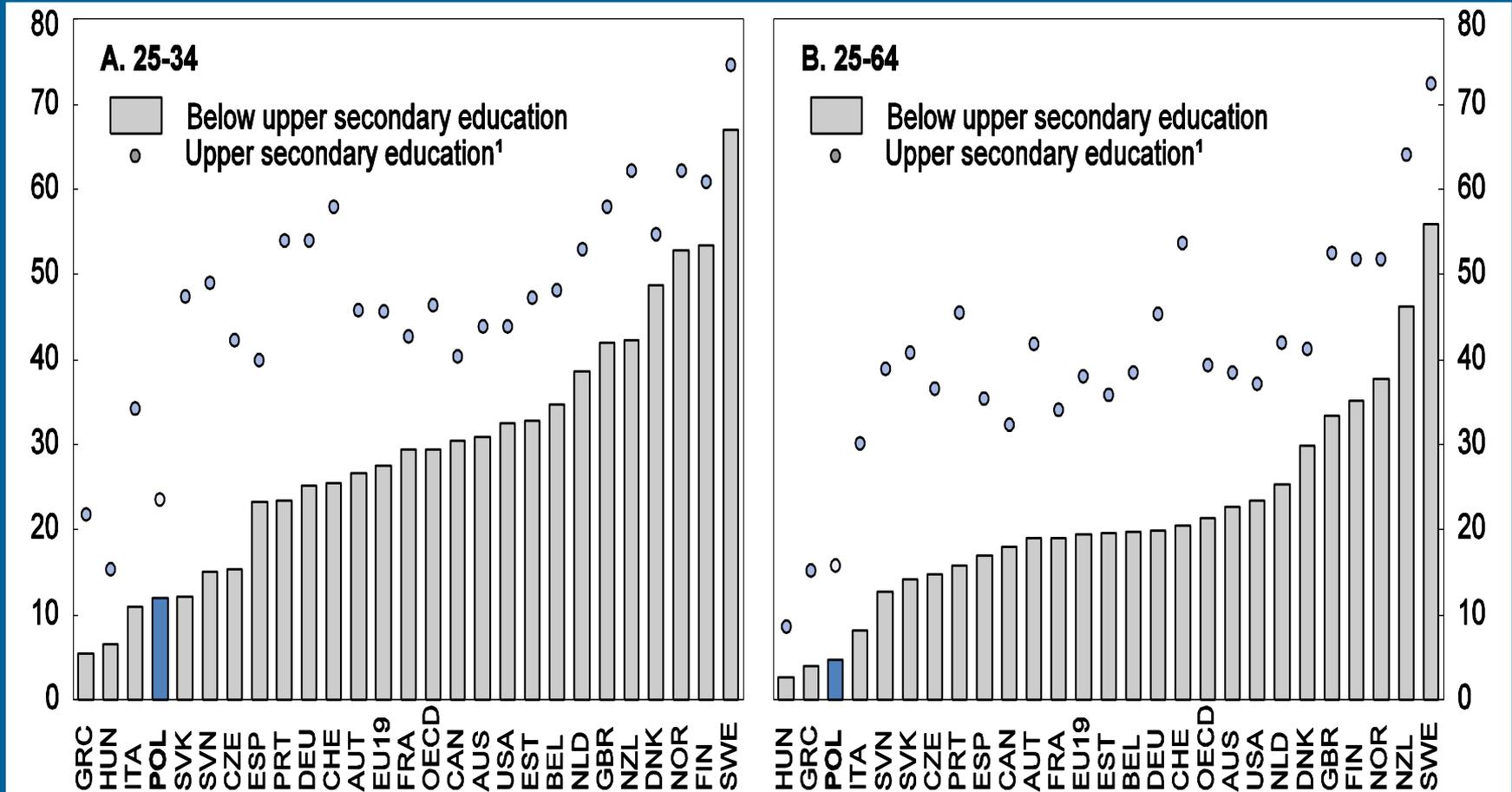


The tax wedge on labour is near average



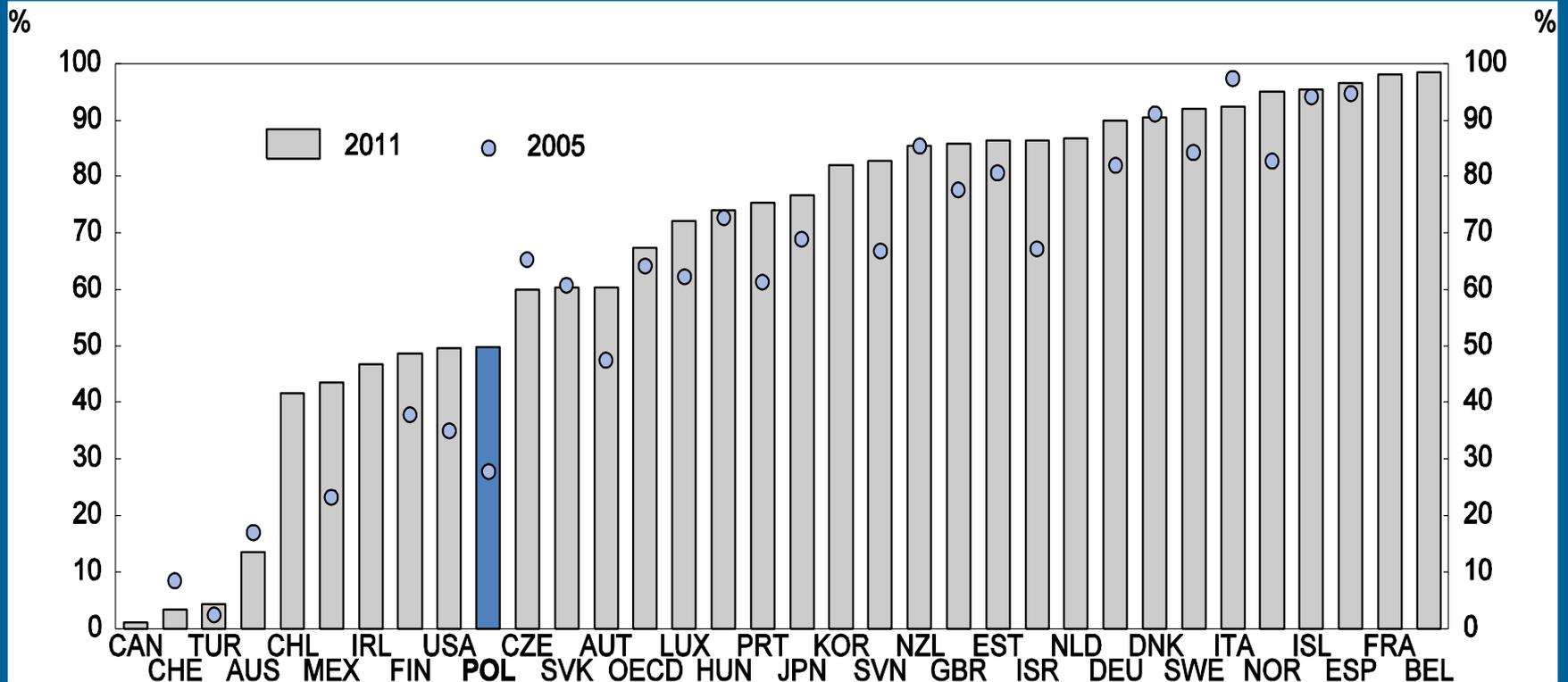


Participation in non-formal education is minimal



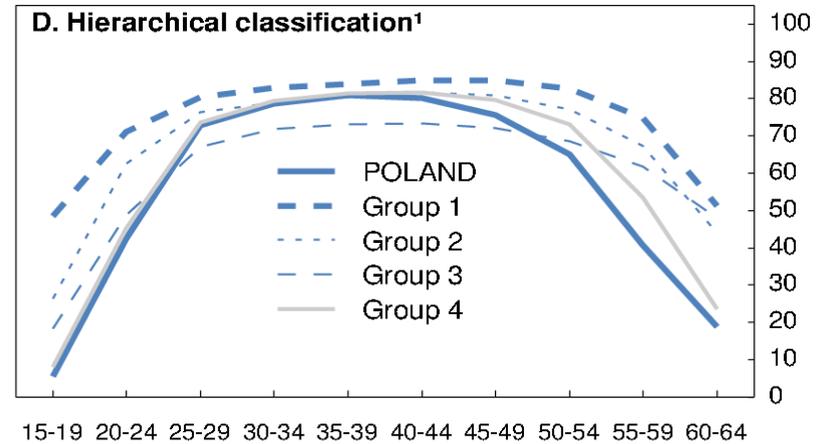
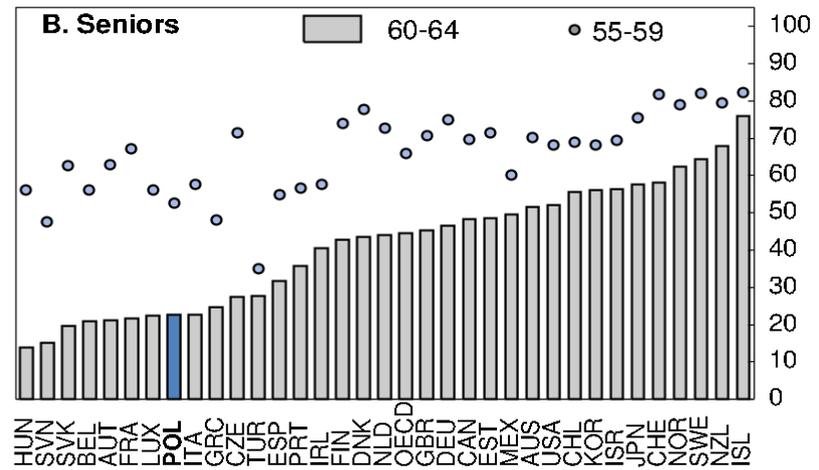
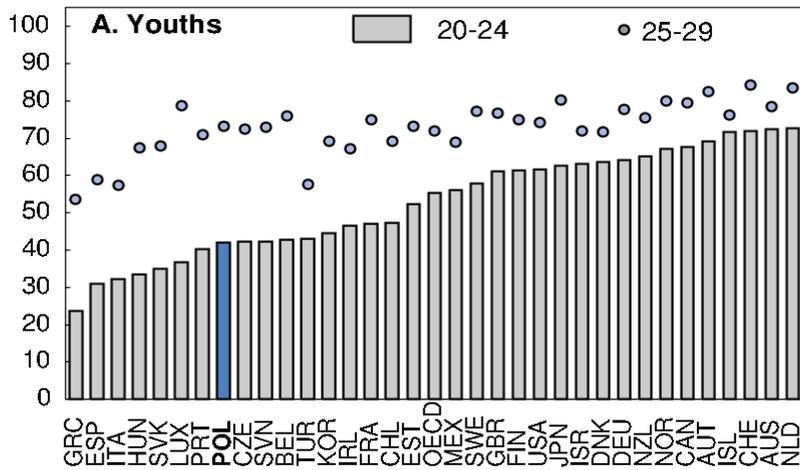


Still low enrolment in pre-primary education





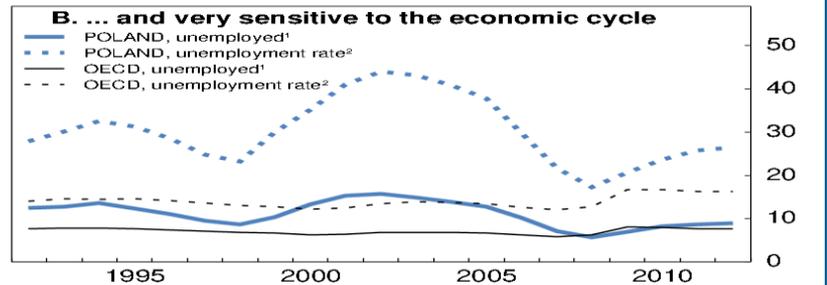
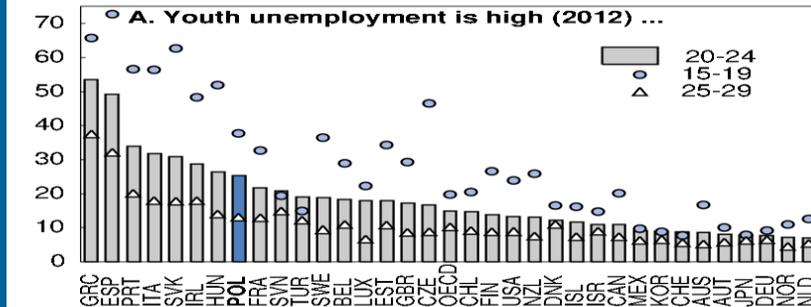
Employment is low at both ends of the age spectrum



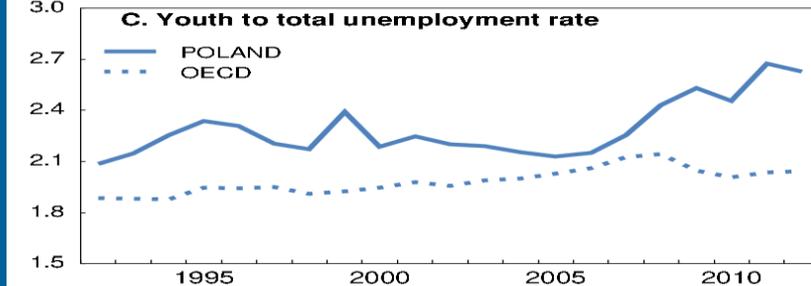


Youth employment is low and unemployment high

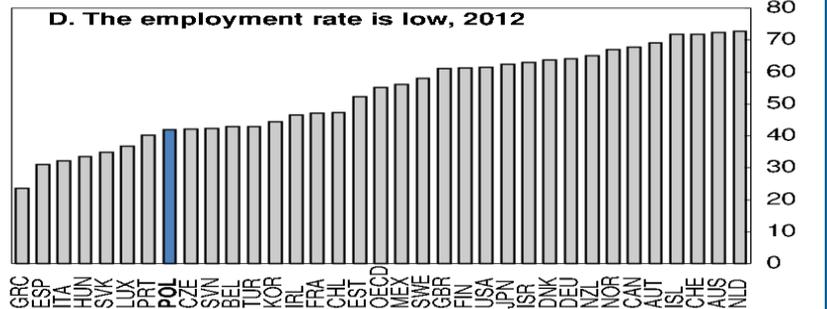
As a percentage of the labour force



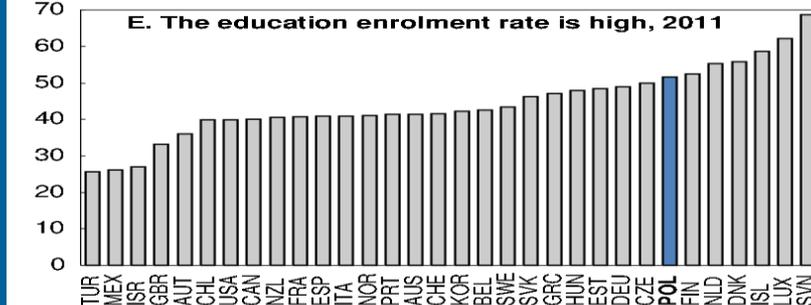
Ratio



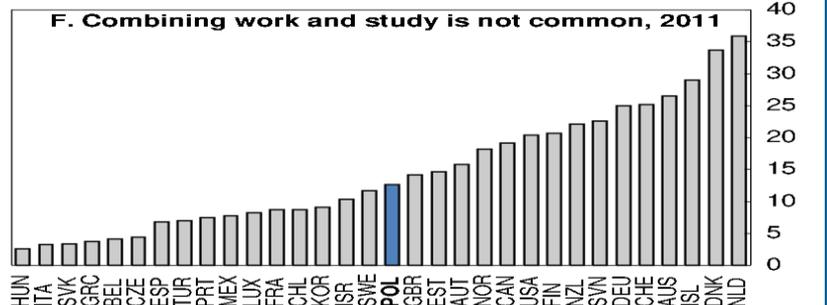
As a percentage of 20 to 24 year-old population



As a percentage of 20 to 24 year-old population

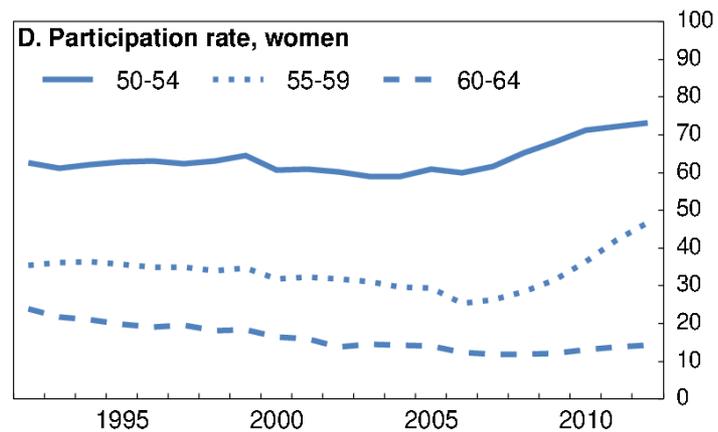
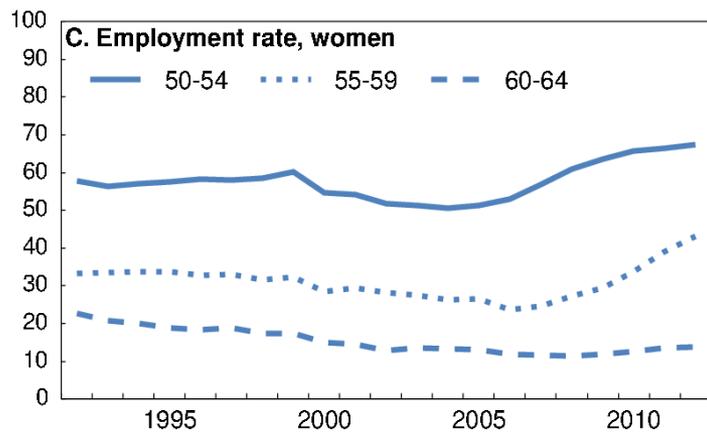
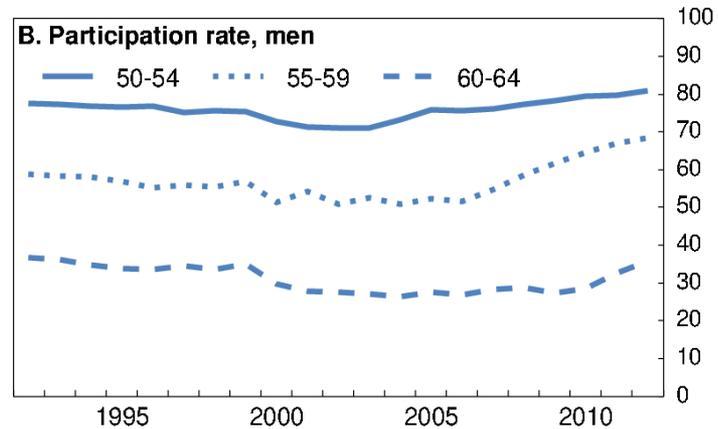
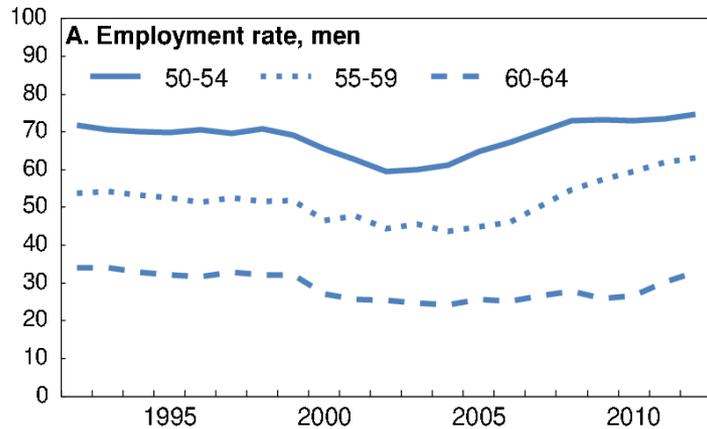


As a percentage of 20 to 24 year-old population



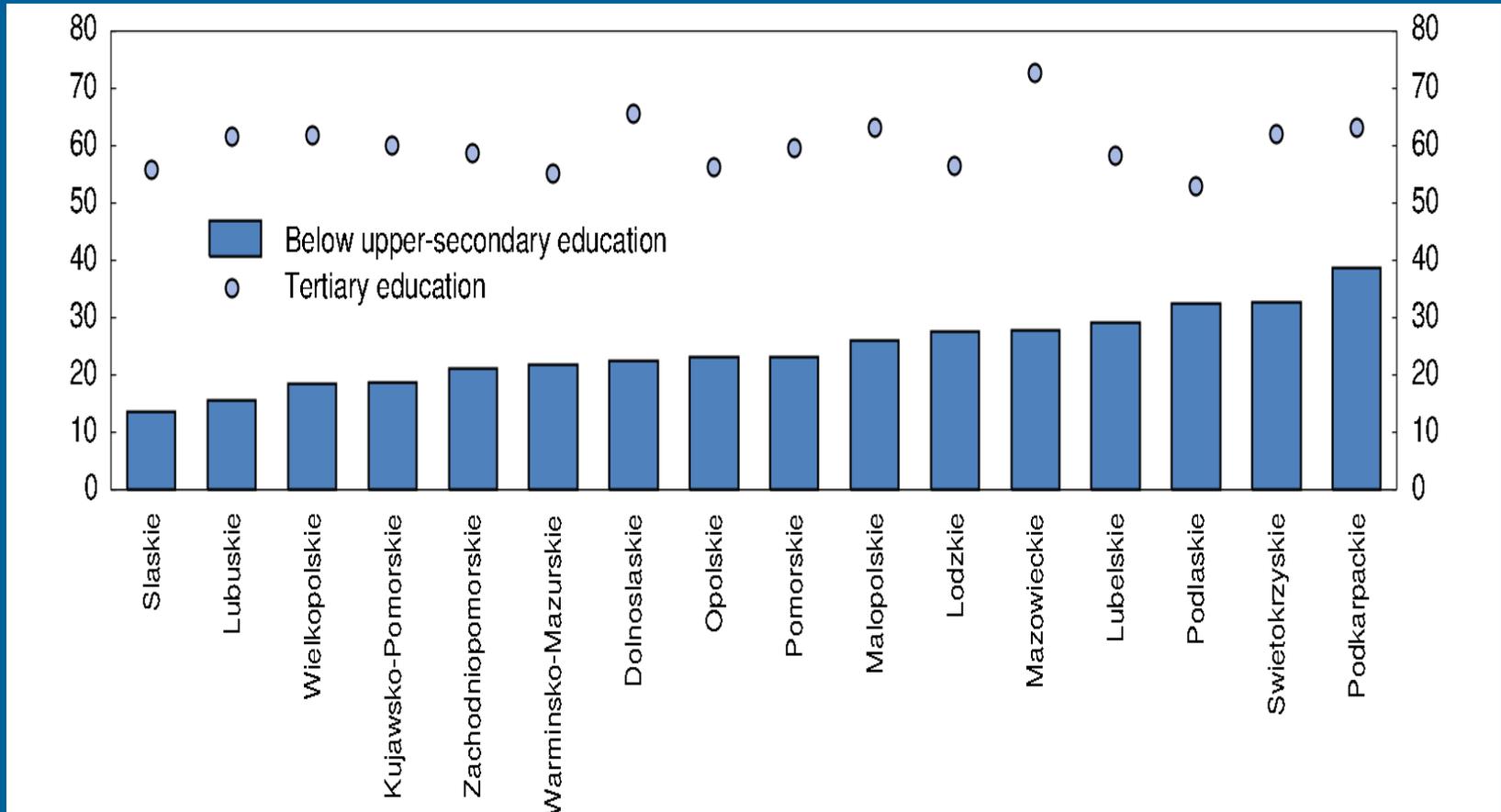


Some progress for older workers





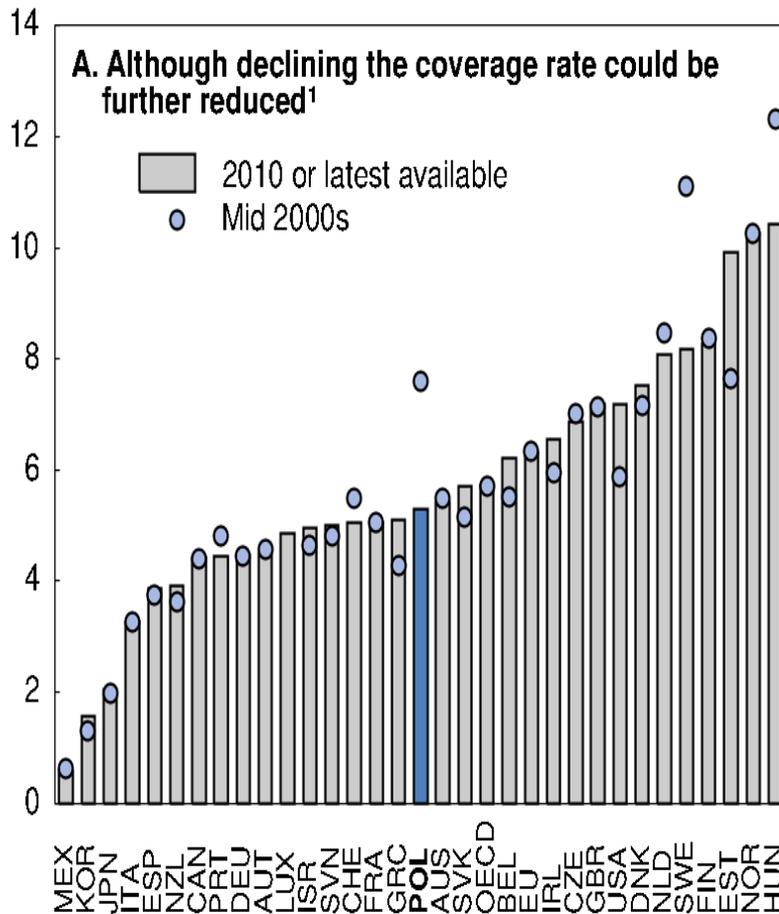
Older workers' part rates are especially low for the less-educated in remote areas



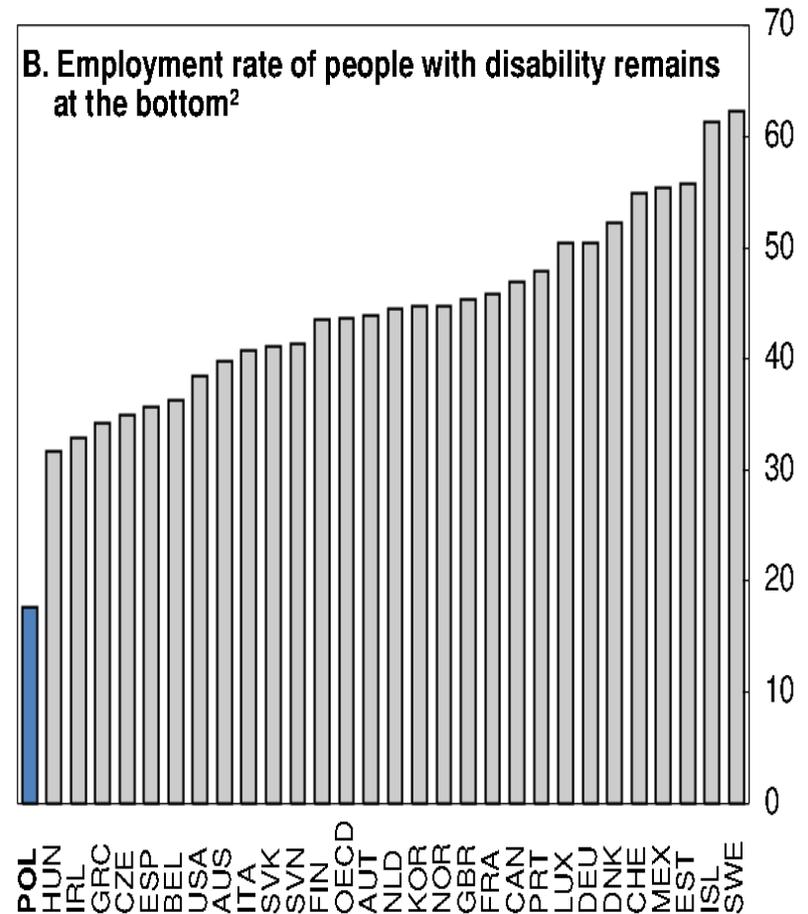


Disabled Poles do not work

As a percentage of the 20-64 population



As a percentage of the 20-64 population





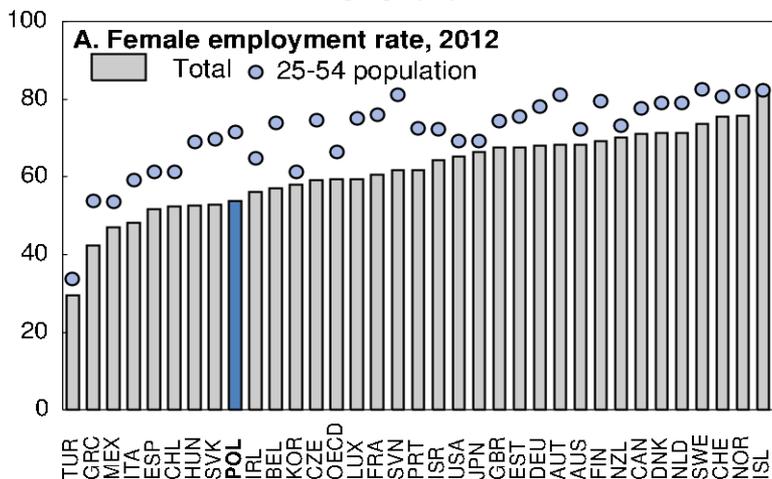
Our advice on older and disabled workers

- Phase out special occupational pensions and eliminate pre-retirement schemes
- Prevent disability pensions becoming attractive relative to old-age pensions
- Reduce the disabled employment quota of 6%, but raise the penalty for failing to reach it
- End the prohibition to lay off less than 4 years before retirement

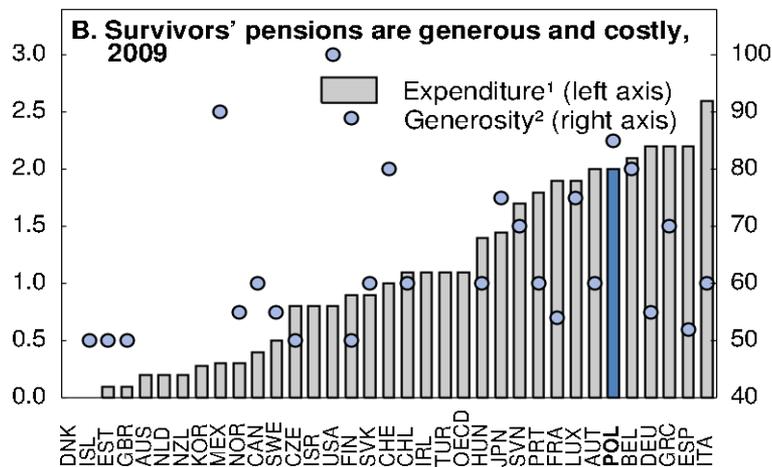


Women face weak work incentives

Per cent of the female working-age population

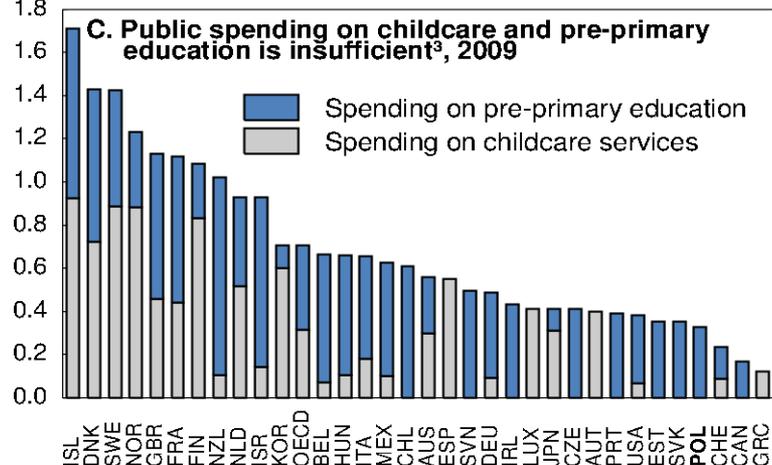


Per cent of GDP

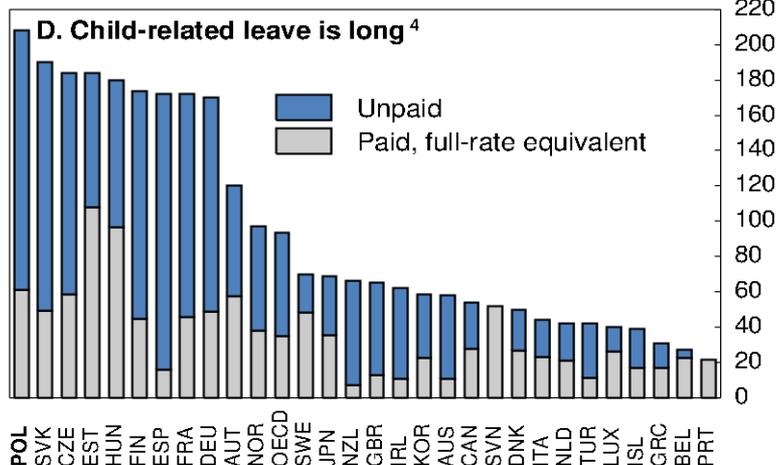


Per cent of primary pension

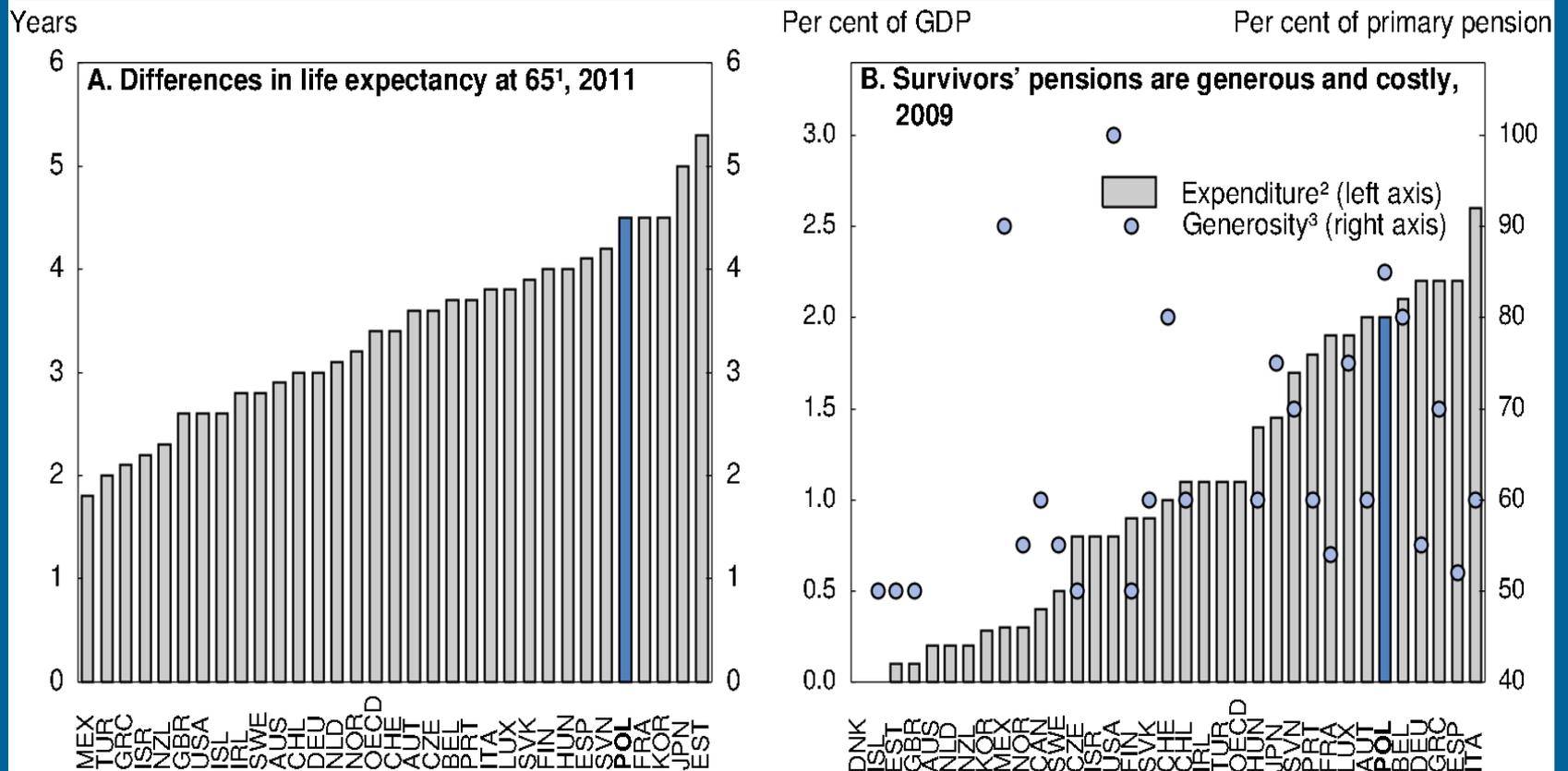
Per cent of GDP



Child-related leave in weeks



The pension system is generous for women





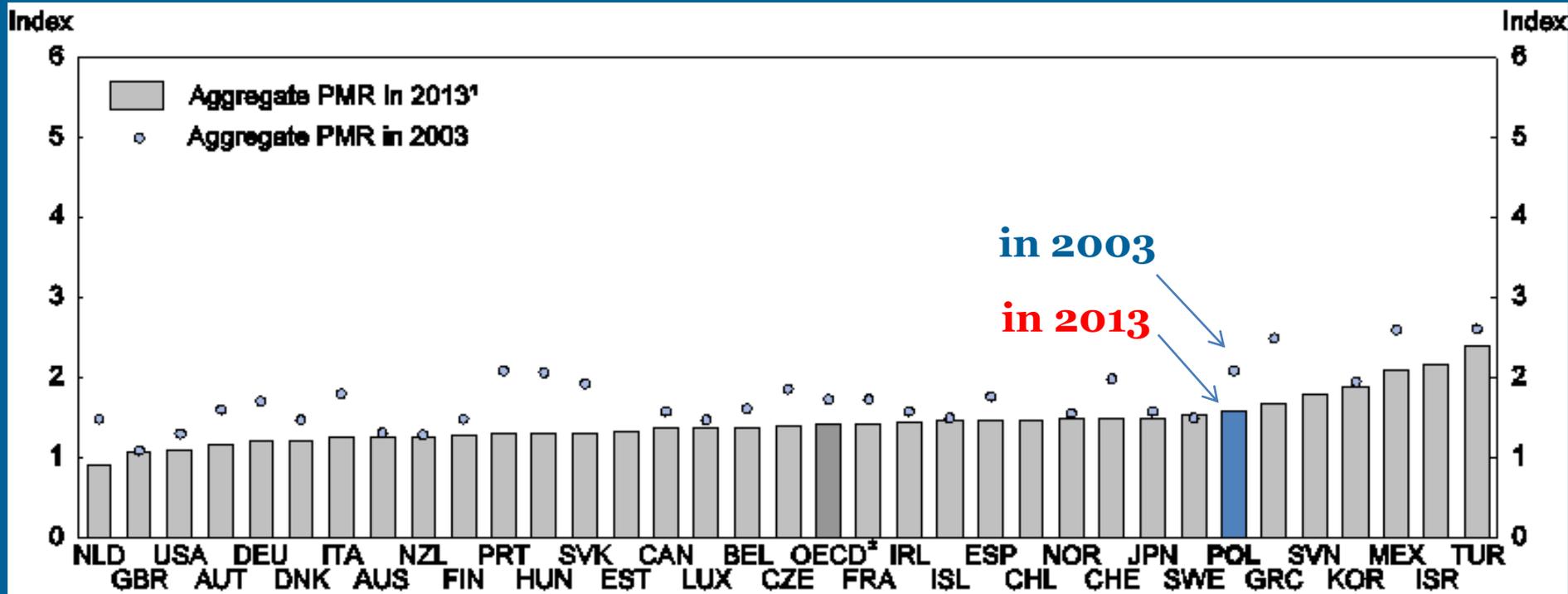
Competition would boost long-term growth

- Important improvements over recent years:
 - Substantial reduction of regulatory burden; and
 - Strong labour productivity growth and overall economic performance.
- But significant challenges ahead:
 - Regulatory burden remains significant; and
 - Competitive pressures still appear low.



Further reducing the regulatory burden

Product Market Regulations (PMRs) in OECD countries, 2003 and 2013



Source: OECD (2014), preliminary Product Market Regulation database.

Restrictive PMRs prevent competitive pressures and hinder activity and resource allocation.

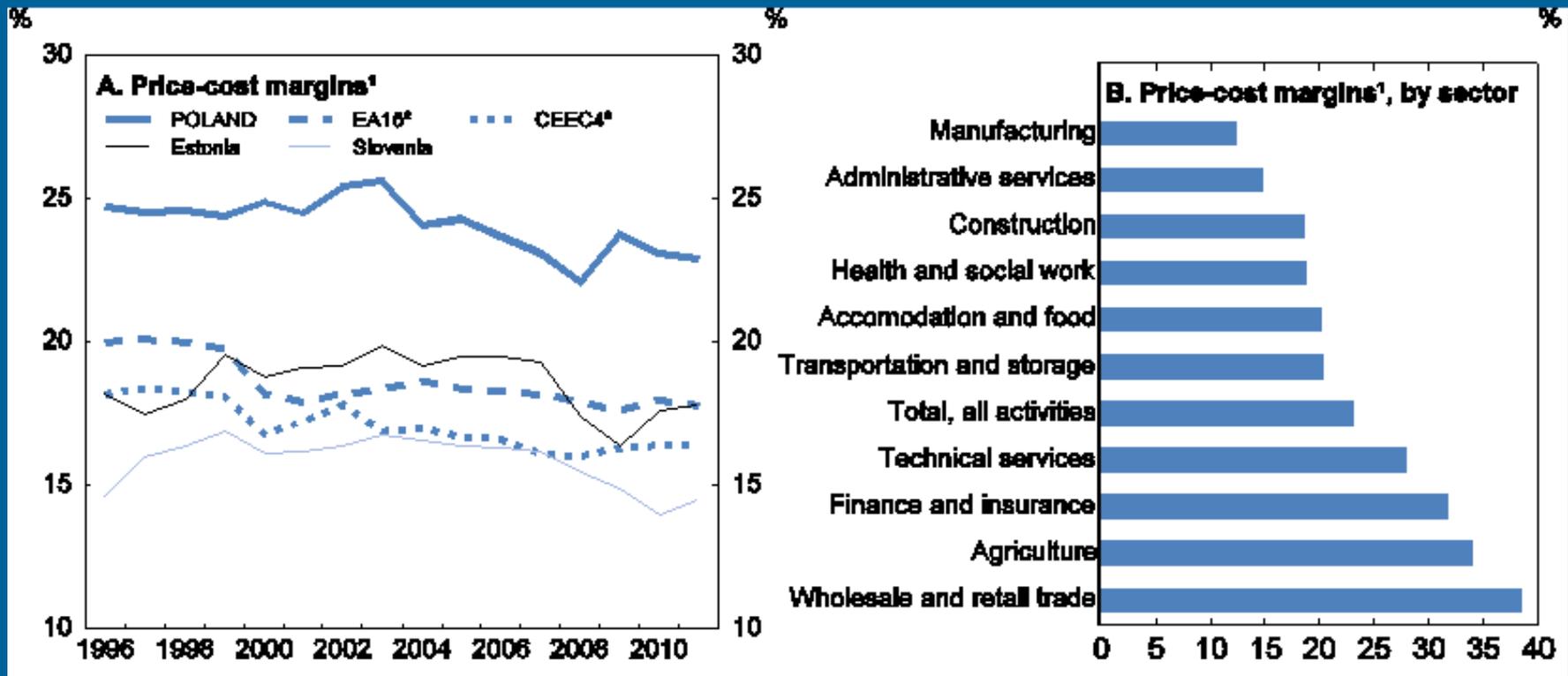


Increasing competitive pressures

Price-cost margins, 1996-2011

Whole Economy

By economic sectors



Source: Eurostat national accounts database and OECD calculations.

High price-cost margins reveal low competitive pressures in most sectors.



Competition would boost long-term growth

- Increasing competitive pressures could boost:
 - Firm level productivity by reallocation effects;
 - Innovation; and
 - Overall productivity through (positive) spillover effects across sectors.
- Therefore increasing competitiveness and potential growth.



Policy weaknesses and challenges

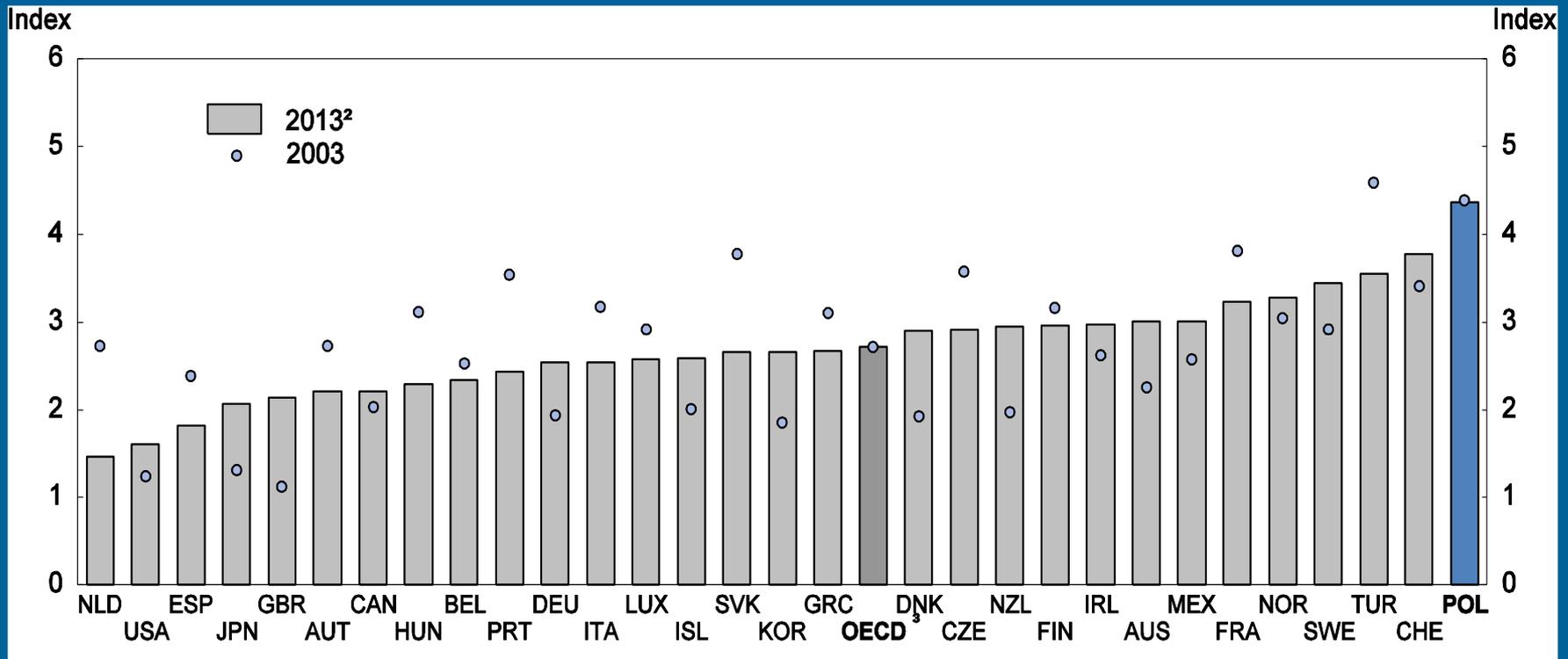
- Key areas of policy weakness remain:
 - Public ownership is widespread;
 - Evaluation of state aids is insufficient;
 - Lack of strong, independent regulators (Competition Authority and Sector Regulators);
 - Failure to fully tackle regulatory burden;
 - Cumbersome bankruptcy procedures;
 - Public procurement practices.
- Significant challenges in specific sectors:
 - Lack of competition in many network industries;
 - Fragmented agricultural sector.



I. Public ownership remains widespread

Public ownership in the economy, PMR indicators, 2003 and 2013

Index scale from 0 to 6, from least to most restrictive



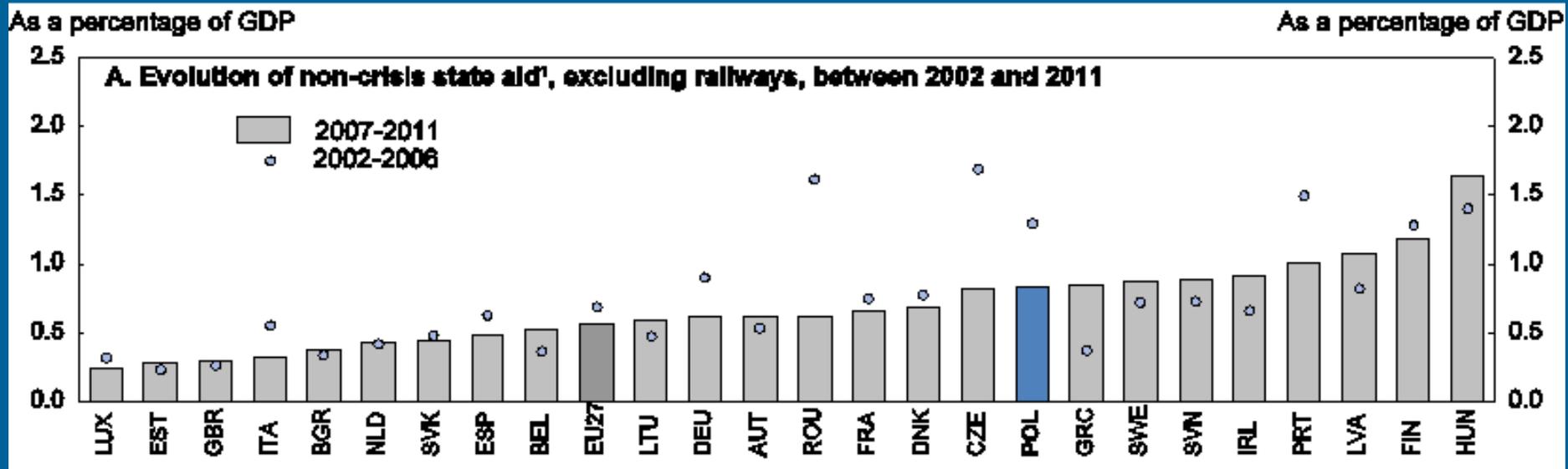
Source: OECD (2014), preliminary Product Market Regulation database.

Further reducing public ownership in potentially competitive segments of the economy would increase competitive pressures.



II. State aid should be better targeted and regularly evaluated

Non crisis state aid is high by European standards



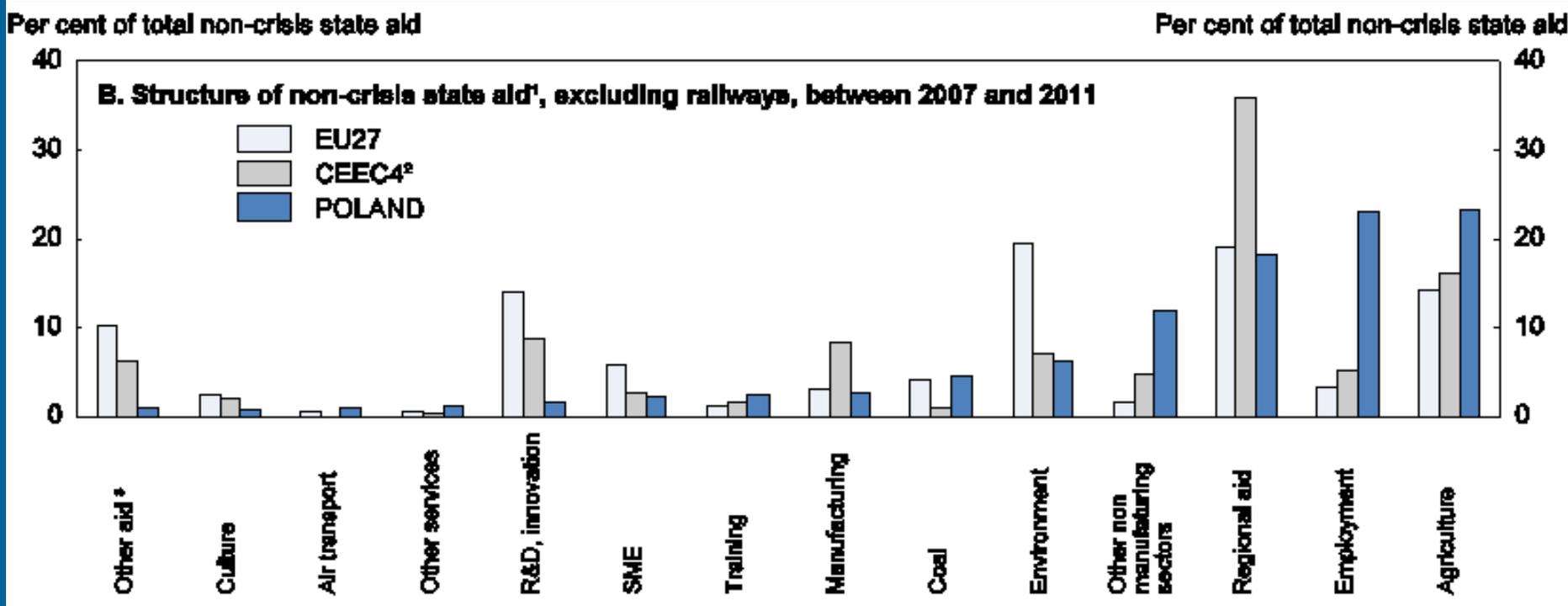
Source: European Commission (2012c), "Facts and figures on State aid in the EU Member States", Commission Staff Working Paper, No. 778.

State aid may help correct market failures, but it may also be influenced by pressure groups and lead to resource misallocation.



II. State aid should be better targeted and regularly evaluated

Non crisis state aid is targeted at agriculture and employment



Source: European Commission (2012c), "Facts and figures on State aid in the EU Member States", Commission Staff Working Paper, No. 778.

State aid is dispersed across many granting institutions (831 in 2011).
A regular assessment of aid's economic effects appears lacking.



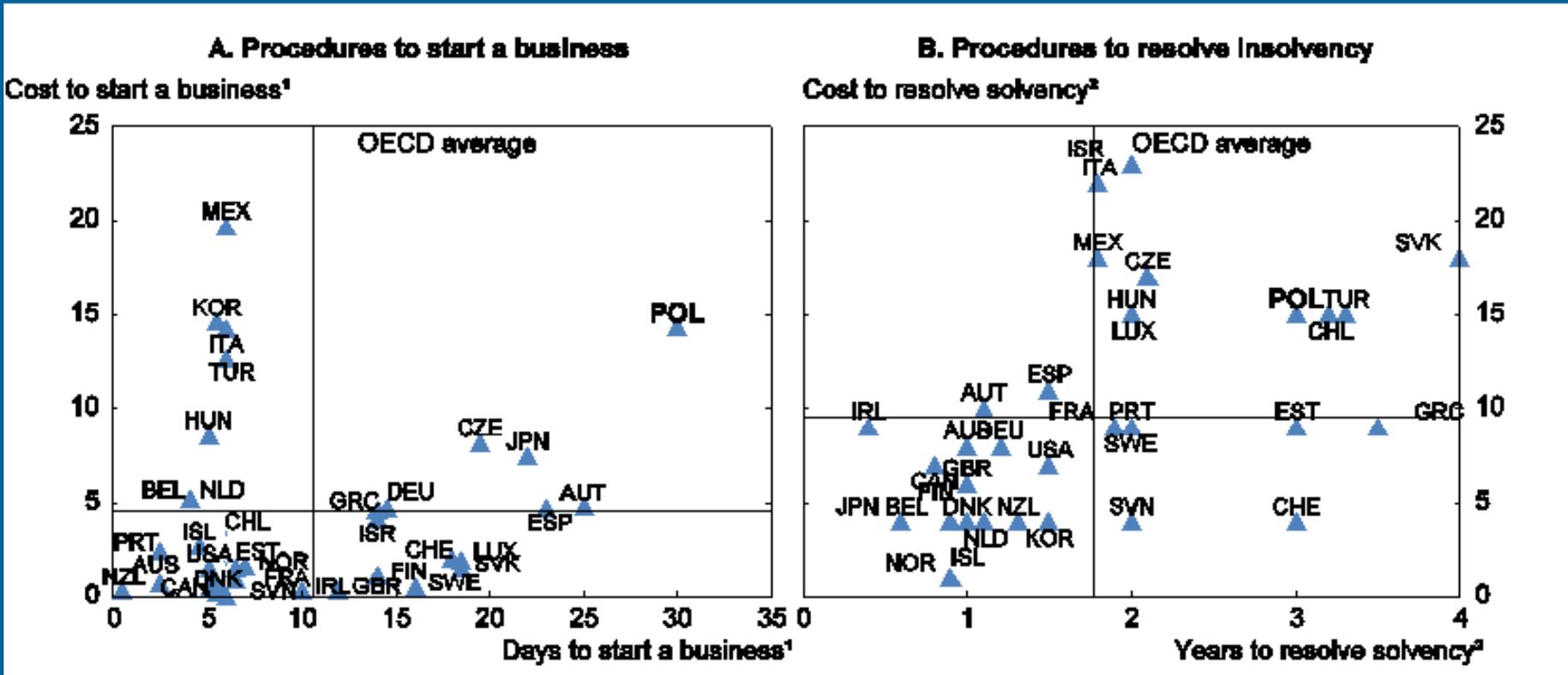
III. The competition authority needs further independence and strengthening

- The competition authority is perceived as an efficient competition enforcer (GCR, 2013), despite:
 - the weak competitive pressures in the economy;
 - its limited budget.
- Significant challenges remain:
 - The Authority has little power as regards the enforcement of structural remedies;
 - Inefficiencies in the judicial system allow cartel to operate during lengthy procedures;
 - The independence of the Competition Authority is not fully guaranteed.



IV. Red tape and inefficient bankruptcy procedures slow entrepreneurship

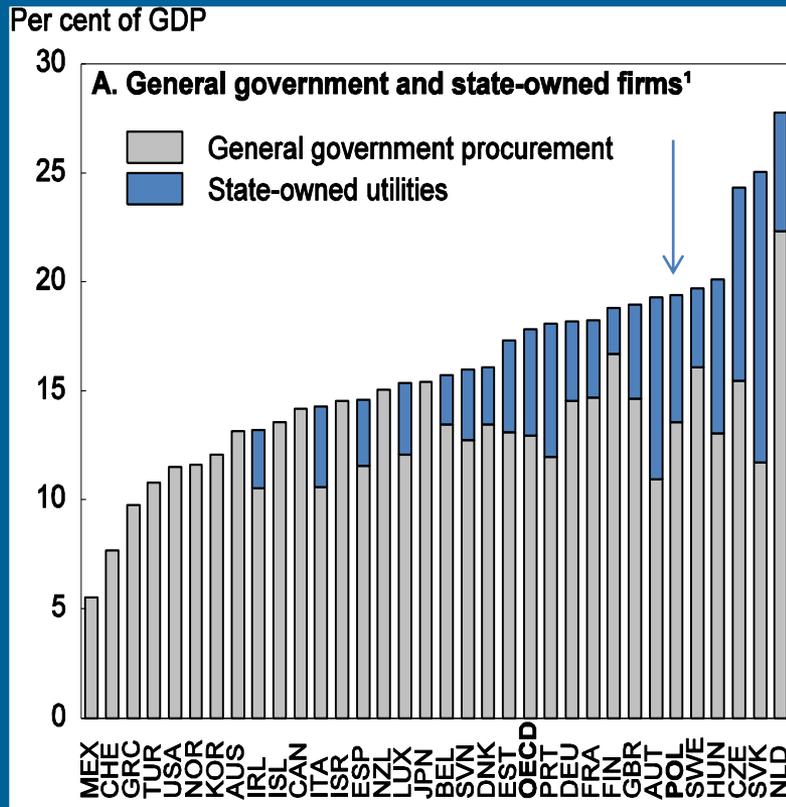
Procedures to start a business and resolve insolvency remain long and costly





V. Public procurement practices should be strengthened

Public procurement, 2011



- Public procurement is a key element of the economy.
- It should ensure:
 - competitive neutrality;
 - selection of the best value for money and not systematically the lowest prices.



Heterogeneous progress across sectors

- Network industries:
 - Energy Sector (gas and electricity);
 - Telecommunication;
 - Postal services;
 - Water supply and sanitation;
 - Railway (freight and passenger transportation);
 - Airports and seaports.
- Professional services;
- Wholesale and retail trade;
- Agriculture;
- Financial sector.



I. Competition in energy sector

- Liberalisation is ongoing.
- But historical state-owned companies may still hinder competition:
 - Concentration remains high;
 - Third-party access to infrastructure.
- Independence of regulator (ERO) is key.
Reform of September 2013 should go further:
 - non-renewable contract;
 - Insuring President cannot be dismissed without fault; and
 - avoiding revolving-door opportunities.
- Structural remedies in case of competition infringements for the Competition Authority.



II. Competition in the railway sector

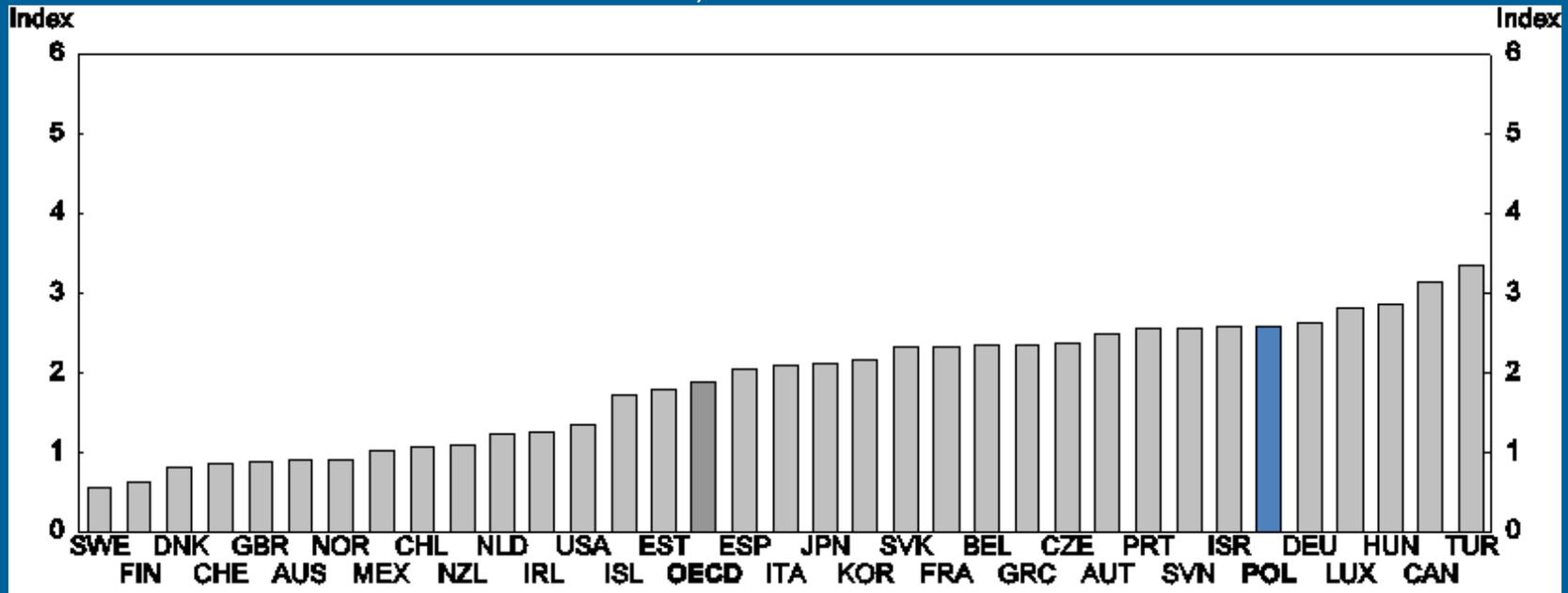
- Different developments between freight and passenger rail transportation.
- Historical company has been split into different entities within a holding company (PKP Group):
 - Dominant role (but declining for freight);
 - Third-party access to infrastructure (PKP PLK S.A.); and
 - Excessive access charges to access the infrastructure.
- Independence of regulator (UTK) should be strengthened:
 - Fixed-term non-renewable contract;
 - Insuring its President cannot be dismissed without fault; and
 - Avoiding revolving-door opportunities.
- Structural remedies in case of competition infringements for the Competition Authority.



III. Professional services have been partly deregulated

The OECD's indicator of the severity of professional services regulation in 2013

Index scale from 0 to 6, from least to most restrictive



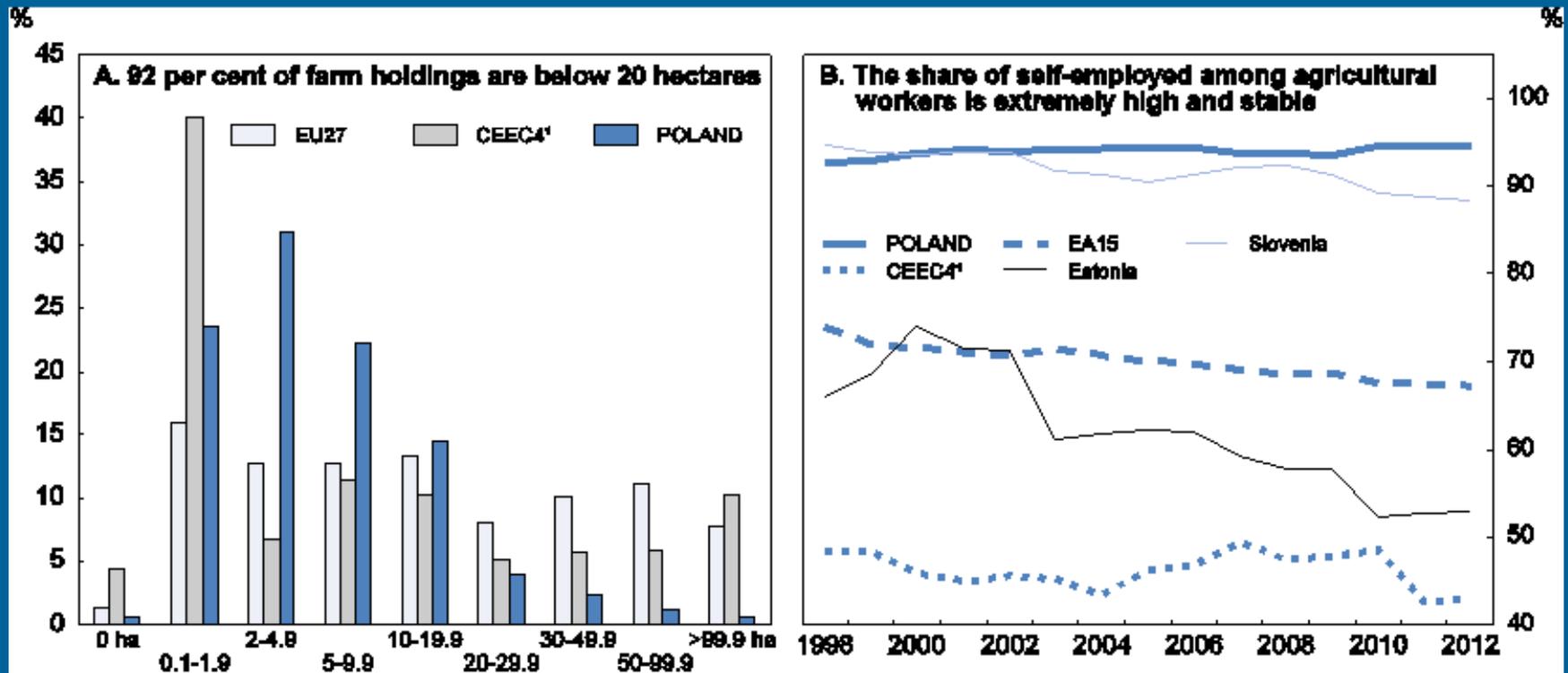
Source: OECD (2014), preliminary Product Market Regulation database.

As of January 2013, professional regulations (notably entry barriers) were particularly stringent. However, three waves of deregulations are ongoing and should be fully implemented.



IV. The agricultural sector is heavily subsidised and fragmented

Competition distortions contribute to a heavily fragmented agricultural sector



Source: Eurostat farm structure survey 2010 (Panel A) and Eurostat Agriculture Labour Input Statistics 2012 (Panel B).

Subsidies to individual farmers should be substantially reduced. Progressively align farmers' social security contributions and personal income tax on the general system.