



The Voice of OECD Business

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## **2009 OECD Report “Going For Growth”**

### **BIAC Recommendations For Structural Reform Priorities**

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## **INTRODUCTION**

The purpose of this paper is to provide BIAC suggestions for country-specific structural reform priorities to be highlighted in the next OECD report "Going for Growth" to be issued in 2009.

The BIAC suggestions mentioned in this paper reflect the input that we received in the context of a survey among our members associations in all OECD countries. The BIAC member associations were asked to indicate their priorities (up to 5) for structural reforms in their own country. BIAC also asked to provide a brief explanatory background for each of the mentioned priorities. The survey responses were collected from mid-July to mid-September. National business organizations from 21 OECD countries responded to the BIAC survey as well as one member from a non-member country.

BIAC asks the OECD to take the survey responses presented in this paper fully into account in the further development of the 2009 Going for Growth Report. BIAC will stand ready to provide additional information and, if necessary, clarification about the business priorities for structural reform reflected in this paper.

## **SURVEY RESULTS**

### **AUSTRIA**

#### **Policy priorities**

##### ***Administrative Reform***

**Challenge and recommendations:** The federal government has been modernised by the introduction of the Standard Cost Model and new Budget laws that will make the planning and enforcement of future federal budgets much more efficient. On local government level (Länder und Gemeinden), such reforms have not been implemented. Local government must also adopt these measures. In addition to that further steps in administrative reform on federal government level as well as on local government level are necessary.

### ***Tax structure reform***

**Challenge and recommendations:** The quality of public finance must be improved by reviewing public expenditures and taxation, with the intention to enhance productivity and innovation, thereby contributing to economic growth and fiscal sustainability.

### ***Energy-efficiency to be enhanced***

**Challenge and recommendations:** A new investment strategy-program in the infrastructure is needed to enhance the energy-efficiency, in buildings, dwellings, transport services and in the productive sector.

### ***Local public transport to be enhanced***

**Challenge and recommendations:** Additional investment in local public transport is necessary to enhance the quality of local public transport.

### ***Enhance competition as well as public awareness of the advantages of competition***

**Challenge and recommendations:** Further measures must be implemented that improve competition, especially in the service sector and in the energy markets. Consumers' awareness of the fact that they can already easily switch to an alternative electricity supplier must be raised further. Until now, consumers have rarely changed their energy supplier, which has hampered the creation of a genuinely competitive environment in the electricity market. Only if consumers make use of the advantages of the liberalised energy markets will these markets behave competitively.

## **CANADA**

### **Policy priorities**

#### ***Streamline the Regulatory Process***

**Challenge and recommendations:** Overlap, duplication and fragmentation are time consuming and costly. They hamper Canada's ability to compete for capital investment and undermine Canada's competitiveness. Governments must work to streamline the regulatory process, including securities regulation. Greater regulatory cooperation with the US can yield additional benefits. Canada-US regulatory approaches and regimes are similar, and many tests and certificates duplicate one another. Canadian consumers will benefit from lower costs and greater choice. Businesses will also gain, particularly in the automobile, food and financial service sectors.

#### ***Improve the Efficiency of the Tax System***

**Challenge and recommendations:** Significant economic benefits can be realized by eliminating provincial capital taxes and harmonizing provincial retail sales taxes with the federal Goods and Services Tax (GTS). On the income tax front, personal income tax rates should be reduced across the board but particularly for low- and modest-income earners. Many individuals in Canada earning between C\$30,000 and C\$50,000

face effective marginal tax rates above 60% because many of the public transfers they receive are clawed back as income rises. They have little incentive to work more or update their skills. They also have less incentive to save.

### ***Eliminated Interprovincial Trade Barriers***

**Challenge and recommendations:** Internal trade barriers keep firms from growing large enough to compete efficiently in foreign markets, cause investors to look elsewhere, artificially raise prices and increase the cost of doing business. The federal government must work with the provinces and territories to fully implement all aspects of the Agreement on Internal Trade and extend the Trade, Investment and Labour Mobility Agreement (TILMA) to remove barriers to trade and labour mobility across Canada.

### ***Reform the Employment Insurance (EI) Program***

**Challenge and recommendations:** Reforms to Canada's EI program are necessary to advance the fundamental goals of promoting fairness and efficiency in the tax system. Introducing an employer-based experience rating system would reduce premiums for firms that generate fewer claims than others. It would render the EI system more efficient and more conducive to job creation and stability, thereby reducing the unemployment rate over the medium term. The current system levies taxes on firms that minimize layoffs and subsidizes businesses that readily resort to layoffs.

### ***Eliminate Inefficient Government Program spending***

**Challenge and recommendations:** Unfocused expenditures on regional support, industrial development, and business subsidies, add little to well-being. Such expenditures have very little, if any, real impact on innovation, productivity and economic growth – they divert scarce public resources from alternative, more efficient and productive uses, they create a cycle of dependency, and they slow the restructuring and rationalization process of industry and business.

## **CZECH REPUBLIC**

### **Policy priorities**

#### ***Taxes and tax administration***

**Challenge and recommendations:** Simplification of taxes and rules delimiting rights and obligations of the tax administration and the taxpayer making their relationship equitable.

#### ***Public administration***

**Challenge and recommendations:** Reduction of administrative burden on business, professionalize the state administration and increase the stability of public bodies, legislation audit.

### ***Climate change and energy policy***

**Challenge and recommendations:** Making decision on state energy policy, and structure of primary energy sources. ***Some Additional information and your suggestions concerning the decisions to be taken would be useful.***

### ***Human resources and labour market***

**Challenge and recommendations:** Reforms are necessary which focus on the creation of more and better jobs supported by the concept of flexicurity. Reforms should involve the liberalization of industrial relations, increasing the flexibility and inclusiveness of the labour market, reforming the education system and introducing the concept of lifelong learning, and modernize the social system to make it more employment-oriented.

### ***International trade***

**Challenge and recommendations:** Facilitation of foreign trade through simplification of international trade and removal of non-tariff barriers, elimination of unfair trade practices and fighting against IPR abuse.

## **DENMARK**

### **Policy priorities**

#### ***Reduce marginal taxes on labour income***

**Challenge and recommendations:** Social security contributions and income taxes combine to a marginal rate of above 60 per cent even for incomes modestly above average full-time earnings. The income threshold from where the top tax is applied should be increased or the top tax should be abolished completely.

#### ***Reform unemployment benefit scheme***

**Challenge and recommendations:** In Denmark unemployed are entitled to up to four years benefit. The period of entitlement should be reduced substantially and the difference between benefits and wages should be decreased e.g. by a fall in benefit over time. This is supported by analysis carried out by the Danish Economic Council which shows that the share of persons leaving unemployment is practically constant over time for the period between the first and the fourth year of unemployment. Only towards the end of the four year period, i.e. shortly before the termination of unemployment benefits, the share of persons that become employed again increases sharply. This suggests that earlier re-employment could

be increased if the maximum period for receiving unemployment benefits would be reduced and through this the incentives of the unemployed to pro-actively look for jobs would be increased.

### ***Reform disability benefit schemes***

**Challenge and recommendations:** Approximately one fourth of the working age population is outside the labour force and receives some kind of public support. 25 per cent of these has been given a disability pension. An increasing number of the newcomers in the disability system are young persons with a psychological disease and likely to stay in this system. The disability benefit should be given on a less permanent basis.

### ***Reform of the early voluntary retirement pay scheme***

**Challenge and recommendations:** Like other European countries, Denmark faces a demographic challenge with an ageing population. The Danish labour market lacks at the moment labour supply and this problem will increase in the years to come. The government introduced a reform of the early retirement system in 2006 which will become effective in the period from 2019 to 2024. However, projections carried out by the the independent research body DREAM-group for DA shows that even after the implementation of this reform there will be a long run labour shortage of close to 200.000 persons. It is not enough to increase the entitlement age by two years. The best option would be to abolish the possibility of voluntary early retirement from the labour market.

### ***Reform of primary school and upper secondary education***

**Challenge and recommendations:** The share of the labour force with a vocational training is decreasing. At the same time, many youngsters that commence on a vocational education drops out before completing their training. No less than six out of ten students will have dropped out within the first four years of having commenced on their first vocational education.

Denmark also has a challenge in improving the quality of primary school education. 16 percent of Danish students do not have sufficient reading skills to complete any further education after exiting primary school. It will be particularly important to improve school education for immigrants and their descendents.

## **FINLAND**

### **Policy priorities**

#### ***Reduce the tax wedge on labour income***

**Challenge and recommendations:** Finland should lower the average and marginal tax wedges on labour income since they are among the highest in the OECD. The government has announced that it will lower labour taxation in the period 2008 to 2011, but because of the buoyant cyclical situation, it has decided to postpone the tax cuts towards the end of the period. The economy is now cooling down. Therefore, the majority of tax cuts should take place already in 2009. In the long run the government would also be well advised to shift the tax burden towards less distortionary taxes, such as property and consumption taxes.

### ***Reform the unemployment benefit system***

**Challenge and recommendations:** The unemployment benefits are relatively generous in Finland. Especially the length of the benefits, which are related to the previous earnings, is a problem. To increase incentives to take up work after a long period of unemployment, it is recommended that the financial support available to the long-term unemployed be reduced.

### ***Increase economic immigration***

**Challenge and recommendations:** The share of foreigners living and working in Finland is one of the lowest in OECD area. Finland will face the problems of aging population more rapidly than most other European countries. The country will need immigrants in many professions in the coming years. Finland should give up its so called "labour market need test" applied to economic migrants. Moreover, the government should better foster the integration of economic migrants. Currently, the government is focusing only on unemployed migrants. Language training and other services to highly skilled workers and their families should be offered.

### ***Promote wage negotiations at the firm level***

**Challenge and recommendations:** In collective bargaining round 2007 the share of company-specific wage increases (local pay) was significantly higher than in preceding years; in 2008 almost a quarter of all wage increases are decided within individual enterprises. To promote employment and labour market flexibility, it is recommended that a larger share of annual wage increases be negotiated at the firm level and opt-out clauses from central collective agreements be allowed, thus making wages more responsive to conditions at the firm-level.

### ***Continue with product market deregulation as well as privatisation***

**Challenge and recommendations:** To increase competition, the product markets should be further deregulated, in particular by easing regulations on shop opening hours and relaxing zoning laws to facilitate entry in retail distribution. It is also important that the on-going privatization process be continued. Finland has a large public sector and it is of great importance that the government opens competition in the area of public services.

## **FRANCE**

### **Policy priorities**

#### ***Improve the innovation system***

**Challenge and recommendations:** Vocational training is hindered by an opaque and complex system. In particular, training should be more targetted at job seekers and low-skilled workers. The reform of tertiary education should continue. Furthermore, the relationship between firms, universities and research labs has yet to be deepened. All this is key for improving competitiveness of the French industry.

### ***Simplify the employment legislation***

**Challenge and recommendations:** In January 2008, the agreement on the labour market admittedly eased the firing procedures, but it added to the prevailing complexity by introducing yet another job contract. This complexity is a well-known obstacle for hiring. A simplification of the rules is probably possible given the progress made recently in terms of cutting the red tape for small-sized firms.

### ***Cut corporate and household taxes***

**Challenge and recommendations:** The tax system is too complex and heavy. Progress can be achieved by implementing a bold fiscal reform, such as scrapping many tax deductions and inefficient taxes (ex : wealth income), closing tax loopholes, and streamlining fiscal incentives. The government should aim at lowering overall tax rates. The loss in revenues should be limited in the medium term as these measures should improve the growth potential of the economy.

### ***Improve government efficiency at all levels***

**Challenge and recommendations:** Generally speaking, deficits should be contained thanks to rationalised spending rather than by raising and multiplying taxes, which would be a major break in trend for France. This concerns increasingly local authorities, rather than the State, as decentralisation has left them with more policies to fund and no efficient framework has been set up to limit their expenditure and levies.

### ***Make the funding of the social security system more sustainable***

**Challenge and recommendations:** This should be done without raising social contributions, for example by implementing a more activating employment policy, improving the efficiency of the Public Employment Service (ANPE), and special policies to improve the employability of older workers. In addition, more should be done to keep health care spending in check.

## **GERMANY**

### **Policy priorities**

#### ***Improve premises for higher growth by budget consolidation, higher investment in areas that are critical to future growth, and competitive taxation of businesses and employees***

**Challenge and recommendations:** In recent years there has been some progress as regards budget consolidation. Rather due to cuts of government expenditures, the main reasons for the progress in budget consolidation were the humming economy as well as rising tax revenues, especially due to the increase in value-added tax. With a view to the upcoming elections in 2009, the government should resist any plans to spend further money on 'election gifts'. A balanced budget should be achieved prior to the year 2011. Simultaneously, expenses should be focused on areas such as education, research and development and infrastructure as they are the basis for future growth. Germany also needs to

further improve its corporate tax reform and it must provide tax relief for employees, for example by abolishing the so-called 'cold progression' (to achieve a higher net income for employees).

### ***Labour market reforms/ reduce high tax wedge on labour income***

**Challenge and recommendations:** In the past year there has been an alarming rollback of previously conducted reforms in the area of closely related labour and pension issues (increased support for phased retirement, exemption for pension age 67, benefit levels for long-term elderly unemployed). Given the demographic trends towards an ageing society, the need for qualified employees and the still not sufficient dynamic in the labour market, reforms which increase labour market flexibility and through this foster job creation are indispensable. Policy makers should aim at a more flexible and transparent labour market. Unemployment protection and employment promotion need to be geared consistently to finding a job rapidly. In addition, the German economy needs an adequate supply of qualified workers. Domestic labour resources must be better exploited and immigration for work purposes needs to be facilitated. In order to increase job opportunities for low skilled unemployed and to improve job placement of the long-term unemployed, the high tax wedge on labour income has to be reduced. The most suitable way to achieve this target are structural reforms in the social security system. Moreover, female labour force participation should be further encouraged by better access to childcare facilities and abolishing tax disadvantages.

### ***Foster innovation and education***

**Challenge and recommendations:** Technological innovations are the key to future economic development in Germany. It is therefore necessary to increase spending on research and development. Germany should strive to achieve the European Union's target of spending 3 per cent of the gross national product on R & D. Instead of promoting institutions, more subsidies should be spent on projects. We also need tax relief for R & D. A company should be able to subtract at least 10 per cent of its total R & D expenses from its tax liabilities.

The German education system needs more independence and more competition for more quality in education as well as more permeability in the education system. The share of juniors with STEM (science, technology, engineering, maths) -qualification is still too low. Independence of schools and universities in matters of finance, administration and human resources is necessary as well as consistent bureaucracy reduction and decentralization in education. Furthermore, the separation between different paths of education, especially openness of universities for graduates of vocational education must be closed. Lessons/Classes in schools and universities must put priority on STEM to increase STEM-beginners at universities, to reduce STEM-drop-outs and to increase the quality of STEM-graduates.

### ***Develop an integrated concept for energy supplies and climate protection***

**Challenge and recommendations:** Germany needs an integrated concept for energy supplies and climate protection. Energy supply has to take into account both security of supply and environmental and economic sustainability. We need a balanced energy-mix, including fossil fuels, renewables and nuclear energy. The first step would be to extend the deadlines for those nuclear power plants already in existence. Renewable energies should also play a key role in a concept for energy supplies and climate protection in Europe. They have to become competitive – in the mid-term perspective without any subsidisation. For fighting climate change the engagement of the business sector is crucial. Business holds the key to solutions for a low-carbon future. An international climate change deal for the post 2012 period must therefore be designed in a way that makes sense from a business point of view. This means above all, that at least all industrialised emitters contribute to mitigation on a comparable footing.

### ***Bureaucracy cutback***

**Challenge and recommendations:** A thorough reduction of excessive bureaucracy should not be limited to measuring duties to supply information. The success of the attempt to avoid bureaucracy is measured properly through dismantling of bureaucratic rules. This must be accompanied by a comprehensive set of bureaucracy reduction rules. In this regard German labour law, social law, environmental law, company law and the fiscal system must - among other things - be tested thoroughly. The goal to significantly simplify the entire material should not be lost out of sight by focusing exclusively on the dismantling of duties to supply information. Many material regulations cause bureaucracy in a subsequent step. Therefore, a comprehensive approach to cutback bureaucracy is needed.

### ***Reform health care system***

**Challenge and recommendations:** The centerpiece of health care reform, the health fund, will start in 2009. It has been clear from the beginning that the goal of a sustainable financing concept providing a permanent basis for an efficient and demography-proof healthcare system has been completely missed. After general elections in September 2009, the new government should start from square one, decouple health costs from wages, enhance efficiency in the organisational structures and take account demographic developments and the advance of medical technology.

## **GREECE**

### **Policy priorities**

***Reduce barriers to entry in network industries, deregulate transport services sector and implementation of the Services Directive.***

**Challenge and recommendations:** Past experience with deregulation has demonstrated the potential gains of further deregulation, especially in network industries. The operation of a properly deregulated energy market along with the proper deregulation of the trucking industry are amongst the reforms with the highest potential to contribute to future growth and the improvement of the competitiveness of the economy during the next decade. The implementation of the Services Directive will further promote market openness, enhance competition and foster the EU Internal Market.

### ***Labour market reform***

**Challenge and recommendations:** The Greek labour market has some very specific attributes. The wedge on salaried labor is highly progressive, while the minimum wage is very close to the wage after which this wedge starts to increase rapidly. Also, self employment faces much lower social security contributions and often provides the opportunity to avoid income taxes for earners that have middle and high incomes. As a result salaried labor is not an attractive option for middle and high income earners, while the minimum wage restricts low level salaried labor. This poses a barrier to entry into the labor market especially for young women with uncompetitive education. Any labor market reform has to take these facts into account, in order to lead to the desirable result of the increase in salaried labor and to reduce youth unemployment. In addition, while there are some aspects of the labor market legislation that reduce the flexibility of the labor market, it seems that the main deficiency is the weakness of the

institutions that should support the labor market. These include not only the administrative process of declaring the hiring or departure of an employee and the effective and objective inspection of the operation of the labor market but also the administrative handling of unemployed workers and life long learning. Additional reforms should also tackle the privileges of certain groups of workers from the broad public sector, which receive generous pensions at a relatively young age.

### ***Improving business environment by promoting Public Sector Efficiency and Regulatory Reform.***

**Challenge and recommendations:** Strong governmental effort is required to improve efficiency and effectiveness of public administration and to promote regulatory quality and enforcement: The way public administration affects business activity, mainly by imposing administrative burdens on both start-ups as well as the ongoing operation of already established companies, continues to be a major drawback to friendly business environment in Greece. Structural reform priorities should aim at: (I) the rationalization of budgetary and financial management of public administration (i.e. regional and local government, state owned companies, e.t.c.), through (i) implementing programme budgeting, targeted on a set number of policy objectives (ii) adopting of International Public Sector Accounting Standards (iii) improving audit mechanisms, (iv) introducing electronic public procurement procedures and e-government, and (II) promoting the Better Regulation agenda, in particular by : (i) reducing administrative burdens, (ii) systematically carrying out ex ante and ex post regulatory impact assessment in all new and existing regulation, and (iii) simplifying existing regulation.

### ***Further improve public finances***

**Challenge and recommendations:** There is a need for making a coherent effort to rationalize spending, to introduce effective auditing mechanisms and to ensure transparency and accountability in the administration of the public finances. The focus should not only be on reducing expenditure but also on achieving budget surpluses and freeing resources to be spend for example on education, health and social security.

### ***Improve the efficiency of the education system***

**Challenge and recommendations:** A good education system that provides equal employment opportunities may be the most important element to ensure social coherence in competitive markets. International experience shows that at all education levels institution autonomy paired with independent academic evaluation as well as administrative accountability yield the best results. Given the deteriorating performance of social coherence indicators in Greece and the current performance of the education system, it is important to keep building on the recent reforms. As a result, Greece needs more flexible and effective education systems with full cooperation of social partners to meet the current labour market demands.

# IRELAND

## Policy priorities

### *Efficient public sector and sound public finances*

**Challenge and recommendations:** The sharp downturn in economic growth and consequent significant fall in tax revenue highlights the immediate need to effect economic efficiencies in the administration and delivery of public services. The low tax regime, with its proven success, must remain intact. The government must resist the temptation to solve its financing problems by making cuts in the National Development Plan 2007-2013, a significant programme that aims to put in place essential physical infrastructure, enhance human capital, bring regional balance and increase social inclusion. Within the context of more efficient delivery of services there should be: a public sector pay pause; much greater progress towards meeting regulatory cost reduction target of 25% by 2012, including introduction of a unique business identifier, a single window system for importing and exporting and improved use of e-Government; more efficient and SME-friendly public procurement

### *Human Capital Development*

**Challenge and recommendations:** Labour productivity will be the key determinant of economic growth in Ireland, and increasing productivity will depend to a large extent on education and training. The Irish Business and Employers Confederation (IBEC) supports the objectives set out in the National Skills Strategy (2007) which include achieving a significantly improved education profile for the labour force, upskilling 500,000 people in employment, increasing the participation rate in upper secondary education to 90% and ensuring the progression rate to third level increases from 55% to 72%. Meeting these objectives represents a significant challenge and will require an integrated all-government approach. Business looks forward to the a speedy implementation of measures needed to deliver these objectives.

### *Energy/Climate Change*

**Challenge and recommendations:** The Government should fully cost all energy and climate change measures and construct a comprehensive Marginal Abatement Cost Curve so implementation can be prioritised in the most efficient and effective sequence. The Energy/Climate package announced by the EU Commission in January 2008 sets extremely demanding targets for Ireland with regard to reductions in greenhouse gases and the share of renewable energy. The manner in which these targets are achieved is critical as it will have fundamental and long lasting consequences for the economy. IBEC believe that a least cost strategy must be adopted to ensure we meet our obligations in the most economic and environmentally effective manner. Current Government policy documents such as the National Climate Change Strategy, Energy White Paper and Energy Efficiency Action Plan do contain numerous measures to reduce emissions. However almost all are uncosted, their effectiveness and economic impacts unknown, making optimum policy choices unlikely.

### *Enhance R&D tax credit*

**Challenge and recommendations:** Following a review of the current tax credit scheme based on incremental R&D expenditures above a base year of 2003, the scheme should be enhanced to raise the level of R&D activity in Ireland. There needs to be a move to a volume-based approach, which will avoid the disincentive features of the scheme for some companies which had incurred high levels of R&D in the

base year. It would also take account of the cyclical nature of R&D. The scheme needs to be made more attractive to some MNCs, which compete internally for R&D projects based on before tax cost, by offering an offset against social charges. The exclusion of clinical trials, an essential element of certain R&D, should be dropped.

### ***Develop dynamic regions***

**Challenge and recommendations:** Balanced regional development is a key horizontal element of the National Development Plan. Focus should remain on developing the infrastructure, which will bring the regional hubs and gateways identified in the National Spatial Strategy (NSS) to a critical mass for self sustained urban development. To ensure optimal regional development there is a need to reform and co-ordinate central and local government by establishing a co-ordinated network of NSS Gateway Groups.

## **ITALY**

### **Policy priorities**

#### ***Promote social and economic inclusion of immigrants***

**Challenge and recommendations:** Italy is a relatively rapidly ageing society and immigrants are important from many points of view. Their inclusion into the society should be promoted and stimulated.

#### ***Reduce the Italian infrastructure gap vis-a-vis other European countries (also through project finance initiatives)***

**Challenge and recommendations:** Given the need to reduce public infrastructure spending to meet criteria stipulated by the Maastricht Treaty, the large and growing infrastructure gap of Italy in relation to other European countries can only be reduced through public-private-partnerships (PPPs), in particular in the context of project financing.

However, in Italy the great opportunities and benefits offered by project financing in the area of public works cannot be fully reaped because basic conditions for financial viability are not in place. In addition to commercial risks associated with the individual projects, risks of sudden changes in legislation need to be taken into account. These risks that are difficult to evaluate and often make it impossible for the banking sector to support these projects.

#### ***Reduce public ownership***

**Challenge and recommendations:** The role of the public sector is still too pervasive. Although privatization has been on political agendas for many years, no important privatizations have taken place in the past years. It is necessary to restart reducing public ownership.

### ***Reduce fiscal burden, ensuring a level playing field among economic industries***

**Challenge and recommendations:** The fiscal burden is unusually high in Italy - around 43,3 per cent of GDP - and no substantial reduction is planned for the medium-term. It is important to reduce fiscal pressure in order to increase households' disposable income and and reduce the distortionary effects (sub optimal allocation of resources) of taxation on economic growth. Some economic sectors are presently suffering from an unlevel playing field because of uneven tax levels across sectors. Hence any project on reducing the fiscal burden should include a more uniform distribution of the tax burden across economic sectors.

### ***Stimulate M&A processes among SME's***

**Challenge and recommendations:** Italian firms are very small in size. In the recent past they have done pretty well, but in the long run size is going to be critical to ensuring competitiveness. A stimulus for size-growth, even on the fiscal front, could further increase aggregate Italian productivity.

## **JAPAN**

### **Policy priorities**

#### ***Reform the social security system***

**Challenge and recommendations:**

Now more than ever Japan is facing a declining birth rate and an aging population, therefore the total population is slowly beginning to decrease. According to government estimates, two adults of the current working generation will need to support one adult from the elderly population in the near future.

Before increases in expenditures such as pension payments and medical expenses become too serious, it is essential to start radical cost-cutting reforms of the social security system.

#### ***Carry out administrative and fiscal reform***

**Challenge and recommendations:**

Japan needs to improve the efficiency of the public sector by pursuing further decentralization of government power and reforming the public servant system in order to move ahead with fiscal reconstruction.

Shifting production resources such as people, materials and capital from the inefficient public sector to the private sector is essential to maximize potential growth.

#### ***Promote the revitalization of education***

**Challenge and recommendations:**

To enhance the level of human capital that will critical to the future of Japan, it is essential that students acquire a certain minimum level of basic academic skills before they enter the workforce.

Promoting the revitalization of education and expanding human investment that covers the period from elementary to adult education requires the cooperation of the public and private sectors and is an issue that the whole nation needs to tackle in the right way.

### ***Control the replacement of public infrastructure***

#### **Challenge and recommendations:**

In order to maintain and renew public infrastructure such as roads and water and sewage systems, it is necessary to carry out a variety of public investments and there is a concern that it could lead to a significant increase in the future fiscal burden.

In particular, the suburbanization of rural cities reduces the effectiveness of public investment, therefore it is necessary to control the replacement of public capital stock by creating compact cities.

### ***Redress economic disparity***

#### **Challenge and recommendations:**

An increasing number of households in Japan receives welfare payments. This trend is accompanied by a widening income gap to expand and the term 'working poor' has started to become more common recently.

In order to avoid the cementation of the income gap and creating a new low social class it is necessary to implement measures to redress this economic disparity, such as reducing the wage gap between regular and non-regular employees and strengthening the income redistribution function.

## **MEXICO**

### **Policy priorities**

#### ***Public security***

**Challenge and recommendations:** The society has a high insecurity perception. Criminal acts are on the rise and the are becoming more and more violent. Mexico ranks among the worst countries with regards to kidnappings. Insecurity may be weakening the interest of investors for Mexico. Criminals face low risks of getting crimminally prosecuted. The entire security and justice system must be overhauled in order to improve the rule of law in Mexico.

Mexico also urgently needs a political decision to disentangle corrupted officers from criminal networks and to ensure integrity throughout the hierarchie of the security services, from the top officers to the policeman on the street.

Criminals have built an economy, not only for drugs, but for all sort of illicit products and services. This economy prospers and the government must undertake credible steps to fight this illegal economy.

## ***Public expenditure***

**Challenge and recommendations:** The government is spending less than it had planned in its projections. This should be changed. The government should increase expenditures, in particular investment in infrastructure, to the levels it had planned in order to provide a stimulus for future growth. An increase in public expenditures in line with previous government projections will not only be important for infrastructure development. It may also help to prevent a significant economic slowdown caused by the slowing of the US economy.

## ***Inflation control***

**Challenge and recommendations:** To date it appears that Mexico may be able to contain inflation despite the global inflation trend. Nevertheless, rapid domestic price increases in particular for food, energy and some other commodities have been imported in the past months. Thus, monetary policy should take a clear anti-inflationary course with higher primary interest rates.

## ***Food production***

**Challenge and recommendations:** The increase in food prices has made it clear that the agricultural sector has been long neglected in Mexico. There are still wide areas, mainly in the south of the country (e.g. Chiapas, Oaxaca, Campeche and Guerrero), where sound policies have to be put in place. The dilemma is that on the one side there are millions of Mexicans who need to buy their food for low prices while on the other hand an increase in production requires higher prices. The government should let the food prices rise in parallel with the international prices. At the same time, anti-poverty programs should be strengthened to provide aid that cushions the effect of higher food prices and through this helps those who need it most.

## ***Oil / public financing***

**Challenge and recommendations:** 40% of the public budget comes from oil revenues. This has led to a decapitalization of Pemex, the national oil firm. Pemex urgently needs more resources to restore oil reserves and to modernize infrastructure. High prices may persist. Nevertheless, much of the extraordinary yields are claimed by governors all over the country. A set of reforms is needed in order to find other financing sources for the government, to better distribute the oil rents and to allow Pemex to behave more like a "normal" firm.

# NETHERLANDS

## Policy priorities

### ***Preventing activation of a price-wage spiral***

**Challenge and recommendations:** Inflation is rising and threatening a sound development of the contractual wage rise in new agreements. It is important not to carry out the government intentions to raise indirect taxes and further greening of the tax system at this moment.

### ***Deregulation and reduction of red tape***

**Challenge and recommendations:** For a favourable climate for existing and new entrepreneurship is a effective process of deregulation, simplification and diminishment of licences and red tape still important. The priority for 2009 is to get delivery of more concrete visible results for companies.

### ***More labour market flexibility and action to prevent shortages of skilled people***

**Challenge and recommendations:** By modernization of employment protection regulation (lay off procedures and costs) and by stimulating labour supply in the the labour market that require a higher educated workforce (e.g. through lower marginal tax rates).

### ***Good implementation of the voluntary sustainability agreements between bussiness sectors and government and to apply a economically sound climate policy in the future***

**Challenge and recommendations:** Last year, the central government and the business sector agreed on a voluntary "covenant" on efforts of several industries to do their utmost to increase energy efficiency, reduce of greenhouse gases and increase energy and climate innovation. The government made the committment to help stimulating innovation and to try to ensure that Dutch businesses (small and large) do not suffer any competitive disadvantage caused by domestic climate change policies relative to foreign competitors.

### ***Further investments in infrastructure***

**Challenge and recommendations:** Infrastructure bottlenecks must be eliminated through more investments. Furthremore, road pricing needs to be introduced in the near future without increasing the overall tax burden for businesses and citizens.

# NORWAY

## Policy priorities

### ***Invest Government petroleum revenues in areas promoting economic growth***

**Challenge and recommendations:** The guidelines for fiscal policy (the “fiscal rule”) entail that the structural, oil-adjusted budget deficit will over time match the expected real return on the capital in the foreign portion of the Government Pension Fund, estimated at 4 percent. This rule must be upheld and should not be relaxed. Given the increasing size of the Government Pension Fund the government would be well advised to keep the structural budget deficit even below the allowed 4% threshold. Moreover, clear priorities should be established on how the government’s petroleum revenues should be invested. In the absence of any such priorities, the revenues are likely to be spent on current government consumption rather than investments in areas that will promote future economic growth. Main priority areas for investment should be R&D and physical infrastructure, e.g. improving trunk roads and railways. The government needs to strengthen both road and rail operation and maintenance beyond the levels laid down in the National Transport Plan to upgrade infrastructure to the extent that is needed. Government investment in roads (in particular trunk roads) and railways should be doubled for the next ten years.

### ***Adopt policies to increase the quality of education***

**Challenge and recommendations:** Although few countries spend as much per capita on education as Norway, the compulsory education system performs rather poorly compared with many of Norway’s partners. More efficient use of available resources, increasing teacher quality by more specialization, and increasing accountability with regards to school performance are some important measures that should be implemented. Financing provided to students studying abroad should also be improved.

### ***Develop a better framework for private research and development***

**Challenge and recommendations:** There should be more focus on encouraging youths to study the 'STEM' subjects (science, technology, engineering and mathematics) and to increase the number and quality of graduates in these subjects. The Norwegian R&D tax credit scheme (SkatteFUNN) should be further improved and extended, and the negative changes of the relevant regulation that became effective on 1 January 2007 should be reversed (As from the fiscal year 2007, a maximum hourly rate and number of hours per year for in-house R&D personnel has been introduced).

### ***Increase competition and private sector production in public services***

**Challenge and recommendations:** Efficiency and productivity in the government production of goods and services should be further increased. Fewer but larger municipalities with a number of added responsibilities (for tasks which are now on a regional level) will be a step in the right direction, as it will cut the overall administrative burden. Larger municipalities will also be able to maintain a more professional and experienced administration. Accounting standards for the public sector should be changed where appropriate to reflect the real cost of providing public goods and services, thus increasing transparency and cost awareness and stimulate innovation and cost reduction. Increased competition in areas where the private sector may provide the same services as the public sector, at lower cost and at the same or higher quality, will increase overall cost efficiency.

### ***Abolish the wealth tax on business capital***

**Challenge and recommendations:** The reform of depreciation rules and the removal of the wealth tax are high priority issues for Norwegian business. Current depreciation rules put Norwegian companies at a disadvantage with competitors in many countries and represent an obstacle for investments. The tax deduction rates for depreciation should be increased. Furthermore, machinery should not be classified as buildings but have a higher deduction rate to encourage timely replacement. The wealth tax is a heavy burden for many small- and medium-sized firms, family-owned companies and recently established businesses, especially during an economic downturn, as owners will have to pay this tax regardless of profits. It is especially important to abolish the wealth tax on business capital.

## **POLAND**

### **Policy priorities**

#### ***Reduce public ownership - vigorous privatization***

**Challenge and recommendations:** The State sector's share in GDP is too large in Poland. Because of its relative weight combined with its poor performance compared to the private sector, the State sector has acted as a break in the economy. Privatization has been stalled in recent years due to political reasons. It should be restarted along the lines of the government's program, in particular in sectors such as energy generation and distribution, chemicals industry, shipyards, mining (copper mining - KGHM - included), airlines (LOT), banks (PKO BP continued and BGZ), insurance (PZU), railways (Intercity and PKP Cargo), and fuels (PKN Orlen and Lotos).

#### ***Spatial management plans***

**Challenge and recommendations:** Communes should develop spatial management plans. To date, these plans are missing in many communes which hamper the development of commercial and residential property.

#### ***A new bill on public-private-partnership***

**Challenge and recommendations:** Under the current relevant regulation that has been in force for two years, not one PPP project has been launched. Thus, resources that EU funds potentially provide for PPPs are not used. The government should take the following steps: Elimination of the mandatory costly analyses preceding the organization of PPP; elimination of the mandatory consent by the Ministry of Finance for any project and restricting this obligation to projects worth at least PLN 20 million (USD 9 million); introduction of regulations that would allow the PPP projects to qualify for the cofinancing from the EU structural funds.

### ***Elimination of early pensions***

**Challenge and recommendations:** Under the current regulations, about one million people are eligible for early pensions. The present government aims at reducing this number to between 100,000 to 200,000. However, it faces a strong resistance from trade unions, in particular from teachers. Only 29% of the people aged 55-64 work in Poland, versus 45% on average in the EU. The gradual rise in this ratio in Poland to the EU level would support economic growth by helping to alleviate the labor shortages in Poland that have recently become acute in a number of sectors. Success in this area is also essential for securing sound public finances. Early pensions cost about 1.7% of GDP each year, almost equal to the size of the central government cash budget deficit.

### ***Reduction of red tape***

**Challenge and recommendations:** Concerning the number of licences and permissions needed to establish a business and the time and resources spent to acquire them Poland ranks lower (158<sup>th</sup> place out of 178 countries) than most other countries included in the World Bank's report Doing Business 2008. Many of these permissions and licences represent excessive red tape and their elimination would boost competition and through this strengthen economic growth.

## **SLOVAK REPUBLIC**

### **Policy priorities**

#### ***Improve the education system to improve human capital***

**Challenge and recommendations:** The key problem of the Slovakian economy is that it starts lacking experienced workforce (while the rate of long-term unemployed remains high) and that experienced workers can hardly be replaced by newcomers also because the secondary and tertiary educational institutions lack the capacity to prepare enough qualified employees for the labour market. In order to improve its human capital, Slovakia needs to continue to pursue reforms of secondary school curricula and it needs to conduct a radical reform of university education. Furthermore, the government must develop programs which improve the skills of the long-term unemployed and thus increase the supply of blue-collar workers.

#### ***Stabilize and improve transparency to the regulatory framework for the energy sector***

**Challenge and recommendations:** As in other European countries, energy policy is becoming a key issue, due to the challenges provided by the climate change, rising oil prices, and unstable relations with Russia. Moreover, Slovakia will be facing a net shortage of power supply. Thus, Slovakia urgently needs to develop a clear energy policy strategy, focusing on key issues, such as energy supply diversification, transparent and stable regulatory framework, and a clear future outlook on the governments initiatives in the energy sector.

### ***Reform the social security contributions***

**Challenge and recommendations:** The rates of mandatory social security payments remain among the highest of all OECD countries in Slovakia. Given the high unemployment rate, increasing wages, and the recent adoption of the euro, which will reduce Slovakia's ability to respond to asymmetric shocks from abroad, there needs to be a focus on labour market and social security regulation. and Social security laws must become less complicated, more transparent (e.g. by shifting the mandatory contributions to fully employees while adequately increasing the gross wage), more efficient (through joint collection of taxes and social contributions) and more competitive (through cutting the social security contributions rates).

### ***Strengthen law enforcement and reduce administrative burden on doing business***

**Challenge and recommendations:** Slovakia is currently lagging behind the objective to cut administrative and regulatory burden on doing business by 25 percent, a target set by the European Union. So far, no steps have been taken to cut this burden, not even to analyze the current level of administrative burden on doing business. Steps to decrease costs on doing business by better law enforcement have not been taken either so far.

### ***Cope with the adoption of the common European currency - the EURO***

**Challenge and recommendations:** Slovakia will adopt the euro in January. This step means that some economic and social challenges that have to be faced by the government, businesses and employees. The businesses need a stable and transparent legal framework in which the government will not blame them with all potential problems arising from the euro adoption. Government policies should contribute to slower consumer price growth.

## **SPAIN**

### **Policy priorities**

#### ***In-depth reform of labour market regulation***

**Challenge and recommendations:** To achieve: 1) More flexibility to adapt labour market to changing demand needs and high competitiveness levels. 2) An unemployment protection system that provides more incentive for pro-active job seeking by the unemployed. 3) A collective bargaining system which takes more adequately into account the productivity gains and helps to achieve a better match between labour supply and labour demand.

#### ***To guarantee the efficiency of national and European energy market***

**Challenge and recommendations:** 1) Improving energy market regulation. 2) Considering the use of nuclear power in order to reduce Spanish energy dependence to guarantee energy supply at competitive prices for all sectors and to cut greenhouse effect gasses emissions.

### ***To improve educational system, especially professional training***

**Challenge and recommendations:** 1) Strengthening education and training for the mid-skilled labour force, in particular with science and engineering backgrounds. 2) Encouraging workers to participate in lifelong learning.

### ***To reduce corporate taxation***

**Challenge and recommendations:** In order to improve national competitiveness and boost foreign direct investment.

### ***To improve the regulatory environment***

**Challenge and recommendations:** 1) A regulatory environment which enables businesses to operate more effectively is a key contributor towards improve country competitiveness and GDP growth. 2) Initiatives to improve the quality, to modernise and to simplify existing legislation are welcome.

## **SWEDEN**

### **Policy priorities**

#### ***Reduction of the state income tax***

**Challenge and recommendations:** The Swedish tax system is very progressive, with top marginal tax rates reaching around 57-58 percent (depending on the local tax), without even taking the social contributions (i.e. employers taxation) into account. The progressive tax system has a negative effect on hours worked and on productivity, not least because it reduces incentives for acquiring skills and human capital. The progressive tax system also makes it more difficult to attract foreign experts and managers. The revenues of the state income tax, which at the highest level reaches an additional 25 percent tax on top of the local income tax, amounts to around 1.7 percent of GDP, which implies that a rather large reduction would not be very costly.

#### ***A further increase of the in-work tax credits***

**Challenge and recommendations:** Around a fifth of the Swedish working age population (full time) is reliant on social benefits (unemployment benefits, sickness benefits, early retirement benefits and social assistance). The high levels of the benefits in combination with high taxation on low income earners results in weak incentives for people with a rather low productivity to work. A further increase of the in-work tax credit, in combination with reduced benefit levels, would stimulate the incentives to work.

### ***Liberalization of the Swedish employment legislation***

**Challenge and recommendations:** The Swedish legislation regarding hiring/firing is very strict, in the sense that an employer needing to dismiss employees needs to follow the rule of "last hired, first fired". The complexity of the regulations increases the cost of employing, in particular for people associated with a relatively higher risks due to their nationality, education, age, and gender. The regulations also make it more difficult for companies to trim down the overall costs in times of a weaker demand. These two effects in combination could have a negative effect on the degree and speed of structural change.

### ***Increased opportunities for private welfare providers***

**Challenge and recommendations:** The services of the Swedish welfare state is still to a very large degree monopolized by the public sector. This has negative effects on a number of factors, such as cost, quality and productivity. Increased opportunities for private welfare providers, for instance by forcing Swedish counties to allow for private competition or by introducing voucher systems, would result in a higher degree of competition in the market for welfare services, which in turn would result in higher quality for the welfare consumer and lower costs for the Swedish tax payer.

### ***Reduction of the Swedish employers taxation***

**Challenge and recommendations:** Swedish labour costs are, together with Danish labour costs, the highest in the European Union, according to Eurostat data. At the same time, Swedish wages are not that different from the wage levels in many other EU countries. It is not clear whether the largest share of any reduction of the mandatory social contributions (i.e. employers taxation) would go to the employer or to the employee. Nevertheless, it is reasonable to assume that a reduction would have a positive effect on labour demand, which would be a rational complement to the past two year's policy of stimulating the labour supply.

## **SWITZERLAND**

### **Policy priorities**

#### ***Uphold and improve a flexible and open labor market***

**Challenge and recommendations:** A flexible and open labor market is a central success factor of the Swiss business location. Highly important is the continuation of the free movement of people accord and its extension to the newest EU states Bulgaria and Romania. Switzerland is facing a lack of qualified workforce. Thanks to the free movement of people accord qualified employees can be hired on the European market since 2002 and shortages can be alleviated. The contract did prove itself as an important engine for growth during the last years. For the Swiss economy as well as for the attractiveness of Switzerland as a business location the treaty is of great importance as it opens up the access to the European labor markets.

### ***Upgrade and maintain human capital***

**Challenge and recommendations:** Switzerland's strengths lies above all in its well-qualified workforce, technological capabilities and innovation. The availability of qualified staff plays an important role in the location decisions of companies. Continuing efforts should be taken to upgrade and maintain the high quality of education. Therefore, it is important to establish competition between universities, to foster the entrepreneurial spirit in education and research, to further raise the basic education standards and to encourage lifelong learning. Public spending on education and research should be treated as priorities . Cooperation between universities and business should be strengthened.

### ***Facilitate research and innovation activities***

**Challenge and recommendations:** Research and innovation should be encouraged with on optimal general framework. Besides the improvement and upholding of the access to international labor markets and the protection of intellectual property, financial incentives to stimulate and support research and innovation should be improved. Compared with other OECD countries, Switzerland does hardly know tax credits and tax rebates to boost research, development and innovation. Legal changes are needed to encourage the use of venture capital. Venture capital is a major source of funding for new technology-based firms. It encourages technology transfers and is a decisive determinant of entrepreneurship and innovation. As a country of origin in venture capital investment, Switzerland ranks below the OECD- and the EU-average.

### ***Improve fiscal business environment***

**Challenge and recommendations:** The business conditions in Switzerland as a country of residence for multinational enterprises has to be improved to uphold the attractiveness of Switzerland as a business location in the long run. Policy reforms should remove existing fiscal disadvantages and keep Switzerland fiscally attractive for enterprises with international activities. The international trend to lower taxes on profits is going on. The Swiss taxes on corporate profits are comparatively high and a reduction is urgent. The network of tax conventions in order to fully avoid international double taxation should be widened. The stamp duty on capital leads to negative incentives for investors and should be abolished as in many EU countries. Tax relieves for international active managers and expatriates are necessary as the supply of qualified staff is an important argument in location decisions.

### ***Open access to the international markets***

**Challenge and recommendations:** Switzerland's economy is globally orientated and in comparison to many other OECD countries, the share of trade with countries in other continents is higher in Switzerland than it is in most other countries. Switzerland is an important foreign direct investor too. Open access to the international markets is therefore essential for the many export orientated Swiss firms. Open markets are also an important criterion in the location decision of international companies. Therefore, the network of free trade agreements covering trade in goods and services, direct investment and intellectual property as well as other measures to further improve the business environment has to be extended.

# TURKEY

## Policy Priorities

### *Reduce the minimum cost of labor*

**Challenges and recommendations:** A high minimum wage relative to average wage and high payroll taxes keep legal employment costs of low-skilled workers very high. This discourages the hiring of these workers by firms in the formal sector, in particular in regions and sectors where labour productivity is low. The very high minimum wage/average wage ratio needs to be reduced by containing the growth of mandatory minimum wages and creating a framework to differentiate minimum wages across sectors and regions. Cuts in the labour tax wedge, especially on low earnings, should be continued without undermining long-term financial balances of the pension system.

### *Fight against Unregistered Economy*

**Challenges and recommendations:** Unregistered economy is the most single important factor that weakens productivity growth. Employment protection is rigid in the formal sector for both permanent and temporary workers. This contributes to maintaining resources in inefficient informal activities. To stimulate employment in the formal sector, actions should be taken to ease employment adjustments in the formal sector and facilitate temporary work, and implement the intended severance pay reform. Lowering net pension benefits, establishing a health insurance contribution for young retirees and enhancing enforcement will reduce incentives for early retirement from formal sector to take work in the informal sector.

### *Improve Infrastructure, Especially Transport*

**Challenges and recommendations:** Underinvestment in railways add to business costs and distorts regional development. Insufficient port capacity leads to delays in exports. Legislation in these areas, particularly railway legislation, should be changed and investment environment should be made suitable for private sector investment.

### *Improve educational achievement*

**Challenge and recommendations:** The average academic performance in secondary education, and enrolment rates in tertiary education, remain very low. The lack of basic skills for a large share of the population results in low productivity and hampers growth. Academic performance in secondary education, and enrolment rates in tertiary education need to be improved. Schools should be funded on a per pupil basis, and provided with greater managerial responsibility and accountability. New universities should be adequately funded, and expenditure per student should be increased. Spending on public education need to be increased and financed with spending cuts in lower priority areas.

### **Simplify Product Market Regulation**

**Challenges and recommendations:** To improve productivity performance, product market regulations must be simplified, in particular the sectoral licensing rules which hinder market entry, and advance privatizations and encourage greater competition in network industries.

## UNITED KINGDOM

### Policy priorities

#### *Improve the education achievement of young people*

**Challenge and recommendations:** The underlying growth potential of the UK economy is being held back by deficient skill/knowledge levels amongst young people. Three areas in particular are in need of attention: school leavers' basic skills including functional literacy and numeracy; the number and quality of graduates in 'STEM' subjects (science, technology, engineering and mathematics); and the 'employability' skills (communication, teamworking etc) of school leavers and graduates alike.

#### *Improve the transport infrastructure*

**Challenge and recommendations:** The productivity potential is also being held back by a lack of sufficient past investment in the transport infrastructure. The rail network needs to be improved, helped by new investment including in major projects (such as the east-west Crossrail project in London). Action to tackle road congestion is also needed, including through added capacity.

#### *Speed up the planning process*

**Challenge and recommendations:** The planning system needs to be speeded up, and reformed to make it easier for major projects of strategic national importance to proceed. This is needed to help infrastructure of all kinds - not just transport but also energy production and transmission (where potentially serious economic disruption due to shortages is threatened), and housing.

#### *Improve public sector efficiency*

**Challenge and recommendations:** With the UK public finances deteriorating from an already poor position, efficiency savings and elimination of waste in the public sector are now needed not just to 'recycle' to frontline public services, but also to make it easier to live with the necessary restraint on total government spending.

#### *Reform the approach to taxation policy-making*

**Challenge and recommendations:** Tax policy-making in the UK has recently been characterised by frequent and often surprise change, particularly in the case of taxes affecting business and its backers and more often than not with a revenue-raising outcome. Business investment is threatened as a result. The tax policy making process needs to be reformed, to improve the consultation process and take greater account of key principles, including stability and non-retrospection.

## UNITED STATES

### Policy priorities

#### *Reduce energy dependence on fossil fuels*

**Challenge and recommendations:** The US is still dependent on foreign oil. U.S. consumption of crude oil and petroleum products jumped 21% between 1990 and 2007, while domestic oil production plunged by more than 30%. The production-consumption imbalance was offset, in large part, by soaring oil imports, which increased 68% between 1990 and 2007. Last year, America's oil import bill totaled \$237 billion, up 164% from the amount notched in 2000. Greater government incentives (tax holidays, investment incentives, capital provisions) are required to promote growth in alternative energy resources; as well, greater incentives to prompt energy conservation and efficiency are required.

#### *Improve human and capital infrastructure of the nation*

**Challenge and recommendations:** The U.S. public education system is not yielding students with the appropriate quantitative and qualitative skills, notably in science and math. America's public infrastructure is aging and in many cases, is in disrepair, exacting a cost on consumers and businesses. As a result, America's global competitiveness is at stake. Greater spending and capital investment, along with the right incentives, are needed to bring America's human and capital infrastructure into the 21<sup>st</sup> century. Salaries of teachers need to become more competitive; tax incentives should be considered for firms that undertake ongoing training for its workers. Amid a large federal budget deficit, the government must raise its capital investment in the nation's physical infrastructure.

#### *Restrain Health care costs*

**Challenge and recommendations:** Rising health care costs represent a significant monetary threat/risk to many U.S. households; over 40 million Americans do not have health insurance. Those with some type of insurance are spending more—out-of-pocket expenses continue to rise. At the state level, various municipalities are finding it increasingly difficult to provide health benefits to eligible retirees. US health care costs are now in the range of 16% of GDP, a level of expenditures that requires greater efficiency and productivity-enhancing measures from the government. More bi-partisanship is needed to create a more equitable and afford health care system for all Americans.

#### *Prevent continued decline in US real wages*

**Challenge and recommendations:** U.S. real wages have remained relatively stagnant this decade, reducing real incomes of many U.S. workers. Although much of the pressure on real wage emanates from technology advances, productivity-enhancing measures, the general consensus is that real incomes and wages are under notable threat from offshoring and outsourcing. The latter variables have been blamed for declining real wages, threatening to create an anti-globalization backlash in the United States. Policies designed to give laid off US workers more training and monetary assistance is needed in order to stay off trade and investment protectionism. Also, in that the U.S. remains a favored location of foreign companies, more incentives should be forthcoming that promotes more foreign direct investment, which entails more employment and rising incomes over the medium term.

## ***Continued reform of corporate governance***

**Challenge and recommendations:** Creating a financial regulatory system that avoids the excesses of both leverage and deleveraging is required, as is greater transparency as it relates to the U.S. banking system and credit rating agencies. Banking, insurance and investment banking reform are all need to ensure against another subprime-like situation in the future. To maintain its global competitiveness, U.S. accounting standards should increasingly resemble global standards.

## **NON-MEMBER OBSERVERS:**

### **Slovenia**

#### **Policy priorities**

##### ***Lower tax burden on labour***

**Challenge and recommendations:** Slovenia has one of the highest tax-wedges in Europe. The objective should be to reduce personal income tax for lower paid employees and to limit the increase in social security contributions

##### ***Strengthen efficiency of active labour market policies***

###### **Challenge and recommendations:**

The active labour market policies applied by the government lack transparency as well as continuity. This needs to be changed in order to better address the needs of the labour market

##### ***Active ageing***

###### **Challenge and recommendations:**

Slovenia has one of the "oldest" work forces and hence companies face difficulties finding adequate employees that fit their needs. The government must, together with social partners, find solutions (labour legislation, incentives (financial) to work longer, changes of pension system) to address this .

Additional reforms are necessary concerning taxes as well as disability benefits