Developments in OECD Product Market Regulations

During the last decades many OECD countries have started to implement significant regulatory reforms of their product markets. Recent research findings corroborate that regulations in product markets tend to restrict competition and thus induce repercussions for long-term economic growth. Nicoletti and Scarpetta (2003), for instance, argue that rigid product markets hinder rapid reallocation of productive resources, thereby constraining countries to move towards the production frontier.

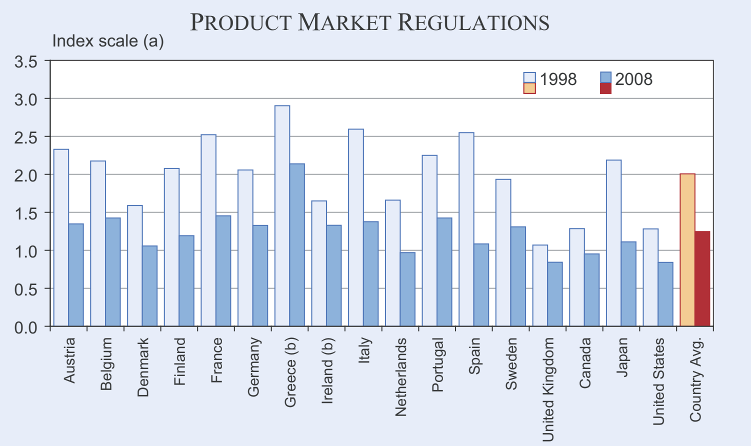
Utilizing an aggregated index for the strictness of product market regulation shows that regulations in OECD product markets vary dramatically by country and over time (Figure).[1] Interestingly, despite strong heterogeneity in regulations all selected countries show steady reductions in product market regulations from 1998 to 2008. Those regulations range from least restrictive in the United Kingdom and the United States (with index points of 1.1 and 1.3 in 1998, respectively) to most restrictive in Greece and Italy (2.9 and 2.6 in 1998, respectively). Germany is at the country average with 2.1 and kept its position until 2003. While leading deregulated countries like the United Kingdom, the United States and Canada continued to improve until 2008, laggards such as Italy, Greece and France are still above average but have managed to catch up markedly.

Differentiating between the various dimensions of product market regulations the Table shows each of the main sub-categories that make up the total product market regulation index for 1998 and 2008. The subindex category Barriers to Entrepreneurship includes comprehensive information on the licensing and permission system, administrative burdens on start-ups in manufacturing and service industries and barriers to competition in product markets (Wölfl et al. 2009). It turns out that European countries like France, Italy and Greece had the most restrictive regulations in this category represented by an index of about 2.7–3.0 (in 1998), while Anglo-Saxon countries such as Ireland, United Kingdom and Canada are least restrictive (around 1.5 index points in 1998). Interestingly, even Japan belonged to the group of countries with high barriers to entrepreneurs in 1998. Germany with an index of 2.3 was slightly above average (which was 2.2 index points in 1998). However, laggards in deregulation of barriers such as France, Italy and Japan managed to downsize their barriers enormously by 2008.

The sub-category Barriers to Trade and Investment measures barriers to foreign direct investment, tariffs, discriminatory procedures and regulatory barriers in international trade (Wölfl et al. 2009). As depicted in the Table Germany was right at the country average of this regulation sub-category with 0.7 index points in 1998, and even fell behind average in 2008. Countries with strong barriers in trade and investment in 1998 included Spain and Greece as well as Austria with an index significantly above country average. Nevertheless, until 2008 most of these countries dismantled their trade and investment barriers. Product markets in the United Kingdom, Ireland and the United States were already characterized by very low trade and investment barriers in 1998 but those countries continued to cut back barriers to become the least restrictive by 2008.

The last category State Control comprises various indicators on the control over business enterprises.

Figure



Notes: Countries cover EU15 (excluding Luxembourg), United States, Canada and Japan.
(a) Index scale ranges from 0 to 6 from least to most restrictive. (b) 2003 instead of 2008.
Sources: OECD Product Market Regulation Database, Wölfl et al. (2009).

[1] The data is provided by a database on regulatory reforms launched by the OECD. For details on economy-wide indicators of product market regulation see Wölfl et al. (2009). The OECD Product Market Regulation Database is available on the internet http://www.oecd.org/document/36/0,3343,en_2649_34323_35790244_1_1_1_1,00.html, accessed November 2, 2009.

Table

Summary of sub-indicators, 1998 and 2008

	Barriers to Entrepreneurship		Barriers to Trade and Investment		State Control	
	1998	2008	1998	2008	1998	2008
Austria	2.2	1.2	1.0	0.8	3.8	2.0
Belgium	2.3	1.4	0.7	0.3	3.5	2.5
Denmark	1.8	1.2	0.5	0.6	2.5	1.4
Finland	2.4	1.4	0.8	0.5	3.0	1.7
France	3.0	1.3	0.8	0.5	3.8	2.6
Germany	2.3	1.3	0.7	0.7	3.2	2.0
Greece*	2.7	2.0	1.3	1.1	4.7	3.3
Ireland*	1.6	1.2	0.4	0.3	3.0	2.4
Italy	2.7	1.1	0.8	0.7	4.2	2.3
Netherlands	2.1	0.9	0.5	0.3	2.5	1.7
Portugal	2.2	1.2	0.7	0.5	3.9	2.7
Spain	2.4	1.2	1.5	0.3	3.7	1.8
Sweden	2.1	1.0	0.9	0.6	2.8	2.4
United Kingdom	1.5	0.8	0.2	0.2	1.5	1.5
Canada	1.3	1.1	0.7	0.4	1.9	1.3
Japan	3.0	1.4	0.4	0.5	3.1	1.4
United States	2.0	1.2	0.4	0.2	1.4	1.1
Country average	2.2	1.2	0.7	0.5	3.1	2.0

Notes: Countries: EU-15 excluding Luxembourg, as well as United States, Canada and Japan. * 2003 instead of 2008. Index scale ranges from 0 to 6 from the least to the most restrictive.

Source: OECD Product Market Regulation Database, Wölfl et al. (2009).

Amongst others those indicators cover the size of the public enterprise sector, direct control over business enterprises as well as the existence of price controls in competitive industries (Wölfl et al. 2009). Here again the most restrictive regulation was found in southern European countries, particularly in Greece, Italy and Portugal. But also Austria and France and to a lesser extent Germany were relatively restrictive in 1998, and were ranked above this category's country average of 3.1 index points. Despite less restrictive state control in 2008 most of these countries were still significantly above average. On the contrary, state control in product markets was lowest in the Anglo-Saxon countries such as the United Kingdom, Canada and the United States throughout the entire period.

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References

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Wölfl, A., I. Wanner, T. Kozluk and G. Nicoletti (2009), "Product Market Regulation in OECD Countries 1998–2008", *OECD Economics Department Working Papers* no. 695.