

Foundations for Growth and Competitiveness

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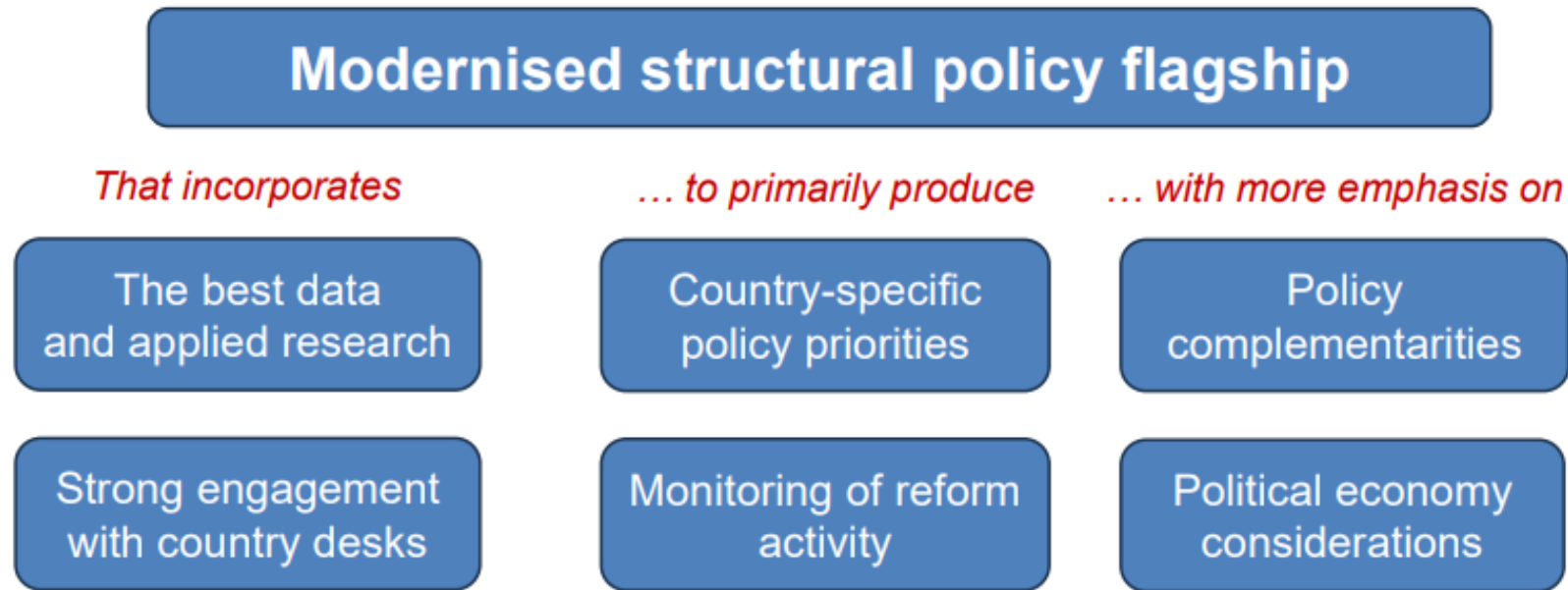
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* This presentation draws on the work of the F4GC team (Nicolas Ruiz, Álvaro Leandro, Sébastien Turban, Joana Duran-Franch, Agnès Cavaciuti and Marnix Dek) and Country Desks in the OECD Economics Department.



Why Foundations for Growth and Competitiveness (F4GC)?

- The aim is a modernised structural policy flagship publication, that is for the long run what the Economic Outlook is for the short run

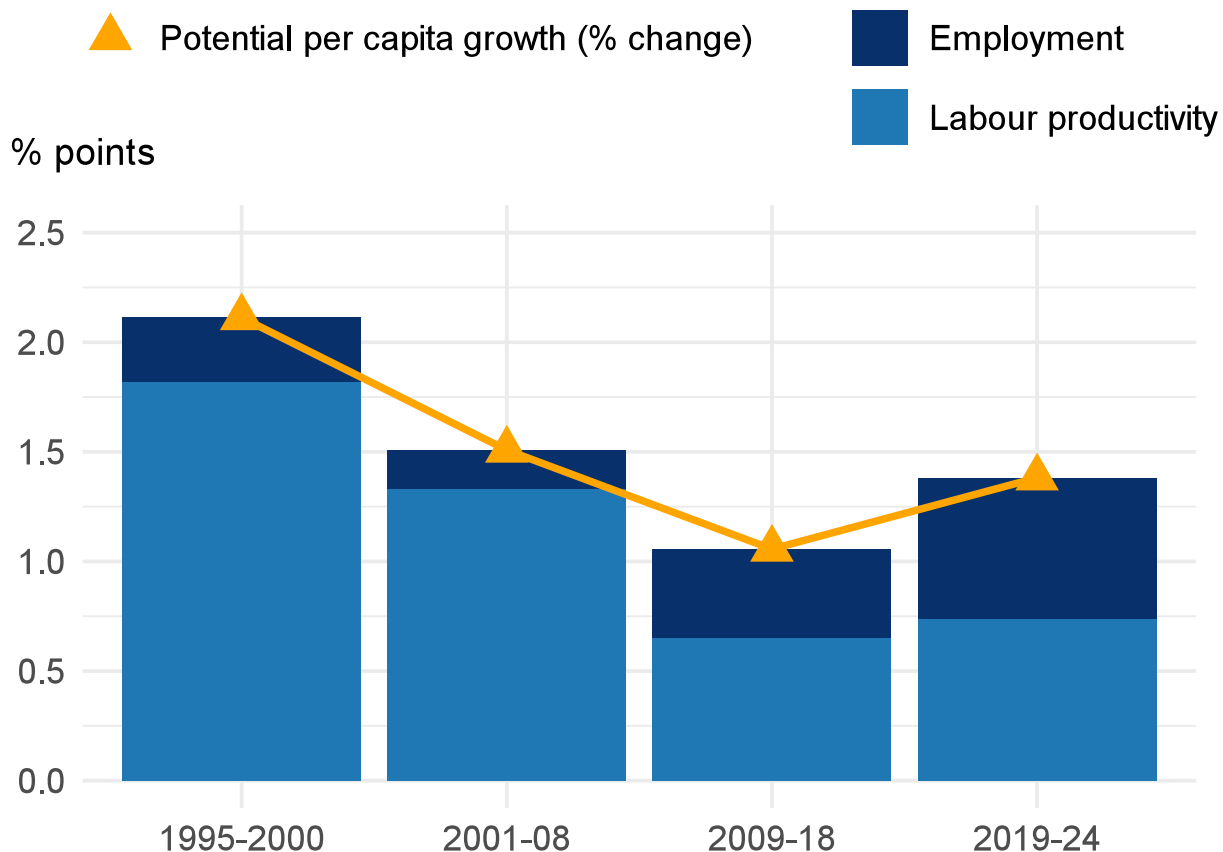


- F4GC initiative represents a “re-centring on growth”, relative to the *Going for Growth* publication, with a strong emphasis on economic dynamism and social mobility.

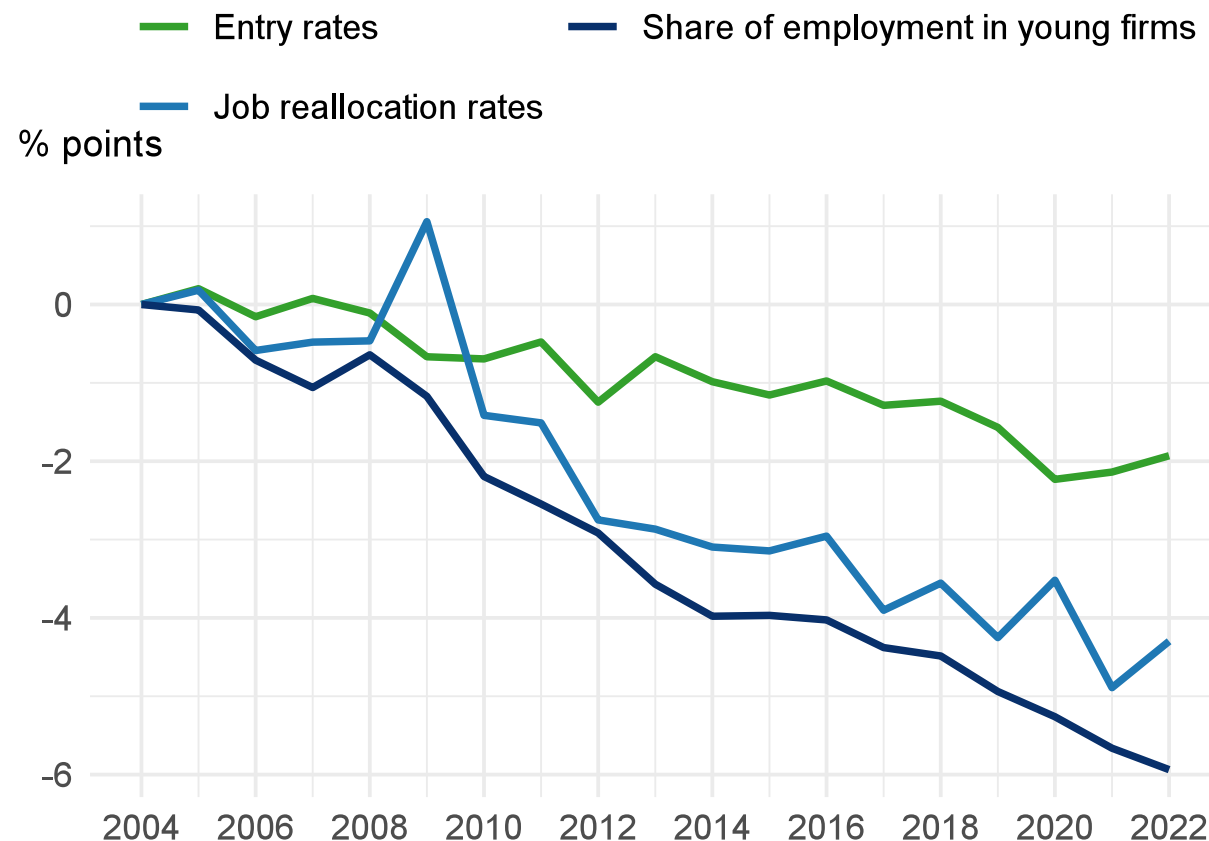


Productivity slowdown underpinned by a decline in economic dynamism...

A. Contribution to growth in potential GDP per capita



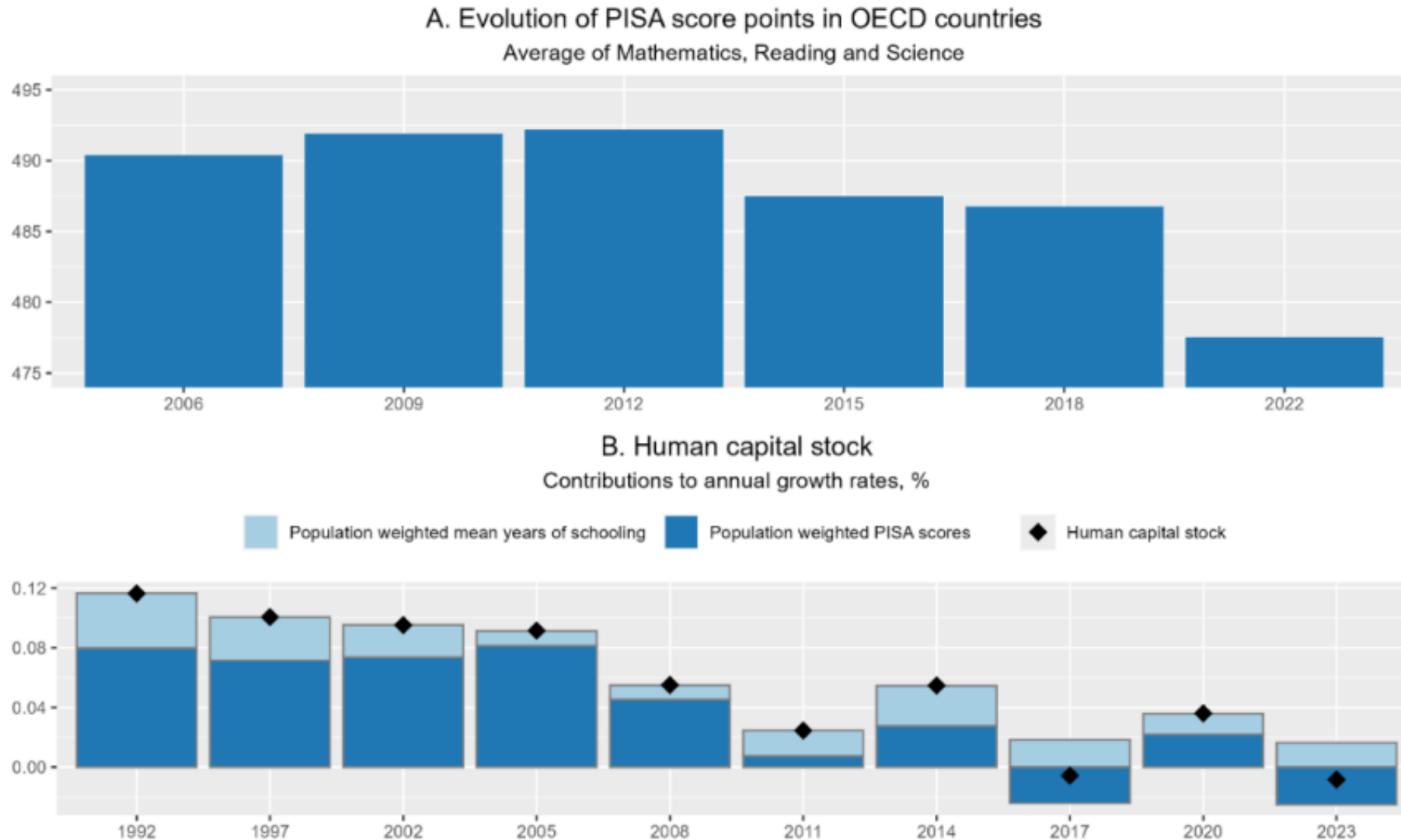
B. Average within-country–industry cumulative changes



Note: In Panel B, the figure reports the average within-country–industry cumulative changes in percentage points relative to 2004. Estimates are derived from year coefficients of within-country–industry regressions covering 12 countries (AUT, BEL, DEU, ESP, FIN, FRA, GBR, HUN, ITA, PRT, SVN, TUR) over the period 2004–2022. Regressions are weighted by each industry’s annual share of employment or number of units, within countries. The figure covers manufacturing and non-financial market services. More details are available at the sources.

Source: Panel A: OECD, Economic Outlook Database 117. Panel B: Calvino, F., C. Criscuolo and R. Verhac (2020), “Declining business dynamism: Structural and policy determinants”, OECD Science, Technology and Industry Policy Papers, No. 94, OECD Publishing, Paris, <https://doi.org/10.1787/77b92072-en> and Cho, W. et al. (2024), “Diagnosis and policy action for sustainable and inclusive productivity growth”, OECD Science, Technology and Industry Working Papers, No. 2024/07, OECD Publishing, Paris, <https://doi.org/10.1787/1668f250-en>.

... and by slowing human capital accumulation



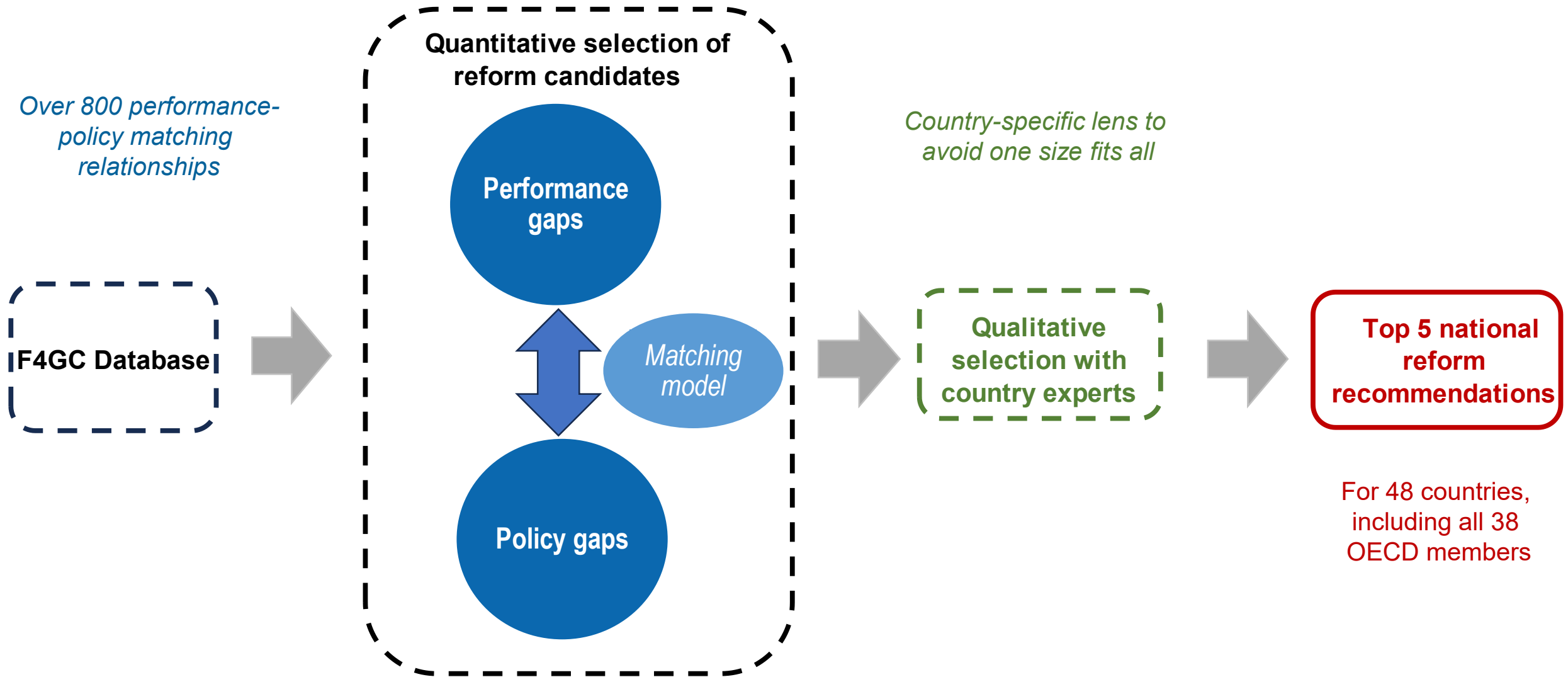
Note: Panel A: Data are missing for Austria in 2009, Costa Rica in 2006 and Spain in 2018; Panel B: PISA scores and mean years of schooling are cohort weighted averages such as they enter the measure of human capital stock.

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

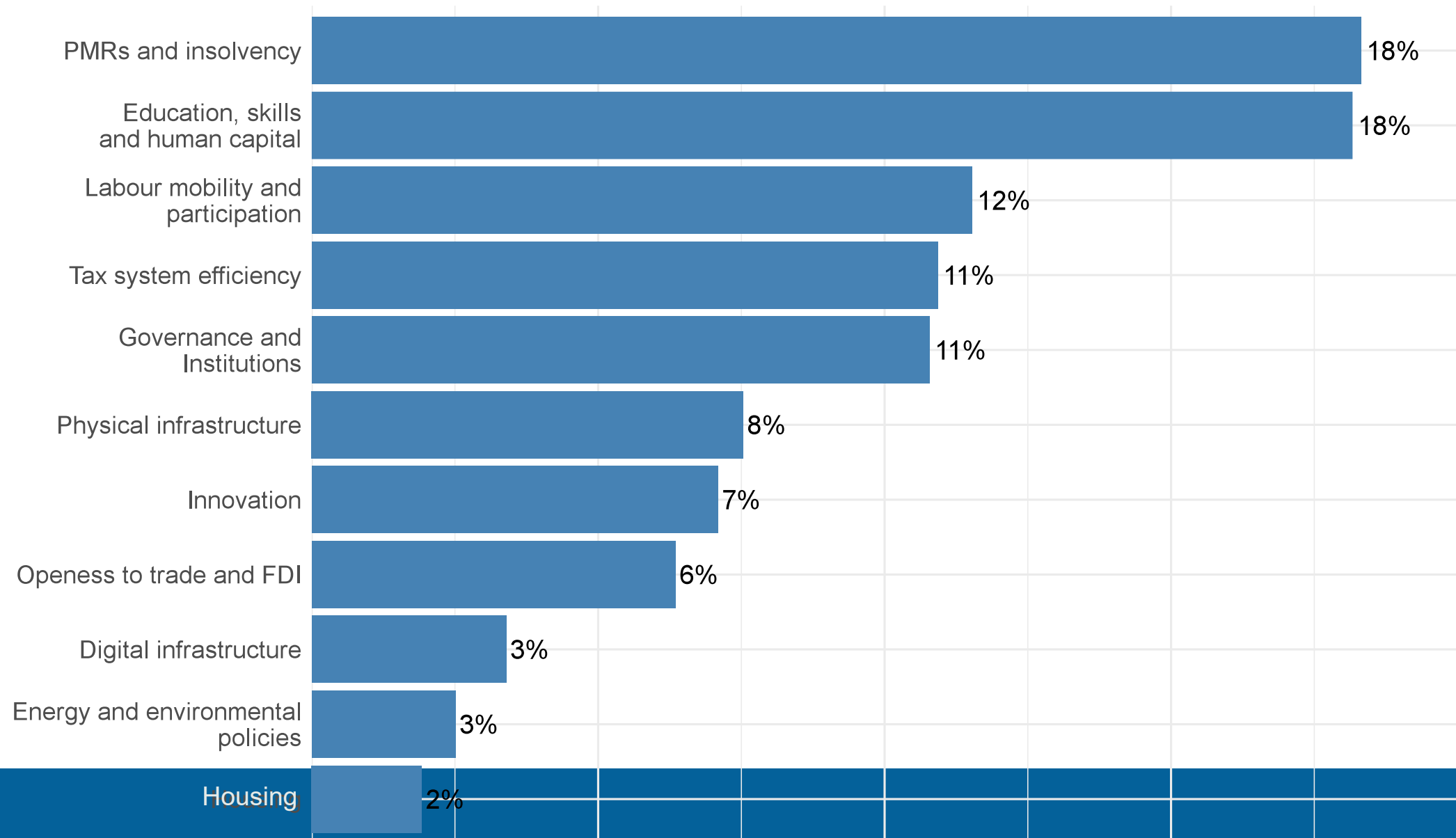
F4GC: Country-specific policy priorities



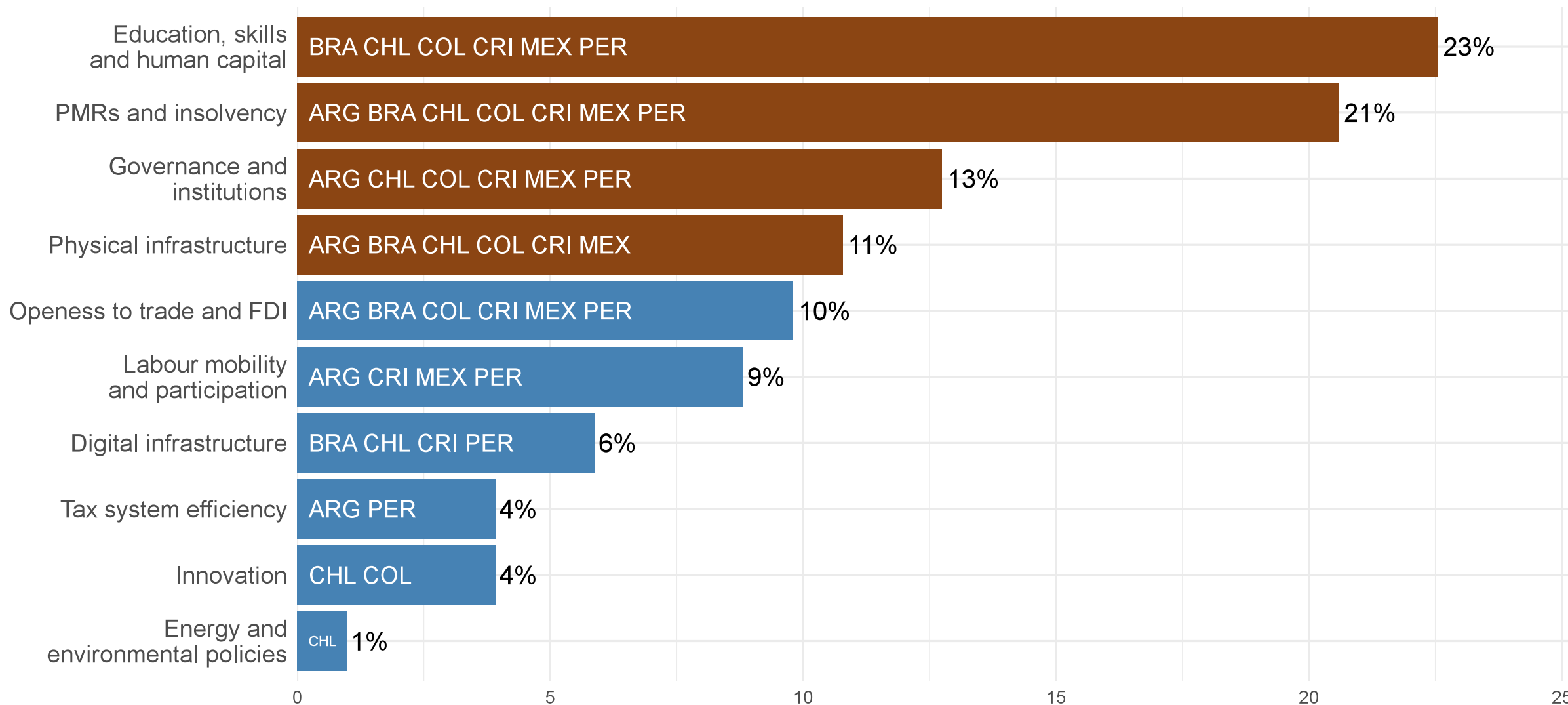
The F4GC policy prioritisation model



Shares of F4GC priorities across main policy areas



... and in Latin America (7 countries)



Note: Overall, Latin America has 23 Education recommendations (Brazil-5, Chile-5, Costa Rica-4, Colombia-3, Mexico-3, Peru-3, Argentina-0) and 21 for PMR (Chile-5, Argentina-4, Brazil-4, Peru-4, Mexico-2, Colombia-1, Costa Rica-1).

Example: Human capital-augmenting policies in Mexico

Education: Boost investment in human capital

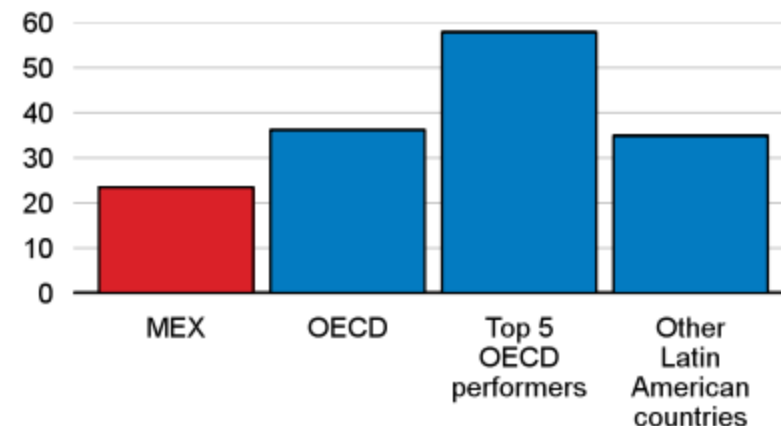
Access to education is nearly universal but a large share of students leaves the education system without completing secondary education. Education quality has remained stagnant, well below OECD averages and with significant regional disparities. Some 75% of employers report difficulties filling jobs due to lack of the appropriate skills, a proportion that is increasing.

Recommendations

- ✓ Identify students in need of support, provide them with targeted tutoring and assess and resolve teachers training needs.
- ✓ Use skill anticipation assessments and consult systematically businesses at state level to align university and vocational education and training with labour market demand.
- ✓ Identify which training programmes are most effective in equipping workers with relevant skills and strengthen them.

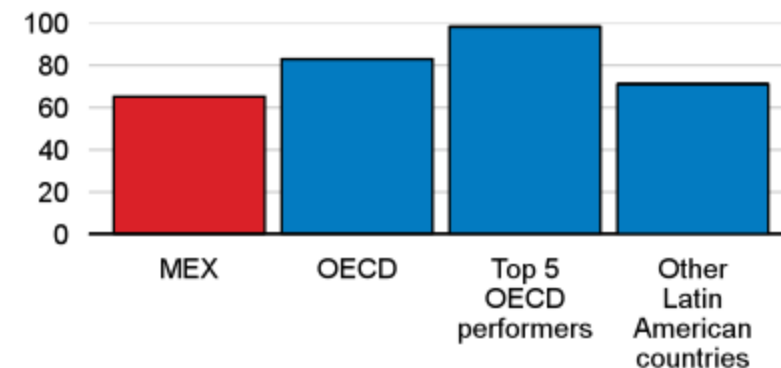
Educational attainment in upper secondary education

% of 25–64 year-olds, 2023



Enrolment rates in early childhood and pre-primary education

% of children ages 3 to 5, 2021



Example: Product Market Reforms in Argentina

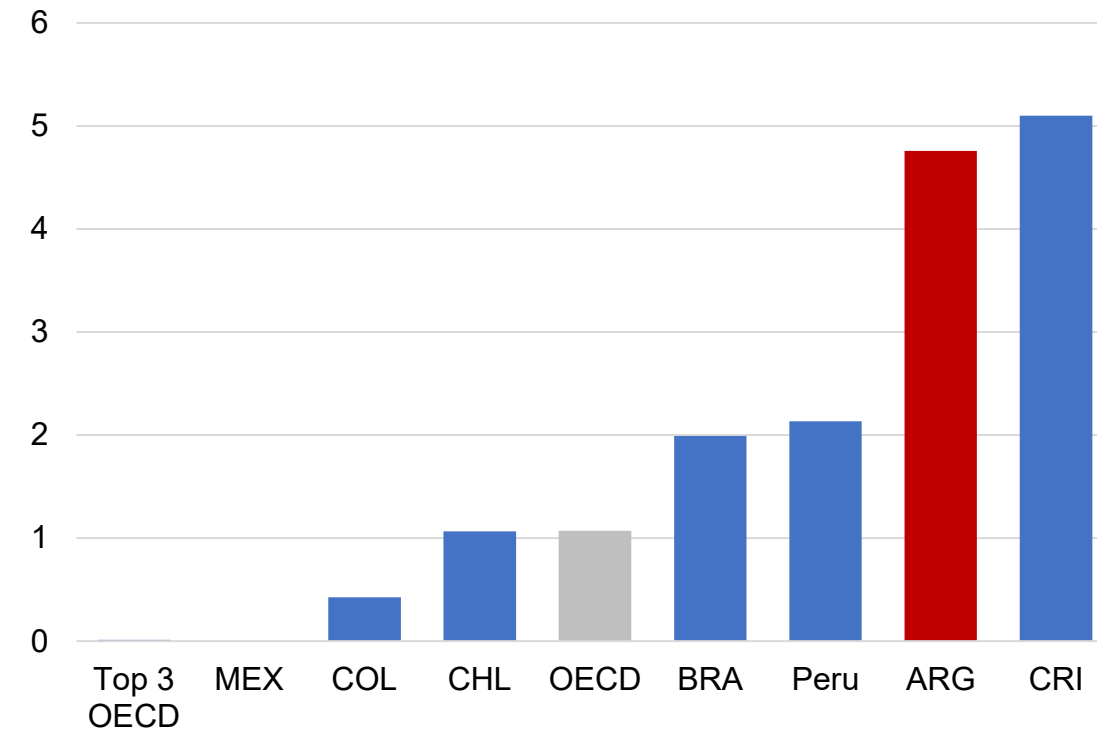
Competition: Promote more competitive domestic markets

Despite notable recent reforms, regulation of product markets in Argentina remains very restrictive according to the OECD Product Market Regulation indicators. Entrepreneurs are still subject to some onerous and time-consuming procedures when starting their businesses. Barriers to entry persist in a range of professional services. The independent National Competition Authority and its subordinated bodies mandated by the competition law still have not been created, and the resources of the current competition authority are limited. Moreover, the adoption of a pre-merger review regime mandated by the competition law has not taken place yet. Regulations are not systematically assessed.

Recommendations

- ✓ Continue streamlining business regulations to reduce entry barriers in services sectors and lower administrative burdens for new firms.
- ✓ Create an independent, appropriately funded National Competition Authority.
- ✓ Establish the systematic use of regulatory impact assessments.

Cost to start a firm
% of GDP per capita; 2023



Source: OECD Product Market Regulation database



F4GC considers two key political economy issues

Policy
Complementarities

The short-run effects
of structural reforms



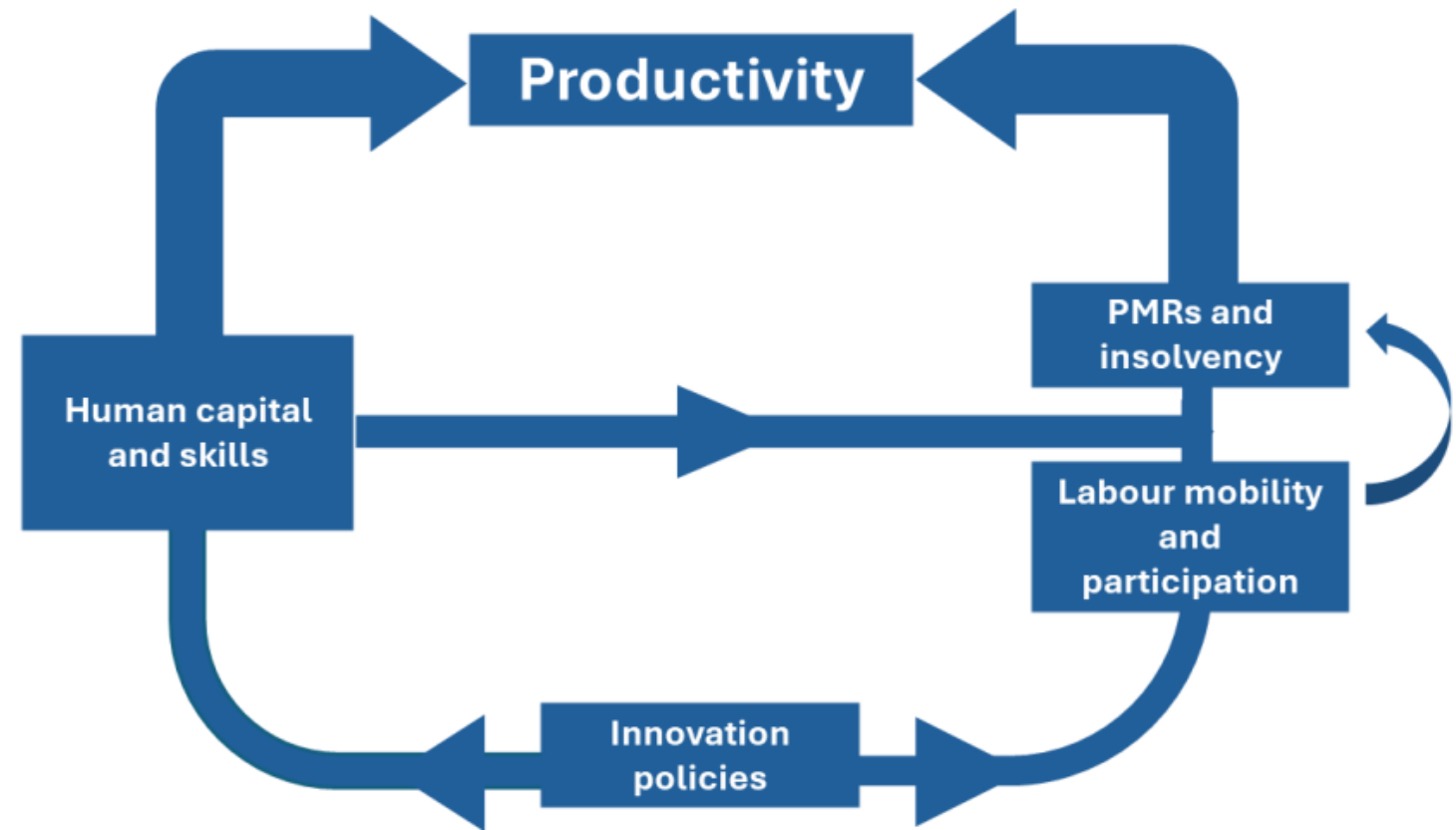
Policy complementarities in action: *why competition and human capital matter so much?*

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

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

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

An illustration of policy interactions

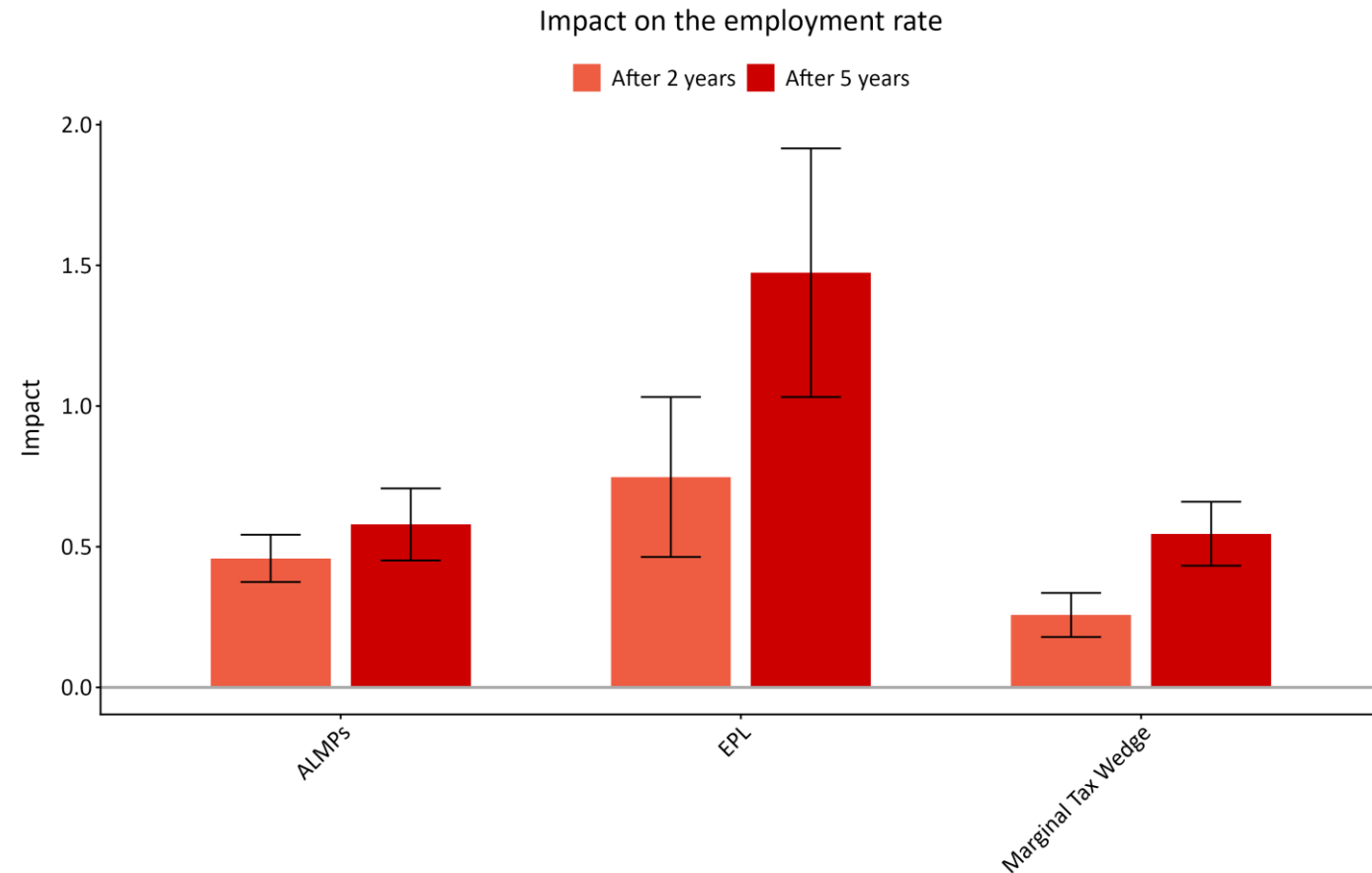


Labour market reforms can yield short-run employment gains

Increasing ALMPs and reducing EPL and the tax wedge can materially boost employment rates within two years.

The gains from labour market reforms may be even larger in Latin America, where high rates of informality stem from labour market rigidities.

Estimated impact of average policy change



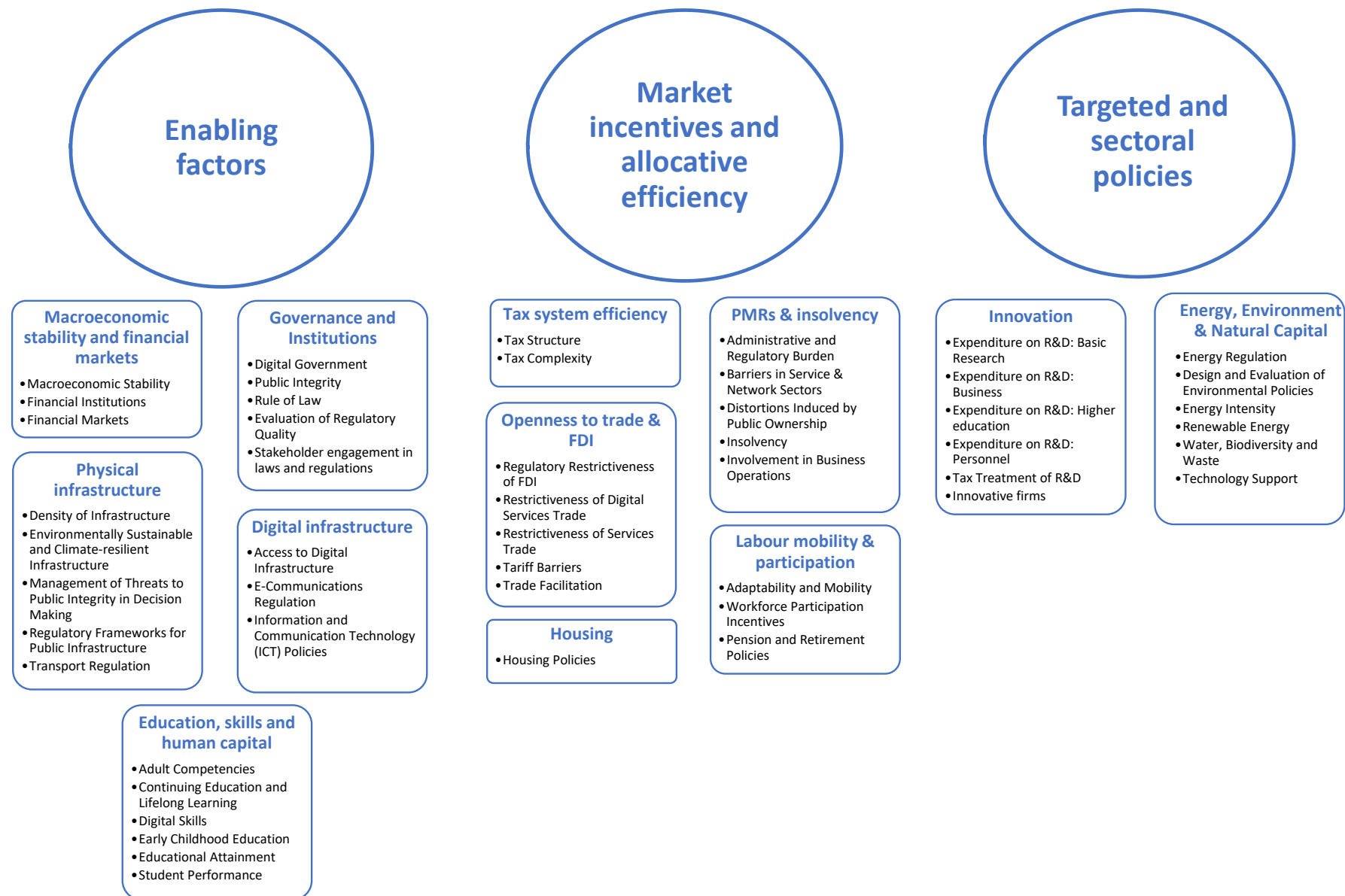
Note: These charts summarise local projections estimates as the 2-year and 5-year horizon. The sizes of the shocks are calibrated to be equal to an average reform episode. The 68% confidence intervals are reported in brackets. ALMPs: Active Labour Market Policies; EPL: Employment Protection Legislation. The Marginal Tax Wedge refers to that faced by a single person earning 100% of average earnings.

Source: OECD calculations based on Mitteldorf, E., Smiderle, I., Duran-Franch, J., Leandro, A., Turban, S. and Ruiz, N., "The short-term effects of structural reforms: a reassessment", OECD Economics Department Working Papers, forthcoming.

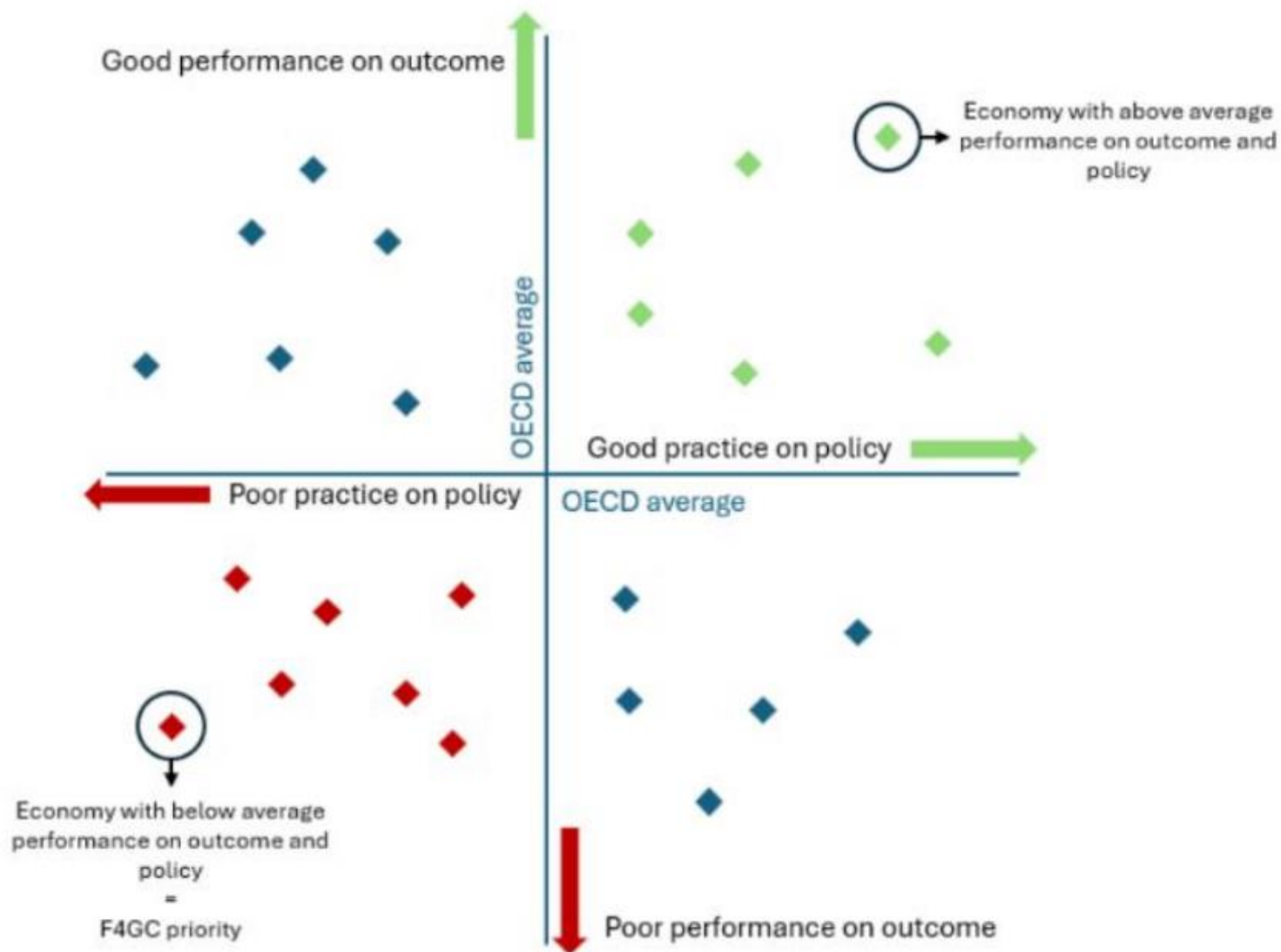
Appendix



Structure of the F4GC database



F4GC performance- policy benchmarking



Source: OECD Secretariat.

