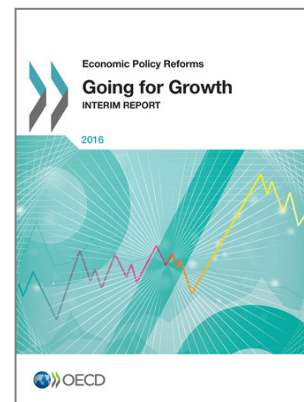
OECD *Multilingual Summaries*
Economic Policy Reforms 2016
Going for Growth Interim Report

Summary in English



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Global growth prospects remain clouded in the near term, with emerging-market economies losing steam, world trade slowing down and the recovery in advanced economies being dragged down by persistently weak investment. These near-term concerns arise against the background of a widespread deceleration of productivity gains, with the downward trend going back to early 2000s – at least in advanced economies – and with little signs of revival. The growth slowdown observed among emerging-market economies over the past couple of years also raises questions about their capacity to further closing the income gap vis-à-vis most advanced countries. The case for structural reforms, combined with supporting demand policies, remains strong to sustainably lift productivity and the job creation that will promote improvements in equity.

Going for Growth offers a comprehensive assessment to help governments reflect on how policy reforms might affect their citizens' wellbeing and to design policy packages that best meet their objectives. The Going for Growth framework is instrumental in helping G20 countries to monitor their efforts to fulfil the pledge made in 2014 of boosting their combined gross domestic product (GDP) by 2%, and to adapt their growth strategies accordingly.

This interim report reviews the main growth challenges faced by OECD and selected non-OECD countries and takes stock of progress over the past year or so in adopting structural policy reforms to address them (Chapter 1). This is examined in light of the thrust of the country-specific priorities identified in the 2015 issue of Going for Growth. The potential implications of growth-enhancing reforms for inclusiveness and macroeconomic rebalancing are also discussed, with a focus on public finance consolidation, the narrowing of current account imbalances, and the reduction of income inequality.

The report also reviews the issues and evidence on the impact of reforms implemented in a context of persistently weak demand as well as under different cases regarding the availability or effectiveness of macroeconomic policies in supporting the reforms (Chapter 2). Finally, the report provides an assessment of the link between income generated from GDP and income distributed to households (Chapter 3). In particular, it examines how the main channels through which GDP growth is transmitted to the household sector have evolved over the past two decades across OECD countries.

Policy reform challenges

- In devising reform strategies to sustainably improve the wellbeing of a majority of citizens, governments around the world need to address deep structural weaknesses that the crisis laid bare, but which in many cases originated well before.
- The global slowdown in productivity growth has been characterised by the widening of the dispersion of productivity growth across firms within industries, in particular between frontier firms – essentially multinational enterprises which have maintained steady productivity growth – and all other firms that operate well within the productivity frontier. Removing barriers that stifle entrepreneurship and limit the capacity of firms to make the most of knowledge and technological diffusion is a reform priority.
- Reducing unemployment continues to be a major challenge for many countries, particularly so in southern and central European countries where long-term unemployment remains particularly high. Other countries have been facing relatively high rates of labour market withdrawals (e.g. United

States), low labour force participation of women (Korea and Japan) or a high incidence of informal employment (most emerging-market economies). Addressing these labour market challenges is a priority to make growth more inclusive.

Progress achieved in 2015

- Even though progress is made in tackling some of the main challenges, the slowdown in the pace of reforms observed in 2013-14 has continued in 2015, even after taking into account measures that are in the pipeline but that have yet to be fully implemented.

- The pace of reforms has varied both across countries and policy areas.

- It continues to be generally higher in Southern European countries (in particular Italy and Spain) than among Northern European countries. Outside Europe, countries where a relatively high number of measures related to Going for Growth recommendations have been taken include Japan among advanced economies, and China, India and Mexico in the case of emerging economies.
- Relatively more actions have been taken to lift the labour force participation of women and to improve educational outcomes, while fewer actions are observed in the areas of innovation policy, public sector efficiency or product and labour market regulation.

- In countries where income inequality is a particular concern, the majority of actions taken on policy priorities are likely to help narrowing the income distribution. However, recent actions taken to boost growth are unlikely to help countries with largest current account deficits to narrow their external imbalances.

Reforming in a context of weak demand

Against the background of subdued global economic prospects, there is a good case for prioritising reforms that in addition to stimulate employment and productivity, can best support activity in the short term.

- Aside from raising investment in public infrastructure, these include reductions of barriers to entry in services sectors with pent-up demand, reforms of benefit entitlements in the areas of health and pension, as well as reforms of housing policies and job-search assistance programmes to facilitate geographic and job mobility.
- Increasing the short-term payoff from structural reforms also requires that remaining financial sector dysfunctions be addressed so as to improve the flow of credit to households and firms with limited access to financial markets.
- In the euro area, a greater synchronisation of reforms would also help reduce the transition costs by giving greater scope to monetary policy to mitigate the potential rise in real interest rates resulting from persistently low inflation.
- Countries with very limited budgetary room may have to prioritise on high short-term returns or on low-cost measures and ensure that others are financed through means that are as friendly as possible to employment and growth.

GDP growth and aggregate household income

- Real GDP has tended to grow by more than real household income in the majority of OECD countries between the mid-1990s and 2013.
- This growth gap is partly due to factors having little policy traction, in particular the fact that consumption prices (which include VAT) have tended to rise relative to production prices over the period under consideration, the only exceptions being commodity exporters such as Norway, Australia and Canada.
- The household income share of GDP, simply defined as the ratio of nominal household disposable income over nominal GDP, has been stable over the period under consideration and on average across OECD countries. This average stability masks heterogeneity in both the level and evolution across countries, with a large decline observed in Austria and Korea and a large increase in the Slovak Republic and Finland.

- Developments in the household income share of GDP can be assessed by looking at the profile of households' labour, capital and secondary (i.e. net government transfers) income share of GDP. A large number of countries have experienced a concomitant decline in the labour share of GDP and in the share of capital income going to households, suggesting that a rising share of profits has been retained by the corporate sector instead of being redistributed to the household sector.
- Yet, there are no clear links between the changes in income distribution between the household, corporate and government sectors of the economy on the one hand, and the rise in income inequality within the household sector experienced by many OECD countries, on the other.

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