JUNE 2009 Policy Brief

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Economic Survey of the United Kingdom, 2009

Summary

The world economy is being buffeted by several shocks. The United Kingdom, like most OECD economies, is in a deep recession. House prices have fallen after an extended period of large increases which left many households over-extended. Financial conditions are tight, and the financial market crisis has threatened the stability of the financial system. External conditions are also highly unfavourable. The recovery is likely to be slow and unemployment is expected to climb significantly. Both monetary and fiscal policies have eased to cushion the severe downturn with the policy rate now at historically low levels and quantitative easing measures under way. The authorities have also moved quickly to introduce a wide range of measures to stabilise the financial system.

In the short term, the policy priority must be to further improve conditions in credit markets. This is essential for reviving the economy. Alongside this, policy should aim at damping the severity of the downturn and its impact, particularly on the labour market. Policy actions that could undermine longer-term objectives need to be avoided. Over the medium term, fiscal consolidation needs to be underpinned by an effective fiscal framework and financial market regulation and supervision needs to be overhauled. The financial crisis and its consequences are likely to lead to a permanent fall in the level of potential output. Therefore, measures to raise long-run living standards will have renewed importance.

Restoring sound public finances and improving the fiscal framework. As in most other OECD countries, the fiscal situation has deteriorated sharply. Room for additional fiscal stimulus is limited, although further targeted measures may be warranted if prospects weaken further. To maintain credibility and promote growth, the government should continue to develop a comprehensive plan to rein back debt to a prudent level once the recovery has taken hold. Any reformulation of the fiscal rules should provide for spending discipline and be forward-looking.

Improving the efficiency of the health care system. Since 2000, many aspects of the health care system have been reformed. A large increase in spending has improved outcomes in many respects, but measures of productivity of health care provision fell up to 2005, although these measures are not yet comprehensive, and other measures of NHS value for money have improved. Reforms need to continue and indeed accelerate to ensure that the NHS remains sustainable as the growth of spending slows and in the long term as the population ages.

This Policy Brief presents the assessment and recommendations of the 2009 OECD Economic Survey of the United Kingdom. The Economic and Development Review Committee, which is made up of the 30 member countries and the European Commission, reviewed this Survey. The starting point for the Survey is a draft prepared by the Economics Department which is then modified following the Committee's discussions, and issued under the responsibility of the Committee.

Observer oecd

Putting in place a financial market framework that promotes stability. A well regulated and supervised financial system is necessary to promote long-term growth and macroeconomic stability. During the credit cycle, some UK banks became heavily reliant on wholesale funding and lent on a large scale, which led to substantial losses. Stronger banking regulation is required and supervision needs to become more effective. The framework to manage systemic risks needs to be developed further.

Assisting labour market adjustment and promoting productivity growth. The unemployment rate could reach close to 10% by 2010. Over the last few years, with low unemployment levels, spending on active labour market programmes has been comparatively low. As unemployment has risen significantly, the government's further policy initiatives in this area are warranted, particularly those focused on the younger unemployed. The proportion of people on disability pensions remains high. The Pathways to Work scheme is now being extended across the country and should be expanded to the stock of disability benefit recipients, as the government plans to do from 2010 onwards. More also needs to be done to promote productivity growth. The priorities should be the continued improvement of the land-use planning system, providing public infrastructure, and to raise training and education levels further. ■

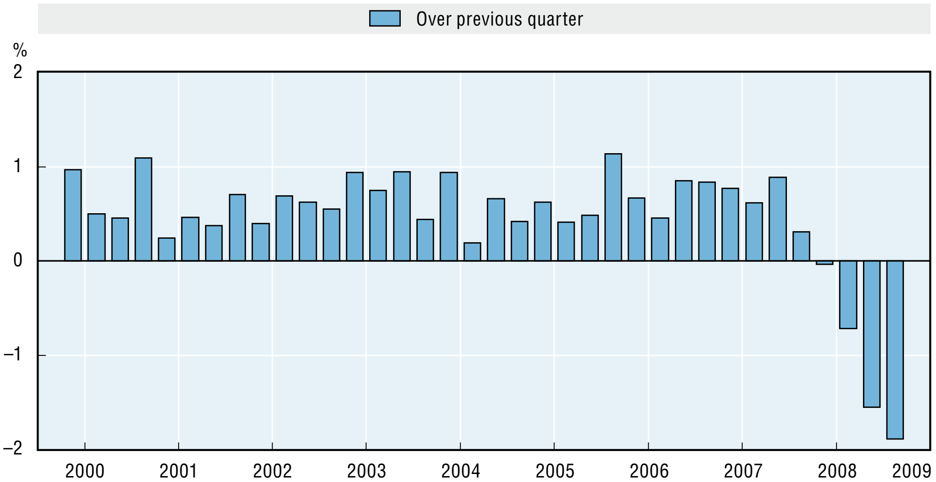
How protracted will the recession be?

The world economy was hit by a succession of shocks during 2007 and 2008. The United Kingdom, like most OECD economies, is experiencing a severe economic downturn, and there is enormous uncertainty about the macroeconomic outlook. Since the peak, GDP has contracted by 4.2% in real terms and is projected to contract further, with a decline of 4.3% expected in 2009. Lower house prices and the slump in equity prices will depress household consumption, together with rising unemployment and weak consumer confidence. Business investment will decline owing to the challenging prospects and tight financial conditions. While sterling has depreciated by around 20% in effective terms since 2007, exports will decline due to the sharp fall in external demand. However, imports are expected to fall faster meaning that net exports will contribute positively to growth. The unemployment rate is rising sharply and could be close to 10% by 2010. Monetary and fiscal stimulus, the weaker exchange rate and some recovery in foreign demand should promote a recovery during 2010. But, this will depend critically on whether measures to stabilise the financial system are effective. Even if they succeed, growth is expected to remain well below trend as households and firms rebuild their balance sheets. The pass-through of higher import prices will slow the decline in inflation in the early part of 2009 but the weakness of demand will create substantial spare capacity in the economy, which will lead to inflation well below the official target for some time. The extent of the global downturn on activity is unclear. A slower than anticipated return to normal financial conditions would have a negative impact on the economy. Greater than anticipated declines in house prices could weigh further on consumption and increase the feedback by exerting further pressures on banks' and households' balance sheets. Significant monetary and fiscal policy stimulus is in place, and although it may not prove as effective as hoped, it is possible that the policies will have a faster and stronger positive effect than anticipated.

The downturn follows prolonged growth in credit and asset prices, driven by a combination of financial innovation and regulation characterised by some as 'light'. Growth was strong and macroeconomic volatility unusually low. Although the credit cycle touched many assets and countries, the UK housing cycle was particularly intense: nominal house prices more than doubled in the ten years to their peak. The asset-price and credit boom was self-perpetuating for a time, as easy availability of credit stoked demand and raised asset prices, which in turn increased the value of collateral and engendered further borrowing. In the end,

Figure 1.

GDP GROWTH



Source: OECD Economic Outlook 85 database.

this proved unsustainable. Starting in August 2007, financial market turmoil led to illiquidity in the interbank lending market. As in some other OECD countries, some UK banks were particularly exposed due to their heavy reliance on market finance rather than deposits and their extensive use of securitisation. The Bank of England has increased the availability of funds but liquidity conditions remain considerably worse than before the turmoil began. Since September 2008, the financial crisis has intensified with sharp falls in asset prices; higher interest spreads on lending and a tightening of bank lending conditions. Even with cuts in official interest rates and the exchange rate depreciation, financial conditions continue to have a substantial negative impact on activity. However, since the beginning of 2009, credit conditions have shown some signs of easing.

In response to the severe downturn, the Bank of England has lowered the official interest rate very rapidly to 0.5% in March 2009, an unprecedentedly low level. However, this overstates the degree of monetary easing because the transmission mechanism is impaired by the financial crisis and reductions in the Bank rate have not been passed on fully to the rates facing borrowers. The depreciation of sterling provides additional support but overall financial conditions are likely to restrain activity for some time. With the Bank rate now effectively at the zero bound and given that the downward pressure of the large amount of spare capacity on prices is intense, the Bank of England has begun a policy of quantitative easing. In addition to purchasing some non-financial corporate sector securities, the Bank has embarked on large-scale purchases of government debt in the secondary market using central bank money. This will raise the money supply, helping to boost nominal demand, and stabilise output and inflation. There is significant uncertainty as to what scale of quantitative easing is required to boost nominal demand sufficiently. *A policy of quantitative easing is more likely to be effective if the scope of future central bank actions is clearly signalled.* ■

How can the supply of credit be restored?

Economic recovery requires that the financial system and the supply of credit are restored. Beyond measures to supply liquidity, the authorities have undertaken a wide range of system-wide policy measures to restore the banking system's ability to supply credit, including a guarantee of certain securities issued by banks. A fund to recapitalise banks was set up and a scheme to insure banks against losses on certain bad assets introduced. Three banks accepted recapitalisation funds from the government and two of them subsequently merged. Other financial institutions have raised capital from private sources. The same two large banks, one of which is now largely under public ownership, have expressed their intentions to participate in the insurance scheme. These banks have given some undertakings to increase the supply of credit. Moreover, one smaller bank has been fully nationalised, with another split into two with the retail deposits sold to a private sector purchaser and the remainder being wound down in public ownership. The government has also put in place schemes to help small and medium-sized businesses, although these measures are small relative to the stock of credit. These measures have helped to stabilise the financial system, but credit conditions remain very tight.

Restoring the supply of credit requires addressing the ability and the willingness of institutions to lend in a very unfavourable economic environment. Although each financial crisis is different and raises specific issues, international evidence indicates that government support that allows fundamentally weakened institutions to remain in business tends to increase the fiscal and economic costs of crises. *It is essential that the supply of new lending is not held back any longer by banks with insufficient capital to meet losses associated with past lending. Recapitalisation and asset protection measures remain appropriate where a bank can function normally with some public assistance. Where institutions are unlikely to be viable, even with substantial assistance, other measures might be required to restore the* *health and stability of the financial system without undue cost to the taxpayer. The new Special Resolution Regime provides several options for such banks including transferring ownership, a special administration procedure for banks and temporary public ownership. The impact of existing policy measures on the public finances is already very large, both in terms of actual costs and the increase in implicit liabilities.* ■

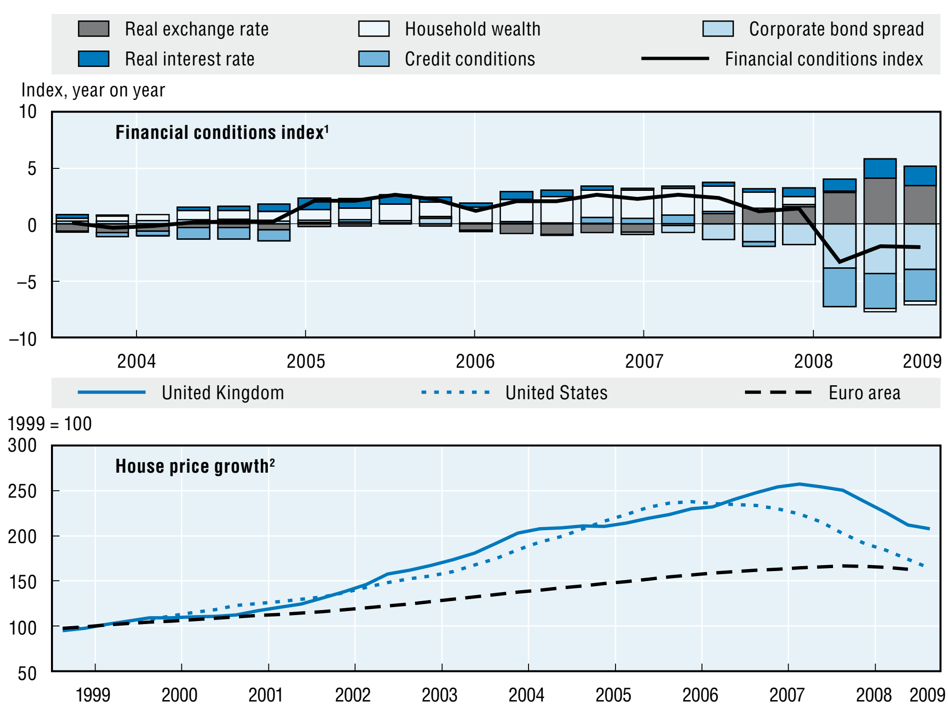
What can be done to maintain fiscal credibility?

Although the financial crisis may strengthen the case for additional fiscal stimulus, there is limited room for manoeuvre at the present time. In the November Pre-Budget Report, the government announced a moderate fiscal stimulus package amounting to around 1.6% of GDP in 2009, which included a temporary valued-added tax (VAT) cut to the end of 2009 and an acceleration of already planned capital spending. The 2009 Budget announced further targeted support including for employment and investment. A further deterioration in economic circumstances could require limited additional fiscal stimulus but this must be well-targeted to have a strong effect on demand and to ensure that the long-run impact of the crisis, for example on unemployment, is contained. *Any stimulus package must be accompanied by credible consolidation plans. Industry-specific support should be used cautiously, if at all, and reversed quickly to avoid misallocation of resources and damage to long-term productivity.*

The government deficit is widening rapidly and is expected to reach around 14% of GDP in 2010, which is helping to cushion the downturn. Moreover, support for the financial system has led to direct fiscal costs and substantially added to implicit government liabilities. The UK authorities have provisionally estimated that the losses may lie within a potential range from 1½ to 3½ per cent

Figure 2.

FINANCIAL CONDITIONS AND HOUSING PRICE DEVELOPMENTS



1. A unit decline in the index implies a tightening in financial conditions sufficient to produce a reduction in the level of GDP by 1% after 4-6 quarters.
2. GBR data is average of the Halifax and Nationwide house price indices. US data is S&P Case-Shiller composite-10 index for top 10 US cities. EURO data is Euro area house price indices weighted by nominal GDP from the OECD Economic Outlook 85 database.

Source: S&P Case-Shiller Home Price Index; Nationwide; HBOS plc and OECD *Economic Outlook 85 database*.

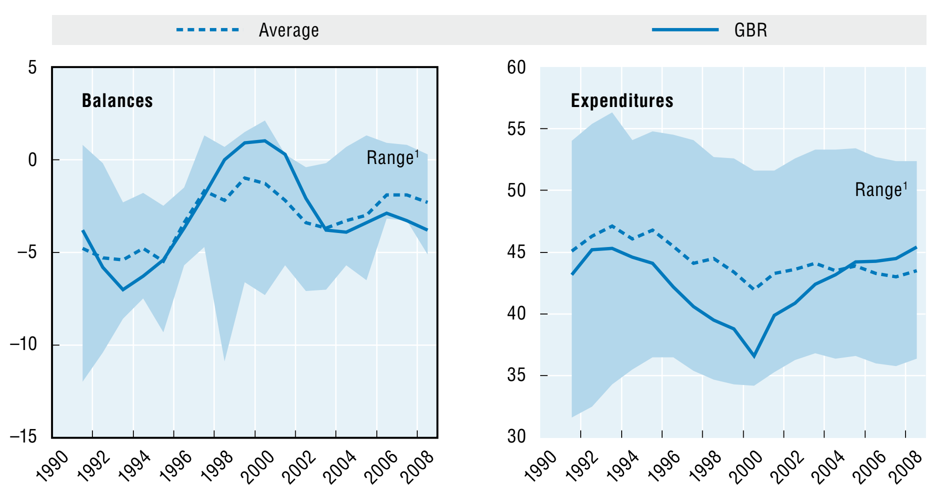
of GDP and the authorities have included the upper end of this range in their projections for borrowing and debt, as the basis for setting fiscal policy. After around the turn of the century, the underlying fiscal position weakened more than anticipated, while there was some subsequent improvement, particularly in tax receipts. Tax receipts have been significantly affected by the current downturn. The net government debt-to-GDP ratio is now on course to reach around 90%. The November Pre-Budget Report and Budget 2009 outlined a path to fiscal consolidation starting in 2010, based on income tax rises for those on high incomes, increases in national insurance contributions and revised spending assumptions, alongside "value for money" savings. *Although the deficit should be allowed to support activity in the near term, the government has set out an ambitious consolidation plan for when the recovery takes hold. The delivery of the consolidation will require specifying the "value for money" savings beyond 2011-12 in the upcoming Spending Review. This would signal the commitment to getting the public finances back onto a sustainable and prudent footing. Further action may be required if the economy does not recover as quickly as anticipated.*

In 1997, the government introduced a principles-based fiscal framework which, alongside the new independent monetary policy regime, sought to shift the focus of macroeconomic policy to long-term sustainability within a credible and transparent framework. The fiscal framework is operationalised through two fiscal rules: the golden rule, which requires that over the economic cycle the government should borrow only to invest and that current spending (including the consumption of capital) should be paid for by taxation; and the sustainable investment rule, which requires that over the economic cycle the government should ensure the level of public debt as a proportion of national income is held at a stable and prudent level (defined as net public debt below 40% of GDP on average over the cycle running from 1997-98 to 2006-07). In November 2008, the government suspended the two fiscal rules on the grounds of extraordinary circumstances. This decision reflected the suddenness and severity of the downturn. The government has adopted a temporary operating rule: to set policies to improve the cyclically-adjusted current budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full. The Budget projects that the cyclically adjusted budget will return to balance by 2017-18 with the net debt to GDP ratio falling from 2015-16.

Figure 3.

FISCAL BALANCES AND OUTLAYS IN G7 COUNTRIES

Per cent of GDP



1. G7 country outcomes.

Source: OECD Economic Outlook 85 database.

The original fiscal rules could be amended in a number of ways, rather than being reinstated. *The reformulated rules should be forward looking, ensure medium-term spending discipline and account more explicitly for off balance sheet public liabilities. Finally, income tax thresholds and national insurance thresholds should be linked to wage, rather than price inflation so that fiscal drag is handled more transparently.* ■

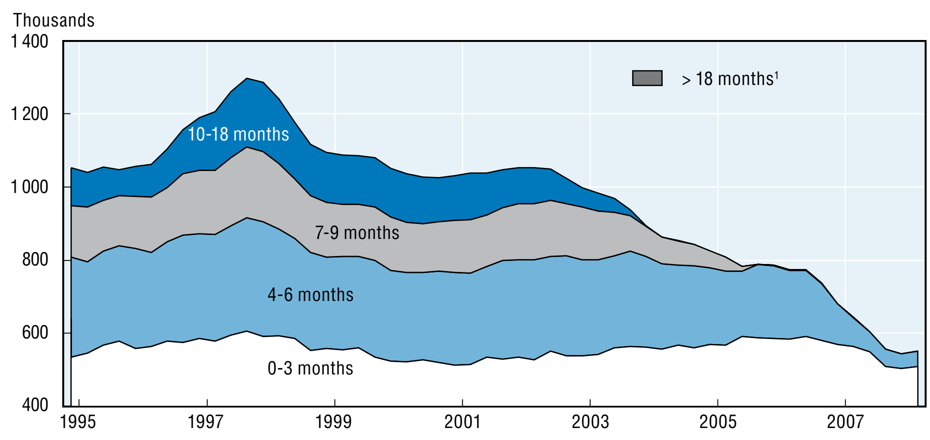
What are the priorities for healthcare?

Spending on health care had traditionally been low by international comparison. However, during the 1990s it became clear that the National Health Service (NHS) was performing poorly on some health outcomes and responsiveness. Waiting times, for instance, were very long. This became a central policy concern and in 2000 the government pledged to increase spending to the European average. This pledge was conditional on the NHS undertaking a number of reforms. Health spending has indeed increased very rapidly since then, with a considerable rise in the supply of services. Health outcomes have improved, waiting times have come down sharply and the public is more satisfied with the performance of the NHS. However, available indicators suggest that the rise in inputs was faster than in outputs and that productivity of health care provision fell up to 2005, although these measures are not yet comprehensive. The reform programme needs to be followed through and fine-tuned in various areas to increase efficiency. This is essential to sustain the NHS in the face of budgetary constraints and to deal with the pressures from population ageing.

The reform programme has covered many areas and the NHS has steadily evolved from being a centrally controlled organisation, towards relying much more on increased local autonomy and consumer choice. The Department of Health sets national minimum standards and allocates financing to regional entities. The principal local NHS organisations are the Primary Care Trusts (PCTs), each of which covers a population of about 400 000 people. They organise primary care and purchase other health care services (for instance, hospital care and pharmaceuticals) from NHS or other providers. This purchasing, known as commissioning, aims to improve health and well being for PCT populations within a fixed budget. Commissioning was also intended to raise competition among providers and lead to the development of new and innovative services. *PCTs and general practices, many of which are also involved in commissioning, need more practical support and investment in skills to fulfil their responsibilities; attempts*

Figure 4.

INPATIENT WAITING LIST BY LENGTH OF STAY



1. Zero since June 1994.

Source: Department of Health.

are being made to address these needs through regional and national programmes. To date, progress in these respects has been limited. However, a recent programme (World Class Commissioning) is seeking to improve PCT's technical commissioning capability and the health outcomes achieved. Results from the assessment of progress made in the first year (2008/09) show that PCTs have further improvement to make. Nevertheless, an evaluation of year one showed that there is great confidence within the NHS that the new programme will in time lead to an improvement in commissioning capabilities and governance. The devolution of decision-making through commissioning can result in variations in service provision, although there are national quality standards that all services are expected to meet. PCTs have statutory duties to engage with local government, patients and the public. However, local accountability arrangements may need to be further strengthened to support devolved decision making.

The introduction of an activity-based funding mechanism for reimbursing hospitals was a key element of the NHS reforms. It is known as Payment by Results, though it in fact rewards outputs and not outcomes, similar to the funding systems operated in other countries. A national tariff is used, with limited scope for local variation. *The current reform programme should be used to reflect priority activities and developed to reward higher quality rather than merely reflecting costs. Another way of differentiation would base the tariff on the costs of more efficient providers, thus spurring efficiency gains. Consideration should also be given to align the remuneration of personnel, which is salaried, more closely with activity.*

The reforms imply potentially radical changes to provider markets: Entry by a range of new public and private sector providers; the re-design of services by commissioners to meet local needs; and the impact of patient choice on the sustainability of existing service providers. *Reconfigurations give rise to profound local political difficulties. There needs to be a clearer policy on entry, merger and exit of provider organisations. Much greater effort is, therefore, needed to improve the consistency and transparency of local service reconfigurations.* ■

What can be done to achieve financial stability?

While the imperative in the short term is to restore the capacity of the banking system to supply credit, in the longer term it is a well functioning regulatory framework that will ensure a well-functioning and stable banking system, which is essential to sustained economic growth. The UK banking sector is among the largest, most internationally open and highly developed. Sound regulation and supervision of banks is necessary to ensure that the financial system works well. Although UK banking regulation is based on European and international standards, the UK authorities have taken a distinctive approach to the regulation and supervision of banks. This appeared to have some advantages in terms of innovation and development of the financial sector. The turning of the credit cycle, however, has underlined the weaknesses of this approach as well as the more intrusive "bank examiner" model practised in other countries. Some UK banks relied heavily on funding from the interbank market and via securitisation, and have experienced large losses on holdings of asset-backed securities. The UK housing and credit cycles were particularly pronounced and UK-owned banks held assets that were a relatively high multiple of GDP. Dealing with these problems has required comprehensive public intervention to support the banking system through guarantees, injections of capital and nationalisations. It will therefore be important for everyone to learn the lessons of this crisis for banking regulation and supervision, particularly in areas such as liquidity where previous policies were out of line with international practice. The UK has throughout the crisis maintained its open approach to financial markets.

The regulation of banks should provide a high level of stability for individual institutions and, just as importantly, the system as a whole. Capital adequacy standards influence the overall level of risk taken by banks and the shareholders' incentive to monitor risks. The overall regulatory framework in this area is determined by international standards (and within Europe by EU directives) but national authorities have substantial discretion to go beyond minimum standards. By setting individual capital guidance at which more intensive supervision is applied at a higher level than international minimal standards, the UK authorities managed to achieve what appeared to be relatively healthy levels of bank capitalisation during the upswing of the credit cycle. But, the effectiveness of this approach was partially undermined by banks' use of off-balance sheet vehicles to hold securitised assets, even though the UK (like some other EU countries) has for many years applied detailed capital requirements in respect of off balance sheet, securitised assets and facilities to special purpose investment vehicles. *Capital adequacy standards should be strengthened in the United Kingdom and internationally and banks required either to hold more capital for off-balance sheet risks or required to bring these risks fully on to their balance sheets. The role of external credit rating agencies for the assessment of risk should be reconsidered in the light of problems revealed during the current crisis as regards the rating of securitised products.*

Other aspects of the regulatory framework are also important to achieving a high level of stability. The quantitative regulation of liquidity has a number of recognised weaknesses that are being addressed by the UK authorities. The proposed new liquidity regime will be a marked advance and set a high standard for UK and international banks active within the United Kingdom. *Over time, the legal and regulatory framework should be monitored to ensure that there are no undue barriers to the development of a covered bond market, which could contribute to creating a more balanced mix of funding sources for the banking sector. To manage risk, bank lending standards should be subject to tighter regulation. In particular, limits should be imposed on high loan-to-value mortgages or capital requirements raised on these loans. Greater scrutiny and control should be applied to risky and fast-growing activities. To improve risk management, poorly-designed remuneration policies in banks that increase risk taking should be subject to greater regulatory and supervisory intervention. The authorities should increase information gathering in this area and provide clearer guidance about good practice, while intervening where practices are risky, including by raising capital requirements.*

More effective banking supervision may help to limit the reoccurrence of the problems that have emerged in this financial crisis (although it must also be recognised that other countries, with more intrusive regulatory approaches, have also experienced significant problems). *To achieve this, more resources need to be devoted to supervising major institutions and gathering more supervisory information, with a greater engagement by senior management of the Financial Services Authority (FSA). The FSA has taken actions to increase the resources that are directed to supervising major institutions and increasing senior management engagement with such firms. The quality of financial analysis should be improved, including greater comparative analysis, and macro-prudential considerations better integrated into supervisory assessments. More supervisory information about specific institutions should be made public to enhance transparency and encourage market discipline; this can be done by supervisors requiring institutions to publicise information, in line with international best practice. Consideration should be given to any lessons that can be learnt from more rules-based supervisory approaches applied in other OECD countries, while recognising that they also have weaknesses and limitations.*

The financial crisis, particularly the failure of Northern Rock Bank, pointed to a number of weaknesses in the crisis management and resolution framework. The Special Resolution Regime introduces a new pre-insolvency trigger for failing banks and more clearly defined mechanisms for resolution of such a situation. This is useful for dealing with failing banks and, by making it less costly to trigger a failure, reduces moral hazard. *For the new regime to work, the Bank of England needs to allocate sufficient resources to deal with the possibility of multiple bank failures. Consideration should be given to numerical targets for prompt corrective action, alongside qualitative judgements.* The pre-crisis deposit insurance scheme did not work well, but the regime has been strengthened since 2007 by raising the coverage ceiling, removing coinsurance and improving operational aspects including reducing payment delays. *The system should be pre-funded to a greater extent and consideration given to risk-based premia along the lines of schemes in some other countries.*

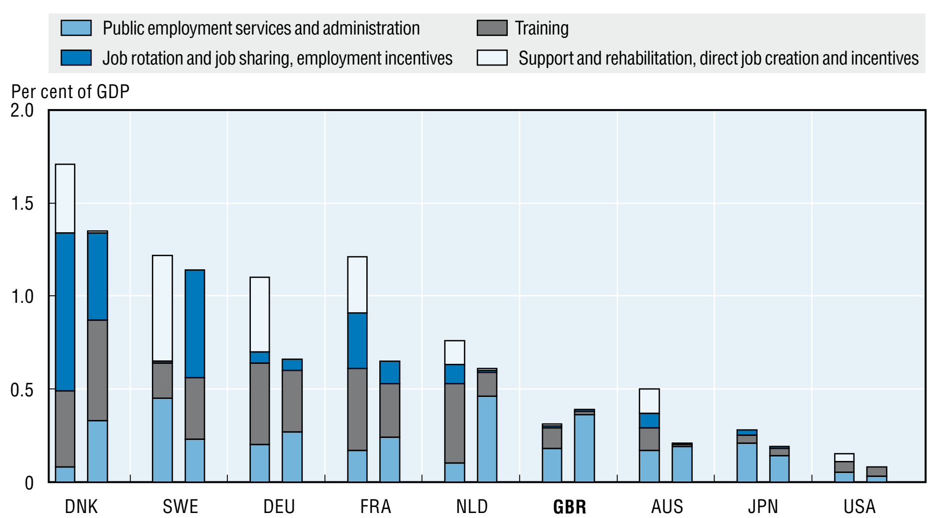
The high economic, fiscal and social costs of the financial crisis underscore the need for greater focus on systemic risks and to contain such booms in the future. Experience of using banking regulation and supervision to address system-wide macroprudential concerns is limited, although a few countries have applied explicit counter-cyclical policies. The Bank of England did warn of risks in its twice-yearly Financial Stability Review but this failed to have a material impact on risk-taking. The Banking Act 2009 strengthens the role of the Bank of England in this area, expanding its responsibilities and the financial system information at its disposal, as well as clarifying the role of the FSA. *The OECD welcomes the Turner Review and the UK authorities' accompanying Discussion Paper, and encourages the UK authorities to develop the ideas contained in the paper. The new framework should be monitored to ensure the relationship between the central bank and the financial regulator work effectively and that there are no gaps in information or responsibility, and a fine-tuning of the new arrangements may be necessary. Options for reducing the pro-cyclicality of financial markets should be investigated. These could include, for instance, the introduction of an overall leverage ratio covering all relevant assets, and dynamic provisioning or counter-cyclical adjustments to capital ratios. The Bank of England and the FSA should work closely together in the detailed evaluation of regulations covering new areas that might have a systemic impact.* ■

What will assist in promoting a sustained recovery?

Severe economic downturns can have pernicious and long-lasting effects on the labour market by lengthening the average duration of unemployment, thereby eroding skills and alienating retrenched workers from the job market. The incidence of long-term unemployment has been rising since 2007. In

Figure 5.

PUBLIC EXPENDITURE ON ACTIVE LABOUR MARKET POLICY (ALMP)[1]



1. First bar represents ALMP in the year of peak unemployment rate during the 1990s. Second bar represents ALMP in 2006 for all countries, except Denmark, for which it is 2004).

Source: OECD Employment Statistics.

recent years, the government has introduced a range of measures aimed at increasing labour market flexibility and improving incentives for labour market participation. Existing programmes, however, may be under-resourced for the needs of the large number of people who are losing their jobs and the downturn will add to pressures on the low-skilled. The government has allocated substantial additional funding for active labour market policies in the Pre-Budget Report and in the Budget. *Any further fiscal measures could fund an expansion of these programmes. However, these measures should be subject to careful ongoing evaluation to ensure that returns are sufficient. When the economy recovers, efforts to avoid entrenched long-term unemployment and low employment among some groups will be important. The recent success of the New Deal for Young People programme in activating long-term unemployed youth could be applied more broadly.* The proportion of people on disability benefits remains high. The number of beneficiaries has fallen slightly in recent years reflecting the Pathways to Work scheme and other reforms. *The important next step is for the scheme to be expanded to the entire stock of disability benefits recipients as the government plans to do from 2010 onwards.*

GDP per capita increased at a strong pace in the United Kingdom in the years before the financial crisis, spurred by globalisation. This improved the relative performance of the UK economy among OECD countries. Employment increased and labour productivity growth was strong, outpacing the euro area average and close to the US rate. However, there remains a substantial labour productivity gap relative to the best performers. Moreover, it is also now clear that some aspects of the United Kingdom's recent growth performance reflected the credit cycle.

Flexible labour markets and competitive product markets should stand the economy in good stead during the recovery. However, there are a number of policy measures that need to be taken to underpin strong growth over the medium term. *Firstly, improvements in public infrastructure are required, particularly in transport where airport and road congestion and continuing problems with the rail system constrain productivity.* The government has brought forward some public investment projects on the Strategic Roads Network as part of the fiscal-stimulus, and continues to target investment towards important infrastructure projects across transport modes. Overall government support for the railway over the five-year regulatory period, commencing in April 2009, will be over £15 billion. In addition, the government has gone some way in adopting the recommendations of recent reports on land use planning and transport infrastructure. *However, while the fiscal arrangements have lifted infrastructure investment, more will need to be done, particularly to meet the government's 2000 Ten Year Plan target. Secondly, although the property market is currently experiencing a severe downswing, reforms to improve the functioning of the market remain relevant to damp future swings in house prices. Planning procedures are being improved to ensure that demand is met and land released for housing purposes. Thirdly, raising training and education levels have to remain a priority to lift productivity and assist the low-skilled. In addition to improving the productive capacity of the economy, improved educational achievement and a better distribution of education resources would help to narrow socio-economic gaps and promote social mobility. Given the large variance in educational outcomes, continuing to improve access to pre-primary education, which has been shown to increase future education attainments particularly for children from disadvantage backgrounds, would be helpful.* ■

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Economic Outlook Interim Report, March 2009.
More information about this publication can be found on the OECD's website at *www.oecd.org/eco/Economic_Outlook*.

Economic Policy Reforms: Going for Growth, 2009 edition.
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