OECD ECONOMIC POLICY REFORMS GOING FOR GROWTH 2018

- EDITORIAL
- EXECUTIVE SUMMARY: ENGLISH AND CHINESE
- CHINA NOTE

G20 FINANCE MINISTERS & CENTRAL BANK GOVERNORS MEETING

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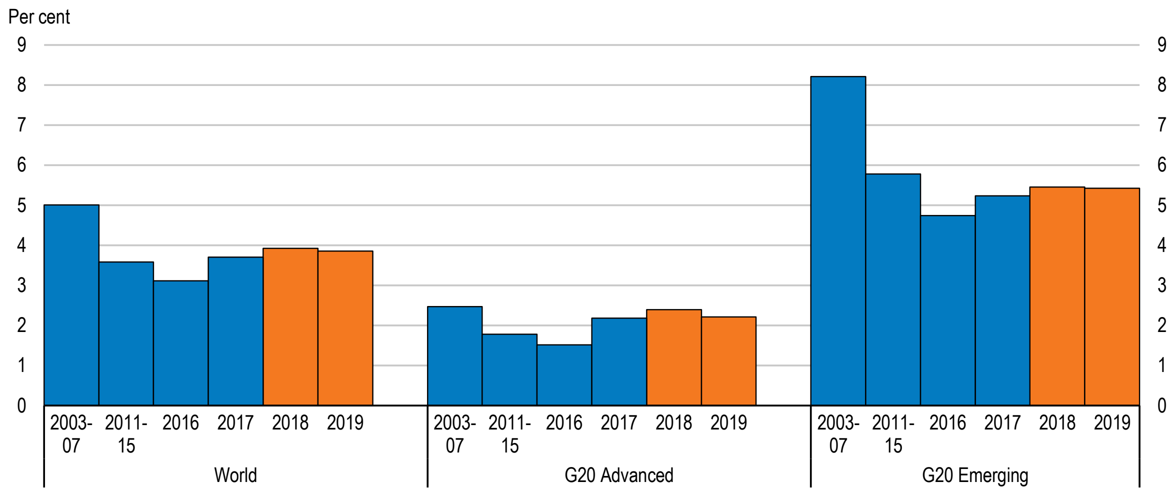
OECD BETTER POLICIES FOR BETTER LIVES

Editorial: An opportunity that governments should not miss

Global growth is finally back to cruising speed. For the first time in many years, all the major regions of the world are enjoying a widespread and largely synchronised upswing, even if some economies have been in steady expansion for much longer than others. Hopefully, the stagnation of living standards endured by a large share of the population in many OECD economies is coming to an end. The more rapid decline in unemployment seen in recent months is clearly an encouraging sign. However, the improvements in labour markets have yet to translate into significant and broad-based wage gains. Comprehensive structural reforms are needed to sustain stronger growth beyond the cyclical upswing, create more and better paying jobs, improve opportunities and strengthen inclusion.

Figure 1. Global growth is back to cruising speed

Real GDP, year-on-year growth

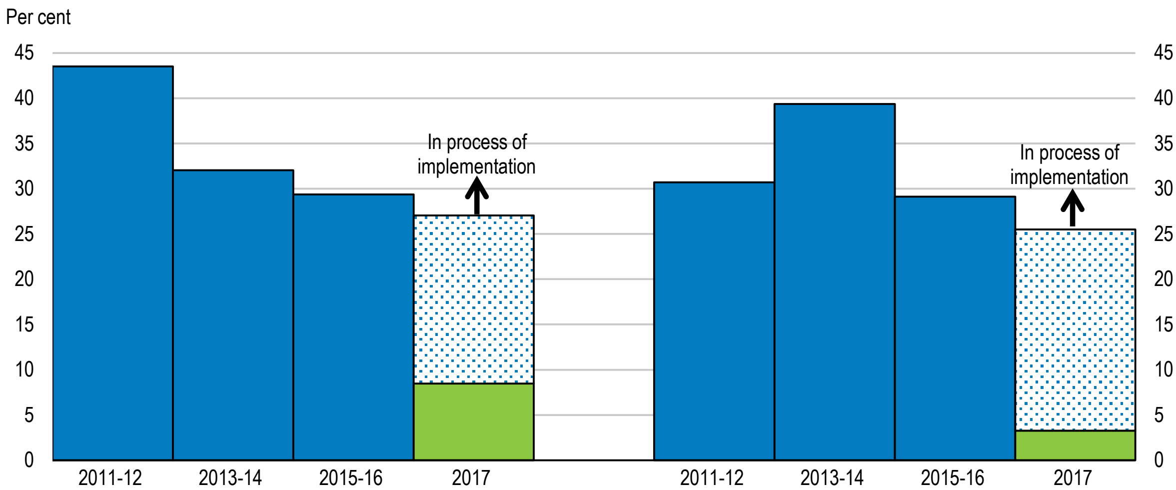


Note: Average of annual growth rates for 2003-07 and 2011-15. OECD Projections for 2018 and 2019.
Source: OECD, *Interim Economic Outlook*, March 2018.

Based on the review of actions taken on structural policy priorities presented in this *Going for Growth* report, there is little sign of an imminent pick-up in the pace of reforms. If anything, the review points to a further slowdown in 2017 from the already modest pace observed in the previous two years. Notwithstanding, some countries have managed to introduce significant reforms in the past year. In Japan, measures have been taken to improve access to childcare services, helping women to stay in the labour force. France has implemented a broad labour market reform, covering both employment protection legislation and collective wage bargaining. India has rolled out a goods and services tax, while Argentina has just passed a comprehensive tax reform.

Figure 2. The pace of reforms is modest

Number of reform actions taken as a percentage of *Going for Growth* recommendations



Note: Fully coloured bars refer to the share of fully implemented reforms. For 2017, reforms in the process of implementation are included to ensure comparability with previous two-year periods. For the two-year periods, the responsiveness rate is annualized. Emerging economies include Chile, Mexico, Turkey, Argentina, Brazil, China, Colombia, Costa Rica, Indonesia, India, Russia and South Africa. Advanced economies include all non-emerging OECD member countries and Lithuania.

By and large, governments have continued to devote greater attention to employment and social protection, including also through measures to improve healthcare services. Examples include Greece and Italy, where significant measures have been taken to strengthen social protection, as well as China, where access to healthcare for migrant workers has been improved. The broader attention to employment and income support is important for achieving greater inclusiveness and a more balanced distribution of income. To a large extent, reform efforts are paying off: the employment rates of low-skilled and youth – still low in some countries hardest hit by the crisis – are improving and already roughly back to their pre-crisis levels on average across countries, while the labour-force participation of women continues to rise.

However, significant reforms have remained too few and far between to boost productivity and to reduce the reliance on macro-policy stimulus. The return of higher global growth offers a window of opportunity to make renewed progress on structural reforms, with higher chances that they bear fruit more rapidly. Individually and collectively, decision makers need to find ways to overcome political resistance to reforms that address well-known growth bottlenecks, and lay the groundwork for their economies to make the most of the ongoing digital transformation. Higher and more sustained growth would also help to reduce financial risks related to the high public and private debt levels built up in a low interest rate environment.

While finally gathering momentum, business investment still remains weak in comparison with past expansions. Furthermore, recent data shows that investment in digital technologies, which is fundamental to boosting productivity, varies greatly across countries and firms. The growing productivity gap between leading and lagging firms is itself a source of growing wage inequality and productivity slowdown. OECD analysis suggests that firms face various constraints affecting both their incentives and capabilities to invest in such technologies.

Raising investment incentives requires measures to create a more competitive business environment, notably by promoting the entry of firms through lower regulatory barriers to start-ups and by reducing obstacles to foreign direct investment. Despite progress in these areas – for example in the European Union with the recent Services Package -- entry in business services in countries such as France, Germany and Spain is still hampered by administrative and regulatory barriers. Meanwhile, more needs to been done to reduce barriers to foreign investment where they remain relatively high, including Indonesia, Mexico and Russia. And, trade protectionism can only harm investment by raising costs and uncertainty, eroding the competitive environment and narrowing the scope for successful firms to grow.

There is also scope in many countries for reforming insolvency regimes to facilitate the orderly exit or restructuring of unsuccessful firms. This is important both to encourage experimentation of new ideas and to free the resources needed for successful innovative firms to expand. Chapter 3 of this Report presents new OECD indicators of insolvency regimes across countries, laying out the main design features to achieve such objectives. In countries such as Australia, Italy and South Africa, lowering barriers to corporate restructuring in case of distress is a priority. Reforms are also needed to harmonise insolvency procedures across member states in the European Union.

Taxation is another area where governments can act to raise private incentives to invest. This includes reforms of tax systems to broaden the tax base through the elimination of loopholes, not least those that mostly benefit individuals with high levels of income or wealth, while making room for rate reductions, especially on more mobile sources such as capital and labour income. Reforms along those lines have been implemented in countries such as Argentina, Canada and Spain, while corporate tax rates have been reduced in the United States. But reforms have yet to tackle a key distortion of tax systems, which is to favour debt over equity financing. Not only does such a bias contribute to making growth overly dependent on debt, but it also discriminates against innovative young firms.

More broadly, most countries have ample scope for reforms that can reconcile growth and inclusiveness objectives, notably by relying more on tax revenues from immovable property and inheritance. Internationally, in the effort to make corporate taxation fairer and more transparent, progress is being made to limit tax avoidance by multinationals through the so-called Base Erosion and Profit Shifting (BEPS) action plan elaborated under the auspices of the G20 and the OECD and the rolling out of the automatic exchange of information.

In countries such as India, Indonesia and Turkey, but also Italy and Greece, labour informality remains a key challenge for boosting inclusive growth. Addressing this requires reforms of burdensome product and labour regulations, along with reducing labour tax wedges on low-paid workers where they remain high. Bringing more workers in formal jobs will offer better prospects to improve skills and productivity while providing them with better social protection. In China, further measures to provide more equal access to public services while abolishing the household registration system, would promote labour mobility, productivity and inclusion. The effectiveness of reforms in these areas is best supported by the successful implementation of measures to reinforce the fight against corruption - such as the steps taken in Mexico - and to strengthen the rule of law.

In both emerging and advanced economies, the shortage of skills, including managerial and organisational talent, is one factor limiting the capabilities of many firms to adopt digital technologies. A longer-term response is reforms of education and training systems to ensure that workers acquire the cognitive and non-cognitive skills that the new digital technologies and knowledge-based capital make increasingly necessary. This includes measures to facilitate access to education for disadvantaged groups so as to reduce the digital divide. In the shorter term, the response to the skills shortage consists in providing workers with better opportunities for up-skilling and reducing the mismatch between the skills provided by workers and those demanded by employers. Developing training and life-long learning programmes that benefit those who need them most remains a challenge shared by most countries.

Hence, in spite of stronger economic growth this is no time for complacency. *Going for Growth* provides policy priorities and recommendations to unlock skills development and innovation capacity, to promote business dynamism and the diffusion of knowledge, and to help workers benefit from a fast-changing labour market. In the spirit of ensuring the sustainability of the gains in incomes and wellbeing it also increasingly takes into account environmental risks and bottlenecks (see Chapter 2). The current economic upswing provides a window for the successful implementation of reforms that can best achieve the objective of strong, inclusive and sustainable growth. The opportunity should not be missed.

Álvaro Pereira
OECD Acting Chief Economist

Executive Summary

At nearly 4 per cent projected for 2018, the annual GDP growth rate of the global economy is close to the pace of growth preceding the great recession. This period of strong and broadly-based global growth creates favourable conditions for the successful implementation of structural reforms – necessary to turn the upswing into stronger and sustainable long-term growth for all.

Amid these positive short-term developments, still underpinned by supportive fiscal and monetary policy, medium and longer-term challenges remain for policy makers. Productivity growth is still disappointing. Despite the long-awaited employment recovery, wages have so far failed to follow, and many vulnerable groups are still confronted with weak prospects in the labour market. Inequality is persistent and on a longer-term trend rise within many countries – indicating that parts of society have not benefited much from growth. On top of this, megatrends such as digitalisation, environmental pressures and demographics, may carry risks for the sustainability of long-term growth unless the policy challenges they raise are properly addressed.

Going for Growth provides policy makers with concrete reform recommendations in areas which are identified as the top five country-specific priorities in order to tackle medium-term challenges, revive productivity and employment growth, while ensuring a broad sharing of the benefits. The priorities are identified building on OECD expertise on structural policy reforms and inclusive growth. The areas covered are diverse, including product and labour market regulation, education and training, tax and transfer systems, as well as trade and investment rules, physical and legal infrastructure and innovation policies. Policy recommendations across these areas are articulated so as to form a coherent reform strategy, which is crucial to reap synergies, manage trade-offs and ensure that the benefits are broadly shared over time. As such, the *Going for Growth* framework has been instrumental in helping G20 countries make progress on their structural reform agenda, including through monitoring their growth strategies to achieve sustained and balanced growth.

This *Interim* report reviews progress on structural reforms with respect to priorities identified in Going for Growth 2017.

Actions taken on policy priorities

- In 2017, the pace of reforms has remained similar to the relatively slow pace observed in the last two years and below the one observed in the direct aftermath of the crisis.
- Nevertheless, some bold actions have been taken – over one third of actions implemented in 2017 can be viewed as "major steps". Notable examples include reforms to strengthen social protection in Greece and Italy, a long-overdue reform of the labour market in France, significant measures in Japan to increase childcare

capacity, a goods and services tax in India and a comprehensive tax reform in Argentina, to be phased in over the next 5 years.

- More generally, the intensity of reforms has varied across policy areas. Among reforms to *boost skills acquisition and innovative capacity*, widespread actions were taken to increase the size and efficiency of R&D support.
- The bulk of actions taken to *promote business dynamism and knowledge diffusion* have focused on strengthening physical and legal infrastructure as well as on making product market regulation more competition-friendly.
- Significant actions have been taken in the area of social benefits, which is important for social cohesion. To further *help workers to cope with potentially rapid changes in jobs and tasks*, more reforms are needed in complementary areas, such as improving active labour market and housing market policies to facilitate the job-market transition and mobility.

Special chapters – reviewing indicators to enrich the *Going for Growth* analysis

This report includes two special chapters that review indicators for extending the scope of the *Going for Growth* framework: green growth indicators and OECD indicators of insolvency regimes.

The links between green and growth: what the indicators reveal

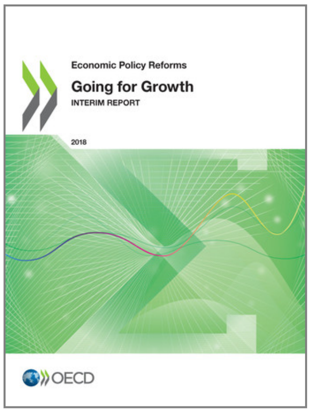
The ability to sustain long-term improvements in GDP and well-being, as advocated in *Going for Growth*, depends – among other things - on the ability to reduce negative effects (such as pollution) associated with economic activity, minimise environment-related risks and lower the reliance on (limited) natural capital resources. Hence, a more systematic approach to environment-related challenges in *Going for Growth* is warranted. At the same time, the links between the environment, environmental policies and economic growth are complex. In that regard, Chapter 2 reviews the indicators available and the recent progress made on the measurement of environmental outcomes and policies. While no single broadly-accepted measure of environmental performance exists, significant progress has been made in the measurement of green growth, notably as part of the OECD Green Growth Indicators, paving the way for a more consistent treatment of green growth in *Going for Growth*.

Facilitating orderly exit: insights from the new OECD insolvency regimes indicators

Poorly performing insolvency regimes can be linked to three inter-related sources of labour productivity weakness: the survival of so-called “zombie” firms – that should otherwise exit the market; capital miss-allocation, i.e. the trapping of resources in low productivity uses; and stalling technological diffusion. Chapter 3 presents the newly developed OECD indicators of insolvency regimes, which will allow the extension and fine-tuning of reform recommendations on exit policies in *Going for Growth*. The analysis reveals significant cross-country differences in the extent to which insolvency regimes promote orderly exit of non-viable firms, indicating that some countries have scope to improve resource allocation and productivity through reforms of bankruptcy laws and procedures.

OECD *Multilingual Summaries*
Economic Policy Reforms 2018
Going for Growth Interim Report

Summary in Chinese



请在此阅读整篇著作: 10.1787/growth-2018-en

2018 年经济政策改革
《力争增长》中期报告

中文概要

预计 2018 年全球 GDP 增长接近 4% ,与大衰退前的增速相当。为了将这一进步转变为强劲而可持续的长期整体增长，就必须进行结构改革，而这一时期强劲而广泛的全球增长为结构改革的成功执行创造了有利条件。

尽管短期内取得了积极进展，政策制定者仍然需要应对支持性财政和货币政策凸显的中期和更长期的挑战。生产力增长仍然令人失望。尽管期待已久的就业复苏已经出现，工资目前仍未回升，很多弱势群体的劳动力市场前景仍然黯淡。不公平仍在持续，在很多国家还会在较长时期内加剧，表明部分社会群体并未从增长中获取多少益处。此外，数字化、环境压力和人口特征等宏观趋势都可能为长期增长的可持续性带来风险，除非相关政策挑战得到有效应对。

为了应对中期挑战，重振生产力和就业增长，保证效益得到广泛分享，《力争增长》为政策制定者在五个国别重点领域提供了切实可行的改革建议。这些重点领域是根据经合组织在结构性政策改革和包容性增长方面的专业知识确定的，涉及领域广泛，包括产品和劳动力市场监管、教育和培训、税收和转移体系、贸易投资规则、实体和法律基础设施和创新政策。在这些领域提出政策建议是为了制定连贯的改革策略，这对于实现协同、管控权衡利弊、保证效益能逐渐广泛分享非常重要。因此，《力争增长》框架有助于帮助二十国集团国家在自身结构改革议程上取得进展，包括追踪其增长战略，实现可持续而平衡的增长。

针对 2017 年《力争增长》报告中的重点事项，本中期报告回顾了结构改革取得的进展。

针对政策重点采取的措施

- 2017 年，改革的进度与过去两年中相对较慢的步伐基本保持一致，并低于危机刚结束时取得的进展。
- 尽管如此，一些具有魄力的行动已经开始，2017 年超过三分之一的措施均可视为"重要行动"。主要例证包括希腊和意大利增强社会保护的改革，法国长期滞后的劳动力市场改革，日本为提升育幼能力采取的重要举措以及阿根廷的综合税务改革，均将在未来五年逐渐开展。
- 整体而言，各个政策领域改革强度不一。致力于增强获取技能和创新能力的改革为提高研发支持的规模和效率采取了广泛措施。
- 大部分致力于增强商业活力、促进知识扩散的措施都着重加强实体和法律基础设施，使得产品市场监管更有利于竞争。
- 在社会福利领域采取的重要措施对提高社会凝聚力很重要。为了进一步帮助工人应对工作和任务中潜在而迅速的变化，需要进行更多改革提供支持，如改善积极的劳动力市场和房地产市场政策，促进劳动力市场转型，提高流动性。

特别章节——回顾丰富《力争增长》分析的指标

本报告有两个特别章节，回顾了扩展力争增长框架的指标：绿色增长指标和经合组织破产制度指标。

绿色和增长的联系：指标反映了什么

正如《力争增长》提倡的那样，保持 GDP 和福利长期增长的能力取决于以下因素：降低与经济活动相关的负面影响（如污染），将环境相关风险降到最低，减少对（有限的）自然资本资源的依赖等。因此，《力争增长》中针对环境相关挑战采取的更系统的方法得到了保障。与此同时，环境、环境政策和经济增长间存在复杂联系。在此方面，第二章回顾了可以采用的指标，以及环境成果和政策衡量取得的最新进展。尽管尚不存在唯一获得广泛认可的环境绩效衡量方法，衡量绿色增长已经取得了很大进步，尤其是已经成为经合组织绿色增长指标的一部分，为《力争增长》就绿色增长进行更为一致的处理奠定了基础。

促进有序退出：经合组织破产制度新指标的洞见

表现欠佳的破产制度可能与疲软的劳动生产力三个相互关联的来源相关：本应退出市场的所谓"僵尸"企业的存续；资本的错误配置，即资源被困在生产力较低的用途中；以及技术扩散停滞。第三章介绍了新提出的经合组织破产制度指标，使得《力争增长》就退出政策给出的改革建议得以续期或微调。分析显示，破产制度能否推进无法存续的公司有序退出在各国间存在巨大的差异，这表明通过改革破产法和程序，有的国家仍有改善资源配置和提高生产力的空间。

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China

Going for Growth is the OECD flagship report analysing structural policy settings and economic performance to provide policymakers with concrete reform recommendations to boost growth and ensure that the gains are shared by all. The 2018 Interim Report reviews the main growth challenges and takes stock of reforms enacted over the past year -- in both advanced and emerging economies -- on policy priorities identified in the previous issue of *Going for Growth*.

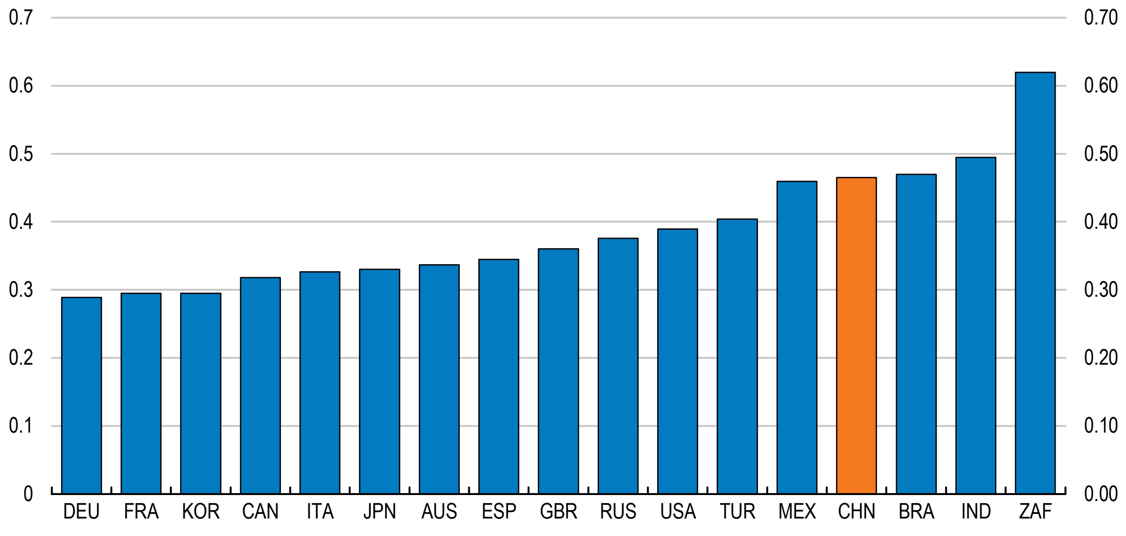
Country highlights

GDP per capita continues to catch up with that of the upper half of OECD, though the "New Normal" – which puts more emphasis on the quality of growth – implies a slower catch-up. The income gap reflects lower output per worker as labour force participation rates are above those in OECD countries. Income inequality is trending down as the middle class expands but remains well above the OECD average.

In line with recent reforms introducing market mechanisms in various areas, the licensing and registration system should be further streamlined. Implicit state guarantees to public entities should be phased out and the rule of law enhanced to create a more level playing field for all enterprises, which would lead to efficiency gains. A minimum standard of public services should also be provided all over the country to lay the ground for more equal opportunities and reduce income inequalities. Abolishing the household registration system would promote social inclusion and deliver further productivity gains.

Gini coefficient, disposable income

2015



Note: Data refer to 2016 for China, 2014 for Australia, Germany, Italy and Mexico; 2013 for Brazil; 2012 for Japan; 2011 for India and Russia.
Source: China National Bureau of Statistics and OECD, Income Distribution Database.

Going for Growth 2017 recommendations include:

- **Reduce administrative burden on start-ups and encourage private entry** by further streamlining the system governing licenses and fees. Move towards a "one-stop-shop" model of business registration. Ensure country-wide implementation of reform measures. Open up more sectors to private and foreign entry to ensure efficiency-enhancing competition.
- **Ensure a better match between skills available and those demanded in the market** by introducing new programmes and review curricula, textbooks as well as criteria for establishing the number of students that can be admitted to existing programmes. Make vocational education more attractive at all levels by hiring qualified teachers and improving the reputation of such programmes. Streamline licensing procedures for various qualifications and ensure minimum standards.
- **Strike a better balance between liberalisation and regulation in financial markets** by removing implicit state guarantees to public entities to enhance risk pricing by financial markets. Enhance financial literacy through financial education from an early age.
- **Reduce barriers to labour mobility and strengthen social security and public service provision** by ensuring equal education for all, regardless of registration status. Unify healthcare insurance at the national level so that services can be obtained country-wide. Establish a minimum standard of public services all over the country to avoid overcrowding in the largest cities.
- **Enhance the rule of law** by making annual enterprise reports publicly available to reduce the scope for misleading advertising and fraud. Stiffen sanctions for forging documents, violations of disclosure requirements and other unlawful business conduct.

Recent policy actions in these areas include:

- **Healthcare insurance has been unified** as 361 regions (96% of the total) and 8624 cross-regional medical institutions are now linked to the nationwide settlement system for medical expenses. This will improve the utilisation of health services by migrant workers and reduce the time between when health costs are incurred and reimbursed.
- **The rule of law has been slightly reinforced** as the government announced random inspections as a means to strengthen supervision of reporting, direct sales, distribution chain activities and consumer protection in general.