Editorial: A policy agenda for growth to benefit all

The prolonged period of stagnating living standards that has affected a large share of the population in many countries is undermining confidence in governments' reform agenda and raising stiff political resistance to continued efforts. Many reforms take time to bear fruit, in particular in an environment of persistently weak demand and uncertain growth prospects, and they often create winners and losers. Growing political headwinds is clearly one factor contributing to the steady slowdown in the pace of reforms observed since the post-crisis peak of 2011-12. Yet, governments in most countries need reforms of structural and macro policies both to escape the low-growth trap and prepare for rapid technological changes. So, to let down on the pace of reforms is not the appropriate response as this carries a bigger risk to both short and medium-term growth prospects.

A better course of action is to make far more of the potential synergies between labour, product and financial market reforms, while putting attention to measures that can also best support demand in the near term, addressing the concerns of those bearing the costs of reforms, and ensuring that the gains are widely shared. This 2017 *Going for Growth* report helps governments from OECD and selected non-OECD countries to pursue such course of action by proposing policy packages to boost productivity and employment, while ensuring that the benefits from reforms accrue rapidly and reach a vast majority of workers and households. The outcome is a country-specific policy agenda, reflecting their own challenges and objectives in terms of productivity and employment, as well as income distribution and other aspects of inclusiveness.

In looking back at reform achievements in the areas of *Going for Growth* recommendations over the past two years, one encouraging development is the increase in the number of actions taken to lift employment. This is an indication of the greater attention that governments have paid to promoting inclusiveness, in particular with measures to facilitate the labour market integration of youth and low-skilled workers. In many countries, notably France and Italy, labour tax wedges on low-wage earners have been reduced to boost job creation, while individualised job-search support and wage subsidies have been stepped-up to facilitate the return to work of the unemployed. These efforts are paying off. Employment rates among youth and low-skilled workers have risen quickly on average across the OECD in the past 2-3 years, despite subdued growth. Still, in these and other countries, mainly from Southern Europe, the proportion of youth neither in employment, nor in education or training remains well above the pre-crisis level.

Governments have also intensified their efforts to reduce the barriers women often face in joining the labour force and fulfilling career aspirations, supporting higher potential output. In countries such as Germany, Japan and Korea, governments have boosted childcare and early childhood education. Considering the significant positive impact in terms of stronger growth and lower income inequality, further actions are needed to encourage more women joining and staying in the labour force. In Japan and Korea, this includes promoting a work-place culture that better supports work-life balance. In emerging-market economies, high informality remains a major barrier to both inclusion and growth. Specific policy remedies vary, but in countries such as Chile, India, Indonesia and Turkey, they typically include reforms of strict labour regulation combined with the development of social safety nets.

Achieving greater inclusiveness and reducing inequalities of income and opportunities as well as poverty are important objectives for the well-being of citizens and winning back their trust. They are necessary for safeguarding social cohesion and sustaining growth in the longer run. But achieving stronger growth on a sustained basis also requires addressing the productivity slowdown and its underlying causes. The experience from the past two decades has shown that rapid technological advances do not automatically translate into broadly-based productivity and income gains, including in the lower part of the earnings distribution. Ensuring that progress in technology and knowledge turns into higher and more widespread gains requires that workers, business managers and governments be better equipped to acquire the skills and adopt the organisational structures and regulatory settings needed to keep up with the pace of innovation.

Consider first the role of skills development. There are good reasons to believe that under current policies and institutions future advances in digital technologies and the expansion of knowledge-based capital are likely to further increase inequality through skill-biased technological change, accelerated job displacement and winner-takes-all dynamics. One response is to ensure that young people are prepared for the dynamic labour market of the future by acquiring the right cognitive and non-cognitive skills. This report includes a range of specific recommendations to improve outcomes and equity in basic education, a priority that is common to a majority of countries.

Another response, likely to yield more rapid and inclusive results, is to devote much more attention to the significant share of workers who are either over- or under-skilled for their job. Addressing skills mismatch through better vocational education and training systems as well as adult or lifelong learning programmes is also a priority for many countries, including Italy, Spain and the Baltics. In these countries and elsewhere, closer relationships between business and educational offering will better anticipate skills most likely to be in demand, help ensure that job market needs are reflected in educational and professional developments, and enable workers to navigate through the more rapid turnover of firms, jobs, and tasks of the future. Similarly, a priority shared by many countries is to strengthen job-search assistance and other active labour market policies to facilitate the return to work in quality jobs. Finally, reducing barriers to labour mobility, including through reforms of housing market policies and the decoupling of pension and other rights from specific jobs, will also help improving skills matching.

Consider next the role of businesses. Recent OECD analysis has shown that one way to achieve higher overall productivity is to promote stronger and faster diffusion of innovation from leading to lagging firms. But in order to catch up with industry leaders and make the most of new technologies and workers' skills, lagging firms must be given incentives to make the necessary investment in R&D, new digital equipment and organisational know-how. In countries such as Australia, Canada, Chile, Mexico, the United

Kingdom and a few others across the European Union, governments can help by improving the level and efficiency of public support for private R&D as well as by facilitating the collaboration between research centres (or universities) and industry.

Beyond direct public support measures, greater international openness remains a powerful vehicle for the rapid diffusion of innovation and productivity. This applies both to the diffusion of technology through trade in goods and participation in global value chains, and to the diffusion of entrepreneurial know-how and managerial best practice through foreign investment and the presence of multinationals. One key factor underpinning the success of firms operating in international markets is the quality of transport and communication infrastructures. Following years of weak public investment in many advanced economies and given the growth bottlenecks in most emerging-market economies, improving the quality of public infrastructures is a priority for several OECD and non-OECD countries, notably Brazil, India, Indonesia, the United Kingdom and the United States.

Another key factor is the high quality and efficiency of a broad range of business services. In a majority of countries, the scope for reducing regulatory barriers to firm entry and competition remains substantial, especially in services. In the European Union, regulatory fragmentation continues to hinder cross-border competition in services. Despite the more rapid pace of change, progress in reforming product market regulation has slowed significantly in recent years, contributing to an increasing gap between high- and low-productivity firms. In fact, the trend decline in business dynamism and the growing survival of low-productivity firms suggest that barriers to firm entry and exit may have risen.

But product market regulation is by no means the only factor having an influence on firm turnover and competition. A sound legal and judicial infrastructure and robust financial markets that serve the real economy also play an important role. This is one reason why continued efforts to strengthen the rule of law and fight against corruption, improve the governance of state-owned enterprises, increase the efficiency of bankruptcy procedures and the financial sector, or speed-up the resolution of non-performing loans in the banking system top the reform agenda in countries such as Argentina, China, India, Indonesia, Italy, Mexico, Russian Federation and South Africa.

Encouraging innovation and business dynamism, including through greater market openness, is thus crucial to achieve healthy and sustained growth but does not necessarily or automatically go hand in hand with inclusiveness. When stronger overall productivity comes from lagging firms closing the performance gap vis-à-vis leading firms, this can help reduce wage inequality. Still, the effectiveness of redistribution through tax and transfer policies may also need to be strengthened to ensure that the benefits from technological progress and globalisation are broadly shared.

Structural policies in labour, product, and financial markets are key for productivity, employment and inclusiveness. But, these policies operate within a macroeconomic policy framework. Fiscal initiatives embodying spending and taxes in support of structural policies would weave together policies in a coherent way. Public investment in basic education, R&D and infrastructures, or lower labour taxes combined with spending on programmes to help workers upgrade skills and find jobs, are examples of measures that can support demand in the short run and boost growth in the longer run. Collective action and spill-overs are further aspects of how domestic policies interact in the global environment. The case for international cooperation and collective approaches through international fora is particularly compelling in the areas of intangible capital, taxation, competition law enforcement, migration and regulatory harmonisation.

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