More than six years after the onset of the financial and economic crisis, a return to the pre-crisis growth path remains elusive for a majority of OECD countries. In most advanced economies, potential growth has been revised down and, in some cases, there are growing concerns that persistently weak demand is pulling potential growth down further, resulting in a protracted period of stagnation. Risks of persistent stagnation concern mainly the euro area and Japan, but many of the underlying challenges such as slowing productivity, high long-term unemployment and falling labour force participation are common to other advanced economies. In major emerging-market economies, growth has become far less impressive in the last year or two, owing to a varying extent to infrastructure bottlenecks, financial sector vulnerabilities and resource misallocation. The slowdown has been particularly sharp in countries most exposed to commodity price developments.

Restoring healthy growth, while ensuring that the gains are broadly shared, requires determined and systematic actions across a broad range of policy areas. In this context, the slowdown in the pace of structural reforms observed across a majority of OECD countries over the past two years and documented in this report does not augur well. Where the reform slowdown reflects the need for governments to focus on effective implementation following a period of intense reform activity – as may be the case in most peripheral euro area countries – this needs not necessarily be as big a concern, as long as the pace remains elevated. The success of reforms also requires that time and efforts be devoted to approving follow-up legislation and ensuring full implementation by lower-level jurisdictions.

More worrying is the likelihood that in most cases the slower pace of reform reflects growing difficulties by governments in pushing for reforms in a context of chronic demand shortfalls. Such difficulties could arise from concerns that the benefits from reforms introduced in cyclical conditions such as those prevailing in the majority of advanced countries may fail to bear fruit or, worse, be counter-productive. A related concern is that structural reforms may exacerbate income inequalities, undermining popular support for a pro-growth reform agenda.

These are legitimate concerns. In some of the countries hardest-hit by the crisis, substantial labour market reforms aimed at restoring competitiveness have been introduced without commensurate and parallel efforts in product markets and without the availability of fiscal resources to cushion the social impact. The result has been severe job and income losses, hurting young people the most. More broadly, there are indications that the most vulnerable households have been losing ground since the crisis across a majority of OECD countries.
Yet, a slowdown in the pace and breath of reforms carries a bigger risk. That is of letting a vicious circle develop, whereby weak demand undermines potential growth, the prospects of which in turn further depress demand, as both investors and consumers become risk averse and prefer to save. Breaking the circle requires the contribution of both macro and structural policies. But at a time when macro policies still operate under various (and varying) constraints across major economies, it is important that the structural reform agenda put more attention on those measures that in addition to boosting productivity and job creation in the medium term can best support demand in the near term.

Promoting investment is clearly one way to achieve this, including investment in public infrastructure. Addressing shortages through better provision and regulation of infrastructure is a common priority across emerging-market economies, notably to support high rates of industrialisation and urbanisation. It has become also a priority in several advanced economies, where years of inadequate maintenance and renewal have put infrastructure under stress, not least in transport and energy. The current low borrowing costs environment constitutes a good opportunity for governments to develop infrastructure that will facilitate the necessary transition to a low-carbon economy while sustaining growth.

Spending on infrastructure will most certainly help stimulate private investment but complementary action is also needed. In this regard, Going for Growth provides a broad set of recommendations to improve firms' incentives to invest in new markets and technologies. Chief among them is the reduction in regulatory barriers to competition, both to facilitate business start-ups and encourage incumbents to pursue innovation as a means to keep the competitive edge. Investment in R&D and other forms of knowledge-based capital – fundamental to bring new technologies and products to the market – continues to be hampered in many countries by various legal and administrative obstacles to the setting-up and expansion of new firms as well as by barriers to the reallocation of labour and capital resources both within and across firms. Priorities in this area include reforms of labour market regulations, housing market policies and bankruptcy legislation, with a view to encourage entrepreneurship and mobility. In emerging-market economies, priorities also include reforms of the financial sector or the judiciary system to strengthen the rule of law (Brazil, China, Mexico, India, Indonesia and the Russian Federation).

Promoting cross-border trade and investment can also help support global demand while boosting potential growth in individual countries. Greater openness to foreign trade and investment is crucial for the diffusion of new technologies and managerial best practice. Yet, barriers to trade and foreign direct investment concern both advanced and emerging-market countries. High tariffs on a variety of products still prevail in emerging-market economies, while in advanced countries, many services sectors and other sensitive areas such as agriculture and government procurement remain largely closed to foreign competitors. Reducing these barriers, rolling back the protectionist measures that have crept in since the crisis, and accelerating the implementation of trade facilitation measures such as simplified customs procedures would clearly help to reverse the trend slowdown in global trade relative to world production.

Innovation and global market integration are key drivers of productivity gains and should be strongly encouraged. However, measures are also needed to ensure that the gains are broadly shared. Past experience indicates that faster technological development and diffusion may well further increase the dispersion of wages by raising the demand for
high-skill workers. In the medium term, such risk is best mitigated through education and skills development. Reforms in these areas are viewed as a priority in a vast majority of advanced and emerging-market economies. The report contains specific recommendations to broaden access to higher education, including vocational education, as well as to improve opportunities for training and up-skilling throughout the working life. In most emerging-market economies, as well as in Australia, France, Germany and the United States, providing a broader and more equal access to quality education at the primary and secondary levels is also a priority.

In the nearer term, rising inequalities and the social consequences of the crisis call for policy packages that can stimulate growth, reduce income dispersion and promote inclusion. Reconciling these objectives is challenging but in countries facing high long-term unemployment rates it can be achieved with measures that improve job opportunities and the earnings potential of low-skilled workers. For many European countries, reducing labour tax wedges to boost job creation and reforming active labour market policies to help matching workers with jobs are key policy priorities. Such reforms can be funded by shifting taxation towards indirect sources such as consumption or – preferably from an equity or environmental perspective – immovable property, inheritance and green taxes. In countries such as Germany, Japan and Korea, further reforms of the tax and transfer systems, including childcare services, would help support growth by bringing more women in the labour market. Narrowing the gap in the degree of job protection between different types of contracts would facilitate their full integration within firms and improve their career prospects. Reforms of job protection legislation combined with extensions of social protection are also a priority in several emerging-market economies so as to shift protection from jobs to workers and thereby reduce informality.

There is a risk that the broader benefits from reforms could take more time than usual to materialise in the current environment. In such a context, reform strategies that are sufficiently comprehensive to create synergies across policy areas will have a better chance to succeed. Even more so if they provide clear guidance about the direction and sustainability of policy decisions. In this regard, the commitment by G20 countries to implement new measures to lift their collective output by 2% over the next five years is to be welcomed. Going for Growth contributes to this objective by helping governments to push ahead with their national growth strategies.

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