Editorial

The Many Dividends from Structural Reform

The global recovery has been underway for some time now, but it remains uneven. Emerging market economies are growing strongly, while growth in OECD economies has been insufficient to significantly reduce unemployment from its post-crisis peak with all of the attendant human and social costs. Global payment imbalances are widening again. How sustainable post recession global growth will be? Policy driven recovery has still not been fully replaced by self sustained, job rich growth, especially in advanced economies. At the same time policy space is reaching its limits, in both the fiscal and monetary policy domains. Monetary policies have been stretched to their limits, and public budgets are in need of consolidation – and indeed most OECD governments are tightening fiscal policy in 2011 and beyond. In addition, the recovery takes place against the background of permanent scars from the recession that, while difficult to assess precisely, are associated with output losses in most advanced economies that are likely to persist for several years.

In such a scenario structural policy reforms provide the main available policy lever to speed up the recovery and raise global growth over the coming years, while at the same time offering significant contribution to global rebalancing and fiscal consolidation, as discussed in Chapter 1 of this year’s edition. Financial markets are also doing a better job at pricing longer-term economic prospects – and therefore the effects of reforms (or lack thereof) – in bond yields now than in the past, further strengthening the case for action. Although more needs to be done to address key issues such as systemic risk or non-bank financial institutions, financial regulation reform is on its way, with capital, liquidity and leverage ratios for banks due to be raised or introduced across the OECD. Efforts need to be stepped up in other areas, where structural reforms have been rather modest since the start of the crisis.

Structural policy reforms have gained prominence in the G20 context since the Mutual Assessment Process was set up at the 2009 G20 summit in Pittsburgh. The OECD has relied on Going for Growth to contribute to assessing the policy commitments made by G20 countries and identifying further reforms to improve global outcomes. Indeed this new edition of Going for Growth identifies five key priorities to boost long-term growth for each individual OECD country – including Chile, Estonia, Israel and Slovenia, which joined the organisation in 2010 – and, for the first time, for key emerging countries with which the OECD works closely, namely Brazil, Russia, China, India, Indonesia and South Africa – the so-called BRIICS. These recommendations provide readily-available benchmarks against which domestic reform plans can be, and indeed have been assessed.

For OECD countries, a number of these Going for Growth recommendations could deliver much-needed short-term growth benefits, such as reductions in entry barriers in sectors with strong immediate job-creation potential like retail trade or liberal professions. Many priorities would also alleviate risks that low current employment levels become permanent, such as reforms of social
transfer programmes and activation policies. Some policies that have not traditionally featured high on the Going for Growth agenda, such as work-sharing arrangements, cushioned unemployment and helped workers stay in contact with the labour market during the recession. New OECD analysis will have to draw the full policy lessons from these experiences. Other labour market policy responses to the crisis, such as extensions in the coverage of unemployment benefits, helped to mitigate hardship on workers and could usefully stay in place. Some policy responses, such as extended duration of benefits, have also provided necessary protection during the recession and its aftermath but will in many cases have to be rolled back at a pace consistent with improving labour demand. More generally, Going for Growth features a wealth of recommendations upon which OECD governments can draw to strengthen the job content of the ongoing recovery. For the BRIICS, Going for Growth priorities aim primarily at speeding up or maintaining ongoing convergence to OECD living standards, and include inter alia strengthening education systems, relaxing stringent product market regulations and addressing the more specific challenges of labour market informality and – in some cases – the quality of governance and legal systems.

Many of the structural reform recommendations we make in this edition of Going for Growth could deliver double and even triple dividends in the current economic situation. They would stimulate growth, which is their stated goal. They could also assist ongoing fiscal consolidation. This is especially true of labour market reforms that would boost employment levels, as well as of cost-saving public sector reforms. For instance, in a special chapter, we report new OECD analysis which points to potential public spending savings from improving the efficiency of health care systems of almost 2% of GDP on average across OECD countries. Furthermore, some of the structural reform recommendations to individual OECD and non-OECD countries could contribute to reducing global current account imbalances. Another special chapter on this issue suggests that a package of fiscal consolidation and structural reforms may reduce global imbalances by about a third.

While reforms can help address the policy challenges of the post-crisis world, they are also needed to ensure that past mistakes are not repeated and the risk of future crises is dramatically reduced. This requires enhancing not only financial market regulation but also the functioning of housing markets, where misguided policy interventions have magnified the crisis. In that regard, the main findings from our special chapter are clear: there is much room for housing market reform in many OECD countries, and better housing policies could deliver more efficient and equitable housing outcomes, increase geographical mobility and improve macroeconomic stability going forward. It is not too late to fix them.

Pier Carlo Padoan  
Deputy Secretary-General and Chief Economist, OECD