Council at Ministerial Level, 29-30 April 2003

Agenda for Growth - Main Issues for Discussion
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The present slowdown requires policies to underpin a recovery. But this is not the time to forget about policies to boost long-term growth. Many such policies may have positive short-term effects, not least by boosting confidence, and may help to increase the resilience of economies in the face of headwinds. There is no single, silver bullet to enhance long-term performance - a comprehensive and coherent “package” of reforms is required.

It is proposed that Ministers assess the vital elements of such reform packages in two rounds of discussion: i) achieving better labour market outcomes and higher productivity and ii) obtaining more effective allocation of capital and better corporate governance. Possible policy responses have been outlined in [C/MIN(2003)4].

Round 1. Removing barriers to employment and productivity growth

Growth policies are back on the agenda

Since the mid-1990s GDP per capita has grown faster in the United States than in Europe and Japan. The current downturn has not altered this trend. Looking ahead, under current policies the differences in economic performance across OECD members are likely to persist. With the previous process of convergence now reversed, there has been a revival of interest in the policies that drive growth.

Employment is key to higher GDP in Europe

Lower GDP in Europe relative to the United States owes a lot to weaker employment, which is due to lower labour force participation, higher unemployment and fewer hours worked per employee. Legitimate differences between countries in the value that individuals place on work and on leisure may explain some of these differences, but most of it comes down to differences in policy. The policy settings responsible for these differences have largely been identified. Indeed, some European countries have reformed their policies with convincing results. But in others, policies are proving difficult to change. Nonetheless, pursuing reforms over a broad front remains a necessity if Europe wants to avoid undermining growth prospects and meet the challenge of ageing societies. At the same time, countries are faced with the challenges of benefiting more from migration and of improving outcomes in the fields of education and training.

ICT illustrate how pro-growth policies drive productivity

The reversal of the previous convergence process was driven by a rise in US productivity growth which was not mirrored in the other main regions. Innovation, including the use of information and communication technologies, was the main driver. While some other countries have also seen the benefits of ICTs in the form of higher productivity growth, many have not. Again, the policies responsible have largely been identified. Indeed, ICTs are but a concrete example of the benefits that derive from open markets and pro-growth policies. Successful policies stimulate the selection of effective enterprises based on a process of entry and exit. At the same time, they give enterprises the necessary flexibility to pursue internal growth. And they provide the right framework for innovation and its diffusion.
Questions

- Does divergence in growth prospects among countries really matter? Is this just of domestic concern, or will it impact on relationships between countries?
- How can policies to boost employment be moved forward? Can a “package” approach to reform help?
- How can governments ensure that education and training policies enhance growth and spread its benefits?
- Can migration help long-term growth prospects?
- How can countries best foster innovation and enterprise? What are the main policy barriers to the effective use and development of new technologies?

Round 2. Strengthening financial markets and corporate governance

Confidence in financial markets needs restoring…

The bursting of the equity price bubble and assorted corporate governance scandals have shaken public confidence in financial markets and governance systems. Rebuilding confidence will require stronger market discipline on participants. But there is also an important role for government policy.

Broad, deep and effective markets are good for growth. But to work properly financial markets need stronger risk management systems, sound governance of financial institutions, and effective oversight of corporations by institutional investors. And, at the heart of this is the need for a high level of transparency and accountability, underpinned by the timely disclosure of reliable information.

…and corporate governance should be strengthened

Strong corporate governance will boost growth by restoring investor confidence and ensuring that enterprises use capital effectively. Governments and regulators have an important role in establishing an effective legal and regulatory framework for corporate governance. Voluntary codes and guidelines will also help put pressure on enterprises, management and investors to improve their performance.

Questions

- What needs to be done to restore - and sustain - the confidence of individual and institutional investors in the financial system?
- What is the best way to strengthen financial and corporate governance while avoiding over-regulation? What is the right balance between market, regulatory and self-regulatory responses?