Editorial
Reforming for a strong and balanced recovery

At a time when macroeconomic policies are under acute pressure in many countries, the role of structural policies has come more into focus. Structural reforms are important both on the conventional grounds that they boost long-term growth and welfare but also because they can take some pressure off macroeconomic policies. Better structural policies will help achieve fiscal sustainability and provide greater leeway for monetary policy. Importantly, structural reforms can bolster confidence. For these reasons they are more than ever a priority for the OECD and feature prominently in G20 action plans and work agendas.

Many countries have been actively reforming in recent years. The pick-up in the overall pace of reforms reported in last year's issue has since been confirmed and action on policy priorities stands at its highest level since the onset of Going for Growth surveillance in 2005. This year's issue shows that action in areas covered by OECD policy recommendations has been particularly intense among euro area countries that have been under financial assistance programmes or direct market pressures. Furthermore, reform efforts have reached politically-sensitive areas such as labour market regulation and social welfare systems. This has helped to shore up confidence and bring market relief in these countries and beyond. Recent declines in sovereign bond spreads owe much to measures taken by the European Central Bank in a context of stronger euro area governance. However, further reducing and keeping spreads at manageable levels will require continuing reform efforts, which are starting to pay-off as witnessed by improved competitiveness and export performance in some of the countries under market stress.

In contrast, a far more moderate pace of reforms has been observed in other euro area countries, especially those with a current account surplus, as well as in countries enjoying particularly high living standards and the BRIICS (Brazil, Russia, India, Indonesia, China and South Africa). Yet, to achieve stronger and more balanced growth, both in the euro area and globally, action on structural policy priorities needs to be pursued in both external deficit and surplus countries. One special feature of this report is to explore the effect of growth-oriented policy recommendations on current account imbalances. It shows that for some countries with large imbalances, acting on priorities can help to narrow them.

The motivation for stepping up and broadening reform efforts goes well beyond the need for durably reducing global imbalances. Most OECD countries face acute domestic challenges, perhaps chief among them addressing the job market legacy of the crisis. The absence of a vigorous and sustained recovery in economic activity has pushed a rising share of workers to the margin of the labour market in many OECD countries, hurting youth and the low-skilled most. Even in countries such as the United States and Canada, where unemployment has receded from its post-recession peak, the number of long-term unemployed and discouraged job seekers remains high. Many countries face a genuine risk of seeing a sizeable share of youth losing attachment to the labour market, with dire social consequences and measurable implications for future potential growth.

Reflecting these concerns, the set of policy priorities identified for individual countries in this issue of Going for Growth emphasises the need to beef-up and redesign active labour market and social policies to adequately cushion the impact of job losses in the short term, but also to facilitate the return to work and reduce unemployment before it becomes entrenched. This is particularly the case for most European countries, where unemployment remains well above its pre-crisis level and where such measures should be part of a comprehensive set of reforms aimed at lowering the barriers to jobs creation, hiring and labour mobility, while improving incentives to take up work. Steps in this direction have been made in a number of euro area countries through changes in tax and benefit systems, wage bargaining and job protection legislation. Even so, more needs to be done, including with respect to product market regulation where lowering entry barriers in services can generate rapid employment gains. It is important also that legislated changes and announcements be effectively implemented to ensure that the benefits from stronger employment, not least for budget consolidation, be fully reaped.

In some other countries, such as Japan and Korea, boosting labour productivity has been identified as the main challenge. Still, the low participation rates of specific groups such as women are no longer affordable given the pressures from population ageing. Bringing more women into the labour market and ensuring that they are fully integrated calls for changes in benefit systems (including childcare policies) and employment protection legislation, in particular to narrow the gap in protection across different types of workers. In lower-income OECD countries and the BRIICS, one common challenge is to reduce informality by improving incentives to create and take up jobs in the formal sector. Extending the coverage of social protection, reforming labour market regulation and ensuring adequate resources for primary and secondary education are key policy recommendations.

More generally, Going for Growth provides a wealth of recommendations aimed at fostering efficiency gains through higher investment in skills, technology and infrastructure. In this regard, earlier gains from greater openness to international trade and investment should not be rolled back, openly or covertly, as this would undermine efforts to sustainably boost productivity. Raising economy-wide productivity also comes through a shift in resources from inefficient sectors and firms to more productive ones. Policies can assist this process with reforms in the areas of product market regulation, general taxation, subsidies as well as a more efficient provision of public services.

Policy priorities are identified primarily with a view to boosting growth in average material living standards as measured by GDP per capita. This has been the hallmark of Going for Growth since its launch in 2005. The ultimate aim, however, is a genuine and broadly-shared improvement in living conditions, which implies that stronger growth in average income does not come at the expense of other important aspects of well being. There may be concerns that the growth-enhancing reforms promoted in this report may entail excessive environmental damage or result in a further widening of income inequality, to a point where the benefits from income growth accrue mostly to a minority of households. These concerns are heightened by the growing trend in inequality observed before the crisis in a majority of countries, and have been examined in past issues of Going for Growth.

This issue goes one step further and directly explores the side effects of policy recommendations on income inequality and the environment. As it turns out, many of the suggested reforms to boost growth also help with achieving policy objectives in these domains, or at least do not undermine them. This is clearly the case of policies that foster greater equity in access to good-quality education, as is recommended in many OECD countries to improve the general skills level and employment opportunities. However, there are also many cases where growth policies may clash with income distribution or environmental objectives. For instance, shifting part of the tax burden from labour to *consumption is good for growth but likely to widen income inequalities. Such trade-offs must be borne in mind when designing growth policy packages, so that undesirable effects can be alleviated or minimised.*

In order for planned reforms to be fully implemented, it is also important that they be supported as broadly as possible by citizens, especially in the current environment where some of the benefits may take even more time than usual to bear fruit given the weak short-term growth prospects prevailing in many countries. A package of reforms is more likely to garner popular support if it is seen as broadly equitable and respectful of the environment, and if its objectives are well communicated.

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