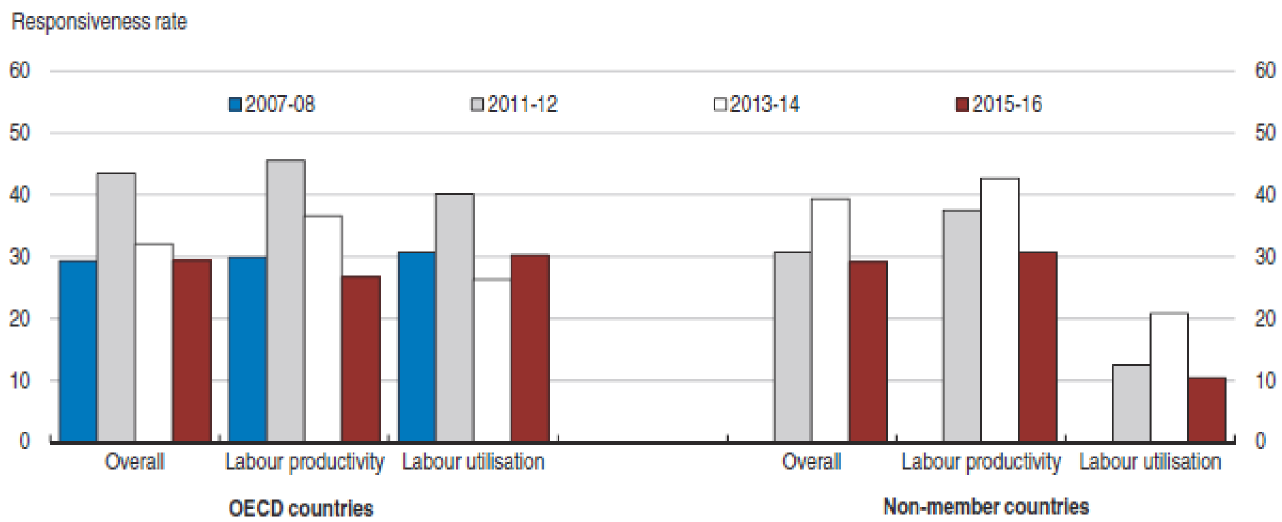
Going for Growth 2017: Policies for growth to benefit all

by Alain De Serres and Nicolas Ruiz, Structural Surveillance Division, OECD Economics Department

The support for governments' pro-growth structural reform agenda is being undermined by the prolonged period of stagnating living standards that has affected a large share of the population in many countries. Growing political headwinds are clearly one factor contributing to the steady slowdown in the pace of reforms observed since the immediate post-crisis years, (see first chart). Yet, the reforms are needed, both to escape the low-growth trap and to prepare for rapid technological changes.

Figure 1.1. **The pace of reforms has further declined driven by a slowdown in productivity-enhancing reforms**

Responsiveness to *Going for Growth* recommendations across the OECD and non-member countries[1]



1. Non-OECD countries refer to BRIICS countries and Colombia. Exclude the Russian Federation in 2015-16.

The annual *Going for Growth* report just released by the OECD helps government to pursue an ambitious reform agenda, one that seeks to make the most of the potential synergies between product, labour and financial market reforms. It proposes country-specific policy packages to boost productivity and employment, and to ensure that the gains reach a vast majority of workers and households. The report also reviews progress in structural reforms in areas related to *Going for Growth* recommendations.

In looking back at reform achievements over the past two years, one encouraging development highlighted has been the increase in the number of actions taken over the past two years to lift employment (see first chart). These efforts are paying off. Employment rates among youth have risen well over 10 per cent on average across the OECD in the past 2-3 years, despite subdued growth. In other countries such as Germany, Japan and Korea, access to childcare and early childhood education has been expanded, and this is helping women to join and stay in the labour market. These are clear indications of the greater attention that governments have paid to promoting inclusiveness. And, they have done so in a way that is also good for growth.

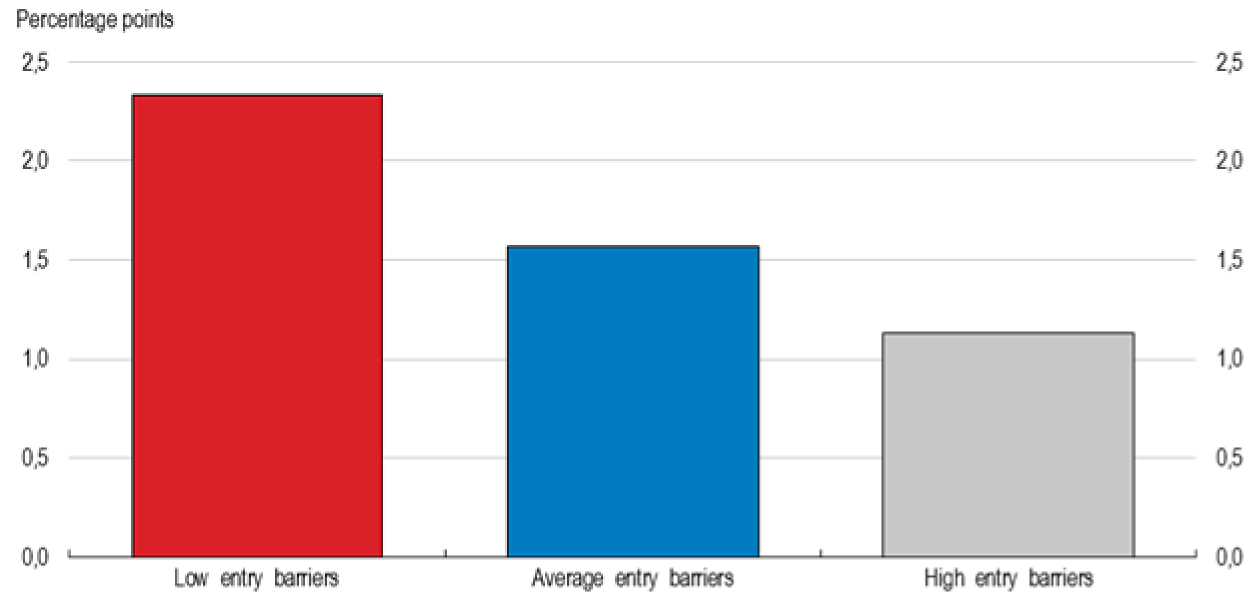
Achieving greater inclusiveness and reducing inequalities are important for the well-being of citizens. They are necessary for safeguarding social cohesion and sustaining growth in the longer run. But achieving inclusive growth on a sustained basis also requires addressing the productivity slowdown. The report emphasises the importance of creating an environment that encourages firms to innovate, but also that promotes the entry of new firms and the redeployment of resources from poorly performing firms to high-productivity ones.

This is how successful ideas and products can be tested and developed. For this to happen, poorly performing firms should either improve or be allowed to exit the market. Since the crisis, the share of non-viable – or so-called zombie – firms has risen from 4% to nearly 6% of total businesses across OECD countries. And since they are trapping valuable resources this is lowering productivity, by close to 1% in countries where zombie firms are most prevalent.

Reducing barriers to firm entry and exit is needed to revive business dynamism and productivity. But to ensure that all can benefit, additional measures are needed to help workers coping with jobs turnover. This is one reason why reform packages are so important for growth to be more inclusive. To give one example, OECD analysis has shown that spending more public money to help laid-off workers to find a new job is far more effective in countries where regulatory barriers to firm entry are low (see second Chart). This is because job opportunities are more abundant in places where new firms can enter the market more easily.

Figure 2. Entry barriers in product markets shape the impact of ALMP spending on the re-employment probability

Impact of a 0.1% of GDP increase in ALMP spending on the re-employment probability of workers displaced due to firm exit



Notes: The bars show the percentage point impact on the re-employment probability of a 0.1% increase in spending on ALMPs (as a share of GDP) for three levels of entry barriers: *i*) the level corresponding to the average of the two best performing countries over the sample period (red bar); *ii*) the average level observed over the sample period (blue bar); and *iii*) the level corresponding to the average of the two worst performing countries over the sample period (grey bar).

Source: Andrews D., and A. Saia (2017), "Coping with Creative Destruction: Reducing the Costs of Firm Exit". OECD Economics Department Working Paper.

The report points out that by concentrating reform efforts in specific policy areas, governments run the risk of missing potential gains from policy synergies and reform complementarities. Improved packaging of reforms would make them easier to implement, maximise the impact on growth and job creation and help reduce income inequality.

References:

Adalet-McGowan M., D. Andrews and V. Millot (2016) "The Walking Dead? Zombie Firms and Productivity Performance", in OECD countries, OECD Economics Department Working Paper No. 1372, OECD Publishing.

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