Structural Inequality – The Case of Sweden

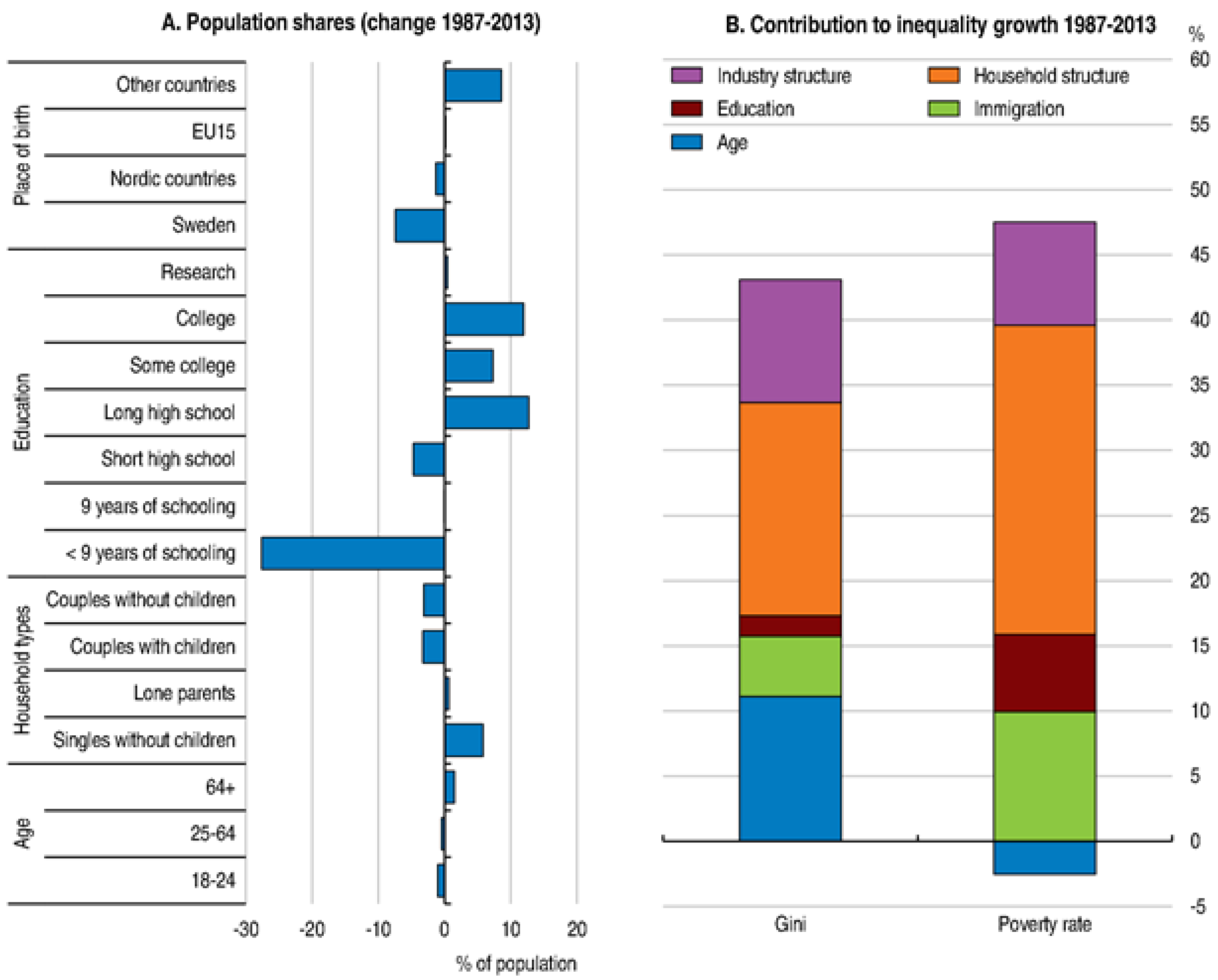
Category: Inequality,Sweden,Uncategorized
written by oecdecoscope | April 27, 2017
by Jon Pareliussen, Sweden Desk, OECD Economics Department

Income equality is perceived by many as steadily embedded in Swedish society, as solid as a Volvo’s tyres firmly clinging to a narrow country road on a Småland’s bright midsummer night. However, the Gini coefficient has increased more in Sweden than in any other OECD country since the 1990s. But who is responsible when you suddenly find your Volvo wheeling off course? You, holding the wheel, or the rough northern weather?

Even though consecutive governments over the past few decades must take some of the responsibility for increasing inequality, we show in a newly released paper that they also faced rough conditions (Robling and Pareliussen, 2017). Since the late 1980s the population has been ageing; traditional family structures have weakened, leading to more single and single parent households; people spend more time in school and reach higher educational attainment than they used to; employment has shifted away from manufacturing, mainly towards high-skilled services; and Sweden receives more migrants than before, migrants who increasingly come from poorer countries and seek residence for humanitarian and family reunion reasons.

By re-weighting micro-data from Statistics Sweden, we find that these demographic and structural trends are behind more than 40% of the increase in the Gini coefficient of disposable income from 1987 to 2013, and about half of the increase in the relative poverty rate, defined as individuals living on less than 60% of the median disposable income (Figure 1). We show that understanding these underlying trends, common to many countries, is vital to fully grasp why inequality is on the rise. To date, however, with skill-biased structural change as a notable exception, such trends tend to be overlooked in the income inequality debate.

Figure 1. Structural change increased disposable income inequalities



Source: Robling and Pareliussen, 2017.

So when you find yourself in the middle of a meadow, fighting the airbag off your face while curious cows consider your slightly bruised Volvo, is it fair to place the full blame on the sudden thunderstorm or the icy road? Of course not. The driver should adapt to weather conditions, and neither police nor insurance would accept anything else for all the butter in Småland. Likewise, structural trends that are largely outside political control, driving up inequality, make redistribution and labour market policies all the more important as countermeasures. Compared to most countries Sweden is still safely on the road, but caution calls for tapping the brakes.

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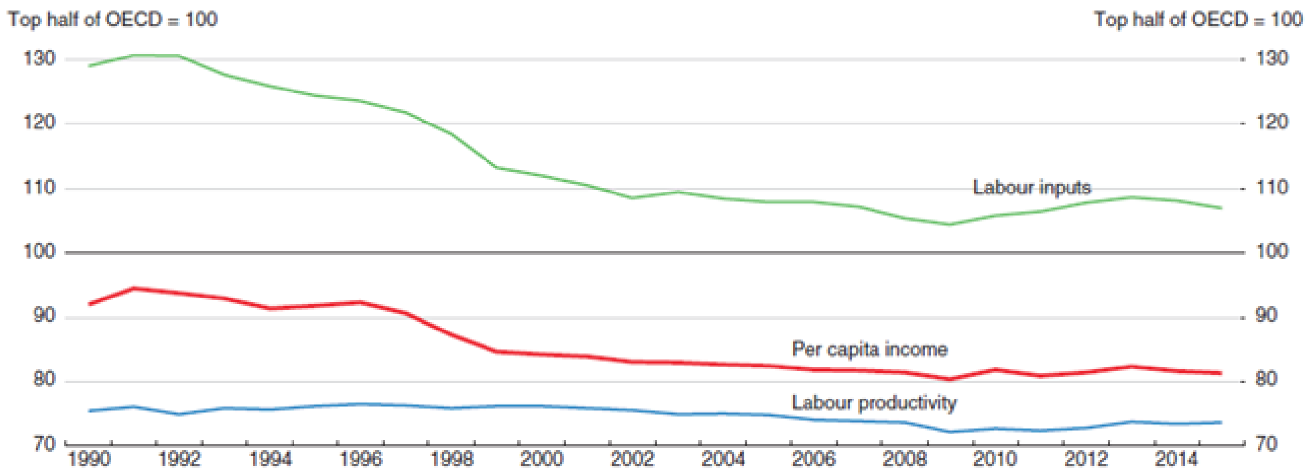
Robling, P. and J. Pareliussen (2017), “Structural inequality – The case of Sweden”, *OECD Economics Department Working Papers*, forthcoming, OECD Publishing.

Japan needs policies to boost productivity for inclusive growth

Category: Japan,Productivity,Uncategorized
written by oecdecoscope | April 27, 2017
by Randall Jones, Head of Japan Desk, OECD Economics Department

Labour productivity in Japan is about a quarter below the average of the top half of OECD countries (Figure 1), which is surprising given Japan’s outstanding performance in education and skills and high level of R&D spending. As in other countries, the labour productivity gap between leading and lagging firms has widened in Japan, resulting in greater wage inequality between firms. The 2017 *OECD Economic Survey of Japan* examines the scope for positive synergy between policies to promote productivity and inclusive growth.

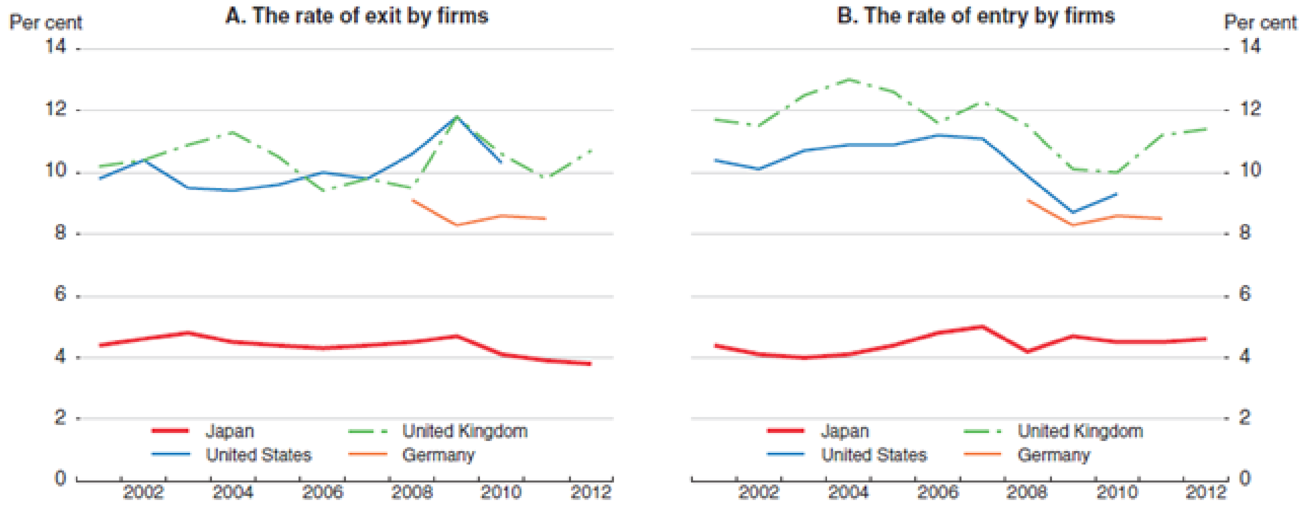
Figure 1. Labour productivity in Japan remains about a quarter below the top half of OECD countries



Source: OECD (2017a).

The *Survey* stresses the importance of facilitating the exit of non-viable firms and the entry of innovative start-ups to narrow inter-firm productivity and wage gaps. Japan’s low exit rate, which is only about half of that in other advanced countries (Figure 2), results in a large number of non-viable firms. The widespread use of personal guarantees and the stringency of the personal insolvency regime are important impediments to firm exit. Japan’s growth strategy set a goal of raising both the exit and entry rates to around 10%. Of course, increased exit of non-viable firms would raise the number of displaced workers, making it important to promote their re-employment.

Figure 2. Annual firm exit and entry rates in Japan are low compared to other advanced countries

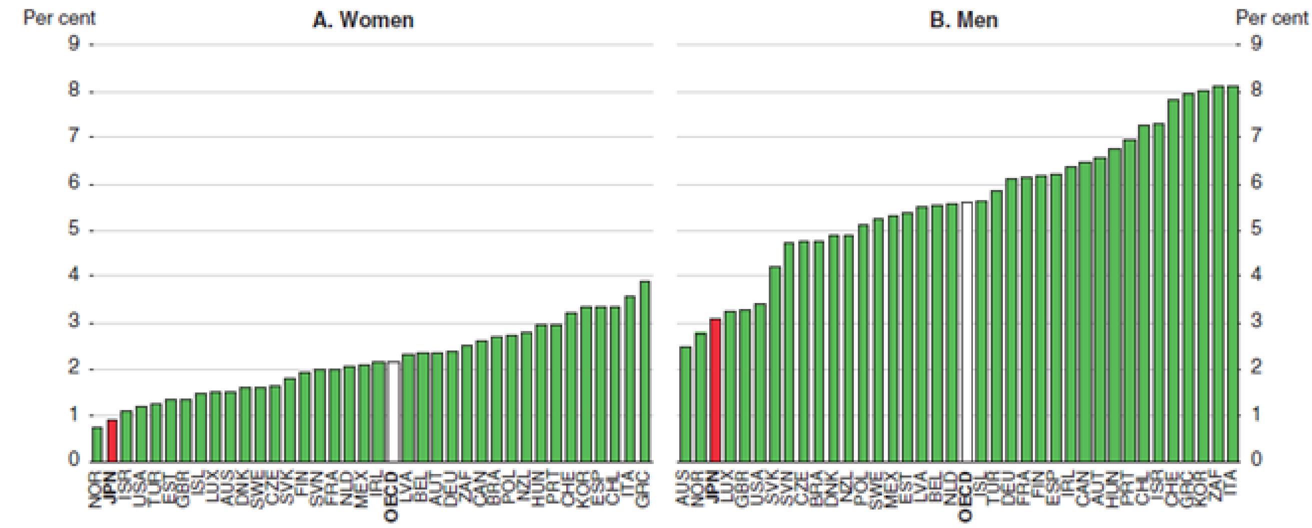


Source: Ministry of Economy, Trade and Industry (2014).

Japan’s firm entry rate is also well below other advanced economies (Figure 2, Panel B). Consequently, firms more than ten years old account for three-quarters of Japan’s small enterprises compared to less than half in most OECD countries. The *Survey* identifies weak entrepreneurship in Japan as a major reason for the low entry rate. Indeed, the number of entrepreneurs in Japan is among the lowest in the OECD (Figure 3). Increasing entrepreneurship requires improving its image; less than a third of Japan’s working-age population views entrepreneurship as a good career choice, the lowest in the OECD. The negative perception in Japan reflects a lack of perceived opportunities (7%, the lowest in the OECD), perceived capabilities (12%, the lowest) and a fear of failure (55%, the second highest).

Figure 3. The share of entrepreneurs in Japan is low, especially among women

Self-employed with employees (as a share of employed persons)



Source: OECD (2016a).

The main messages of this *Survey* on the nexus between productivity and inclusive growth are:

- The dispersion in productivity and labour income between firms is relatively large in Japan and has been widening.
- The firm entry and exit rates in Japan are well below other advanced economies and the number of entrepreneurs is low.
- Policies to facilitate the exit of non-viable firms and to increase the entry of innovative new firms are a priority to boost productivity and promote inclusive growth.

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The G20's Enhanced Structural Reform Agenda: Some progress, but more reforms needed

Category: Structural reform,Uncategorized
written by oecdecoscope | April 27, 2017
by Agnès Cavaciuti, Tomasz Kozluk, Dorothée Rouzet, Nicolas Ruiz and William Witheridge, OECD Economics Department

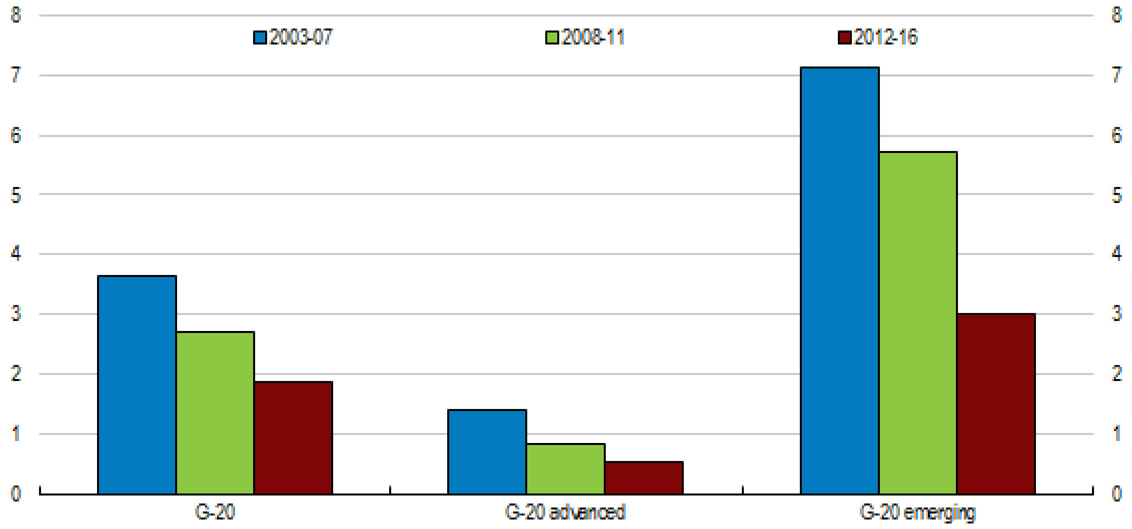
As G20 Finance Ministers and Central Bank Governors meet in Washington, there are signs that the growth prospects for their economies are improving. Recent indicators point to rising business confidence and industrial production in many countries, and fiscal initiatives in major economies are helping to support activity.

A pick-up for the global economy in 2017 would be very welcome after five years of sluggish growth, but we have not yet decisively escaped the low-growth trap. Productivity and wage growth remain weak, and inequality and political uncertainties are high. Financial vulnerabilities and policy risks could derail the recovery. In short, the G20 has yet to achieve its objective of strong, sustainable, balanced and inclusive growth.

In a push to address these challenges, under the Chinese Presidency in 2016 the G20 agreed to an Enhanced Structural Reform Agenda. This comprised G20 priority areas and guiding principles for structural reform, and a system of quantitative indicators to track the evolution of policy settings and outcomes. The OECD was tasked to assess progress and has just delivered the first report under the G20's Enhanced Structural Reform Agenda to Ministers and Governors. It provides an overview of collective G20 progress and individual notes assessing progress for each G20 member country since the onset of the crisis.

The report shows that the G20 has made progress recently in a number of areas. Emerging economies have undertaken significant reforms to boost productivity by promoting trade and competition, improving infrastructure and encouraging innovation. In advanced economies, policy actions have generally focused on boosting employment and skills after labour markets were hit by the crisis. Employment outcomes are mixed, with the share of people in work having fallen since the crisis in China, India, Japan and the US, but increased in Germany, Indonesia, Turkey and the UK. However, overall productivity performance for the G20 has been disappointing, with labour productivity growth falling significantly since the crisis.

Productivity growth is weak
Average annual labour productivity growth, %



Note: G-20 emerging aggregate includes Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Turkey, Saudi Arabia and South Africa. G-20 advanced aggregate includes the remaining G-20 countries.

Source: OECD National Accounts database; and OECD Productivity database.

While inequality has been decreasing for the G20 collectively, it has increased within many G20 countries. Poor outcomes and stagnation for people with low and middle incomes, particularly in advanced economies, raise concerns that many are not sharing in the gains from growth. Some progress has been made on environmental sustainability, but G20 countries have yet to act in order to achieve the long-term objectives set out in the Paris agreement.

In addition, we should be concerned about a waning of ambition on structural reform –for example, the OECD's recent *Going for Growth* 2017 report shows that the pace of reforms has slowed in recent years. In particular, the G20's policy actions can be stepped up on promoting trade and investment openness, reforming tax structures and improving public spending efficiency. Much more can also be done to achieve greater inclusiveness through pro-growth structural reforms and reform packages that reduce inequalities.

The specific structural reform priorities under the G20's Enhanced Structural Reform Agenda differ across countries, but each G20 country can pursue more ambitious policy packages to boost productivity and inclusiveness together. By identifying the areas where progress is needed, this report helps countries to develop and deliver ambitious Growth Strategies for the Hamburg Summit in July. Doing so would help to ensure a strong recovery and put the global economy on a higher and more inclusive growth path.

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OECD Going for Growth 2017, March 2017.

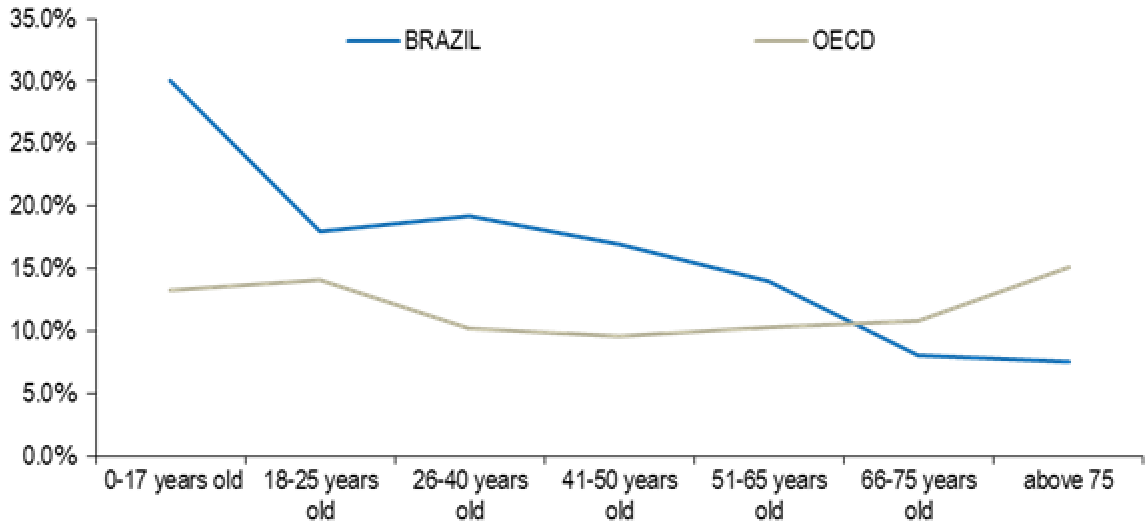
Reforming Brazil’s old-age pension system to ensure its sustainability

Category: Brazil,Uncategorized
written by oecdecoscope | April 27, 2017
By Jens Arnold, Head of Brazil Desk at the OECD Economics Department and Hervé Boulhol, Head of Pensions and Population Ageing at the OECD’s Directorate for Employment, Labour and Social Affairs

Pensions have been successful in reducing old-age poverty well below the population-wide average, and below the OECD average (Figure 1). At present, all pension recipients – and this includes around 90% of those aged 65 and above – receive at least the minimum wage, which is more than 5 times as much as the poverty line of BRL 170 (equivalent to USD 55).

However, Brazil’s old-age pension system already costs more than 10% of GDP, despite the country's young – but rapidly ageing – population. The combined annual shortfall of the pension schemes is close to 4.5% of GDP, contributing substantially to the budget deficit. If the current parameters of the system remain unchanged, spending on pensions for private-sector workers alone would increase by almost 3% of GDP by 2030, and by almost 5% of GDP by 2040. Taking into account the public sector amplifies imbalances, which will make the system financially unsustainable. An in-depth reform is necessary and inevitable.

Figure 1. Poverty by age group

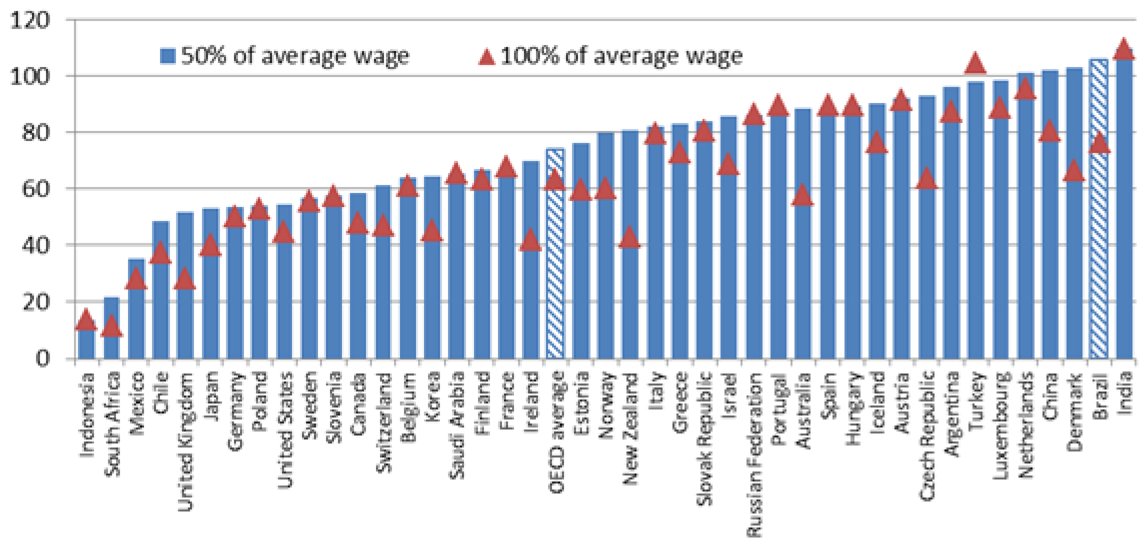


Source: OECD Income Distribution Database (IDD).

Several policy measures could contribute to containing pension expenditures. Raising Brazil's low average retirement ages of 56 years for men and 53 years for women appears urgent, by introducing a binding minimum retirement age. Many OECD countries are now gradually moving their normal retirement ages beyond 65 years for men and women. In contrast to Brazil's pension system, all public pension schemes in OECD countries include a minimum retirement age.

Brazil also stands out for high pension benefits relative to working-age incomes, in particular for low-wage earners, paid at low retirement ages (Figure 2). In the OECD, an average-wage full-career worker will get a pension paying 53% of preretirement earnings at the age of 65.5 years, compared to 70% for men and 53% for women in Brazil at age 55 and 50, respectively. Moreover, the minimum pension benefit is equal to the minimum wage, which has led to real increases in the minimum pension of almost 90% over the last 10 years. The minimum pension is available after 35 years of contribution or from age 65 after only 15 years of contribution.

Figure 2. Net replacement rate for full-career worker having entered the labour market in 2014



Source: OECD Pensions at a Glance (2015)

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Making the most of innovation

in China

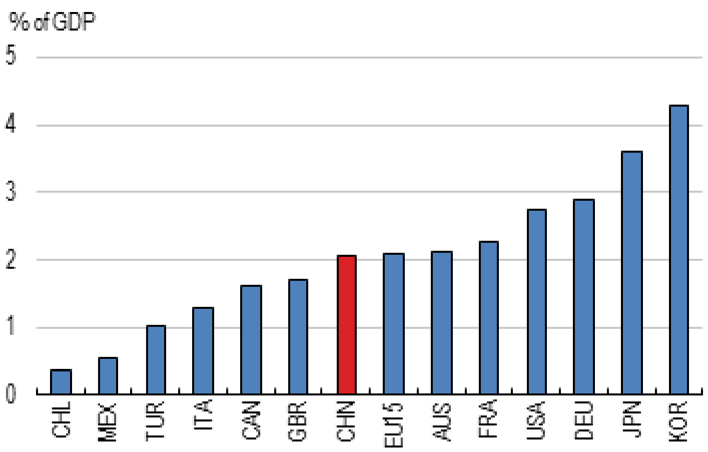
Category: China,Innovation,Uncategorized
written by oecdecoscope | April 27, 2017
by Margit Molnar, Head of China Desk, OECD Economics Department

On several measures, China has caught up with OECD economies in the area of innovation.

On the input side, R&D spending as a percentage of GDP has reached 2% (Figure 1), on par with major European countries. This is more than in other middle-income countries such as Mexico, Turkey or Chile do, though still much less than in the leading innovators such as the US, Japan, or Korea.

Figure 1. R&D spending is higher than in a number of OECD countries

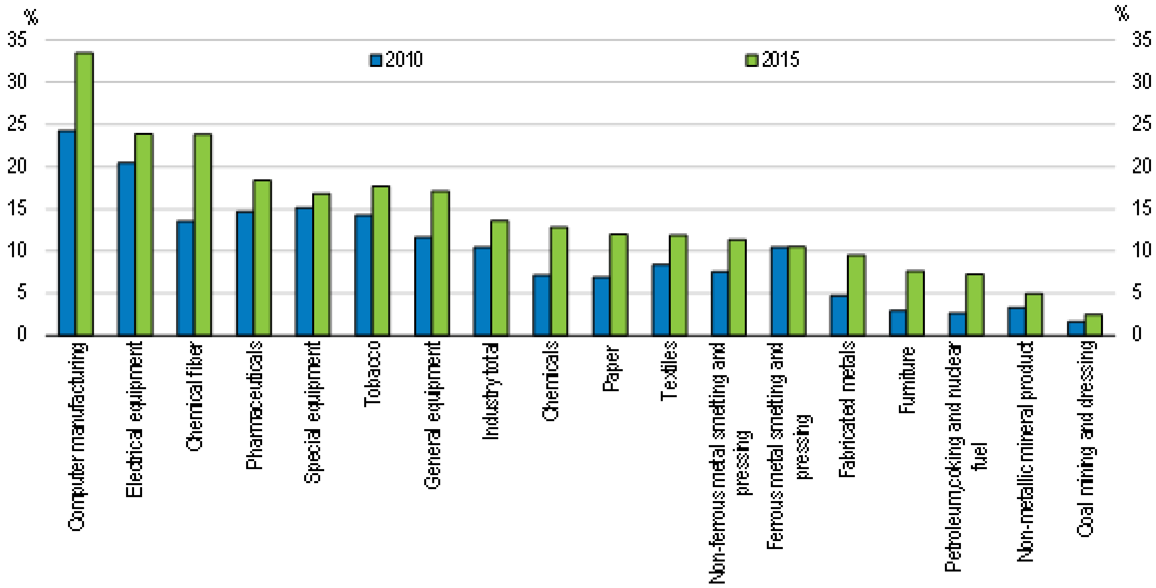
2014 or latest available data



Source: OECD MSTI database.

On the output side, measured by the number of patents, China has become a global leader, surpassing the United States in 2015. In that year, China's patent filings exceeded one million – over a third of the world's total. Another indicator, the share of new products, points in the same direction (Figure 2). The share of new products is high and increased markedly in several high-tech industries such as computer or electrical equipment manufacturing.

Figure 2. The share of new products is high in many high-tech industries



Note: New products need to be fundamentally different from existing ones in function, components or technology. They can be designated as new by the Ministry of Industry and Information Technology or, only for one year, by the producer. Industry classification follows the Chinese system.

Source: National Bureau of Statistics.

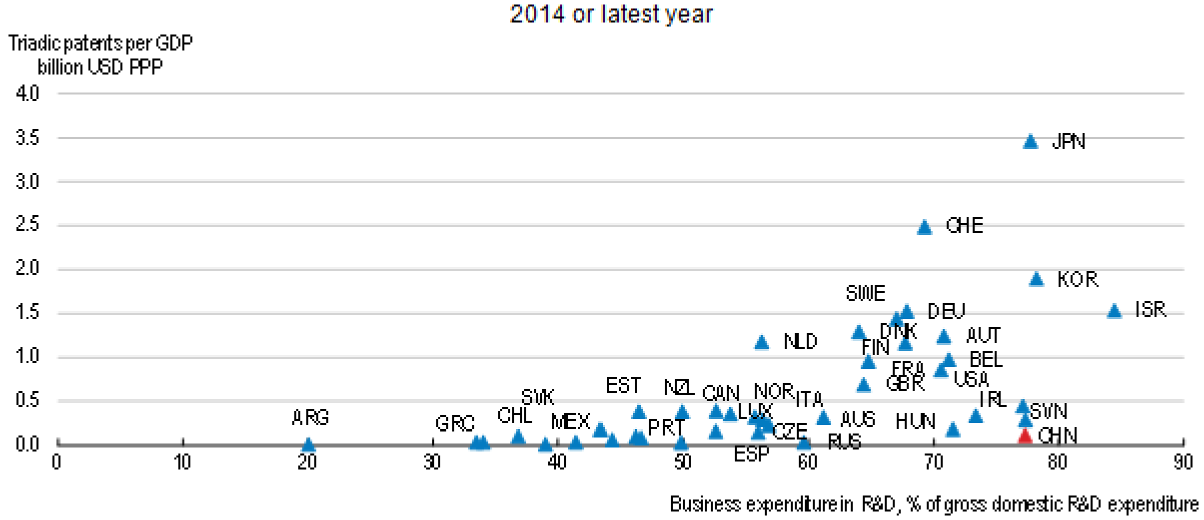
Thus, at first sight, things appear to be improving fast: increasing research inputs are coupled with increased innovation output.

When digging under the surface, however, it turns out that the elasticity of patenting with respect to R&D spending is small. On average, the impact on productivity of new patents has declined, though private firms appear to achieve greater productivity gains from their R&D efforts.

This largely reflects quality and relevance issues. Most Chinese patents are utility or design patents and only a smaller share are genuine inventions. And while China is registering an increasing number of patents in other countries, these are only a fraction of the total. On this measure, China lags behind most OECD and many emerging economies (Figure 3).

Figure 3. Innovation outcomes are not on par with R&D spending by the business sector

2014 or latest year



Note: R&D spending data are from 2014 or the latest available year, patent data 2013 or the latest available year. Triadic patents are those registered in the United States, the European Union and Japan.
Source: OECD calculation based on OECD Main Science and Technology Indicators (MSTI) database.

As the 2015 OECD Economic Survey of China pointed out, the utilisation rate of university patents is low at around 5% compared to 27% in Japan for example. In contrast, for firms it approaches nearly two-thirds, comparing well with other countries. A successful example of increasing utilisation is the applied laboratory for nanotechnology under the Chinese Academy of Sciences established in 2015.

Innovation and the diffusion of its benefits are hampered in China by limited collaboration across firms, as shown by the patent survey by the State Intellectual Property Office. In the Chinese ecosystem of innovation, vertical linkages or interactions with suppliers and customers are well established but horizontal linkages are more limited. Most R&D projects are carried out by the firm alone, collaborative projects with research institutions are rare and with other firms even scarcer. This silo effect is detrimental to potential spillovers and the exploitation of complementarities across firms.

Weak protection of intellectual property rights (IPR) has hampered innovation and patenting in China. Companies often do not bother registering patents: two-thirds of them think that patent rights cannot effectively prevent others from copying their inventions. According to a country-wide representative survey of patent holders by the State Intellectual Property Office, 18% of patent owners have experienced a violation of their rights, but 37% of them did not take any measure in response. The problem is especially acute for micro-enterprises. Domestic firms are more likely not to respond than foreign-invested firms. Over half of the firms think that better protection by patent rights would effectively stimulate innovation at firm level and 87% say that IPR protection should be strengthened. In addition to IPR protection, most firms try to (i) reap the first-mover advantage by quickly marketing their invention, (ii) sign confidentiality agreements with staff or (iii) change products quickly so that competitors cannot catch up.

The 2017 OECD Economic Survey recommends strengthening IPR protection by more systematically prosecuting violators and raising fines.

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Employment ins and outs in OECD countries

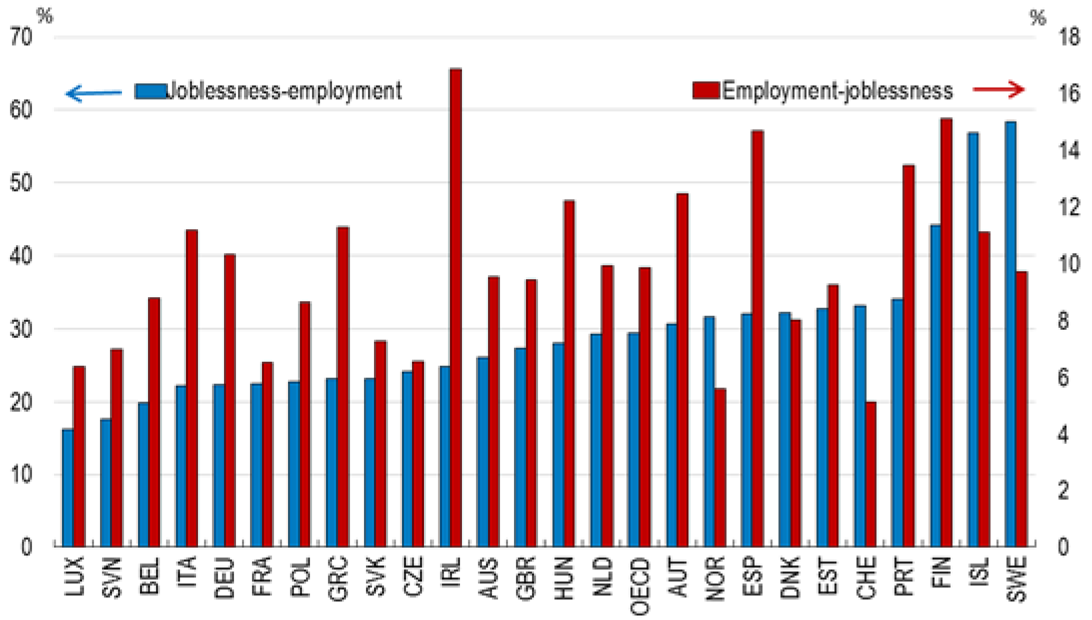
Category: Labour markets,Uncategorized
written by oecdecoscope | April 27, 2017
By Paula Garda, OECD Economics Department

Labour markets are in a continual state of flux. Workers get employed, leave a job and become unemployed, join the labour force or leave the labour force. The balance of these flows determines the overall employment rate. Analysing workers’ ins and outs of employment is critical to our understanding of labour market dynamics, especially from a welfare perspective.

Transitions into unemployment hurt well-being that can be very strong and persistent, while transitions into employment boost life satisfaction. Not all job losses, however, involve financial loss or substantial hardship for individuals and their families. Indeed, high labour market transition rates could reflect the capacity for constant renewal, career development and productivity-enhancing reallocation of jobs.

The paper Garda (2016) "The Ins and Outs of employment in 25 OECD country" uses household surveys for 25 OECD countries to analyse cross-country differences in the transitions between employment, unemployment and economic inactivity for individuals. Between 2005 and 2012, the annual probability of leaving employment averaged 10% across OECD countries. Jobless people have an average 30% per year probability of finding a job. The variation in these flows across countries underlines the diversity of OECD labour markets (Figure 1). Every year, many workers in countries such as Austria, Finland, Portugal and Spain move from employment to joblessness and vice versa. On the other hand, labour market transitions are relatively infrequent in Belgium, the Czech Republic, France, Luxembourg, Poland, the Slovak Republic and Slovenia.

Figure 1. Large differences in transition probabilities separate OECD countries



Source: Garda (2016), "The Ins and Outs of Employment in 25 OECD Countries", OECD Economics Department Working Papers, No. 1350, OECD Publishing.

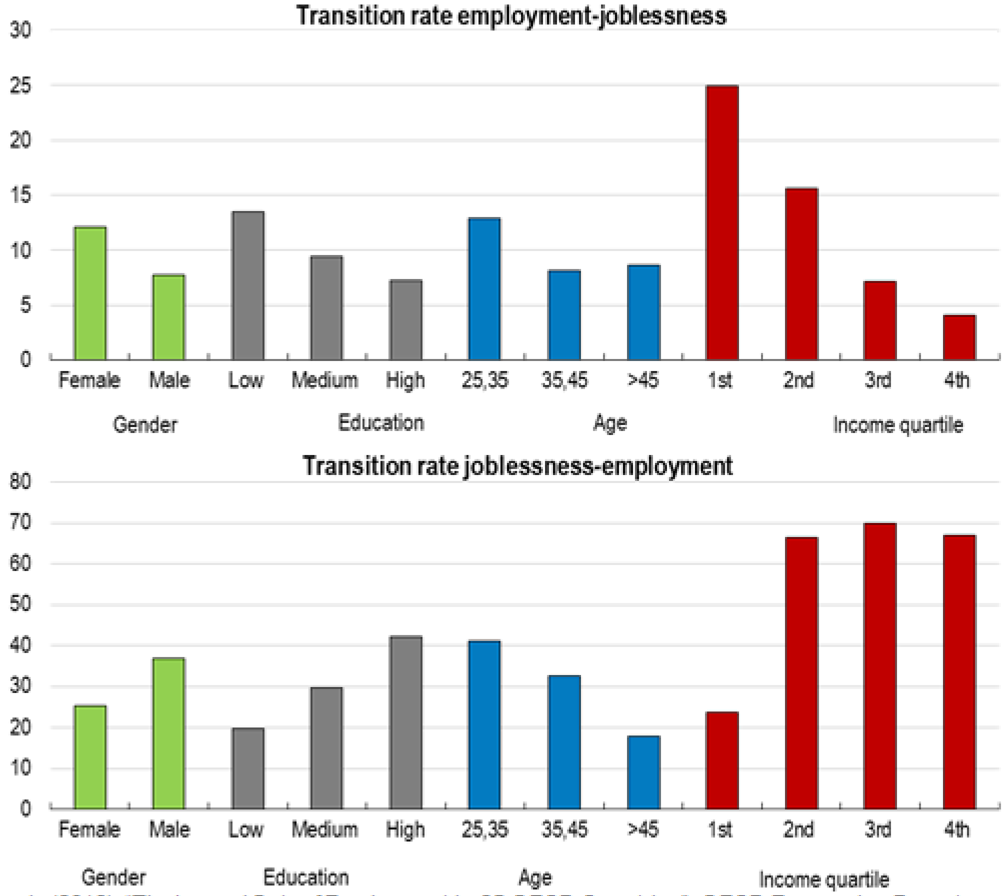
Job-to-job flows are also very important for individual welfare and aggregate productivity. Many workers build their careers through moving to jobs with a higher pay or more generally trying to find better job-skill matches. These job-to-job flows typically translate into enhanced aggregate productivity and earnings gains. The job-to-job transition probability averages 7% across the 25 OECD countries in the sample. This average masks large cross-country differences: countries such as Norway, Sweden and the United Kingdom have high job-to-job flows of more than 12%.

From a welfare perspective it is also important to understand how these labour market flows differ across workers (Figure 2). Several common patterns emerge across countries. Young workers have a twice higher probability of leaving their job than older workers, but they also have a higher probability of finding a job when out of employment. This higher rotation rate is likely to be related to young workers trying to find the best match for their career development but also to a more intensive use of fixed-term contracts.

Female, low educated and low income workers face the highest risk of becoming jobless. Once jobless, these groups of workers experience lower probabilities of moving into a job. This means that labour market insecurity is particularly high for these groups of workers with consequent detrimental effects on individuals' well-being. The size of the effects implies that lacking education, alone, can increase one's labour market insecurity several times relative to their highly-educated peers.

National policies and institutions may shape the patterns of worker flows in OECD countries. Knowing more about how policies affect these flows can help us understand channels through which flexibity-enhancing reforms affect workers. This is the subject of other papers: have a look here or here.

Figure 2. Transitions probabilities by worker characteristics



Source: Garda (2016), "The Ins and Outs of Employment in 25 OECD Countries", OECD Economics Department Working Papers, No. 1350, OECD Publishing.

Want to read more?

Cournède, B., O. Denk, P. Garda and P. Hoeller (2016), "Enhancing Economic Flexibility: What is in it for Workers?", *OECD Economic Policy Papers*, No. 19, OECD Publishing.

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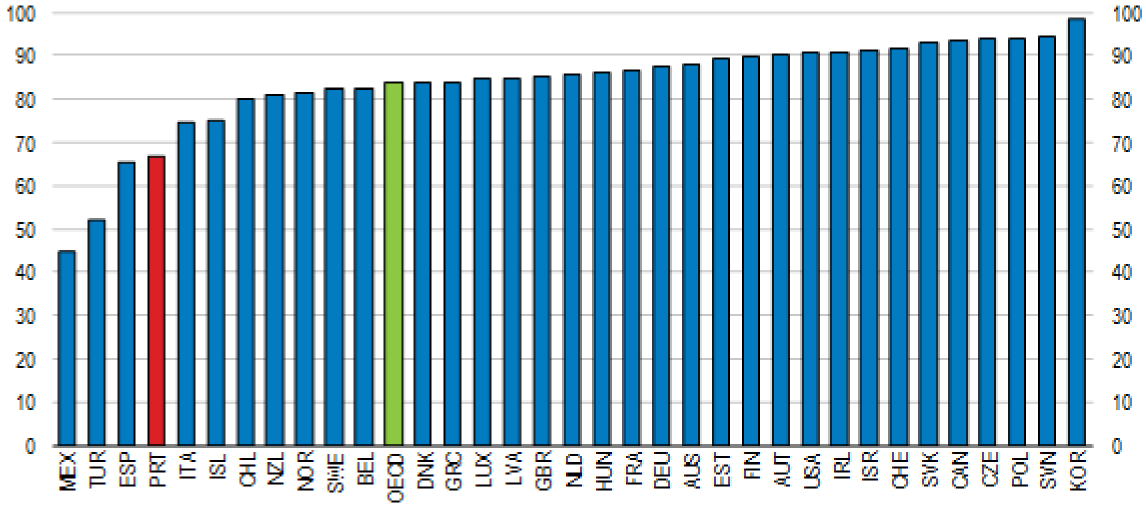
Raising skills holds the key to higher living standards and well-being in Portugal

Category: education,Portugal,Uncategorized
written by oecdecoscope | April 27, 2017
by Sonia Araujo, Country Studies Branch, OECD Economics Department

For each hour worked Portugal produces about half of the output produced in the United States. A historic legacy of very low education attainment is partly to blame for Portugal’s lower productivity. However, education attainment remains low even for those who have left the education system not so long ago. At 65%, the share of young adults (aged 25-34 years old) who have completed upper secondary education is still the third lowest in the OECD (Figure 1).

Figure 1. 25-34 year-olds having completed at least upper secondary education

2015, Per cent



1. The OECD aggregate is an unweighted average; Latvia is included and Japan excluded (no data available).

Source: OECD (2016), "Educational attainment and labour-force status", *OECD Education Statistics* (database).

Low levels of skills are not only an obstacle to higher material living standards, but also affect the well-being of Portugal’s citizens and stand in the way of reducing income inequality, one of Europe’s highest, as education is often a pre-requisite for higher job quality and learning opportunities.

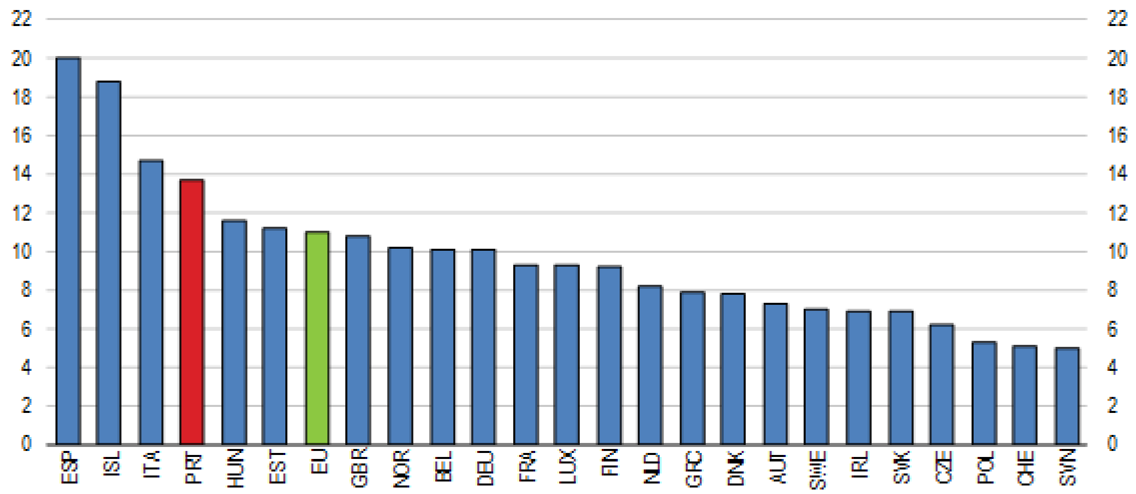
What are the priorities to enhance skills in Portugal?

As discussed in the 2017 OECD Survey of Portugal, the top priority is to raise the skills of the adult population that has left the education system but will stay in the labour market for long. The challenge for Portugal is to find strategies to engage the low skilled, which are much less likely to receive training than the highly qualified young adults. Although this is not a problem unique to Portugal, other countries have managed to attract more low-skilled workers into training by raising awareness of existing training opportunities and by offering opportunities of recognition of skills acquired beyond formal education. Another area for further improvement is to define clear labour market performance indicators against which to check the success of training programs. Monitoring performance and policy evaluation is underdeveloped in Portugal and improvement in these areas would allow focusing resources on those programmes that really make a difference for labour market outcomes of low skilled adults.

Second, the education system needs to do more to reduce Portugal's early school leaving rate, one of the highest in Europe (Figure 2), and a major reason behind the low qualifications of young adults. One of the drivers of early school leaving is grade repetition, an ingrained practice in the Portuguese education system to resolve student learning difficulties. By age 15, around one third of Portuguese students have repeated a year at least once. International experience shows that grade repetition is an ineffective way of supporting underperforming students. In Portugal, grade repetition is a stronger predictor of additional repetitions along the education system. It also exacerbates inequalities, as half of the students coming from disadvantaged backgrounds are likely to repeat a grade, in stark contrast with the OECD average of 20%. Finding alternatives to grade repetition and strengthening learning opportunities of students from disadvantaged backgrounds is a priority to improve the overall level of skills. The economic survey of Portugal recommends re-focusing resources on primary and pre-primary education, detecting and providing early individualised support of students at risk, strengthening teacher training and exposure to best working practices, creating incentives to attract the most experienced teachers and principals to disadvantaged schools and taking account of students' profiles and specific needs when allocating resources across schools.

Figure 2. Student early school leaving rate is high

Percentage of the population aged 18 to 24 having attained at most lower secondary education and not being involved in further education or training[1]



1. The early school leaving rate for Spain covers "school drop outs".

Source : Eurostat (2016), "Youth education and training", *Eurostat Database* and European Commission (2014), "Overview of Europe 2020 Targets", http://ec.europa.eu/europe2020/targets/national-targets/index_en.htm.

Third, the vocational education and training (VET) system needs a comprehensive evaluation. The VET system has developed quite fast in the past decade, putting an end to Portugal's strong bias towards academically-orientated programmes. However, two systems co-exist in parallel, and the courses run by the Ministry of Labour have a stronger dual nature than the VET courses organised by the Ministry of Education. The government should unify the different VET systems by establishing a single dual VET system with strong work-based learning in companies. VET is also provided by several private training entities, risking overlaps and inefficiencies in the use of resources. The capacity to monitor training quality and labour market outcomes of VET students also needs to be strengthened. The authorities should regularly compile performance indicators and use them to streamline the VET offer and improve training quality.

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An immediate Chinese challenge: further addressing vast income inequality

Category: China,Inequality,Uncategorized
written by oecdecoscope | April 27, 2017

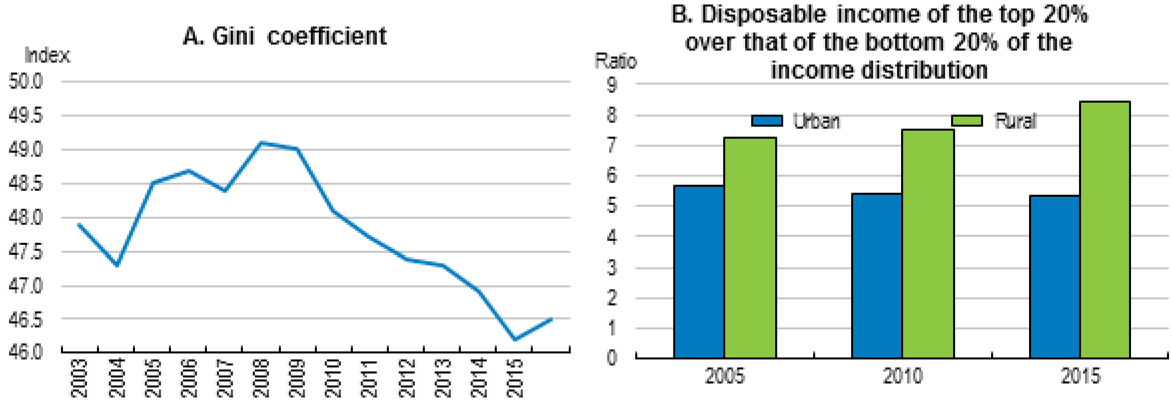
by Ben Westmore, China Desk, OECD Economics Department

The goal of the Chinese government to achieve a "moderately prosperous society in all respects" by 2020 is centred around improving social welfare throughout the population. One of the essential ingredients to doing this is a further reduction in economic inequality.

As underlined in the OECD 2017 China Economic Survey, China's income inequality as measured by the Gini coefficient has been on a declining trend since 2008 after having climbed to a very high level (Figure 1, Panel A). This reflects some regional income convergence, as the central, western and northeastern parts of the country have made progress catching up with the east, and a narrowing of the urban-rural income gap. Across the income distribution, incomes of those in the middle have risen particularly strongly.

Nevertheless, there are signs that many of the poorest are being left behind. The gap between the richest and poorest urban households in terms of disposable income has barely narrowed. In rural areas, it has even widened (Figure 1, Panel B).

Figure 1. Aggregate income inequality has declined but some of the poorest are being left behind



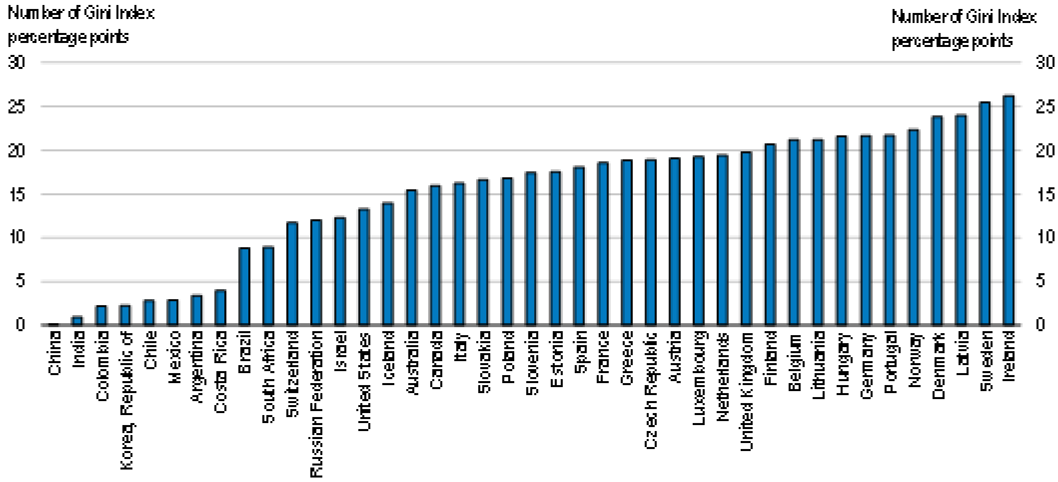
Note: The Gini coefficient presented here is based on income and has a range from zero (when everybody has identical incomes) to 100 (when all income goes to only one person). Increasing values of the Gini coefficient thus indicate higher inequality in the distribution of income.

Source: China National Bureau of Statistics, authors' calculations.

The large and persistent income gap is partly the fault of China’s tax and transfer system (Figure 2). In particular, the redistributive influence of the personal income tax regime is stifled by a very generous personal income tax allowance and exemptions that favour high-income individuals. Rules around social security contributions are also regressive. For example, all workers need to make a minimum contribution irrespective of actual income earned and there is a cap on payments.

Figure 2. Redistribution by the tax and transfer system is very limited

Reduction in market income inequality due to taxes and transfers, 2013/15



Note: Data for China are for 2013. Data for other countries are the latest available observation (2013 to 2015, with the exception of India (2011) and South Africa (2012)). The metric presented here is calculated from data that are standardised to allow cross-country comparisons. Potential remaining comparability issues are detailed in Solt (2016).

Source: Standardised World Income Inequality Database (SWIID) Version 5.1.

On the transfer side, there has been a big increase in the coverage of the main social assistance scheme (the *dibao*) since 2000, especially in rural areas. However, there are massive discrepancies in benefits between locations depending on the financing capacity of local governments. While the coverage of unemployment insurance has picked up in recent years, it remains low. Moreover, for the unemployed that do receive benefits, the replacement rate is meagre by OECD standards.

There is also the need to enhance the opportunities of poorer households through reforms outside those relating to the tax and transfer system. Access to good quality education must be broadened, as educational performance is influenced more by socioeconomic factors than in OECD countries. Gaping disparities also exist in access to health resources, especially between urban and rural areas, which translate into inequities in overall wellbeing. Fortunately, the government is prioritising these areas, as there is much work to do over the next few years so that China can be confidently classified a “moderately prosperous society in all respects”.

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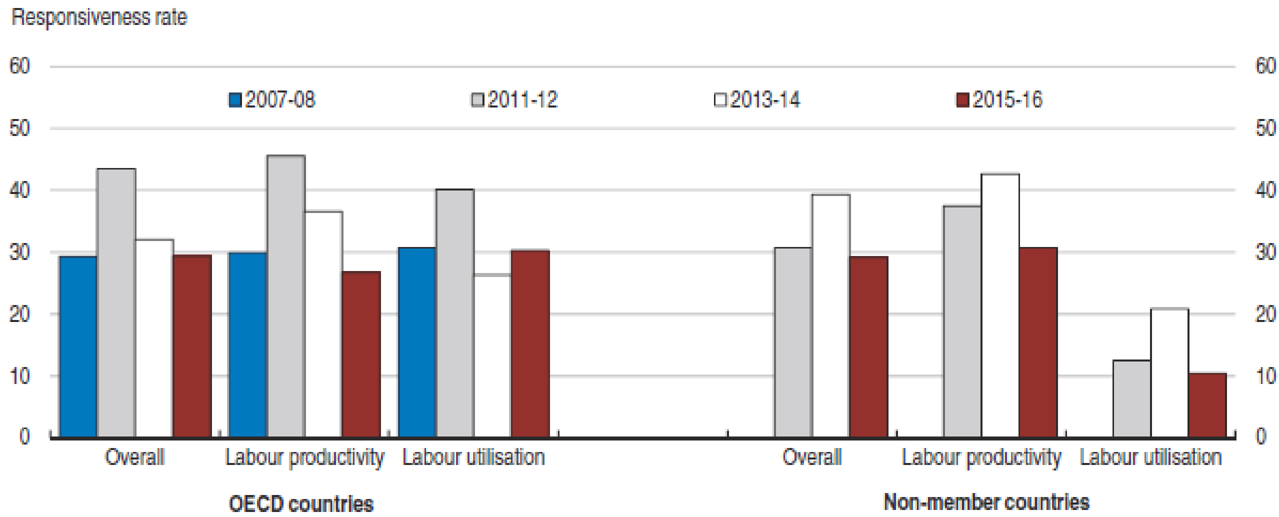
Going for Growth 2017: Policies for growth to benefit all

Category: Uncategorized
written by oecdecoscope | April 27, 2017
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.

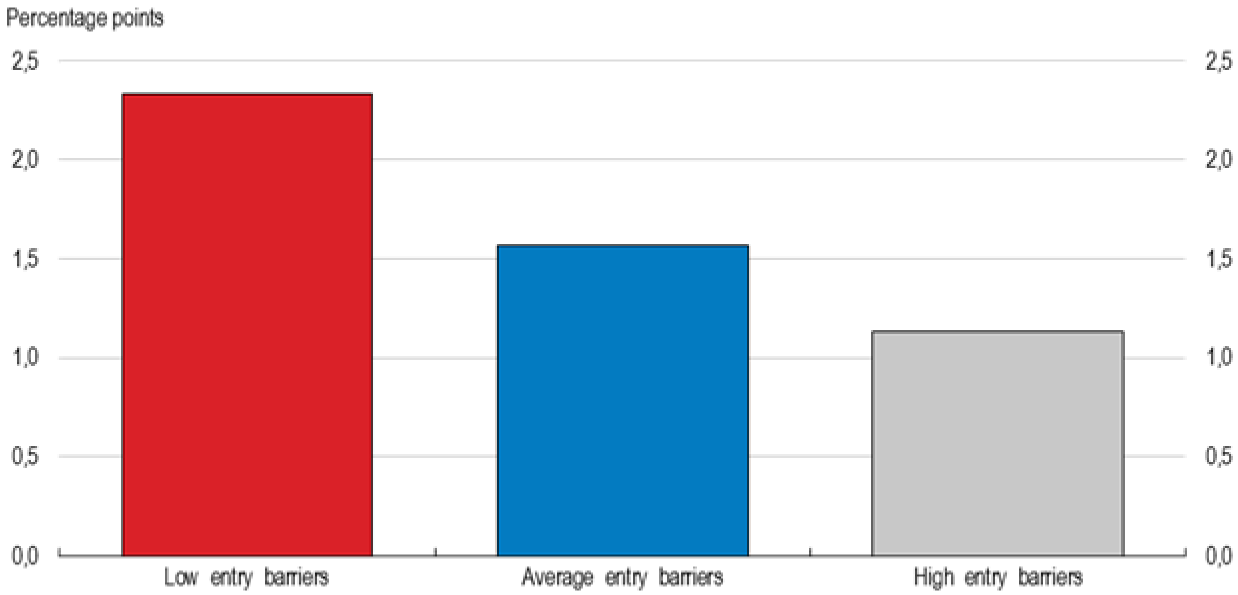
Achieving greater inclusiveness and reducing inequalities are important for the well-being of citizens. They are necessary for safeguarding social cohesion and sustaining growth in the longer run. But achieving inclusive growth on a sustained basis also requires addressing the productivity slowdown. 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.

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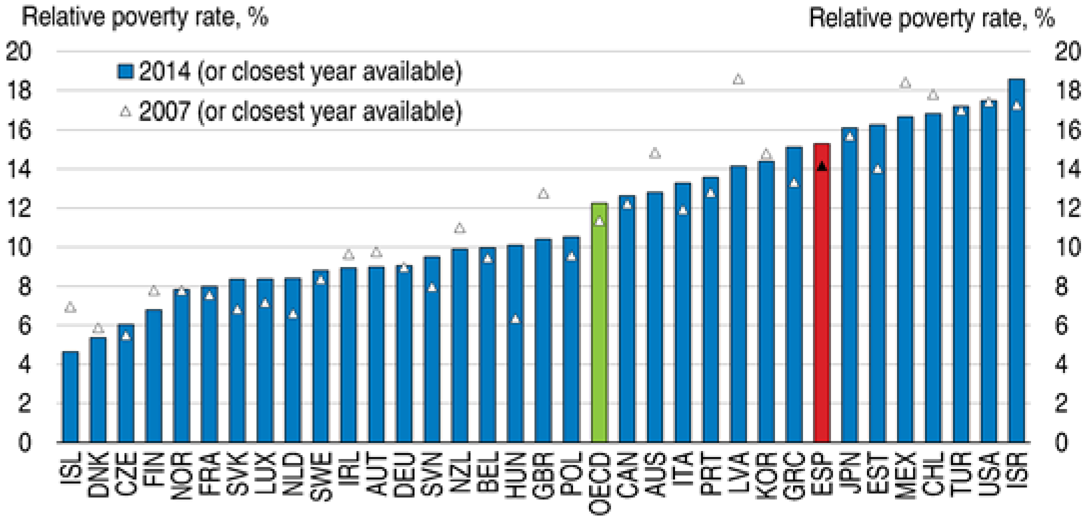
Reducing poverty durably is a key challenge in Spain

Category: Labour markets,Productivity,Spain,Uncategorized
written by oecdecoscope | April 27, 2017
By Yosuke Jin, Spain Desk, Country Studies Branch, OECD Economics Department

Poverty has risen in Spain in the wake of the crisis (Figure 1), mainly due to lack of quality jobs that provide enough hours of paid work to support decent incomes (OECD, 2017). The risk of poverty is concentrated on jobless households and households with only temporary workers (OECD, 2015). As employment has grown strongly over the past three years, poverty is likely to have declined. However, the level of poverty is also likely to remain high as the unemployment rate still stands at around 19% and a quarter of those who are employed are on temporary jobs. The risk of poverty is particularly intensified among jobless households with children.

Figure 1. Poverty increased during the crisis



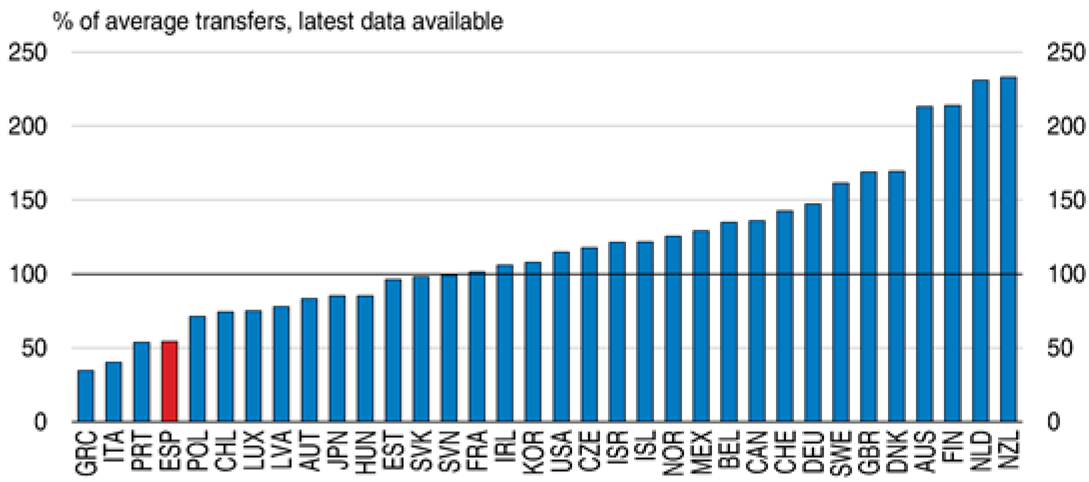
Note: The relative poverty rate is defined as the share of people living with less than 50% of the median disposable income (adjusted for family size and after taxes and transfers) of the entire population. The OECD aggregate is calculated as an unweighted average of the data shown.

Source: Provisional data from the OECD Income Distribution Database.

The tax and transfer system could do more to relieve poverty. Total social spending as a percentage of GDP is higher in Spain than the OECD average. However, social benefits are poorly targeted with relatively well-off households benefiting more than the poor. Cash transfers are particularly low at the bottom 20% of the income distribution (Figure 2), as less than half of the unemployed are covered by unemployment benefits and minimum-income safety nets are weak (OECD, 2017).

Figure 2. Transfers for the poor are very low

Cash transfers to working age individuals in 20% lowest income group



Note: Public social cash transfers at the household level, adjusted for household size.

Source: Calculations based on the OECD Income Distribution Database.

A substantial number of unemployed people have exhausted their unemployment benefits as their unemployment spell gets longer or are not entitled to them at all. This is particularly the case for those who separate from temporary contracts due to very short contribution periods in the social security system. The 2017 OECD Economic Survey on Spain recommends extending the coverage of the standard unemployment benefit by reducing its minimum required contribution period, in line with many other EU countries (OECD, 2017).

The minimum income support provided by safety nets is weak and its coverage is very limited. Social protection in Spain consists not only of the unemployment insurance system managed by the central government, but also of minimum income support schemes run by the central and regional authorities. Only 1.5% of households received minimum income support in 2014 from the regional schemes. The *Renta Minima de Insercion* (RMI) is the most common income support scheme for those who are not eligible for unemployment benefits, aimed at alleviating poverty by means of cash benefits for basic living needs. For those who do receive the RMI, the benefit amount is low compared with similar social assistance in other OECD countries, in particular for those with children due to weak top-ups for children. The Economic Survey recommends increasing the amount and coverage of the regional minimum income support programmes, in particular, for families with children (OECD, 2017).

While improving the coverage of social protection, the benefits should be strictly conditional on active job search. This would not only provide immediate income support but also allow benefit recipients to stay connected to the labour market, as long as relevant employment support measures are put in place. From this perspective, the Economic Survey also discusses the importance of improving the efficiency of public employment services by: employing profiling tools and specialisation of counsellors; increasing resources and staff-to-job seeker ratios; and improving co-ordination to provide integrated support for jobseekers via a single point of contact for social and employment services and assistance (OECD, 2017).

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