

Stimuler la croissance en France et s'assurer que les réformes profitent à tous

Category: France, Posts in French, Uncategorized

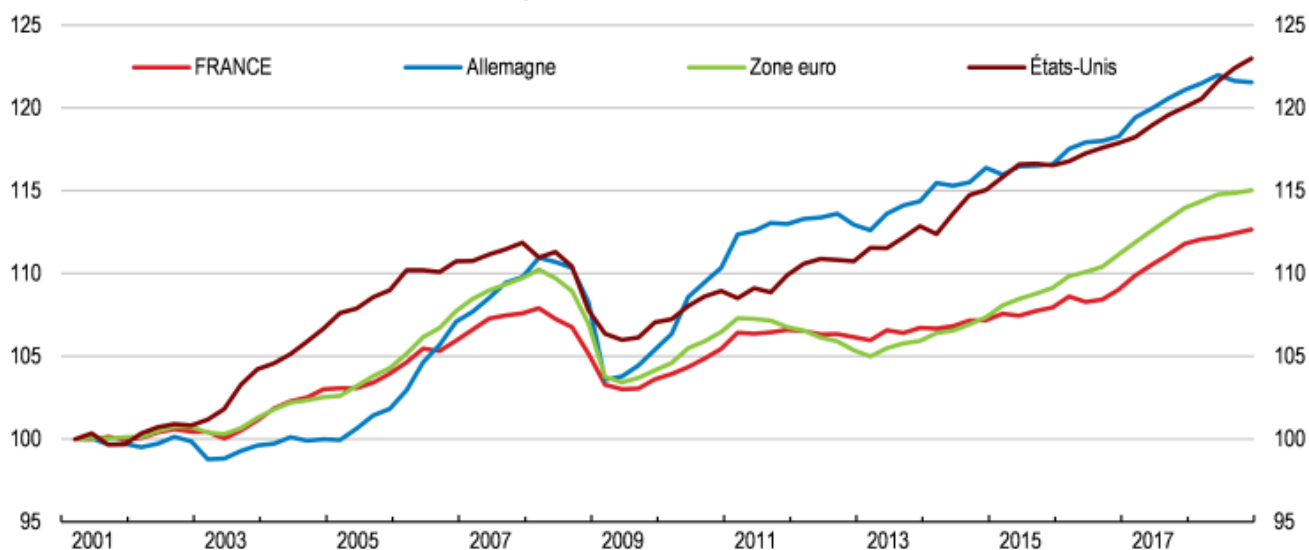
written by oecdecoscope | April 10, 2019

par Antoine Goujard et Pierre Guérin, Bureau de la France, Département Économique de l'OCDE



L'économie française ralentit, mais moins que ses voisins. La France a lancé un programme de réformes significatif, auquel elle doit associer un soin particulier aux inégalités. En effet, le revenu par habitant a progressé moins vite que dans la moyenne de la zone euro (Graphique 1). L'étude économique de l'OCDE : France 2019, lancée le 9 avril 2019 par le Secrétaire général de l'OCDE et le ministre de l'Économie et des Finances, montre qu'il est nécessaire de continuer de stimuler la croissance et de faire en sorte que les gains des réformes atteignent les ménages les plus modestes.

Graphique 1. La croissance du revenu est en retard par rapport à d'autres pays
PIB par habitant¹, 2001-T1=100



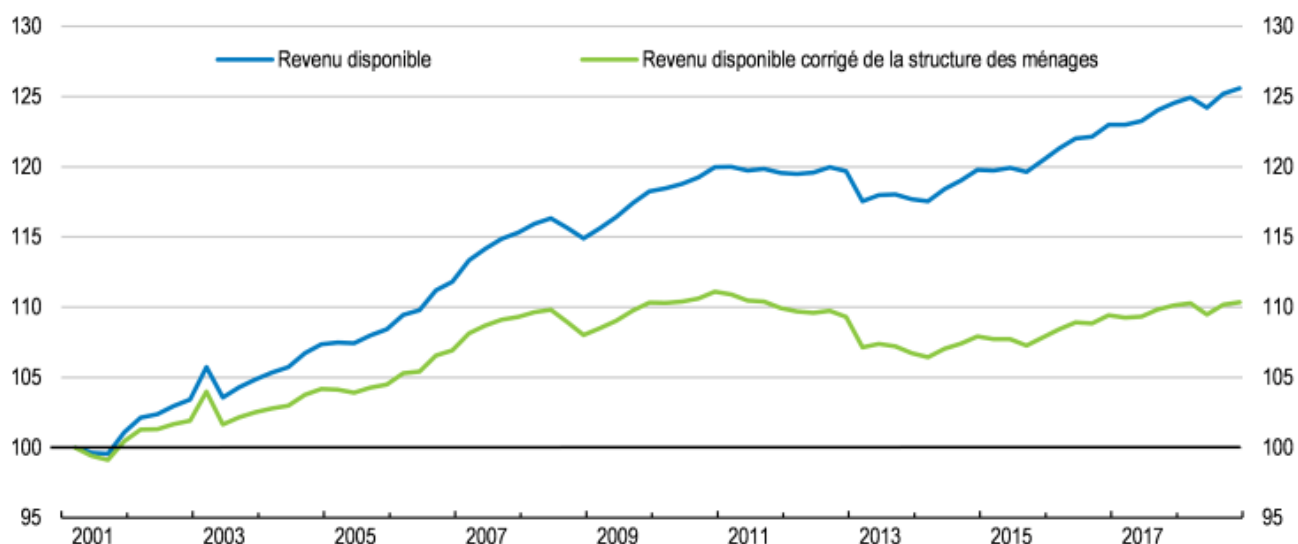
1. En USD-PPA constant de 2010.

Source : OCDE (2019), *Statistiques de l'OCDE des comptes nationaux* (base de données).

Les réformes doivent profiter à tous et améliorer les perspectives des ménages à faibles revenus. Les manifestations des « gilets jaunes » ont montré que les gains des réformes en cours n'étaient pas perçus par une partie de la population. Le revenu réel par habitant corrigé de la structure des ménages est resté inchangé depuis dix ans (Graphique 2). Les taux d'emploi, en particulier chez les jeunes, les travailleurs peu qualifiés et âgés, sont faibles et la productivité de l'ensemble de l'économie a diminué, comme dans de nombreux autres pays de l'OCDE. De plus, la faible mobilité sociale tend à perpétuer les situations économiques et sociales d'une génération à l'autre, malgré un taux de pauvreté relativement bas après impôts et transferts (Boone et Goujard, 2019).

Figure 2. La croissance du revenu disponible a stagné

Revenu disponible réel des ménages, 2001-T1=100



Source : INSEE (2019), *Pouvoir d'achat et ratios des comptes des ménages*.

Comment atteindre une croissance plus durable et s'assurer qu'elle profite à tous ?

Le programme de réforme du gouvernement est ambitieux. La loi Pacte devrait renforcer le dynamisme de l'économie et la croissance des entreprises. Des réformes importantes du marché du travail, une réduction des prélèvements sur les entreprises et le travail et un plan d'investissement public favorable à l'amélioration de la productivité devraient aussi contribuer à stimuler la croissance et l'emploi à moyen terme. Les revues de dépenses et la réforme des retraites envisagée devraient renforcer l'efficacité des dépenses publiques et donner des marges de manœuvre pour réduire les impôts, tout en préservant l'investissement public. Les estimations de l'OCDE, qui couvrent une grande partie des réformes en cours et reposent sur l'expérience d'autres pays de l'OCDE (Akgun et al., 2017 ; Causa et al., 2016), montrent que si elles étaient pleinement mises en œuvre, ces mesures pourraient augmenter de 3,2 % le PIB par habitant à un horizon de dix ans et profiteraient principalement aux catégories de revenus moyenne et moyenne inférieure à moyen terme (Graphique 3).

À l'avenir, la France devrait capitaliser sur ce programme de réformes et prendre de nouvelles mesures pour augmenter le

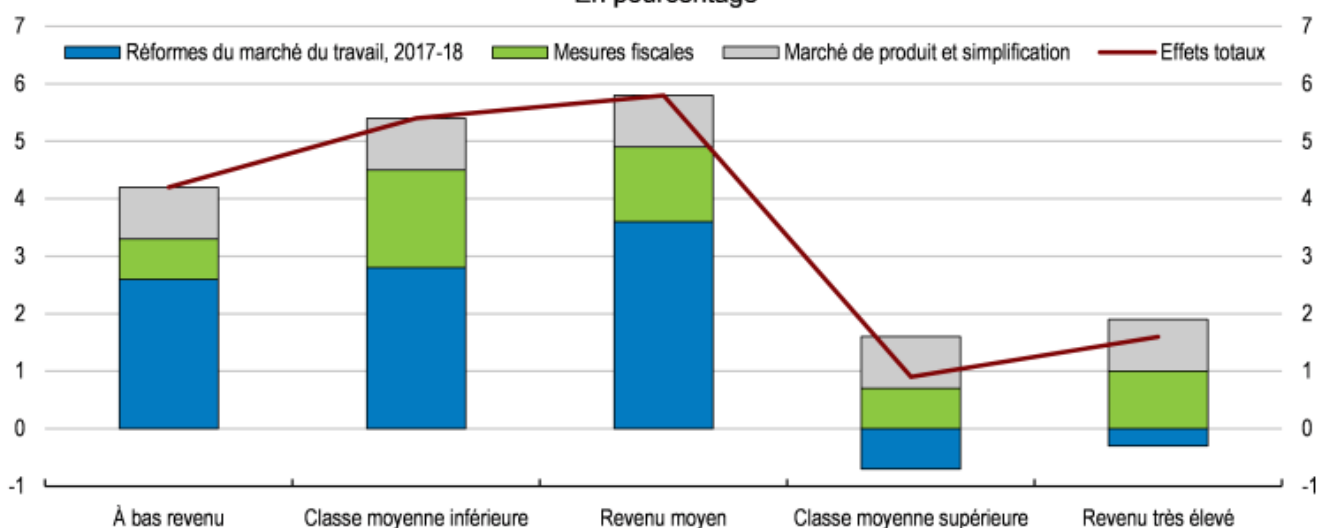
nombre d'emplois et leur qualité, améliorer la mobilité sociale et accroître l'efficacité des dépenses publiques. Des mesures supplémentaires pourraient grandement contribuer à stimuler l'emploi et la productivité et garantir une plus grande égalité des chances. En relevant le taux de croissance annuel moyen, elles aideraient aussi à inscrire la dette publique rapportée au PIB sur une trajectoire résolument descendante. De telles mesures pourraient porter les gains en termes de PIB par habitant à 5 % à un horizon de dix ans. C'est l'une des conclusions des principaux éclairages sur l'action publique de l'étude économique de l'OCDE : France 2019 :

- **L'amélioration du bien-être dépendra du renforcement des compétences et de la plus grande inclusion des travailleurs peu qualifiés dans la population active.** Cela nécessite d'accroître la qualité de l'éducation dès le plus jeune âge et de mettre en œuvre des réformes pour garantir des programmes de formation continue de haute qualité profitant à tous. Une évaluation régulière des programmes de formation professionnelle et d'emploi subventionné améliorera leur qualité. Augmenter les coûts relatifs des contrats courts et réformer le système d'assurance-chômage réduiraient les incitations aux périodes récurrentes d'activité partielle et de chômage qui pèsent sur les perspectives de carrière des travailleurs peu qualifiés et des jeunes.
- **Poursuivre la réduction des obstacles administratifs à l'entrée et des réglementations indûment restrictives augmentera les pressions concurrentielles et garantira des conditions plus favorables aux entreprises jeunes et dynamiques.** Il faut continuer d'avancer sur la simplification administrative pour faciliter l'entrée et la croissance des entreprises. En outre, les réglementations à l'entrée et certains codes de conduite restent stricts dans plusieurs professions réglementées

– tels que les comptables, les notaires et les pharmaciens – ce qui pèsent sur la productivité et l'emploi. Pour veiller à ce que ces réglementations soient dans l'intérêt du public, il serait utile de revoir les réglementations existantes sous l'angle de la concurrence.

- **Une réduction du ratio des dépenses publiques au PIB est nécessaire pour améliorer la situation budgétaire et réduire les taux d'imposition à long terme, en particulier sur le travail.** Les politiques de dépense du gouvernement devraient viser à ce que les investissements et les dépenses sociales soient mieux ciblés pour augmenter l'efficacité de l'administration publique. Simplifier le système fiscal soutiendrait également l'activité économique. Un certain nombre d'impôts à faible rendement affectent les entreprises et devraient être revus afin de simplifier le système fiscal. Les exonérations de TVA et les taux réduits sont considérables et certains d'entre eux bénéficient à trop peu de ménages à faible revenu.

Graphique 3. Simulations des gains à long terme des réformes récentes pour différents groupes de revenus
En pourcentage



Source : Calculs de l'OCDE et De Williencourt, C, Faci, A. et S. Ray (2018), « Quel effet macroéconomique du PACTE ? Premiers éléments de réponse », *Trésor-Eco*, No. 226.

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Nine questions and answers on the 2019 Economic Survey of Italy

Category: Italy,Uncategorized

written by oecdecoscope | April 10, 2019

By Laurence Boone, Mauro Pisu and Tim Bulman, OECD Economics Department

disponibile anche in Italiano

1. Italy has been implementing the OECD's

recommendations for years, yet the economy has been weak. Should not Italy change approach?

Italy

has implemented some of the recommendations of past OECD Surveys and these have been bearing fruit. For example:

- Past

Surveys have recommended reducing social security contributions to raise employment. Such a cut was implemented on a temporary basis from 2015 and employment rose by about 3 percentage points. Employment growth started slowing when the reductions in social security contributions gradually expired.

- Past

Surveys have recommended strengthening innovation policies and incentives for innovative investment. The Industry 4.0 programme has introduced fiscal incentives for investments in digital technologies, which have increased rapidly since then.

- Past

Surveys have recommended improving public procurement and fighting vigorously corruption. Public procurement procedures have been restructured and harmonised across the country by reducing the number of contracting authorities, resulting in large cost savings; the anticorruption authority (ANAC) has taken on an important role in preventing corruption and is now a

model for other countries.

There

are many areas where Italy has not taken action following OECD recommendations. For instance, past Surveys have recommended to:

- Accelerate and streamline bankruptcy procedures and make it easier to restructure insolvent firms. The new insolvency code has still to be approved by parliament.
- Increase R&D spending. The R&D spending is still one of the lowest across OECD countries (even after accounting for the effects of the Industry 4.0 plan).
- Increase available places in childcare facilities. They are low and one of the reasons why so few women work in a number of regions.
- Increase public investment, which has kept declining.
- Increase spending on and restructure public employment services. This process is just starting.
- Strengthen the apprenticeships system by introducing minimum training quality standards. Apprenticeships are widespread in Italy but their educational content remains limited.

2. What is the OECD's view of the Reddito

di Cittadinanza?

The Survey welcomes the large increase in resources to reduce poverty through the Reddito di Cittadinanza. The measure is consistent with previous OECD recommendations and will help to direct a larger share of social transfers to people in poverty.

However, the Reddito di Cittadinanza could be improved and contribute more to boosting employment. Its current level of benefit is high by international standards and higher than the wages of many jobs, especially in poorer regions. This will discourage beneficiaries from working in the formal sector.*

To address this problem, the Survey suggests lowering the Reddito di Cittadinanza by 30-40%, tapering off the benefit as beneficiaries start working and their labour income grows, and introducing an in-work benefit system for low-wage workers to raise their take-home pay.

Overall the changes the OECD proposes for the Reddito di Cittadinanza, along with other changes to the personal income tax and social benefits, will cost about EUR 2.7 billion more than what the government already budgeted for the Reddito di Cittadinanza. The OECD is then recommending the Italian government to spend more on measures to lower poverty and increase employment than what the government has planned on doing.

The Survey also welcomes the increase in spending on public employment services planned for 2019-20 as they will be vital to ensure those receiving the Reddito di Cittadinanza engage in job search and training programmes. However, the OECD warns

that other countries' experiences show that improving employment services takes time. The OECD recommends developing a multi-year implementation plan based on enhancing skills of employment service staff, and additional investment in IT and profiling tools is needed.

3. What is wrong with encouraging early retirement to free up job opportunities for young people?

The new temporary early retirement scheme ("quota 100") introduced with the 2019 budget will encourage people to retire earlier but its cost is high compared to its benefits. The scheme will increase pension spending by EUR 20 billion in 2021 and by EUR 40 billion by 2025. Italy's pension spending as a share of GDP is already one of the highest among OECD countries, hampering the capacity of Italy to expand public investment, including in education.

There is no evidence that early retirement schemes free up jobs for other workers. They would exacerbate Italy's existing problem of an ageing population by accelerating the shrinking of the working age population. People with tougher physical jobs should nevertheless be shielded from an increase in the retirement age.

4. How can a minimum wage help provide quality jobs and good working conditions?

Italy has many specific minimum wages tied to collective bargaining agreements. A general minimum wage would protect the low skilled in sectors where workers have little bargaining power

and would reduce the risk of in-work poverty, which has continued to rise in Italy even during the recovery.

The minimum wage would need to be set at a rate that does not price low-skilled workers out of the labour market and would need to reflect differences in productivity between regions.

Moreover, it should be set and reviewed by a transparent process and based on objective considerations about labour market conditions. To protect low-wage workers and make work pay more, the Survey recommends introducing in-work benefits for low-wage workers.

5. What does the Survey recommend on migration?

The potential contribution of immigrants to Italy's economy and society is huge. To ensure the support and understanding of native-born Italians, well-managed and evidence-based migration policies and debates are essential. It is also important to ensure that immigrants can access training, so as that Italy benefits from the skills, entrepreneurship and dynamism they bring.

Emigration from Italy has increased markedly since the start of the crisis, especially among young people. This is threatening sustained growth and living standards for the whole population. Policies to improve job prospects and salaries will increase Italy's appeal as a place to live and work. It will also contribute to the arrival of qualified immigrants from Europe and other parts of the world.

6. How can Italy become less vulnerable to higher interest rates?

Designing

and following a credible fiscal policy would enhance fiscal credibility and lower further refinancing risks.

By implementing reforms and increasing the primary surplus Italy's public debt would fall steadily. This would lower interest payments and free up resources to finance much needed investment, and fight poverty and social exclusion.

7. How vulnerable are Italy's banks?

The

banking sector is in much better health than in 2017 when the previous OECD survey was published:

- The stock of non-performing loans on banks' balance sheets has declined drastically and continues to do so.
- Government interventions in the banking system have been effective and have cost far less than those in other countries.

But

more needs to be done to ensure banks can continue to support business, especially small firms:

- The reduction in non-performing loans has been slower for small and medium-sized banks.
- The reform of cooperative and mutual banks has progressed but it is yet to be fully implemented.

- Keeping government bond yields low will safeguard the banks' stability and capacity to provide credit.

8. What are the OECD's economic forecasts for Italy?

Italy's gradual recovery stalled in late 2018. The Survey projects GDP to fall by 0.2% in 2019, before growing by 0.5% in 2020. This largely reflects the sharp slowdown that took place in 2018 when Italy's economy contracted by 0.6% in the third quarter and 0.4% in the fourth. The OECD projects the economy to recover growth by the second quarter 2019.

The slowdown has been broad-based, involving lower growth of exports, private consumption and investment caused by the slowdown in main trading partners (particularly Germany) and policy uncertainty. On top of the cyclical headwinds, Italy continues to suffer from low potential output growth which is estimated to be between 0-0.5% per year. This also explains why Italy's projected growth rate is lower than elsewhere. While other countries sneeze, Italy gets a cold.

The downward revision in projected GDP growth raises the projected public deficit from 2.1% of GDP in 2018 to 2.5% in 2019. The difference in growth forecasts explains most of the difference between the deficit projections presented in the Survey and the government's projections of 2% of GDP in 2019.

9. How was the OECD Economic Survey of Italy prepared?

Italy

is a founding member OECD, which for more than 50 years has worked closely with successive Italian governments to provide policy advice and share good practices.

The

Economic Surveys are biannual publications that review countries' economic trends and performance and provide policy recommendations to raise growth and social welfare. All OECD member countries and some non-member countries undergo this review exercise.

All OECD Economic Surveys are prepared by the OECD Economics Department in collaboration with the other, more specialised, OECD Directorates. They are reviewed by representatives of OECD member states governments, gathered in Economic and Development Review Committee (EDRC), including the country under review. The EDRC is at the core of the OECD's peer review mechanism giving representatives of all 36 OECD member governments and the European Commission the opportunity to exchange views on economic policies and best practices. The Economics Department revises the draft survey based on comments received by the EDRC. The EDRC delegates then approve the final version for publication, ensuring a broad-based consensus.

This process allows a fruitful exchange of views and sharing of experiences among governments, to improve each other's policies. The next Economic Survey of Italy is scheduled for

2021.

* The Survey does not fully take into account all the implementation rules of the Reddito di Cittadinanza as they have been defined only recently (Law 26/2019). Some of the implementation rules encourage the employment of beneficiaries of the Reddito di Cittadinanza, such as the subsidy to firms hiring workers from the rolls of the public employment services, others discourage it, such as setting a minimum (Reddito di Cittadinanza for a single person plus 10%) salary for job offers beneficiaries can rightfully refuse.

Further reading:

OECD (2019), OECD Economic Surveys: Italy 2019, OECD Publishing, Paris.

Sweden's schools: lessons from history to build a better future

Category: Sweden,Uncategorized

written by oecdecoscope | April 10, 2019

by Jon Pareliussen, Sweden Desk, OECD Economics Department

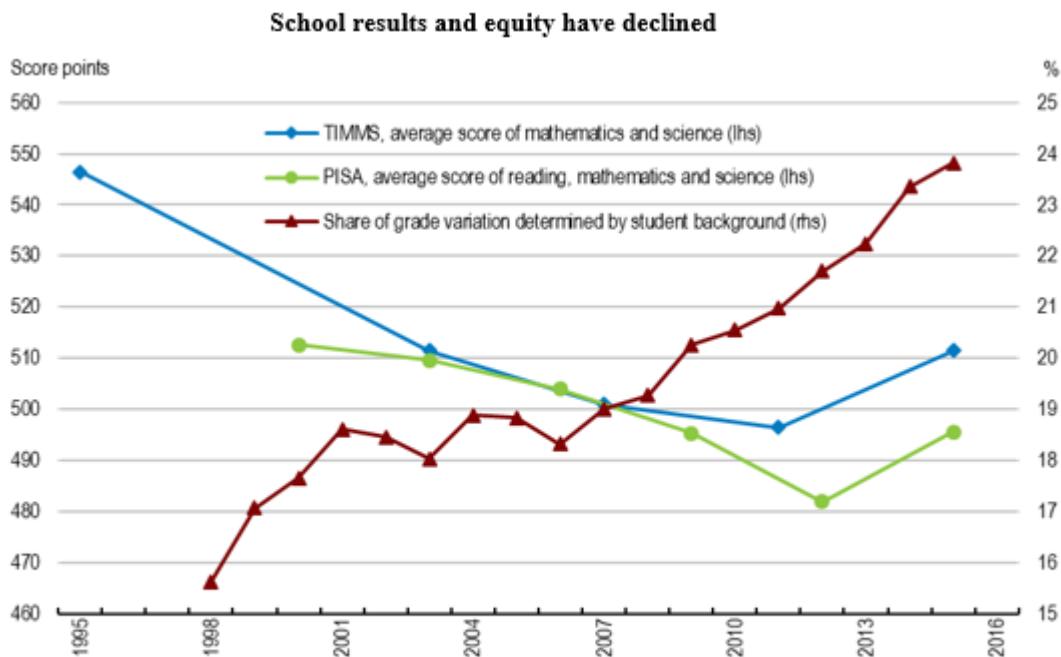
Swedish schools entered the 1990s from a position of strength, as one of the top performers in early international school surveys, including the OECD Programme for International Student Assessment (PISA). School governance was centralised, and implemented locally

by regional education boards. A suite of sweeping reforms in the early 1990s decentralised the school system from the central to the municipal level and introduced choice, competition and management by objectives. The general direction of reform was common to several OECD countries at the time, some of which perform well in international comparison.

However, the reforms seem to have contributed to weakening results in Sweden. Implementation was not optimal, as some municipalities were ill-prepared to take on the new tasks, and key stakeholders, notably among teachers and school principals, were opposing the new model. The reform design also had weaknesses. Regional education boards were closed and municipalities were granted full autonomy over school funding, weakening governance structures considerably, at a time when the introduction of liberal entry for private (for-profit and non-profit) school providers would have called for stronger governance and control.

The latest vintage of PISA points to a brighter future for Sweden's schools. Average results improved, reflecting at least partly recent government interventions. However, today is no time for complacency, as Sweden's educational performance only climbed back to close to the OECD average. Inequalities across pupils and schools are widening, and children are increasingly segregated into schools with pupils from similar backgrounds. These developments are partially driven by broader societal trends, notably increasing income inequality and immigration. Nevertheless, the school system

reinforces segregation instead of counteracting it, running the risk of depriving pupils of equal opportunities.



Source: OECD Economic Survey of Sweden (2019).

Against this backdrop, the special chapter of the OECD Economic Survey of Sweden 2019 describes and analyses the challenges facing primary and lower secondary education in Sweden. A set of recommendations is outlined, focussing on three main areas:

- Economies of scale and the need for coordination calls for a partial recentralisation of some aspects of education policy. A centrally set minimum funding norm based on pupils' socio-economic characteristics would target funding better to needs and equity objectives. The norm should be non-binding and integrated in the existing system for cost- and income equalisation between municipalities, in line with established governance

principles in Sweden. A regional arm of the central government governance structure should be re-built to enhance cooperation, improve skill development, promote continuous quality improvements, and instil accountability at every level of the school organisation.

- Competition and school choice can be powerful tools to improve school quality, but private interests in many cases differ from the interests of society as a whole. Effective regulation and governance therefore need to steer private providers to deliver for the public good. Ensuring that grades fairly represent pupils' skills and knowledge would reduce information asymmetries. Private schools' admission procedures need regulation to hold back school segregation. Municipalities should adjust how they assign pupils to schools by promoting more socially mixed pupil groups while toning down the current strong focus on proximity. Investments in new school capacity can help counteract segregation, notably if coordination between municipalities and private providers improves.
- High-quality teachers are a school's most important asset, and Sweden faces teacher shortages. Teaching needs to become more attractive to recruit motivated and skilled students and retain high quality teachers in the profession. Better teacher education with a stronger research base and more teaching practice would help. Once in a job, teachers should face clearer career paths, incentives to

progress, perform and take on challenging tasks as well as clear accountability for key outcomes, coupled with more cooperation, feedback and support between colleagues. A new regional arm of the central government governance structure should have a central role.

Sweden is now moving towards a new round of school reforms, largely along these lines. A clear lesson from the previous three decades of Swedish education history is that reforming complex systems, warranted or not, can also be a risky undertaking. The end result depends on reform design, implementation and intricate interactions within the system undergoing reform as well as with the external environment.

The need to adjust to unintended consequences as complex reforms progress is inevitable, but accurately identifying strengths, weaknesses and causality is challenging in hindsight, and even more in real time. Not knowing exactly where you are and how you got there reduces the likelihood of ending up where you want to be. Therefore, decision makers should integrate experimentation, quantitative research and evaluations into reform design in the next round of Swedish school reforms.

References:

OECD (2019), OECD Economic Surveys: Sweden 2019, OECD

Argentina: Laying the foundations for strong and inclusive growth

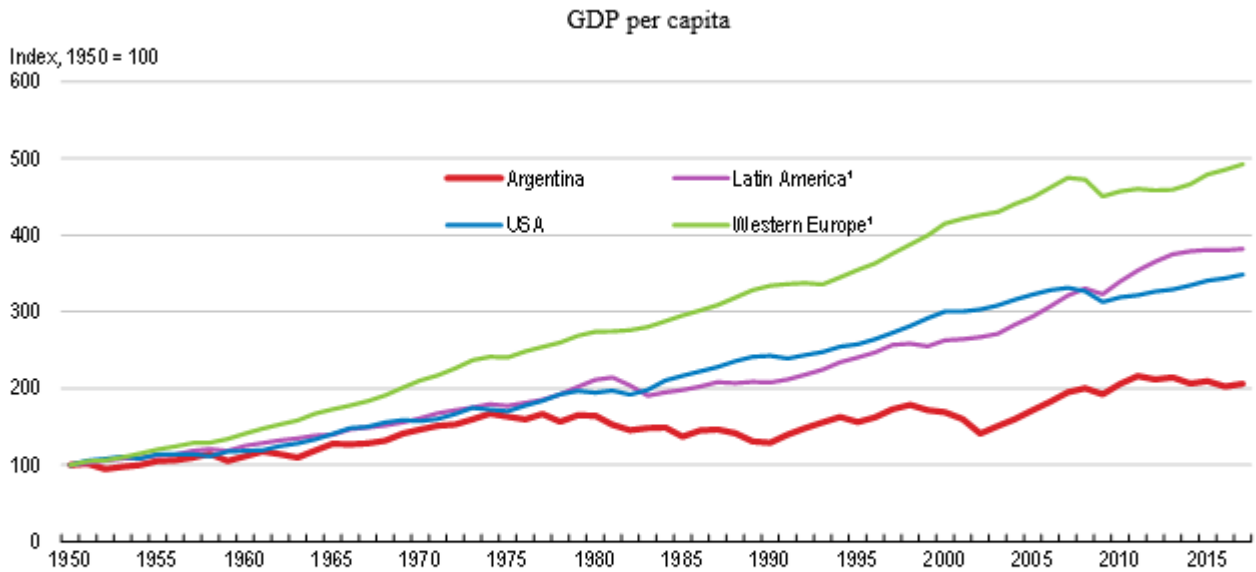
Category: Uncategorized

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by Jens Arnold and Robert Grundke, Argentina Desk, OECD Economics Department

Over many decades, Argentina's economy has been held back by weak policy settings and productivity growth has stalled amidst high volatility and recurrent crises. This explains why incomes have fallen behind those in Latin American and other countries over time (Figure 1). Following years of unsustainable economic policies, significant reforms have been undertaken since 2015 to strengthen growth and well-being.

Figure 1. Argentina has lost ground relative to other economies



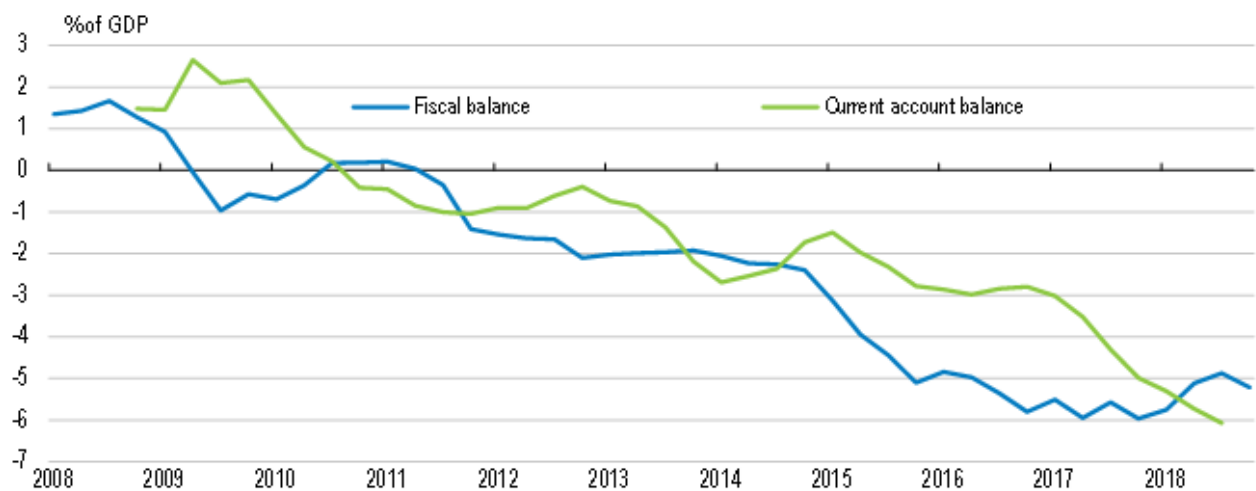
1. Western Europe includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom; Latin America includes: Brazil, Chile, Colombia, Mexico and Peru.

Source: OECD calculations based on Bolt and Van Zanden (2014) (see <http://www.ggdc.net/maddison/maddison-project/data.htm>).

Data: <https://doi.org/10.1787/888933942315> x

Yet, the persistence of fiscal and external imbalances, which widened until 2018, led to a build-up of vulnerabilities (Figure 2). A combination of events, including a sharp decline of currency inflows due to an exceptionally poor agricultural harvest, loss of credibility in monetary policy following subsequent revisions of inflation targets and external events triggered a sudden capital flight during 2018. The value of the currency declined by almost 50% over the course of 6 months.

Figure 2. Fiscal and external imbalances have widened



Source: INDEC, Ministry of the Treasury, CEIC.

Data: <http://dx.doi.org/10.1787/888933942391>

The authorities reacted in a timely and decisive manner by accelerating the fiscal adjustment, tightening monetary conditions and seeking financial support from multilateral lenders. Although subject to risks, the new fiscal targets are expected to put public debt on a declining trajectory if met by future governments. However, they imply a fiscal effort of almost 6% of GDP during 2018-2020, which is a large consolidation in historical and international comparison. The simultaneous fiscal and monetary contractions will take their toll on growth in the short term, but the new macroeconomic policies also reduce vulnerabilities and lay the foundations for more solid and inclusive growth looking forward. After all, avoiding yet another economic crisis is a precondition for raising investment and improving living standards.

While the economy has stabilised recently, more needs to be done to ensure stronger growth and improvements in well-being

for all

Argentiniens over the years to come. More ambitious structural reforms would

have substantial growth pay-offs, according to OECD estimates.

An ambitious

package of reforms on product and labour markets as well better institutions

and governance could raise growth by as much as 2 percentage points per year

over a period of 10 years, compared to a scenario of no additional reforms. Currently,

competition is weak in many sectors, and a lack of dynamism in industry

structures have implied that many jobs are trapped in activities with limited

potential for productivity and wage growth. Reducing both domestic barriers to

entry and fostering a stronger integration into the global economy will be key

for this. Among OECD member and partner countries, Argentina has one of the

most restrictive regulatory settings on product markets and maintains high

trade barriers. Continuing institutional progress, perhaps embodied most

visibly in the restoration of trust in national statistics and the rising

profile of the Anti-Corruption Office, will also be crucial.

These reforms are likely to transform the structure of the economy, which currently still reflects Argentina's traditional inward-focus and may need to evolve to make the most of future opportunities. Over this transition, it is important for policies to protect workers, but not necessarily specific jobs or firms. Strengthening social protection, which is already quite effective in reducing income disparities, is one priority, but perhaps most importantly, offering quality

training opportunities for workers who wish to seize new opportunities holds the key for mastering the transition successfully and achieve sustainable improvements in poverty and inequality.

References:

OECD (2019), *OECD Economic Surveys: Argentina 2019*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-dnk-2019-en

Alan Krueger, a friend and a source of inspiration for the OECD

Category: Uncategorized

written by oecdecoscope | April 10, 2019

by Laurence Boone, OECD Chief Economist, Giuseppe Nicoletti, Head of Division and Cyrille Schwellnus, Senior Economist, OECD Economics Department



A great economist, Alan Krueger, left us and the OECD Economics Department has lost a friend and a source of inspiration. Alan, a Princeton economist and former Chairman of the US Council of Economic Advisors, strongly influenced our thinking by spearheading a more evidence-based approach to

economic policy-making both in his academic writings and as the Chairman of the OECD's Economic Policy Committee during 2012-13.

One area in which Alan's academic work contributed to a rethink of the OECD's policy advice is the minimum wage. The original OECD Jobs Strategy of 1994 stated that minimum wages often "end up damaging employment opportunities for unskilled labour". The wave of empirical studies sparked by Alan's 1993 study with David Card on the employment effects of minimum wages contributed to the more nuanced view in the Jobs Strategy of 2006 that "a moderate legal minimum wage generally does not undermine employment" and the explicit recommendation in the new 2018 Jobs Strategy to "consider using a statutory minimum wage set at a moderate level as a tool to raise wages at the bottom of the wage ladder, while avoiding that it prices low-skilled workers out of jobs". In their study, Alan and David Card use the "natural experiment" of a moderate minimum wage increase in New Jersey in 1992, showing that it had no effect on employment growth in fast-food restaurants relative to neighbouring Pennsylvania where minimum wages had remained unchanged at previous New Jersey levels.

Beyond triggering a rethink of the OECD's policy advice, Alan's approach of using individual-level data, "natural experiments" of policy reforms and differences

in pre- and post-reform developments in reformed and non-reformed areas contributed to a paradigm shift in the way the OECD conducts empirical research. Classical studies such as his study with Joshua Angrist using the quarter of birth as an instrumental variable for years of schooling to estimate returns to education or the estimation of the effect of class size on student performance using experimental data demonstrated the limitations of existing research on these long-standing and highly policy-relevant questions. Today, much OECD research is based on individual-level data and research designs inspired by these papers.

Alan's work also sparked entire work programmes at the OECD. His 1997 study with Joern-Steffen Pischke on the US employment miracle suggested that higher labour market flexibility compared with European countries alone could not explain its superior employment performance. They conjectured that product market constraints contributed to low employment growth in many countries, which motivated a major OECD project that analysed the product and labour market interactions. As a chairman of the OECD's Economic Policy Committee, Alan popularised the notion of the "Great Gatsby curve" – which was partly based on OECD inequality estimates

– suggesting that higher income inequality in one generation constrains the ability of people in the next generation to move up the economic ladder. This consideration has contributed to the OECD refocusing its policy advice towards a more inclusive growth model and a broader sharing of productivity gains. Finally, Alan's ideas on the importance of subjective well-being were influential in the context of the OECD reflection on how to go beyond GDP in measuring what counts for social and economic performance.

The OECD's current research programme is testament to Alan's continuing influence. His recent work was concerned with the rise of platform-intermediated work arrangements and analysed their effects on productivity and whether they warranted a rethink of labour market regulations and social protection. At the 2018 Jackson Hole conference, he also raised the issue of the macroeconomic implications of employer labour market power, highlighting the role of employer concentration and anti-competitive practices such as non-compete clauses and anti-poaching agreements. His work has not only been instrumental in putting inequality issues in the spotlight but also helped disseminate them across countries, putting these issues high on the OECD's agenda. His undogmatic, evidence-based approach to policy advice

will provide guidance for years to come.

Global growth is weakening: coordinating on fiscal and structural policies can revive euro area growth

Category: Economic outlook, Euro Area, Forecast, Uncategorized
written by oecdecoscope | April 10, 2019
by Laurence Boone, OECD Chief Economist

The global expansion is continuing to lose steam, and faster than anticipated a few months ago. Growth in Europe has been particularly disappointing, as trade growth both within the EU and with external partners has stalled. Business and consumer confidence has plummeted in advanced economies as trade tensions persist, high levels of policy uncertainty in Europe linger, and the pace of China's slowdown continues to raise concerns.

Global growth is projected to ease further from 3.6% in 2018 to 3.3% in 2019 and 3.4% in 2020 in our latest Interim Economic Outlook. It has been revised downwards in almost all G20 economies, with particularly large revisions in the euro area in both 2019 and 2020, driven by weakness in Germany and Italy, but also in the UK, Canada and Turkey. And the manufacturing sector seems to take a hit across the G20 on the

back of trade tensions.

OECD Interim Economic Outlook Projections

Year-on-year, %. Arrows indicate the direction of revisions since November 2018.

	2018	2019	2020		2018	2019	2020
World	3.6	3.3	3.4	G20	3.8	3.5	3.7
Australia	2.9	2.7	2.5	Argentina	-2.5	-1.5	2.3
Canada	1.8	1.5	2.0	Brazil	1.1	1.9	2.4
Euro area	1.8	1.0	1.2	China	6.6	6.2	6.0
Germany	1.4	0.7	1.1	India ¹	7.0	7.2	7.3
France	1.5	1.3	1.3	Indonesia	5.2	5.2	5.1
Italy	0.8	-0.2	0.5	Mexico	2.1	2.0	2.3
Japan	0.7	0.8	0.7	Russia	2.3	1.4	1.5
Korea	2.7	2.6	2.6	Saudi Arabia	2.0	2.1	2.0
United Kingdom	1.4	0.8	0.9	South Africa	0.8	1.7	2.0
United States	2.9	2.6	2.2	Turkey	2.9	-1.8	3.2

Note: Difference in percentage points based on rounded figures. Dark red for downward revisions of 0.6 percentage points and more. Dark green and dark orange for, respectively, upward and downward revisions of 0.3 percentage points and more but less than 0.6 percentage points. Light green and light orange for, respectively, upward and downward revisions of less than 0.3 percentage points. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.

1. Fiscal years starting in April.

Some

factors are supporting growth, including easier financial conditions, with

major central banks having signalled a pause in monetary policy normalisation.

Also labour markets remain resilient for now, and wage growth is slowly picking

up, supporting household incomes and spending. However, worryingly, downside

risks continue to build up and growth could be much weaker if these risks were

to materialise.

Three major sources of risks are our main concerns.

First,

the continued uncertainty about trade policies remains a significant drag to

global investment, jobs and, ultimately, living standards.

Even if the United

States and China conclude a trade agreement soon, we cannot exclude that other measures will be implemented later in 2019, or that new restrictions will be put in place in specific trade-sensitive sectors, such as cars. If the US imposed tariffs on European cars, this would hit the European economies particularly hard. Motor vehicle exports represent around 10% of total EU merchandise exports to the United States and there are significant supply-chain linkages within Europe that would spread the impact widely across countries and firms.

Second, there is considerable uncertainty about the extent of China's slowdown. The government has put in place sizeable monetary and fiscal stimulus, including tax cuts and infrastructure investment. However, the jury is still out regarding the effectiveness of these fiscal measures. Meanwhile, corporate sector indebtedness is at very high level, posing risks to financial stability.

China has significantly contributed to global growth for the past two decades, so that any sharper deceleration than expected would cascade to the rest of the world. Countries in East Asia, commodity exporters and Japan would be particularly hard hit by a sharp slowdown in Chinese demand growth. Reduced demand in China would also affect global confidence adding significantly to

these costs, particularly in the advanced economies. Overall, taking direct trade and confidence effects into account, our simulations suggest that a decline of 2 percentage points in the growth rate of demand in China for two years would lower global GDP growth by over 0.5 percentage point in the first year already.

Third, in Europe further weakness coming from China, Germany, Italy or the United Kingdom could quickly spread to other European economies, given the importance of trade linkages across the EU: EU countries trade more between themselves than with the rest of the world, and very often goods or services are produced across several countries. In the euro area, where most credit to firms is distributed through banks, the weakness could be aggravated if sovereign yield increased, raising banks funding costs and in turn reducing credit supply, dampening investment and consumption, and ultimately jobs. Brexit is also an immediate downside risk. We have already seen a clear dent in the growth rate of investment in the UK since the Brexit referendum. And the costs of a no-deal would be significant. According to our estimates, it could amount to 2% of GDP for the United Kingdom by 2020 already.

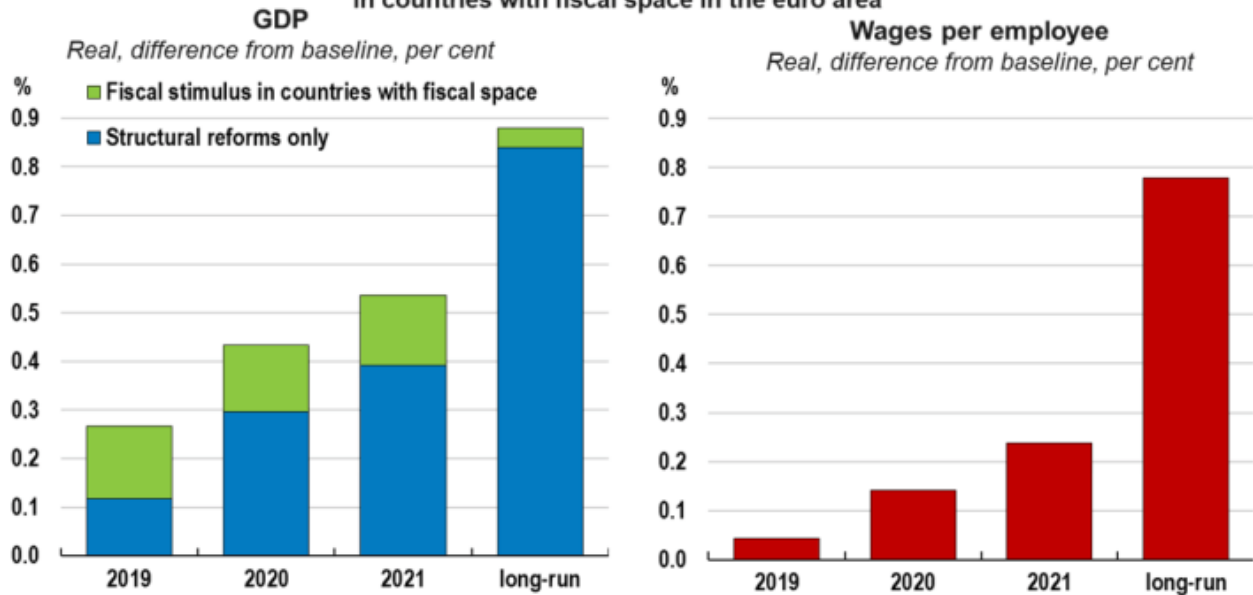
One final risk is that a sharper-than-expected slowdown in global growth could

trigger corporate bonds downgrades or even defaults. The outstanding stock of corporate bonds at the end of 2018 was twice that in 2008 in real terms (at USD 13 trillion), the quality of outstanding debt has continued to decline, and there are signs that corporate earnings growth has begun to slow. Significant bond repayments are also due in emerging-market economies in the next three years, especially in China.

In this environment, governments must intensify multilateral dialogue on trade, and in the euro area coordinate all levers of policy to avoid a sharper downturn.

Monetary policy normalisation has been on pause in the main advanced economies, and rightly so given rising uncertainty, weaker growth prospects and contained inflation. But monetary policy can and should not act alone.

**Impact of structural reforms and a coordinated 3-year fiscal stimulus
in countries with fiscal space in the euro area**



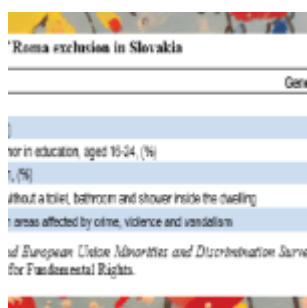
Note: The level of technical progress is gradually raised by 1% by the fifth year in all countries, and countries with fiscal space also increase government investment by 0.5% of GDP for three years. Euro area monetary policy is assumed to be set in a way that takes into account the eventual long-run improvement in output. Countries with fiscal space here include Germany, the Netherlands, Austria, Finland, Ireland, Slovak Republic, Slovenia, Estonia, Latvia, and Lithuania.
Source: OECD calculations.

Taking advantage of accommodative monetary conditions, euro area governments should coordinate fiscal and structural policies to revive growth both in the short and medium term. A moderate fiscal stimulus in countries that have fiscal space, targeted at public investment, would lift growth during the time it takes for structural reforms to deliver their full effect. On the structural front, there is ample scope for reforms to encourage innovation and business dynamism in Europe by streamlining permits and licenses, improving the transparency of regulation and reducing barriers to entry in network industries, professional services and retail sector. The co-ordinated fiscal and structural policy action would also benefit workers and give a necessary boost to wages. But more importantly, the coordinated action could lift confidence in governments' capacity to reap the full benefits of the euro area. Euro area governments would show, that by acting together they can lift growth and improve the lives of all. This would demonstrate that Europe is stronger than its individual member states.

The social exclusion of Roma in the Slovak Republic calls for immediate policy action

Category: Inequality, Slovakia, Uncategorized

written by oecdecoscope | April 10, 2019



by Gabriel Machlica, Slovak Republic Desk, OECD Economics Department



The Slovak Republic has one of the continent's largest Roma populations. Estimates differ, but it is assumed that they account for about 8% of the population. The Roma communities vary based upon geographic location and the level of integration. Nevertheless, the average level of ethnic segregation is exceptionally high and Roma face social exclusion in almost every aspect of everyday life (Table

1.1.).

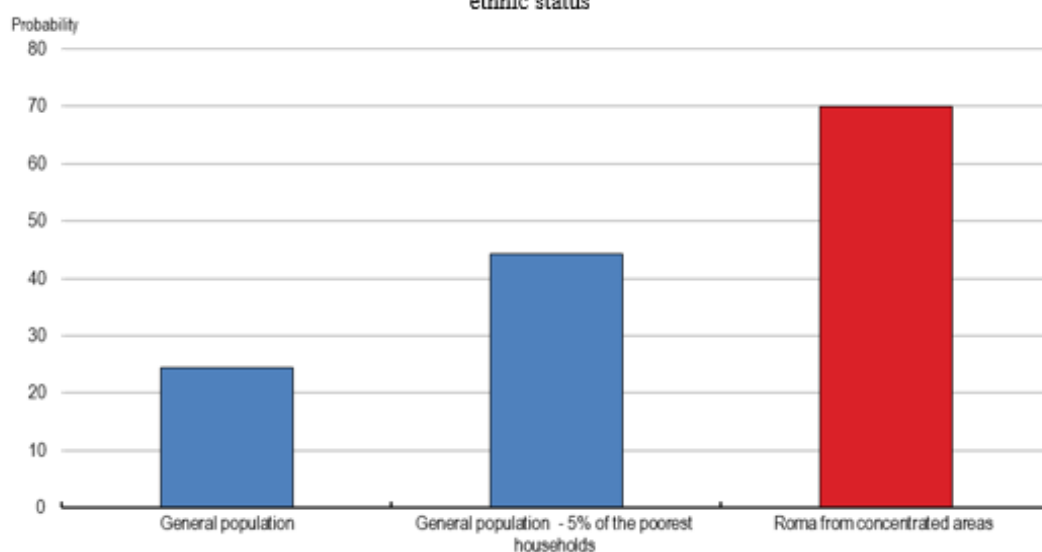
Table 1. Selected indicators of Roma exclusion in Slovakia

	General population	Roma
At-risk-of-poverty rate (%)	13	87
Employment rate, 20-64, (%)	68	25
NEET rate - neither in work nor in education, aged 16-24, (%)	14	65
Drop-out rate from education, (%)	7	58
Share of households living without a toilet, bathroom and shower inside the dwelling	0.6	43
Share of households living in areas affected by crime, violence and vandalism	8.7	30

Source: EU (2016), *Second European Union Minorities and Discrimination Survey, Roma – Selected findings*, European Union, Agency for Fundamental Rights.

The Roma can be trapped in a cycle of poverty for generations. If a child starts her or his life with limited access to education and lives in poor housing conditions, there is a high probability she will end up in poverty too. Indeed, results for Roma show exceptionally weak upward social mobility between generations. The probability that Roma born in concentrated residential area become unemployed or earn less than minimum wage in irregular work is almost 70%.

Figure 1. Intergenerational mobility of Roma living in concentrated residential areas is low
Probability of being unemployed or earning less than a minimum wage according to parents' economic and ethnic status



Source: OECD calculation based on J. Rizman (2018), *"Jablko padá daleko od stromu"*, Institute for Financial Policy, Ministry of Finance of the Slovak Republic, Policy Brief, No. 09.

Investment in Roma integration cannot only help improve the well-being of disadvantaged groups, but also yield positive fiscal returns from improved employment prospects. The Economic Survey of the Slovak Republic shows that increasing the Roma employment rate and their productivity to the level of the general population by the end of 2060 would increase GDP by more than 12% with the economy growing faster on average by 0.3 p.p. per year.

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The pension system in Hungary is under pressure from demographic changes

Category: Uncategorized

written by oecdecoscope | April 10, 2019

by Ania Thiemann, Hungary Desk, OECD Economics Department

Over the next 50 years, the old-age dependency ratio will double, and public spending on pensions and health-care is set to increase. People will also spend more time in retirement. The *2019 Economic Survey of Hungary* is assessing the demands on public finances arising from this population-ageing challenge.

Life expectancy is rising, including for pensioners

In years



Source: European Commission (2018), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, May, Luxembourg.

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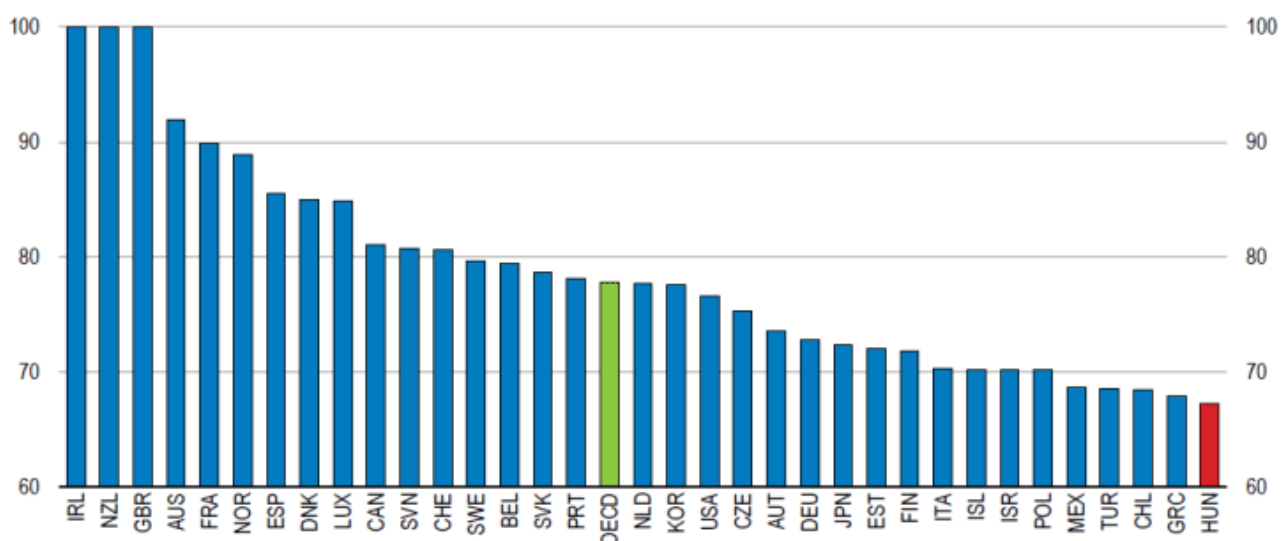
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At present, public spending on public pensions is among the lowest in the OECD, but it is expected to increase by some 3 percentage points of GDP by 2070. This estimate may be on the low side. OECD work suggests that ageing-related costs could rise by as much as 4 percentage points more of GDP, for instance, if expected economic growth fails to materialise, or if people live longer than projected.

An additional concern is a high risk of old-age poverty. Already today, some 20% of pensioners receive pensions below the poverty line. Looking ahead, the earnings-related pension system will secure good pensions for individuals with full careers. Improved employment prospects will therefore address a part of the poverty issues. For others, with interruptions in their careers, for instance because of unemployment, there is a risk of low pensions, or even old-age poverty. This because the impact of career breaks on pension entitlements is larger than elsewhere in the OECD.

Workers with career interruptions have low pensions in Hungary¹


Gross pension entitlements as a percentage of full-career entitlements, mandatory pensions only²



1. Pension entitlements are calculated for male average earners who enter the labour market at 25 years old (rather than the standard 20) and spend ten years unemployed between the ages of 35 and 45. What they would receive is measured against the OECD baseline pension, corresponding to a full career from the age of 20.

2. In Luxembourg and Slovenia labour-market latecomers with career gaps must work 5 years more than workers with unbroken careers to qualify for a full pension. The same figure is 4 years for France and 2 years for Germany and Spain.

Source: OECD (2017), Preventing Ageing Unequally, OECD Publishing, Paris.

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OECD work suggests that the way forward to address these problems

includes a longer working life, improved predictability of pension outcomes,

and the introduction of a basic safety-net pension for all. Reforms in this area also have to

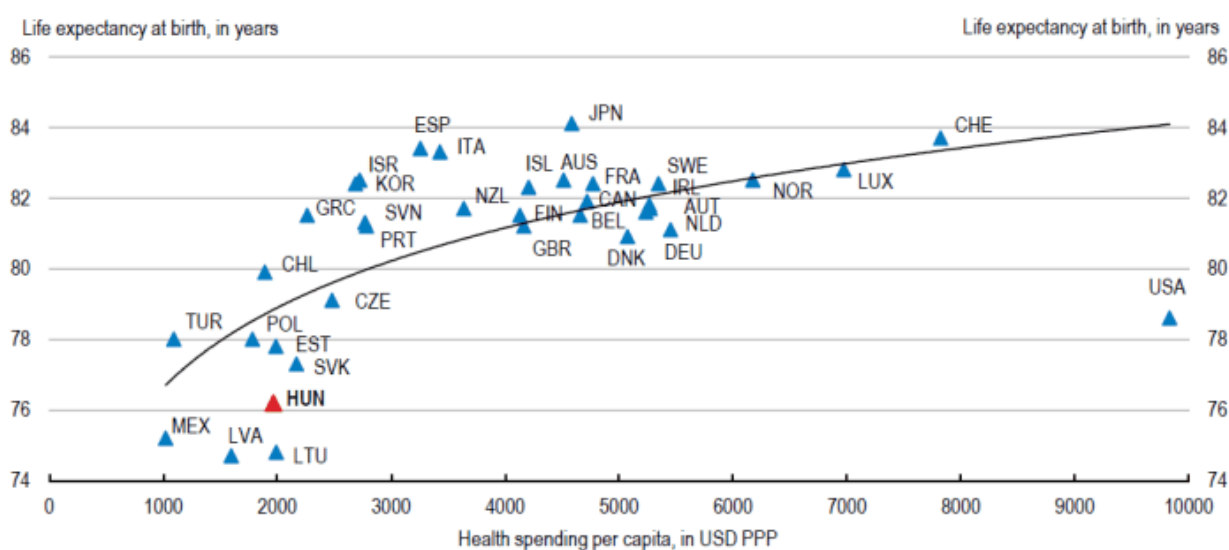
take into account the need for securing more actuarial neutrality and fairness

in the Hungarian pension system.

Hungary spends relatively little on its public health-care system and outcomes are below the OECD average. Mortality rates are high and Hungarians spend less time in good health in old age.

Better resource utilisation could boost life expectancy significantly

2016 or nearest year available¹



1. 2015 for life expectancy at birth for Canada, Chile and France. PPP: purchasing power parity.

Source: OECD (2018), "Health Expenditure and Financing", *OECD Health Statistics* (database), July; and OECD (2018), "Health Status", *OECD Health Statistics* (database).

StatLink  <https://doi.org/10.1787/888933897361>

<https://doi.org/10.1787/888933897361>

The system is not efficient, but problems are also related to life-style factors, such as smoking and high alcohol consumption. Additional concerns include uneven access to health care, particularly in rural areas. The 2019 Economic Survey of Hungary points out that addressing these problems is likely to require a significant increase in public spending. That said, there is also scope to improve the use of current resources to achieve better outcomes. This includes a larger role for the family doctor (GPs) as a gate-keeper to provide guidance for patients in the system. In addition, larger, more specialised and more independent hospitals can lead to a better use of resources and better quality treatments.

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Statistical insights: Are international productivity gaps as large as we thought?

Category: Productivity, Statistical Insights, Uncategorized

written by oecdecoscope | April 10, 2019

by Nadim Ahmad, OECD Statistics and Data Directorate

Labour productivity is a key indicator of economic wellbeing, and raising it – producing more goods and services from the same or less work (labour input) – is one of the main drivers of sustainable economic growth.

Historically, comparisons of productivity across countries have shown substantial gaps, even between similar-sized economies at a similar stage of development – leaving many analysts struggling to understand the causes. However, a

new OECD study has found that at least a part of these gaps disappears once we adjust for differences in how countries measure labour input.

In the case of the United Kingdom for instance, the study reveals that the gap in labour productivity levels with the United States, is around 8 percentage points smaller than was previously thought – closing from 24% to 16%. The gap with Germany shrinks from 22% to 14% and with France from 20% to 11%.

How is labour input measured?

For productivity measures, labour input is most appropriately defined by the total number of *hours actually worked* by all persons engaged in production, i.e. employees and self-employed (OECD, 2001). Hours worked include all hours effectively used in production, whether paid or not, but they exclude hours not used in production (e.g. annual and sickness leave), even if some compensation is received for them. In practice, countries adopt one of two methods to estimate average hours worked for productivity estimates:

(i) the *direct method*, which takes actual hours worked reported by respondents in surveys, generally labour force surveys (LFS);
and

(ii) the *component method*, which starts from contractual, paid or usual hours per week from

establishment surveys, administrative sources or, indeed, the LFS, with adjustments for absences and overtime and indeed other adjustments that are necessary to align with concepts of output in the national accounts, for example concerning cross-border workers.

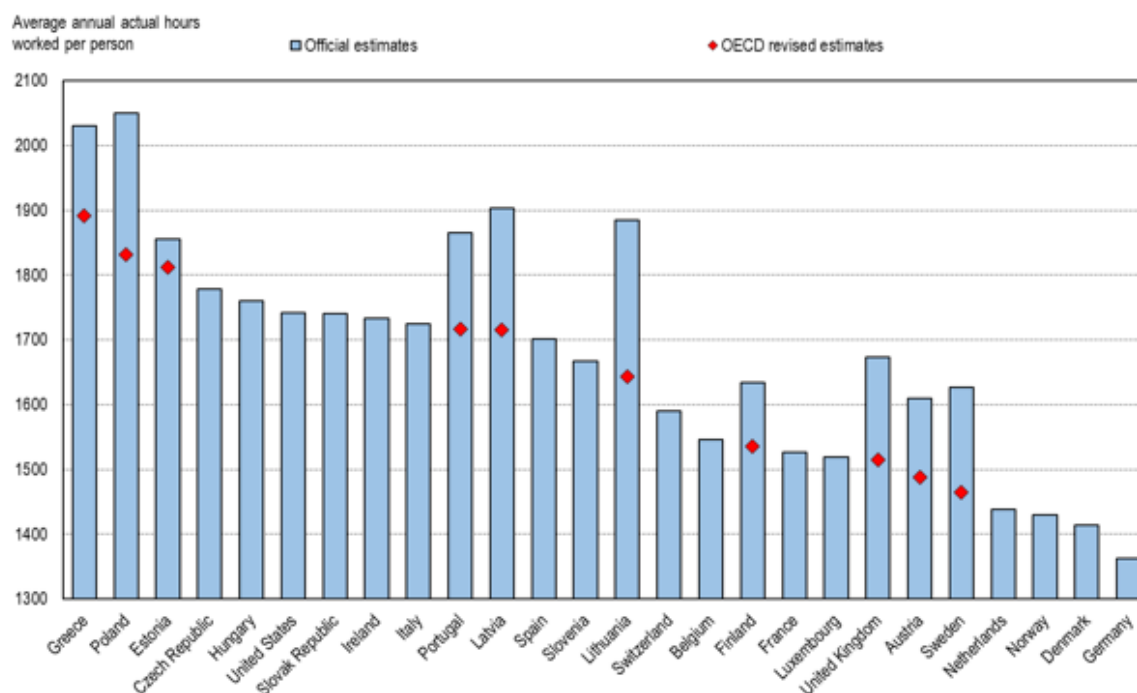
What impact do these different approaches have on international comparisons?

Whilst the 'direct' approach appeals due its simplicity, it depends heavily on respondent recall, cannot account for response bias, and, moreover, assumes a perfect alignment of workers and measures of output. The component approach is more complex, but it systematically attempts to address these issues. To give some sense of the potential impact of these different approaches on the international comparability of hours worked, the OECD has used the LFS and complementary sources to estimate national hours worked using both a direct approach and a *(simplified) component method*.

Our results provide strong evidence that response bias and a lack of exhaustive adjustments to align with the underlying conceptual boundary GDP, lead to systematic upward biases in estimates based on the direct method, which are, in turn, always higher than those compiled using the simplified component approach.

Figure 1 presents official estimates of hours worked in countries' national accounts, and compares them with the OECD simplified component method estimates for those countries that currently use a direct method with minimal or no adjustments in their official statistics.

Figure 1. Average annual hours worked per person, selected OECD countries, 2016



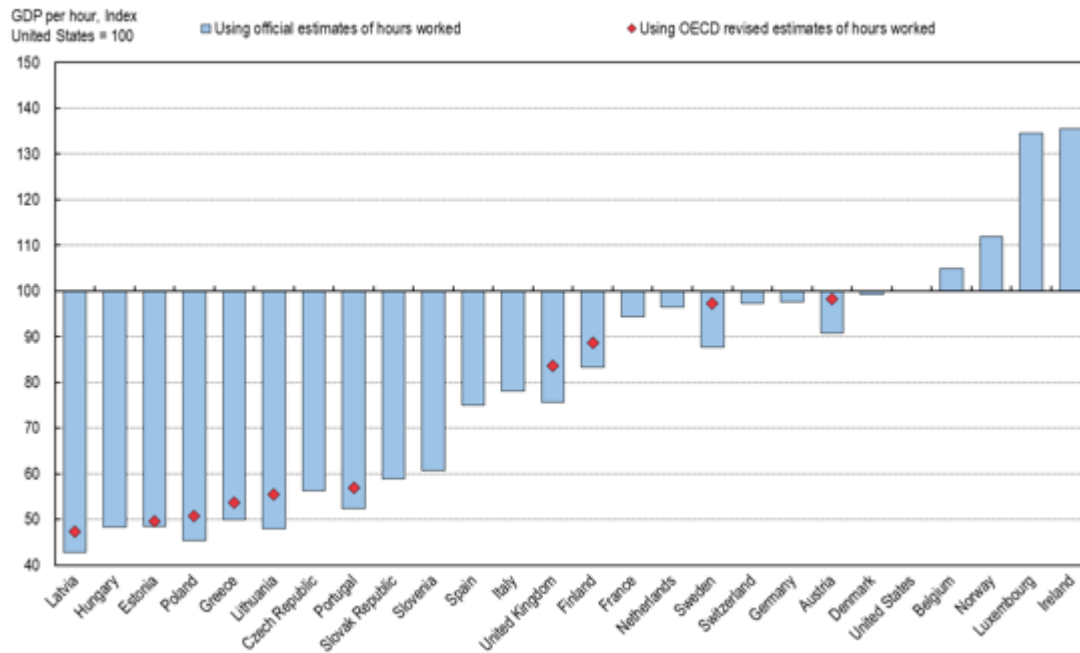
Source: Ward, Zinni and Marianna (2018)

The corollary of lower hours worked of course, is higher labour productivity levels. Figure 2 shows labour productivity levels, referenced to the United States, using official national accounts average hours worked estimates, comparing them with new results from the OECD simplified component approach for countries using the direct method.

Overall, the results point to a reduction in relative productivity gaps of around 10 percentage points compared with current official estimates in many countries. While the broad picture is maintained, notable international ranking changes

see the United Kingdom outperforming Italy, and Austria moving ahead of France, the Netherlands, Switzerland and Germany.

Figure 2. International productivity gaps, 2016



Source: Ward, Zinni and Marianna (2018).

The OECD revised hours worked estimates explained

The simplified component method used in the paper takes usual weekly hours worked in a person's main job from the EU Labour Force Survey (EU LFS) and the Current Population Survey of the United States (CPS), as its starting point. Adjustments for the key components of weekly working time are made using self-reported data on overtime, flexible hours and hours on additional jobs. Finally, the method accounts for weeks not worked, i.e. holiday and vacation weeks, full and part-week absences for non-holiday reasons, and absences due to sickness and maternity.

Statutory leave entitlements are used as a proxy for actual annual leave taken in this paper. It is important to note that this implicitly assumes that workers in all countries take, on average, all the leave to which they are entitled. However, this is not necessarily the case, as among other factors, actual take-up rates are likely to reflect differences in working cultures across countries. For this and other reasons, these new estimates should be considered only as a stop-gap for those countries currently using a direct method with minimal or no adjustments. In this respect it is important to note that most countries are already beginning to work towards improving their methodologies in line with the recommendations made as part of this research exercise, and others will begin to do so.

What's the impact on growth rates?

While the approach recommended in the paper clearly highlights the current bias in international comparisons of *productivity levels*, it does not follow that the same holds for international comparisons of *productivity growth rates*; growth estimates would only be distorted if the impact of the adjustments required showed significant disproportional change over time. Indeed, implementing the simple component approach reveals no systematic bias in growth rates.

Minor differences do occur however, and, so, to avoid introducing differences with national estimates of productivity growth (and those that can be derived from the OECD's national accounts data), the OECD will take estimates of average hours actually worked (levels) using the simplified component method in 2016 as a benchmark, and project series

forwards and backwards using official (national) productivity growth rates.

How will these results be incorporated into the OECD's productivity database?

At this stage, based on the data available to the OECD, the implementation of the simplified component method will apply to the following countries: Austria, Estonia, Finland, Greece, Latvia, Lithuania, Poland, Portugal, Sweden and the United Kingdom. It is important to stress that the use of the simplified component method is intended to be only a stop-gap until such a time that these countries are able to align their estimation methods and estimates with the underlying national accounts concepts and that correct for self-reporting bias; indeed many countries are already moving in this direction.

Current efforts of the OECD are necessarily restricted to comparisons of labour productivity levels for the whole economy, but future work will look to explore whether and how labour input measures at the industry level can also be improved. In the meantime, for the 10 countries listed above, estimates of hours worked by sector will be constrained (pro-rata) to those at the whole economy level.

These changes will be incorporated into the OECD Productivity Statistics database and the OECD Average annual hours actually worked per worker dataset by the end of January 2019, along with corresponding metadata.

Further reading

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How can public finance reforms boost economic growth and enhance income equality?

Category: Public finance, Uncategorized
written by oecdecoscope | April 10, 2019
by Boris Cournede, Head of Public Finance Workstream, OECD
Economics Department

Most OECD countries have very large government sectors: public expenditure amounts to 43% of economic activity, measured by GDP, on average across OECD countries. This proportion exceeds 50% in four OECD countries. The programmes on which governments spend have thus deep implications for people's well-being and a country's economic fortunes. Similarly, the choice and design of taxes that fund expenditure will also shape economic decisions and influence people's choices to work, invest and consume.

New OECD empirical work has identified lessons provided by the experience of OECD countries over the past three decades. These empirical investigations shed light on the effects of public finance on economic activity as well as on the distribution of income across households.

First, large governments can be compatible with high levels of economic activity: the condition is that governments provide

their services very efficiently. The Nordic countries display the levels of government effectiveness at which governments can be large without weighing on growth. Where governments are less effective, reducing their size can be expected to lead to higher growth; however, reducing the size of government typically entails a rise in income inequality, because public expenditure, and especially transfers, are a powerful equaliser of incomes.

Second, leaving aside questions about government size, many public finance reforms that change the composition of spending or the mix of taxes offer the potential to boost economic activity and household incomes:

- Some reforms can boost overall economic activity while reducing income gaps:
 - One important reform of this nature is to reduce the effective tax that low-income workers face (taking into account the withdrawal of benefits) and funding this change through proportional increases in other taxes.
 - Another reform that belongs in this win-win category for higher activity and less inequality is to increase inheritance taxes and use the proceeds to reduce other taxes proportionally.
- A number of public finance reforms can increase activity without altering income differentials, thereby “lifting all boats” roughly equally. They include:
 - Higher public investment, while reducing other spending programmes by the same amount;
 - Higher recurrent property taxes, while lowering other taxes by as much;
 - Lower effective rates of corporate income tax, while increasing other taxes.
- One public finance change that benefits the poor with no substantial effect on overall activity is to expand spending on family policy while reducing other spending

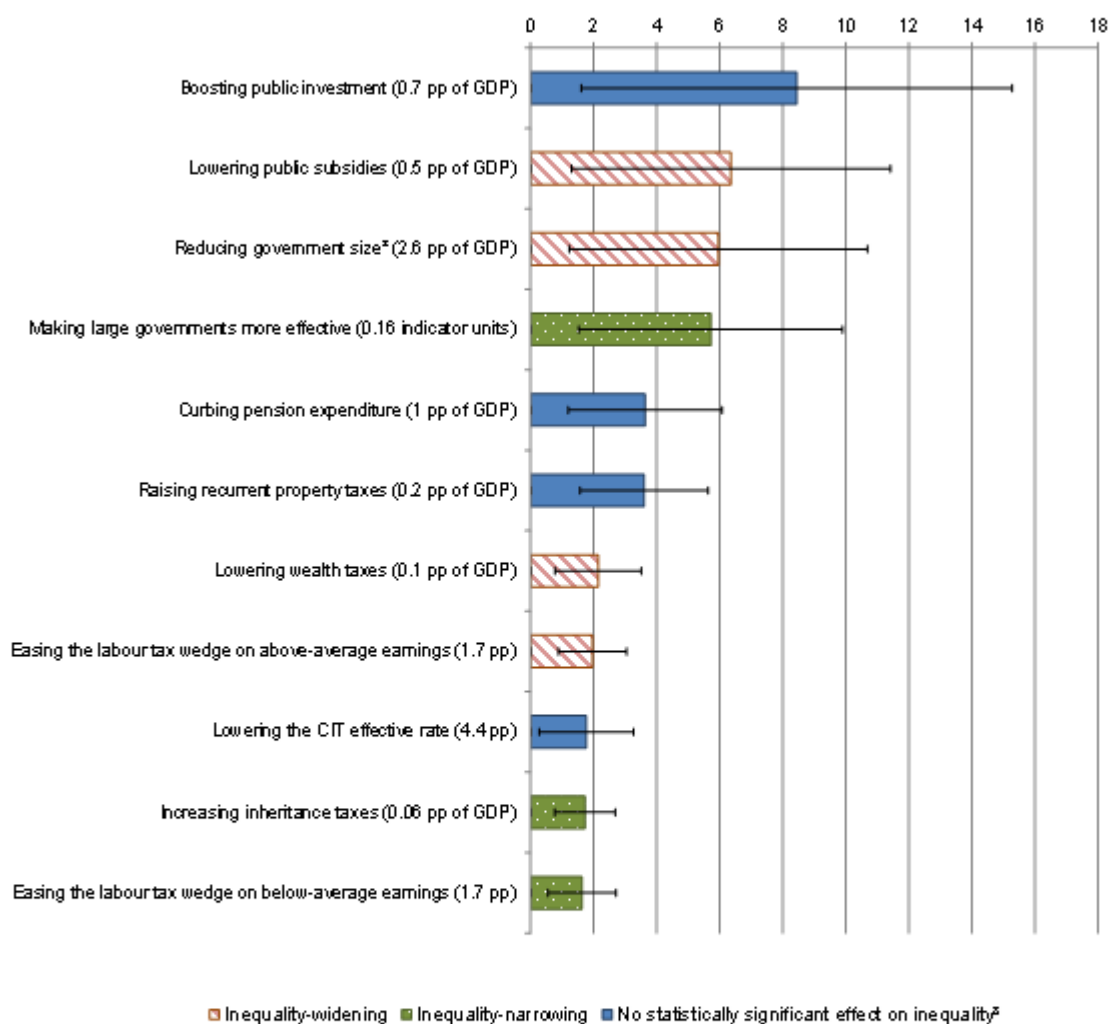
programmes by the same amount.

- Finally, a number of changes to the structure of public finance can be expected to boost economic activity but widen relative income gaps yet leave no income group worse off in absolute terms. Such reforms include:
 - Lowering public subsidies, while increasing other expenditure categories by as much, giving priority to the most favourable for growth such as investment and education;
 - Lowering net wealth taxes while raising other taxes by the same amount;
 - Easing the tax burden on workers earning above-average wages while increasing other taxes to make up for the revenue shortfall.

The empirical work shows that reforms of sizes that correspond to changes that have been observed in OECD countries in the past three decades can have substantial effects on economic activity (Figure). This work can help select reform priorities in the light of their expected overall economic benefits and their distributional consequences, which will determine how inclusive, and therefore acceptable in political terms, they are likely to be. Importantly, the exact choice and design of the reforms will also have to reflect country specificities in terms of institutions and preferences.

Figure 1. A number of public finance shifts can boost average output with no adverse consequences for income inequality while some involve trade-offs

Permanent percentage effect on output per capita of a typically observed long-term change in a public finance instrument while keeping overall government size constant¹



Notes: 1. The bars show the point estimates while bracketed solid lines depict the 10% confidence intervals. Estimates come from panel regressions covering 34 OECD countries over 1981-2014 or fewer observations depending on data availability. A typically observed long-term change in a public finance instrument is defined as the average across countries of the standard deviation in the tax or spending instrument over time. The standard deviation is calculated only within-country changes, implying that it reflects changes that have occurred within countries rather than long-standing differences across countries. They are equal to percentage point changes in the ratios to GDP, denoted as "pp of GDP", for instruments measured as ratios to GDP. They are simple percentage point changes for tax rates or wedges. For education quality, the standard deviation is a 1.3% increase in the average PISA score. For government effectiveness, the standard deviation is calculated in units of the indicator published by the World Bank.

2. By exception, government size is not kept constant for this change.

3. Inequality relates to disposable income inequality within the working-age population.

Source: Cournède, B., J.-M. Fournier and P. Hoeller (2018), "Public Finance Structure and Inclusive Growth", *OECD Economic Policy Paper*, No. 25

Read more:

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