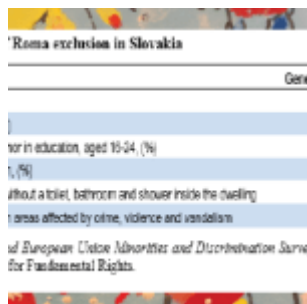


The social exclusion of Roma in the Slovak Republic calls for immediate policy action

Category: Inequality,Slovakia,Uncategorized

written by oecdecoscope | February 5, 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.).

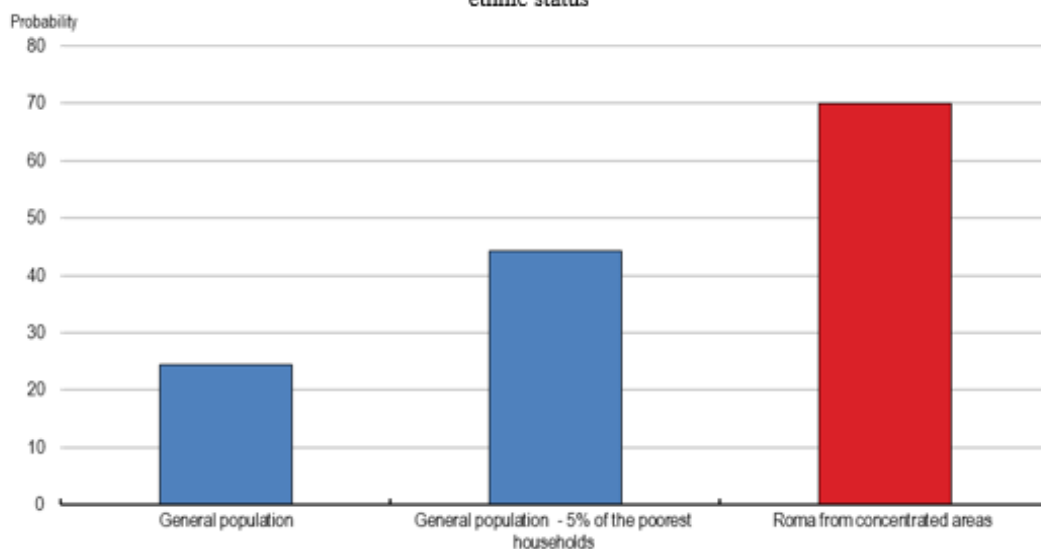
Table 1. Selected indicators of Roma exclusion in Slovakia

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

Category: Public finance, Uncategorized

written by oecdecoscope | February 5, 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

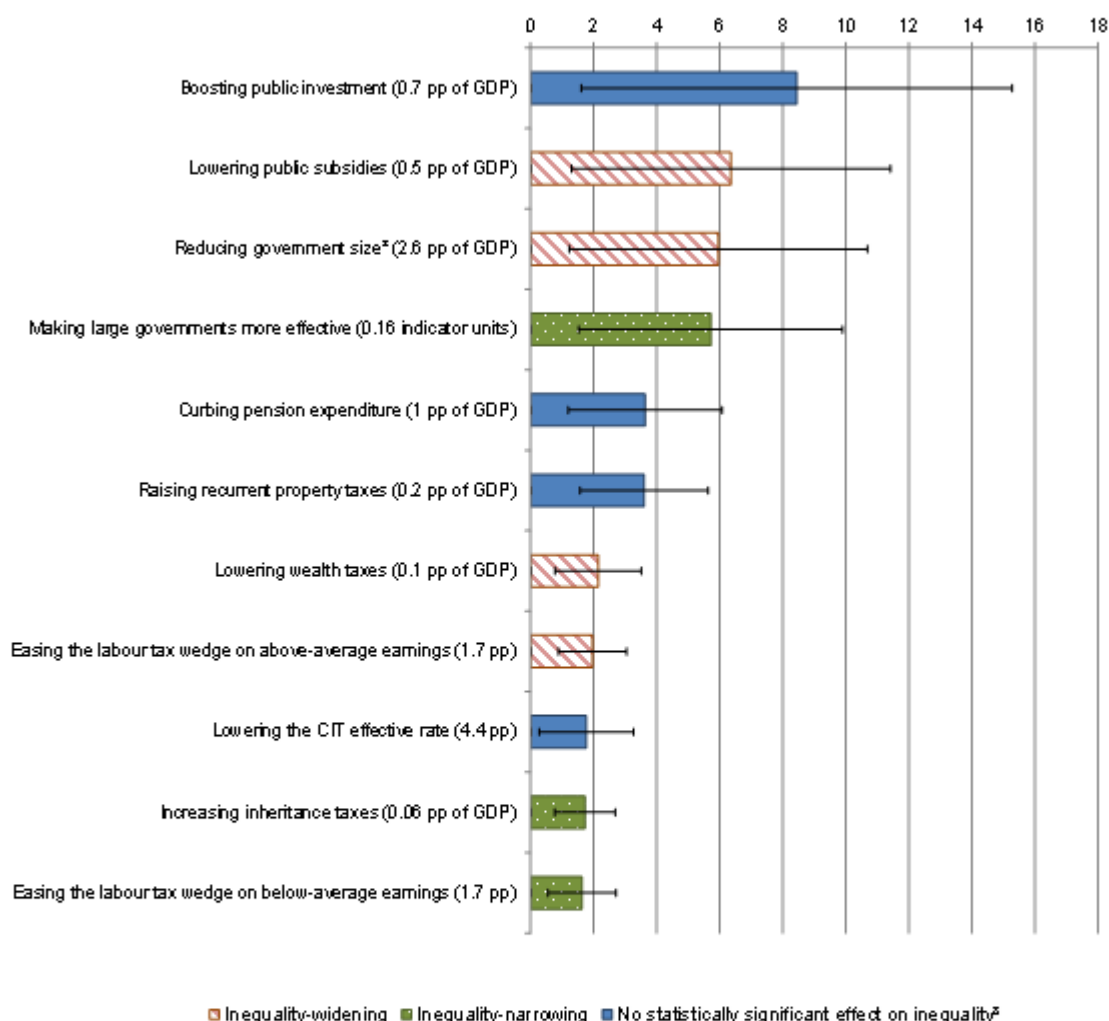
without altering income differentials, thereby “lifting all boats” roughly equally. They include:

- 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:

- Cournède, B., J.-M. Fournier and P. Hoeller (2018), "Public Finance Structure and Inclusive Growth," *OECD Economic Policy Paper*, No. 25. https://www.oecd-ilibrary.org/economics/public-finance-structure-and-inclusive-growth_e99683b5-en
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Reducing regional disparities for inclusive growth

Category: Inequality, Spain, Uncategorized

written by oecdecoscope | February 5, 2019

By Müge Adalet McGowan, Spain desk, OECD Economics Department



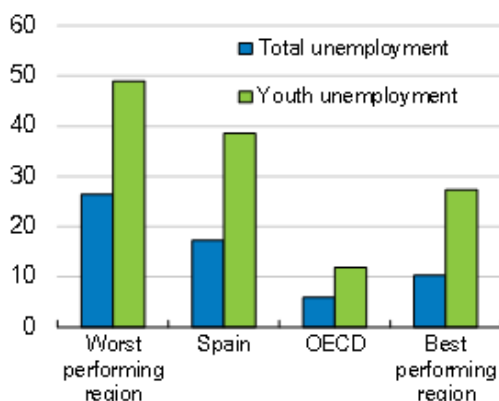
Ensuring the benefits of growth are spread widely requires a strong focus on greater convergence of regions in terms of income and well-being. The GDP per capita in the best performing region was around double that in the worst performing region in 2016. Income inequality and poverty rates are also high, with regional differences.

High regional dispersion in education and job outcomes, compounded by low inter-regional mobility, emerge as key drivers of regional inequalities in income and well-being (Figure 1). At the same time, productivity growth has stagnated in Spain (Figure 2). Barriers to achieving a truly single market limit productivity growth of regions, including the most advanced. Hence, the 2018 OECD Economic Survey of Spain highlights that a dual approach of enhancing both the productive and employment capacities of lagging regions is needed (OECD, 2018). Reducing regional disparities will also depend on effective coordination and sharing of best practices across regions.

Figure 1. Regional dispersion of labour market and education outcomes is high

A: Unemployment rates

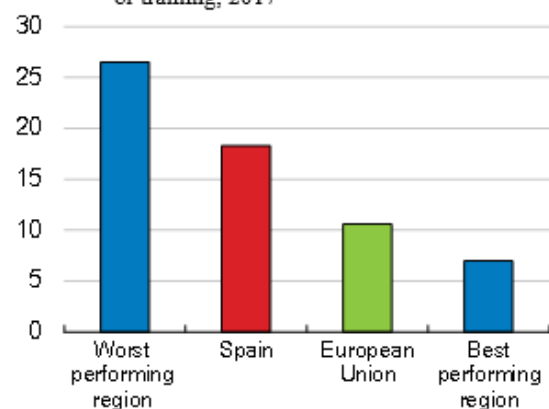
% of labour force in each age group, 2017



Source: OECD, Labour and Regional Statistics and Eurostat.

B. Early school leaving rates

% of the population aged 18-24 with at most lower secondary education and not in further education or training, 2017



Stronger coordination between employment and social services is key to providing effective transitions between social support schemes and employment, given the multiple barriers

that the unemployed might face (Fernandez et al., 2018). Improving coordination to provide integrated support for jobseekers *via* a single point of contact for social and employment services and assistance would improve the effectiveness of such policies.

Lack of full portability of social and housing rights across regions, due to prior residency requirements, contributes to low labour mobility. The 2018 OECD Economic Survey of Spain recommends ensuring full portability of these benefits across regions, by providing temporary assistance either by the region of origin or the central government.

Increasing the quality of education would improve the employability of the labour force in lagging regions and should be complemented with policies to raise job quality in regions with low-skilled jobs. For example, providing individualised support to students at the risk of failing at an early stage has contributed to lower early school leaving rates in some regions. Increasing the adaptability of workers, *via* lifelong learning policies better targeting the participation of low-qualified adults, would improve the matching of skills to labour market needs.

Reducing regional regulatory differences is key to achieving a truly single market and firm growth. The 2018 OECD Economic Survey of Spain recommends strengthening the implementation of Market Unity Law through enhanced cooperation and coordination across different levels of government and the assessment of the compliance of new legislation at all levels of government with the principles of the Market Unity Law. Removing the remaining barriers in some professional services would also improve competition and boost productivity.

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An empirical investigation on the drivers of income redistribution across OECD countries

Category: Inequality, Public finance, Uncategorized

written by oecdecoscope | February 5, 2019

By Orsetta Causa, OECD Economics department

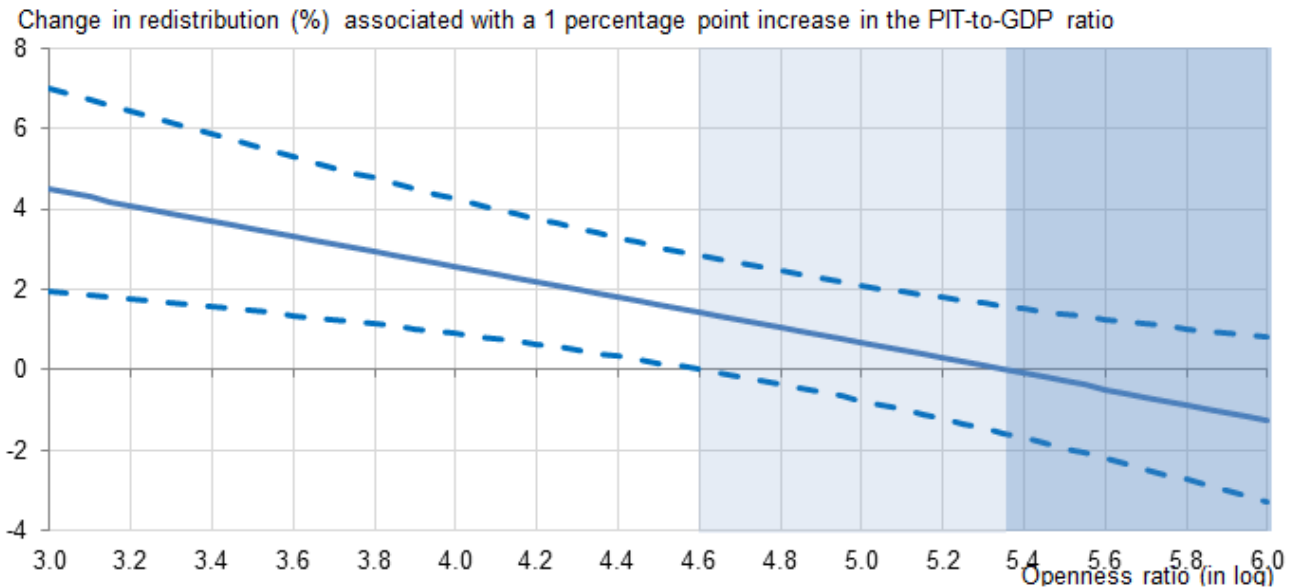
Income inequality has increased in most OECD countries over the past two decades. This has come about both because incomes before taxes and transfers have become more unequally distributed, and because the extent of redistribution through taxes and transfers has fallen ("Income redistribution through taxes and transfers across OECD countries"). A new OECD paper by Orsetta Causa, Anna Vindicis and Oguzhan Akgun provides an empirical investigation on the drivers of the widespread decline in income redistribution across OECD countries over the last two decades.

The results suggest that the size of the redistribution system plays a major role for income redistribution, in particular on the spending side, confirming previous OECD findings. Hence,

the relatively widespread decline on cash transfers to the working-age population is found to have contributed to the decline in income redistribution to the working-age population.

On the revenue side, the empirical analysis uncovers an interaction between increased economic integration and the capacity of personal income taxes to reduce income inequality. Indeed, the results suggest that stronger trade ties across countries have made a given level of tax receipt through personal income taxes less effective at reducing income inequality. The estimated marginal effect of the personal income tax to GDP (PIT-to-GDP) ratio on redistribution thus depends on the degree of countries' openness (Figure 1): for around half of OECD countries, the effect of the PIT-to-GDP ratio on redistribution is significantly positive but this effect declines with openness levels. For a country at the OECD average level of trade openness, a one percentage point increase in the PIT-to-GDP ratio is associated with a 2% increase in redistribution. For the countries for which such effect is statistically significant, it ranges from 3.7% (USA) to around 1.5% (Korea).

Figure 1. The effect of the size of PIT on redistribution decreases with trade openness



Redistribution is defined as 1 minus the ratio of the Gini coefficient of household disposable incomes and the Gini coefficient of household market incomes.

The dashed lines indicate the 95% confidence interval. Light shading indicates a positive not significant effect and darker shading indicates a negative not significant effect. PIT-to-GDP ratio measures total taxes on income plus employees' Social security contributions as a ratio of GDP.

Source: Calculations are based on Table 3, column 9 in Causa et al (2018).

For a given overall size of the tax and transfer system, the estimation results suggest that changes in specific tax and transfer instruments have contributed to the decline in redistribution. Most important among these are:

- Reductions in the progressivity of personal income taxes, driven by a flattening of the tax schedule in the upper-part of the wage distribution as well as by a decline in top personal income tax rates and in the taxation of dividend income at the personal level.
- Reductions in the generosity and duration of unemployment-related transfers, including cuts to social assistance for the long-term unemployed, which have often taken place in combination with increases in spending on active labour market policies. This finding is thus likely to reflect the effect of policy reforms to boost work incentives among target groups and to shift from passive to active support for the unemployed.

At the same time, not all policy changes went in the direction

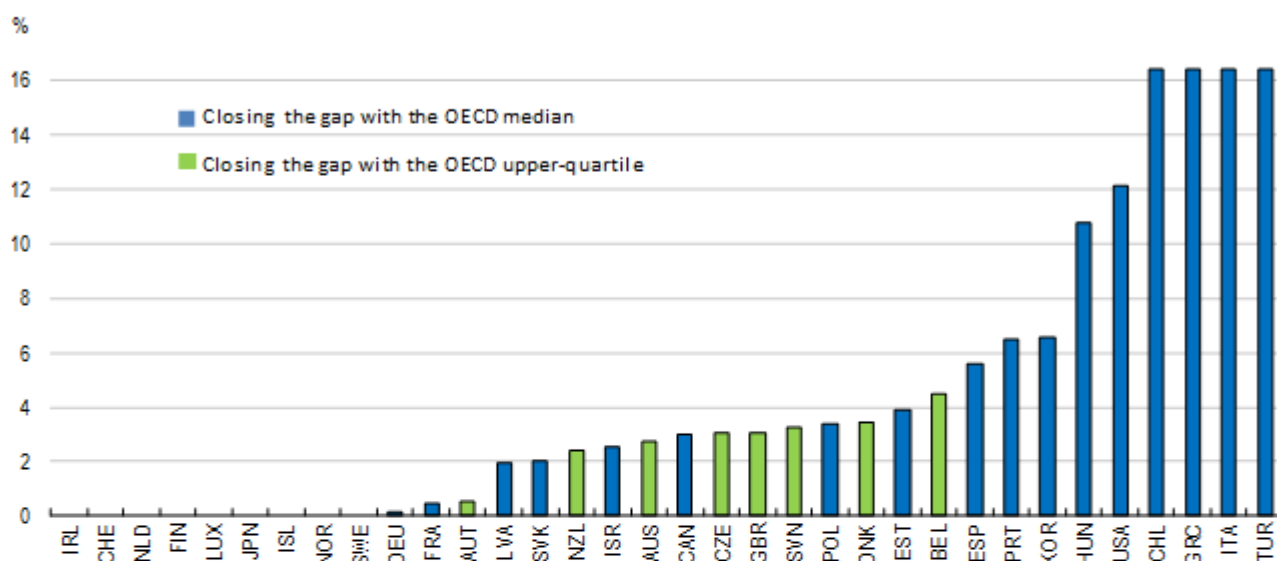
of reducing redistribution: the decline in redistribution has been partly mitigated by progressive family-friendly policies, such as widespread increases in spending on early education and childcare, as well as by tax cuts to low wage earners.

These estimates are used to simulate the income redistribution effect of selected tax and transfer reform scenarios, taking into account the countries' relative starting point in each policy area. Transfer reform scenarios deliver larger effects than tax reform scenarios. The scenarios consistently point to major redistribution gains in countries where social spending on working-age population is relatively low and/ or weakly targeted to low-income households (Figure 2). Increases in long-term unemployed- related transfers to married couples deliver major redistribution gains where these transfers are low or non-existent (e.g. Chile, Greece, Italy, Turkey and the United States) The magnitude of these effects reflects the large implied size of the simulated reforms for these countries and should therefore be interpreted in light of alternative policy objectives, in particular efficiency objectives in terms of job search incentives, alongside budgetary constraints. Still, those same countries that exhibit comparatively low passive support for the long-term unemployed tend to also exhibit comparatively low active support. As a result, policy packages that would combine more generous cash transfers with more effective activation and training for jobseekers would likely meet equity and efficiency objectives. The United States and Turkey would also boost redistribution by increasing spending on early education and childcare; and so would Mexico and Japan. This would not only increase redistribution but also help narrowing gender gaps and curbing child poverty. Reforms to enhance access to quality childcare for disadvantaged families are likely to maximise policy synergies between efficiency and equity.

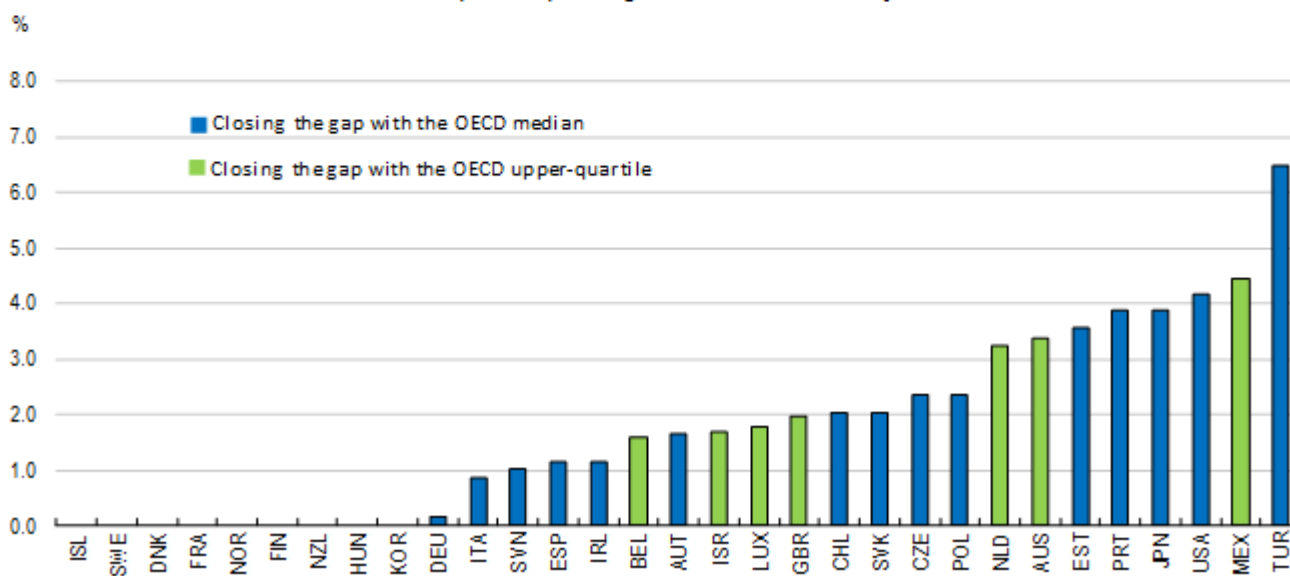
Figure 2. Illustrative income redistribution effects of selected transfer reforms

Reform-driven changes (%) in redistribution for the working-age population coming from:

A. Increases in long-term unemployment-related transfers for low-income married couples (including social assistance)



B. Increases in public spending on childcare and early education



Note: see Causa et al (2018) for details.

References:

Causa, O., A. Vindics and O. Akgun (2018), "An empirical investigation on the drivers of income redistribution across OECD countries", *OECD Economics Department Working Papers*, No. 1488, OECD Publishing, Paris, <https://doi.org/10.1787/5cb47f33-en>.

Fiscal decentralisation and inclusive growth?

Category: fiscal policy, Uncategorized

written by oecdecoscope | February 5, 2019

by Sean Dougherty, Senior Advisor, OECD Fiscal Network



Over the last decade or more, many countries have experienced slowing productivity growth and a rising concentration of income. Concerns about these developments have motivated a broadening of the policy discussion about how to ensure that economic growth is made more inclusive and multidimensional. One important channel for addressing these concerns is through intergovernmental fiscal relations. By providing the “right” incentives and improving rules and practices in policy making, these institutions can shape fiscal policy and multidimensional outcomes at all government levels. The OECD Fiscal Network has recently published a volume covering these topics.

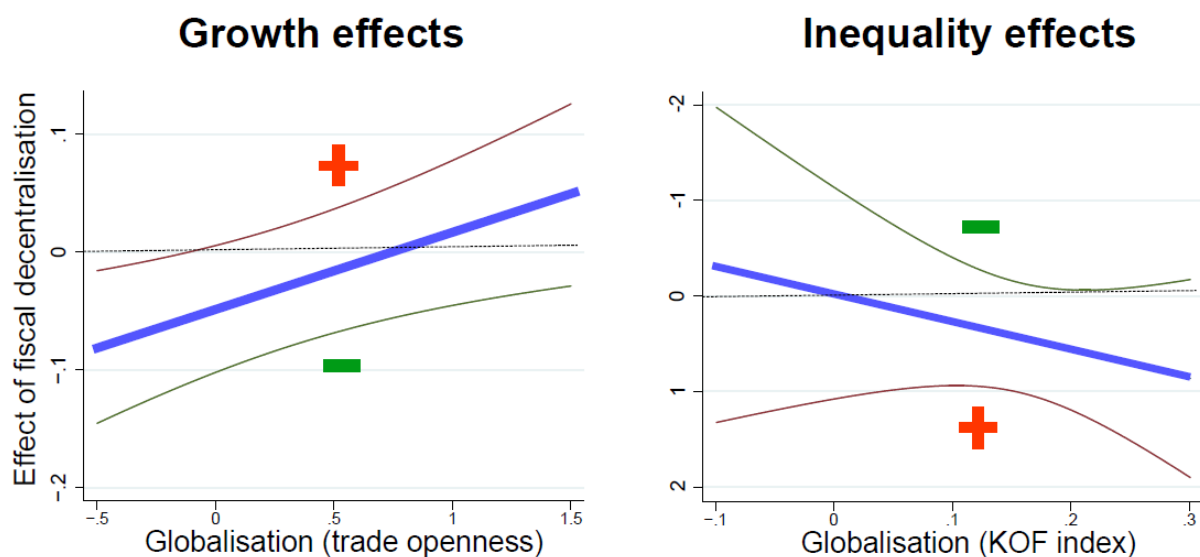
Design of decentralisation, reform options and the impact on outcomes

Earlier work published in the Fiscal Federalism Studies has shown that the stage of economic development and political economy constraints play important roles in determining the success of fiscal decentralisation. Rather than rely on unique

prescriptions, policymakers should consider the importance of institutional complementarities to reap the full potential of fiscal decentralisation. The volume reinforces this message, and demonstrates the importance of considering country specificities in addition to policy design principles when reforming intergovernmental institutions and transfer systems.

Several chapters therein address the basic design of fiscal federalism and associated reforms. One overarching finding is that balanced decentralisation – that is, when the various policy functions are decentralised to a similar extent – is conducive to growth. Similarly, the efficiency of public service delivery in education and health is found to be conditional on sufficient political and institutional capacity. Balanced decentralisation allows sub-national governments to better co-ordinate policy and to reap economies of scale and scope across functions. Moreover, a country's scope for achieving growth that is also inclusive varies widely depending on its characteristics and its public finance mix.

Spending and revenue decentralisation tends to boost economic growth for economies that have a relatively higher degree of globalisation, based on the analysis in this book. Fiscal decentralisation has a more ambiguous effect on inequality than on growth, especially for economies with a higher degree of openness. Moreover, for some countries, there is an apparent trade-off between growth and equity, when it comes to the “optimal” degree of spending and revenue decentralisation.



Source: Dougherty and Akgun in OECD and KIPF (2018).

A potential trade-off between efficiency and inequality is also examined in an analysis of education financing decisions, which looks at the link between local education funding and inequality. However, a range of country-specific policies tend to offset potential trade-offs.

“Design is in the details”

Given the complexity of cross-country results, the chapters include detailed examinations of various aspects of intergovernmental relations in Korea, the Netherlands, India and the United Kingdom. These analyses broadly mirror the cross-country findings, yet they also qualify them in terms of the difficulties in achieving various objectives. For instance, the analysis of Korea’s education financing system finds that it could benefit from more decentralised financing, both in terms of overall outcomes and equity. Empirically, heightened inequality tends to induce more spending on educational opportunities for lower income populations. This analysis also finds that lower-scoring populations benefit the most from enhanced public educational investment.

Modelling of the Netherlands’ tax system shows that the design of local revenue collection, such as on immovable property,

can have substantial distributional effects. Policy scenarios in which the tax burden is shifted towards immovable property show that the tax shift can yield a moderately positive impact on employment, minimising the distributional effects.

Empirical estimates of India's transfer system suggests that special transfers do not achieve the objective of providing a more comparable level of public services across states at different income levels. While special purpose transfers are intended to ensure a minimum standard, the analysis finds that there are too many specific purpose transfers, and these are poorly targeted. A reform of the fiscal transfer system is suggested.

In a simulation of the UK's local finances, not only the mix of funding sources matters for incentives, but the rules around tax and fee policy matter. Even if revenues are initially fully equalised relative to assessed spending needs, significant fiscal disparities can re-emerge in just a few years. Examining the trade-offs between equalisation and incentives inherent in sub-national finance reveals the importance of design choices.

The volume includes both cross-country studies and insights into reforms from individual countries, with several chapters written by experts closely involved in both institutional reform and the day-to-day operation of fiscal relations. The studies show how much the design of policy and institutions matters, even if reforms often happen slowly. The book is a sequel to *Institutions of Intergovernmental Fiscal Relations: Challenges Ahead* (OECD and KIPF, 2015), broadening and deepening the issues covered there. It also provides insights and experiences from academics and practitioners on key aspects of intergovernmental fiscal relations and how they contribute to inclusive growth. Discussions were fostered by the annual meetings of the OECD Network on Fiscal Relations Across Levels of Government.

References:

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Stronger Growth but Risks Loom Large

Category: Economic outlook, fiscal policy, trade, Uncategorized
written by oecdecoscope | February 5, 2019

By Álvaro S. Pereira, OECD Chief Economist ad interim,
Economics Department

After a lengthy period of weak growth, the world economy is finally growing around 4%, the historical average of the past few decades.

This is good news. And this news is even better knowing that, in part, the stronger growth of the world economy is supported by a welcome rebound in investment and in world trade. The recovery in investment is particularly worth emphasising, since the fate of the current expansion will be highly dependent on how investment will perform.

Although long anticipated, the pick-up in investment remains weaker than in past expansions. The same is true for global trade, which is expected to grow at a respectable, albeit not spectacular, rate, unless it is derailed by trade tensions.

However, contrary to previous periods, 4% world growth is not due to rising productivity gains or sweeping structural change. This time around the stronger economy is largely due to monetary and fiscal policy support.

Real GDP growth

Year-on-year, %

	2017	2018	2019		2017	2018	2019
World	3.7	3.8	3.9	G20	3.8	4.0	4.1
Australia	2.3	2.9	3.0	Argentina	2.9	2.0	2.6
Canada	3.0	2.1	2.2	Brazil	1.0	2.0	2.8
Euro area	2.6	2.2	2.1	China	6.9	6.7	6.4
Germany	2.5	2.1	2.1	India ¹	6.5	7.4	7.5
France	2.3	1.9	1.9	Indonesia	5.1	5.3	5.4
Italy	1.6	1.4	1.1	Mexico	2.3	2.5	2.8
Japan	1.7	1.2	1.2	Russia	1.5	1.8	1.5
Korea	3.1	3.0	3.0	Saudi Arabia	-0.7	1.6	2.1
United Kingdom	1.8	1.4	1.3	South Africa	1.3	1.9	2.2
United States	2.3	2.9	2.8	Turkey	7.4	5.1	5.0

Note: The European Union is a full member of the G20, but the G20 aggregate only includes countries which are also members in their own right.
1. Fiscal years starting in April.

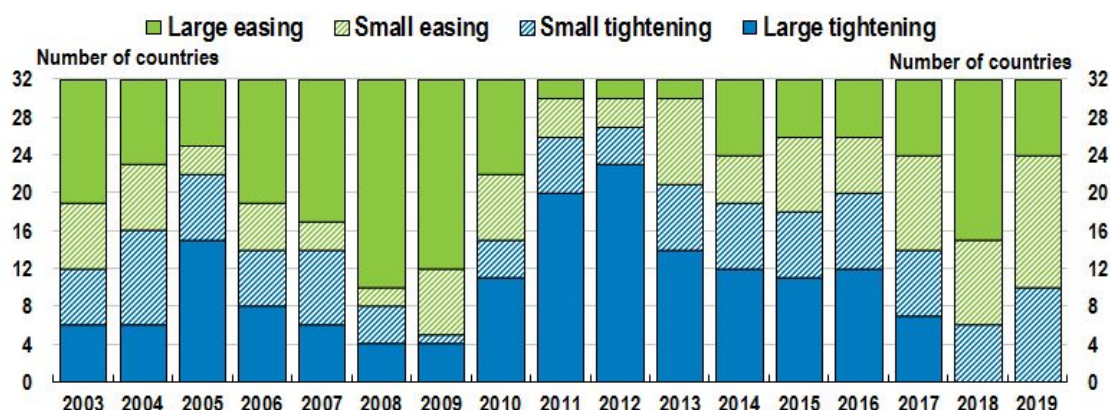
For many years, monetary policy was the only game in town. During the international financial crisis, central banks cut interest rates aggressively, injected funds into the economy and purchased assets at a record pace in an attempt to boost the economy.

In contrast, in most countries, fiscal policy remained prudent or even became contractionary. Still, historically low interest rates provided an opportunity for governments to use their available fiscal space to help foster growth, as the OECD argued forcefully in 2016. Many OECD governments are now following this advice. At first, the resources enabled by lower interest payments were used by governments to avoid cutting expenditures or raising taxes. With the improving economic situation, many governments have started to undertake additional fiscal easing.

Now that monetary policy is finally starting to return to normal, governments are stepping in to provide fiscal policy support. We can say that **fiscal policy is the new game in town**: three quarters of OECD countries are now undertaking fiscal easing. The fiscal stimulus in some countries is very significant, while it is less ambitious in other countries. Still, this fiscal easing will have important repercussions

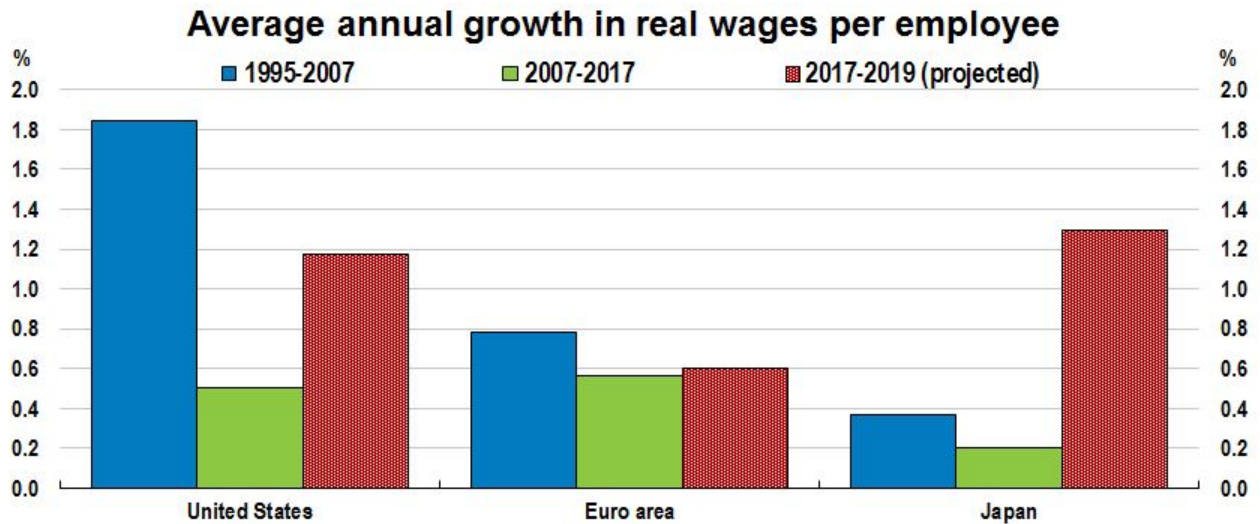
for the world economy. In the short run, it will add to growth. However, countries that have been experiencing longer expansions might find that this fiscal stimulus (where it is large) will also add to inflationary pressures in the medium term. Only time will tell if these short-run gains might be offset by some medium-term pain. What matters is that, in making these choices, governments are fully aware of the medium-term impact of their policies, and do not focus only on the short-term benefits from fiscal stimulus.

Change in fiscal stance in OECD countries



Note: The fiscal stance is calculated based on changes in the underlying primary balance as a percentage of potential GDP. Large fiscal easing is for a deterioration of the balance by more than 0.5% of potential GDP and small easing is for a deterioration by less than 0.5% of potential GDP. Large and small fiscal tightening are defined analogously. Chile, Mexico and Turkey are excluded due to the lack of data. Projections for 2018 and 2019. Source: OECD Economic Outlook database; and OECD calculations.

The strong growth we are witnessing is also associated with robust job creation in many economies. In fact, it is particularly satisfying to see that **in the OECD area, unemployment is set to reach its lowest level since 1980**, even though it remains high in some countries. Thanks to this robust job creation and the related intensifying labour shortages, we are now projecting a rise in real wages in many countries. This increase is still somewhat modest. However, there are clear signs that **wages are finally on the way up**. This is an important development, since the global crisis had a severe impact on household incomes, particularly for the unskilled and low-income workers.



Note: Real wage growth is calculated from nominal wage growth and the GDP deflator. Projections for 2018 and 2019.
Source: OECD Economic Outlook database.

In spite of all this good news, risks loom large for the global outlook. What are these risks? First and foremost, an escalation of trade tensions should be avoided. It is worth remembering that, in part, the rise in trade restrictions is nothing new. After all, more than 1200 new trade restrictions have been implemented by G20 countries since the outset of the global financial crisis in 2007. Still, as outlined in Chapter 2, since the world economy is much more integrated and linked today than in the past, a further escalation of trade tensions might significantly affect the economic expansion and disrupt vital global value chains.

Another important risk going forward is related to the rise in oil prices. Oil prices have risen by close to 50% over the past year. Persistently higher oil prices will push up inflationary pressures and will aggravate external imbalances in many countries.

In the past few years, very low interest rates have encouraged borrowing by households and corporations in some countries and led to overvaluation of assets (e.g. houses, equities) in many others. In this context, rising interest rates might be challenging for highly indebted countries, families and corporations. Of course, this rise in interest rates has been widely anticipated and should thus not cause any major

disruptions. Nevertheless, if inflation rises more than expected and central banks are forced to raise rates at a faster pace, it is likely that market sentiment could shift abruptly, leading to a sudden correction in asset prices.

A swifter rise in interest rates in advanced economies might also continue to lead to significant currency depreciation and volatility in some emerging market economies (EMEs) that are highly reliant on external financing and facing internal or external imbalances. Geopolitical tensions might also contribute to sudden market corrections or a further rise in oil prices. Brexit and policy uncertainty in Italy could add pressures to the expansion in the euro area.

What does this all mean for policy? Since private and public debt remain high in some countries, improving productivity, decreasing debt levels and building fiscal buffers is key to strengthen the resilience of economies. As monetary and fiscal policies will not be able to sustain the expansion forever and might even contribute to financial risks, it is absolutely essential that structural reforms become a priority. In the past couple of years, few countries have undertaken substantial structural reforms. Most of the countries that reformed are large EMEs, such as Argentina, Brazil and India. In the advanced economies, important labour reforms were introduced in France and a sweeping tax reform was implemented in the United States. However, as the 2018 *OECD Going for Growth* points out, these important exceptions do not counter the rule that reform efforts have been lagging.

Why is this important? Because the only way to sustain the current expansion and to make growth work for all is to undertake productivity-enhancing reforms. As many *OECD Education Policy Reviews* and *OECD National Skills Strategies* show, it is crucial to redesign curricula to develop the cognitive, social and emotional skills that enable success at work, and to improve teaching quality and the resources necessary to deliver those skills effectively. In many

countries, investment in quality early childhood education and vocational education and apprenticeships are of particular importance. Skills-enhancing labour-market reforms are also crucial. Reforms to boost competition, improve insolvency regimes, reduce barriers to entry in services and cut red tape are also key for making our economies more dynamic, more inclusive and more entrepreneurial. Investment in digital infrastructure will also be essential in this digital age. In addition, there are significant opportunities to reduce trade costs in both goods and, in particular, services, boosting growth and jobs across the world.

In spite of stronger growth, there is no time for complacency. Structural reforms are vital to sustain the current expansion and to mitigate risks. Therefore, at this juncture of the world economy, **it is truly crucial to give reforms a chance.** After monetary and fiscal policies have done their jobs, it is time for reforms to sustain the expansion, to improve well-being, and to make growth work for all.

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**La croissance s'affermi,
mais des risques**

assombrissent fortement l'horizon

Category: Economic outlook, fiscal policy, trade, Uncategorized
written by oecdecoscope | February 5, 2019

Álvaro S. Pereira, Chef économiste de l'OCDE par intérim,
Département des affaires économiques

Après une longue période de croissance atone, l'activité économique mondiale croît enfin au rythme d'environ 4 %, qui correspond à la moyenne historique des dernières décennies.

C'est une bonne nouvelle, et qui apparaît encore meilleure lorsque l'on sait que ce rebond de la croissance de l'économie mondiale est, pour partie, le résultat d'un redémarrage opportun de l'investissement et des échanges mondiaux. La reprise de l'investissement mérite tout particulièrement d'être soulignée, sachant que l'avenir de l'expansion actuelle dépendra fortement de l'évolution de l'investissement.

Bien qu'anticipé depuis longtemps, le redressement de l'investissement demeure plus timide que lors des phases d'expansion passées. Il en va de même pour les échanges mondiaux, dont on attend qu'ils progressent à un rythme respectable, sans toutefois être spectaculaire, à moins que des tensions commerciales ne viennent les mettre en péril.

Real GDP growth

Year-on-year, %

	2017	2018	2019		2017	2018	2019
World	3.7	3.8	3.9	G20	3.8	4.0	4.1
Australia	2.3	2.9	3.0	Argentina	2.9	2.0	2.6
Canada	3.0	2.1	2.2	Brazil	1.0	2.0	2.8
Euro area	2.6	2.2	2.1	China	6.9	6.7	6.4
Germany	2.5	2.1	2.1	India ¹	6.5	7.4	7.5
France	2.3	1.9	1.9	Indonesia	5.1	5.3	5.4
Italy	1.6	1.4	1.1	Mexico	2.3	2.5	2.8
Japan	1.7	1.2	1.2	Russia	1.5	1.8	1.5
Korea	3.1	3.0	3.0	Saudi Arabia	-0.7	1.6	2.1
United Kingdom	1.8	1.4	1.3	South Africa	1.3	1.9	2.2
United States	2.3	2.9	2.8	Turkey	7.4	5.1	5.0

Note: The European Union is a full member of the G20, but the G20 aggregate only includes countries which are also members in their own right.
1. Fiscal years starting in April.

Cependant, contrairement à ce qui avait pu être observé précédemment, cette croissance mondiale de 4 % ne repose pas sur un accroissement des gains de productivité ou sur une évolution structurelle profonde. Cette fois, l'intensification de l'activité économique est dans une large mesure imputable au soutien procuré par les politiques monétaire et budgétaire.

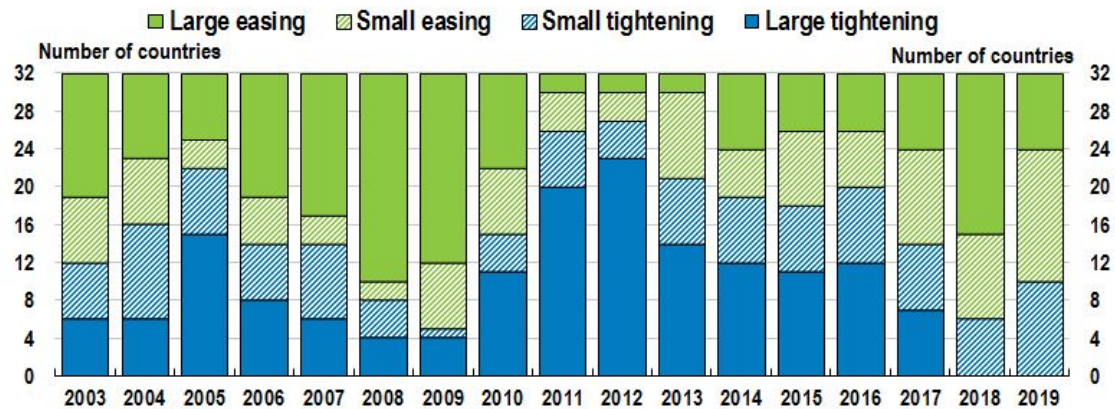
Pendant de nombreuses années, la politique monétaire a été le seul levier utilisé. Durant la crise financière internationale, les banques centrales ont procédé à des réductions draconiennes des taux d'intérêt, elles ont injecté des fonds dans l'économie et acquis des actifs à un rythme sans précédent dans l'espoir de donner un coup de fouet à l'activité économique.

Dans la plupart des pays, en revanche, la politique budgétaire est restée guidée par la prudence, voire est devenue restrictive. Au demeurant, le niveau historiquement bas des taux d'intérêt offrait aux pouvoirs publics l'occasion d'employer la marge de manœuvre budgétaire dont ils disposaient pour contribuer à relancer la croissance, selon la position défendue avec force par l'OCDE en 2016. Un grand nombre de pays de l'OCDE suivent désormais ce conseil. Dans un premier temps, les États ont utilisé les ressources dégagées

par la diminution des versements d'intérêts pour éviter d'avoir à comprimer les dépenses ou à augmenter les impôts. La situation économique s'améliorant, nombre d'entre eux se sont désormais engagés sur la voie d'un nouvel assouplissement budgétaire.

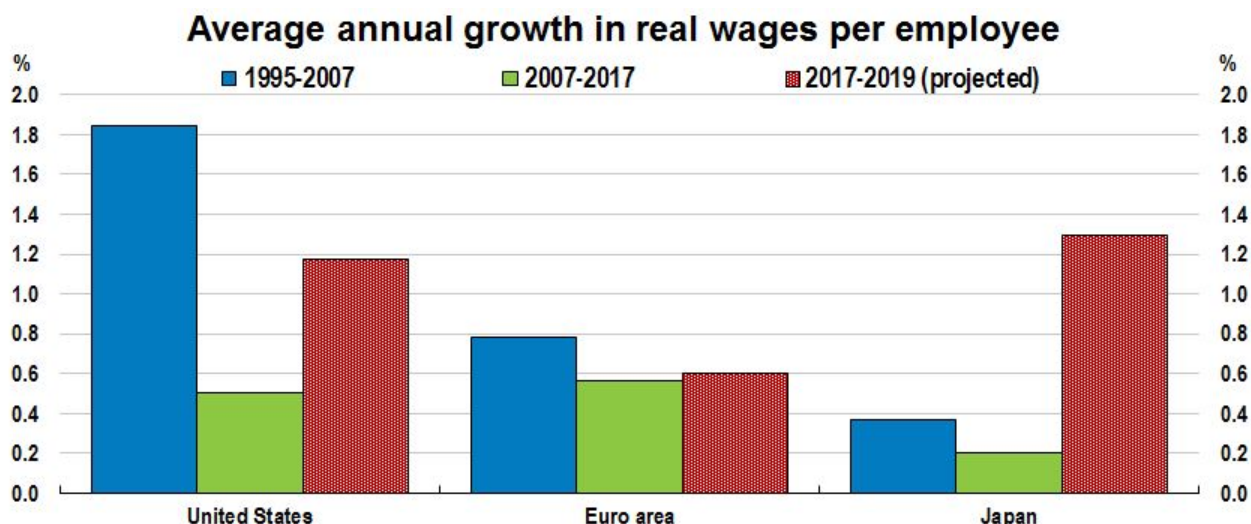
Maintenant que la politique monétaire commence enfin à revenir à la normale, les pouvoirs publics s'emploient à soutenir l'activité par la politique budgétaire. On peut dire que la **politique budgétaire est le levier qui a désormais la faveur des pouvoirs publics** : les trois quarts des pays de l'OCDE s'engagent à présent sur la voie d'un assouplissement budgétaire. La relance budgétaire est très ample dans certains pays, et moins ambitieuse dans d'autres. Pourtant, cet assouplissement budgétaire aura des répercussions importantes sur l'économie mondiale. À court terme, il renforcera la croissance. Cependant, les pays ayant connu de plus longues périodes d'expansion s'apercevront peut-être que cette relance budgétaire (lorsqu'on lui donne de l'ampleur) accentue également les tensions inflationnistes à moyen terme. Seul le temps nous dira si les gains à court terme seront contrebalancés par des effets douloureux à moyen terme. Ce qui compte, c'est que les responsables de l'action gouvernementale, au moment de choisir telle ou telle option, soient pleinement conscients de l'impact à moyen terme de leurs politiques, et ne se bornent pas à considérer uniquement les avantages à court terme de la relance budgétaire.

Change in fiscal stance in OECD countries



Note: The fiscal stance is calculated based on changes in the underlying primary balance as a percentage of potential GDP. Large fiscal easing is for a deterioration of the balance by more than 0.5% of potential GDP and small easing is for a deterioration by less than 0.5% of potential GDP. Large and small fiscal tightening are defined analogously. Chile, Mexico and Turkey are excluded due to the lack of data. Projections for 2018 and 2019. Source: OECD Economic Outlook database; and OECD calculations.

La forte croissance que nous observons va également de pair avec une création d'emplois vigoureuse dans de nombreuses économies. De fait, il est particulièrement satisfaisant de constater que **dans la zone OCDE, le chômage devrait atteindre son plus bas niveau depuis 1980**, même s'il reste élevé dans certains pays. Compte tenu de la vitalité de la création d'emplois et de l'accentuation des pénuries de main-d'œuvre qui en résulte, nous prévoyons désormais une progression des salaires réels dans de nombreux pays. Cette hausse est encore assez timide, mais on perçoit des signes indiquant clairement que **les salaires sont enfin sur une pente ascendante**. Il s'agit d'une évolution importante, sachant que la crise mondiale avait eu de graves effets sur les revenus des ménages, en particulier pour les travailleurs peu qualifiés et à faible revenu.



Note: Real wage growth is calculated from nominal wage growth and the GDP deflator. Projections for 2018 and 2019.
Source: OECD Economic Outlook database.

Malgré toutes ces bonnes nouvelles, des risques assombrissent fortement les perspectives mondiales. Quels sont-ils ? D'abord et avant tout, une escalade des tensions commerciales, qui doit être évitée. N'oublions pas que, pour une part, un recours accru à des restrictions commerciales n'a rien de nouveau. La preuve en est que plus de 1 200 restrictions nouvelles ont été instituées par des pays du G20 depuis que la crise financière mondiale a éclaté en 2007. Au demeurant, comme indiqué dans le chapitre 2, parce que l'économie mondiale est beaucoup plus intégrée et interconnectée aujourd'hui que par le passé, une nouvelle escalade des tensions commerciales pourrait porter gravement atteinte à l'expansion de l'activité économique et déclencher des perturbations dans des chaînes de valeur mondiales essentielles.

Un autre risque important est lié à l'envolée des cours du pétrole. Ceux-ci ont augmenté de près de 50 % au cours de l'année écoulée. La persistance de cette tendance intensifiera les tensions inflationnistes et accentuera les déséquilibres extérieurs dans nombre de pays.

Ces dernières années, le niveau très bas des taux d'intérêt a encouragé les ménages et les entreprises à recourir à l'emprunt dans certains pays et a abouti à une surévaluation

des actifs (notamment des logements et des actions) dans beaucoup d'autres. Dans ce contexte, un relèvement des taux d'intérêt pourrait mettre en difficulté les pays, les familles et les entreprises lourdement endettés. Certes, cette augmentation des taux d'intérêt a été largement anticipée et ne devrait donc pas induire de perturbations majeures. Néanmoins, si l'inflation augmente davantage que prévu et si les banques centrales sont contraintes de relever plus rapidement les taux d'intérêt, les perceptions sur les marchés pourraient s'inverser brusquement et conduire à un ajustement brutal des prix des actifs.

Une remontée plus rapide des taux d'intérêt dans les économies avancées pourrait également entraîner encore d'importants phénomènes de volatilité et de dépréciations des monnaies dans certaines économies de marché émergentes qui sont très tributaires des financements extérieurs et sont confrontées à des déséquilibres internes et externes. Les tensions géopolitiques pourraient également favoriser de brusques corrections du marché ou un nouvel essor des cours du pétrole. Le Brexit et l'incertitude autour de l'action gouvernementale qui sera menée en Italie ne font qu'ajouter aux pressions qui pèsent sur l'expansion dans la zone euro.

Que faut-il en déduire pour l'action publique ? Parce que la dette publique et la dette privée demeurent élevées dans certains pays, il est primordial de rehausser la productivité, de faire baisser les niveaux d'endettement et de constituer des marges de manœuvre budgétaires pour renforcer la résilience des économies. Étant donné que les politiques monétaire et budgétaire ne permettront pas d'alimenter indéfiniment l'expansion et pourraient même contribuer à accroître les risques financiers, il est absolument essentiel que la priorité soit donnée aux réformes structurelles. Ces dernières années, rares sont les pays qui ont engagé des réformes structurelles d'envergure. La plupart de ceux qui ont mené des réformes sont de grandes économies de marché

émergentes, comme l'Argentine, le Brésil et l'Inde. Du côté des économies avancées, une importante réforme du travail a été adoptée en France et une réforme fiscale de grande ampleur est entrée en vigueur aux États-Unis. Cependant, comme souligné dans l'édition 2018 d'*Objectif croissance*, ces exceptions notables n'empêchent pas que les réformes ont pris du retard.

Pourquoi est-ce important ? Parce que le seul moyen d'entretenir l'expansion actuelle et de faire en sorte que la croissance bénéficie à tous consiste à entreprendre des réformes destinées à améliorer la productivité. Comme le montre l'OCDE dans de nombreux *Examens des politiques nationales d'éducation* et *Stratégies nationales sur les compétences*, il est primordial de repenser les cursus pour développer les compétences cognitives, sociales et émotionnelles indispensables à la réussite dans le monde du travail, et d'améliorer la qualité de l'enseignement ainsi que les ressources nécessaires pour favoriser une acquisition efficace de ces compétences. Dans beaucoup de pays, l'investissement dans une éducation de qualité pour les jeunes enfants ainsi que dans l'enseignement professionnel et l'apprentissage revêt une importance particulière. Il est en outre capital d'entreprendre des réformes du marché du travail propres à améliorer les compétences. Des réformes axées sur l'intensification de la concurrence, l'amélioration des régimes de faillite, l'abaissement des obstacles à l'entrée dans les secteurs de services et la simplification des procédures administratives sont aussi des ingrédients essentiels pour que nos économies deviennent plus dynamiques, plus inclusives et plus propices à l'entrepreneuriat. Les investissements dans les infrastructures numériques seront aussi fondamentaux à l'ère du numérique. Par ailleurs, il existe de vastes possibilités de réduction des coûts commerciaux sur les marchés de biens mais aussi et surtout de services, laissant entrevoir des perspectives de croissance et de création d'emplois dans le monde entier.

Malgré le regain de croissance, l'heure n'est pas à l'excès de confiance. Les réformes structurelles sont la clé de la poursuite de l'expansion actuelle et de l'atténuation des risques. C'est pourquoi, à ce point de bascule pour l'économie mondiale, **il est véritablement capital de donner une chance aux réformes**. Les politiques monétaire et budgétaire ayant rempli leur office, le moment est venu de faire en sorte que les réformes prennent le relais et qu'elles concourent à soutenir l'expansion, à améliorer le bien-être et à produire une croissance bénéfique pour tous.

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Un Mayor crecimiento, aunque se advierten importantes riesgos

Category: Economic outlook, fiscal policy, trade, Uncategorized
written by oecdecoscope | February 5, 2019

Álvaro S. Pereira, Economista Jefe interino, Departamento de Economía de la OCDE

Después de un largo período de débil crecimiento, la economía mundial finalmente está creciendo alrededor del 4%, cercano al promedio histórico de las últimas décadas.

Esta es una buena noticia, y es aún mejor sabiendo que, en parte, el mayor crecimiento de la economía mundial está respaldado por una recuperación positiva de la inversión y del comercio mundial. Cabe destacar especialmente la recuperación

de la inversión, ya que el futuro de la actual expansión dependerá en gran medida del buen comportamiento de la inversión.

Aunque se esperaba desde hace mucho tiempo, el repunte de la inversión sigue siendo más débil que en expansiones anteriores. Lo mismo ocurre con el comercio mundial, que se espera crezca a un ritmo aceptable, aunque no espectacular, a menos que se vea frenado por las tensiones comerciales.

Sin embargo, a diferencia de períodos anteriores, el crecimiento mundial del 4% no se debe al aumento de la productividad ni a un cambio estructural radical. Esta vez, el fortalecimiento de la economía se debe en gran medida al apoyo de la política monetaria y fiscal.

Real GDP growth

Year-on-year, %

	2017	2018	2019		2017	2018	2019
World	3.7	3.8	3.9	G20	3.8	4.0	4.1
Australia	2.3	2.9	3.0	Argentina	2.9	2.0	2.6
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Note: The European Union is a full member of the G20, but the G20 aggregate only includes countries which are also members in their own right.
1. Fiscal years starting in April.

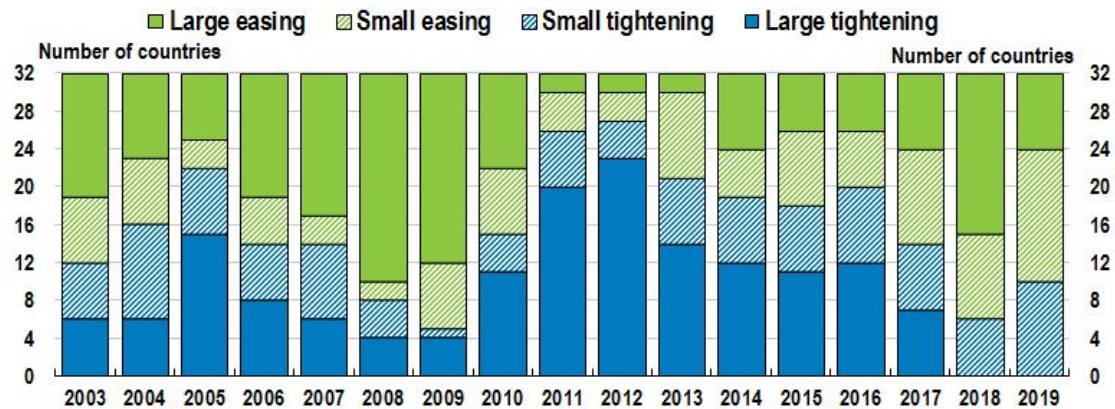
Durante muchos años, la política monetaria fue la única carta sobre la mesa. Durante la crisis financiera internacional, los bancos centrales recortaron de manera drástica los tipos de interés, inyectaron fondos en la economía y compraron activos a un ritmo récord en un intento por impulsar la economía.

En cambio, en la mayoría de los países, la política fiscal siguió siendo prudente o incluso se contrajo. No obstante, los tipos de interés históricamente bajos brindaron a los

gobiernos la oportunidad de utilizar el espacio fiscal disponible para ayudar a fomentar el crecimiento, como firmemente argumentó la OCDE en 2016. Muchos gobiernos de la OCDE siguen ahora esta recomendación. En un principio, los recursos habilitados por la reducción de los pagos de intereses fueron utilizados por los gobiernos para evitar recortar gastos o aumentar los impuestos. Con la mejora de la situación económica, muchos gobiernos han comenzado a emprender una relajación fiscal adicional.

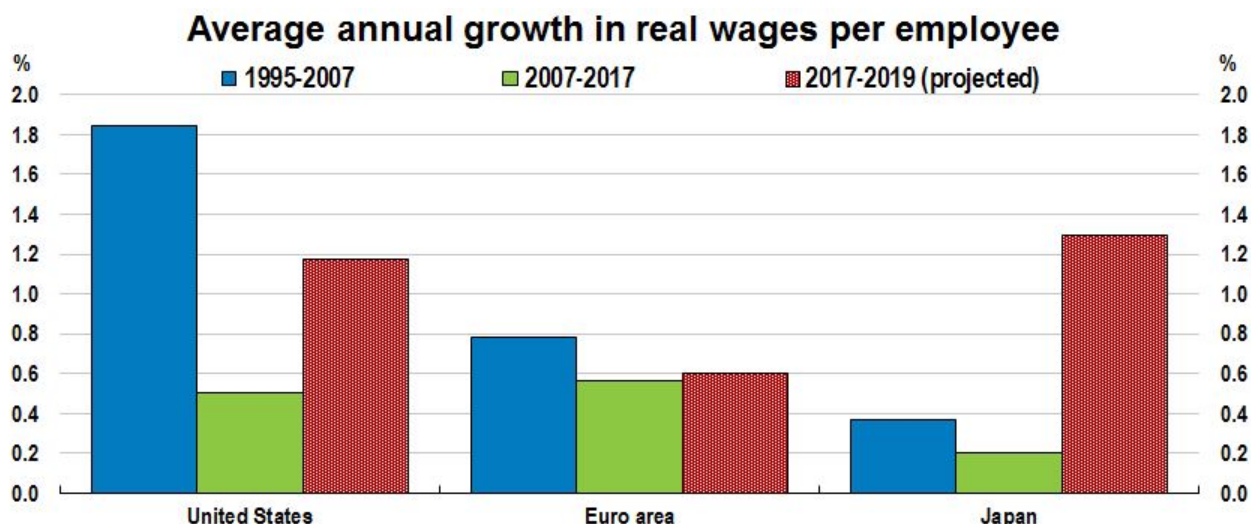
Ahora que la política monetaria está finalmente empezando a volver a la normalidad, los gobiernos están interviniendo para proporcionar apoyo con la política fiscal. Podemos decir que **la política fiscal es la nueva carta que se añade a la partida**: tres cuartas partes de los países de la OCDE están llevando a cabo una relajación fiscal. El estímulo fiscal en algunos países es muy significativo, mientras que en otros es menos ambicioso. No obstante, esta relajación fiscal tendrá importantes repercusiones para la economía mundial. A corto plazo, contribuirá al crecimiento. Sin embargo, los países que han experimentado expansiones más prolongadas podrían encontrarse con que este estímulo fiscal (en los casos en que es importante) también se sumará a las presiones inflacionarias a medio plazo. Sólo el tiempo dirá si las ganancias de corto plazo podrían verse compensadas por impactos negativos de medio plazo. Lo que importa es que, al tomar estas decisiones, los gobiernos sean plenamente conscientes del impacto a medio plazo de sus políticas, y no se centren únicamente en los beneficios de corto plazo de los estímulos fiscales.

Change in fiscal stance in OECD countries



Note: The fiscal stance is calculated based on changes in the underlying primary balance as a percentage of potential GDP. Large fiscal easing is for a deterioration of the balance by more than 0.5% of potential GDP and small easing is for a deterioration by less than 0.5% of potential GDP. Large and small fiscal tightening are defined analogously. Chile, Mexico and Turkey are excluded due to the lack of data. Projections for 2018 and 2019. Source: OECD Economic Outlook database; and OECD calculations.

El fuerte crecimiento que estamos presenciando también está asociado a una fuerte creación de empleo en muchas economías. De hecho, es especialmente satisfactorio comprobar que **en los países de la OCDE el desempleo va a alcanzar su nivel más bajo desde 1980**, aunque en algunos países sigue siendo elevado. Gracias a esta sólida creación de empleo y a la consiguiente intensificación de la escasez de mano de obra, ahora se prevé un aumento de los salarios reales en muchos países, a pesar de que este aumento es todavía modesto. Sin embargo, hay señales claras de que **los salarios están finalmente aumentando**. Se trata de un acontecimiento importante, ya que la crisis mundial tuvo un grave impacto en los ingresos de los hogares, en particular de los trabajadores no cualificados y de bajos ingresos.



Note: Real wage growth is calculated from nominal wage growth and the GDP deflator. Projections for 2018 and 2019.
Source: OECD Economic Outlook database.

A pesar de todas estas buenas noticias, se advierten importantes riesgos en el panorama mundial. ¿Cuáles son estos riesgos? Ante todo, debe evitarse un aumento de las tensiones comerciales. Es importante recordar que, en parte, el aumento de las restricciones comerciales no es nada nuevo. Después de todo, los países del G20 han implementado más de 1.200 nuevas restricciones al comercio desde el inicio de la crisis financiera mundial en 2007. No obstante, como se señala en el Capítulo 2, dado que la economía mundial está mucho más integrada e interconectada hoy que en el pasado, una mayor escalada de las tensiones comerciales podría afectar significativamente la expansión económica y perturbar las vitales cadenas de valor mundiales.

Mirando hacia el futuro, otro riesgo importante está relacionado con el aumento de los precios del petróleo que han aumentado cerca del 50% en el último año. Esta persistente subida incrementará las presiones inflacionarias y agravará los desequilibrios externos en muchos países.

En los últimos años, los extremadamente bajos tipos de interés han alentado el endeudamiento de los hogares y las empresas en algunos países, y han dado lugar a la sobrevaloración de activos (por ejemplo, viviendas, acciones) en muchos otros. En este contexto, los crecientes los tipos de interés podrían ser

un reto para los fuertemente endeudados países, familias y empresas. Además, esta subida de los tipos de interés se ha anticipado ampliamente y, por lo tanto, no debería causar ninguna perturbación importante. Sin embargo, si la inflación aumenta más de lo previsto y los bancos centrales se ven obligados a subir los tipos de interés a un ritmo más rápido, es probable que la confianza del mercado cambie bruscamente, dando lugar a una repentina corrección de los precios de los activos.

Una subida más rápida de los tipos de interés en las economías avanzadas también podría seguir provocando una depreciación significativa de la moneda y volatilidad en algunas economías emergentes (EMEs) ya que dependen en gran medida de la financiación externa y se enfrentan a desequilibrios internos o externos. Las tensiones geopolíticas también podrían contribuir a correcciones repentinas del mercado o a una nueva subida de los precios del petróleo. Brexit y la incertidumbre política en Italia podrían añadir presiones a la expansión en la zona del euro.

¿Qué significa todo esto para la política? Dado que la deuda pública y privada sigue siendo elevada en algunos países, la mejora de la productividad, la disminución de los niveles de deuda y la creación de amortiguadores fiscales son clave para fortalecer la resiliencia de las economías. Puesto que las políticas monetaria y fiscal no podrán sostener la expansión de manera permanente e incluso podrían acentuar los riesgos financieros, es absolutamente esencial que las reformas estructurales se conviertan en una prioridad. En los últimos dos años, pocos países han emprendido reformas estructurales sustanciales. La mayoría de los países que aplicaron reformas son grandes EMEs, como Argentina, Brasil e India. En las economías avanzadas, se introdujeron importantes reformas laborales en Francia, y se aplicó una amplia reforma fiscal en los Estados Unidos. Sin embargo, como señala la publicación de la OCDE *Going for Growth*, de 2018, éstas importantes

excepciones no contradicen la regla de que los esfuerzos de reforma han sido rezagados.

¿Por qué es esto importante? Porque la única manera de mantener la expansión actual y hacer que el crecimiento funcione para todos es emprender reformas que aumenten la productividad. Como demuestran numerosos estudios de la OCDE sobre la revisión de políticas educativas (*Education Policy Reviews*) y las estrategias nacionales de la OCDE en materia de competencias (*National Skills Strategies*), es fundamental rediseñar los planes de estudio para desarrollar las competencias cognitivas, sociales y emocionales que permiten el éxito en el trabajo, y mejorar la calidad de la enseñanza y los recursos necesarios para impartir esas competencias de manera eficaz. En muchos países, la inversión en educación de calidad para la primera infancia, la formación profesional y los programas de aprendices revisten especial importancia. También son cruciales las reformas del mercado laboral que mejoren las habilidades. Las reformas para impulsar la competencia, mejorar los regímenes de insolvencia, reducir los obstáculos a la entrada en el sector de los servicios y reducir la burocracia también son fundamentales para hacer que nuestras economías sean más dinámicas, más incluyentes y más emprendedoras. La inversión en infraestructura digital también será esencial en esta era digital. Además, existen importantes oportunidades para reducir los costes del comercio de bienes y, en particular, de los servicios, impulsando el crecimiento y el empleo en todo el mundo.

A pesar de un crecimiento más fuerte, no hay tiempo para la autocomplacencia. Las reformas estructurales son vitales para mantener la expansión actual y mitigar los riesgos. Por lo tanto, en esta coyuntura de la economía mundial, **es realmente crucial dar una oportunidad a las reformas**. Después de que las políticas monetarias y fiscales hayan cumplido sus objetivos, es hora de que las reformas sostengan la expansión, mejoren el bienestar y hagan que el crecimiento funcione para todos.

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United we stand divided we fall: the need for greater inclusiveness in Israel

Category: Israel,Uncategorized

written by oecdecoscope | February 5, 2019

By Claude Giorno and Gabriel Machlica, Israel Desk, Economics Department

The Israeli economy is strong. The country is enjoying its 15th consecutive year of growth, with GDP increasing on average by 4.0% annually since 2003, i.e. faster than nearly any other OECD country. Unemployment is at historically low level, and the average standard of living is improving steadily. Rapid population growth, the rise in people with jobs, strong economic fundamentals, good economic policy settings and a dynamic high-tech sector are underpinning these impressive outcomes, which are expected to continue in the short term, according to the *2018 OECD Survey on Israel*.

Today's excellent outlook offers Israel a unique opportunity to prepare for the challenges of the future which require stronger social cohesion. Israeli society is indeed marked by large inequalities. Almost 18% of the population live in relative poverty (i.e. with a disposable income below 50% of the median), higher than the OECD average (12.5%) and any other advanced economy. This reflects large disparities

between different communities. Around half of Israeli-Arabs and Haredim are poor and live separately from the rest of the population. They have different school systems, live mostly in different cities and do not serve in the army. This leads to poor education results followed by worse labour market outcomes, notably in terms of earnings (Table 1). Haredi men have a cultural preference to engage in full-time religious studies, rather than participate in the labour market, and avoid core subjects in their school careers. Furthermore, Haredi women can work only part-time because of their large families. The majority of Israeli-Arab women also do not participate in the labour market due to cultural preferences. The result is that most Haredi and Arab families have only one breadwinner, resulting in significant problems of poverty, notably among children.

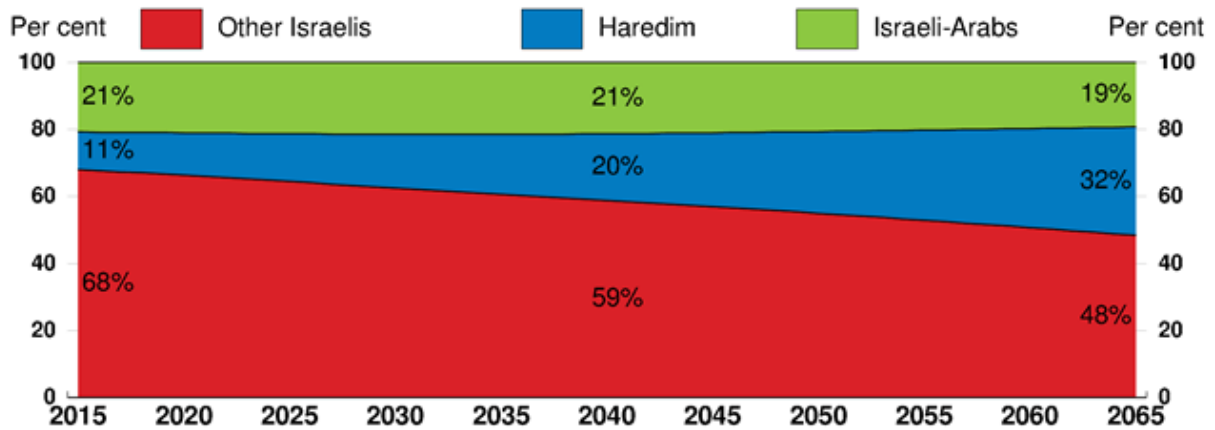
Table 1. Disparities in Israeli society

	Israeli-Arabs	Haredim	Others
Share of the population - 2016 (%)	21	11	68
Fertility rate - 2016	3.1	6.7	2.5
Number of children per household	4	6.5	2
Median hourly wage as a % of the national median hourly wage - 2015	70	87	109
Median wage as a % of the national median wage - 2015	74	68	111
Participation rate - 2016 (%)	58	66	81
PISA mean mathematics scores - 2015	391	-	495
Relative poverty rates – 2015 (%)	53.3	48.7	13.5

Source: National Insurance Institute (2016), *Poverty and Social Gaps Report, 2015*; OECD, *PISA database*; Central Bureau of Statistics.

Given the high fertility of Haredi women, the share of that community in the total population is predicted to triple in the next 45 to 50 years, with the total share of Israeli-Arabs and Haredim rising from one-third to one-half over this period (**Figure 1**). This will have a substantial impact on Israeli economic performance, given the poor labour market outcomes and low productivity of these disadvantaged groups.

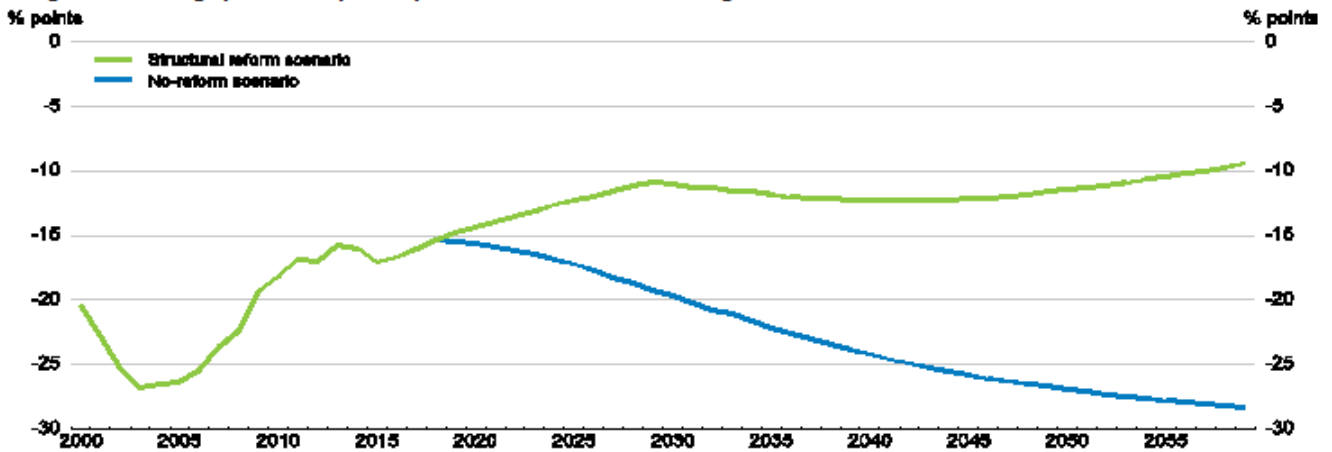
Figure 1. Demographic trend by community group



Source: Central Bureau of Statistics, http://www.cbs.gov.il/reader/newhodaot/tables_template_eng.html?hoda=201701138

In the absence of further progress in social cohesion and any further convergence of productivity and labour market outcomes of Haredim and Israeli-Arabs with the rest of the population, average Israeli incomes would fall to nearly 30% below the OECD average, almost double the current gap according to OECD estimates (**Figure 2**). However, if ambitious structural reforms are launched to further improve the Haredi and Israeli-Arabs' (youth in particular) integration into society through better education and training, improved work incentives and more business-friendly environment, the gap in Israeli living standards with the OECD average could shrink below 10%.

Figure 2. The gap in GDP per capita with the OECD average could shrink further with ambitious reforms¹



1. The no-reform scenario extrapolates OECD short term projections using Geva (2015) and assuming no convergence of Haredim and Israeli-Arabs productivity and labour market outcomes with the rest of the population. By contrast, the structural reform scenario assumes gains from reforms in product market and education with enhanced incentives to join the labour market. In this scenario, the productivity of Haredim and Israeli-Arabs compared to non-Haredi Jews is assumed to increase from 60% currently to 80% and their employment rate to be close to the level of non-Haredi Jews in 2059.

Source: OECD (2017), *Economic Outlook 102 database*; A. Geva (2015), *Demographic Changes and their Implications for Fiscal Aggregates in the Years of 2015-2059*. For more details see OECD (2018), *OECD Economic Surveys: Israel 2018*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-isr-2018-en.

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Estonia: Using fiscal space for a more inclusive growth

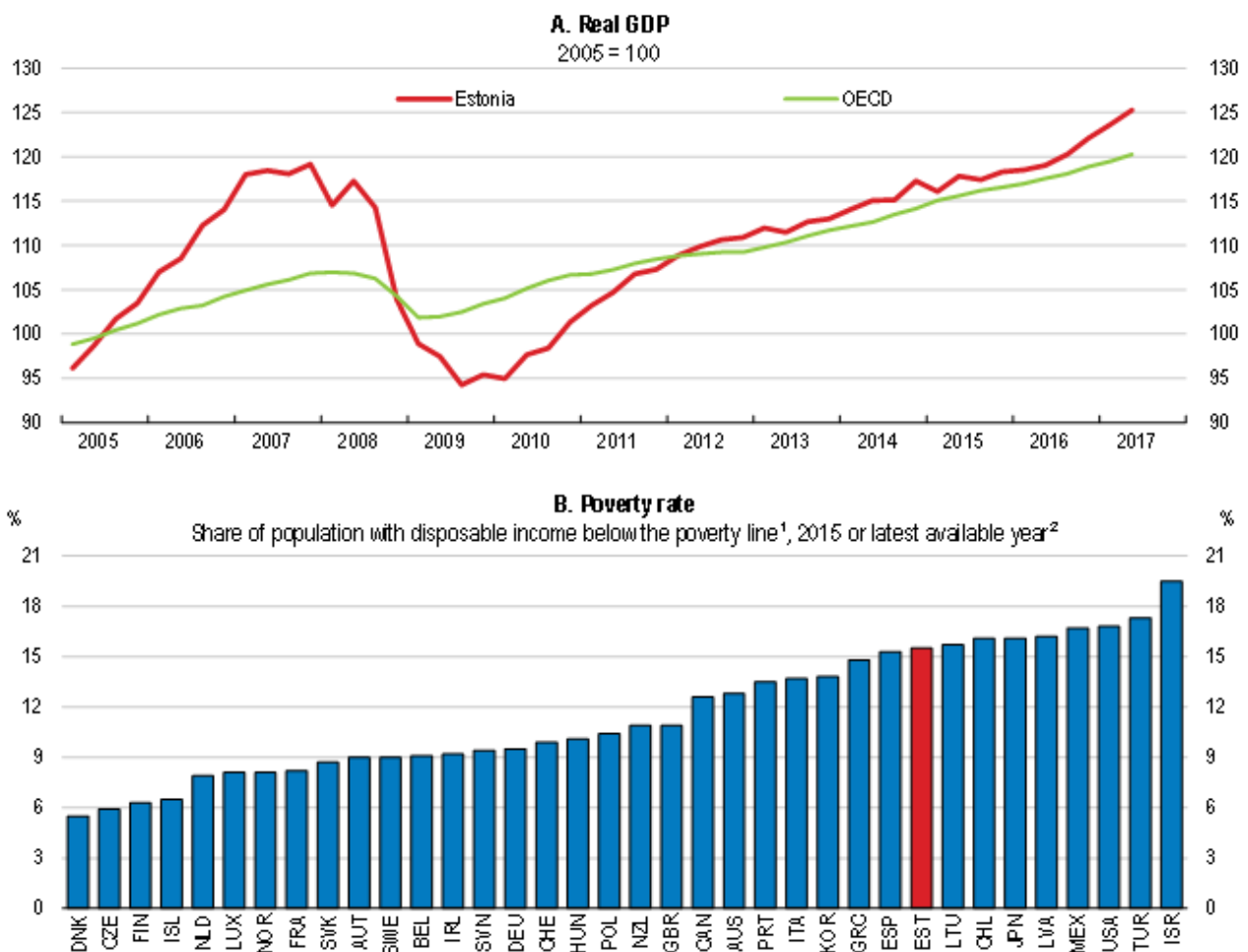
Category: Estonia, Inequality, Uncategorized
written by oecdecoscope | February 5, 2019

By Pierre Beynet, Head of Division, OECD Economics Department

Estonian growth is picking up again strongly in 2017 and the level of activity has finally surpassed its pre-crisis level, almost 10 years after the outset of the financial crisis (Figure 1, panel A). However, poverty remains among the highest in the OECD (Figure 1, Panel B).

To make growth more inclusive, the 2017 OECD economic survey argues that Estonia should make its tax and benefits policies more redistributive, but also use more actively its large fiscal space by allowing a small fiscal deficit in the longer term (OECD, 2017).

Figure 1. Activity is back to pre-crisis level but poverty remains high



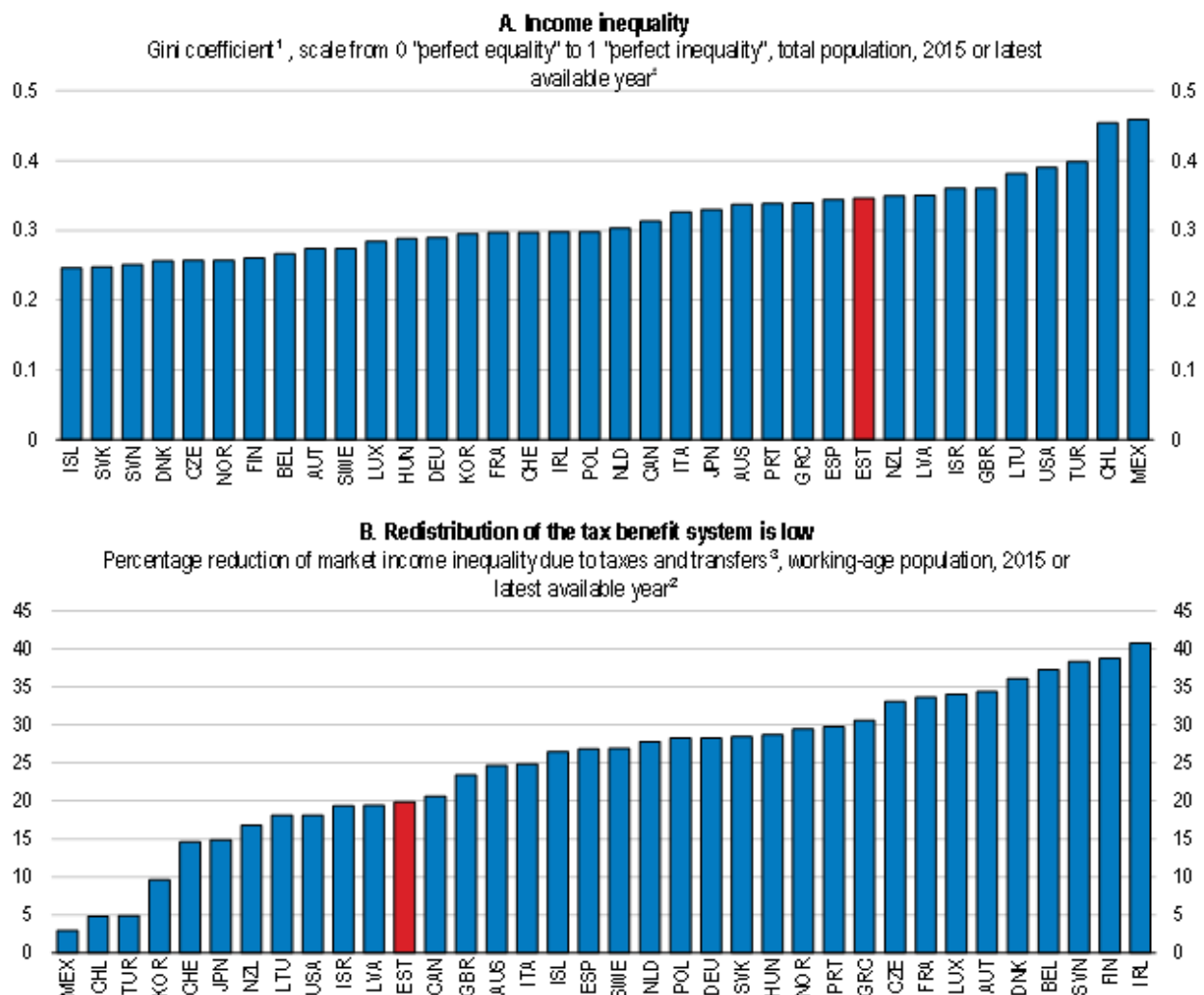
1. The poverty threshold is 50% of median disposable income.

2. Latest available data refer to 2015 for Chile, Finland, Israel, Korea, Mexico, the Netherlands, the United Kingdom, and the United States; to 2012 for Japan; and to 2014 for all other countries.

Source: OECD Economic Outlook 101 database (updated with information available on 1 September 2017); OECD Income Distribution database (IDD).

Market income inequality is high (Figure 2, Panels A), but the redistributive effects of the Estonian tax and benefit system is low (Figure 2, Panel B). It leaves a considerable proportion of the population at risk of poverty, notably the unemployed, disabled and low-educated. The old-aged are also more at risk of poverty, in particular because of the relatively low level of pensions.

Figure 2. The tax and benefit system does not reduce much inequality



1. Gini coefficient of disposable income.

2. Latest available data refer to 2015 for Chile, Finland, Israel, Korea, Mexico, the Netherlands, the United Kingdom, and the United States; to 2012 for Japan; and to 2014 for all other countries.

3. Redistribution is defined as the difference between market income and disposable income inequality (inequality measured using the Gini coefficient), expressed as a percentage of market income inequality. Market incomes are net of taxes in Hungary, Mexico and Turkey.

Source: OECD Income Distribution database (IDD).

The government is already working on important redistributive measures. For instance, the planned increase in the personal

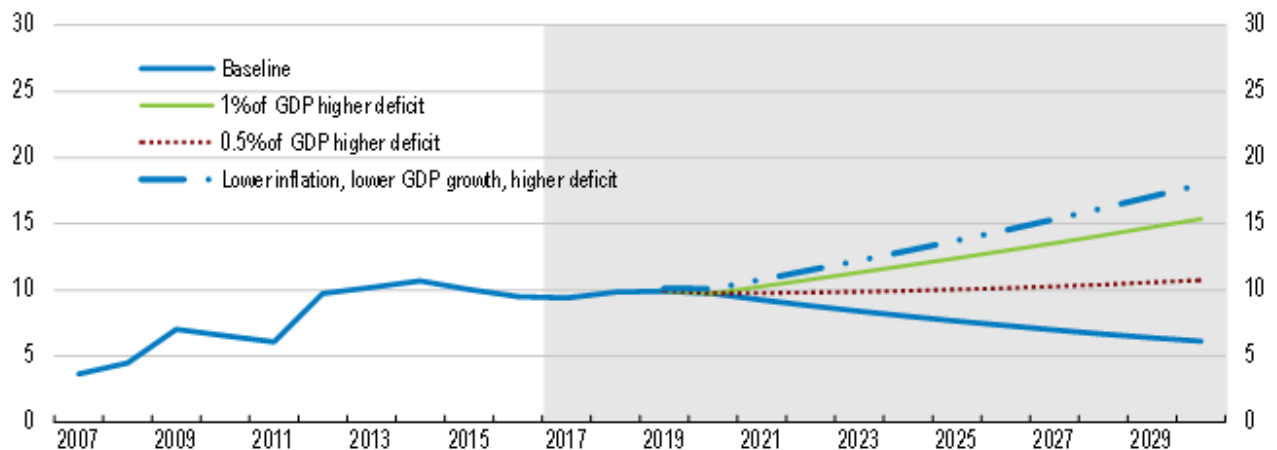
income tax allowance, which is steeper at lower wage levels, will improve the progressivity to the tax system from 2018. However, the lowest income earners will not benefit from this measure since they are exempt from the personal income tax. Besides, the level of spending allocated to protection of the most vulnerable is low: around 31% of total public spending in 2014 went on social spending, some 9 percentage points less than the EU average. The targeting of social programmes is also poor, with means-tested measures accounting for a low share in total social spending.

Fiscal room is available for further measures to make growth more inclusive. Estonia has the lowest gross public debt relative to GDP in the OECD (Maastricht debt is at around 10%) and a structural budget surplus since 2009. Fiscal policy has been tight over past years, despite economic slack. The government plans a small structural deficit in 2018, 2019 and 2020, which is welcome, but the current fiscal rule imposes a return to a balanced budget in structural terms from 2021.

Beyond 2020, financing growth-enhancing measures could require revising the fiscal rule. Maintaining a small structural deficit for an extended period would not undermine the long-term sustainability of public finances. For instance, a persistent deficit of 0.5% of GDP would result in Maastricht debt reaching less than 11% of GDP in 2030 (Figure 3). In the same vein, increasing the deficit by 1% of GDP would still maintain a prudent debt level, even if coupled with 1 percentage point lower inflation and GDP growth (Figure 3).

Figure 3. A large fiscal space could be used to make growth more inclusive

Illustrative public debt paths, General government debt, Maastricht definition, as a percentage of GDP¹



1. The baseline consists of projections for the Economic Outlook No. 101 until 2018. Thereafter, assumptions are: real GDP growth progressively closing the output gap and from 2020 growing by 2.5% in line with OECD estimates for long-term potential growth; a budget balanced in structural terms from 2021 as set out in the national reform programme; inflation declining progressively to 2% by 2030 and an average effective interest rate converging to 3% by 2030. The "0.5% of GDP higher deficit" scenario assumes a structural deficit maintained at 0.5% of GDP from 2021. The "1% of GDP higher deficit" scenario assumes a structural deficit increasing to 1% of GDP from 2021. The "lower inflation, lower GDP growth and higher deficit" scenario assumes lower inflation and real GDP growth by 1 percentage point per year, both from 2019 with structural deficit increased by 1% of GDP from 2021.

Source: OECD Economic Outlook 101 database; calculations based on OECD (2017), OECD Economic Outlook: Statistics and Projections (database), June.

References

OECD (2017), *OECD Economic Survey of Estonia*, OECD Publishing, Paris.