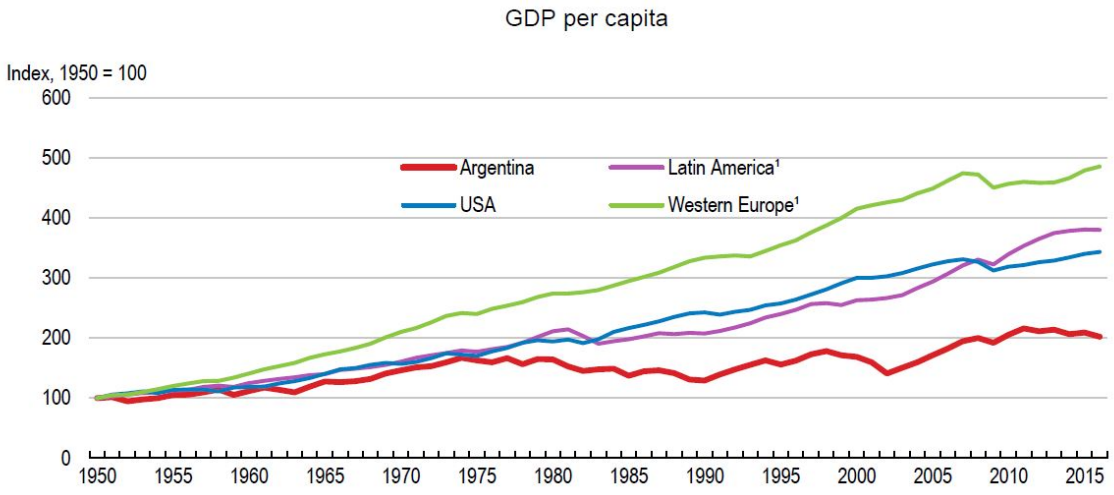
Boosting living standards of all Argentinians

Category: Argentina,Inequality,Uncategorized
written by oecdecoscope | July 27, 2017
By Jens Arnold and Alberto González Pandiella, Argentina Desk, OECD Economics Department.

Following years of unsustainable economic policies, Argentina has recently undertaken bold reforms and a turnaround in policies that has helped to avoid another crisis and stabilise the economy (OECD, 2017). Nevetheless, the work is far from being finished. Many challenges still lie ahead. Argentina has lost substantial ground in terms of income (Figure 1) and poverty and inequality remain high. Significant macroeconomic imbalances have built up, such as a large fiscal defict, an inflation rate in the double digits or an unsustainable growth pattern investing too little for the future.

Figure 1. Argentina has lost ground relative to other countries



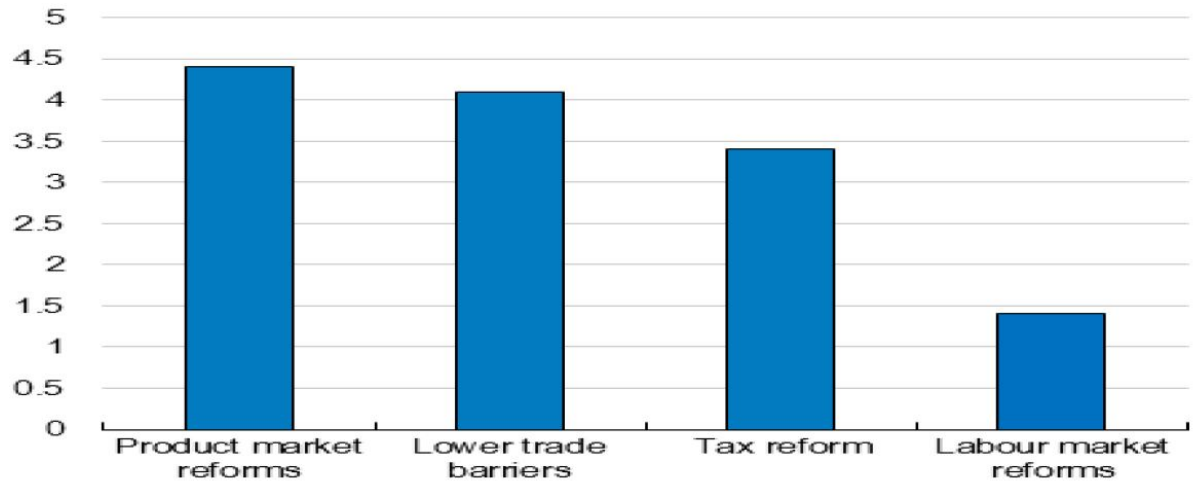
1. Western Europe includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom; Latin America includes: Brazil, Chile, Colombia, Mexico and Peru.

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

Given the extent of remaining imbalances in the economy, a challenging reform agenda still lies ahead to deliver better

material living standards for all Argentinians, as analysed in OECD's Multi-Dimensional Economic Survey of Argentina. Building the pillars for a more productive and inclusive economy to improve the well-being of all Argentinians will be the priority for the future reform agenda. This agenda encompasses a wide range of policy areas such as regulation on product and labour markets, taxes, infrastructure, education, innovation, trade policy and financial markets, all of which could have large pay-offs. Aligning key policy settings with the OECD average could increase GDP per capita by 15% in 10 years (Figure 2). But raising growth is not enough, what matters is that this delivers for people, by providing new opportunities. It is now critical that policymakers maintain reform momentum for businesses to thrive, and for people to reap the benefits. People-centred growth should be at the centre-stage of future policy efforts.

Figure 2. Aligning key policy settings with the OECD average would have large pay-offs



Source: OECD (2017).

Argentina currently faces three main challenges.The first challenge is to ensure macroeconomic stability in order to avoid the recurrence of economic crisis. Crises have been too frequent in Argentina, and fiscal problems have almost always been at the root of these crises. Low income households are those affected the most by economic crises. Hence increasing

stability, including by reducing the fiscal deficit and bringing down inflation, would help especially more disadvantaged households.

Argentina has one of lowest investment rates in Latin America and its productivity has hardly improved over the last 25 years. Hence, the second challenge is to boost investment and productivity, as these are the foundations for a sustained increase in incomes and living standards. For that there is a need for wide-ranging structural reforms, encompassing areas such as competition, business regulations, trade, infrastructure, rule of law, or skills. At the same time, there is a need to safeguard those that may be initially impacted by a changing economy and ensure that benefits are widely shared. Hence, we recommend protecting workers with a stronger safety net and better training.

The third challenge is to make growth more inclusive. Inequality, poverty and informality are a drag on growth and well-being. To accelerate social progress, the emphasis is on improving education, in particular in reducing inequalities in the access to quality education. Argentina needs to improve teacher training and provide more targeted support to disadvantaged students. There is also a need to fight informality, which affects one third of the workforce, requiring an integral strategy including taxes, regulations, laws and education.

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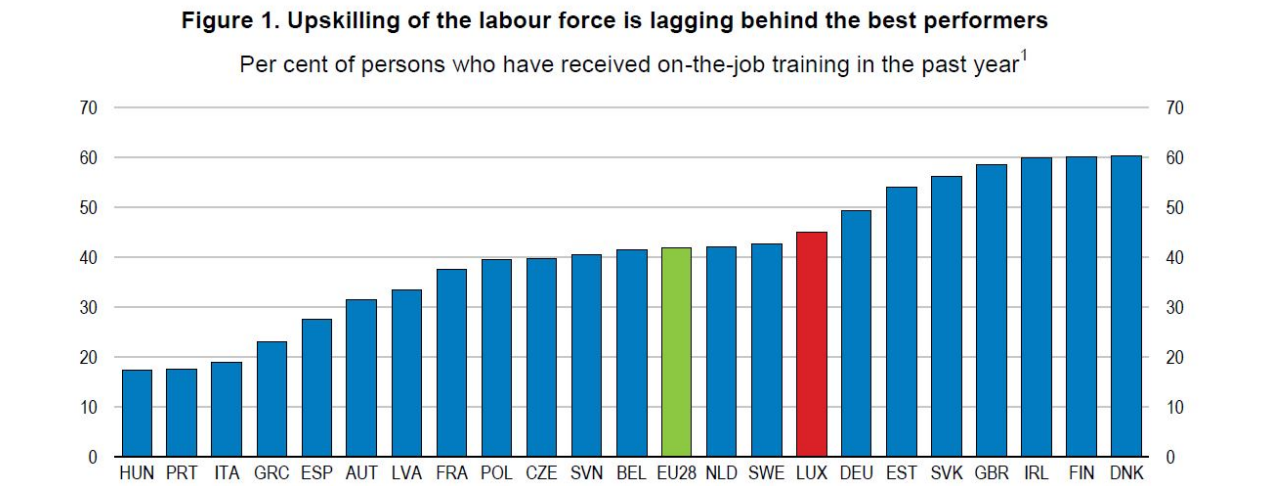
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Harnessing skills for more inclusive growth

Category: Inequality,Luxembourg,Uncategorized
written by oecdecoscope | July 27, 2017
by Jan Strasky, Luxembourg Desk, OECD Economics Department.

Strong economic performance, comfortable fiscal situation and well-run institutions make life good for most residents of Luxembourg. Average earnings are the highest in the OECD, while labour market insecurity and income inequality are low. Yet, the development of the digital economy is constantly expanding the domain of tasks that can be automatized and affecting both jobs and the skill sets need to perform them. The recent long-term strategy of the government develops an ambitious vision for a smart green digital society, but in order to equip workers with adequate skills, this modernisation strategy will also require improvements in education outcomes and better upskilling of workers over their lifetime (Figure 1).

Figure 1. Upskilling of the labour force is lagging behind the best performers



1. Share of persons responding positively to the question "Have you had on-the-job training in the past year?".
Source: Eurofound (2015), "Sixth European Working Conditions Survey: 2015", European Foundation for the Improvement of Living and Working Conditions.

The recently released OECD Economic Survey of Luxembourg 2017 argues that improvements in the education and training system should focus on lowering the high rate of grade repetition and improving the mobility between various education programmes. Grade repetition is internationally high and concentrated in vocational secondary education, often reflecting language handicaps. Although it is sometimes still regarded as an assurance of quality, the empirical evidence shows that grade repetition is costly and ineffective in raising educational outcomes. More productive strategies focus on providing early, regular and timely support during the school year and limiting repetition to subjects and modules failed.

Vocational education and training should equip young people with technical and professional skills that meet labour needs, but also open opportunities for further learning. Programmes imparting similar generic skills as in more academic upper secondary programmes, better linked to the other parts of the education system, would help closing the skills gap between graduates of academic and vocational tracks.

The world of work is changing fast and in ways that are difficult to anticipate. Flexibility in re-skilling and lifelong learning is likely to become key for successful careers in the future. In Luxembourg, like in many countries, those in employment and with better skills tend to profit most from lifelong learning. To improve participation in lifelong learning, providers should make more use of online and distance learning, along with part-time and modular courses. Individual learning accounts and expanded individual study leave could also enhance access to lifelong learning for low-skilled adults and employees from small firms.

Finally, to make better use of existing skills and to reduce the number of long-term unemployed, the disincentives to work should be reduced further. Inactivity traps are high, especially for part-time workers and low income earners, complicating increases in work effort and transitions from

unemployment to employment. Furthermore, the system of joint taxation of spouses and registered partners discourages work of second earners, who are often women. Recent changes in policy, such as the introduction of optional individual taxation and the reform of the minimum income scheme, go in the right direction and should be complemented by further adjustments to the tax and benefit system, and pension system to reduce disincentives to work for low-skilled youth and older workers.

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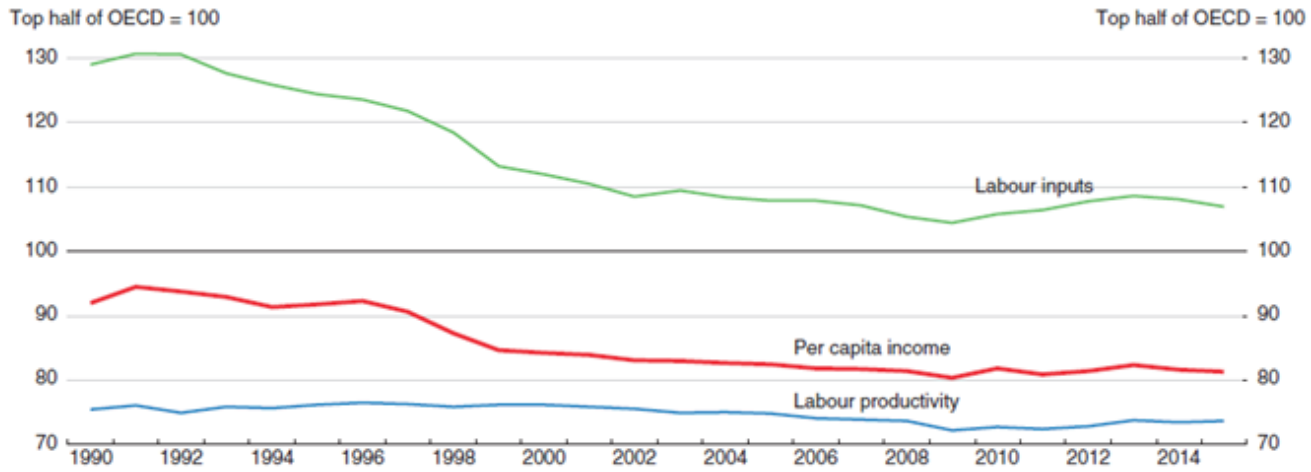
Japan needs policies to boost productivity for inclusive growth

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

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

Japan examines the scope for positive synergy between policies to promote productivity and inclusive growth.

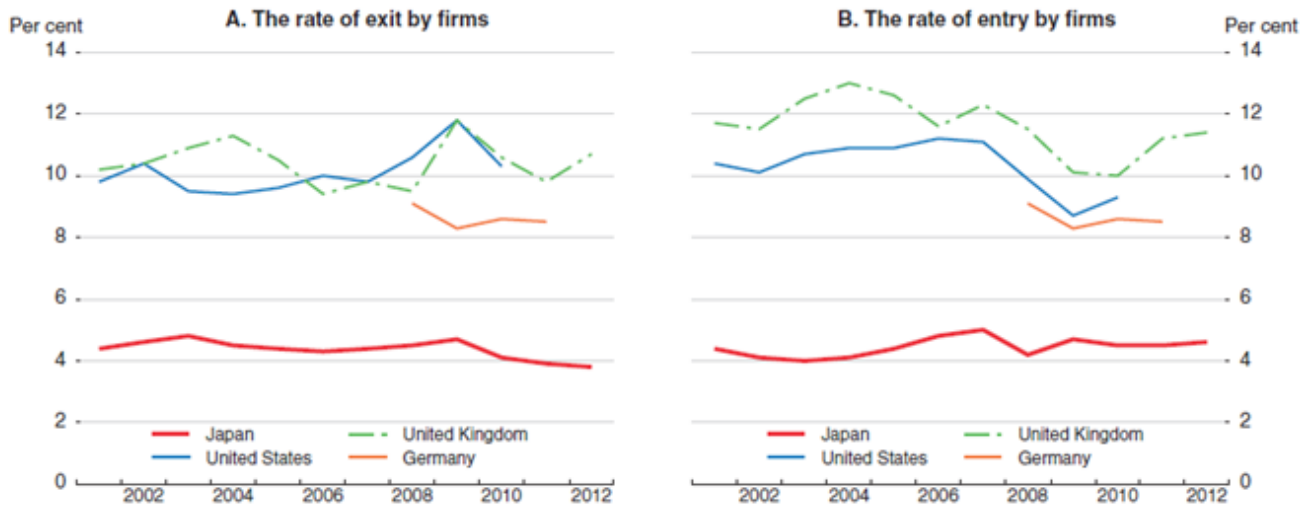
Figure 1. Labour productivity in Japan remains about a quarter below the top half of OECD countries



Source: OECD (2017a).

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

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

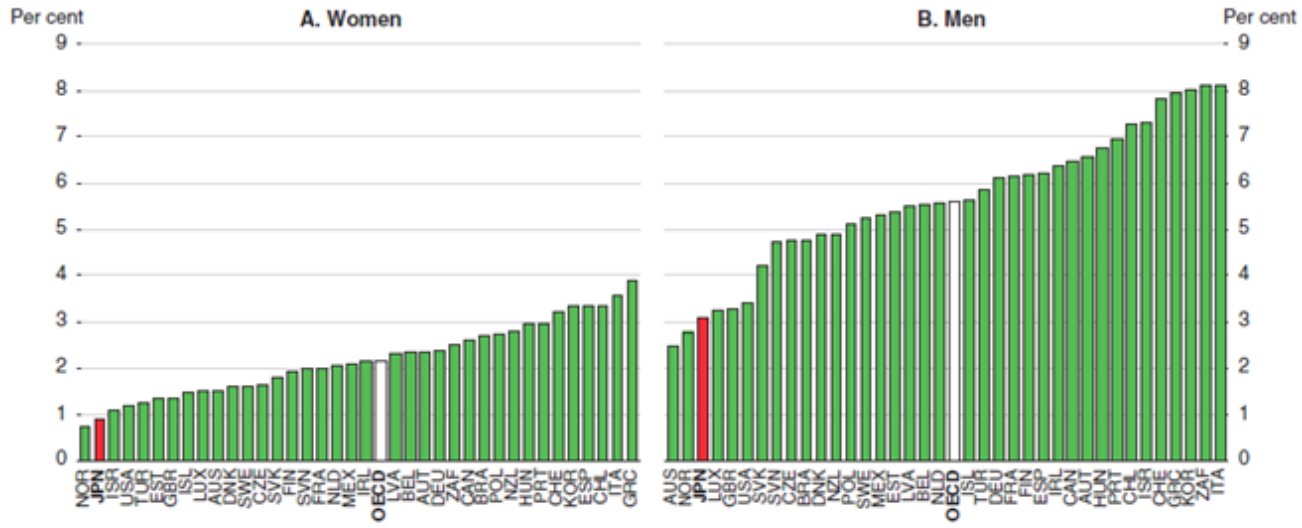


Source: Ministry of Economy, Trade and Industry (2014).

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

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

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



Source: OECD (2016a).

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

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

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

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

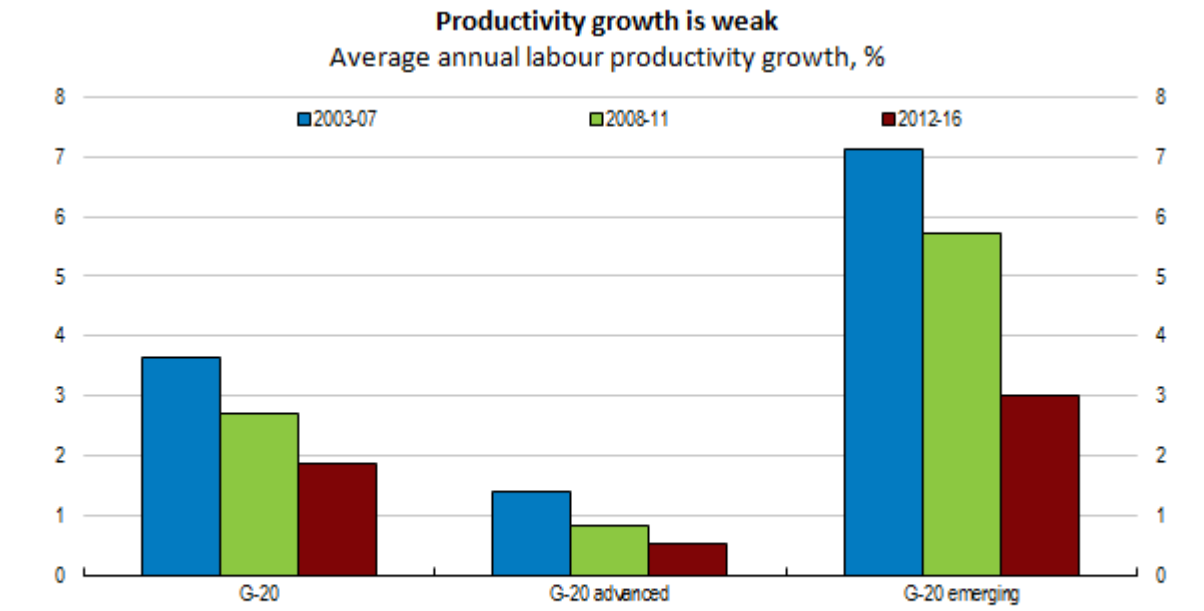
As G20 Finance Ministers and Central Bank Governors meet in Washington, there are signs that the growth prospects for their economies are improving. Recent indicators point to rising business confidence and industrial production in many countries, and fiscal initiatives in major economies are helping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

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

In a push to address these challenges, under the Chinese Presidency in 2016 the G20 agreed to an Enhanced Structural Reform Agenda. This comprised G20 priority areas and guiding principles for structural reform, and a system of quantitative

indicators to track the evolution of policy settings and outcomes. The OECD was tasked to assess progress and has just delivered the first report under the G20's Enhanced Structural Reform Agenda to Ministers and Governors. It provides an overview of collective G20 progress and individual notes assessing progress for each G20 member country since the onset of the crisis.

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



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

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

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

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

The specific structural reform priorities under the G20's Enhanced Structural Reform Agenda differ across countries, but each G20 country can pursue more ambitious policy packages to

boost productivity and inclusiveness together. By identifying the areas where progress is needed, this report helps countries to develop and deliver ambitious Growth Strategies for the Hamburg Summit in July. Doing so would help to ensure a strong recovery and put the global economy on a higher and more inclusive growth path.

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Does growth lead to inequality? It depends.

Category: Inequality,Uncategorized
written by oecdecoscope | July 27, 2017
By Orsetta Causa, Mikkel Hermansen and Nicolas Ruiz, Structural Surveillance Division, OECD Economics Department

Widespread increases in inequality over the past three decades have raised the question of whether growth in itself is a driver of income inequality. Considering that correlation often tells little about causation, this question is less trivial than may appear at first glance. Indeed, the concomitant rise in GDP per capita and income inequality does not, per se, imply any causal relationship from the former to the latter. Research efforts have offered mixed conclusions so far and the growth and inequality question has been at the centre of a long-standing controversy among economists (Dollar et al. 2015). New OECD research by Hermansen et al. (2016)

shows that in order to provide a convincing answer, the question needs to be framed more specifically.

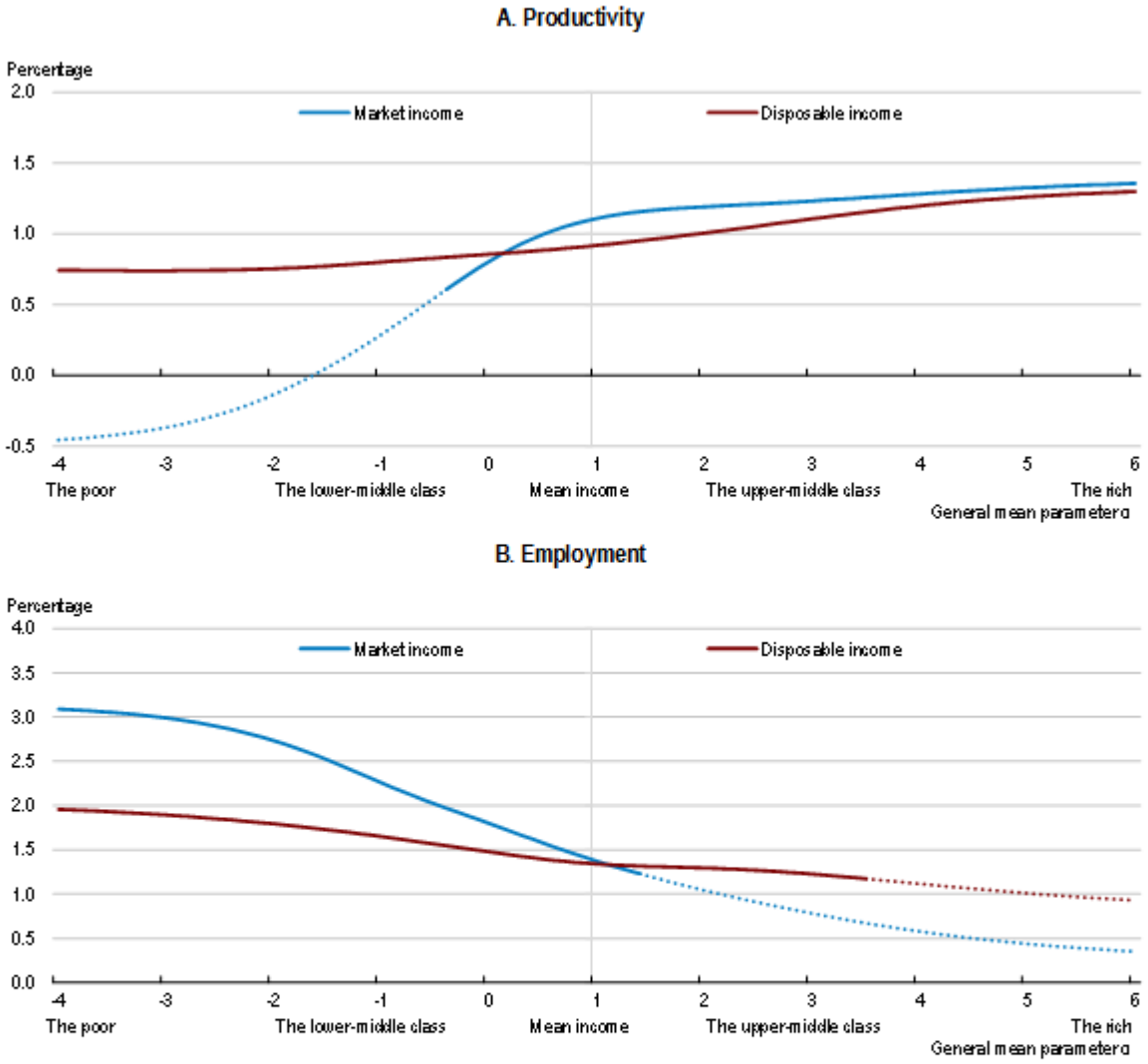
First, the mechanisms that link growth and inequality are likely to differ depending on the *location of inequality*, i.e. at the bottom, in the middle, or at the top of the income distribution (Barro, 2000). Hence, a single inequality measure such as the Gini coefficient may end up capturing relatively unimportant average effects. Second, the mechanisms that link growth and inequality are likely to differ depending on the *sources of growth*, in particular whether growth in GDP per capita is driven by growth in productivity or growth in employment. Third, they are also likely to differ depending on whether one considers income inequality *before or after government redistribution*, that is, inequality in market incomes, i.e. income derived before taxes and transfers, or inequality in disposable income, that is, income after taxes and transfers.

Using a novel empirical framework, Hermansen et al. (2016) shed new light on the old growth and inequality nexus by assessing the impact of growth on household incomes across the distribution, that is, progressively encompassing poor, middle class and rich households. Their conclusion is that that there is no single answer to the growth and inequality question. Labour productivity growth is found to have contributed to rising market income inequality, while this was partly mitigated through government redistribution, on average across OECD countries over the past three decades (Chart 1, Panel A). By contrast, employment growth is found to have had an equalising impact, benefiting mostly and importantly households in the lower part of the income distribution (Chart 1, Panel B). Overall, these two forces have tended to offset each other and resulted in a broadly distribution-neutral impact of GDP per capita growth, on average across OECD countries over the last three decades. So, with reducing inequality remaining a defining challenge of the post-crisis

era, promoting job creation is a key policy goal, in particular where employment rates still fall short of pre-crisis levels. But, perhaps more importantly, in looking for ways to revive productivity growth, governments need comprehensive policy strategies to ensure that the gains are more broadly shared across the population.

Figure 1. The distribution of the growth dividends

Impact on household incomes of a 1% increase in productivity or employment



How to read this figure: A 1% increase in labour productivity is estimated to increase mean household market incomes by around 1%, on average across OECD countries over the last decades (Panel A). For poor and lower-middle class households (captured by a general mean of market incomes emphasising lower incomes relatively more, see Hermansen et al. (2016) for details), an insignificant effect (indicated but the dotted lines) is estimated for market incomes, while the effect is significant and slightly above one for the upper-middle class and rich households. By benefitting only the more affluent households, labour productivity growth is thus found to increase market income inequality. For household disposable incomes, i.e. after taxes and transfers, labour productivity growth also benefits the least affluent households, but relatively less than the more affluent households. By contrast, a 1% increase in employment is found to increase both household market and disposable incomes by 2-3% among lower-middle class and poor households (Panel B), while having no significant effect on the most affluent households. Hence, employment growth is found to reduce income inequality.

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Structural reforms can be inclusive; it all depends on the details

Category: Inequality,Labour markets,Structural reform,Uncategorized
written by oecdecoscope | July 27, 2017
By Orsetta Causa, Mikkel Hermansen and Nicolas Ruiz, Structural Surveillance Division, OECD Economics Department

Structural reforms are regularly assessed based on their ability to boost GDP per capita. This emphasis relies on the assumption that higher GDP per capita is systematically associated with rising living standards for the vast majority of citizens. This view is increasingly being challenged. The worrying evolution of income inequality in many countries suggests that distributional considerations need to be more systematically taken into account in policy making. In a nutshell, what are the policy options for making pro-growth

policies inclusive?

New research by Causa et al. (2016) sheds some light on this question by adopting a more granular approach to the evaluation of pro-growth policies. *First*, the analysis delivers the effect of reforms on household incomes at the bottom, the middle and the top of the distribution. This helps to better understand the distributional implications from pro-growth reforms. In particular, it allows for distinguishing reforms that boost incomes across the whole distribution but relatively more among the rich than among the poor from those that boost incomes in the middle class and among the rich but have no effect or depress incomes among the poor. *Second,* the analysis considers the channels of macroeconomic growth by decomposing the policy effect into growth in employment and growth in labour productivity. This provides a better understanding of the mechanisms through which policies benefit household incomes at different points of the income distribution.

This new research conveys policy relevant messages for the growth and inequality nexus:

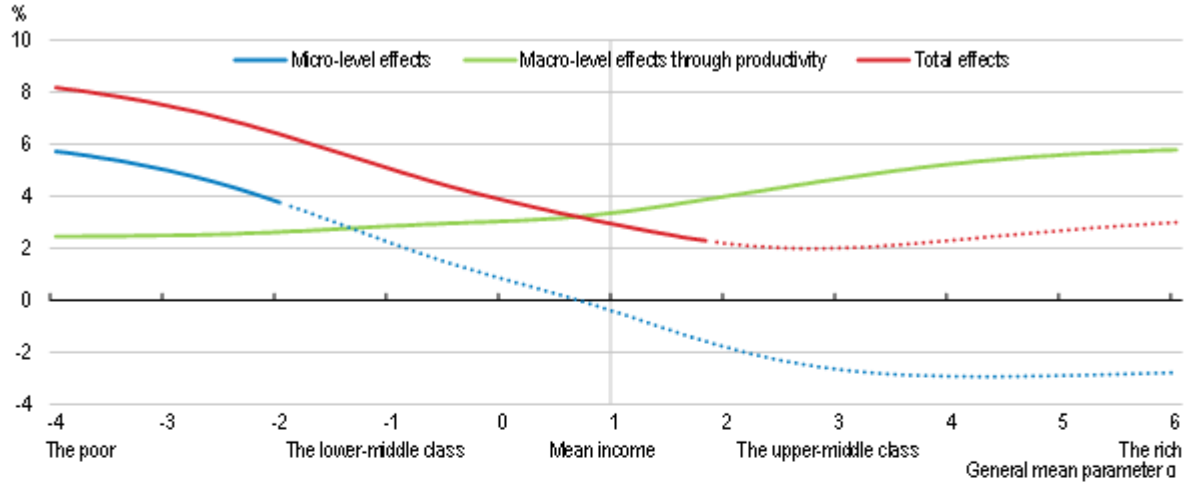
- Most pro-growth policies are good for the middle class inasmuch as they tend to lift all incomes around the middle of the distribution.
- By contrast, a number of pro-growth policies that are good for the middle class can in fact hurt the poorest. This is mostly the case of reforms to social protection and labour market policies. In particular, reductions in the generosity of unemployment benefits and social assistance are found to leave poor households behind even when such reforms generate aggregate employment gains. Policy packages can in this case be designed to mitigate trade-offs between raising work incentives and ensuring income adequacy for vulnerable households, that is, through well-targeted job-search assistance and training programmes with a view to raising employability

and pay prospects among those with low skills and the long-term unemployed.

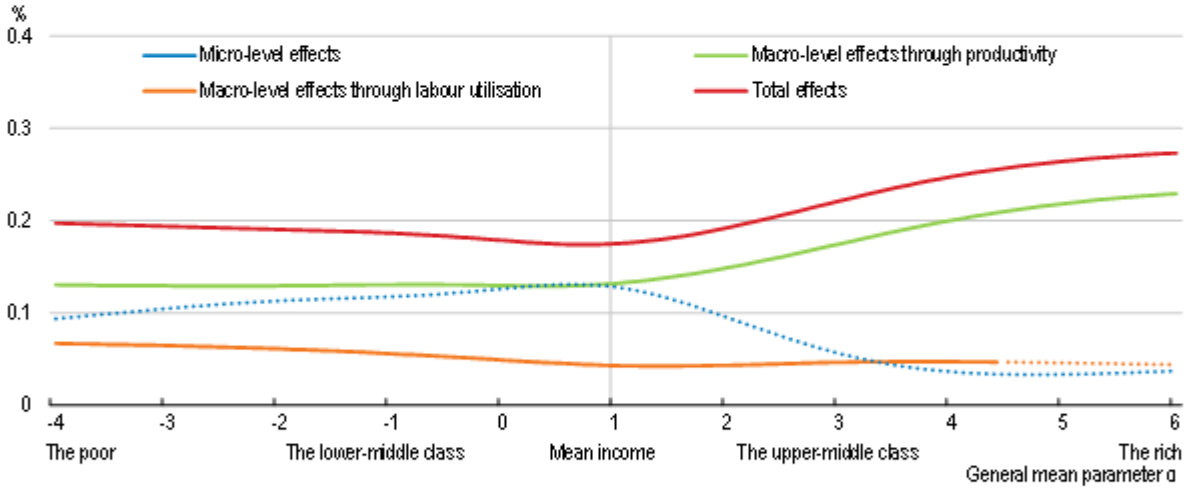
- Other reforms can also have the opposite effects, raising income for everybody but more so for the poor than for the middle class. Such is the case of increasing public spending on education (Chart 1, Panel A), in particular on childcare and early childhood education, as this boosts growth and at the same time enhances women labour market inclusion, resulting in a decline of income inequality.

Figure 1. The distributional impact of structural reforms

A. Effects of an increase in government spending on education on household disposable incomes



B. Effects of a reduction in regulation in network industries on household disposable incomes



How to read this figure: Panel A: An increase in government spending on education (in per cent of GDP) by 1 percentage point is estimated to increase household disposable incomes by 2-8% on average from the poor to the middle class. This total effect can be decomposed along a micro-level effect and macro-level effect through labour productivity. Panel B: A reduction in regulation in network industries (ETCR aggregate, index 0-6) by 1% is estimated to increase household disposable incomes by around 0.2% on average across the distribution. This total effect can be decomposed along macro-level effects through labour productivity and labour utilisation. The micro-level effect is insignificant for all income groups and thus not included in the total effect.

See Causa et al. (2016) for details of the empirical approach and the definition of the effects. Non-significant estimates (at the 10% level) are indicated by dots on general mean curves.

Whether pro-growth reforms act via boosting productivity, employment, or both matters: this shapes their distributional implications by compounding their final effects. For example, spurring productivity by easing barriers to firm entry and competition in product markets produces strong macroeconomic gains which accrue to households at large and are fairly equally shared. Yet this reflects two distributionally-offsetting effects: higher labour productivity, which tends to

benefit the most affluent households disproportionately, and higher employment, which tends to benefit the less affluent households disproportionately (Chart 1, Panel B).

So, making reforms for inclusive growth is about exploiting synergies, and designing policy packages to mitigate trade-offs. It is thus all about details. At the current juncture there is a crucial need for more growth but also to make it more inclusive. This is not out of reach as countries exhibit large room for packaging structural reforms to target both growth and equity objectives.

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Structural reforms for more inclusive growth in Greece

Category: Economic outlook,Greece,Structural reform,Uncategorized
written by oecdecoscope | July 27, 2017
by Christian Daude, Senior Economist, Office of the Chief Economist, OECD Economics Department (former head of the Greek Desk)

The Greek economy is turning around lately, but it remains in a deep depression. GDP has fallen by more than a quarter between 2007 and 2015, unemployment remains extremely high at 25 percent and anchored poverty – which measures poverty relative to its pre-crisis income level – has nearly tripled

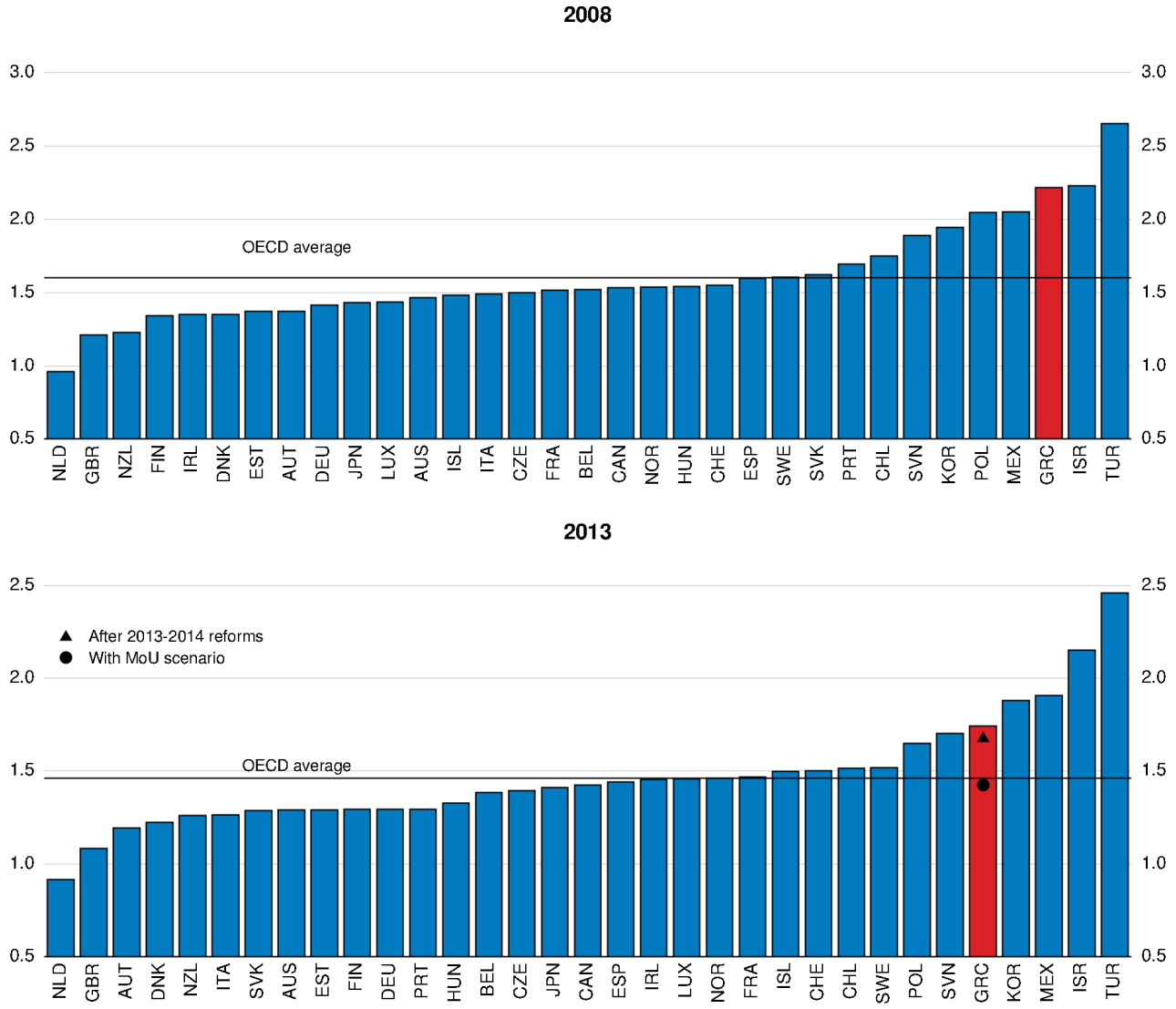
between 2007 and 2014, reaching a third of the population. According to our latest OECD Economic Outlook, growth in 2016 will be slightly negative (-0.2%) and pick up to 1.9% in 2017. Unemployment will remain high and wage growth muted.

If the upcoming negotiations with its European creditors reduce Greece's debt burden, greater confidence and less fiscal headwinds would support investment and a stronger cyclical recovery. However, policy makers in Greece cannot rely only on a cyclical rebound if they want to overcome the profound costs of the crisis and provide better lives for their citizens. OECD estimates show that the prolonged depression has reduced the long-term potential growth of the Greek economy by 2 percentage points. This means that without reforms to raise investment and productivity it would be extremely difficult to achieve pre-crisis living standards in a reasonable timeframe. More importantly, unemployment would remain at very high levels, as long unemployment spells have led to significant scarring effects in the labour market (OECD, 2016).

In a recent paper, we show that Greece has implemented significant labour market reforms, but less progress has been achieved on reducing oligopoly power, on simplifying the regulatory burden and on addressing weaknesses in the public administration, due to administrative capacity constraints, weak ownership of past reform programmes and vested interests. Our estimates show that changing the mix of structural reforms towards raising competition in product markets and improving general framework conditions for doing business, could boost GDP by around 13% over the next decade if implemented fully.

Figure: Product market regulation index

Index scale 0 – 6 (least to most restrictive)



Note: The MoU scenario represents the estimated level of the PMR index under full implementation of product market reforms included in the Memorandum of Understanding of the August 2015 ESM agreement. See Daude (2016) for details.
Source: OECD (2015) Product Market Regulation database and OECD calculations.

Further product market reforms are crucial to increasing productivity and getting investment started again. Although reforms so far have moved Greece close the OECD average in restrictiveness of product markets, there is still significant room for improvement, even if the current memorandum of understanding (MoU) is fully implemented. Regulations in network sectors remain restrictive. In particular, in rail and

road transport, as well as electricity and gas, a combination of public ownership, barriers to entry and a significant vertical integration create relatively high costs that undermine the competitiveness of the rest of the economy.

At the same time, reforms that improve the business climate, the functioning of the judiciary, tax administration and the overall effectiveness of the public administration are needed. The OECD is currently working together with the Greek government on several of the reforms needed. The challenges are significant, but a more balanced reform package and better implementation could not only contribute to a more inclusive recovery but also create stronger public support for reforms and greater ownership to modernise the Greek economy.

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