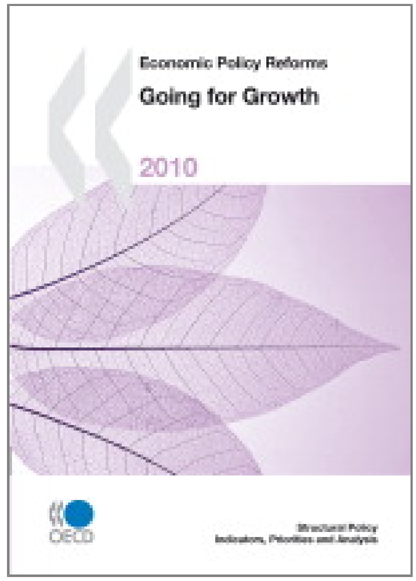
OECD *Multilingual Summaries*

Going for Growth 2010

Summary in English



- The world is currently facing the aftermath of the worst financial crisis since the Great Depression. Going for Growth 2010 examines the structural policy measures that have been taken in response to the crisis, evaluates their possible impact on long-term economic growth, and identifies the most imperative reforms needed to strengthen recovery. In addition, it provides a global assessment of policy reforms implemented in OECD member countries over the past five years to boost employment and labour productivity. Reform areas include education systems, product market regulation, agricultural policies, tax and benefit systems, health care and labour market policies.
- The internationally comparable indicators provided enable countries to assess their economic performance and structural policies in a wide range of areas.
- In addition, this issue contains three analytical chapters covering intergenerational social mobility, prudential regulation and competition in banking, and key policy challenges in Brazil, China, India, Indonesia and South Africa.

The OECD countries experienced a major financial crisis that led to the deepest recession since the Great Depression. Governments and central banks swiftly took unprecedented steps to save the financial system, and a wide range of policy measures were undertaken that overall seem to have set the stage for a gradual recovery.

As the recovery takes hold, the swift actions that were taken in response to the crisis will need to be reassessed as to whether they help support sustainable growth going forward. In last year's report, principles were enounced for policies that could support demand in the short term, while at the same time help to ensure robust long-term growth. The lead chapter ("Responding to the Crisis", Chapter 1) examines in detail the actual policy responses in all OECD countries. Three main conclusions stand out:

- OECD countries have so far avoided the major structural policy mistakes of some past crises, such as imposing severe protectionist measures or highly damaging labour market policies like early retirement schemes. Other measures were taken that will help to contain the long-term damage of the crisis for material living standards and welfare, such as in the areas of R-D, infrastructure, labour taxes and active labour market policies.
- Going forward, significant risks remain, however. With unemployment likely to remain high for some time, governments will face pressures to maintain or introduce labour market measures which, if entrenched, coulddurably reduce labour utilisation. Likewise, depending on the magnitude and composition of adjustment in taxes and spending, the much-needed consolidation of public finances could affect long-term income levels.
- The urgency of structural reform has in general been reinforced by the crisis. This especially holds for the need to revamp financial regulation. Reforms are also needed in other areas, such as labour and product markets, where they could speed up the recovery, help consolidate public finances in a way that protects long-term growth and, in some cases, contribute to reducing current account imbalances.

Against the background of a strong need for reform in the wake of the crisis, the overview of reforms (Chapter 2) assesses the progress that each country has made over the past five years in a broad range of structural policy areas where government action could boost long-term growth. The country notes (Chapter 3) in this year's edition also highlight those priorities that seem most urgent to address during the recovery. Despite the depth and extended nature of the crisis, differences in per capita GDP have not changed much, and can to a large extent be explained by structural policy factors that are the basis on which structural policy priorities are identified in Going for Growth. The main reform patterns that emerge from the stocktaking exercise carried out over the period 2005- 2009 are the following:

- OECD countries have followed up on Going for Growth policy priorities since 2005. Twothirds of them took some legislative action in at least one of their priority areas each year.
- At the same time, reforms have been typically incremental rather than radical in nature, and most have not been ambitious enough to warrant a removal of corresponding Going for Growth priorities. Furthermore, the pace of structural reform seems to have slowed recently.
- There is broad variation among the countries that have been most active in structural reform since 2005 in terms of geography, size and income levels, although a majority are small OECD economies.
- Experience with past reforms reviewed in this chapter confirms that they are easier to undertake where they entail only benefits and little or no short-term cost, and harder to carry out where they may hurt the short-term interests of specific groups, such as incumbent investors, farmers or labour market "insiders".

This issue of Going for Growth also contains special topical chapters on intergenerational social mobility, prudential regulation and competition in banking, as well as an application of the Going for Growth methodology to Brazil, China, India, Indonesia and South Africa.

The chapter on intergenerational social mobility ("A Family Affair", Chapter 5) examines how policy reforms can remove obstacles to social mobility and thereby promote equality of opportunities across individuals. Such reforms can both improve equity and enhance economic growth by facilitating the allocation of human resources to their best use. The following main conclusions emerge from the analysis of recent cross-country patterns in intergenerational social mobility and their links to public policies:

- Parental or socio-economic background influences descendants' educational, earnings and wage outcomes in practically all countries for which evidence is available, but crosscountry differences are wide. Mobility in earnings across pairs of fathers and sons is particularly low in France, Italy, the United Kingdom, and the United States, while mobility is higher in the Nordic countries, Australia and Canada.
- The substantial wage premium associated with growing up in a better-educated family, and the corresponding penalty from growing up in a less-educated family, also vary across European OECD countries. They are particularly large in Southern European countries as well as in the United Kingdom.

- The influence of parental socio-economic status on students' achievement in secondary education is particularly strong in Belgium, France and the United States, while it is weaker in some Nordic countries, as well as in Canada and Korea.
- Inequalities in secondary education are likely to translate into inequalities in tertiary education and subsequent wage inequality.

Education policies, such as promoting early childhood education and social mixity in schools, or avoiding early tracking of students were or are found to play a key role in explaining observed differences in intergenerational social mobility across countries. Redistributive and income support policies are also associated with greater intergenerational social mobility.

The chapter on prudential regulation and competition in banking ("Getting it Right", Chapter 6) explores the existence of possible tradeoffs between stability and competition in the financial sector. The recent financial crisis has illustrated the importance of banking sector stability, while potential gains from competition are well established. In the current proposals and actions to strengthen prudential regulation, attention needs to be paid not only to stability but also to preserving the well-established benefits from financial market competition. The main findings are as follows:

- Relationships between the indicators of prudential regulation and summary measures of competition in banking do not point to prudential regulation as having adverse effects on the strength of competition. There may thus be no general trade-off between financial sector stability and competition objectives.
- Some areas of prudential regulation, most notably the strength of the banking supervisor, even appear to have been associated with greater competition in banking, possibly because strong supervision helps to level the playing field across all competitors.
- Only in a few specific areas, such as entry and ownership restrictions, do measures to strengthen prudential regulation appear to weaken competition.
- The effect of prudential regulations on competition in banking seems to depend on the strength of supervision. For example, it seems that strong supervisors mitigate the anticompetitive effects of stringent entry and ownership regulations.

A final chapter (Chapter 7) applies the OECD's Going for Growth framework to Brazil, China, India, Indonesia, and South Africa – collectively referred to here as the "BIICS" – which are the largest economies in their respective regions. The focus of the chapter is on how to achieve or sustain high growth rates and thereby ensure a catch-up in living standards relative to the OECD area over the long term. The analysis in the Chapter suggests a number of common areas for ongoing reform across the BIICS:

- Rapid improvements in access to education have resulted in secondary school attainment rates that are similar to OECD countries for younger cohorts (though less so for India), which bodes well for sustained productivity growth over the coming decades. In contrast, most aspects of product market regulation are less conducive to competition in the BIICS compared with the upper half of OECD countries.
- The persistence of large informal sectors in most of the BIICS and extremely low labour utilisation in South Africa justifies a multifaceted strategy with emphasis on facilitating formal sector employment. Important policy reforms in this regard include enhancing human capital and labour market flexibility, simplifying the tax system and reducing burdensome product market regulation.
- Property rights and legal institutions could be strengthened in the BIICS, especially in China and Indonesia. There is also considerable room for strengthening the framework for policy enforcement in these two countries as well as in Brazil.
- Financial markets are typically shallower in the BIICS than in the upper half of OECD countries, implying low levels of financial inclusion and a more limited role for financial intermediation. Policies directed at financial deepening, including improved regulation, could boost firm size, capital accumulation and productivity.

The application of the Going for Growth framework to the BIICS is more difficult than for OECD countries since the full range of policy and performance indicators are currently not available across all of these countries. In addition, with their extensive differences vis-à-vis some of the OECD economies, the BIICS's incorporation into Going for Growth increases the heterogeneity of country coverage. Nevertheless, the exercise illustrates the flexibility and robustness of the Going for Growth framework, that will be refined as part of the full integration of new countries into the exercise in subsequent years.

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