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Going for Growth 2018
Between Structural Reforms and Inclusive Growth

Paris, 19th March 2018

In the Interim report[1] on "Going for Growth", released on the 19th of March, the OECD tries to reconcile its traditional policy of structural reforms and 'creative destruction' with an 'inclusive growth" agenda, where the benefits of growth are shared much more broadly.

This, on the one hand, results in interesting observations, not least the fact that the OECD clearly states that "countries with policies and institutions that promote job quality, job quantity and greater inclusiveness perform better than countries where the focus is predominantly on market flexibility". In other words, (labour) market flexibility is not a panacea.

Moreover, the OECD repeats its concern about the absence of broad-based wage gains in the face of falling unemployment rates, thus implicitly suggesting that stronger wage dynamics are necessary to sustain stronger growth beyond the current cyclical upswing.

In some cases, this concern is even included in concrete policy recommendations, in particular in the OECD's recommendations to increase minimum wages in Japan and South Korea, or its welcoming of the commitment made by the Japanese Government to introduce the principle of 'equal pay for equal work' in order to address the abuse of precarious work contracts by employers.

On the other hand, the OECD's "Going for Growth" report is not always able to break free from its more traditional recommendations, thus producing several inconsistencies:

- Inclusiveness is mainly seen by the OECD as 'getting people into jobs', in particular by improving the job-market outcomes of under-represented groups and with job-rich growth helping to reduce inequalities and promote more inclusive societies. This stands in contrast with the previously mentioned concern of the OECD that falling unemployment rates have yet to translate into "significant and broad-based wage gains'. The latter indeed points to the fact that creating more jobs is not enough. We also need to create decent jobs that pay decent wages.

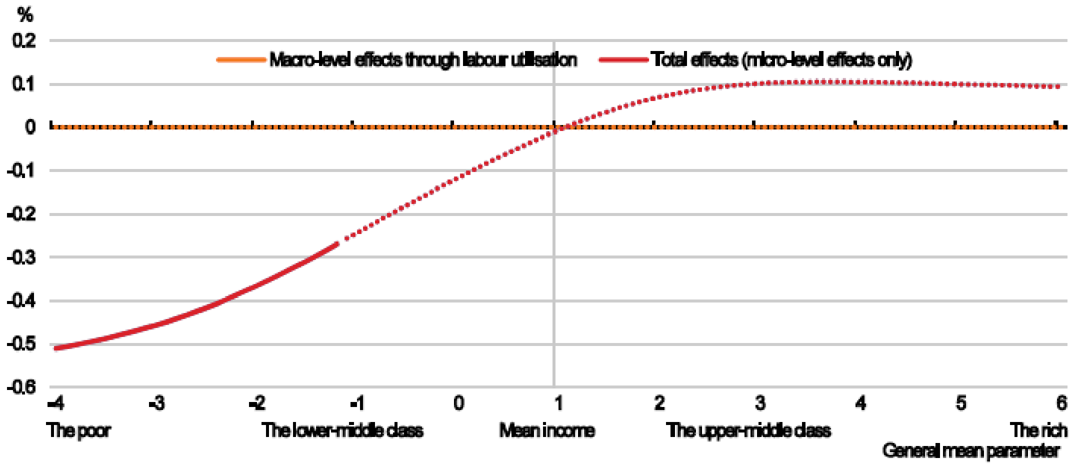
- While stressing the importance of social security systems to provide high coverage of unemployment benefits, "Going for Growth" is at the same time recommending cutting taxes for business. To incentivise business to invest more, employer social contributions on labour and tax rates on corporate profits need to be cut. In this context the OECD report notes that the US will cut its corporate tax rate from 35 to 21%. The OECD misses the point, however, that a race to the bottom on corporate taxes is ongoing and that this race will raise serious challenges for the financing and functioning of social security systems.

[1] http://www.oecd.org/eco/growth/going-for-growth.htm

- Too weak wage dynamics apparently do not make the OECD think again on its usual policy prescriptions to reform wage formation systems. In particular, Portugal, France, Italy and Belgium are recommended to promote agreements at firm level and to reduce automatic extensions of sector-level agreements. If followed, such reforms will deliver weaker wages as well as higher inequalities, which is exactly the opposite of what the OECD wants to achieve.

Finally, the OECD should ensure that *all* of its research findings are reflected in its policy recommendations. For example, past research by the OECD has highlighted that the factors that matter for wage bargaining are coordination of wage bargaining and trade union density. The graph below illustrates that trade unions are particularly important for supporting the wages of poor and lower middle class households, and this without impacting labour utilisation, that is to say without destroying jobs.

Figure 10. Effects of a reduction in union density on household disposable incomes



Note: How to read this figure: A reduction in union density by 1 percentage point is estimated to decrease household disposable incomes by 0.3-0.5% on average among the lower middle-class and the poor. This total effect comprises only the micro-level effect since the macro-level effect on labour utilisation is insignificant and thus set to zero. See Box 2 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.

Source: Causa,Hermansen and Ruiz, "The distributional impact of structural reforms" ECO paper 1342 (2016)