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TUAC comments on the OECD Economic Outlook

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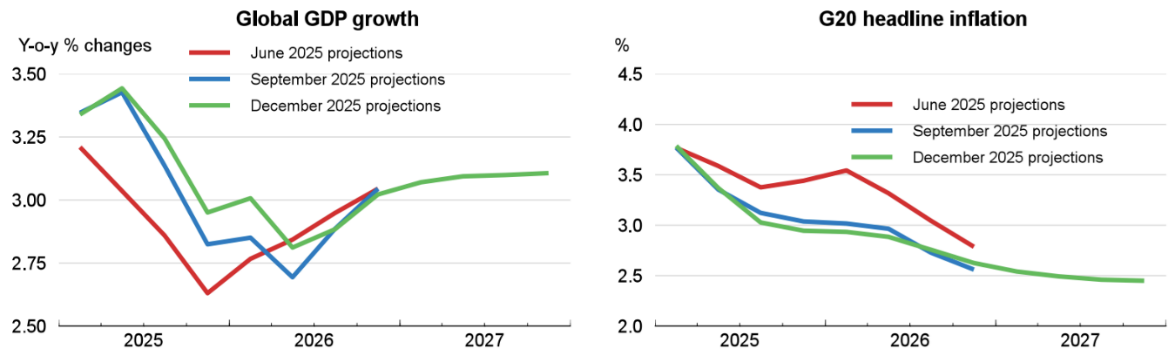
The OECD's projections and policy recommendations

The latest OECD Economic Outlook, titled "*Resilient Growth but with Increasing Fragilities",* presents a slightly brighter than previously expected macroeconomic picture. Reduced geopolitical uncertainty following recent trade agreements, the front-loading of trade ahead of announced tariffs increases, improved financial conditions and rising AI-related investment have all helped cushion the recent headwinds from elevated policy uncertainty and rising trade barriers. However, the Economic Outlook warns that the risks for financial stability are increasing, driven by stretched AI-related asset valuations and high price volatility of crypto-assets, which could easily trigger forced asset sales and repricing in financial markets, and in turn, imposing danger to growth prospects.

Though the OECD has revised its projections for global growth in 2025 slightly upward compared to the September and June editions of the Outlook, GDP growth is projected to slow in 2026, as front-loading activity unwinds and the impacts of higher trade tariffs spread further throughout the economy. However, GDP growth is expected to pick up modestly in 2027, as shown in the left-hand graph below. According to the OECD's latest forecast, the global economy is expected to grow by 3.2 percent in 2025, by 2.9 percent in 2026 and 3.1 percent in 2027 – well below the 3.3 percent recorded in 2024 and the 2013-2019 average of 3.4 percent. The slowdown from the 2024 levels is especially pronounced in the United States, Brazil and Russia, and has already started to translate into labour market weakening, with rising unemployment rates and declining job openings in several major OECD economies.

Driven largely by the slowdown in economic activity and weaker labour markets, the OECD projects that annual consumer price inflation in the G20 countries will continue to decline, reaching 2.9 percent in 2026 and 2.5 percent in 2027, from 3.4 percent in 2025 (see right-hand graph below). Although there is considerable variation across countries, the Economic Outlook projects inflation to be back to central bank targets in almost all major economies by mid-2027. The OECD has revised its inflation forecast downward for many countries, particularly for the Euro area. Inflation levels in some of these countries have reached central bank targets of 2 percent already this year, while other are on track to meet them by 2026.

Figure 1 – Global growth is projected to weaken before recovering gradually



Source: OECD Economic Outlook December 2025 page 29

To address the macroeconomic challenges, the Economic Outlook reiterates several of the OECD's traditional economic policy recommendations. A lasting decline in policy uncertainty and trade tensions by strengthened trade cooperation, "vigilant" monetary policy, "fiscal discipline" to ensure sustainability of public debt and "ambitious" supply-sided structural reforms continue to anchor its policy discourse, arguably with even greater emphasis than before.

In light of the emerging financial stability risks, enhanced monitoring and supervision of banks and non-bank financial intermediaries (NBFIs), with robust regulatory policies for NBFIs and crypto assets, has been added to the list of priority recommendations.

Special attention in this Economic Outlook is given to deregulatory policy recommendations, where simplification measures are framed as a vital means for improving the incentives and ability for businesses to innovate and grow and the capacity for workers to move to the parts of the economy where their skills are better needed. The OECD argues that better resource reallocation can increase the adaptability to future shocks.

Summary of TUAC's assessment

Although macroeconomic conditions have evolved, the OECD's economic policy priorities remain largely unchanged. While TUAC recognises the value of certain policy recommendations in the Economic Outlook - such as stronger regulation in financial markets to safeguard stability risks, increased taxation of the recurrent returns to residential property and capital gains on housing assets to expand housing supply and affordability and reduce inequality, reforms of post-employment restraint clauses to ensure that they do not hurt outcomes for workers and overall labour market mobility, as well as strengthened international cooperation in the regulation of AI to avoid fragmentation and loopholes - the overall thrust of the report, calling for tighter public expenditure and simplifying regulation to support business dynamism, remains a matter of concern, particularly due to their negative implications on well-being and equality. TUAC urges the OECD and policymakers to implement policies to accelerate economic recovery, boost quality job creation and reduce inequality, including by more progressive tax policies, well-targeted public investment and continued monetary easing.

Deregulation and labour market flexibilisation is not the right answer

While it is encouraging that the Outlook raises the importance of stronger regulation by effective monitoring and supervision of banks and less regulated non-bank financial intermediaries (NBFIs) and crypto-assets on the one hand, it is deeply concerning that a strong push for a deregulatory agenda is rolled out for other policy domains on the other.

First of all, it is worth bearing in mind that not all regulation is about economic performance and productivity, but has often other objectives, including societal and environmental objectives, which may legitimately diverge from the economic objectives.

Nevertheless, TUAC firmly opposes the Economic Outlook's notion that deregulation will unlock economic growth and sees clear risks of over-simplifying the links between specific regulation segments and growth aspects. Among advocates of deregulation measures, it has become increasingly common to attribute the gap in AI-related investment between the US and Europe to generally stronger employment protection legislation (EPL) in European countries. However, current patterns of AI investment are largely shaped by competition between the US and China, and are driven by a range of structural factors beyond labour market regulation, including profound capital and venture capital markets and high long-term public investment in strategic sectors. Moreover, numerous countries with either weak or strong EPL exhibit similarly limited levels of AI investment. This wider global pattern undermines the claim that labour market flexibilisation is a driver of technological innovation and productivity. Consequently, TUAC disputes the assumption that reducing EPL will generate gains in innovative capacity.

Poorly designed deregulation measures, in particular reforms aiming to make labour markets more "flexible", could reinforce already record high inequality, which in turn would hurt growth prospects (Stiglitz et al. 2025), as past experiences have shown that reduced employment protection increase unemployment levels and suppress wages. Previous work by the OECD shows that weaker worker protections reduces the bargaining position of lower-skilled workers and the disposable income of poor and lower-middle class households, exacerbating inequality (Causa et al. 2016). TUAC is concerned that despite these findings, the OECD's latest Economic Outlook implies a labour market flexibilisation path.

TUAC believes that the factors truly constraining economic growth and innovation lie not in labour market legislation but elsewhere. It is our firm opinion that flat aggregate demand is the result of weak private consumption on one side, while excessive hurdle rates, short-term business strategies geared towards dividend payouts and share buybacks have weighed down investment on the other (Dlugosch et al. 2025). Deregulatory measures could exacerbate market concentration in large industries, strengthening existing goods and services oligopolies and labour market monopsonies, dragging down innovation, employment and economic growth.

TUAC therefore urges the OECD and governments to address broader labour market issues, including the decoupling of productivity and wages and widespread monopsony power, which would increase productivity and inclusion more broadly while stimulating employment-rich and sustainable economic growth. In addition, policies that enhance opportunities for disadvantaged groups through skills development, including by active labour market policy programmes (ALMPs) can improve labour market outcomes and the bargaining power of unemployed workers, while facilitating positive structural transformation and strengthening productivity (TUAC 2025).

Discretionary fiscal policy can accelerate recovery and reduce long-term debt ratios

The Economic Outlook emphasises "fiscal discipline" as a means to ensure long-term debt sustainability. However, fiscal policy plays a central role in stimulating demand and supporting job creation, thereby accelerating economic recovery and, in turn, reducing debt-to-GDP ratios. It is therefore surprising that the recent OECD research showing that stronger growth a better driver of declining debt ratios than fiscal consolidation (Pina et al. 2025), is not reflected in the Outlook's recommendations in this field. In addition, the OECD's finding that corporate income taxes have previously made the largest contribution to the improvements in revenues in government budget balances is similarly not reflected in the report's tax policy considerations. Instead, the Outlook places excessive emphasis on VAT-based taxation, which is among the most regressive mechanisms for generating government revenues, with disproportionate effects on middle- and low-income households.

Encouragingly, the Economic Outlook notes that taxation of housing and capital more broadly can reduce distortions in economic activity while helping to address income and wealth inequality. In particular, the OECD underscores the importance of effectively taxing recurrent returns to residential property as well as capital gains on housing assets - measures that can complement broader efforts to increase housing supply and improve affordability. This reasoning aligns well with recommendations that the trade union movement long has been putting forward in the economic policy debate (see for example a L7 Statement to Finance Ministers and Central Bank Governors published earlier this year).

While progressive taxation strengthens fiscal space and reduces inequity, it must be paired with strong public investment to convert those resources into growth and quality job creation. In recent years, high interest rates and concerns about fuelling inflation constrained governments' ability to implement large fiscal stimulus packages. With inflation now close to - or even below - central bank targets, the scope for measures to strengthen household purchasing power has expanded considerably. TUAC therefore urges governments to seize this window of opportunity with well-targeted public investment - particularly in education, health, social policy, active labour market policy programmes and green infrastructure, as such measures would not only stimulate demand and accelerate recovery, but also lay the foundation for more inclusive and sustainable economies by improving resilience against climate risks and geopolitical shocks.

Clear risk of undershooting price stability targets

It is encouraging that the Outlook endorses continued interest rate cuts - at least in "in economies in which underlying inflation is projected to moderate or remain subdued". Inflation has been below 2 percent in countries such as France, Italy, Switzerland and Finland for quite some time. However, it is striking that the report makes no reference to the risks of undershooting inflation targets and constraining growth unnecessarily. With the disinflation process well underway, monetary policy still in contractionary territory and the lag effect of monetary easing in terms of actually translating into cheaper credit due to structural conditions (Lane 2025), there is a clear risk that current interest rates may prove too high for too long. Recent signals that the current rate-cutting cycle may soon end - or has already ended - are therefore deeply concerning. With price pressures largely under control, the policy priority should shift toward the growing risks of weak economic growth and labour markets - risks that could be mitigated through continued monetary easing.