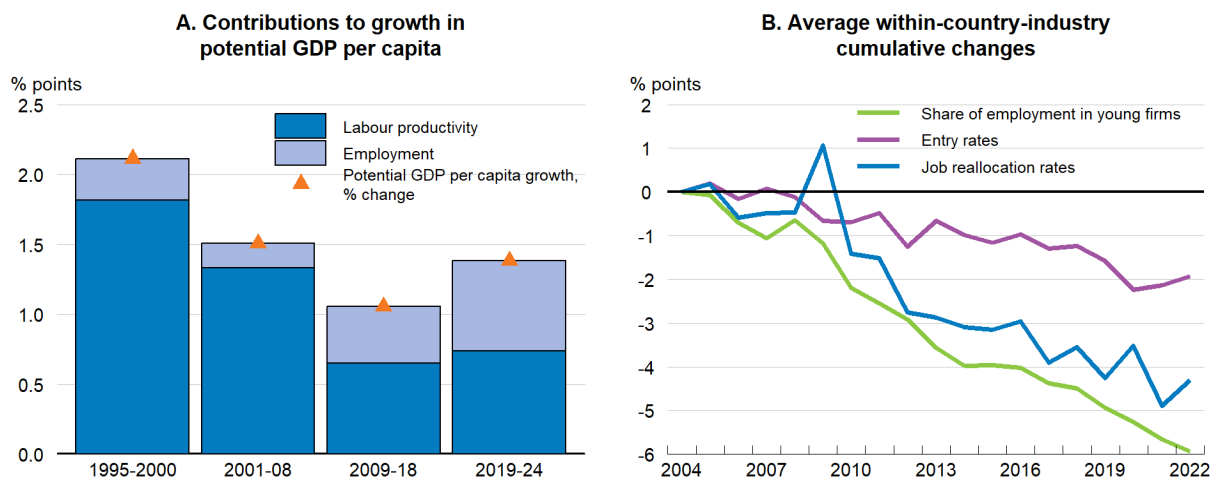


New OECD *Foundations for Growth and Competitiveness* neglects inequality and demand

Paris, 16 April 2026

The OECD has just launched its latest flagship report – *Foundations for Growth and Competitiveness 2026*. The publication replaces the long-standing *Going for Growth series (2007–2023)* and aims to tackle the fundamental causes behind the decades-long slowdown in productivity in OECD countries (Figure 1). Like *Going for Growth*, it looks for key structural reforms to boost economic growth in thirty-eight OECD and ten non-OECD economies.

Figure 1 – Weak labour productivity and declining business dynamism underpinned the decline in potential output in the OECD



Source: OECD (2026), *Foundations for Growth and Competitiveness*.

The key difference between *Going for Growth (G4G)* and the new *Foundations for Growth and Competitiveness (F4GC)* lies in its rejection of any reference to distributional and inequality issues, which were first introduced in the framework of G4G back in 2017 and retained until its latest iteration in 2023, building on the growing evidence that inequality significantly affects the sustainability and inclusiveness of economic growth. Both publications rely on a two-step ‘quantitative’ and ‘qualitative’ assessment to identify the most urgent supply-side structural reforms in the countries included in the report, through looking at both policy

indicators and related economic outcomes (see the Annex for a direct comparison between the two methodologies, with the conspicuous difference being the withdrawal of the concept of “inclusiveness”).

In light of this, F4GC represents a significant backwards step in delivering the OECD’s pledge to ‘promote sustainable and inclusive economic growth’, which was adopted by consensus by all OECD governments as recently as 2021 in the [Organisation’s vision for the next decade](#).

Growth and competitiveness for whom? The intentional removal of inequality from F4GC

F4GC pays some limited attention to the concept of social mobility, acknowledging that ‘growth is stronger in merit-based environments where individuals have both the incentive and the means to develop their talents and make the most of economic opportunities’. Yet it conflates ideas of social mobility (such as improved access to education) with concepts of market mobility (such as reducing employment protection to incentivise labour mobility).

Furthermore, the publication ignores entirely the role that inequality plays not merely in defining the distribution of economic growth between workers and firms, but also the strength and resilience of economic growth over time. The vast literature on inequality and growth that emerged after the Global Financial Crisis (GFC) of 2008 was in this sense a late recognition that ignoring distributional aspects of economic policy and market reforms yields subdued economic growth and can trigger the kind of financial exuberance that leads to systemic economic crises, with long-run negative consequences for employment, income and productivity (the so-called [hysteresis effect](#)).

Since 2008, the OECD has produced a number of flagship publications showing how inequality has risen in OECD countries [since the 1980s](#), together with the proliferation of low-quality, non-standard forms of employment; that this trend accelerated [after the GFC](#); and that the rise of income inequality in a subset of OECD countries with available data [knocked 4.7% off cumulative growth](#) between 1990 and 2010.

It is this kind of evidence that prompted the OECD in 2017 to [include inequality in the framework of G4G](#), against the backdrop of ‘empirical evidence clearly signalling that higher growth is not systematically associated with rising living standards for the vast majority of citizens’, and that ‘rising inequality has played out against a global slowdown in productivity growth which, at least in many advanced economies, predates the crisis.’

Ten years later, F4GC makes a 180° turn by stating that ‘nevertheless, most indicators of well-being, such as income levels, health outcomes, and living standards, are highly correlated

with GDP per capita, making it a valuable proxy in the absence of equally comprehensive cross-country data’, and that ‘policy priorities and outcomes beyond economic growth, such as the ones just mentioned, are extensively covered in a range of other OECD publications’ – as if the simple fact of having covered the issue before makes the problem any less relevant.

Inequality is a structural drag on economic growth, as shown in TUAC’s 2025 policy note [Growth for Whom?](#). The OECD’s decision to ignore these factors is even more untimely given the recent (November 2025) report by the [G20 Extraordinary Committee of Independent Experts on Global Inequality](#), which found inequality to be ‘one of the most urgent concerns in the world today, generating many other problems in economies, societies, politics and the environment’, with 83% of the world’s countries, accounting for 90% of the global population, having high income inequality, while ‘the richest 1% captured 41% of all new wealth, in contrast to just 1% being captured by the bottom half of humanity’, between 2000 and 2024.

F4GC offers a number of structural policy recommendations for shaping incentives for businesses and individuals that have a substantive impact on distribution, but such impact is ignored under the present framework. Some non-exhaustive examples include:

OECD recommendation	Ignored distributional implications
<p>Reduce the tax wedge on labour in order to lower labour costs and boost employment.</p>	<p>The tax wedge includes both labour income taxation and social security contributions (unemployment benefits, health, pension rights). Unless carefully specified, cutting the tax wedge means de facto cutting deferred transfers to workers, either in the form of unemployment and other social benefits, or pension payouts after retirement, at a time of already tight fiscal expenditure. Furthermore, tax cuts do not automatically translate into higher net wages for workers: depending on the bargaining balance between parties, employers can pocket some or all of the tax reduction, reducing their costs without necessarily raising wages or employment levels.</p>
<p>Reduce employment protection to boost employment and productivity.</p>	<p>F4GC presents new evidence that reducing employment protection incentivises employers to hire more, increasing overall employment in the short and long run. It should be noted, however, that existing evidence on the impact of contract rigidity on employment and unemployment is highly inconclusive, and there is more consensus on the fact that lower employment protection raises job-to-job mobility, but not necessarily</p>

	<p>employment levels. Furthermore, there are important differences in outcomes according to the category of workers affected, with more vulnerable groups such as elderly workers experiencing higher levels of unemployment, longer out-of-job periods, and lower-pay re-employment opportunities as a result of lower employment protection.</p> <p>Finally, there is also evidence that even where lower employment protection boosts labour productivity, the gains are not equally shared between employers and workers, reflecting the latter's weakened bargaining power in the face of more precarious contracts.</p>
<p>Broaden the tax base by widening the consumption tax base.</p>	<p>Consumption taxes such as VAT are highly regressive, as they affect low- and high-income individuals and households equally. Shifting the burden from personal and corporate income taxation to consumption taxation decreases the overall progressivity of the tax system.</p>
<p>Reduce effective corporate tax rates to support investment, and reduce wealth taxation.</p>	<p>Corporate tax rates have been cut significantly in recent decades and today stand well below labour income tax levels in all OECD countries. Furthermore, recent OECD evidence points to the fact that 'tax sensitivity of business investment has fallen significantly since the global financial crisis', warranting a nuanced and granular approach to tax policy. On the contrary, F4GC applies a maximalist approach, suggesting for example that France could boost productivity growth by 0.7% – if only it would cut statutory tax rates by 10 pp, which would mean bringing them down from the current 25% rate to 15%, the bare minimum under the BEPS agreement, and well below the 50% rate they stood at in 1981.</p>

These examples show how ignoring the distributional impact of structural reforms can deliver poor outcomes, either because unleashing growth does not translate into higher income for workers (undermining the starting assumption that GDP per capita is an adequate proxy for general well-being), or because it leads altogether to negative effects such as higher unemployment and income inequality.

Beyond inequality, the fundamental flaw in F4GC lies in the assumption that production drives demand and not the other way round

Not all policy recommendations contained in F4GC are negative, of course. Almost 20% of total policy recommendations selected by the publication are in the area of education, skills and human capital. Measures include strengthening access to education at all levels for low-income households, providing targeted support to low-achieving schools, expanding VET systems and lifelong learning, and improving teaching quality.

Improved active labour market policies, extended parental leave, better and more affordable childcare support, as well as tax policy reforms to incentivise second-earners' willingness to work are positive instruments for broadening labour market participation and boosting both employment levels and inclusiveness.

Other important measures in the publication include higher investment in physical infrastructure – such as roads, ports, airports, water and sewer systems, and energy networks – but also in social housing to improve housing affordability. Finally, the report's recommendations in favour of industrial policies and higher investment in R&D, together with adequate support for both basic and applied research, are welcome – albeit with too strong a focus on grants and tax support for private firms, and not enough on direct public innovation.

However, what is missing in the fabric of the F4GC methodology is the notion that weak demand, on the back of weak public investment and feeble household income levels, is the cause of stagnating growth in the global economy, rather than a compilation of microeconomic market failures that depress production and innovation.

The assumption that low productivity is due to supply-side constraints only, such as lack of human capital, ignores the fact that demand is a fundamental driver in investment decisions that enhance productivity, both at firm and aggregate level. Ignoring the role of demand means ignoring half of the growth formula: in the words of [Steven Fazzari](#), 'in a market economy, profit-seeking firms hire workers and produce because they expect to sell output, an expectation grounded in actual demand. Of course, demand growth is not sufficient to generate expansion. Growth also requires the resources and technology to produce more output. In a very general sense, therefore, growth depends on the dynamics of both demand and supply.' Prominent economists, from [Paul Krugman](#) to [Mario Draghi](#), have confirmed that inadequate demand – whether caused by austerity policies or inadequate wage levels – is a major drag on growth, if not the main one.

[Recent growth models](#) try to encompass aspects of both demand and supply to better account for the sources of aggregate growth. They show that current and expected demand

are key drivers of R&D investment at firm level and of economic growth at aggregate level. By embedding the role of profitability and not just productivity in firm-level simulations, such models better fit empirical data on firms' innovation choices – particularly for young and more dynamic firms – but also survival rates of older and larger firms, affecting business demographics and aggregate growth. Consumption, of course, is a function of available income, and this is where the discussion on inequality and distribution between profits and wages as elements that influence the strength of growth comes into the picture.

The lack of any such acknowledgement is something that F4GC shares with the previous G4G series, along with the idea that behind faltering GDP rates lies a [slowdown in so-called “creative destruction”](#) – the notion that market competition drives innovation, and that firms should be left alone to compete, fall and be replaced by more innovative ones, in a constant process of renewal.

According to this theory, the best policies are those that reallocate productive factors – capital and labour – as quickly as possible from less to more productive firms, without considering the implications for income and wealth distribution, or that the allocation of productive factors is not just a matter of market efficiency but of power, with winner-take-all dynamics where incumbents acquire small innovators, where large private interests influence democratic processes and thereby undermine democracy, and where [monopsony power](#) dictates and shapes employment and wage levels beyond the skills that workers bring to the job market.

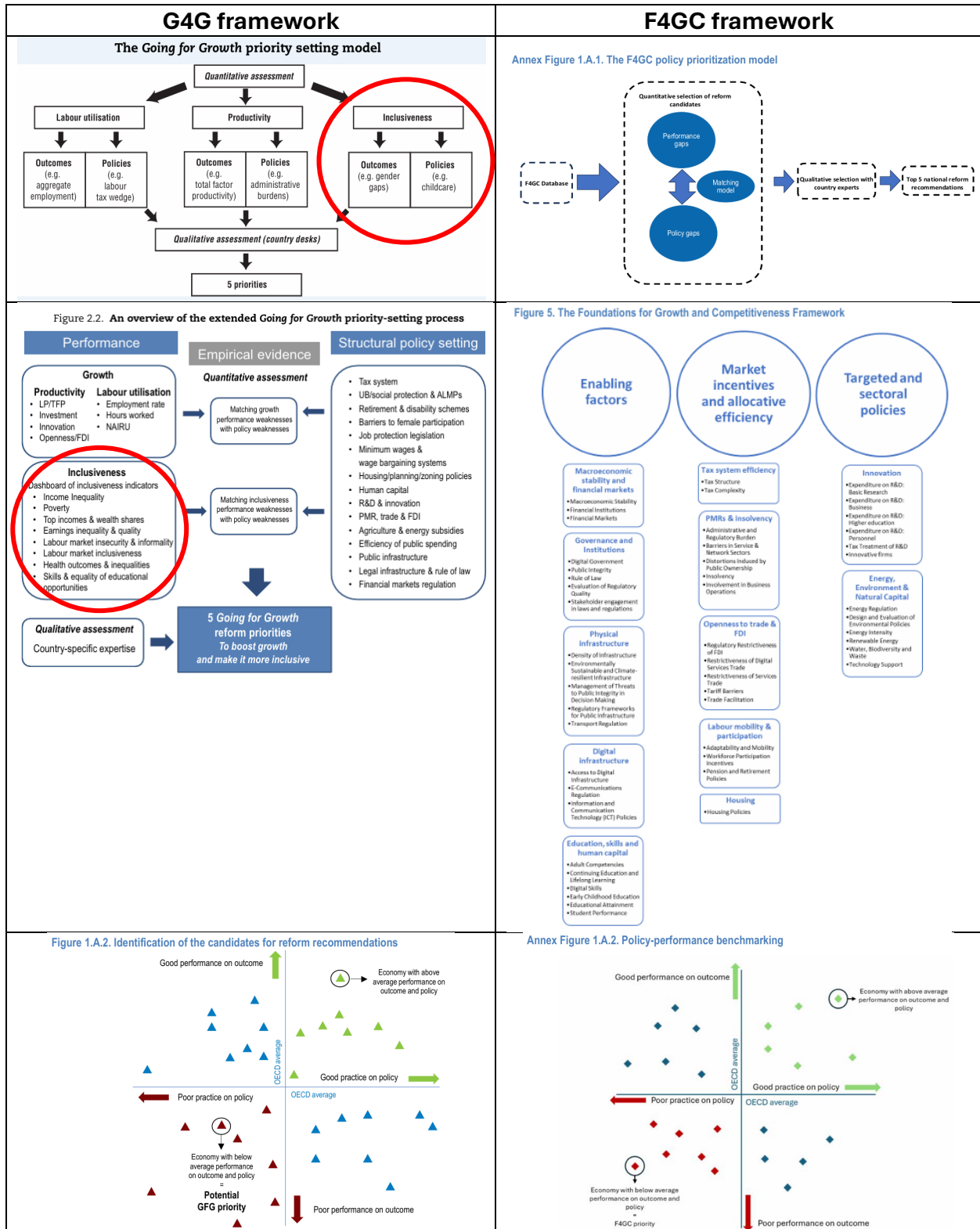
Unleashing such creative destruction without regard for the distributional factors described risks exacerbating wealth and income inequalities to breaking point. Headline GDP growth would do little to actually improve the lives of millions; growth itself would remain disappointingly low; and what growth there is would be increasingly driven by debt accumulation – public and, even more so, private – raising the risks of yet another economic crisis and further secular stagnation.

Conclusion

In this context, the OECD's latest framework for assessing impediments to growth and providing policy solutions risks narrowing the policy debate at a time when economies face the deeply intertwined challenges of weak productivity, fragile demand, and rising inequality. Policies that strengthen collective bargaining, raise wages, and ensure adequate social protection are not obstacles to growth, but essential conditions for sustaining demand, fostering investment, and supporting productivity-enhancing innovation. Ignoring these dimensions ultimately undermines the very objective the report seeks to achieve: stronger and more resilient long-term growth.

A more credible and forward-looking approach would complement structural reforms with a robust macroeconomic and institutional framework that recognises the central role of demand, public investment, and equitable income distribution. This would require moving beyond a narrow supply-side paradigm towards a growth model that aligns productivity gains with rising living standards, and competitiveness with social cohesion. Without such a shift, the risk is that policy recommendations will continue to deliver suboptimal outcomes, reinforcing the very dynamics of stagnation and inequality that have characterised much of the last few decades.

Annex – Comparing the G4G and F4GC methodological frameworks, the biggest difference is the removal of the “inclusiveness” dimension from F4GC



Source: OECD Going for Growth 2017; 2023; and Foundations for Growth and Competitiveness 2026.