

20100310 OECD: Action on jobs, competition and taxes must replace crisis management, says OECD report

Source: OECD

10 March 2010

Strengthening our economies for the future in key areas such as jobs, competition and taxation must now replace crisis management, says the OECD's latest Going for Growth report.

Governments have already started removing some of the emergency measures brought in to save the global economy from collapse.

They must now ensure that the policies which remain – and new action in the months ahead – boost growth and living standards for the long-term.

Going for Growth finds that prudential banking regulation can be toughened without undermining competition. Strong supervision even appears to reduce the cost of credit for firms and households, as it helps to level the playing field. This is yet another reason why governments should resist allowing current financial sector reform proposals to be watered down.

The report says unemployment will persist at higher levels than before the crisis while investments will be riskier as the cost of capital rises. The recession has eroded the potential output of OECD economies over the medium term. The report estimates a permanent GDP loss of 3 percent on average across these countries.

"The global recession has left deep scars," said OECD Secretary-General Angel Gurría. "The only way to begin healing them is by taking effective action now to help our economies recover their lost potential."

For each OECD country the report identifies five priority areas for reform in order to maintain decent standards of living and strengthen economic activity. Common to many is the need for urgent action on jobs, competition and taxes. In the current economic climate, the benefits could not only boost long-term living standards and speed up the jobs recovery but also help strengthen public finances.

One of the biggest risks is that people with weaker ties to the labour market such as older workers, youths, those on low incomes or single mothers, will stop looking for jobs. Governments need to boost spending on training and job-search at this critical time. But they also need to provide the right incentives to the unemployed. This means resisting pressure to relax eligibility criteria for social transfers, the report says.

Short-time work schemes avoided unnecessary layoffs during the recession in a number of European countries. However, if left in place too long, they tend to protect unviable jobs and discourage new, more productive jobs from being created. Credible time limits should be put on such schemes, the report suggests.

Action to enhance competition should not wait for a stronger recovery. Reducing obstacles to entering new markets, for instance in retail trade and liberal professions, would stimulate the creation of new businesses and boost jobs. This would also deliver incentives to improve efficiency, including through the weeding out of underperforming firms. The report welcomes the phasing out of support to car manufacturers through "cash for clunkers" schemes across OECD countries.

Some of the tax measures taken in response to the crisis could prove beneficial to long-term growth and should be left intact, says the report. For instance, tax credits and direct grants for R&D can help counter a slump in innovation and, if well focussed, can promote green initiatives. However, because the crisis has wreaked havoc with public finances, some taxes which were cut will need to be raised.

The report recommends in general shifting the composition of taxes away from income and toward

consumption and land. For instance, to strengthen growth, the US could introduce a form of value-added tax, potentially making up for the loss of tax revenue as a result of extending previous income tax cuts to the majority of taxpayers.

Going for Growth also identifies for the first time priority reforms needed to sustain strong growth in Brazil, China, India, Indonesia and South Africa, the five countries with which the OECD has developed a policy of "enhanced engagement". Beyond strengthening social welfare and education systems, the report recommends relaxing highly stringent regulations in product markets, strengthening property rights and contract enforcement, deepening financial markets and reducing the size of informal sectors.

To read the going for growth report click [here](#).

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