



## CHANGE WE MUST

*Agenda for public policy reforms in a turbulent world*

ANZSOG 11 August 2010

Aart de Geus  
OECD Deputy Secretary-General



### Reconciling growth and fiscal consolidation

A "New Balance"

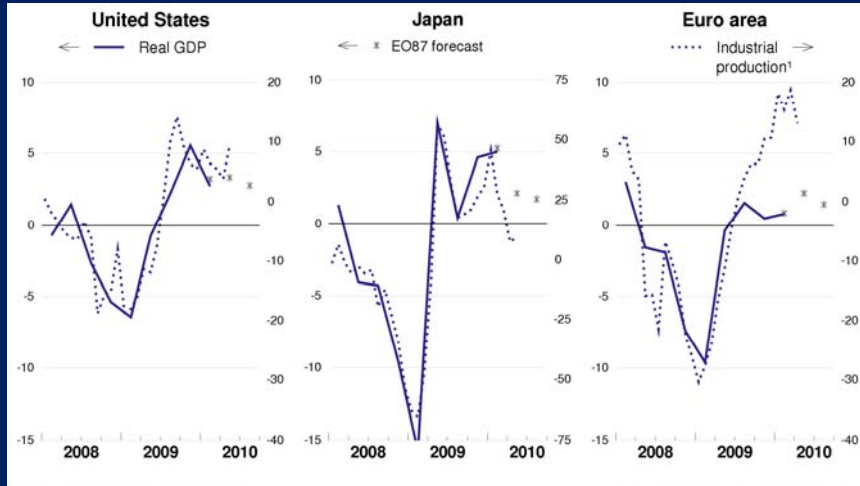
- The recovery is ongoing worldwide, albeit at different speeds across regions and countries
- Emerging-market economies have recovered in earnest, and are now already removing policy stimulus
- Asian Economies do well, and so does World Trade
- Fiscal consolidation needs are substantial, causing stress in sovereign debt markets in the euro area
- Many OECD countries grapple with high unemployment



## Recovery remains uneven across OECD regions

Annualised growth rates, in per cent

Real GDP



1. Three-month moving average.

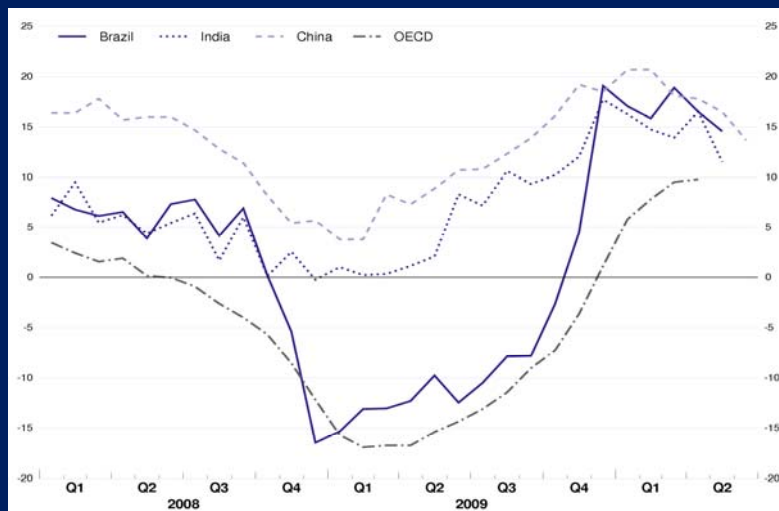
Source: Datastream; OECD Economic Outlook 87 database; and OECD, Quarterly National Accounts database.



## Emerging Economies show signs of slowing...

Year-on-year percentage changes

Industrial production



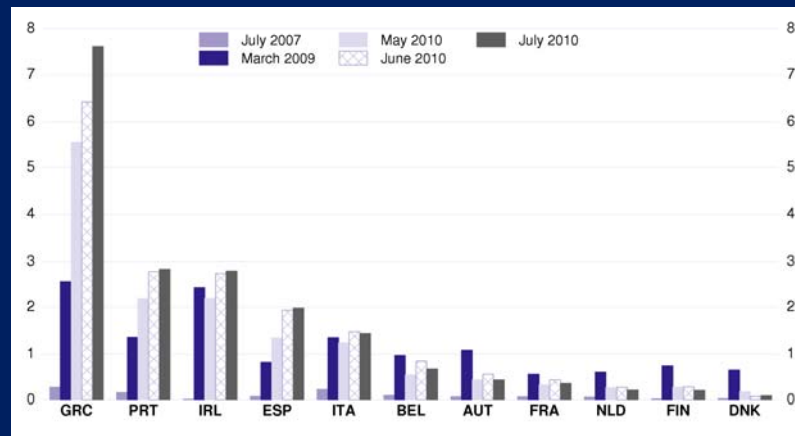
Note: Data for China are OECD estimates. Seasonally adjusted series for Brazil and China.  
Source: OECD, Main Economic Indicators database; and Datastream.

## ... but growth remains strong

- In 2010 China's GDP grows 10%, India 8%, Indonesia 6%, Brazil 5%, Russia 5% (from -8% 2009!)
- China, Brazil etc started to withdraw policy stimulus
- Solid growth supports the expansion in global trade (Q1 2010 = + 5%) and the recovery in the OECD area
- Baseline GDP - 2025: US 2-3%, EU 1-3%, Japan 1-2%, China 7-10%, India 6-8%, Indonesia 4-6%, Australia 3-4%  
(OECD Economic Outlook 87 May 2010)

## Markets reflect concern of some EU economies

Sovereign bond spreads with respect to German yield, percentage points



*Note:* Monthly averages, July 2010 to 16 July.  
*Source:* Datastream.



## EU Top priority: Fiscal consolidation

- Deficits spurred public debt: US, EU -> 100% GDP
- Stimulus continue, but many OECD governments have announced severe fiscal consolidation measures
- Fiscal consolidation is not expected to affect growth, as long as it will take place predominantly through expenditure retrenchment
- Negative impact on growth may be offset by lower private sector savings and long-term interest rates

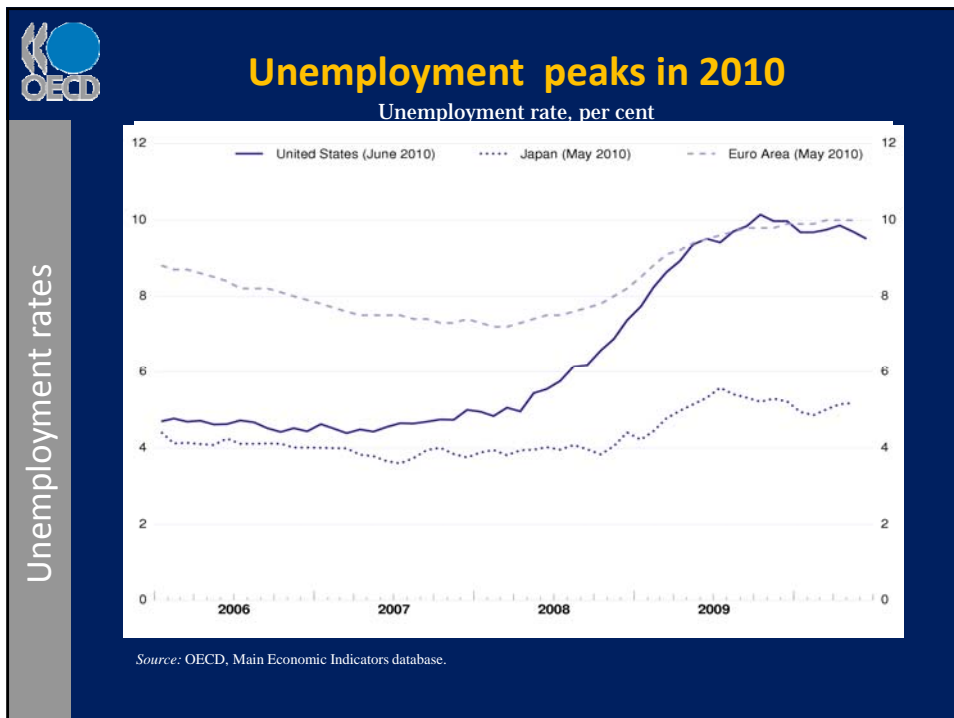
## Reforms in financial markets is imperative...

- The new Systemic Risk Council has the authority to break up US banks
  - US banks face bars on trading with own funds
  - Bank Investment in hedge and equity funds are limited to 3%
  - EU core banks are doing relatively well
  - Some smaller banks - Spanish Cajas, Greek and Irish banks, German Landesbanken - face funding stress
  - Basel III will set rules for Europe
- ... but promises are not treated in the same way wherever they sit, so innovation will continue*

## A cleaner world: no bribery, no tax havens

- Bribery can offset development and FDI
- Anti bribery rules apply also to business
- Tax can never be uniform, but coordination helps
- Tax compliance has gained from crisis
- Tax havens are closed by process of bilateral agreements
- *Reforms can be spurred by international transparency*

•9





## Work – First or Train – First?!

Labour markets

- A lagged recovery in labour markets is normal, unemployment varies from 3% - 20% in OECD countries
- Measures that have helped to contain job losses during the recession but could now impede the recovery (like STW)
- Youth unemployment asks for direct programs
- The challenge is to prevent unemployment from becoming permanent, OECD sees 10% discouraged+underemployed
- Focus should be on job search and training programmes, activation policies and well-designed employment subsidies

## Ageing drives reforms in labour and health

- Babies and bosses compete for women
- Governments can facilitate child care, temporary work, parental leave, taxes (marginal revenues!)
- Retirement should go up beyond 65
- Competences of older workers need maintenance
- Employment protection is too rigid in many countries
- Health costs will grow steadily, *“we want more”*
- Non medical costs can be sorted out
- Gate keeping is imperative, so is efficiency, technology

•12

## Migration: to be handled with care

- Migration is part of a global society, with mutual benefits
- Migration is never temporarily
- Focus on high skilled is unrealistic
- Migrants will age in time
- Migration without integration sets risks
- We can learn a lot from migration countries
- *Reforms should aim at openness and obligations*

•13

## Human Capital is and economic good

- Human capital is essential in Innovation
- Education should not be damaged by fiscal consolidation
- Education is an investment process, quality and equity count
- Outcomes should be measured (PISA, PIAAC, AHELO)
- Management and professionals should perform in the context of the right incentives
- *Successful reforms involve teachers and school leaders*

•14

## Climate change reforms: no time to lose

- Emission costs should have an economic price
- Taxes are better than subsidies
- Trading schemes can help to keep economies flexible
- Ecology and Economy can be reconciled: Green Growth
- *International coordination is imperative*

•15

## Global imbalances should be addressed

- GDP per capita compared to 15 OECD: 7% (India), 14% (China)
- Highly exposed to world market prices in commodities, food
- India: 85% informal employment, excl. agriculture
- China: Complex rural land use rights, low infrastructure
- Indonesia: credit to private sector 30% GDP (OECD 80 – 180%)
- *Aid remains essential, but should come with FDI*
- *Reforms should aim at less restrictive regulations*

•16

## ... but develop rapidly

- Poverty headcount China 85% - 36% in 10 years
- Life expectancy Indonesia 62y - 71y in 17 years
- Secondary school: 55-64=25%, but 25-34=50+
- China, India, Indonesia are important trade partners
- Japan and Korea: 180 mio people, GDP \$ 6,3 bn
- China, India, Indonesia, 2800 mio people, GDP \$7,5 bn\$ ->?
- **Common Interest Areas: Security, Trade, Capital, Energy, Tax, Health, Ageing, Innovation, Migration, ..... and Environment**
- *New global realities request new global institutions*

\*17

## Making Reform Happen - lessons learned

- Use the economic and political cycles
- Get your case right, including solid evidence
- Communicate consistently, before and after elections
- Monitor the process from day 1
- Create institutions to make the case or even consensus
- Engage opponents (business, unions, doctors)
- Broaden the package to create solidarity
- Compensate losers, but not too much
- *Set the goals beyond election horizons*
- *Learn from each other, reduce trial and error*

\*18