Raising global growth: Why the G20 is “going structural”

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G20 countries are taking action to lift growth in the world economy. Will their commitments be enough?

The first G20 leaders’ summit was called in 2008 to tackle the global financial crisis. Since then, the G20 has faced disappointing growth and too few good jobs–economies are operating in low gear.

The recovery has fallen short of delivering the G20’s objective of stronger, more sustainable and balanced growth. Global growth remains modest and has often disappointed relative to forecasts. Unemployment is high and real incomes of many households are struggling to get back to pre-crisis levels. Investment is depressed in many countries. Trade growth has been weak by historical standards.

Demand-side policies have some room for manoeuvre, but space is limited for monetary and fiscal policy in many economies. For all countries, the challenge is to pursue structural reforms to raise growth and create jobs in a sustainable and inclusive way.

The 2014 Australian presidency of the G20 focused on four priority policy areas to boost growth: employment, trade, investment and competition. The OECD has worked closely with the G20 to define these priorities, as well as identify the policies and best practices required to maximise the benefits of the reform process, particularly in areas such as labour market policies, in order to open the door for institutional investors to finance infrastructure and advance the trade facilitation agenda.

G20 finance ministers in February 2014 set an ambitious collective goal to raise GDP by 2% by 2018 compared with the October 2013 forecast from the International Monetary Fund (IMF). This would add more than $2 trillion (€1.6 trillion) to the global economy and create millions more jobs. Setting a clear quantitative target for reforms underlines the seriousness of G20 countries to work together to raise growth.

The 2% goal was not just plucked out of the air. It is based on joint OECD and IMF analysis of how much countries could realistically be expected to achieve through reforms. Roughly speaking, it is premised on all G20 countries reforming at the same pace as the most active reformers in the past decade.

G20 countries have worked together and undertaken peer review to prepare national Comprehensive Growth Strategies for the Brisbane summit in November to achieve the 2% collective goal. These bring together macroeconomic and structural policies to give a coherent “package” of measures to boost growth.

Considering structural reforms alone, countries’ national strategies include almost 1,000 individual reform commitments, according to OECD analysis, a great expansion compared to previous G20 presidencies (see bar chart). This reflects the more serious way in which G20 countries have been working together to raise the ambition of their structural reforms and to achieve a lasting recovery. Of course, reforms needs and “packages” vary widely across countries. For the G20 as a whole, reforms are planned across many areas (see pie chart), including active labour market policies and investment in skills; mobilising long-term investors to support infrastructure investment; trade facilitation measures; and reducing regulatory barriers to competition.

Some countries have embarked on ambitious reform programmes, not least major countries such as China, France, Italy, India and Japan. Recent estimates from the OECD for the impact of reforms in France suggest that reforms under way could boost GDP by around 1.5% over the next five years, including measures to reduce labour costs and streamline the government administration. Recently announced measures, including an easing of restrictive regulations in some sectors such as professional services, would add another 2% to GDP if carried through.

Peer review by G20 countries that focuses on policy and performance can play an important role in encouraging countries to be more ambitious in their reform agendas. Compared with previous G20 exercises, the national Comprehensive Growth Strategies outlined at the Brisbane summit are more concrete. As a consequence, international organisations including the OECD can better evaluate what countries are doing and identify where policy action may need to be stepped up.

As the long experience of peer review at the OECD shows, holding each other to account is not only good for transparency, but also leads to progress. During the course of this year, peer dialogue led many G20 countries to widen their structural reform agenda and to deepen their commitments.

The question is, have G20 countries delivered on their collective goal? The OECD and IMF were tasked to assess whether commitments embodied in
the Comprehensive Growth Strategy add up to achieve the 2% goal. This is an ambitious task given the range of country-specific reform measures and economic state of the art. The OECD’s modelling draws heavily on a framework developed for the flagship annual publication, *Going for Growth*.

It is clear that G20 countries have made great progress towards their objective. The OECD and IMF estimates suggest that measures that can be quantified would yield an extra 1.8% of G20 GDP in 2018. The true figure may be higher, given that some commitments are hard to quantify.

This is a significant step. However, it is also incomplete. Three big challenges remain.

First, the reform commitments must be implemented. And, indeed, many measures still need to be legislated. There will be many implementation difficulties and political challenges. Future G20 presidencies must monitor commitments and the G20 countries need to encourage each other to stay the course and not lose momentum.

Second, global growth has continued to disappoint. Even reaching the 2% goal would leave GDP lower than what the G20 was aiming for when the target was set in February. In short, countries may need to work harder just to stay in the same place. Supply-side reforms such as competition and skills would be more effective in a strong demand environment. In this regard, all the flexibility available in the macropolicy domain should be used to support structural reforms. Third, structural reform isn’t a finite list of measures with an end-date. It is an on-going process to build more productive, inclusive and sustainable economies for our citizens. The G20 has outlined other opportunities; for example, policies to bring more women into the labour force could create tens of millions of additional jobs in the coming years (especially in emerging countries), as well as enhance the capacity of those economies to grow overall. The OECD stands ready to continue contributing its expertise and experience to the G20 and its members with regard to monitoring and quantifying the implementation of reforms. With G20 countries accounting for close to 90% of global GDP, achieving further progress in lifting growth and setting forth a sustainable recovery matters for us all.

References


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G20 Brisbane 2014

Australia: Brisbane 2014 special