UK: spending to address COVID-19 and Brexit should fit with productivity, social and environmental goals

14/10/2020 – The United Kingdom faces major challenges from the COVID-19 crisis and leaving the EU Single Market. Ramping up investment in the digital economy, the service sector, green infrastructure and adult skills would strengthen the recovery and help to boost productivity and environmental sustainability for the long term, according to a new OECD report.

The latest OECD Economic Survey of the United Kingdom underlines the importance of the emergency support measures put in place to address the coronavirus crisis, but also stresses the need to address longer-term challenges. Active labour market spending for displaced and low-skilled workers should be increased to help workers in sectors with uncertain futures move into quality jobs, and infrastructure spending should focus on the most deprived regions. Low interest rates mean there is room for more stimulus, if needed. Public investment should build on existing efforts to revive productivity growth and transition to a low-carbon economy.

“The combination of COVID-19 and the exit from the EU Single Market makes the UK outlook exceptionally uncertain. Actions taken to address the pandemic and decisions made on future trading relationships will have a lasting impact on the UK’s economic trajectory for years to come, so they should be in line with long-term objectives,” said **OECD Chief Economist Laurence Boone**. “Productivity growth in service sectors will have to accelerate significantly for the recovery to be long-lasting and sustainable.”

The coronavirus crisis erupted against a background of subdued growth, stagnant productivity and flat investment in the United Kingdom and triggered one of the most severe falls in output of OECD countries, reflecting the economy’s deep integration in the world economy and the fact that the hard-hit service sector makes up around 80% of UK output and employment.

While a rapid and massive emergency response has helped to steady the economy, the United Kingdom still faces a prolonged period of disruption to economic activity, which risks exacerbating pre-existing inequalities and regional disparities. Most households have reported a drop in income since the crisis. Economic activity will only recover gradually, with several years of high unemployment likely due to business closures and delayed investment. The Survey, assuming a smooth transition to an EU Free Trade Agreement, projects an unprecedented fall in GDP in 2020 of 10.1%, with activity still below its pre-crisis level by the end of 2021. The unemployment rate is projected to be 7.1% in 2021, up from 3.8% in 2019.

Leaving the EU Single Market at the end of year will require firms to adapt.

Avoiding a “no deal” outcome would benefit both the United Kingdom and the European Union. Were there to be an EU exit with no free trade deal, the government should be ready to provide targeted support for affected firms and workers and put in place trade facilitation measures to smooth disruptions at the border.

While the increase in barriers to trade resulting from any form of exit from the EU Single Market will lower growth over the medium term, a disorderly exit would be more costly and disruptive. Managing a disorderly exit would be complicated by the fact that firms have diverted their attention to dealing with COVID-19, and those with reduced earnings will be less able to invest in new systems, staff and training.

The UK’s Industrial Strategy should help to revive productivity growth – which is key to sustaining jobs and wage growth – yet more could still be done to encourage innovation and reduce gaps in adopting new technology between leading firms and laggards. Overall public investment has been lower than in other leading economies in recent years, and investment in digital infrastructure still lags investment in transport, energy and utilities. These are all areas where the UK lags the best-performing OECD countries and which are likely to bring high productivity gains. Planned spending to improve digital skills could also be more ambitious, as the COVID-19 crisis makes the low level of adult training in the United Kingdom a more urgent concern.

See an Overview of the UK Survey with key findings and charts (this link can be included in media articles).

For further information, journalists are invited to contact Catherine Bremer in the OECD Media Office (+33 1 45 24 97 00).

Working with over 100 countries, the OECD is a global policy forum that promotes policies to improve the economic and social well-being of people around the world.

Economy: in the United States, extending support and lowering regulatory barriers could energise the recovery from Covid

09/07/2020 – Swift action by the U.S. government has helped shield households and businesses from the immediate economic shock of the Covid-19 pandemic, even as efforts continue to bring the spread of the virus under control. Continuing this exceptional support to unemployed workers and struggling firms – while taking steps to lower barriers to labor mobility and competition – would help to strengthen the recovery, share the benefits across society, and reduce the risk of long-lasting scars, according to a new OECD report.

The latest **OECD Economic Survey of the United States** says that even as some businesses reopen with the lifting of coronavirus confinement measures, hard-hit sectors like hospitality and leisure will continue to need support, as will newly unemployed or displaced workers who may need to look for jobs in different sectors. The recent extension of the US Paycheck Protection Program by five weeks to August 8 is a welcome move to help small businesses struggling with the crisis. Extending exceptional unemployment benefits beyond the end-July cut-off date would offer a similar lifeline to the millions of households at risk of falling into poverty, as would assistance for job search (such as employment placement services) and support for geographic mobility.

"The U.S. economy is battling a health and economic shock that threatens to set back the significant economic achievements of the past decade and leave permanent scars," said **OECD Secretary-General Angel Gurría**. "Exceptional support to people and businesses should be continued as long as it is needed. And helping people to return to work by removing unnecessary regulatory hurdles to employment and mobility would energize the recovery and help ward off a drop in living standards and equality." Read the full speech.

The Survey projects only a gradual recovery after the Covid-19 pandemic brought a decade-long expansion to an abrupt halt and knocked the employment-to-population ratio to its lowest level on record. The best-case scenario sees GDP growth recovering to 4.1% in 2021 after a drop of 7.3% in 2020, whereas a second wave of outbreak scenario would see GDP growth at just 1.9% in 2021 after an 8.5% drop in 2020.

Improving health policy co-ordination across levels of government, ensuring health insurance systems do not let large population groups fall through the gaps that exist between different programs, and reducing regulatory barriers, would all help to tackle the ongoing health crisis from Covid-19. To minimize the risk of a second wave prompting another large-scale lockdown of the economy, developing testing, tracking, tracing and isolating procedures will be key. Augmenting the capacity of health systems and identifying people who have acquired antibodies will help mitigate the economic impact of a second wave.

On the economic front, all efforts should focus on reviving growth and jobs for the long-term, with concrete policy measures to remove barriers hindering access to employment and future opportunities.

Addressing occupational licensing and non-competition covenants in job contracts that impose barriers to job mobility on roughly one in five workers, particularly those from low-skilled or disadvantaged groups, is a top priority. While regulation is important to ensure the safety and quality of services for workers and consumers, state-level labor market regulation has contributed to a decline in labor market fluidity since the late 1990s, alongside a period of sluggish productivity growth. (See Survey Chapter 3 for an analysis of variations in licensing stringency by state.)

States should be encouraged to delicense occupations where there are limited concerns for public health or safety and act against anticompetitive behavior. Federal law can be used to impose recognition of out-of-State licensures, allowing States to set stricter requirements only if they can prove it is necessary to protect the public. People who face difficulties finding work, for example those without a college education, should be supported through more flexible rules on job qualifications and access to adult training.

Restrictive building policies have also created a barrier to labor mobility just as a shift from industry to high-tech and services is changing the country’s economic geography and creating a need for more elastic housing supply. In the current climate, it is all the more important that people can move easily to take up new jobs. Tax incentives can be a way to loosen over-restrictive building laws, the Survey says.

The Survey also notes that vulnerabilities in the highly leveraged corporate sector will need to be monitored. Over time, given the pre-existing pressures of an ageing population, reforms to pension and healthcare spending to reduce cost pressures and inefficiencies and measures to broaden the tax base will be needed to ensure long-run sustainability of public debt.

See an **Overview of the Survey** with key findings and charts (this link can be included in media articles)

For further information or queries, journalists are invited to contact Miguel Gorman in the OECD Washington Centre.

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