How to deal with potential secular stagnation

Catherine L. Mann
OECD Chief Economist

Banque de France
Paris – 16 January 2017

www.oecd.org/economy/economicoutlook.htm
ECOSCOPE blog: oecdecoscope.wordpress.com/
• Low-Growth trap: GDP and productivity
• Diffusion gap: productivity and wages
• Macro and Micro policies to improve
Low-Growth Trap: GDP and Productivity

Real GDP Growth including projections

Productivity Growth

Year-on-year percentage changes

Note: Horizontal lines show the average annual growth rate of GDP in the period 1987-2007. Data for Russia are for the average annual growth rate in the period 1994-2007.

1. With growth in Ireland in 2015 computed using gross value added at constant prices excluding foreign-owned multinational enterprise dominated sectors.
2. Fiscal years.

Source: OECD November 2016 Economic Outlook database.

Note: Labour productivity growth is output per hour worked at annualised rate.

Source: OECD June 2016 Economic Outlook database; OECD National Accounts database; OECD Productivity database; OECD calculations.
**Productivity diffusion gap**

**Inequality in income**

Real household disposable income, total population

---


**Note:** OECD is the unweighted average of the countries for which data are available.

Monetary Policy: Micro Role

The X axis plots the effect on fragility; Fragility is defined as higher likelihood of financial crises (policies with red outline) or a higher GDP (negative) tail risk. Three types of financial crises are considered: Currency, banking and twin crises. Tail risk is defined as the effect on the bottom 10% of the distribution for quarterly GDP growth. For each policy, the Y axis plots the average (overall) growth effect.

Source: Authors’ calculation based on Caldera Sánchez and Gori and by Caldera Sánchez and Röhn.
Fiscal Policy: Macro--collective and Micro-Structural

From a 0.5% of GDP increase in public investment

First-year growth gain

<table>
<thead>
<tr>
<th>Country</th>
<th>Impact of fiscal initiative</th>
<th>Gains from collective fiscal action</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>0.50</td>
<td>0.25</td>
</tr>
<tr>
<td>FRA</td>
<td>0.50</td>
<td>0.25</td>
</tr>
<tr>
<td>DEU</td>
<td>0.50</td>
<td>0.25</td>
</tr>
<tr>
<td>ITA</td>
<td>0.50</td>
<td>0.25</td>
</tr>
<tr>
<td>GBR</td>
<td>0.50</td>
<td>0.25</td>
</tr>
<tr>
<td>CAN</td>
<td>0.50</td>
<td>0.25</td>
</tr>
</tbody>
</table>

Long-term GDP gain

<table>
<thead>
<tr>
<th>Country</th>
<th>Impact of fiscal initiative</th>
<th>Gains from reducing long-term unemployment</th>
<th>Gains from structural reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>3.00</td>
<td>2.00</td>
<td>3.00</td>
</tr>
<tr>
<td>FRA</td>
<td>3.00</td>
<td>2.00</td>
<td>3.00</td>
</tr>
<tr>
<td>DEU</td>
<td>3.00</td>
<td>2.00</td>
<td>3.00</td>
</tr>
<tr>
<td>ITA</td>
<td>3.00</td>
<td>2.00</td>
<td>3.00</td>
</tr>
<tr>
<td>GBR</td>
<td>3.00</td>
<td>2.00</td>
<td>3.00</td>
</tr>
<tr>
<td>CAN</td>
<td>3.00</td>
<td>2.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>

Note: Structural reforms show the impact of a 10% reduction of product market regulations.
Impact of increasing spending ALMP to 1% of GDP on the re-employment probability

Notes: The bars show the percentage point impact on the re-employment probability of a 1% increase in spending on ALMPs (as a share of GDP) for three levels of entry barriers: i) the level corresponding to the average of the two best performing countries over the sample period (red bar); ii) the average level observed over the sample period (blue bar); and iii) the level corresponding to the average of the two worst performing countries over the sample period (grey bar).
OECD recommends more expansionary policy than projected

Recommended fiscal stance for 2017

Contractionary  Mildly contractionary  Broadly neutral  Mildly expansionary  Expansionary

Contractionary

Mildly contractionary

Broadly neutral

Mildly expansionary

Expansionary

Projected fiscal stance for 2017

Source: OECD November 2016 Economic Outlook database; and OECD November 2016 Economic Outlook Special Chapter, “Using fiscal levers to escape the low growth trap”.
Estimated contribution to the annual change in the MFP gap of the slower pace of reform relative to the fastest reforming industry (telecoms)

- **Observed increase in gap**
- **Increase in gap due to slow deregulation**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Observed Increase</th>
<th>Increase Due to Slow Deregulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>2.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Energy</td>
<td>2.3%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Retail</td>
<td>2.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Legal and accounting services</td>
<td>3.8%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Technical services</td>
<td>3.9%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Structural Emphasis: Services play key role in productivity gap.
Resources: blogs, PPT, video, research

Economic Resilience

Finance and Inclusive Growth

Global Forum on Productivity

Research teams: Boris Cournède, Alain de Serres, Guiseppe Nicoletti, Peter Hoeller, Oliver Denk, Aida Caldera Sanchez, Priscilla Fialho, Filippo Gori, Dan Andrews, Chiara Criscuolo, Valentine Millot, Muge Adalet McGown