



New horizons: Structural policies for a strong recovery and a sustainable, inclusive and resilient future

Full Report
2020

In support of the G-20 Leaders and Finance Ministers and Central Bank Governors discussions on policies for a strong, sustainable, balanced and inclusive economic recovery from the COVID-19 pandemic.

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New Horizons: Structural Policies for a Strong Recovery and a Sustainable, Inclusive and Resilient Future¹

¹ The report was prepared by a team from the OECD Economics Department including Aida Caldera Sánchez, Asa Johansson, Dan Andrews, Assia Elgouacem, David Haugh, Nikki Kergozou and Tomasz Kozluk, with inputs from Lilas Demmou and Cristiana Vitale. Editorial support was provided by Penny Elghadhab and Wendy Stokle, Sam Brown and Liv Gudmundson provided communication support. The report benefited from inputs from the following OECD directorates: Centre for Entrepreneurship, SMEs, Regions and Cities, Centre for Tax Policy and Administration, Education and Skills, Employment, Labour and Social Affairs, Environment, Financial and Enterprise Affairs, Science, Technology and Innovation, the Sherpa Office and Trade and Agriculture. The report also greatly benefitted from G-20 country delegates feedback.

In Brief

In the line with the mandate given by G20 FMCBGs in their commitments made in Pillar 3 of the G20 Action Plan, this paper discusses structural reform options to support a strong, sustainable, balanced and inclusive economic recovery from the COVID-19 pandemic recession. While the virus continues to spread in many regions of the world, and many countries are experiencing a resurgence of cases, countries need to plan for the recovery while coexisting with the pandemic. The global economy requires policy support to exit the crisis. This involves maintaining fiscal and monetary support while adapting short-term crisis-related measures, introducing some new policies and targeting policies where they would be most effective. Governments structural policies acting on three main fronts are crucial for an inclusive, and sustainable economic recovery:

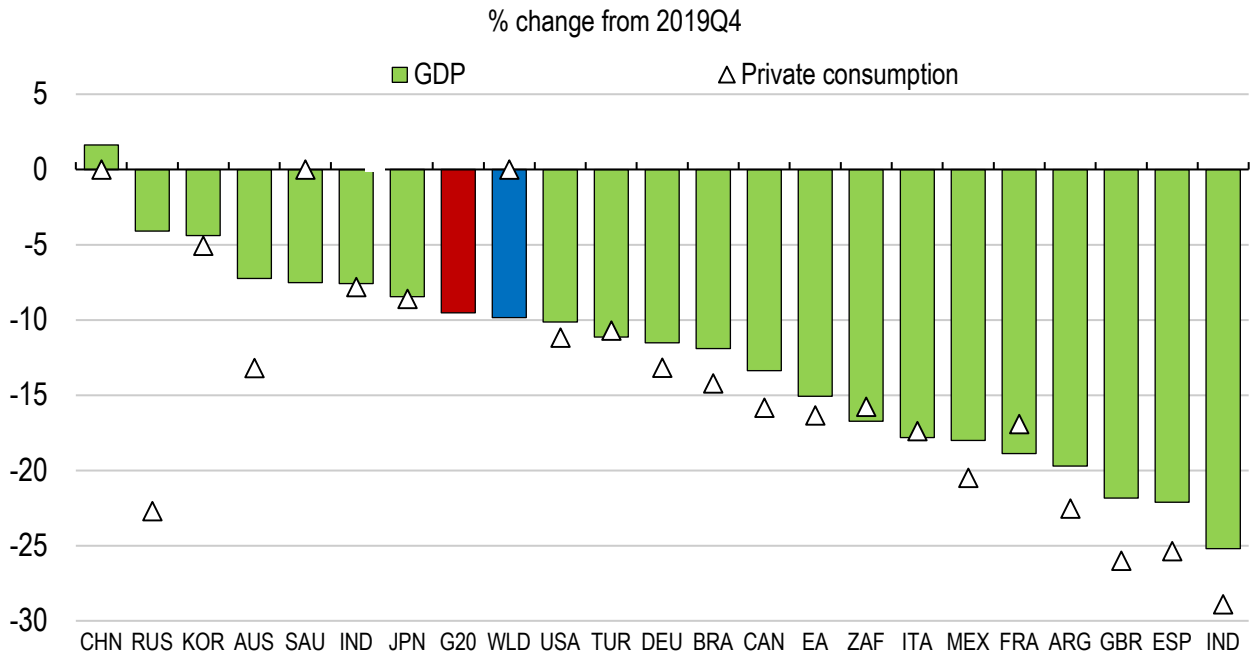
- **Allowing the reallocation of resources and boosting productivity and growth** by adapting job retention schemes to encourage job search, removing barriers to worker mobility (e.g. excessive occupational licensing) and firm entry, increasing competition (e.g. adapting competition law to the digital age) and facilitating firm restructuring (e.g. effective insolvency regimes and diverse financing instruments).
- **Supporting people to find new jobs** via re-skilling and job placement policies. There should be a strong emphasis on building digital skills – especially for the low skilled and other vulnerable groups – while the provision of paid sick leave and adequate unemployment benefits are essential to strengthen income protection.
- **Reinforcing sustainability and resilience** through increasing public and private investments, especially in health systems, digitalisation, education and training, and lowering emissions; while improving the robustness of fiscal positions by reviewing public spending and shifting towards broader, more diverse revenue sources.

The COVID-19 crisis has highlighted the need for **stronger international co-operation** in five key areas: i) research, development manufacturing and distributing health equipment and diagnostics, therapeutics, and particularly vaccines; ii) promoting efficient and robust GVCs; iii) the taxation of multinationals in an increasingly digitalised economy; iv) building a more environmentally sustainable economy; and v) preventing sudden capital outflows and sovereign debt crises.

1. The impact of COVID-19 and the path to recovery

COVID-19 is the largest global economic shock in decades. The virus has spread across the globe with significant economic impact (Figure 1). To contain the spread of the virus and save lives, most governments throughout the world have imposed stringent containment measures during the first wave of the pandemic in the first half of 2020. These measures slowed the spread of infection and dramatically reduced the death toll (OECD, Forthcoming^[1]) but affected both demand (through reduced household spending) and supply (through reduced capital expenditures). The global economy experienced the deepest recession since the 1930s, with GDP declining by more than 20% in the first half of 2020 in some G20 countries – with hotels and restaurants, arts and recreation and transportation particularly hard hit (Figure 2) – and a substantial deterioration of labour-market conditions (OECD, 2020^[2]).

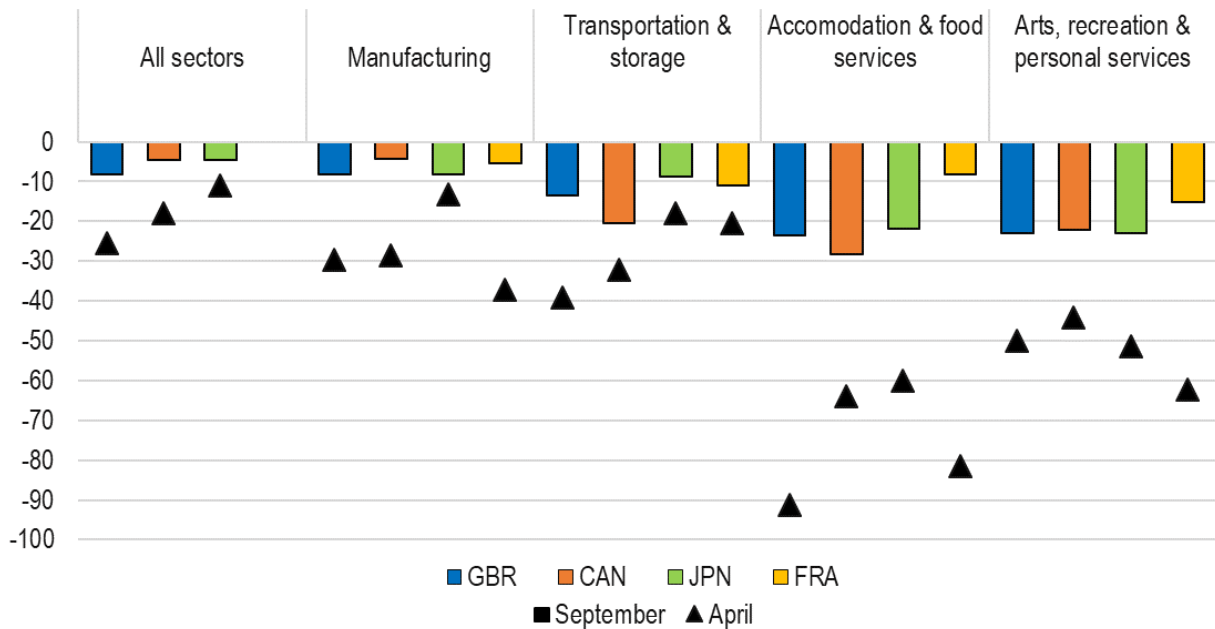
Figure 1. Global output contracted sharply in the first half of 2020



Note: Private consumption is unavailable for China and Saudi Arabia. Global and G20 GDP growth is a PPP-weighted aggregate.
Source: OECD Economic Outlook database.

Figure 2. The decline in output was larger in some sectors

Output in September or latest available, % change from February 2020

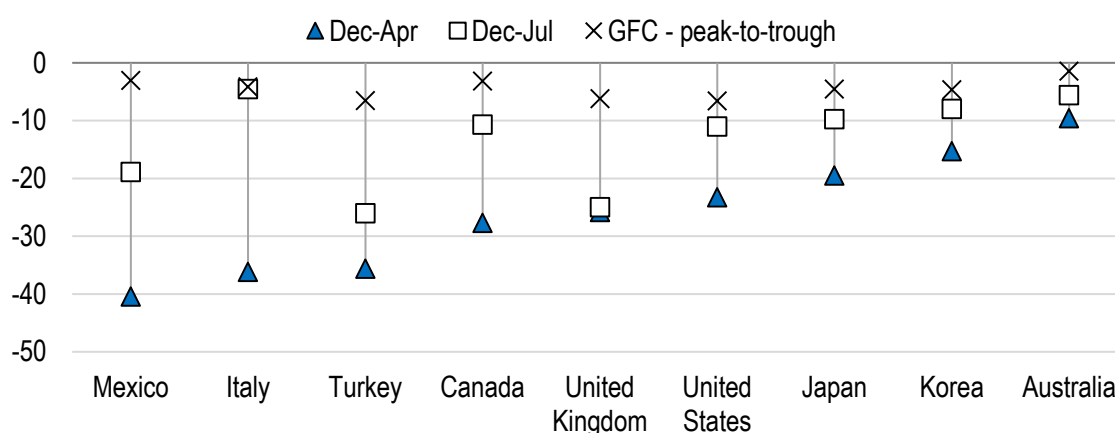


Note: The latest available official data are August for Canada. For France, data for manufacturing and construction are for September, data in other sectors are for August and data on output in all sectors are not available. The monthly output data are seasonally adjusted and based on national industrial classifications.
Source: Office of National Statistics; Ministry of Economy, Trade and Industry, Japan; INSEE; Statistics Canada; and OECD calculations.

The initial impact of the COVID-19 crisis on OECD labour markets was several times larger than that observed in the first three months of the 2008 global financial crisis (OECD, 2020^[3]; ILO-OECD, 2020^[4]) and the full extent of the shock is still unfolding. There has been a significant increase in the number of jobseekers, even in countries with comprehensive job retention schemes (e.g. short-time work or furlough schemes or wage subsidies) (Figure 3) as temporary contracts were not renewed and firms' hiring activity collapsed. Moreover, many people who lost jobs were not counted as unemployed because they had temporarily suspended active job search as a result of lockdowns. This was reflected in an unprecedented fall in the participation rate in many countries.

Figure 3. One of the worst labour market crises

Percentage change in total hours worked with respect to those worked during the month of the onset of the crisis



Note: For all countries, the peak-to-trough period for the COVID-19 crisis refers to 2019(12)-2020(4) (month or quarter in parentheses). For the GFC, it refers to: Australia, 2008(2)-2009(7); Canada, 2007(8)-2009(7); Italy, 2008(Q1)-2009(Q2); Japan, 2008(2)-2009(4); Korea, 2007(12)-2009(3); Mexico, 2008(5)-2009(5); Turkey, 2008(1)-2009(4); the United Kingdom, 2008(1)-2009(7); and the United States, 2007(10)-2009(5). The data refer to persons aged 15 and over (16 and over for the United States) and are seasonally adjusted by the Secretariat. Data refer to actual hours worked in all jobs, which are calculated by multiplying the number of people at work by the average weekly actual hours worked per employed person at work. The data for Mexico for April 2020 were collected using a new telephone survey instrument which may have affected their comparability with the data for earlier months. For Turkey, the monthly data refer to centred three-monthly averages and the period for Dec-Jul refers to Dec-June.

Source: OECD calculations based on data from national labour force surveys.

COVID-19 has also exposed and exacerbated inequalities between countries just as it has within countries (G20, 2020^[5]; OECD, 2020^[6]). The income and job losses are particularly stark for low-pay workers, workers in non-standard jobs (i.e. the self-employed and those in temporary or part-time dependent employment) and workers in the informal economy that often lack adequate social protection coverage. In most countries, women and youth have been more heavily affected than men and older workers. There is also a risk that the toll on poorer and vulnerable groups is high, including disadvantaged children affected by school closures. Clearly, an inclusive, sustainable and durable economic recovery will depend upon policies to improve access to opportunity for these groups.

Even prior to COVID-19, many G20 economies were facing a combination of slow economic growth, widening inequalities in outcomes and access to opportunities, and increasing environmental challenges, as discussed in the OECD's Report on Progress on Structural Reform under the G20 Enhanced Structural Reform Agenda (ESRA) (OECD, 2019^[7]). At the same time, G20 countries are undergoing a number of major and potentially disruptive transitions although to different extents and at different paces: digitalisation, population ageing, and decarbonisation. The COVID-19 shock may well magnify some of

longstanding pre-pandemic challenges, at the same time as providing an opportunity to address some of them.

The economic outlook remains very uncertain, with the recovery becoming increasingly hesitant. Continued or renewed virus outbreaks in many economies, and the necessary containment measures being introduced, have checked the pace of the rebound from the collapse in output in the first half of 2020, and raise the risk of further near-term output declines. The immediate policy challenge is to contain the continual spread – and any new outbreaks – of the virus, while minimising the collateral economic damage. Until an effective treatment or vaccine is deployed significantly around the world, containing the virus will depend on public health countermeasures encompassing: *i*) large-scale testing, effective and timely tracking, and tracing (TTT) measures, and isolation of infected people; *ii*) hygiene measures including frequent handwashing and use of masks; *iii*) making personal protective equipment more widely available to all health and essential workers; and *iv*) the continuation of certain targeted containment measures to control local outbreaks on specific regions or activities, the banning large gatherings and encouraging teleworking to avoid transport congestion, and securing working sites. Many businesses in service sectors most exposed to these containment measures may not be able to survive for an extended period, raising the risk of job losses and insolvencies that hit demand throughout the economy.

Faced with the challenge of fostering the recovery while containment measures remain in place and some sectors undergo structural transformations, crisis-related support policies should be flexible and state-contingent, evolving as the recovery progresses to ensure assistance is focused on viable jobs and companies. Fiscal and monetary policy support needs to be maintained to preserve confidence and limit uncertainty. Exceptional crisis-related policies need to be accompanied by the structural reforms most likely to raise opportunities for displaced workers and strengthen economic dynamism, allowing the reallocation of labour and capital resources towards sectors and activities with the strongest growth potential. National policy efforts need to be accompanied by enhanced global co-operation to help mitigate and suppress the virus, speed up the economic recovery, and keep trade and investment flowing freely.

Given the huge health and economic impact of the current pandemic, it will be important to strengthen pandemic preparedness through higher investments not only in terms of supplies but also in terms of infrastructure and human resources, as well as ensuring better universal health coverage. Other complementary health investments are also required:

- Laboratory capacity needs to be bolstered, which requires more trained staff, medical supplies (i.e. testing kits with specific reagents and machines to process the tests) and resources to manage complex logistics.
- Effective identification of at-risk populations and patient management requires upgraded health information systems, digital health infrastructure and the integration of more granular and timely data; pilot evidence – from Germany, Italy and the United States (Brat et al., 2020^[8]; OECD, 2020^[9]) – demonstrates the potential of electronic health records to capture the trajectory of COVID-19 infection in patients and their response to interventions.
- Reforms to reduce chronic inefficiencies in health spending (OECD, 2017^[10]) are now urgent, including: *i*) expanding the scope of activities performed by nurses and other non-physician health professionals; *ii*) further use of health technology assessments to only pay for technologies and services that are effective and appropriate; and *iii*) ensuring that pharmaceutical markets are transparent and competitive.

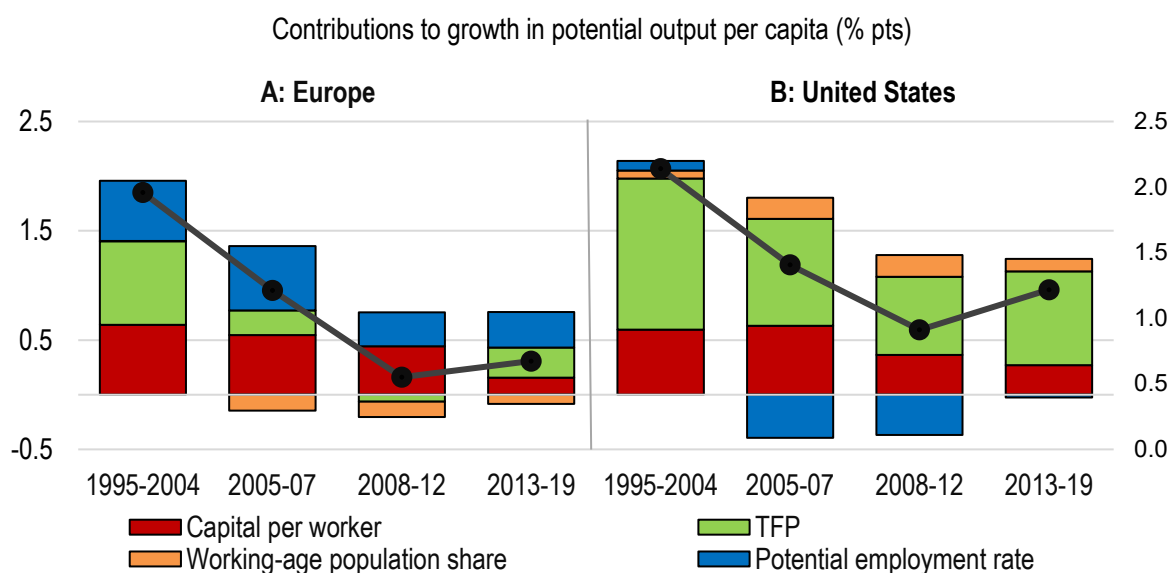
Indeed, the Joint G20 Finance and Health Ministers meeting recognised the importance of well-functioning, value-based, inclusive and resilient health systems that can sustain equitable and affordable access to essential and quality health services for all (G20, 2020^[11]). There is also a need for greater investment in building population and health system resilience by promoting healthier lifestyles, disease prevention and health promotion (OECD, 2019^[12]; OECD, 2017^[13]; OECD, 2015^[14]). Investing in public health policies

to tackle other infectious diseases, such as antibiotic resistant infections, would also enhance the resilience and preparedness of healthcare systems.

2. Re-igniting productivity growth in an increasingly digitalised economy

The disruption resulting from the pandemic could leave long-lasting scars in many advanced and emerging economies. Potential output growth had already declined significantly in OECD countries prior to COVID-19, driven by a marked slowdown in trend labour productivity growth (Figure 4). This partly reflected the adverse effects of uncertainty on capital deepening as well as increased market concentration, declining business dynamism and increasing productivity gaps between top and bottom firms (Figure 5). The latter was symptomatic of rising barriers to (Andrews, Criscuolo and Gal, 2016^[12]): *i*) the diffusion of best practices from the firms at the global technological frontier to laggard firms; and *ii*) processes of creative destruction, whereby new firms enter the market and replace old ones, and resources are reallocated towards more productive firms.

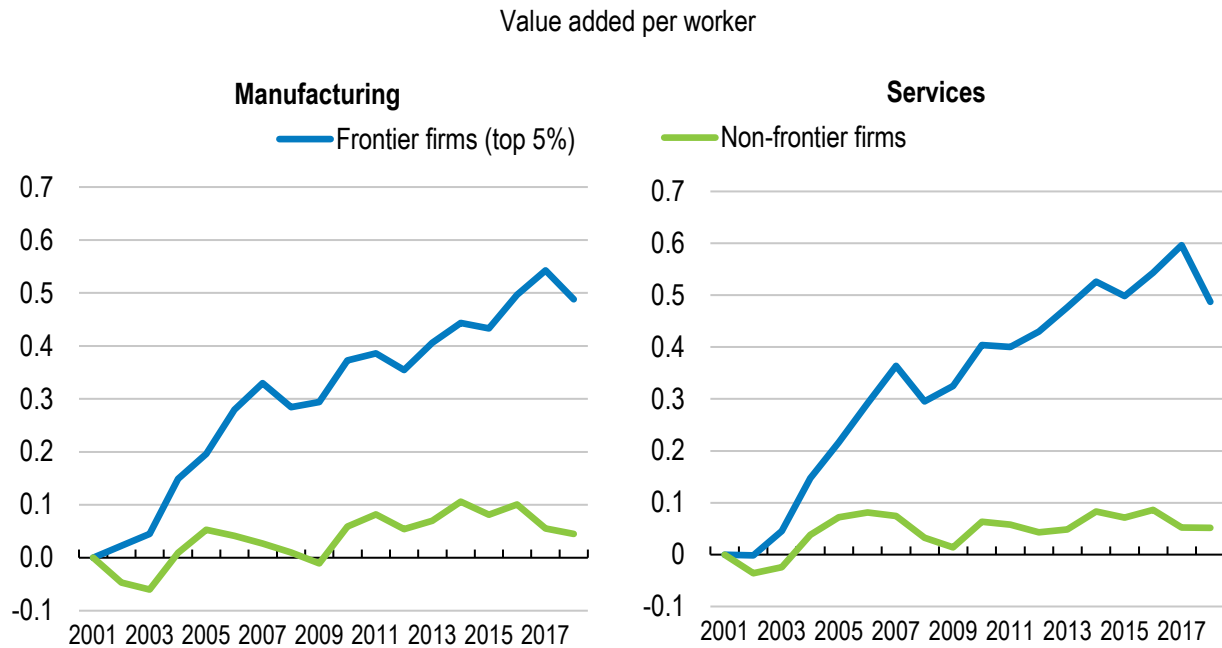
Figure 4. Productivity growth had slowed prior to COVID-19



Note: This figure decomposes growth in potential output per capita into the respective contributions (in percentage points) of its four key components based on a Cobb Douglas production function. 'Europe' only includes European countries with data available since 1995. These countries are Austria, Belgium, Finland, France, Germany, Greece, Italy, the Netherlands, Portugal and Spain.

Source: OECD Economic Outlook Database.

Figure 5. Labour productivity gaps had increased between global frontier and other firms



Note: Average across detailed manufacturing and services industries using firm-level data from 21 OECD countries and firms with at least 20 employees. The global frontier is defined as the average log labour productivity of the 5% most productive firms within each industry and year. Laggards capture the average log productivity of all the other firms. The vertical axes represent log-differences from the starting year: for instance, the frontier in manufacturing has a value of about 0.5 in 2018, which corresponds to approximately 50% higher in productivity compared to 2001. Services refer to non-financial business sector services. The countries included are Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Japan, Korea, Netherlands, Poland, Portugal, Spain, Sweden, Slovenia and the United States.

Source: The ORBIS database of Bureau van Dijk, updated following the methodology in Andrews, Criscuolo and Gal (2016^[12]).

Against this backdrop, the pandemic raises a number of structural policy issues with respect to resource reallocation but it also creates opportunities to address pre-existing headwinds to technology diffusion. This section discusses how structural policy can boost productivity growth and help societies accommodate the underlying forces accelerated by COVID-19. There is also a role for specific policy initiatives spanning health care (see above), supply chain resilience (Box 1), the hard-hit tourism sector (which G20 Tourism Ministers committed to address on 24 April 2020) and the need to improve economic statistics in the face of rapid digitalisation (G7 Central Bank Digitalisation Working Group, 2019^[13]). However, an in-depth discussion of this is beyond the scope of the paper.

Box 1. Building more resilient and robust supply chains

Shortages – particularly of medical supplies (OECD, Forthcoming^[14]) – during the COVID-19 crisis have raised concerns about the resilience of global value chains (GVCs). Most of the issues, however, reflect the difficulties in coping with a large pandemic-induced surge in demand. Crucially, this challenge would remain – and arguably be worse – under a locally based system, as there would be fewer scale and diversification possibilities (OECD, 2020^[15]). While managing supply chains is primarily the concern of private firms, governments need to monitor the reliability of supply of essential products to health systems. They also need to ensure that public procurement mechanisms are prepared for crises and coordinated at the national and international levels and support digital adoption more generally (see Section 2.2). Governments can also play a complementary role in better supply chain management by:

- i) collecting and sharing information on potential concentration and bottlenecks upstream in supply

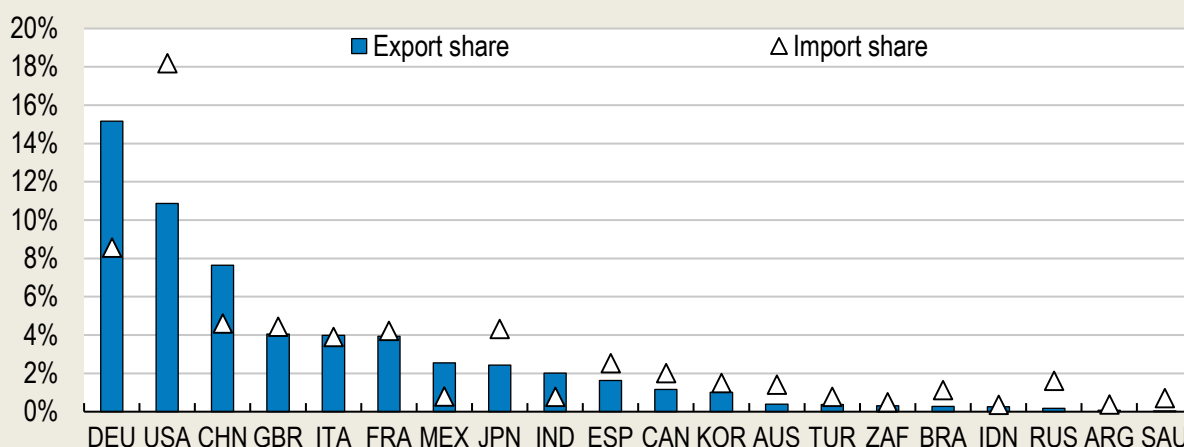
chains; and ii) reviewing the network of trade agreements and investment regimes (beyond direct partners) to assess the potential barriers to supplier diversification.

The high level of interdependence on trade in medical supplies highlights that keeping markets open is key to ensuring the supply of these essential products (Figure 6.). An analysis of trade in COVID-19 goods reveals that a few and mainly G20 countries, including China, Germany, the United Kingdom and the United States, are the main exporters and importers of some goods required to fight COVID-19. Smaller and developing countries are heavily dependent on these suppliers (OECD, 2020_[16]). This underlines the importance of avoiding export restrictions, removing tariffs on essential goods and enabling wider trade facilitation to aid the flow of critical goods across borders and renewing commitments to rules-based trade (OECD, 2020_[17]).

Holding higher stocks of medical supplies may be a useful complement to GVC-based production. Putting in place long-term guaranteed purchase contracts to ensure a minimum local capacity can further minimise risk by increasing diversification. To create strategic stockpiles, governments – in collaboration with the private sector – could undertake stress tests (Simchi-Levi and Eimchi-Levi, 2020_[18]) to better assess the buffer stocks needed to prevent future shortages.

Figure 6. Global trade of COVID-19 related goods is concentrated in a few countries

Global export and import shares of COVID-19 related goods, 2018



Source: OECD (2020_[16]), "Trade interdependencies in Covid-19 goods", using World Customs Organisation list of COVID-19 goods and BACI data.

2.1 Reducing barriers to transitions and the reallocation of resources

The pandemic is accelerating a large and sudden shift to the sectoral pattern of activity and employment to the extent that after the crisis: activity centred on in-person services (i.e. hospitality and travel, arts and recreation) may emerge permanently smaller; and new habits may form from crisis-induced experimentation with novel modes of business, work, consumption and communication. A durable economic recovery from COVID-19 will likely depend upon a large-scale reallocation of resources to accommodate such pandemic-induced shifts in the nature of economic activity (Barrero, Bloom and Davis, 2020_[19]).

There is much scope for structural policy not to hinder this reallocation process and to ensure productive and inclusive growth – both in the aftermath of the shock and over the longer term. Cross-country studies

spanning multiple decades show that more flexible product and labour markets can reduce the potential output losses from recessions (Duval, Elmeskov and Vogel, 2007^[20]; Caldera Sánchez et al., 2017^[21]). The same is true of pro-competitive product market regulations (Ollivaud and Turner, 2014^[22]) and financial sector and insolvency reforms that spurred corporate restructuring in the aftermath of the Great Recession (Andrews, Adalet McGowan and Millot, 2017^[23]).

More generally, OECD firm-level studies show that well-functioning product, labour and venture capital markets and bankruptcy laws that do not overly penalise failure can promote the efficient reallocation of resources to more productive firms (Andrews and Criscuolo, 2013^[24]). The same is true for structural reforms that reduce transaction taxes and supply-side rigidities in housing markets, which boost labour productivity through a more efficient allocation of skills (Adalet McGowan and Andrews, 2015^[25]). Finally, emerging evidence demonstrates the productivity costs of stringent occupational licensing via labour reallocation (Hermansen, 2019^[26]; Bambalaite, Nicoletti and Rueden, 2020^[27]).

The growth of productive firms is accommodated by the downsizing and exit of other firms, leading to job displacement that can be costly and politically sensitive. Steering the reallocation process in a productive and inclusive direction requires a policy response that supports workers affected by such reallocations to quickly find new jobs – by providing appropriate training and re-training opportunities – as opposed to one that delays the adjustment process. Policies that stifle reallocation can lead to unemployment, amplify the risk of long-term unemployment and cause long-term scarring effects for young people who graduate in a recession and cannot find work (Andrews et al., 2020^[28]). Active labour market programmes (ALMPs), including employment services to help jobseekers find a job, can help displaced workers return to work (Cournède, Denk and Garda, 2016^[29]), particularly when coupled with lower administrative burdens on young firms (Andrews and Saia, 2017^[30]), which disproportionately drive job creation (Criscuolo, Gal and Menon, 2014^[31]). This may require additional resources for private and public providers of employment services to deal with the surge in jobseekers but also reforms to ensure that a greater part of their services can be delivered digitally (OECD, 2020^[32]).

If a renewal of structural reform ambition was required to fight the productivity slowdown before the shock (OECD, 2019^[7]), it is now essential given the need for policy to allow the necessary reallocation in a post-COVID-19 world. Job retention schemes (JRS) will need to evolve (see section 3), as although they have proved successful in preventing job destruction during the crisis phase, they risk hampering hiring going forward. Besides a credible medium-term exit strategy from such crisis policies, there is a strong case for economy-wide policies that: *i*) enhance product market dynamism by easing barriers to firm restructuring and firm entry and ensure sound competition and access to finance; and *ii*) support job transitions and worker mobility but strengthen income protection via enhanced ALMPs, paid sick leave and adequate unemployment benefits. Social partners also have an important role to play in this regard. The remainder of this section discusses ongoing structural policy challenges arising from COVID-19 with respect to corporate restructuring and competition.

Dealing with corporate debt and insolvency

The pandemic has disrupted the activity of otherwise healthy enterprises and their ability to pay creditors, suppliers and employees. For many businesses their long-term viability is impaired, and a wave of bankruptcies may follow, eroding human and organisational capital (OECD, 2020^[33]; OECD, Forthcoming^[34]).

Two major risks could potentially slow the recovery from the crisis. First, the number of non-financial corporations in distress is expected to significantly increase. Second, the rise of corporate debt could create a “debt overhang”, whereby highly indebted companies may forgo even profitable investment opportunities due to limited access to new credit and pressures to deleverage by cutting costs and downsizing (Jordà, Schularick and Taylor, 2013^[35]; Kalemli-Özcan, Laeven and Moreno, 2019^[36]; Barbiero, Popov and Wolski, 2020^[37]).

Over the medium term, the objective of policy makers should be to reduce the risks of a wave of corporate insolvencies while limiting the rise of corporate debt. This is challenging on several counts. First, debt-based government support packages, by providing further loans or guarantees, have been critical to address firms' immediate liquidity shortfalls but tend to increase corporate sector's indebtedness (OECD, 2020). Second, the exceptional magnitude of the crisis and the high levels of uncertainty that firms are still facing are likely to make distinguishing between viable and non-viable firms more difficult. Third, insolvency regimes can become stretched during a crisis – especially when courts are congested – resulting in the liquidations of many viable firms, with adverse consequences for aggregate growth (Iverson, 2018^[38]). Insolvency provisions need to find the right balance between the risk of supporting potentially non-viable firms against the risk of forcing viable and productive firms into premature liquidation. In the current situation, the balance of risks should be tilted in favour of supporting non-viable firms than in normal circumstances, but governments should regularly re-assess and adapt support as the economic situation evolves. Governments may proceed as follows:

- Policy makers should aim to “flatten the curve of insolvencies” but policy design should take into account a number of considerations:
 - First, to mitigate debt overhang concerns, government support for firms should increasingly consider complementary non-debt financing instruments. Firms could be recapitalised through equity financing instruments, including: *i*) equity and quasi-equity injections (e.g., preferred stocks, convertible loans); *ii*) phasing in an allowance for corporate equity; and *iii*) debt-equity swaps to provide firms with the required liquidity, without increasing their leverage. Quasi-equity instruments (e.g. hybrids that combine debt and equity-type features) may have to be favoured over common equity because they provide a senior claim to dividends and assets in case of liquidation and allow companies to raise funds without diluting control.
 - Second, equity instruments require monitoring and it is difficult for governments to manage a large number of small equity claims.² Hence, policymakers could use indirect measures to assist smaller firms. For instance, repayment could be linked to businesses' returns: firms that recover most robustly would pay back more, in the form of future taxes, while those that struggle longer would pay back less. These instruments, which could be particularly relevant in countries where equity markets are underdeveloped, would allow the repayment to be state-contingent, mimicking equity injections.
- If this strategy proves insufficient, policymakers could encourage timely debt restructuring to allow distressed firms to continue operating smoothly. This would help to coordinate creditors' claims in a manner that is consistent with preserving the viability of the firm and its capacity to invest going forward. Relevant measures include establishing legal conditions favouring new financing for distressed firms (e.g. granting priority over unsecured existing creditors), reforms to insolvency frameworks including promoting pre-insolvency frameworks and specific procedures to facilitate the restructuring of firms.
- These two steps aim to reduce the number of viable firms that would otherwise be liquidated. To deal with firms that would still be non-viable despite public support and debt restructuring, governments could improve the efficiency of liquidation procedures to unlock potentially productive resources. Providing the institutional conditions for a fresh start by removing barriers that might push debtors to delay liquidation, in particular by reforming the personal insolvency regime, remains a key challenge in several G20 countries.

² The G20/OECD High-Level Principles on SME Financing provide guidance to foster an appropriate financing mix for SMEs.

Using competition and regulatory policies to ensure dynamic, fair and productive markets

Policy measures that entail governments taking equity stakes in distressed companies could potentially imply a useful crisis-management tool in a scenario of prolonged revenue declines. Such interventions tend to target companies whose failure could pose a strain on the economy, for example by increasing unemployment, interrupting essential transport connections, jeopardising the provision of crucial services or products, or obstructing access to finance. Government interventions may also seek to prevent adverse impacts on competition or to address concerns about national security (OECD (2020_[39])). But the corollary is an increase in state ownership, which may distort competition and trade – especially when state ownership is extensive – carrying adverse consequences for productivity, innovation, and the prices and quality of goods and services. This can have adverse knock-on effects on downstream sectors, furthering raising the aggregate costs (Égert and Wanner, 2016_[40]; Bourlès et al., 2013_[41]).

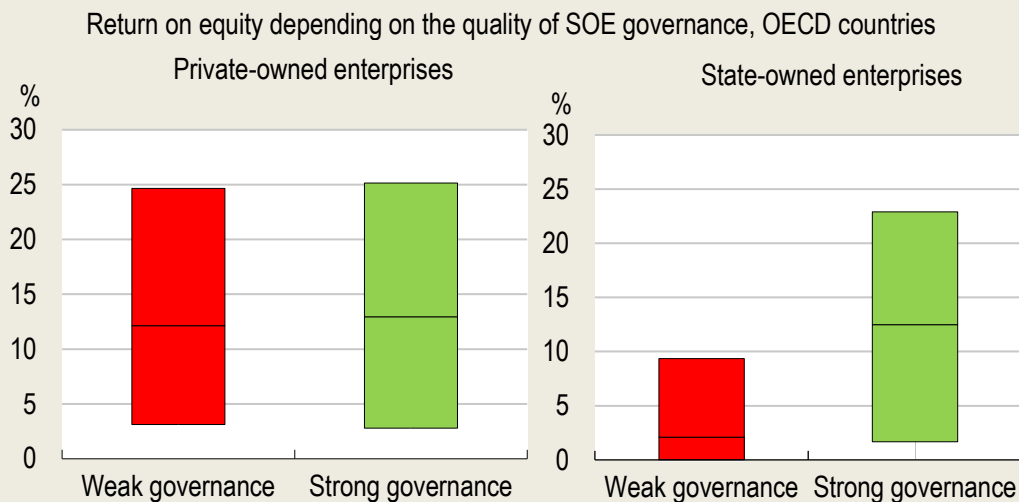
Good governance of state-owned companies is key to ensure a sound competitive and regulatory environment conducive to economic growth (OECD, 2015_[42]) (Box 2).

Box 2. Ensuring the corporate governance of state owned enterprises (SOEs) is in line with the interests of the general public

State ownership is extensive in many G20 countries, the OECD Product Market Regulation (PMR) indicators showing that governments control firms engaged in commercial activities in energy, rail transport, finance, and telecoms. Pandemic-induced interventions potentially imply further rises in state ownership.

Good governance is key to state-owned enterprises' (SOEs) performance and the broader competitive landscape. For example, SOEs in the air transport and automotive sectors in OECD countries tend to have significantly lower returns on equity but can perform as well as private firms when they are subject to the same market pressures as their competitors and insulated from political interference (Figure 7).

Figure 7. Performance of SOEs relative to other firms: air transport and manufacturing of motor vehicles



Note: The bars show the ranges between the 25th and 75th percentiles (lower and upper limits respectively) of the distribution and the median (the middle line). The results are for a sample of firms in the air transport sector (NACE code 5110) and the motor vehicle manufacturing sector (NACE code 2910). See OECD (2020_[39]) Annex A for details. The sample includes OECD economies except the United States due to the lack of a PMR indicator on Governance of SOEs. The governance of SOEs is measured using the relevant PMR low-level indicator (2018). The countries with strong SOE governance (green) are those with an indicator value above the median value for OECD countries in the sample. Those below the median are deemed to have weak SOE governance (red).

Source: Based on ORBIS (2018) and OECD Product Market Regulation Database <https://www.oecd.org/economy/reform/indicators-of-product-market-regulation/>

In around a quarter of OECD countries, there are SOEs with a legal status that may shield them from the (full) application of private company law. Applying greater accounting or legal separation between commercial and non-commercial activities on SOEs that also fulfil public service could also avoid the distortions caused by possible cross-subsidisation in many OECD countries.

Other key OECD principles of SOE governance, not covered in the PMR indicators, can also help governments in the context of the COVID-19 crisis. In particular, governments should take equity stakes only in firms whose financial distress is linked to the downturn, and which are likely to return to profitability once economic conditions improve. In addition, in order to contain costs to taxpayers and minimise moral hazard risks related to the expectations of future bailouts, governments should impose strict recovery plans on the firms benefiting from these interventions, set clear conditions for exit from state ownership, and rely on independent advisory to ensure sound valuations of investments and divestments. Conditionality of the support should be considered and used where necessary to minimise distortions to competition.

Source: OECD (2020^[39]).

2.2 Making the most of digital technologies

COVID-19 has highlighted the potential of existing technologies, notably digitalisation, to build resilience and sustainably boost growth. While some of the digital push may disappear as physical distancing rules are relaxed, the COVID-19 crisis may prove to be a turning point in the digitalisation process as firms recognise its benefits. Indeed, new habits may form from pandemic-induced experimentation with new modes of service delivery, such as telemedicine for example, where remote consultations in France increased to around 500 000 between March 23 to 29, from around 10 000 per week before March (OECD, forthcoming^[43]). Similarly, pandemic-induced behavioural changes can potentially induce permanent carbon emission reductions, provided digital transformation is sufficiently enabling (European Commission, 2019^[44]).

The COVID-19 shock has further accelerated online platforms' uptake, with activity shifting towards online marketplaces, at least in those sectors less dependent on physical proximity (OECD, 2020^[45]). This shift to online platforms has enhanced resilience by sustaining production during a shock that severely disrupted traditional economic activities. It also promises to enhance productivity growth by reducing transaction costs, information asymmetries and entry costs for new providers (OECD, 2019^[46]; Cramer and Krueger, 2016^[47]; Bailin Rivas et al., 2019^[48]). The services delivered by online platforms – for example, advanced low-cost logistics and payment services and better communications between buyers and suppliers – may be especially beneficial for SMEs. While this may level the playing field between large and small firms, this needs to be balanced against: i) the potential for online platforms to generate winner-take-all dynamics that risk weakening competition (see below); and ii) and the challenges that the associated “gig-economy” work arrangements imply for traditional social protection regimes (OECD, 2019^[49]; Schwellnus et al., 2019^[50]). Thus, ensuring that online platforms can contribute to inclusive growth is a key policy issue, and policy coordination at G20 levels can play a role starting with supporting the collection of comprehensive cross-country data on online platforms' activities.

To accommodate these changes, work practices will need to continue to evolve, requiring greater digital skills and new organisational structures and business models (G20 Digital Economy Ministers Meeting, 2020^[51]). The same is true for protocols for data sharing and policy measures to ensure privacy, digital security and consumer protection and promote international rule-making for the digital economy. Investments in digital infrastructure and stronger connectivity are now essential to prevent the emergence of new digital divides.

While digitalisation is itself a product of continuous innovation, it is necessary for government to pay close attention to ensure that market failures are not impeding innovation. Potential headwinds to a digital-led recovery include: i) funding cuts to R&D by businesses resulting from debt overhangs; ii) tighter public

budgets for non-COVID-19 research and innovation; and *iii*) heightened (economic and policy) uncertainty, which delays risky investments and undermines scientific production and its translation into products, services and growth.

To fully realise the digital transformation opportunities triggered by COVID-19, policy will need to address: *i*) the barriers to digital adoption amongst SMEs; *ii*) the need to support complementary investments in workers skills; and *iii*) the regional aspects of the digital divide. Beyond this, it will be important for governments to make further progress on addressing digital data gaps that are preventing the development of reliable data and statistics.

Digitalisation also creates regulatory challenges. Network effects can give rise to winner-takes-all (or winner-takes-most) dynamics and could carry adverse consequences for competition against a backdrop of rising demand for digital services (Syverson, 2019^[52]; Autor et al., 2020^[53]; Furman and Orszag, 2015^[54]). To ensure dynamic markets and a level-playing field for all types of firms, governments and competition authorities should pay attention to: *i*) new acquisitions by large technology firms, (OECD, 2020^[55]; Cunningham, Ederer and Ma, 2018^[56]) and conglomerate mergers (firms that are not current competitors, but may have products in related markets) (OECD, 2020^[57]; Bourreau and de Streel, 2019^[58]) which are more likely to occur in digital markets *ii*) anticompetitive conduct by digital firms, including abuses of dominances or monopolisation (OECD, 2020^[59]); and *iii*) demand-side characteristics in markets, such as consumer behavioural biases (Fletcher, 2016^[60]). Beyond price impacts, competition authorities could also consider other variables in their deliberations, including harm to innovation (as anti-competitive practices in digital markets are not necessarily reflected in prices) (OECD, 2018^[61]; OECD, 2018^[62]). Finally, they could also put the burden on dominant firms to show the consumer benefits of some mergers and acquisitions (OECD, 2019^[63]).

Addressing start-up and SME needs and the role of digitalisation

Business registrations initially fell sharply following the onset of the pandemic – exacerbating pre-pandemic declines in firm entry – raising concerns about a missing generation of new firms (OECD, 2020^[64]). Although business registrations have since picked-up significantly, it is likely that the crisis has disrupted the inherently fragile (post-entry) process of business experimentation and upscaling, with high quality job seekers shifting their search activity towards more secure jobs at large incumbents, and away from young firms (Bernstein, Townsend and Xu, 2020^[65]). This is concerning as young firms account for around half of job creation and one fifth of overall employment in OECD countries and are a major engine of innovation and diffusion. Thus, it brings into closer focus recent efforts to nurture and expand venture capital financing in G20 countries, including France and Germany.

Despite the investment in digital transformation forced by the pandemic, SMEs continue to lag behind larger firms in these areas and in the adoption of more advanced digital technologies. Policy efforts should aim to: *i*) provide support for teleworking and smart working solutions (e.g. video conferencing or access to cloud computing services); *ii*) strengthen SME's use of the digital economy, which requires digital skills as well as skills that complement digital technologies, such as general cognitive and complex problem-solving skills, and SME's digital awareness, through workforce training and the provision of educational materials (OECD, 2019^[66]); *iii*) better connect SMEs with digital solutions providers; *iv*) relieve pressure on digital infrastructure via investments in the deployment of high-speed and new generation broadband; and *v*) increase focus on raising SME capacity for digital security risk management and data integrity protection (G20, 2020^[67]).

To support SMEs to access finance, the *G20/OECD High-Level Principles on SME Financing* could be updated and implemented to better reflect the post-COVID context for SME financing and recent developments in Fintech and related regulatory aspects, as suggested by G20 Finance Ministers and Central Bank Governors in July 2020.

Supporting the upskilling and reskilling of workers

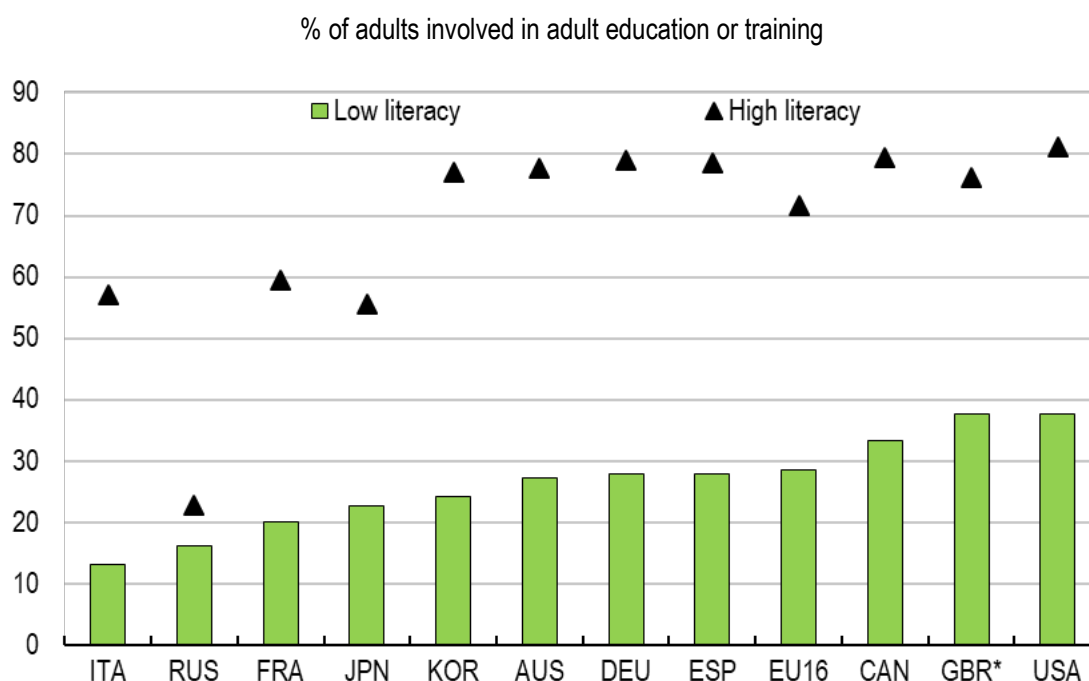
The pandemic has tested countries capacity to nimbly adjust their skills and training policies (OECD, 2020^[68]), particularly given the need for rapid retraining of workers in essential services, such as health care. Programmes that targeted those workers who already had the necessary skills and matched them with positions – which required little specialised training – proved most effective, such as Partners in Health in Massachusetts (United States) effort to train 1 000 people in contact tracing.

Another difficulty has been to scale-up distance learning and the switch to online training. Fast-track licencing and temporarily easing licensing and registration requirements has been useful in some cases to tackle critical shortages in regulated sectors. For example, British Columbia in Canada amended its Health Professions Act so that international medical graduates could apply for a supervised associate physician licence to fight COVID-19. This may aid broader reforms to licensing restrictions in professions – a reform priority across the G20 before the crisis (OECD, 2019^[7]; OECD, 2019^[69]) – and support labour mobility and productivity growth.

More generally, effective skills profiling tools and programmes for the recognition of prior learning are essential to ensure that training is efficiently focused on the jobseeker’s skill gaps. In this regard, Australia’s Skills Match online tool helps workers identify skill gaps and transferable skills between their previous and prospective jobs. Career guidance counsellors can also help direct adults towards skills in demand.

Policy support needs to focus on low-wage, low-skilled and informal workers, who often do not have sufficient digital skills, participate less in training (Figure 8) and do not have access to high-speed internet to tap new job vacancies or to telework. Teleworking is typically lowest among low- and medium-skilled workers – partly due to the nature of tasks they perform (Sostero et al., 2020^[70]) – and there may be a case for short, targeted training to better prepare them.

Figure 8. Low-skilled adults participate less in training



Note: * GBR is for England only. Low literacy refers to level 1 or below (adults are at most able to read short texts) and high literacy refers to level 4/5, where adults are able to at least perform multiple-step operations to integrate, interpret, or synthesise information from complex or lengthy continuous, non-continuous, mixed, or multiple type texts, as defined in the OECD Survey of Adult Skills (PIAAC). Adults refers to 25-65 year olds. Training refers to both formal and non-formal training.

Source: OECD Survey of Adult Skills (PIAAC); and OECD calculations.

Reducing regional disparities

Despite the importance of digital tools to education and remote work, some regions – especially rural areas – lack digital infrastructure. On average, across OECD countries for which data is available, the region with the best digital infrastructure has a 23-percentage point higher share of people with access to fast (above 30 Mbit/s) internet networks than the region with the least widespread access (OECD, Forthcoming^[71]).

Successful initiatives to bring broadband to remote places have often been locally led via public-private partnerships. National governments can also play a role through voucher programmes and targeted subsidies, but it is important not to bet on declining technologies (World Bank, 2020^[72]). Some G20 countries are now relaxing fiscal rules for subnational governments, increasing capital transfers and subsidies to them, easing their access to credit to fund long-term projects and supporting the preparation and implementation of projects. To bring broadband to remote places there is also a need for overall broadband policies, including sound regulatory frameworks and competition (OECD, 2018^[73]).

3. Retaining viable jobs and enabling transitions to new jobs

Many countries are experiencing a massive oversupply of labour, with firms scaling down, or even suspending, their operations during the early stages of the pandemic. Unemployment rose considerably in Canada and the United States where temporary layoffs are counted as unemployed. Indeed, 73% of those unemployed in May in the United States were temporary layoffs (OECD, 2020^[3]). Consequently, in many other countries, the rise in unemployment has been milder so far, but large shares of the workforce are in job retention schemes (Table 1,

Figure 9). This diversity of experience reflects cross-country differences in: shocks to various segments of the labour market; the propagation of the pandemic and lockdown measures; and the policy mix – both pre-existing and emergency measures – to cushion the shock. While unemployment has receded from its peak in several countries since, unemployment rates may remain persistently higher throughout the recovery, as workers attempt to re-enter the labour market (OECD, 2020^[2]). Indeed, evidence from the global financial crisis illustrates that unemployment rates can take a very long time to return to their pre-crisis level after the crisis has ended.

3.1 Job retention schemes and income support measures as crisis response tools

JRS seek to preserve jobs at firms experiencing a temporary reduction in business activity by alleviating firms' labour costs while supporting the incomes of workers whose hours are reduced. These schemes provide liquidity to firms to retain their workers, including their talent and experience, and allow firms to ramp up operations quickly once economic activity recovers, without having to go through the process of hiring and training new workers. By preserving employer-employee relations, JRS may also prevent the deterioration of skills and steeper income losses for redundant workers. Examples of JRS include the short-time work (STW) schemes that directly subsidise hours not worked (e.g. German Kurzarbeit or the French *Activité partielle*) and wage subsidy schemes that subsidise hours worked but can also be used to top-up the earnings of workers on reduced hours (e.g. Job Keeper Payment in Australia) (OECD, 2020^[74]).

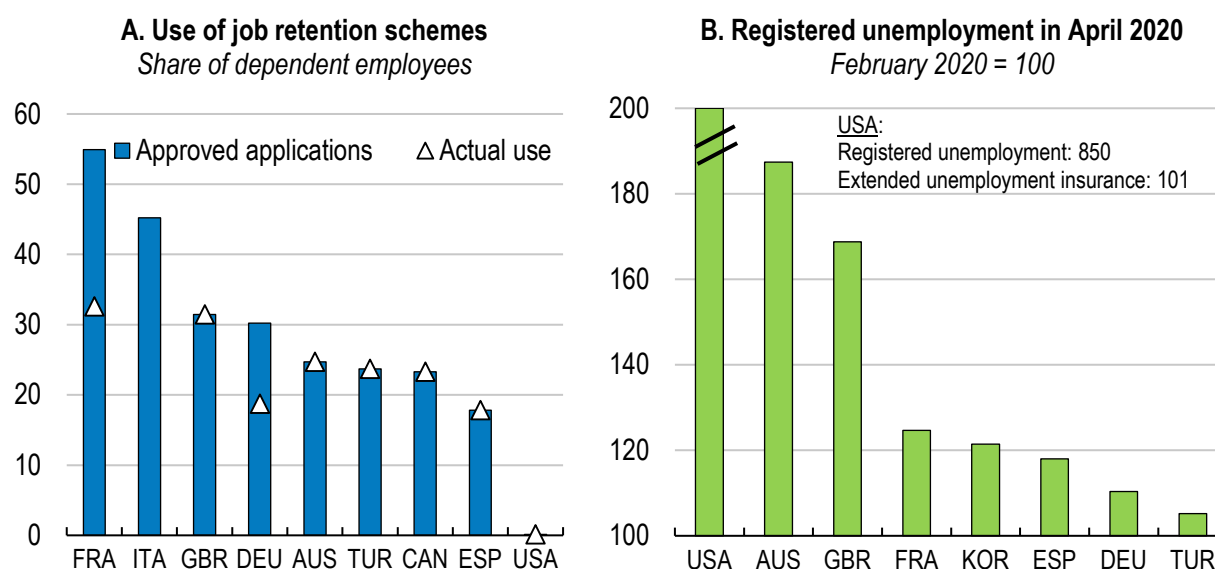
Table 1. Countries have adjusted existing job retention schemes or adopted new ones

	Pre-existing short-time work scheme	Increased access and coverage	Increased benefit generosity	Increased access for workers in non-standard jobs	New short-time work scheme	New wage subsidy scheme
Argentina						●
Australia						●
Brazil	●	●	●	●	●	
Canada	●	●				●
China						●
France	●	●	●	●		
Germany	●	●	●	●		
India						●
Italy	●	●		●		
Japan	●	●	●	●		
Korea	●	●	●			
Russia						●
Saudi Arabia					●	
South Africa					●	
Spain	●	●	●	●		
Turkey	●	●		●		
United Kingdom					●	
United States	●	●	●			

Note: Mexico and Indonesia do not have job retention schemes. EU member states also agreed to create a temporary loan instrument to help finance STW schemes and other similar measures supporting the self-employed across the EU (*Support to Mitigate Unemployment Risks in an Emergency, SURE*).

Source: OECD COVID Tracker and OECD (2020) "Job retention schemes during the COVID19 crisis and beyond".

Figure 9. Job retention schemes and unemployment inflows in the initial phases of the crisis



Note: Panel A: Data refer to end May. Data for Spain refer to the number of recipients in May. Data for Canada cover the period from 10 May to 6 June. Data for France and Germany on actual use are the estimated number of persons in job retention schemes in May. United States: data refer to participation in short-time compensation schemes. Australia and Canada operate wage subsidy schemes, which are not conditional on the reduction in working hours. Take-up rates are calculated as a percentage of dependent employees in 2019 Q4. Panel B: Not seasonally adjusted. Registered unemployed are jobseekers registered with labour offices and/or public employment services. Registered unemployment includes workers on temporary layoffs in the United States. Figure refers to continued UI claims for the United States. Extended unemployment insurance refers to Pandemic Unemployment Assistance in the United States. Data are subject to national legislations. Consequently registered unemployment data may not be directly comparable across countries.

Source: (OECD, 2020^[74]), "Job retention schemes during the COVID19 crisis and beyond", using national sources; and (OECD, 2020^[3]), "OECD Employment Outlook", using registered unemployment from OECD (2020), "Labour: Registered unemployed and job vacancies", Main Economic Indicators (database), <https://doi.org/10.1787/e9ade9e2-en> (accessed on 15 June 2020), Labour Market Information Portal (Australia), KOSIS (Korea), ISKUR (Turkey) and Department of Labor (United States).

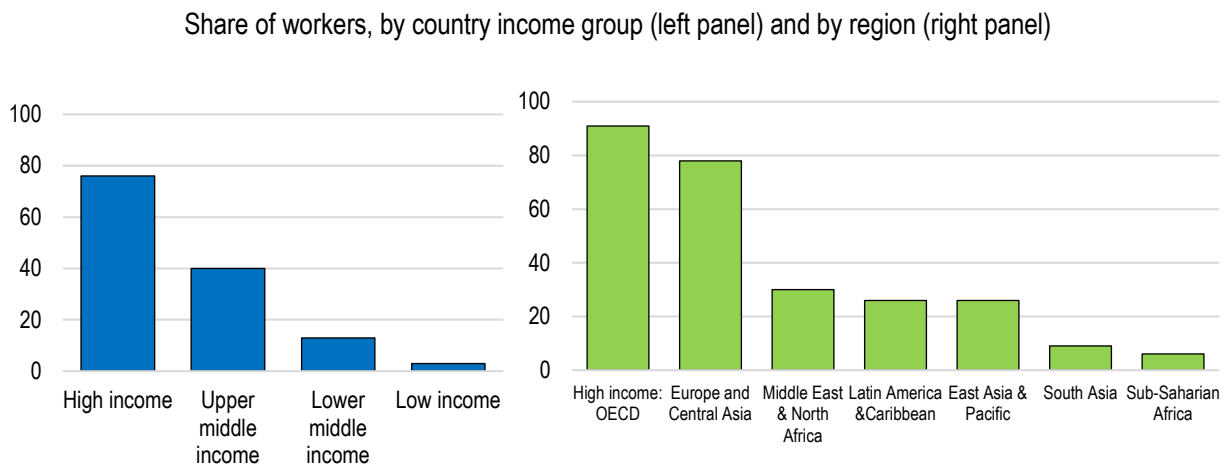
The downside of JRS, however, is that they can be a barrier to the reallocation of workers and capital from non-viable firms to growing firms (by subsidising labour hoarding). A large part of the problem is the difficulty to distinguish viable jobs from non-viable jobs.

Income support to workers and households affected by job and earnings losses has been playing a vital role in supporting incomes and aggregate demand. Some G20 countries have extended benefits, spanning: health coverage, unemployment benefits, minimum-income benefits to low-income households and wage subsidies to self-employed and part-time and temporary workers (OECD, 2020^[6]). Several G20 countries recently extended unemployment benefits and JRS to workers in non-standard jobs (Causa and Cavalleri, 2020^[75]) and in several G20 advanced economies, such workers may receive earnings top-ups through in-work benefits (e.g. France, the United Kingdom and the United States). Many governments also introduced temporary programmes to support self-employed workers and small businesses in the initial phase of the crisis, while governments in emerging economies have devised new schemes to support informal workers.

But the pandemic has also accentuated pre-existing gaps in social benefit provisions. For example, the availability of unemployment benefits varies widely across G20 economies and across income levels (Figure 10). Many workers in informal and non-standard forms of employment (including platform workers,

for example) have less or no access to existing social-protection and job retention schemes and face a higher risk of losing their jobs, even in “normal times”. This challenge is more pressing in many emerging and developing countries where the informal economy is large and the vast majority of the population does not have access to formal social protection. In most G20 advanced economies, informal workers, including undocumented migrants and workers in “partial informality” – who are registered but working some of their total hours for undeclared cash payments – are typically ineligible for most income-support schemes. For these workers, losing their job means losing these benefits that are tied to wages and working hours. Workers in informal and non-standard jobs tend to be the most vulnerable, implying a need for additional policies to curb the inequality and any scarring effects of the crisis (OECD, 2020^[6]).

Figure 10. Availability of unemployment protection varies widely by income and region



Source: Based on World Bank (2020^[76]).

Reviewing and adapting the adequacy and targeting of income support

With employment unlikely to return to its trend level in the near future in most G20 countries, social protection systems will remain under severe pressure. A balance will need to be struck between maintaining adequate income support and encouraging active job search as job growth resumes.

Adjusting job retention schemes

JRS are intended as temporary support, and in recent months, several G20 economies have been reviewing or adjusting their JRS in order to increase incentives for firms to move workers off the schemes and facilitate transitions to viable jobs. For example, France has recently increased employer costs of participation in such schemes. The United Kingdom gradually increased the employer contributions over the summer to October and recently extended the scheme to March. Australia has tightened eligibility criteria for participating firms (outside of the state of Victoria), to improve targeting and has recently announced a time-limited wage subsidy to employers who hire workers aged 16-35 who are in receipt of selected government transfer payments (Australian Government, 2020^[77]). Germany has increased the number of safeguards to encourage more efficient use of the schemes, including increased employer costs of participating in the scheme (starting mid-2021) and improved incentives and conditions for training and reskilling.

Increasingly, JRS need to be redesigned, especially to align replacement rates with those of unemployment benefit schemes which is currently not the case in many countries but also to ensure that the interaction between JRS and income support programs does not introduce undesirable effects on incentives and inequalities. The redesign should also incentivise employers to only use the schemes as

emergency tools and workers to search for jobs. This can be achieved by (Blanchard, Philippon and Pisani-Ferry, 2020^[78]; OECD, 2020^[3]):

- Requiring firms to contribute to the costs of hours not worked, so that the schemes only subsidise job matches that the firms themselves consider viable. Increasing the employer contribution over time would have a similar effect.
- Time-limiting job retention support, while allowing some flexibility regarding the health and economic conditions.
- Registering beneficiaries of the JRS with public employment services (PES) and making them available to be hired. This allows workers to benefit from PES support (e.g. job-search assistance, career guidance and training) and encourages mobility towards non-subsidised jobs. Early, targeted interventions for encouraging labour mobility are efficient (Andrews and Saia, 2017^[30]).
- Promoting training for workers on reduced working hours to improve the viability of their current job or improve the prospect of finding a new one.
- Easing restrictions on combining income from JRS with income from other jobs to incentivise workers to seize new job opportunities.

Reviewing unemployment benefits

The experience of the Global Financial Crisis suggests that extending the duration of unemployment benefits is less likely to harm employment outcomes during a severe downturn (OECD, 2020^[3]). When benefit durations are short and many unemployed exhaust their benefits without finding employment, countries should review benefit provisions, and consider temporary extensions to ensure laid-off workers have sufficient income to meet their living needs. Linking maximum benefit durations to the unemployment rate is one approach to balancing support with the need to encourage continued job search. Combining unemployment benefits with subsidies or tax relief for firms that recall previously dismissed workers could also support workers and preserve job matches, while allowing for a sufficient degree of reallocation.

Once economic activity, and in particular job creation, resumes, countries that have extended the benefit duration or increased benefit generosity during the downturn should revisit the balance between income support and work incentives. “Mutual obligation” requirements, which commit jobless benefit recipients to active job search efforts, should be progressively re-established where they have been relaxed or suspended during lockdown. In addition, accompanying any benefit extensions with strengthened incentives to move off benefits, such as requiring longer-term claimants to re-apply, introducing waiting periods between claim periods, or reducing benefits over time, can help to encourage job search without compromising workers’ rights to freely choose employment. All of these measures should be flanked by measures to help jobseekers return to work in terms of training and job readiness programmes as well as job search assistance more generally.

Reassessing other income support

Governments will also need to re-assess temporary programmes introduced to support self-employed workers and small businesses, as well as informal workers in emerging economies, in the initial phase of the crisis (OECD, 2020^[3]). These programmes were designed to deliver support at speed, often with limited concern for targeting. Where such schemes are not linked to past earnings, this link should now be introduced. More generally, this crisis has highlighted the need to extend rights to out-of-work income support that are available to dependent employees to self-employed workers, and workers in other forms of employment. While including the self-employed in earnings-related social protection schemes is complicated due to challenges in identifying their contributory income, several countries have established well-designed policies, including the combination of non-contributory and contributory schemes (OECD, 2018^[79]; OECD, 2019^[80]). Additionally, one design possibility is opting for a legislated ‘state-dependent’

income security net, that can be activated on-demand in specific economic conditions, to help de-politicize decisions and reduce the possibility of over-reactions.

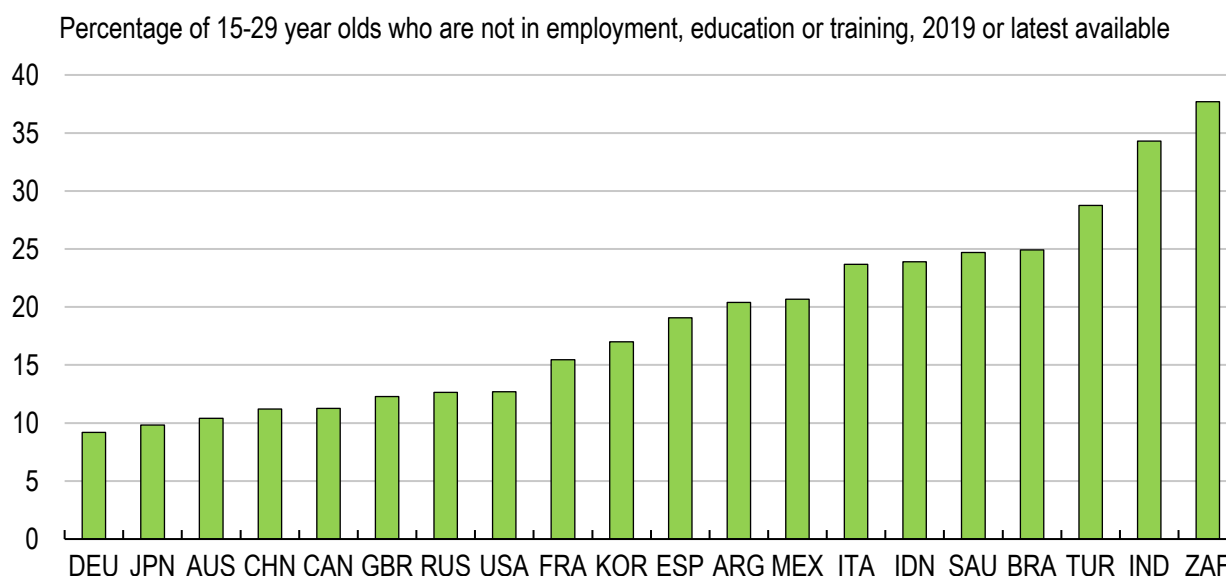
As jobseekers exhaust their unemployment benefit entitlements, and as workers in non-standard jobs run down their savings, demand for “last-resort” minimum-income benefits – such as social assistance and conditional and unconditional cash transfer schemes – will rise. Effective targeting is important, but countries need to ensure that those in urgent need continue to receive support. For example, countries could gradually phase back income tests to allow households to adjust their expenditure, while better targeting asset tests (e.g. exempt the family home or business assets) for as long as job opportunities remain scarce and households face liquidity problems (ILO-OECD, 2020^[81]). Some emerging economies with large informal sectors, including Argentina and Brazil, have cash-transfer programmes that can account for formal and informal incomes, and on which they could build to provide more effective insurance against sudden income losses for informal workers. In countries with limited institutional capacity to perform asset- or income-tests, and/or with large informal economies, categorical benefits for vulnerable population groups – such as children, elderly, persons with disability, pregnant women or single parents – may constitute a viable targeting alternative. Countries may also want to expand these programmes to cover young adults, where this is not already the case.

3.2 Preventing long-lasting scars on young people and women

Improving the labour market attachment of groups like young people, women, minorities and migrants and providing more equal access to opportunities is another structural challenge for G20 countries that, if anything, gained importance during the pandemic (OECD, 2020^[82]; ILO-OECD, 2020^[4]). Scarring risks are particularly acute for such groups highlighting the importance of training and labour market policies to prevent increases in inequality as well as to increase productivity and economic growth.

Acting quickly to help young people maintain their links with the labour market and education system will be crucial. Already before the pandemic, many young people struggled to gain a foothold in the labour market (Figure 11) (Carcillo et al., 2015^[83]; OECD, 2016^[84]) and there is growing recognition that young people bore the brunt of the Great Recession (OECD 2016). Indeed, studies spanning North America, Japan, Europe and Australia show that labour market entry during a downturn can reduce earnings for up to 10 years after graduation (Kahn, 2010^[85]; Genda, Kondo and Ohta, 2010^[86]; Oreopoulos, von Wachter and Heisz, 2012^[87]; Raaum and Røed, 2006^[88]; Andrews et al., 2020^[28]), with such scarring effects attributed to poor initial firm-worker matching and skills atrophy.

Figure 11. Many young people struggle to gain a solid foothold in the labour market



Note: The data refer to: 2018 for Argentina, Brazil, Germany, India and Indonesia, Russia, South Africa, Spain and the United States; 2016 for Saudi Arabia; 2014 for Japan; and 2010 for China.

Source: OECD Education database; OECD calculations based on national labour force surveys and, for China, census data.

To support young people to complete their education, countries will need to deepen teachers' professional development – and aid their effective use of technology – to enable them to more effectively support disadvantaged students and provide online and blended learning. In developing countries in particular, but also in advanced economies, students from poorer households often have limited access to technology and internet access, which may impede them from receiving adequate education. To reduce inequality of opportunities, countries need to implement policies to address such access gaps.

One effective tool to promote job creation in times of crisis is support for firms who offer jobs or work experience to young people (OECD, 2020^[3]). Some countries are introducing subsidies to help firms expand their apprenticeship and in-firm training programmes. Governments could also encourage young people to take up volunteering opportunities – and accrue valuable work experience in times of depressed labour demand – by paying them a stipend.

Effective outreach strategies are crucial to re-establish contact with young people who recently lost their jobs or left school without finding employment (OECD, 2020^[3]). Young people often have little automatic contact with the public employment service (PES), because they are not entitled to income support, lack trust in public authorities or are unaware of the support they could receive. This suggests a case for rapid and proactive outreach programs, in collaboration with schools and youth organisations, and via social-media campaigns.

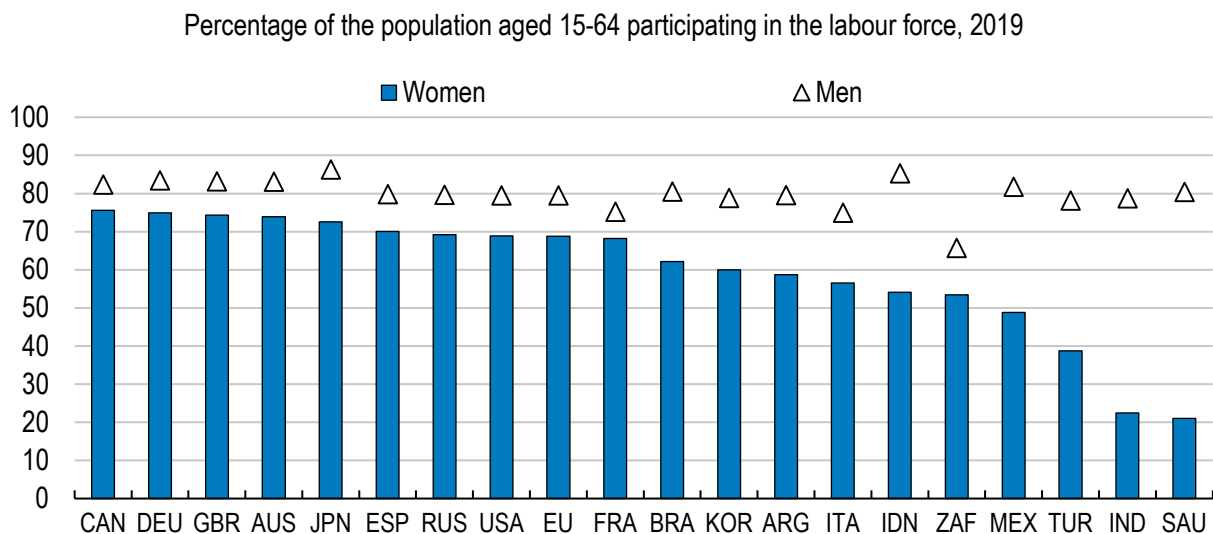
The G20 Road Map for Youth provides a comprehensive set of measures that countries and stakeholders can take to promote better outcomes for young people.³ This includes cost-effective active labour market measures, such as counselling, job search assistance, entrepreneurship programmes and intensive support for more disadvantaged youth. Increased use of online support and virtual-learning platforms,

³ For a fuller discussion of the G20 Road Map for Youth and recent labour market developments for youth, see ILO-OECD (2020^[81]), "Youth at Work in G20 countries: Youth at Work: Progress and Policy Action towards the Antalya G20 Youth Goal", background report prepared for the G20 Employment Working Group under Saudi Arabia's G20 Presidency 2020.

including in vocational education and training, can allow the PES and education providers to continue offering their services while meeting physical-distancing requirements (OECD, 2020^[89]).

The pandemic risks reversing some of the progress achieved by G20 countries over recent years in reducing gender inequalities in the labour market. Women have been hit particularly hard by the COVID-19 crisis in terms of greater job and income losses, poorer mental health and an increased exposure to domestic violence (OECD, 2020^[90]). This could damage women's longer-term labour prospects and put at risk the G20 Brisbane goal of reducing the gender gap in labour force participation by 25% by 2025 compared to 2012 (Figure 12).

Figure 12. The gender gap in labour force participation remains large in some G20 economies



Note: The data refer to 2018 for Argentina and 2017 for India and Saudi Arabia.

Source: OECD Labour Force Statistics Database; and OECD calculations based on national labour force surveys.

To address the dual objectives of reducing gender inequalities and encouraging labour force participation generally, some policies that were implemented in the early months of the crisis will need to be adapted and, in some cases, better targeted.⁴ In particular, this includes the need to scale up efforts to strengthen family-friendly working-time arrangements and reform paid family-leave policies, improve access to affordable care services to aim for better sharing of family responsibility between parents and close the gap in gender pay.

4. Reinforcing the firepower of public finances

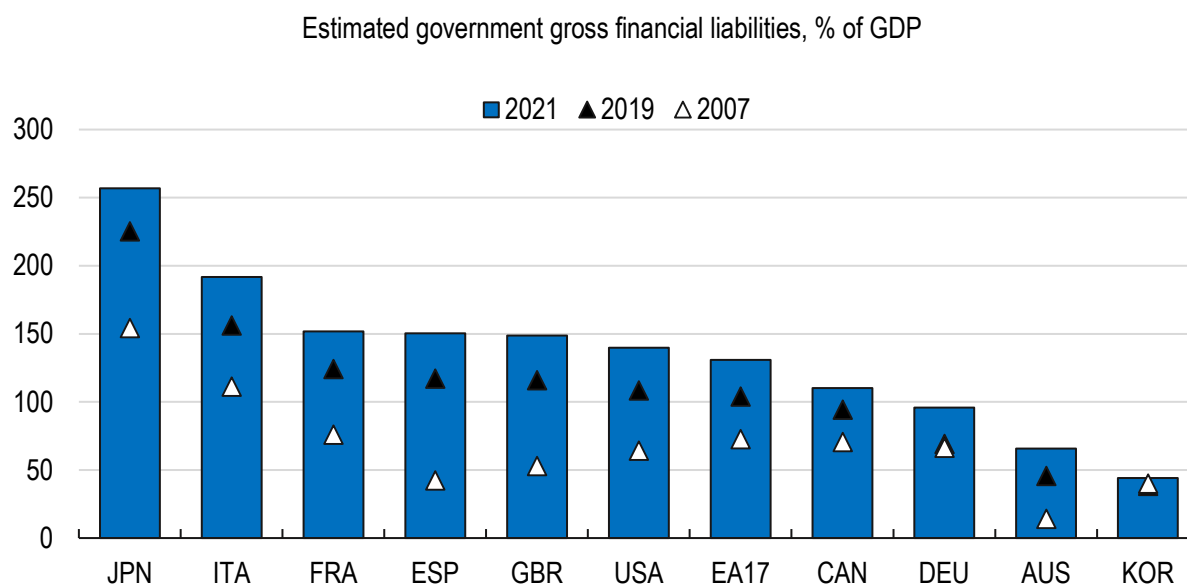
4.1 Restoring public finances once the recovery is firmly underway

The swift roll-out of crisis-response measures to expand healthcare capacities, help to preserve citizens' incomes coupled with a cyclical deterioration in budget balances, is expected to raise government debt significantly. Total government liabilities are expected to increase by 21% of GDP by the end of 2021 on average across the advanced G20 countries in a scenario assuming a second pandemic outbreak in 2020 (Figure 13). Public debt could turn out even higher than expected due to large uncertainties about the

⁴ For a fuller discussion of additional action that should be taken, see ILO-OECD (2020), "Women at Work in G20 countries: Progress and policy action", background report prepared for the G20 Employment Working Group under Saudi Arabia's G20 Presidency 2020.

economic impact of the crisis, use of support measures, and realisation of contingent liabilities – such as current state loan guarantees, which may amount to 10-30% of GDP in some countries.

Figure 13. Government debt is expected to increase across G20 countries



Note: This figure uses the national accounts definition of government debt. Projections for 2021 show the double-hit scenario.
Source: OECD Economic Outlook 107 database and OECD calculations.

Monetary and fiscal policies will need to remain highly supportive for a prolonged period of time, given the damage wrought by the recession and accompanying job losses and persistent weak inflation. Fiscal sustainability is not an immediate threat in economies where debt-servicing costs remain low and financial conditions are stable. Internationally coordinated programmes such as the European Recovery and Resilience Facility can help maintain these conditions while providing room to maintain fiscal support. Central banks and monetary authorities particularly in advanced countries, have also eased monetary policy aggressively to support the economy and achieve their inflation targets by lowering interest rates and increasing central bank holdings of government bonds. This has also reduced government debt-servicing costs significantly. With a slow recovery in output and inflation, central banks and monetary authorities will require accommodative monetary policy for some time to achieve their inflation targets. The reliance on short-term financing instruments has increased due to the sudden increase in government cash needs. Over time, governments can further reduce their vulnerability to rollover risk – typically associated with short-term borrowing – by introducing securities with longer-term maturities, helping extend the average maturity of debt and diversifying the investor base (OECD, 2020^[91]).

The crisis-related increase in government debt and central bank assets may lead to perceptions of central banks overstepping their mandates, which should be offset by clear communication. To minimise such risks and keep inflation expectations in line with central bank goals, fiscal and monetary authorities should jointly communicate their commitment central bank independence. They should also continue to maintain as necessary the separation of their respective mandates, with that of monetary policy remaining focused on inflation and other objectives, such as employment, set in Central Bank legislation or regulation. Moreover, governments need to be cognisant of the distributional consequences of central bank measures to achieve their inflation and other targets, e.g. measures to support non-financial corporations and local authorities, and take account of these effects in setting policies to achieve their distributional goals. The

expansion of securities held by the central bank to include private debt increases the risk of capital losses in the future, which could provoke increased political criticism and interference.

The COVID-19 shock may elevate the risk of balance of payments and public debt crises – particularly in emerging-market and developing economies – as it has triggered lower foreign demand, commodity prices and tax revenues and higher public spending (Box 3). Many of these countries have weaker automatic fiscal stabilisers – due to weaker social safety nets and higher rates of informality – and limited macroeconomic policy space due to high public debt and inflationary pressures created by domestic currency depreciation, and consequently borrow extensively from foreign investors.

Box 3. The COVID-19 crisis has led to unprecedented portfolio capital outflows from EMEs

The COVID-19 outbreak has led to unprecedented capital outflows from EMEs, driven by sales of portfolio assets by foreign investors. The scale and speed of portfolio outflows in the current crisis have been larger than during the 2008 financial crisis (OECD, 2020[102]). In the face of global dollar liquidity shortages, some EMEs central banks intervened in the foreign exchange market to support depreciating currencies, and several central banks have established or expanded swap lines. In the area of capital account policy, they largely focused on relaxing restrictions on inflows in order to ease liquidity rather than reintroducing controls on outflows. The differentiated inflow patterns across countries have highlighted the importance of adequate levels of international reserves and of strong prudential frameworks as key features ensuring resilience in such episodes.

In the longer term, local capital market development, including the development of a domestic investor base, may help increase resilience to outflows. International co-operation will continue to be key: first in enabling learning from the experiences of peers as countries seek the most appropriate toolkit to face capital flow volatility, and second in avoiding policy actions that result in spillovers detrimental to other countries. Already existing mechanisms can be leveraged to this end, such as the OECD Code of Capital Movement provides – a platform for collaboration and dialogue based on the principles of transparency, non-discriminations and accountability with regards to capital flow measures.

Debt levels are also rising sharply in large middle income countries whose debt is exposed to capital outflows and exchange rate risk. Ensuring the availability of multilateral financing options would help to prevent sovereign debt crises in emerging markets from derailing the global recovery. An agreement on a common framework for debt restructuring would similarly help sovereign debt crises hampering a strong, sustainable and inclusive global recovery.

There is no unique solution for dealing with debt burdens. Lending capacity of international financial institutions should increase to bolster global financial safety nets. Other official lenders could also mobilise more financing upfront, when their own conditions allow. Moreover, a careful approach to debt restructuring with private creditors when sustainability is in doubt could be encouraged to limit market disruption and spillovers. Emerging-market economies and developing countries should strive to strengthen: *i)* the quality and transparency of macroeconomic policy frameworks for all fiscal and quasi-fiscal activities and *ii)* the transparency of COVID-19-related public spending to limit the risk of funds' mismanagement and misuse.

The size and timing of discretionary fiscal consolidation will vary across countries, depending on macroeconomic and financial conditions. Premature fiscal consolidation before economies achieve a full recovery would stifle growth, as some advanced countries experienced after the global financial crisis. This is especially the case if early consolidation hampers productive capacity, e.g. if viable firms and sectors, as well as skills, are harmed. Fiscal support is especially important in countries where monetary policy has limited scope to stimulate private demand. Economies with low debt-servicing costs relative to economic

growth and stable financial market conditions should continue to sustain fiscal support to ensure a durable recovery. Fiscal support is especially important in countries where monetary policy has limited scope to stimulate private demand.

Nevertheless, public debt may not be expected to fall automatically or rapidly after the crisis, given high primary deficits. In the longer term higher debt will need to be addressed in most economies, or else there will be less fiscal space to deal with future crises and longer-term challenges related to population ageing, rising healthcare costs and climate change. Higher economic growth and inflation would lower the debt-to-GDP ratio. Towards this end, the composition of public finances should be growth friendly. Governments should also primarily implement ambitious structural reforms to boost potential growth (OECD, 2019^[69]).

Establishing budget processes that strengthen incentives for prudent long-term planning and provide comprehensive information about public finances would help shape budget decisions and debt sustainability. Many countries (e.g. Brazil, EU, France, Germany, Italy) have activated escape clauses to deviate from the fiscal requirements that would apply in normal times under the fiscal rules (IMF, 2020^[92]). It will be important to ensure that the use of this flexibility is temporary and done transparently, including explaining the size of the deviation and process to return to the rule, to preserve the credibility of the fiscal framework. The large scale of public guarantees introduced in the crisis, involving complex arrangements and risks, calls for developing sound reporting standards and practices. Governments should also strengthen their fiscal risk frameworks to better monitor and actively manage guarantees and equity holdings in bailed out companies. Establishing, or reinforcing, independent fiscal councils and creating long-term fiscal targets could be helpful in this respect.

4.2 Ensuring adequate government spending without threatening debt sustainability

Fiscal recovery measures should be timely, targeted and temporary, and public investment will often be a suitable instrument to kick-start growth and hence job creation. There is also a need to start a review of government expenditures so spending can be shifted to higher priority areas.

The ability to deal with spending pressures and to improve the efficiency of spending relies critically on the effectiveness of the budgeting and public expenditure management system. In the emergency phase, maintaining appropriate recording of emergency response options by costing, recording and monitoring the actions will be important to ensure adequate public finance management, as well as ensuring clear communication of fiscal policy responses to help maximize their effect on economic confidence. In the exit phase, spending reviews can help to ensure adequate spending on high-priority areas and people without threatening debt sustainability, while enhancing growth and reducing wasteful spending.

Systematic efforts to review public expenditures early with a view to detect efficiency savings and cut low yielding expenditures is crucial. Reallocating spending towards priority areas is usually gradual and effective reviews require integration in the budgetary process and can consume considerable time, resources, and organisational and political capital. In this regard, Canada, the Nordic EU Member States and the Netherlands all engaged in large-scale spending reviews in the 1980s and 1990s that contributed to restoring sound fiscal positions after severe budgetary shocks (European Commission, 2014^[93]).

Healthcare spending will need to rise in many countries, to enhance resilience to future pandemics and address structural increases in healthcare costs. The same is true for high-quality public investment in sectors related to digitalisation, education and reducing pollution, after a decade of low public capital spending. Recourse to public investment for fiscal stimulus needs to ensure that projects are well planned, selected and implemented to produce their expected benefits. A reduction in public investment should be avoided, in contrast to the past large consolidation episodes (Blöchliger, Song and Sutherland, 2012^[94]).

In response to the crisis, many G20 countries have already announced a reprioritisation of capital spending, mostly by bringing forward projects to support growth (IMF, 2020^[95]), while the same is true of some low-income countries. For example, the European Union Recovery and Resilience Facility (RRF)

has put priority on green and digital investments. It is important to develop and maintain a pipeline of investment projects in infrastructure, R&D, innovation, education and skills that are technically well-defined, have gone through a rigorous appraisal and selection process, and contribute sufficiently to growth and social cohesion (OECD, 2019^[96]).

4.3 Towards a more resilient, inclusive and sustainable tax system

Given rising public debt burdens, countries should broaden and diversify their tax bases to raise revenue in the least growth-distorting way, and enhance the resilience of tax revenue to future shocks. Beyond this, reviews of the tax mix should look to accommodate inclusiveness and sustainability considerations as much as possible, without introducing excessive complexity (see below). Countries should reduce their reliance on cyclically vulnerable revenues that are linked to commodity prices, corporate or capital gains taxes – by diversifying their tax bases, as higher debt levels in the post COVID-19 world will compound the usual risks. Specific measures to take include: reducing fossil fuel subsidies and other environmentally harmful and regressive tax expenditures; broadening the tax base in a progressive way that appropriately balances consumption, labour, capital and environmental taxes; and addressing base erosion and profit shifting in order to level the playing field.

Revisiting the taxation of capital (shifting from financial asset income to property taxation, while at least not reducing revenue) should be considered in the light of growth objectives, making the system more progressive where necessary. Consumption taxes were used extensively in the aftermath of the global financial crisis so room to manoeuvre (on the rate) may be limited. But there may be scope to broadening the (consumption tax) base, especially if accompanied by targeted income compensation to poorer households to offset any regressive effects.

Low oil prices make increasing the cost of emitting carbon and other pollutants via raising carbon taxes, fuel taxes or other mechanisms such as emissions trading and eliminating fossil fuel subsidies especially timely. Raising the cost of carbon emissions and other negative environmental externalities could in principle help to strengthen the incentives in the private sector for a low-emissions transition and environmental sustainability. Early commitment to the increasing use of, for instance, carbon taxes in the recovery phase can provide forward guidance to private investors and reduce uncertainty – without immediately burdening businesses with new taxes (Van Dender and Teusch, 2020^[97]). If raising carbon tax rates is used revenues may eventually decline because of their success in reducing emissions and thus eroding the tax base.

The phasing out of inefficient fossil fuel subsidies and tax expenditures and other environmentally-harmful support has the potential to further strengthen the alignment of public finances with emission-reduction and sustainability targets. Governments provided some USD 478 billion in fossil fuel support in 2019, more than double that of the support given to renewable energy (OECD, 2020^[98]; IEA, 2020^[99]).⁵ Some such spending has proven to be inefficient in delivering affordable and accessible energy since it is often poorly targeted, especially when compared to means-tested cash transfers (OECD/IEA, 2019^[100]). Reforming the most distortive agricultural support measures can incentivise more sustainable practices that benefit the environment and farmers' livelihoods (OECD, 2020^[101]).

The public acceptability of measures like carbon pricing needs to play a key role in the design of such policies (Carattini, Carvalho and Fankhauser, 2018^[102]). Environmental fiscal reforms carry the risk of disproportionately affecting lower-income households and small businesses, which would magnify the negative impact of the crisis on vulnerable populations. Targeted and time-limited transition support for industries, communities, regions and vulnerable consumers can be used to offset the distributional impacts

⁵ . Measures appearing in the OECD Inventory of Support Measures for Fossil Fuels are classified as support without reference to the purpose for which they were first put in place or their economic or environmental effects. No judgment is therefore made as to whether or not such measures are inefficient or ought to be reformed.

of higher taxes or the removal of subsidies (Douenne and Fabre, 2020^[103]). In some cases, the measure used to raise the cost of emitting carbon or other pollutants could provide revenues to finance compensatory measures for the vulnerable. More generally, choices and communication regarding revenue use and accounting for local circumstances determine the public acceptability of these measures.

Addressing the tax challenges associated with base erosion and profit shifting and ensuring that large digital businesses are taxed in countries where they make sales, and that a minimum tax would strengthen revenue. International policy co-ordination will be crucial to both fight tax avoidance and ensure that tax disputes do not aggravate trade tensions, thereby further jeopardising the recovery.

A key risk arising from trying to meet multiple objectives – spanning growth to inclusion – is injecting excessive complexity into the tax system. Building comprehensive administrative databases of taxpayers and increasing micro-simulation tax modelling capacity will be important pre-requisites to evaluate the revenue effects of changes in the tax mix and to ensure taxation mix changes meet multiple objectives in the least complex way.

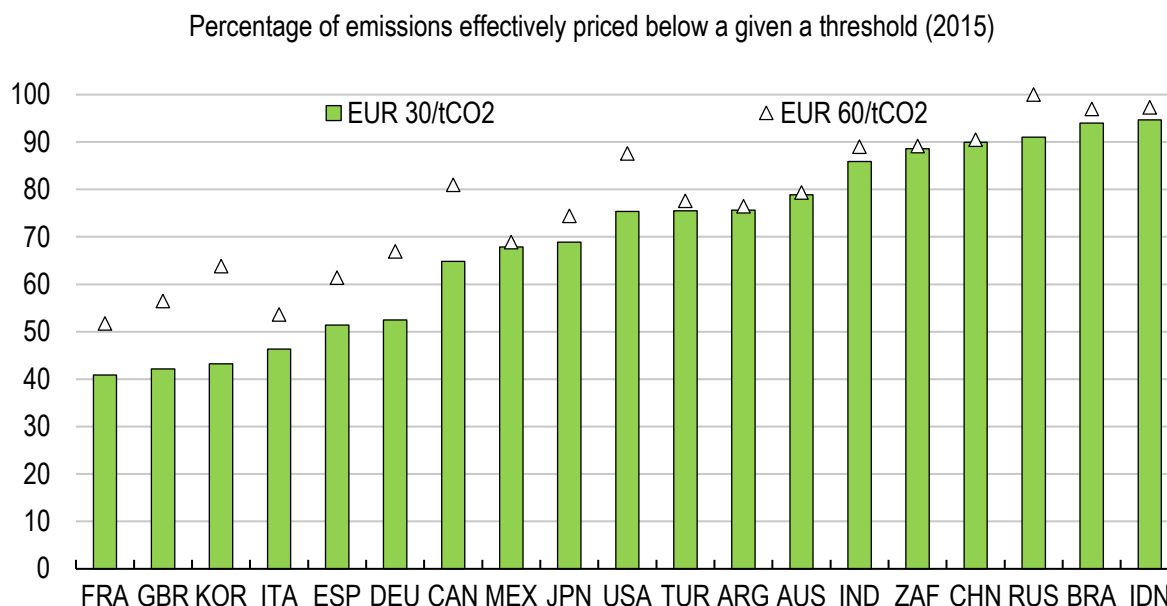
5. Transitioning to low emission and resource efficient economies

COVID-19 is a timely reminder of the need to strengthen resilience to shocks, including those linked to environmental pressures (OECD, 2020^[101]). Addressing environmental vulnerabilities is key to mitigate the economic and social effects that stem from shocks such as pandemics and to strengthen the recovery and future resilience of vulnerable communities to climate-related crises. Additionally, the economic pressures driving biodiversity loss and the destruction of ocean health may increase the risk of future zoonotic viruses (those which jump from animals to humans) due to the expansion of human activities leading to deforestation, combined with the increased demand and trafficking of wildlife. Thus, the need to engineer a more environmentally sustainable economy, recognised in the G20 Enhanced Structural Reform Agenda (OECD, 2019^[7]), is vital, keeping in mind the principle of common but differentiated responsibilities and respective capability in light of different national circumstances.

A durable, job-rich and productivity-enhancing recovery does not have to come at the cost of environmental sustainability. Governments have the opportunity to accelerate existing national plans towards a low-emissions economy and to meet national, and when applicable, international environmental targets. Better aligning tax systems with environmental and climate policy objectives, including through carbon pricing, can help level the playing field for clean technologies and green innovation (Figure 14).

Governments have the opportunity to accelerate existing plans towards a low-carbon economy, and meet national and international environmental targets. Many governments have included “green” recovery measures in their fiscal stimulus and investment programmes in response to the COVID-19 crisis. Some governments have also planned or implemented measures that will have a negative impact on the environment, such as support for fossil fuel based industries (OECD, 2020^[104]).

Figure 14. Most G20 countries under-price their carbon emissions



Note: The carbon pricing gap measures how much countries fall short of pricing carbon emissions in line with benchmark values. Carbon pricing gap for EUR 30/tCO₂ is a low end estimate of the carbon costs today and for EUR 60/tCO₂ is an alternative benchmark. The carbon pricing gap is calculated as the difference between benchmark carbon pricing rate and the effective carbon rate in a given country. The effective carbon rates are the total price that applies to CO₂ emissions from energy use as a result of market-based policy instruments. They are the sum of explicit carbon taxes, specific taxes on energy use and tradable emissions permits.

Source: OECD (2018_[105]), "Effective Carbon Rates 2018: Pricing Carbon Emissions Through Taxes and Emissions Trading".

5.1 Investing in low-emission, resource efficient and resilient infrastructure

Green stimulus investments can be effective in reshaping the economy and, under specific conditions, delivering long-term growth (Popp et al., 2020_[106]). Previous recovery packages, however, demonstrate that investment support without long-term policy signals to sustain investment in low-carbon technologies, especially when uncertainty is high as now, is not sufficient to sustain investment in low-carbon technologies (Agrawala, Dussaux and Monti, 2020_[107]; Mundaca and Luth Richter, 2015_[108]; Strand and Toman, 2010_[109]). The latest data shows that 76.5% of global emissions are priced below EUR 30/tCO₂, a conservative estimate for the social cost of carbon (OECD, 2018_[105]) (Figure 14).⁶

Policymakers have at their disposal a variety of instruments, such as environmental taxes and regulations, to provide clear policy signals. Greater use of preferential loans, risk-sharing schemes or climate-related disclosure obligations for firms and investment projects may further mobilise private funds towards a sustainable recovery. Government support measures could be conditional on efficiency and environmental performance improvements to help ensure the future viability of firms in a low-emissions world.

A transition to a low-emissions economy implies a fundamental restructuring of economic activities requiring massive public and private investments in line with the country's environmental and climate objectives and international agreements, such as the Paris Agreement or the Convention on Biological

⁶ The carbon pricing gap is even more pronounced, 85%, when using the higher carbon price benchmark of EUR 60/tCO₂. Still, it is important to note that these particular benchmarks might not be appropriate for all countries and circumstances. Additionally, since climate policy is rapidly evolving, with several jurisdictions introducing new or more stringent pricing mechanisms, these data may not fully reflect the current state of carbon prices in some countries.

Diversity.⁷ Economic stimulus packages can help countries accelerate the shift towards a low-emissions, resource-efficient resilient electricity system, improve energy and resource efficiency and foster sustainable mobility including public transport (Box 4). While the dip in energy demand – estimated at 6% in 2020 (IEA, 2020_[110]) – may not provide a strong case for capital-intensive investment in low-emissions and clean energy, opportunities to integrate distributed renewables, improve the system’s flexibility and efficiency remain (OECD, 2020_[101]). If depleted, the replenishment of the energy-production capital stock should accord with objectives of a low-emissions system.

Since investment cycles – especially for infrastructure and heavy industry – last several decades, it is important to ensure that new investments during the recovery do not lock-in capital assets that run the risk of being stranded in a low carbon economy. Along with public infrastructure spending, integrating policies to counter biodiversity loss and restore ecosystem services improve climate resilience and societal resilience to pandemics (OECD, 2020_[101]).

Box 4. Investment opportunities to accelerate the transition towards a low-emissions and resilient economy

Electricity system

Investments to enhance and digitalise electricity grids, upgrade power infrastructure and increase energy efficiency would: i) boost the flexibility of electricity systems; ii) help integrate larger shares of variable renewables (such as wind and solar); and iii) ultimately place electricity systems on a stronger footing to withstand natural disasters (IEA, 2020_[111]). Moreover, there may be benefits to expanding transmission lines and reducing regulatory constraints to reallocate renewable energy that is generated in sparsely-populated regions towards regions where the demand for electricity is higher, can accelerate the transition towards low-emissions energy infrastructure (Fell, Kaffine and Novan, 2019_[112]).

Importantly, energy sector investments may require specific skills, which, if lacking, can create bottlenecks in the project deployment. Anticipating these skill gaps and support training programmes geared towards meeting these needs would be of much value. Efforts to accelerate decarbonisation and reinforce the resilience of the power sector are underway: China, the EU, Korea and Japan have dedicated special funds to upgrade and replace power generation infrastructure and support greater penetration of clean energy sources (Ministry of Environment of Japan, 2020_[113]; Carbon Brief, 2020_[114]).

Energy efficiency

Energy efficiency lowers costs by creating savings for households, businesses and governments, thereby improving the affordability of energy, provided that it does not result in a rebound effect of more energy consumption. Energy efficiency helps reduce energy demand growth by avoiding or deferring more expensive investments in energy-network infrastructure and energy production. Efficiency measures improve the energy system’s resilience and flexibility and provide much sought-after public health benefits by improving the quality of buildings and reducing indoor and outdoor pollution (IEA, 2020_[115]).

Retrofitting buildings to make them more energy-efficient can simultaneously aid employment growth (especially in the construction sector) and enhance progress towards emissions-reduction goals. Many energy efficiency projects are labour intensive, employing more than 3.3 million workers in the US and EU alone, most of them in small- and medium-sized enterprises (IEA, 2020_[116]). But the success of green investments hinges on the pre-existing skills (Popp et al., 2020_[106]) so it is necessary to pair such investments with training programmes, as appropriate, to help redeploy workers from affected industries

⁷ The United States formally withdrew from the Paris Agreement on 4 November 2020.

and improve skills among those already engaged in the sector (Motherway and Oppermann, 2020^[117]; IEA, 2020^[116]).

Scaling-up small-scale energy conservation projects can be challenging, partly due to liquidity constraints affecting both households and firms (OECD, 2020^[101]; Fowlie, Greenstone and Wolfram, 2018^[118]). Governments can leverage existing programmes, create ‘project pipelines’ of shovel-ready projects, and identify partners (e.g. utilities, municipalities, housing associations) and channels (e.g. energy efficiency obligations, on-bill financing) that help to scale up the programmes in the short term without creating a boom and bust cycle (OECD, 2020^[101]; IEA, 2020^[115]). Several countries (e.g. the Denmark, France, New Zealand, United Kingdom) focused support for energy efficiency improvements especially at lower income households, in order to overcome liquidity constraints and strengthen their inclusiveness (Carbon Brief, 2020^[114]).

Public transport and other sustainable modes of transportation

COVID-19 has also affected the way people commute. Even if demand for public transportation has declined significantly since the onset of the pandemic, in part due to teleworking, public transport will continue to play a key role in providing access to essential services in cities (Ardila-Gomez, 2020^[119]) and reducing transport-related emissions.. Thus, there is a strong case for policy measures that: i) prevent potential pandemic-induced bankruptcy of public transport providers; ii) provide financial incentives to encourage use of public transport; and iii) invest in more hygienic and less polluting forms of public transport infrastructure (OECD, 2020^[101]). Scaling up efforts and funding to re-allocating car space in cities to other sustainable modes such as walking, cycling and micro-mobility can complement the role of public transport in reducing transport-related emissions.

Digital infrastructure

The confinement and the need for physical distancing have highlighted the critical importance of digital technologies to continue many business operations as well as social interactions. Targeted investments in communication networks can be part of a green recovery package, provided measures are taken also to reduce the environmental footprint of digital technologies (OECD, 2020^[120]) .

Supporting clean technology innovation to ensure a sustainable tomorrow

Environmental innovation is essential for a low-emissions and resilient transition that also meets growth objectives. Governments can play a role in spurring and nurturing in green technology, such as hydrogen, energy storage or carbon capture and storage. As part of their recovery packages, France, Germany, Spain and the United Kingdom have supported the development of emerging green technologies such as clean hydrogen and carbon capture and storage (Carbon Brief, 2020^[114]).

6. Priority areas for international cooperation

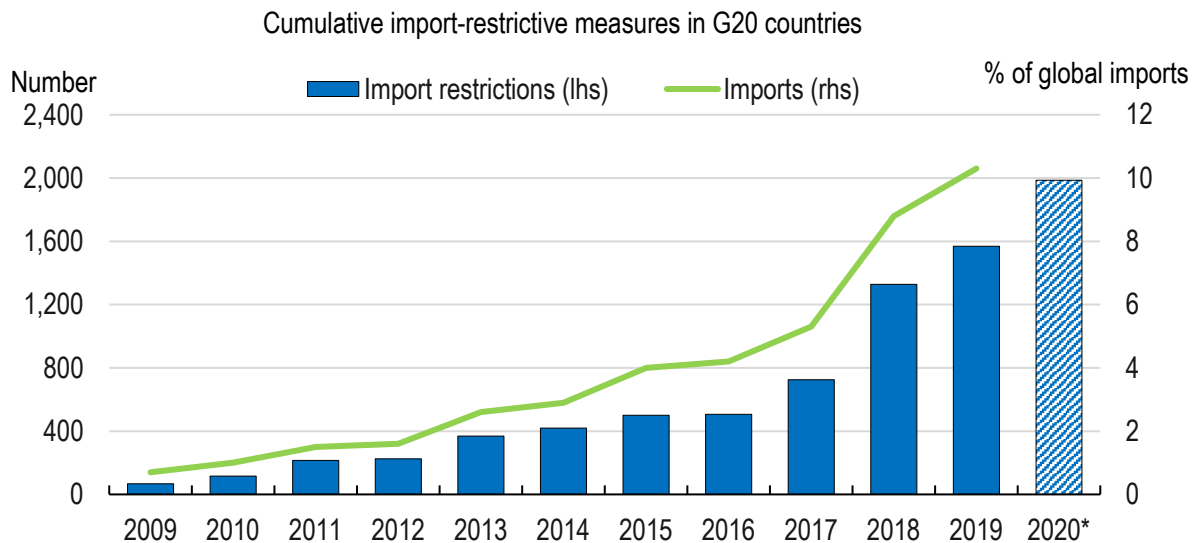
We are facing unprecedented challenges to the global economy through both short-term external shocks and long-term trends. These challenges have in general a broad geographic impact given the strong connections among countries, and their frequency is also likely increasing due to increased globalisation, emerging technologies, demographic change, climate change and migration. Cooperation will be needed to improve the effectiveness of responses to these challenges, to absorb and overcome these shocks, and return to a strong, sustainable, balanced, and inclusive growth path.

Drawing on the lessons learned from the Global Financial Crisis in 2008, dialogue and close cooperation among advanced and emerging economies will be crucial to maximise the impact of recovery plans, while keeping the virus under control using the health precautions that are needed in accordance with the stage of pandemic that each country is at. The G20 Action Plan in response to COVID-19 and the G20 Emergency COVID-19 Response and Recovery Plan in Developing Countries, are important steps in this

respect but more needs to be done. COVID-19 has increased the need for greater international cooperation in key areas for enhancing the resilience to absorb and overcome severe shocks and to return quickly to a sustainable and inclusive growth path: *i*) manufacturing and distributing medical goods and vaccines; *ii*) promoting efficient and robust GVCs; *iii*) taxing of multinationals in an increasingly digitalised economy; *iv*) building a more environmentally sustainable economy; and *v*) preventing sudden capital outflows and sovereign debt crises.

Governments need to ensure that the great effort to develop COVID-19 vaccines benefits from international cooperation in research and development, information exchange and harmonisation of clinical trial regulations (OECD, 2020_[121]). To end the pandemic, widespread vaccination will be needed. This requires manufacturing and distribution capacity, consensus on how to allocate doses and planning massive vaccination campaigns (OECD, 2020_[122]). The G20 has a key role to play in this in line with the Joint G20 Finance and Health Ministers' September 17th commitment in taking forward G20 collective action to accelerate the research, development, manufacturing and distribution of COVID-19 diagnostics, therapeutics and vaccines. This is with the aim of supporting equitable and affordable access for all, including through the Access to COVID-19 Tools Accelerator (ACT-A) initiative and its COVAX facility and ensuring that intellectual property protection does not become a barrier. This can be achieved through use of the WHO COVID-19 technology access pool.

Greater international economic cooperation is required to realise the benefits of GVCs and to ensure their effective performance even in the case of shocks such as the COVID pandemic. GVCs are a key vehicle to provide firms access to larger markets – thus encouraging competition and productivity – and consumers greater access to goods and services at lower prices, including medicines and health equipment. However, new cooperation is needed to avoid harmful policies such as trade policy restrictions that can block the international supply chains (Figure 15). For example, some export bans made it more difficult to meet the pandemic-induced surge in demand for health materials and equipment. Restrictions also amplify uncertainty, leading businesses to delay productive investments and consumers to delay the purchase of capital goods. Together with domestic actions such as building stockpiles, cooperation also has an important role to play in boosting the robustness of the supply chain for health materials and equipment essential to fighting the pandemic. For example, international cooperative efforts to promote transparency and policy coordination on global supply of food products (the Agricultural Market Information System set up by G20 Agriculture Ministers) have helped reduced prices spikes that can be especially problematic in emerging markets.

Figure 15. Trade restrictions remain high

Note: Cumulative trade coverage is based on import measures recorded since 2009 and considered to have a trade-restrictive effect from information in the Trade Monitoring Database. The estimates include import measures for which HS codes were available. The figures do not include trade remedy measures. COVID-19 trade and trade-related measures are not included. The import values were sourced from the UNSD Comtrade database. *2020 estimates only cover restrictions up to June 2020. % of global imports refers to the value of imports in G20 countries as a share of global merchandise imports.

Source: WTO.

The COVID-19 crisis – by accelerating digitalisation and increasing pressures on public finances – is further exposing policy weakness regarding the rights to tax multinationals' income. This has led to a growing number of jurisdictions taking unilateral actions or departing from agreed international standards. There has also been an increase in tax disputes and tax uncertainty, undermining the stability of the international tax system and global investment prospects (OECD, 2020_[123]). Against this backdrop, the OECD/G20 Inclusive Framework on BEPS, which consists of 137 member jurisdictions, is discussing proposals for a consensus-based reform of international tax rules to address the tax challenges arising from digitalisation. The Inclusive Framework released its blueprints for Pillar One and for Pillar Two, which provide a solid foundation for developing a global, consensus-based solution to the tax challenges of the digitalisation of the economy (OECD/G20 Inclusive Framework on BEPS, 2020_[124]).

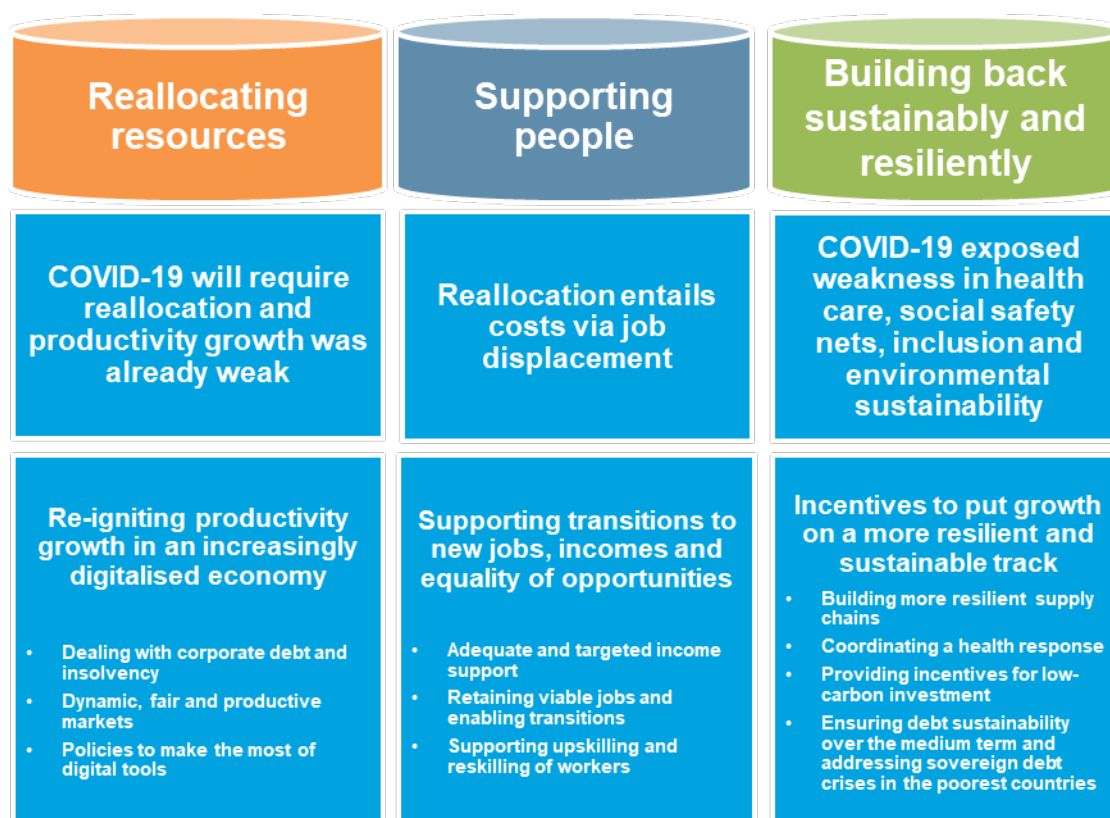
A cost-efficient approach to climate change and biodiversity would require globally co-ordinated action. Notwithstanding some visible progress in individual countries and a temporary halt to increases in emissions due to the pandemic (Section 5), prior to the crisis, emissions continued to increase in emerging market economies while falling only very slowly in advanced economies. Hence, global emissions have been far off-track from delivering on the Paris climate change ambitions, which effectively require reaching zero net emissions globally in the second half of the 21st century (OECD, 2013_[125]).

7. A three-pillar strategy for the recovery

Governments' structural reform efforts to foster the recovery need to rest on three pillars: reallocating resources, supporting people and building back sustainably (Figure 16). When the health crisis stabilises, a durable economic recovery will require policy to evolve, from blanket to more targeted support, to allow the reallocation of resources towards sectors with better long-term prospects. This will be especially important because of the need to lift potential growth to finance a significantly higher public debt burden over the longer run.

This will necessitate a credible medium-term exit strategy from crisis policies (e.g. blanket job retention schemes). However, in a downturn the short-term impact of some structural reforms may be less favourable or even entail short-term reductions in demand (Caldera Sánchez, de Serres and Yashiro, 2016^[126]). Priority should be given to reforms that boost demand. It requires the prioritisation of structural reforms that minimise short-term harm to people while removing barriers to: *i*) geographical or job mobility (e.g. occupational licensing and housing market rigidities); *ii*) firm entry and restructuring (e.g. regulatory barriers, effective competition law, insolvency regimes and diverse financing instruments); and *iii*) technology adoption, by enhancing digital infrastructure to enable the shift – especially of SMEs and vulnerable workers – towards digital business, telework, distance education and telemedicine.

Figure 16. A three-pillar strategy for a strong, inclusive and sustainable recovery



Source: OECD Secretariat.

The recovery needs to be broad-based, ensuring that no one is left behind and that the crisis does not permanently aggravate pre-existing inequalities. To support people, priority should be put on policies that support job transitions and strengthen income protection via re-skilling and job placement policies and provide paid sick leave and adequate unemployment benefits, particularly for workers in non-standard jobs and to address informality. Keeping schools open, and re-opening them where this has not yet occurred, while expanding and improving delivery systems for remote and blended learning remains a key priority for many countries. This is especially important because of the lasting economic impacts of school closures over 2020 that imply losses in learning, especially among disadvantaged students, which will not easily be made up for.

COVID-19 has reiterated the importance of looking beyond the short term and preventing, as well as building resilience against adverse shocks, including environmental emergencies. Priority should be on public investments in health, digitalisation, lowering emissions and training as well as providing adequate

incentives (e.g. via pricing, regulation or taxes) for firms and households to invest in building resilience and sustainability with respect to incomes, health, environment or supply chains. Finally, while efforts to restore public finances in the near term would risk jeopardising the recovery (and thus be counter-productive), medium-term fiscal strategies will nonetheless require starting to review public spending with priority because it takes considerable time to properly identify durable spending changes.

Finally, given the unprecedented levels of uncertainty, flexible and state-contingent policy support needs to evolve as the recovery progresses. Supporting fiscal and monetary policies need to be supplemented by well co-ordinated structural policy actions to restore confidence, demand and economic dynamism, and tackle the asymmetric impact of the pandemic across sectors and households (OECD, 2020^[127]).

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