

# Meeting of the OECD Council at Ministerial Level

28-29 October 2020



## KEY ISSUES PAPER



# Key Issues Paper

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## KEY ISSUES PAPER – 2020 MINISTERIAL COUNCIL MEETING

### ITEM 3: THE WAY OUT OF THE CRISIS: NATIONAL POLICIES AND INTERNATIONAL CO-OPERATION FOR A STRONG, RESILIENT, GREEN AND INCLUSIVE RECOVERY

1. **Following an innovative approach to exchange experiences and perspectives in recent months, the OECD Ministerial Council Meeting (MCM) is an opportunity to discuss policy options and promote greater international co-operation for a strong, resilient, green and inclusive recovery.** Under the chairmanship of Spain and with Chile, Japan and New Zealand as Vice-chairs, the OECD has hosted three virtual Ministerial Council Roundtables (MCRs) between June and September 2020 focusing on three key aspects of the recovery: the role of macroeconomic policies, inclusion and employment policies for the recovery, and the potential for the recovery to tackle climate change and other environmental emergencies. The MCRs have been a major success in terms of attendance and participation by Ministers, Deputy Ministers and other senior officials as well as the rich and wide-ranging discussions and exchanges. This paper incorporates the main conclusions of the three MCRs, which showed a remarkable level of commonalities regarding the priorities of countries as they respond to the crisis and prepare for the recovery. In addition, separate background papers on gender and development have been prepared to feed into MCM discussions. The MCM brings all these elements together to help governments shape domestic and international policies for a strong, resilient, green and inclusive recovery in OECD Member countries and beyond.

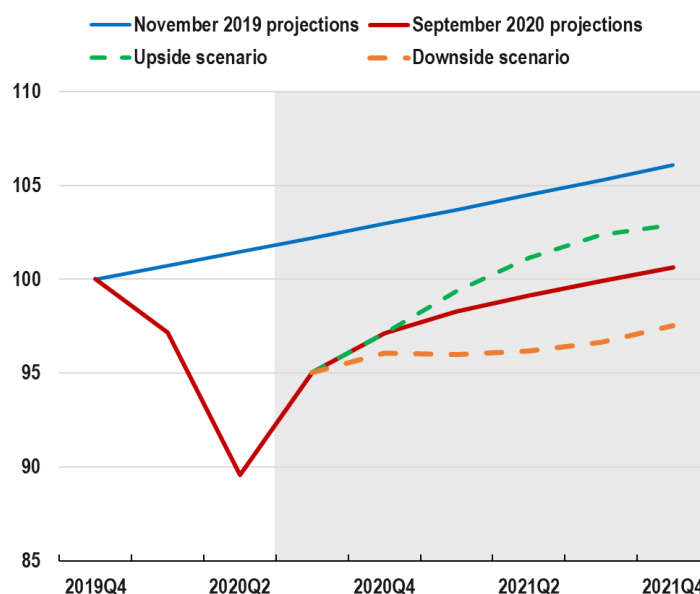
#### The COVID-19 crisis and its consequences

2. **The COVID-19 pandemic has unleashed the worst health, economic and social crisis in the 60-year history of the OECD.** The crisis has had massive and widespread effects for economies and societies as well as for the environment. By mid-October 2020, over 40 million infections and more than one million deaths have been reported worldwide and, should the pandemic continue, the eventual death toll would be considerably higher without a treatment or vaccine. Countries around the world have responded with a series of unprecedented policy measures aimed at containing the spread of the virus (often through strict confinements) and mitigating the economic and social impact through large-scale fiscal and monetary action as well as measures to protect the most vulnerable. Public health measures have been successful in reducing the death toll during the first months of the pandemic, but, combined with great uncertainty and fear of infection, also caused economic contraction and job losses. At present, there is significant uncertainty as to the future evolution of the virus and the potential need for further measures until an effective vaccine and/or treatments are widely available. Meanwhile, the world's environmental challenges remain as pressing as ever, with 2020 marked by extreme weather and climate-related events such as drought, fires, storms and floods across the globe.

3. **The global economy has experienced the deepest recession since the 1930s.** Quarterly GDP declines of more than 10% were recorded in many countries during the confinement phase and a substantial weakening of labour-market conditions. Economic

output recovered swiftly following the easing of containment measures and the initial re-opening of businesses, but the pace of recovery has lost some momentum more recently. The OECD Interim Economic Outlook released in September 2020 projects global GDP to fall by 4½ per cent this year, before growing by 5% in 2021.<sup>1</sup> Despite the rapid reaction of policymakers in many countries to cushion the initial blow to incomes and jobs, which prevented an even larger drop in output, output in many countries at the end of 2021 will still be below the levels at the end of 2019, and well below what was projected prior to the pandemic (Figure 1).

**Figure 1. An very uncertain economic outlook**  
Global GDP projections, constant prices

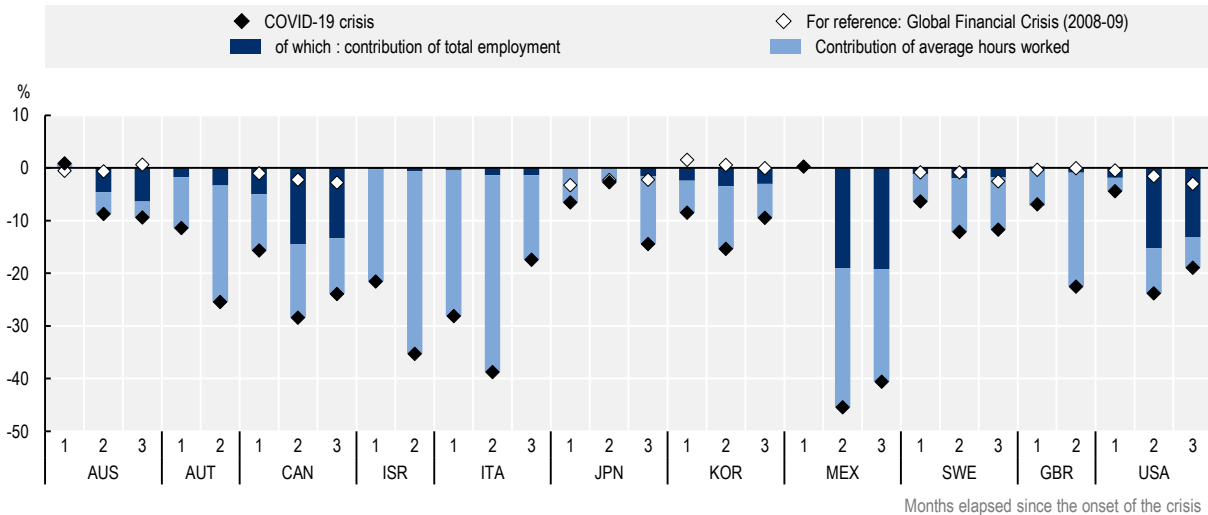


4. **The pandemic has also provoked a major jobs crisis, which is still unfolding.** In OECD countries with available data, total hours worked declined on average by 12.2% in the first three months of the crisis. This fall was equivalent to 50 million full-time jobs in just the six countries for which the data are available, and ten times more than the decline observed in the first three months after the 2008-09 global financial crisis (Figure 2). Even in countries with comprehensive job retention schemes, the number of jobseekers has significantly increased as temporary contracts were not renewed and firms' hiring activity collapsed. Even the more favourable scenario considered in the OECD June 2020 *Economic Outlook*, which assumed that a second wave of infections would be avoided, had unemployment increasing to 9.4% on average across the OECD by the end of 2020, up from 5.3% at the end of 2019. The rebound in economic activity, while initially rapid, appears likely to be only partial, which will leave labour market conditions depressed for some time. Moreover, any substantial resurgence in infections, as is already being seen in many OECD economies, could lead to a renewed dip in output. This would further worsen the outlook for employment, as illustrated in the OECD June *Economic Outlook's* "double-hit" scenario. There is therefore a clear risk of important labour market scarring resulting

<sup>1</sup> OECD (2020), OECD Economic Outlook, Interim Report September 2020, OECD Publishing, Paris, <https://doi.org/10.1787/34ffc900-en>.

from the crisis, as long-term unemployment becomes entrenched and with growing numbers of discouraged job-seekers depressing labour force participation

**Figure 2. COVID-19 crisis triggered one of the worst labour market crises in a century**  
Percentage change in total hours worked with respect to those worked the month of the onset of the crisis



Note: The starting point of the Global financial crisis refers to October 2008. No comparable data available in 2008-09 for Austria, Israel, Italy and Mexico. The starting point of the COVID-19 crisis refers to January 2020 for Japan and February 2020 for all other countries. The recent data for Mexico are highly uncertain because a new survey tool was introduced in April which may affect the comparability of the results with earlier months. Source: *OECD Employment Outlook 2020* (Chapter 1), <https://doi.org/10.1787/1686c758-en>.

5. **There has been a significant increase in the number of jobseekers, even in countries with comprehensive job retention schemes.** The impact of the shock is asymmetrical across firms and sectors, with some particularly affected even in the phase of re-opening of the economy (e.g. tourism, hospitality, culture and entertainment, retail, transportation) and others (e.g. digital services and platforms) actually thriving. The large fiscal response, much needed to sustain economies, firms and employment, has substantially increased budget deficits and public debts in many countries.

6. **Inequalities and social pressures that were already at a high level in many countries when the COVID-19 crisis hit are likely to intensify.** In OECD countries, the average disposable income of the richest 10% of the population was about 9.5 times that of the poorest 10% before the crisis - up from 7 times in the 1980s. With the COVID-19 crisis, many low-paid workers suffered a loss of their job or of some labour income and many had to face a substantial risk of contracting the virus to ensure the continuity of essential services during lockdowns. Workers in non-standard jobs – i.e. self-employed workers and those in temporary or part-time dependent employment – have been particularly exposed to income and job losses, while often lacking adequate social protection coverage. According to a harmonised real-time survey for 11 OECD countries, among people in employment before the onset of the crisis, those in the top 25% of the earning distribution were, on average, 50% more likely to work from home in April 2020 than those in the bottom 25% who, conversely, were twice as likely to have stopped working altogether.<sup>2</sup> Informal workers, many of whom work in sectors severely hit by

<sup>2</sup> Galasso, V. and M. Foucault (2020), "Working during COVID-19: Cross-country evidence from real-time survey data", OECD Social, Employment and Migration Working Papers, No. 246, OECD Publishing, Paris, <https://doi.org/10.1787/34a2c306-en>.



confinement measures (e.g. agriculture, care sector), have suffered severe job losses with no access to income support. The likely impact of the crisis on household incomes is less clear-cut, and differs by country. In some countries, one-off welfare measures and automatic stabilisers mitigated the income loss for the poorer households, for example in Spain and the United Kingdom.<sup>3</sup>

7. **The COVID-19 crisis is also widening regional divergences.** Regional disparities in the share of jobs potentially at risk as a result of confinement measures are stark, ranging from less than 15% to more than 35% across 314 regions in 30 OECD (and 4 non-OECD European) countries.<sup>4</sup> The overall slowdown in aggregate demand has affected some primary sectors, and the expected further slow-down in trade and global demand will hit rural economies severely given their higher reliance on tradable activities such as agriculture, mining and tourism.<sup>5</sup>

8. **Young people are once more at risk of being among the big losers of the crisis.** This year's graduates may have poor chances to secure a job, or even an internship, in the short run; their older peers are going through the second heavy crisis in their still-short careers. The average OECD youth unemployment rate increased from 11.3% in February to 17.4% in May, before edging down to 15.8% in July. These effects are likely to be long lasting in the form of lower-quality jobs and lower salaries in the future.

9. **COVID-19 may undo much hard-won progress in gender equality.** The crisis is having a disproportionate effect on women, putting them at higher risk of facing worse employment outcomes, additional unpaid care responsibilities, additional pressure in the health and social care sectors and increased domestic violence. A separate Background Paper has been prepared for the MCM to elaborate on this issue [[GOV/PGC/GMG\(2020\)3/REV1](#)].

10. **COVID-19 has also had significant environmental effects on greenhouse emissions, air and water pollution, waste management and biodiversity.** Many of these effects are likely to be temporary, while some may endure in the form of longer-term structural or behavioural changes. Global CO<sub>2</sub> emissions, for instance, are expected to decline overall by 8% in 2020, to levels of 10 years ago.<sup>6</sup> However, this one-off expected decline will not have any long-term impact on the CO<sub>2</sub> levels in the atmosphere as the atmospheric concentration of CO<sub>2</sub> (which drives climate change) continues to climb rapidly. This will continue to be the case unless structural changes lead to emissions staying consistently below pre-pandemic levels. Waste management challenges have increased significantly as a result of the pandemic as governments deal with dramatic increases in medical waste, increased demand for single-use plastics (for groceries, food delivery,

<sup>3</sup> [https://cepr.org/active/publications/discussion\\_papers/dp.php?dpno=15118](https://cepr.org/active/publications/discussion_papers/dp.php?dpno=15118).

<sup>4</sup> OECD (2020) "From pandemic to recovery: local employment and economic development", *OECD Policy Responses to Coronavirus (COVID-19)*, 29 April 2020, <http://www.oecd.org/coronavirus/policy-responses/from-pandemic-to-recovery-local-employment-and-economic-development-879d2913/>.

<sup>5</sup> OECD (2020) "COVID-19 and the food and agriculture sector: Issues and policy responses", *OECD Policy Responses to Coronavirus (COVID-19)*, 29 April 2020, <https://www.oecd.org/coronavirus/policy-responses/covid-19-and-the-food-and-agriculture-sector-issues-and-policy-responses-a23f764b>

<sup>6</sup> IEA (2020), *Global Energy Review 2020*, IEA, Paris, <https://www.iea.org/reports/global-energy-review-2020#>.

health care and e-commerce packaging), and reduced recycling capacity and a collapse of the market price for recycled plastics.

11. **The pandemic and the ensuing economic crisis have underscored the link between public health and environmental health and resilience.** Better air quality, improved water quality, effective waste management, and enhanced biodiversity protection will not only reduce the vulnerability of communities to pandemics, but they will also improve overall societal well-being and resilience. Good air quality generates wider benefits for public health and well-being along with significant economic benefits as a result of fewer air pollution-related illnesses and reduced impact on work productivity. The pandemic highlighted the important link between air pollution and mortality from COVID-19, with higher levels of indoor and outdoor air pollution exacerbating the health impacts of the pandemic. In addition, there is growing evidence that the airborne transmission of SARS-CoV-2 is exacerbated by air pollution. Biodiversity conservation and sustainable use is also key as biodiversity and ecosystem services provide benefits of USD 125-140 trillion per year (i.e. more than one and a half times the size of global GDP). Effective biodiversity conservation and sustainable use, including to address deforestation, will limit the risk of new zoonotic diseases like COVID-19 and reduce climate-related disasters, while also helping to maintain the existing ecosystem services.<sup>7</sup>

12. **The crisis has revealed gaps in governments' preparedness and capacity to respond, in terms of capabilities and fiscal space, undermining their resilience.** There is a risk of further consequences on citizen trust. New expectations on government's role and improved decision-making processes for greater resilience, inclusion, efficiency and effectiveness have arisen in many countries.

### An unprecedented policy response

13. **Ministerial discussions at the three MCRs have shown that governments have tried to address the above effects of the crisis through an unprecedented effort in terms of scale and speed.** National (and often regional and local) governments have been at the forefront of efforts to respond to the crisis and lay the groundwork for the recovery through comprehensive public health measures to contain the spread of the virus; a massive fiscal and monetary stimulus; innovative programmes to provide liquidity to firms, protect employment (including through job retention schemes) and support the most vulnerable. Ministerial discussions held at the OECD around different aspects of the crisis and the recovery have enabled Member countries to share experiences and approaches with one another, while highlighting a number of key messages:

- OECD Member countries are showing a **remarkable degree of commonality in the objectives and instruments used in their massive response to the pandemic involving both fiscal and monetary policy.** The initial economic response has generally focused on protecting people and raising healthcare capacity, protecting workers and addressing the consequences for firms of the sudden stop in activity. Governments have used a range of instruments to support firms and households, including enhanced unemployment insurance benefits, short-time work arrangements, one-off transfers, tax deferrals, loan guarantees and wage subsidies. Central banks had

<sup>7</sup> OECD (2020) "Environmental health and strengthening resilience", *OECD Policy Responses to Coronavirus (COVID-19)*, 21 April 2020, OECD Policy Responses to Coronavirus (2020), <http://www.oecd.org/coronavirus/policy-responses/environmental-health-and-strengthening-resilience-to-pandemics-73784e04/>.

provided liquidity and ensured continuity of credit, through interest rate cuts, asset purchases and interventions in market segments under extreme stress. The reaction of OECD member countries to the pandemic in the economic and social spheres has been immediate, significant in quantitative terms, determined and comprehensive in qualitative aspects, and with many similarities. The reaction to this crisis seems to have incorporated the key lessons learned from the response to the 2008 crisis.

- **Governments have been concerned with the social dimension of the crisis and are prioritising a job-rich recovery that pays special attention to the most vulnerable segments of the population and certain categories of workers.** The authorities have all responded with a massive and swift intervention to support workers and families. Opportunities and employment for youth are a priority for the vast majority of recovery programmes across OECD Member countries. Governments have had to review their social protection programmes to address gaps and extend coverage to the most vulnerable. A gender lens is also applied in some of these responses as women have been disproportionately impacted by the economic fall-out of the crisis. Women tend to have more informal jobs, lower hourly wages, lower entitlement to social security benefits, weaker job protection, fewer opportunities to access training and re-employment and less wealth, leaving them more at risk of losing their jobs or falling into poverty during economic downturns.
- The recovery is also generally seen as an **once-in-a-lifetime opportunity to support structural shifts towards more resilient and more sustainable economies.** Many countries have built digitalisation and “green” recovery initiatives in their strategies, trying to boost growth, incomes and employment while tackling digital gaps and urgent environmental challenges. However, as shown in the OECD Policy Brief *Making the Green Recovery Work for Jobs, Incomes and Growth* prepared for the 14 September MCR and the September Interim Economic Outlook, there is room to go further in this direction.
- Governments are also **keen on engaging with the OECD and on receiving support from the Organisation in the form of evidence-based analysis, data and policy recommendations across the different dimensions of the recovery.**

### The need for international co-operation and the OECD response

14. **Policy action at the international level has achieved some results but it has yet to match the level of ambition of the domestic responses.** The COVID-19 crisis has highlighted the need for stronger international co-operation to co-ordinate and collaborate in the development and widespread distribution of effective treatments and vaccines, exchange information on the pandemic, co-ordinate fiscal and monetary responses, promote resilience in global value chains and ensure that global supply of essential goods and services keeps flowing, just to cite a few examples. Drawing on the lessons learned from the Global Financial Crisis in 2008, dialogue and close cooperation between advanced and emerging economies will be important in particular with a view to maximising the impact of recovery plans. The announced G20 Action Plan in response to COVID-19 and the G20 Emergency COVID-19 Response and Recovery Plan in Developing Countries, which the OECD is actively contributing to develop, are important steps in this respect but more needs to be done.

15. **The OECD is supporting multilateral and domestic actions to tackle the COVID-19 pandemic with its unique high-quality international data, comparative**

**analysis and exchange of best practices, policy advice and convening capacity.** The OECD Hub on Tackling the Coronavirus (COVID-19) provides analysis and recommendations on a wide range of topics to address the emerging health, economic and societal challenges imposed by the pandemic crisis. So far, the hub contains about 160 policy briefs in six languages and has received over 1.2 million unique visitors. Additionally, the OECD Policy Tracker is providing a centralised database of government responses to the different dimensions of the COVID-19 crisis, allowing for the exchange of experiences and best practices among OECD Member countries and beyond. The entire Organisation has made the fight against the COVID-19 crisis its top priority, supporting Members and the global community in the design and implementation of effective, evidence-based policies to preserve lives and livelihoods. The OECD has also benefited from the valuable input from its two official advisory bodies, Business at OECD (BIAC) and the Trade Union Advisory Committee (TUAC).

### The path to recovery: strong, resilient, green and inclusive

16. **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.** Containing the virus through public health measures and test, track and trace strategies remains a top priority for policy makers. On the health front, the attention is shifting to bringing effective vaccines and treatments to the market and distributing them to the people all around the world at affordable prices, including through partnerships between the public and the private sector and international co-operation. But, as the COVID-19 is likely to be an ongoing concern for some time, countries are already focusing on the policy actions needed to promote a sustainable economic and job-rich recovery.

17. **While unwinding the downturn in economic activity and employment is the first-order priority in the aftermath of the COVID-19, the recovery also represents an opportunity for transformative action to “build back better”, integrating the lessons learned from the crisis.** OECD Member countries are shifting from crisis management to structural issues, as highlighted by MCR discussions, where Ministers presented recovery plans and programmes that go well beyond short-term responses to the crisis. There seems to be a remarkable degree of coincidence across countries in approaching the recovery as an opportunity to tackle pre-existing vulnerabilities in our economies, address high and/or rising inequalities in income and opportunities, move towards a more digital future, build resilience by incorporating the lessons learned from the crisis, act to avert the impending climate crisis, and prepare for other “unknowns”. Likewise, with public action presently driving the health, social and economic recovery, governments are striving to strengthen their capacity to be effective and maintain public trust. This includes developing a granular understanding of the impacts of their policies at the firm, household and individual level, enhancing citizen’s ownership of their choices, and establishing open, transparent, accountable and fair decision making.

18. **A discussion on the type of recovery and not just its strength, and on the quality of economic growth, is therefore timely as part of a people-centred approach.** The OECD 2020 MCM, building on the discussions of OECD Ministers in the three MCRs, proposes a broader framework for the recovery that focuses on re-igniting a sustained strong growth but also: (1) mainstreams future-oriented systemic resilience across all dimensions of policy making and especially in some of the policy areas where the need for resilience is greatest (healthcare, labour markets, infrastructure, international trade, food

systems, government capacity and public and private debt); (2) does not lose sight of the ongoing climate crisis or other environmental emergencies, and acknowledges green sectors and activities as a major driver of growth, job creation and investment and a main pillar for the recovery, and (3) promotes a socially-inclusive and broad-based recovery, emphasising the importance to the creation of quality jobs that is inclusive of women, youth and other vulnerable groups. These objectives can be made mutually reinforcing and complementary through specific policy approaches, adapted to national circumstances as the impact of the crisis and the pre-existing strengths and vulnerabilities vary significantly from country to country. This requires using integrated frameworks, such as the OECD well-being approach, bringing together the economic, social and environmental dimensions of economic development.

19. **Given the interconnectedness of the world's economy, the recovery will only be broad-based and resilient if it is global in scope.** A recovery in OECD Member countries is not enough. Emerging and developing economies have been a significant engine of growth since the 2000s. The pandemic has hit developing countries at all levels of income and development in Latin America, Africa, the Middle East and North Africa, Asia and other regions, often exacerbating pre-existing vulnerabilities and crises. Significant international efforts will be needed to mitigate the effects of the crisis on the world's most vulnerable populations, strengthen global public goods and promote a truly global and sustainable recovery. Supporting a strong, resilient, green and inclusive recovery in developing countries will also increase resilience and inclusiveness at a global scale. Greater international co-operation, including in global governance fora, will be required to tackle cross-border challenges associated with the recovery, from the development and distribution of vaccines or the need for greater resilience in global value chains. Close co-operation between major economies within the OECD and beyond will enhance the effectiveness of macro-economic policies. OECD Global Relations tools, such as its relationship with Key Partners as well as Regional and Country Programmes, can support such cooperation efforts.

### Policy priorities for the recovery

20. **In a context of high uncertainty, re-igniting and sustaining growth for all will require a combination of accommodative fiscal and monetary policies, structural and sectoral interventions to facilitate the necessary economic restructuring and continued decisive action to contain the virus:**

- With the continuing spread of the pandemic in many regions of the world and its resurgence in many OECD countries in recent months and weeks, **containing the virus through public health interventions** remains a top priority not just to protect lives but also livelihoods. At least until effective vaccines are developed and distributed, policy-makers will need to reduce the risk of future lockdowns through a combination of test, track and trace (TTT) strategies, hygienic measures, physical distancing policies and rapid and targeted reactions to local outbreaks. Awareness raising and effective communication strategies will be key to influence behaviour. In parallel, vaccine and treatment development efforts need to be complemented with action to build manufacturing and distribution capacity, including through effective partnerships between the public and the private sectors and international collaboration. More generally, early insights derived from the crisis point towards strategies to make health systems more resilient and strengthen preparedness, for instance by expanding the use of digital technologies, improving

the use of real time, more granular data, more holistic, whole-of-government perspectives to manage public health risks, or effective strategies to increase capacity as needed in terms of health infrastructure, health professionals, and healthcare supplies.

- From the perspective of economic policy-making, governments need to **help restart hard-hit economies, assist the unemployed to find new jobs, and facilitate the reallocation of resources to new growth sectors while giving due consideration to building new opportunities for disadvantaged groups**. This will require combining accommodative macroeconomic policy stances with well-designed structural reforms. Stimulus packages and recovery programmes need to focus on productive investments and viable firms (including SMEs, which face particular challenges), including on sustainable and quality infrastructure, laying the basis for long-term growth. These programmes need to be combined with measures to reintegrate dismissed workers and co-ordinated with business' actions for a responsible management of the crisis. Support programmes should be evaluated and adjusted as needed. All actors in the economy – businesses, social partners, and workers – should work together to rebuild a better labour market. Co-ordinated action will also be needed at the international level to increase the effectiveness of the response. Once the recovery is firmly underway – not before – governments will need to tackle elevated government deficits and public debt by reviewing both the spending and revenue sides of the budget. Tax reform can play a role in restoring public finances but it should also include other considerations, such as greater inclusiveness, resilience and sustainability. Structural policies should support greater productivity growth, including an emphasis on effective labour market programmes and opportunities for reskilling and upskilling workers, a key priority for OECD Ministers mentioned in all three MCRs. A granular approach to the recovery, including its evolution in regions, cities and rural areas and the role of specific economic sectors (including the social economy and social enterprises), is also important given the asymmetrical impact of the crisis. A balanced recovery will need to prevent the crisis from further widening the gap between urban and rural areas and other regional divergences. At the same time, international cooperation to keep markets open, and trade and investment flowing, including to facilitate the essential movements of goods, services and business people will be vital in underpinning a robust and inclusive recovery.
- Science, technology and innovation, including in the context of digitalisation, can be a major engine of growth and resilience in the recovery. The crisis has accelerated the digital transformation, and better data and digital technologies have undoubtedly helped governments reduce the health impact of the crisis and keep economies going. Growing digitalisation offers great opportunities but also risks that should be carefully addressed and managed through co-operation across governments, business and consumers. The crisis has also **highlighted a number of issues that must be urgently addressed for digital technologies to be a catalyst for the recovery** and which are being addressed in the OECD *Going Digital* project. These include the need for further investment in high-speed broadband infrastructure (whose importance has been underlined by the crisis); bridging digital divides and developing the skills needed to operate in a digital environment across all segments of society; diffusing digital technologies and know-how to all firms, including SMEs; strengthening digital resilience and security; and promoting data governance, including data protection and privacy, to

strengthen citizen and consumer trust, and the ethical use of data. The momentum created by the crisis for greater adoption of digital technologies and innovation by governments is a good opportunity to step up efforts in this direction. Bringing ongoing discussions on digital trade to a successful completion is also as important as ever. Governments should develop and implement effective policy frameworks at the national and international level, including at the OECD, to ensure that new technologies, including artificial intelligence (AI) and blockchain, display their full potential for productivity and well-being and play a role in a digitally-enabled recovery. Finally, governments may also want to **revisit the role of scientific advice, the funding models for research and development (R&D) and the incentives that can help bring innovation to the market, notably in the case of global public goods.**

21. **The recovery should be geared towards creating quality jobs and ensuring greater well-being and inclusion across all segments of society.** This will require a holistic approach that mainstreams inclusiveness across all recovery programmes. Specific emphasis will need to be put on labour markets, social protection, education and lifelong learning systems and gender equality:

- Governments should **strengthen the inclusiveness and resilience of labour markets and social protection systems.** Given the risks of the crisis leading to entrenched long-term unemployment and leaving permanent scars on vulnerable segments of the population and the workforce, particularly among the youth, decisive action is needed. In the short-term, the challenge is, on the one hand, to ensure occupational health and safety standards and, on the other hand, to maintain support and preserve employment while adapting the labour market and social policy response to reflect the varying conditions of workers, households and companies as economic activity starts to target those sectors still deeply affected. Countries will also need to review and adapt the coverage and adequacy of income support as the crisis evolves. Attention should be paid to the challenges of workers with non-standard contracts and workers in the informal economy, with a view to formalisation. Over the longer term, addressing rising inequality and promoting well-being will call for a more inclusive and resilient labour market as indicated in the 2018 OECD Jobs Strategy. This includes decisive action to: (a) better supporting transitions between jobs, supporting upskilling and reskilling among all workers, including through lifelong learning and career guidance; (b) closing gaps in access to social protection, transforming as needed temporary fixes into structural changes; and (c) a continued role for social dialogue and collective bargaining in enhancing labour market resilience. All these priorities were discussed in the second MCR held on 7 July.
- **An inclusive and innovative way forward for education** should be a key pillar of the recovery. Keeping schools open, while expanding and improving delivery systems for remote and blended learning remains a key priority for many countries. Targeting support to disadvantaged learners will be essential, to help them recover lost learning and remain engaged in learning for the long term. Governments will need to address the effects of disrupted learning across different age groups, subjects and, most importantly, different groups of learners (especially disadvantaged learners with little or no access to technology, with special needs, from low socio-economic status households, and/or with limited language skills such as migrants, asylum seekers and refugees). Perhaps more importantly, policy should focus on keeping disadvantaged learners engaged and motivated, and

minimising drop-outs. Countries will likely need to sustain and deepen teacher professional development to underpin support for disadvantaged learners and online and blended learning. Teachers need support to incorporate technology effectively into their teaching practices and methods.

- The disproportionate effect of the COVID-19 crisis on women calls for a **comprehensive response to promote gender-sensitive measures as part of an inclusive recovery**. A Background Paper [[GOV/PGC/GMG\(2020\)3/FINAL](#)] has also been prepared to feed into the MCM discussions covering a wide range of policy areas to prevent the crisis and its responses from exacerbating pre-existing gender inequalities.

22. **The recovery is also an opportunity to address global environmental crises and challenges, including climate change, air and water pollution, biodiversity loss, ocean degradation, and inefficient resource use.** The crisis has reminded us of the crucial link between the environment and human health as well as the urgency of tackling environmental problems. Many governments have included “green” recovery measures in their fiscal stimulus and investment programmes in response to the COVID-19 crisis. Addressing environmental challenges and transitioning from a linear to a circular economy can be a “win-win” strategy also to boost growth and investment as well as to create new jobs in certain sectors, by supporting sector restructuring towards more resilient, greener and more sustainable economic activities. Yet, OECD data suggests that the balance between green and non-green spending is so far not favourable in terms of the support towards positive environmental outcomes. Governments have the opportunity to accelerate existing plans towards a low-carbon economy (e.g. by investing in renewable energy, resilient infrastructure, energy efficiency and more sustainable agriculture), and hence meet national and international environmental targets (including under the Paris Agreement). Low energy prices can also be an opportunity to promote carbon pricing and fossil fuel subsidy reform. Better aligning tax systems with environmental and climate policy objectives, including through carbon pricing, can not only boost government revenues to finance the recovery but also help level the playing field for clean technologies and green innovation. Efforts will need to be deployed to ensure that this transition is also socially inclusive and sustainable, with emphasis on skills and partnerships between governments, social partners and other stakeholders for a just transition. Businesses also have a key role to play in preventing and addressing environmental impacts throughout their supply chains, as expected under international standards for responsible business conduct, including the OECD Guidelines for Multinational Enterprises. Lastly, as a green recovery will require substantial financial resources, the role of sustainable finance will be extremely important to leverage public and private investment, including on sustainable and resilient infrastructure. The OECD Compendium of Policy Good Practices for Quality Infrastructure Investment will be a useful instrument in this regard.

23. **Systemic resilience is needed to deal with COVID-19 and, crucially, address future shocks.** As COVID-19 shows, interconnected challenges to modern societies call for a systemic, anticipatory approach to reinforcing resilience. Traditional approaches to risk prevention are necessary and need to be reinforced, but are not enough. Systems thinking provides a methodology to break institutional and scientific silos and develop integrated policies and governance approaches to ensure that those systems (economic, social, digital, etc.) are less vulnerable to widespread and cascading failure, including from an increasingly disruptive climate. Resilience needs to be mainstreamed across all areas of measurement and policy-making. A few policy areas and legacies of the current crisis offer good examples:



- COVID-19 has highlighted the need to **build greater resilience in labour markets, social protection systems (see above) as well as healthcare systems**. Regarding the latter, governments have an opportunity to incorporate the lessons of the crisis and **strengthen health system preparedness**, including by improving the use of real time, more granular data, a more holistic, whole-of-government perspective to manage public health risks such as pandemics, and effective strategies to increase capacity as needed, in terms of infrastructure, professionals, and healthcare supplies. Digital technology can also play a major role.
- Governments have led the response to maintain economies and societies afloat amidst enormous demands for them to deliver. The COVID-19 crisis shows **that governments' capacity and resilience needs to be strengthened**. Governments must invest in a range of capacities, including anticipation, managing evidence, data and risks, communicating with citizens and stakeholders, addressing the challenge of disinformation, and policy co-ordination and international collaboration. Governance systems (from budgeting to regulatory practices or public procurement) need to become more adaptable and resilient to unexpected events and crises such as COVID-19. In view of current shortcomings in the provision of essential goods, governments will be expected to take steps to better meet citizens' expectations on ensuring such goods in the future. This will require deciding on the definition and scope of essential goods and their governance within a well-functioning market economy. Furthermore, the **governance of public decision making and priority setting** is critical to ensure that governments hear the needs and understand the policy impacts for all people – including youth, women and men, and the disadvantaged – and that policy decisions **ensure that all will benefit from a green and inclusive recovery**. This is not only crucial for the effectiveness of governmental action in the recovery but also to strengthen trust in governments and public institutions, which has been further undermined by the crisis in some settings.
- There is a clear need to **strengthen the resilience of global value chains (GVCs) to integrate the lessons learned from the crisis, including regarding the supply of essential goods**. However, these efforts should draw on rather than jeopardise the **benefits of open trade and investment under the rules-based multilateral system**, which will be critical to an inclusive recovery. While much of the effort to build resilient supply chains rests with the private sector, governments play a critical role to ensure the supply of essential goods, for instance by anticipating disruptions, and promoting transparency. The present paper provides guidance on policy options to improve the strategic provision of essential goods (see Item 2, Breakout Session 2) and outlines how the OECD can help governments with their ongoing reflection about this important issue. International collaboration and solid evidence will be key. Likewise, today's stimulus packages should be based on transparent, time-limited and targeted support that is consistent with competition and longer-term policy objectives (including digitalisation and the transition to a low-carbon economy) so as **strengthen and preserve a global level playing field**. Further dissemination of OECD standards which help promote a level competitive playing field in the global market place can also support the role of international trade and investment in the recovery. OECD contributions to the G20, its relations with Key Partners as well as Regional and Country Programmes can strongly contribute to the dissemination of these standards.

- **Higher levels of public and private debt** are going to be one of the major legacies of the COVID-19 crisis. On the public debt front, **structural reforms with fiscal and monetary support** will be key to boost potential growth and reduce the debt-to-GDP ratio. Well-designed fiscal rules, reformed budget processes and expenditure reviews, and continued efforts to enhance transparency in the reporting and oversight of government balance sheets will be important priorities. To be fully effective, these reforms should be co-designed with recipients and other stakeholders, taking into account broader political economy considerations and building trust in institutions, including independent fiscal institutions. Once economies have recovered from the crisis, higher government revenues will also be required to support debt sustainability in some countries. On the private debt front, governments need to **closely monitor the likely rise in corporate insolvencies and bankruptcies**, which could have negative feedback effects on corporate bond markets as well as on the financial system. Government support for firms should increasingly consider non-debt financing instruments in light of rising levels of corporate debt-to-equity. The G20/OECD High-Level Principles on SME Financing can be useful in this regard. Support should be phased out gradually and reforms to streamline insolvency procedures may also be needed to facilitate corporate restructuring. Finally, the impact of the crisis on household debt should also be monitored.

24. Lastly, a truly inclusive and resilient recovery will require attention to world regions and countries beyond OECD membership and, in particular, to developing countries. The crisis is **ravaging years of development progress, causing significant increases in poverty, disruption to the achievement of the UN Sustainable Development Goals and hitting the world's poorest and most vulnerable populations**. Rampant informality and limited fiscal space have hindered the capacity of some developing countries to respond effectively to the crisis and risk exacerbating the social cost of the pandemic. The compounding of several crises – health, security, food and environmental – in certain developing regions could undermine political stability and have transboundary spillovers. The specific case of middle-income countries should be considered. In this context, **an unprecedented global response in size, range and ambition is needed**, including through official development assistance (ODA), debt relief efforts further to the G20/Paris Club Debt Service Suspension Initiative (DSSI) and other sources of finance for sustainable development, which should be maintained and increased. Greater international co-operation on trade and investment, access to technology and the co-ordination of macroeconomic policies through a supportive and reinvigorated multilateral system are needed. Finally, international co-ordination for policy coherence of measures taken to tackle the consequences of the crisis and build resilience, avoiding externalities on developing countries or addressing them through appropriate action would be paramount. A Background Paper on development [[COM/DCD/DAC/DEV/GB\(2020\)1/FINAL](#)] has been prepared to feed into the MCM discussions.

### *Connecting the dots: Towards an integrated framework for a sustainable future*

25. **The recovery from COVID-19 is an opportunity to rethink the current approach to economic growth and consider widening the scope to better integrate the dimensions discussed above.** The COVID-19 pandemic has highlighted, and in some cases worsened, a number of pre-existing problems. Even prior to COVID-19, many OECD economies were facing a combination of slow economic growth, widening

inequalities in outcomes and access to opportunities, and increasingly serious environmental emergencies, while at the same time having to undergo a number of major and potentially disruptive transitions: digitalisation, population ageing, and decarbonisation.

26. **The OECD has done substantial work on the relationship between growth, inequalities and environmental issues.** That work, including in the context of work streams on inclusive growth, well-being, gender equality and green growth as well as in established OECD publications like *Going for Growth*, has allowed the emergence of a richer picture of (i) how output growth is related to sustainable well-being, the ultimate objective of economic policy, and how the maximisation of production and consumption should be considered together with sustainability objectives, involving trade-offs and possible synergies; (ii) the two-way relationship between economic growth and such factors as inequality and the environment; (iii) what economic growth means and how it should be measured; and (iv) how major trends such as population ageing and digitalisation affect growth, as well as other dimensions of well-being.

27. **In this context and building on the rich exchanges of the MCRs, the MCM is an opportunity for Ministers to share their experiences and to provide high-level guidance on the agenda of the OECD in coming years.** Ministers will be able to exchange views on the gaps to be filled and to task the OECD with continuing to work towards supporting a strong, resilient, green and inclusive recovery, by further improving metrics (in particular to complement traditional measures of economic output by further developing “beyond GDP” metrics), gathering new empirical evidence and developing better analytical tools for processing that evidence under a more integrated approach. Ministers can also reflect on how to better and more systematically use that evidence in day-to-day policy making. This work should complement continued emphasis on existing measurement agendas around digitalisation and globalisation, as defined in last year’s MCM.

28. **As one step forward in this process, a high-level Indicator Dashboard, informed by prior OECD work and databases, could guide and measure efforts towards a people-centred recovery.** The Dashboard (see Item 2, Breakout Session 1) will be a living exercise and will complement rather than replace the rich range of data produced by the OECD, and the more established policy and measurement frameworks that consider broader aspects of well-being, inclusion, public trust, sustainability, as well as their interactions with the economy and their policy determinants. Given current data frequency, indicators on the Dashboard can be published annually at each MCM, but more regular reporting could be explored.

**Questions for discussion in Agenda Item 3 (Plenary on 29 October):**

1. What are the main domestic priorities to promote a strong, resilient, green and inclusive recovery in the current context? What are the key objectives of national recovery plans and packages?
2. What pre-existing and long-term challenges (e.g. productivity, skills, digitalisation, inequalities, climate change and other environmental challenges) are countries trying to tackle as part of their recovery efforts?
3. What are the priorities for a truly global recovery from COVID-19? What have been the main achievements of international co-operation in responding to the

crisis, what are the lessons learned and the areas where further progress is needed?

4. How can the OECD support its Members and the international community in their recovery efforts? What dimensions of the recovery and relevant policy areas should the Organisation focus on until the next MCM?

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## ITEM 2: BREAKOUT SESSIONS: THE PATH TO RECOVERY

### Breakout Session 1 – Recovery Plans: Pursuing Sustainable Fiscal and Monetary Stimuli; Integrating Social and Environmental Dimensions for a More Sustainable, Resilient and Inclusive Future Recovery

#### *Macroeconomic policies for the recovery*

29. **Macroeconomic (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. Combining **accommodative macroeconomic policy stances with well-designed structural reforms** would support households and firms alike and ensure a bounce-back in living standards.

#### *Monetary policy: An accommodative stance to support the recovery*

30. **Central Banks should maintain an accommodative monetary policy stance, while ensuring the financial system remains sound and that perceptions of central bank independence are not undermined.** Indeed, an accommodative monetary policy stance will likely have to be maintained for a prolonged period given the time it may take for production, income, employment and inflation to recover after the pandemic.

31. **In the event of a continuation of the pandemic, accommodative monetary and liquidity and financing support should evolve and, where needed, be further extended, and scaled up.** In particular, more accommodative monetary conditions can be ensured via additional net purchases of government bonds, yield curve control and strengthened forward guidance. A further expansion of US dollar funding swap lines, potentially including more emerging-market economies, may also be necessary.

32. **Ensuring the financial system remains sound is key for monetary policy transmission.** Although the international banking system entered this crisis in a healthier position than at the time of the previous one, the large drop in activity earlier this year is bound to be reflected in higher non-performing loans (NPLs), and this would be compounded by any renewed dips resulting from a resurgence of the virus. Heightened levels of non-performing loans will require strict prudential supervision, effective and fast insolvency procedures, the development of distressed debt markets to facilitate disposal of NPLs through asset vehicles, and also the establishment of “bad banks” where needed to ensure that viable banks maintain access to funding.

33. **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 to not reduce 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 their inflation and other objectives, such as employment, set in central bank legislation or regulation. Moreover, central bank measures to support non-financial corporations and local authorities should be weighed to avoid distributional consequences, which would lead to perceptions that monetary authorities are encroaching on tasks reserved for elected governments. Higher credit risks taken may lead to capital losses in the future and increased political criticism and interference.

*Fiscal policy: The role of sustainable fiscal stimuli*

34. **The swift and ongoing COVID-19 fiscal policy responses have helped to limit the permanent scars inflicted by the pandemic, and needs to be continued as long as the effects of the pandemic weigh on economic activity.** There are trade-offs involved with the choices concerning the amount, duration and form of fiscal support, and the optimal solution will vary depending on each country's circumstances. Large and prolonged budget deficits add to public debt burdens, creating financial vulnerabilities and reducing the room for manoeuvre in responding to future shocks. And broad support for firms and workers runs the risk of hindering a reallocation of resources from activities that have become unviable to other, viable ones. On the other hand, a premature withdrawal or excessive narrowing of support risks resulting in a prolonged economic slump. In that scenario, unemployment would remain high for a long time, investment would be lower than otherwise and the slower embodiment of innovation in physical capital and processes would exert a drag on productivity growth. This was the pattern seen in many countries after the Global Financial Crisis. In most OECD countries, where interest rates have fallen since the onset of the pandemic and where economic activity remains depressed, strong fiscal responses should be maintained at least through 2021. At the same time, as it becomes less uncertain which activities have become unviable in the new situation, support can be better targeted and tailored to facilitate the necessary reallocation of resources. Given that conditions both as regards the health situation and the economy are susceptible to rapid change, flexibility and agility will be crucial. Policy transparency is also fundamental at all stages of the crisis response (see below), enabling governments to help manage business expectations, foster public support domestically, exchange information on what each country is doing to stimulate the economy and limit international concerns about unfair competition.

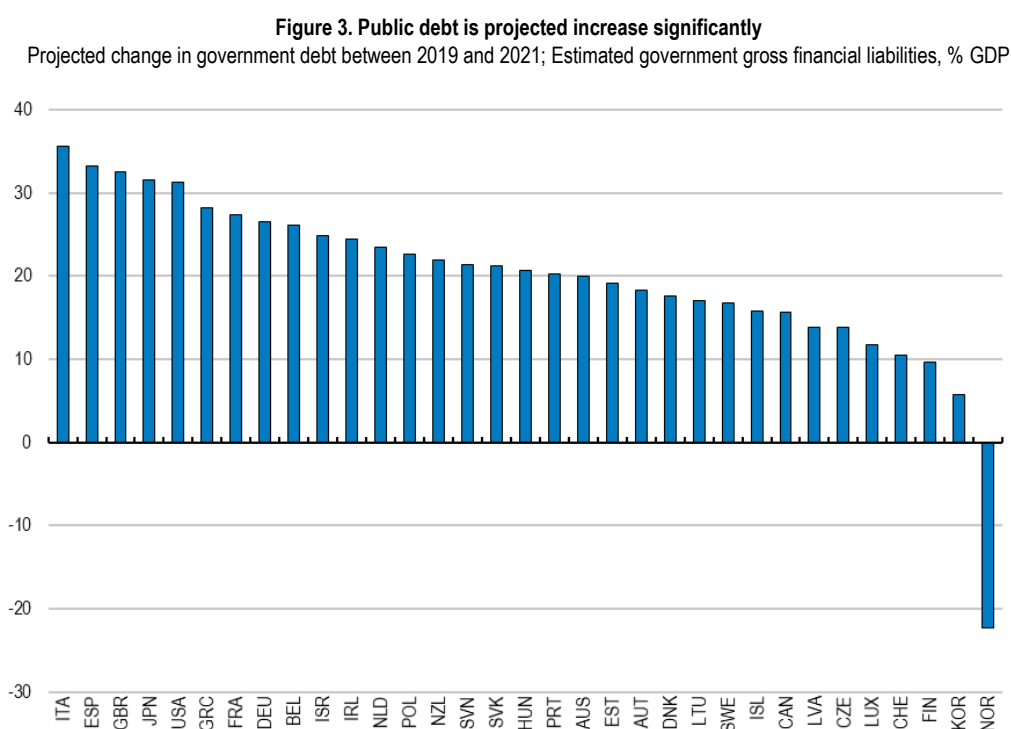
35. **Support to firms through grants, credits or loan guarantees is crucial to prevent viable firms with temporary liquidity shortages from going out of business, but carry the risk of support flowing to non-viable firms.** Given the high degree of uncertainty about the pandemic dynamics, the availability of effective vaccines and treatments, and the economic impact of the pandemic and the measures taken to contain it, it is highly uncertain which firms are viable and which are not. Nonetheless, the authorities should aim to establish clear criteria to make that distinction, evaluate programmes over time and adjust them as needed. Sufficient loss provisions should be reflected in budget balances, and repayment incentives should be introduced (e.g. partial guarantees). New support measures for firms might include equity and quasi-equity risk sharing instruments, such as convertible loans, tax incentives for retail investors, or cash-against-tax surcharge schemes,<sup>8</sup> to provide firms with the required liquidity without increasing their leverage. These kind of interventions are especially important for SMEs, which face more challenges in raising funding in a downturn, but have little or no access to capital markets and are more at risk of becoming over-indebted. Such measures would help preserve the stability of the banking system, as well as the resilience and long-term financial health of corporate beneficiaries of public support. The G20/OECD High-Level Principles on SME Financing provide guidance to foster an appropriate financing mix for these firms.

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<sup>8</sup> Boot, A., E. Carletti, H. Kotz, J. Krahen, L. Pelizzon and M. Subrahmanyam (2020), "Corona and Financial Stability 2.0: Act jointly now, but also think about tomorrow", SAFE Policy Letter, No. 79.

36. **To help preserve incomes and employment, widespread use has been made of short-time work schemes and wage subsidies to laid-off workers.** In the early stages of the COVID-19 crisis, the overriding concern for governments was to help firms and workers. As countries have been moving out of the strict confinement phase, policy makers need to strike the right balance between ensuring adequate support and focussing on jobs that are viable in the long term while supporting the reallocation of workers in unviable jobs.

37. **OECD fiscal balances and public debt are projected to deteriorate dramatically in 2020, reflecting large support measures and the action of automatic stabilisers.** With budget deficits widening sharply and GDP falling virtually everywhere in 2020, the ratio of public debt to GDP is expected to jump by more than 10 percentage points on average in the OECD area, with many countries experiencing increases by about 20 percentage points. In 2021, the projected rebound in GDP implies smaller increases in debt ratios: indeed, a few OECD economies may see modest declines in debt-to-GDP ratios. On the other hand, the outcome for the public finances could be worse than expected due to large uncertainties about the economic impact of the crisis, how long the virus will constrain the economy, the use of support measures, and the realisation of contingent liabilities.



Note: This figure uses the national accounts definition of government debt. The Maastricht definition of government debt is used for selected European countries, which shows general government gross public debt.

Source: OECD Economic Outlook 107 database and OECD calculations, July 2020

38. **When the crisis passes, policy-makers will need to carefully review both the spending and revenue sides of the budget to safeguard fiscal sustainability and ensure confidence in public finances.** Once the recovery is firmly established, measures will be needed to inclusively and sustainably adjust revenue to spending. Efforts to design these measures should start as soon as the immediate crisis period is over as this a complex and time-consuming task. In the course of this review process, policy and budget transparency

would enable greater government accountability and oversight of the measures adopted, and help authorities learn from current experience in order to better prepare for the future. The fiscal framework should be reinforced as needed to contribute to fiscal sustainability and the public's confidence in the sustainability strategy.

39. **Higher economic growth and inflation would help lower the debt-to-GDP ratio.** To this end, governments should implement ambitious structural reforms to boost potential growth.<sup>9</sup> However, the experience from the past decade suggests that achieving higher growth quickly through structural reforms is challenging without monetary and fiscal support. Similarly, raising inflation to target and keeping it there may require persistent monetary and fiscal support.

40. **Reviewing all government expenditure will be necessary to ensure adequate spending on high-priority areas and people, and enhance growth without threatening debt sustainability.** First, healthcare spending will need to be boosted in many countries to increase the capacity to respond to future pandemics and to address structural increases in healthcare costs, including through boosting productivity and promoting healthier lifestyles.<sup>10</sup> Second, a general reduction in public investment should be avoided, in contrast to the past large consolidation episodes,<sup>11</sup> with a renewed focus of investment in digitalisation, critical infrastructure and climate change mitigation. New, innovative tools are required to assess and drive improvements in the alignment of national expenditure and revenue processes with climate and other environmental goals. For example, the recently published French “Green Budget for 2021” is the first in the world to tag expenditures with both a positive and a negative impact across a comprehensive range of environmental areas. This innovative approach was initiated from France's participation in the OECD Paris Collaborative on Green Budgeting, launched at the One Planet Summit in December 2017. Third, governments will have to address rising costs related to population ageing.<sup>12</sup> Fourth, there may be political pressure to sustain more generous social benefits and protection of workers' income to better accommodate future downturns.

41. **After a decade of low public capital spending, high-quality public investment is needed in sectors related to digitalisation, innovation, education and climate change mitigation** that will help generate a sustainable recovery from COVID-19. Market failures in these sectors cause private under-investment,<sup>13</sup> preventing large positive externalities and the attainment of important social objectives. Limited public resources call for institutions and decision-making processes that are coherent and transparent, while

<sup>9</sup> OECD (2019), *Economic Policy Reforms 2019: Going for Growth*, OECD Publishing, Paris.

<sup>10</sup> Lorenzoni, L., A. Marino, D. Morgan and C. James (2019), “Health Spending Projections to 2030: New Results based on a Revised OECD Methodology”, OECD Health Working Papers, No. 110, OECD Publishing, Paris. DOI: <https://dx.doi.org/10.1787/5667f23d-en>.

<sup>11</sup> Blöchliger, H. Song, D.-H., and D. Sutherland (2012), “Fiscal Consolidation Part 4. Case Studies of Large Fiscal Consolidation Episodes”, OECD Economics Department Working Papers, No. 935, OECD Publishing, Paris.

<sup>12</sup> OECD (2019), “Long-term Projections of Public Pension Expenditure”, in *Pensions at a Glance 2019: OECD and G20 Indicators*, OECD Publishing, Paris.

<sup>13</sup> OECD (2017) *Key Issues for the Digital Transformation*, Report prepared for a joint G20 German Presidency/ OECD Conference, Berlin, Germany 12 January 2017, <https://www.oecd.org/g20/key-issues-for-digital-transformation-in-the-g20.pdf>.



effective and responsive to rapidly evolving contexts. Better governance will improve return on public investment and draw in more private financing for infrastructure. New collaborative partnerships between public and private sectors can help optimise public spending in the long-term.

42. **The adoption of well-designed fiscal rules including expenditure rules, and a reformed budget process** that strengthens incentives for prudent long-term planning and provides better information, would help shape better budget decisions. Establishing, or reinforcing, independent fiscal councils as has occurred in Europe and creating specific budget tools like the long-term fiscal target established with the Enzi-Whitehouse budget reform legislation in the United States could be helpful in this respect. In the European Union, reforms of fiscal rules will be needed to ensure that a euro area counter-cyclical fiscal stance is permissible in downturns while preserving fiscal sustainability. This would involve replacing the current multiplicity of numerical rules with an expenditure rule, possibly anchored to a debt-ratio target.<sup>14</sup>

43. **Continued fiscal support has been posing challenges for public debt management.** The sudden increase in government borrowing has necessitated changes in sovereign debt managers' operations, including by augmenting the size and frequency of auctions, as well as greater reliance on short-term financing instruments.<sup>15</sup> While short-term borrowing is usually less costly than long-term borrowing, it involves higher risks of refinancing. Thus, over time, debt managers could introduce securities with longer-term maturities, helping extend the average maturity of debt and diversify the investor base.

44. **A comprehensive and reliable approach to managing public debt would include the transparent reporting and oversight of governmental balance sheets.** Budgetary responses to COVID-19 included government guarantees and loans to support the liquidity of businesses and the effective operation of the financial sector. The size and complexity of guarantees and loans calls for transparent reporting practices, in particular the publication of governmental balance sheets showing assets and liabilities generated by the responses to COVID-19. Governments should strengthen their fiscal risk frameworks to identify, measure, and actively manage guarantees and loan portfolios.<sup>16</sup>

45. **To further progress on these issues, the OECD could organise a structured dialogue on public indebtedness.** This forum would aim at exchanging good practice on fiscal policy, public debt management and borrowing strategies as well as budgetary governance in support of the economic recovery from COVID-19 in the medium term, and of fiscal sustainability over the longer-term. This dialogue could highlight budgetary and tax policies to transition from stimulus policies without harming economic growth.

46. **On the revenue front, and once economies have recovered from the crisis, restoring public finances will be only one element entering into a comprehensive review of countries' tax mixes, in addition to growth considerations, inclusiveness,**

<sup>14</sup> See Claeys, G., Z. Darvas and A. Leandro (2016) "A Proposal to Revive the European Fiscal Framework", Policy Contribution, No. 2016/17, Bruegel; Darvas, Z., P. Martin and X. Ragot (2018), "European Fiscal Rules Require a Major Overhaul", Policy Contribution, No. 2018/18, Bruegel; and OECD (2018), OECD Economic Surveys – Euro Area, OECD Publishing, Paris.

<sup>15</sup> OECD (2020), OECD Sovereign Borrowing Outlook 2020, OECD Publishing, Paris, <https://doi.org/10.1787/dc0b6ada-en>.

<sup>16</sup> OECD (forthcoming), "Best Practices for Managing Fiscal Risks", OECD Publishing, Paris.

**resilience and sustainability**, the latter of which may gain greater weight in fiscal policy making after the crisis. The following aspects should be considered:

- *Reassessing the distribution of effort.* In a context where the COVID-19 crisis has tended to amplify inequalities; where indirect tax burdens have been on the rise since the 2008/2009 crisis; where tolerance for tax evasion and tax avoidance has declined; and where the demand for public goods, e.g. in relation to resilience, may have increased, the size and sharing of the tax burden could be revisited.
- *Revisiting the taxation of capital for individuals* (ranging from capital income to capital gains, and property taxation, including inheritance taxes) should be considered in the light of inclusive growth objectives, making the tax system more progressive where possible. These tax reforms might call for enhanced international tax co-operation to prevent capital flight. Reforms could be partly linked to COVID-19 spending as this could justify exceptional measures, and could be partly embedded in a broader reform effort that is not directly related to the exceptional crisis-related spending.
- *Strengthening value-added (VAT) systems.* While VAT were largely used in the aftermath of the global financial crisis and room for manoeuvre may now be limited, strengthening VAT systems, through better enforcement and cutting back ineffective exemptions and rate reductions, rather than increasing headline VAT rates, could be explored, particularly where this can ensure the effective collection of VAT on digital trade and to reduce revenue losses from VAT fraud.
- *Considering making greater use of carbon and other environmental taxes and phasing out fossil fuel subsidies.* This would provide clear incentives for businesses and households to make investment and behavioural choices that reduce greenhouse gas emissions. It would also raise tax revenue, of which a portion could be used to compensate households and businesses hardest hit by the measures.
- *Considering greater use of taxes to encourage more healthy lifestyles.* In addition to broadly used excise duties on alcohol and tobacco, many countries have introduced taxes on sugar-sweetened beverages. Environmentally-related and health-related taxes can produce a double health and environment dividend as the complementarities between both types of taxes are large.
- *Addressing gender differences in the tax systems.* To ensure that the tax system does not inadvertently reinforce gender biases in society, governments need to include the impact of taxes on gender as a key dimension in their tax policy responses to COVID-19. To address the complex interactions of tax and gender, governments will need to consider options to redesign key taxes to ensure that they incentivise both first and second earners to work.
- *Improving international tax cooperation.* Since the last global crisis in 2008, international tax cooperation has advanced significantly with regard to tax transparency. Despite this progress,<sup>17</sup> more needs to be done to achieve the full potential of tax transparency. In addition to pursuing the effective implementation of the tax transparency standards by all countries, further work is needed to tackle emerging risks for tax policy and transparency (e.g. crypto-assets, including the

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<sup>17</sup> For example, in 2019 information relating to 84 million financial accounts was exchanged with a combined value of around EUR 10 trillion under the Standard on Automatic Exchange of Information.

treatment of virtual currencies) and to strengthen the implementation of the tax transparency standards in particular with respect to beneficial ownership and real estate ownership.

- *Addressing the tax challenges from the digitalisation of the economy*<sup>18</sup> and ensuring that multinational enterprises pay a minimum level of tax would strengthen revenue-raising capacity and contribute to reforms of burden sharing. In addition to the pursuit of the fight against tax avoidance by multinational enterprises (MNEs),<sup>19</sup> policy co-ordination in this area will make reforms more effective, including by fighting tax avoidance and ensuring that tax disputes do not turn into trade wars, which would harm recovery even further.

*Structural policy: Supporting economic restructuring and promoting a job-rich and inclusive recovery*

47. **COVID-19 has set a large structural challenge to reorient economies and reallocate resources and, at the same time, raised new obstacles to achieving a low emissions economy.** The crisis scars will particularly affect some sectors, emphasising the need for renewed and well-targeted structural reforms in all economies. Activity in some sectors, such as aviation and tourism, may be significantly lower for some time to come. Consumer preferences could also change permanently, accentuating the transition towards greater use of e-commerce and digital delivery of services, including public services.

48. **Reforms to spur business investment and reduce uncertainty will be essential to increase productivity growth and help reallocate capital.** Investment policies should foster the broader adoption of digital infrastructure and transport facilitation to help bridge distances and spur the development of climate friendly energy. Increased investment in digital infrastructure will also help the adjustment to new working arrangements and promote access to digital services, including by smaller businesses which generally lag behind their larger counterparts in the adoption of digital tools.

49. **The current crisis has put a strain on supply chains and greater emphasis on resilience is needed.** Policy priorities on promoting the resilience of essential supply chains should consider how businesses can best be encouraged to ensure the effective management of different kinds of risk and the role that international markets, including greater supplier diversification, can play in ensuring security of supply for essential goods. Supply chain resilience should be stress-tested on a regular basis to identify particular weaknesses and ensured by companies and, as appropriate, by governments through, for example, consideration of development of strategic stocks and upstream agreements for the reconversion of assembly lines during critical times, where feasible. Governments can also support businesses through regulatory simplification, including to help promote innovation, and through trade facilitation reforms and investments to improve the efficiency of logistics and border processes, and help all businesses, but especially SMEs who will be struggling the most to recover. Easing of COVID-19-related international

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<sup>18</sup> The latest developments and progress on the project “Addressing the Tax Challenges Arising from the Digitalisation of the Economy” are set out in the OECD Secretary General tax report to the G20 Finance Ministers, July 2020. <http://www.oecd.org/tax/oecd-secretary-general-tax-report-g20-finance-ministers-july-2020.pdf>

<sup>19</sup> Since 2016, the international tax community, through the Inclusive Framework on BEPS, which currently includes 137 jurisdictions on an equal footing, is carrying on the implementation of the BEPS minimum standards, which aim at tackling corporate tax avoidance of MNEs.

travel restrictions, when health and safety considerations permit, will ensure that trade in services, which is highly intertwined with manufacturing in global value chains, can support the recovery.

50. **An inclusive recovery should focus on job creation while promoting greater inclusion, gender equality and opportunities for all.** Fiscal stimulus, including programmes to boost public and private investment, should be formulated with the objective of returning to full employment quickly kept clearly in view. It is also important to facilitate rapid firm restructuring and help firms digitalise, especially SMEs, and to maintain liquidity support while being ready to address renewed financial turmoil. Effective active labour market programmes and enhanced adult learning opportunities will contribute to facilitating job reallocation after the removal of containment measures, and preventing the erosion of human capital. The effectiveness of these measures is likely to be enhanced by reforms that remove impediments to labour mobility – such as occupational licensing and transaction taxes in housing markets – and barriers to new firm entry, given that young firms disproportionately drive aggregate job growth. Enhanced childcare provision and improved efficiency and targeting of tax and transfer policies also need to be an integral part of well-designed policy packages to enhance participation and make the labour market more inclusive.

51. **The short-term challenge is to adapt emergency measures to the new phase.** On the labour market and social protection side, policy-makers are facing the complex challenge of adapting and the emergency measures taken in early 2020 to account for the varying conditions across sectors, firms and workers. In particular:

- **Job retention schemes should be targeted only to jobs that are at risk of being terminated but which are viable in the medium/longer term** so as to enable the necessary reallocation of resources in the economy in response to the economic shocks associated with COVID-19. Requiring firms to pay part of the cost, stricter limits on duration, and introducing incentives to look for work and take up training are some of the policy levers to reach this goal. Emergency support programmes for self-employed workers and SMEs introduced in the initial phase of the crisis will also need to be adapted. While the need for such programmes will subside as economic activity picks up again, some viable businesses may continue to face restrictions and/or low demand because of the uneven pace of the recovery across sectors (for example tourism, entertainment, and transportation).
- Countries will need to **review the coverage and adequacy of income support as the crisis evolves.** There can be good reasons for extending the duration of unemployment benefit to prevent jobseekers from sliding too quickly into much less generous minimum-income benefits. At the same time, re-assessing the duration, targeting and generosity of emergency income support programmes put in place in the early months of the crisis offers an opportunity to ensure that support goes to the neediest. To encourage benefit recipients to make active efforts to find employment, countries can progressively re-establish “mutual obligations” requirements.

52. **Countries need to strengthen resilience and inclusivity in the labour market.** As argued in the *OECD Employment Outlook 2020*, more than ever, countries need to address rising inequality and promote well-being for all by taking actions on a number of fronts:

- **Supporting the transitions between jobs, allowing firms to restructure rapidly and efficiently and supporting upskilling and reskilling.** To assist job-seekers in finding new work, countries can scale up the capacity of public and private employment services and make greater use of digital services, without cancelling in-person meetings for people with weaker digital skills. Online and offline training is important to help jobseekers and workers in job-retention schemes find jobs in sectors and occupations more in demand. Hiring subsidies, possibly targeted to vulnerable groups, can promote job creation.
- **Closing gaps in access to social protection.** In many countries, the insurance function of social protection has worked well for employees with stable employment, but eligibility conditions are often difficult to meet for those with unstable or short employment histories and the self-employed and other standard workers are poorly protected. The capacity of social protection systems to provide minimum-income benefits of last-resort has been severely tested. In the early months of the crisis, countries took temporary measures to reduce these gaps; the challenge is now to transform temporary solutions into structural changes.
- Strengthening labour market resilience also requires **stronger institutional capacity** to scale up key measures quickly, when a crisis hits, while maintaining service quality.
- **Social dialogue and collective bargaining** play a key role in enhancing the resilience of the labour market, as they help adapt and develop the required policy responses through agreements and work re-organisations adjusted to each specific situation.

53. **The disproportionate impact of the COVID-19 crisis on women calls for a comprehensive response to promote gender equality as part of an inclusive recovery.** The recovery is an opportunity not just to address the effects of the pandemic on women's employment, income and well-being, but also to close pre-existing gender gaps. Gender considerations can be mainstreamed in the governance of recovery programmes, for instance by (a) integrating gender impact assessment processes and tools, (b) collecting gender-disaggregated evidence and data, (c) adopting gender budgeting to ensure that a gender perspective is used in measures included in fiscal stimulus packages, and (d) stepping up measures to increase the role and numbers of women in decision-making processes.

#### *Using recovery plans to achieve necessary transformations: building back better*

54. **Recovery plans, particularly when accompanied by structural reforms, can be an opportunity to transform our economies and address pre-existing vulnerabilities and challenges** by (a) exploiting the opportunities of a “green” recovery for jobs, income and growth while tackling the climate crisis and other environmental emergencies; and (b) support and accelerate the pace of an inclusive digital transformation and the development of sustainable infrastructure as drivers of growth in the recovery.

#### *Green recovery plans*

55. **The green recovery is an opportunity to rebuild the economy, enhance resilience against future shocks and address global issues such as climate change, air and water pollution, biodiversity loss, ocean degradation, and inefficient resource use.** When properly designed and implemented, green stimulus measures can generate income,

create jobs, improve wellbeing for all and build resilience. This was one of the key lessons emerging from a review of the measures implemented in the aftermath of the 2008 global financial crisis.<sup>20</sup> Integrating environmental sustainability and socioeconomic equity together in policy packages is important to mitigate regressive impacts of environmental policies, for example by investing in places and people to ensure equal opportunities for all to contribute to and benefit from economic growth.<sup>21</sup>

56. **Many governments have included green recovery measures in their policy packages designed to address the short and medium term socio-economic impacts of the pandemic 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). And finally, there are measures that are not specifically targeted at green sectors or activities, but may nevertheless have a (positive or negative) impact on environmental outcomes.

57. According to preliminary analysis conducted by the OECD Secretariat in August 2020, **30 OECD and Key Partner countries have included measures directed at supporting the transition to greener economies as part of their recovery programmes or strategies.** Such measures include grants, loans and tax relief measures directed towards green transport, building energy efficiency, circular economy and clean energy research, development and deployment, financial support to households for energy efficiency improvements and renewable energy installations, new funding and programmes to create jobs and stimulate economic activity through ecosystem restoration, control of invasive alien species and forest conservation. Some countries have also stipulated environmental conditionality for recovery support for firms, for example in aviation, and through linking automotive industry support to the promotion of cleaner vehicle technologies.

58. At the same time, the country-level analysis also indicated that **24 national governments have announced measures that are likely to have a direct or indirect negative impact on environmental outcomes.** These include plans to roll back existing environmental regulations, reductions or waivers of environmentally-related taxes, fees and charges, unconditional bailouts of emissions-intensive industries or companies (such as airlines or fossil fuel extractive industries), and increased subsidies to fossil fuel intensive infrastructure (including road transport) and electricity consumers. On the consumer side, many countries have implemented measures to support households through easing payment terms (longer grace period, no disconnection etc.), and reducing or directly subsidising electricity bills. Although some of these measures may be temporary as part of emergency rescue and support plans, others risk having longer-term environmental and social implications.

59. **Unfortunately, the balance between green and non-green spending is so far not favourable in terms of the support towards positive environmental outcomes.** According to a number of studies, the amount of funding directed towards green measures is outweighed by the funding for non-green measures. In the case of the energy sector, for example, the International Institute for Sustainable Development (IISD) estimates that G20

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<sup>20</sup> Shardul Agrawala, Damien Dussaux and Norbert Monti (2020), What policies for greening the crisis response and economic recovery?, [https://www.oecd-ilibrary.org/environment/what-policies-for-greening-the-crisis-response-and-economic-recovery\\_c50f186f-en](https://www.oecd-ilibrary.org/environment/what-policies-for-greening-the-crisis-response-and-economic-recovery_c50f186f-en).

<sup>21</sup> OECD (forthcoming, 2020), *The Inequalities-Environment Nexus: Towards a People-centred Green Transition*, [COM/SGE/GG/IG\(2020\)1](https://www.oecd.org/com/sge/gg/ig/2020/1).

countries have committed at least USD 346 billion to supporting different energy types through new or amended policies with 47% of this directed to support fossil fuels and 39% to clean energy.<sup>22</sup> USD 178 billion was spent on budgetary support to fossil fuels in 44 OECD and G20 countries in 2019.<sup>23</sup>

60. **The current crisis presents governments with both challenges and opportunities in ensuring that the recovery and stimulus measures enhance, and do not adversely affect, environmental sustainability and well-being.** Those are presented below:

61. ***Overcoming inertia and rebound effects.*** Governments' imperative is to get economies recovering quickly. This will often be based on known investments, technologies and investment plans, reflecting a certain amount of inertia in the system, a lack of understanding on the factors behind unsustainable growth, and a lack of information on alternative, sustainable options. Experience from recovery measures that followed previous economic downturns indicates that negative effects on the environment can be significant, with potential for environmental impacts to increase to levels that were even higher than prior to the downturn. Ensuring that emergency response measures do not relax environmental standards and regulation, and ultimately exacerbate existing environmental challenges, requires a whole-of-government approach to assess the impact of recovery and stimulus measures.

62. ***Supporting sector restructuring towards fairer, greener economies.*** The green recovery is an opportunity to undertake wider reaching and fundamental restructuring of critical sectors and activities in order to support the transition to low-emission climate-resilient and resource-efficient economies in socially inclusive ways and to enhance the resilience of their economies. Not only would this be in line with national and international commitments made under the Paris Agreement, Sustainable Development Goals and other international environmental agreements, such as the Aichi Biodiversity Targets, but they would also support improving the well-being of communities and societies over the near and medium term.

63. ***Accelerating existing plans.*** The OECD preliminary country analysis of green recovery measures indicates that a number of governments are using the post-COVID-19 measures to accelerate actions that were already envisaged under existing environmental plans and proposals. To capitalise on this effect, it will be important that plans are accompanied by clear strategic and regulatory frameworks pertaining to the long-term transition to a low-carbon economy, beyond the specific recovery programmes announced. The economic crisis has also accentuated the importance of providing appropriate support to communities adversely affected by the transition to a low-carbon economy, for example through providing retraining and reskilling as well as measures to enhance mobility and support the development and establishment of alternative industries in those regions.

64. ***Implementing fossil-fuel subsidy reform and carbon pricing, with due consideration of distributional impacts.*** Low fossil-fuel energy prices provide weaker incentives for investment in low-carbon and energy-efficient technology at all stages, from

<sup>22</sup> See <https://www.energypolicytracker.org/region/g20/>.

<sup>23</sup> See <https://www.oecd.org/fossil-fuels/>.

research and development to commercial diffusion.<sup>24</sup> The potential for an extended period of high uncertainty and substantially lower fossil-fuel prices than previously expected further raises the urgent need to introduce effective incentives for firms to invest in energy-efficient technologies. The role of carbon pricing and fossil fuel subsidy reform is key in this regard. A period of relatively low oil prices offers an ideal opportunity to continue efforts to scale up the introduction or extension of carbon pricing. Subject to specific-country circumstances, lowering taxes on labour and capital, in favour of taxing environmentally harmful consumption and production, can stimulate job creation and investment, improving economic efficiency. It is crucial that energy tax reforms are designed to avoid increasing the share of “energy poor” and increasing inequalities, as adequate access to energy services is essential for ensuring decent standards of living. The distributional implications of other pricing instruments, such as those introduced to discourage vehicle and fuel use should be also addressed. Similarly, a reform of fossil fuel subsidies, which amounted to USD 478 billion in 2019 according to OECD and IEA data, is best accomplished in a low oil price environment and should be accompanied by targeted and time-limited transition support for industries, communities, regions and vulnerable consumers.

65. **Unleashing innovation.** The creation and diffusion of new products, processes and methods is fundamental to creating new businesses and jobs, increase productivity and drive progress towards the green recovery. There are major opportunities for green innovations, which include, among others, technologies for renewable energy, energy storage, heating and cooling in buildings, electric, hybrid and fuel-efficient vehicles, and carbon capture, storage and use technologies. Despite some progress, the current level of innovation is not sufficient to reach ambitious climate and environmental objectives. Stimulus measures represent an important opportunity to bolster funding for innovation, although government involvement in innovation goes well beyond public funding for R&D. Typical innovation barriers include financing, information asymmetries, uncertainty of future policy strategies, and trade barriers.<sup>25</sup>

66. **Reforming harmful support and promoting innovation.** The agricultural and food sector, which is among the most vulnerable to climate change, is an important contributor to GHG emissions as well as a potential source of carbon sequestration. While OECD and emerging economies provide over USD 500 billion of support to individual producers annually, only USD 26 billion is used to support agricultural knowledge and innovation systems. There is an opportunity to improve the long-term productivity, sustainability, and resilience of global food systems by removing price inflating and trade distorting measures that discourage production changes and slow climate change adaptation. Public funds can be redirected towards investments in innovation, in sustainable use of land, water and biodiversity resources, in climate change mitigation and adaptation, and farm household resilience.

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<sup>24</sup> For example, there is ample evidence that fossil fuel prices are positively correlated with global patenting activity in low-carbon technologies. See Dechezlepretre, A. et al. (2011), “Invention and Transfer of Climate Change-Mitigation Technologies: A Global Analysis”, *Review of Environmental Economics and Policy*, Vol. 5/1, pp. 109-130, <http://dx.doi.org/10.1093/req/req023>.

<sup>25</sup> OECD/The World Bank/UN Environment (2018), *Financing Climate Futures: Rethinking Infrastructure*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264308114-en>.



67. ***Seizing the opportunities for job creation of green sectors and activities.*** There is mixed evidence on the macroeconomic impact of green growth on overall employment.<sup>26</sup> However, sectoral and regional impacts can be significant for particular industries. For example, renewable energy, notably solar PV, employs more people per unit of investment and energy than fossil fuel generation.<sup>27</sup> The International Renewable Energy Agency (IRENA) estimates that renewable energy could employ more than 40 million people by 2050 and that total energy sector employment can reach 100 million by 2050, up from around 58 million today, should the international community utilise its full renewable energy potential. Nature-related jobs, including ecosystem restoration, and organic agriculture also offer potential for job creation. The transition to a greener economy will require new skills, both for new jobs and for existing jobs that will evolve. In this regard, measures to facilitate worker re-allocation need to consider types and transferability of skills as well as quality of jobs. While the energy transformation is likely to have an overall net-positive impact on employment, millions of workers in the fossil fuel sector will need to find new jobs (OECD and IRENA 2020 Outlook). Policies for a just transition can also facilitate the process of retraining workers with jobs at risk. Partnerships between governments and industry can be built to finance reskilling and to ensure that training content meets the evolving needs of the sector.

68. ***Enhancing global co-operation.*** Meeting global environmental challenges requires multilateral cooperation to achieve the significant transformative action required to strengthen resilience and well-being, realise the potential of green sectors for job creation, income and growth, as well as shore up defences against future pandemics. The green recovery is central in this regard, at both the national and international levels. Much of the current policy focus is on the national measures, but the role of international trade in environmental goods and services, reform of environmentally harmful and market-distorting agricultural support, flows of sustainable finance between developed and developing countries, and technical and financial support on environmental measures to developing countries will also be key. These cannot be achieved successfully without increased global cooperation. Similarly, the upcoming round of major international negotiations in 2021 on climate, biodiversity and chemicals will be critical milestones in driving multilateral action and reaching globally agreed environmental goals. As it has done in the past, the OECD stands ready to support these efforts through its evidence-based analysis, data and best practices.

69. ***Boosting sustainable finance.*** Governments have committed substantial public resources to a green recovery, around USD 312 billion according to a preliminary estimate from OECD country-by-country analysis (which is subject to further refinement and elaboration in coming months). If the full package of measures proposed by the EU is also included, this figure rises to over USD 1 trillion (noting that there may be double-counting with already-announced totals from EU countries). However, as noted above, greater resources have so far been allocated towards less sustainable drivers of economic recovery, such as facilitation of fossil-fuel investments.

70. To fully fund the low-carbon transition, public resources committed to green measures must be used strategically to mobilise capital from private sources. To facilitate this, the financial system should correctly value and incorporate climate and biodiversity-

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<sup>26</sup> OECD (2017), *Investing in Climate, Investing in Growth*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264273528-en>.

<sup>27</sup> IEA (2020), *Sustainable Recovery*, IEA, Paris <https://www.iea.org/reports/sustainable-recovery>.

related risk, and financial markets need to be transparent and efficient in order to ensure market integrity and investor confidence, which in turn contributes to market resilience. In recent years, trillions of dollars in capital have flowed into investments that are assessed using environmental, social and governance (ESG) criteria.

71. In the COVID-19 context, greater attention to non-financial ESG risks is more important than ever for companies, both for sustainability and as a competitive factor to win market share and investment. As highlighted in the recent Business and Finance Outlook 2020, ESG criteria have helped raise awareness and strengthen corporate and investor commitments, but more work is urgently needed to ensure that ESG ratings are fit for purpose. Today's ESG markets contain a large variety – and at times divergence – in methodologies, performance metrics and product structures. OECD research on these ratings – in particular the efficacy of the 'E' scores within ESG – finds, for example, that a high rating under the "Environmental" pillar of an ESG rating does not translate into lower carbon emissions.<sup>28</sup> New OECD work will help address these challenges, through a framework and policy guidance for effective ESG practices.

72. *Measuring and evaluating progress.* Monitoring the impact of recovery and stimulus measures on environmental outcomes is key to ensuring that the green recovery is well-targeted and effective in its execution. In addition, when designing and implementing green recovery measures, countries should systematically develop evaluation frameworks with clear criteria and robust methodologies. Analysis conducted on stimulus packages introduced in response to the 2008 global financial crisis<sup>29</sup> showed that very few countries had conducted ex post assessments of national green stimulus packages. The distributional consequences of such measures should also be explicitly considered in such evaluations. To contribute to this effort, the OECD has identified an Indicator Dashboard to guide the recovery, including a focus on environmental sustainability (see below).

### *Digitalisation and science*

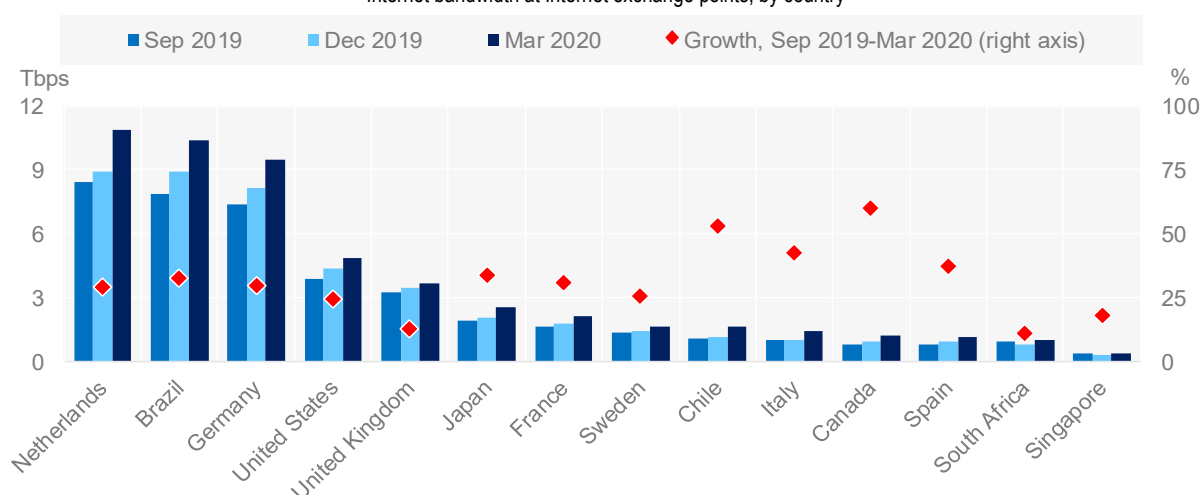
73. **The recovery plans constitute an opportunity to further accelerate the pace of the digital transformation, maximising the benefits of digital technologies while mitigating the challenges.** The COVID-19 crisis has highlighted the key importance of connectivity and communication infrastructure, as some countries experienced up to a 60% increase in Internet traffic during the crisis (Figure 4). There can be no digital transformation without widespread and reliable Internet access. The OECD's 2004 Recommendation of the Council on Broadband Development is currently under review, and there is keen interest to develop a new instrument centred on the concept of connectivity and narrowing the digital divide, focusing on network quality and taking into account the numerous changes in technology, regulations, laws and market structures since 2004. Likewise, recovery plans could be used to seize the opportunities of emerging

<sup>28</sup> See, OECD (2020), ESG Investment: Practices, Progress and Challenges, <http://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf> and OECD (2020), ESG Investing: Environmental Pillar Scoring Reporting, <http://www.oecd.org/finance/ESG-Investing-Environmental-Pillar-Scoring-Reporting.pdf>.

<sup>29</sup> Shardul Agrawala, Damien Dussaux and Norbert Monti (2020), What policies for greening the crisis response and economic recovery?, [https://www.oecd-ilibrary.org/environment/what-policies-for-greening-the-crisis-response-and-economic-recovery\\_c50f186f-en](https://www.oecd-ilibrary.org/environment/what-policies-for-greening-the-crisis-response-and-economic-recovery_c50f186f-en).

technologies, like artificial intelligence (AI), that are being used across many aspects of the COVID-19 crisis response, from detecting and diagnosing the virus, to accelerating research on vaccines, to monitoring the recovery.<sup>30</sup> Governments around the world are implementing new policies to increase the availability and use of digital tools to strengthen business resilience and continuity and aid recovery; these range from releasing additional spectrum for telecommunication services, to providing capacity-building for SMEs, to the increased use of digital tools to facilitate international trade in perishable or time-sensitive products, to accelerating uptake of electronic payment methods.<sup>31</sup>

**Figure 4. The crisis has revealed the critical importance of Internet infrastructure**  
Internet bandwidth at Internet exchange points, by country



Notes: Data shows the median IXP peak traffic aggregated by country in September 2019, December 2019 and March 2020, based on public sources. Tbps = terabits per second.

Source: OECD based on data from [Packet Clearing House](https://www.packetclearinghouse.com/).

**74. As part of their recovery plans, governments can also revisit the role of scientific advice, the funding models for research and development and the incentive structure to bring innovation to the market, notably in the case of global public goods.** This includes ensuring research funding – some of which was re-oriented to addressing the pandemic – towards building resilience to different types of future shocks. Core factors to increase the capacity include promoting open research data and international cooperation. For businesses, sharp decreases in demand, liquidity constraints and supply chain disruptions challenge investment in research and innovation, with potential impacts on long-term growth. Contributing to building resilience will require developing roadmaps for core technologies and support for public and private investments. As innovation increasingly requires collaboration, moving towards sustainable futures will also require engagement of different actors and co-creation processes that involve government, industry, research and civil society in developing solutions.

<sup>30</sup> OECD (2020), Using artificial intelligence to help combat COVID-19, OECD Publishing, <https://doi.org/10.1787/ae4c5c21-en>.

<sup>31</sup> OECD (2020), Policy options to support digitalization of business models during COVID-19: Annex, <http://www.oecd.org/sti/policy-options-to-support-digitalization-of-business-models-during-covid-19-annex.pdf>.

## *Infrastructure*

75. **Infrastructure investment can play a role in stimulus measures and recovery plans.** Sustainable and quality infrastructure plays a key role in our societies by promoting productivity growth, economic and social inclusiveness, and sustainable development. Health infrastructure has for instance played a critical role in treating sick patients and maintaining preventative measures. But infrastructure systems more generally, especially in critical sectors – water, sanitation, telecommunications, transportation, and energy – need to support economic and social activity during the crisis and be responsive, robust and resilient to shocks, to limit cascading consequences of service disruptions. In the short term, increased infrastructure investment – particularly in refurbishing deteriorated infrastructure or shovel-ready projects – could have an immediate effect by boosting employment and supporting growth.

76. **In the longer term, infrastructure investment decisions made now will affect the productivity and resilience of societies and influence environmental and social outcomes.** Integrating investment decisions to meet immediate needs, such as in critical social infrastructure like healthcare, with other long-term goals such as the achievement of the Sustainable Development Goals, the transition away from carbon-intensive energy, and the need to strengthen economic resilience to shocks, can lay the groundwork for future gains and the ability to weather future crises. This argument is also shared by the private sector, whose views are represented in the *G20/OECD Report on the Collaboration with Institutional Investors and Asset Managers on Sustainable Infrastructure* which emphasises the important role of infrastructure investment focused on long-term benefits as part of stimulus and recovery packages. New infrastructure investment also presents a significant opportunity to modernise the economy by, for instance, expanding broadband services through fibre and 5G networks, expanding and modernising electricity grids, and investing in or funding research for innovative solutions in infrastructure, including in healthcare and critical social infrastructures.

77. **Sustainable infrastructure can be a key component of the transition to a low-carbon economy.** Around USD 6.3 trillion of annual investment in infrastructure is needed until 2030 in energy, transport, water and telecommunications infrastructure, to sustain growth and increase well-being. Only 10% more, USD 0.6 trillion per year, would be required to align new infrastructure with a well-below 2 degrees climate goal.<sup>32</sup> Sustainable infrastructure investment is also an important opportunity for the green recovery, given that 60% of the urban infrastructure to exist by 2030 is yet to be built. Infrastructure investment was an important component of fiscal stimuli following the 2007-08 financial crisis, ranging from 21% in advanced economies and 40% in other countries.<sup>33</sup>

78. **Leveraging private investment in infrastructure will be key.** In recent years, bond issuances have become increasingly important as a means to mobilise private finance for low-emission infrastructure projects, totalling nearly USD 800 billion. Despite the crisis, demand for responsible investment has continued to drive green bond issuance in

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<sup>32</sup> OECD (2017), *Investing in Climate, Investing in Growth*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264273528-en>.

<sup>33</sup> Shardul Agrawala, Damien Dussaux and Norbert Monti (2020), *What policies for greening the crisis response and economic recovery?*, [https://www.oecd-ilibrary.org/environment/what-policies-for-greening-the-crisis-response-and-economic-recovery\\_c50f186f-en](https://www.oecd-ilibrary.org/environment/what-policies-for-greening-the-crisis-response-and-economic-recovery_c50f186f-en).

2020, with USD 77.7 billion issued, albeit 13% lower than the same period in 2019.<sup>34</sup> While significant progress has been made to establish standards for green bonds, there continues to be risks of “green washing”, whereby the use of proceeds is invested in less sustainable outcomes.

79. **A further challenge to mobilising private investment is the lack of sufficient “investment-grade” infrastructure projects.** Greater certainty over a pipeline of potential projects would allow investors to take calculated risks, invest in capacity building and help foster a market for infrastructure investment. To facilitate this, governments can support the creation of project pipelines, including through partnerships between investors and governments and by providing more precise and consistent definitions of which investments are “green”. A common understanding of criteria for ‘green’ and ‘sustainable’ infrastructure would accelerate investment flows by simplifying due diligence and enabling a ‘plug and play’ architecture.

80. **Achieving a positive impact through infrastructure investment requires policies that ensure that infrastructure investments, whether publicly or privately financed, are directed towards the right projects, promote sustainable development, privilege socioeconomic efficiency throughout the life cycle, take into account environmental and social considerations, build resilience, and benefit from good governance.** The *Recommendation on the Governance of Infrastructure*, approved this year, supports governments in investing in infrastructure projects in a way that is cost effective, affordable and trusted by investors, citizens and other stakeholders. The policy coherence of quality infrastructure development is of particular importance given the cross-sector nature of infrastructure investment, yet only 39 percent of OECD countries have a dedicated unit in charge of developing policies for infrastructure projects. In the majority of OECD countries, such coordination arrangements are developed on an ad hoc basis. This Recommendation supports the OECD Horizontal Project “Strategic Policies for Sustainable Infrastructure” which is developing a number of deliverables that, taken together, will provide a timely toolbox for governments in developing infrastructure that delivers these multiple benefits. The *Compendium of Policy Good Practices for Quality Infrastructure Investment* provides a framework for ensuring that infrastructure investment contributes to building more resilient and sustainable economies and societies, which will be critical for the post-COVID-19 recovery. *The Implementation Handbook for Quality Infrastructure Investment (forthcoming)* will complement the Compendium by offering a forward-looking OECD view on implementing quality infrastructure in a post-COVID-19 context.

### *An integrated approach to the recovery*

#### *Measuring outcomes beyond GDP: taking a broader view on economic growth*

81. **GDP remains the single most widely used indicator driving policy but it does not measure broader societal progress or welfare.**<sup>35</sup> As a tried measure of market production and market income, the advantages provided by GDP as an economic metric

<sup>34</sup> Refinitiv (2020), Sustainable Finance Review – First Half 2020, Refinitiv, <https://www.refinitiv.com/perspectives/market-insights/refinitiv-analyzes-the-sustainable-finance-market/>.

<sup>35</sup> OECD (2020) Framing the Measurement of Production, Well-being and Sustainability [SDD/CSSP(2020)2/REV1], forthcoming.

have allowed it to play an outsized role in driving economic policy. Yet, GDP is a measure of economic activity. As such, it does not measure broader societal progress (or welfare) because of three important limitations: (1) as an aggregate measure, it offers no insight into how the benefits of growth are distributed across society; (2) as it focuses on current production, it is silent about the sustainability of outcomes over time, the economic, environmental and social resources needed to ensure such sustainability or the societal costs of economic activity (such as environmental damage, climate change or exploitative employment practices, which are not captured in market prices and not deducted from GDP); and (3) as a measure that focuses on market activity, it does not reflect the value that people place on non-market goods and activities such as unpaid work, leisure, social connectedness, the value of being in good health and enjoying personal safety (as opposed to the money spent on preventing ill-health, crime, and their consequences).

82. **Over the past decade, the OECD has refined its measurement tools, to ensure that they better reflect the wide range of outcomes that matter to people.** The OECD's Well-being Framework has become a leading international reference for measuring 'what matters' at national level, along with a range of material and non-material dimensions captured by the How's Life 2020 indicators. This approach spans current well-being (i.e. the outcomes associated with good lives today), its distribution across the population (measures of inequalities, deprivation, and gaps across gender-, age-, education- and regions) and sustainability (the resources of natural, economic, human and social capital that support well-being for current and future generations). Other major initiatives include the OECD Inclusive Growth Framework for Policy Action, which considers the outcomes and drivers of inclusive growth; and the OECD Green Growth Indicators, focused on economy-environment interactions. Other work considers well-being outcomes for specific population groups, such as the OECD Child Well-Being Data Portal. Or goes into much greater depth to measure specific policy issues, such as the OECD's Environment at a Glance, Society at a Glance, and Health at a Glance publications. Additionally, flagship publications intended to support governments in addressing future challenges often include a set of high-level indicators to steer their recommendations: the OECD Jobs Strategy dashboard of labour market performance in terms of job quantity, job quality, inclusiveness, resilience and adaptability. Likewise, Going for Growth, the OECD's flagship publication on structural policy developments, has strengthened the focus on inclusiveness and sustainability dimensions in recent years. All these efforts are in line with the global 2030 measurement agenda, building on the 2015 UN Sustainable Development Goals.

83. **At the same time, the OECD is part of the debate among international statisticians on how to improve GDP as a production measure.** This includes, for instance, issues arising from digitalisation, such as the treatment of free services and the value of data. Other strands of OECD work are also helping to improve measurement. For example, part of the OECD's approach towards measuring green growth includes an effort to capture the contribution of natural assets to economic growth, going beyond the scope of the capital goods included within the 'asset boundary' of the System of National Accounts. The OECD's Inclusive Growth dashboard emphasises the creation of opportunities for diverse parts of the population via participation in labour markets, and the role of productivity growth and business dynamism through entrepreneurship and innovation. The OECD's Going Digital Project includes measures of many aspects of the digital transformation of productive systems. The OECD has also increased its use of micro-data, which has provided new insights in a number of areas, including business dynamics and the relationship between the growth of wages and productivity.

84. **Also, crucially, the OECD is committed to remaining in the forefront of work to develop “beyond GDP” metrics that better capture multi-dimensional well-being.** As noted in the separate measurement paper, indicators of well-being and sustainability need further focus and development. In particular, more data are needed on (i) capital services provided by natural, non-produced assets such as land or subsoil assets; (ii) hard-to-measure intangibles such as data assets. Measures of net national income that adjust for key elements of environmental degradation can bring the sustainability dimension into production measures, while measures of the distribution of disposable household income can shed light on the interaction between economic production and income inequality.

85. **Moving ahead with the cross-sectoral measurement agenda will help policy makers to formulate and assess integrated policies.** Statistical groundwork needs reinforcing to this end. The measurement agendas for dealing with the challenges of digitalisation and globalisation, as well as for developing further the indicators for various dimensions of current well-being and opportunities, need to be pushed ahead along with the implementation of the System of Integrated Economic and Environmental Accounting (SEEA). The OECD continues to play a leading role in the upcoming revision of the System of National Accounts, which provides an opportunity to consider extensions of its framework to cross-cutting dimensions, for example through measures of the distribution of income, consumption and wealth and a more systematic coverage of non-market activities that are excluded from GDP. Lastly, more work will be needed to exploit new “smart data” sources of information, which can provide greater scope, granularity and timeliness than traditional data. Further progress is also needed on the use of new tools such as machine learning, building on the start made via the NAEC Innovation Lab. There is also a need to strengthen the policy relevance of such indicators and measurement approaches by developing modelling tools that better capture the complexity of economic, social and environmental systems (resilience approaches, agent-based modelling, etc.).

#### *Developing an Indicator Dashboard to guide the recovery*

86. **To know if governments are succeeding in steering a strong, resilient, green and inclusive recovery, GDP alone is not enough.** Since what we measure affects what we do, our indicators of policy success must reflect what we value as a society and, in this case, the type of recovery we would like to see.

87. **A wide array of indicators is needed to diagnose key challenges and develop policy responses, but a smaller set of priority indicators can help to focus political efforts.** Guiding policy decisions is a complex task that requires a wide range of evidence. Yet for non-experts the range of data that need to be taken into account can seem overwhelming. To galvanise political action, and be accountable in the eyes of the public, evidence from these wider dashboards can be used to select a smaller number of priority indicators.

88. **A high-level Indicator Dashboard, informed by prior OECD work, could guide and measure efforts towards a strong, resilient, green and inclusive recovery from COVID-19.** This Dashboard will be a first step in a broader effort to improve measurement, which will need to be adjusted and revised as new data becomes available. This Dashboard could be reported by the OECD, initially on an annual basis, used in high-level communications, and adopted as background contextual indicators in more detailed OECD policy work on the recovery. OECD Member countries may also want to use the Dashboard as a reference as they measure progress in their recovery efforts in the aftermath of the COVID-19 crisis in the short to medium term. The Dashboard could also serve as a

living exercise and a pilot for the development of a more comprehensive approach integrating economic, social and environmental dimensions in the OECD's day-to-day work in the future. The Dashboard would complement rather than replace the rich range of data produced by the OECD, and the more established policy and measurement frameworks that consider broader aspects of well-being, inclusion, sustainability, as well as their interactions with the economy and their policy determinants. The Dashboard builds upon existing OECD databases and frameworks.

89. **The selection of indicators for the Dashboard should be based on five main criteria:**

- **Given the importance of restoring economic growth to leave behind the current global recession and recover pre-COVID-19 output levels, the starting point for the Dashboard should be growth in traditional GDP, on a per capita basis.** However, the added value of the Indicator Dashboard will be to widen the focus and cover indicators that give us an idea about the type or qualities of that growth.
- **To minimise redundancy and capture the complementarity of the economic, social and environment dimensions, indicators need to focus on GDP's "blind spots"**, namely (a) non-material well-being outcomes today; (b) the distribution of growth and well-being benefits; and (c) the sustainability of the systems that support both growth and well-being over time. This yields three pillars, to complement GDP growth: well-being today, inclusion and equality of opportunity, and sustainability. These 3 pillars are central to the OECD Framework for Measuring Well-being and Progress (which consists of current well-being, with a strong focus on inequalities, and resources for future well-being). The pillars can also be mapped to the four dimensions of the recovery developed in this document (strong, resilient, green and inclusive). Within each of these spheres, a focus on areas that are least strongly associated with (or even negatively associated with) GDP growth could help to prioritise among the wide range of indicator options and illustrate trade-offs.
- **The Dashboard should help to focus effort where it is needed the most.** The 'beyond GDP' agenda sets some very broad parameters and measurement considerations, but the current COVID-19 pandemic, combined with the urgency of tackling climate change, provides vital context. Today's policy challenges emphasise the need for a green, job-rich and inclusive recovery; these challenges should shape the selection of indicators in a short Dashboard. Indicators that are (or are likely to be) deeply affected by the current health, social and economic crisis should be prioritised, since recovery should be gauged against the magnitude of initial damage.
- **Indicators must be policy relevant and focus on outcomes and outputs rather than inputs**, that is measured conditions that are directly shaped by policies, while avoiding measuring policies themselves. This is because countries may choose different approaches to influence those results in accordance with their specific circumstances and priorities.
- **Many practical constraints will also determine the contents of the Dashboard.** For example, the Dashboard must include internationally comparable statistics compiled by the OECD on a regular basis, using a well-established and harmonised methodology. OECD measurement frameworks developed over the past few years to assess the multiple facets of well-being, sustainable growth, inclusiveness and resilience provide the main pool of indicators for consideration. As a result,

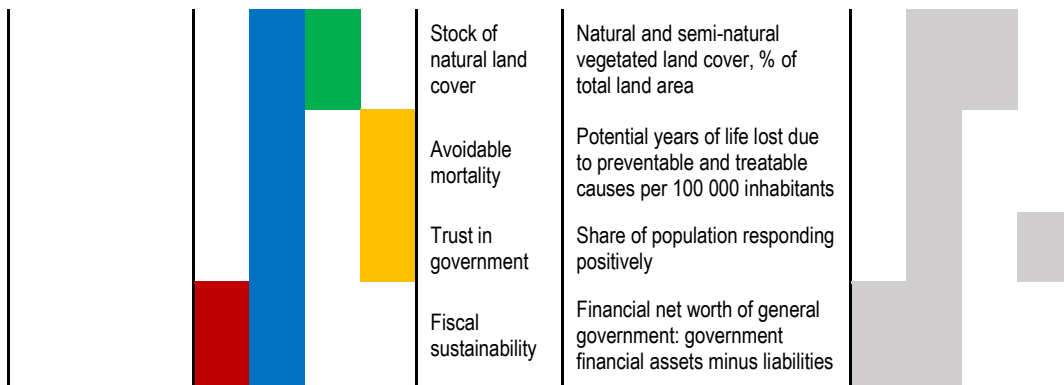


indicators have been selected based on statistical quality considerations (including timeliness, frequency and interpretability). All of them are collected using an established or standardised methodology, producing data that are comparable over time and across countries. Selected indicators are meant to be easy to communicate and interpret for multiple users, as well as useful and relevant to multiple audiences.

90. **Table 1 describes the list of indicators included in the Dashboard and the Annex to this paper presents the Dashboard in more detail.** This Dashboard is a starting point, building on work that has been developed or is being developed by OECD committees, rather than a final list and will be further elaborated as new data becomes available and as concepts evolve. The selection of high-level indicators in the dashboard extends beyond the GDP growth to help governments monitor progress towards a strong, resilient, green and inclusive recovery. The first pillar includes the real GDP and income measures to gauge the strength of recovery. The second pillar “Well-being today” concerns the final outcomes that people value as being important for a good life, several of which are also important long-run drivers of GDP growth. The third pillar “Inclusion and equality of opportunity” concerns how the benefits of economic growth and well-being are distributed among the population. The fourth pillar “Sustainability and systemic resilience” captures management of systemic resources that underpin future well-being and help depict mega-trends, such as climate change. The table also presents the links to the four dimensions of a people-centred recovery from COVID-19 described in this document as well as to other existing frameworks or sets of indicators that provide the basis for the Dashboard.

Table 1. OECD Indicator Dashboard for a Strong, Resilient, Sustainable and Inclusive Recovery

Theme	Strong	Resilient	Green	Inclusive	Indicator	Unit	GG	HIL	GG	IG
1. Strong economic activity	■	■			GDP per capita growth rate	GDP per capita annual growth rate, %, constant prices	■			■
2. Well-being today	■	■	■	■	Life satisfaction	Mean response on a 0-10 scale		■		
	■			■	Labour market insecurity	Expected monetary loss associated with becoming and staying unemployed as a share of previous earnings (%)	■			
			■	■	Exposure to air pollution	Mean population exposure to PM2.5, micrograms per cubic metre	■	■		
3. Inclusion and equality of opportunity	■	■			Income inequality	S80/S20 ratio of household disposable income	■			
	■				Employment gap	Employment gap of disadvantaged groups, % of the employment rate of prime-age male workers	■			
		■			Gender wage gap	Difference between male and female median wages divided by the male median wages, percentage	■			
4. Sustainability and systemic resilience		■	■		CO <sub>2</sub> productivity (production)	GDP per unit of energy-related CO <sub>2</sub> emissions, USD per kilogram	■			



Source: OECD Secretariat.

Note: GfG: Going for Growth, HiL: How is Life; GG: Green Growth Indicators; IG: Inclusive Growth Framework

### *Charting the path towards a more integrated policy approach: Priorities for the recovery and beyond*

91. While much has already been done to upgrade and enrich the OECD's analytical frameworks and policy approaches, more progress is needed around six key areas:

- First, the OECD will need to **continue its work on key trends like digitalisation and ageing**, to improve our understanding of their implications for growth, productivity, inequality, or public finances. For digitalisation, this can build on the work undertaken in the context of the Going Digital project, notably the report on *Measuring the Digital Transformation*.
- Second, the OECD should **further explore how different dimensions of well-being** (income, equity, security, environmental conditions etc.) **influence each other**. This will, for example, facilitate a further evolution of *Going for Growth* as it combines objectives from different spheres and makes recommendations on policy priorities.
- Third, **advances in economic theory and practice** (e.g. insights into the dynamics of complex systems or findings from behavioural economics) **should continue to be applied** to an increasing degree in the OECD's analytical work.
- Fourth, an integrated approach to economic growth will require furthering the **connection between different analytical and policy frameworks on economic growth, social inclusion and environmental sustainability to mainstream well-being, inclusiveness and environmental sustainability into the OECD's analysis, tools and surveys**, building on the progress made in the last decade. As this is a significant challenge in analytical and organisational terms, the OECD will need to increase its engagement with governments and other stakeholders, building on its capacity to pick up on good practices and innovations at the country level and provide a forum for peer-exchange and learning. Work on connecting the OECD's Inclusive Growth and Green Growth frameworks could help fill that important gap. Similarly, efforts to connect the OECD Well-Being Framework to the new Jobs Strategy and to the Going Digital project can help better understand the challenges faced and policies needed to deliver sustainable growth in the context of the Future of Work.
- Fifth, the OECD should **continue to strengthen the measurement of growth, well-being, inclusiveness, trust, resilience and sustainability** by (1) developing further the indicators for various dimensions, (2) seizing the opportunity of the upcoming revision of the System of National Accounts to better consider and strengthening links

to cross-cutting dimensions, (3) pursuing the measurement agendas for dealing with the challenges of digitalisation and globalisation, and (4) complementing traditional data sources with new “smart data” to provide the required scope, granularity and timeliness of data. Ultimately, the objective should be to consolidate a measurement framework that brings together core aspects of economic growth, well-being today, inclusiveness and sustainability.

- Lastly, in the short term and in particular to guide and measure recovery efforts in the aftermath of the COVID-19 crisis, **the development of a short set of priority headline indicators in the form of an Indicator Dashboard informed by prior OECD work**, as proposed in this paper, will help galvanise political action. This Dashboard could also serve as a living exercise and a pilot for the development of a more comprehensive approach integrating economic, social and environmental dimensions in the OECD’s day-to-day work in the future.

**Questions for discussion in Breakout Group Session 1 on 28 October (*Recovery Plans: Pursuing Sustainable Fiscal and Monetary Stimuli; Integrating Social and Environmental Dimensions for a More Sustainable, Resilient and Inclusive Future*):**

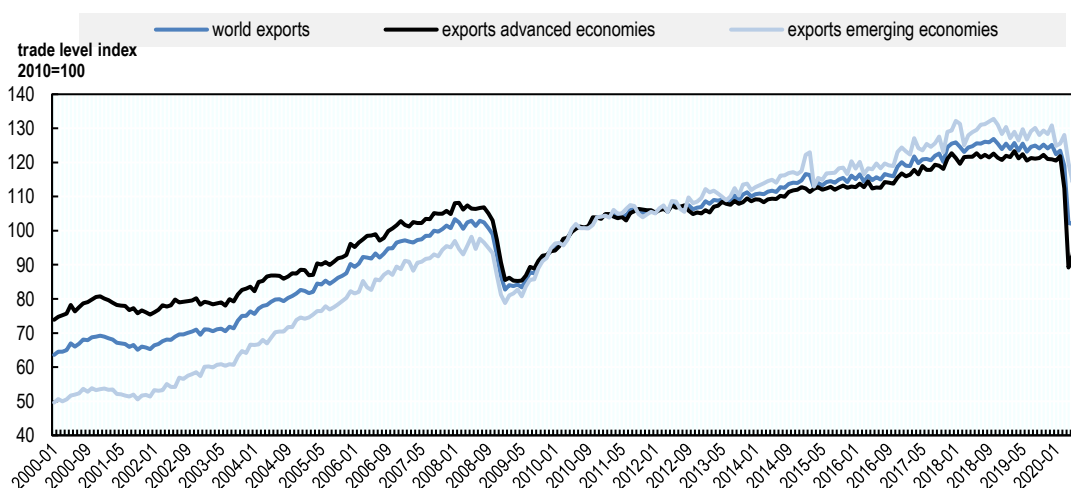
1. What are the macroeconomic policy priorities in the current context?
2. What is the role of sustainable fiscal and monetary stimuli? How can debt sustainability be ensured over the long-term? What can be done on the spending and revenue sides of the budget? When? What are the main priorities for tax reform in the post-COVID-19 world?
3. What structural reforms are countries prioritising as part of, or a complement to, recovery plans?
4. What can be done to promote a job-rich recovery and strengthen the resilience and inclusiveness of labour markets?
5. Can green recovery plans and investments be a major source of growth, incomes and jobs? What sectors and activities should be prioritised?
6. Is the recovery an opportunity to rethink the approach to economic growth and start developing a more integrated approach incorporating economic, environmental and social dimensions? Which dimensions, including synergies and trade-offs between economic growth, resilience, inclusiveness and sustainability, could the OECD focus on?
7. How are countries planning to measure progress in the implementation of recovery plans? Can the proposed OECD Indicator Dashboard be a useful tool? Are there other/different indicators that should be included? What other priorities should guide the OECD agenda on measurement?

## Breakout Session 2 – Globalisation and the Recovery. The Role of Trade and Investment; Enhancing Resilience in Global Value Chains; Fostering International Economic Co-operation

### *The role of trade and investment in the recovery, the need for greater resilience in GVCs and the challenge of essential goods*

92. **COVID-19 has exacerbated some existing trends and re-ignited debates about a globally connected economy.** Between January 2020 and July 2020, world trade declined by -5.6%. The low point was in May, with a decline of -19.1% from January. Trade has shown signs of recovery in June and July, now around “only” 10% below its level of a year ago. FDI flows are expected to fall by 30 to 40 % in 2020, in the most optimistic scenario. Questions have arisen about whether the efficiencies from global supply chains are outweighed by increased risks, and whether global supply chains can ensure security of supply of essential goods. Additionally, in the face of unprecedented economic impacts, governments have rightly been providing significant support to the economy – a necessity now, but one which also raises questions about how to ensure an international level playing field over the longer term. COVID-19 has also exacerbated some existing trends. Already, concerns about competing against high government support in some sectors, about finding a foothold in digital markets characterised by first mover advantage, and about access to global input and output markets due to rising trade tensions, were leading countries to contemplate greater domestic production, with subsidies, local content requirements, and increased tariffs. Moreover, since 2011, the expansion of GVCs has slowed, due to both structural factors (e.g. digitalisation; the servicification of manufacturing; consumer preferences for sustainability leading to moving production closer to end-use) and policy factors (greater policy uncertainty and trends towards protectionism leading companies to consider re-shoring).

Figure 5. World trade levels declined dramatically but there are signs of recovery



Source: CPB World Trade Monitor

93. **COVID-19 has placed huge strains on supply chains.** COVID-19 has had both direct and indirect impacts on supply chains: directly, as firms operating in GVCs ceased production due to health precautions (or encountered labour shortages); and indirectly, due to the disruption of international – but also domestic – transport and logistics networks.

Demand impacts have resulted from declines in consumption linked to confinement and falling incomes (e.g. for services requiring personal contact, or purchases of durable goods); huge surges in demand for certain goods and services (notably medical goods, but also ICT goods and services); and shifts in the nature and location of demand, as in the shift from “food away from home” towards food prepared and consumed at home (including more frozen and processed foods and less high-value fresh seafood and specialty foods).

94. **The COVID-19 outbreak has led to shortages in some categories of key goods necessary to address COVID-19**, including personal protective equipment (PPE), ventilators, and certain pharmaceuticals and reagents, and led to a new debate about policies that can help ensure the supply of such goods during times of crisis, and on the risks of GVC disruptions. The impact of COVID-19 on the supply of these essential goods was two-fold: early (and temporary) disruptions in the supply of certain goods linked to lockdowns (mainly in China), and exponential growth in demand for certain goods, notably PPE and medical devices. For example, China produced half of the world’s supply of surgical masks at the start of the crisis, amounting to 20 million masks per day. At the height of crisis, China’s demand alone amounted to 240 million masks per day.<sup>36</sup> Other factors outlined above also played a role, e.g. restrictions on the movement of essential workers, transport disruptions, etc. Moreover, for a variety of reasons, some countries had reduced strategic stockpiling for certain essential goods ahead of the COVID-19 crisis, which contributed to shortages.

95. **At the same time, it is important to note that severe shortages have thus far only occurred for a limited set of essential goods, such as facemasks.** There were, for example, no general shortages for pharmaceuticals or food products because the issue of security of supply was better addressed in these industries by both governments and the private sector. This suggests both the need for a clear understanding of the nature of the problem affecting certain essential goods, and any insights or lessons from other sectors that were better able to manage disruption can have for resilience in the face of future crises.

96. **Challenges in ensuring the supply of essential goods have negatively affected trust in government and institutions.** In the face of the worst pandemic in a century, these shortages affected the capacity of governments to respond to the health crisis, exposed medical and many other essential staff to severe health risks, contributed to loss of life, and led to high socio-economic costs, as lockdown measures were required to address the pandemic. In this context, trust in government and institutions has eroded significantly in a large number of OECD countries and beyond, further weakening governments’ ability to lead the response to the crisis.

97. **The inability – and sometimes failure - of governments to secure the provision of certain essential goods, also contributed to uncoordinated policy responses** such as trade and investment barriers, production subsidies, politically targeted exports or import seizures, further disrupting global value chains that were already under stress and

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<sup>36</sup> OECD (2020), “The Face Mask Global Value Chain in the COVID-19 Outbreak: Evidence and Policy Lessons” OECD Policy Responses to Coronavirus (COVID-19), 4 May 2020, [https://read.oecd-ilibrary.org/view/?ref=132\\_132616-14i0j8ci1q&title=The-Face-Mask-Global-Value-Chain-in-the-COVID-19-Outbreak-Evidence-and-Policy-Lessons](https://read.oecd-ilibrary.org/view/?ref=132_132616-14i0j8ci1q&title=The-Face-Mask-Global-Value-Chain-in-the-COVID-19-Outbreak-Evidence-and-Policy-Lessons).

contributing to international tensions. In addition, shortages led in some cases to the delivery of low quality products, fraud, price hikes, and the introduction of illicit goods.

98. **Following the initial demand shock, GVCs responded rapidly as production of essential goods was ramped up in many countries.** For example, while Korea was not among the main exporters of in-vitro diagnostic tests, it became one of the main exporters within three months, with 40 companies serving more than 100 countries.<sup>37</sup> China increased its supply of masks 10-fold by the end of March, helping meet growing needs around the world.<sup>38</sup>

### ***Policy priorities to strengthen resilience and restore confidence in international markets***

99. **Global value chains are needed for the economic recovery.** Shortages of medical goods were not caused by the collapse of supply chains but by the unprecedented and unplanned surge in the scale of demand. Indeed, global supply chains have been part of the solution to global shortages, with production and trade of masks both increasing tenfold to meet needs. Moreover, no country is able to meet its own needs for the range of medical goods needed to combat COVID-19. Countries can be exporters of one set of goods, but importers of others: countries in Southeast Asia are important global suppliers of surgical gloves and disposable masks and sheets, while major developed countries specialise in the export of medical equipment.<sup>39</sup> The same applies to the supply of agricultural goods. Experience has shown the importance of global supply chains in ensuring availability of food and contributing to food security and nutrition, while a changing climate will further increase the importance of international trade to enable food to move from where it can best be produced to where demand is growing fastest. Yet, while no country, especially the world's poorest, can produce all essential goods themselves and global sourcing can help keep costs down, the debate about the reshoring of production has emerged in a number of countries.

100. **This debate should be carried out in full international collaboration and based on solid evidence.** Indeed, beyond specific supply chains, scenario analysis using the OECD METRO model suggests that re-shoring of production would result in large

<sup>37</sup> OECD (2020), "COVID-19 and Global Value Chains: Policy Options to Build More Resilient Production Networks", *OECD Policy Responses to Coronavirus (COVID-19)*, 3 June 2020, [https://read.oecd-ilibrary.org/view/?ref=134\\_134302-ocsbti4mh1&title=COVID-19-and-Global-Value-Chains-Chains-Policy-Options-to-Build-More-Resilient-Production-Networks](https://read.oecd-ilibrary.org/view/?ref=134_134302-ocsbti4mh1&title=COVID-19-and-Global-Value-Chains-Chains-Policy-Options-to-Build-More-Resilient-Production-Networks).

<sup>38</sup> OECD (2020), "The face mask global value chain in the COVID-19 outbreak: Evidence and policy lessons", *OECD Policy Responses to Coronavirus (COVID-19)*, 4 May 2020, <http://www.oecd.org/coronavirus/policy-responses/the-face-mask-global-value-chain-in-the-covid-19-outbreak-evidence-and-policy-lessons-a4df866d/>

<sup>39</sup> This strong interdependence in trade in COVID-19 goods means, for instance, for every euro of German exports of COVID-19 goods Germany imports €0.7; for the US, for every dollar of imports, the US exports USD0.75. See: OECD (2020), "Trade interdependencies in Covid-19 goods", *OECD Policy Responses to Coronavirus (COVID-19)*, 05 May 2020, <http://www.oecd.org/coronavirus/policy-responses/trade-interdependencies-in-covid-19-goods-79aaa1d6>

efficiency losses while not increasing certainty or stability of supply<sup>40</sup>. Not all stages of production can be undertaken in the home country, and trade in intermediate inputs and raw materials continues to play an important role in domestic production. Internal or external shocks are better handled with a global production. International discussions about the diversification or, alternatively, relocalisation of some production would have to define essential goods considering the role of governments in ensuring better resilience, the global nature of many input markets, and the governance of essential goods taking into full consideration the need to maintain open markets for economic growth and to ensure supplies for countries dependent on open, stable, and well-functioning global markets. The OECD is a strong platform to reflect on this global and domestic governance issue in the context of the recovery from the COVID-19 crisis.

101. **Much can be done to increase the resilience of global supply chains.** Much of this rests with the private sector, which has experience in managing a wide range of risks along the supply chain. Resilience can be enhanced through strengthened firm risk management and due diligence strategies that emphasise awareness, transparency, accountability and agility. Sourcing strategies may differ depending on the level of acceptable risk, with supplier diversification and "just in case" processes important for essential activities which cannot afford any break in supply (robustness of supply chains), while other activities may rely on the ability of existing suppliers to recover faster ("just in time" strategies).<sup>41</sup>

102. **Governments need to significantly step up their efforts to ensure the supply of essential goods.** Governments can support firms in building resilience in GVCs through better anticipation of potential shocks and needs and by collecting and sharing information on potential concentration and bottlenecks upstream or by developing stress tests for essential supply chains (including non-discriminatory criteria for robustness of supply chains for essential goods subject to government procurement). Other actions to help ensure supply include prioritising shipments of essential goods; facilitating investment and operational permits and extending certification procedures to encourage production; seeking upstream agreements with firms for the re-purposing of supply chains, when required; and exploring the scope for creating stockpiles, including on a regional basis. Further, governments can review transport, logistics and border process regulations to enable flexible responses to disruptions; and promote the diffusion of digital technologies to improve information systems, risk management and trade facilitation (e.g. by ensuring that border processes are transparent and accessible to traders and require less physical contact, and that formalities can be expedited). More broadly, governments can create a predictable regulatory, trade, and investment policy environment that alleviates additional uncertainty.

103. **Above all, international collaboration is needed to ensure that international trade and investment boost broad-based and resilient growth and economic recovery.**

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<sup>40</sup> OECD (2020), "Shocks, risks and global value chains: insights from the OECD METRO model", 29 June 2020, <https://issuu.com/oecd.publishing/docs/metro-gvc-final>

<sup>41</sup> Risk management strategies can include approaches such as *avoidance* (of unacceptable risks); *postponement* (producing or shipping goods once customer orders are received); *selective risk taking* (producing or shipping goods based on anticipated customer demand); *hedging* (diversifying suppliers and locations of production); *control* (through vertical integration of main suppliers); *transferring/sharing risk* (via outsourcing and offshoring); and *security* (identification of shipments at risk, facilitated by the use of IT).

A stable, predictable rules-based international trading system is important in underpinning a strong, sustainable recovery from which all countries can benefit. In this context, governments can play a critical role by using the full range of international economic co-operation tools, from multilateral, plurilateral and bilateral agreements, to softer forms of policy coordination and peer review (such as in the G20), OECD instruments on responsible business conduct (RBC), and policy transparency initiatives. Transparency is critical in both helping governments manage fast-evolving crises, including by learning from each other, and in building confidence in supply and helping avoid harmful policy choices such as panic buying or hoarding. WTO notifications (see below) or international coordination mechanisms such as the Agricultural Market Information System (AMIS)<sup>42</sup> are critical tools in this respect.

104. **Governments can avoid policy choices that make things worse, such as export restrictions, which are harmful for countries without production capacity, while causing increases in world prices and domestic production costs.** Export restrictions can also backfire on the country imposing them when those countries, in turn, need to import intermediate inputs to sustain domestic production. Export restrictions create uncertainty that affects firms' investment strategies and reduces confidence in international sources of supply (and demand).

105. **Confidence in international markets also requires action to address concerns about social and environmental sustainability.** The crisis has highlighted the need to ensure that GVCs integrate principles of RBC and supply chain due diligence to identify, prevent and address adverse impacts on people, planet and society. This can contribute to greater resilience and help better prepare for future emergencies.

106. **Confidence in international markets also requires action to address concerns about unfair competition,** notably large amounts of government support across a range of sectors. Governments need to ensure that the necessary economic stimulus now does not end up distorting trade and global competition by making support measures **time-limited**, e.g. through sunset clauses or other similar mechanisms. This will help mitigate the risk that temporary support becomes entrenched and outlives its purpose. Another is to favour measures that are **targeted** at those companies and sectors that experience the most disruption as a direct result of the pandemic, with a view to avoiding the stimulus spawning a new cohort of corporate non-viable firms ("zombies") or national champions that could restrict competition, dampen domestic productivity growth, distort international markets, and impede the economic recovery and, in some cases, aggravate economic disparities. Finally governments could reap additional benefits by aiming for support measures that achieve "**double dividends**", by ensuring that support is targeted at the public interest and to help ensure that longer-term policy objectives are not sacrificed for short-term economic stimulus.

### ***Ongoing international efforts and the role of the OECD***

107. **Exceptional emergency measures were followed by greater co-ordination efforts at the international level.** Initially, governments responded to the supply and

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<sup>42</sup> AMIS is an inter-agency platform to enhance food market transparency and policy response for food security, launched in 2011 by the G20 following the global food price hikes of 2007/08 and 2010. Bringing together the principal trading countries and key IOs, AMIS assesses global food supplies (focusing on wheat, maize, rice and soybeans) and provides a platform to coordinate policy action in times of market uncertainty.



demand shocks from COVID-19 by, on the one hand, imposing export restrictions or compulsory purchases (temporary) and, on the other, by acting to ensure supply chain connectivity and facilitating trade in medical products, including by removing tariffs or by suspending licensing requirements. According to the WTO's biannual report on G20 trade measures, G20 economies alone implemented 93 trade measures related to the pandemic, 65 of which facilitated trade, while 28 restricted trade — primarily exports. While export restrictions were pervasive at the beginning of the crisis, by mid-May 36% of the restrictions had already been repealed and many others have expiration dates.<sup>43</sup> Indeed, G20 Trade Ministers agreed that emergency measures designed to tackle COVID-19, if deemed necessary, must be targeted, proportionate, transparent, temporary, do not create unnecessary barriers to trade or disruption to global supply chains, and be consistent with WTO rules. Moreover, other groups of countries pledged to take measures to keep trade flowing, including for agriculture.<sup>44</sup> Proposals have also been made to explore the scope for a plurilateral WTO agreement to help ensure the availability of essential medical supplies, including by extending existing WTO arrangements on pharmaceutical tariffs.

108. **The OECD has been providing the data and the analysis needed for a trade and investment policy environment that is open, predictable and transparent and able to bring new opportunities to all.** In this context, ongoing or upcoming work has been focusing on the following priorities:

- A key area of work is in exploring **how to build resilience in GVCs**, based on both in-depth studies on individual chains and modelling work. Work on GVCs benefits from cooperation with the private sector to better understand existing practices and gaps in building resilience, while efforts are ongoing to better capture national and international distributional impacts in METRO to better assess the inclusiveness implications of policy actions. Follow up **evidence gathering and discussions on the role of governments and the governance required on essential goods in the context of open markets** will also be helpful.
- Work to improve **transparency on government support**, from industrial subsidies to agriculture, fossil fuels and fisheries, can enable greater government accountability and oversight of measures adopted; help inform the design of support to avoid enduring global market distortions and potential negative environmental outcomes; and help countries learn from current experience to better prepare for the future. Policy transparency is fundamental at all stages of the crisis response, but will be especially relevant as the crisis subsides to ensure that all countries can use trade as an engine of sustainable and inclusive growth.
- An area of growing importance is the link between **trade and sustainability**, finding synergies and assessing trade-offs, and supporting the ambition of many countries to

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<sup>43</sup> See: WTO, OECD, UNCTAD (2020), “Reports on G20 Trade and Investment Measures (Mid-October 2019 to Mid-May 2020)”, 29 June 2020, [https://www.wto.org/english/news\\_e/news20\\_e/g20\\_joint\\_summary\\_jun20\\_e.pdf](https://www.wto.org/english/news_e/news20_e/g20_joint_summary_jun20_e.pdf)

<sup>44</sup> Australia, Brunei, Canada, Chile, Myanmar, New Zealand, Singapore and Uruguay pledged to refrain from trade restrictive measures and instead to keep supply chains open and remove any existing trade restricting measures for essential goods. Similarly, the EU and 21 other WTO Members committed to open and predictable trade in agricultural and food products by maintaining open and connected supply chains and to ensure transparency and predictability in food markets limiting market interventions and notifying regulatory and market developments through existing mechanisms, such as AMIS.

address the global challenge of climate change while respecting the fundamental principles of multilateral trade and environment agreements.

- Work on **digital trade** will continue to support governments, including under the Joint Statement Initiative at the WTO, as well as exploring the importance of digital trade in COVID-19, in keeping firms, people and economies connected; in reducing costs and increasing availability of goods and services; and in reducing the costs of connectivity.
- The OECD also continues to invest in internationally comparable data to inform decision making. The **Trade Facilitation Indicators (TFIs)** help identify and reduce trade facilitation performance gaps to support governments and firms (especially SMEs) as they work to diversify routes, enhance network agility and resilience, and reduce costs. The OECD is also working with the private sector to collect and disseminate information through specific case studies. The **Services Trade Restrictiveness Index (STRI)** continues to shed light on the impacts of COVID-19 on the regulatory environment for services trade, including for the movement of professionals, transportation services and digitally enabled services. The **Trade in Value Added (TIVA) database** has informed recent analysis focussing on key supply chains and promoting understanding of the interdependencies of countries in production of essential goods, helping firms and governments improve their risk management strategies.
- **The OECD monitors investment policy developments**, providing annual updates of the FDI Regulatory Restrictiveness Index and an annual inventory to support policy dialogue and enhance transparency. Work also focuses on how the pandemic modified and amplified FDI screening policies.<sup>45</sup> Specific analysis of the **impact of the pandemic on FDI flows**<sup>46</sup> shows trends in companies' actual and expected earnings; in mergers and acquisitions; and greenfield investments and explores scenarios on the impact of the pandemic on FDI flows in the medium term, as well as potential long term impacts, including on GVCs.
- Work is also focused on promoting an inclusive and sustainable recovery of investment as part of the **FDI Qualities initiative**. Work will explore the effects of the crisis on international investment; possible implications on the qualities of FDI; the role the OECD can play as a standard-setter for sustainable investment policy, and support investment policy to help developed and developing countries build back better. Work will also explore the role of FDI in building resilient and accessible **health systems**, in particular in developing countries, looking at risks and opportunities in health goods, infrastructure and service provision. Lastly, the **OECD Investment Promotion Agency (IPA) Network** has been discussing the impact of the COVID-19 crisis on investment promotion and facilitation;<sup>47</sup> the lessons learnt to date; the role of investment promotion and facilitation in the recovery; and the evolving roles and functions of IPAs.

<sup>45</sup> <http://www.oecd.org/investment/Investment-screening-in-times-of-COVID-19-and-beyond.pdf>.

<sup>46</sup> [https://read.oecd-ilibrary.org/view/?ref=132\\_132646-g8as4msdp9&title=Foreign-direct-investment-flows-in-the-time-of-COVID-19](https://read.oecd-ilibrary.org/view/?ref=132_132646-g8as4msdp9&title=Foreign-direct-investment-flows-in-the-time-of-COVID-19).

<sup>47</sup> [https://read.oecd-ilibrary.org/view/?ref=132\\_132715-6ewiabvnx7&title=Investment-promotion-agencies-in-the-time-of-COVID-19](https://read.oecd-ilibrary.org/view/?ref=132_132715-6ewiabvnx7&title=Investment-promotion-agencies-in-the-time-of-COVID-19).

- **Responsible Business Conduct:** The OECD is the leading international organisation in developing and promoting the uptake of responsible business conduct (RBC) standards, including due diligence to identify and address adverse impacts in company operations, their business relationships and supply chains. Governments should actively promote the use of due diligence for RBC in recovery policies, and ensure that it is a benchmark for private sector operations. This will ensure coherence between government priorities for the recovery, while bringing short- and long-term benefits to firms as they design their crisis response (e.g. by better identifying and addressing risks and vulnerabilities through supply chain due diligence).

### *Policy options for ensuring the supply of essential goods*

109. **This section identifies a series of policy options to guide governments in their efforts to improve the strategic provision of essential goods and in strengthening the resilience of GVCs.** It constitutes a first attempt by the OECD to map out a series of policies that may be helpful in this regard, either as responses during a crisis situation or to strengthen preparedness and resilience. This section also identifies other measures that should be avoided as they are unlikely to result in increased security of supply of essential goods, or promote resilience, while at the same time introducing distortions in global value chains, with potentially particularly negative effects on the poorest countries and on vulnerable sectors and people.

### *Policies that can improve the provision of essential goods*

#### *Trade and investment*

- **Removal of trade barriers:** A number of countries currently increase the costs of essential medical goods through tariffs. According to the WTO, across the WTO membership as a whole, applied tariff rates average from 2.1% on medicines to 11.5% for PPE – with tariff peaks on some products such as PPE reaching as high as 27% and 65% on hand soap.<sup>48</sup> The WTO’s trade monitoring activities highlighted that in the face of COVID-19 some countries took action: twelve G20 economies reduced or deferred applied tariffs on a variety of critical COVID-19-related medical goods and an additional 28 non-G20 members eliminated or reduced tariffs and/or VAT across a wide range of products deemed to be essential to combat the COVID-19 pandemic, including pharmaceutical products and medical equipment.<sup>49</sup>
- **Trade facilitation:** A range of measures can help essential goods move more quickly around the world, even in the face of new protocols and reduced staffing. These include: transparency and exchange of information on planned measures, streamlined border processes to move goods as fast as possible (e.g., more flexibility in applying pre-arrival processing; green lanes for essential goods); use of digitisation to speed up processes, and to allow for processing without physical presence (e.g., acceptance of digital certificates instead of paper copies);

<sup>48</sup> See WTO (2020) Information Note: *Trade in Medical Goods in the Context of Tackling COVID-19*, 3 April 2020, available at: [https://www.wto.org/english/news\\_e/news20\\_e/rese\\_03apr20\\_e.pdf](https://www.wto.org/english/news_e/news20_e/rese_03apr20_e.pdf).

<sup>49</sup> See WTO (2020) Information Note: *How WTO Members have Used Trade Measures to Expedite Access to COVID-19 Critical Medical Goods and Services*, 18 September 2020, available at: [https://www.wto.org/english/tratop\\_e/covid19\\_e/services\\_report\\_16092020\\_e.pdf](https://www.wto.org/english/tratop_e/covid19_e/services_report_16092020_e.pdf).

prioritising shipments of essential goods and more flexible transport and logistics to adapt to new protocols and requirements and facilitating certifications – e.g. more flexible application of product certification criteria and standards.

- **Investment facilitation and other policy measures:** Many measures were implemented to facilitate investment (i.e. administrative procedures) and to retain foreign investment in host countries (i.e. after care services). At the same time, COVID-19 has also accelerated an already growing trend in the introduction of investment screening measures to protect essential goods, services and sectors, often justified by national security reasons. Even though these measures could be justified, a balance must be struck between managing risk and keeping markets open to foreign investment.
- **Promote the use of digital tools to ease safe movement of essential goods:** In addition to facilitating border procedures (e.g., for the movement of food products, by allowing electronic copies of sanitary and phytosanitary (SPS) certificates), digital technologies have the potential to create efficiencies within SPS systems, and lower administrative costs. They can reduce the risk of trade fraud, make trade systems more accessible for businesses (including businesses in developing countries), and help countries address food safety risks and risks to human health. But they can also give rise to new challenges, including the need for long-term investment.

#### *Improved risk management*

- **Government risk management:** Governmental agencies (such as health institutions in the case of an epidemic outbreak) should be prepared in advance and should have in place robust contingency plans addressing issues such as the availability of emergency stocks or the appropriate deployment of personnel and logistics to supply essential goods in a possibly chaotic environment. COVID-19 has revealed important bottlenecks and disruptions, as well as low inventories, at the level of health providers and agencies in charge of supplying essential medical goods. There are a range of risk management tools that could be important outlined below:
  - *National risk assessments:* Governments could increase resilience by assessing regularly the risks of shock events in terms of their probability and impact, as well as the capabilities required to manage these risks, including the role of essential goods. Adopting a scenario-based all-hazards and threat approach is now becoming more common across OECD countries, although integrating foresight and capability assessment remains limited.
  - *Better information:* Governments can work more closely with the private sector to identify possible bottlenecks and risks in essential supply chains. This could benefit from innovative data solutions.
  - *Stress tests:* As was undertaken for banks after the 2008 financial crisis, governments could develop stress tests for specific supply chains. These tests could be undertaken in the context of policies related to creation of strategic stockpiles in order to correctly assess the inventories and buffer stocks needed to prevent shortages in the future.

- **Strengthening responsible business conduct (RBC) in GVCs** to enhance GVCs resilience in strategic industries and essential goods, reduce their exposure to environmental, social and governance risks and ensure that supply chains support inclusive and sustainable growth. In many cases, the pandemic and measures taken to contain it have had a direct impact on the availability and conditions of labour, as well as other RBC issues. These “RBC risks” directly affect the availability and accessibility of essential goods. Value chains are essential beyond the immediate crisis response and need to be rethought and rebuilt for the recovery. Policymakers have every interest in integrating resilience and RBC considerations in this reflection to foster a recovery that is sustainable and does not create further risks to people, planet and society.

#### *Improved capacities*

- **Explore the creation or extension of strategic stockpiling for essential goods:** Reassessing the optimal risk management strategy for some goods may involve the creation of larger buffer stocks of essential goods, sometimes in collaboration and pooled across countries. These investments require careful consideration as there are trade-offs (including in choice of goods with the risk of addressing the last crisis), cost/benefit issues (e.g., opportunity costs for other purchases, maintenance and renewal costs) and they can reinforce cyclicalities. Experience in food suggests that managing stocks effectively is not straightforward. Moreover, not all goods can be stored for a long time.
- **Contracts, guarantees or arrangements to enable sourcing in case of emergencies:** Upstream agreements with firms to repurpose manufacturing for rapid production of essential goods (where feasible), with some visibility in the supply chain (i.e. securing the supply of inputs as well); some goods or parts of goods can be rapidly reproduced; others require a higher degree of specialisation or capital investment and cannot be rapidly reconfigured.
- **Public procurement** - Risk mitigation can also be part of government procurement procedures for essential goods, with specific criteria to select firms on a non-discriminatory basis. Whenever private engagement for security of supply is sought, governments should use public procurement designed to maximise competition. Whenever price caps are also considered for essential goods (in times of crisis), such caps may have to be accompanied by measures to ensure that investments leading to supply increases are still undertaken, including for example payment mechanisms.
- **Strengthening technological capabilities** to improve the ability of firms within an economy to respond to shocks and ramp up production of essential goods. Several countries were able to ramp up critical production quickly, benefiting from a strong technological and industrial base, and using new tools and technologies such as 3D printing and open source designs and software. Greater use of technologies that can easily be repurposed to other uses could also help. Investing in complementary infrastructure, technical skills, research and innovation, entrepreneurship, complementary services, etc. can help strengthen such capabilities. Competition-friendly industrial policies can also play an important role to strengthen the industrial and technological base.
- At the domestic level, **improving the capacity of governments** to prepare for risks of supply shortages with various alternatives. This may include considering the

capacity of governments to rely on state-owned enterprises as ‘suppliers of last resort’ while preserving a level playing field.

*Stronger international co-operation*

- **Stronger international co-operation to reduce uncertainty and risk in global markets:** In addition to national measures to ensure supply, there may be scope for international cooperation to provide greater predictability, certainty and confidence on availability of key supplies in international markets. This could include elements such as:
  - *International regulatory cooperation and simplification of procedures* - addressing unnecessary frictions coming from differing regulatory frameworks, e.g. operating permits, certification requirements, technical standards and conformity assessments. International guidance can support a coherent approach to the safety of populations and workers while guaranteeing the interoperability of essential services. At the height of the crisis, many such measures were adopted urgently by governments, following co-operation with their key trading partners or within the multilateral framework of international organisations.
  - *Ensuring transparency:* On agriculture, OECD work in AMIS (Agricultural Market Information System) has proven the importance of transparency in calming global markets and avoiding policy decisions that make things worse.
  - *Cutting tariffs on essential medical products* – similar to the international agreement reached on Information Technology products.
  - *Disciplines on export restrictions.*
  - *Addressing the needs of the most vulnerable countries* – e.g. stockpiles could be developed on a regional basis for groups of poorer countries.

Policies to be avoided

- **Policies to fully replace global supply with domestic supply:** While governments may wish to develop self-sufficiency in their domestic supply of certain essential goods, this is not only costly and inefficient, it may also increase their risk exposure. Supply disruptions can originate within any country, e.g. due to natural hazards, war and conflict, digital security threats, trade restrictions and other risks. GVCs enable the diversification of risk across multiple suppliers and reduce vulnerabilities. OECD work shows that localisation of GVCs would add further losses in GDP to the current slowdown and increase vulnerabilities. Moreover, the production of even simple essential goods requires many inputs that will require inputs from abroad. In agrifood, self-sufficiency has a poor record of ensuring food security; global supply has been an essential risk management strategy for ensuring food security in the face of shocks, natural hazards etc.
- **Trade actions to ensure domestic supply:** several countries have used trade barriers, export restrictions and even seizures to ensure supply, adding to trade tensions, increasing GVC risks, and adding to low-income countries’ hardship in securing access to essential goods in times of the COVID-19 crisis. No country is able to produce all the supplies it needs to combat COVID-19, including in sufficient quantities – or cost effectively. Low income countries are dependent on

global markets and the priority for limited health budgets should not be building domestic manufacturing capacity. Export bans hurt the poorest countries in the short term and everyone in the medium term.

- **Subsidies and government control or ownership** or other distortive policies to encourage re-shoring, including incentives (tax rebates) or threats (taxation of offshore profit): Experience from the crisis of 2008-09 suggests that poorly designed stimulus packages can have negative, long-lasting consequences for global trade and national welfare. Although there is an urgent need to deploy measures quickly, care should also be taken to ensure that today's stimulus does not sow the seeds of enduring competition and trade distortions, including structural excess capacity, by relying excessively on "beggar-thy-neighbour" industrial investment, support that results in windfall gains for particular firms, and duplicative infrastructure projects.
- **Lowering of labour and environmental standards** and procurement standards to encourage local production or to expedite sourcing and production of essential goods. In some countries, essential safeguards against environmental and labour risk are being suspended, either through the suspension of licensing requirements and inspections or through lowering of procurement standards. However, there is no evidence to suggest that the implementation of environmental or labour requirements negatively affects the delivery of essential goods, since in most cases the infrastructure to evaluate such conditions is well in place prior to emergencies. On the contrary, the lowering of labour and environmental standards can actually exacerbate risks that threaten the timely delivery of essential goods, while undermining many long-term objectives for a sustainable and resilient recovery.

110. **The above options are without prejudice to the definition of what constitutes an essential good, which is likely to depend on domestic policy choices.** A key question in the policy discussion is what constitutes an essential good, which can generally range from those goods necessary for emergency preparedness and response to inputs for essential public services, critical infrastructures. There is also some debate about whether this could also include strategic industries. Further discussions will also be required to explore and assess key needs (type of goods and their required quantity) in the context of ever-evolving risks of shock events and under different scenarios and their probabilities. Considerations should also include factors such as the public interest and social acceptability of price hikes in times of crisis, the degree of competition and the elasticity of supply. Open, transparent and inclusive governance will be essential for collective decision-making on essential goods types, required levels and acceptable pricing. Policy makers should also not forget about essential services that complement essential goods. For example, a secure supply of PPE or medical equipment can only meet urgent health needs if used in the context of a strong health system that provides the essential health services required.

111. **Governments need to define the right policy mix to ensure the supply of essential goods.** A holistic approach to secure the provision of essential goods should address the entire cycle from production, trade, storage, transport and distribution globally, regionally and domestically up to the end user. A strategic approach is required to explore the most appropriate and coherent mix of policies to ensure the supply of essential goods at an affordable cost, which needs to consider not only the timely provision of essential goods in times of crisis, but also efficiency, trade and investment rules, and fair

competition, amongst others. Centres of governments play a key role to manage these trade-offs.

112. **International co-operation should be part of the solution to address this challenge.** The supply of essential goods is a global question. No country produces all of the goods and services it consumes in its own territory and all rely on others to ensure their supply. A sufficient diversity of supply is also important to protect against the impacts of local shocks, e.g. natural hazards, on global supply. This interconnectedness implies a strong need for international cooperation, e.g. in trade and investment policies, risk assessment and monitoring, competition, regulation, knowledge on stocks and production capacity, science and technology, enforceable agreements on continued supply across countries in case of crisis, etc.

113. **The OECD is well placed to help member governments in their deliberations on this topic.** It was amongst the further international organisations to work on GVCs, including in improving the evidence base, e.g. through the Trade in Value Added (TiVA) database. Its experience in providing evidence-based policy advice on risk governance, critical infrastructure, public procurement can provide key insights for the debate. Further work could be undertaken if mandated by members, e.g.:

- Developing **tools and frameworks for better measurement**. This could include a definition of essential goods (and services); new taxonomies related to industries, products and consumption as well as storability; and the design of new data collection frameworks (e.g. output and characteristics of firms producing essential goods, trade flows of essential goods, consumption, inventories etc.). This should involve cooperation with business as they have the most detailed understanding of key GVCs.
- **Scenarios and modelling** to explore risks to the supply of essential goods.
- **Analysis of key value chains**, complementing existing OECD work on PPEs and food. Analysis could also be undertaken on specific policy questions, e.g. the links between responsible business conduct policies and resilience of GVCs in essential goods, and the elaboration of good practice for governments and procurement officials specifically.
- Development of a comprehensive OECD-wide **policy toolkit**, including trade, competition, investment, technology and governance policies, that can help ensure resilient supply of essential goods [and services].
- Development of a **strategic approach** to the governance of essential goods, based on multi-sector coordination, cooperation with the private sector, and international partnership. This should also consider the usefulness – and risks – of the state acting as an enabler for the provision of essential goods and services.

### ***Promoting a level playing field both domestically and globally***

114. **Government recovery support needs to promote a level playing field both domestically but also globally.** Government support since the outbreak of the pandemic has taken various forms, including government grants, equity assistance and industrial policy interventions (e.g. promoting green technologies). It is critical that this support remains aligned with competition principles or, over the medium to long term, it risks distorting markets, creating or reinforcing market power or protecting inefficient firms,



ultimately leading to inefficient economic outcomes. Competitive neutrality also needs to be ensured.

**115. Support should be transparent and subject to conditionality and a clear exit strategy.** Government support to firms that were inefficient or had structural issues before the crisis should be avoided, as inefficient firms artificially kept alive hinder long-term economic growth. At the same time, the size of the shock and its impact on solvent businesses underlines the need to reflect on the criteria of what constitutes a “viable” and efficient business. In cases where there are important policy reasons driving such support, and in particular against the background of the shift in the policy response from avoiding a liquidity crisis to fostering recovery and resilience, governments should to the extent possible consider imposing conditionality. In such cases, the aim should be to ensure the viability of beneficiary firms and improve competitive conditions in the markets in which these companies are active. Government support can be removed as soon as conditions allow for governments to obtain value for money for taxpayers and conditions for competition are ensured. State support may also take the form of, or require, increased trade barriers between countries to help ensure that local firms and workers mostly benefit, which would reduce cross-border market access and further undermine competition in the domestic market, to the detriment of consumers. Moreover, such measures may lead to a damaging escalation in trade barriers.

**116. Increased transparency and international co-operation on government support are critical.** The OECD is playing a critical role in transparency, expanding its longstanding work to measure government support across agriculture, fisheries and fossil fuels to industrial sectors, such as aluminium and semiconductors. This work has underscored the need to look at how support builds along the value chain, the role of state enterprises as both providers and recipients of support, and the importance of support provided through the financial system (below market debt and equity). As governments rightly provide necessary support in the context of COVID-19 there is a need to ensure that this does not become an enduring source of unfair competition in global markets, exacerbating existing concerns. Only international cooperation can deliver the four things needed to address market-distorting government support: transparency (understanding what’s going on); predictability (capping support to prevent sudden increases); reduction (starting with the most egregious); and prevention (for tomorrow’s subsidisers in tomorrow’s sectors).

**117. Competition rules also need to continue being enforced.** A likely consequence of the crisis will be an increased level of concentration in markets. Some firms will undergo financial distress and exit the market, whilst others will merge or be subject to attempted acquisitions. Mergers will irrevocably change the structure of the market, in particular if there are important barriers to entry, with long-term implications on competition and market outcomes, and therefore need to be scrutinised carefully and merger rules strictly applied. Firms in a crisis may restructure and become efficient again. Further, a number of digital platforms have experienced rapid growth since the start of the crisis, with total spending online in the United States in May up 76% year on year, for instance (Adobe Digital Economy Index, June 2020). With the increasing digitalisation of our societies, their market power may continue to grow, with potential knock-on effects across the economy. Authorities therefore need to remain vigilant to ensure these platforms deliver benefits for consumers. This may require an increased focus on more long-term dynamic effects, and considering more systematically, together with price, quality, choice and innovation.

118. **Reform of laws and regulations considering competition may yield significant benefits.** The competition assessment and review of regulatory provisions that, whilst being justified by legitimate policy objectives, may be unnecessarily restrictive of competition and creating unnecessary barriers to entry, may help increase economic dynamism. Competition authorities may play a role in advising governments on the design and implementation of policies and regulations that achieve the goals pursued whilst at the same time are the least distortive of markets and lowering barriers to entry.

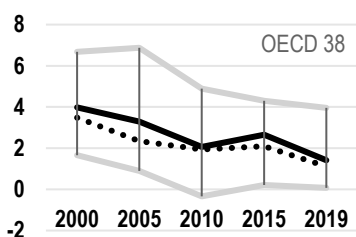
**Questions for discussion in Breakout Group Session 2 on 28 October  
(Globalisation and the Recovery: The Role of Trade and Investment; Enhancing  
Resilience in Global Value Chains; Fostering International Economic Co-  
operation):**

1. What should be the role of globalisation, including trade and investment, in the recovery? What can governments do individually and collectively to recover pre-COVID-19 levels of trade and investment as soon as possible?
2. What is countries' assessment of the performance of GVCs during the pandemic? What has worked and what has not? What are the lessons learned?
3. What role can governments play to promote greater resilience in GVCs? Is there a trade-off between efficiency and resilience? What is the role of the private sector and how can responsible business conduct standards support resilience and sustainability of GVCs?
4. Specifically regarding the issue of essential goods, what domestic measures are governments considering to ensure their availability during periods of stress like the early days of the COVID-19 crisis? What policy mix are governments considering to tackle this issue? How can international co-operation help ensure that measures in this area do not pursue protectionist objectives?
5. What measures should governments incorporate in their recovery plans to ensure that support measures do not distort international competition or undermine a global playing field? What can be the role of competition authorities, including through greater co-operation at the international level?
6. How can the OECD help in these areas?

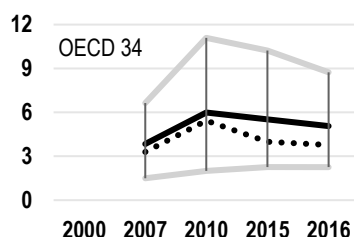
**ANNEX: Headline OECD Indicators for a Strong, Resilient, Green and Inclusive Recovery**

OECD average, median (dotted line) and 10<sup>th</sup> and 90<sup>th</sup> percentiles (grey lines), 2000 to most recent. See detailed notes on next page.

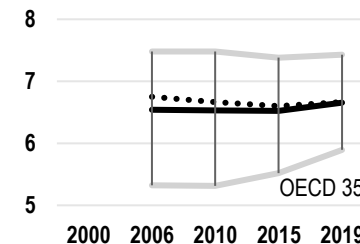
**GDP per capita growth rate,** GDP per capita annual growth rate, %, constant prices



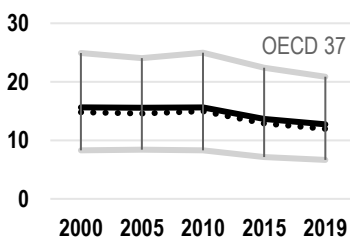
**Labour market insecurity,** Expected monetary loss associated with becoming and staying unemployed, % of previous earnings



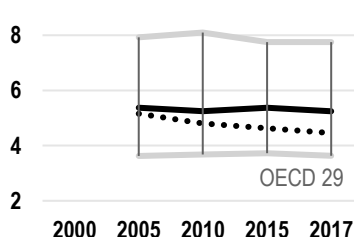
**Life satisfaction,** mean response on a 0-10 scale



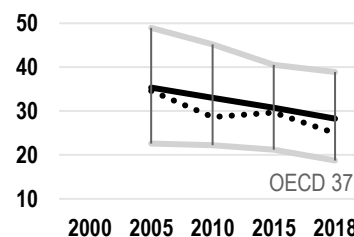
**Exposure to air pollution,** PM2.5 exposure, % of population exposed above WHO limit



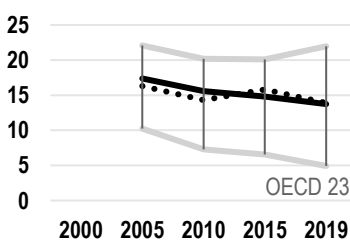
**Income inequality,** S80/S20 ratio of household disposable income



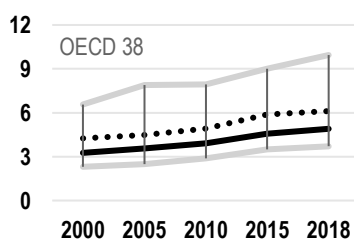
**Employment gap** of disadvantaged groups, % of the employment rate of prime-age male workers



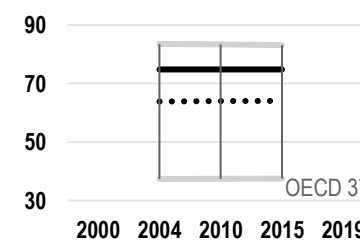
**Gender wage gap,** Gap between male and female median wages divided by male median wages, %



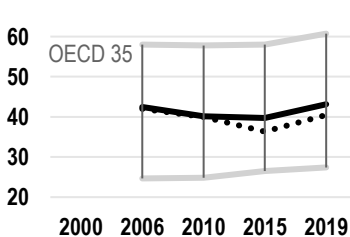
**CO<sub>2</sub> productivity (production),** GDP per unit of CO<sub>2</sub> emissions, USD/kg



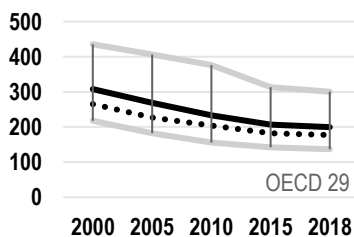
**Stock of natural land cover,** Natural and semi-natural vegetated land cover, % of total land area



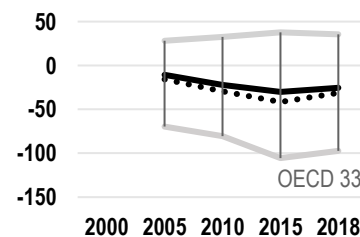
**Trust in government,** % of people responding positively



**Avoidable mortality,** Number of avoidable deaths per 100,000 people



**Fiscal sustainability,** General government financial assets minus liabilities, % of GDP



*Notes:* The figures reported include data only for those countries for which data is available for all years in order to preserve the consistency of the time series. In each figure, mean data reported are simple averages of the OECD countries displayed, unless otherwise indicated.

**Labour market insecurity:** Labour market insecurity is one of the three headline indicators of job quality in the OECD Jobs Strategy. It is defined in terms of the expected earnings loss associated with unemployment. This loss depends on the risk of becoming unemployed, the expected duration of unemployment and the degree of mitigation against these losses provided by government transfers to the unemployed (effective insurance). OECD average excludes Chile, Colombia, Costa Rica and Lithuania.

**Life satisfaction:** OECD calculations based on the Gallup World Poll, [www.gallup.com/services/170945/world-poll.aspx](http://www.gallup.com/services/170945/world-poll.aspx). Gallup World Poll data was used in order to reflect a longer time trend. Data are reported for the reference year and 2 adjacent years in order to attenuate the effects of limited sample size, data is reported for available years within the given range if all 3 years are not available. The most recent OECD publication on measuring well-being, *How's Life? 2020*, uses high quality official statistics on life satisfaction, which have recently become available in a number of OECD countries. OECD average includes all OECD countries except Iceland, Luxembourg and Norway. These measures are based on rigorous methodological standards in line with the *OECD Guidelines on Measuring Subjective Well-being*, published in 2013.

**Exposure to air pollution:** OECD average includes all OECD countries except Turkey.

**Income inequality:** Underlying data for Australia, Iceland, Japan, Mexico, New Zealand and Turkey include a break in time series that has been corrected for. OECD average includes all OECD countries except Austria, Chile, Colombia, Costa Rica, Estonia, Luxembourg, Korea, Spain, Switzerland.

**Employment gap:** Data on employment gap for disadvantaged groups represent the average employment gap as a percentage of the employment rate of the benchmark group (prime-age male workers) using a weighted average of the employment gap for mothers with young children, youth (excluding those in education and not in employment), older workers, non-natives and people with disabilities. OECD average includes all OECD countries except Costa Rica.

**Gender wage gap:** OECD average includes all OECD countries except Chile, Colombia, Costa Rica, Estonia, Ireland, Italy, Latvia, Lithuania, Luxembourg, Mexico, Poland, Slovenia, Spain, Switzerland and Turkey.

**CO<sub>2</sub> Productivity:** Production-based CO<sub>2</sub> productivity is calculated as real GDP generated per unit of CO<sub>2</sub> emitted (USD/kg). Included are CO<sub>2</sub> emissions from combustion of coal, oil, natural gas and other fuels. Gross Domestic Product (GDP) is expressed at constant 2015 USD using PPP. The OECD average represents a weighted average that is computed based on total OECD GDP and CO<sub>2</sub> emissions.

**Stock of natural land cover:** The OECD average (semi-)vegetated land cover represents a weighted average that is computed based on total OECD land cover, and includes all OECD countries except Colombia.

**Trust in government:** Data on confidence in the national government are reported for the reference year and 2 adjacent years in order to attenuate the effects of limited sample size, data is reported for available years within the given range if all 3 years are not available. OECD average includes all OECD countries except Iceland, Luxembourg and Norway.

**Avoidable mortality:** Mortality rates from avoidable causes include premature deaths due to preventable and treatable causes. Based on the 2019 OECD/Eurostat definitions, preventable mortality is defined as causes of death that can be mainly avoided through effective public health and primary prevention interventions (i.e. before the onset of diseases/injuries, to reduce incidence). Treatable (or amenable) mortality is defined as causes of death that can be mainly avoided through timely and effective health care interventions, including secondary prevention and treatment (i.e. after the onset of diseases, to reduce case-fatality). OECD average includes all OECD countries except Austria, Greece, Ireland, Italy, Latvia, New Zealand, Portugal, Slovak Republic and Turkey.

**Fiscal sustainability:** OECD average includes all OECD countries except Colombia, Costa Rica, Iceland, Korea and Turkey.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

