Unedited Event Transcript

Launch of the OECD’s 2016 Economic Survey of the United States

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Adam Posen: So ladies and gentlemen if I can have the pleasure to welcome you back to the Peterson Institute for International Economics. My name is Adam Posen. I'm the president of the Institute. And I'm actually delighted not just to welcome you back, but to welcome back our two main speakers, Secretary General Ángel Gurría of the OECD and the Honorable Jason Furman, Chairman of the Council of Economic Advisers.

I could go on and on how about much I enjoy following them and following their work around the world. But we have a more distinguished person to take care of introducing them. Your honorable too, Mr. Secretary General. Don’t complain. It’s just an American affectation. Speaking of which, I would like to introduce the Honorable Daniel W. Yohannes, the United States Ambassador to the organization for Economic Cooperation and Development.

He was nominated by President Barack Obama on September 11th 2013 and having like everyone else these days spent time in purgatory, was confirmed by the US Senate in April 2014. He has more than 30 years' experience in banking and economic development. Prior to his appointment, Mr. Yohannes served for more than four years as the CEO of the Millennium Challenge Corporation, one of the best initiatives the US government has taken on in terms of development in international cooperation in years. And we appreciate his leadership there.

Prior to his government service, Mr. Yohannes was the President of M&R Investments, a firm specializing in financial services and the renewable energy sector. He, of course, represents the largest shareholder and supporter of the OECD, the United States, and therefore it is fitting to have him bridge between our speakers today and the presentation on the US Ambassador.

Daniel Yohannes: Thank you, Adam, for that great introduction. It’s a great pleasure to be here today and join OECD Honorable Ángel Gurría, our Secretary General, and the Chairman of the Council of Economic Advisers, Jason Furman, in launching the 2016 OECD's Economic Survey of the United States.

I want to start by expressing the United States government's gratitude to the Secretariat for the considerable effort they have put into preparing the survey. Their analysis and recommendations will help the US government to answer the OECD's call to develop better policies for better lives. The United States was present at the creation of the OECD. Originally, it was intended to implement the Marshall's Plan for reconstruction of Europe in the wake of the Second World War. The organization has now grown to 35 members with Latvia as recent accession at this year's Ministerial Council Meeting.

All of us, both members and affiliated countries, value the OECD as a space where our experts can come together to develop evidence-based policies that increase prosperity for all. In just a moment, Secretary General Gurría will present the survey's recommendations on how the United States can achieve this goal. Dr. Furman will then provide the US prospective.

Secretary General Gurría has been at the helm of OECD for the past 10 years and has just started his third term. During this time, he has changed the way the world regards the OECD and the way the OECD regards itself. Before coming to the OECD, the Secretary General had this distinguished public service career in Mexico serving as the Minister of Foreign Affairs from 1994 to 1998 and then Minister of Finance and Public Credit from 1998 to 2007.

No one is better qualified to discuss the survey with the Secretary General than Jason Furman, President Obama's Chief Economic Adviser. Before serving as the Chairman of the Council of Economic Advisers, Dr. Furman served as Assistant to the President for economic policy and the Principal Deputy Director of the National Economic Council.

From 2007 to 2008, Dr. Furman was a Senior Fellow in Economic Studies and Director of the Hamilton Project at the Brookings Institute. Before that, he served a number of policy roles within the United States government as well as at the World Bank.

I look forward to their remarks, and I invite you to join me in welcoming them. Thank you very much. Come in, Secretary General. And also, I'd like to recognize the former Ambassadors to OECD, Connie Morella and Amy Bondurant. Great to see you. It's all yours.

Ángel Gurría: Thank you, sir.

Daniel Yohannes: Thank you. All right.

Ángel Gurría: Thank you for that very generous introduction, Ambassador. And thank you, Adam, for hosting us and also thank you. I saw Fred Bergsten a little earlier in the building with us. It's a pleasure to be here to present the OECD's 2016 United Nations—no—United States. Not yet. This is the Economic Survey of the United States.

Now, I have to say Jason has been with us throughout and that two years ago he was presenting with us the 2014. But he's also the Chairman of our Economic Policy Committee. And we're also proud to have Stan Fischer as head of our Working Party 3, which is a very byzantine title to a rather important group which is under the Economic Policy Committee. So we're very proud and very honored to have very distinguished Americans who are leading the charge on our economic policy decisions and definitions.

And we've had a lot of support from the Treasury from Secretary Lew and his team to put this together. And Adam, I'd like to say that we are a part of the usual suspects. Every time they say round up the usual suspects, they go for Adam, they go for me, and they go for a number of others in order to do panels and who's going to be moderating, who's going to be paneling, and who's going to be speaking, et cetera. So it's great to be among friends. And Ambassador Yohannes, thank you not only for the introduction, but also for a now almost three years of very active and very productive service.

Now, let me start with the good news. The OECD's latest analysis confirms that the US economy has made a comeback. Output has surpassed its pre-crisis peak by 10 percent now. Private sector employment gains have reduced unemployment to 5 percent. Fiscal sustainability has been largely restored. And corporate profits are high. Business fixed investment had expanded steadily. The housing market is recovering. And Household balance sheets are in a stronger position overall. Economic growth is projected to remain at around 2 percent both in 2016 and 2017.

Now it’s been one of the strongest recoveries in the OECD, although maybe by US standards, historical standards, it may not be so spectacular, but one of the strongest in the OECD. And it’s been supported by robust monetary policy, by well-timed expansion of fiscal policy, and some regions and sectors have led the way; California after a lot of trials and tribulations and now has seen robust growth, the Northeast corridor, and some sectors like software, the telecommunications, and the pharmaceutical sectors.

These are all welcome developments. But, of course, it hasn’t been just plain sailing. Significant challenges continue to rock the boat. Considerable risks remain in the horizon. And the impetus from mutually reinforcing gains in employment, income, and household spending, along with falling energy prices, is unlikely to be sustained without a pickup in real wage growth.

Booming conditions in the domestic energy sector prevailed through late 2014 supported business fixed investment and, of course, that has changed rather strategically over a relatively short period of time. And therefore, some of these investments have dried up. With monetary policy levers persistently set at highly accommodative settings, the scope for policy to respond to adverse shocks is limited. We’ve used a lot of the armory that we had simply because we're coming -- remember, this is eight years into the crisis. We've used a lot of our tools and ammunition in order to deal with the crisis.

Now, let me share with you some of the survey’s key assessments and recommendations. We’re talking about how to consolidate the recovery, improve productivity growth, and promote inclusiveness.

First, the US needs to rebalance the policy mix in terms of structural and fiscal policies. Following a period of unprecedented expansion, the Fed is taking steps to normalize interest rates. Well that's a big speculation whether it’s going to be in June, maybe not in June, whether it’s going to be in July or maybe not in July. The numbers continue to be a little—so maybe September.

But the thing is the normalization process in and of itself we've said is a good thing because normality is good. We've been addicted to this stimulus. But effectively moving towards normality would probably mean that it doesn’t have to have the special stimulus.

Then you have things like fiscal policy. Now, the fiscal policy in the United States had a very important advantage and a very important focus and that is that it was front-loaded. They did a lot of the effort in the beginning, in the first years. They were slashing 1.5 percent per year. That means that today it can be adjusted much more mildly and it doesn’t have to be eroding or an anchor on the growth.

So, again, this is the virtue rewarding itself because now fiscal policy is no longer an obstacle to further growth. Fiscal policy, therefore, can focus on well-targeted public investments in infrastructure, skills, innovation, health, environmental protection that deliver many wins. They boost demand. They improve productivity. They enhance inclusiveness. And they enhance sustainability. Structural policies should be calibrated to raise productivity growth and increase the labor force. Together, these policies would create space for monetary policy to react to adverse shocks, meaning to kind of regain some capacity to react to the unexpected.

Better prudential regulation is also essential for preserving financial stability. US banks have now been better capitalized, are better regulated, are better supervised. But, of course, the process never finishes. Then there is a question of the fragmentation of the regulatory authorities in the United States, which, again, is a process that is being addressed.

The too-big-to-fail problem with continues to be the case and is being addressed by having especially large or larger capitalization requirements of the banks that are systemic in nature. All these things are lessons from the crisis, but I think there are unheralded advantages and strengths that have been gained since the crisis.

There's also a number of macro-prudential tools that have been introduced. And I would say a new flexibility and awareness that macro-prudential tools can actually be introduced in countries depending on the circumstances without this being considered as manipulation of currencies. And also progress in implementation of Basel III and the Dodd-Frank Act which still are a cause of controversy and which we would recommend that should be implemented in full.

Now, there's a question about productivity, productivity growth in particular, which has been slowing since the mid-2000s, but has been unusually sluggish in recent years. There's a graph in there that says it was about—1995 to 2005 it was about almost 2.2 or 2.3 percent per year. And that is now well roughly below 1 so more than halved.

This is a problem shared with most OECD countries. And, of course, the fact that you have good company maybe makes you feel less depressed or whatever. But, of course, we have to address the question of productivity in the United States just as we have to do in Turkey, in Mexico, in the UK, in Italy, et cetera.

Average business productivity growth decelerated, as I said, quite markedly. And this stems partly from weaker investment. But, of course, there are other factors. There's the skill's element, the regulatory element, the credit element. And it manifests itself in a number of ways.

We have an expression, which we call a churn in terms of how many companies are being created, how many companies are being destroyed. This is kind of a natural thing. New firms actually are not being created as frequently as before, and incumbents have acquired more market power, again, not a very good state of things.

There's also a number of measures that are being proposed by the study in terms of the productivity. First, investments in infrastructure are essential to address bottlenecks promoting mass transit. And this requires well-coordinated metropolitan governance arrangements to harness the gains from agglomeration. This is also required because the problem is at national issues, regional issues, metropolitan, local issues, and the coordination of the three or four different levels.

Second, specific measures to foster business dynamism and encourage entrepreneurship. These may include refundable tax credits for new firms, reform of personal bankruptcy procedures, the acceleration of patenting decisions to support knowledge diffusion, and others.

And then measures that will tackle rising market power among incumbent firms. It means more competition. Antitrust policy should be adapted to keep pace with digitalization, financial innovation, and globalization, all of which we are promoting and encouraging, but all of which can tend, if not adequately regulated, to concentrate ownership and to reduce competition.

The survey also maps the interrelation between inclusive societies and productive economies. By investing in skills, by removing obstacles to employment, US policymakers can help Americans fulfill their productive potential.

And this is key because the gains from the economic revival are not being evenly shared. Here comes a question of inclusiveness. Many face obstacles in the labor market. Prime-age female labor force participation is falling and is now below Germany and Japan. Normally, we would compare and say the US is above these two particularly in the case of Japan because it is not so high.

Women who work still earn less than men, the proverbial wage gap, and here the issues we've been repeating them again and again. The only problem is that the numbers have not moved very much. Over time, they continued to be rather stubborn. Wage gaps in participation rates vary across population groups, with Black and African American, Hispanic and Latino workers faring less well.

Investments in skills, paid parental leave and affordable childcare are critical for leveling the level of playing field. While expanding the earned income tax credit, raising the minimum wage can help tackle social and racial inequalities, these things take so much time. The political discussions about things like the minimum wage are so distracting.

And then we find out that suddenly they are -- like we supported the President's move from 7.55 to 10.10. And we supported the 8.50 euros per hour in Europe that was proposed in Germany. We believe this is good. It helps aggregate demand. It’s also from the social point of view, the equity point of view. It helps to protect what turned out to be a relatively large number of workers that were not enjoying these minimum conditions.

So we believe these are issues which have to be done. But there are relatively few workers that are -- the minimum wage itself is relevant. And at the same time, we spend so much time, so much effort, and so much political capital on that, and so many pushbacks against it when it’s obviously something that has proven to be a good recipe in a number of other countries and where it’s happening at the state level. Because if it doesn’t get resolved at the national level, then of course the economic realities takes over.

And when there's some fast drop in the rate of unemployment, then of course you start feeling regionally or in some states the problem of shortages. And that makes wages go up. And of course then wages go up naturally and things start to happen. But they don’t have to necessarily take so much time and so much political acrimony.

The sustainability question also matters. The OECD supports introducing market-based measures to address environmental challenges. The budget proposal for 2017, which includes a new tax levied on a barrel of oil, is a positive step. And people are a little cynical. They say, "Well, of course you know that this is going to confront a lot of opposition." This is a question of signals.

Last Friday, we were with President Hollande at the Elysée with a group of entrepreneurs and some policy people; and basically talking about how do we put a price on carbon. And then I just came from Canada where already the province of British Columbia and British Columbia we have what is called the crocodile.

The tax on carbon has been going up over the years, and the emissions has been going down over the years. So you can see jaws being wide open. And it works. It induces the proper conduits. Ontario is now following through. Quebec is now following through. And now, the new Prime Minister is talking about getting all the provinces to do something together in moving in that direction.

So this is very much welcomed I'll have to say. And regardless of what treatment it gets in Congress, again it's a signaling system just like it was when the President said, "Okay. With my executive prerogative so I will try to limit emissions from certain industries et cetera."

There are also programs to improve well-being in metropolitan areas decreasing congestion to reduce environmental harm. So these are a few elements of the survey. There are others. Access to higher education, training, water governance, there's a very great detail. But these are just the main features.

So dear friends, two years ago for the launch of the previous Economic Survey, we said the US was doing well, but it had a number of challenges. Today, I can report it's doing better, even better. And I would like to congratulate here the administration in the person of Mr. Furman. But I also like to say because this is the last year of President Obama's administration that he was inaugurated at a time when the economic situation of the world and the economic situation of the United States which is where the crisis started couldn't have been more difficult.

And we've navigated now for his two administrations. And now, he is leaving this legacy of growth and greater investment, greater employment, and overall general economic, social, and environmental conditions in the United States. We've been very proud to accompany the United States in this effort. And, of course, we stand ready, Mr. Furman, to continue to support you until the end of the administration and to continue to work with further and future administrations of the United States to deliver better policies for better lives for all Americans. Thank you very much. Dr. Furman.

Jason Furman: So thank you, Adam, for hosting us, Ambassador for your kind remarks. And Mr. Secretary General, I tried to talk in a positive way about the accomplishments of this administration and what we've done over the last seven-and-a-half years. But your eloquence puts me to shame and sets a new standard that I'll aspire to.

I thought this economic survey was really terrific. And one of the terrific things about it is it enables me to take my standard stump speech about the US economy and just insert comma as it says in the OECD Economic Survey after all of the other things that I had previously been saying, anyway.

Ángel talked about the US recovery. I want to talk about the recovery and the progress we've made because, I think, that's important for understanding the general thrust of economic policies as we continue to debate them in the United States and around the world. And then I want to talk about our bigger challenges and what we're proposing to do about them. And what we’re proposing to do about them is as the OECD says over a range of things.

So the first is just the big picture. The United States and the Euro Area both experienced a similar shock. The shock in the United States was larger than the shock that precipitated the Great Depression five times as much wealth was wiped away. The contraction in global trade was larger. But by 2014, we had recovered to our pre-crisis per capita income and now we're well above it. The Euro Area still hasn’t made it all the way back to where they were before the crisis.

And as the Secretary General said, part of why this happened was because of the very vigorous fiscal response both the Recovery Act and 12 subsequent fiscal measures totaling $1.4 trillion of fiscal stimulus or 2 percent of GDP of discretionary stimulus over the first four years of the administration. That combined with very vigorous monetary policy that cut rates quickly and stayed low and an aggressive and forthright cleanup of the financial system.

If you look at what's happened in the labor market, the dotted lines are the forecast of what was going to happen to the unemployment rate at different vintages. The solid line is what actually happened to the unemployment rate. And what you see is as recently as 2014, people thought it would take until 2018-2020 to get to 5 percent unemployment. Prior to that, they thought we'd never get there. We're, of course, at 4.7 percent today.

As the unemployment rate has come down, we have had three straight years of real wage growth with that blue line nominal wage growth above that red line, which is inflation. If you look at the distribution of those wage gains, the fastest wage gains are for households at the 10th percentile of the income distribution. So you've seen them be broadly shared.

You've seen some pickup in nominal growth that you see in that blue line. It’s still not enough pickup in wage growth. And some of the reason for the real wage growth has been the low price of gasoline. And as we all would expect inflation is going to start to come back up towards core inflation. So to sustain real wage gains we're going to need faster nominal wage gains as well going forward.

The question then is what can we do to help improve wages, improve incomes for families? And those challenges are rooted in three different phenomena all of which are very well documented in the OECD Survey. The first of them is productivity growth. And nearly every advanced economy has seen a slowdown in its productivity growth in the last decade relative to the decade before. The United States over the last decade has still had the fastest productivity growth of any of the advanced economies. So after decades of convergence in productivity starting in 1995, you've seen increased divergence between the United States and other G7 economies which has continued albeit at a smaller pace over the last decade.

The second big challenge is the rise in inequality. And in the United States, the share of income going to the top 1 percent has been higher than any of the other G7 economies every year since the mid-1980s. And it’s also risen more quickly than it has in any of the other G7 economies.

For a while, American families were able to make up for the combination of slower productivity growth and rising inequality with more members of the household working. There was a large influx of women into the labor force. So you had more two-earner households instead of one. And that second income could help make up for some of these challenges.

We've seen a reversal of that progress in increased labor force participation, an issue that I tried to take on in the issue of foreign affairs that comes out next week. But you all have a sneak preview that's on the table out there if you’re interested in more detail.

But you see the United States has, among prime-age men, seen the largest decline in labor force participation, second largest of any OECD economy, since 1990. We've done better with youth and older workers which are reflected in this picture. And for women, after decades of increasing and increased -- right there, yes, thank you. It doesn’t have as nice a cover as you have on yours. For women after decades of increasing in the United States, you've seen decreasing labor force participation.

I think there's a lot of different factors going on behind the decline in productive growth, the increase in inequality, and the decline in labor force participation. And each one has some of its own causes, and the causes vary over time. One that we have been trying to draw more attention to that we think maybe has been underappreciated and we're very pleased to see in the OECD's Economic Survey as well is a long-term trend of reduced firm and labor market dynamism in the United States.

You see these both in rates of job creation and job destruction. We see it in the rates of firm entry and exit. You see it in people moving across states, across industries, across occupations, a range of ways in which you've seen less fluidity in the economy. And one of the consequences of that is innovation often comes from new businesses. It comes from new businesses entering. Inequality can actually ossify if people can't move to higher-wage areas. And if an economy that's less fluid is hit by a shock, it can have a larger impact on something like labor force participation, harder to get yourself back into the queue is something that we've seen in this recession. So I think this is one of the issues that the report helps to make progress on.

The question is what can we do to capitalize on the huge amount of progress we've made in recovering from the recession, the real wage gains, but then deal with these three challenges; productivity, inequality, and participation. Well, as the OECD Economic Survey says, we can invest in infrastructure, reform the business tax code, encourage innovation via trade, expand opportunity, provide greater access to things like childcare and paid leave so that you can get more people into the workforce. A theme that the President has been pushing a lot lately and issued an executive order nearly two months ago to get every agency focused on how to reduce market concentration and market power, something that can both reduce efficiency and increase inequality.

And then finally, also, as the OECD's Economic Survey says, we've seen a larger increase in the United States way out of step with any other country in the world with the important exception of the Seychelles in mass incarceration in the United States, which is also weighed on labor force participation and weighed on our overall economy. And it’s an issue that we're very much focused on in the administration right now.

Look forward to discussing all of these and more with you, Adam.

Adam Posen: Thank you very much, Mr. Secretary General and Mr. Chairman. You both were admirably clear and pointed, but let me try to restate what you said even more pointedly.

The US did a much better job than the rest of the OECD in fiscal, monetary, and financial response to the crisis. So on a cyclical basis, it’s done better. The US has suffered from many of the same problems as everybody else including notably the productivity slowdown. It still comes out on top, but everybody has had the same downshift. And the US remains perversely way out of step with other rich county norms in terms of social justice and functioning of labor market and rewards. That sounds right.

That also is, with no disrespect, to you and your team or to the Obama Administration because other countries have shown us how much it matters to get those policies right. That is much the same as almost any OECD report we could have had in the last 20 years. That broadly speaking less ideological macro policy, more sensible, broadly speaking not great productivity, although of course there was that brief period in the late 1990s, and broadly speaking social mess.

So, given that, you have your list of recommendations. What do you think will trigger any change on points two or three on productivity or on social benefits that we have not had in the past? And as some of our European OECD member friends saying, is there a negative trade off that because the US actually cushioned the recession more we got less reform? I don’t believe that, but many serious people do. So I'd be interested in your and Chairman Furman's thoughts on these matters.

Ángel Gurría: First of all, just to put in perspective the reforms in the US, what actually happened is if you see the European panorama, the ones who did most reforms were the ones who really had no choice. Italy, Spain, Portugal, Ireland, Greece, even with all its problems recently took very important reforms. Now, it's no coincidence. They probably had no choice. And also, they were about to lose access to markets or they started to pay in moderate hikes in their credit.

But what happened is that the bigger economies did not feel the same emergency, the same urgency, and therefore have been relatively slow in adopting the reforms and you see it very clearly. The [inaudible 0:39:20] reform of Germany which has kept Germany moving for the last 10 years were adopted by Mr. Schröder, okay.

Now, Mr. Schröder, many people probably the young here don't, there was somebody before Angela Merkel in Germany who was called Mr. Schröder. And Mr. Schröder actually took some decisions about flexibility in the labor markets probably the public was not particularly sympathetic about the reforms. He lost the next election. But effectively, the labor markets have been responding. And even at the height of the crisis, the German unemployment never really rose to anywhere close to the averages that the other countries saw.

Another case is one that took a little longer. Mr. Zapatero was saying it's an American problem. Then when people started lining outside Northern Rock in London, he said it's an Anglo-Saxon problem. Now, Anglo-Saxon is a very long complicated word. But at the time he finished saying Anglo-Saxon, we were up to here in the problem in the continent.

But then what happened, Mr. Rajoy four years ago took the measures. And now, Spain is creating half a million jobs for the second year in a row. Now, Mr. Renzi who was the first Prime Minister of Italy who I had even a chance of working on this, I worked with twice with Prodi, his two governments with Berlusconi. I worked with Monti. I worked with Letta. And with Renzi, it was the first time ever that there were the proper conditions and also the political conditions and also the fact that he took away my chief economist and appointed him Finance Minister. Maybe it had something to do with that. But the fact is that they just finished with a labor reform last year. So they're going to have to wait for some time.

And the fourth case, France, they're still debating today. After all the legislative dentist had taken away a number of molars and the canines and the things and still there's all these strikes and everything else and they're still debating. So we suffered all these strikes. We barely could get here. So you see four cases. Ten years ago, four years ago, last year, and still not there and then you see how they have performed. No coincidence.

Now what happened going back to the United States? The United States, first of all, was already the more flexible labor market, already was very flexible in terms of the product market. I mean we've had discussions [inaudible 0:42:19] about whether we open the stores in Paris on Sundays. Here that has never been an issue. All the malls are open on Sunday and every day and working days and holidays and everything. And everybody goes there in season and buys and everything. This is a completely different type of setup here.

So the issues have been different. And basically they were of a fiscal issue you have to stabilize the fiscal situation because it was getting out of hand. That was done as I said it was frontloaded. And then you have to take into account because it was possible, the social situation.

Now you see -- you've been seeing this all the time. Well, yes, but when the house is on fire what you do is you get a hose or you get a bucket or you get a glass or you spit on it or whatever you do. You put out the fire first. Then you start thinking about how you're going to rebuild it and what color you're going to paint it or whatever whether you're getting a second floor. This is what happened. I mean the house was on fire here. And it took some time to get back on track.

In the meantime, as I said, one of the most unheralded revolutions is the way in which the financial sector has been stabilized, although that's never finished. And so why are we now saying or insisting on these issues? It's because right now eight years after the crisis it is possible. Conditions have been created. The United States is one of the countries in the G7 in the G20 that can do fiscal stimulus that can do some of departure from the virtuous—

I was saying to some colleagues earlier that the Germans announced that they were going to spend 10 billion in the refugees. And we said yes, yes, it's good. It's going to be extra-added demand. Finally, they're going to have a deficit. And then they're going to present a balanced budget including the 10 billion. It's the virtuous infinite. But, of course, you never could balance the books in Europe with this kind of approach.

So the question is now the United States has the capacity to do what they said that they were going to do and what they were preparing to do. They have the finance and they have the need, which is large infrastructure projects that can detonate that can also break bottlenecks that will increase the productivity of the economy et cetera.

And on the social side, it's because clearly the crisis was very tough. The US has created 16 million jobs in the last five or six years. It's a massive job creation factory. But in the OECD, we still have 7 million more unemployed than before the crisis. So the work is not done here. You're talking about homework. And that includes the very serious problem not only of unemployment but also the drop in real wages, the drop in wages vis-à-vis the GDP, et cetera, et cetera, which we're always discussing with our friends here with [inaudible 0:46:01].

So, why are we talking about it now where we're emphasizing now? Because now it’s possible because now we haven't gone ballistic, we haven't changed our minds. It’s just that eight years ago or seven years ago or six years ago we could not talk about, say, how do you spend a little bit more on infrastructure. In those days, what you have to give was very strong signals about saying, "Yes, we're going to reduce the deficits. We're going to make the debt first come to this table and then slowly reduce it and not lose market access." So why are we saying these things now is because we can as a classic set.

Adam Posen: Thank you. Jason, can I follow on that with a slightly different take from you? We are privileged to be able to pre-distribute your [inaudible 0:46:52] article on the US labor market. And it is well worth the reading. I commend it to everyone.

But building on what's been done at the OECD by Ángel and his predecessors, we have this vision coming out of the long ago OECD job study as was embodied in the Schröder reforms in Germany that usually when you have an undynamic labor markets because you have things like over-regulation of work hours, cost of firing, things like that. And that's come out of a lot of OECD work through the years.

Without wanting to sound credulous, I am not aware of some passage of huge numbers of new labor market regulations and costs imposed on firing and hiring people in the US in the last 10 years. So what is it that has led to this very clear decline in labor market dynamism and participation that both the OECD and you at the CEA have spoken about?

Jason Furman: So thanks for that and this is something we spend a lot of time looking at, feel we have a better handle on it, but still feel like it's not fully understood. And I think if you compare the amount of research that's gone into changes in productivity over the last decades or changes in inequality where we've seen a massive amount of research and the question of labor force participation we've seen a lot less. And so we're trying to figure out what we can.

I think in some sense it’s a little bit of a challenge for a certain traditional paradigm of economics. And that traditional paradigm like the following: You make it really easy to hire and fire people. You don’t have a lot of labor union sort of changing the way your labor markets function. You don’t have a high minimum wage. And then you may get a lot of inequality as a result of that. But you'll at least have very high levels of labor force participation. And you'll make up for it in that dimension.

The problem is when you've had a set of shocks that have hit a range of advanced economies including things like technological innovations that are biased towards skills, globalization, and the challenges that that's posed. In the United States, you just see a big raise in inequality. You also saw a bigger decline in labor force participation. So this is sort of bargain you were supposed to get [inaudible 0:49:21] institutions didn’t come through.

What that tells me is that for labor markets to function well, at a minimum, you need to do more than just flexibility. You need to have active labor market policies. You need to invest in areas like infrastructure and support aggregate demand. You need childcare, workplaces that are flexible that enable more people, in this case, more women than men, but everyone to benefit. You need to set policies in institutions. I think we know what some of them are. I don't think we know what all of them are.

And then in terms of the flexibility part itself, it tells you that some of the workings of labor markets isn't just classic supply and demand and the wages, the intersection, unemployment, it's the intersection between the two. But that every time you have an employment match, there's a friction in the search process. That means there's a certain uniqueness to that match which creates a surplus when that match is created. And labor market institutions then affect how that surplus is divided. So you have a higher minimum wage. You have stronger labor unions. And more of that surplus will go to workers and less in the form of profits.

What that tells you is that you can, for example, raise the minimum wage without necessarily hurting employment and, in some cases, even move up the labor supply curve and help employment as well. So I think it gives you a richer picture of how labor markets function that go beyond a sort of traditional model into the type of search and other models that underlie some of the empirical findings we've had on the minimum wage, right?

Some of the [audio break 0:51:09] in terms of explaining the decline itself, I think it's partly the same shock that led some people's wages to go down, also led some people to lose their jobs. I think it's us being less able to get people back into jobs. And I think mass incarceration is one factor that has increased United States to a degree that you haven't seen in other countries and also has weighed on labor force participation.

Adam Posen: Thank you. That's really helpful. Let me pick up again on something the Secretary General said and as both of you that Ángel was very kind to say I show up at meetings. But these are senior officials. They go to meetings I'm not allowed in on. I just comment on Bloomberg.

You're clearly the Economic Policy Committee, the OECD broader meetings, the G7. We've had repeated calls for infrastructure spending. Both of you mentioned it. I realized that there's a little problem, say, with Congress here in the US. Nonetheless, there has been a sustained argument from both of you and many of Jason's counterparts in other countries for an infrastructure spend. There seems to be a big logic to it given where interest rates are. We get communiqués to call for it, and yet, we don't get any.

So can you give us a little bit of an insight into why this gap between sort of logic stated intent and outcome and is there anything we can do about it? I expect both of you to reply to this?

Ángel Gurría: Now, let me just tell you. I've been to—for the last 10 years, I've been going to the G8 first and then the G20 showed up and then other G20s and now the G7s because we lost one of the passengers in the process.

Adam Posen: I think they parachuted out those ones.

Ángel Gurría: And then with the APEC meetings and the alliance with the Pacific, and everywhere, the single most often quoted word is investment, then investment in infrastructure, investment in long-term infrastructure, investment in long-term infrastructure for our climate change or water or whatever. And this means ministers, political leaders, economy ministers, trade ministers, labor ministers, all sorts of ministers, and economic advisers to the leaders. And when the leaders get together, they also continue to.

So I say this because this question that Adam is posing is truly seriously a very great and so far seemingly insurmountable obstacle. I say it’s like climate change. I say it’s manmade. And therefore, men and women, I'm not trying to be politically correct. I'm blaming also the women who took part in these decisions. What decisions are we talking about?

Well, effectively now, it’s almost a cliché. Oh it's not a problem of money. There's so much money, all those money. Yeah but it’s over there. We need it over here. So it is a problem of money. Money is not coming to where it should be. And it's not coming to where it should be because we make it either very expensive or we penalize it or we make it impossible.

So we say all the trillions, the trillions in the pension funds and the trillions in the insurance companies and of course in the banks in order to fund the construction periods which can then be passed onto the long-term funding and the hedge funds, the investors, et cetera, the equity investors. Effectively when it’s happening is that take your pension funds. So you go into long-term infrastructure investment and it's not what’s something called solvency tool. It’s just one of the requirements.

If you buy something into a package, a piece of a long-term infrastructure project, by definition it’s going to be a liquid. It’s going to be moving around. It’s not going to be standing around. But the liquidity is penalized in the balance sheets according to the regulation according to the banks and so on. So you have a number of things.

I've often said and I think now moving into the direction that Mark Carney with the Financial Stability Board and the different regulators took a hard look at -- we went a little pendular like with the banks. We're very lax and everything was possible. Everything was doable. Then we had the crisis and then we had [inaudible 0:56:32] to the other side. And now we're kind of trying to get to the right middle in order to make it possible.

The second, there is a question of the projects themselves. Third, there is a question of the political implications of governments in long-term infrastructure and process. If they guarantee some first losses if they give some guarantees of let's say a minimum revenue and then [inaudible 0:57:08] of cars or whatever it is. If a country takes or is a party that said, "I take 20 percent or 30 percent or 40 percent as a shareholder," the focus, the public opinion focus, the political implications on the participation agreements et cetera is enormous. There's not a lot of appetite. And then there is last but not least a question of pricing signals.

Solar has dropped by 100 times. And the technology we used to go for larger and larger and larger units of nuclear and combined cycles and things like that. Now, we're going for smaller and smaller and smaller of units of the windmills.

Adam Posen: Oh yeah.

Ángel Gurría: That's like a thousand to one vis-à-vis a large kilowatt factory. And if you go for the solar installation, it's like a thousand to the windmill. That means you're talking about one million scale when you go from one to the other.

And how do you deal with that when you're trying to incentivize investment there and you made a contract for 30 years in a big solar with a certain technology that was delivering 15 cents per kilowatt or whatever? The latest auction that Mexico did to product electricity so that it would be produced by a private sector and fed into the grid was at about a third of that or less.

So, technology is moving so fast. But who invested 5 years ago, 10 years ago, 15 years ago? And at what price did you invest? And what are the rules? Technology then changes. The governments find themselves in a situation where it is politically impossible to respect the agreements because they will certainly lose the next election based on that.

So they tend to renegotiate. Losses are accrued. And therefore, it's a very fluid moment. Technology also is not helping. And that means people just sit and wait. They prefer not to do very much. And the last is that some of the investment money would come out of retained earnings, which is sitting in the wings because of tax considerations. But that's a more general issue.

So there are a number of things that are actually blocking. I recreated this hub you remember, Jason, in Australia in the Global Infrastructure Hub precisely to learn about all the lessons. We're trying on that. But it's a struggle. I think you pointed to a very painful and a very important reason why we can't get any takeoff, any liftoff in terms of the growth.

Adam Posen: Thank you. Jason, any further remarks on the infrastructure?

Jason Furman: Sure. I'll say a tiny bit. I mean I don't think there's a whole lot of profoundly interesting economic issues here beyond different economists debating which of the many great reasons to invest in infrastructure as the greatest reason to invest in infrastructure whether it's the supply side, the demand side, the opportunity to do it now, et cetera.

On the political side, I try to be optimistic, but not delusional. And you can assess the degree of success I've had now. But you wouldn't seven-and-a-half years in the White House if you thought nothing was ever, ever going to happen. And you probably wouldn't spend seven-and-a-half years there if you thought something was going to happen tomorrow because occasionally it wouldn't happen tomorrow. And you'd notice that and get disappointed.

On infrastructure, we actually have accomplished things in a couple different areas. And the reason I pointed this is because not that it's enough. It isn't close to enough. But it could give some motivation for not just sort of bang your head against the wall and giving up, but saying let's do even more of that.

Now, the first is that the Highway Program expired at the end of September 2009. For the next six years, there are over a dozen short-term extensions of that program at current funding levels. But last December, we're able to get a five-year surface transportation bill. It was a roughly 5 percent increase in real terms and it included some important innovations like building on the expanded funding we had already done for programs like TIFIA that leverage your money with loan guarantees.

That's not enough money. We proposed a lot more. We're back this year with a proposal. That proposal is paid for with a—we call it a fee, by the way, on oil. We used another three-letter word. And it's paid for with that. We should do more, but we've done something. And I think they'll be interested at some point to do something else.

The second is mobilizing more private investment in infrastructure. This is an area where the United States has actually faced challenges compared to many other countries around the world. A lot of those challenges have been at the state and local level. Some of the steps that we've taken are, first of all, real effort by the Department of Treasury and Department of Transportation to help companies and countries navigate some of the complexities of our system. And then we also took one of the obstacles to investment in the United States, which is a [inaudible 1:03:18] provision called FIRPTA that would withhold money on infrastructure investments made by foreign pension funds into the United States. And we repealed the provision for that purpose in December. And I've heard from foreign pension funds that that will make them increasingly interested in investing here.

That segues to a lot of infrastructure is private. And if you look at private infrastructure in the telecom space, the United States has been first in the world in 4G much faster pace of increase of investment in both wired and wireless infrastructure and policies including tax incentives like bonus depreciation, the light-touch regulatory system that we've had. And some of the public investments we've made through things like the Recovery Act in broadband infrastructure have helped in that regard too. And that's going to be really important going forward.

And then the last one which the Secretary General talked about is in the energy space. And there are two infrastructures largely privately financed, but there's a heavy amount of state regulation that affects the incentives around that investment. And there's a number of rules others make that affect it as well.

The Council of Economic Advisers has a new report out today that looks at one particular aspect of that, which is the ways in which the grid needs to be upgraded for the fact that renewable power comes whenever the sun feels like shining. Or whenever the wind feels like blowing, not whenever you feel like turning on the light or turning on your television. And how you manage the mismatch between when the power is generated when the power is needed. That's required substantial investments in our infrastructure to help move towards that. And we've been making them in part because of a number of really complicated and thorny regulatory rules that we've updated and changed. And don't ask me what they are because I couldn't explain any more than the sentence I just gave you. But we've made more investments in that area too.

So those are just a couple different areas that, I think, we have made progress, but no debating and it's still very inadequate.

Adam Posen: Thank you both. You've always been enormously substantive, detailed, fluid. I know we have a great audience that wants to get to their own questions. But I would be remiss if I didn't pursue one other issue, which is the OECD Chief Economist, Catherine Mann, presented here roughly six months ago with some colleagues here at the institute a summary of the OECD work on productivity growth slowdown across countries. And this is summarized or at least referenced when putting the US in context in the economic survey.

There is, to me, something of a troubling intellectual disjunct, which is we are seeing something happen across all the advanced economies at once without that much variation. I mean everybody starts at whatever level they were at, but they move down essentially the same amount. On the surface that looks like a very -- if not Larry Summers maybe even Bob Gordon kind of it's just technology. There's just been a technology slowdown. It's hitting everybody. That's it.

The OECD has instead emphasized that there is this issue of diffusion from the frontier companies and countries to the others. I just like very briefly to just get your sense on you have these recommendations for the US and by implication for others on something you can do about the productivity slowdown.

I guess I'm asking for more reason to be optimistic that this isn't just out of our hands. It's exogenous technology. There's nothing we can do about it. I'm hoping you can tell me why we should be more confident.

Ángel Gurría: Well, frankly, there's nothing fatalistic and we should not resign ourselves to having a low productivity growth. Technology is part of the story. But I mentioned before investment in general has not been detonated. Investment is growing at about half what I would call the cruising speed. And trade is growing below half of the cruising speed. Actually, the trade is growing below the rate of growth of GDP of the world. For the first time in a long time, it's been several years in a row. And in the last 50 years every time this has happened we had a recession. I'm not saying we're going to have a recession. I'm just saying conditions are tough.

So investment, again, it's growing at 3 or 3.5 percent. Flows are still below what they were in terms of foreign direct investment but they were before the crisis eight years after. So we're still struggling with the legacies of the crisis. But we're not fatalistic simply because we know that, again, how do we detonate some of the investment?

In the case of the trade frankly, we're fighting protectionism all the time. The only problem is that every time there's a slowdown or some negative growth in some countries there's almost a knee jerk reaction to go protectionist. And the G20 has been a very powerful way to at least look for standstills or some rollbacks, but it's a challenge.

But where does productivity come from? Again from investment, from skills, skills, skills, skills, very, very big skills issue, very big mismatch of the needed skills and the skills being demanded by the skills available and the skills demanded by the markets. And that can be fixed there are examples by private sector, public sector, unions, workers together, and then finding out who's going to pay for what.

Every company should become a school and every lounge should become a university for its own benefit in order to increase its own productivity its own competitiveness. When you had very large percentages of the workforce that are not formal that do not have the protection that do not have the medium or the long-term contracts et cetera, you have very low productivity.

So, again, you know that going into that area, well, why because the loyalty of the employee to the company will be enhanced if the company is investing in the workers' skills. And then that will be rewarded by the fact that skills will allow the worker to increase his own wages et cetera. So that is something which is not often practiced in a very dynamic labor market like the United States where you get your pink slip and you go and then you hire somebody else.

I think this is better done in countries like Germany or others. But again, it’s possible. We know some of the solutions. The regulatory issue is very important. I mean there are certain things that are rather obvious and difficult to understand where we're discussing so much like the question of whether you're open on a Sunday or not. But there are a number of things that have to do with investment flexibility with competition.

Competition increases productivity. It produces also good resource in terms of inclusiveness. The poor buy their goods and services in places where there's less competition. Therefore, they buy them more expensive. The richer have the capacity to choose their sources of supply.

So you have a number of elements. And I would add also the question of credit. So we know it’s not rocket science and it's been addressed before. But we need to be very deliberate hopefully collectively deliberate because here if you have collective action, then you will get whatever impact you will get at the national level. And you'll get a boost which comes from the fact that the other countries are doing better also.

So no I'm not sure again in saying well it’s inevitable. What I'm saying is there's a lot of work to be done that we now are in a situation where we have options. I mean that also makes it difficult. I mean the house was on fire. Today, we have options. And the options open discussions, open debates. There are elections. Some decisions are—elections make more difficult certain types of decisions.

Take, for example, the decision about increasing the VAT from 8 to 10 percent in Japan. I mean that’s like a no brainer. Well, it’s not a no-brainer. It’s a big political issue. We recommend not only to go to 10. We recommend to go to 15, one every year, one every year, one every year. But again it became something enormously, enormously important on the political front. A whole election was played on it. So sometimes these realities make it difficult.

Adam Posen: Let me stop you there. Thank you. No, I really need to get it open to open discussion. We have a traveling mic up front with Jessica. We have a standing mic in the middle towards the back. Please raise your hand. When you’re recognized, please identify yourself and pretend you’re asking a question rather than making a statement. Who would like to go first? Okay. I guess Bill and Nick. Could I ask you to go to the mic, please?

Bill Cline: Bill Cline from the institute. I wonder, Ángel, if you could be explicit about whether the OECD is recommending that the US federal deficit be increased substantially in order to carry out substantially larger infrastructure spending? And if that's the right interpretation, is this premise on the view that the long-term fiscal sustainability should be judged on net debt rather than gross debt in a proposition that the infrastructure that's created is the equivalent of assets?

Ángel Gurría: I'll just make a qualification to your statement. And that is you make it sound like it's out of control and we've seen out of control before. And we don't want it ever again.

We're inviting governments that have created the space. First of all, lower interest rates create a space just by itself just by themselves, okay, because governments are paying less for their debt on average and therefore that creates space. But also we're saying, yes, if you're going to go eventually to the famous 3 percent in Europe or whatever you're going to.

Well, basically, you can take a little longer to get there. But effectively in the process, you take a little detour. You invest more in infrastructure half a point more GDP, 3.75 percent more of GDP, well-chosen projects, high impact, high multiplier that break bottlenecks that increase the productivity of the economy. And if you get that right, then eventually even the debt to GDP will be reduced because the GDP will grow. The denominator will grow. And frankly, one of the problems we've had is that the denomination has been shrinking. So those ratios have been growing.

So, yes, actually this is what we're suggesting to those countries that have the space and even I would say, Bill, to the countries that may not want to go beyond their stated targeting or maybe because they don't have the political ability because the Congresses or the Parliaments are very restrictive. You can also say, "Okay. Within the same budget envelope, I can change the components and the contents so that you will have more of that, let's say, more of that growth kicker, inside the same growth envelope.

Adam Posen: Okay. Jason, do you want to add anything on this?

Jason Furman: I think we've seen something extraordinary which is 10 or 15 years ago you'd see political authorities in countries want to irresponsibly spend all sorts of money. And organizations like the OECD and the IMF would come with lots of equations to prove all the bad things it would do to their countries and now you see almost the opposite.

You saw their latest economic survey say if you want to reduce the debt in your country, what's one great way to do it? Spend more money on infrastructure and even if you're going to pay for it, you're going to lower the debt to GDP ratio. And then they, the IMF, are yelling at country after country to do that. And now, it's the opposite. The political authorities are unwilling to hear that advice. I think it's been an amazing, an important reversal.

Adam Posen: I'm going to ask the two gentlemen at the mic. We'll take your questions together because the Secretary General has a hard stop at four o'clock so please.

David Lawder: Hi, David Lawder with Reuters New Service here in Washington. Just a quick question that is Brexit related, and first of all, I just want to say that I think we're all shocked and saddened at the death of British MP Joe Cox today, not something you would expect to have happened in an advanced democracy.

Just wondering if you could outline sort of the risks to the United States if Britain were to decide to vote to leave, where do you think the spillovers are for the US? Thank you.

Adam Posen: And please.

Bill Spriggs: Yeah so Bill Spriggs from [inaudible 1:19:00] in AFL-CIO. So I want to echo what Jason just said. I think it's really good that the OECD and the IMF are teaching countries that they do have the fiscal space and encouraging them to take it. But I want to talk about a conflict that I thought I heard between what Jason was saying and what the Secretary General was saying.

So I thought Jason was pointing out that the US which has a huge flexibility ends up with a lower share of people employed than France which has in the eyes of the OECD very restrictive labor market policies. And of course as you know, we tend to side with the way that Jason looks at the world that there are a lot of other things in the equation. Clearly, the US and France highlight that contradiction.

So can we get a little more clarity between the two of you on where that stands?

Adam Posen: Thank you.

Jason Furman: On Brexit, again, this is another issue where economists debate. But in this case, they debate the magnitude, not the sign. Every analysis, every credible analysis I've seen says the impact of Brexit on the UK economy would be negative. Something negative happens in one of our important trading partners. That spills over and has negative ramifications for the US economy.

The magnitude and timing of those ramifications are uncertain. And it depends on whether it’s something like a more traditional trade linkage, in which case, it would take more time and be smaller or whether it is financial market uncertainty that leads to financial events elsewhere in the world that lead to an elsewhere in the world that could spill back here on a larger and more rapid way. In either case, it would be unnecessary and unwelcome given the position of the global economy today.

On your second question, I mean maybe the Secretary General should take that. But I certainly do think and I'm just relying on you're going for growth indicators. And saying that one story they tell is you need a richer set of policies to make labor markets work, not just flexibility or maybe not even in many cases the traditional types of flexibility.

Ángel Gurría: I think, first of all, we're looking at it in a much more diversified way. The flexibility in the labor markets kind of became a bad word for the labor movement because it was equated with the facility to fire workers and to make it less expensive to fire workers.

And the problem we had for some time is that you basically were having the incumbent in a relatively comfortable situation with a lot of employment protection. And at the same time the young people knocking on the door trying to get in and with little appetite by the employers to create new jobs because it was so expensive when you had to shrink the payroll.

What happened since is that a number of countries have been moving into the terrain of flexibility. And then what happened is because the moment they chose let's say Spain chose to go flexible in a moment when the recession was hitting kind of its second hump, its second trough. And then what happened? Well, everybody started saying, "You see this is not the way." But it was because of the recession. It was not because the measures were wrong. The moment the situation stabilized, the measures started to work. And now, as I said, they're creating half a million jobs for the second year in a row and it seems to be working.

So it’s not that we are coming from different angles. It's just that you don’t have one single measure that you take. But there are certain laws and rules and regulations that are more important than others. And they also have to do with the signals that you give to the rest of the economy. What happened with Renzi, for example?

When he went for the JOBS Act, he did not say, "Here is the law. Would you please approve this law? And hopefully, we'll get a majority of the votes." He said [Foreign language 1:23:45]. My government on the table and you vote for it, and if I lose, I go to an election. Well, everybody was kind of shocked, but it passed.

As I said, I worked for the last six prime ministers. We couldn’t have done that before. And Renzi did it because he had the conditions but also had the courage. But it was also a signal. In Italy, ever since, there's been a lot more confidence. The investors have been looking at the whole thing with a much more benign, let's say, opinion because they broke that taboo that was so important.

And that is exactly what is not happening in France today. So comparing the France and the France is what you would like to have the France that is not happening, it may or may not happen because there's a lot of negotiations still going on. A number of the provisions that made law powerful have now been removed. Some still are there.

So in the end we'll see. But there's no doubt that more modern, if you will, not to use the word flexible, more modern frameworks help the workers in the sense of being able to create more jobs which is in the end what we want. And then the fundamentals about how well paid they are, how good the quality of the jobs are, it has to do with some policies like minimum wages. But mostly, it has to do basically with the vibrancy and the strength on the underlying economy.

Adam Posen: Great. One very brief remark on Brexit and I'll bring this to a close. The criminal tragic assassination of a British member of Parliament known for her pro-immigration views has to be seen as demonstrating that whether it is nativism and Brexit in the UK, Front National in France, or Trumpism in this country, a key element of their platform is hatred and violence, not everyone, but a significant chunk.

And it is particularly poignant and important to understand that the kind of international collaboration that the Secretary General represents that the United States as represented by Jason Furman puts forward as Ambassador Yohannes said came out of the Marshall Plan. And forgetting everything else about the Marshall Plan, it meant you were giving money to people you were just shooting at on a battlefield.

This is the idealism and also the economic logic of the liberal post-war system that the OECD embodies that the US has supported. And so we should stop pretending that there's any legitimacy to these other movements. These are contrary to exactly the kind of progress that these gentlemen and their organization have embodied.

And I'm very glad we had the opportunity to bring them together. I hate the fact it takes place against the context of those kinds of events. But it is important to understand as the Secretary General and as the Chairman had put forward the US economy has made great strides. These kinds of hateful acts are not due to economic privation. They are due to something worse.

Thank you for indulgence. My thanks to my good friend and long-time institute supporter, Jason Furman; and especially thanks to Ambassador Yohannes, the OECD Washington Center, and Secretary General Gurría. Thank you very much.