OECD calls for more public spending on growth-friendly policies

By Leigh Thomas
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Governments need to get over the fixation with debt levels and ramp up spending on growth-friendly policies while cutting tax burdens where possible, the OECD said on Thursday.

The message in the OECD's Economic Outlook to be published on Monday could offer support to a growing number of governments, starting with the upcoming Donald Trump-led U.S. administration, looking to fire up growth with tax cuts.

However, OECD chief economist Catherine Mann insisted that it was a not call for blind deficit spending and across the board corporate tax cuts.

After years of low growth in most developed economies, governments could scarcely afford to ignore the opportunity presented by record low interest rates for financing growth-boosting investments, the Paris-based Organisation for Economic Cooperation and Development said.

Pre-releasing a special chapter in its biannual Economic Outlook, the OECD said that letting deficits rise to finance investment and ease tax burdens could raise economic output more than it increases debt.

That in turn could ultimately reduce debt as a per cent of gross domestic product (GDP) without the economic pain that comes with reducing the debt through fiscal austerity.

"When we think about why many countries have been reluctant to deploy fiscal initiatives it's because of debt to GDP ratios and their concerns about not being able to borrow," Mann told Reuters.

The OECD estimated that increasing budget deficits by half a per cent of GDP to finance investment could increase output by 0.4-0.6 per cent in the first year on average across the organization's 35 member countries.

"What we are saying is that by borrowing at very low interest rates and investing in the right initiatives you can improve your growth rate," Mann said.

However, it was crucial extra public spending went to productivity-boosting policies like infrastructure, education and research while fiscal easing should target specific taxes holding back growth.

Competition is picking up among major economies to cut tax rate, which was part of Trump's election platform. The British government has also flagged cuts in corporate taxes while frontrunners in high-tax France's presidential election have promised taxpayer relief.

Mann warned against broad-based corporate tax cuts such as those envisaged by Trump without anything to support overall demand.

"Cutting corporate taxes in an environment where many companies are flush with cash does not create that impetus to get us out of the low growth trap because there's plenty of cash already on firms' balance sheets," she said.