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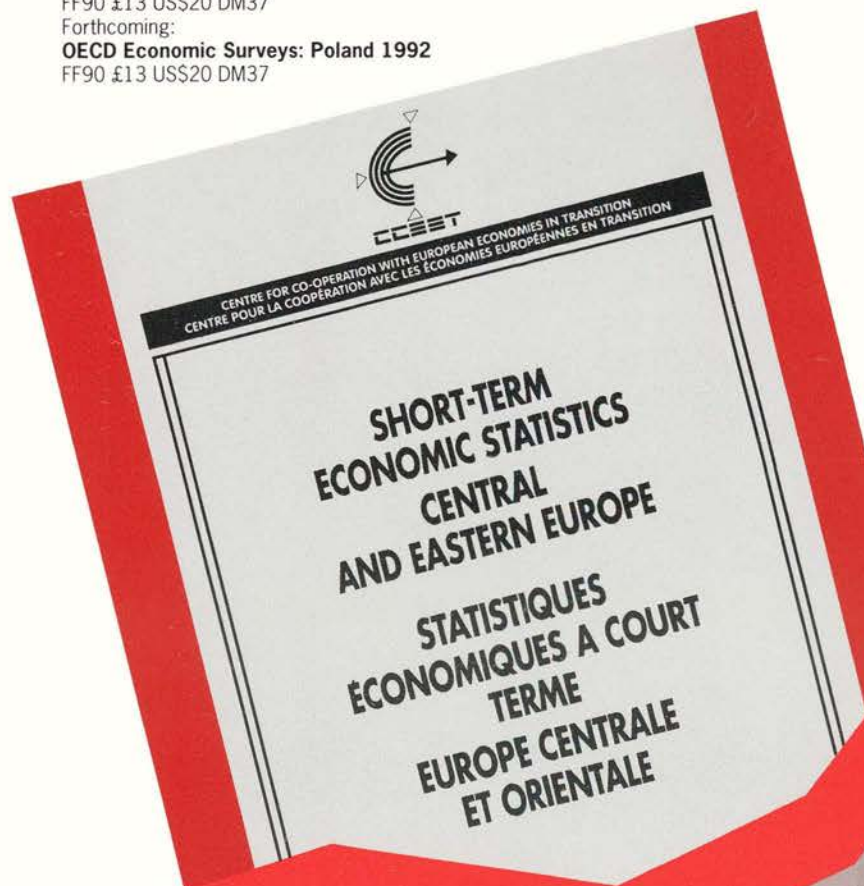
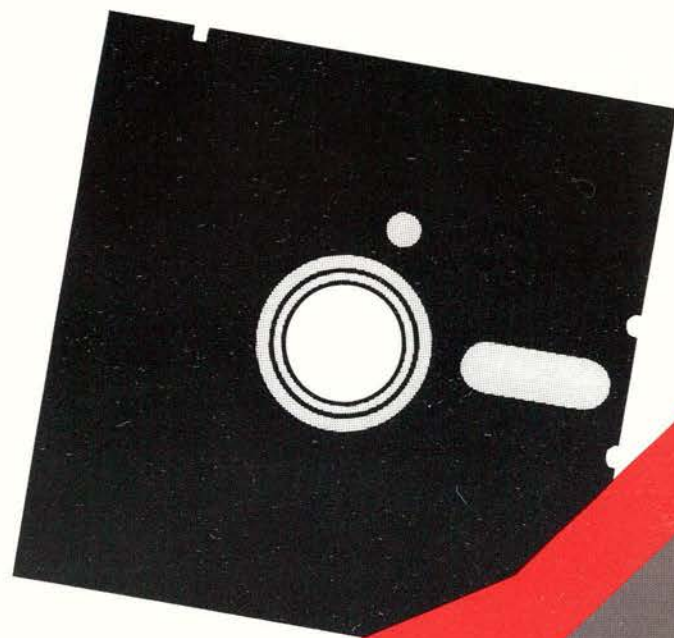
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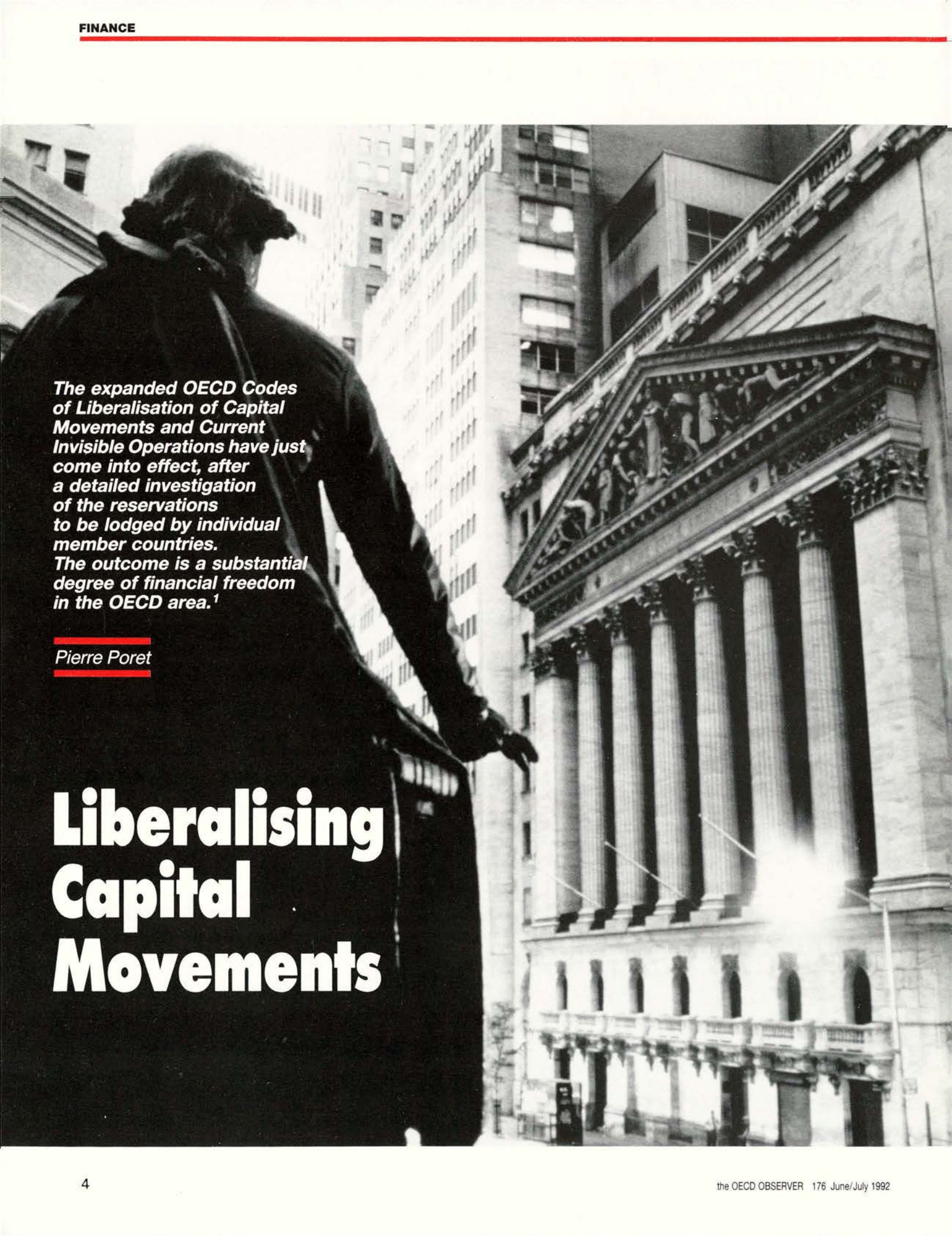
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*The expanded OECD Codes of Liberalisation of Capital Movements and Current Invisible Operations have just come into effect, after a detailed investigation of the reservations to be lodged by individual member countries. The outcome is a substantial degree of financial freedom in the OECD area.<sup>1</sup>*

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*Pierre Poret*

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# Liberalising Capital Movements



There has, over the last few years, been a rapid liberalisation in international financial transactions. It started on a large scale in the late 1970s and early '80s, when the United Kingdom and Japan, and then Australia and New Zealand, undertook an almost complete dismantling of their restrictions on the movement of capital. And during the second half of the '80s, many other OECD countries which had previously imposed extensive controls removed most restrictions on capital movements, notably on foreign-exchange operations.

It is this quickening of liberalisation, rather than larger current-account imbalances or new demand for portfolio diversification, that explains the spectacular increase in gross capital flows across industrialised countries since the mid-1980s. The virtual elimination recently of closed and covered interest-rate disparities<sup>2</sup> suggests that major markets for short-term instruments have now achieved a high degree of international integration. And although there is less evidence of such integration for longer-term capital markets, returns on longer-term financial assets moved increasingly in parallel across OECD countries in the latter half of the 1980s, indicating that there are now few profit opportunities that remain unexploited by international investors.<sup>3</sup>

These trends have been reflected institutionally in the recent broadening of liberalisation obligations under the OECD Codes of Liberalisation of Capital Movements and Current Invisible Operations and the small number of significant reservations which member countries have lodged on new obligations. And although policy initiatives by individual governments, regional agreements and market pressures have been the main driving forces behind liberalisation of capital movements, the strengthening of the OECD Codes has undoubtedly hastened the process.

## The New OECD Commitments

In May 1989 the 24 OECD countries agreed to an expanded set of liberalisation obligations in international capital movements and the associated trade in

banking and financial services. The result was a series of amendments to the OECD Codes.

The new operations covered by the Revised Codes fall into three activities:<sup>4</sup>

- capital movements – money-market operations, short-term financial credits and loans, forward operations, swaps, options and other 'innovative' activities not previously covered by the Capital Movements Code
- cross-border services – payment services, banking and investment services, asset-management and advisory and agency services, *inter alia*, which are now covered under a new item on Banking and Financial Services introduced into the Current Invisibles Code
- establishment in the banking and financial sector – the new provision in the Current Invisibles Code also requires that the branches and similar unincorporated affiliates<sup>5</sup> of non-resident enterprises should be given the 'equivalent treatment' for the right of establishment that domestic enterprises enjoy. Practical questions arising from the application of this general principle are covered by specific provisions.

An agreement was also reached on tighter criteria for the definition of a 'restriction'. In capital movements, the imposition of separate payments channels (depending on the nature of transactions) that would produce lasting exchange-rate differentials exceeding 2% is now regarded as a restriction. Other measures now held as equivalent to restrictions – in the traditional form of denial of authorisation – include discriminatory tax and interest-rate penalties or compulsory deposit requirements, which raise the cost of cross-border capital flows; and measures which affect the timing of the repatriation of export profits and the making of import payments.

For the right of establishment some countries require non-resident enterprises, although already engaged in banking and financial activities in their country of origin, to establish companies incorporated under the host-country legislation before they can operate in the local market. Such a re-

quirement imposes a cost of 'double incorporation' on non-resident enterprises and has been considered as a restriction.

## The Pattern of Reservations

When the expanded liberalisation obligations were adopted in May 1989 it was recognised that not all member countries would be able to meet them in full, at least for a period of time. Since then, the OECD has focussed on the examination of reservations that member countries might have to lodge. This work culminated in a set of reservations, which were approved by the Council of the OECD early in 1992.

The final number of reservations in the Revised Capital Movements Code suggests a substantial degree of liberalisation in most countries, especially for new operations covered by the Code. Most of the reservations are concentrated in a few countries in which more liberalisation is nonetheless expected to occur in the near future. The few remaining reservations elsewhere reflect only small pockets of restriction which have been maintained mainly for prudential reasons.

Almost two-thirds of the reservations have been lodged by four countries which do not have a large influence on inter-

1. **Code of Liberalisation of Capital Movements and Code of Liberalisation of Current Invisible Operations**, OECD Publications, Paris, forthcoming 1992.

2. 'Closed interest parity' holds when the interest rates on instruments comparable and denominated in the same currency are equal in the domestic market and the offshore market. 'Covered parity' holds when the interest rates on instruments comparable but denominated in different currencies are equal, after adjustment for expected changes in exchange rates (measured by the difference between the forward and spot exchange rates).

3. See Adrian Blundell-Wignall and Frank Browne, *Increasing Financial Market Integration, Real Exchange Rates And Macroeconomic Adjustment*, Working Paper No. 96, February 1991, available free of charge from the OECD Economics Department.

4. See **Liberalisation of Capital Movements and Financial Services in the OECD Area**, OECD Publications, Paris 1990, and Robert Ley, 'Liberating Capital Movements: A New OECD Commitment', **The OECD Observer**, No. 159, August/September 1989.

5. The new provisions specifically deal with branches, agencies and offices other than subsidiaries, which are not incorporated under domestic law, the main aspects of the right of establishment of incorporated enterprises being already covered by the inward direct investment item (I/A) of the Capital Movements Code.

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*The development of domestic capital markets has made interest rates more effective as instruments of monetary policy.*

national capital flows: Greece, Ireland, Portugal and Spain (Table 1). Some of these countries have less-developed financial markets, and some of them still rely (or did so until recently) on quantitative controls, even though they are making an increasing use of interest rates in their monetary policies. As a result, they have retained their restrictions on cross-border capital transactions, especially short-term operations, as also on outward portfolio investment to guide the development of domestic capital markets.

But it is debatable whether administrative controls are the best way to achieve this objective in countries with less advanced financial systems. Turkey, for instance, has recently taken substantial liberalisation measures which proved to help domestic financial development rather than inhibit it; and now Turkey maintains only 13 reservations on the expanded obligations under the Revised Code.

As members of the European Communities (EC), Greece, Ireland, Portugal and Spain will have to lift all capital restrictions – at least for all EC countries – by the end of this year. And although Greece and Portugal may postpone liberalisation for two more years, the Irish and Spanish authorities have very recently begun to abolish their exchange controls and have announced that the remaining ones will be removed before the EC deadline.

At the other end of the OECD liberalisation spectrum, four countries (Denmark, Luxembourg, the Netherlands, the United Kingdom) already comply with all the new obligations and five countries (Canada, Japan, New Zealand, Norway and Sweden) have no more than three reservations. And in all the other OECD countries, practice is often more liberal than the larger number of reservations would suggest.

In particular, several reservations can cover only one restriction – which is often limited in scope. Thus 13 of the 14 Australian reservations indicated in Table 1 are because of a restriction on capital transactions by foreign governments and central banks. Indeed, the Australian authorities have already decided to lift a number of these restrictions and Australia's position is being updated in the spring of 1992. Four of the six German reservations apply to the issue of domestic-currency denominated securities to non-residents, since Germany wishes to retain some influence on the use of the Deutschmark abroad in view of its role as an international reserve currency. And four of the five reservations lodged by Switzerland are because of stamp duties that are higher for foreign than for domestic securities; a referendum will take place in 1992 to eventually decide the abolition of such taxes, a measure already approved by the Parliament in October 1991.

The examination of the total number of reservations by area points to some common patterns across most countries.

The first interesting feature is that money-market instruments and other operations newly introduced into the Code are subject to restriction less frequently than more traditional securities transactions (Table 2). Since short-term and 'innovative' financial transactions are generally thought to be more volatile than 'classical' portfolio investment, one might expect them to be more regulated. Not so – for several reasons.

On the one hand, the development of domestic capital markets has made interest rates more effective as instru-

Table 1  
**RESERVATIONS TO THE REVISED CODE OF LIBERALISATION OF CAPITAL MOVEMENTS**

	Full <sup>1</sup>	Limited <sup>1</sup>	Total
Australia <sup>2</sup>	0	14	14
Austria	1	6	7
Belgium	0	8	8
Canada <sup>2</sup>	0	1	1
Denmark <sup>3</sup>	0	0	0
Finland <sup>3</sup>	1	5	6
France	0	6	6
Germany	0	5	5
Greece	22	37	59
Iceland <sup>4</sup>	–	–	–
Ireland	1	24	25
Italy	0	4	4
Japan	0	2	2
Luxembourg	0	0	0
Netherlands	0	0	0
New Zealand	0	3	3
Norway	0	1	1
Portugal	13	33	46
Spain	11	27	38
Sweden	0	3	3
Switzerland	0	6	6
Turkey	4	9	13
United Kingdom <sup>3</sup>	0	0	0
United States <sup>2</sup>	2	5	7
Total	55	199	254

– not applicable

1. Operations covered by 'full reservations' may be totally restricted in theory, but are often less than totally restrictive in practice. Where 'limited reservations' apply, operations may be restricted only to the extent specified in 'remarks' to the reservation concerned.

2. The Australian authorities have a general reservation covering all new obligations under the expanded Codes with respect to State and Territory Government actions. Canada and the United States have special arrangements recognising constitutional limits to the power of the Federal government to dispose of matters within the purview of the Code when they fall within the jurisdiction of State or Provincial governments.

3. For the time being, rights and obligations involved by the new obligations under the Revised Codes do not apply to the following territories: Faroe Islands (Denmark); Åland Islands (Finland); Channel Islands, Isle of Man, Gibraltar and Bermuda (United Kingdom).

4. Iceland currently enjoys a general dispensation from the liberalisation obligations under the Capital Movements Code but has recently agreed to accept its full discipline. Appropriate reservations will be lodged by mid-1992.

Source: OECD



ments of monetary policy, so that direct regulation of short-term capital flows has become less necessary. Moreover, policy convergence and arrangements for intervention in exchange rates within the European Monetary System have been successful in stabilising exchange rates within EC countries since 1987, thereby facilitating the dismantling of exchange-control regimes in recent years in countries such as Belgium, France and Italy.

On the other hand, longer-term capital transactions include investment by non-residents in domestic shares and other securities of a participating nature which prove to be restricted by the legislation on inward direct investment in 11 countries (Australia, Canada, Finland, France, Greece, New Zealand, Norway, Portugal, Spain, Sweden and the United States). Furthermore, securities and non-monetary collective investment securities generally involve higher capital-loss and default risks than short-term operations. So, to protect ordinary domestic savers, regulatory authorities may have felt it necessary to monitor the former transactions more closely than the latter.

The second interesting feature is that, often, outflows and inflows of capital in countries with mature financial markets are treated differently. That again reflects the importance of prudential considerations rather than some form of 'capital' protectionism. In particular, the admission of securities and money-market instruments by non-residents on the domestic market (which corresponds to a capital outflow) are more frequently subject to reservations than the introduction and issue abroad of domestic securities by residents (capital inflows) (Table 2).

Cross-border operations in banking and financial services – the provision of services by residents to non-residents abroad, and the access by non-residents to services in national markets provided by residents – are uninhibited throughout the OECD, with the sole exception of Italy, where direct access to centralised depository and custodial services is not permitted. To some extent, the absence of restrictions is hardly surprising since such operations generate export revenue and take place under the home country's legal framework. By contrast, only Luxembourg

Table 2  
**RESERVATIONS BY CATEGORY OF OPERATIONS**

	Number of member countries with reservations		Percentage of items covered by reservations <sup>1</sup>	
	Full <sup>2</sup>	Limited <sup>2</sup>	Capital inflow	Capital outflow
Securities	3	16	27	26
Money-market instruments	4	14	15	29
Other operations in negotiable instruments and non-securitised claims	3	8	14	22
Collective investment securities	3	10	8	16
Commercial credits	2	5	4	17
Financial credits	0	6	22	26
Sureties, guarantees, financial back-up facilities	2	2	3	10
Operation of deposit accounts	3	6	15	11
Operations in foreign exchange <sup>3</sup>	2	5	8	9
Physical movement of capital assets	0	5	8	8
Disposal of non-resident-owned blocked funds	0	1	n.a.	n.a.

n.a. not available

1. The number of items actually subject to a reservation or derogation divided by the total number of items that could be subject to one.

2. Operations covered by 'full reservations' may be totally restricted but are often less than totally restricted in practice. 'Limited reservations' may apply only to the extent specified in 'remarks' to the reservation concerned.

3. Other than operations falling under any other items.

Source: OECD

and New Zealand do not limit imports of banking and financial services. Underwriting, broker-dealer services and asset management are the most frequently restricted activities. Again, countries justify such restrictions on prudential or monetary policy grounds.

Australia, Canada, and Norway have lodged full reservations on the right of establishment of direct branches by non-resident financial institutions on the basis of 'equivalent treatment', while a further 12 countries require limited reservations due to requirements of prior authorisation (New Zealand, Portugal), branching restrictions (Spain) or limits on the range of banking and financial services which branches can offer (Denmark, Finland, France, Germany, Italy, Japan, Portugal, the United States, and the United Kingdom).

Unlike subsidiaries, which are incorporated under host-country law, activities of branches, agencies and other offices can largely remain independent of host-country surveillance authorities, because their parent companies are non-resident.<sup>6</sup> For this reason, the above countries have wished to retain specific control on their establishment. In addition, 13 countries

impose reciprocity requirements for the establishment of branches. Among the six countries which offer 'equivalent treatment' to branches of foreign institutions, only Belgium and Luxembourg do not have such requirements.

## Scope for Further Liberalisation

In spite of the comprehensive nature of the expanded OECD Codes and the substantial progress in financial liberalisation to date, there is still scope for further liberalisation in a number of activities. First, a further widening of obligations might be considered:

- capital movements through mortgage and consumer credits and the associated trade in banking and financial services remain outside the Codes of Liberalisation, as do obligations regarding the cross-border solicitation of bank deposits
- member countries presently have no formal obligations under the Codes to allow institutional investors (banks, insurance

6. See Jan Schuijjer, 'Banks Under Stress', *The OECD Observer*, No. 173, December 1991/January 1992.





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companies, collective investment institutions, pension funds) to purchase foreign assets. Since these institutions invest resources held in trust for their clients, most countries have imposed restrictions on such operations, with a view to limiting their exposure to foreign-exchange risks. But the demand for portfolio diversification could be large, since foreign assets represent a small share of total assets owned by institutional investors, especially pension funds.

Second, within existing obligations, a number of important restrictions still have to be removed:

- the vast majority of countries impose restrictions on the establishment of branches and agencies of non-resident enterprises in the banking and financial sector; yet several of them require an established local presence to allow foreign service-providers to operate in the domestic market. Although excess capacity may limit the scope for a further significant expansion of branch networks abroad in some segments of the banking and financial industry, the potential for cross-border

investment, through acquisitions and mergers, in the retail banking and insurance sectors seems to remain high

- less favourable treatment to non-EC countries accounts for more than one-fifth of the reservations lodged by the EC countries as a whole under the Capital Movements Code. EC directives were a strong catalyst for financial-market liberalisation within Europe, but the full benefits of liberalisation have yet to be extended to non-EC countries.



In assessing the likely speed of further liberalisation, conflicting forces have to be taken into account. There are several institutional factors that contribute to hastening the process of liberalisation: the entry into force of the EC liberalisation Directives, the expected EC/EFTA agreement on the

European Economic Area, the continued effort to improve the OECD Codes, the GATT negotiations on banking and financial services, and international competition between financial centres.

But against a background of declining global saving, there are growing concerns that increased capital mobility within OECD countries in the 1980s has served to finance excess consumption rather than higher productive investment, possibly resulting in sectoral over-indebtedness and future problems of solvency. Moreover, excess risk-taking by some institutions and recent violations of the rules might also undermine the confidence of the ordinary depositors.

The strengthening of capital standards, market transparency and verification procedures is therefore being given increased importance. Thus, although regulatory and liberalisation objectives are fully compatible, further large-scale liberalisation in capital movements, cross-border services and establishment, may depend partly on future progress in the harmonisation and mutual recognition of prudential arrangements across countries. ■



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Hanson



# Foreign Direct Investment

Marie-France Houde

## Trends and Policies

*During the 1980s OECD countries introduced a number of major structural reforms to promote steady growth in their economies. At the same time, and with the same aim, they substantially liberalised foreign direct investment and transformed the regulatory framework within which it operates.<sup>1</sup>*

**T**he changes that have occurred in foreign direct investment (FDI) in the OECD area are worth close attention, for at least three reasons. First, direct investment between member countries has been growing at a faster rate than gross domestic product (GDP), international trade and domestic capital formation; FDI, indeed, has increased fourfold. Second, the governments of OECD countries have deliberately sought to take advantage of foreign investment in their economies and to ensure that their own investors are able to exploit opportunities for growth abroad. They have thus abandoned a remarkable number of measures and practices that were damaging (or were thought to

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be damaging) their position as a host or home country for this type of investment. Third, this liberalisation has been coupled with a considerable strengthening of the OECD's FDI co-operation instruments (box, p. 10).

### Trends and Patterns

Although there has since, in 1990–91, been a slight downturn in most OECD countries, the 1980s, compared with the '70s, saw marked growth in FDI – it was, indeed, the longest period of sustained growth since the Second World War. Yet there have also been major changes in the pattern of FDI. The clear-cut division between home and host country has given way to a more balanced geographical distribution of investment flows. Both Japan

and the United Kingdom have overtaken the United States as the principal investing country. In contrast, the United States has overtaken the United Kingdom as the main host country. The forthcoming creation of the single European market has attracted a good deal of direct investment into EC countries. And Germany, France, the Netherlands, Sweden, Switzerland and Australia have become major investors abroad.

The sectoral pattern of FDI has also changed, with more going into the service sector – in particular, into financial and trade-related services – and less into

1. **Foreign Direct Investment: Policies and Trends in the OECD Area**, forthcoming 1992. This study is based on information supplied to the OECD before 15 December 1991 by the governments of member countries. It is the latest in a series; see also **Controls and Impediments Affecting Inward Direct Investment in OECD Member Countries**, OECD Publications, Paris, 1987 and 1982.



The OECD countries, which account for the bulk of international investment, are all committed to the progressive liberalisation of their policies on foreign direct investment (FDI). The OECD Code of Liberalisation of Capital Movements ensures non-residents the right to establish business operations in member countries of the Organisation. Member countries endeavour not to discriminate against these foreign-controlled enterprises, once established, through policies that favour domestic enterprises. This political commitment on 'national treatment' is part of a broader agreement among OECD member countries contained in the *OECD Declaration and Decisions on International Investment and Multinational Enterprises*, which also lay down practical arrangements for co-operation on a wide range of investment issues.

The *Declaration* addresses a complex set of economic and social factors that affect international trade, balance of payments, finance, technology, competition and market structures, industrial patterns and employment. It contains four related elements: the instrument on national treatment, the *Guidelines for Multinational Enterprises*, an instrument on incentives and disincentives to international investment, and an instrument on conflicting requirements.

The *Declaration* is supplemented by Decisions of the OECD Council which are legally binding on member countries. Implementing the *Declaration and Decisions* is the responsibility of the Committee on International Investment and Multinational Enterprises (CIME), which also conducts periodic reviews.

The latest review, endorsed by OECD Ministers in June 1991, produced a number of important changes:

- a new chapter on the environment was added to the *Guidelines for Multinational Enterprises* in recognition of the role that both governments and enterprises play in improving environmental protection
- an annexe was attached to the *Declaration* according to which member countries take account of general considerations and practical approaches when considering legislation that might subject multinational enterprises to conflicting requirements
- a Decision was adopted on procedures for notifying other member countries of legislation under consideration which may give rise to conflicting requirements and for consulting on ways to minimise these conflicts. And in December 1991 the OECD Council adopted a Revised Decision on National Treatment that strengthens the obligations of member countries to notify the Organisation of measures contrary to the principle of na-

## HOW OECD GOVERNMENTS CO-OPERATE ON INVESTMENT ISSUES

*Enery Quinones Lellouche*

tional treatment and to accept reinforced examination procedures aimed at promoting faster liberalisation.

### **National Treatment**

OECD member countries are guided by the principle that foreign-controlled enterprises operating in their territories should be treated no less favourably than domestic firms in comparable situations. This commitment applies to government actions under five main categories: investments by established foreign-controlled companies, official aids and subsidies, tax obligations, access to local bank credit and the capital market, and government procurement.

Member countries notify the OECD of all government measures and practices contrary to this principle ('exceptions') as well as other dispositions that are related to national treatment but which do not contravene the commitment (these are called 'transparency items'). Measures in both categories are periodically examined by the CIME, the goal being the gradual removal of measures that do not conform to the instrument. Since 1988, member countries try to avoid introducing new measures that are contrary to it and have to justify any such measures in front of the other members of the CIME and the OECD Council.

The 1991 review has improved the national-treatment instrument in various ways. The obligations now apply to all member countries and at all levels of government. Each country's list of exceptions and transparency items will be examined in turn and will be carried out, from now on, together with the Committee on Capital Movements and Invisible Transactions. Examinations usually result in recommendations to remove or reduce the scope of measures which, in the opinion of other countries, are unjustified or unnecessarily broad. Support for these recommendations through endorsement by the OECD Council puts pressure on countries to increase the pace of liberalisation. For the first time, and for those areas for which it has statutory competence distinct from its member states, the European Community has adhered to the national treatment section of the *Declaration*. It will also accede to the *Decision* on national treatment as soon as it has completed its internal consultation procedures.

### **Guidelines for Multinational Enterprises**

The *Guidelines for Multinational Enterprises* are recommendations by the OECD governments to multinational enterprises operating in their territories. Although observance is voluntary, the *Guidelines* seek to strengthen mutual confidence between enterprises and governments by providing standards by which multinational enterprises can ensure that their operations are in harmony with the national policies of their host countries.

National follow-up operates through 'National Contact Points', offices set up within governments to deal with enquiries concerning the *Guidelines* and which serve as discussion centres for problems that might arise nationally; internationally, the CIME can be called upon to issue clarifications on disputed aspects of the *Guidelines*.

### **Investment Incentives and Disincentives**

To varying degrees, OECD countries employ incentives to promote investment in a variety of policy areas. Yet they also maintain other measures which may have a disincentive impact on investment, particularly on FDI. The OECD instrument in this area strengthens international co-operation by promoting transparency in such measures and by setting up procedures for consultation and review between member countries. Analytical information on the trends in and effects of incentives and disincentives on FDI is periodically provided to member countries to assist them in assessing their policies in this area.

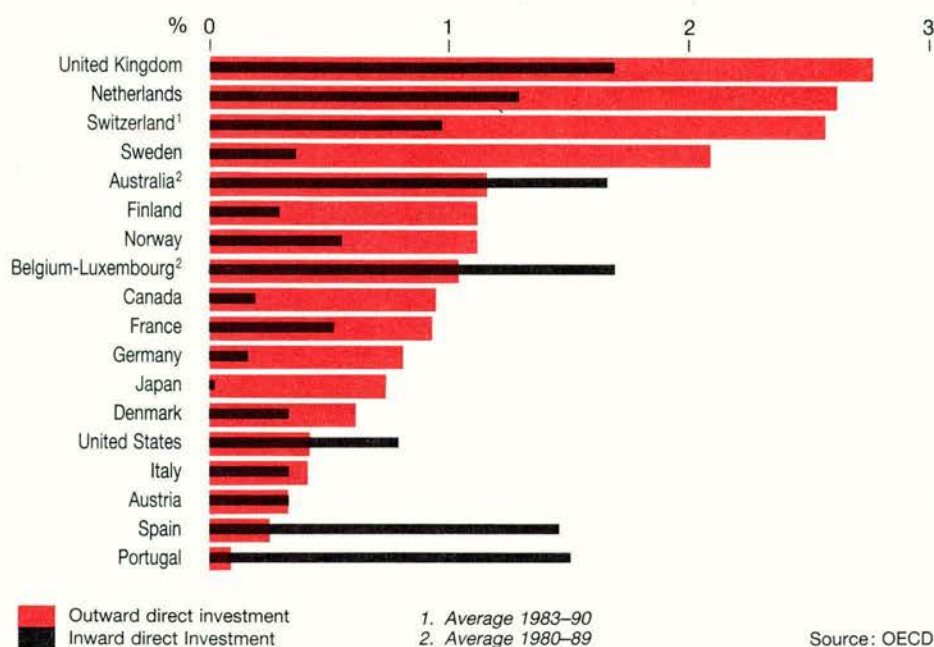
### **Conflicting Requirements**

From time to time, a multinational enterprise may find itself in a situation where certain laws or regulations with extra-territorial application, of the country where its parent is located, are at variance with legislation or policies of the country where it is operating. This results in conflicting requirements which adversely affect, among other operations, the enterprise's investment decisions. Increasing economic interdependence amplifies the risk of such conflicts. Through the CIME, the OECD's member countries seek cooperative solutions for conflicting requirements, which include consulting one another on potential problems and giving due consideration to other countries' interest in regulating their own economic affairs. These procedures have no doubt contributed to reducing the number and scope of conflicts in the OECD area.

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Figure  
**OUTWARD AND INWARD DIRECT INVESTMENT**  
 as % of GDP, average 1980–90



manufacturing and mining. This change is probably because of the growing share of services as a proportion of the GNP of member countries, the importance that suppliers of these services attach to establishing closer contact with their foreign clientele, and the easier access that has been accorded to investors in these activities.

Transborder mergers and acquisitions and 'strategic' alliances have become the preferred method of investment, rather than traditional ones such as the creation of new businesses. Acquisitions and mergers have been employed as a rapid means of entry to the US market, whereas in Europe they have been used as a method of restructuring in anticipation of the joint market in 1993. Strategic alliances have been formed in sectors where manufacturing costs or expenditure on R&D are high or, alternatively, in order to gain access to more extensive distribution networks, as has been seen in the computer, chemicals, automobile and telecommunications industries.

There is no guarantee that these trends will be maintained in the future. FDI is highly sensitive to economic conditions and will continue to respond to those that are specific within each country. Nonetheless, in view of the current regulatory situation, the full potential of FDI has certainly not yet been exploited despite the way in which policies have evolved over the past decade.

### Fewer Restrictions on Establishment

The changes that have occurred are fundamental. In the 1970s serious doubts were expressed about the net advantages of FDI, to the extent that in some cases further restrictions were introduced or existing restrictions tightened. The 1980s, by contrast, saw the development of a genuine hunger for capital – a hunger which triggered off a wide-scale move towards liberalisation.

This change in attitude began with the economic recession of 1981–82 which made FDI particularly attractive because of its potential contribution to employment and national savings. This boost to recovery apart, governments were also anxious

that their economies should benefit from the new technologies and experience of foreign firms. They also became more aware of the beneficial effects of the presence of foreign firms on domestic competition – the productivity and competitiveness of domestic firms being seen as a prerequisite for national growth and survival in export markets.

The internationalisation of the world economy, the emergence of new markets and access to new technologies and additional financial resources were also working in the same direction. These factors prompted OECD countries to remove the obstacles to outward investment by domestic firms so that they could take full advantage of opportunities abroad.

The lifting of restrictions on FDI was a natural concomitant to the general re-orientation of macro- and micro-economic policies in OECD countries, the aim of which was to boost the productive capacity of their economies and ease the rigidities impeding their development over the medium or long term. This liberalisation was coupled with other policies of a structural kind concentrating on deregulation, privatisation and demonopolisation, which increased its impact and its effectiveness. FDI has also benefited considerably from the major reforms that have been made in financial services, the gradual lifting of exchange controls and the integration of financial markets.

Another key aspect of the trend towards the liberalisation of FDI has been its knock-on effect. The internationalisation of economies has inevitably accentuated

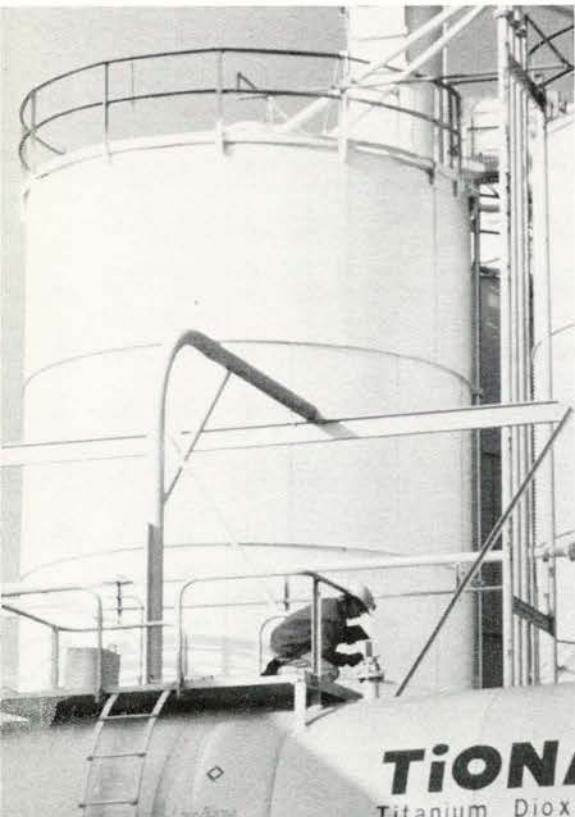
differences in the openness of the policies of the OECD countries to this kind of investment. Consequently, it has reinforced the necessity of a more liberal approach in those countries whose policies tend to be somewhat restrictive – as can be seen in, for example, the liberalisation measures adopted during the mid-1980s by Australia, Canada and New Zealand.

Regional initiatives have given added impetus to the process of liberalisation within the OECD area and broadened its scope. Progress has been particularly striking in Europe, where it was initially centred around the single-market programme within the EC and more particularly on the free movement of capital and full implementation of the freedoms set out for the services sector in the Treaty of Rome. The accession of Spain and Portugal to the EC in 1986 broadened the geographical scope of this process, which naturally spread to countries with close economic ties with the EC, the EFTA countries and Turkey, in particular. The Free Trade Agreement between Canada and the United States, for its part, further strengthened the already close economic links between these two countries.

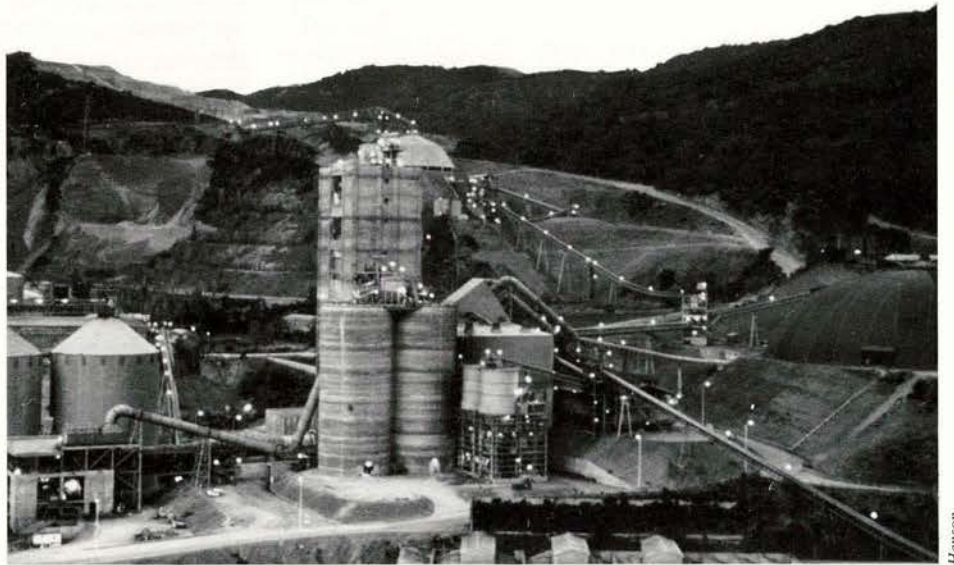
The 1980s thus saw substantial progress by OECD countries as a whole in abolishing obstacles to FDI. Virtually all restrictions on the authorisation and/or financing of outward direct investment were removed. Broad-ranging requirements of prior authorisation for inward direct investment were progressively replaced in a number of countries by simple notification or verification procedures for



administrative or statistical purposes. Such authorisation requirements as remain only apply to very large transactions and/or acquisitions, and it is the governments concerned that are generally expected to demonstrate that the proposed investment is not in the national interest; in the majority of cases the transactions are approved. And obstacles to the creation of new business were in large part removed so that, in the OECD area, no particular barriers to this form of establishment remain, other than those dictated by sectoral considerations.



Indeed, many sectoral restrictions have also been removed or relaxed, and remaining regulations made clearer and more transparent. This liberalisation has involved sectors as diverse as mining, oil and gas, transport, tourism, information services and the film industry. Yet it is undoubtedly in financial services that most progress has been made: the majority of OECD countries now permit the establish-



ment of subsidiaries of foreign banks, insurance companies or brokerage houses.<sup>2</sup>

New sectors, which used to be wholly sheltered from competition, have now been demonopolised or privatised and in this way opened up to private enterprise and *ipso facto* to foreign participation. Examples can be found in specialised telecommunications services, broadcasting and air transport<sup>3</sup> which, under the impetus of new technologies and pressure from the private sector, are gradually relinquishing their traditional restrictive approach. This sectoral liberalisation has nonetheless been accompanied by increasing use of reciprocity requirements that link host countries' treatment of foreign investors to the treatment of their investors abroad.

Moreover, vital services such as transport, basic telecommunications services and infrastructures, as well as public utilities such as gas, electricity and water supply have remained in most cases sealed off from competition, including, by the same token, from foreign competition. It is these sectors which operate the most stringent restrictions on equity participation in public enterprises and enjoy the most extensive state, private or joint public/private monopolies and concessions.

Other sectors that have strategic or special economic importance – mining, the oil industry, nuclear energy, electricity – or that are closely bound up with national identity and/or culture, such as audiovisual works and publishing, remain subject to broad sectoral restrictions. Lastly, foreign investors may still have to contend with restrictions – substantial ones in some

cases – for reasons of public order and security, or because of discriminatory practices by the private sector.

This process of liberalisation is likely to continue in the coming years. The real impact of the creation of the single market will be felt only after 1 January 1993, when all of the liberalisation measures have to be applied. The decision to create the European Economic Area should result in a close alignment of the regulations of the EC and EFTA countries. The talks in progress on creating a free trade area encompassing Canada, the United States and Mexico could also radically alter relations between these countries.

The OECD countries will have to be on their guard to resist the protectionist pressure that is latent within the more sensitive or strategic sectors of their economies, as also against bilateralism and the temptation of a partial withdrawal that schemes of a regional character might foster. They will also have to work to remove all of the restrictions on effective access to their markets, even those which are not discriminatory in character, which have been introduced by sub-national bodies or are derived from practices adopted by the private sector.

## OECD Instruments

As in the past, the liberalisation of FDI will be able to rely on the help of the major instruments of co-operation that OECD created and has been using for many years: the two Liberalisation Codes and the National Treatment instrument.<sup>4</sup> To-





Hanson

for work on these instruments. Notification and transparency requirements have been tightened up, and the periodic reviews of measures that are inconsistent with the National Treatment instrument will henceforth be reviews of individual countries – whereas previously they were by category of measure for all member countries.

□ □

The progress achieved during the 1980s in fostering FDI is an undoubted source of satisfaction, but it also serves as a powerful incentive for further work in liberalisation. In view of the international upheavals that are currently being seen, it is clearly essential that OECD countries should continue to provide leadership by sustaining the process of liberalisation and by strengthening still further international co-operation in the area of FDI. The call will become all the more urgent if current economic difficulties, and the inherent risk of a revival of protectionism in some of the larger member countries, persist. ■

gether these encompass all investment by foreign firms, whether through the creation of new enterprises, the acquisition of existing enterprises, or through established enterprises. The two broad policy aims that these instruments uphold – right of establishment and national treatment – and the procedures for applying them have resulted in the strictest and most detailed rules in force today on FDI.

Although the commitments under the Codes and the National Treatment instrument are of a different nature, they are based on the same principles, that is, non-discrimination, and the freezing and gradual lifting of restrictions on FDI in OECD countries. In order to achieve this goal, the Organisation uses essentially the same set of tools: notification and transparency,

2. See pp. 4–8.

3. See Eric Lacey, 'The Sectoral Impact of Deregulation', *The OECD Observer*, No. 175, April/May 1992.

4. Being Decisions of the OECD Council, the Codes contain obligations that are legally binding on member countries. The National Treatment instrument, on the other hand, forms part of the policy commitments contained in the 1976 Declaration on International Investment and Multinational Enterprises; Council Decisions relating to this instrument are nonetheless binding.

monitoring and periodic reviews. There can be no doubt that the Codes and the National Treatment instrument, by providing a common framework for liberalisation, centering on a critical assessment by its peers of each member country's controls on and impediments to FDI, and coupled with a careful monitoring of policy changes, have played a key role in the remarkable liberalisation of FDI that has taken place in recent years.

The importance that OECD countries attach to this co-operation has been demonstrated by the major changes that have been incorporated in these instruments during this period. The main tenets of right of establishment were embodied in the Code of Liberalisation of Capital Movements at the beginning of 1984. The procedures for applying the National Treatment instrument have been tightened up. An understanding was reached in 1988 on a standstill in respect of new measures or practices that constituted exceptions to National Treatment.

The decisions taken by the OECD Council at its meeting at ministerial level in June 1991 could well mark a new departure



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# Agricultural Reform -

***The goal of agricultural reform – a more pronounced role for market forces – has been defined and endorsed by OECD member countries for some years now. How it will be implemented is currently the subject of detailed discussions both in individual countries and in international fora, including the negotiations in the Uruguay Round of the GATT. If agriculture is to build on sound foundations and develop in harmony with other economic sectors, no time should be lost in translating these discussions into action and demonstrating the will to make some bold, comprehensive, long-term decisions.***

***These issues were central to recent discussions between OECD Ministers of Agriculture, who considered the state of agricultural reform in member countries, the importance of an integrated approach to future directions for policy, and the implications of developments in non-member countries. All three topics are closely connected: agricultural reform calls for an effective policy review; it implies further structural adjustment in agriculture and new linkages between this and other parts of the economy and society; and, last, it is affected by developments in non-member countries, where agricultural policy is also being reviewed in an increasing number of cases as part of the move towards a market economy.<sup>1</sup>***

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Gérard Viatte

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**T**he agricultural reform that OECD member countries are committed to undertaking – a more prominent role for market signals in the orientation of production, a progressive and concerted reduction of agricultural support, the liberalisation of trade – will strengthen the process of structural adjustment and result in a more efficient and dynamic, but in many cases smaller, agricultural sector.

All OECD governments acknowledge that the principles of reform remain entirely valid, but very little has so far been done to implement them. Although proposals for reform are being put forward, and much discussion is taking place in almost every member country, only Australia and New Zealand have taken concrete steps towards thorough-going, market-oriented reform of their agricultural policies.

The lack of effective reform increases the familiar problems of surpluses, strained trade relations, higher costs to taxpayers and consumers, and so on. What is more, it keeps the agricultural sector in a state of uncertainty and rules out any short-term (let alone long-term) improvement in farmers' living conditions.

The adjustment required is occurring in a world where momentous political and economic upheaval is changing the pattern of agricultural production, consumption

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and trade, and where issues are so complex that they necessitate multidisciplinary solutions. To implement agricultural reform, it is both essential and urgent to adopt an integrated approach that will take into account the relationships between agriculture and other activities, primarily structural adjustment in agriculture and the rest of the economy, environmental protection, the development of rural areas, international trade liberalisation and the growing interdependence of the various regions of the world.

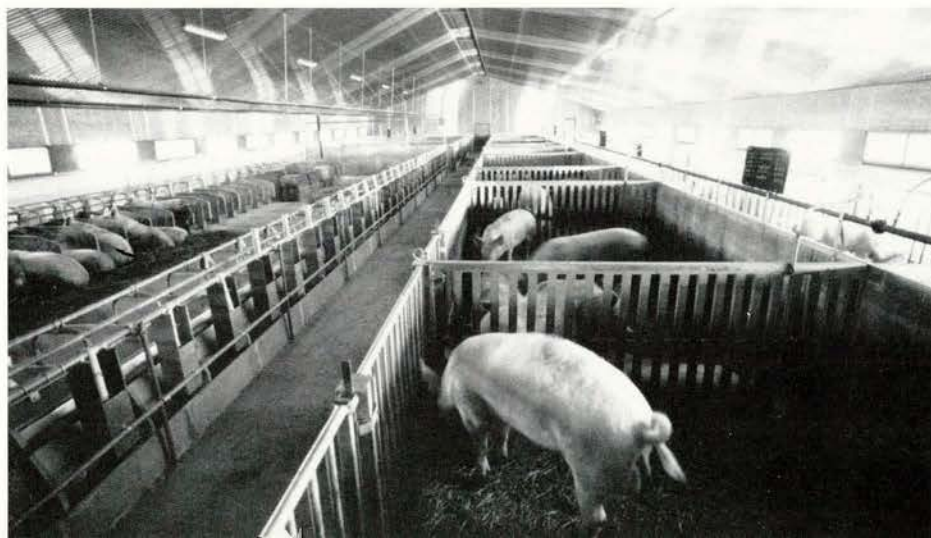
## Structural Adjustment

For an economy to reach its full potential, structural adjustment – the dynamic

process whereby the use of primary factors of production (land, labour and capital) respond to long-run changes in prices – should be free of distortion or any artificial obstacles to the mobility of such factors. For a number of reasons, meeting these conditions presents particular difficulties for the agricultural sector.

First, the price signals to which the sector responds have been distorted through decades of government intervention. Mounting surpluses bear witness to the resulting misallocation of resources. Second, factor mobility may be reduced by particular ele-

*A reduction in output-based support should, on balance, benefit the environment: reducing the use of inputs, lowering agricultural pollution and halting or reversing the encroachment of intensive farming and the use of fragile, marginal lands.*





# An Integrated Approach

ments specific to agriculture, such as the 'fixed' character of agricultural land, the age structure or the type and level of training. Others include institutional and legal constraints on farm size, inheritance, the acquisition of land, taxation, and social welfare measures. Finally, the pace and scale of structural adjustment in agriculture will be influenced by the situation in other sectors: in some countries or regions, for example, high unemployment may impede the re-allocation of agricultural labour.

In spite of these difficulties, structural adjustment is vital if agriculture is to build on sound foundations for the future and optimise its contribution to general economic growth. There is nothing new in this – agriculture has undergone considerable structural change in recent decades – but the issue is now viewed in a broader and more urgent light.

Price changes for commodities and factors of production will lead to substantial restructuring within the sector, involving less use of specific inputs (fertilisers, for example), further growth in the size of farms, and a change in product mix and techniques – more extensive farming, in particular. Suppliers of inputs and the processing industry will also have to adapt their activities. Such adjustment may, in some countries and some sectors, involve job losses proportionately larger than those in the primary industry.

Internationally, structural adjustment must be accompanied by trade liberalisation – that is, by fewer import restrictions and export subsidies. To some extent, this change will result in a redistribution of agricultural production in line with endowments of natural resources and comparative advantage. In other words, the global market, currently distorted by all kinds of intervention, should gradually be able to play its role in agriculture.

Within the context of reform, existing measures which distort or impede structural adjustment should therefore be corrected. These include input subsidies, some forms of credit concession and investment aids, and policy measures which distort factor markets. Policies to control supply, particularly those preventing the transfer of quotas (in the dairy sector, for instance), hamper structural adjustment,

as do measures that limit the size of farms or enterprises (at least when they are unwarranted on environmental grounds). It is also necessary to review tax systems, and inheritance and other laws which impede the transfer of land or other agricultural assets into alternative uses. In any event, environmental considerations should continue to be taken into account.

Among the complementary policy responses that can be envisaged are education and retraining for people leaving agriculture, the dissemination of information and technical assistance for people converting land to alternative – possibly environmental – uses, early retirement schemes and specific exit and relocation programmes. Many of these accompanying measures are transitional in nature, designed to facilitate the structural adjustment resulting from reform and prevent the social hardship which would otherwise result from the process of adjustment. But it is crucial that they do not themselves become impediments to adjustment; they should remain transparent, targeted and cost-efficient.

## Agriculture and the Environment

Agriculture affects the environment in two ways. It is increasingly recognised as the source and safeguard of many natural resources, such as landscapes and amenities. Yet it does contribute to specific environmental problems, worse in some regions and countries than in others: they include water and soil pollution from pesticides, fertilisers and effluents; noise and smells; loss of landscape amenity; loss of bio-diversity; loss of historical and cultural artefacts and sites; and soil erosion and salinity.<sup>2</sup>

The extent of agricultural activity itself, moreover, is contingent on the general state of the environment, a dependence which may increase further in the future. For instance, major environmental hazards such as acid rain, global warming and the depletion of the ozone layer may, in spite of counter-measures, entail substantial hardship in the agricultural sector.

Broadly speaking, a reduction in output-based support – which, with a few exceptions, has been the rule so far –

François Henry/REA



*How can agricultural reform stimulate rural development?*

should on balance benefit the environment by reducing the use of inputs, lowering agricultural pollution and halting or reversing the encroachment of intensive farming and the use of fragile, marginal lands.

Yet these changes will not be enough to eliminate every environmental problem. Pollution, for example, can occur in a less extensively subsidised agricultural sector because the price of fertiliser does not reflect the cost to society of the pollution it causes. Questions of 'externality' are also

1. See **Agricultural Policies, Markets and Trade: Monitoring and Outlook**, OECD Publications, Paris, 1992; **Agricultural Policies, Markets and Trade: Monitoring and Outlook**, OECD Publications, Paris, 1991; Gérard Viatte and Carmel Cahill, 'The Resistance to Agricultural Reform', **The OECD Observer**, No. 171, August/September 1991.

2. See **Environmental Indicators. A Preliminary Set**, OECD Publications, Paris, 1991; Christian Avérous, 'An Uneven Track Record on the Environment', **The OECD Observer**, No. 168, February/March 1991.



increasingly important. Attractive landscapes may be in short supply because farmers, who are not explicitly remunerated for providing them, have no incentive to alter production practices to preserve or enhance the countryside around them.

A strong rationale can therefore be put forward for the development of policies and practices for the agricultural sector that respect the environment. Indeed, the costs of failure to present and future generations could be enormous.<sup>3</sup> Co-operation between agricultural and environmental agencies and interest groups is vital for the definition of agricultural policies and practices that meet environmental objectives and for improving the contribution that agriculture makes to the environment.

There is one essential condition: any measures taken should be compatible with the basic principles of agricultural reform. Market-based economic instruments hold real potential for the future, although regulatory approaches are also important and may be appropriate in specific cases. As far as possible, pricing based on social cost should be adopted for inputs – unsubsidised, of course – such as fertiliser or irrigation water, where their use damages the environment. Wherever feasible, the 'Polluter Pays Principle' should be applied.

A number of new directions in agricultural policy may help to protect the environment. These include the use of some form of direct payment, which can have the double advantage of distorting production less and meeting equity objectives in terms of farm incomes.<sup>4</sup> Payments could be based, for instance, on the surface area of the farm, as part of environmental management agreements. Further study is required on how to make such measures operational.<sup>5</sup>

Another substantial contribution could be made in extending government R&D work: technologies and management systems, which pollute less and are compatible with sustainable development and will maintain or enhance the supply of rural amenities; education and training to promote sound environmental farming practices. It is vital that action be taken by people employed in agriculture, and primarily by farmers themselves. A recent OECD workshop on 'Sustainable Agriculture Technology and Practices' demonstrated the



*Environmental considerations, though often justified, should not become a pretext to impede the liberalisation of agricultural trade.*

extent of awareness that agriculture and environment affect each other; it also showed that solutions are actively being sought and, in many cases, already put into practice. Indeed, the very concept of sustainable agriculture has to be redefined to do away with the mistaken view that so frequently prevails: sustainable agriculture does require a high degree of technology, carefully adapted to each case.

In all cases, measures should be designed and targeted to reflect the wide diversity of environmental problems as, for example, between intensive or extensive agriculture, crop and animal husbandry, mountain and lowland regions, or between regions threatened by depopulation and abandonment and those threatened by urbanisation.

### **The Environment and Agricultural Trade**

Relations between environment and trade policies raise a number of issues that are bound to take on increasing importance in the future.<sup>6</sup> The agricultural issues are particularly sensitive, with some of

them also related to public health. Such concerns are justified, but they must not be allowed to provide a pretext to impede the liberalisation of agricultural trade. Countries may, for instance, feel tempted to impose trade-restrictive measures:

- as sanctions against countries that cause cross-border pollution
- to dissuade countries from exhausting a natural resource of global importance, such as the tropical rainforest
- to offset the competitive disadvantage imposed on domestic producers by national environmental measures.

A number of trade disputes or disagreements have already occurred as a result of decisions on environmental issues and food security. As a safeguard against the proliferation of trade-distorting measures under the guise of environmental concerns, the first step is to ensure international vigilance and co-operation. The principles of non-discrimination and national treatment that are already established must be both transparent and adhered to, as must new international arrangements or agreements, so that national standards set unilaterally do not permit *de facto* discrimination.



## Agriculture and Rural Development

Rural development is concerned with the well-being of rural populations relative to national norms in a broad range of social and economic issues. In the past, there has been a tendency to equate 'rural' with 'agricultural' when specifying employment, income and population targets. In some countries, the preservation of rural communities has often been an explicit goal of agricultural policy. Yet the over-reliance on farming and agricultural policy has proved ineffective in many cases.

In spite of large sectoral subsidies, agricultural incomes in many countries or regions have declined relative to those in other sectors of the economy; agricultural employment has fallen steadily in absolute terms; in some regions, depopulation and the virtual abandonment of land and settlements has occurred. This decline is projected to continue with or without reform of agricultural policy; agriculture will nonetheless remain important in the fabric of rural areas and will, together with forestry, continue to be the dominant form of land-use. Industries involved in the supply of agricultural inputs and the processing and marketing of agricultural products will also remain important, although these will also have to adjust themselves to a more market-oriented environment.

There are two questions to be raised on the future shape of policy. What contribution can farming and agricultural policy make to the development of viable, dynamic rural economies? And how can rural development policy help the agricultural sector

to carry out the adjustment it so vitally requires?

Reform will make the agricultural sector more efficient and more dynamic. Private initiatives or government policy may increase the scope for farming families to diversify their income, thus allowing people who would otherwise have left to stay in rural areas and give impetus to economic development. Benefits may arise as the amenity value of an area increases, providing an incentive to the development of tourism. The extension of part-time farming should enable farm families to seize every opportunity to diversify their income. Furthermore, changes in product mix may lead to a re-allocation of resources between the various sub-sectors and, in some cases, to new sources of income. For instance, farmers may participate in developing regional products with higher value-added potential. In all these activities, training is vital if farmers are to be equipped with the technical knowledge and management skills required to create and exploit diversification opportunities.

An efficient rural development strategy will for its part strengthen structural adjustment in agriculture by facilitating the re-allocation of resources to other economic activities within rural areas. Development will, of course, differ according to their economic, demographic and geographic characteristics. Particular attention should be given to the most disadvantaged regions. Measures which seek to reduce the imbalance between town and country in the provision of infrastructure and public services will improve the economic climate for agriculture and other activities, and will add to the quality of life of rural families.<sup>7</sup> A measure of decentralisation in policy formulation and implementation is desirable in order to harness local talents and initiatives and to allow differences between areas – between, for example, suburban and remote mountain regions – to be taken into account.



These considerations should allow the definition of an approach that is integrated and coherent, a framework encompassing agricultural policies and action by the economic agents involved. For some of them, adjustment will not prove easy, but

it will not be the first time that farmers have shown themselves able to face up to such a challenge.

Non-OECD countries – in central and eastern Europe and some in the developing world, particularly in south-east Asia and Latin America – are also endeavouring to incorporate a more rational element into their agricultural policies. Accordingly, relations between these and OECD countries should be seen in a new light, deserving of further and deeper development. In conclusion, it should be emphasised that in agriculture, as in other sectors, although starting positions and practical conditions may differ widely, a consensus on policy objectives is gradually emerging, and that calls for strengthened and renewed international co-operation. ■



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5. See **Environmental Policy: How to Apply Economic Instruments**, OECD Publications, Paris, 1991.

6. See pp. 25–27.

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# International Migration: Facts, Figures, Policies



J. Maillard/ILO

**T**hree trends have been typical of international migratory movements since 1990: acceleration, globalisation and regionalisation.

The acceleration involves both permanent migrants and asylum-seekers and refugees (Table 1 shows developments from 1980 to 1990). It is explained in essence by the political changes in the countries of central and eastern Europe (box, pp. 22-23) and the continuing demographic and economic imbalances between North and South.

The increase in flows nevertheless differs between countries, categories of migrants and the migratory channels used. Perma-

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*Jean-Pierre Garson*

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***International migration has become a major international problem. A snapshot of the main recent trends in migratory movements and policies gives an idea of what is happening in most of the OECD countries.<sup>1</sup>***

nent arrivals increased sharply in 1990 in the United States and to a lesser extent in Canada, whereas they declined in Australia. In these three countries, and especially in the United States, family migration is still the main source of new arrivals.

Conditions in Europe show more of a contrast. The presence of ethnic minorities in central and eastern Europe whose origins are in certain OECD countries has re-

1. *Trends in International Migration*, SOPEMI, OECD Publications, Paris, forthcoming 1992.

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sulted in large-scale flows of migrants in search of a new nationality, notably to Germany (Poles, Soviets, Hungarians, Romanians) but also to Greece (Pontics from the Black Sea area in the ex-USSR, and Albanians) and to Turkey (Bulgarians). As an example of the uncertainty that attends

any forecast of the scale of migratory movements and where they will take place, two major events – the Gulf War and the Yugoslav conflict – substantially affected numbers of asylum-seekers in 1991, mainly in Turkey and Germany. What is more, primarily because of the worsening eco-

nomie situation, thousands of Albanians left their country at short notice in March and August 1991 to seek asylum, especially in Italy.

Arrivals of immigrants seeking work or to rejoin their families predominate in most other European OECD countries; they are significantly higher in absolute terms than arrivals of asylum-seekers, except in Sweden (Figure 1). The latter are driven mainly by the deteriorating political or economic situation in certain developing countries or countries in transition. The high rate of refusal of asylum-seekers in several OECD countries shows that requests for asylum continued to be used in 1990 and 1991 for purposes other than its original ones.

Arrivals of genuine asylum-seekers could nonetheless increase as a result of the ethnic conflicts that are arising, particularly in central and eastern Europe, with the upsurge in nationalism, which often pays little heed to the rights of ethnic or religious minorities. But most OECD countries consider that once the political regimes of the countries in this region become democratic their nationals can no longer be granted the status of refugees. This position has had a marked impact on the rate of refusal in the past two years, particularly in 1991.

## Globalisation and Regionalisation

Like production and trade in goods and services, migration is also becoming a global phenomenon. All continents are affected to differing degrees. Migration is also coming to take a variety of forms which increasingly resemble one another from one country to another. In addition to the traditional emigration of permanent workers and their families, of students and trainees, there are now temporary or seasonal workers, frontier workers, migrants whose situation is illegal, and asylum-seekers. Globalisation is also to be seen in the number of new nationalities affected.

Africa, where most of today's refugees are to be found, especially in Ethiopia, the Sudan and Somalia, has always had a considerable degree of migration linked to seasonal work on the land, as well as through nomads and traders. Here again, the large number of ethnic and political

Table 1  
**FOREIGN POPULATION IN 13 OECD COUNTRIES, 1980–1990<sup>1</sup>**  
thousands and % of total population

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Austria	282.7 3.7	299.2 3.9	302.9 4.0	275.0 3.6	268.8 3.6	271.7 3.6	275.7 3.6	283.0 3.7	298.7 3.9	322.6 4.2	413.4 5.3
Belgium <sup>2</sup>	878.6 8.9	885.7 9.0	891.2 9.0	890.9 9.0	897.6 9.1	846.5 8.6	853.2 8.6	862.5 8.7	868.8 8.8	880.8 8.9	904.5 9.1
Denmark	101.6 2.0	101.9 2.0	103.1 2.0	104.1 2.0	107.7 2.1	117.0 2.3	128.3 2.5	136.2 2.7	142.0 2.8	150.6 2.9	160.6 3.1
Finland	12.8 0.3	13.7 0.3	14.3 0.3	15.7 0.3	16.8 0.3	17.0 0.3	17.3 0.4	17.7 0.4	18.7 0.4	21.2 0.4	26.3 0.5
France <sup>3</sup>	..	..	3,714.2 6.8	..	..	..	..	..	..	..	3,582.2 6.3
Germany <sup>4</sup>	4,453.3 7.2	4,629.8 7.5	4,666.9 7.6	4,534.9 7.4	4,363.7 7.1	4,378.9 7.2	4,512.7 7.4	4,630.2 7.6	4,489.1 7.3	4,845.9 7.7	5,241.0 8.2
Italy <sup>5</sup>	298.7 0.5	331.7 0.6	358.9 0.6	381.3 0.7	403.9 0.7	423.0 0.7	450.2 0.8	572.1 1.0	645.4 1.1	490.4 0.9	781.1 1.4
Luxembourg	94.3 25.8	95.4 26.1	95.6 26.2	96.2 26.3	96.9 26.5	98.0 26.7	96.8 26.2	98.6 26.5	100.9 26.9	104.0 27.5	..
Netherlands	520.9 3.7	537.6 3.8	546.5 3.8	552.4 3.8	558.7 3.9	552.5 3.8	568.0 3.9	591.8 4.0	623.7 4.2	641.9 4.3	692.4 4.6
Norway <sup>6</sup>	82.6 2.0	86.5 2.1	90.6 2.2	94.7 2.3	97.8 2.4	101.5 2.4	109.3 2.6	123.7 2.9	135.9 3.2	140.3 3.3	143.3 3.4
Sweden <sup>7</sup>	421.7 5.1	414.0 5.0	405.5 4.9	397.1 4.8	390.6 4.7	388.6 4.6	390.8 4.7	401.0 4.8	421.0 5.0	456.0 5.3	483.7 5.6
Switzerland <sup>8</sup>	892.8 14.1	909.9 14.3	925.8 14.4	925.6 14.4	932.4 14.4	939.7 14.5	956.0 14.7	978.7 14.9	1,006.5 15.2	1,040.3 15.6	1,100.3 16.3
United Kingdom <sup>9</sup>	..	..	..	..	1,601 2.8	1,731 3.1	1,820 3.2	1,839 3.2	1,821 3.2	1,949 3.4	1,875 3.3

thousands  
of total population

### Notes:

.. not available

1. Data as of 31 December of year indicated, extracted, except for France and the United Kingdom (see notes 3 and 9), from population registers.

2. In 1985, as a consequence of a modification of the nationality code, persons who formerly would have been counted as foreigners were included as nationals. This led to a marked decrease in the foreign population.

3. Population censuses on 4 March 1982 and 6 March 1990.

4. Data as of 30 September up to 1984 and as of 31 December from 1985 on; ex-FRG only.

5. Data are adjusted to take account of the regularisations which occurred in 1987–88 and 1990. The fall in numbers for 1989 results from a review of the foreigners' registers (removing duplicate registrations, accounting for returns).

6. As from 1987, asylum-seekers whose requests are being processed are included; numbers for earlier years were low.

7. Some foreigners with short duration permits are not counted (mainly citizens of Nordic countries).

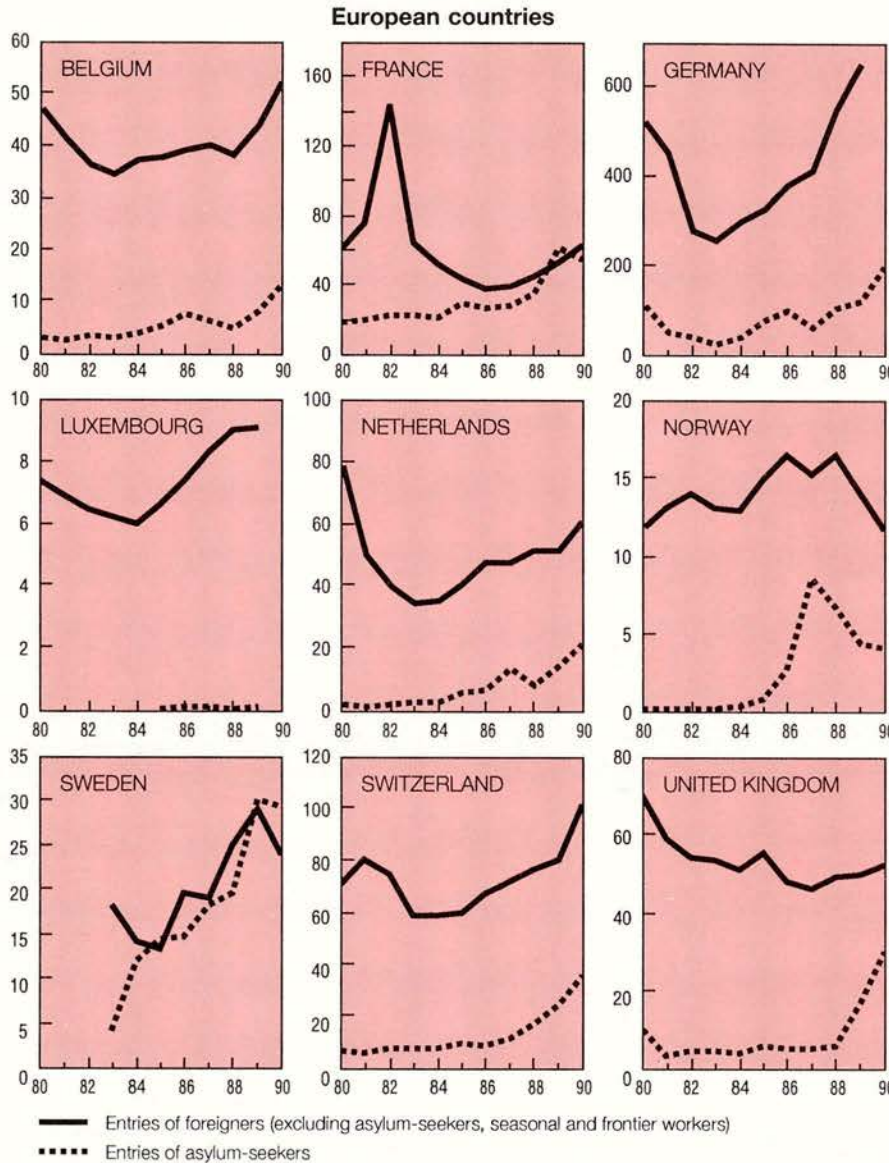
8. Numbers of foreigners with annual residence permits (including, up to 31 December 1982, holders of permits of durations less than 12 months) and holders of establishment permits (permanent permits). Seasonal and frontier workers are excluded.

9. Numbers estimated from the annual labour-force survey.

Sources: national sources and OECD



Figure 1  
**IMMIGRANTS AND ASYLUM-SEEKERS OR REFUGEES**  
**IN 12 OECD COUNTRIES, 1980-1990**  
*thousands*



Source: OECD

conflicts is pushing up the numbers of asylum-seekers.

Asia and the Middle East are also important centres of immigration and emigration. Workers, most often temporary, and mainly from India, Sri Lanka, Pakistan, Bangladesh, Thailand, the Philippines and China, head towards Singapore, Malaysia, Indonesia, Australia and Japan. Asia is also a source of emigration towards the rest of the world. For example, skilled labour follows firms awarded contracts abroad, to the Gulf States, primarily Saudi Arabia, Kuwait and the United Arab Emirates, and to a lesser extent to certain OECD countries. Directly linked to shortages of labour, these movements are typical of the globalisation of migration and are organised by the countries of departure which have training centres for those who wish to emigrate, often within the framework of bilateral agreements.

The trend towards globalisation of migratory movements is not incompatible with their regionalisation. The persistence of migration between countries which are neighbours and/or have common historical, cultural and political traditions is clearly to be seen. It is reinforced by the vigour of economic groupings such as the European Community (EC) where free circulation of member-country nationals, planned for 1 January 1993, is already practically a reality. On the same date, under agreements concluded between the EC countries and the seven countries of the European Free Trade Association (EFTA) (subject to national ratification), the largest free-trade area in the world will take effect with the gradual introduction of freedom of movement for all member-country nationals.

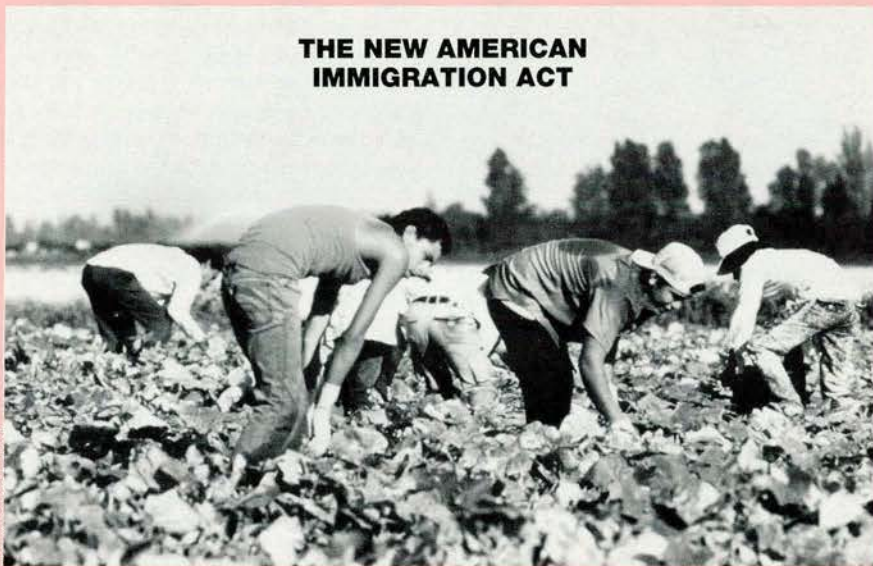
Other regional economic agreements are bound to result in internal migration, particularly the recent North American Free Trade Agreement (NAFTA) between the United States and Canada in force since 1 January 1989 and due to include Mexico, with which negotiations are under way, as from 1999.

### Demographic Aspects and the Labour Market

In the 1980s migration contributed considerably to the increase in the total population of several OECD countries (Figure 2).



## THE NEW AMERICAN IMMIGRATION ACT



S. Storti/SABA-REA

The Immigration Act of 1990 in the United States came into force at the end of November of that year. It provides for an increase in the maximum number of visas to be granted in the financial years 1992–94: 714,000 compared to 534,000 previously.<sup>1</sup>

The new Act is part of the effort to make the American economy more competitive, through immigration among other means, at a time when demographic forecasts are of declining arrivals on the labour market, a fall in average educational attainment, aging of the population and a decline in the fertility rate.

Regular arrivals of skilled immigrant workers should make it possible partially to fill job vacancies that require a high standard of training and professional experience, particularly in high-technology industrial and service activities. Yet migration on its own would not be sufficient to stop the population decline and future consequences for the size of the working population,<sup>2</sup> nor would it replace educational and vocational-training policies for native-born workers. What is more, although the Act provides in the financial years 1992–95 for a more or less threefold increase in the number of visas granted to skilled workers (140,000 visas per year as against a previous 54,000), it also includes measures to protect working conditions and remuneration of the existing labour force.

Indeed, before recruiting new immigrants, employers must make sure that no American

workers of the same standard of achievement are available. They must offer newly recruited immigrants identical remuneration to that offered native workers. It can nevertheless be asked to what extent such measures can really be applied, especially in activities where trade-union membership is low and in small firms which are too numerous to check. The same ideas underlie the new American legislation on immigration visas issued to temporary workers.

Basically, the 1990 legislation does not alter the fundamental principles of non-discrimination set out in the 1952 Act and confirmed in 1965. Moreover, in planning future arrivals, the authorities' room for manoeuvre is restricted in economic terms by the demands of the labour market, and in social terms by the relative importance of certain communities of foreign origin living in the United States. In all, family preference is maintained and 80% of visas will be granted on this basis. The 1990 legislation nevertheless introduces a new category of immigrants known as 'diversity immigrants' which will comprise about 50,000 persons per year originating from countries 'penalised' by the quota and family preference system.

1. Excluding permanent residence permits granted to certain people under the 1986 regularisation. As from 1995 the figure will decline to 675,000.

2. See *Migration. The Demographic Aspects*, OECD Publications, Paris, 1991.

The share of net migration in such population increases between January 1980 and January 1990 is larger than or equal to that of the natural increase in the case of countries which received large-scale flows of immigration, some of which have little or no natural population growth: Austria, Germany (where deaths exceed births), Italy, which became an immigration country in the course of the decade, Luxembourg, Sweden and Switzerland.

The opposite is the case in Belgium, Finland, France, Portugal, Spain, Turkey and the United Kingdom, where natural increase is the main factor in the increase of the total population.

In a third group of countries, including Australia, Canada, Greece, the Netherlands, Norway and the United States, the migratory balance is an important component of the increase in the total population, without exceeding the natural increase in relative terms.

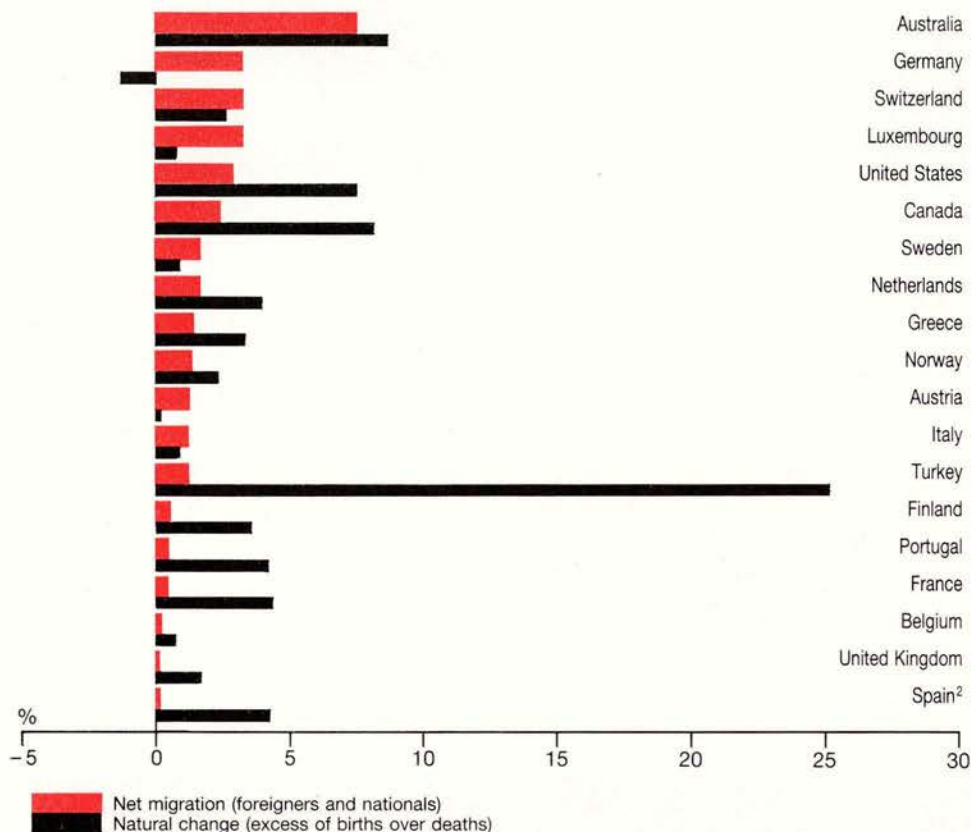
In most of the European OECD countries the foreign population has increased in the past ten years. Yet the speeding-up in migratory movements is more marked in the second than in the first half of the decade when some countries (Austria, Belgium, Germany and Sweden, for example) showed a slight fall in the number of foreigners. Average annual increases for the two periods were highest in Italy and Norway, the trend being more marked in the second period. In Italy the increases were ascribable to the regularisation of the situations of illegal immigrants in 1986/87 and 1990 and, in Norway, to the sudden large-scale arrival between 1986 and 1990 of asylum-seekers, mainly from Asia and the Middle East.

In Austria, Sweden, Switzerland and Germany, the acceleration of migratory flows was marked from 1988 onwards, which largely explains the difference between the two periods. Although the first three of these countries had an average annual increase in their foreign populations above that of Germany from 1986 to 1989, it was in Germany that entries of new immigrants and asylum-seekers, mainly from the countries of central and eastern Europe, from Yugoslavia and from Turkey, were far and away the most numerous.

The number of residents thus increased by nearly 800,000 in Germany between



Figure 2  
**NET MIGRATION AND NATURAL CHANGE  
 IN TOTAL POPULATION GROWTH, 1980-90<sup>1</sup>**



1980 and 1990, by about 500,000 in Italy and nearly 200,000 each in the United Kingdom, Switzerland and the Netherlands. Between 1982 and 1990 it appears to have fallen in France by about 130,000 in particular because of the large number of persons naturalised and immigrants returning to their countries of origin, as well as to the slowing-down of arrivals of new immigrants. The comparative approach must nevertheless also allow for naturalisation, granted less easily in Germany, for example, than in France or Belgium. Thus, given equal numbers of arrivals, the figures for the foreign population fall faster in these two countries than in Germany.

The proportion of foreign-born people in the population remains fairly stable in Canada at around 16% and in Australia at 21%. In the United States the figure is lower, but according to the initial results of the 1990 census nearly one-third of the growth of the American population between

1. 1 January 1980-1 January 1990; the population growth between 1980 and 1990 is calculated as a percentage of the population at the beginning of the period

2. Between 1 January 1980 and 1 January 1989

Source: **Labour Force Statistics: 1969-1989**, OECD Publications, Paris, 1991

One of the characteristics of East-West<sup>1</sup> migration at the beginning of the 1990s is its diversity. The increase in the various forms of short-term migration (tourism, temporary or seasonal work) goes hand in hand with a rising trend in permanent migration. Such departures can be explained on economic, ethnic and political grounds alike. Among the OECD countries, Germany remains the main receiving country for migrants (including 'Aussiedler' - ethnic Germans) from central and eastern Europe, followed by Austria. Most immigrants come from Poland, the former USSR, the Czech and Slovak Federal Republic (CSFR) and Hungary.

**EAST-WEST MIGRATION**

Statistics from the last three of these countries underestimate the true number of emigrants, if they are compared with entries recorded by the receiving countries, Germany in particular. In general, definitions and methods used to measure arrivals and departures of population in the CSFR, Hungary and Poland fundamentally differ from those used by OECD member countries. Until 1989 the statistics of these three countries thus reflected legal obstacles to migration; for example, they provided particularly detailed data about illegal emigration, which was by

far the most important kind. With the opening of frontiers to the West and the abolition of legal restrictions on migration in most of the central and eastern European countries, it is to be feared that official statistics will continue to underestimate emigration.

The CSFR, Hungary and Poland are also facing increases in the number of migrants crossing their countries on their way to western Europe. Examples can be found in nationals of Asian or African developing countries, Romanians and gypsies trying to enter Germany or Sweden from Poland and the CSFR. Those who are stopped are generally sent back to their country of origin, that is, the last country in which they lived. The CSFR, Hungary and Poland are thus obliged to accept and look after those who have crossed their frontiers illegally. Faced with this situation, security at frontier crossing points has recently been stepped up in the three countries so as to control illegal entries and departures.

Migratory movements are also taking place between the countries of central and eastern Europe. Inhabitants of the former USSR have moved into countries bordering on Western Europe, Poland and Hungary in particular, to find work or sell goods. In addition to these arrivals there are also ethnic Poles from Belarusse and ethnic Hungarians from the Ukraine. Romanians asking for refugee status, primarily in Hungary and Poland, have





1980 and 1990 is derived from immigration, particularly Hispanic and Asiatic. The share of foreign-born persons in the total population increased in that period from 6.2 to 8.3%. This trend will presumably continue in the years ahead since the new Immigration Act authorises an increase of over one-third in entries of new permanent migrants to the United States (box, p. 21).

## The Labour Force

The present state of available statistics and the definitions used in the different OECD countries do not always allow comparisons of foreign or immigrant workers. Considerable care therefore has to be used in making international comparisons.

With this reservation, the 1980s were marked by an increase in the number of foreign workers between the beginning and

end of the decade. The biggest increases were 47% in Luxembourg, 33% in Switzerland, 32% in Austria and 25% in the United Kingdom. In Belgium and Sweden numbers increased by nearly 6.5%, and in France and the Netherlands by 10%. In Germany the number of foreign workers in 1990 was slightly less than in 1980. In Austria, Germany, the Netherlands and Sweden their growth was smaller than that of the total foreign population between the beginning and end of the decade. This reflects both the acceleration of immigration flows, notably arrivals by families and asylum-seekers, as well as the endogenous growth of foreign populations.

In Switzerland, Luxembourg, Belgium and France, by contrast, growth in the numbers of foreign workers in the past decade was higher than that of the total foreign population. In these four countries it proves difficult to measure the relative importance of the different variables,

which may explain the reduction in the size of the foreign population: renewed immigration by workers, naturalisation of young foreigners, departure from the labour market, return to countries of origin.

In Australia, one-third of the increase in working population between 1988 and 1989 came from immigration, although the proportion of foreigners in the total working population (26%) rose only slightly. The United States and Canada should, owing to the recent acceleration in migratory movements, show a slightly more marked trend. The latter country predicts that in the 1990s immigration will account for about 50% of the increase in the working population. Apart from cyclical movements, Canada and Australia differ sharply from the other OECD countries (except for Luxembourg and Switzerland) by reason of the large share of foreign-born persons in the total population and, even more so, in the working population. ▶



Shepard Sherbell/Picture Group-REA

formed the largest group of recent asylum-seekers in these two countries. In the CSFR, Hungary and Poland there is also a small number of returning emigrants who had previously left the country for political reasons.

Another characteristic of East-West migration is the bilateral labour agreements concluded between the countries of the region and some OECD countries (for example, Germany, Belgium, France, Switzerland). These agreements give immigrants prospects of temporary employment and, at the same time, of obtaining vocational skills and of learning the language of the host country throughout the length of their stay. The jobs may be linked to work undertaken by foreign firms using their own workers (as, for instance, in Germany) seasonal jobs (agriculture in France) or frontier jobs (in Germany, Austria and Finland). At the same time, bilateral re-admission agreements have been concluded with a view to sending back to their country of origin immigrants admitted for short periods but who remain in the host country illegally.

The continuation of East-West migration in the future will depend above all on the outcome of the economic, social and political reforms under way in the countries of central and eastern Europe. For the time being living conditions in the West remain very attractive and the income discrepancy with the East is considerable. The transition to the market economy currently involves restructur-

ing the production system and the labour force it employs, with a resulting increase in unemployment and underemployment. When account is also taken of the liberalisation of the law on emigration and the re-appearance of violent ethnic conflicts, it seems clear that the incentive to emigrate will remain very strong in the coming years. The present trend among some people to travel as tourists while looking for work in the country of destination could continue. Others will stay on in the country they visit and become illegal immigrants.

The numbers of migrants from central and eastern Europe that the OECD countries can accept will remain relatively limited. The freedom to travel brought about by the changes that have taken place in these countries does not mean freedom to immigrate, even though several member countries no longer require visas for Poles, Hungarians, Czechs or Slovaks who stay for three months or less. All the countries concerned are agreed on the importance of co-ordinating their efforts to regulate migration since irregular migration is becoming less and less acceptable to the societies of the receiving countries.

1. The 1992 SOPEMI Report contains a special chapter dealing with migration within and from three countries in transition to the market economy – the Czech and Slovak Federal Republic (CSFR), Hungary and Poland.



## The Employment Situation

Examination of the employment situation of immigrants in some European OECD countries seems to indicate that, aside from variations in the degree of economic activity and the consequences of continuing structural change, the reasons for the unemployment of foreigners (Table 2) are related, depending on the country, to the extent of their skills, their ability to speak the language of the country and their age. These three factors are critical in explaining the longer duration of unemployment for some categories of migrants who have difficulties in finding jobs.

Table 2  
**CHANGE IN UNEMPLOYMENT OF FOREIGNERS AND TOTAL UNEMPLOYED IN FIVE OECD COUNTRIES, 1986-1990**  
%

	1986	1987	1988	1989	1990
<b>Austria</b>					
foreigners	10.2	14.8	-3.0	5.8	73.7
total	9.0	8.2	-3.5	-6.0	11.1
<b>Belgium</b>					
foreigners	-4.0	-1.5	-3.5	-7.4	-1.8
total	-5.5	-2.5	-9.0	-10.0	-4.8
<b>France</b>					
foreigners	1.6	-1.3	1.5	4.8	3.4
total	5.5	-0.5	-1.1	-2.3	1.0
<b>Germany</b>					
foreigners	-2.1	5.7	2.8	-13.7	-12.8
total	-3.3	0.0	0.6	-9.1	-7.6
<b>Netherlands</b>					
foreigners	3.4	6.1	2.4	0.4	-0.2
total	-5.9	-1.2	-1.0	-7.7	-6.1

Sources: national sources

The causes of unemployment also differ according to the length of stay in the host country and by nationality. Thus, newly arrived foreign labour is more flexible and mobile than the rest of the working population but, in several OECD countries, also has very low job security. Among foreign women in particular, unemployment is increasing sharply. Yet this trend is going hand in hand with a very steep rise in foreign female employment, to this extent following the general employment trends among female nationals.

In the non-European OECD countries – Canada and Australia, for example – avail-

able statistics on foreign-born people show that recent arrivals have a rate of unemployment above that of migrants resident for some time. Yet in Canada immigrants as a whole are less exposed to unemployment than the native-born population. And in Australia immigrants from English-speaking countries are less exposed to unemployment than are others.

## Migration Policy

The increase at the beginning of the 1990s in the numbers of what are in most cases spontaneous asylum-seekers and the persistence of illegal immigration have prompted several OECD countries to take action. They have adopted measures to discourage the abuse of political asylum and have sought to co-ordinate their present and future policies in this field.

Steps were taken first to increase the numbers of officials examining applications so as to reduce those pending for several months and speed up decisions regarding new arrivals. The United Kingdom thus intends to reduce from two years to four months the average waiting period for a decision whether or not to grant political asylum. In Switzerland, in spite of an increase in applications dealt with in 1990, nearly 58,000 cases pending or awaiting appeal were outstanding at the end of that year. In France, 84,000 applications were dealt with in 1991 against only 30,000 in 1989.

From 23 July to 30 November 1991 France also applied a regularisation procedure which gave the right of abode, on an exceptional basis and on humanitarian grounds, to persons living in the country illegally and who had been notified of the refusal of their application for asylum before 23 July 1991. In all, of 50,000 applications for regularisation, some 15,000 have already been dealt with, including 7,000 favourable decisions.

By speeding up procedures to deal with applications for political asylum and allowing for humanitarian considerations and the situation of certain applicants who cannot return to their own country without risk, migration policies are trying to control the growing numbers of people living illeg-

ally in the country if they are not accepted as genuine refugees. Yet the effectiveness of a given country's measures also depend on steps taken by other countries to discourage massive arrivals of asylum-seekers. Consultations between governments are at present taking place on alignment of policies on asylum-seekers and, more generally, on the importance of visas and their issuance. Several OECD countries have in any event tightened up checks on foreigners at frontiers and within their territory so as better to control migratory movements and combat more effectively illegal immigration and the unlawful employment of foreigners.

In 1991 Spain decided to carry out a second round of regularisation aimed primarily at certain categories of salaried or independent workers in an irregular situation. This second round, intended to reduce the numbers of unlawful migrants, resulted in some 133,000 applications. To date nearly 104,000 of these have been approved. Portugal, which, like Spain, signed the Schengen Agreement in 1991, is considering an operation to regularise illegal migrants in 1992.

□ □

In addition to controlling migration flows, the other main objective of migration policies concerns the integration of immigrants who want to settle on a permanent basis in the host country. The range of measures is vast, but specially targeted action concerns improvement of living and housing conditions for underprivileged groups, apprenticeship and vocational training, improvement of skills in the language of the host country and, last but not least, the education of migrants' children. ■



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# The Trade/Environment Policy Balance

*Jacques de Miramon and Candice Stevens*

***For the first time trade and environmental specialists at the OECD are jointly addressing a broad range of issues of common interest. The reasons are patent: environmental policies are having a more and more widespread impact on trade – and trade policies may affect the environment to a much larger extent than previously recognised. The Trade and Environment Directorates of the OECD have therefore combined forces to explore how to improve the compatibility of trade and environmental policies and, by prompting increased discussion and co-ordination among policy-makers in national capitals, how to head off potential conflicts before they arise.<sup>1</sup>***



Stéphane Franceschi/Explorer

**T**here are more and more environmental policies which are affecting trade flows, both directly and indirectly.<sup>2</sup> And there is an obvious risk of a clash of policies: while trade officials work to remove encumbrances to trade that might otherwise restrict economic growth, environment officials are increasingly advocating the use of trade-policy instruments to buttress the objectives of environmental policy.

The indirect effects of environmental policies on trade have been the traditional area of concern. Environmental regulations and standards can form non-tariff barriers. Environmental charges and taxes can alter the competitiveness of firms. Environmental labelling schemes can turn into unfair trade practices, for example, if foreign producers are denied the national stamp of approval or face unjustifiable hurdles to obtain it.<sup>3</sup>

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In general, environmental policies should be framed in ways that least distort trade in the pursuit of their objectives – but it is often difficult to sort out ecological intent from potentially protectionist aspects. For example, environmental rules on contaminants allowed in food products, minimum sizes for fish species and recyclable containers for beverages have all led to trade disputes.

One way to temper undue trade effects is to increase international policy convergence. The work of the OECD chemicals programme in harmonising chemicals testing and registration procedures illustrates how both environmental and trade goals can be furthered through co-operative international action.

A broad range of regulatory and economic instruments is now used to implement environmental policies in OECD countries, reflecting differing national environmental conditions and preferences – and discussions in international fora must take care not to weaken standards or jeopardise the right of an individual country to enact regu-

lations that are appropriate in its national context. Nonetheless, the increased international compatibility of policies is also a desirable ecological goal, particularly for such issues as global warming, ozone depletion and the like. A 'harmonisation agenda' is now being discussed in the OECD to identify the most urgent areas for action and the most practical means to help environmental and trade policies converge.

## Borrowing Policies

Perhaps the most controversial aspect of environmental policies is the trend towards using trade instruments as a more direct method of achieving environmental

1. *Joint Report on Trade and Environment (June 1991)*, 1992, available free of charge from the OECD Trade Directorate.

2. See Ebba Dohlman, 'The Trade Effects of Environmental Regulations', *The OECD Observer*, No. 162, February/March 1990.

3. See Jim Salzman, 'Green Labels for Consumers', *The OECD Observer*, No. 169, April/May 1991.



objectives. Environmentalists are advocating, for example, import and export measures as a way of implementing ecological agendas. It is sometimes obvious that a national environmental policy cannot be implemented if foreign suppliers are not subject to the same obligations as national

tainably produced, a measure seen by environmentalists as a means of preserving a natural resource vital to biodiversity and the stability of the global climate. But such bans can impose severe economic costs on exporting countries as well as disrupt the global trading system.

their Disposal, and the Montreal Protocol on Substances that Deplete the Ozone Layer.

But how effective are these trade measures in resolving pressing environmental problems? Are their effects on trade warranted or disproportionate? The OECD is discussing criteria to guide the environmental use of trade measures so that they both serve ecological ends and do the least damage to free trade. The availability of a set of criteria, yet to be developed and endorsed, would help policy-makers assess various contributing factors and decide on the most efficient mix of policy instruments to address a particular problem. Environmental policy-makers must be aware of the trade effects of their actions, their acceptability under international trade law and the importance, when devising policy, of weighing fully the trade disadvantages against the environmental benefits.

### The Effects of Trade on Natural Resources

The analysis of the direct and indirect effects of trade policies on the environment is much less advanced than that of the impact of environmental policies on trade.

Ecological problems are best tackled directly, by environmental policies, but these are not always feasible or fully effective. Ecological 'qualities' – for example, clean air and water, biodiversity – are difficult to price, meaning that environmental values are not easily incorporated into markets. And with unpriced resources, trade – and trade policies – can have substantial impacts on the environment, both beneficial and adverse. For example, while free trade produces economic growth and the financial resources to address environmental problems, that very growth may put new pressures on the environment – through, for example, increased pollution.

Trade in hazardous wastes, dangerous chemicals and endangered species can harm eco-systems both inside and outside national borders. Tariff and non-tariff barriers can change relative prices and thus distort resource use. Subsidies can encourage environmentally damaging practices in agriculture and natural-resource



Marc Delemme

*Ecology or protectionism? Stipulations of the minimum size for fish have given rise to trade disputes.*

suppliers. So products ranging from cars to chemicals can be required to meet the environmental product standards of the importing country. Yet trade measures are sometimes vested with broader ambitions and can be exploited by pressure groups, not least environmentalists (or producer groups claiming an environmental interest), to promote domestic environmental values beyond national borders or simply to advance sectional interests.

To the extent that they reduce trade, import measures are often seen as a vehicle for protecting the global environment and preserving the common stock of resources. Restrictions can be proposed inside an importing country to promote sustainable resource use elsewhere. A prime example can be found in the proposed bans on the import of tropical timber that is not sus-

And export bans are being used as a mechanism for conserving natural resources at home. Some countries, OECD and non-OECD alike, have restricted the export of their forestry or fisheries products. Countervailing trade measures are sometimes proposed to equalise environmental costs and encourage higher environmental standards world-wide. And some commentators argue that low environmental standards in exporting countries are implicit subsidies to industry which should be countered by tariffs in importing countries.

Trade measures are also used to implement and enforce international environmental agreements – for example, the United Nations Convention on International Trade in Endangered Species (CITES), the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and



sectors.<sup>4</sup> Inappropriate government intervention, through price supports, tax incentives or trade protection, can lead to excessive deployment of chemicals in agriculture, inappropriate land use or rapid consumption of forests and other resources.



Carl Purcell/FOVEA

*Trade in elephant products is banned under CITES, despite recent opposition from some African states.*

Conceptual frameworks are being developed in the OECD to help understand this type of trade/environment linkage, with economic analysis aimed at uncovering the environmental effects of trade. One way to look at the potential impacts is in terms of scale, products and structure. Trade can have beneficial effects of scale in augmenting the funds to be spent on the environment but adverse scale-effects in increasing degrees of pollution and the consumption of resources. It can have advantageous product effects in diffusing environmental technologies around the globe, but adverse ones in trade

4. See Jean-Philippe Barde, 'The Economic Approach to the Environment', *The OECD Observer*, No. 158, June/July 1989.

in toxic chemicals and wastes. It can improve the structure of global production in line with comparative advantage, but can distort world production patterns if it fails to internalise environmental values. Particular attention is being given to the concerns of the developing countries, where their less comprehensive environmental policies can mean that the impact of trade is particularly severe. It can, for example, lead to forest depletion in countries which have no plans for sustainable management.

Some trade agreements have been singled out for close examination of their environmental implications. The environmental repercussions of free-trade arrangements, as well as of commodity and preferential trade agreements, are being reviewed. And no doubt the liberalisation of trade, both regionally and internationally, will have environmental impacts. But removal of distortions, such as non-tariff barriers and subsidies, should, on the whole, prove beneficial to the environment in correcting policies that now harm the environment.

Yet if liberalisation is not carried out in an environmentally sensitive fashion, it might nonetheless have some adverse effects on resource use, and it could also remove environmental and trade measures required to protect national environments. Environmentalists are concerned that the increase in growth that liberalised trade brings about will not be adequately offset by environmental safeguards. They are also worried that efforts to converge or harmonise standards may lower the degree of environmental protection.

The only international guidelines addressing the trade aspects of environmental policies are the OECD Guiding Principles Concerning the International Economic Aspects of Environmental Policies, which are now exactly 20 years old. The best-known of these is the 'Polluter Pays Principle', which encourages the internalisation of environmental costs and the non-subsidisation of private environmental expenditures; government subsidies for pollution control costs are allowed only in certain specified cases or exceptions. There are also other Guiding Principles which address the harmonisation of environmental policies, the use of countervailing duties and export subsidies in relation to environmental policies, and the

principles of national treatment and non-discrimination in environmental regulations. The OECD is currently reviewing the applicability of the 1972 principles to the 1992 trade and environment debate.

□ □

The General Agreement on Tariffs and Trade (GATT), the primary body of international trade law, was drafted almost half a century ago, in 1948, with few references to the environment. The GATT Group on Environmental Measures and International Trade has been recently revived. One of the questions being discussed also in that group is that of the ability of the GATT to cope with current concerns. International law has to be assessed to establish compatibility and adequacy of linkages between the two issues. The transparency of policies, negotiation procedures, the resolution of disputes and international monitoring and enforcement must also be considered. The OECD is thus developing guiding principles of equal use to policy-makers in both trade and the environment. ■



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# Women at Work

Sally Washington

**All OECD countries have mechanisms to guarantee equality under the law for male and female workers. Most also target indirect discrimination through policies that aim to secure equal employment opportunities. So why do the barriers to equality in employment persist?**

**T**he female labour force in the OECD countries grew by more than 2% a year over the past decade. Indeed, women now account for over 40% of its total (Figure). Yet for most women, gender equality remains an elusive goal, even though some now enjoy highly paid professional careers. Old problems persist. Some are so ingrained they carry recognised labels: the 'pay gap' – allowing for relevant differences, there is nonetheless an unexplained discrepancy between men's and women's earnings in all OECD countries; the 'glass ceiling' – the invisible barrier that blocks women's access to top jobs; and the 'double burden' of employment and domestic responsibilities.

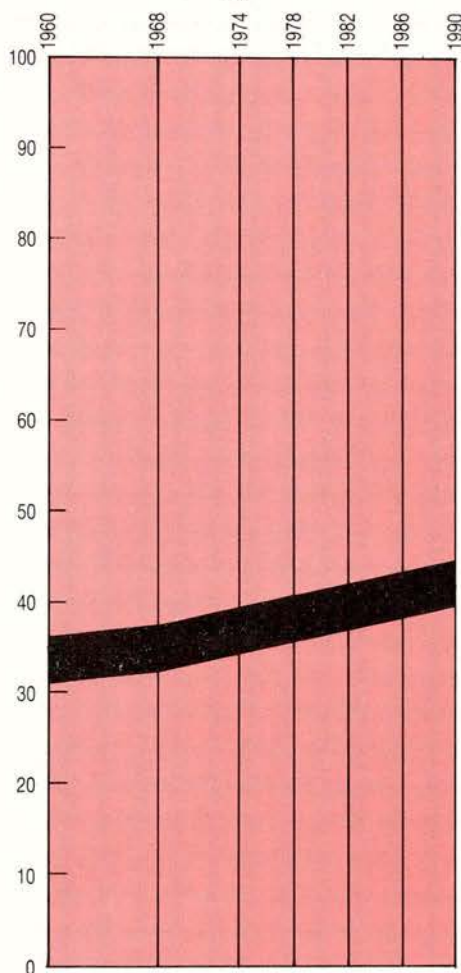
Gender-based occupational segregation, apart from being a barrier to equity, causes major rigidities in the labour market. It inhibits the smooth re-allocation of workers from sectors that are in surplus to those in deficit, thereby contributing to unemployment, short-term mismatches and longer-term gaps in skills.

Even the pay gap has implications beyond questions of equality. Industries that employ underpaid women are being subsidised by their low wages. This distorts market signals and can result in unrealised productivity potential and subsequent losses in growth.

But economies striving for growth cannot afford to waste women's talents. Structural change offers a foot in the door of reform – it creates a momentum that offers opportunities to tackle age-old problems and their modern manifestations. There are clear pay-offs, both in equity and efficiency.<sup>1</sup>

Sally Washington is a consultant in the OECD Directorate for Education, Employment, Labour and Social Affairs.

Figure  
**FEMALE LABOUR FORCE  
IN THE TOTAL LABOUR FORCE**  
OECD average  
%



Source: OECD

Analysis highlights the obvious advantages of eliminating inequalities in employment. So why is the 'real world' so slow to respond? The finger has been pointed at initial education for limiting girls' career horizons, by channelling them into general education courses and away from technical and scientific subjects. But the skills acquired in general education have to be re-evaluated against vocationally based technical skills. Although general courses may fall short in transferring technical skills, they do instil a range of capabilities – abstract thinking, problem-solving, interpersonal communication – which have increasing value in the labour market, especially in the growing service sector where customer support is crucial. Indeed, purely vocational education – typically received by boys – may now be deficient in some of the skills required in the modern workplace.

In some industries – typically male-dominated activities such as construction, chemical and metal industries – the introduction of new technologies and work processes has changed job classifications, leading to new career paths and improved remuneration. In (mixed-gender) banking and finance, internationalisation and rationalisation have resulted in newly defined sub-categories of jobs, although men tend to dominate in the better-paid international finance positions while most women in the sector are still bank tellers and clerical workers.

Moreover, modernisation strategies have largely by-passed women's jobs. In spite

1. *Shaping Structural Change: The Role of Women*, 1991, available free of charge from the OECD Directorate for Education, Employment, Labour and Social Affairs and *Women and Structural Change: New Perspectives*, OECD Publications, Paris, forthcoming 1992.



of rationalisation of the health sector, for example, nursing remains an amorphous occupational group. The nursing profession illustrates the importance of occupational upgrading (box, below).

## Enhancing Employment Flexibility

The drive for flexibility in labour markets – especially the capacity to respond to fluctuating demand – has spawned a variety of 'non-standard' forms of employment, which differ from the standard employment model of full-time, uninterrupted employment across the life-cycle. This growth has been facilitated by deregulation, especially the relaxation of rules on non-standard contracts.

### NO CHANGE IN NURSING

Nurses face rapidly changing medical technologies that require them to be both computer-literate and able to operate complex diagnostic and treatment equipment. And the restructuring of health services in many OECD countries has meant more out-patient treatment and fewer, and briefer, hospital stays. Hospital nurses therefore deal mainly with clients who are seriously ill, which demands higher degrees of skill and professional responsibility. In practice, the nursing profession is now more differentiated, specialised and functionally flexible.

Yet job classifications, career paths and salary scales have not been adjusted to these changes. Nurses are leaving the profession – a German nurse, for instance, lasts an average of five years on the job – for occupations with more highly developed internal labour markets and higher pay. The American Association of Nurse Attorneys is an example of the growing group of ex-nurses who see a second professional degree (in this case, law) as one of the few ways to advance in their chosen field.

Labour shortages force the nurses who remain to work longer hours. Poor working conditions and fears for patient safety have resulted in almost unprecedented industrial action by nurses. The entry of immigrant women to meet current shortages of labour may exacerbate the problem in the longer term by undermining pressure for improved pay and conditions, and further discouraging local women from entering the field.

D. Maillet/REA



*Industries that employ underpaid women are being subsidised by their low wages.*

Women form the vast majority of part-time workers (box, p. 30), many employed in small, sub-contracting enterprises. And the rate of growth in women's self-employment exceeds even the rate of growth in women's employment overall. Non-standard employment may expand women's work opportunities by providing alternatives to the standard model. Yet the disadvantages are that job- and income-security, as well as conditions of employment, tend to be inferior; moreover, workers risk becoming marginalised on the periphery of the labour market.

Flexibility designed merely to contain costs may be counter-productive, especially if it increases job precariousness. A worker's willingness to take on new tasks or to acquire new skills increases with job security. Parity in conditions in standard and non-standard contracts, and enhanced mobility between the two types of employment, would reduce segmentation and allow human resources to be used more efficiently. Relegating skilled women to unskilled or low-status jobs simply because they want to work part-time severely under-exploits the existing skills base and – since skills can be lost if they are not used – exacerbates future short-

ages. In contrast, allowing workers more freedom in how they arrange their work time is both a good investment – and is cheaper than paying the costs of losing skilled staff.

### What Price Working at Home?

In spite of claims that men have stepped up their activity at home, time-use surveys show that women continue to perform the bulk of household tasks, even when they are in full-time employment.

Although more men are beginning to realise the potential benefits of active participation in family care and child development, they are often held back by rigid employment structures that emphasise long hours and uninterrupted career paths. These constraints will have to be adjusted if they are to accommodate shared family responsibilities – and men will have to be more responsive to the incentives to take parental leave, which are increasingly offered in OECD countries.

In or out of employment, people depend on a range of social and personal services (prepared food, clean clothes, psychological support). Workers will be inefficient if



these services are not supplied, or if they are overburdened by 'non-market', household responsibilities. Demands on the domestic sector are increasing, as the state withdraws from the provision of some health and welfare services and as the population ages. But more and more women are also taking on paid work, which reduces the pool of people available to provide housework and caring services.

This growing incompatibility between employment and family responsibilities has high costs in equity and efficiency. It

in the labour market. Moreover, the spin-offs allay some concerns about the cost. The provision of child-care services, for example, provides educational benefits for children, as well as more employment in the tertiary sector – directly, for child-care workers, and indirectly, through increased demand for other services, such as pre-prepared food and cleaning.

Far-sighted employers have discovered that helping employees meet their family obligations – by providing creches, sponsoring programmes for school holidays,

Improving the 'conditions' under which unpaid, 'non-market' activities are carried out might help avoid a crisis in household

### WHAT HOPE FROM PART-TIME WORK?

More than three-quarters of part-time workers are female, and an increasing proportion of employed women in OECD countries work part-time – over 60% in the Netherlands, and over 40% in Australia, Norway and the United Kingdom. In theory part-time work makes employment compatible with other activities, and is often seen as a solution for women with young children. Yet part-time work is not always conducive to regular family life. Part-timers often work atypical schedules and they rarely have control over the hours they work.

Part-time work means fewer hours, and a lower status to match. Part-time workers typically encounter inferior conditions of employment, such as limited access to paid leave (including parental leave), training, pensions and benefits in kind. They are often seen as peripheral and dispensable; their dismissal tends to be easy and cheap. Part-time workers also accrue fewer social security entitlements where they are designed by reference to 'standard' employment; and benefits are inadequate where they are earnings-related.

Part-time jobs are mainly found in unskilled occupations that offer low status, such as shop work and food preparation. Whole areas of activity – typically 'feminised' services (cleaning, hotel jobs) – are now organised almost entirely on the basis of part-time work.

For women, switching to part-time work usually involves a change of job, or even occupation, and may interrupt their careers. In contrast, the few men who work part-time are usually in transition to retirement, or they are students. Part-time work either gives them a leg into the workplace or a smooth exit; it rarely affects their career progression.

In the 1980s, moreover, the number of full-time jobs held by women fell in several OECD countries, whereas the number of part-time jobs rose in all of them. And although most women still say their decision to work part-time is 'voluntary', an increasing proportion claim they work part-time because full-time jobs are unavailable. Because most part-time jobs pay meagre wages, the number of workers – or of households – combining two part-time jobs is escalating. 'Flexible' employment in its current context may thus restrict rather than enlarge choice.



Sylvia Thompson

Even when they work full-time, women still shoulder the bulk of domestic responsibilities.

increases stress, especially for women. It means that dependents, both child and adult, may receive lower-quality care. It provokes family break-ups, and pressure for transfer payments from the state. It reduces productivity. It triggers absenteeism. And workers facing competing, non-market responsibilities may feel obliged to withdraw from the workforce.

Extending and diversifying the existing means of providing family services – public, private institutions, commercial or charitable, community-based co-operation or some innovative mix of providers – would enhance the ability of women to compete

mobile nursing care or including child-care payments in remuneration packages – are not costly frills but sound business investments. The pay-offs range from less absenteeism and lower staff turnover to an enhanced corporate reputation.

An efficient household and community sector is the foundation of an efficient productive sector and benefits society as a whole. Yet there is a growing labour shortage in this area, exacerbated by the lack of recognition attached to unsalaried activities. What is worse, unsalaried community workers personally shoulder the costs of their activities.



## TIME-USE AND UNPAID ACTIVITIES

Planners and policy-makers have limited knowledge of the way people use time and of the economic contribution of the goods and services produced in households. Several OECD countries are using time-use surveys to improve their stock of this sort of information. This data can be integrated into a household 'satellite' account – a measure of domestic production which can supplement conventional GDP to give a more comprehensive picture of overall economic activity.

As well as measuring production within households and the voluntary sector, time-use surveys give other valuable information – such as changing patterns of hours in work, factors affecting participation in the labour market, how the unemployed use their time, how children and the elderly are cared for and by whom – all of which allow insights into the interconnections between households, market and government.

The policy implications are manifold. Labour-market policies to mobilise the 'inactive' may fall short of their aims if the 'inactive' are in truth very active providing unpaid household and community services. State withdrawal from the provision of health and welfare services may in reality just shift the cost of these services – from the state to unpaid workers – rather than save anything.

*Do the courses girls choose limit their career horizons?*



Richard Damore/REA

Pascal Fitos/REA



Part-time work can marginalise workers on the periphery of the 'normal' labour market.

production and community care. That means addressing the requirements of unpaid workers for leave, activity-related expenses (such as transport, and child-care expenses), access to social protection and training – in child development, care of dependent adults, basic accounting for use in community organisations – which would both enhance the quality of services provided and turn experience in the informal sector into a recognised asset in the labour market (box, left).

Assessing the skills acquired through non-market activities would promote mobility between those activities and paid jobs. The interpersonal and organisational skills acquired in family care and child development, for example, have a definite value in the labour market. Interestingly (and ironically), the acquisition of similar skills (conflict resolution, motivation) is a major component of many executive management courses.

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Anti-discrimination and equal-opportunity programmes have not tackled head-

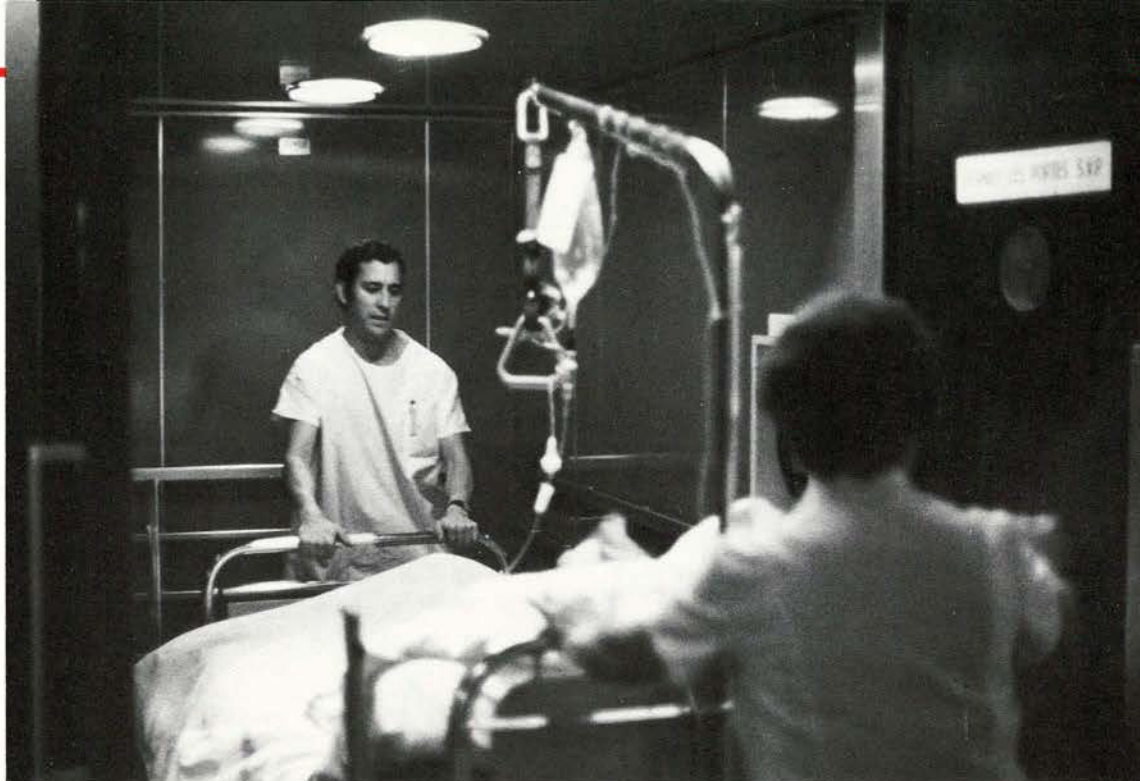
on the systemic nature of inequality in employment. Structural adjustment, by contrast, as a process of responding to economic, technological and social change, can be broadened to enhance compatibility between family and employment responsibilities, dismantle occupational segregation and to increase flexibility in employment. The rewards of reform will extend beyond women. Men will also benefit from broader choices, both at work and at home. Employers will enjoy access to a more efficient labour force. And society as a whole will reap the rewards of integrated adjustment policies aimed at both social development and economic growth. ■



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J. Maillard/ILCO

# A Market for Government Services?

*François Lacasse and Alison McGlynn*

**T**hroughout the 1970s and '80s growing public expenditure and budget deficits put OECD governments under increasing pressure to find new approaches to public-sector management. So did mounting concern over the impact of the public sector on overall economic performance, about public-sector efficiency (widely believed to be less than in the private sector), and about the adequacy of traditional methods of control and management for a state apparatus which had grown massively since the 1960s. One answer to these problems may lie in market solutions. And the interest observed in OECD countries, where experience ranges from timid contemplation to aggressive use, has been strengthened by the extraordinary events in central and eastern Europe, which have led to a huge demand for management techniques embodying the practicalities of market-type mechanisms.

What is meant by the term 'market-type mechanisms' (MTMs)? Between the simple case of traditional administration, where none of the conditions of a competitive market – competition, undistorted prices, profits, freedom of entry (for producers) and exit (for consumers), and so on – prevails,

***'Market-type mechanisms' – charges, vouchers, contracting out, and more – are attracting increasing attention in public-sector management. But what successes – or failures – have they had in different countries? How can they contribute to modernisation of the public sector? How should they be designed and managed? What are the possible limits to their use? And how can the equity considerations which arise be handled? The OECD is undertaking research to provide answers to these questions.***

François Lacasse, head of the programme on market-type mechanisms, works with Alison McGlynn in the OECD Public Management Service.

and the other extreme, where all apply, there is a diversity of instruments available to governments. They typically include user-charges, vouchers and their equivalents, the contracting-out of services, franchising, the creation and modification of property rights and various forms of intra-governmental pricing, accounting methods, even competition.

These MTMs can be classified on a public/private axis, according to who produces a service and who pays for it. The traditional pattern for user-charges, for example, is that a government produces the service, and the consumer decides to use it and pays for it. But this simple typology throws little light on what MTMs can achieve, even in gains in efficiency: user-charges have been used as an instrument to generate revenue, to ration demand, to increase allocative efficiency, to remove some decisions from the political arena, or to achieve all these ends simultaneously to some degree. They have been applied to everything from charging for passports to charging for airport landing-slots and sophisticated pricing schemes for utilities. The degree to which market conditions are met varies substantially between these



cases; the simple observation that users are charged does not allow, by itself, the prediction that the objectives of efficiency, flexibility and control will be easier to achieve.

Similar considerations apply to contracting-out – allowing private firms to compete for the provision of services to or for government in activities as diverse as street-cleaning and legal services. While some contracting-out arrangements clearly bring market forces vigorously into operation, others may be so tightly bound by contract terms specifying the manner in which the contract is to be met that there is little difference from a classic public-service delivery even if the role of the government is, at least in principle, limited to that of contracting agent.

The long, and reasonably well documented, history of contracting-out also illustrates the managerial problems that can arise when organisational innovations are made: the decisions cannot simply be based on what volume of business is undertaken through public or private institutions. Problems in implementation have been both substantial and persistent. A change of institutional framework can obviously lead to a change of behaviour, with the result that managing the process becomes much more than simply adding up the costs involved in producing a good or service. Additionally, there is evidence of continuing controversy over the cost-effectiveness of contracting-out – in the United States, for example, there have been

*How much would education vouchers facilitate consumer choice?*



Rudmani/REA

widely differing estimates of the effects of a long-standing Federal Government directive that work be contracted out.<sup>1</sup> In particular, technical issues in government accounting, such as attribution of overheads and treatment of capital, make simple before-and-after comparisons difficult.

In short, there is no simple way of classifying the available instruments that can adequately describe the precise nature of their use, nor predict their impact. Any assessment of the potential of MTMs requires a detailed examination of how particular instruments are applied in particular situations so as to draw lessons about their ability to improve control of expenditure, increase productivity, improve the delivery of public-sector services, and so on.

## Empirical Studies

The OECD is studying the experience of several of its member countries, targeting those MTMs which are of immediate interest to their governments, which offer important and novel approaches, and which allow the drawing of lessons applicable in a range of countries and sectors.

### Internal Markets

Many OECD countries have introduced various cost-recovery arrangements for services provided by one ministry or government organisation to another. These systems apply most commonly in activities such as centrally managed property services (construction, the leasing and maintenance of accommodation), printing and publishing services, and transport. To some extent this approach can be seen as a straightforward application of user charges, designed to control expenditure and reduce demand.

The design of these charging systems can have a critical bearing on their outcome – whether, for instance, there is outside competition, real or simulated, and what kind of management structures, incentives, and control and budgetary systems are in place. It is not yet clear to what extent such emulation of markets can be expanded and reinforced by bringing in external private competitors or by competition between public entities.

### Market-like Incentives and Controls in Health

Health is, and will probably remain, largely state-funded and -managed in most OECD countries. The rapid growth of health expenditures has led various governments to changes obviously borrowed from analogies with the market. Examples include separating provision of care from funding, global budgeting in hospitals, fostering competition between providers and between insurers, developing new methods of hospital budgeting, of cost-accounting and of criteria for reimbursement, partially shifting power over resources from medical personnel to trained managers, and so on. The design and implementation of these MTMs are critical, as is, even more important, how the key 'players', such as doctors and hospital managers, react to their introduction. To what extent are these market-inspired levers for improving the control of health expenditures thwarted, distorted or used as hoped for by governments?

### Modifying Property Rights

Property rights can be created or modified to bring market forces to bear on public management. Recent decades have seen these techniques applied in such activities as pollution control where, for example, the right to trade in the pollutants that form acid rain has been established. They have also been used to manage the allocation of the radio spectrum, which in most countries is an administrative process that does not necessarily ration the spectrum in the most efficient fashion.<sup>2</sup> Limited rights over the spectrum, defined by time, geographical area and frequency band, have been established, and users are able, to some extent, to acquire and trade in them thus helping direct this particular resource to its highest-valued use.

Another recent instance is the creation, in Iceland, New Zealand, Australia and Canada, of individually tradable quotas (ITQs) for fishermen. This system allows an individual fisherman to acquire and

1. See Larkin Sims Dudley, 'The United States Experience with Contracting Out under Circular A-76', in *Market-type Mechanisms Series*, No. 2, Public Management Occasional Papers, 1991, available free of charge from the OECD Public Management Service.

2. See Tim Kelly, 'What Price the Airwaves?', *The OECD Observer*, No. 173, December 1991/January 1992.





*The history of contracting out local-government services is well documented – and the results have been mixed.*

Marc Dewanckel/REA

trade property rights to a part of the total sustainable catch. The creation of ITQs and their attendant markets has been seen as both an efficient solution to the economic and administrative costs of the former methods of regulating the industry, and as a potential means of easing some of its social problems and simultaneously reducing the likelihood of overfishing.

#### **Vouchers and Voucher-like Systems**

Vouchers, or their equivalents, are administrative arrangements that grant subsidies, allowing the recipient a non-transferable right of access to certain services or to a given value of specific goods offered on a competitive basis. They have been most widely discussed in education, although there is not yet any large-scale experience of their implementation. Other activities where vouchers or similar instruments have been examined are housing, care of the elderly, vocational training and child care.

There is a variety of voucher schemes currently in operation, for it appears that

3. There has been a considerable amount of academic work on the private-sector approach to these kinds of issues, and their impact on such decisions as, for example, when to produce an automobile part in-house and when to use the market – see Frédérique Pallez, Jean-Claude Moisdon and Daniel Fixari, 'Managing Modernisation in the Public Sector: Managerial Aspects of Market-type Mechanisms', in *Market-type Mechanisms Series*, No. 1, Public Management Occasional Papers, forthcoming 1992, available free of charge from the OECD Public Management Service.

in practice vouchers are more versatile and flexible than much of the voluminous literature indicates. Yet there are nonetheless some difficulties that are not fully appreciated. How, for example, can governments regulate the quality of services supplied by the private sector to recipients of a voucher? How effective is the dissemination of information about the goods and services supplied to holders of the vouchers? In health and education, for instance, information on quality of services is not easily or promptly available. Can these problems be alleviated by government? Or can the market provide standards and/or information? Again, are vouchers likely to raise prices in some markets, such as housing? And under which conditions? Can they be 'too' successful and change behaviour, leading to much higher expenditures than forecast at their introduction?

#### **Contracting out Information Technology Services**

Information technology (IT) services provide an almost ideal setting for the analysis of some of the managerial dimensions of contracting out. There is a wealth of experience with contracting-out in systems development and maintenance. New areas of contracting-out are emerging, such as facilities management, and the integration of software and hardware systems of different suppliers. And the technology is changing so rapidly that it complicates management decisions about whether to provide the service in-house or contract out. Expected gains in costs and quality must be balanced against the danger of losing in-house capacity and domination by a single supplier; problems of specification in the contract are far from trivial; and the organisational impact can be difficult to predict and manage.<sup>3</sup> Twelve countries are participating in an OECD study of contracting-out in IT which should provide information on the conditions under which contracting-out in such delicate areas can be successfully carried out.

□ □

Much of the work to be undertaken in MTMs thus involves fairly detailed empirical examination of how particular instruments have been applied in selected areas, so as

to draw out some of the management problems and solutions in bringing some elements of the market to bear on their activities. But an exercise which seeks to examine fair and effective use of market-type mechanisms must also examine the equity issues which arise. The debate is partly ideological. Proponents of MTMs present them as, at the very least, straight-forward means of improving efficiency in the delivery of services. Opponents refer to the distributive impacts of their introduction. A rigorous examination of these impacts, leading to more precise methods of estimating them, will put in context the consequences of extending the use of MTMs and allow better informed policy judgements on their use.

The emphasis, both theoretical and empirical, in the academic literature on MTMs has been on their advantages in efficiency, with much less attention paid to questions of equity. Indeed, questions of who gains and who loses, and what (if anything) should be done to compensate the losers, have rarely been asked systematically. The OECD is therefore working on these issues of equity, with the aim of establishing methodological approaches to determine 'fairness'. The intention is to develop a practical methodology to identify the groups affected by any one MTM (taxpayers, and the consumers and producers of a service, for example), the variables likely to affect their economic situation or welfare, and the 'benchmark situation' against which the impacts are to be measured. ■



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# From Higher Education to Employment

*Eric Esnault*

*Since the 'crisis of confidence' in the late 1970s, there has been a renewed awareness throughout the OECD area of the vital importance of education in economic and technological development. People with post-secondary qualifications, in particular, are seen as a national strategic resource. And although public opinion does not disregard the social and cultural dimensions of higher education, it is today much more likely than ten years ago to be seen as an economic advantage, particularly as a preparation for employment.<sup>1</sup>*

**T**he resumption of economic growth in the 1980s brought with it a cautious optimism about the future. That optimism has been tempered as the current recession continues, and the emphasis is now being placed, despite persistent unemployment, on the extent of the demand for qualified staff and the prospects for economic recovery.

Higher education was bound to be affected by this change of climate. The 1980s certainly saw a new readiness to open up to the outside world, and closer relations with business and industry and the private

sector in general were established. In the 1970s, while many institutions, universities and others, were explicitly business-oriented (offering in particular shorter, non-academic training courses<sup>2</sup>) and kept in regular contact with employers, some maintained an unfriendly, if not hostile, attitude towards business.<sup>3</sup>

This new open-mindedness has gone beyond research.<sup>4</sup> Private funding of higher education is growing in importance, in public institutions, too.<sup>5</sup> More

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efforts are being made to provide continuing education for employees. There is now a growing emphasis on occupational re-

2. *Alternatives to Universities*, OECD Publications, Paris, 1991.

3. *Universities under Scrutiny*, OECD Publications, Paris, 1987; William Taylor, 'Crisis in the Universities', *The OECD Observer*, No. 143, November 1986.

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5. *Financing Higher Education: Current Patterns*, OECD Publications, Paris, 1990; Gareth Williams, 'Changing Patterns of Finance', *The OECD Observer*, No. 161, December 1989/January 1990.

1. *Higher Education and Employment*, OECD Publications, Paris: general report and one volume of country chapters, forthcoming 1992; three volumes already published. Representatives of governments, institutions of higher learning and the business world will discuss this subject at a high-level conference to be held at the OECD on 15-17 June 1992; the conference report will be published subsequently.





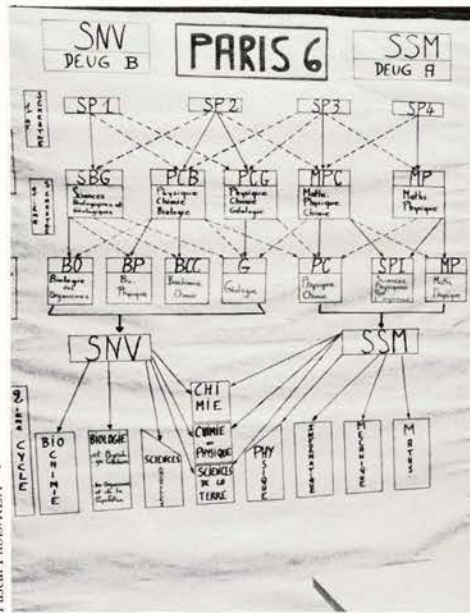
*There was sustained demand for graduates from higher education in the 1980s, but with wide disparities according to the type and level of training.*

vance, with a view to preparing young people for private-sector jobs. Indeed, whereas in the early 1980s two-thirds of young graduates in some member countries expected to find a post in the public sector, today it is the private sector that is recruiting that proportion. But if these changes are to be understood, there are other developments that have to be taken into consideration.

There was an appreciable rise in the volume of employment in OECD countries in the 1980s. Yet at the same time unemployment rates were often high, sometimes rising, especially among school-leavers. The same paradox was apparent among graduates from higher education: sustained demand, with large concurrent disparities according to the type or the level of training.

### Desirable Graduates

Analysis makes clear the growth in the number of high-level jobs, particularly for managers and engineers. This was attributable both to structural change – the expansion of activities that require highly qualified personnel, changes in occupational structures because of technological advance – and to more diffuse developments in the



evolution of the organisation of work, its ever-increasing complexity, the demand for quality. All these factors furthered the recruitment of young graduates considerably.

But at the same time, another tendency could be discerned. High rates of unemployment in most countries meant an abundant supply of labour, so that firms could demand higher qualifications and recruit graduates to jobs previously filled by secondary school leavers. The pattern of this substitution is fairly complex, since it may be that, as the proportion of young

people going on to higher education grows, employers cannot find the skills and abilities they require among those leaving secondary school.

In any event, these different factors combined to strengthen the position of young graduates on the labour market, often to the detriment of job-seekers with more modest qualifications. It became increasingly hard for young people (and especially girls) with 'only' a secondary education to find a job.

Another reason for the increased recruitment of graduates was that the demand

In the late 1970s it was common to talk of a 'crisis' in higher education. Among its causes were the internal problems resulting from much higher enrolments, as well as the growing difficulties encountered by young graduates on entry to working life, in particular by arts and social-science graduates who saw some of the doors that had traditionally been open to them beginning to close.<sup>1</sup>

The overall employment situation was bad, especially for young people. That, indeed, was the major concern of the day. Unemployment among young graduates was perceived as a new and worrying development, as was the fact that they were obliged to accept jobs well beneath their capacities and qualifications. A degree was no longer a passport to a steady and well-paid job. The situation was bad enough for the general public to lose confidence in higher education, even though graduates were in a more advantageous position in the labour market than other young people with more modest qualifications.

### THE BACKGROUND: THE 'CRISIS' IN HIGHER EDUCATION IN THE LATE 1970s

This unsettling situation was the result of several distinct developments:

- the arrival on the labour market of a substantial influx of young graduates as a result of the rapid expansion of post-secondary education, their relative weight increased, in some countries, by demographic trends
- constraints on public spending which inhibited the expansion of employment in activities dependent on it, particularly in the public sector, the main opening for those with post-secondary education, women especially
- the saturation of certain sectors, such as education, which were among the biggest employers of post-secondary graduates and where there was no prospect of any significant increase in recruitment for the next ten years or so

- the uncertainty of any improvement in the private sector, especially in industry; the potential slowing-down in the expansion of activities that required a high proportion of qualified personnel; and the fear of impending saturation or rationalisation in certain service-sector activities.

The diagnosis was all the more worrying because from the early 1960s until well into the mid-1970s the pattern of employment had been evolving in a way that was very promising for graduates. Industrial development after the War had been succeeded by a phase of 'intellectual investment' during which employment in teaching, research and public-sector management had expanded very rapidly. The slowing-down of this expansion made all the difference to the career opportunities of young graduates.

1. **Employment Prospects for Higher Education Graduates**, OECD Publications, Paris, 1981. This document, now out of print, can be consulted at the OECD Directorate for Education, Employment, Labour and Social Affairs.



for higher education, whether because of a change in student choices or through government measures to limit enrolment in some disciplines (the humanities, for instance), moved decisively away from the courses that used to point young people to teaching or civil-service jobs and towards business and management studies. As these graduates were leaving higher education, employment was growing in financial and business services, so that graduate flows were smoothly absorbed. It can, of course, be asked whether this wave of recruitment reflected genuine demand or whether employers took these well-qualified young people on simply because they were available.

## Adverse Developments

Some of the changes that took place in the 1980s were less advantageous. In several countries the unemployment rates rose still further for some categories of graduates, largely those whose studies would traditionally have led to teaching or some other public-sector job. A 'delay in adjustment' is not a sufficient explanation for this trend. True, it was principally arts and social-science graduates, the majority of them young women, who were affected. But above all, in the countries that do not have a system of selection, or that do not limit enrolment through a *numerus clausus*, young people flock to these disciplines through a kind of 'negative selection'. In some countries, moreover, the categories of studies concerned extend as far as law, economics and even to some forms of management training for jobs in the service sector, despite an expressly vocational character.

Unemployment levels themselves are an insufficient guide to the state of graduate employment, since the substitution process indicates that they are relative. An entire range of factors (including job status, salary, and so on) has to be taken into account, not to mention some more subjective aspects that are harder to understand and measure, the major one of which is underemployment, when employees are set jobs or work in occupations below their abilities.

In the absence of a direct relationship between training and employment, analysing mismatches between quality of job and standard of education is complex. Moreover, in a given country underemployment may be common in some sectors (in, say, the civil service), and rare in others (manufacturing industry, for example). In addition, in some instances this downgrading may be accepted by graduates and others, whereas in other instances it may not be.

There are many factors – the proportion of temporary and part-time jobs, auxiliary status, salaries that are well below average, degree of inactivity, unemployment or underemployment, an abnormal propensity to continue studying or amass qualifications – that, taken together, highlight the enormous differences in graduates' standing. Some who have studied in such-and-such a school or have a degree in this or that subject are snatched up by employers, while others find themselves less well off than a qualified manual worker or technician of their own age. Excess demand for scientists, engineers, technical specialists and managers contrasts with enduring difficulties and unpromising prospects for those whose skills are not valued in a buoyant segment of the labour market. The picture is thus on the whole encouraging, but it shows imbalances that give cause for concern.

Yet the situation is in constant change. In many countries young graduates with more academic qualifications, who aspire to a job in secondary or higher education and who not so long ago were having difficulty in finding one, are seeing new doors opening to them. There are two main reasons: higher student enrolments and, above all, the necessity of replacing the teachers recruited in the 1960s who are now coming up to retirement age.

## New Dimensions

So what of the 1990s? The probability is that, except in particular instances, the absorption of graduate flows, for the first time in recent history, will not be eased by shortages of personnel. In other words, a period of uncertainty is beginning, in which young graduates (like the higher-



Some subjects – especially in the arts and social sciences – are chosen by students through a sort of 'negative selection'.

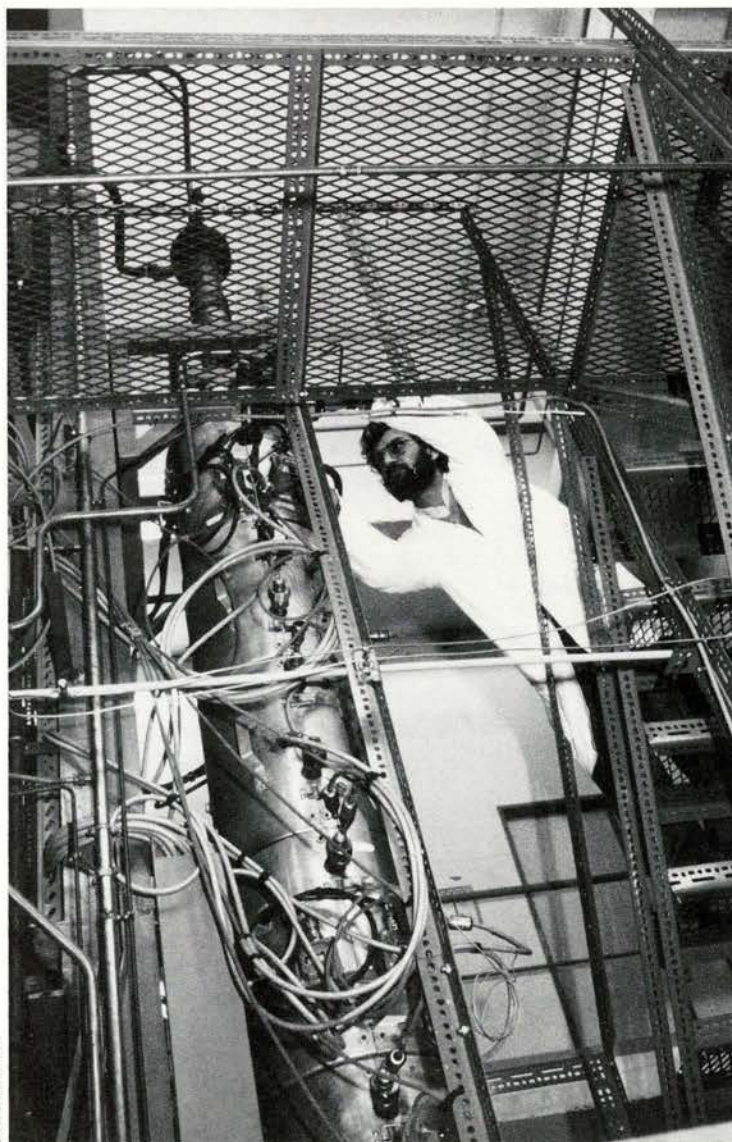
education institutions themselves) are no longer in control of the situation.

What, then, is the outlook for the relationship between higher education and employment over the next few years? On the labour-market side, there is one clear obligation – meeting the demand for highly qualified personnel – as well as a question: how is the balance between supply and demand going to evolve? For higher education, three particular considerations are likely to have to be taken into account.

First, the disciplines that offer purely 'academic' training are probably failing to provide the right kind of preparation for most jobs. They flourished only so long as expansion of employment in the public sector offered openings in addition to those in teaching. In societies in which, quite soon, half of each generation will go on to higher education of some kind, it is idle to pretend that this pattern can con-



Structural change has increased the demand for highly qualified staff, particularly engineers and managers.



Benichou/REA

tinue. Academic and professional training can no longer be seen as mutually exclusive; other models have to be found.

Second, the unprecedented expansion of the universities and other institutions offering shorter courses has allowed them to cope with a large increase in demand for higher education; but they no longer have a monopoly in its supply. The 1980s saw a rapid expansion in private-sector training centres, many of them specialising in

6. Studies on these other aspects will be published at a later date.

preparation for careers in services, but with the training programmes of some large firms well up to the standards of the best universities. Moreover, if it is to keep pace with progress in knowledge and technology, training can no longer be confined to the universities and other academic institutions; partnerships with business and industry have to be established.

Third, in most countries there is increased pressure from demand for higher education. The anticipated fall in demand as a result of demographic trends has not happened,

because (at least in part, and in certain countries) it has been offset by the enrolment of more women (who now constitute the majority in higher education) and mature students. Moreover, the expansion of secondary education and the shift away from purely vocational towards more general studies at this level – leading naturally towards higher education – have combined to boost demand yet further. This situation, ascribable largely to social and cultural factors, will in many countries give a wider dimension to higher education.

So new ideas will have to be put into practice (not least, about the role of the state), to offer encouragement, to build on institutional initiatives of many different kinds and spur them on to meet the new demands and face the challenges of the year 2000.

□ □

These questions about the conditions of entry of young people into the labour market deal with only one aspect of the relationship between higher education and employment. The issue is clearly much broader in scope, extending, for instance, to the content of education (particularly in the arts and social sciences) and to the development of continuing professional education.<sup>6</sup> One central question concerns the kind of dialogue that ought to be established, at all levels, between higher education and business. How can the two sides, with their very different aims, interests and time-scales, develop a successful partnership which will improve and support initial education and extend continuing training for employees? ■



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# INDICATORS

		1991	1992	1993
<b>AUSTRALIA</b>	Gross Domestic Product	-0.6	2.6	3.2
	Inflation Rate	1.3	3.1	3.9
	Unemployment Rate	9.5	10.1	9.7
	Current Balance <sup>a</sup>	-3.4	-3.5	-3.6

		1991	1992	1993
<b>AUSTRIA</b>	Gross Domestic Product	2.8	2.6	2.7
	Inflation Rate	3.2	3.4	3.2
	Unemployment Rate	3.4	3.8	4.0
	Current Balance <sup>a</sup>	-0.3	-0.4	-0.5

		1991	1992	1993
<b>BELGIUM</b>	Gross Domestic Product	1.4	2.0	2.7
	Inflation Rate	3.4	3.3	3.2
	Unemployment Rate	9.4	9.7	9.6
	Current Balance <sup>a</sup>	2.2	3.0	3.4

		1991	1992	1993
<b>CANADA</b>	Gross Domestic Product	-1.5	3.1	4.1
	Inflation Rate	2.7	2.8	2.2
	Unemployment Rate	10.3	10.2	9.8
	Current Balance <sup>a</sup>	-3.9	-2.8	-2.8

		1991	1992	1993
<b>DENMARK</b>	Gross Domestic Product	2.0	2.5	3.1
	Inflation Rate	2.0	2.4	2.4
	Unemployment Rate	10.3	10.2	9.6
	Current Balance <sup>a</sup>	1.6	1.8	2.2

		1991	1992	1993
<b>FINLAND</b>	Gross Domestic Product	-5.2	-0.4	3.8
	Inflation Rate	4.1	-0.3	1.4
	Unemployment Rate	7.7	9.8	9.3
	Current Balance <sup>a</sup>	-4.7	-3.3	-2.0

		1991	1992	1993
<b>FRANCE</b>	Gross Domestic Product	1.2	2.1	2.7
	Inflation Rate	2.8	3.0	2.7
	Unemployment Rate	9.4	10.1	10.2
	Current Balance <sup>a</sup>	-0.7	-0.6	-0.5

		1991	1992	1993
<b>GERMANY</b>	Gross National Product	3.1	1.8	2.5
	Inflation Rate	4.5	4.5	3.9
	Unemployment Rate	4.3	5.0	5.1
	Current Balance <sup>a</sup>	-1.3	-0.8	-0.7

		1991	1992	1993
<b>GREECE</b>	Gross Domestic Product	1.2	1.3	1.6
	Inflation Rate	18.7	14.7	11.0
	Unemployment Rate	8.5	9.6	10.5
	Current Balance <sup>a</sup>	-2.4	-2.7	-2.8

		1991	1992	1993
<b>ICELAND</b>	Gross Domestic Product	1.4	-1.6	0.5
	Inflation Rate	7.6	7.0	8.0
	Unemployment Rate	1.6	2.0	2.0
	Current Balance <sup>a</sup>	-4.4	-4.3	-4.8

		1991	1992	1993
<b>IRELAND</b>	Gross National Product	1.3	2.5	3.3
	Inflation Rate	3.1	3.0	3.0
	Unemployment Rate	15.8	16.5	16.0
	Current Balance <sup>a</sup>	3.0	1.8	2.0

		1991	1992	1993
<b>ITALY</b>	Gross Domestic Product	1.4	2.0	2.5
	Inflation Rate	7.1	5.8	5.2
	Unemployment Rate	11.0	10.8	10.7
	Current Balance <sup>a</sup>	-1.4	-1.5	-1.8

Notes: figures in *italics* are OECD projections  
a. current balance as % of GDP/GNP

Source: Economics and Statistics Department, OECD; for further information, contact **The OECD Observer**



# INDICATORS

		1991	1992	1993
<b>JAPAN</b>	Gross National Product	4.5	2.4	3.5
	Inflation Rate	1.9	2.1	1.9
	Unemployment Rate	2.1	2.3	2.3
	Current Balance <sup>a</sup>	2.1	2.2	2.1

		1991	1992	1993
<b>LUXEMBOURG</b>	Gross Domestic Product	2.5	2.9	3.3
	Inflation Rate	3.1	3.3	3.0
	Unemployment Rate	1.4	1.4	1.3
	Current Balance <sup>a</sup>	1.9	2.9	..

		1991	1992	1993
<b>NETHERLANDS</b>	Gross Domestic Product	2.2	1.8	2.3
	Inflation Rate	3.1	3.2	3.3
	Unemployment Rate	6.1	6.4	6.3
	Current Balance <sup>a</sup>	3.7	4.3	4.6

		1991	1992	1993
<b>NEW ZEALAND</b>	Gross Domestic Product	-2.9	1.0	2.0
	Inflation Rate	1.3	2.2	2.2
	Unemployment Rate	10.4	11.5	11.6
	Current Balance <sup>a</sup>	-2.7	-1.9	-1.2

		1991	1992	1993
<b>NORWAY</b>	Gross Domestic Product	4.1	2.0	2.9
	Inflation Rate	1.5	3.3	3.4
	Unemployment Rate	5.3	5.1	4.8
	Current Balance <sup>a</sup>	5.0	5.5	5.8

		1991	1992	1993
<b>PORTUGAL</b>	Gross Domestic Product	2.7	2.6	2.7
	Inflation Rate	14.3	13.5	12.5
	Unemployment Rate	3.9	4.5	5.3
	Current Balance <sup>a</sup>	-0.9	-1.9	-2.6

		1991	1992	1993
<b>SPAIN</b>	Gross Domestic Product	2.4	2.9	3.2
	Inflation Rate	6.9	5.8	5.0
	Unemployment Rate	16.3	15.2	14.6
	Current Balance <sup>a</sup>	-3.2	-2.9	-2.9

		1991	1992	1993
<b>SWEDEN</b>	Gross Domestic Product	-1.4	0.2	1.5
	Inflation Rate	7.5	3.1	4.0
	Unemployment Rate	2.7	4.1	4.1
	Current Balance <sup>a</sup>	-1.9	-1.7	-1.3

		1991	1992	1993
<b>SWITZERLAND</b>	Gross Domestic Product	-0.5	1.2	1.8
	Inflation Rate	5.2	4.5	3.5
	Unemployment Rate	1.0	1.6	1.4
	Current Balance <sup>a</sup>	3.9	4.9	5.2

		1991	1992	1993
<b>TURKEY</b>	Gross National Product	2.3	2.8	5.5
	Inflation Rate	58.6	66.0	50.0
	Unemployment Rate	11.5	13.2	13.4
	Current Balance <sup>a</sup>	-0.3	0.2	-0.2

		1991	1992	1993
<b>UNITED KINGDOM</b>	Gross Domestic Product	-2.2	2.2	3.2
	Inflation Rate	6.9	4.2	3.7
	Unemployment Rate	8.7	9.9	9.7
	Current Balance <sup>a</sup>	-1.1	-1.4	-1.6

		1991	1992	1993
<b>UNITED STATES</b>	Gross National Product	-0.7	2.2	3.8
	Inflation Rate	3.2	3.9	4.4
	Unemployment Rate	6.7	6.7	6.1
	Current Balance <sup>a</sup>	-0.2	-0.9	-1.0

Notes: figures in *italics* are OECD projections  
 a. current balance as % of GDP/GNP

Source: Economics and Statistics Department, OECD; for further information, contact **The OECD Observer**





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(March 1992)

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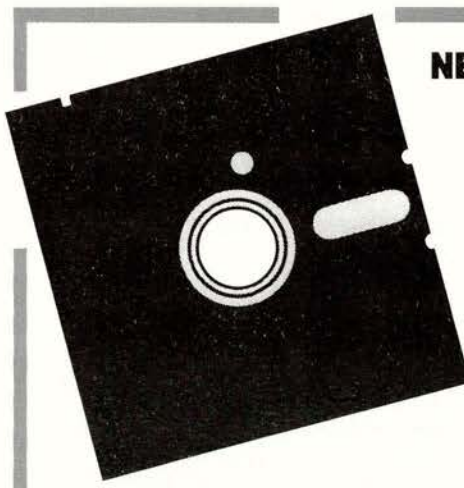
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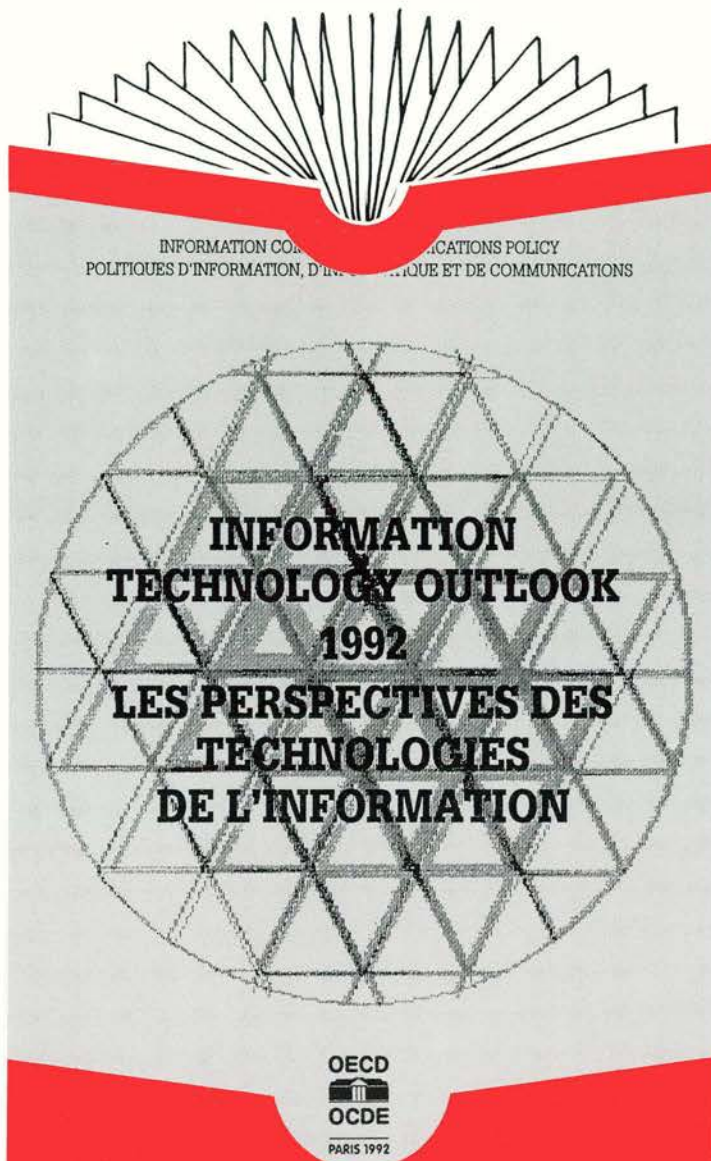
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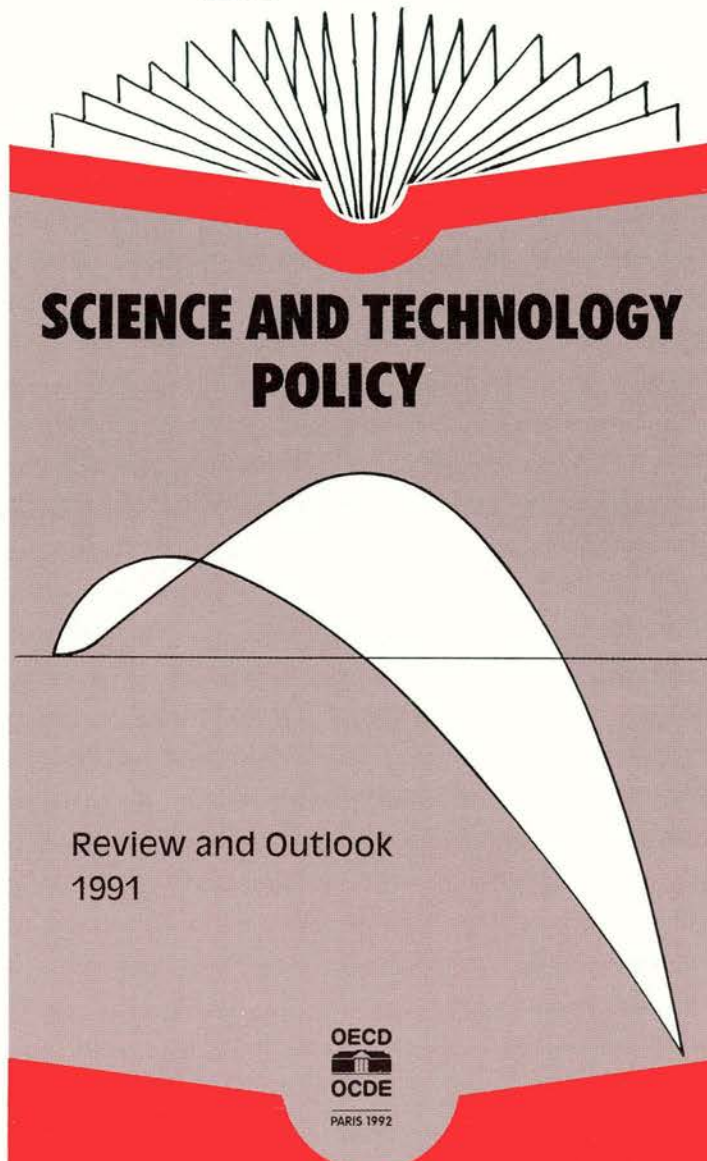


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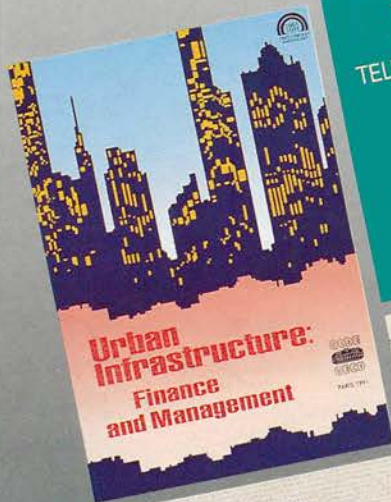
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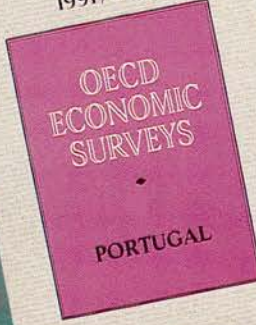


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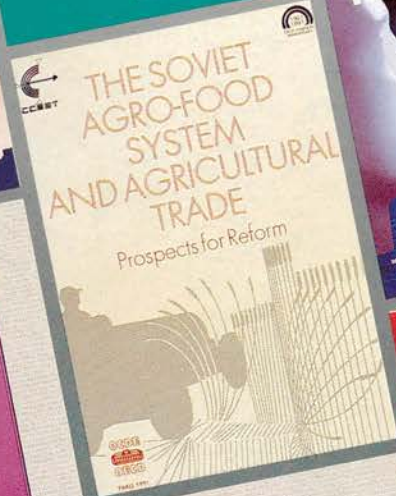
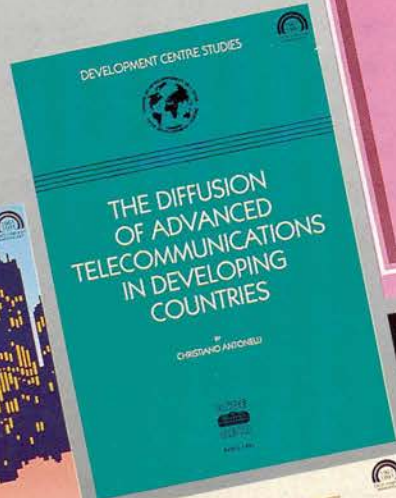
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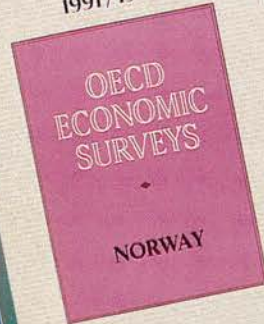
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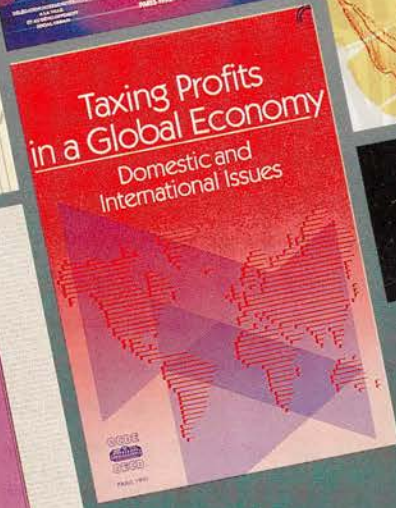
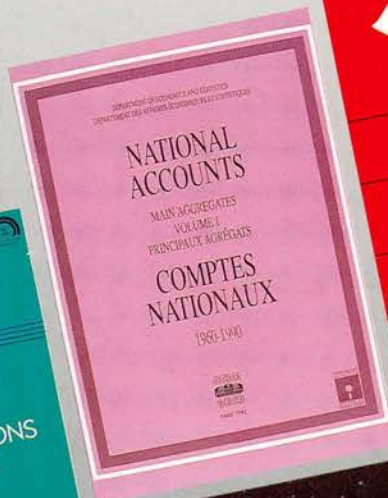
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# OECD Council Meets at Ministerial Level

## Communiqué

The Council of the OECD met on 18 and 19 May 1992 at Ministerial level. The meeting was chaired by Mr. Sigbjørn Johnsen, Minister of Finance and Mr. Bjørn Tore Godal, Minister of Trade and Shipping, of Norway. The Vice-Chairmen were Mr. Roland Dumas, Minister of State, Minister of Foreign Affairs, Mr. Michel Sapin, Minister of Economy and Finance, and Mr. Dominique Strauss-Kahn, Minister of Industry and Foreign Trade, of France; and The Hon. Maurice McTigue, Minister for State Owned Enterprises and Associate Minister of Finance of New Zealand. Prior to the meeting, the Chairman led consultations with the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC) to the OECD; both organisations submitted statements for the consideration of Ministers.

OECD Ministers welcome the historic developments in the world that have shown wider acceptance of the basic principles that the OECD Members hold in common: human rights, pluralist democracy, and market economy. These principles, pursued in a co-operative framework, have served Member countries well over the last forty years of pronounced economic and social development. At this time of rapid international change, Ministers have addressed three challenges facing the OECD and its Member countries:

- promoting sustainable economic growth and social progress
- strengthening the multilateral framework
- the OECD in a changing world.

There is a great potential for sustained non-inflationary growth, both in OECD countries and in the world more generally. To realise this growth potential fully Ministers are determined to pursue appropriate and coherent policies both at national level and through international co-operation. Ministers are resolved to keep the economic fundamentals firmly in place, and to pursue with renewed vigour structural reform across a range of areas. This will promote growth, while at the same time helping to fight unemployment.

Ministers recognise the need to reinforce the multilateral framework, and to fight protectionism. A substantial, comprehensive and balanced outcome of the Uruguay Round is needed urgently. This will benefit all countries. OECD Governments will do their best to this end. Ministers pledge their Governments' full commitment to re-invigorate the negotiation and bring it to an early and successful conclusion. An open multilateral trading system conducive to competition and structural reform is essential for underpinning sustainable growth. OECD countries will therefore contribute to the development of those fair, transparent, and enforceable rules which the rapidly evolving international trading environment may necessitate. They also stress the important role that UNCED will play in launching a new global partnership for sustainable development.

Ministers reaffirm their strong commitment to enhanced co-operation with developing countries. They are determined to support strongly the reform process in central and eastern European countries and the New Independent States of the former Soviet Union, including through the provision of market access. Ministers welcome and support the rapid and diversified development of contacts and intensified co-operation between the OECD and an increasing number of non-member countries, believing that such contacts can facilitate the spread throughout the world of respect for human rights, pluralist democracy, and market economy. They look forward to further strengthening of such links and call on the OECD to develop further its work on non-member economies.

To meet these challenges, the OECD requires a comprehensive, viable and lively work programme. Ministers affirm the unique role of the OECD in international co-operation. They call for reviews of priorities regarding OECD's work and resource allocation, and state their governments' continued preparedness to provide adequate funding.

### Promoting Sustainable Economic Growth and Social Progress

#### The Economic Situation and Policy Imperatives

Ministers reflected on the nearly two years of slow growth in the OECD, recession in some countries, the weakness in the expected recovery, and the persistent rise in unemployment in most countries. They noted that: inflation pressures have receded in most countries; short-term interest rates outside continental Europe have generally fallen, sharply in some cases; long-term interest rates over the past year have begun to fall, although they remain high in relation to inflation in a number of countries; and progress has been made in reducing household and business indebtedness and in addressing financial-sector problems. These factors are projected to induce a gradual recovery during

the course of 1992, and next year growth in the OECD area should strengthen further.

The major task facing OECD governments, in order to reinforce confidence among consumers and investors, is to improve the prospects for sustained non-inflationary growth, building on the positive forces that are already at work. A stable and comprehensive medium-term policy framework, consisting of sound fiscal and monetary policies and accelerated structural reform, is essential in this respect. In this framework, Ministers agree, taking into account the particular circumstances of each country, to adopt appropriate and balanced monetary and fiscal policies to help ensure non-inflationary growth. Structural reform will not only be speeded up but will also be increasingly subjected to multilateral surveillance and peer review. Policy actions generally will be made more effective through concerted international co-operation, which the globalisation of the world economy makes more indispensable than ever. Continued co-operation in respect of exchange

rates and in reducing very large external imbalances will contribute to greater exchange-market stability and thereby to a better functioning of the international monetary system.

A centre-piece of a stable policy framework is sound public finances, that is, budgets: whose financing, whether through taxation or debt, does not pre-empt private savings or create undue distortions to incentives to work, invest, and save; and whose composition contributes to sustainable growth and employment, and an efficient functioning of the economy. Over the past year the process of budget-deficit reduction in many countries has seen considerable slippage, which cannot in most cases be blamed wholly on the economic slowdown. Ministers undertake to reduce budget deficits and restrain the amount of outstanding public debt by taking action appropriate to their countries' circumstances: setting more ambitious budget targets in some cases; and adhering more rigorously to existing objectives in others. Ministers agree that countries with large budget-



ary imbalances should intensify efforts to reduce deficits in order to achieve a more balanced policy mix. In those countries where fiscal imbalances have been contained, appropriate measures should be pursued to enhance medium-term growth prospects while maintaining public expenditures under control. In those countries with large surpluses and declining growth, policy makers should be mindful of the possibilities of strengthening domestic demand through appropriate measures. These measures will be accompanied by improved public-sector management, to ensure greater cost effectiveness, transparency and accountability. Steps taken here will aim to: produce an optimal allocation of resources; control expenditures; raise effectiveness and efficiency in the public sector; and respond better to societal requirements and the needs of the users of public services.

The reduction of OECD inflation over the past year is welcome. It is essential to preserve and important to build upon recent improvements in price performance. Sound monetary policy is critical in this respect; it will therefore continue to be conducted with vigilance and prudence. Within that general perception, however, Ministers noted the importance of creating the conditions for further sustainable reductions in interest rates.

### **Creating More Jobs**

Raising sustainable growth in the long term depends on accentuated structural reforms that will boost productivity. Human resources are paramount in this regard. After eight years of economic expansion with declining inflation, unemployment in the OECD area remains high and has been rising since 1990. Long-term as well as youth unemployment have risen in many countries. Fighting unemployment therefore remains a top priority.

OECD governments are resolved to reinforce further their efforts to foster the conditions for a revival of balanced growth. This will help to reduce unemployment. The substantial and durable reduction of unemployment will also be sought, as emphasised by Ministers of Labour at their meeting in OECD in January last, through making operational without delay a coherent framework of structural policy actions, to improve the efficiency with which labour markets are able to accommodate economic and social change. These actions will:

- strengthen and modernise education and training systems
- improve the acquisition and adaptation of needed skills
- remove remaining obstacles to employment creation
- ensure that employment legislation and regulations strike the right balance between the needs of enterprises, of employees, and of the unemployed
- encourage working practices that make it easier for employees, both men and women, to combine work and family responsibilities
- improve the design of social protection systems both to encourage and to assist labour market participation.

Ministers invite the Secretary-General to initiate a comprehensive research effort on the reasons for and the remedies to the disappointing progress in reducing unemployment, by making full use of the Organisation's interdisciplinary

potential, and by working towards a system of surveillance which may include cross-country monitoring and in-depth peer review. A progress report thereon should be presented to the next Ministerial meeting.

### **Societal Action on a Wider Basis**

Policies to reduce unemployment will contribute to the creation of equal opportunities for all to succeed in working life. This is a crucial element for the maintenance of a social consensus and for an increased willingness to adjust to change. Labour market and social policies which strengthen the ability of individuals to return to gainful work rather than to remain dependent on income support will be an essential part of this approach. The interactions of education and training, labour market and social policies are complex and action needed will go beyond the responsibilities of governments alone. New and improved forms of co-operation among government authorities, the social partners and other private-sector institutions and groups will be developed.

Ministers commend the role of the OECD in monitoring and assessing migration flows, causes, and trends and reaffirm its importance. Taking fully into account work already underway in other international organisations, the OECD should also give priority to evaluating the economic and social consequences of these developments for sending and receiving countries.

Economic, social and environmental problems are so severe in many urban areas that a large and growing part of the population risks drifting away from the economic and social mainstream. Ministers consider that governments, both central and local, will need to pursue new and reinforced policies to improve the quality of life in urban areas across its economic, social, and environmental dimensions.

The economic and social problems of rural areas, whose solution may be decisive for the success of agricultural reform in many countries, are particularly complex. They should be addressed in an integrated and cost-effective fashion. This would require adjustment policies, and policies to accommodate and capitalise on the diversity of economic, cultural, social, environmental, and resource bases of rural areas. Within the framework of a comprehensive rural development policy, local initiatives and partnerships will be of central importance.

### **Strengthening the Multilateral Framework**

A substantial, comprehensive and balanced outcome to the Uruguay Round is crucial for maintaining and strengthening an open multilateral trading system capable of underpinning an international environment of competition, structural reform and economic growth. An early conclusion to the Uruguay Round is needed urgently. For that purpose, the process of negotiations now stalled needs to be reinvigorated. Major participants have recently indicated renewed political commitment to see the negotiations concluded as soon as possible. This determination is shared by all members of the Organisation. Further delay risks losing the momentum necessary for the successful conclusion of the Round. The handling of this issue

will be seen as a key test of the commitment of OECD countries to the open international trading system. The international trading environment is evolving at a rapid pace, subject to unrelenting pressures from a globalising network of producers and consumers. Without forthright movement toward market opening measures and a strengthened set of enforceable and predictable rules, international trading relations run the risk of fragmentation, conflict and inefficiency. The Uruguay Round is a vital step to anchor in firm ground the efforts that must continue in order to ensure liberal and improved market access in the future. An early, comprehensive and balanced outcome thus offers substantial benefits.

In the field of regional integration, important developments are taking place as shown, for instance, by the signing of the European Economic and Monetary Union, the recent conclusion of the European Economic Area Agreement and the negotiations underway for the creation of a North American Free Trade Area. Regional integration can stimulate the multilateral liberalisation process and should be in conformity with international obligations and with the objective of maintaining and strengthening the multilateral trading system. The Organisation will continue to monitor closely the developments in this field.

The collective effort to strengthen the global, multilateral framework of economic activity cannot be relaxed. In this context Ministers expressed their determination to fight protectionist tendencies. New concepts, guidelines and disciplines will be developed where appropriate to ensure that this framework keeps pace with events, and remains a fully satisfactory basis for the continued development of economic activity, in particular of international trade. Both outstanding and emerging problems across a broad range of policy areas will be addressed with renewed vigour. An important aim will be to promote coherence.

There is an urgent need for reform of agricultural policies. In 1991, progress in the implementation of the reform principles agreed in 1987 continued to be very limited and uneven. Ministers noted and endorsed the recommendations of the Ministers for Agriculture at their meeting of March 1992. They note the work underway in the Organisation on the inter-related issues of agricultural reform, the environment and rural development, and stress the need for an integrated approach to these issues. While reform would have benefits for the economy and the agro-food sector, it may involve hardship for some of the agricultural population and for some regions heavily dependent on agricultural income. Where appropriate, adjustment assistance may therefore be required and will be provided in a way that does not create further impediments to structural change and that reduces economic and, in particular, trade distortions.

World-wide sustainable development requires that policies in all countries take account of the close interrelationships between economic growth, social well-being and environmental quality. As emphasised by Ministers of Environment and of Development Co-operation at their meeting in OECD in December last, the truly collective responsibility and duty of all the nations of the world is involved here, because the



basic life support systems of the earth are at stake. Success will require: better integration of national economic, social and environmental policies; in addition to regulations, expanded use of market mechanisms in such a way as to ensure that environmental goals are fulfilled in the most cost-effective manner; international co-operation, supported by the mobilisation of expanded technical and, as agreed, new and additional financial resources, to enable all nations, particularly developing countries, to play their full roles; and the encouragement of scientific research and development of environment-related technologies. Therefore, OECD governments are committed to using the forthcoming United Nations Conference on Environment and Development as a catalyst to build a strengthened partnership for sustainable development with non-member countries; and then to working with them to implement the agreed long-term policies, strategies and conventions that emerge from it. This partnership should be based on mutual commitments by all countries, taking into consideration their relative capacities and common but differentiated responsibilities. Ministers note with satisfaction that a United Nations Framework Convention on Climate Change was adopted by the INC on 9 May, which will be open for signature during UNCED in Rio de Janeiro. They consider that this Convention would provide a good basis for international action to tackle climate change, including the specific commitments by OECD countries, and invite the OECD to intensify its work on issues related to climate change in order in particular to support Member countries in their preparation and co-ordination of actions to implement commitments under the Convention.

Ministers welcome the agreements on officially-supported export credits and tied aid credits reached in the Arrangement on Guidelines for Officially Supported Export Credits and in the Development Assistance Committee on new measures aimed at greater transparency and discipline. They underline the importance of an effective implementation of these measures. Ministers expect further progress along the lines decided by the bodies concerned, including the Export Credit Group of the Trade Committee with its further work on subjects including export premium systems, and ask for reports at their 1993 meeting.

Ministers welcome the progress achieved over the past few years in the international co-operative efforts, in particular through the work of the Financial Action Task Force (FATF), to prevent the utilisation of the financial system for the purpose of money laundering. They express their determination to further reinforce multilateral co-operation in this area and invite all countries to participate actively in the fight against money laundering on the basis of the FATF recommendations.

Looking to the coming years, Ministers emphasise the need to address the important questions of trade policy, together with other domestic policies with trade relevance, that emerge from the increasing globalisation of the world economy. There is an increasingly close relationship between trade policies and, in particular, environment, competition, industrial support and technology development and innovation policies. Further progress will be made in better understanding the issues and identifying

required policy adjustments:

- trade and environmental policies can be mutually supportive in the pursuit of sustainable development, particularly if those policy interventions which have negative trade and environmental impacts are removed and if environmental benefits and costs are internalised into national and international prices. OECD governments will give priority to pursuing further analytical work and discussion with a view to developing appropriate guidelines for submission to Ministers, as soon as possible, for the improvement of the compatibility of environment and trade policies, and to ensuring that environmental regulations and environment-related trade measures do not operate as disguised barriers to trade

- trade and competition policies have a common objective: economic efficiency. But these policies have sometimes impinged on each other. OECD governments will seek to: improve consistency between these policies to enhance competition and market access; provide a foundation for convergence of substantive rules and enforcement practices in competition policy; identify better procedures for the surveillance of trade and competition policies; and enhance the interests of consumers

- trade and investment policies are closely related, since both trade and foreign direct investment form part of the international strategies of enterprises. The interaction of these two policy areas should be further analysed with a view to enhancing the consistency of policies for market access. Ministers urge expeditious study on the feasibility of a wider OECD investment instrument.

Industrial subsidies and other public support measures can give rise to distortions in both national and international markets that can contribute to international trade friction. Industrial subsidies also generally impede rather than promote structural adjustment and add to pressures on public expenditure. Ministers remain firmly of the view that every effort should be made to eliminate or bring under enhanced discipline subsidies that have trade distorting effects. The current work on industrial subsidies and structural adjustment indicators in the OECD represents important progress towards greater transparency in this area and will facilitate the further task of the relevant international organisations in elaborating commonly acceptable international disciplines. Ministers invite the Organisation to intensify this exercise, whose key features are joint analysis and peer review, so as to allow a real international comparison, the essential starting point for systematic multilateral monitoring and surveillance. Specifically, work should continue on the concepts and methodologies necessary to allow comparability, quantification and analysis. Ministers stress the need to make progress in this area as quickly as possible.

Multilateral co-operation, in particular in the OECD, will also seek to identify problems and, where appropriate, strengthen disciplines in other areas where convergent national policy measures may improve the functioning of the global economy. In this regard, Ministers welcome the recent launching by OECD science and technology Ministers of a forum for exchange of information and open substantive discussion on large-scale science projects. Other areas

might include: international aspects of taxation, liberalisation and supervision of financial markets, telecommunications, maritime transport, biotechnology and technology policy, as well as health, safety and environmental regulations, movement and qualifications of professionals and skilled workers, and equal-opportunity legislation.

Ministers recognise the need for more attention to be given to the growing energy interdependence among nations inside and outside the OECD region and the importance of compatible approaches to energy and environment policies among both Member and non-member countries. They encourage Member countries to share their energy policy experiences and expertise, including access to information on energy technology innovations, as appropriate, with interested developing countries and countries in transition to market economies. They support the positive contributions made by the OECD and the IEA to the UNCED/INC process and urge them to continue to participate in and contribute to that process in the future, as appropriate.

## The OECD in a Changing World

In the world-wide move towards pluralist democracy, respect for human rights and a competitive market economy, an increasing number of countries which recognise the validity of these basic principles of OECD Member countries wish to establish contacts and develop relations with the Organisation. In an increasingly interdependent world this represents an evolution which Ministers welcome, and it presents a challenge and an opportunity for the Organisation. The Organisation must respond positively and effectively to this new situation, while at the same time maintaining and reinforcing the relevance and quality of its work, and its efficiency as a group of like-minded countries, with benefit both for Members and non-members. The necessary expansion of contacts with non-member countries should proceed in a manner consistent with the inherent values and working methods of the Organisation, taking into account the variety of situations, circumstances and policies of these countries in devising the appropriate structures and modalities of co-operation. These may include participation by non-member countries in those OECD activities where a mutual interest is clearly recognised, and membership of the Organisation for countries which fully share OECD values and characteristics and are willing and able to meet the obligations of membership.

### Developing Countries

OECD countries will continue to give high priority to co-operation with developing countries. This requires a coherent and comprehensive approach which includes: pursuing macro-economic policies conducive to non-inflationary growth and contributing to a stable global economic environment; further liberalising access to their markets for products from developing countries; substantial additional aid efforts both quantitatively and qualitatively, in particular in support of economic and democratic reform;



and promoting co-operative approaches to relieving debt burdens, particularly for the poorest countries. Ministers therefore encourage the Organisation to marshal available analytic resources to foster coherent development policies in Member countries and a better mutual understanding of the problems facing developing countries. Donors who have made undertakings in respect of the ODA target of 0.7% of GNP established by international organisations should make increased efforts to implement them and other donors should make their best efforts to increase their level of ODA. Co-operation with developing countries also requires developing constructive discussions in all appropriate fora, aimed at finding ways to deal in a coherent manner with fundamental issues such as environmental protection, excessive population growth, poverty, education and technology co-operation. The institutional reforms agreed at the recent UNCTAD meeting are a welcome step towards more constructive policy dialogue.

In developing countries, participatory development, including a greater role for the private sector, democratisation, respect for human rights, and good governance, including the reduction of excessive military expenditures, are basic to ensuring the conditions for broad-based, sustainable economic and social development. Ministers welcome the world-wide trends in these directions. Nevertheless, situations in developing countries still differ widely. Many countries have moved resolutely to implement these principles. The benefits of such efforts are becoming visible, including in private investment flows. In many other countries, however, insufficient efforts have been made, and in some of these countries, economic and social conditions have been consistently deteriorating. OECD governments acknowledge the complexities of the issues involved, but sustained and determined efforts to implement the above principles are an increasingly important consideration in development co-operation, including aid allocation. OECD countries are willing to encourage and support these efforts.

### **Central and Eastern European Countries and the New Independent States of the Former Soviet Union**

OECD governments are deeply committed, both in their own interest and that of the countries concerned, to helping the process of transition succeed in Central and Eastern European countries (CEECs, which include Estonia, Latvia and Lithuania) and the New Independent States of the former Soviet Union (NIS). Ministers recognise that this transition to pluralist democracy, respect for human rights and a competitive market economy is indeed a difficult and complex process, which affects all aspects of the political, economic and social reality of these countries.

Success in transition demands the introduction or continuation by the countries themselves of comprehensive reform programmes aimed at creating the conditions under which economic agents, both national and foreign, can act effectively. Important among these conditions are:

- institutional clarity and stability at the political, administrative and legal levels, an effective

social security system, and preservation of social consensus behind reform programmes

- an effective macroeconomic stabilisation, including control of inflation, sound public finance and a stable currency
- structural reforms whose main focus is to provide people and enterprises, including small and medium-sized enterprises, with the skills, incentives and competitive environment needed for the market economy to thrive and create jobs
- non-discriminatory openness to investment and trade from other countries, conducive to a progressive integration in the global economy
- a continuing high priority accorded to tackling the massive problems of environment and nuclear safety, as well as of basic infrastructure inadequacy, and conversion of the industrial, scientific and technological potential from military to civilian use.

External support, both by governments and international organisations, is geared towards helping recipient countries, whose numbers have augmented significantly over the past year, to create these conditions, taking into account the specific situations of each of them and the increased scale of the task overall, including to the OECD. This support is increasing. Ministers stress the importance of international organisations continuing to deepen their co-ordination in accordance with their respective areas of competence. They commend and confirm the role of the OECD and its CCEET in the provision to an increased number of recipient countries of technical assistance for policy formulation, in particular with regard to structural policies. They stress the usefulness of the OECD's on-line Register of technical assistance projects, and urge countries to contribute to it. They look forward to the OECD's role as the clearing house for information on technical assistance to the New Independent States of the former Soviet Union. They call upon the Organisation to develop further the most effective mechanisms, taking due account of the activities of other international organisations, to deliver its support for reforms in the New Independent States of the former Soviet Union and the Central and Eastern European countries, to consider in particular the proposed creation of a Liaison and Co-operation Committee that will bring together for discussions all OECD Member countries, the CEECs and the NIS, and to examine how best the OECD can assist in improving productivity growth in the CEECs and the NIS. They also support the International Energy Agency in its assistance efforts, and the contribution being made by the Nuclear Energy Agency to well co-ordinated international efforts to foster nuclear safety.

Central and Eastern European countries have already made progress, impressive in some cases, in establishing pluralistic democracy and making the transition to market economies. OECD countries will continue to support strongly these efforts. Ministers note with satisfaction the implementation of Partners in Transition (PIT) programmes with Hungary, Poland and the Czech and Slovak Federal Republic. They expect the forthcoming meetings of Liaison Committees with these countries to provide an opportunity for assessing progress to date and further developments. They commend the efforts

made by other Central and Eastern European countries, and call for an adequate response to the evolving needs of all these countries.

In the New Independent States of the former Soviet Union, the challenge of transition is an order of magnitude more daunting and demanding. OECD governments are resolved to do their best to help this historic change to be a success. Ministers instruct the OECD to offer its assistance to the NIS, focusing on those areas of its expertise best suited to the circumstances prevailing in these States. They instruct the OECD to define and make effective use of its function as a clearing house for information. They welcome the continued use of the Organisation as a forum for the exchange of information, and of experience with technical assistance.

Ministers recognise the crucial importance of expanding exports for the CEECs and the New Independent States (NIS) engaged in a process of commercial and economic opening. Member countries:

- should therefore support trade liberalisation in these countries by policies of import liberalisation in OECD countries, in general, as well as in sensitive sectors and areas where the CEECs and NIS have significant export capabilities
- can also, for example, provide technical assistance in the identification and reduction of trade barriers, and support regional co-operation among these countries as a means to preserve efficient trade links and to foster the development of their trade.

On the other hand, the CEECs and NIS should liberalise further their foreign trade regimes, resisting protectionist pressures by domestic industries and foreign investors alike.

### **Dynamic Asian Economies**

The Dynamic Asian Economies have maintained their strong economic performance and this appears set to continue. Their increasingly important role in the global economy points to the desirability of developing further the informal dialogue begun four years ago. This dialogue has already contributed to a better understanding of OECD/DAE economic relationships, and to greater convergence of views about economic policies in areas of mutual interest, in particular trade and investment. It may be desirable to extend its scope to other global policy issues of mutual interest, such as environment, and education and training. Ministers noted the Republic of Korea's interest in membership and welcome increased formal contacts between it and the Organisation.

### **Latin America**

A number of countries in Latin America have made considerable progress towards stabilising, liberalising and restructuring their economies, and the benefits are already tangible. This is particularly the case for Mexico, after several years of market-oriented reform. After having heard the report of the Secretary-General, Ministers noted Mexico's interest in membership and welcome the development of relations between it and the Organisation, and express their hope of a further strengthening of these relations. They ask the OECD to consider the desirability of increasing contacts between the OECD and other reforming countries in the region.