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Published every two months
in English and French by the
ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

Editorial Address:

OECD Publications Service
Château de la Muette
2 rue André-Pascal
F 75775 PARIS CEDEX 16
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Single copies:

France: FF24

Elsewhere: FF30 - US\$5 - DM9

Annual Subscription Rates:

France: FF120

Elsewhere: FF130 - US\$25 - DM46

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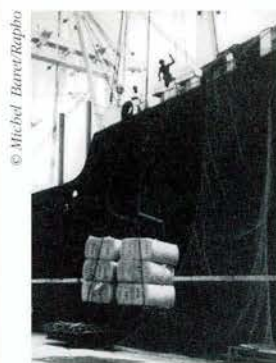
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Layout

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Whether in development aid, investment,
employment or environmental questions, the
issues raised by trade are a central concern
of the OECD countries.

Editorial

Trade	<i>Trade and Investment: the New Liberalisation</i> Jean-Claude Paye	4
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Analysis

Trade	<i>Trade, Environment and Aid</i> Dirk von Felbert	6
	<i>How Trade Affects Jobs</i> Nicholas Vanston	11
Social Affairs	<i>Parental Leave: What and Where?</i> Françoise Coré and Vassiliki Koutsogeorgopoulou	15
Taxation	<i>The Move to VAT</i> Erik Jørgensen and Jeffrey Owens	21
Transport	<i>Cars, Congestion, CO₂ and Choice</i> Laurie Michaelis	25
Regulation	<i>Opening-up Regulation</i> Scott Jacobs and Juhani Korhonen	29
Fisheries	<i>Hitting the High Seas</i> William Emerson	33
Urban Affairs	<i>Women and Urban Planning</i> Lindsay McFarlane	37

Spotlight

Economy	<i>Portugal: Developing Human Capital</i> Marco Mira d'Ercole	42
----------------	--	----

Observer Exclusive

Economy	<i>Indicators</i>	45
----------------	-------------------	----

For the Record

Economy	<i>The OECD Economic Outlook: Highlights</i>	47
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Bookstore

Just Published	<i>New OECD Publications</i>	51
Addresses	<i>Where to Obtain OECD Publications</i>	58

Trade and Investment: the New Liberalisation

Jean-Claude Paye, Secretary-General of the OECD

The advantages for all in specialisation and producing where costs are lowest and quality highest are so clear that, despite setbacks and glaring exceptions in some sectors, OECD governments have always committed themselves to the principle of multilateral free trade. Thanks in large measure to their efforts in the GATT and elsewhere, the traditional barriers to trade have gradually been whittled away.

But as they have come down, more subtle ones have become more evident. Furthermore, international transactions, other than those in goods, especially foreign direct investment, have grown enormously in importance. The regional and international agreements that served so well in past decades have already had to be modified and extended to respond to new realities. In the rapidly globalising world of today, the necessity of yet further competition-oriented reform is becoming increasingly evident.

Nowadays, customs duties on most goods are but a minor irritant to trade between OECD countries – and trade between OECD countries after all accounts for over half of all of world trade in goods. Business now finds the main obstacles to international transactions to be national laws, rules, regulations and customary ways of doing business that, accidentally or by design, discriminate against the foreigner trying to sell goods or services, or to set up a business. Even when they do not discriminate

against foreigners, differing national laws and practices can result in a distorted international pattern of investment and production as companies take advantage of variations in standards, incentives and so on.

Although it is idle to pretend that, one day, laws and customs will be identical throughout the world – what a dull world that would be! – some discrepancies (in procurement rules, subsidies and investment restrictions, for instance) are increasingly less easy to defend. With a degree of goodwill, and certainly much hard work, regulatory inconsistencies can be reduced or eliminated, as has already been achieved, for instance, in intellectual property rights. And because these issues are often quite sensitive and may touch on questions of national sovereignty, a strong spirit of international co-operation is essential to move forward. The OECD, where both objective analysis and the facilities for policy dialogue and, as necessary, international negotiation are available, could well be a useful forum in a number of activities. Indeed, in order to tackle a new generation of trade issues, including the interaction between trade, investment, taxation, competition and environment policies, and emerging ones such as labour standards, the OECD's approach for proceeding in a conflict-free, consensus-building way may be essential.

OECD nations currently dominate world trade in goods, their trade in services takes an even larger share, and they account for an overwhelming part of the world's

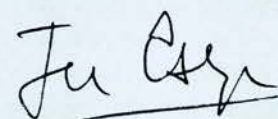
fast-growing international capital movements, especially direct investment. Furthermore, a very high proportion of these international transactions is between OECD countries themselves. In a sense, then, the new trade issues are to a large extent a 'family affair'. It is thus incumbent on the OECD countries to show leadership in devising co-operative solutions which foster global welfare. Nonetheless, it is clearly more and more important that other countries play a role. Awareness of the long-term threats posed by environmental degradation, for example, is already spreading to developing countries, while their attitude to foreign direct investment has become far more favourable. Of course, any arrangement reached between OECD countries will reflect their own concerns as advanced industrialised democracies. Yet as other countries succeed economically, policies and rules devised in the OECD area may well assume a more universal significance, so that other countries can adopt them when they are ready. Indeed, they are already beginning to do so.

Because of these considerations, OECD Ministers committed themselves at their meeting in May of this year to a full implementation of the Uruguay Round Agreement and to a strong and effective World Trade Organisation. They reaffirmed their commitment to resist protectionism in all its forms, to pursue new initiatives in reducing other trade-distorting measures, and to complete successfully current negotiations in the services sectors. They asked the Organisation to continue its analysis in promoting the compatibility and reinforcement of trade and environmental policies, in co-operation with the World Trade Organisation, as well as its work on trade, employment and labour standards. Ministers also agreed to an immediate start of negotiations aimed at reaching a Multilateral Agreement on Investment (MAI) by mid-1997. The MAI would provide a strong and comprehensive framework for foreign direct investment, aiming at widening the scope of existing liberalisation and providing legal security for international investors.

Launching of negotiations for a MAI is one of the most important international initiatives in the globalising world

in recent years. At present, companies making cross-border investments are confronted with a vast array of different legal frameworks as they consider where to invest. And although investment regimes have become much more open and welcoming in the recent past, there is no assurance that they will remain so in the years to come, and important barriers to foreign investment remain. The proposed MAI seeks to 'level the playing field' and ease market access, essentially by embodying the principle of national treatment (which accords foreign investors the same legal treatment as national companies) in a multilateral and most-favoured-nation context. To give it teeth, the MAI would be legally binding and contain enforcement provisions. It would be open to all OECD countries, and to accession by non-member countries, which would be consulted during the negotiation process.

OECD governments and the OECD Secretariat are thus continuing their efforts to support, modify and extend market-oriented frameworks within which international transactions can be undertaken as simply and as transparently as possible. They do not do this as an end in itself, but as a means to an end. That end is to use the world's resources in the most productive and sustainable manner, and to create better jobs for their citizens. The reforms that are underway or about to be set in train will not produce their fruits immediately. All of us will face renewed challenges in the years ahead, for our high living standards are not an immutable natural phenomenon, requiring no effort on our part to maintain. But if we use our considerable resources effectively, wherever they promise to give the best returns, then our living standards, and those of other countries, will continue to increase.



Trade, Environment and Aid

Dirk von Felbert

Over the last five years or so, the linkages between trade liberalisation, improved environmental protection and sustainable economic development have rapidly gained prominence on both national and international policy agendas. In the wake of the United Nations Conference on Environment and Development of 1992 and the successful conclusion of the Uruguay Round of GATT talks in 1994, many of these linkages have been analysed in depth across a wide range of international organisations, not least the OECD. Considerable progress has been made in identifying means of reconciling trade and environmental objectives that simultaneously promote sustainable development.¹

The successful conclusion of the Uruguay Round is expected to bring about increases in trade, investment and income to most developing countries, both from increased access to markets in developed countries, and from improved efficiency thanks to the developing countries' own steps towards liberalisation. But many of these countries are worried that environmental issues might be used as new

barriers against their traditional export sectors, especially agriculture and textiles. The fear is that, in particular, the proliferation of increasingly stringent and complex environmental regulations and standards in industrialised countries will adversely affect the competitiveness of the developing countries and their access to OECD markets. Some of them even speak of 'green' protectionism by OECD countries.

Over the past few years, indeed, many industrialised countries have introduced a series of different national environmental standards and regulations, including stipulations on packaging, recycling and re-use, and labelling requirements.

These measures can play a valuable role in reducing environmental stress and informing consumers about the environmental consequences of their purchasing decisions. But the proliferation of divergent national programmes can also have trade-distorting effects when they are mutually incompatible or when they reflect exclusively the environmental conditions and preferences of the importing country. Foreign suppliers, particularly exporters in developing countries, may experience problems of market access because of lack of timely and transparent information and technical difficulties, such as arranging for the collection or recycling of packaging and setting-up the testing and certification facilities necessary to comply with environmental requirements.

The impact of environmental requirements in OECD countries on the extent to which developing countries can benefit from the trade liberalisation following from the Uruguay Round will therefore depend, to a large extent, on how they can adapt to these new requirements in their export markets. Surveys conducted by the United Nations Conference on Trade and Development (UNCTAD) indicate that environmentally motivated standards introduced in OECD countries have – so far, at least – had no major implications on market access and competitiveness for developing ones. But some problems of adjustment have already been observed in sectors where developing countries have special export interest.

For example, the Council of the European Communities adopted a regulation in 1992 intended to increase the use of recycled waste paper in paper products so as to reduce waste generation and to ease pressure on forest resources. As a result, some exporters of pulp and paper (in both developing and developed countries) faced a substantial loss of market share because the requisite criteria did not take account of local conditions in their countries, such as lack of domestic supply of waste paper or the availability of pulp and paper from forests which are sustainably managed.

Problems of this sort may be exacerbated as developing countries are further integrated into the world trading system and thus come under

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growing pressure to bring their environmental standards into line with those of their trading partners in OECD countries. Many of them will face a series of difficulties in adjusting:

- lack of up-to-date and accurate information about emerging regulations in their export markets
- limited participation in the development of criteria for standards
- a shortage of human resources and technological expertise
- paucity of the finance required to comply with the increasingly complex range of environment-prompted standards on products and processes introduced in developed countries.

Eco-Labeling: Friend or Foe?

One subject of special concern for developing countries is eco-labelling,² the use of a seal on a product to identify it as environmentally superior to others in the same category. In markets with growing consumer preferences for 'green' products, eco-labelling often serves as a marketing instrument. Governments tend to support such schemes because they set incentives for producers to improve the environmental qualities of their products, and their voluntary nature makes them attractive alternatives to command-and-control approaches. OECD countries were the first to introduce eco-labelling programmes, and they are now operating in 22 of the 25 member states. They also exist in a number of developing countries, including India, Korea and Singapore, and are being planned in many others, such as Brazil, Chile, Colombia, Indonesia and Thailand.

To date, the impact of eco-labels on exports of developing countries has been limited since only a few of them are covered (pulp and paper products being the most markedly affected). But

1. *Trade, Environment and Development Co-operation*, available free of charge from the OECD Development Co-operation Directorate.

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

3. Candice Stevens, 'The Environmental Life-Cycle and Trade', *The OECD Observer*, No. 188, June/July 1994.



Planet Earth/Mark Schuman

Exports of wood and other forest products can suffer from regulations that do not take account of local conditions, even when the forests are sustainably managed.

many industrialised countries now have plans to extend these schemes to sectors and products – not least textiles (box, p. 9), furniture, leather and footwear – where their less-developed trading partners have substantial export interests. This trend reinforces fears in the developing countries about their access to OECD markets, especially when eco-labels are based

on a 'life-cycle' approach and thus incorporate 'process and production methods' (PPMs)³ because they often lack the capital and the technology to adapt their PPMs to those considered good enough in the OECD countries to allow an eco-label to be granted.

The relationship between the rules of the World Trade Organisation (WTO), which replaced

Trade, Environment and Aid



Denise Miller/SABA/REA

Many developing countries fear that environmental issues might be used as a barrier to their traditional exports, not least textiles.

the General Agreement on Tariffs and Trade (GATT) at the beginning of this year, and voluntary eco-labelling programmes is unclear. There is still some debate as to whether voluntary schemes are covered under the Agreement on Technical Barriers to Trade (the TBT Agreement). If it is agreed that they are, a number of provisions contained in the TBT Agreement would provide the basis for increased transparency and notification procedures. To clarify the situation, the WTO is currently reviewing the relationship between voluntary eco-labelling and existing GATT rules.

New Opportunities through 'Green Trade'

The demand for 'environmentally friendly' products in OECD countries and among the better-off population in an increasing number of developing ones is growing rapidly. Although this trend may pose some initial problems of adaptation for developing-country exporters, it will also help to open up new opportunities for many of them, since they are often a rich source of raw materials and products that have less impact on the environment. For example,

natural fibres grown in developing countries (flax, bamboo, sisal and jute) are often functionally similar, and environmentally preferable, to glass fibres or asbestos in composites. Similarly, tropical forests offer an abundant range of medicinal plants which may be ecologically superior to artificial pharmaceutical compounds. Moreover, many other crops from developing countries could benefit considerably from the growth in demand for organically produced goods, such as rice, cotton, fruit, coffee, tea and cocoa. But even if such products are identified as environmentally desirable, developing countries are frequently

not in a position fully to exploit their potential on the international or even domestic markets, let alone obtain an 'environmental premium' from the higher prices such production methods could command: they simply do not have the marketing skills and financial means to penetrate new markets.

A number of non-governmental organisations (NGOs) and private firms are supporting efforts in these countries to bridge the gap between product identification, potential demand and sales promotion in export markets. For instance, the Third World Information Network (TWIN), the Max Havelaar Foundation, the Fairtrade Foundation, the Rainforest Alliance and Organic Chocolate Manufactures are all active in linking exporters of organic produce with markets in the OECD countries. Similarly, some private firms, like the UK-based Body Shop, Ben & Jerry's Ice-Cream in the United States and L'Occitane in France, are marketing environmentally friendly products from developing countries, ranging from organically grown cotton and other natural fibres, through cosmetics to coffee, tea, tropical fruits and vegetables. These activities provide useful avenues for connecting trade and development objectives with environmental considerations. And the potential for such goods to

graduate from niche to mainstream markets is considerable.

Harmonisation Can Help

International co-operation is the most efficient way to address the concerns of developing countries about the effects of environmental requirements on their patterns of trade. The solutions to hand include the harmonisation of international environmental standards, the negotiation of multilateral environmental agreements, and the provision of targeted development assistance – all mechanisms which will also help expand market opportunities for environmentally preferable goods from developing countries.

Increased harmonisation of environmental standards can reduce uncertainty among exporters and investors; facilitate market access, and help tackle transboundary or global environmental problems when standards are set sufficiently high. Harmonisation does not mean that standards and regulations should be the same in all countries. They may vary as justified by such factors as differences in the capacity of countries to absorb pollution and the extent of industrial development. Variations may also reflect differing cultural values, policy priorities and approaches to resolving environmental problems, as well as the financial and technological capacities to address particular concerns among them.

Harmonising the procedures for establishing the criteria and defining the methods for setting environmental standards would be particularly useful. Similarly, steps could be taken to increase the compatibility of differing national practices, such as environmental impact assessments and audits. The participation of developing countries in harmonisation activities through, for instance, the International Standards Organisation (ISO), is vital to ensure that their conditions and concerns are fully taken into account and to minimise the danger that environmental requirements might act as trade barriers. Consideration should also be given to approaches based on equivalency and mutual recognition, where coun-

FOCUS

Labelling Textiles: What Impact on Trade?

Cotton is a vitally important cash crop in a large number of developing countries – for example, Egypt, Pakistan and Mali; indeed, in these countries cotton and cotton products account for well over 25% of total export earnings. But cotton-growing requires the use of irrigation, fertilisers and pesticides which often leach, salinise and erode soil and pollute lakes and rivers. In addition, residues from pesticides have also been found in cotton clothing; and synthetic dyes and other chemicals used in the finishing stages of textiles have been identified as hazardous to health.

Eco-labelling schemes have therefore been proposed in a number of OECD countries to control and reduce the environmental damage and health risks from growing cotton, the production of cotton textiles and the final salable goods. Although foreign manufacturers can usually obtain labels for their goods, they are rarely involved in the drafting or de-

sign of the criteria on which the labels are based. Furthermore, manufacturers from developing countries, small-scale exporters in particular, frequently do not have the technical or financial capacity to meet the standards required by the criteria and to adjust to the growing diversity of labels – of which, furthermore, they may be ill-informed.

Another problem arises from the fact that the schemes often do not explicitly acknowledge the natural dyes available in developing countries as ecologically acceptable alternatives for the chemical compounds usually employed in more 'advanced' production processes. Furthermore, some studies have indicated that natural fibres are not necessarily ecologically preferable to synthetic alternatives. Therefore, as consumers behave in a manner that reflects their heightened awareness of the environment, the demand for textile – and even natural fibre – exports from developing countries could decrease, depriving them of some of the income required to improve their environment.

tries recognise one another's standards, even if they differ from domestic regulations, provided they adequately fulfil the same environmental objectives. Mutual recognition may prove particularly useful in cases where environmental problems are local and where, according to differences in economic development, the capacity to absorb pollution, product standards and production processes may all differ substantially between countries.

Harmonisation usually occurs within the context of regional or multilateral environmental agreements (MEAs) which are intended to reduce transboundary or global environmental problems. Among those concluded so far are the International Tropical Timber Agreement (1985), which aims at sustainable management of forests, the Montreal Protocol (1989) for the protection of the ozone layer, the Basel Convention (1992) on the control of transboundary movements of hazardous wastes and their disposal, and the Convention on Biological Diversity (1992). The primary rationale behind such agreements is the recognition that if individual countries, or even regional groups of countries, take action themselves rather than reaching global agreement, non-participating countries could easily negate the environmental benefits. And from a trade perspective, unilateral or regional action to address environmental problems can have substantial adverse effects on importers and exporters, particularly from developing countries, which may not have had an opportunity to participate in the drafting of the regulations.

Some MEAs provide for trade measures against non-participating countries to ensure maximum effectiveness. The Montreal Protocol, for instance, contains provisions which impose trade restrictions on countries unwilling to reduce the use and production of ozone-depleting chemicals. But since developing countries may lack the resources and capacity to comply, the Protocol also contains special provisions in the form of financial and technical assistance, improved access to technology, and transitional periods of grace. It simultaneously discourages non-participation by countries who would benefit without sharing the costs by imposing

restrictions on exports and imports between parties and non-parties.

Care must be taken that these measures do not boomerang. They may deprive developing countries of an important source of livelihood – and, moreover, the income required to improve their environmental management. The effectiveness of MEA provisions to implement and enforce environmental policies will therefore depend at least as much, if not more, on the carrot of development co-operation as on the stick of trade restrictions.

Development Co-operation

Development co-operation, indeed, has a substantial role to play in assisting developing countries cope with the policy and management

challenges involved in trade and environment issues. It can help strengthen the human, institutional and technical means of addressing environmental problems and the effects of trade liberalisation on the environment. The least-developed countries, in particular, often lack the capacity to design and implement the appropriate mix of economic, environment and trade policies that would promote sustainable development. Development co-operation has a valuable role to play in helping to build this capacity – for instance, by assisting in the design of economic instruments, not least environmental taxes and charges, tradable permits and deposit refund systems, as complements to regulations and voluntary agreements, conducive to sustainable development.⁴

⁴ *Economic Instruments for Environmental Management in Developing Countries*, OECD Publications, Paris, 1993.

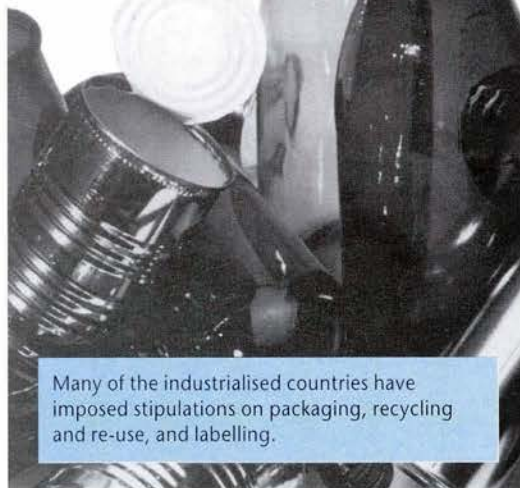
Trade, Environment and Aid

In some cases, implementing sustainable policies may entail substantial adjustment costs, especially for the least developed countries; for example, the removal of subsidies on agricultural pesticides may reduce, in the short term, the production and income of farmers. This can affect small-scale producers in particular, since they often find it more difficult to implement alternative methods, such as integrated pest management. There, donors may be in a position to provide targeted financial support in order to cushion the possible social effects.

Development co-operation can also improve the extent of consultation with, and the flow of information to, developing countries. When in the early 1990s, for instance, a number of OECD governments banned the use of Pentachlorophenol (PCP), a toxic preservative for leather products, India's leather industry came under severe pressure to make the necessary changes. It was confronted with three main problems: a lack of information on PCP regulations, a want of substitutes, and an absence of testing facilities. Costly time passed before several joint export-promotion projects were established to set up such facilities and to disseminate information on PCP regulations and on certification procedures. This illustration underlines the central importance of involving developing countries early on in the drafting and implementation of environmental requirements that may affect their trading prospects. Consultation also enhances transparency and helps ensure that the investments necessary to meet new standards are not delayed.

Donors could facilitate access to timely and comprehensive information about new requirements. The establishment of user-friendly data banks, for example, easily accessible for developing-country exporters and designed to meet their specific demands, could improve the awareness of environmental standards that might have potential trade effects. Donors could support training schemes to show how to interpret and use such information. Information sessions could also help developing countries participate more effectively in international fora (including

the ISO) where standards are being discussed and data collected. Commercial and industrial fairs and exhibitions featuring ecologically friendly products and technologies are another effective way of facilitating exchange of information and knowledge between buyers and suppliers in developed



Many of the industrialised countries have imposed stipulations on packaging, recycling and re-use, and labelling.

PH: TPI/4592/SIPA

and developing countries: an international 'Bio Fair', for example, is being organised in Costa Rica for November of this year. Not least, donors may increase their efforts to collect and relay back to their own capitals information about the types of obstacles developing countries are facing.

Donors can also help developing countries exploit opportunities emerging from the 'greening' of consumer preferences. Technical assistance could be made available to test the viability of 'green' products for export or local markets. Donors could further support the promotion of environmentally friendly goods through their assistance programmes – for example, by helping producers obtain an eco-label and improve their marketing and technological skills. In view of rapidly changing consumer preferences, developing countries would also benefit from assistance in learning how to

monitor market trends and to increase the likelihood of securing a 'green premium' for their products. Some donors already offer this kind of assistance, including support for a timber certification system in Africa, and for an eco-labelling program for environmentally friendly goods and services from Costa Rica.

■ ■

The emergence of environmental standards and regulations in international trade raises particular concerns among developing countries. Many of them do not have the the human, institutional, technical and financial resources to address the problems raised when trade and the environment meet. International co-operation is the most efficient means to cope effectively with these challenges, through the harmonisation of environmental standards, multilateral environmental agreements and development co-operation, among other means. Systematic efforts in these activities will have to be intensified to prevent trade measures working against developing countries on environmental grounds. They would also help these countries to assure the sustainability of their patterns of production and trade and to take full advantage of the opportunities arising from the increasing demand for environmentally friendly products. ■

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How Trade Affects Jobs

Nicholas Vanston

The world-wide increase in international trade after the Second World War is generally credited with boosting economic growth. But more recently it has also been accused of destroying jobs and lowering wages, especially for low-skilled workers in OECD countries.

It is sometimes assumed that a given quantity of imports 'destroys' a certain number of jobs and that a given quantity of exports 'creates' them. The truth is more complex than that. Like trade between individuals, trade between countries is a spontaneous reaction to different costs and prices, and to changes in incomes. Depending on particular market characteristics and macro-economic conditions, changes in trade flows may be associated with large or small changes in employment – or even no change at all.

For example, if an economy is working at full capacity, and domestic demand increases, the extra demand would have to be met entirely by higher imports, with no adverse effect on employment. Thus between 1982 and 1984, US imports rose by over 40% in real terms (exports hardly grew at all), while unemployment fell by 2 percentage points.

At the other extreme, domestic manufacturers might react to potential foreign competition by rationalisation and reducing their work force, as has happened recently in the European steel industry. To the extent that manufacturers

succeed in this strategy, there will be a fall in employment with no increase in imports.

In general, one must distinguish between changes in imports that arise because of changes in national income (and which do not necessarily have any important employment effects), and import changes which reflect changes in costs (and which will normally lead to changes in employment patterns). On the export side, a distinction should be made between higher exports that occur because demand is rising in trading-partner countries (which will normally 'create' employment, for a while at least), and rising exports because of lower costs and higher productivity (which may be associated with a fall in employment).

Ideally, one should study the relationship between changes in domestic and foreign costs and their subsequent impact on patterns of demand, and then derive conclusions for employment. But whereas reliable, detailed data on trade are widely available, data of similar quality on costs and prices are not. As a result, most analysts have tended to make estimates of the 'labour content' of exports and imports, and use these calculations to determine how many, and what kind of, jobs have been 'created' or 'lost' because of foreign trade.¹ Though this method is convenient (and is sometimes the only one available because of want of data), it is a highly

imperfect way of analysing trade-related changes in employment and the influence of trade on wages. In particular, it yields much exaggerated estimates of the true influence when a country is moving into trade deficit or trade surplus because of its position in the business cycle. These distorted figures can encourage pressures for protection even when an economy is in truth booming, and help conceal a fundamental deterioration in international competitiveness as an economy goes into recession.

Trade, Growth and Employment

It is reasonable to assume that, if a country's exports and imports both expand while trade remains broadly balanced, it is better-off as a result: the expansion would not otherwise have occurred. Thus higher exports have gone hand-in-hand with rising imports and living standards in the successful south-east Asian economies. The increase in real incomes it brings about may or may not lead to higher employment: trade does create jobs – but it also destroys them.² Both economic theory and practical experience suggest that in the longer term the impact on total employment will normally be very small. For the OECD area as a whole, trade volumes rose more than six-fold between 1960 and 1990, and real incomes nearly three-fold, whereas employment rose by less than 50%.

But it cannot be gainsaid that, as trade patterns change, the demand for labour (and capital) by sector and/or by type of labour will change. With rare exceptions, employment will decline in some sectors or in some categories of skill and it will rise elsewhere. When, for example, the United Kingdom abolished the Corn Laws in the 19th century, removing restrictions on the import of grains, demand for arable land and farm labour fell but rose for industrial capacity and labour, as UK manufactured exports

1. Analyses based on the input/output tables use basically this approach, but also make allowance for the indirect linkages between sectors.

2. George Papaconstantinou, 'Technology and Jobs', *The OECD Observer*, No. 194, June/July 1995.

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How Trade Affects Jobs

to wheat-exporting countries like the United States expanded. If there is some flexibility in wages, both employment and wages will adjust – but it will take time. If skills are not readily transferable to other industries, or if labour markets are inflexible in other ways (for example, through lack of geographical mobility), unemployment will rise for a time even though there are labour vacancies in some industries or localities whose exports are growing. The full benefits of higher trade will thus take longer to come through. The multilateral fibre agreement, for example, which results in OECD consumers paying high prices for textiles for many years, also

The marked growth in trade of basically similar goods between OECD countries – of cars between France and Germany, for example – is generally seen as healthy competition.



Deanne Miller/Scala REA



Loime/Jerrican

By contrast, the relatively small amount of trade of dissimilar goods with developing countries has evoked a considerable amount of hostility.

delays the inevitable contraction of OECD textile industries and discourages its resources from moving to other more productive sectors.

In the event, the big expansion of trade in manufactured goods after the Second World War was accompanied by a large reduction in employment in the manufacturing sectors of OECD countries, as labour productivity there grew faster than demand for manufactured goods. Employment in the sector fell as a proportion of total civilian employment, from

26% in 1960 to 21% in 1990. There were especially steep falls in some countries (for example, from 38.4% to 22.5% over the same 30-year period in the United Kingdom); in only a few, Japan especially, did it rise.

Of course, some of the demand is satisfied by imports. Trade in most kinds of manufactured goods has risen sharply in OECD countries (certainly much faster than output), but it is mostly, and increasingly, with other OECD countries. Since it is clearly impossible for all OECD countries simultaneously to import relatively labour-intensive manufactured goods (clothing, for example) from one another while exporting relatively capital-intensive products (automobiles, for example), the fall in manufacturing employment cannot be ascribed to increasing import-penetration on its own.

Trade with Low-wage Countries

Much attention has been given in recent years to the possibility that the way in which trade patterns have changed has resulted in substantially lower demand for low-skilled labour

in the tradables sector in OECD countries, resulting in higher unemployment rates for such workers, and/or lower wages. The reasoning is based on the fact that there has been a strong sustained rise in bilateral trade in manufactured goods with developing countries, especially those in Asia, and at the same time, there has been a marked decline in the demand for unskilled labour in OECD countries. OECD imports of textiles and other basic consumer goods have soared, as have exports of capital goods, such as aircraft, automobiles and machine tools.

Conventional trade theory argues that trade patterns are the result of patterns of comparative advantage, themselves generated by differences in resource endowments (for example, in

fertile land, physical capital and educated labour). It predicts that countries with dissimilar endowments will exchange dissimilar goods ('inter-industrial' trade). Thus the United States exports aeroplanes and Zambia exports copper.

In truth, much of world trade, and most OECD trade, consists of the exchange of similar goods between countries that have similar resource endowments ('intra-industrial' trade). This type of trade is particularly important within Europe. Many economists have speculated that a rise in the intensity of such trade involves less a displacement of labour and capital than a similar rise in the intensity of trade of dissimilar goods. For example, France and Germany each export automobiles to each other, the industry in each country has grown successfully, and neither country regards its imports from the other as anything but 'healthy competition'. This helps to explain why the very big increase in trade between most OECD countries, to its current very high volume, raised less hostility and proceeds more smoothly than the relatively small amount of trade between OECD countries and developing countries, where the goods exchanged tend to be dissimilar.

Almost by definition, developing countries have a higher proportion of unskilled workers than OECD countries, and also less capital equipment per worker. As could be expected, therefore, developing countries specialise in the production and export of goods and services that use unskilled labour more intensively (cotton, textiles) and import goods that 'contain' more highly skilled labour and physical capital from OECD countries (aircraft,



After the Corn Laws restricting grain imports into the United Kingdom were abolished in 1846, UK manufactured exports to wheat-exporting countries like the United States expanded.

medical equipment and electricity-generating machinery).

Until recent decades, a high proportion of goods imported by OECD countries from developing countries were primary materials such as coffee, oil and copper, and much of the remainder were manufactured goods that had a high raw-material content (cotton cloth, for example). But, as from the 1970s, several developing countries now known as the Newly Industrialising Countries, or NIEs – Korea, Hong Kong, Singapore and Taiwan – emerged as

major producers and exporters of a wider range of manufactured goods. And even though the goods in which they specialise (typically clothing and other mass-produced consumer goods) are relatively intensive in their use of unskilled labour, technological advance and the ease of transferring technology mean that the variety and sophistication of goods that can be produced this way has much increased.

It could be argued that the principle of comparative advantage has concentrated low-skilled jobs in manufacturing in developing countries, thus reducing the demand for unskilled labour in the advanced industrialised countries.³ Indeed, this is a mechanism that could explain the relative decline in demand for unskilled labour in OECD countries. It could also help explain why unemployment rates for unskilled labour have risen faster than those of skilled labour and why wage differentials have widened. But how important is it in practice?

The *OECD Jobs Study* attempted to quantify the extent to which trade between OECD and developing countries has been associated with falls in employment and/or falls in relative wages for the low-skilled.⁴ Although trade in manufactured goods between the OECD area and the sample of developing countries that was examined in the study (China plus the Dynamic Asian Economies, which together account for nearly

3. This argument does not depend on wages for low-skilled labour being lower in developing countries than in OECD countries. Comparative advantage stems from relative abundances of factors of production, not the absolute size of their earnings. Thus OECD countries successfully export the products of their abundant skilled labour, even though that labour is also more highly paid than in developing countries.

4. *The OECD Jobs Study: Evidence and Explanations*. OECD Publications, Paris, 1994.

How Trade Affects Jobs



J. Grichard/Gamma

As the dynamic economies develop, their trade with OECD countries will begin to resemble trade between, say, the countries of Europe.

half of OECD imports from developing countries) has grown in recent decades, it is still quite small, around 2% of OECD GDP, and close to balance.⁵ It was therefore not expected that the analysis would detect a major impact of such trade on OECD employment or wage differentials either in total or by type of labour, and indeed it did not.

Two approaches were used, and both gave similar results. An input/output analysis, which assigns changes in employment to all the factors believed to be responsible, in an essentially mechanical way, implied an employment gain between the early 1970s and the mid-1980s of about 0.75 million jobs in Japan and losses in other countries (except, interestingly, France, where the debate on the impact of trade on jobs was particularly heated in the early 1990s) which ranged from about one million persons in the United States to a few tens of thousands in the

5. This is true for the OECD area as a whole. Relative to their respective GDPs, Japan runs a substantial surplus vis-à-vis these countries, the United States a large deficit and Europe a somewhat smaller one.

smaller countries and Germany. Although significant, these numbers are small compared with the quantifiable influences of other factors.

The second approach employed a regression technique designed to isolate the impact of changes in trade flows on trend employment in major industrial sectors. It indicated that when other factors were taken into account, the net impact of trade – either with the whole world, or with developing countries only – on employment rates, was rarely significant. Some job losses were found in a small number of industries, particularly textiles, clothing, footwear and electronic goods.

Interestingly, and unexpectedly, *The OECD Job Study* found that on balance, adverse effects on employment were most marked in industries employing (in OECD countries) a high proportion of skilled workers. It may be that competition through foreign trade – which is predominantly with other OECD countries – encourages employers to economise on expensive skilled labour. Although the rise in exports

to developing countries must have raised the demand for skilled labour, it could be that the other consideration has proved more important in practice.

■ ■

There seems to be no reason to doubt that opening up economies to foreign trade will lead to higher real incomes, but also some shifts in the demand for different types of capital and labour. But empirical analysis suggests that the impact has not been large for OECD countries, even in their trade in manufactured goods with low-wage developing countries. Although such trade has probably contributed to the weakening of demand for low-skilled labour in OECD countries, the contribution does not seem to have been on any scale except in the case of particular industries, especially textiles, clothing and footwear.

It may be that the effects will be bigger in future. But as these dynamic countries develop, they begin to re-

semble OECD countries more and more closely, and it seems likely that one day, trade between Korea, say, and Europe, will look very much like trade between European countries, and be regarded as just as healthy. ■

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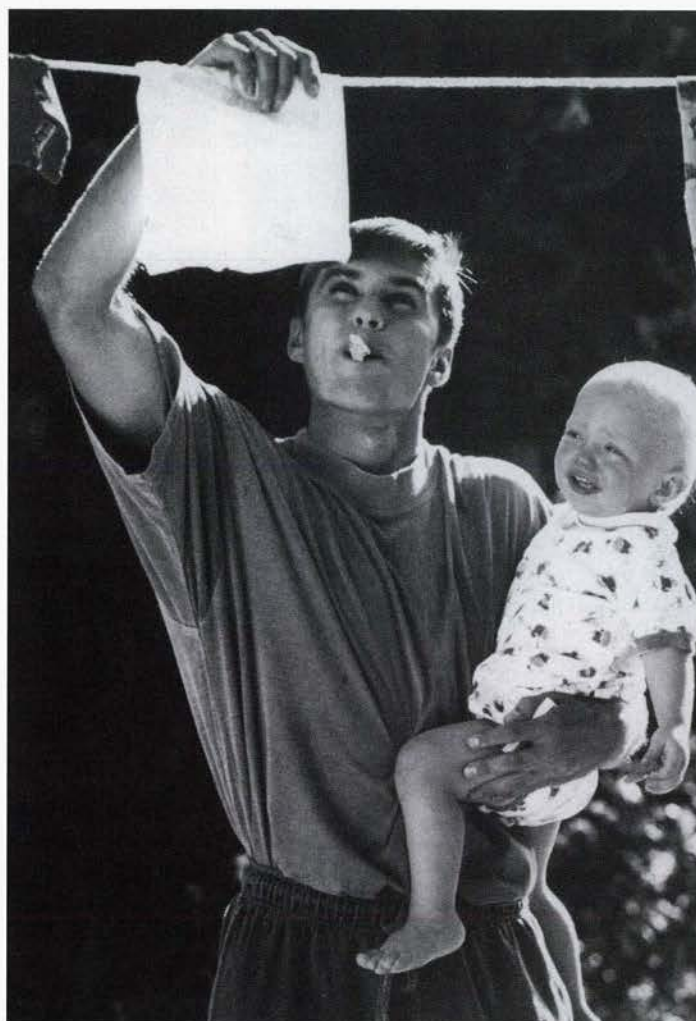
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Parental Leave: What and Where?

Françoise Coré and Vassiliki Koutsogeorgopoulou

The past two decades have witnessed some major changes in the structure of the labour force because of the growing number of women who work and the increase in dual-income households and single-parent families. It is no easy task for workers to reconcile their responsibilities as parents with the requirements of a job, and they are increasingly demanding a more flexible organisation of their working time. As a result, issues such as child care and parental leave have come to the forefront of domestic – and international – policy debates. Enterprises are likewise having to cope with growing requirements in two central areas of human-resource management, as they increasingly require higher standards of skills and more flexibility. They must be able to attract and keep skilled workers of both sexes. More and more, too, they are rotating workers on some jobs. Granting leave can be a way of meeting these concerns.¹

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Labat/Jerrican

With the exception of Sweden, parental leave is used almost exclusively by mothers. So some countries have begun to reserve a portion of the leave as an individual, non-transferable right.

Parental leave is granted to parents – both mothers and fathers – to allow them to take care of a young child for a relatively long period. The right to this type of leave, which is distinct from the entitlement to benefits during the leave, is relatively recent in the legislation of OECD countries. Sweden was unquestionably the forerunner, introducing parental leave as early as

1. 1995 OECD Employment Outlook, OECD Publications, Paris, 1995.

Parental Leave: What and Where?

BACKGROUND

Main Types of Leave for Working Parents

Maternity leave: leave granted to mothers for a limited period around the time of childbirth.

Paternity leave: leave granted to fathers for a limited period around the time of childbirth.

Leave for family reasons: leave granted to workers to take care of a sick child or for other family reasons.

Parental leave: long-term leave granted to either parent to allow them to take care of an infant or young child.

1974. Most of the other OECD countries have followed this lead, some quite recently (Table 1). As yet parental leave is rarely included in collective or company agreements, with the noteworthy exception of the public sector, and in particular the civil service. A directive on long-term leave for parents has been under discussion in the European Commission since 1983.

In most countries, long-term leave to take care of a young child initially developed simply as extended maternity leave (as is still the case in Turkey and the United Kingdom). The specific feature of parental leave is that fathers are also given this right, which means that the parents can share the leave as they wish. In most cases the father's right is still derived from the mother's, since he is entitled to the leave only if she also is and waives some or all of her rights.

Several countries have recently taken a radically different approach. The parental-leave legislation of 1991 in the Netherlands and the 1993 family-leave legislation in the United States make leave a strictly individual right to which each parent is entitled. In Denmark, Norway and Sweden, following recent legislative changes, a portion of parental leave is now reserved for each of the parents as an individual, non-transferable right.

The maximum duration of the period of leave has grown considerably longer over time. In one in four OECD countries, the combined duration of maternity and parental leave now amounts to approximately one year (Figure, right). It can be as much as three years, as in Finland, France and Germany. Belgium is a special case, for the five years of 'career breaks' provided for by law can be taken over the parent's entire working life without necessarily being linked to individual children. In the United States, the three-month 'leave for family reasons' is too short to qualify as parental leave.

Initially, parental leave was supposed to follow immediately after maternity leave and to be taken without interruption, although it now reflects today's job flexibility. In a number of countries parental leave can be taken on a part-time basis (in the Netherlands, this is the only possibility), be broken into segments of varying length, and in some cases be used until the child reaches the age of compulsory schooling. Sweden is remarkably flexible in the way in which parental leave can be used (box, p. 19).

Variations in Benefits

The differing philosophies underlying parental leave – and the differences observed across countries – are most clearly revealed by the varying levels of benefits provided to parents taking leave. Seven countries have introduced parental leave without any specific allowances or benefits (Table, p. 18). Elsewhere, the right to parental leave and the entitlement to benefits are governed by distinct sets of legislation. These benefits are most often paid as part of sickness/disability schemes, unemployment insurance or family allowances, which determine how they are funded. The eligibility rules are not necessarily the same for benefits and for the leave itself, and benefits do not always cover the whole period of leave.

In some countries, child-care benefits are granted to all parents, irrespective of their employment status. In Germany, where this is the case, parents receive a means-tested, flat-rate

allowance. In Finland and Sweden, too, all parents are entitled to parental benefits. Parents who are not working when their child is born (which is relatively uncommon given the female participation rates of 85 and 89% respectively) receive a minimum flat-rate allowance, while working parents receive a high proportion of their earnings, at least during part of the leave (66% of earnings for seven months in Finland, 80–90% for 12 months in Sweden).

In the remaining countries, the allowance is paid only to parents who have worked for a minimum amount of time during an earlier period (the requirements vary considerably). Only three countries (Canada, Denmark and Norway) pay benefits which replace earnings at the same level as for sickness or unemployment. The most common practice is a flat-rate allowance, generally low, which is often thought of as a 'parental wage'.

Although the aim is generally to pay the highest possible benefits throughout the entire period of parental leave, it is often ruled out by budgetary constraints on the systems which finance benefits, especially because of the length of parental leave. In some countries, the leave benefits do not always cover the full period of leave (Figure), and since the early 1990s benefit rates have been cut back, especially where they are proportional to earnings (as in Canada, Denmark, Finland and Sweden).

Take-up Rates

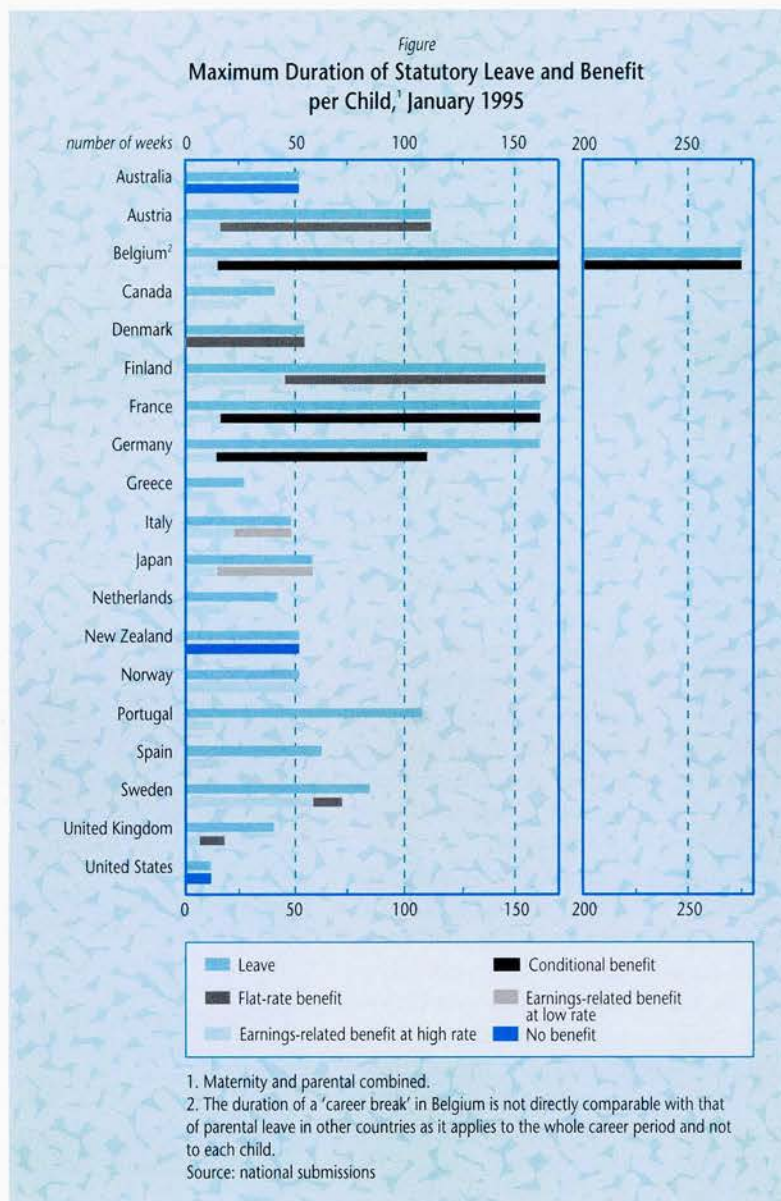
Once entitlement to leave applies, a very high take-up rate can be observed in most countries. In Finland, Norway and Sweden, practically all parents use the leave when they meet the required conditions. The take-up rate is also very high in Denmark (82%) and in Germany (96% in 1991 in the Western Länder). But these high initial take-up rates are not always the case. In the Netherlands, for example, only 27% of eligible women and 11% of men have used the new leave entitlements introduced in 1991. In France, fewer than 100,000 workers were on parental leave in 1992; in view of the number of

children under three years of age with two working parents (the target group for parental leave), this figure again seems to indicate a very low rate of use. After the child's first birthday, the leave is less frequently used because of career considerations and economic constraints which become more pressing as leave is prolonged. The possibility of taking leave on a part-time basis is also rarely used. In Germany, where parents on leave can work up to 19 hours per week, fewer than 1% of mothers avail themselves of the possibility.

In principle, there is a close correlation between take-up rates and the level of benefits. If benefits are very low or nil, many workers, particularly in low-income households, will be unable to use their rights to parental leave. The high take-up rates in Nordic countries reflect a policy of relatively high earnings-related benefits, at least early on. Similarly, the low take-up rate in the Netherlands and France can be ascribed to the facts that there are no benefits at all in the Netherlands and that in France benefits were payable only as from the third child (now, since July 1994, as from the second child).

In Austria and Germany, on the other hand, take-up rates are high in spite of rather limited benefits. That can probably be explained by the relative lack of child-care facilities for young children. As a rule, the more children in a family, the more frequently the parents use their right to parental leave.

With the exception of Sweden, parental leave is used almost exclusively by mothers. In Denmark, Finland, Germany and Norway, fewer than 5% of eligible fathers take leave. That contrasts



sharply with Sweden, where a relatively large number of fathers use at least some of their leave; approximately 25% of eligible fathers claimed parental-leave benefits in 1987, a figure which is rising steadily.

Women in managerial and supervisory positions tend to use parental leave less and for a shorter time than other women; they also opt more often for part-time leave. In addition to the fact that a break from work may affect their

career adversely, they can more readily afford private child-care services.

The Return to Work

The assumption underlying parental leave based on the fact that workers are guaranteed reinstatement in their jobs is that in the event they will return to work at the end of the leave. Studies in Finland, Sweden and the Netherlands indicate that most do return to their jobs once their leave is finished. By contrast, in Germany, only half of those on leave return to work, while in Austria only one woman in three resumes employment immediately after leave for a first child.

In some cases, it is impossible to make the job guarantee work because the job has disappeared or because the employment contract has come to an end during the leave. These situations have become more frequent in recent years. In other cases, the decision to return to work or not will be determined partly by financial pressure and partly by parents' individual preferences.

The length of leave is a crucial factor in the decision to return to work at the end of the period of leave. One would expect that the rate of return would be lower the shorter the maximum period of leave. The younger the child, the more reluctant parents may be to return to work and the more difficult and costly it may be to arrange for suitable child-care. Rates of return have gone up over time in most countries, which can be attributed at least in part to the longer periods of leave being granted.

Parental Leave: What and Where?

Table 1
Parental Leave and Benefit¹
year of introduction

	Leave Year	Benefit Year
Australia	1993	no benefit
Austria	1990	1990
Belgium	1985	1985
Canada	1984	1990
Denmark	1983	1983
Finland	1985	1985
France	1984	1985
Germany	1986	1986
Greece	1984	no benefit
Iceland	1980	1980
Italy	1977	1977
Japan	1992	1994
Netherlands	1991	no benefit
New Zealand	1987	no benefit
Norway	1978	1978
Portugal	1984	no benefit
Spain	1989	no benefit
Sweden	1974	1974
United States	1993	no benefit

1. Ireland, Luxembourg, Switzerland, Turkey and the United Kingdom have no legislation on parental leave; Mexico is not covered by the study.

Sources: national data

But long periods of leave may make returning to work more difficult, particularly if there has been a substantial number of technological and organisational changes within a firm. Some countries are beginning to recognise and address this problem. In France, where leave can be as long as three years, recent legislation ensures a right to retraining at the end of parental leave. In Austria, small enterprises may receive wage subsidies for up to a year for workers returning to their job after two years' leave.

Paradoxically, since part-time parental leave seems to be rarely used, part-time jobs play an important role when people taking leave return to work. In the Netherlands, over half the mothers and 13% of the fathers who returned to work cut back their working hours so as to have more time for their children. Statistics in Austria and Germany also show that nearly a third of re-entrants returned to work on a part-time

basis. In Sweden, by contrast, the proportion of parents who changed from full-time to part-time work after parental leave has dropped: only 7% of parents returned to work on a part-time basis in 1988, as compared with 24% during 1979–81. The drop can no doubt be explained by the fact that longer parental leaves have made it easier to return to a full-time job as far as child-care is concerned, but it must also be borne in mind that part-time work has a number of disadvantages.

How Businesses Cope

Parental leave usually affects only a small portion of the overall workforce at any given time (Table 2). The incidence may be higher in jobs which mainly employ a young female labour force. But as parental leave can by definition be foreseen and employers are given advance notice, they are able to adopt appropriate strategies of adjustment.

The extent to which substitutes are used to replace workers while they are on parental leave can have a dynamic impact on both the internal and external labour markets. The use of replacements from the external labour market is subject to the existing legislation on hiring workers on fixed-term contracts. On the whole, firms are more likely to replace less skilled workers than more highly skilled ones. The size of the firm is also a key factor which influences the replacement strategy adopted, since large firms are better able to replace workers on leave from their own ranks or to make systematic arrangements for re-

placing leave takers (for example, by having a permanent supply of trainees).

The economic climate naturally has a decisive impact on the extent to which workers on leave are replaced. In Finland, a study in 1986 showed that a substitute was used in 77% of cases. At present, because of the sharp decline in business activity and hiring since 1990, the workload of people on leave is now more often divided among other employees inside the firm.

Statistics from the few surveys available show that parental leave generally does not create major problems for firms. Difficulties arise only in small companies and in replacing skilled workers in short supply. In Denmark, for example, the new provisions on parental leave introduced in 1992 caused such a severe short-

Table 2
Absence from Work through Maternity Leave (A)
and for Other Reasons including Personal/Family (B)¹

		A thousands	B thousands	A+B % of female employment	A+B % of employed women with child(ren) under 5 years
Belgium	1983	10.8	7.8	2.3	7.1
	1992	13.9	14.9	2.6	9.7
Denmark	1983	13.9	12.2	3.1	13.2
	1992	24.5	11.0	4.1	18.4
France	1983	122.7	34.1	2.6	9.6
	1992	157.1	22.5	2.5	9.7
Germany	1983	35.7	27.3	1.0	*
	1992	206.8	163.1	3.7	19.9
Italy	1983	*	*	*	*
	1992	82.9	41.3	3.1	11.5
Netherlands	1983	..	..	..	..
	1992	17.1	5.7	1.2	6.6
Portugal	1983	..	..	..	..
	1992	14.4	*	1.7	6.1
Spain	1983	..	..	..	..
	1992	16.1	15.6	1.7	6.2
United Kingdom					
	1983	36.0	52.9	1.7	11.0
	1992	123.9	83.7	2.9	13.7
EC (12)	1983	228.5	144.9	1.5	8.5
	1992	667.1	365.0	2.9	12.6

.. not available.

* data unreliable.

1. Women 15–49 years old.

Source: Eurostat (labour-force surveys)

FOCUS

The Flexibility of the Swedish Model

Sweden has developed a system of parental leave and benefits which takes into account the interests of children, mothers and fathers. It is both very comprehensive and very flexible, to meet the broadest possible range of situations and give parents considerable freedom of choice.

Parental Leave

Parents are entitled to three types of leave:

- full-time leave until the child reaches the age of 18 months; condition: the parent must have worked in the enterprise for six months when the child is born or for twelve months during the two preceding years
- reduction of working time by a quarter until the child is eight years old; condition: the parent must have worked full time in the enterprise for six months
- leave each time a parental benefit is paid (below)

Three periods of leave are allowed each year.

Types of Parental-leave Benefits

Parental-leave benefits are paid under the national system of social security. The two main types of benefit are:

- an allowance to care for a young child brings an entitlement to 450 days, which can be shared between the parents, and can be taken at any time until the child reaches the age of eight; 30 days are attributed exclusively to each parent, during which 90% of gross salary is paid, with the remaining 390 days sharable between the parents as they wish; in this case the allowance is 80% of salary for 300 days, and a flat rate for the balance
- temporary parental-leave allowance; 120 days per year for each child under the age of twelve, which may be shared between the parents, and used when the child is ill or when the person who normally takes care of the child is ill; the allowance is 80% of salary. The condition is that the parent must have been registered with the social-security system for at least six months to be entitled to a flat-rate allowance, and must have had a declared salary for at least eight months to receive an allowance proportional to earnings.

Paid leave days can be used on a full-time, half-time or quarter-time basis, and the allowance is set accordingly.

Table 3
Expenditure on Maternity and Parental Leave Benefits
% of GDP

	1985	1990	1991	1992	1993
Austria	..	0.42	0.48	0.67	0.76
of which:					
Maternity	..	0.15	0.17	0.18	0.19
Parental	..	0.26	0.31	0.49	0.58
Canada	0.09	0.11	0.17	0.19	0.18
of which:					
Maternity	0.09	0.11	0.12	0.12	0.11
Parental	-	-	0.05	0.07	0.07
Denmark	0.39	0.49	0.49	0.51	0.51
Finland	0.63	1.04	1.27	1.47	1.39
of which:					
Maternity	..	0.25	0.29	0.30	0.26
Parental	..	0.78	0.96	1.14	1.10
France	..	0.23	0.23	..	..
of which:					
Maternity	0.15	0.14	0.14	..	..
Parental	..	0.09	0.09	0.08	0.08
Germany	0.13 ¹	0.23	0.25	0.27	..
of which:					
Maternity	0.04 ¹	0.04	0.04	0.04	0.04
Parental	0.09 ¹	0.19	0.21	0.23	..
Italy	0.12	0.09	0.11	0.10	..
Norway	0.17	0.34	0.42	0.47	0.57
Sweden	0.60	0.92	1.01	1.09	1.09
of which:					
Maternity	0.01	0.03	0.02	0.02	0.02
Parental	0.59	0.89	0.99	1.07	1.07

.. not available.
- not applicable.

1. 1986.

Source: OECD

growing number of beneficiaries and the longer periods over which benefits are paid. The low take-up rate in some countries has, of course, helped keep down the cost of parental leave.

Yet the rising costs of parental benefits seem to have been curbed in recent years. Because of the recession, workers are less willing to take long-term leave, for fear that they will not be able to return to their job. At the same time, increased insecurity about jobs has meant that fewer people are entitled to benefits. Reductions in the level of benefits have cut costs and have also made parental leave less attractive.

The net cost of parental-leave benefits in general public and welfare budgets is in most cases far less than the sums actually paid out to parents, because of the savings made elsewhere in public spending. When parental-leave benefits are financed by unemployment insurance funds and the unemployed are also entitled to parental leave, these benefits directly replace unemployment benefits (and the number of jobless drops accordingly). In Austria, approximately 25% of women who received parental-leave benefits in 1993 were previously receiving unemployment benefits or social assistance. In Denmark, the figures for the recent new programme of leave were similar. Leave benefits can also replace other kinds of

payments indirectly, as in Belgium, where the 'career break' system requires that a worker taking leave be replaced by a jobless person receiving unemployment benefits.

There are also savings in public child-care services. In Denmark, estimates show that for each month that parental leave is extended, assuming 75% of all mothers or fathers extend their leave, waiting lists are reduced by 2,600 places. In Finland, all children under three years of age are entitled to a place in a public day-care facility; alternatively, parents can take extended leave and receive a flat-rate home-care allowance until the child reaches the age of three. Municipalities, which are responsible for public

age of nurses that replacements had to be recruited from Sweden and leave entitlements cut back.

Costs and Benefits

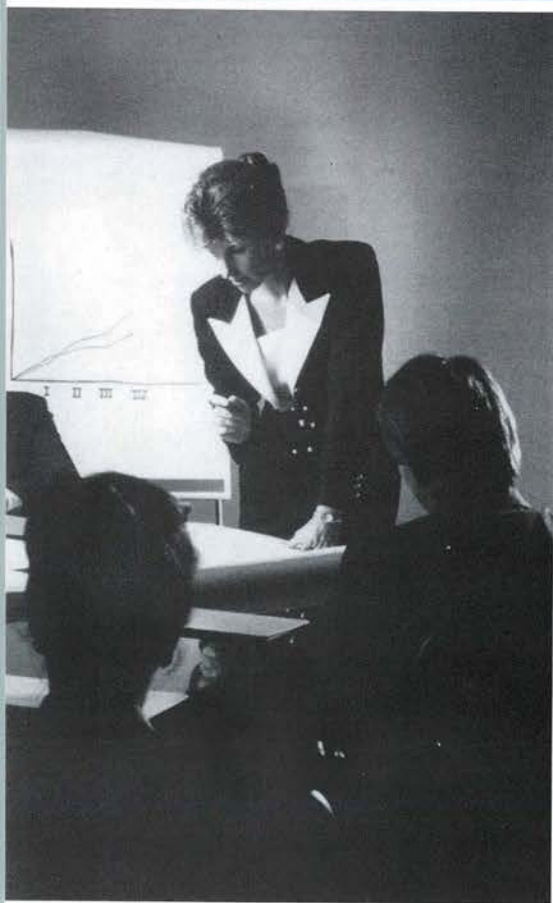
If all allowances and benefits paid to parents on leave are considered together – maternity, paternity and parental benefits – the sums allocated represent a relatively small percentage of GDP (Table 3). They exceed 1% only in Finland and Sweden. But these percentages are rising steadily in most countries, chiefly because of the

Parental Leave: What and Where?

day-care services, are allowed to pay a supplementary home care allowance, and most large cities have provided generous additional payments to discourage parents from using public child-care services. But because of the economic crisis this assistance has been cut back substantially.

In the long run, parental leave may have other beneficial effects on public finances. By enabling more women to work and at the same time to have children (this seems to be borne out by women's high participation rates and the increasing fertility rates in several Nordic countries), parental leave should help to improve the dependency ratio, that is, to establish a better balance between the number of people who

Women in managerial positions use parental leave less and for a shorter time; frequently they also choose part-time work, which allows them to keep a link with their job.



Fabricius-Taylor/ICSI/Jerrican

work and those who do not. This would make it easier to finance the costs created by the aging of the population.

A very different aspect of the benefits and costs of parental leave is its impact on skills and productivity, although it is difficult to evaluate precisely. On the one hand, parental leave is expected to encourage workers to remain with their employers, which increases the incentives for both firms and individuals to invest in skill formation and may benefit productivity and wages. On the other hand, long periods of parental leave may lead to an erosion of workers' skills in industries which are undergoing rapid changes in technology and business practice, which would mean that retraining programmes would be necessary for workers returning after leave.

■ ■

Parental leave is a factor of flexibility which is important both to individuals, who are better able to reconcile the demands of work and family life, and to enterprises, which are able to manage their human resources more effectively. But it cannot, on its own, solve the problems involved in reconciling work and family responsibilities. It is merely one of a series of necessary measures, such as flexibility of working time and a broad range of services to families, the most important being child-care. Only in this way will it be possible to meet the requirements of all categories of workers, from the least skilled to those in positions of responsibility, men or women. One of the signal failures of parental leave so far is that so few men have used it.



J. Maillard/ICCO

Less-skilled workers are more likely to be replaced during parental leave than highly skilled ones.

Because of the economic crisis, the provisions governing parental leave have changed and it has been used to meet new goals, such as reducing unemployment and providing child-care at lower cost. Parental leave has become longer while benefits have declined. It is considerably less attractive to workers, although in most cases they have no alternative. For employers, long-term leave entails replacement and training costs that they are less willing to bear in a period of economic difficulties.

In the future, the impact of parental leave on workers, enterprises and the labour market should be followed much more closely so as to ensure that it is effectively achieving its original goals. ■

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The Move to VAT

Erik Jørgensen and Jeffrey Owens

Governments rely increasingly on taxes on general consumption – and on value-added taxes (VAT), in particular – to raise revenue. The percentage of GDP revenue from consumption taxes has doubled over the last thirty years, with VAT replacing not only other consumption taxes but to a large extent also excise duties. By contrast, there is no evidence of a significant overall shift from income taxes to consumption taxes.¹

VAT in its modern form was not born with the introduction of general consumption taxes in the 1960s. Until the late 1960s, indeed, consumption taxes in the OECD countries were either single-stage taxes levied on retail or wholesale exchange, or they were multi-stage, 'cascading' taxes levied whenever goods and services were sold. The only OECD countries which already had a VAT system were France (introduced in part in 1954, fully in 1968) and Finland (in 1964). Mexico, which became a member of the OECD in 1994, introduced a VAT system in 1960.

Since then VAT has become the most popular form of tax on general consumption (for governments, at least). There are two main reasons for its widespread adoption. The more important is that under a VAT system tax is levied at each stage and can be reclaimed in the next link in the trading chain until the final consumer is reached; all traders are treated on an equal footing. In general, VAT thus has little or no distortionary economic effects.

Under a tax on retail sales, by contrast, the end-user of a product or a service has to be

identified, since that is the stage at which the tax has to be levied. Under a VAT system with tax being levied at each stage, it is of course in the trader's own interest to reclaim it. In this way the tax will automatically be paid by the final consumer.

Cascading taxes, on the other hand, cannot be reclaimed by the purchaser, so that the tax component of the price of goods becomes larger and larger the more stages there are between producer and consumer – with obvious distortionary effects as between highly integrated enterprises and other enterprises.

Second, VAT is often considered more difficult to evade than taxes on wholesale or retail sales. The invoice credit system used in nearly all countries leaves a trail of invoices that may be followed by tax auditors. There is in general no common interest between VAT-registered sellers and purchasers to evade tax. Instead, the purchaser has no interest in bringing down the invoice price since he can reclaim a high vol-

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ume of tax, although the seller has an interest in a low invoice price to reduce his own tax liability. But no tax system is foolproof: there are of course still risks of tax evasion.

In theory, a tax on retail sales and a VAT with the same tax base and tax rate should yield the same revenue. Nevertheless, the advantages of VAT systems are such that today, among OECD countries, only Australia, Canada and the United States apply single-stage sales taxes. The Australian tax is a wholesale one, while the Canadian and American taxes are on retail sales; both the Canadian and the American taxes are levied by provincial, state or local authorities only. Canada has a federal VAT, whereas the United States has no federal consumption tax at all. No OECD country now applies cascading taxes.

Governments' preference for VAT as a revenue source is clearly reflected in the developments in VAT rates that have taken place over the years. In nearly all OECD countries they have been increased. The most extreme examples are Denmark and Sweden, where the initial standard rates of respectively 10% and 11.1% have been increased to 25% in both countries. But other countries follow closely: the Luxembourg rate has nearly doubled, from 8% to 15%, the United Kingdom has moved from 10% to 17.5%, Italy from 12% to 19% and Turkey from 10% to 15%. In Mexico the initial standard rate was 10%; then it moved up to 15% but is now back to 10% again. Only France has a present standard VAT rate (18.6%) lower than its initial rate. The present OECD average is about 17%.

The steady increase in VAT rates over time accounts for the increasing importance of VAT as a source of revenue. As a percentage of GDP, the average OECD revenue from general consumption taxes has doubled, from 3.4% to nearly 7% over the last 30 years, while at the same time the total tax revenue as a percentage of GDP has gone up from about 27% to 39%. As a percentage of total tax revenue, the revenue from general consumption taxes has gone up from 11.8% to more than 17%. This development has largely taken place at the expense of excise

1. *Consumption Tax Trends*, OECD Publications, Paris, 1995.

The Move to VAT

G. Thourvent/Explorer



Most OECD countries apply reduced rates of VAT on a range of goods and services – two of them for children's clothing.

duties and other taxes on specific goods and services: the revenue they raise has declined from 6% to about 4.5% of GDP, and from 24% to less than 12% in total tax revenue. By contrast, there is no evidence of an overall shift from income taxes to consumption taxes, at least in most countries. New Zealand is a notable exception.

How Much Variety in Rates?

Most countries not only apply a standard VAT rate but also one or more reduced rate(s), even though this practice adds to administrative and compliance costs. Only Denmark, Finland, Japan and (with one exception) New Zealand

apply a single rate, but even in these countries there are exemptions for particular goods or services. Nevertheless, there has been a tendency to reduce the number of rates. During a part of the 1980s there were no less than seven different ones in France and eight in Italy; the number is now down to three and four. Most countries apply two or three rates, in all but one in the form of a standard rate and a number of reduced ones. The exception, Turkey, still applies an increased rate on certain goods. Increased rates were also used in some countries of the European Union, but they disappeared with the rate approximation that was adopted in 1992 in the run-up to the European internal market.

Reduced VAT rates are usually applied for reasons beyond 'pure' fiscal policy, and apart from the reduction in number – and hence in the number of complications in the tax systems – there is no general trend in the direction of the elimination

of these lower rates. Food is taxed at reduced rates in 18 out of the 23 OECD countries that have VAT systems. Medicines are taxed at a reduced rate in eleven countries, domestic fuel and public transport in ten, agricultural products in seven, accommodation in six, catering in five and children's clothing in two. These categories of goods and services could easily be taxed at a standard rate but, usually for reasons of social policy, they are not.

But are reduced VAT rates the best method to achieve the goals of social policy? The answer is: probably not. Poorer groups spend a higher proportion of their income on food, but high-income groups spend more in absolute terms on food – which they thus will obtain more cheaply. If the aim is to benefit the poor, it might

be more effective to tax food (etc.) at the standard rate and redistribute the extra revenue through social-assistance schemes, an approach adopted in most of the Nordic countries. It may be that in some countries such schemes are not sufficiently developed to reach all the parties that a government might wish to help, although it rather seems that the principal reason for the application of reduced rates in many cases is simply the lack of political will to abolish them.

In most countries reduced VAT rates are positive; zero-rating is practised to any significant extent only in Canada, Ireland, Mexico and the United Kingdom. In principle all economic activity should be taxed under a VAT system in order to avoid economic distortions, but there are a number of specific goods and services that countries either zero-rate or exempt. Even a 'purist' country like Denmark, with the highest standard VAT rate in the OECD and no reduced rates, zero-rates newspapers and exempts certain specific sectors from tax, all within the provisions of EC legislation.

Many OECD countries zero-rate newspapers and books on the grounds that there should be 'no tax on knowledge'. Cultural activities, too, are often exempted, as is passenger transport where it does not already fall under a reduced rate. Other services generally exempted are those that are difficult to tax, including financial services and those provided by public-sector bodies, such as medical care. But although there is much diversity in treatment of some services, common VAT rules put a series of constraints on the application of reduced rates, zero-rates and exemptions by the 15 countries of the EU, even though the EC Sixth VAT Directive of 1977 (as amended) provides for a number of derogations for Member States.

Difficulties with Financial Services

VAT based on the standard invoice credit system is fairly simple and straightforward to apply, at least in principle. But there are important activities where a basic VAT system is inadequate and therefore difficult, if not im-

possible, to apply. The financial sector is one such.

One of the fundamental difficulties in the VAT treatment of financial services lies in the difficulty of defining the value-added of such a transaction. It is often hidden in the margin between interest payments made to savers and interest charged to borrowers. The pooling of risks makes the identification of the value-added on a transaction-by-transaction basis very difficult indeed. A fundamental problem is that interest charged by a financial institution on a typical banking transaction contains not only the 'pure' interest itself but also intermediation charges. Direct fees and commissions are easy enough to identify; other charges and commissions hidden in an interest margin are not.

There are a number of other problems involved, not least the question of how to define a financial institution and a financial service. It is not only banks and insurance companies who provide financial services: a department store providing credit to its customers offers a financial service, although it could hardly be called a financial institution.

The solution to these difficulties has so far been to exempt core financial services from VAT: normal banking operations such as dealings in money, shares and bonds, lending money, operation of bank accounts, and so on. Secondary financial services – such as financial advice or debt collection, where the turnover can be identified in each individual case – are taxable (except in Finland and Norway where they are exempted). Exported financial services are zero-rated in most countries and exempted in the others.

But this solution is not optimal. One consequence of the exemption of financial services from VAT is that financial institutions cannot reclaim VAT on purchases as they cannot register for VAT. Economists have argued that this tax liability will be passed on in higher prices for the services provided by the institution, and that the tax thus cascades and distorts economic decisions. Others – not least people active in the financial sector – contend that in an open economy financial institutions cannot pass irrecoverable VAT on to their customers. Intense

competition means that corporate customers can shop around for the best offer. The financial institutions therefore have to absorb the undeductable VAT themselves.

Various other solutions have been suggested. Suppliers in Germany can choose to have financial services taxed when they are supplied for a trader for use in business. In New Zealand the taxation of all interest charged for a financial service has been discussed. In Canada it was proposed that an overall margin for an institution should be determined over a period of time and that this margin should be taxed; this contention was rejected. Independent experts, notably Satya Poddar (of the accountants Ernest & Young in Canada), have advocated the so-called 'cash-flow method' where all payments into and out of a financial institution are seen as transactions liable to VAT.

All these problems were discussed at length at a seminar organised jointly by the European Commission and the OECD in March 1995. At the seminar experts from VAT administrations and financial institutions, as well as independent academics, had the opportunity to exchange views and ideas on the subject. The discussions clearly demonstrated that better solutions were necessary, and a number of topics that require further consideration were identified. This work is being carried on in close co-operation between the European Commission and the OECD.

Taxing Government Services?

Another example of current imperfections in VAT systems

can be found in the treatment of public-sector bodies, which is currently under discussion in the OECD. When they provide their services in competition with the private sector, they can be taxed just as any other commercial activity. The same applies to other activities of an economic character, such as supplies of electricity or gas, even though there may not be any private competitors. If such supplies were not liable to VAT, the tax would cascade when services are supplied to VAT registered traders.

But a number of 'traditional' public services which may or may not be of an economic character are exempted in many countries – medical care, education, postal services and so on, but also less 'tangible' services, such as the

The value-added of a financial transaction is difficult to determine – and VAT difficult to apply.



The Move to VAT



'No tax on knowledge': many countries zero-rate books and newspapers.

maintenance of a fire brigade or a police force, which simply fall outside the scope of most VAT systems. Indeed, the EC Sixth VAT Directive specifies that 'States, regional and local government authorities and other bodies governed by public law shall not be considered taxable persons in respect of the activities or transactions in which they engage as public authorities', unless such exemption leads to significant distortions of competition.

It may be argued that all exemptions lead to distortions and that all kinds of economic activity should therefore be taxed. From an economic point of view a doctor treating a victim of a road accident produces value-added in the same way as the mechanic repairing the victim's car. In some countries hospital treatment is 'free' at the point of consumption – that is, it is paid for through taxes – whereas in others hospital treatment has to be paid for by the patient himself or his insurance. In such cases VAT could easily be added on the bill. So why not do so? For political reasons, probably: a 'tax on illness' may not make a government popular.

In the event, the only OECD country that taxes public-sector bodies on a comprehensive basis

is New Zealand, where all government departments, local authorities and other public bodies are treated as suppliers of goods and services both to the private sector and to the Crown. The value of supplies to the private sector is measured by the revenue received in fees and charges; the value of supplies to the Crown is represented by the Parliament's apportionment of funds.

Public-sector bodies in New Zealand levy VAT on all goods or services sold to the private sector or other public-sector bodies and can reclaim VAT on all goods and services bought. For example, a New Zealand hospital will add VAT to the bill. Likewise the New Zealand police or armed forces can reclaim VAT on supplies bought from a private supplier or from other public sector bodies. Local rates (a tax on real estate) are subject to VAT since they are not considered taxes but payments for local public services. And local authorities can reclaim VAT on their purchases.

One economic consequence of exempting public-sector bodies is an incentive for exempt institutions to 'self-supply' its inputs to avoid taxes. Should schools be encouraged to have

their own cleaning staff rather than use private companies? Should an old people's home employ its own kitchen staff or should it buy its meals from local suppliers? If it turns to an external caterer, it has to pay VAT on the whole price, whereas if it has its own cook, it must pay VAT only on the raw materials used. Such problems do not exist if public institutions can reclaim VAT on inputs, either by means of VAT registration or otherwise. Exemption of public-sector bodies may thus frustrate the natural division of labour.

There are other 'abnormalities' in the practical application of VAT systems. Some solutions have been found to a number of problems where the advantages of a pragmatic approach, at least at present, are considered to outweigh the disadvantages of their possible distortive effects. One example is the VAT treatment of small businesses. All countries apply either a minimum threshold for VAT registration, reductions of tax liability or modified administrative requirements for small businesses. They likewise apply rules for apportionment of mixed supplies (that is, how to treat supplies of taxable and non-taxable goods or services) – though these rules differ from country to country.

■ ■

The *ad hoc* solutions adopted for practical purposes are not ideal. The difficulties of VAT treatment of financial services and public-sector bodies are currently under discussion at the OECD, and member countries have expressed a strong desire to find solutions that are more appropriate. With time, effort and analysis, many of the existing differences and inconsistencies in VAT treatment of certain goods and services will disappear. ■

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Cars, Congestion, CO₂ and Choice

Laurie Michaelis

The transport sector – and the rising use of cars in particular – presents policy-makers with an apparently intractable problem. Cheap transport can bring benefits in improved communication and mobility and lower business costs. But it is causing a growing list of environmental and social difficulties: cars are consuming a vast amount of urban and rural space, accident rates are rising outside the OECD area and air pollution, noise, energy-use and greenhouse-gas emissions are all growing alarmingly. In the OECD countries, despite the expectation that travel would eventually be limited as demand was met, there has been no sign of the long-anticipated levelling-off in transport activity. And the situation is rapidly worsening in the cities of south-east Asia, Latin America and eastern Europe.

World road-vehicle traffic may have grown by 80–170% by 2030.¹ The increase in air traffic is likely to be larger, and road freight is likely to grow more than car traffic. The energy-intensity of transport (the energy consumed for a given unit of output) has not improved in recent years; if this stagnation continues, there will be up to 140% growth to 2030 in the energy consumption by, and greenhouse-gas emissions from, transport.

In 1992, 150 countries signed the Framework Convention on Climate Change, at the UN Conference on Environment and Development in

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Rio de Janeiro. The aim of the Convention, in a nutshell, is to avoid dangerous increases in greenhouse-gas concentrations in the atmosphere. To achieve this goal, OECD countries would have to reduce emissions by over 50% relative to 1990 volumes in the middle of the next century. To obtain reductions on this scale in the transport sector, for each kilometre travelled by a vehicle, CO₂ emissions would have to be reduced by a factor of four or more by 2030 (a 5% reduction per annum from 1995 to 2025; box, p. 26).

Although there are many ways in which CO₂ emissions from transport could be reduced, expert views of the best pathway conflict. Some believe the answer lies in technological advance and thus promote intensive R&D to enable the widespread use of electric or hydrogen-powered vehicles.² Others think it will be found by har-

nessing market forces, and advocate finding ways of making drivers pay the full social and environmental costs of driving.³ But most analysts are moving towards an agreement that no single approach is likely to be sufficient to reverse the growth trends in traffic, energy use and CO₂. Only an integrated approach using a mixture of taxation, regulation, information, education and R&D has a chance of achieving substantial reductions in the energy used by transport.⁴

Ultimately, any approach is almost certain to involve changes in driver behaviour – through, for example, choosing smaller, lighter cars, vehicles which use alternative fuels, or changing travel habits in commuting, shopping and leisure. Since choice in transport is essentially a matter of individual preference, and the influences bearing on choice are poorly understood, the ability of analysts to evaluate the options for reducing CO₂ emissions is severely limited. That evaluation is even harder in developing countries and in countries with economies in transition, where the problems are expected to be bigger in the future than in the OECD.

Why Cars?

If the environmental effects of car-use are ever to be addressed, the role that cars play in meeting individual requirements will have to be understood. One approach uses an economic model, where consumers have 'utility functions': their personal well-being depends on the extent to which their wishes are satisfied. The form of the dependence is well-defined (if hard to measure), the assumption in economics being that people are 'utility-maximisers'. Another

1. *Motor Vehicle Pollution: Reduction Strategies beyond 2010*. OECD Publications, Paris, 1995.

2. For example, James J. MacKenzie, *The Keys to the Car: Electric and Hydrogen Vehicles for the 21st Century*, World Resources Institute, Washington DC, 1994; Daniel Sperling, *Future Drive: Electric Vehicles and Sustainable Transportation*, Island Press, Washington DC, 1995.

3. *Internalising the Social Costs of Transport*, ECMT/OECD Publications, Paris, 1994.

4. *Cars and Climate Change*, IEA/OECD Publications, Paris, 1993.

Cars, Congestion, CO₂ and Choice

FOCUS

Curbing CO₂

There are many ways in which CO₂ emissions from transport might be reduced. First, more efficient technology could bring down CO₂ output without sacrificing any of the performance and comfort that are increasingly expected from cars and aircraft. Their consumption of energy per kilometre travelled could be halved by about 2025 (there is less potential for improvements in energy-efficiency for lorries).

Second, if travellers were prepared to accept less powerful, smaller, lighter vehicles, energy-use (and thus CO₂ emissions) per kilometre could be reduced by 60–80% by 2025 in all means of motorised transport. If vehicles thus used this much less energy per km, it would be easier to power them with electricity or alternative fuels which derive their energy from renewable sources, further cutting CO₂ emissions by 80% or more (that is, to 5–10% of current volumes).

Lastly, urban planning has a role to play. Some of the anticipated growth in vehicle use is derived from a tendency towards urban sprawl and more car-dependent life-styles, but there is little evidence on which to base estimates of the potential for reversing these trends. Experts of the UN's Intergovernmental Panel on Climate Change (IPCC) have estimated the potential for reducing the volume of traffic by 2050 through urban-planning measures at around 25% in Europe and 50% in North America.

Overall, combined measures to reduce CO₂ emissions could result in a 25% reduction relative to 1990 volumes in 2030, and a 90% reduction by 2100.

approach relies on the 'Maslow hierarchy of needs' (named after an American psychologist and marketing specialist), in which people successively aim to satisfy their desire for physiological well-being, safety, security, 'belonging', self-esteem and self-actualisation.⁵

Car-ownership thus becomes identified with the satisfaction of personal wishes, including those described by Maslow, although they can be cast in a variety of ways and there is no single valid 'hierarchy'. In a study of the Netherlands, René Diekstra and Martin Kroon list several 'motivational' aspects of car-ownership, including territorial behaviour, freedom of movement, power, having something to talk about, filling time, the car as a love-object and the car as the 'womb'.⁶ Lee Schipper, an American energy expert, talks of cars being used as movable offices and sound studios, complete with telephone, fax, stereo and TV – even, in Bangkok, with their own lavatories.

Motivational models may be important for understanding the behaviour of particular types of people. For example, many of the motivations in Kroon and Diekstra's list may apply better to men than to women, or to people with higher rather than lower incomes. As one might expect, poorer people appear to be more utilitarian, using transport mainly to get to work, school, shops, and so on; better-off people are more likely to use it, especially car and air travel, for its own sake or for leisure purposes. Other forms of transport (especially buses and trains) serve mainly utilitarian purposes, although some, such as motorcycles, may also meet status and other emotional ends. There is also a difference between the role of car ownership and that of car use. Although choosing a car does appear to have strong emotional aspects, driving it is mainly a utilitarian way of simply fulfilling tasks that involve travel.



A move to buying smaller, lighter cars is one of the changes in behaviour necessary to reduce fuel consumption.

Pollution and/or Equity?

It might be imagined that if transport-related noise, air pollution, traffic congestion and accidents were dealt with – perhaps by the development of clean, quiet electric vehicles, combined with computerised control systems for vehicles and highways – there would be no further problem with cars. But car use also raises issues of equity; in particular, rising volumes of traffic and the increasing focus of infrastructural investments required to cope with motorised transport make it harder for other people to use non-motorised transport (mainly walking and cycling). Although accident figures are falling in

many countries, it does not mean that pedestrians are safer but simply that there are fewer of them.

Researchers have measured an inverse correlation between urban density and the amount of travel by residents. One way often suggested to reduce the demand for motorised transport is to change urban planning practices to raise the density of homes and workplaces and bring them closer together, as well as improve the local availability of shopping and other services. The changes in local regulations to bring this about would be very considerable in some OECD countries, and the political cost could be high, especially where these changes conflict with people's preferences for a living and working environment or with the economic influences on a firm's choice of where to locate. Meanwhile, many other aspects of urban design and transport planning – including traffic zoning, provision for non-motorised transport and parking restrictions – are known to influence travel behaviour, and it may be more useful to concentrate on these than on attempts to influence density.

Indeed, it is often contended that the focus on urban planning is unhelpful. There is no one-way link from land-use density to travel behaviour. The two do interact: growing car-ownership makes it easier for people to live in low-density suburbs, which most prefer to cramped urban centres. People in high-density accommodation, by contrast, may have a poorer quality of life, with less green space and privacy, and more exposure to noise and other stress-inducing influences – including the traffic congestion that is a factor in limiting their travel. That makes it hard to justify high urban densities purely on the grounds of reducing the demand for transport.

From Behaviour to Politics

The lack of understanding of consumer behaviour is probably the weakest link in assessing the options that transport policy offers to reduce environmental impacts. The extensive

literature on the role of behaviour in residential energy-use, and on the role of environmental values in general, may offer some guidance.⁷ Car-ownership and the installation of air conditioning in commercial buildings, for example, offer parallel signs of success and status.

Attempts have been made to link people's attitudes and values with their behaviour – but often people who claim that they care about the environment behave no differently from those who say they don't. It may be because they do not understand the link between behaviour and environmental damage; for example, they may wrongly assume that by using lead-free petrol they are playing their part in reducing the greenhouse effect. Unfortunately, while airborne lead has local impacts on health, it has not yet been shown to contribute to global warming. Alternatively, people may understand the impacts of their behaviour but be unaware of the options to reduce them, or may think that merely changing their own behaviour will not help with the wider problem.

For governments, it is also important to understand how people's attitudes are related

to their voting behaviour. They may vote, for instance, against policies such as environmental taxes, not because they disagree with the idea but because they mistrust the government's motive in raising taxes and think that the money will be misspent or fear the impact on their own pockets. It is usually important, too, that the government does not try to run too far ahead of public attitudes, by introducing policies that are not understood – because they have not been adequately 'sold' to the public.

At the moment there are few important experiences with attempts to change transport behaviour. Some isolated examples do exist of cities, such as Singapore, and Fortalesa, Brazil, where radical changes have occurred as a result of government measures. In Singapore, a range of restrictions on car-ownership and use have

5. A. Maslow, *Motivation and Personality*, Harper and Row, New York, 1954.

6. R. F. W. Diekstra and M. C. Kroon, *Cars and Behaviour: Psychological Barriers to Fuel Efficiency and Sustainable Transport*, Ministry of Housing, Spatial Planning and Environment, The Hague, 1995.

7. W. Kempton, J. S. Boster and J. A. Hartley, *Environmental Values in American Culture*, MIT Press, Cambridge (MA), 1995.

Taxation, regulation, information, education, R&D – only an integrated approach has a chance of bringing down substantially the energy used by road transport.



C. Erkel-Görmann

Cars, Congestion, CO₂ and Choice

succeeded in controlling congestion, air pollution and energy use. Beng Wa Ang, an energy economist, estimates that these measures have reduced petrol use by 42% relative to the amount that might have been expected without controls.⁸ But these changes and the political acceptability of the government policies were possible only in the light of local politics and culture, making them hard to transfer to other locations. One famous aspect of Singapore transport policy is the Area Licensing Scheme, whereby vehicles are charged for entering the central business district, according to the time of the day and day of the week. A similar attempt at a toll scheme in Hong Kong failed politically because of the outcry against the invasion of privacy the scheme entailed (since it involved recording the movements of individual vehicles in and out of the central business district).

Elsewhere, changing behaviour may depend on changing both attitudes and cultures. 'Community focus' groups such as those organised by the Global Action Plan (GAP) – a non-profit organisation in the United States – may help considerably with changing local behaviour. Their 'Household EcoTeam Program' involves groups of people using a workbook to carry out environmental-impact assessments of their households, and then choosing among options for reducing the impacts. US households participating in this programme report that they have reduced their production of household waste by 42%, their water consumption by 25%, their CO₂ emissions by 16% (including a 16% reduction in consumption of transport fuel), and that they have saved \$401 per household per year. Although the programme works partly through improving individuals' access to information, the community or team spirit probably also plays a significant role in the success of the GAP.

8. 'Restraining Automobile Ownership and Usage and Transportation Energy Demand: The Case of Singapore', *The Journal of Energy and Development*, Vol. XVII, No. 2, pp. 263-90.



Urban density and travel are interconnected: the growing availability of cars makes it easier to live in low-density suburbs.

For the moment, success stories like this are few and far between, and substantially more research is required to understand transport behaviour:

- improved data should include surveys on travel and freight movement and on fuel use (much more is known about vehicle stocks than about vehicle use)
- a deeper understanding of demography, the role of technology, industrial and political culture and other factors is required before useful projections can be made (for example, motorisation has been as much an industrial and economic strategy as a process of meeting an existing demand for a service, which in turn

affects attitudes to cars and to policies to restrict them; car-production is seen as a barometer of the economies of the major manufacturing countries, and the car-makers form a strong political lobby)

- behavioural studies should be incorporated in transport planning and strategies (although economic theory ('utility theory') is helpful in the analysis of well-defined, short-term problems, it is not enough to guide thinking about more significant changes in the transport system)
- more consideration should be given to local policy and institutional options to meet local conditions (countries and regions differ in culture and therefore the appropriate strategies will differ).



Changes in transport culture are unlikely to happen overnight. But without them OECD member and non-member countries alike seem committed to a continued worsening of the environmental and to the growing social damage caused by the love-hate relationship with the car. If cultural and behavioural changes do occur, it might be possible to achieve some of the environmental goals that have long been technically feasible – but which have been tantalisingly out of economic and

political reach. ■

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Opening-up Regulation

Scott Jacobs and Juhani Korhonen

*Governments, stretched thin by a multitude of tasks and complex decision-making, are turning to citizens themselves for help in the design of regulation. But the new links between regulators and the wider public raise difficult questions. How can regulators communicate with the public, especially on technical issues? How can consultation be designed so that it is not dominated by powerful vested interests? And does it confuse the accountability for decisions in a working democracy?*¹

Over the past ten years a strong trend toward more open and participative rule-making has emerged in many OECD countries. Governments are using a variety of methods of public consultation to allow earlier, more effective and wider access to decision-making processes. Regulatory institutions and processes developed over decades, some stretching back to the turn of the century, are being reformed or discarded.

Traditional practices of consultation, many built in the years after the Second World War, are not meeting the requirements of changing societies and economies. They are often restricted to only a few groups, such as selected business and labour organisations. Most of the time they represent the views of organised pressure-groups, who reap the benefits of rent-seeking behaviour in the political market, and not the interests of consumers or other unorganised groups, over whom the costs are dispersed. They

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are frequently rigid and cumbersome, whereas an ever-changing regulatory environment demands faster responses and wider access. They tend to focus on consensus and political acceptability rather than on establishing facts and ensuring regulatory quality.

Policy officials responsible for the management of national regulatory systems – often placed in prime ministers' offices or ministries of finance, justice, or economics – are generally agreed that, properly done, public consultation can improve regulation: finding more effective alternatives, lowering costs to businesses and administration, increasing compliance, and quickening change in response to new conditions, perhaps stemming from technological advances. In Canada, for example, consultation with the railroad industry led to the development of a new regulatory system in which the industry itself drafts new regulations for approval by the regulator.

In some cases, consultation is used to balance opposing interests – as in the United Kingdom, where consumer groups are given formal advisory roles within utility regulators to ensure that producer interests are not over-emphasised.



In others, as in the United States where analyses of the impact of regulations are published for public scrutiny, consultation is a means of discovering facts about conditions in the 'real' world beyond government. Similarly, Japan's high-level advisory councils for deregulation bring in new expertise and perspectives not available in the ministries.

Intergovernmental regulatory processes, too, are increasingly criticised on grounds that they are often closed to citizens and follow traditions of negotiations behind closed doors. These are now giving way to new forms of openness and access. The EU, for example, is examining recommendations for 'wide and effective consultation [...] for making people aware, at the earliest possible stage, its intention to propose legislation'.

What Problems?

Consultation is difficult, and there is much room for improvement. Three countries – Canada, Sweden and the United Kingdom –

1. Asking the Public: Consultation in Regulatory Decisions and Governance in Transition: Public Management Reforms in OECD Countries. OECD Publications, Paris, forthcoming 1995.

Opening-up Regulation



evaluated the effectiveness of consultation in reaching affected groups and thereby made some important discoveries: substantial failures in the scope and consistency of implementation, resistance to change and lack of understanding within the administration, imbalanced participation, difficulties in reaching certain groups, and a sometimes disappointing lack of response by the private sector. That is probably because the incentives to react are weak, and are perhaps aggravated by a degree of cynicism about government motives.

To widen access to more groups and speed up response time, some European countries are moving away from long-established, corporatist structures that depend on formal representation of the 'social partners' – business and labour organisations – in policy development and implementation. Since the late 1980s two countries with a corporate tradition – the Netherlands and Sweden – have substantially reduced or abolished tripartite systems of co-operation and consultation that had been built up over forty years.

Bringing in a wider range of interests is particularly important. Existing consultation processes often exclude groups with something to say, such as small businesses, consumers, and developing sectors of the economy. It is obvious that regulators will hear what they want to hear if they choose the bodies to consult. As the Canadian government reminded its civil servants in 1990, consultation is not merely 'talking to your friends'.

Unbalanced consultation with affected interests increases the risks that regulations will be ineffective, or have adverse and undesirable effects on the distribution of benefits and costs across society. At worst, imbalances take the form of 'capture', in which an interest-group establishes a dominant influence over a regulator, in return for supporting the regulator in the political system. This problem has been a long-standing concern in the OECD area. Even worse, 'unfair' influence may undermine the credibility of the regulatory system itself, further reducing compliance and government effectiveness.

Even where the consultation procedures are, in principle, open to the wider public, they can be dominated by groups who are familiar with the regulatory structure in question, who are well organised and specialised, and who are experienced in making themselves heard. Realistically, it appears that regulators must accept that stronger groups will participate more often in consultation. The challenge is to manage the process to compensate for this natural imbalance. Full transparency of the consultation process, for example, can reduce the risk of capture. Expert groups, though they may be the best way to bring specialised knowledge into the decision process, may have to be supplemented with more broadly based methods, such as publication of drafts, to bring in affected groups. Regulators can improve communication by packaging information in user-friendly formats, using plain language, and clarifying the issues at stake.

Consultation reform is also linked to democratic values and expectations of transparent and accountable administration under the rule of law. Opening-up regulatory decisions of lower tiers of government to the public has taken on new significance in many countries where important decisions are increasingly delegated from elected parliaments to civil servants. Parliaments in Europe, for example, are using 'framework laws' more often to establish general policies, leaving the details to be developed by civil servants in regulations drafted at lower echelons. In Canada, as legal decisions are increasingly delegated, consultation by civil servants in the ministries is seen as a necessary supplement to parliamentary debate – but the Ministry of Justice has warned that the wrong kinds of consultation could diminish Cabinet decision-making authority by restricting options too early.

Indeed, if government accountability is to be preserved, the right of citizens to be heard cannot become a right to take decisions themselves, especially if the system is open to capture. Consultation must be considered an adjunct to, rather than a replacement of, political and administrative decision-making. But several basic questions about the proper role of the administration in consultation processes remain. Should regulators merely reflect what they hear from the public? Should they 'referee' between opposing groups or defend the 'general interest' or under-represented groups – and, if so, how far?

Quality of information is another concern. In some cases, comments have become little more

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What Forms for Consultation?

Government can use many methods of consultation, and each has different uses.

The simplest is notification, a one-way communication in which an administration informs the public about its exercise of regulatory authority. In Canada and the United States, periodic publications describe proposed federal regulations planned for the coming year, and provide the names and telephone numbers of the regulators. These methods, while limited, allow affected groups to press for an opportunity to intervene at very early stages, before regulators take important decisions.

More formal consultation allows affected groups to use systematic procedures to criticise or comment on draft regulations before they are finalised. Consultation works through the circulation of draft documents to interest groups (Germany and Sweden), through publication of drafts for general access (United States and Canada), or through advisory groups that can be more or less inclusive (Finland, France, Japan, Netherlands, Portugal).

Considerable change can be seen here. Of ten countries studied by the OECD (selected because they represented a wide variety of administrative styles), only one, the United States, had an explicit consultation policy in 1970; by 1994, eight of the ten countries had such policies. In 1989, for example, the German government ordered its regulators to seek more information from potential 'users' of new regulations. And in 1990, Finland adopted its first general statutory requirement for consultation on regulations.

In general, older forms of consultation tend to be consensus-oriented. Consultation

today is often linked in practice to analysis of the impacts of regulation and is closely associated with cost-benefit analysis. From 1981 to 1994, five of the ten countries studied initiated comprehensive programmes of impact analysis. Consultation with affected groups was built into each of these programmes as a strategy for collecting information and controlling quality.

Here, consultation is part of an international movement toward more empirically based regulation. And with these programmes, many groups have, for the first time, information on the hidden costs and likely benefits of government regulations. A case in point is the United Kingdom, where small businesses, asked to comment on 'Compliance Cost Assessments' that are prepared on draft regulations, have suggested many ways to reduce costs, even forcing the withdrawal of some drafts.

More extensive use of impact analysis could improve communication with the public, since the consequences of government decisions are explicitly presented. Yet the accompanying trend toward more complex, economic and scientific information may well make information less accessible and understandable. That may explain the growing appeal of 'expert groups' to provide advice on complex issues; but the danger, of course, is that decisions will become technocratic and remote from public understanding.

Consultation also occurs after a regulation has taken effect. The main purpose, usually, is to give guidance to the public affected by it to facilitate compliance but also provides useful information to regulators about problems with the design, appli-

cation or effectiveness of existing rules.

In fact, since no country has a systematic programme of ex post regulatory evaluation, consultation with regulated groups is currently the most common way of identifying poor regulations. In 1993, business advisory groups in the United Kingdom sifted through 3,500 regulations and recommended hundreds of changes, of which some 350 have been adopted. For example, regulators with complementary responsibilities are working together to develop a simple and safe regime for rules on the control of food temperatures. In Japan, a system of administrative inspection and counselling allows citizens to complain about existing regulations. Complaints in areas ranging from traffic safety and environmental quality to taxes and agricultural policy have been recycled into the revision process.

Affected parties can also take an active part in drafting laws and regulations, involving interest-groups deeply in regulatory development. Increasingly, ministries in Finland are using informal working groups of experts and interest-group representatives to prepare proposals for law. The United States is emphasising regulatory negotiation, in which interested parties write new regulations as a group. The group's proposals are then published in draft form so that the wider public can comment on what has been negotiated.

These kinds of participative procedures are intended to produce more practical solutions, involve those directly affected in the balancing of opposing interests, and smooth the path for rapid implementation.

Opening-up Regulation

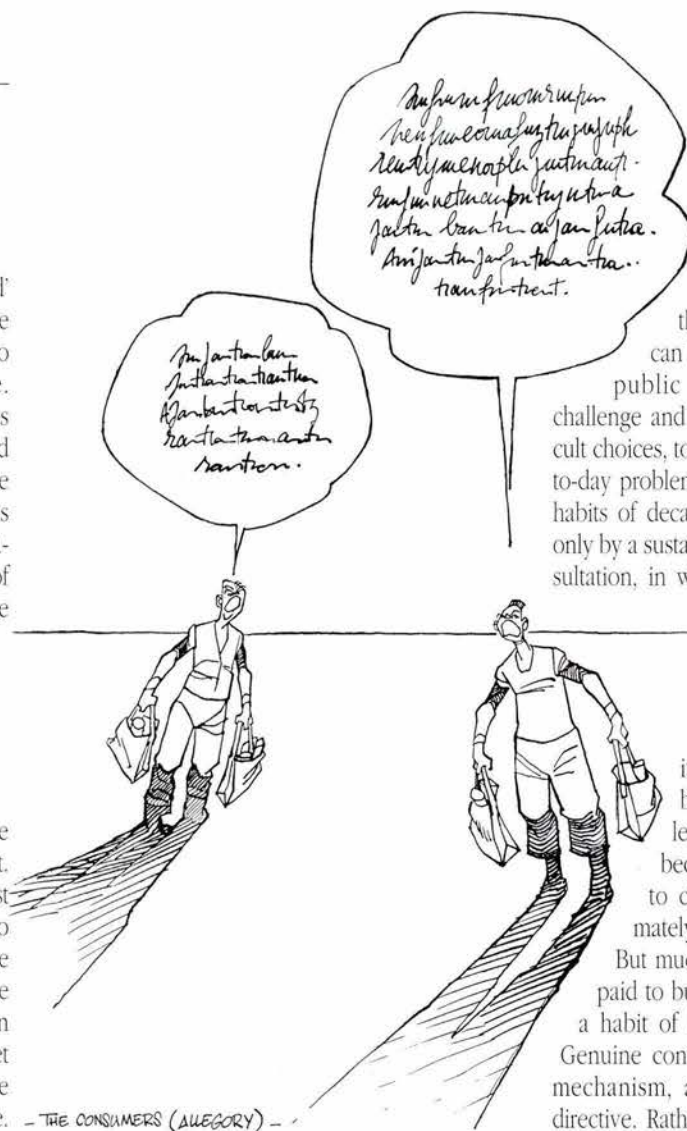
than opinion surveys of what regulators 'should' do. One response to this shortcoming can be found in an innovative Canadian programme to collect information on computer diskette. Diskettes containing standardised questionnaires are mailed to participating firms. Responses and data are inserted at the correct locations, the diskettes are returned, and the information is easily downloaded for analysis by the regulators. The standardisation of format and ease of response should improve the quality of the information thus made available.

Overcoming Bureaucratic Reluctance

The reform of consultation is changing the style of how civil servants and citizens interact. Genuine consultation means that regulators must develop a habit of 'listening' to the public. Too often, there is no real dialogue between the parties. The 'notice and comment' process in the United States provides wide access but has been criticised because the public responds to a set of questions on draft regulations without the possibility of discussion or further give-and-take. Finland, among others, has noted the benefits of 'iterative' consultation, in which consultation becomes a conversation between parties searching for the best answers.

In effect, more active dialogue could vastly improve regulatory quality. Ideas could be presented and tested, adjustments and compromises reached to satisfy competing interests, bridges built between parties that would benefit implementation. At its best, discussion of a regulatory proposal could become a 'discovery procedure' of common interests and solutions. The human element is all-important here, as is mutual trust and credibility. Consultation can be a cost-effective method of gathering information, and, if interested groups are brought in from the very beginning, can help avoid problems that would occasion delay or require revisions later.

But regulators often dislike consultation: it can be costly and delay decisions. A Dutch parliamentary report, criticising a legislative process in which six or seven years were required to



develop a new law, noted that consultation can be 'needlessly taxing' and can 'lead to considerable delay in the legislative process, which the gain in the amount of care taken scarcely serves to compensate'. Consultation can indeed increase the cost of developing regulations, in which case the choice to consult must hinge on consideration of the short-term costs, the longer-term benefits of higher-quality regulation, and the advantages of more open government.

There can also be too much consultation: conducted even on minor issues, it can divert resources away from more important ones, and slow the responsiveness of the entire regulatory system.

Moreover, resistance to consultation from within administrations does not only depend on budgetary considerations, since, if they are well-designed, consultative processes ought to reduce rule-making costs, not increase them. But civil servants may not like the idea of sharing of

decision-making powers with the public. And sharing information can be dangerous: a dialogue with the public can expose regulators to challenge and criticism, to new ideas and difficult choices, to citizens more worried about day-to-day problems than about grand designs. The habits of decades of control will be overcome only by a sustained and pervasive culture of consultation, in which both public and regulators work together to resolve the difficulties of the day.

Across the OECD area as outside it, governments are perceived to be losing their ability to solve problems. Consultation can help them become more open and responsive to citizens' requirements, and, ultimately, more effective in taking action. But much more attention will have to be paid to building a culture of consultation – a habit of listening – in the public sector. Genuine consultation does not result from a mechanism, a process, or some ministerial directive. Rather, it is the product of an appreciation within the civil service of the value and importance of consultation, of a policy environment in which consultation is encouraged and expected, and of a relationship of mutual gain and information sharing between regulators and consulted groups. ■

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Hitting the High Seas

William Emerson



Source: Inca/SEA © SFE

Fish stocks in national waters are becoming dramatically depleted. So fishing fleets are increasingly turning to the high seas to find their catches. This development, in conjunction with a poorly defined management regime in the high seas, is damaging the stocks of fish and their ability to sustain future generations. It has also generated international conflict. But there are regulatory solutions that can be devised to resolve the problem.

The stocks of fish that are termed 'high-seas resources' in fisheries parlance are found in waters beyond the 200-mile exclusive economic zones (EEZs) imposed by the 1982 United Nations Convention on the Law of the Sea. High-seas stocks account for less than 10% of the world's catch but they are being increasingly exploited as those closer to shore are being depleted.

There are two main categories of fish stocks in the high seas. 'Straddling stocks' are distributed within and beyond the EEZs. By volume the most important of these are composed of Alaska pollock in the North Pacific (in the so-called Donut and Peanut Holes), jack mackerel in the South Pacific, cod and blue whiting

in the North Atlantic and hake in the South Atlantic.

The other category, known as 'highly migratory' species (and which consist not least of tuna and salmon), may range over several EEZs into the high seas. Although they are found across the ocean surface, they are vulnerable to harvesting when they concentrate for feeding and reproduction. Fishermen know exactly where to find these concentrations, and the stocks usually suffer from intensive fishing. And with high-seas species which do not congregate, fishing fleets often compensate by using fishing gear that covers vast areas of the ocean – often as much as 40 kilometres.¹ Drift nets hang in the water column and trap fish which attempt to swim through them. Unfortunately these nets can also have disastrous environmental effects since they indiscriminately prey on other marine life, such as sea birds, turtles, marine mammals and

so on. And when these nets are lost, they can continue to float in the water column, killing for years to come and becoming marine graveyards.

Under the UN Convention of the Law of the Sea (UNCLOS), states are obligated to take such measures 'as may be necessary for the conservation of the living resources of the high seas'; these measures should ensure that harvested species are maintained at or restored to volumes which can produce the 'maximum sustainable yield, as qualified by relevant environmental and economic factors'.² But the measures which are necessary to achieve these goals are not clearly defined. This lack of definition reflects the tension between the desire to conserve and preserve the marine environment and the desire to use and exploit the resource. The result has been a failure to agree on management strategies and institutional mechanisms for management and resource allocation.

The want of clearly defined 'rules of the game' for high-seas fishing has not only led to over-exploitation of marine resources but has also engendered disputes between countries whose fleets are harvesting fish stocks in the same area, such as the dispute between the EU and Canada earlier this year over Greenland halibut (box, p. 34).

Recent findings by the Food and Agriculture Organisation (FAO) underline how urgently these issues must be resolved. In the early 1990s, about 69% of the world's harvested species were ex-

1. In December 1989, the UN General Assembly adopted Resolution 44/225 recommending that all nations agree to moratoria on all large-scale drift-net fishing (over 2.5 kms in length) on the high seas by 30 June 1992 unless 'effective conservation and management measures be taken based on statistically sound analysis [...] to prevent unacceptable impacts of such fishing practices in that region and to ensure the conservation of the living marine resources'.

2. The Law of the Sea, The Regime for High-Sea Fisheries, Status and Prospects, United Nations, New York, 1992.

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Hitting the High Seas

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Conflict over Straddling Stocks

The conflict between the European Union and Canada – which came to a head in March 1995 when the Canadian Coast Guard seized a Spanish vessel, the *Estai*, fishing for Greenland halibut in waters 218 miles off the coast of Newfoundland – had been brewing for years. Although the Spanish fleet was fishing in international waters and Canada was not legally entitled to seize the vessel, Canada felt it had the right to protect species which spend part of their life-cycle in Canadian waters as well as outside ('straddling stocks').

The international waters where the Spanish were fishing are regulated by the North-west Atlantic Fisheries Organisation (NAFO), a multilateral regulatory body which governs the Atlantic fishing countries. The NAFO establishes an overall annual catch quota which is then parcelled off amongst the countries belonging to NAFO (including Canada and the

European Union, but excluding nations which did not sign the agreement and which are thus not restricted by it). When the 1995 quotas were announced in late 1994, the European Union objected to the Spanish quota, which had been reduced from 60,000 tons in 1994 to 27,000 tons in 1995, and declared it would fish beyond its allocation. The NAFO could not intervene since its recommendations are not binding. Canada then claimed that the effective management of its marine resources required the right to protect those which spend a substantial amount of time in its waters, even when they are found beyond the 200-mile zone.

The situation is one where two countries were attempting to defend their best interests in a situation where the rules of the game are ill-defined, with conflict emerging from grey area caused by poorly defined management measures, legal obligations and the lack of property rights. Further disputes are likely if these problems are not resolved.



K. Lamirgue/Reuters/MaxPPP

exploited to the limits of their ability to reproduce, were over-exploited or depleted, or were rebuilding their numbers after a period of depletion. FAO projections indicate that, if current volumes of fish consumption per capita (box, right) are to be maintained up to the year 2010, it will be necessary to increase current landings of food fish⁴ by 26% to 91 million tons.⁴ But this will be

feasible only if aquaculture production can be doubled in the next 15 years, and if substantial improvements can be achieved in the conservation and management of fishing stocks. In short, for the oceans to remain a source of nutrition, it is becoming more and more pressing that they be managed in an active, responsible manner.

Interim Remedies

Several international organisations, including the United Nations and the FAO, have begun to tackle these issues. But a series of meetings shortly to be hosted by these bodies will provide only a framework for responsible management; they will not spell out the measures necessary for effective management and conservation. For example, in the case of straddling and highly migratory stocks, UNCLOS states that coastal and fishing states should seek to reach agreement on the management of stocks either directly or through regional or sub-regional organisations. But it does not provide the mechanisms to achieve these goals. UNCLOS similarly calls for management practices consistent with the principles of sustainable development and responsible fishing. Yet these concepts have to be clearly defined in order to insure a consistent and meaningful application of the rules.

The UN is currently hosting a conference on 'Straddling Fish Stocks and Highly Migratory Fish Stocks' which aims to deliver an agreement to provide effective conservation and management measures. The draft agreement, insisting that countries cannot use lack of scientific evidence as an excuse to continue overfishing, propounds caution in all aspects of fisheries activities: in applied fishery research, in management and in development. The details are still being negotiated, in particular the question of whether the rules will be legally binding or not.

The purpose of the UN conference is thus to persuade fishing nations to agree on a broad programme for managing high-seas stocks, and particularly the more immediately threatened ones, such as albacore, bigeye tuna, bluefin tuna, billfish and swordfish, which have been listed as being either over-exploited or depleted.⁵ If the conference is to succeed in this aim, it will have to devise a system that creates incentives not to overfish. And fishing nations will have to be willing to accept the inevitable job losses in the fishing industry that will follow from reduced fishing intensity, a problem exacerbated by the

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Catches and Consumption

fact that many fishing communities are located in isolated areas with few employment alternatives and often already suffer from high unemployment rates. Governments will thus have to emphasise the long-run benefits derived from sustainable development.

In the meantime, very few international agreements incorporate agreed measures to regulate the management of the high-seas fisheries, although in theory resources falling under national jurisdiction (that is, within the 200-mile limit) should, by virtue of the UNCLOS, be subject to sound management practices.

There is increasing awareness of the problems that are looming. In 1992 the FAO began drawing up an International Code of Conduct for Responsible Fishing to cover both the high seas and waters under national jurisdiction. It aims to set out voluntary guidelines and international standards for responsible fishing, with a view to ensure the effective conservation, management and development of living aquatic resources.

A number of other international, multilateral and bilateral agreements, conventions and the like also spell out management objectives and principles for specific fisheries and regions. For example, under the auspices of the International Commission for the Conservation of Atlantic Tuna (ICCAT), a programme of international co-operation in research and conservation has been established to study the unique problems derived from the highly migratory nature of tuna; and the North-west Atlantic Fisheries Organisation (NAFO) is a regional body which provides conservation and control measures.

Moreover, most of these agreements limit themselves to providing the general framework according to which management regimes should be developed; they seldom have the power necessary to make them effective. They are also very difficult, if not impossible, to enforce. Yet only a few states have implemented legislation on the rights and obligations of their vessels fishing on

3. Fish which are harvested for fish-meal and fish-oil constitute the so-called 'industrial fisheries'.

4. The State of World Fisheries and Aquaculture, FAO, Rome, 1995.

5. World Review of Highly Migratory Species and Straddling Stocks, FAO, Rome, 1994.

Catches of Highly Migratory Species, 1991

Species	thousand tons
Skipjack tuna	1,557
Yellowfin tuna	1,012
Other tuna	597
Billfish	402
Other	687
Total	4,255

Source: FAO

Catches of Straddling or Potentially Straddling Stocks, 1991

Area	thousand tons
Atlantic	2,001
Mediterranean	156
Indian Ocean	131
Pacific	10,186
Total	12,474
World catches	81,749

Source: FAO

the high seas. Moreover, when states implement controls after contracting to binding international fisheries conventions, their vessels can evade the restrictive regulations simply by changing flags (reflagging) to those of states which do not implement the agreed controls or which are not party to existing conventions or their protocols (Panama is the best known of such countries, and Liberia also has rather loose rules; Belize, too, has attracted many fishing vessels). And since states which provide flags of convenience often do not provide accounts, the extent of reflagging is not easily determined, although, according to Lloyd's Register of Shipping, it could involve over 1,000 vessels, or approximately 20% of the fishing vessels of 500 Gross Registered Tonnage and over (and it is usually the larger vessels which

Consumption of Fish and Shellfish in OECD Countries

	kilograms per capita, 1988-90 average
Australia	18.8
Austria	8.8
Belgium	18.8
Canada	24.3
Denmark	21.2
Finland	30.6
France	31.1
Germany	12.2
Greece	19.1
Iceland	92.1
Ireland	15.9
Italy	20.1
Mexico	11.0
Netherlands	9.8
New Zealand	28.9
Norway	41.1
Portugal	60.2
Spain	38.0
Sweden	26.9
Switzerland	13.3
Turkey	6.3
United Kingdom	19.9
United States	21.3
World	13.4

Source: US Department of Commerce

normally, although not always, fish in the high seas). In other words, one out of five vessels harvesting the high seas could thus be evading the existing (and already weak) management measures by by-passing jurisdictional constraints.

An Alternative Approach?

Since, then, there is no effective management practice, and no way of imposing it on vessels which reflag, a different approach has to be devised to offer a means of managing fish stocks in the high seas.

One approach would call for the world's governments, recognising that traditional man-



Matanica/SPA

agement practices based on physical restrictions (catch quotas and so on) have failed, to move to a system based on economic values. Such an approach might appeal because it would essentially shift the responsibility of managing the resources and settling fishery disputes to the market place.

Management bodies vested with the authority to achieve the optimum use, rational management and conservation of the fishery resources will have to be established. Their role would be to determine the biological capacity of the resource – that is, how much can be harvested in a sustainable manner, and how best to allocate this resource amongst the different users. Management bodies would also have to be vested with the power necessary to sanction participants that do not abide by the rules.

Recognising the vulnerability of fish stocks to over-exploitation, the management bodies should first declare a moratorium on the entry of additional vessels to high-seas fisheries. The vessels thus vested with the *de facto* 'right' to fish in the high seas would then be required to bid for the right to harvest a share of the overall quota (determined according to the best available scientific advice) from the management entities (with a regional jurisdiction in the case of straddling stocks and with a species-specific jurisdiction for highly migratory species). These private property rights should be transferable, making them a marketable commodity. Individual users would thus seek to maximise the return on their investment by using the most efficient combination of inputs and outputs and, by using responsible fishing practices, ensure the sustainability of their investment in the resource.

The capacity of the resource to generate rent (or 'profit'), moreover, will determine the amount

to be paid for the right to harvest the resource. In theory, fishermen would be willing to pay for the right to fish an amount which at least equals the profits they expect to achieve once their costs are covered. This approach would replace generally ineffective government restrictions or absent regulations with quasi-market mechanisms that ensure the sustainability of the resources. In this way, too, it is the most efficient vessels which would be encouraged to fish, since those submitting the highest bids (barring government intervention in the form of subsidies) would maximise the return on the purchase of fishing rights.

The rents generated from the sale of harvesting rights – that is, the difference between the value of output and the opportunity costs of the inputs required to produce it – would then be used to cover management costs (administration, research and enforcement). Any remaining rent which is not used to cover management expenses could then be distributed to the 'owners' of the resource – society as whole – to compensate them for leasing the resource to the harvesting sector. All fishing parties would thus have a long-term incentive to maintain the regime rather than pursue their immediate interests as at present.

Transferable user rights (also known as 'individual transferable quotas', or ITQs) are already being used in a few of the world's fisheries under national jurisdiction, chiefly those of Australia, Iceland, New Zealand and the United States – largely as a reaction to the failure of other means to curb the effects of the increase in fishing power.⁶ By selling a share of the stock to fishermen, public resources are being converted to quasi-private ownership, with ITQs thus providing the fishing industry with the necessary incentive to conserve resources.

The UN, or any regional management body running such a programme, would in effect

become a caretaker of the high seas. Problems of enforcement, particularly difficult in view of the extent of the areas to be monitored, could be resolved using modern tracking technology in satellites, complemented by on-board observers, as allowed for in the solution to the EU-Canada dispute over Greenland halibut.

Two years ago the OECD Committee for Fisheries initiated a study on the economic aspects of the management of living marine resources, not least with a view to prevent excessive catches. By identifying the instruments used in, and the outcome of, management regimes for a large number of fisheries, the study will determine the impact of a range of alternative instruments. The final product should be a valuable tool for policy-makers and administrators responsible for establishing and implementing fisheries policies.



The truth is stark: if the current intensity of exploitation of marine resources is not properly regulated, the resource will simply be depleted to the point where it will virtually disappear. The economic impact can already be seen in reduced supplies, higher prices, loss of employment opportunities and international tension. The central goal is the sustainability of fish stocks. The measures that will allow fisheries to be exploited in a manner that can sustain long-term use will require courageous government intervention: a moratorium will deprive potential participants from entering business. But such measures are necessary if future generations are to find cod, halibut, or tuna on their dinner tables in the years to come. ■

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Women and Urban Planning

Lindsay McFarlane

Cities are increasingly complex structures.

The diversity of city-dwellers and their differing demands, in housing, neighbourhoods and environmental and urban services, require flexible and dynamic policies. Women in particular have not played their full role in urban life – not least in public office. Enhancing the contribution of women to the development of urban policy is now the subject of lively discussion.¹

Cities, as always, are constantly changing. High volumes of unemployment have recently emerged, often concentrated in specific areas. There are demographic developments – not least aging – and changes in family structures, migration and immigration. The importance of improving the environment and the local quality of life is a growing priority for many citizens. Sections of the urban population are being marginalised and cut off from the mainstream institutions of urban life; they thus have no contact with the decision-makers.

In some cities these trends have contributed to a worsening climate of uncertainty. It has become increasingly difficult for urban

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decision-makers (both in the public and private sector) and planners to understand and master the social, financial and economic parameters they are dealing with. The volatility of the price of land and housing in the cities of many OECD countries in recent years – Japan and the United Kingdom are obvious examples – is a clear illustration of the spread of change and the complex interlinkages between the social, financial and economic and environmental aspects of modern urban systems.

As a result urban planning is experiencing something of a crisis. The broadly accepted objectives of growth, productivity and efficiency which dominated urban planning until recently are now having to be reformulated because of the importance of building a more harmonious social climate and high-quality urban environment which are prerequisites for a well-functioning economy.



Although still in the minority, women are better represented in local than in regional and national government. This is Catherine Trautman, the mayor of Strasbourg, in front of 'her' trams.

Policy-makers are regularly criticised for being out of touch with the individuals they govern. Far wider variations in life-styles, age, physical capacity, race and culture now have to be accommodated and provided for; citizens' interests are more diverse than they ever were in the past. The development of citizen participation and the involvement of the voluntary sector are increasingly recognised by OECD governments as being of crucial importance to maintaining good local democracy, to the delivery of services adapted to people's requirements and to developing policies which focus on the comprehensiveness of urban issues. One-way communication and top-down planning are no longer appropriate in these multi-faceted communities with their rapidly changing values.²

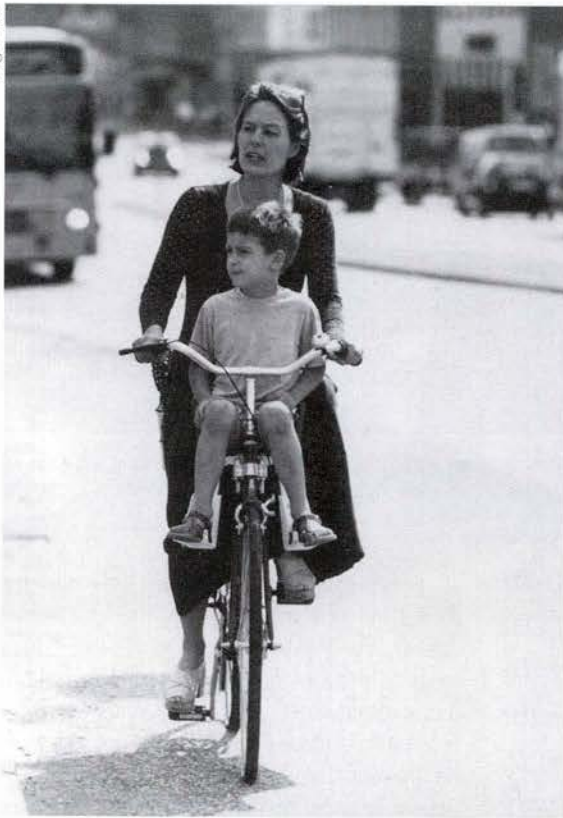
If cities are to exploit their immense scope for balanced economic and social development, those traditional planning policies and processes will have to be rethought to ensure that they are coherent and cohesive – and capable of change. To that end, urban policies will have to enable all citizens, both men and women, to participate fully in the life of the city and to benefit to the maximum of their abilities from the opportunities available.

1. *Women in the City* (conference proceedings), Canada Mortgage and Housing Corporation, Montreal/OECD Publications, Paris, forthcoming 1995.

2. See pp. 29–32.

Women and Urban Planning

Serge Attal



An increase in the availability of cycling paths – one of a range of innovations women are seeking in urban policy.

Increased Responsibilities

Among the numerous changes which are currently challenging many of the basic assumptions of urban planning and governance, some concern women specifically. They include:

- the rapid growth of female participation in the labour force over the last 20 years – up from just under 50% in the early 1970s to 60% two decades later – and the increasing requirement that women contribute to, or sometimes provide, household budgets
- the emergence of different household structures, with a decrease in the number of households with two parents and an increase in those run by lone parents, in majority headed by women

- an increase in people, often elderly and female, living alone
- a decrease in female fertility rates which contributes to the aging of the populations of OECD countries.

What these trends have done in concrete terms is to increase the range of responsibilities women have to undertake – paid employment, parental duties, caring for older or disabled relatives, household cleaning and laundry, shopping.³ And women are increasingly conscious of the way in which urban policies may facilitate or impede them in these tasks. They are thus seeking a bigger say in the organisation of 'their' cities.

These demands are often expressed through such associations as 'Les Femmes et la Ville' in Marseilles, a group which brings together social-science researchers, elected representatives and activists from women's organisations to foster change by improving understanding of the role of women in the city and gender relations in society at large. 'Les Femmes et La Ville' also provides a focus for local branches of national and

international associations, such as the Women's Civic and Social Union, Young Women's Christian Association, University Women, the Soroptimists, the Family Planning Associations, the Centre for Guidance, Documentation and Information and FLORA – an autonomous regional organisation – which promotes cultural activities, organising workshops on writing, cinema and other forms of self-expression by women. There are also residents' associations, such as the Neighbourhood Women's Renaissance in New York which redeveloped a disused site into a multi-complex low-income housing development with nursing home and community medical clinic (box, p. 41).

Governments, too, are responding to these changes. The Norwegian Ministry of the Environment has published a *Cookbook for Grass-roots Planning* which aims to make planning

processes and procedures more accessible and familiar for women. The Equal Opportunities Unit of the European Communities has funded work aimed at creating a European Charter for Women in the City published in 1994. The international Eurofem Network, sponsored by the Finnish Ministry of the Environment, was recently created with the aim of collecting and disseminating information about exemplary urban projects.

Women are seeking to introduce innovations in a wide range of policy areas:

- transport – improving the provision of co-ordinated public transport systems which operate in response to women's requirements as well as to the commuting demands of men; cycling and walking paths
- housing – access to more readily affordable accommodation; special-purpose housing (for the elderly, the handicapped or women suffering family breakdown or physical abuse, for example); medium-density housing with access to retail and service facilities for lower-income or older people without private cars
- environment – improvements to neighbourhood environments; better provision of green space and play areas; energy-saving in the home, where women are often responsible for energy decisions and budgets
- security – improving safety and combating violence in the home and in the street through, for example, better lighting, urban design that is more sensitive to security considerations, improved visibility, better surveillance of garages and public transport
- more responsive services, to meet the demand for child-care, support for elderly and specialised health services
- economic development – measures which encourage female entrepreneurship (specialist banking facilities, for example)⁴ and improved access to education and employment opportunities
- culture and leisure – activities and facilities

3. Françoise Coré, 'Women and the Restructuring of Employment', *The OECD Observer*, No. 186, February/March 1994.

4. *The Rise of Women Entrepreneurs*, OECD Publications, Paris, 1994.

5. See pp. 15–20.

which recognise the importance of women and their role in society.

Improving Representation

In order to improve women's participation in urban life, a concerted approach is required. First, it calls for an improvement in women's representation in political structures and the integration of gender sensitivity into the discussion of urban planning and related disciplines. Second, it is important to survey women's roles in community associations and in interest-based groups, which can provide an effective channel of communication to elected representatives. That in turn calls for the improvement of women's active participation in organisations outside of government.

In OECD countries as a whole, women are generally better represented in local government than in provincial or national administrations, although they remain a minority. The experience of Sweden – where pressure of public demand means that all Swedish political parties are committed to increasing the number of women candidates – suggests that there are both legislative and material prerequisites to improve women's participation in public life. The considerable progress made there in increasing the participation of women in policy arenas, as well as in the labour market, has been helped substantially by the expansion of child-care facilities and paid leave for either parent on the birth of a child, thus making it possible for women and men alike to combine economic and political activity with family responsibilities.⁵

Finland offers confirmation. A system of individual taxation and social security has given legal and practical backing to women's independence, reinforced by the Equal Status Act of 1987 which compels ministries to promote equality between the sexes at work both in the public and private sector. And the existence of 'Committees on Womens' Issues', adopted by some local authorities in the United Kingdom, has proved a valuable way of identifying neglected issues (such as improving access to shopping

facilities for people accompanied by children or handicapped persons or providing interim shelter for women suffering from abuse and family breakdown), and ensuring their specific concerns are placed on policy agendas and taken into account in the implementation procedures. In some cases, planning and programmes are routinely reviewed by such groups in order to assess their impact (Sheffield City Council is one of several local administrations to adopt this practice).

Women are therefore contributing to changing the way cities are managed and making them more responsive to the demands of all citizens. Constraints on public expenditure, combined with new social problems such as drug abuse and homelessness which have emerged or re-emerged and which traditional urban services have difficulty in resolving, have sometimes led to spontaneous responses from the community and voluntary sectors. The balance of responsibility for urban development has begun shifting amongst public, private and community institutions and associations. New forms of co-operation and partnership are being attempted in an effort to muster as broad as possible a complement of material and human resources. In this context, often through the vehicle of community participation, women are being recognised as central to the process of urban development.



Further progress in improving the integration of women in urban planning and governance will require action on several fronts. First, gender-sensitive information, as well as information about other groups (such as visible minorities, people with disabilities, the elderly and the young), should be made available on a regular basis. Second, new forms of urban governance should be developed, to make them more responsive and accessible. In order to make

urban policies accommodate the demands and aspirations of all citizens, horizontal forms of organisation will be necessary, as will more co-operative policy-making, and the inclusion in policy fora of groups adversely affected by social trends.

Women's issues thus have to be brought into the mainstream of policies and policy development to prevent the marginalisation that may occur. That calls for better links between the emerging grassroots movements and the professionals who are developing policies.

Increasing the proportion of female elected representatives in cities and the number of women entering the planning and related professions is important, but is not enough: it should be complemented by the training of all professionals so that they understand and include women's perspectives within their occupational frames of reference. >

Another desideratum: access to play areas and open spaces.



Arrel Alexandre

Women and Urban Planning

FOCUS

Examples of Action

Women's Participation in Partnerships for Housing in Canada

Canada offers an informative example of successful involvement by women in participation in community institutions. 'Grass-roots' women's groups have emerged as new participants in the housing system.

Over the past ten years, women have assumed an important role in the development, management and ownership of non-profit and co-operative housing, of which there are now some 60 projects across Canada. They have obtained funding, found sites, negotiated with architects and builders, selected residents and managed project operations themselves. 'Entre Nous Femmes Housing' (ENF) was established nationally to develop child-oriented, low-cost housing for single-parent families, after the founding members met at an annual symposium for single mothers in the early 1980s.

The group's success in achieving its goal is remarkable. Since its incorporation in 1984, eight projects have been completed in various communities in the Vancouver area, and ENF now provides secure homes for more than 250 families. The group's mandate has always included 'more than housing'. Most of the buildings have been designed to ensure that parents can keep an eye on their children as they play outside, with space for strollers at the bottom of the stairways and, in several of them, a child-care facility. Through these partnerships and active participation in the co-operative housing movement, women have learned marketable skills and increased their control over their environment.

The Gentle City Project, Japan

In Japan, the aging society has become an issue of enormous importance. Between 1970 and 1990 the proportion of elderly (over 65 years, who are thus predominantly female) increased from 7% to 13.5% and is expected to reach 25% by 2020. Japan is therefore concerned to adapt cities to meet the particular requirements of the elderly, but also of women with children and the handicapped.

In 1993 the Architects' Committee for Women of the Tokyo Society of Architects and Building Engineers participated in a study carried out in Tokyo to identify the measures necessary to create an urban environment which both improves mobility and makes travel more comfortable. The results revealed that normal, 'everyday' commuting may involve a substantial expenditure of energy which is tiring even for the young, let alone for the elderly. In stations, for example, it was estimated that energy expenditures for travellers could be as high as the equivalent of walking up the stairs of a six-storey building. The timing on automatic gates and ticket-machines was found to be inconvenient for the slow or infirm. Information displays on the subway were too small for the weak-sighted elderly to read, and there was inadequate provision of ramps, escalators and places to sit and rest.

Government efforts in Japan have given rise to several projects geared towards creating a 'gentle city' for the elderly and handicapped: between 1973 and 1989 the Ministry of Health and Welfare developed

projects in some 300 cities and towns; the Ministry of Construction launched a 'Road Construction for the Elderly' project in 1993 which aims to widen sidewalks, install pedestrian overpasses with escalators and to improve access to public transport; and in 1990 the Ministry of Transport set up a project to improve public transport for the elderly, followed in 1993 by a Traffic Planning Model for the elderly and handicapped. Another initiative by the Ministry of Construction, 'Creating Space for Welfare', allows for setting priorities, identifying goals and drawing up guidelines focused on the requirements of the elderly, the handicapped and women with children.

Municipal Planning on Women's Terms in Norway

Between 1989 and 1991 a co-operative project was undertaken on the initiative of the Norwegian Ministry of the Environment and involving the Ministries of Agriculture, Fisheries, Local Government and Industry and the Association of Local Authorities. Six municipalities from different counties were

The Children Planners of Kitee, Finland

Kitee is a small rural town in north-eastern Finland. In a 'problem neighbourhood' of 2,000 residents it was decided by the municipal council - which had many women members alert to their children's requirements - that children might participate in its improvement.

Through various participatory techniques, involving such methods of expression as drawing, writing, photography and model-building of the neighbourhood, children and residents helped to formulate goals for improving the neighbourhood. Their contribution has put pressure on the town to cover ecological and social issues such as traffic safety, better environmental quality and structures which facilitate diverse types of encounters and exchanges between children themselves and between children and adults.



Kitee

involved in the project: Bremanger, Gausdal, Leksvik, Nesna, Ramnes and Sunddal.

Each participating municipality set up a project group with a permanently employed leader and seven or eight members representing women in the municipality, local political life and the municipal administration. A special advisory team, with representatives from the Research Centre in the Norwegian Building Research Institute and the Norwegian Institute of Urban and Regional Research, assisted the project groups. The aims of the project were:

- to acquire knowledge about how to integrate women's values and requirements into the municipal plans and to develop models to that end
- to draw up plans for the municipality to strengthen the woman's perspective in decisions on the residential environment, industrial and employment policy, and health and welfare policy
- to spread the knowledge obtained from the project to other municipalities.

The project has resulted in a more gender-aware approach to urban planning in Norway.

New Attention to Women Entrepreneurs in the United States

According to federal data on tax returns, there were 5.3 million women proprietors in 1990 – 32% of all proprietorships. The number of businesses owned by women increased at a compound rate of 8.4% over the period 1970–90, a rate nearly double the 4.5% compound annual rate of growth in the number of businesses owned by men.¹ The Small Business Administration (SBA) supports women entrepreneurs by, inter alia:

- transmitting information to women business-owners about assistance and credit programmes
- guaranteeing loans to ensure banks giving credit to small firms against risk
- ensuring that information about women entrepreneurs is addressed to policy-makers.

The aims of the SBA include the promotion of tailored business contracts for women entrepreneurs, improvement of statistical and other research on women's business-ownership, and provision of train-

ing workshops for women entrepreneurs, especially those interested in entering the export market.

Neighborhood Women's Renaissance in the United States

Neighborhood Women's Renaissance (NWR) is a three-building complex which in 1993 opened in Williamsburg, Brooklyn, on the former Greenpoint Hospital site. A local 'grassroots' group of women from this multi-ethnic, low-income community, working in a coalition of neighbourhood organisations, had led a ten-year campaign to redevelop the site with an innovative community plan to adapt the former hospital to a multi-complex, low-income housing site, which included a 200-bed nursing home and community medical clinic.

Twelve years after their campaign began, 45 units of affordable housing have been built, most of them owned by Neighborhood Women's Renaissance Limited Partnership (a subsidiary of Neighborhood Women of Williamsburg Greenpoint), the only grassroots women's organisation in the city of New York which owns and operates affordable housing. NWR sought to implement a range of innovative, women-centred design concepts to demonstrate what poor women require to succeed in work and family – flexible access to kitchens and adjacent apartments to provide for the sharing of meals, assistance from neighbours with care for children and the elderly, a child-care centre, common space for community rooms for meetings, storage units, a 'sleep-over' room for visitors and relatives, and the provision of outdoor spaces. Most of these projects, unfortunately, were dropped by city funding agencies.

The Williamsburg example illustrates both the support structures and barriers that ordinary women can encounter when they initiate a comprehensive community-development plan to expand local control over the re-use of land and abandoned city buildings, and to ensure that women are empowered to own, design and control substantial housing resources that reflect their own requirements and those of their families. It thus provides insights for planners and the designers of urban policy on the participatory planning, design and financing mechanisms necessary for women with

low incomes to work in redeveloping the community. It also illustrates a more general trend in OECD countries towards more 'bottom-up' and less 'top-down' urban planning and policies whereby the aspirations of residents are taken more into account when urban sites are redeveloped.²

METRAC Women's Safety Audit Guide, Canada

METRAC (Metro Action Committee on Public Violence Against Women) in Toronto has developed a women's 'Safety Audit Guide' that has been widely used within Canada and in other countries to enable women to be more aware of environmental features which make them feel unsafe.

The guide is a simple checklist to assess the safety of particular public and semi-public places. In Toronto, it has been used to evaluate the safety characteristics of parks, bus stops, recreation centres, schools, university campuses, housing projects and the public transport system. Items to be noted on the checklist include: attention to lighting, visibility to others, isolated areas that might allow entrapment, the uses of nearby land, and impressions of how well the area is maintained.

The guide is effective because it encourages ordinary citizens to make urban safety their concern, and it acknowledges that 'women know a lot that traditional experts don't know about the environment and how the design of it affects how safe women feel'.

1. 'The State of Small Business', A Report of the President, US Government Printing Office, Washington DC, 1993.

2. **Policies for Housing and Social Integration**, OECD Publications, Paris, forthcoming 1995.

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Portugal

Developing Human Capital

Marco Mira d'Ercole

Since joining the European Community in 1986, Portugal has narrowed its income and productivity differentials with other EC countries, from around 55% of the EC average to close to 70% in 1993.¹ This catching-up process took place in a context of convergence on inflation and the deepening financial and trade integration of Portugal into the international economy. Reliance on labour-intensive modes of production and on low labour-costs² have supported rising employment and prevented the emergence of long-term unemployment among less-skilled workers, such as has occurred in most other OECD countries. Since the early 1980s, unemployment at the peak of the business cycle – the 'structural' rate – has declined in Portugal, while it more than doubled in several other low-income European countries, where large catch-up gains in income and productivity came at the expense of a deterioration in the performance of the labour market as a whole.

Nevertheless, with per capita incomes still so far below the average in the European Union, the main forces shaping the catching-up process have come under renewed scrutiny, the role

of human capital receiving particular attention.³ Until recently, the Portuguese education system had produced large numbers of people with low educational attainments, while offering few opportunities for adult education and vocational training. Education indicators for the early '90s confirm that, despite a rapid expansion in the resources allocated to education and training since the mid-1970s, the gap with other OECD countries remained large:⁴

- the proportion of the adult population (25 to 64 years old) who had completed secondary or higher education in 1991 was by far the lowest among OECD countries; in the same year around 20% of older people were reported as illiterate
- the duration of compulsory schooling, at six years until 1986, was among the lowest of OECD countries; in addition, according to census data for 1991, more than a fifth of young people had abandoned the school system before completing 'compulsory' schooling
- secondary education had traditionally been geared to students planning to continue to higher education, although only a small proportion of the student population had access to it, and as a result, the vast majority of young people entered the labour market without any technical or vocational qualification; indeed, enrolment in secondary education was substantially

lower than in most other OECD countries, with the largest proportion of students attending courses of general rather than vocational education

- the system of further education and training for adults had traditionally been characterised by relatively little development of training within firms, by the dominant role of the state, and by the separation between the government agencies responsible for education and for training.

Since the mid-1980s, in an attempt to remedy these shortcomings the Portuguese authorities have stepped up implementation of reforms in education and vocational training. Policies have aimed at raising compliance rates in compulsory schooling, strengthening technical and vocational education in secondary schools, and decentralising management of the education system. The 'Basic Law on Education' of 1986 established these general principles of reform, with implementation phased over a ten-year period. Compulsory primary education has been increased to nine years (up to the age of 14) for the cohort entering school in 1987, and the introduction of apprenticeship courses has provided alternative streams for students with learning difficulties in the first two cycles of basic education.

Reforms introduced in secondary schools in the latter half of the 1970s had tended to increase standardisation. More recent changes have been directed at providing diversified options, and avoiding 'locking' students into pre-defined streams at an early stage. To this end, the authorities have introduced vocational courses in the general school system, while allowing local authorities, enterprises, unions and entrepreneurial associations to create autonomous training schools in response to specific kinds of demands. Curricular reforms introduced in the early 1990s also aim to keep school-paths open for longer, to develop curricula less directly focused on the provision of narrow vocational skills, and to increase the quality and relevance of technical training.

Efforts have also been directed at developing vocational training outside the school sys-

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tem, so as to provide young people with alternative avenues for entry into the labour market, and to strengthen the capacity to match new demands for specific skills through retraining of adults. Sustained by large EU financing, the provision of vocational-training programmes geared towards the labour market expanded substantially in the 1990s, with annual enrolment reaching 8% of the labour force and government spending amounting to 0.7% of GDP in 1993. Although most of this expansion has occurred with little control over the quality of the training provided, participants in these courses report an improvement of their professional standing afterwards, regardless of the cyclical evolution of the labour market. Data from labour-force surveys nonetheless suggest that participation in education and training courses for people already in employment remained lower in Portugal than the EU average. The distribution of this training, too, was more uneven in Portugal than elsewhere, with older and less educated workers far less likely to participate than in other EU countries.

Labour-market Incentives

A comparison of earnings data across OECD countries suggests that the relationship between education and earnings in Portugal is more pronounced than elsewhere, and that the 'premium' from education has increased for new entrants in the labour force. A widening of the distribu-

tion of earnings since 1985 – with substantial improvements in benefits accruing to workers with a university degree or with upper-secondary qualifications in the technical/vocational streams, particularly in relation to workers with below-basic primary education – has resulted from a generalised shift in demand for the labour of better-educated workers. Supply rigidities in the university system have compounded the effect of the shift in demand, resulting in slow growth in the numbers of workers with higher-education qualifications and thus exceptionally large increases in their earnings.

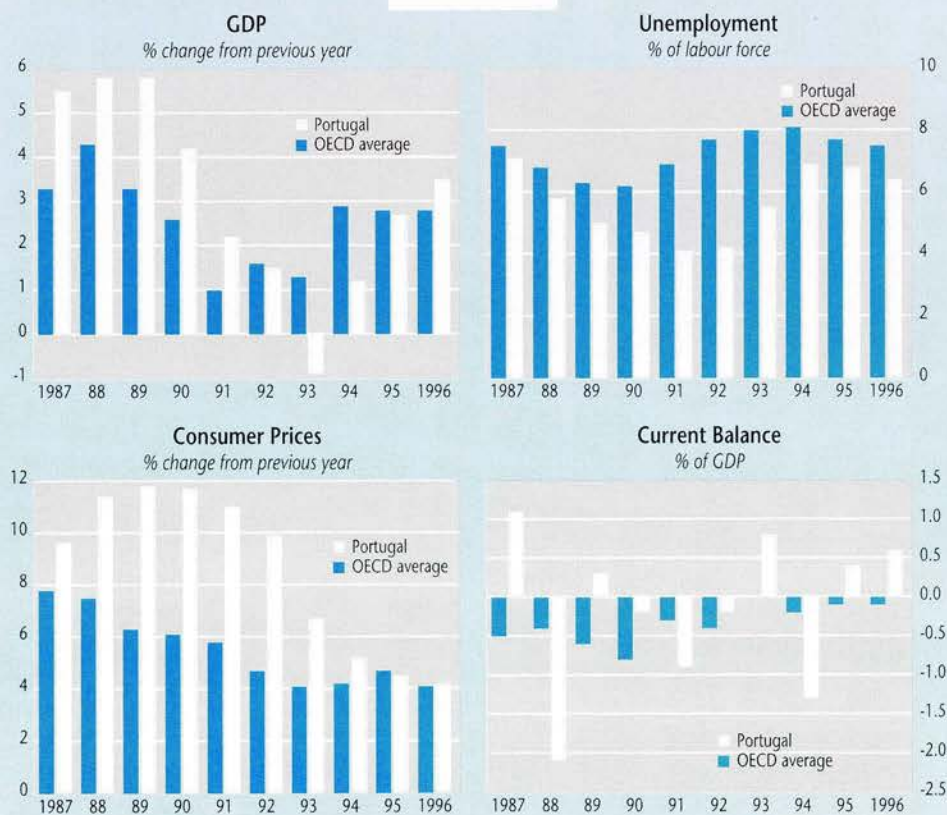
Moreover, whereas less well-educated people in most other EU countries are exposed to a substantially higher risk of unemployment, and to the higher probability of dropping out of the labour force, the relationship between unemployment and educational attainment is much

weaker in Portugal, thanks to the traditional labour-intensive industries, which have continued to absorb low-skilled labour. This, and the importance of youth earnings to poorer families, may have dampened the incentives for individuals to invest in training.

Ensuring that the abilities acquired through education and training are not wasted will also depend on a broad set of influences that affect the demand for more highly qualified workers, not least the composition of industrial output, the use of skills in the workplace, and incentives for firms to invest in them.

In Portugal, the dominant role of traditional industrial sectors that require a lower 'skill content' (textiles, clothing, food-processing, metal products and footwear) has held back the demand for skilled labour. Indeed, the ready availability of low-cost labour may have limited

Indicators



1. *OECD Economic Surveys: Portugal*, OECD Publications, Paris, 1995.

2. Portugal's labour costs in manufacturing in 1993 were around one-quarter of OECD and EU figures, and marginally lower than in the Asian NIEs.

3. Riel Miller, *Investment Knowledge and Knowledge Investment: The Need to Rethink Human Capital Information and Decision Making Systems*, OECD Publications, Paris, forthcoming 1995; Riel Miller and Gregory Wurzburg, 'Investing in Human Capital', *The OECD Observer*, No. 193, April/May 1995.

4. *Education at a Glance: OECD Indicators*, OECD Publications, Paris, 1995; Norberto Bottani, 'Comparing Educational Output', *The OECD Observer*, No. 193, April/May 1995.



S. Gutierrez/Explorer

Since the mid-1980s the Portuguese government has been trying to make up its lag in education.

efforts by firms to upgrade the quality of their workforce. Second, even when producing similar goods and competing on similar markets, firms can make more or less effective use of different skills; the combination in Portugal of unskilled operatives and of few highly qualified technicians and managers has not only restricted the contribution of the less-skilled workers, but has also focused managers' attention on simple problems on the shop-floor, to the neglect of long-term strategic issues.

Third, the dominant role in Portugal of small and family-controlled firms (70% of the total), as well as the low educational attainment of employers themselves – the proportion with upper-secondary and higher-educational qualifications in 1991 being even lower than among employees – may have resulted in corporate structures and personnel management policies which have slowed down the use of skilled labour. To the extent that investment in training is more likely where firms are growing, an array

of factors impinging on corporate development – including corporate financing and the availability of long-term financing – will shape firms' efforts to provide and reward education and training.

In conclusion, it appears that recent reforms in education and training have significantly improved the performance of the system. Persistent deficiencies nonetheless require the pace of reform to be maintained, and even stepped up, in order to:

- assure full implementation of the curricular reforms and assessment procedures at the basic and secondary levels, while improving the management of the education system
- strengthen incentives for young people to participate in vocational courses, recognising their role in raising the general achievement of individuals who are not motivated by purely academic instruction
- widen access to both initial and continuous vocational training and thus provide a broader set of abilities, enhancing the ability of firms to redeploy workers internally
- develop training programmes which address the requirements of small firms and train both workers and managers.


These changes will have to be complemented by a process of diversification and modernisation in the business sector, based on continued privatisation and deregulation, if Portugal is to achieve its goal of moving towards a more skill-intensive industrial output while maintaining its good labour-market performance. ■

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Indicators




AUSTRALIA

	period	% change from previous	
		period	year
Gross Domestic Product	Q1 95	0.7	3.8
Leading Indicator	Mar. 95	-1.1	-3.5
Consumer Price Index	Q1 95	1.7	3.9
		current period	same period last year
Current Balance	Apr. 95	-1.19	-0.87
Unemployment Rate	Apr. 95	8.3	10.1
Interest Rate	Apr. 95	8.00	4.85




AUSTRIA

	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	3.9	3.0
Leading Indicator	Apr. 95	-0.8	1.9
Consumer Price Index	Apr. 95	0.1	2.6
		current period	same period last year
Current Balance	Mar. 95	-0.65	0.07
Unemployment Rate	May 95	5.9	6.0
Interest Rate	Apr. 95	4.82	5.39



DENMARK

	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	1.5	3.2
Leading Indicator	Mar. 95	-2.5	1.0
Consumer Price Index	Apr. 95	0.3	2.4
		current period	same period last year
Current Balance	Q4 94	0.22	0.55
Unemployment Rate	Mar. 95	10.4	12.6
Interest Rate	May 95	6.60	5.90



GERMANY


	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	1.7	3.0
Leading Indicator*	Apr. 95	-0.5	1.9
Consumer Price Index*	May 95	0.1	2.1
		current period	same period last year
Current Balance	Dec. 94	-2.74	-2.01
Unemployment Rate	Dec. 94	6.8	6.7
Interest Rate	May 95	4.59	5.20

* Ex-ERG

Definitions


Leading Indicator	A composite indicator, based on other indicators of economic activity (employment, sales, income, etc.), which signals cyclical movements in industrial production from six to nine months in advance
Consumer Price Index	Measures changes in average retail prices of a fixed basket of goods and services
Current Balance	\$ billion; not seasonally adjusted except for the United States
Unemployment Rate	% of labour force – ILO standardised unemployment rate; national definitions for Austria, Denmark, Iceland, Mexico, Switzerland and Turkey; seasonally adjusted apart from Austria, Iceland, Mexico and Turkey
Interest Rate	Three months, except for Greece (twelve) and Turkey (six)

Source: Main Economic Indicators, OECD Publications, Paris, June 1995; for further information, contact The OECD Observer.



BELGIUM

	period	% change from previous	
		period	year
Gross Domestic Product	1993		-1.7
Leading Indicator	Apr. 95	-1.4	-3.6
Consumer Price Index	May 95	0.0	1.3
		current period	same period last year
Current Balance	Q4 94	2.37	2.97
Unemployment Rate	May 95	9.8	9.8
Interest Rate	May 95	5.18	5.34




FINLAND

	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	4.7	4.4
Leading Indicator	Jan. 95	0.2	8.0
Consumer Price Index	Apr. 95	0.1	1.5
		current period	same period last year
Current Balance	Apr. 95	0.16	-0.05
Unemployment Rate	Apr. 95	17.6	18.8
Interest Rate	May 95	5.87	5.14




GREECE

	period	% change from previous	
		period	year
Gross Domestic Product	1993		0.6
Leading Indicator	Apr. 95	-0.7	2.2
Consumer Price Index	May 95	0.7	9.8
		current period	same period last year
Current Balance	Feb. 95	-0.58	-0.36
Unemployment Rate		..	..
Interest Rate	Apr. 95	16.50	18.50




CANADA

	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	1.4	5.6
Leading Indicator	Apr. 95	-1.9	-2.3
Consumer Price Index	Apr. 95	0.3	2.5
		current period	same period last year
Current Balance	Q4 94	-2.80	-5.19
Unemployment Rate	Apr. 95	9.4	10.9
Interest Rate	May 95	7.50	6.29




FRANCE

	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	0.6	3.7
Leading Indicator	Apr. 95	0.0	-1.2
Consumer Price Index	Apr. 95	0.1	1.6
		current period	same period last year
Current Balance	Q4 94	3.43	3.61
Unemployment Rate	Apr. 95	12.2	12.5
Interest Rate	May 95	7.47	5.64




ICELAND


	period	% change from previous	
		period	year
Gross Domestic Product	1993		1.0
Leading Indicator		..	..
Consumer Price Index	Apr. 95	0.1	1.3
		current period	same period last year
Current Balance	Q1 95	0.03	0.06
Unemployment Rate	Apr. 95	5.5	5.5
Interest Rate	Apr. 95	7.60	4.50




IRELAND			
	period	% change from previous	
		period	year
Gross Domestic Product	1993		4.0
Leading Indicator	Mar. 95	1.5	13.2
Consumer Price Index	Q1 95	0.8	2.5
		current period	same period last year
Current Balance	Q3 94	1.26	0.82
Unemployment Rate	Apr. 95	14.4	14.9
Interest Rate	May 95	6.63	5.75



ITALY			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	0.0	2.7
Leading Indicator	Apr. 95	-0.7	-1.8
Consumer Price Index	May 95	0.6	5.5
		current period	same period last year
Current Balance	Mar. 95	0.05	1.14
Unemployment Rate	Q3 94	11.8	10.3
Interest Rate	May 95	10.45	7.81




JAPAN			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	-0.9	0.9
Leading Indicator	Apr. 95	1.0	6.0
Consumer Price Index	Apr. 95	0.4	-0.2
		current period	same period last year
Current Balance	Mar. 95	14.83	15.86
Unemployment Rate	Apr. 95	3.1	2.8
Interest Rate	May 95	1.35	2.18




LUXEMBOURG			
	period	% change from previous	
		period	year
Gross Domestic Product	1993		0.3
Leading Indicator	Apr. 95	-1.4	-0.8
Consumer Price Index	May 95	0.2	2.2
		current period	same period last year
Current Balance	..	..	..
Unemployment Rate	..	..	..
Interest Rate	..	..	..




MEXICO			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	8.5	4.0
Leading Indicator	..	..	..
Consumer Price Index	Apr. 95	8.0	29.4
		current period	same period last year
Current Balance	Q1 95	-1.21	-6.70
Unemployment Rate	Mar. 95	5.7	3.6
Interest Rate	Apr. 95	71.50	15.92




NETHERLANDS			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	0.1	3.0
Leading Indicator	Apr. 95	-0.4	1.9
Consumer Price Index	Apr. 95	0.2	2.3
		current period	same period last year
Current Balance	Q3 94	4.21	2.02
Unemployment Rate	Mar. 95	7.1	7.4
Interest Rate	May 95	4.49	5.13




NEW ZEALAND			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	0.3	2.6
Leading Indicator	..	..	..
Consumer Price Index	Q1 95	1.2	4.0
		current period	same period last year
Current Balance	Q4 94	-0.55	-0.46
Unemployment Rate	Q4 94	7.5	9.2
Interest Rate	Apr. 95	9.22	6.39




NORWAY			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	7.4	4.5
Leading Indicator	Oct. 94	0.6	4.4
Consumer Price Index	Apr. 95	0.1	2.6
		current period	same period last year
Current Balance	Mar. 95	0.46	0.19
Unemployment Rate	Q4 94	5.2	5.7
Interest Rate	May 95	5.67	5.15




PORTUGAL			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 93	1.6	-0.7
Leading Indicator	Jan. 95	-0.9	7.5
Consumer Price Index	Apr. 95	0.4	4.6
		current period	same period last year
Current Balance	Q4 93	0.02	-0.58
Unemployment Rate	Q4 94	6.9	6.0
Interest Rate	Apr. 95	10.70	..




SPAIN			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	0.8	2.8
Leading Indicator	Mar. 95	-1.5	5.0
Consumer Price Index	Apr. 95	0.5	5.2
		current period	same period last year
Current Balance	Mar. 95	-0.72	-1.03
Unemployment Rate	Q1 95	22.8	23.8
Interest Rate	May 95	9.39	7.68




SWEDEN			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	20.1	3.5
Leading Indicator	Apr. 95	0.0	-1.8
Consumer Price Index	Apr. 95	0.7	2.9
		current period	same period last year
Current Balance	Mar. 95	0.54	0.17
Unemployment Rate	Apr. 95	7.2	7.4
Interest Rate	May 95	8.77	7.00




SWITZERLAND			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	0.6	2.6
Leading Indicator	Apr. 95	0.2	1.5
Consumer Price Index	Apr. 95	0.1	1.6
		current period	same period last year
Current Balance	Q4 94	5.0	4.6
Unemployment Rate	Apr. 95	4.3	4.8
Interest Rate	Apr. 95	3.36	3.96



TURKEY			
	period	% change from previous	
		period	year
Gross Domestic Product	Q4 94	-23.3	-5.4
Leading Indicator	..	..	..
Consumer Price Index	May 95	3.2	82.4
		current period	same period last year
Current Balance	Q4 94	0.34	-1.58
Unemployment Rate	Apr. 95	8.3	7.3
Interest Rate	May 95	89.64	..



UNITED KINGDOM			
	period	% change from previous	
		period	year
Gross Domestic Product	Q1 95	0.7	3.7
Leading Indicator	May 95	0.2	1.9
Consumer Price Index	Apr. 95	1.0	3.3
		current period	same period last year
Current Balance	Q4 94	3.83	-0.84
Unemployment Rate	Apr. 95	8.5	9.9
Interest Rate	May 95	6.72	5.17



UNITED STATES			
	period	% change from previous	
		period	year
Gross Domestic Product	Q1 95	0.7	4.0
Leading Indicator	Apr. 95	-0.4	-0.5
Consumer Price Index	Apr. 95	0.3	3.1
		current period	same period last year
Current Balance	Q4 94	-44.76	-30.59
Unemployment Rate	May 95	5.6	6.1
Interest Rate	May 95	6.02	4.51

The OECD Economic Outlook

Highlights

The economic situation in most OECD countries has improved substantially after several difficult years in the early 1990s.¹ Expansions of output are well established virtually everywhere, Japan being a striking exception. World trade is growing robustly. Unemployment in the OECD area is falling. Inflation has dropped to rates not seen since the 1960s. Beyond these favourable conjunctural developments, much has been done to lay the foundation for sustained improvement in economic performance over the longer term. Competition in product markets is being strengthened internationally by agreements to reduce barriers to trade, notably the implementation of the European Single Market, NAFTA and the Uruguay Round, including the establishment of the World Trade Organisation, while regulatory reform and technological innovation continue to increase competition and efficiency, in particular in financial markets. A number of countries have also made some progress in enhancing the flexibility of their labour markets. Outside the OECD area, growth is robust in many Asian economies, many of the economies in transition have returned to growth and, despite the effects of the crisis in Mexico on countries in Central and South America, longer-term prospects in that area remain bright.

Medium-term Challenges

Notwithstanding these achievements, many issues will have to be confronted in the coming years to ensure that high economic growth with sustained increases in employment and productivity is achieved within the OECD area and outside, and

that rising living standards and increased prosperity are shared, both across countries and among individuals within countries.

Sustained increases in employment and permanent reductions in unemployment are essential, since they would contribute both to the growth of output by reducing the waste of human resources which is now occurring, and to the reduction of the social distress which high and prolonged unemployment causes. Rapid progress in implementing the recommendations in the *Jobs Study* is a matter of urgency in all countries.²

More rapid increases in productivity growth will require: open competitive markets, which put producers under continuous pressures to improve efficiency and to innovate; high levels of research and development and of new investment which embodies new technologies and ensures that they are adequately diffused; and a more highly skilled labour force. The adverse effects on particular groups or individuals of the rapid changes sometimes associated with competitive markets and technological advances can be addressed by enhancing OECD societies' capacity to adapt constructively, rather than attempting to slow the pace of change. In the final analysis, the productivity improvements which competitive processes and technological advance generate are the main source of rising living standards. They will also provide the means for increased support for the displaced and the excluded, and in particular for programmes to help re-integrate them.

Further productivity growth and an efficient allocation of the world's real resources will also depend on the free movement of financial resources. The challenge here is to maximise the benefits of globalised and liberalised financial markets while ensuring that any associated costs are minimised. In

recent years, these markets have at times experienced large and unexpected pressures, often leading to abrupt movements in exchange rates and long-term interest rates. In many cases, pressures have reflected a justified loss of market confidence in macro-economic policies and prospects. However, once a loss of confidence has occurred, the timing and magnitude of the market reactions cannot be fully attributed to changes in underlying economic conditions. The large short-term swings which sometimes result can destabilise domestic economic conditions and aggravate financial fragility. As well, prolonged misalignments of currencies can lead to large movements in trade balances and give rise to tensions in international trade and payments systems, which may contribute to protectionist pressures.

Strengthening the open multilateral rules-based trading system, and bringing international investment into a similar framework, will boost growth by raising productivity through better allocation of resources across sectors and countries, and thus contribute to continued increases in living standards. Notwithstanding the successful conclusion of the Uruguay Round, protectionist pressures still exist. At the time of writing, trade relations between the United States and Japan are undergoing a period of particularly intense tension. Other trade-related issues involving competition policies, direct investment, environment and labour standards are under discussion in a number of fora, including the OECD. It is important that solutions be found – including to the issue of lowering the level of immediate, specific trade tensions between the United States and Japan. Such solutions must be consistent with an open multilateral and rules-based approach that is conducive to more open competitive markets and more efficient international resource allocation.

Macro-economic Policy Requirements

Achieving and maintaining a stable macro-economic environment will provide a supportive backdrop for sustained growth. The gains

1. *OECD Economic Outlook*, No. 57, OECD Publications, Paris, June 1995.

2. *The OECD Jobs Study: Implementing the Strategy*, OECD Publications, Paris, 1995.

Table 1
Growth of Real GDP in the OECD Area
 %

	Share in total OECD	Change from previous year			
	1991	1993	1994	1995	1996
United States	36.35	3.1	4.1	3.2	2.3
Japan	14.91	-0.2	0.6	1.3	2.3
Germany	8.63	-1.1	2.9	2.9	2.7
France	6.59	-1.5	2.7	3.0	3.2
Italy	6.19	-1.2	2.2	3.0	2.9
United Kingdom	5.74	2.2	3.8	3.4	3.0
Canada	3.32	2.2	4.5	3.9	3.4
Total/average of above 7 countries	81.73	1.3	3.0	2.8	2.6
Australia	1.77	3.9	5.4	3.8	3.5
Austria	0.86	-0.1	2.7	2.8	2.3
Belgium	1.09	-1.7	2.3	2.7	2.6
Denmark	0.57	1.5	4.4	3.4	3.0
Finland	0.49	-1.6	3.9	4.8	3.9
Greece	0.62	-0.5	1.5	1.9	2.3
Iceland	0.03	1.2	3.0	2.5	2.4
Ireland	0.27	4.1	6.0	5.8	5.0
Luxembourg	0.05	1.7	2.7	3.1	2.9
Mexico	2.79	0.8	3.5	-2.9	3.0
Netherlands	1.57	0.4	2.5	3.1	2.7
New Zealand	0.29	5.1	3.8	3.8	3.1
Norway	0.45	2.3	5.1	4.8	3.5
Portugal	0.65	-1.2	1.2	2.9	3.2
Spain	3.15	-1.1	2.0	3.0	3.2
Sweden	0.92	-2.6	2.2	2.5	2.4
Switzerland	0.94	-0.9	2.1	1.7	2.3
Turkey	1.75	7.5	-5.4	2.8	4.8
Total/average of above 18 countries	18.27	0.9	2.2	2.2	3.1
Total OECD	100.00	1.2	2.9	2.7	2.7
North America	42.46	2.9	4.1	2.8	2.5
OECD Europe	40.57	-0.2	2.4	3.0	3.0
EU	37.40	-0.6	2.7	3.0	2.9
Total/average OECD less the United States	63.63	0.1	2.2	2.4	2.9

Figures in *italics* are provisional.

made in lowering inflation must be preserved. A difficult but vital task will be to reduce high public deficits and debt-to-GDP ratios, particularly in view of the expected increase in fiscal burdens associated with aging populations.

Success over the longer term first implies dealing with any short-term problems in a way that is compatible with longer-term objectives. The OECD currently projects reasonably robust growth to the end of 1996, but this outcome cannot be taken for granted. There are risks associated with: the possible negative effects of foreign-exchange turbulence in recent months; further adverse financial-market

reaction to the poor state of public finances in many countries (that is, higher interest rates than assumed); and, possibly, more restrained consumer spending than projected. These risks must be contained.

In the present macro-economic situation, the requirements of non-inflationary growth point to the importance of monetary policy in moderating demand where margins of spare capacity have virtually disappeared or substantially narrowed, while it should support a recovery of activity where such margins remain large and there is little risk of inflation. The recent decline of the external value of the US dollar against other major currencies has raised additional policy issues. In the United States, the sharp fall of the dollar, if maintained, could add somewhat to price pressures which already show some signs of rising. In Japan, the current strength of the yen could compromise a recovery that has already been delayed. In Europe, the dollar's weakness against the Deutschmark has been reflected in pressures on other currencies, both within and outside the ERM. Some countries, particularly those with weak budget positions or poor inflation records in the past, have had to raise interest rates to defend the currency at a time when unemployment is still high and economic recovery is incomplete.

Closely co-ordinating interest-rate policy in the largest three OECD economies with the primary objective of exchange-rate stability could generate significant domestic costs. Given the divergence of cyclical positions, the underlying external pressure could be translated into higher interest rates than would be implied by purely domestic considerations. In large economies, for which the relative size of the foreign sector is fairly small, it would not be advisable to adopt the exchange rate as a target of monetary policy. However, even in these economies, the exchange rate should be used as one important indicator when

designing monetary policy, together with a number of domestic economic and financial variables. In the current situation, such a broad set of indicators relevant to the assessment of appropriate stance of monetary policy suggests that:

- in the United States, the monetary authorities will have to watch developments carefully, remaining vigilant to potential inflation pressures and being ready to raise short-term interest rates further in the event that signs of resumption of strong growth are detected in incoming data or that a weak exchange rate appears to pose an inflation risk
- in other countries where large currency depreciations have occurred and whose economies are more exposed to external influences than the United States (such as Italy, the United Kingdom, Mexico, Spain and Sweden), even more care would be required in the conduct of monetary policy to prevent the currency depreciation from triggering a price/wage spiral
- in Germany, if the underlying forces of expansion maintain their strength over the coming twelve months in the face of the Deutschmark appreciation, an increase in interest rates is likely to be required; in France, on the other hand, short-term market rates should be reduced closer to the German levels as soon as exchange-market tensions subside
- in Japan, the existing margin of unused capacity, the projected strength of domestic demand, and on-going balance-sheet adjustments of banks point to the importance of the flexible use of existing, though limited, room for further cuts in short-term rates, unless a significant reversal of the yen exchange-rate overshooting takes place quickly through market forces.

Over the longer term, it is necessary to strengthen further the credibility of commitments to non-inflationary monetary policy in order to lower interest-rate premia for inflation and inflation uncertainty, as well as provide a favourable backdrop for decisions about current resource allocation and new investment. This would improve productivity performance and help reduce the extent of financial-market volatility. There are a number of measures which would contribute positively in this regard, all of which are desirable in their own right. Considerable progress has been made in many countries in terms of emphasis on inflation control when formulating monetary-policy objectives, the ambitiousness of these objectives and transparency in communi-

Table 2
Unemployment in the OECD Area¹

	Thousands	% of labour force			
	1991	1993	1994	1995	1996
United States ²	8,443	6.8	6.1	5.6	5.7
Japan	1,382	2.5	2.9	3.1	3.1
Germany	2,602	8.9	9.6	9.2	8.7
France	2,361	11.7	12.4	12.0	11.5
Italy ³	2,650	10.7	11.3	11.1	10.5
United Kingdom	2,348	10.2	9.2	8.2	7.6
Canada	1,493	11.2	10.4	9.4	9.1
Total/average of above 7 countries	21,279	7.3	7.2	6.8	6.6
Australia	809	10.9	9.7	8.7	7.9
Austria	125	4.2	4.4	4.3	4.2
Belgium	391	11.9	12.6	12.4	11.8
Denmark	296	12.2	12.1	10.6	9.7
Finland	193	17.9	18.4	16.4	14.9
Greece	301	9.7	9.6	9.9	9.9
Iceland	2	4.3	4.7	4.5	4.4
Ireland	195	15.8	14.8	13.9	13.6
Luxembourg	2	2.1	2.7	2.5	2.3
Mexico ⁴	322	3.5	3.7	5.2	5.2
Netherlands	335	6.5	7.5	7.5	7.4
New Zealand	168	9.5	8.1	7.2	7.0
Norway	116	6.0	5.5	4.9	4.5
Portugal	199	5.5	6.8	6.7	6.3
Spain	2,464	22.7	24.1	24.1	23.3
Sweden	122	8.2	8.0	7.5	6.7
Switzerland	39	4.5	4.7	4.1	3.6
Turkey ⁵	1,547	8.7	10.9	12.0	12.4
Total/average of above 18 countries	7,626	10.4	11.0	11.2	10.9
Total OECD	28,904	8.0	8.1	7.8	7.6
North America	10,258	7.0	6.3	6.0	6.0
OECD Europe	16,288	10.7	11.3	11.0	10.6
EC	14,584	11.1	11.5	11.1	10.6
Total/average OECD less United States	20,462	8.6	8.9	8.8	8.5

Figures in *italics* are provisional.

1. Commonly used definition.
2. Break in series from January 1994.
3. Break in series in 1991 and 1992.
4. Figures based on the national survey of urban employment (32 urban zones and around 12 million people).
5. Important revisions to data.

cating them to the public. A number of countries – the United Kingdom, Canada, Finland, New Zealand and Sweden – have established explicit inflation targets and several others, including Germany, France, Italy, Australia, Greece, Portugal, Spain and Switzerland, have announced medium-term inflation objectives. Others have established effectively fixed exchange rates *vis-à-vis* low inflation countries. Increased autonomy for central banks in their operations is also enhancing institutional pressure

help underpin the credibility of official commitments to price stability. In view of medium-term pressures from pension commitments and health-care programmes, which will rise as populations age, it is all the more critical to address fiscal imbalances as soon as possible.

Since the scope for increasing taxation in many countries is limited by political resistance and the increased economic distortions that higher taxes imply, the main burden of adjustment will have to

for maintaining price stability in a number of countries – for example, in some EU countries and New Zealand. Further progress in these areas would help central banks to build successful track records and contribute to the development of public support on which these commitments ultimately depend.

Fiscal consolidation continues to have a key role to play. Chronic budget deficits and rising debt-to-GDP ratios in many countries suggest widespread unsustainability of present fiscal policies. Measures to address this problem are being taken in most countries, and these efforts have to be maintained, or, in some cases, intensified. In several countries, for example Italy, Canada, Spain and Sweden, concern about the size of deficits has at times contributed to premia on interest rates and downward pressure on currencies. In the United States, chronic budget deficits together with relatively low private saving have resulted in a continuous deterioration in the net foreign position. Reducing deficits can be expected to raise national saving, which would help ease upward pressures on interest rates, to finance increased investment and to promote sustainable growth in the medium term. It will also allow more room for manoeuvre and

Table 3
Private Consumption Deflators in the OECD Area
%

	Change from previous year			
	1993	1994	1995	1996
United States	2.5	2.1	2.8	3.4
Japan	1.3	0.3	-0.6	0
Germany	3.9	2.7	2.3	2.1
France	2.2	1.8	1.6	1.7
Italy	4.8	4.7	5.4	4.7
United Kingdom	3.5	2.5	2.9	3.1
Canada	1.7	0.7	2.0	2.0
Average of above 7 countries	2.6	2.0	2.2	2.5
Australia	2.1	1.4	2.6	3.7
Austria	3.5	3.3	2.3	2.5
Belgium	2.6	2.4	1.9	2.0
Denmark	1.0	1.7	2.5	3.0
Finland	3.9	1.6	2.1	2.6
Greece	13.6	10.8	9.2	7.0
Iceland	4.9	1.7	2.3	2.8
Ireland	1.6	2.4	2.6	3.0
Luxembourg	3.7	2.4	1.9	2.0
Mexico	9.3	6.6	35.0	27.0
Netherlands	2.1	2.2	1.7	1.8
New Zealand	1.0	0.5	2.9	2.0
Norway	1.9	1.4	2.8	2.6
Spain	5.6	5.1	4.6	4.1
Portugal	7.9	5.2	4.5	4.2
Sweden	5.8	3.0	3.3	2.8
Switzerland	3.0	0.7	1.7	1.9
Turkey	63.9	106.0	80.0	45.0
Average of above 18 countries	10.6	13.6	15.4	10.8
Average OECD	4.1	4.1	4.6	4.0
Average OECD less Turkey	3.0	2.3	3.3	3.3
North America	2.9	2.3	4.8	4.8
OECD Europe	6.5	7.5	6.4	4.7
OECD Europe less Turkey	3.9	3.1	3.1	2.9
EU	3.9	3.2	3.1	2.9
Average OECD less United States	5.0	5.2	5.7	4.4

Figures in *italics* are provisional.

fall on expenditure. More generally, recent experience in a number of countries indicates that the adjustments which deficit reduction will require are easiest for the economy to absorb if action is taken during an upswing in activity, even though pressure to act may then be less. Governments should therefore seize the opportunity which the current situation offers, in order to avoid much more difficult conditions when the expansion slows.

Action to reduce spending may be most effective where budgetary processes combine credible and binding limits on expenditure with efforts to improve the efficiency of public activities. Beyond this, it is necessary to achieve reductions in social exclusion and marginalisation, and an equitable distribution of income, both among those currently alive and between current and future generations. Such achievements will be important factors in obtaining and maintaining broad political support for the actions required in all areas, in particular action to bring about significant improvements in budget positions.

Key Issues in Structural Reform

Reforms to reduce structural rigidities in both labour and product markets would make wage- and price-formation more responsive to market conditions and speed the adjustment to changing price-signals, enhancing the ability of economies to adjust to changes such as shifts in patterns of demand or technological advances. At the moment, rigidities in labour- and product-markets have the effect of channelling pressures that arise in these markets into more flexible sectors of the economy, in particular financial markets. More flexible labour- and product-markets will also contribute to the job-creation which is necessary to reduce long-term unemployment. Improved job-creation performance will assist in creating the climate necessary to address problems of marginalisation and exclusion. In these ways, the favourable impact of structural reforms on productivity and the social costs of adapting to change would increase the credibility of stable monetary and fiscal policies.

Financial markets in OECD countries are now all essentially liberalised. The potential benefits of liberalised financial markets are substantial, and include: allowing savers more protection against inflation; facilitating portfolio diversification both within countries and internationally; providing access to financing often lacking in the past; enlarging the scope for the end users of capital to make productive investment in activities that are judged to yield the highest return over the longer term; increasing the operating efficiency of financial institutions and reducing intermediation mar-

Table 4
Current Balances in the OECD Area
% of GDP

	1993	1994	1995	1996
United States	-1.6	-2.3	-2.7	-2.5
Japan	3.1	2.8	2.5	2.2
Germany	-0.8	-1.1	-0.7	-1.2
France	0.7	0.7	0.9	0.8
Italy	1.2	1.5	1.3	1.6
United Kingdom	-1.9	0.0	-0.1	-0.1
Canada	-4.3	-3.3	-2.2	-1.5
Average of above 7 countries	0.0	-0.2	-0.3	-0.3
Australia	-3.7	-4.6	-6.0	-5.3
Austria	-0.5	-1.0	-1.4	-1.7
Belgium-Luxembourg	5.4	5.4	5.8	5.8
Denmark	4.1	3.0	2.9	3.5
Finland	-1.1	1.1	1.8	1.2
Greece	-0.8	-0.1	-1.0	-1.3
Iceland	0.0	2.2	2.4	2.0
Ireland	7.7	6.9	6.6	6.1
Mexico	-6.5	-7.8	-1.5	-0.7
Netherlands	3.1	3.9	3.8	3.7
New Zealand	-2.1	-2.1	-2.1	-1.7
Norway	2.1	3.3	4.1	6.8
Portugal	0.8	-1.3	0.1	0.2
Spain	-0.8	-1.1	-1.0	-1.3
Sweden	-2.1	0.4	2.9	4.5
Switzerland	7.9	6.9	6.8	6.9
Turkey	-3.7	2.1	2.1	1.6
Average of above 18 countries	0.0	0.2	1.2	1.4
Average OECD	0.0	-0.2	-0.1	-0.1
North America	-2.1	-2.6	-2.6	-2.4
OECD Europe	0.3	0.7	0.9	0.8
EU	0.1	0.4	0.6	0.5
Average OECD less United States	0.7	0.9	1.1	1.0

Figures in *italics* are provisional.

gins; and encouraging innovative methods of risk management. To maximise these benefits it is essential that market participants be subject to the disciplines which markets impose as well as having access to the rewards they offer to ensure that they prudently balance risk-taking and the search for high returns. In particular, care must be taken to avoid a situation (often described as 'moral hazard') in which participants' investment or financing decisions or government policies are distorted by the perception that they are effectively guaranteed against risk or are under-written by domestic taxpayers or the international community.

The volatility which financial markets have displayed has led to suggestions that the process of deregulation should be reversed or that measures, such as transaction taxes, should be introduced to 'slow' financial markets. In view of the adverse economic effects caused by the distortions associated with much of past regulation, reversing the trend towards liberalisation is not a solution, and in any case is unlikely to be feasible. To be effective, transaction taxes and regulations would have to be applied virtually worldwide, which would require a degree of international co-ordination that is probably not achievable. A large pool of funds to stabilise excessive currency movements has also been suggested, but it would create problems of moral hazard on the part of both private-sector market participants and governments, undermining healthy market discipline on their behaviour and policies.

OECD governments cannot, however, be complacent about financial-market behaviour. The full benefits of liberalised markets will be realised only if the necessary information is available for market participants to make decisions wisely and for the relevant authorities to assess institution-specific and systemic risks. This points to the importance of enhancing transparency in both private and public sectors: by devising more accurate and informative accounting methods – notably for derivatives and other new financial instruments; through earlier and more comprehensive disclosure of financial situations by both private market participants and national governments; and by improving the quality of economic and financial data. There is also scope for improving prudential supervision of financial institutions and markets, as well as for ensuring adequate consumer protection and continued vigorous competition in the financial system.

The current expansion in the OECD area has the potential to mature into a phase of durable growth of employment and incomes in a stable, non-inflationary environment. Ensuring this desirable outcome, however, will require policy initiatives across the full range of actions outlined above. Exploiting to the full the mutually reinforcing effects of good macro-economic policies and good structural policies is crucial to achieving the objective of rising and equitably distributed global living standards.

1 June 1995

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Agriculture

Agricultural Policies, Markets and Trade in OECD Countries Monitoring and Outlook 1995

May 1995
This is the eighth OECD annual report which describes and assesses the main developments in agricultural policies, markets and trade in OECD countries. One of the key conclusions is that while overall support to the OECD agricultural sector has changed little in 1994, there has been some shift to direct payments to farmers. This evaluation is supported by estimates of producer and consumer subsidy equivalents for OECD countries.

The report also analyses key policy areas related to agriculture covering environment, agro-food, rural economy, institutional reform, and trade. A range of emerging policy issues are also examined including the effects on agriculture following the Uruguay Round agreement; implications of the possible enlargement of the EC to include some central and eastern European countries; and the achievement of sustainable agriculture.

The 1994 Uruguay Round agreement represents a major achievement in the multilateral reform of agricultural policies and trade. This should provide a significant contribution towards agricultural policy reform in OECD and other countries, which will require close monitoring in future.

(51 95 10 1) ISBN 92-64-14419-6, 282pp.
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CCET (Centre for Co-operation
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April 1995
See Sture Åström, 'Agricultural Reform in Sweden', **The OECD Observer**, No. 193, April/May 1995.
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Development and Aid

Linkages: OECD and Major Developing Economies

May 1995
Does the growing competitiveness of the developing world threaten jobs and wages in OECD countries? This study, together with the companion summary report, argues that OECD countries stand to gain far more than they would lose from the rapid development of major developing economies (MDEs), such as China, India and Indonesia.

These countries represent a large and fast-growing market for OECD exports of goods, services, know-how and capital, and could therefore stimulate employment and income growth within the OECD. Having embraced an outward-oriented linkage-intensive development strategy, the MDEs have a growing stake in a liberal and rule-based global economic order. They can be expected to take greater responsibility for global governance in trade and investment, environment, security and international migration.

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Planning for Sustainable Development:

Country Experiences

May 1995
Countries, in order to assure sustainability, must give equal consideration to environmental, social and economic concerns in their planning for future development. This concept is relatively new, and concerns all countries of the world alike, both developed and developing.

OECD countries recently sat down with developing countries at a workshop to compare notes, using a body of actual approaches and experiences documented and submitted by participants. This document offers a fresh perspective on sustainable development planning by illustrating the workshop's major conclusions with the combined practical experiences of 34 countries and international bodies from all quarters of the globe.

(43 95 08 1) ISBN 92-64-14424-2, 98pp.
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Education

'Indicators of Education Systems' Series

Public Expectations of the Final Stage of Compulsory Education

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Measuring What Students Learn

May 1995
OECD countries pursue policies to improve the quality and effectiveness of their education systems, but do they ameliorate student achievement? International indicators of achievement can answer this question. But developing such indicators has proved a delicate task, both politically and methodologically. Few indicators are currently available, and these cannot be used to evaluate the full range of performance outcomes.

This publication recounts the efforts of OECD countries to develop a range of student outcome indicators. It reports on a survey of national education goals and strategies for performance assessment, and argues for broadening the scope of indicators to include general aptitudes and skills, untethered from specific fields such as mathematics, reading or science.

(91 95 06 3) ISBN 92-64-04358-6, bilingual, 142pp.
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Integrating Students with Special Needs into Mainstream Schools

May 1995
(96 95 01 1) ISBN 92-64-14399-8, 158pp.
France: FF195; elsewhere: FF255 US\$49 DM73

Reviews of National Policies for Education:

Austria

June 1995
See John Pratt, 'Expanding Choice in Austrian Education', **The OECD Observer**, No. 186, February/March 1994.

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Energy

IEA (International Energy Agency)

Energy Balances of OECD Countries 1992-1993*

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Energy Statistics of OECD Countries 1992-1993*

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* Also available on diskette and magnetic tape.

World Energy Outlook 1995 Edition

May 1995
This edition adds to the IEA's ongoing analysis of global energy markets until the year 2010. It presents two alternative scenarios: one which foresees capacity constraints which will put upward pressure on energy prices; and a second which examines the potential for energy savings to reduce the growth rate of energy demand. In both cases, world energy demand will grow over

the next fifteen years, but more slowly than the rate of economic growth. The importance of the global transportation sector is examined in detail. The study also provides in-depth regional analysis of longer term energy prospects in OECD North America, South and Central America, Africa and South Asia. These regional studies follow on the work presented in last year's Outlook on the rapidly changing Asia-Pacific regions and Central and Eastern Europe.

(61 95 07 1) ISBN 92-64-14391-2, 372pp.
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IEA History, Volume II: Major Policies and Actions

May 1995
Volume II continues the story which began with the Origins and Structure of the Agency in Volume I. After examining the industrial countries' energy policies leading up to the 1973-74 crisis, the current volume focuses on the new policies adopted in the IEA during its first twenty years.

Responding to oil security concerns, the Agency has built and maintained oil emergency response systems enabling it to assist in the management of oil supply disruptions in 1979-1981 and 1990-1991 and to maintain a high degree of readiness today. Oil security policy notions expanded to include long-term energy policies to reduce dependence on imported oil, with development of energy conservation, alternative sources of energy, R & D and the energy and the environment balance. Oil market information systems have been established and operated to make markets more transparent. As the world energy situation evolved over the last twenty years, the Agency increasingly widened the scope of its policies and actions, particularly with regard to energy and environment issues. The Agency also expanded relations with non-member countries on a global basis. Volume II takes up these developments and pinpoints the major actions the Agency has taken to achieve the objectives of IEA countries.

(61 95 10 1) ISBN 92-64-14337-8, 396pp.
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Energy Policies of Hungary: 1994 Survey

June 1995
Since the last IEA Survey in 1991, much progress has been made towards adapting the energy sector of the Hungarian economy to an increasingly market oriented economy. This report reviews

progress in restructuring energy industries, developments in energy markets, privatisation policy and regulatory arrangements, issues of energy supply security and environmental protection. Analysis of energy supply and demand is based on the most authoritative data available. A series of recommendations is made to further the government's energy policy objectives.

The government is praised for building emergency oil stocks in line with IEA policy and for progress in industrial restructuring and price reform. At the same time, the need to complete price reforms to schedule is underlined and the government is urged to complete regulatory arrangements well ahead of the planned privatisation of gas and electricity industries to ensure success.

(61 95 11 1) ISBN 92-64-14404-8, 240pp.
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Energy Policies of Poland – 1994 Survey

May 1995

This survey, conducted in co-operation with the Polish government as a follow-up to **Energy Policies of Poland – 1990 Survey**, is intended to support Polish authorities charged with laying down energy policy targets and designing energy policy measures. Another purpose is to enlighten interested parties on progress made since 1990 in adapting the Polish energy sector to the requirements of a market economy. The report documents and analyses recent energy supply and demand developments, the situation as of late 1994 with respect to energy pricing, Poland's security of energy supply, the structure of the energy industries and the evolving relationship between the Government, public enterprises and private companies in the energy sector. It also looks at energy end-use efficiency developments and initiatives, and outlines the considerable environmental problems caused by energy production and use. The analysis points to areas where there is a need for further steps, and is complemented by a series of comments on the government's present policies and recommendations on where to go from here.

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Budapest Proceedings
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Reconciling Transportation, Environmental and Energy Issues

Budapest Proceedings

April 1995

Striking a balance to meet the crucial objectives of transportation efficiency, environmental protection and energy security was the theme of this conference held in Budapest in 1994. Energy use in transport continues to grow, with reliance almost exclusively on petroleum.

Rapid increases in mobility and rising demand for private and road-based transport – particularly in central and eastern Europe – are a cause of urban congestion and pollution. At the same time reduced investment in public transport threatens performance and ridership levels. Clearly, technological advances in the transport sector are needed, but fuel supply and balance-of-trade issues must be weighed in seeking solutions.

Through this OECD/ECM/IEA/EC forum, key public and private-sector actors joined forces to seek ways to develop and implement public transportation options that are clean, fuel-efficient and environmentally sound.

(61 95 13 1) ISBN 92-64-14411-0, 452pp.
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Oil, Gas and Coal Supply Outlook

May 1995

This book presents the IEA's analysis of the prospects for the supply of oil, natural gas and coal through the year 2010. Key characteristics of the supply of fossil fuels are examined: location, costs of extraction and getting them to market, and the implications of the inexorable increase in energy demand on the timing, pace and location of production.

This study is a companion volume to the demand forecasts that are presented in the 1995 edition of the **World Energy Outlook**.

(61 95 08 1) ISBN 92-64-14392-0, 250pp.
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NEA (Nuclear Energy Agency)

OECD Nuclear Energy Data 1995

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Methods of Projecting Operations and Maintenance Costs for Nuclear Power Plants

May 1995

This is the first NEA attempt at a comprehensive international comparison of different methodologies used to estimate operations and maintenance (O&M) costs, which have increased for nuclear power plants in the last decade. Cost information from 14 NEA countries is analysed on the basis of a standardised framework of detailed components of O&M costs. The rationale for different O&M cost projections reported in previous NEA studies on generation cost is discussed, and suggestions are made for future studies on both generation cost and O&M cost. (66 95 06 1) ISBN 92-64-14413-7, 80pp. France: FF130; elsewhere: FF170 US\$32 DM49

OECD Documents

Review of Nuclear Fuel Experimental Data

May 1995

Today it is no longer possible to support nuclear-power operation without computer code calculations which treat all aspects of fuel performance simultaneously and consistently. The necessity of calculations that represent best estimates requires that computer codes be developed and validated against good quality data. The best-quality data for this purpose come from well instrumented and dedicated test reactors.

This report reviews the data available from the OECD Halden Reactor Project and touches upon that available from other sources. It concentrates on experiments on thermal performance, fission product release, clad properties and pellet-clad interaction. It also discusses the creation of an internationally available database covering as many reactor systems as possible, and related issues. (66 95 08 1) ISBN 92-64-14422-6, 62pp. France: FF70; elsewhere: FF90 US\$17 DM26

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'Disposal of Radioactive Waste' Series

Hydraulic and Hydrochemical Characterisation of Argillaceous Rocks

Proceedings

of an International Workshop, Nottingham, United Kingdom, 7-9 June 1994

June 1995

For the last decades, hydraulic testing and groundwater sampling in high-to-moderate-permeability rocks for

the disposal of radioactive waste have become increasingly routine and well documented in literature and textbooks. Applying these methods to low- and very-low-permeability rocks, such as argillaceous rocks, poses new challenges because of their inherent characteristics, and requires modifications in equipment, testing procedures, and interpretation methods.

This publication presents the papers of an international workshop discussing the many challenges involved and reviewing the new and innovative techniques being developed throughout the world under the auspices of national programmes for radioactive waste disposal.

(66 95 14 1) ISBN 92-64-14485-4, 262pp. France: FF180; elsewhere: FF235 US\$48 DM67

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GEOVAL '94 Validation through Model Testing

Proceedings of an NEA/SKI Symposium, Paris, France, 11-14 October 1994

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June 1995

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A Global Marketplace for Consumers

May 1995

See Timothy H. Baker, 'The Consumer in the Global Market', **The OECD Observer**, No. 192, February/March 1995.

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June 1995

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June 1995

This volume presents the full text of the Code of Liberalisation of Capital Movements under which OECD members have accepted legally binding obligations. The Code is regularly updated by Decisions of the OECD Council. This edition incorporates all changes in the positions of members as at 19 May 1995 and allows a comparison of the degree of liberalisation achieved by each member country in regard to capital movements covered by the Code.

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May 1995

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Unemployment is the most serious problem confronting policy-makers today. This issue examines different aspects of the relationship between technology and employment, highlighting the major political consequences of this essential theme in the debate on unemployment.

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May 1995
See 'Implementing the Jobs Strategy', *The OECD Observer*, No. 194, June/July 1995.

(03 95 06 1) ISBN 92-64-14469-2, 32pp.
France: FF50; elsewhere: FF65 US\$13 DM19

The OECD Jobs Study: Investment, Productivity and Employment

May 1995
The labour-market situation in the OECD area has clearly deteriorated over the course of the past two decades. Although the late 1980s brought some respite, the aggregate number of unemployed in member countries now stands at 35 million. This is the equivalent of about 8% of the labour force and more than twice the average rate recorded in the 1960s.

What roles have productivity changes and declines in the share of resources being devoted to infrastructure investment played in this context?

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Trends in International Migration: SOPEMI - Continuous Reporting System on Migration Annual Report 1994/1995 Edition

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See Jean-Pierre Garson and Agnès Puymoyen, 'New Patterns of Migration', *The OECD Observer*, No. 192, February/March 1995.

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CCET (Centre for Co-operation with the Economies in Transition)

The Regional Dimension of Unemployment in Transition Countries A Challenge for Labour Market and Social Policies

May 1995
Unemployment in transition countries

has a marked geographical dimension. While unemployment rates are still well below 10% in most capital cities and other major urban centres, they exceed 20% in many rural areas and heavily industrialised sites. In these two areas, the pool of unemployed is often dominated by persons who have been without work for prolonged periods.

Regional unemployment differentials can be eased significantly. Policies aimed at facilitating labour mobility between regions and developing a business environment in declining regions could stimulate an endogenous process of job creation. All spheres of government action should be brought to bear, including labour market and social policies, which would be more effective if they were tailored to the specific requirements of each local labour market.

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Local Responses to Industrial Restructuring in Austria

June 1995
Austria's exceptionally stable post-war economic and social system faces new and profound challenges. Persistent, growing unemployment now troubles a country with a tradition of full employment. As eastern borders open and Austria joins the European Union, the future is even less certain.

This publication, by the OECD LEED programme, argues that regional and local policies play a fundamental role in meeting these challenges. The localised nature of restructuring in Austria and the special socio-economic characteristics of the regions involved make area-based responses a powerful policy instrument. Wide-ranging recommendations are made here to improve these programmes and policies.

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See Serge Devos, 'Regional Integration', *The OECD Observer*, No. 192, February/March 1995.

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June 1995
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ECMT (European Conference of Ministers of Transport)

Transport Infrastructure in Central and Eastern European Countries: Selection Criteria and Funding

April 1995
Transport infrastructures - railways, roads, inland waterways - in Central and Eastern European countries necessitate considerable investment. A truly integrated pan-European network requires that pertinent criteria be established for building and modernising these infrastructures.

This publication lays out the criteria for determining priority links: service quality, network coherence and efficiency. It also inventories financing possibilities for infrastructures and transport systems by analysing the requirements, sources, and mechanisms, as well as the insufficiencies and possibilities for improving current financing systems.

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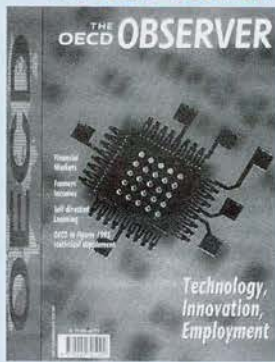
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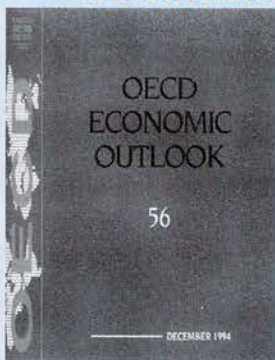
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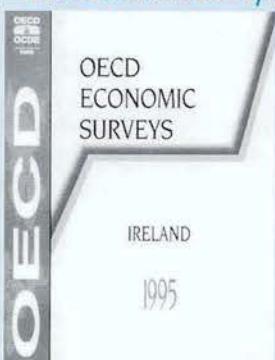
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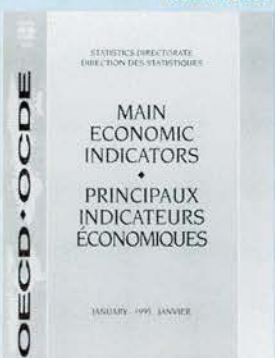
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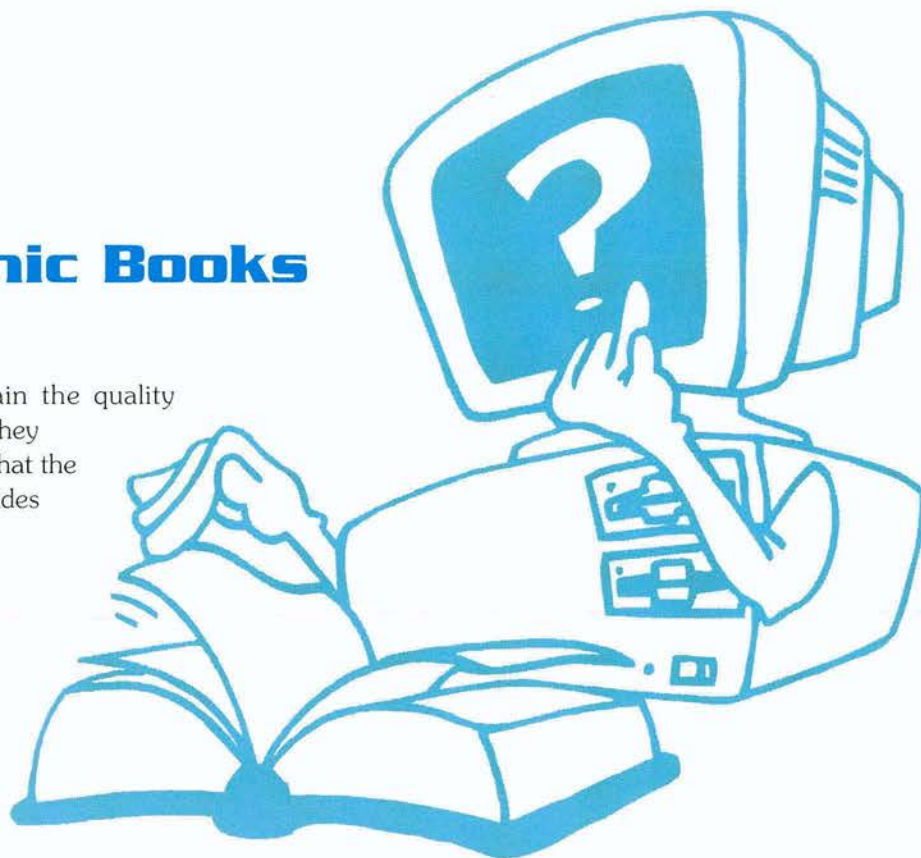
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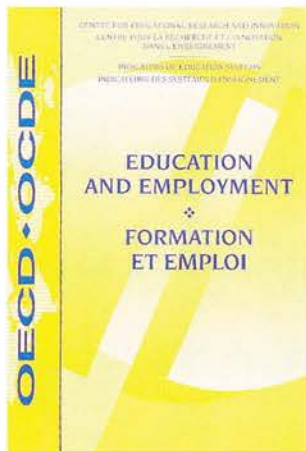
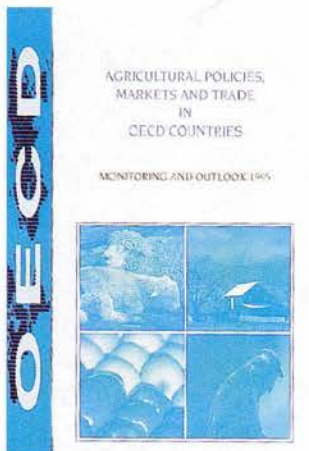
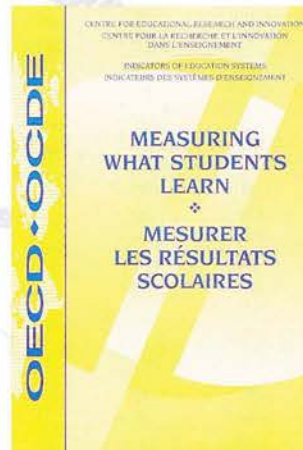
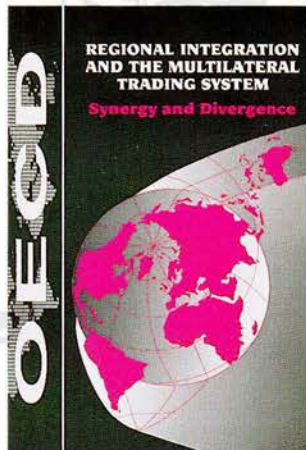
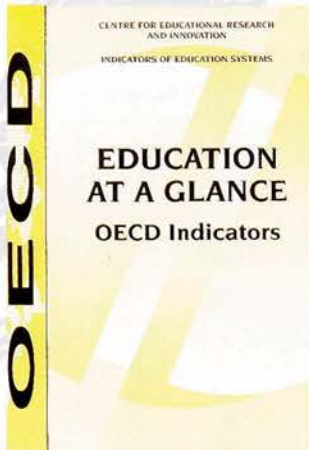
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