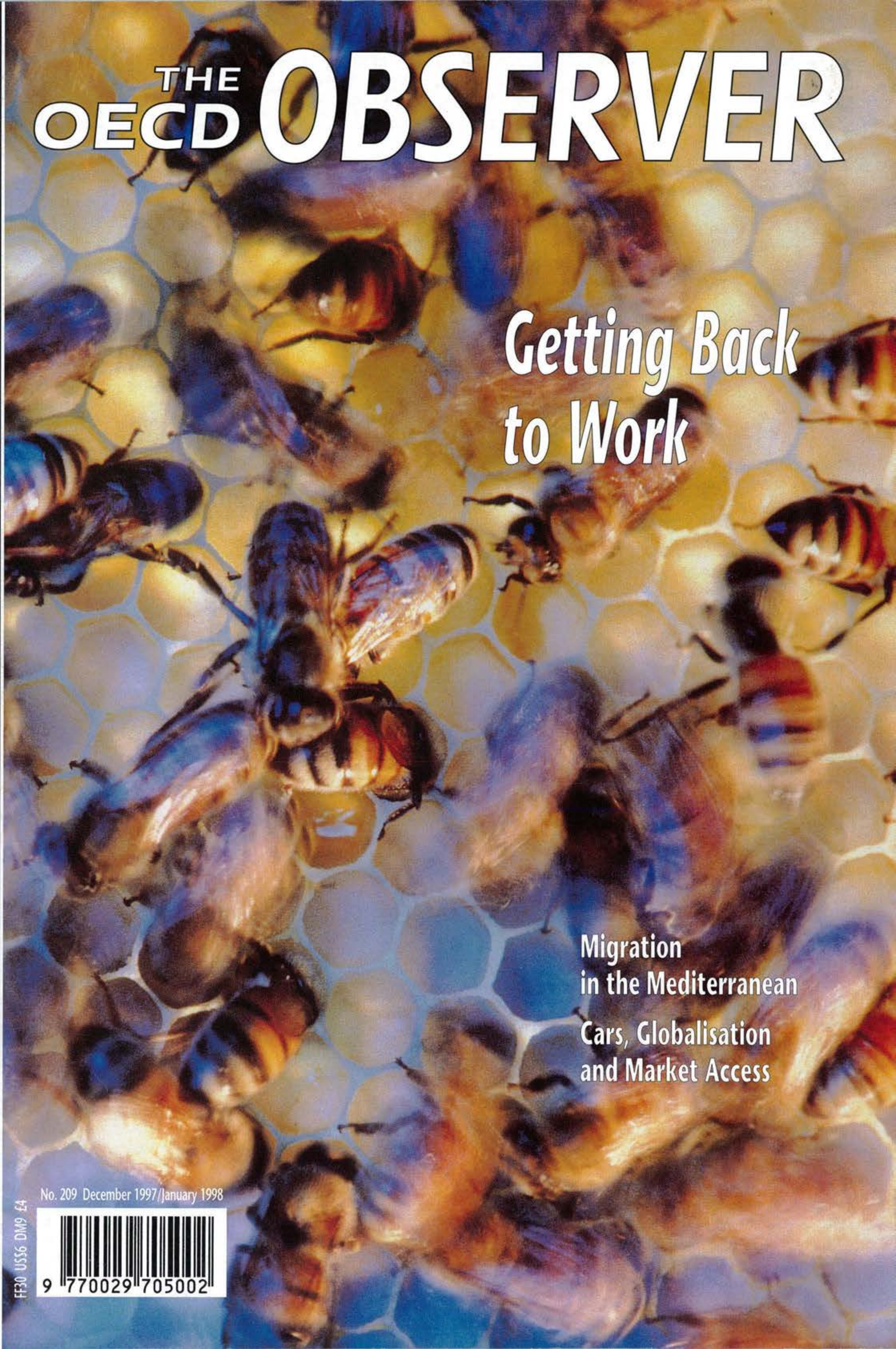
THE OECD OBSERVER

Getting Back to Work

Migration in the Mediterranean

Cars, Globalisation and Market Access



No. 209 December 1997/January 1998

FF30 US$6 DM9 £4

THE OECD JOBS STRATEGY

Making Work Pay

Taxation, Benefits, Employment and Unemployment

The tax and benefit system is often blamed for causing unemployment. If taxes on work are too high, jobs will be lost. When benefits to the unemployed are too high, they will not search for work. Badly designed tax and benefit systems too often leave those working with little more than they would receive if they were unemployed. If work does not pay, people will be reluctant to work. In this publication, recommendations are made on how tax and benefit systems should be reformed. Innovative programmes, such as in-work benefits and tax-credits on earned income, can help ensure that there is always an incentive to work.

September 1997, (2197091) ISBN 92-64-15666-6, 100 pp.
FF95 US$19 DM28 £12 ¥2,000

Implementing the OECD Jobs Strategy

Member Countries' Experience

Since Autumn 1995 the OECD has analysed labour-market developments in 25 countries with a focus on the role that economic policies have played in shaping these developments. Policy recommendations have been derived for implementing the OECD Jobs Strategy in each individual country.

This report pulls together the main lessons learned from that process, presents an overview of recent labour-market developments; and reviews countries' progress in implementing the Jobs Strategy. A crucial finding is that countries can, by implementing the right policies, durably reduce unemployment. A number of countries have managed to do so. The report also discusses some of the reasons why some countries have made progress in the fight against unemployment, whereas others have not.

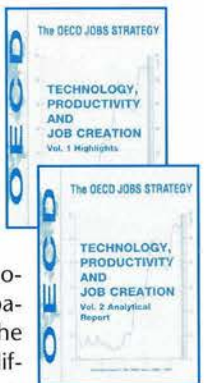
September 1997, (1197021) ISBN 92-64-15596-1, 162 pp.
FF150 US$30 DM44 £19 ¥3,150

See 'Lessons from Implementing the OECD Jobs Strategy', **The OECD Observer**, No. 207, August/September 1997.

Technology, Productivity and Job Creation

Vol. 1 – Highlights

Vol. 2 – Analytical Report



Technology and productivity growth are central to the current employment problem in OECD countries. In the long run, knowledge, particularly technological knowledge, is the main source of economic growth and improved quality of life. But the process of technical change, best described as one of 'creative destruction', is not smooth. It requires adapting economic structures, behaviour and resource allocation among sectors, firms and occupations. And if the benefits far exceed the costs, they may accrue unequally to different firms and individuals. The key policy challenge is to boost productivity and growth through increased knowledge-intensive economic activities while maintaining social cohesion. Volume 1 presents highlights of the debate and Volume 2 the analytical report and policy recommendations.

May 1996, (9296061) ISBN 92-64-14881-7, 284 pp.
FF255 US$50 DM74 £33

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- **Investment, Productivity and Employment**
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  FF195 US$37 DM56 £23

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  May 1995, (0395061) ISBN 92-64-14469-2, 32 pp.
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- **Taxation, Employment and Unemployment**
  April 1995, (0395041) ISBN 92-64-14400-5, 195 pp.
  FF195 US$37 DM56 £23

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An increase in labour-market activity, particularly by young people and the unemployed, will promote social cohesion. And improving their 'employability' – through lifelong learning – will help mobilise the popular support for flexibility that globalisation will require.
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The Fight against Unemployment Mobilising People Support

Donald J. Johnston, Secretary-General of the OECD

As we face the challenges, and the opportunities, of globalisation and rapid technological change, governments urgently have to design and implement adjustment policies which bring the people with them. That is crucial. It is not enough to preach that these profound structural changes will eventually generate net benefits for the economy and the population at large. This is much too abstract for the vast majority of our citizens. Either the benefits are tangible and fairly distributed and effective policies are in place to help the losers to adjust, or there will be resistance to change. That resistance will manifest itself in growing protectionism against competitors from beyond national frontiers, but also within our countries, where the insiders, those who have good jobs, will attempt to protect themselves against the outsiders, those who are unemployed or locked into bad jobs.

We cannot afford to be complacent about the emergence of such attitudes among our populations. We must listen to them, even if we are convinced that their fears are unfounded. We do not live, after all, nor would we want to live, in a political system which was cynically referred to by Bertold Brecht after the repression of the workers' revolt in East Berlin in 1953: 'The Central Committee is very dissatisfied with the people. It has decided to dismiss the people and elect another one'!

We have to ensure that our message is realistic. But at the same time it must hold out the prospect of improvements and provide better understanding of the opportunities and what we have to do to grasp these opportunities.

High and persistent unemployment and low pay affecting substantial sections of the working population create an extremely unfavourable environment for accepting change. They are, in fact, the results of failure to make the structural changes that were necessary in the past. Although the path between economic viability and social acceptability may be narrow and occasionally bumpy, I am confident that we can together find the right solutions. This, I believe, is one of the fundamental positive messages to be drawn from the lessons of our member countries' experience of implementing the OECD Jobs Strategy.

I especially wish to highlight a problem which gives me particular concern for the future: the persistence of high youth unemployment in most of our member countries. The economic and human consequences are widely acknowledged, but the recognition of the danger it represents for the political health and stability of our democratic societies is lacking. This problem is not new. Indeed, it is almost exactly 20 years since the OECD mounted a high-level conference on youth employment. The concerns expressed then – about the gravity of the problem and the potential human and economic costs of the failure to invest in young people – remain as vivid today. But, sadly, despite everything that has been tried over the past two decades to combat this scourge, little has changed. Far too many young people continue to fail in school and many young people grow up in destructive family and social environments. The inevitable consequence is that many of them are condemned to low-paid jobs at best but, more likely, to long periods of unemployment and poor career prospects. For many of them, unemployment has unfortunately become the norm.

We cannot afford – politically, economically and socially – to continue to allow this process of marginalisation. If in each generation we churn a large portion of young people through a process of failure, enforced idleness and frustrated expectations, we will alienate them and weaken our chances of bringing them into a high-trust, high-skill economy capable of adapting to and benefiting from globalisation and technological change. This portends serious social unrest and instability. Creating good jobs also means creating good citizens.

I therefore propose to make youth unemployment a major target of our work. In that context, my intention would be to bring together at a major conference the many actors, including young people themselves, to find out why we have been so singularly unsuccessful in turning the problem around and what we can do this time to achieve a more successful outcome. I am pleased that the OECD Ministers of Employment and Labour at their meeting in October supported the idea and agreed that OECD should develop a specific initiative focusing on youth unemployment.

The OECD Jobs Strategy under Scrutiny

Sveinbjörn Blondal and Stefano Scarpetta

In 1994, the OECD formulated its 'Jobs Strategy', a series of proposals intended to help its member countries bring down unemployment on a lasting basis. How has the Strategy stood up to the test of implementation? And how have countries been using it in tackling unemployment?

In 1996, there were almost 36 million people unemployed in OECD countries, some 6 million more than in the mid-1980s and almost 25 million more than in the early 1970s. At 7.5% of the labour force (Figure, p. 6), unemployment in the OECD area is a major source of social distress and economic waste. High and persistent unemployment is affecting social cohesion and raising doubts about the capacity of the OECD economies to offer improving living standards for all their citizens.

Not all countries are suffering equally. In Japan and the United States, unemployment has increased only moderately over this period as a whole, but in other countries, mainly in Europe, the number of people out of work has soared. The substantial increase in European unemployment has also gone hand-in-hand with a rise in long-term unemployment: more than one-third of all job-seekers have been out of work for a year or more. High, persistent unemployment is only one manifestation of poor labour-market performances. Many people of working age would like a job, but are not actively searching for one because they have become discouraged from doing so. Indeed, the 'non-employment rate', which takes into account both the unemployed and the inactive, indicates that more than 40% of the working-age population did not work in the major continental European countries in the 1990s, against only a quarter in Japan and less than one-third in the United States.

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In 1994 the *OECD Jobs Study* a wide-ranging programme of action was proposed to combat these severe labour-market imbalances and improve the standards of living in the OECD countries.[1] The Jobs Strategy ensuing from this programme covers macro-economic policies, policies to improve the ability of economies to adjust and adapt to rapidly changing circumstances, and those geared to enhance the long-term growth of living standards and employment opportunities, not least by increasing and upgrading human capital, fostering entrepreneurship and strengthening innovative capacity (box, p. 7). The OECD has recently reviewed member countries' progress in implementing the Jobs Strategy and the impact on their labour-market performance.[2] This review confirmed the soundness of the Strategy and outlined the

IDA

The largest reduction in structural unemployment has been in Ireland – though beginning from a very high figure.

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

2. ***Implementing the OECD Jobs Strategy: Member Countries' Experience***, *OECD Publications, Paris, 1997;* ***Implementing the OECD Jobs Strategy: Lessons from Member Countries' Experience***, *OECD Publications, Paris, 1997; 'Lessons from Implementing the OECD Jobs Strategy',* ***The OECD Observer***, *No. 207, August/September 1997.*

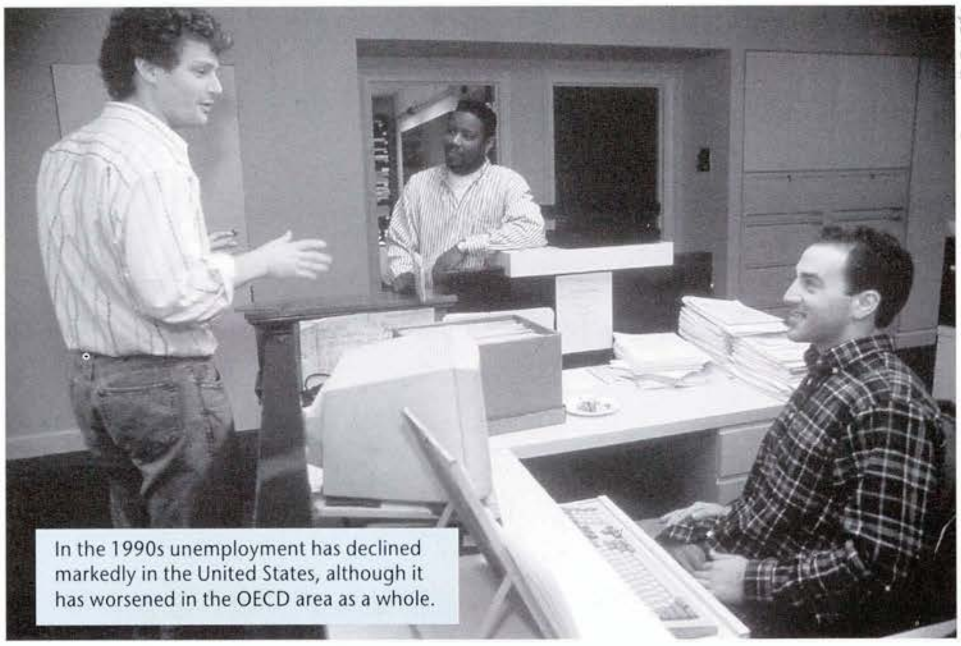
The OECD Jobs Strategy under Scrutiny

importance of simultaneous and co-ordinated actions in all areas, because of synergies between different reforms, and because reforms that affect everybody are seen as being fairer than ones that discriminate against a few groups.

Recent Developments

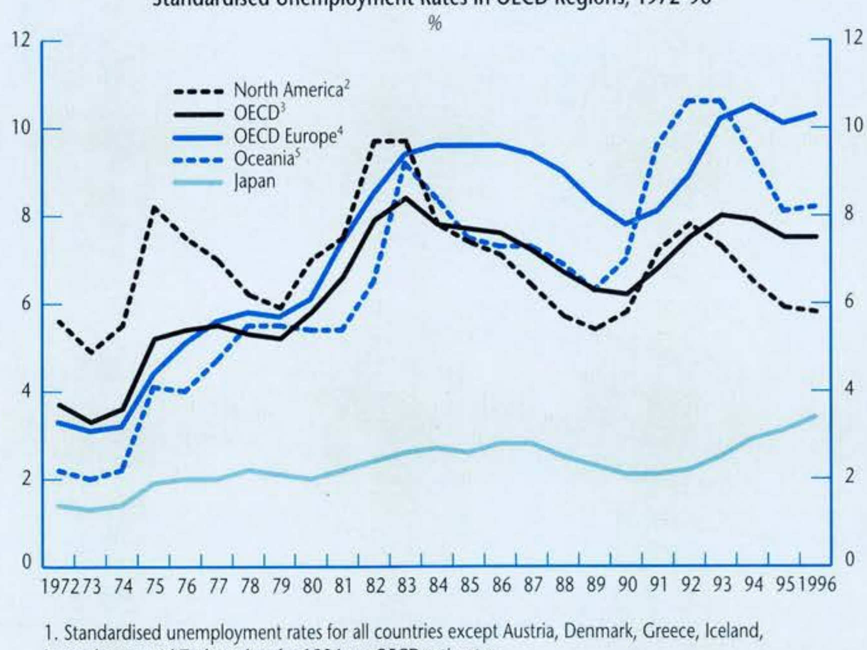
Labour-market performance in the OECD area has worsened in the course of the 1990s, with a rise in the area-wide unemployment rate from 6% in 1990 to 7.5% in 1996. There are considerable differences across countries. The United States has seen a substantial reduction in unemployment and Japan a continuation of very low joblessness rates, whereas unemployment has increased from already high rates in most EU economies. Depressed economic activity there has been largely responsible, but structural unemployment may also have gone up in continental Europe (Table).[3] Among individual countries, already high structural unemployment has risen further in Spain, Italy and, to a minor extent, France. Moreover, structural unemployment soared in countries like Finland and Sweden which had previously been considered relatively immune to major imbalances in the labour market. The picture looks brighter for the big non-European countries (United States, Japan and Canada) which have posted broadly unchanged rates of structural unemployment.

The most encouraging recent development in the OECD area has been the success of countries like Ireland, the Netherlands, New Zealand and the United Kingdom in curbing their structural unemployment rates in the 1990s. Ireland experienced the largest reduction, although from a very high figure. In continental Europe, the Netherlands offers another promising example of a successful combat against unemployment: from being one of the countries with the highest rate of joblessness in the early 1980s, it managed to bring it down to substantially below the OECD average. A comprehensive reform strategy in New Zealand has offset part of the increase in unemployment which took place until the early 1990s.[4]



In the 1990s unemployment has declined markedly in the United States, although it has worsened in the OECD area as a whole.

Figure
Standardised Unemployment Rates in OECD Regions, 1972–96[1]
%



1. Standardised unemployment rates for all countries except Austria, Denmark, Greece, Iceland, Luxembourg and Turkey; data for 1996 are OECD estimates.
2. The United States and Canada.
3. Excluding the Czech Republic, Hungary, Korea, Mexico and Poland.
4. EU-15, Iceland, Norway, Switzerland and Turkey.
5. Australia and New Zealand.

Source: OECD

The evolution of structural unemployment in the OECD countries has generally been a good indicator of overall developments in labour markets. Thus, the countries with falling structural unemployment generally also experienced a reduction in long-term, youth and female unemployment. Even among the low-skilled, who often bear the brunt of joblessness in the OECD countries, joblessness has declined in some of them. Nonetheless, unemployment rates for disadvantaged groups have usually fallen less than the overall structural unemployment rate, as improved labour-market conditions have, in the first instance, benefited the most employable of the unemployed. Vulnerable groups have faced a further deterioration in their job prospects in countries with high or increasing structural unemployment, even if, in some instances, labour-market programmes have kept unemployment figures down by subsidising employment opportunities.

Employment performance has been a key determinant of changes in structural unemployment. With the notable exception of the United Kingdom, where the growth in private-sector employment has not fully compensated the decline in public-sector employment, all countries with falling structural unemployment have experienced solid employment gains. These gains were in most cases due to the growth of private-sector employment. At the other end of the spectrum, the rise in structural unemployment in most of continental Europe can largely be explained by the severe contraction of private-sector employment.

Concern has recently been expressed about the quality of the new jobs being created in OECD economies. For example, the number of part-time and temporary jobs has generally increased in the past decade. Temporary work arrangements have expanded, and in countries like France, Spain and Italy they have partly compensated the decline in permanent employment. This shift has probably contributed to the perception that jobs are becoming more precarious, especially in Europe where employed workers have usually enjoyed a high degree of job-security. The rapid development of part-time employment seems to be the result of different forces. It responds to the wish of a growing number of individuals to reconcile work with other activities, including child-care. In this context, the rise in part-time jobs has gone hand-in-hand with higher participation of women in the labour force, particularly in the Netherlands where activity rates for women increased by more than 15 percentage points over the past decade. Almost two-thirds of all female employment there is now part-time. The rise in part-time contracts also reflects the desire of firms to increase their overall labour flexibility, notably more flexible working-time arrangements. In some cases, part-time employment is involuntary in the sense that workers accept it in the absence of full-time alternatives, but this explanation seems generally to account for only a small proportion of part-time jobs.

FOCUS

The OECD Jobs Strategy

- *Set macro-economic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable – that is, non-inflationary.*
- *Enhance the creation and diffusion of technological expertise by improving frameworks for its development.*
- *Increase the flexibility of working time (both short-term and life-time) voluntarily sought by workers and employers.*
- *Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.*
- *Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual degrees of skills, in particular of younger workers.*
- *Reform employment-security provisions that inhibit the expansion of employment in the private sector.*
- *Strengthen the emphasis on active labour-market policies and reinforce their effectiveness.*
- *Improve labour-force skills and competencies through wide-ranging changes in education and training systems.*
- *Reform unemployment and related benefit systems – and their interactions with the tax system – such that the fundamental equity goals of societies are achieved in ways that impinge far less on the efficient functioning of the labour markets.*
- *Enhance product-market competition so as to reduce monopolistic restrictions and weaken insider-outsider mechanisms while also contributing to a more innovative and dynamic economy.*

Implementing the Strategy

Although policy-makers in most high-unemployment countries have been pre-occupied with chronic labour-market problems for a long time, only Ireland, the Netherlands, New Zealand and the United Kingdom have implemented reform programmes over a sufficiently long period to make a significant impact on structural unemployment. Indeed, their reform programmes, which conform largely to the OECD Jobs Strategy, all go back to the 1980s. More recently, Australia and Canada have carried out substantial reforms, but the results are yet to be seen.

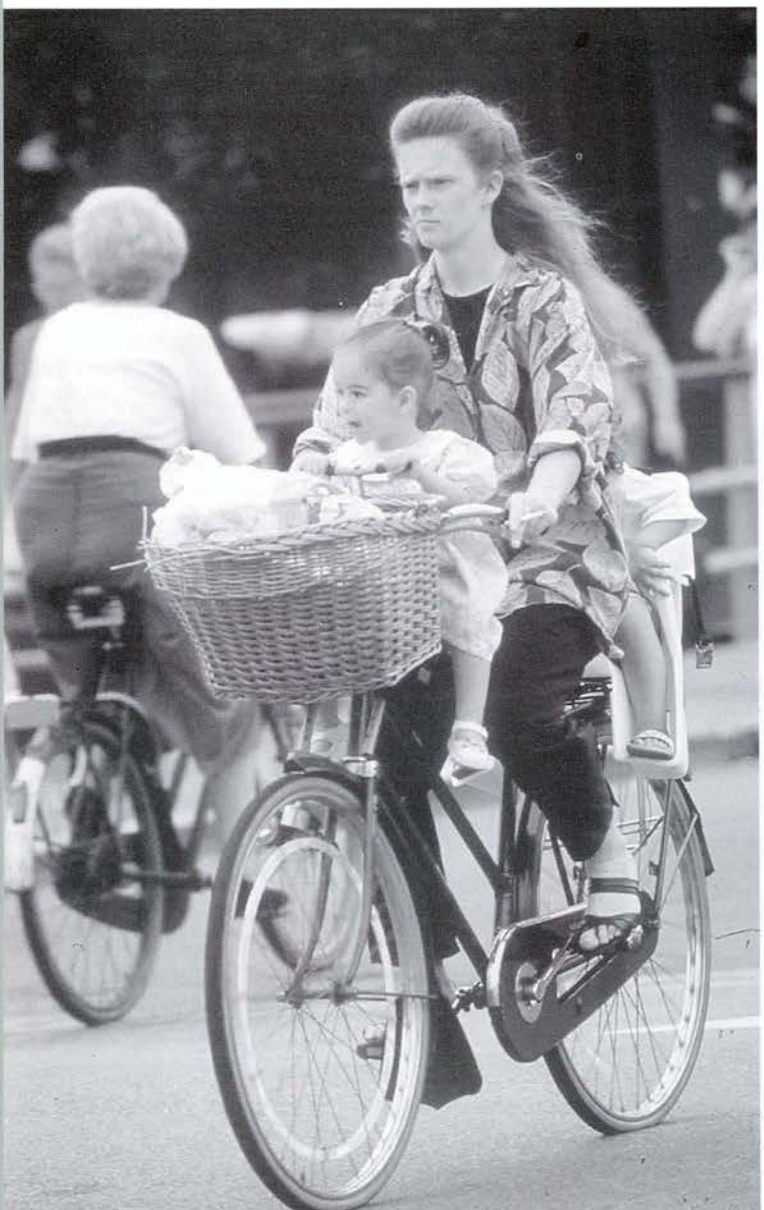
The reform processes in the four successful countries are instructive for their common features, but also for the different ways in which the OECD Jobs Strategy was implemented to fit different institutional structures and national traditions.

A noteworthy common feature of the reforms in all four countries is that they included stability-oriented macro-economic policies, focused on sound public finances and effective control of inflation, reversing trends from the 1970s and early '80s. This re-orientation of macro-economic policies came before structural measures to improve the functioning of markets; indeed, a more stable macro-economic environment was argu-

3. Estimates of structural unemployment aim at identifying that part of unemployment which is not purely cyclical and, consequently, offer a more solid ground for comparisons across countries and over time than actual unemployment figures.

*4. Paul E. Atkinson, 'New Zealand's Radical Reforms', **The OECD Observer**, No. 205, April/May 1997.*

The OECD Jobs Strategy under Scrutiny



Leimdorfer/REA

In the Netherlands women now participate more in the labour force, although almost two-thirds of female employment is in part-time jobs.

ably a precondition for households and businesses to take advantage of structural reforms. Although the four countries were not always immediately successful in implementing stabilising policy frameworks, by 1996 Ireland, the Netherlands and New Zealand combined inflation below 2% with general government balances which were either in surplus or had deficits of less than 3% of GDP.

A second common feature of the strategy of the reform countries was that they were wide-ranging. Labour-market reforms were accompanied by deregulation of product markets and privatisation of state enterprises in the Netherlands, New Zealand and the United Kingdom. More competitive product markets allowed a speedier re-allocation of labour, and reduced the scope for firms to pass on high wages into product prices, thereby keeping a lid on inflationary pressures. Labour-market reforms in the Netherlands, New Zealand and the United Kingdom, and, more recently, Australia and Canada also affected very broad groups in the labour market, including those which may be characterised as 'insiders'. By changing legislation on industrial relations, social security, employment protection or other areas affecting workers which tend to set the pace in wage-bargaining, the reforms had more powerful effects on the functioning of the labour market than changes in continental European countries which typically affected people at the margin but with very little impact on core groups.

The four countries differ sharply in the extent to which business and the unions were involved in the reform process. Ireland and the Netherlands carried out their reforms through a consensual process, which was seen as essential for their implementation. In Ireland, several aspects of the reforms were subject to formal trilateral bargaining between unions, employers and the government (and recently extended to cover other 'outsiders' such as representatives of the unemployed). These tripartite agreements typically committed the government to some action, including tax reduction in a framework of sound fiscal policy, in exchange for moderate wage demands. Similar agreements were concluded in the Netherlands in the 1980s, but have since become less formal, although employers and unions still have a strong say in labour-market and social policies through their permanent representation in key semi-official institutions.

By contrast, reforms in New Zealand and the United Kingdom were not implemented through a formal process of consensus and the unions were largely excluded from the process. In both countries, an important part of the reform programme involved far-reaching changes in their industrial-relations systems – including the banning of compulsory unionism and preferences to union members in employment in New Zealand and stricter rules for strikes in the United Kingdom – which left little scope for consensus. The reforms met with considerable acceptance by the general public, with the result that there is little political support for wholesale reversal of these reforms.

The detailed content of reforms likewise differed across countries, reflecting the different policy framework in each:

- Ireland, which was faced with work disincentives due to interaction between tax and transfer systems, and had a tradition of weak education effort, took action to lower the generosity of unemployment benefits, reduce marginal effective tax rates and improve human capital formation.
- the Netherlands – which had high-labour costs, including very high payroll taxes – focused on achieving wage-moderation through incomes policy, lowering minimum wages, in particular for young workers, and scaling back payroll taxes, especially on low-wage groups
- New Zealand, which was arguably among the most protectionist of the OECD countries at the beginning of the 1980s, gave early priority to trade liberalisation and reduced government intervention in its comprehensive reform programme
- the United Kingdom, with a heritage of nationalised industries and troubled labour

relations, gave priority to reforming product markets, not least by privatisation, and reforms of industrial relations.

Equity and Efficiency: a Trade-off?

In spite of the progress made by these four countries, policy-makers in many others have yet to push through similar reforms. One of the main reasons for the hesitation that a number of them have shown in embarking on the Jobs Strategy is the perception that it might conflict with the aim of ensuring a degree of equity across the population. Enhancing competition in labour and product markets, it is argued, would lead to growing earnings disparities and poverty, thereby threatening social cohesion.

The OECD countries take a very different view of the nature and magnitude of such trade-offs. Some of them reject the notion altogether, though for two very different sets of reasons. Some of the English-speaking countries consider low unemployment as a pre-requisite for, or a vital element of, horizontal equity. They focus attention on alleviating poverty and consider higher employment as the main tool to reduce income disparities among individuals and households. Some continental European countries, by contrast, consider a certain degree of horizontal equity as a more fundamental goal, even if this is associated with relatively higher unemployment rates. Since wages contribute to individuals' social standing, it is contended, increasing wage-rate flexibility may hamper social cohesion and, more generally, reduce public support for structural reforms.

Table
Structural Unemployment in 23 OECD Countries, 1990–96[1]
% of total labour force

	1990	1996
Increased:		
Finland	8.0	15.4
Sweden	3.2	6.7
Germany	6.9	9.6
Iceland	1.5	3.8
Switzerland	1.3	3.1
Spain	19.8	20.9
Greece	7.0	8.0
Italy	9.7	10.6
Portugal	4.9	5.8
Austria	4.9	5.4
France	9.3	9.7
Fairly stable:		
Norway[2]	4.2	5.1
Australia	8.2	8.5
Japan	2.5	2.7
Turkey	7.6	7.5
United States	5.8	5.6
Belgium[3]	10.8	10.6
Canada[2]	9.0	8.5
Denmark[2]	9.6	9.0
Decreased:		
Netherlands	7.0	6.3
New Zealand	7.3	6.0
United Kingdom	8.4	7.0
Ireland	16.0	12.8
OECD structural unemployment rate[4]	6.8	7.1
OECD actual unemployment rate[4]	6.1	7.7

1. Based on national definitions of unemployment. Structural unemployment data are based on OECD estimates of the non-accelerating wage rate of unemployment (NAWRU) made for the *OECD Economic Outlook*, No. 60, 1996. A change is considered significant (in absolute terms) if it exceeds one standard-deviation. The latter was calculated for each series and country over the period 1990–96. Countries are listed in descending order, from the highest relative increase in the structural unemployment rate (Finland) to the largest decline (Ireland).
2. Canada, Denmark and Norway had an increasing structural unemployment rate in the late 1980s up to the beginning of the 1990s.
3. Belgium had a decreasing structural unemployment rate in the second half of the 1980s.
4. Weighted averages of the 23 countries.
Source: OECD

Recent evidence from OECD research put in question the extent to which objectives of economic efficiency and equity necessarily collide. It can be argued, for instance, that the adverse effects on income distribution of reforms directed towards more flexibility of wages and more restrictive social benefits may be, at least partially, offset by the higher employment which will result from these reforms. Moreover, low-paid jobs are often only a stepping stone into better ones in the future, especially for young workers.[5] Unfortunately, this is not always true, and there are a number of cases of (generally low-skilled) workers alternating between poorly paid jobs and being out of work. Fostering private incentives to invest in lifelong learning and providing an active support to that end seems to be the best way to help less-qualified workers in up-grading their skills and to pull them out of this vicious circle of unemployment and low-paid employment.[6]

A number of continental European countries consider education, training and active labour-market programmes, rather than relative wage-flexibility, as the main instruments in the fight against unemployment, while, at the same time, contributing to horizontal equity. Belgium, France and the Nordic countries, for example, rely on these measures to line up individual labour productivity to the prevailing wage distribution. Other, mainly English-speaking countries, although not denying the role of such measures, put more emphasis on wage flexibility to foster private investment in human capital and employment.

■ ■

The recent developments in the OECD countries suggest that policy actions along the lines of the OECD Jobs Strategy hold out promise of reducing unemployment on a durable basis. The task is not an easy one. The success of Ireland, the Netherlands, New Zealand and the United

5. ***OECD Employment Outlook 1996***, *OECD Publications, Paris, 1996; 'The OECD Employment Outlook – Low-wage Jobs: Stepping Stones or Traps?,* ***The OECD Observer***, *No. 208, October/November 1997, and* ***OECD Employment Outlook 1997***, *OECD Publications, Paris, 1997.*
6. *See pp. 13–17.*

Kingdom in curbing unemployment suggests that positive results generally lag behind the introduction of reforms and, consequently, the reform process has to be pursued consistently for a long period to bear fruit. Moreover, pursuing a comprehensive approach to reforms is likely to bring better results than concentrating on a few areas because it allows the exploitation of synergies and because it ensures that both the benefits and inevitable short-term costs of adjustment are widely shared. There are also differences in the way the reform process has been implemented in those four countries, reflecting each country's initial conditions as well as the institutional setting and national traditions.

More generally, the perceived conflicts between reforms to enhance economic efficiency and the concern for equity differ across OECD countries, partially explaining differences in the intensity and scope of their reform strategy. In this context, the OECD Jobs Strategy offers a balanced view, stressing the importance of the market, through relative wage signals, as well as that of government support to education to promote employment growth and equity. ■

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Activating

Peter Schwanse

In the later part of the 1980s the OECD area experienced the longest economic boom since the Second World War. Yet in most European countries unemployment came down disappointingly slowly, and timidly. This dismal experience served as an eye-opener: unemployment in Europe was not merely a cyclical phenomenon – it had become a major structural problem. That was the starting-point for a rethinking of policy concepts and an examination of how 'active' labour-market policies could contribute to the lowering of unemployment.[1]

In the late 1980s the OECD began to develop a standardised system of data on government expenditure on labour-market policies. This data base allowed, for the first time, comparisons of the amounts countries were spending, and for what type of programmes – training, recruitment subsidies, public employment programmes, unemployment benefits – the resources were being deployed. These expenditures are generally classed as 'active' if they attempt to assist the unemployed to become job-ready so that they can compete successfully for jobs and 'passive' if they are simply income-maintenance payments to bridge the period of joblessness.

When these data were first published in 1990,[2] one of the main revelations was that in most OECD countries spending on passive programmes was twice as high as spending on active ones. Another surprise was that most OECD countries, other than Sweden, spent a relatively modest share of GDP on active programmes (on average 0.5 to 1% whereas Sweden spent 1.5 to 2%). Since Sweden, at that time, also belonged to the very restricted club of low-unemployment countries, many countries, inspired by this example, decided to raise spending on active programmes and, constrained by pressures on the budget, to shift public expenditure from passive measures. In the late 1980s and early '90s, this became a policy objective in a large number of countries.

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Blurring Boundaries

In most OECD countries, unfortunately, the intention to shift resources from passive to active spending remained more of a political slogan than a reality – though there were some noteworthy exceptions, such as Canada. Part of the reason for this failure was the recession of the early '90s, which led to a new rise of unemployment – and since passive income support is normally based on entitlement whereas spending on active programmes is discretionary, the latter tend to be crowded out during a cyclical downswing. And a further factor emerged to weaken the argument for a shift in spending towards active measures: the realisation that it is often the design and management of unemployment programmes which decide whether they are truly 'active' or 'passive'.

That perception emerged from a series of country reviews undertaken by the OECD. They

the Unemployed

placed particular emphasis on examining the institutional framework of labour-market policies, in particular the set-up and the various functions of the public employment service (PES). A general finding of this analysis is that some programmes termed 'active' should more accurately be labelled 'passive' – for instance, the large-scale training and employment programmes adopted in Finland, Sweden and the eastern part of Germany in the early '90s in an attempt to offset adverse shocks to the labour market. Although these programmes could be justified on grounds of social equity, they had little or no impact on raising the productivity of programme participants and thus their chances of re-employment. They were organised and managed mainly to create 'parking slots' for the unemployed and to re-establish unemployment benefit entitlements for the long-term unemployed who had exhausted their benefit period.

Conversely, one can find OECD countries with the opposite pattern: so-called 'passive' measures which actually comprise a strong active element. The Japanese unemployment-benefit system, for example, includes a 're-employment bonus': if benefit recipients start work within the first half of their maximum entitlement period, they receive a substantial lump-sum payment (varying between the equivalent of 30 to 120 days of benefit entitlements). And the United Kingdom has a practice called 'active signing' where everyone claiming unemployment benefit has to show up once every two weeks at the employment office and be interviewed by a placement officer. This approach permits a regular, systematic check on job-search efforts by benefits claimants and a review of the suitability of available vacancies. For people with family responsibilities, a financial incentive to accept low-paying work is available, since they can then claim an in-work benefit called 'Family Credit'.

The general conclusion to be drawn from these observations is that the distinction between active and passive measures has become increasingly blurred. It is more fruitful, instead, to view income support to the unemployment and re-employment measures as two instruments serving the same objective: to prevent job-seekers drifting into long-term unemployment and benefit dependency. The touchstone should be simple: how effective are labour-market policies, active or passive, in achieving this central objective?

Enhancing Effectiveness

Three policy orientations have recently been discussed and endorsed by employment and labour ministers of OECD countries with the aim of making labour-market policies more effective.

The first favours an integrated approach of the three basic functions of the public employment service: job-broking, the administration of unemployment benefits, and the referral of job-seekers to active programmes. Opinion used to hold that the coercive function of controlling benefit entitlements should be separated from the 'positive', motivation-raising functions of counselling, job-search assistance, and so on. But experience has shown that this separation can easily become counter-productive since there is always a risk that paying out benefits becomes a routine, bureaucratic act more or less detached from checking whether the individual claimant is actively seeking work, a necessary condition for receipt of benefits. A system divided into these separate functions, moreover, forgoes the considerable advantage that, when beneficiaries sign-on or cash their benefits, they can check information on vacancies or labour-market programmes, contact a placement officer or request an electronic job-match and print-out of all vacancies corresponding to their qualifications. There has been much discussion about the effects of generous unemployment benefit systems on unemployment. But much less attention has been paid to the adverse effects of lax or cumbersome management of benefit regimes and their lack of interaction with placement and other active labour-market policies. There is considerable

Leif Engberg/Pressens Bild

In a search for efficiency, an integration of the three functions of the public employment service – job-broking, benefits and guidance – is being looked upon with favour.

1. Enhancing the Effectiveness of Active Labour Market Policies: The Streamlined Public Employment Service, *prepared for the meeting of labour ministers at the OECD on 13–15 October 1997 and available free of charge from the Labour Market Policies Division of the OECD Directorate for Education, Employment, Labour and Social Affairs. See also* ***The OECD Jobs Strategy: Enhancing the Effectiveness of Active Labour Market Policies****, OECD Publications, Paris, 1996.*

2. ***Labour Market Policies for the 1990s****, OECD Publications, OECD, Paris, 1990.*

Horses for courses: training programmes for the unemployed should be tailored to the audience.

headroom in many OECD countries for improving the effectiveness of these policies, thereby helping to reduce high and persistent unemployment.

The second orientation is to design labour-market programmes in conformity with the findings of evaluations of what works and what doesn't. Some programmes work for some groups of the unemployed but not for others. Many training programmes, for instance, do not work for young unemployed people, especially if they have a recent history of educational failure; but the same programmes do work for women re-entering the labour market after child-rearing. Equally important is the choice of moment in an individual's spell of unemployment at which a policy intervention occurs. In a world of unlimited resources, a range of options – from brokerage services to counselling, job-search assistance and training and employment programmes – could be made available to everybody entering the unemployment rolls. This approach might effectively prevent the gradual drift of job-seekers into long-term unemployment. But it would be very expensive. As a result, the most expensive policy interventions – like training and employment programmes – are therefore normally reserved for later in the spell of unemployment.

Could some aspects of the preventitive nature of these measures nonetheless be preserved? One method of doing so would be to identify, quickly, the people most at risk of joining the long-term unemployed and to refer them to specific programmes early in their spell of unemployment. This process of 'profiling' is an important element in a coherent 'what and when' strategy and some countries are experimenting with new methods to improve the effectiveness of profiling.

The third approach is to introduce market signals into the operations of the public employment service. Most countries use a set of performance indicators, based on administrative data, to measure (and possibly reward or penalise) the performance of decentralised employment offices. Typical examples of such indicators are the number of vacancies which have been notified by employers to the employment office, or the share of long-term unemployed which have been placed by it. Yet indicators of this nature suffer from the fundamental drawback that they do not provide external benchmarks against which performance can be judged objectively. A price tag attached to the services delivered by these agencies would give such a benchmark. But an independent, market price could only emerge in an environment where there is competition between several suppliers.

For this reason, many OECD countries have taken steps recently – to varying degrees – to introduce market signals into the operations of their public employment offices. These measures range from removing its monopoly in the provision of brokerage services to contracting-out training services under tender to making all its services fully contestable in a market environment. So far, only Australia has taken the pioneering step of exposing all re-employment services to competition: even the treatment of the long-term unemployed is exposed to competitive bids from private and public case-managers. It is still too early to draw conclusions from these experiences, but there can be no doubt that trial and error with innovative approaches of this nature are extremely important for the continuous evolution of effective labour-market policies.

■ ■

The labour market of an individual country operates within a specific macro-economic environment and regulatory framework. It is unrealistic, therefore, to expect labour-market policies, even if well designed and effectively managed, to succeed under adverse macro-economic conditions or to compensate for the adverse effects of high tax burdens on the use of labour, extensive job-protection provisions, high minimum-wage floors or very generous unemployment benefits. Labour-market policies can help reduce high and persistent unemployment – but only in tandem with other micro-economic policies and reforms aimed at improving the ability of the labour market to adjust and within a supportive macro-economic environment.

All the major structural changes that can be foreseen – globalisation, technological progress, aging populations – will challenge the adaptative capacity of OECD labour markets. But high and persistent unemployment still prevailing in many OECD countries is a manifestation of poor adjustment and thus a backlog of unfinished business from the past. Success in removing this backlog seems to be the best way to prepare for the future. ■

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Lifelong Learning and Employability

Phillip McKenzie and Gregory Wurzburg

'Lifelong employability' – the capacity to be productive and to hold rewarding jobs over one's working life – is no longer guaranteed by the education and training received in childhood and youth. The continuous structural changes affecting all OECD economies have increased the importance of up-to-date skills and competences. Responding to this requirement calls for the development of effective strategies for lifelong learning.[1]

The strategy of lifelong learning for all offers a means of helping OECD countries anticipate, and benefit from, economic and social changes. Lifelong learning is far broader than the provision of 'second-chance' education and training for adults. It is based on the view that everyone should be able, motivated and actively encouraged to learn throughout life. This view of learning embraces individual and social development of all kinds and in all settings: formally, in schools, vocational, higher- and adult-education institutions; and informally, at home, at work and in the community. Among its other purposes, lifelong learning has to be viewed as an integral part of employment and social policy and, as such, it has been endorsed by the OECD's member countries.[2]

Better-educated individuals have, on average, higher rates of participation in the labour force, lower unemployment and higher earnings than those with low qualifications. For example, individuals with university qualifications typically earn 50–100% more than those with only a secondary education; the unemployment rate for graduates is likewise, on average, only half as high. Recent data for seven countries (soon to be extended by another five) on the relationship between labour-market outcomes and another proxy measure of human capital – degrees of literacy – confirm this general pattern.[3]

There is also evidence of a macro-economic relationship between educational attainment and output and productivity growth. Studies covering a mix of OECD and other countries find education contributing up to a quarter of output growth. In sum, there is empirical support for the view that education and training lift productivity, both of individuals and economies as a whole.[4]

Moreover, the benefits of education and training during youth are amplified by learning later in life, as is demonstrated by the impact of training in enterprises:

• training has the biggest impact on enterprise performance when it is undertaken in connection with changes in work organisation, job structure and, in some instances, technological innovation (training, when linked to technological innovation and organisational change, is consistently associated with increases in productivity of the order of 10–20%)

• training is more effective when it is widely accessible to workers, and innovations in work organisation and technology are more likely to generate improvements in performance when they are adopted on a systemic basis, rather than as isolated changes

• since successful innovation requires that all relevant personnel understand the reasons for change and how they will have to adapt their working practices, learning should be available through alternative forms of off-the-job and on-the-job training, as participation in off-the-job programmes, which are generally more formal and structured, are skewed in favour of more highly qualified workers

• there are potentially strong financial incentives for enterprises as well as individuals to invest in training when it is undertaken as part of organisational change and the introduction of technological innovation

• there is a virtuous circle whereby participation in continuing education and training raises

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1. Lifelong Learning to Maintain Employability, *prepared for the meeting of labour ministers at the OECD on 13–15 October 1997, and available free of charge from the Education and Training Division of the OECD Directorate for Education, Employment, Labour and Social Affairs.*

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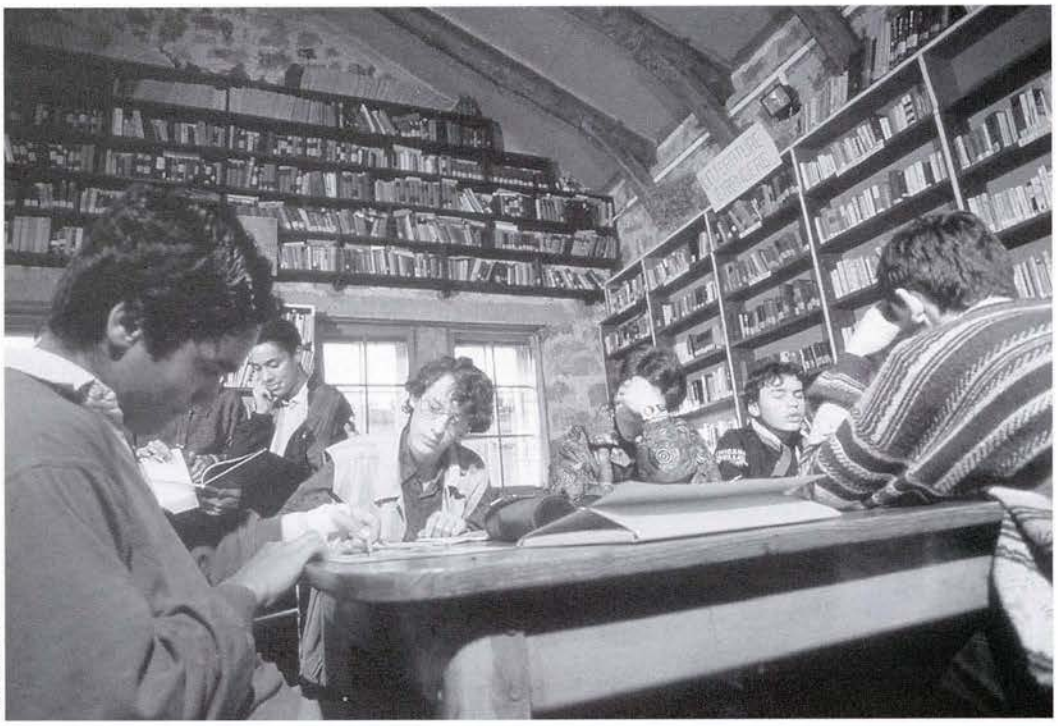
3. ***Literacy, Economy and Society: Results of the First International Adult Literacy Survey**, OECD Publications, Paris/Statistics Canada, Ottawa, 1995. The seven countries examined were Canada, Germany, the Netherlands, Poland, Sweden, Switzerland (French- and German-speaking), and the United States. **Literacy Skills and the Knowledge Society** (OECD Publications, Paris, forthcoming 1997) will include data also for Australia, Belgium (the Flemish-speaking community), Ireland, New Zealand and the United Kingdom.*

4. ***The OECD Jobs Study: Evidence and Explanations**, OECD Publications, Paris, 1994; **Changing Workplace Strategies: Achieving Better Outcomes for Enterprises, Workers and Society**, OECD Publications, Paris/Government of Canada, Ottawa, 1997.*

Lifelong Learning and Employability


Damoret/REA

Virtuous circle: a good initial education encourages lifelong learning, which enhances employability.

skills that enhance employment and earnings prospects, which in turn increase the demand for learning opportunities.[5]

Yet the distribution of lifelong learning is unbalanced: those who are already well-educated participate to a much wider extent. Individuals with education of a university standard are two to three times as likely to participate in job-related training as those who have not completed upper-secondary education. Older workers, too, tend to be disadvantaged. And it goes almost without saying that the unemployed and those outside the labour market and education system generally have little opportunity of participating in job-relevant lifelong learning.

In order to rectify these unequal opportunities and contribute to effective strategies for lifelong learning, the reform of labour policy should aim to serve three goals:

• all young people should have access to high-quality initial education and training

• adults with deficiencies in initial education and training should be provided with 'second-chance' learning, which would give them the foundations for further learning

• adults with an adequate foundation of basic educational skills should be able to upgrade their vocational skills and knowledge in order to maintain their employability and earnings growth potential.

Young People's Transition to Work

For young people, the strongest emphasis should be on ensuring that, when they leave initial education and training, they have the skills, knowledge and attitudes that will make them productive and employable workers. This is the bedrock upon which all other policies depend. The basis for employability, though, is now broadening. Productive work habits, personal confidence, decision-making skills and a commitment to learning are becoming as important as specific vocational skills. For example, young mechanics – no matter how well trained in maintaining the current generation of cars – are unlikely to be in demand unless they have the skills and confidence to communicate with clients and the capacity to cope with emerging car technologies.

To improve the employability of all students, most education and training systems are trying to reduce the traditional separation between vocational education and academic or general education. This objective often involves complementing classroom teaching with learning in workplace settings in order to help students to combine theoretical understanding and practical applications so that they will be better prepared to cope with the demands of future employment and education.

Whatever curriculum and organisational changes are made to schools, some young people will still find it difficult to succeed in education at that time of their life. Because of the importance of keeping them in contact with learning opportunities, some means have to be found for them to return to education and training in the future, and in ways better suited to their circumstances. One option would be an entitlement or form of credit that the young people could use later on to purchase approved education and training programmes from public or private providers. A starting basis could be the amount of public funding that would have been involved had they continued with their initial education up to a minimum qualification (such as the end of secondary school or its vocational equivalent). Such an approach would go some way to redressing the large differences now evident in the amount of public resources provided for different young people according to the length of time they spend in education. An entitlement scheme would be consistent with policy directions towards a more demand-driven education and training system, and more emphasis on individuals constructing

5. *Graham Vickery and Gregory Wurzburg, 'Flexible Firms, Skills and Employment',* ***The OECD Observer****, No. 202, October/November 1996.*

their own pathways between education, training and work. An entitlement scheme giving early school-leavers access to training is at present under trial in Scotland.

The common ingredient in successful approaches (national, regional or local) to helping young people move from education to work is the development of partnerships between educational institutions and enterprises. Public authorities have an important role to play in fostering such partnerships where they are underdeveloped, and maintaining and strengthening them where they are already in place. Experience with school-to-work transition in the United States illustrates the problems that can arise when collaboration is lacking. It has proved difficult there to expand successful youth apprenticeship programmes in individual schools and regions into larger systems because of the absence of skill standards across a range of industries, and the lack of structures that bring together the parties which have to be involved: employers, unions, schools and government. To help redress these problems, in 1994 the federal government passed the School to Work Opportunity Act to provide mechanisms and funding to support collaborative programme development, and to disseminate good practice more widely.

A Helping Hand for Poorly Qualified Adults

Given the scale of the population of poorly qualified adults (Table), and the nature of the remedies required, strategies should be formulated to achieve two objectives:

• enlarging the scope of education and labour-market policies and the populations they serve

• developing reliable and practical mechanisms for identifying adults who would benefit from remedial education, regardless of their labour-market status, and building bridges with appropriate education providers.

Job-placement strategies should be evaluated not simply in terms of their short-term success rate but by their ability to support lifelong learning. Labour ministries may therefore want to strengthen incentives for employers to provide training for poorly qualified workers. People who are in jobs but who lack access to lifelong-learning opportunities would also benefit from information about where and how to take advantage of them.

There are numerous practical ways that governments can help. They can analyse the cost-effectiveness and quality of different teaching and learning approaches, including those that are technologically based, and disseminate the results. They can stimulate competition among providers. And they can reduce the barriers to competition in markets for lifelong learning.

Governments can also help relax the liquidity constraints that arise where learning opportunities have to be paid for before the benefits are realised. The United States, and more recently, the United Kingdom have tried to overcome this problem through policies by which the government guarantees loans, thus allowing a lower interest rate. Australia has repayment for university students through the income-tax system once individuals have attained higher earnings. The expenses of lifelong learning could also be treated like a business cost for individuals – deductible from their taxable earned income (as is already the case for enterprises). This approach would strengthen the incentive for individuals to take on more of the costs themselves. Another way of strengthening the incentives for employers would be to persuade enterprises to treat training as an investment. Although there are formidable barriers to measuring and valuing skills acquired in train-

Table

Adults Not Completing Upper-secondary Education, 1994

% of population in given age-group

	Age-group			
	25–34	35–44	45–54	55–64
North America				
Canada	18	21	30	47
United States	14	11	15	24
Australasia				
Australia	46	46	53	59
New Zealand	38	40	44	55
European Union				
Austria	21	28	36	52
Belgium	35	46	57	72
Denmark	32	38	41	54
Finland	18	28	44	66
France	16	27	40	59
Germany	10	12	16	28
Greece	38	50	65	74
Ireland	39	53	65	73
Italy	53	59	74	86
Netherlands	31	36	46	56
Portugal	70	78	85	92
Spain	55	71	84	91
Sweden	15	22	31	48
United Kingdom	14	22	31	43
Other OECD Countries				
Czech Republic	13	21	32	49
Norway	11	15	22	37
Switzerland	11	16	21	27
Turkey	76	80	84	90
Average	**31**	**37**	**46**	**58**

Source: OECD

FOCUS

The New Zealand National Qualifications Framework

The National Qualifications Framework (NQF) was implemented in New Zealand in 1990 to provide a coherent and credible means of recognising learning, no matter where it occurs. It enables learners to accumulate credits over time and at their own pace as they work towards a qualification. Learners are assessed against standards which tell them specifically what is required of them. For example, to demonstrate competence of a particular standard in the administration of office systems, individuals are told that they have to be able to 'identify forms of business ownership and organisational structures and their use of office systems; complete office administration procedures; identify and operate office reprographic equipment and systems; and preview office telecommunication facilities and establish administration procedures for their use'. Such information is made widely available in written and computer-based form.

Because the standards are nationally agreed, learners' achievements are transferable to a range of settings. Standards, prepared by expert groups in consultation with parties involved in the relevant learning areas, industries and ministries, are reviewed on a regular basis. Each registered standard has a defined credit value and a specified rating on the Framework. Credits may be accumulated from different learning institutions or workplaces towards a single qualification; all organisations accredited to assess standards recognise Framework credits awarded by others.

The Framework has eight different steps of achievement: the first to third approximating to senior-secondary education and basic trades training, the fourth to sixth to advanced trades, technical and business qualifications, and seventh and eighth to bachelor and postgraduate degrees (1–4 qualify for National Certificates, 5 and upwards for National Diplomas, and 7 and 8 for National Degrees). The expert groups, including representatives from industry, set standards and accredit education and training providers. Only accredited organisations are able to assess learners against Framework standards and award credits. The organisation is accredited, not their individual programmes, which gives organisations flexibility in how they deliver their programmes, and reduces accreditation costs. At present there are around 900 accredited providers, including some 400 schools. The standards state the outcomes which programmes should generate, not how they must be learned or assessed. Assessment can be undertaken by the representative of an accredited provider or by a registered assessor. A wide range of evidence, including workplace performance, may be used in assessment. Consistency among assessors is ensured through assessor training, regional panels, reassessments of samples of work, and common assessment tasks.

Once a learner is assessed and awarded a credit, the learning institution notifies the Qualifications Authority. Once a year, or more often if required, the learner receives a statement of all standards and qualifications he or she has achieved in the year. This Record of Learning is an official document and can be presented as a credential to future employers or education-providers. Since 1990 some 170,000 people (about 5% of the New Zealand population) have been enrolled on the Record of Learning associated with the NQF, and about 5,000 National Qualifications have been awarded. Some 20% of these have been awarded to learners assessed mainly in the workplace. The NQF has stimulated a more diverse market for the supply of education and training, and enabled many individuals to access career opportunities that may otherwise have been denied to them. Managing the qualifications framework is the responsibility of the Qualifications Authority, which is required to cover costs from charging users of the system for its services.

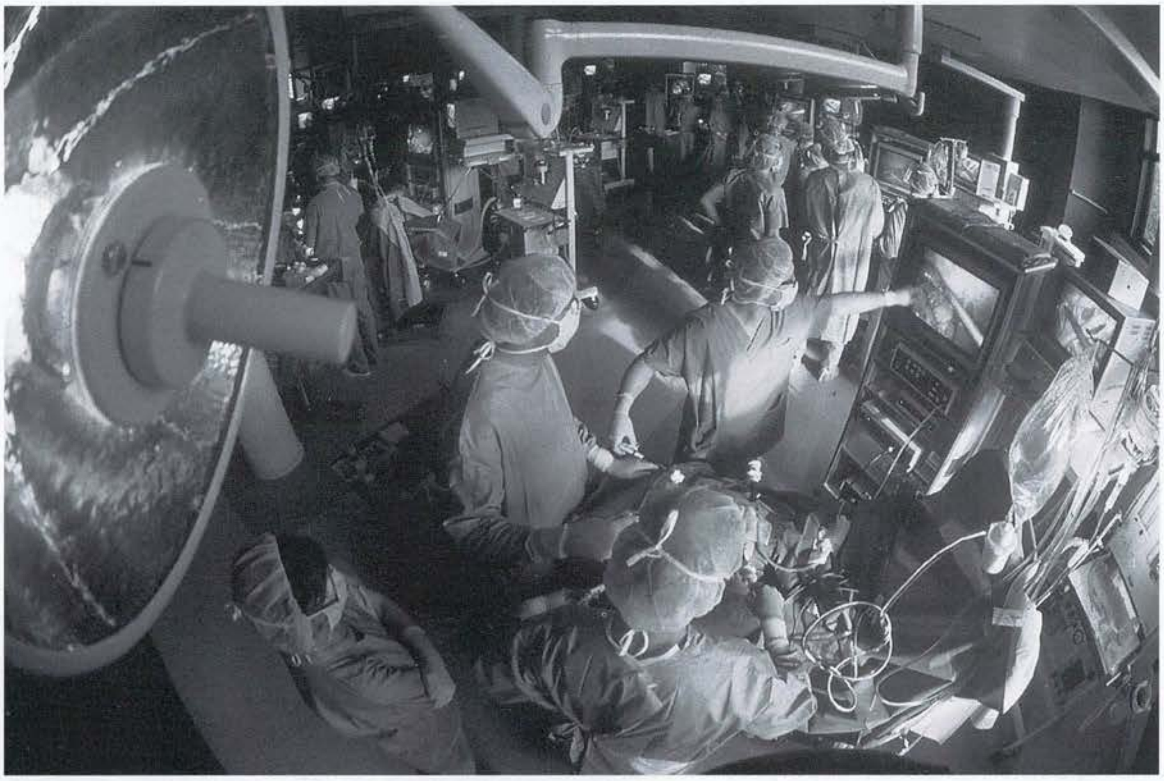
ing and reporting them in company balance sheets, it may be feasible for companies to disclose information on the impact of training on company performance.[6] This would allow investors in capital markets to identify more readily those companies who improve their performance though training, and thereby reduce their cost of capital.

Particular attention should be paid to identifying approaches that respond to the learning requirements of adults with very low qualifications. They often do poorly in training settings modelled on traditional classroom approaches using ill-suited teaching methods. Teaching should build on what individuals already know, and place learning in context, relating it, for example, to what actually occurs on the job.

Assessment and Recognition of Learning

Spreading the practice of lifelong learning depends on assessing and recognising the learning that occurs outside formal educational institutions. Adults with low educational qualifications

Another priority: 'second-chance' learning.



P. Plailly/Eurelios

The continued upgrading of professional skills – an important element in a flexible labour market.

would benefit particularly from mechanisms that validate what they have learned through experience and self-directed learning on and off the job.

This is also an issue for young people making the transition from initial education to work. They are likely to choose – or be required to have – a variety of educational and employment experiences either concurrently or in quick succession. Without some way of demonstrating the learning they have achieved, whether through education or in work, they are likely to find pathways blocked or unnecessarily long.

In recent years, therefore, a number of OECD countries have started to accumulate experience to help obviate this impasse. Perhaps the most fully developed example is that of New Zealand, which in 1990 established a National Qualifications Framework and an authority to oversee its operation (box, left). Further experimentation and monitoring of such initiatives should help ensure the transferability of qualifications between different institutions and occupations in a practical and cost-effective manner.

Gaillard/Jerrican

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Lifelong learning is not a panacea that will cure low employment growth, high structural unemployment and low pay. As the OECD Jobs Strategy makes clear, action is necessary on a wide variety of fronts covering both macro- and micro-economic policies to deal with these problems. But lifelong learning will be vital in ensuring that productivity improvements and growth rates are sustained, and that the benefits of rising earnings are broadly shared. The creation of a learning society is not an issue only for governments. A learning society will not develop unless enterprises and individuals themselves invest in learning. Public policy, though, has an important role to play in creating the environment for this investment to occur, and ensuring that the benefits are widely disseminated. ■

6. There is strong support for investigating the feasibility of developing guidelines on the disclosure of such information (analogous to financial accounting standards), that would ensure that it is transparent and comparable. ***Enterprise Value in the Knowledge Economy: Measuring Performance in the Age of Intangibles****, OECD Publications, Paris/Ernst & Young, Boston, forthcoming 1997.*

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Entrepreneurship

Sergio Arzeni

With the reduced opportunities for employment in larger companies and government, attention has turned to self-employment and small firms as important sources of new jobs. Entrepreneurship has a vital role to play in creating them.

Entrepreneurs are essential agents of change in a market economy, fuelling the drive for the increasingly efficient use of resources and facilitating trade between parties with different preferences and endowments. Entrepreneurial behaviour is likewise a key to accelerating the generation, dissemination and application of innovative ideas. In societies undergoing rapid economic change, a high degree of entrepreneurship will help to cushion adverse social impacts by facilitating the creation of new employment opportunities as old ones decline. The entrepreneurial function will affect both the rate at which new firms are created and their chances of survival and growth as well as the fate of already existing firms.

But for a number of reasons a statistical link between entrepreneurship and employment is difficult to establish. Entrepreneurship cannot be measured directly. It is often latent, its presence manifested in behaviour which can be taken only as proxies of entrepreneurship (box, right). And how entrepreneurship manifests itself changes continuously. Even if observers were privileged with a direct measure of entrepreneurship, other problems would remain in establishing the link to employment. For example, analysts would face the problem of separating the influence of entrepreneurship from the effects of other variables such as labour-market policies. In addition, the causal connection between entrepreneurship and employment runs in both directions: for example, when unemployment rises and wage-earners are threatened with redundancy, the opportunity cost of becoming an entrepreneur is lowered. What is clear is that entrepreneurship is a necessary condition of economic progress in a market economy, and measurement problems should not detract from efforts to promote it as a part of the solution to unemployment.

One approach governments are using to stimulate entrepreneurship, since unemployment and poverty are increasingly concentrated, often in distressed urban areas, is to target policies geographically, moving from a sectoral to a geographical approach. Self-employment and enterprise-creation can help turn around a local economy that is badly affected by economic decline, from the closure of industrial plants or military bases, say, or other adverse social and economic developments.

In some countries, such as Canada, an important proportion of all new employment growth in the first five years of the 1990s came from self-employment and micro-enterprises. In the United States, for instance, the very smallest firms – those with between one and four employees – created 450,000 jobs in 1995, or 35% of the jobs created in that year. Hardly surprisingly, then, governments have been keen to help such firms prosper, and a number of schemes have emerged to this end: Enterprise Zones and Training and Enterprise Councils in the United Kingdom, for example, Local Partnerships in Ireland, Empowerment Zones in the United States, Territorial Pacts in Italy and in the new strategy for job creation launched by the European Commission. The Programme on Local Economic and Employment Development (LEED) at the OECD has been evaluating these schemes for over ten years now, gathering evidence that this type of active employment policy does indeed work.[1] Nevertheless, the share of

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In 1995 the very smallest businesses – those with one to four employees – created 450,000 new jobs in the United States, 35% of the total.

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and Job Creation

self-employment in total employment is still low, particularly in countries such as Denmark, the United States and Norway, where artisan and handicraft activities have been vanishing.

Furthermore, pressure on public purses is now so strong that any government intervention in the economy has to pass the test of the three 'D's: dead-weight, distortion and displacement. Dead-weight costs may emerge if taxpayers have to finance a potential entrepreneur who would have started a business in any case. Fostering new ventures may distort the market if doing so gives some firms an unfair competitive advantage. And new firms may simply displace old jobs instead of creating new ones. These yardsticks are easier to apply locally and regionally, because there, in a well defined area, the impact and efficiency of a programme can be evaluated more clearly. The OECD is pioneering new types of peer review and audits of job-creation programmes, both nationally (for instance, in Austria, Ireland and the Czech Republic) and locally (Vitoria Gasteiz in Spain and Sesto San Giovanni in Italy).

Steps in Support

Governments have various roles to play in supporting entrepreneurship. A first step is not to do, but to undo. The classic tools of government – taxation and regulation – clearly affect entrepreneurial activity. When taxation is too burdensome and reporting requirements too complex, entrepreneurs take refuge from the fiscal system, expanding the underground economy and the illegal labour market.[2]

Another area in which government can help entrepreneurship is in public procurement. It is all too common that small-scale entrepreneurs suffer from late payments by administrations. Indeed, in some countries, late payment is the cause of the mortality of a number of firms which would otherwise still be on the market. Small firms may be obliged to borrow while waiting for money due from a public administration or a large firm, and their profits end up in interest payments to the banks.

Development agencies can promote local initiatives through new forms of public-private partnerships. In Ireland, for example, the establishment of 35 area-based partnerships has helped bring about some outstanding achievements in promoting entrepreneurship and reducing unemployment.[3] In this way such agencies can spread innovation and entrepreneurship, using support structures that generate co-operation among local agglomerations of small firms (clusters and networks) and helping them meet the conditions for venture capital.

Business incubators are a popular instrument for stimulating entrepreneurship and local job-creation by providing managed workspace for start-ups, pooling resources in terms of services, facilities and equipment, and concentrating the supply of utilities geographically. A recent survey indicates that in areas of poor, dependent or anti-entrepreneurial culture such 'nurseries' are especially important, not only for their direct or indirect economic impact but also for their relevance in social policy and development.[4] The increased economic diversity and raised volume of economic activity which incubators can generate also add to social cohesion.

Policies to stimulate entrepreneurship differ from traditional public job-creation schemes in that they aim to create new activities rather than assist existing concerns. And they differ from the support measures directed at small and medium-sized enterprises (SMEs) because they focus on the infant stage of new firms. They recognise, indeed, that not all SMEs are innovative and not all are bound to grow – many small firms may prosper by staying small. Furthermore, since they involve a broader view of what an enterprise is, they suggest that an 'entrepreneurial culture' can exist in a much wider part of the

1. Self-Employment Programmes for the Unemployed, *Papers and Proceedings from a Joint US Department of Labor/OECD International Conference, Washington D.C., 1995, available free of charge from the Programme on Local Economic and Employment Development of the OECD Territorial Development Service.*

2. ***OECD Economic Surveys: Russia**, OECD Publications, Paris, 1997.*

3. ***Ireland, Local Partnerships and Social Innovation**, OECD Publications, Paris, 1996.*

4. ***Business Incubators in Selected OECD Countries**, OECD Publications, Paris, forthcoming 1998.*

BACKGROUND

The Elements of Entrepreneurship

The popular image of the entrepreneur as a risk-taker, an adventurer, a capitalist or a speculator no longer reflects reality. Primarily, the entrepreneur is an achievement-driven detector of new business opportunities, marshalling finance beyond resources he can control, enjoying independence and self-reliance.

The function of role models and social exchange are important in facilitating the cross-fertilisation of ideas and experiences, spreading entrepreneurship through the imitation of experiences, knowledge and information shared in a particular vicinity. Indeed, a firm is very often the result of the experience accumulated in an area or region.

In modern, global, markets it is not size but innovative capacity that is the key to success. And a concentration of competitors, customers, suppliers, training centres and specialised university research programmes in the same geographical area can produce a climate that fosters innovation, entrepreneurship and job creation. It also creates a blend of local skills, technology and trust which substantially reduce transaction costs.

Intangible factors such as culture and social behaviour also matter. American culture encourages unsuccessful entrepreneurs to pick themselves up and start again, whereas fear of failure has been a big handicap for European entrepreneurship in general.

Surprisingly, perhaps, cost is not always a decisive factor in the success of entrepreneurial endeavour. Entrepreneurship often flourishes in localities with above average costs of labour, land, housing, transport and taxes, such as Massachusetts or California. Other elements can be more important: the quality of the workforce, the business and social infrastructure, and the relative strength of the local economy, all of which often derive their importance from a local network of business and sometimes social relationships.

Sittler/Jerrican

Government can help small business in at least two ways: by cutting out unnecessary reporting requirements, and by paying their bills on time.

population than was historically the case. Governments can usefully, therefore, not only provide practical tools but more generally promote a culture of entrepreneurship in the education system and society as a whole. They can reduce waste by bringing down the mortality rate of new and small firms at low cost, as well as ensuring the survival of firms in the passing of enterprises from one generation to another, which is particularly important in a period of aging populations.

Characteristics of Success

Dynamic regions – such as Cambridgeshire in the United Kingdom or Central North-Eastern Italy – concentrate not only, and not so much, on luring foreign direct investment from established companies; they also place considerable weight on the encouragement of new businesses, in a move away from the subsidy-based policies that governments favoured in the four decades after the Second World War. One of the methods being adopted is to facilitate the supply of seed capital, venture capital and micro-credit.

Although most of the finance is supplied by pension funds and institutional investors, venture capital for start-ups is typically a local phenomenon, where a new breed of financial entrepreneurs is prepared to invest in ideas and innovation, assisting and visiting the new venture every week, with a view to profits in the longer term. The importance of continuous exchange with and monitoring of a new firm explains why venture capitalists usually invest within a radius of 50 miles from their home. Nonetheless, the difference between Europe and the United States is striking. In Europe most venture capital goes for management buy-outs or for the development of existing mid-sized firms; in the United States a much larger share is allocated to seed capital for new ventures.

Access to capital can also be linked to local socio-economic characteristics. About one quarter of the firms in Silicon Valley in California were established over the last 20 years by immigrants, some Europeans, more often Asians, who found there a climate tolerant to foreigners.[5] Trust is an important vehicle for the diffusion of entrepreneurship: rotating local credit associations are prevalent among economically successful immigrant communities (for instance, the Chinese). But these organisations do much more than simply provide credit. By ritualising self-help and teamwork and establishing solid voluntary non-profit organisations covering a large spectrum of social requirements, they encourage savings, foster ethnic solidarity and serve as a springboard for ethnic integration and new forms of social cohesion.

5. See pp. 31–33.

Entrepreneurship is changing as a concept not only because of its broader social content but also because increasingly it is the result of a collective, not merely individual, effort. More often than in the past, the average new firm in both Europe and the United States is created not by an individual but by a team. And team-based activity is probably one of the most common features of the new trends in entrepreneurship since it is also found among women, the young and minority groups.

■ ■

Entrepreneurship is a discipline that can be taught and learnt through experience and the sharing of it. But promoting entrepreneurship is not easy: most of its determinant characteristics, such as the capacity to seize new opportunities or to build trust, networks and projects, are intangible and not always straightforwardly understood and translated into policy recommendations.

Yet, increasingly, tomorrow's enterprises, and thus tomorrow's jobs, will be based on flexible networks interconnected through the mechanisms of loyalty and trust – 'social capital' – that are characteristic of entrepreneurship. And the new jobs for young generations will stem more and more from the capacity of enterprises, regions and countries to innovate and harness new opportunities in a global economy. ■

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Opening Mediterranean Trade and Migration

Jean-Pierre Garson

The free-trade agreements which the European Union has signed with various countries around the Mediterranean Basin are primarily designed to encourage further regional economic integration. They also reflect new thinking on migration, which emphasises promoting development in the sending countries to reduce unregulated flows.[1]

Serge Attal

Migratory flows precede, and then accompany, trade flows between the northern and southern edges of the Mediterranean.

In the current debate on European-Mediterranean partnership, considerable weight is attached to free trade between the European Union (EU) and third countries bordering the Mediterranean. Migration is an issue in these discussions, but it is not adequately covered in the agreements signed so far or in the negotiations still underway. If one looks at the precedent established by the accession of Greece in 1981 and Portugal and Spain in 1986 to the European Economic Community (EEC), it is clear that these countries had developed close links over a long period with the countries of western Europe, not least through migration. The political project to make the EEC countries, by stages, an area in which goods, services, capital and people could move freely helped to strengthen and speed up the economic integration of the three new members. The incentive to emigrate was considerably reduced because economic convergence and inflows of foreign investment boosted job creation and narrowed wage differentials. All three countries have recently become places of immigration.[2]

At present the regional integration of third countries in the Mediterranean Basin (in particular, the Maghreb countries and Turkey) with those of the European Union is not being discussed, officially at least, in the context of an accession process or with any declared aim, over the medium term, of free movement of people. Yet some of these countries have substantial trade with various EU countries, mainly those where large numbers of their nationals reside. In building stronger European-Mediterranean ties, the issue of migration is central, for at least two reasons. The first is that the EU countries hope, more or less explicitly, that unregulated migration flows from the southern and eastern Mediterranean to the North will diminish as a result of the beneficial impact of trade liberalisation on employment and living standards in the

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1. ***Migration, Free Trade and Regional Integration in the Mediterranean Basin***, *OECD Publications, Paris, forthcoming 1998. Seminars on migration, free trade and regional integration were held in March 1996 in Vienna (Central and Eastern Europe) and November 1996 in Athens (Mediterranean Basin). A third, on North America, is to be held in Mexico in January 1998. An international conference in Portugal in November 1998 will draw conclusions from these three regional approaches and the analytical work conducted over the past three years by the OECD, ILO and the Japanese government on the same topics in East and South-East Asia.*

2. *Georges Tapinos, 'Regional Economic Integration and its Effects on Employment and Migration', in* ***Migration and Development: New Partnerships for Co-operation****, OECD Publications, Paris, 1994.*

Opening Mediterranean Trade and Migration

Table

Maghrebian and Turkish Residents in 11 European OECD Countries, 1995[1]
thousands and % of total foreign population

	Total Foreign Population	of which:							
		Algeria	%	Morocco	%	Tunisia	%	Turkey	%
Belgium	909.8	9.5	1.0	140.3	15.4	5.3	0.6	81.7	9.0
Denmark	222.7	..	..	3.3	1.5	..	..	35.7	16.0
France	3,596.6	614.2	17.1	572.7	15.9	206.3	5.7	197.7	5.5
Germany	7,173.9	17.7	0.2	81.9	1.1	26.4	0.4	2,014.3	28.1
Italy	991.4	..	..	94.2	9.5	40.5	4.1	..	..
Netherlands[2]	757.1	1.0	0.1	158.7	21.0	2.1	0.3	182.1	24.1
Norway	160.8	..	..	1.6	1.0	..	..	4.4	2.8
Spain	499.8	..	..	74.9	15.0	..	..	..	..
Sweden[2]	537.4	0.6	0.1	1.5	0.3	1.1	0.2	22.0	4.1
Switzerland	1,330.6	..	..	..	..	..	..	78.6	5.9
United Kingdom	2,060.0	..	..	..	..	..	..	29.0	1.4

.. not available.
1. Data from population registers for all countries except for France (1990 census), Italy and Spain (residence permits) and the United Kingdom (Labour Force Survey).
2. 1994.
Source: OECD

sending countries. The second reason is that the presence in EU countries of significant numbers of Mediterranean Basin third-country nationals (Table) raises, from the standpoint of regional integration, the issue of their rights, status and movement within an expanded Europe.

North-South: Asymmetrical Relations

The project to liberalise, in phases, trade between Mediterranean Basin countries and the European Union by the year 2010 shows similarities, and differences, with the precedent of the integration of the three southern European countries into the EEC. The first similarity is that the candidates for integration – Greece, Portugal and Spain previously, now the Maghreb countries and Turkey – are not as yet deeply integrated among themselves.[3] The bulk of their trade has been directly with particular countries in western Europe, with migration flows preceding, and then accompanying, trade flows. Like the southern European countries, the Mediterranean Basin third countries accounted for a substantial share of the total number of migrants, particularly in western Europe, during the 1960s and '70s. These movements continue today, though on a smaller scale and, with the exception of Algeria (where flows remain heavily concentrated on France), now concern other OECD countries in Europe, such as Italy and Spain.

In contrast to the Southern Europe-EEC precedent, however, the ties formed through trade and migration are asymmetrical. Movements from the Maghreb and Turkey are mainly to particular EU countries, a trend which has become more marked over the last 15 years. Exports from these third countries have followed the same pattern and account for a very high percentage of their total foreign trade.[4] But much less is at stake for the EU countries, because the bulk of their non-EU trade is conducted with other OECD countries. In addition, sending countries are now more diverse, and the proportion of immigrants from central and eastern Europe and parts of Asia is increasing (Figure).

Other differences should be highlighted, too. The demographic situation around the Mediterranean Basin is one of contrasts. The countries along the northern shore have completed their demographic transition and their populations are aging. Those on the southern shore, on the other hand, continue to have very high fertility rates and substantial cohorts of young people are entering their labour markets. The potential for migration is likely to remain high until 2010, the proposed date when the free-trade area between the European Union and some Mediterranean third countries is to come into effect.

The economic context in western Europe is unlike the conditions that prevailed in the 1960s and '70s. Economic growth is weaker, unemploy-

3. The countries of central and eastern Europe which are applying to join the European Union are in a comparable situation: see ***Migration, Free Trade and Regional Integration in Central and Eastern Europe****, OECD/WIFO, Vienna, 1997.*

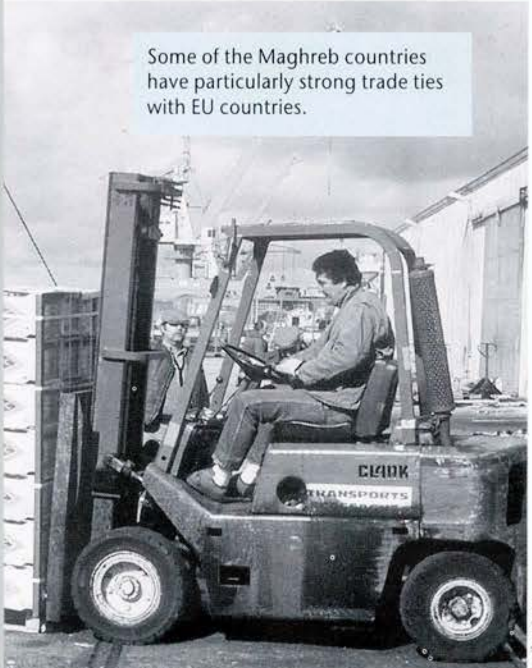
4. For a detailed discussion of trade between the European Union and the Maghreb countries and Turkey, see I. Bensidoun and A. Chevallier, Europe-Méditerranée : le pari de l'ouverture, *Economica, Paris, 1996.*

5. D. Cogneau and G. Tapinos, 'Libre-échange, répartition du revenu et migrations au Maroc', Revue d'économie du développement, *No. 1, 1995; G. Kébabdjian, 'Le libre-échange euro-maghrébin : une évaluation macro-économique',* Revue Tiers Monde, *October–December 1995; T. Rutherford, E. Rutstrome and D. Tarre, 'L'Accord de libre-échange entre le Maroc et la CEE : une évaluation quantitative',* Revue d'économie du développement, *No. 2, 1994.*

ment is higher and migration policies are fairly restrictive, in particular for new workers.

But the most important difference lies elsewhere. The stage of economic development reached today by the Maghreb countries and, to a lesser extent, Turkey is below that in the three southern European countries at the time they were negotiating their accession to the European Community. This difference is not because of migration flows, or any disparity in the beneficial effects of emigration on the development of the sending country (chiefly through remittances by emigrants). Nor is it because of less openness in the economies of the Maghreb countries and Turkey; indeed, they are generally more dependent on foreign trade than the southern European countries were before accession. The main reasons for the difference lie in the inadequacy of economic and financial infrastructures to attract foreign capital, the shortcomings of administrative arrangements, and the lack of educational and training institutions to develop human resources and teach the skills required on the labour market as technology changes.

It is clear that migration, on its own, is not enough to create the conditions for sustainable development in the sending country. That underscores the importance of the issues raised by the prospect of growing liberalisation of trade and fuller regional economic integration.



Some of the Maghreb countries have particularly strong trade ties with EU countries.

Rocher/Jerrican

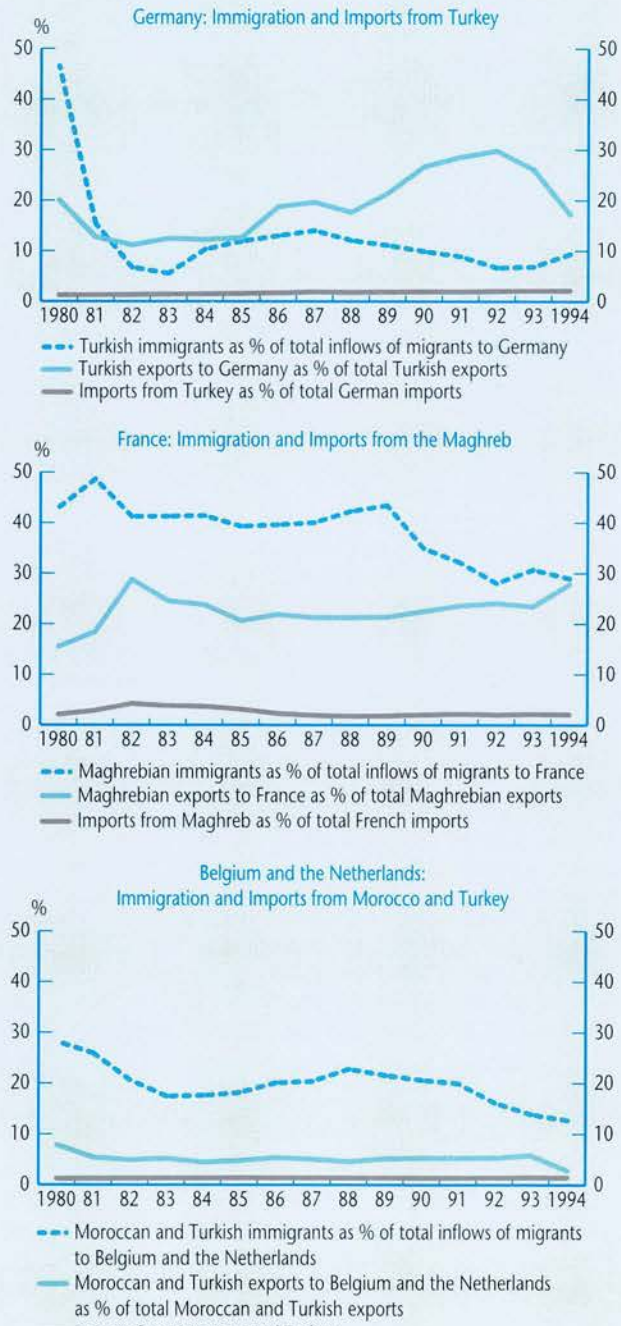
Closer Regional Integration

In the medium term the transition to free trade will have adverse consequences for the Mediterranean third countries concerned. It will mean lower government revenue because of the removal of customs duties, and a heavier trade deficit as imports rise more quickly than exports. Adjustment will therefore be called for higher domestic taxes and external devaluations, for example. Unemployment and poverty will not diminish, and modelling exercises suggest that the traditional specialisations of Mediterranean third countries are likely to become more marked.[5]

Trade liberalisation will have to be accompanied by a major shift in flows of foreign investment. Foreign investment would bring in its train large positive spillovers to the Mediterranean countries: access to a larger pool of knowledge and innovation, for example, and enhanced labour skills. That is likely to lead to appreciable increases in prosperity, more job-creation and, over the longer run, a reduction

Figure

Germany, France, Belgium and the Netherlands: Immigration and Imports from the Maghreb and Turkey, 1980–94



Source: OECD

Opening Mediterranean Trade and Migration

in the incentive to emigrate. Closer regional integration in institutional terms, and financial transfers targeted on productive public expenditure, could well stimulate productivity gains and thus help to attract further foreign investment.

Opening-up is thus a venture worth the risk, but trade liberalisation will have to be accompanied by measures that will speed social and institutional change, attract a larger inflow of foreign direct investment, help develop and modernise the economic and social infrastructure, and establish appropriate forms of management and training. Modernising the education system and developing enterprise should enable the economies of Mediterranean Basin third countries to overcome the heightened traditional specialisation to which free trade is bound to lead in present circumstances, and to produce advanced technological goods more attuned to world demand.

■ ■

Immigrants from the southern and eastern Mediterranean Basin, because of the long history of migration flows to Europe and the proximity of their countries of origin, could contribute much more than has been imagined to the process of regional integration now underway, in particular through their entrepreneurial spirit, the technical skills acquired abroad and the mobilisation of some or all of their savings.

Freedom of movement which would enable them to play a full part in European-Mediterranean integration has not yet been accorded. The low rate of economic growth, and the persistence of unemployment, particularly among foreigners, have not prompted the OECD countries in Europe to develop a new, active migration policy tailored to the objectives and the realities of regional economic integration. For their part, the southern Mediterranean countries are having difficulty in coming to terms with the new constraints imposed by sluggish economic performance in the North and the declining demand for unskilled labour.

In this context new migration policy could well develop. It would allow more scope for skilled workers to move between the two shores of the Mediterranean so that they can actively participate in furthering economic development and job creation in the Mediterranean Basin. ■

FOCUS

Trends in International Migration

The annual report Trends in International Migration *confirms the stabilisation (and in some cases the decline) of legal immigration flows in OECD countries over the past four years.*[1] *The number of requests for asylum fell back. Immigration for family reasons continues to predominate, although temporary migration is gaining in importance. Migration still plays an important role in annual population growth,* via *the migration balance and the natural increase in the foreign or foreign-born population.*

In the course of the last decade, the impact of the acceleration of migration movements on the total growth of the population has been considerable, not least in Canada, Sweden, Denmark, Italy, Portugal and Spain. The trend is all the more marked when it occurs in countries where fertility rates are low such as Germany, Italy, Greece, Switzerland and Portugal (in decreasing order).

Foreign and immigrant workers represent an important proportion of the total labour force in a number of OECD countries, in particular (and in decreasing order) Luxembourg, Australia, Switzerland, Canada, Austria, Belgium and Germany. They are present in a wider range of economic sectors – in services to business and households, for example. At the same time, foreign workers have become more vulnerable to unemployment than their national counterparts, but the gap between the rates of unemployment for the two groups is stable. In connection with the public debate in various OECD countries, the report uses empirical data to explore the links between the volume of unemployment and the scale of the foreign presence in the total labour force of the host country. It also compares trends in gross immigration flows over the last ten years and unemployment trends in host countries. It finds that any empirical relationship between foreign workers and the overall unemployment rate is weak, and that no close correlation can be established between growth in entry of foreigners to a country and changes in the unemployment rate. In addition, the idea that the rate of unemployment would decline if immigration were halted or sharply reduced is not confirmed by available data.

An overview of migration policies first outlines policies to strengthen the control of flows (redefinition of conditions of entry and stay, revision of legislation and procedures related to the right of asylum, reinforcement of control systems at borders and within the country to combat illegal migration). Other major objectives of migration policy include integrating immigrants (helping new arrivals settle in, school enrolment for children, integrating immigrants into the labour market and urban areas, rights of foreigners and their political participation).

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Market Access in the Automobile Sector

Denis Audet

With high economic stakes in the automobile industry and a history of trade friction, excess capacity in the world market may tempt governments to intervene to protect domestic firms. But governments must take account of the global implications of ongoing market developments, focusing their interventions on facilitating trade by eliminating administrative obstacles. That will encourage the emergence of new forms of organisation and process better adapted to market requirements.[1]

Automobiles are an economically strategic sector in many countries, contributing strongly through upstream and downstream activities to national production, employment and technological capacity. In Germany, for example, motor vehicles account for about 13.5% of total manufacturing production, and in Canada automobiles and auto parts for 30% of total exports. Increasingly efficient mass-production techniques have made car-ownership affordable to a growing segment of the world's population, beginning in Europe and North America in the first decades of this century and extending rapidly in recent decades throughout all continents.

At the turn of the 21st century, the world automobile industry is in a state of ebullient confidence induced by the prospects of millions of new consumers in emerging economies, most of them eager to join the 'automobile civilisation'. Most manufacturers are expanding capacity in order to reap the expected market opportunities where they are most promising. The industry is also in the process of a global re-engineering of the entire production chain, spurred by technological innovation, which makes possible the development of new models within ever shorter cycles and at lower cost.

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Yet if the expected growth in demand fails to materialise, global excess capacity could generate into intense competition, which in turn, may incite manufacturers to call on governments for intervention and protection. Given the high economic stakes involved and a history of trade friction, tariff and non-tariff barriers have frequently been used to shield domestic production from the competitive pressure that will bring adjustment. In spring 1995, for example, a trade dispute between the United States and Japan illustrated how concerns about market access were shifted away from border measures to more subtle issues, such as access to national automobile distribution systems and the impact of domestic regulations (car inspection requirements and safety regulations) on the ability of traders to compete on foreign markets.

1. ***Market Access Issues in the Automobile Sector***, *OECD Publications, Paris, forthcoming 1997.*

These market developments and the more subtle dimensions of market access raise important policy questions which should be addressed within a broad analytical framework, taking into account the range of trade and trade-related issues in the increasingly globalised automobile industry. That involves looking beyond the traditional focus of the border measures and examining market access in all its dimensions, including investment, the intensity of domestic competition, access to national automobile-distribution systems, safety and environmental standards, and customs procedures. Throughout these considerations, the crucial question is how to create and maintain a policy environment that ensures competition, adjustment and open markets, so that the industry can continue to make a strong contribution to world economic prosperity.

Trends in Globalisation

Estimates of demand growth for automobiles for the period up to 2015 suggests that about 80% of the increase in the world's consumption will occur in developing countries. That will have a major impact on the future location of automobile assembly and supplier plants.

Major manufacturers are pursuing a strategy referred to as a 'multi-domestic approach' in which they aim to reach a balance between local production and global sourcing. It involves a shift from large-volume operations to projects tailored to local conditions. In this perspective, a high degree of self-sufficiency in production and consumption is likely to occur in major producing regions. Trade will tend to become increasingly focused on specialised models or brands which are produced in one location and exported to countries where local demand is insufficient to

Market Access in the Automobile Sector

justify national production of the model in question.

The global re-engineering of the industry is having a major impact on manufacturing and organisational processes. The traditional pattern, where manufacturers were strongly vertically integrated – producing in-house the majority of parts – has shifted to 'lean production', with more parts manufactured by independent suppliers (by 'outsourcing', for example) and with fewer larger suppliers ('first-tier suppliers') who are assuming more responsibilities at the design and conception stages and are supplying complete sub-systems (for example, complete automobile front-ends as opposed to independently supplied bumpers, lights and fixtures). First-tier suppliers are also required to deliver on a 'just-in-time' basis wherever final assembly is taking place.

First-tier activities are taking a growing share of the total value-added in motor vehicles. Although outsourcing is a central feature of lean manufacturing processes, it now appears uncertain whether manufacturers will pursue this path much further: they are increasingly recognising the importance of key high-value-added operations – 'core competence' – which are considered strategic not only for remaining competitive but for safeguarding market share. (As an analogy, a core competence in the computer business is the activities involved in the production of operating systems which have clearly shifted to the hands of independent suppliers.)

Maillac/REA

In 'unbundled' distribution channels, after-sales services are closer to the consumer.

In the late 1980s, manufacturing productivity varied considerably between assembly plants of major regions of the world, with the best performance occurring in Japan. Professor Daniel Roos, co-author of the best-selling book *The Machine that Changed the World*,[2] now believes that most manufacturers have effectively adopted lean manufacturing processes, resulting in a convergence of performance in both productivity and product development among the major producing regions. This convergence underlines the relative economic importance of a dynamic auto-parts sector independent of more visible final-assembly operations.

Another important trend is the reduction in the diversity of automobile production 'platforms' (for example, the number of different production lines of standardised automobile skeletons) and the duplication of similar platforms worldwide to achieve more homogeneity in assembly processes and to reduce the number of differentiated parts hidden underneath the exterior body 'under-skin'. This drive is achieved within individual manufacturer's operations but also on the basis of shared platforms between manufacturers. This trend also illustrates the increasing importance of parts and sub-systems operations within the entire production chain. At the limit, it is possible to conceive one supplier producing the entire under-skin section of a vehicle for several differentiated and competing automobile brands.

Implications for Investment

For automobile manufacturers, the concept of market access is closely related to conditions imposed at borders, such as tariffs and quantitative restrictions, but also to inward investment. For example, an automobile manufacturer cannot propose expansion in foreign markets without first investing in a distribution system in targeted countries. In this sense, trade cannot meaningfully occur without foreign investment and, similarly, investment cannot successfully occur without trade: for instance, imports of equipment, parts and expertise are required for operating in foreign markets, at least in the initial phase.

The liberalisation of trade and investment achieved by the Uruguay Round in 1995 has contributed to making the regulatory environment more transparent and predictable – an essential consideration for manufacturers when they take decisions that have long-term implications. Nonetheless, many of these improvements are considered insufficient to allow a full response to the demands posed by the globalisation of the automobile industry.

Substantial differences exist in the tariffs applied to automobiles between OECD countries, and larger differences in tariffs prevail between OECD and other countries. One worrying feature is that many countries maintain considerable disparities between bound and applied tariff rates for motor vehicles which make import conditions less predictable.[3] Concern is being expressed about informal campaigns in some countries that discourage national consumers from buying foreign-made automobiles. These campaigns act as a significant non-tariff barrier.

The Multilateral Agreement on Investment (MAI), currently negotiated under the auspices of the OECD,[4] aims to increase stability and predictability for investment. There are nonetheless divergent views as to whether the MAI should incorporate provisions dealing with such issues as core labour standards[5] and environmental protection to offset the alleged risk that countries might reduce their social and environmental standards to attract foreign investment.

Trade and investment instruments remain tempting in certain cases, such as to advance strategic industrial objectives, like helping the domestic automobile industry to develop or to adjust to international competition. These can be entirely reasonable objectives, but they should not stop the increasing exposure of domestic industries to world competition, which will facilitate their subsequent integration into the world economy. This path is being followed by a growing number of emerging economies, which are gradually adopting more liberal trade and investment regimes, and not only for automobiles.

At the extreme, the above objectives may be materialised into provisions specifically designed to displace imports by national production, through, for example, import-substitution, or national car programmes that grant preferential advantages to a handful of pre-selected beneficiaries. The economic justification of these programmes is coming into question: they often result in highly fragmented and relatively inefficient automobile industries which condemn consumers to poor choice and expensive cars.

Distribution Considerations

Establishing a strong retail distribution network is a priority for any automobile manufacturer wishing to develop his export markets. That usually involves the recruitment of local dealers although some recent market entrants have established 'unbundled' distribution channels where sale activities are assumed by fully owned subsidiaries of manufacturers and after-sale activities spread out in many service-points dispersed closer to consumers. Daewoo vehicles in the United Kingdom, for instance, are distributed in this manner. Whichever distribution structure is adopted, heavy investment in advertising and promotion is required to raise customer awareness and position a new brand.

An established local dealer will seek attractive commercial terms before agreeing to invest in a new franchise and may be reluctant to add a new franchise to one that he already has (and thus becoming a multi-brand dealership) or to switch franchises. Differences in dealers' attitudes towards new brands and multi-brand dealerships exist among countries; that, too, is often perceived as a market-access barrier. It is also recognised that the establishment of a distribution network in countries where land costs are high requires a huge capital investment which in itself represents an entry barrier in these markets, particularly for smaller manufacturers.

The terms of franchise contracts between automobile manufacturers and dealers can also impede the market penetration of foreign brands. This question is at the core of the continuing debate between the United States and Japan in which it is argued that, because of close inter-relationships between franchised dealers and Japanese manufacturers, foreign manufacturers are encountering difficulties in recruiting Japanese dealers who would carry their franchises. There is general agreement, by Japan, too, that this situation is a matter for national competition authorities to deal with and effective enforcement of competition laws should be pursued – but there are divergent views as to what constitutes effective enforcement. The necessity for developing a broader and truly international perspective of competition policy in the automotive sector is an indispensable step towards meeting future difficulties.

The traditional model of competing dealers of the same brand is increasingly being rethought by manufacturers because such aggressive competition generates low profitability for dealers. Instead, the trend is towards much larger territories for dealers and towards unbundled activities. Pricing, discounting and information on the availability of models is already freely available on the Internet in several countries, which improves the ability of consumers to negotiate; it also permits more direct forms of contacts and makes the concept of dealer's protected territories increasingly irrelevant. With more transparency on prices and availability, automobile prices will have a tendency to converge on a regional and international basis.

Standards and Certification Procedures

There is a broad consensus that technical standards and certification procedures, in questions of safety, environment and emission controls, with a direct or indirect bearing on the automobile industry, should gradually move towards global harmonisation. A number of multilateral, regional and bilateral arrangements have been implemented to maximise regulatory homogeneity in the automobile sector: the Working Party on the Construction of Vehicles under the auspices of the United Nations Economic Commission for Europe (UN-ECE), for example, the TransAtlantic Business Dialogue, and various measures undertaken under the auspices of the EU, NAFTA and APEC.

But the difficulties that lie ahead in regulatory harmonisation should not be underestimated. In the short and medium terms, an additional agreement could complement the revised 1958 Agreement sponsored by the UN-ECE. Enhanced co-operation is even more pressing as emerging economies may be tempted to develop their own regulatory regimes, thereby

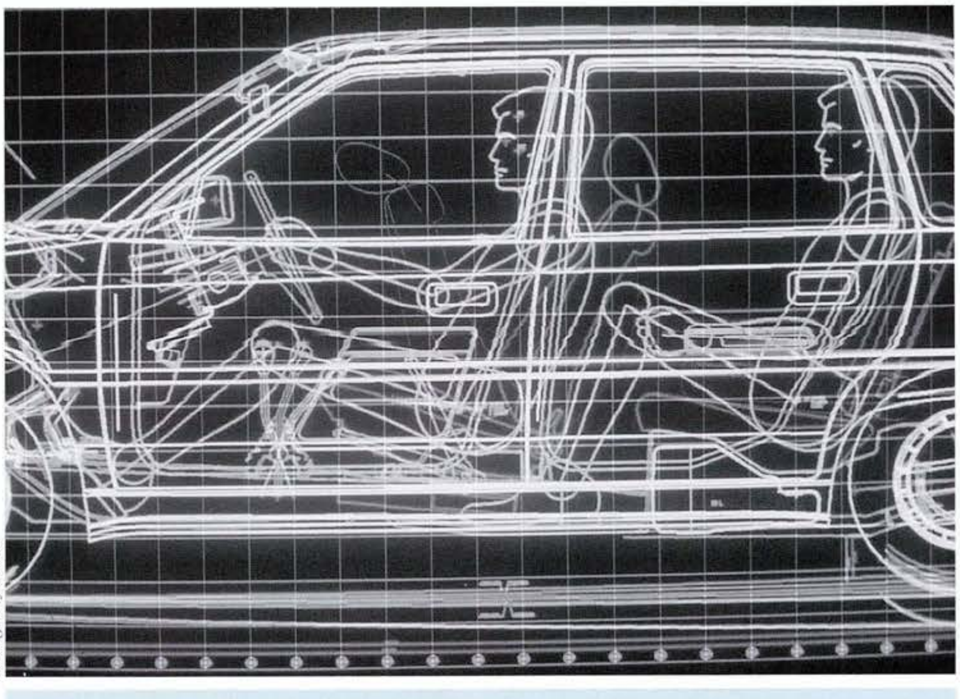
2. James P. Womack, Daniel T. Jones and Daniel Roos, The Machine That Changed the World: The Story of Lean Production, *Harper Perennial, Harper Collins, New York, 1991.*

3. An example of a difference between bound and applied tariff rates is found in Korea where the bound rate for automobiles is 80% and the applied rate is 8%. The applied rate of 8% is imposed on foreign cars entering Korea. But the tariff rate to which South Korea is legally committed under international rules in the WTO vis-à-vis its trading partners is 80%. As a result, Korea can increase its tariff protection up to 80% without breaching its international obligations under the WTO. This is why countries which are maintaining a considerable gap between their bound and applied rates have considerable flexibility in raising tariff protection. It also means that the import regime of these countries is less predictable than those elsewhere, which in itself acts as a trade deterrent.

4. William H. Witherell, 'An Agreement on Investment', ***The OECD Observer****, No. 202, October/November 1996.*

5. Raymond Torres, 'Labour Standards and Trade', ***The OECD Observer****, No. 202, October/November 1996.*

Market Access in the Automobile Sector



Berenguier/Jerrican

There is a world-wide trend towards homogeneity in assembly processes, with a reduction in the number of different body parts 'under-skin'.

adding to the plethora of conflicting regulations and making trade more difficult.

Trade Facilitation

With lean manufacturing processes prevailing in the automobile industry, global outward sourcing of auto parts and just-in-time delivery requirements, delays caused by customs procedures can have more pronounced effects on the assembly line than in the past; indeed, they can severely distort efforts to achieve efficiency in production. And although several specialised conventions have been set up to promote harmonisation, transparency and common rules for participating members established in the respective conventions (the Kyoto Convention, for example), most commitments are not binding and subject to a range of exceptions. These activities are generally referred to by the generic term 'trade facilitation'.

The non-binding nature of trade facilitation rules is a problem. A review of trade facilitation measures, currently underway in the WTO, should be seized as an opportunity to establish binding disciplines. A new generation of customs procedures is also required, in which trade information is given only once and shared electronically by the customs authorities concerned.

The global re-engineering of the entire production is eroding the perceived advantages of the traditional import-substitution approach by marginalising fragmented and relatively inefficient industries. Shielding production capacity – for cars or any other product – behind protection and fuelling it by artificial investment incentives is self-defeating: it contributes to growing excess capacity in global markets, with manufacturers the first to be adversely affected when optimistic projections of demand growth fail to materialise. And the industry should indeed consider the possibility of lower growth demand.

■ ■

Anti-competitive practices can have adverse effects on the ability of traders to expand in foreign countries. It is therefore important that the multilateral trading system begin to embrace a broad international perspective of competition policy. Efforts should be pursued towards establishing a global harmonisation of technical standards and certification procedures. It is important that developing economies join in these efforts. A new generation of customs procedures is overdue. And establishing binding disciplines in the area of trade facilitation in the WTO would facilitate trade yet further.

Demands that trade policies should reflect the concept of sustainable development are now being heard, and manufacturers and governments alike will have to take account of a growing range of social issues, including recycling, urban air-pollution, infrastructure congestion, land use and global warming. Co-operation between governments, unions, and automobile and auto parts manufacturers will be required to achieve a consensus on these issues while preserving the ability of the industry to continue making a strong contribution to world economic prosperity. ■

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Spotlight

Canada
Changes to the Tax System

Hannes Suppanz

Over the past two decades the Canadian tax system has undergone many changes, several of them in response to developments in the external economic environment that have been faced also by other OECD countries.[1] Others have been the result of broad reforms, such as those affecting income tax in 1988 and the sales tax in 1991; others yet have been more gradual, and were aimed at addressing fiscal realities or constraints that arose during that period. Now that the federal government has made considerable progress in tackling its budget deficit (which fell from almost 9% of GDP in 1984–85 to nearly zero), attention in Canada has turned again to tax issues, particularly since a 'fiscal dividend' is expected from possible budget surpluses in the near future. To begin with, such surpluses are unlikely to be large, but they could provide an opportunity for dealing with deficiencies in the tax system that have built up over time.

Three aspects of Canadian fiscal policy stand out in particular. First, globalisation and trade liberalisation, especially with the United States, have put pressure on policy-makers to streamline the tax system so as to allow the private sector to respond to competition from abroad. Second, unrelenting deficits (Canada has not run a budget surplus since the end of the 1960s) have brought about an enormous growth of public debt. That has put considerable strain on fiscal budgets and pushed up tax rates, creating not only 'tax fatigue' among the Canadian population but also an impetus for rationalising the tax system. Third, although the responsibility for raising revenue in Canada was traditionally shared with the provinces, it has become increasingly decentralised in recent years. The framework of tax harmonisation (both between the federal and the provincial governments, and between the provinces) has run into difficulties as a result, underlining the importance of provincial participation in any reform.

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Reducing Distortion

Measures implemented since the 1980s have addressed some of these issues. Reform has aimed at rationalising the tax system by broadening bases and bringing down rates, and more generally by reducing the extent to which it intrudes on economic decisions. The Canadian tax system is now less distortive than in the past. Compared with value-added taxes used elsewhere, the Goods and Services Tax (GST) has a very comprehensive base and ensures that traded products are treated neutrally on international markets.

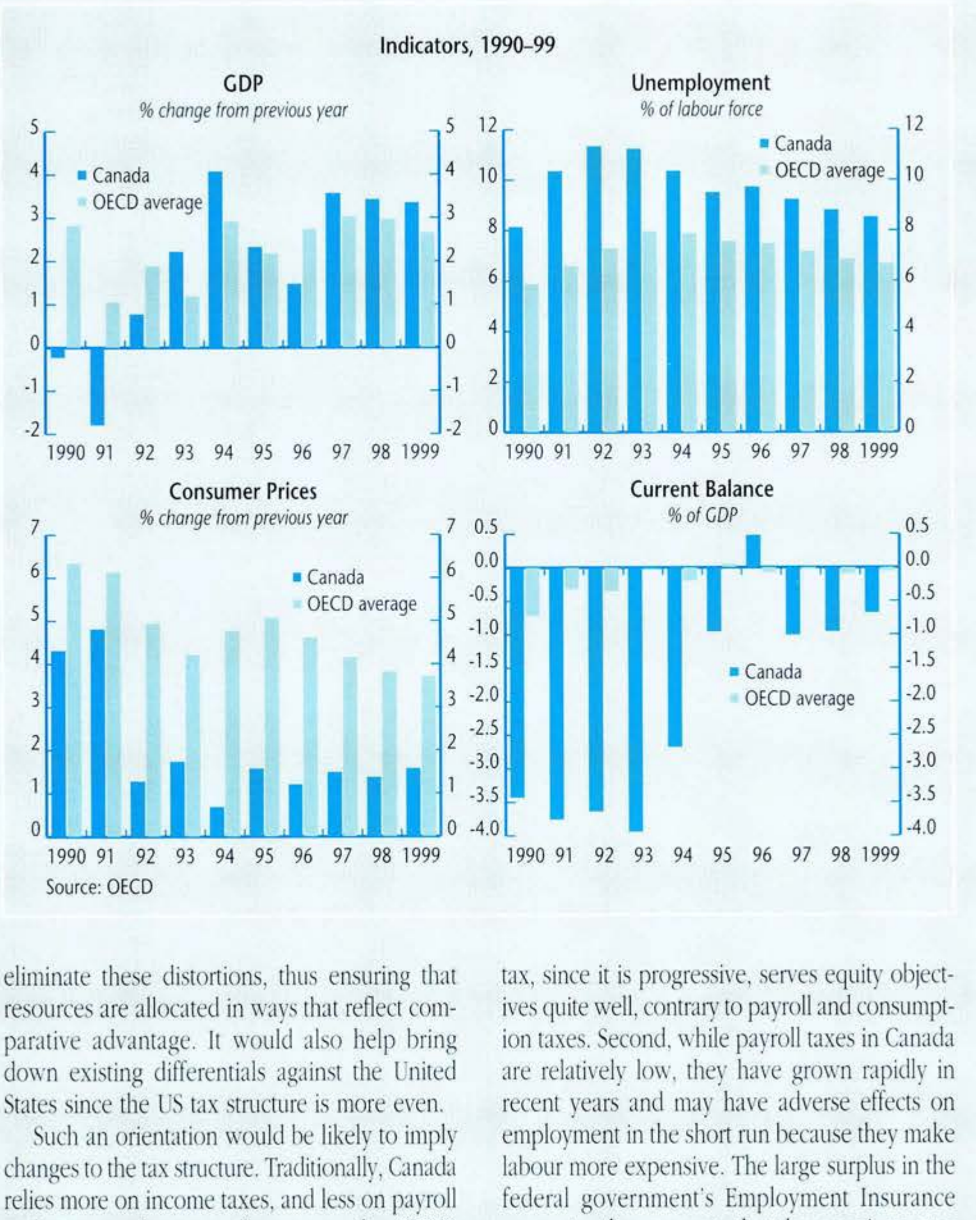
The personal income tax is also broadly based, with a limited number of brackets, reasonably generous treatment of retirement savings, and refundable tax credits at the bottom end. Yet, despite efforts to flatten the rate structure, the taxation of income has remained quite progressive, partly because federal and provincial authorities impose surtaxes. In addition, partial indexation has pushed more and more income into higher tax-brackets, reduced the real value of tax credits, and increased the liability for surtaxes. This 'bracket creep', although helping reduce the budget deficit, has tended to increase the tax burden. It is unwelcome also on the grounds of transparency and accountability. In the taxation of corporate income, preferential tax rates, imperfect capital deductions for different types of assets and the inability of corporate groups to file consolidated returns have combined to produce differential incentive effects across industries and activities (the resource sector, for example, is privileged). Further adjustments in the tax system are required to address these matters.

Coping with Competition

A highly open economy like Canada has to ensure that its private sector can respond to competitive pressures. Although personal income tax rates are close to the OECD average (despite their upward trend), they are quite high compared with the United States, which has drawn people at the upper end of the income scale – from the highly skilled and entrepreneurial portion of the workforce – south over the border. Some consideration should therefore be given to the adverse effects that high average income tax rates may have on the highly-skilled and entrepreneurial portion of the workforce, and to the negative consequences for economic performance of high and uneven marginal personal income tax rates. Refundable tax-credits for personal incomes can offer a cost-effective means to accommodate redistributive considerations without creating adverse incentives to work.

Business taxation is currently under review by a government committee which is mandated to consider options for reform. In view of the tax differentials between sectors and kinds of investments, making taxation more neutral would

1. ***OECD Economic Surveys: Canada**, OECD Publications, Paris, 1997.*



eliminate these distortions, thus ensuring that resources are allocated in ways that reflect comparative advantage. It would also help bring down existing differentials against the United States since the US tax structure is more even.

Such an orientation would be likely to imply changes to the tax structure. Traditionally, Canada relies more on income taxes, and less on payroll and consumption taxes, than many other OECD countries. Since payroll levies and consumption taxes are economically less distorting, it might be possible to change the tax mix without running the risk of putting Canadian businesses at a comparative disadvantage. But moving in that direction would not be easy. First, the income tax, since it is progressive, serves equity objectives quite well, contrary to payroll and consumption taxes. Second, while payroll taxes in Canada are relatively low, they have grown rapidly in recent years and may have adverse effects on employment in the short run because they make labour more expensive. The large surplus in the federal government's Employment Insurance account rather suggests that the premium rates should be lowered, and pension reform will tend to increase the burden of payroll tax in any case.[2] Third, increased reliance on consumption taxes would have the desired effects of making the tax system economically less distorting only if it involved a shift away from provincial sales taxes towards value-added taxes. More generally, any initiatives to change the tax mix risk being frustrated by offsetting developments in the provinces.

Some of the difficulties with the existing tax system do indeed originate from the provinces, which, together with the municipalities, account for about half of total tax revenues. Provincial retail sales taxes discriminate against goods relative to services, domestic relative to foreign products, and products using taxed business inputs (so far, only four provinces have adopted a VAT system). Further harmonisation of sales taxes is particularly important to reduce the distortions the current system is causing. Moreover, the additional burden on businesses through property and capital taxes is relatively high, and resource taxes vary widely across provinces. Federal and provincial income taxation is reasonably harmonised, but strains are apparent as provinces occupy more of the tax room while tax differentials tend to widen. As the two strata of government share the main kinds of taxation, any unilateral federal initiative could be readily undone by the provinces. A co-ordinated approach is therefore required to ensure that adjustments to taxation bring to the economy the benefits that are expected of them.

In summary, while the emerging 'fiscal dividend' is unlikely to allow broad-based tax cuts in the near future, there is scope for arresting the rise in the tax burden and making adjustments to the tax system which are likely to enhance both economic efficiency and fairness. In particular, there could be a move to fuller indexing the income tax system; to a more even marginal tax rate structure; to more neutrality in business taxation across sectors and activities; and to more harmonisation in indirect taxation. But most of these desirable initiatives require a co-ordinated approach between the various tiers of government. ■

2. *Hannes Suppanz, 'Canada – The Pension System: Options for Reform',* ***The OECD Observer****, No. 203, December 1996/January 1997.*

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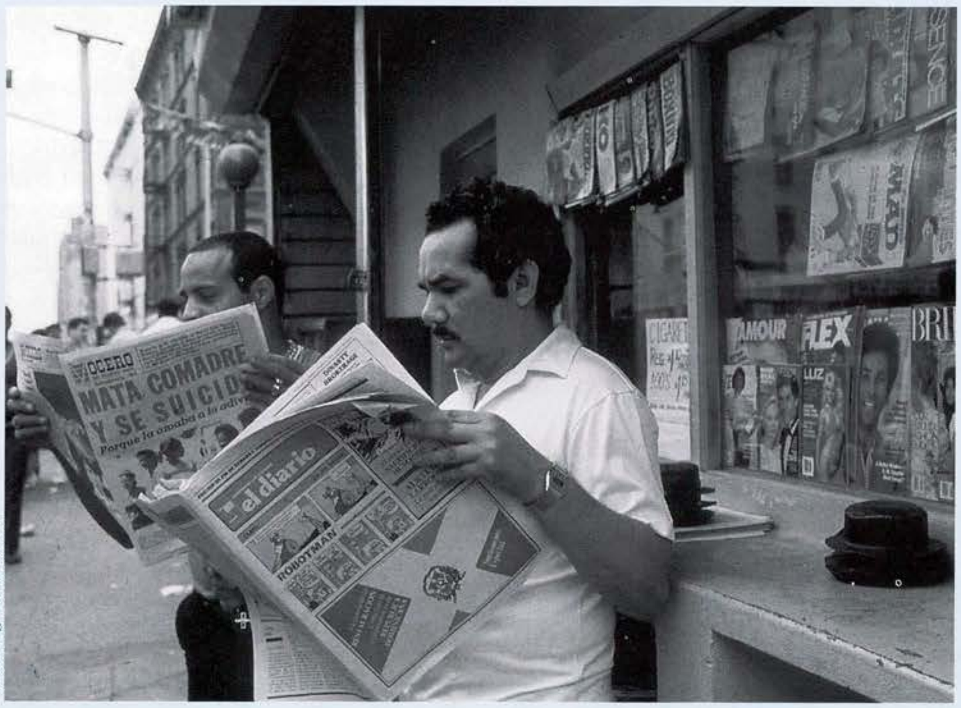
The United States Immigration

Peter Jarrett

'Give me your tired, your poor, your huddled masses yearning to breathe free...'. So reads the famous inscription on the Statue of Liberty in the harbour of New York City. The United States has long been the principal destination and the country of settlement for the world's emigrants. Immigration has taken place in waves, the arrival of the migrants – right back to the days of original European settlement – evoking mixed feelings among the peoples already established. But in time all these waves have been successfully integrated into US society, as the 'melting pot' has worked its ways. Institutions of all kinds – economic, political and social – have been set up in such a way as to allow new arrivals all the opportunity to succeed according to their individual capabilities and efforts. If any country can 'handle' immigration and benefit from it, it is surely the United States.[1]



G. Ludwig/Visum/Cosmos

Some Facts and Figures

Immigrants can be defined either as aliens admitted as lawful permanent residents or the foreign-born in the population, thereby including illegal immigrants and non-immigrants such as students and temporary workers transferred by their employers to the United States. Under the latter definition there are around 25 million foreign-born currently in the United States, a population share expected shortly to reach 10%. This is approximately double the lowest figure of the century, reached in 1970, but still well short of the 15% share attained in 1910. It is also well below the foreign-born shares of other destination countries such as Australia (around 22%) and Canada (nearly 16%). Recent annual inflows comprise more than a million immigrants (Figure), less an estimated 300,000 emigrants, with net migration averaging around 0.3% of the population per year, ninth out of 26 OECD countries for which data are available. In recent years inflows have accounted for about a third of total population increase, a rising proportion over the more distant past because of falling native fertility rates. Here, too, the United States also ranks well down the list of OECD countries, several of which (such as Greece and Italy) have been entirely reliant on immigration for population growth in the 1990s.[2]

Parallel to the rise in the numbers of immigrants over the past generation has been a shift in the distribution of source countries: whereas two thirds of the foreign-born in 1970 were from Canada and Europe and most resided in the North-east and the Mid-west, by 1990 that share had dropped to one quarter, and recent flows point to a further decline to around a sixth. In their place have come migrants from Latin America (especially Mexico) and Asia who, for

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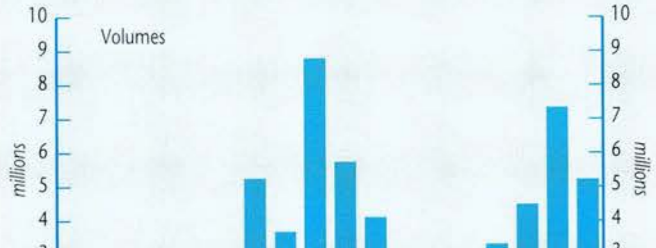
1. ***OECD Economic Surveys: The United States***, *OECD Publications, Paris, 1997.*

2. *See also pp. 21–24.*

Figure
US Immigration, 1821–1995



Source: US Department of Justice

the most part, locate in the South and the West, particularly California. There are now nearly 7 million Mexican-born people in the United States, about a quarter of all foreign-born, thus 2½% of the US population and 7½% of Mexico's. The United States is fairly unique in taking immigrants to such a substantial degree from countries with low per capita incomes, on average about 14% of US figures; other OECD countries' immigrants come from countries with per capita incomes more than triple that relative amount.

The importance of the distinction between migrants from developed and developing countries lies in the different amounts of skills and other characteristics they possess that are valued by the labour market. Although the 'quality' of immigrants has tended to rise in recent decades, the improvement has not matched that achieved by the native population, with the result that immigrants made up 20% of all those with less than 12 years of education in 1990, for example, even though the share of all immigrants with a college degree has risen steadily to more than one in four. The education gap is particularly marked for those from Mexico.

The result of these differentials in human capital as well as of difficulties in transferring skills, often compounded by a lack of proficiency in English, is seen in the labour-market outcomes of immigrants: although their labour-force participation rates are about equal to those of their native counterparts, their unemployment rates are higher on average, and the gap has widened over time, coinciding with the shift in source countries. The declining orientation towards high skills is reflected in the evolution of immigrants' occupational distribution, which shows less movement towards high-paid jobs (such as managerial and professional speciality workers) than that of natives. Relative earnings have deteriorated since 1970 as well, especially for those from Latin America who earn about 40% less on average than a typical native, and especially for those with the least education (Table).

Effects on the Host Economy

Economic theory points to a number of expected effects of immigration on the host economy, but because migrants are heterogeneous and they change as they assimilate over time, as does the institutional and policy framework, the reality is rather more complex than the neatness of theory. In the United States, native factors of production are believed to make small net gains in the aggregate (in the range of \$1–10 billion per year) as a result of immigration. But complementary factors – such as capital and, possibly, skilled labour – may gain more, while others, young unskilled workers in particular, could lose outright. The evidence is that the effects on the wages and employment of most native workers are small, although recent previous immigrants suffer more substantial losses. Yet attempts to show that these effects are larger in areas of heavy immigrant concentration have proved largely fruitless: even one-off migrations (such as the 1980 Mariel boatlift, for example, when 125,000 Cubans arrived in Miami, swelling the local labour force by 7%) have apparently had only the smallest of labour-market effects.

Increasing attention has been paid to the impact of immigration on the public finances, but even if immigrants fail to 'pay their way' in budgetary terms, their overall effect may still be advantageous. Although there is evidence of a growing 'welfare gap' – more of the foreign-born receive public assistance than natives and the average amount received is also larger – welfare provides an excessively narrow and static focus for the examination of fiscal effects. More forward-looking dynamic analysis shows that immigrants with at least a high-school education, especially those under 40, have favourable effects which exceed the costs of their less-educated counterparts, but that those gains are limited to the federal budget (as a result of immigrants' impact on the public pension scheme), states and localities being net losers, mainly because they bear the costs of compulsory education of larger immigrant families. But it may take up to 40 years after arrival until the net present value of an additional immigrant turns positive.

There is also a number of important noteworthy non-economic impacts from immigration. First, immigration generates substantial demographic effects. For example, if there had been no net immigration since 1950, the US population today would have been some 38 million (15%) lower. Similarly, future population numbers will be heavily influenced by the rate of immigration: shutting the door would reduce popu-

Table

Native and Foreign-born Populations in the United States, March 1994
%, except as indicated

		Foreign-born					
		Total	of which:	Arrived			
	Native		born in Mexico	before 1970	1970–79	1980–89	1990–94
Total (thousands)	237,184	22,568	6,264	4,974	4,781	8,311	4,502
Demographics							
• under 18 years old	28.4	11.0	15.2	..	1.8	14.8	26.1
• 65 years old and over	11.9	11.7	4.6	37.5	6.1	3.9	3.4
• female	51.2	50.7	45.7	56.5	51.5	47.3	49.6
• non-white	15.8	31.6	7.5	13.3	36.0	37.6	36.3
• of Hispanic origin	6.9	45.5	97.8	31.4	48.8	53.0	43.8
Educational attainment[1]							
• without high-school diploma	17.1	36.0	71.2	32.0	37.8	39.1	33.3
• with university degree	22.1	23.1	4.5	19.7	22.1	22.8	32.4
Labour-force status[2]							
• participation rate	65.8	62.7	66.3	49.9	70.8	69.5	55.3
• unemployment rate	6.8	9.1	11.1	5.6	8.4	7.0	12.2
Financial Status in 1993[2]							
• without income	6.0	13.6	20.4	4.2	10.6	15.6	26.9
• median per capita income[3] (dollars)	15,876	12,179	..	14,473	15,121	11,580	8,393
• in poverty[4]	14.4	23.0	36.0	10.8	16.3	26.4	37.3

.. not available.
1. 25 years old and over.
2. 16 years old and over.
3. For those with income.
4. Those living in households with incomes below official poverty lines.
Source: OECD

lation increase by 2050 from 124 million in the baseline case to a mere 44 million (although it would not prevent the share of the population of Asian and Hispanic ancestry from rising sharply in coming decades because of differences in expected fertility rates). Immigration also influences the median age of the population as the age of the typical immigrant is only 28. Modifying immigration rates allows variation in dependency ratios: higher immigration raises youth dependency but lowers old-age dependency even more. Higher immigration within a reasonable range can therefore attenuate the budgetary impact of the aging of the baby-boom generation.

Second, the 'melting pot' is still functioning since, as far as can be determined, immigrants do still assimilate, as seen by converging economic and scholastic outcomes; inter-marriage rates and neighbourhood segregation measures show a similar pattern. Furthermore, immigrants have made a disproportionate contribution to sciences, engineering and the performing arts if one measures their share of US Nobel laureates (over a quarter of the total) and other honours.

Lastly, it is very clear that public perceptions that immigrants, or at least foreigners, contribute disproportionately to crime are mistaken, as prime-age male non-citizens are incarcerated less than citizens with a similar profile.

What Implications?

The policy debate in the 1990s has been focused on the appropriate volume of legal immigration, on eligibility for public transfers and benefits, on the prevention of entry by illegal immigrants and on shortening the duration of non-immigrant visas. It has resulted in legislation which implements an income test for immigrant sponsors, increases the time that sponsors are deemed financially responsible for immigrants to five years, removes the eligibility of future immigrants for some welfare and food stamp benefits, doubles the size of the Border Patrol over five years and expedites the deportation process. But provisions which would have allowed states to refuse free public education to the children of illegal immigrants, eliminated preferences for siblings and most adult children of US citizens and imposed a long-term care insurance requirement were dropped.

The main issues that still have to be settled are whether to shift away from the principle of family reunification, possibly by adopting some sort of points-based system for selecting immigrants based on 'quality' criteria (such as Australia and Canada have recently adopted), and whether to further expand enforcement efforts – for example, by instituting a scheme to verify the immigrant's eligibility for employment. These questions are difficult, since they are essentially social and not economic choices. But moving to a points-based system may not make an enormous difference to the kind of immigrants selected, and stricter policing of the immigration laws may infringe individual privacy or liberty. The best strategy for reducing the attractiveness of illegally migrating to the United States is probably to pursue policies – freer trade in particular – which offer foreigners and their families a better chance to prosper in their native lands. ■

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Japan
Population Aging

Randall S. Jones

The rapid aging of Japan's population has important implications for saving, investment and economic growth.[1] Moreover, it creates additional pressure for public spending and calls into question the sustainability of the social-security system. The average age of Japan's population is already the second-highest in the OECD area after Italy and, by 2025, is projected to be the oldest. Concomitantly, as the number of elderly people has been rising, the number of youth has been falling, resulting in a decline in the working-age population since 1995. The population as a whole is projected to peak at 128 million in 2007 and then decline to around 100 million by 2050.

The aging of the population is the result of two important trends since the Second World War. First, the birth rate fell from 4.5 in 1947 to 2.1 in the 1960s, and further to only 1.5 in 1995. The decline reflects the large number of single women in the child-bearing age-group: about 30% of the women between 15 and 49 are not married, and the government projects that one out of seven women born in 1980 will never marry.[2] This may be due to the rising enrolment of women in higher education and their expanding job opportunities. Second, there has been a sharp fall in mortality rates in Japan, which now has the longest life-expectancy of all major industrial countries. The average life-expectancy for men increased from 50 years in 1947 to 76.4 years in 1995; that for women rose from 54 to 82.8 years over the same period.

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These demographic factors have a far-reaching impact on the economy. First, economic growth is likely to slow as the labour force declines. Second, with fewer workers and a smaller population, the volume of both business investment and residential construction is expected to fall. Third, saving may also decline, although perhaps by a smaller amount than investment, as there is little evidence that elderly Japanese 'dissave' (that is, run down their stock of assets). Although the full interaction of these developments is difficult to assess, it is possible that the private-sector saving-investment surplus may increase, suggesting that the current-account surplus is unlikely to decline unless there is a marked worsening in public finances.

Pressure on Budgets

Population aging will put considerable pressure on government expenditure from both rising pension benefits and increasing medical costs for the elderly. Japan has a two-tier public pension system. The first tier, a flat-rate benefit, is available to all residents; the second tier is for private-sector employees and the self-employed.[3] The contribution rate is 17.4% of basic earnings (excluding bonuses and overtime), split equally between employers and employees.[4] The benefits are somewhat higher than in the English-speaking countries, but they are markedly lower than those found in most of continental Europe. An important difference is that pensions are paid at a relatively early age in Japan despite its higher life-expectancy. Although the age of eligibility for the first-tier pension will be gradually increased from 60 to 65 by 2014, the second-tier pension will still be payable from age 60. Moreover, Japan's health-insurance system provides almost free medical services to people over 70.[5] The cost of providing such care for the elderly has increased sharply and now accounts for a third of total spending on medical care in Japan.

Table
Projected Pension Expenditure, 1995–2050
% of GDP

	1995	2020	2050
Australia	2.6	2.9	4.5
Canada	5.2	6.9	8.7
United Kingdom	4.5	5.1	4.1
United States	4.1	5.2	7.0
Average of above four countries	4.1	5.0	6.1
France	10.6	11.6	14.4
Germany	11.1	12.3	17.5
Italy	13.3	15.3	20.3
Spain	10.0	11.3	19.1
Sweden	11.8	13.9	14.5
Average of above five countries	11.4	12.9	17.2
Japan[1]	6.4	14.3	14.4

1. Based on national projections.
Source: OECD

Under present policies, the growth in spending on pensions will be more rapid in Japan

*1. **OECD Economic Surveys: Japan**, OECD Publications, Paris, 1997.*

2. The number of children born to single mothers is negligible in Japan, accounting for only 1.2% of all births.

3. Public pensions are supplemented by pensions or lump-sum retirement payments by firms, which cover almost 90% of private-sector workers.

4. This covers both the first- and second-tier systems. All other persons (that is, those who are not employees) between the ages of 20 and 60 make a flat-rate contribution to the first-tier system.

than in any other OECD country (Table). By 2020, total pension expenditures will be equivalent to about 14% of GDP, nearly triple the average in the English-speaking countries and above many of those in continental Europe. The increase in Japan will occur not only because there are more retired people but also because of a substantial rise in the average benefit paid as the pension system matures.[6] To meet these additional expenditures, the contribution rate would have to be raised to 34% of basic earnings by 2025. In addition to pensions, health-care costs for the elderly as a share of GDP may double, to 4%. If other forms of government spending remain constant as a share of GDP, total government expenditure would rise from 36% of GDP at present to around 44% in 2025 – in line with the overall OECD average projected for that year. In terms of national income, expenditures would reach 51%, passing the government's target of limiting total public spending[7] to half of national income.

Wagner/Saba-REA

Reform of the public pension system will be necessary to avoid this outcome. The most obvious move would be to raise the eligibility age for the second-tier pension to 65, bringing it into line with that for the flat-rate pension. Such a reform, which has already been adopted in many OECD countries, would reduce the projected rise in the contribution rate to about 28%. Another key reform would be to boost the investment income received by the state pension schemes. At present, most state funds are loaned at fixed rates to the government and used to finance unprofitable public enterprises and to provide credit to selected sectors at below market rates. Private-sector investment funds might manage the resources more efficiently, thus reducing the required increase in contribution rates. A third option would be to reduce benefits in order to limit the rise in contributions. Finally, the elderly could contribute much more to their health and nursing care expenses, given their relatively high incomes and wealth.

Achieving the dual objectives of assuring the well-being of the elderly and limiting the tax burden would be facilitated in the long term by accelerating the deregulation of the economy, thereby boosting real incomes, and by expanding the size of the labour force through the elimination of measures that discourage people from working. Phasing-out the reduction in pension benefits applied to the elderly who work and removing aspects of the social-security contribution system that discourage women from working would be beneficial. Yet measures to improve participation rates would not be enough to prevent the labour force from declining in the long run if the fertility rate remains as low as it is at present. Policies that reduce the cost to women of working and having families, such as better provision of maternity leave and improved child-care facilities for young children, might help raise the birth rate. ■

5. Recently, nominal user charges of ¥1,020 (roughly $9) per month and ¥710 ($6) per day for hospitalisation were imposed on those aged 70 and above (excluding the poor).

6. The average period for which contributions have been paid is rising by 1.5% annually.

7. The government's target is to limit the sum of all taxes, social-security contributions and the fiscal deficit, which is equivalent to total public expenditures minus non-tax revenues, to 50% of national income.

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Indicators

Definitions and Notes

Gross Domestic Product: *Volume series, seasonally adjusted except for Czech Republic and Portugal*
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 Australia, the United Kingdom and the United States*
Unemployment Rate: *% of civilian labour force – standardised unemployment rate; national definitions for Czech Republic, Iceland, Korea, Mexico, Poland, Switzerland and Turkey; seasonally adjusted apart from Turkey*
Interest Rate: *Three months, except for Greece (twelve months)*
.. not available
Source: **Main Economic Indicators**, *OECD Publications, Paris, November 1997.*

Australia

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q2 97	1.2	3.3
Leading Indicator	Sept. 97	0.3	4.5
Consumer Price Index	Q3 97	-0.4	-0.3
		current period	same period last year
Current Balance	Q2 97	-1.88	-3.47
Unemployment Rate	Sept. 97	8.5	8.7
Interest Rate	Sept. 97	4.72	6.91

Austria

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q4 95	0.0	0.3
Leading Indicator	Dec. 96	0.1	5.5
Consumer Price Index	Sept. 97	0.0	0.8
		current period	same period last year
Current Balance	Aug. 97	-0.10	0.04
Unemployment Rate	Aug. 97	4.5	4.4
Interest Rate	Oct. 97	3.73	3.32

Belgium

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q1 97	0.3	2.4
Leading Indicator	June 97	0.5	5.1
Consumer Price Index	Oct. 97	0.0	1.3
		current period	same period last year
Current Balance	Q2 97	3.70	3.64
Unemployment Rate	Aug. 97	9.6	9.8
Interest Rate	Oct. 97	3.80	3.00

Canada

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q2 97	1.2	3.7
Leading Indicator	Sept. 97	-0.2	9.4
Consumer Price Index	Sept. 97	-0.1	1.6
		current period	same period last year
Current Balance	Q2 97	-3.17	1.79
Unemployment Rate	Sept. 97	9.0	10.0
Interest Rate	Oct. 97	3.76	3.49

Czech Republic

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q2 97		1.2
Leading Indicator		..	..
Consumer Price Index	Sept. 97	0.6	10.3
		current period	same period last year
Current Balance	Q2 97	-0.85	-0.93
Unemployment Rate	Sept. 97	4.8	3.2
Interest Rate	Oct. 97	15.16	12.69

Denmark

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q2 97	1.4	3.1
Leading Indicator	Aug. 97	-3.9	-0.6
Consumer Price Index	Sept. 97	0.3	2.3
		current period	same period last year
Current Balance	Q2 97	0.42	0.91
Unemployment Rate	Aug. 97	6.3	7.0
Interest Rate	Oct. 97	3.90	3.60

Finland

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q2 97	3.5	6.2
Leading Indicator	Apr. 97	0.3	8.4
Consumer Price Index	Sept. 97	0.2	1.6
		current period	same period last year
Current Balance	Aug. 97	0.57	0.58
Unemployment Rate	Aug. 97	12.6	15.6
Interest Rate	Oct. 97	3.57	3.10

France

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q2 97	1.0	2.4
Leading Indicator	Sept. 97	1.0	6.3
Consumer Price Index	Sept. 97	0.2	1.3
		current period	same period last year
Current Balance	July 97	3.33	1.00
Unemployment Rate	Aug. 97	12.6	12.5
Interest Rate	Sept. 97	3.41	3.75

Germany

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q2 97	1.0	2.0
Leading Indicator	Sept. 97	0.8	9.9
Consumer Price Index	Sept. 97	-0.3	1.9
		current period	same period last year
Current Balance	Aug. 97	-2.85	-4.05
Unemployment Rate	Aug. 97	9.8	8.9
Interest Rate	Oct. 97	3.58	3.12

Greece

	period	% change from previous period	% change from previous year
Gross Domestic Product	1995		2.0
Leading Indicator	Sept. 97	0.0	3.1
Consumer Price Index	Sept. 97	1.7	4.9
		current period	same period last year
Current Balance	July 97	-0.45	-0.51
Unemployment Rate		..	..
Interest Rate	Oct. 97	11.30	12.30

Hungary

	period	% change from previous period	% change from previous year
Gross Domestic Product		..	..
Leading Indicator		..	..
Consumer Price Index	Sept. 97	1.4	18.0
		current period	same period last year
Current Balance		..	..
Unemployment Rate	Sept. 97	10.5	11.0
Interest Rate	Sept. 97	19.40	22.50

Iceland

	period	% change from previous period	% change from previous year
Gross Domestic Product	1996		5.2
Leading Indicator		..	..
Consumer Price Index	Oct. 97	0.3	1.9
		current period	same period last year
Current Balance	Q2 97	-0.04	-0.06
Unemployment Rate	Sept. 97	4.1	4.8
Interest Rate	Sept. 97	6.90	7.10

Ireland

	period	% change from previous period	% change from previous year
Gross Domestic Product	1995		10.7
Leading Indicator	Sept. 97	0.6	19.4
Consumer Price Index	Sept. 97	0.5	..
		current period	same period last year
Current Balance	Q1 97	-0.62	-0.31
Unemployment Rate	Aug. 97	10.7	11.8
Interest Rate	Sept. 97	6.17	5.69

Italy

	period	% change from previous period	% change from previous year
Gross Domestic Product	Q2 97	1.6	1.9
Leading Indicator	Sept. 97	1.4	9.6
Consumer Price Index	Sept. 97	0.2	1.4
		current period	same period last year
Current Balance	June 97	2.26	4.28
Unemployment Rate	July 97	12.8	12.0
Interest Rate	Oct. 97	6.65	8.02

Japan

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	-2.9	-0.3
Leading Indicator	Sept. 97	0.7	1.0
Consumer Price Index	Sept. 97	0.7	2.4
		current period	same period last year
Current Balance	Aug. 97	6.93	4.27
Unemployment Rate	Sept. 97	3.4	3.3
Interest Rate	Sept. 97	0.56	0.54

Korea

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	1.8	6.3
Leading Indicator		..	..
Consumer Price Index	Sept. 97	0.5	4.2
		current period	same period last year
Current Balance	July 97	-0.99	-2.34
Unemployment Rate	Aug. 97	2.3	2.0
Interest Rate	Aug. 97	12.70	14.80

Luxembourg

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	1995		3.8
Leading Indicator	Sept. 97	1.4	17.8
Consumer Price Index	Oct. 97	0.3	1.7
		current period	same period last year
Current Balance		..	..
Unemployment Rate	Aug. 97	3.8	3.3
Interest Rate		..	..

Mexico

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	4.5	8.9
Leading Indicator	Sept. 97	1.2	5.9
Consumer Price Index	Sept. 97	1.2	18.8
		current period	same period last year
Current Balance	Q2 97	-1.40	0.40
Unemployment Rate	Sept. 97	3.2	5.2
Interest Rate	Oct. 97	20.62	27.68

Netherlands

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	2.1	2.8
Leading Indicator	Sept. 97	0.1	4.4
Consumer Price Index	Sept. 97	0.9	2.6
		current period	same period last year
Current Balance	Q1 97	4.26	4.60
Unemployment Rate	July 97	5.6	6.4
Interest Rate	Oct. 97	3.58	2.89

New Zealand

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	1.4	2.8
Leading Indicator		..	..
Consumer Price Index	Q3 97	0.5	1.0
		current period	same period last year
Current Balance	Q2 97	-1.52	-0.45
Unemployment Rate	Q2 97	6.7	6.0
Interest Rate	Sept. 97	8.06	9.90

Norway

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	2.4	4.6
Leading Indicator	Sept. 97	0.2	5.9
Consumer Price Index	Sept. 97	0.4	2.3
		current period	same period last year
Current Balance	Q2 97	1.96	2.71
Unemployment Rate	Q2 97	4.4	4.9
Interest Rate	Oct. 97	3.97	5.04

Poland

	period	% change from previous: period	% change from previous: year
Gross Domestic Product		..	..
Leading Indicator		..	..
Consumer Price Index	Sept. 97	1.4	13.7
		current period	same period last year
Current Balance	Aug. 97	-0.14	0.06
Unemployment Rate	Sept. 97	10.7	13.6
Interest Rate	Sept. 97	22.87	18.63

Portugal

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q4 96	1.2	4.5
Leading Indicator	July 97	1.2	5.1
Consumer Price Index	Sept. 97	-0.1	1.8
		current period	same period last year
Current Balance	Q2 97	-0.71	-1.67
Unemployment Rate	Aug. 97	6.2	7.3
Interest Rate	Sept. 97	5.38	7.21

Spain

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	0.9	3.1
Leading Indicator	Aug. 97	0.2	4.6
Consumer Price Index	Sept. 97	0.5	2.0
		current period	same period last year
Current Balance	Aug. 97	1.02	1.26
Unemployment Rate	Aug. 97	19.8	21.9
Interest Rate	Oct. 97	5.12	6.85

Sweden

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	-0.1	1.3
Leading Indicator	Sept. 97	0.3	12.0
Consumer Price Index	Sept. 97	0.9	1.5
		current period	same period last year
Current Balance	Aug. 97	0.31	0.43
Unemployment Rate	Aug. 97	9.9	10.2
Interest Rate	Oct. 97	4.23	4.61

Switzerland

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	0.5	0.0
Leading Indicator	Sept. 97	0.3	11.4
Consumer Price Index	Oct. 97	0.0	0.3
		current period	same period last year
Current Balance	Q2 97	4.54	4.63
Unemployment Rate	Sept. 97	5.1	4.8
Interest Rate	Oct. 97	1.73	1.55

Turkey

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q1 97	2.6	6.5
Leading Indicator		..	..
Consumer Price Index	Oct. 97	8.3	93.2
		current period	same period last year
Current Balance	Q2 97	-0.81	-1.10
Unemployment Rate	Q2 96	6.3	7.2
Interest Rate		..	..

United Kingdom

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q2 97	1.0	3.6
Leading Indicator	Sept. 97	0.4	1.3
Consumer Price Index	Sept. 97	0.5	3.6
		current period	same period last year
Current Balance	Q2 97	1.45	1.05
Unemployment Rate	Aug. 97	6.8	8.1
Interest Rate	Oct. 97	7.25	5.94

United States

	period	% change from previous: period	% change from previous: year
Gross Domestic Product	Q3 97	0.9	4.0
Leading Indicator	Sept. 97	0.6	6.7
Consumer Price Index	Sept. 97	0.2	2.2
		current period	same period last year
Current Balance	Q2 97	-39.03	-35.59
Unemployment Rate	Sept. 97	4.9	5.2
Interest Rate	Oct. 97	5.65	5.41

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http://www/oecd.org/publications/observer/index.htm

Publications

September–October 1997

Order Form at the end of the issue

Agriculture, Fisheries, Food

The Uruguay Round Agreement on Agriculture and Processed Agricultural Products

October 1997

Trade in agricultural processed products has in recent years increased substantially as consumers demand more variety and new markets have emerged. Up to now analysis of the potential impacts of the Uruguay Round Agreement on Agriculture has primarily focused on trade in bulk commodities. But did processed agricultural products receive similar treatment to other less processed products in the Uruguay Round? This study attempts to shed light on these questions and related issues.

(51 97 12 1 P) ISBN 92-64-15580-5, 78pp.
FF125 US$25 DM37 £16 ¥2,650

Economies in Transition

Agricultural Policies in Transition Economies 1997 Monitoring and Evaluation

September 1997

This is the fifth annual report on agricultural policies in transition economies. It covers developments in 1996 in nine central and eastern European countries (CEECs), four New Independent States (NIS) of the former Soviet Union, and China. Three issues receive special attention: rural development policies, indicators of the economic performance of agriculture in transition economies, and agricultural trade policies. Macro-economic performance in the CEECs and NIS was mixed in 1996, and the fragility of some of the progress made during transition was revealed by setbacks in certain countries. Available statistics indicate that the 1995 recovery in agricultural output was not widely sustained in 1996. Gross agricultural output fell sharply in a number of CEECs, as did grain production. In the NIS there was a small overall decline in grain production, and livestock production continued to fall. In central and eastern Europe, the commitment of many countries to market-oriented agricultural policies remains ambiguous. Farm restructuring is progressing but more so in the CEECs – where privatisation and decollectivisation is now virtually complete – than in the NIS. Although a partial privatisation has been achieved in the NIS, especially in Russia, it has had a limited impact in practical terms and market-orientation of the agro-food has not yet developed. In conjunction with China's remarkable success in stabilising its economy with continuing rapid growth (nearly 10%), its agriculture sector also performed well in 1996, with a strong increase in livestock production and record grain output. However, agricultural price and marketing policies in China continue to be based on a mixture of economic incentives and administrative measures, resulting in confused price signals and distortions in resource allocation. Countries covered: Albania, Belarus, Bulgaria, China, Croatia, Estonia, Kazakstan, Latvia, Lithuania, Romania, the Russian Federation, Slovak Republic, Slovenia, Ukraine.

(14 97 08 1 P) ISBN 92-64-15587-2, 200pp.
FF190 US$37 DM56 £25 ¥4,000

Competition and Consumer Policy

Consumer Policy in OECD Countries 1995 1997 Edition

September 1997

What have been the main consumer policy developments in OECD countries in 1995? Consumers are a vital force in the economy, and they have come to constitute an increasingly active and organised group. This publication

10 Bestsellers

1. **Employment Outlook 1997**
   See **The OECD Observer**, No. 208, October/November 1997
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   (30 97 03 3), ISBN 92-64-05532-0, 666pp.
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   (61 97 17 3), ISBN 92-64-05524-X, 350pp.
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   (97 97 12 1) ISBN 92-64-15558-9, 153pp.
   FF180 US$35 DM55 £23 ¥4,140

7. **Parents as Partners in Schooling**
   See **The OECD Observer**, No. 208, October/November 1997
   (96 97 02 1) ISBN 92-64-15492-2, 210pp.
   FF150 US$30 DM44 £19 ¥3,150

8. **Energy Statistics and Balances of non-OECD Countries 1995/1996**
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   FF630 US$124 DM185 £81 ¥13,250

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   See **The OECD Observer**, No. 207, August/September 1997
   (03 97 03 1) ISBN 92-64-15484-1, 80pp.
   FF95 US$19 DM28 £12 ¥2,000

10. **Development Co-operation Report 1996**
    Efforts and Policies of the Members of the Development Assistance Committee
    1997 Edition
    (43 97 01 1) ISBN 92-64-15400-0, 291pp.
    FF180 US$35 DM53 £23 ¥3,800

examines the institutional developments and new legislation aimed at protecting their safety and economic interests, as well as measures to inform and educate them to play an active role in the marketplace.
(24 97 03 1 P) ISBN 92-64-15604-6, 148pp.
FF175 US$34 DM50 £23 ¥3,700

Development and Aid

Preventing Food Crises in the Sahel
Ten Years of Network Experience in Action
September 1997

After the serious drought in the Sahel in 1984, the Network for Food Crisis Prevention was set up by Club du Sahel partners in order to provide themselves with an informal discussion arena aimed at improving their ability to intervene in crisis situations. *Preventing Food Crises in the Sahel* traces the Network's contribution to improving prevention and management mechanisms. The experience is generally considered to be positive, but much remains to be done to ensure optimal food security and improve co-ordination of interventions. The succession of good harvests since 1985 is not a long-term solution to the food problem and does not strengthen the ability to intervene in a crisis. It is essential to implement a more effective prevention strategy. A special effort must be made to rationalise the different information systems, so that they can be taken over by national participants. These systems must be reconsidered and better adapted to national contexts, with more modest aspirations and more functional goals. Whereas official development assistance seems to be moving toward budgetary reductions, the book advocates rationalising aid and having operations increasingly overseen by nationals and locals. Adopting a regional approach is also a prerequisite for a more efficient prevention. In the case of food security, as elsewhere, it is time to adapt instruments to the problem rather than the converse, as is too often the case.
(44 97 01 1 P) ISBN 92-64-15406-X, 202pp.
FF90 US$18 DM26 £12 ¥1,900

Development Centre Studies

The EU and the Maghreb
October 1997

The European Union has long been concerned with the economic development of the Maghreb and has encouraged close economic relations through preferential trading regimes. The success of this policy is subject to debate, but in 1995 at the Barcelona Euro-Mediterranean conference, the EU changed tack by proposing a Mediterranean free trade area with the objective of preparing the Maghreb countries to deal with the shock of globalisation. This book argues that the Barcelona policy may by itself be insufficient in the absence of further initiatives designed to attract foreign investment into the Maghreb countries. It calls for financial and technical assistance to enable these countries to reform their economies. Although they are likely to encounter difficulties adapting from the EU preferential system, the long-term advantages to be gained from macroeconomic adjustment and liberalisation are substantial.
(41 97 13 1 P) ISBN 92-64-15617-8, 106pp.
FF95 US$19 DM28 £12 ¥2,000

Is China a 'Large Country'?
China's Influence on World Markets
September 1997

Though China might be a large country in terms of its size and population, in trade terms it is not, in the sense that its influence on world markets for grains and foodstuffs, energy, manufactures and capital is slight and will continue to be so for decades to come. This study measures the present and future weight of China in international trade and reaches the conclusion that its role will be less destabilising than is often thought. Those who foresee widespread disruption of the world economy leading from China's growth are taking a one-sided view which is not borne out by the evidence presented here. China is endowed with enormous natural resources and its potential supply could catch up with the growing demand resulting from higher income. Far from organising a policy response to any supposed threat from increased Chinese influence on markets, the publication argues that the policy implications for China's trading partners are not confrontational. Chinese outward-oriented growth offers an opportunity rather than a threat.
(41 97 12 1 P) ISBN 92-64-15609-7, 68pp.
FF60 US$12 DM18 £8 ¥1,250

Long-Term Growth

Long-Term Brazilian Economic Growth 1930/1994
October 1997

Brazil enjoyed virtually uninterrupted growth at often exceptional rates from the beginning of the century to 1980, thereafter suffering 14 years of stagnation. The underlying reasons for this extraordinary history are examined in this book. Growth occurred despite population increase, perverse income distribution, chronically poor economic policies and the least social progress among the six largest Latin American economies. But this growth took place behind closed doors in an economy where until the 1960s policies discouraged external trade and even then continued to restrain imports. The result was to stimulate rent-seeking whose beneficiaries, in turn, encouraged protectionist and isolationist policies. These policies worked as long as the internal market could function but were too inflexible when reform became inevitable, thus causing the collapse of the 1980s. This book makes recommendations which largely correspond to the policy orientations taken since 1993 and which, apparently, seem to be producing positive results.
(41 97 14 1 P) ISBN 92-64-15619-4, 136pp.
FF125 US$25 DM37 £16 ¥2,650

Gazette – Creditor Reporting System First Quarter 1997
Quarterly Report on Individual Aid Commitments
October 1997

This quarterly report provides the most up-to-date detailed information on individual commitments (intended disbursements) of Official Development Assistance (ODA) and Official Aid. The data are ordered by recipient countries, including Central and Eastern European countries and the New Independent States of the former Soviet Union. This issue records all the commitments reported by member countries of the OECD Development Assistance Committee and entered into the Creditor Reporting System (CRS) database in the period between 1 December 1996 and 28 February 1997. The information is designed for use by development agencies and institutions involved in country and sector programming and analysis.

Available on diskette only:
(43 97 51 3 D) ISBN 92-64-05249-6, 160pp., bilingual
FF65 US$12 DM18 £8 ¥1 400

Gazette – Creditor Reporting System Third Quarter 1997
Quarterly Report on Individual Aid Commitments
September 1997
(43 97 53 3 P) ISBN 92-64-05251-8 140pp., bilingual
FF65 US$12 DM18 £8 ¥1,400

Economy

Indicators of Tariff & Non-Tariff Trade Barriers 1997
Update
October 1997

The unique set of summary indicators of tariff and non-tariff trade barriers presented here should help to assess developments and trends in the international trading system. Updated figures highlight the effects of the Uruguay Round Agreement.
(11 97 03 1 P) ISBN 92-64-15665-8, 76pp.
FF130 US$25 DM38 £17 ¥2,750

Also available on CD-ROM:
(11 97 03 3 C) ISBN 92-64-05101-5
FF500 US$95 DM145 £60 ¥10,600

OECD Economic Surveys

Canada 1996/1997
1997 Edition
October 1997

See pp. 29–30 of this **OECD Observer**.
(10 97 01 1 P) ISBN 92-64-15427-2, 150pp.
FF125 US$25 DM40 £15 ¥2,900

1998 Subscription:
ISSN 0376-6438
FF1 800 US$385 DM550 £210 ¥38,500

Historical Statistics 1960/1995
1997 Edition
October 1997

The 1997 edition of *Historical Statistics* covers for the first time the Czech Republic, Hungary, Korea and Poland.
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FF195 US$38 DM57 £25 ¥4,100

Main Economic Indicators
October 1997
(31 97 10 3 P) ISBN 92-64-05225-9, bilingual
FF150 US$29 DM45 £19 ¥3,400

Main Economic Indicators
September 1997
(31 97 09 3 P) ISBN 92-64-05224-0, bilingual
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Monthly Statistics of Foreign Trade September 1997
Series A
September 1997
(32 97 09 3 P) ISBN 92-64-05208-9 130pp., bilingual
FF110 US$20 DM30 £12 ¥2,400

Foreign Trade by Commodities – Series C Volume 1 1995
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September 1997

Includes the OECD main country groupings (OECD-Total, NAFTA, OECD-Asia and Pacific, OECD-Europe and EU-15) as reporting groups. For each country, Series C shows tables relating to the SITC Sections and Divisions (one- and two-digit). Each table shows both imports and exports over the latest six-year period with about one hundred partner countries or country groupings (OPEC, etc.).

(34 96 01 3 P) ISBN 92-64-05240-2 456pp., bilingual
FF600 US$110 DM175 £75 ¥13,800

Education

Post-compulsory Education for Disabled People

October 1997

Post-compulsory education and training is now essential for employment in a competitive labour market. Although this should apply as much to disabled people as it does to the non-disabled, the disabled remain significantly under-represented in post-compulsory education and employment. This realisation is prompting many OECD countries to extend current provision to treat students with disabilities equitably. In spite of islands of good practice the overall picture reveals the importance of substantial improvements in many areas. First of all, the criteria used to define disabilities vary considerably from one country to another. A common conceptual framework should be adopted to facilitate data collection and make international progress in this field traceable. Issues such as the opportunities offered to the disabled students, the evaluation of the education they receive, the support structures available, and the training of teachers have to be addressed in most countries. This book brings together surveys of recent developments in both policy and practice based on reports provided by 12 countries: Australia, Canada (British Columbia and Quebec), Finland, France, Iceland, Ireland, Italy, the Netherlands, Norway, Spain, Sweden and the United Kingdom. Specific recommendations are made for each country and examples of particular issues identified as points of action are itemised in the text as 'ways forward'.

(96 97 06 1 P) ISBN 92-64-15601-1, 90pp.
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Energy

International Energy Agency (IEA)

Oil, Gas, Coal and Electricity Second Quarter 1997 Quarterly Statistics

October 1997

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FF350 US$70 DM100 £43 ¥7,700

Energy Prices and Taxes Second Quarter 1997

October 1997

(62 97 04 1 P) ISBN 92-64-15372-1
FF350 US$70 DM100 £42 ¥7,700

Energy Policies of IEA Countries

Turkey

October 1997

This IEA report provides a comprehensive in-depth assessment of the energy policies of Turkey, including recommendations on future policy developments. It includes a description of oil and gas pipeline projects in Turkey and the Caspian area. Turkey's energy consumption is increasing rapidly; large investments are needed to meet demand growth. Plans to attract private investment, particularly in the electricity sector, require the establishment of a stable legal framework and further progress in market reform. Additional steps in pricing policy are required to ensure that energy prices cover the costs of investment. The IEA also recommends that Turkey's new regulatory framework be designed to encourage investment in natural gas. This report is part of a series of periodic in-depth reviews of IEA countries conducted on a four-year cycle. Short reviews of energy policy developments in all 24 countries are published annually in *Energy Policies of IEA Countries*.

(61 97 24 1 P) ISBN 92-64-15605-4, 140pp.
FF210 US$40 DM62 £27 ¥4,400

Nuclear Energy Agency (NEA)

Modelling in Aquatic Chemistry

September 1997

This publication contains guidelines on how to use the NEA-recommended TDB values, and on procedures to estimate values for cases where none can be recommended based on published experimental work. Each subject is introduced in an elementary way, including simple examples, so that an expert knowledge in the various subjects is not required. The text contains the scientific background, and references, to the various subject areas, and is therefore a reference source also for the experts working with modelling of aquatic systems. Some of the chapters are intended as guidelines for the chemical equilibrium modelling of aquatic systems, such as ionic strength and temperature corrections. Other chapters are intended to introduce the reader to non-equilibrium modelling: mass transfer between phases and transport of solutes in aquatic systems.

(66 97 07 1 P) ISBN 92-64-15569-4, 800pp.
FF950 US$185 DM278 £122 ¥20,000

NEA Newsletter Volume 15 1997 No. 1

September 1997

(68 97 01 1 P) ISBN 92-64-15396-9, 46pp.
FF90 US$18 DM26 £11 ¥2,100

OECD Proceedings

In-core Instrumentation and Reactor Core Assessment

October 1997

Information on the conditions in the reactor core is essential for the safe and economic operation of nuclear reactors. These proceedings review improvements in the methods used to gather and interpret this information. An international selection of contributions from industry and research laboratories cover radiation sensors, safety analysis, system and validation, other miscellaneous measurements, core monitoring and core performance.

(66 97 09 1 P) ISBN 92-64-15616-X, 426pp.
FF295 US$58 DM86 £38 ¥6,200

Environment

Agriculture, Pesticides and the Environment Policy Options

October 1997

Which options exist for agricultural policy and pesticide policy to influence the amount of pesticides used, their manner of application and, consequently, their environmental impacts? This publication presents possible answers on the basis of a synthesis of conceptual work and empirical studies prepared by the major experts in the field. It includes experiences from country case studies on Australia, France, Italy, Japan, Sweden, the United Kingdom and the United States. On the basis of best practice, in-depth policy analysis and likely future trends a series of suggestions for policy improvements are provided. Although the importance of continuing to improve the regulation of pesticides is recognised, these suggestions include also the reduction of financial incentives that lead to increased pesticide use, the improvement of information gathering, the consideration of new developments in application equipment, information technology and bio-engineering, the strengthening of regulation and approval processes through more differentiated procedures and the application of market-based approaches (eco-labelling or the certification of pesticide consultants) where possible.

(97 97 20 1 P) ISBN 92-64-15673-9, 70pp.
FF80 US$16 DM23 £10 ¥1,700

Environmental Performance Reviews

Finland

September 1997

This report is part of the OECD Environmental Performance Review Programme which conducts peer reviews of environmental conditions and progress in each member country. It scrutinises efforts to meet both domestic objectives and international commitments. Evaluating progress in reducing the pollution burden, improving natural resource management, integrating environmental and economic policies, and strengthening international co-operation is also central to these reviews. The analyses presented are supported by a broad range of economic and environmental data. Environmental performance reviews of Austria, Bulgaria, Canada, France, Germany, Iceland, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, the United Kingdom and the United States have already been published.

(97 97 16 1 P) ISBN 92-64-15593-7, 145pp.
FF180 US$35 DM55 £23 ¥4,140

Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories

September 1997
(97 97 15 1 P) ISBN 92-64-15578-3
FF950 US$187 DM278 £123 ¥20,000

OECD Environmental Data Compendium 1997 Edition

September 1997
As international concern about global environment and sustainable development becomes more pressing, government, business and the public all require reliable and harmonised data on the environment, including the ways in which it is affected by economic activity. The *Compendium*, revised every two years, presents data linking pollution and natural resources with activity in such economic sectors as energy, transport, industry and agriculture, showing the state of air, inland waters, wildlife, etc., for OECD countries.
(97 97 19 3 P) ISBN 92-64-05539-8 300pp., bilingual
FF260 US$50 DM76 £34 ¥5,500

Financial, Fiscal and Enterprise Affairs

Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations

October 1997
(23 97 63 1 P) ISBN 92-64-15670-4, 216pp.
FF345 US$65 DM99 £40 ¥7,130

Bank Profitability 1997
Financial Statements of Banks

October 1997
Statistics on the Czech Republic, Hungary, Korea, New Zealand and Poland are included for the first time.
(21 97 07 3 P) ISBN 92-64-05534-7 352pp., bilingual
FF395 US$78 DM116 £51 ¥8,300

Revenue Statistics 1965/1996 1997 Edition

October 1997
Data on government-sector receipts, and on taxes in particular, are basic inputs to most structural economic descriptions and economic analyses and are increasingly used in international comparisons. This annual publication gives a conceptual framework to define which government receipts should be regarded as taxes and to classify different types of taxes. It presents a unique set of detailed and internationally comparable tax data in a common format for all OECD countries from 1965 onwards.
Diskette version:
(23 97 03 3 D) ISBN 92-64-05102-3, bilingual
FF760 US$145 DM225 £97 ¥16,000

Labour Market and Social Issues

Quarterly Labour Force Statistics Third Quarter 1997

October 1997
(35 97 03 3 P) ISBN 92-64-05230-5, bilingual
FF90 US$18 DM29 £11 ¥1,900

OECD Jobs Strategy

Implementing the OECD Jobs Strategy
Member Countries' Experience

September 1997
See pp. 5–10 of this **OECD Observer**.
(11 97 02 1 P) ISBN 92-64-15596-1, 162pp.
FF150 US$30 DM44 £19 ¥3,150

OECD Jobs Strategy

Making Work Pay
Taxation, Benefits, Employment and Unemployment

September 1997
The tax and benefit system is often blamed for causing unemployment. If taxes on work are too high, jobs will be lost. When benefits to the unemployed are too high, they will not search for work. Badly-designed tax and benefit systems too often leave those working with little more than they would receive were they unemployed. If work does not pay, people will be reluctant to work. In this study, recommendations are made on how tax and benefit systems should be reformed. Innovative programmes, such as in-work benefits and earned-income tax-credits, can help ensure that there is always an incentive to work. Many new schemes have been introduced in OECD countries which encourage part-time work; reduce uncertainty over future incomes; or ease the transition from unemployment to work. New databases allow these reforms to be evaluated and potential reforms to be examined in detail.
(21 97 09 1 P) ISBN 92-64-15666-6, 100pp.
FF95 US$19 DM28 £12 ¥2,000

Social Policy Studies

Family, Market and Community
Equity and Efficiency in Social Policy, No. 21

September 1997
Social policy is under pressure in OECD countries because of concerns about public finances and changing work and family patterns. Over recent decades, social-protection systems have successfully provided individuals and families in need with income support and access to services. But policies which worked well when they were first introduced, sometimes 50 years ago, may now be protecting the wrong people against the wrong risks. How can labour-market and social exclusion be tackled? How can those with low skills be helped to get a job and generate incomes to meet the requirements of their families? How can one broaden the sources of income for those who are retired and ensure that those requiring long-term care services receive the right package of care? This publication examines new policy strategies intended to protect people against distress over the life-cycle. These strategies have to be equitable while promoting economic efficiency.
(81 97 04 1 P) ISBN 92-64-15557-0, 234pp.
FF180 US$35 DM53 £23 ¥3,800

Public Employment Service Belgium

September 1997
Faced with high and persistent unemployment for many years, Belgium has gained considerable experience in devising and implementing innovative and complex labour-market programmes. These have not, however, achieved a significant reduction in unemployment. How can the Public Employment Service (PES) best be mobilised to help the unemployed find jobs rapidly? In Belgium the problem is compounded by the fact that responsibility for the three basic functions of the PES – administering unemployment benefits, providing counselling/placement services and referring job-seekers to active labour-market programmes – is shared between the federal authorities and the three Regions. This publication presents a range of options for improving and supplementing existing systems and co-ordinating the action of all the institutions concerned.
(81 97 01 1 P) ISBN 92-64-15496-5, 80pp.
FF95 US$20 DM28 £12 ¥2,000

Labour Force Statistics 1976/1996 1997 Edition

September 1997
This publication provides data for the short-term evolution of major labour force components and employment by sector. The most recent available figures are indicated for the following countries: Australia, Austria, Canada, the Czech Republic, Finland, France, Germany, Hungary, Italy, Japan, Korea, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.
(30 97 05 3 P) ISBN 92-64-05536-3 530pp., bilingual
FF495 US$97 DM145 £64 ¥10,400

Economies in Transition

Labour Market Policies in Slovenia

October 1997
Slovenia, previously the richest republic in the former Yugoslavia, has maintained its relative economic standing and now enjoys the highest living standards of all transition countries in Central and Eastern Europe. Nevertheless, its economy is still burdened by difficult structural problems inherited from the past. Real wages are relatively high, and the unemployment rate is close to the OECD average. This report offers a critical analysis of the role of labour-market policies in Slovenia's transition. It suggests that a change in policy emphasis towards a bolder pace of industrial restructuring is now justified. Labour market and social policies should not delay change, but rather facilitate and promote it.
(14 97 09 1 P) ISBN 92-64-15606-2, 78pp.
FF95 US$19 DM28 £12 ¥2,000

Public Management

Managing Across Levels of Government

October 1997
Relations between different strata of government are complex and in a constant state of change. This reflects the many, often opposing, pressures influencing the distribution of functions, powers and resources across tiers of administration. Managing these relations is an increasingly important and challenging aspect of public sector governance. This publication breaks new

ground by mapping out, in broadly comparable terms, the current situation in 26 OECD countries (covering both federal and unitary systems). Key questions raised include how to ensure coherent national strategies; remove unnecessary duplication and overlap; obtain better value for taxpayers' money; make services more responsive to local requirements; and empower citizens to participate more in decision-making. The implications of changing patterns of responsibility, in particular for central management agencies, are explored in terms of control, accountability, co-ordination and consultation.
(42 97 03 1 P) ISBN 92-64-15575-9, 420pp.
FF250 US$49 DM73 £32 ¥5,250

Trends in Public Sector Pay in OECD Countries 1997 Edition

October 1997

The reform of pay determination systems has been completed in some OECD countries. Attention naturally focuses on the procedures which the governments there have developed to carry out the reforms, and on the results obtained, particularly as the reforms have a positive impact on holding down public expenditure. Some countries which have retained relatively centralised systems of pay determination have also succeeded in controlling their wage bills. Comparative analysis of public-sector pay-determination systems in OECD countries illustrates the wide variety of methods of determining public sector remuneration and shows that each country adapts the instruments available to its own institutional structure and economic and social constraints. Those countries which have not opted for radical change are taking a phased, pragmatic approach, lending weight to the view that reform of pay determination systems is extending to all OECD countries.
(42 97 07 1 P) ISBN 92-64-15582-1, 126pp.
FF165 US$32 DM48 £21 ¥3,450

The OECD Report on Regulatory Reform Vol. I – Sectoral Studies; Vol. II – Thematic Studies

October 1997

The 11 sectoral and thematic studies on regulatory reform published in these two volumes were prepared by the OECD as background to *The OECD Report on Regulatory Reform*, published separately. *The Report on Regulatory Reform* was welcomed by ministers of OECD countries in May 1997, who agreed to work to implement its recommendations in their countries. This work demonstrates the benefits that can flow from a successful regulatory reform programme. These 11 studies assess the latest developments and results of regulatory reform in OECD countries in: telecommunication services, financial services, professional business services, electricity, agro-food, and product standards and conformity assessment. The thematic studies assess the economy-wide effects of regulatory reform; impacts on competition and consumers; industrial competitiveness and innovation; regulatory quality and public sector reform; and market openness. Each study concludes with lessons learned in OECD countries for successful regulatory reform.
(42 97 04 1 P) ISBN 92-64-15519-8
FF240 US$47 DM70 £31 ¥5,050

The OECD Report on Regulatory Reform Synthesis Report

September 1997

Regulatory reform has produced substantial economic and social benefits for citizens, as demonstrated by the varied experiences of OECD countries distilled in this report presented to OECD ministers in May 1997. Regulatory reform that enhances competition and reduces regulatory costs can boost efficiency, sharply reduce prices, stimulate innovation, and improve the ability of economies to adapt to change and remain competitive in global markets. Properly done, regulatory reform also can help governments promote other important policy goals, such as environmental quality, health, and safety. Finally, country experience shows that disruptions which can accompany reform can be addressed by complementary policies and actions. In this Report, the OECD calls for renewed attention to regulatory reform, and the recommendations in this Report constitute an ambitious plan for action. In May 1997, Ministers of OECD countries welcomed this Report and agreed to work to implement its recommendations in their countries.
(42 97 05 1 P) ISBN 92-64-15556-2, 65pp.
FF35 US$7 DM10 £5 ¥750

In Search of Results Performance Management Practices

September 1997

OECD governments are in search of results. Improved performance of the public sector is a central factor in maintaining welfare of individuals and the competitiveness of the economy. A results focus promotes accountability and is a key element in creating and maintaining confidence in government. Performance management is the key aspect of public-sector reforms of many OECD member countries. Performance management encompasses a set of reforms under which public organisations are given increased managerial autonomy in exchange for accountability for results. They are required to define objectives and targets, and measure and report actual results. Performance information is used to improve public priority setting and programmes. Relationships within the public sector and between the government and the public are based on clearer accountability for performance. This publication describes and analyses performance management developments in ten OECD countries: Australia, Canada, Denmark, Finland, France, the Netherlands, New Zealand, Sweden, the United Kingdom and the United States. It demonstrates that while a wide range of approaches and instruments has been developed there is considerable convergence in the way they are used.
(42 97 02 1 P) ISBN 92-64-15574-0, 157pp.
FF170 US$33 DM50 £22 ¥3,600

Public Management Occasional Papers

Co-operative Approaches to Regulation No. 18

September 1997

The Public Management Occasional Papers are specialised reports prepared for the work of the OECD's Public Management Committee. Governments today face a complex and evolving set of problems arising in part from globalisation, technological change and rapid social change. In this more demanding and dynamic environment, many traditional instruments such as command-and-control regulation are diminishing in effectiveness and efficiency. Inflexible and detailed regulations also often conflict with other priorities, such as the importance of competitive and innovative economies. Therefore governments are now looking for new ways to address economic and social problems. In many countries a new concept is emerging: the concept of shared responsibility between governments and businesses. Governments and businesses are seeing the desirability of co-operation and partnership, rather than confrontation and adversarial relations. Increasingly, governments and businesses, often represented by business federations, are engaged in dialogue to find more effective and efficient solutions to conflicts between public and private interests, solutions in which multiple public and private bodies set goals, identify solutions, and monitor outcomes. This Occasional Paper contains case studies on different strategies of public/private co-operation from Canada, the Netherlands, the United Kingdom and the United States.
(42 97 68 1 P) ISBN 92-64-15567-8, 60pp.
FF45 US$9 DM13 £6 ¥950

Science, Technology and Industry

The Steel Market in 1996 and the Outlook for 1997 and 1998 1997 Edition

October 1997

This annual publication analyses the world steel market. Statistical tables provide the most up-to-date figures and the short-term outlook showing developments in the world steel market by area, and the main characteristics, apparent consumption, trade and production, as well as volumes of employment in the OECD area. World steel consumption, which had risen since 1993, remained steady in 1996, declining by only 0.2%. Steel demand in the OECD area fell by 3.6% and crude steel production declined by 2.1%. In 1997, world steel demand should start to rise again at a steady rate of slightly over 3% and in the OECD area steel consumption should go up by 1.7%. The upward trend should continue in 1998 when growth in steel consumption in the OECD area may be about 3.8%.
(58 97 02 1 P) ISBN 92-64-15613-5, 42pp.
FF100 US$20 DM29 £13 ¥2,100

Science, Technology Industry Review 1997 No. 20

October 1997

What are the challenges that government policy makers will face with the growth of the Global Information Infrastructure and the emergence of a Global Information Society? What are the essential driving forces behind these phenomena, and how can governments encourage the rapid diffusion of new

technologies and ensure that the benefits of these are as socially equitable as possible? What reforms can they introduce to facilitate the economic development of new, network-based and content-rich multimedia services? In particular, what kinds of intellectual property rights are appropriate for a society in which information is becoming the key economic resource in global production and distribution systems? These are some of the questions forcefully addressed in this issue of the STI Review. An Appendix provides a set of policy recommendations for the Global Information Infrastructure-Global Information Society, approved by OECD Ministers in June 1997.
(90 97 20 1 P) ISBN 92-64-15380-2, 180pp.
FF160 US$32 DM47 £20 ¥3,700

OECD Proceedings

Indicators of Industrial Activity Third Quarter 1997
October 1997
(37 97 03 3 P) ISBN 92-64-05234-8 130pp., bilingual
FF120 US$25 DM34 £15 ¥2,600

Biotechnology for Water Use and Conservation
The Mexico '96 Workshop
September 1997
(93 97 05 1 P) ISBN 92-64-15594-5
FF395 US$78 DM116 £51 ¥8,300

Industrial Structure Statistics 1995
1997 Edition
September 1997
(70 97 02 3 P) ISBN 92-64-05527-4 460pp., bilingual
FF425 US$84 DM125 £55 ¥8,950

Also available on diskette:
(70 97 02 3 D) ISBN 92-64-05098-1, 134pp., bilingual
FF1,900 US$360 DM560 £240 ¥40,000

Activities of Foreign Affiliates in OECD Countries 1985/1994
Statistical Data 1997 Edition
September 1997
This publication gives for the first time detailed data on the performance of foreign affiliates in the OECD countries (inward investment). In a period of globalisation of the economy these data show the increasing importance of foreign affiliates in the economies of host countries, particularly in production, employment, value added, research and exports. The data also show that foreign affiliates pay wages well above the average wages in national firms, and that in most cases labour productivity growth is higher than that of national firms. Numbers of employees are growing faster than those of national firms, which in several countries are tending to fall.

These data give a measure of the impact of foreign direct investment on the economies of host countries. From this standpoint, they provide vital backup for data on direct investment flows.
(92 97 06 3 P) ISBN 92-64-05522-3 273pp., bilingual
FF350 US$69 DM103 £45 ¥7,350

Also available on diskette:
(92 97 06 3 D) ISBN 92-64-05078-7, bilingual
FF1,200 US$207 DM356 £128 ¥25,000

Territorial Development

OECD Proceedings

Entrepreneurship and SMEs in Transition Economies
The Visegrad Conference
September 1997
(14 97 07 1 P) ISBN 92-64-15611-9, 200pp.
FF140 US$28 DM40 £18 ¥2,950

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Transport

Road Transport Research

Road Safety Principles and Models
October 1997
This review deals with safety research and analysis and how scientific results can be transferred into effective accident countermeasures. Together with the analytical report published separately, it is the outcome of a two-year study by a high level group of safety experts. It provides guiding principles for the use of a set of safety models in managing integrated transport systems
(77 97 05 1 P) ISBN 92-64-15623-2, 84pp.
FF95 US$19 DM28 £12 ¥2,000

Integrated Safety/ Environment Strategies
October 1997
Is the current transport system sustainable? Achievements in mobility have come at some considerable environmental, social and economic costs. The challenge is to meet high road safety standards and critical transport requirements. The report, prepared by a Scientific Expert Group, is based on an international survey of the experience of OECD countries focusing on the integration of safety and environmental aspects in urban and transport planning. Sectoral indicators and evaluation frameworks are reviewed. Results from some 40 case studies in OECD countries are assessed dealing with major infrastructure, corridor management, land use planning, standards and regulations, and economic policies. The Expert Group emphasises the importance of integrating safety and environmental strategies and defines the areas of conflict and convergence.
(77 97 06 1 P) ISBN 92-64-15664-X, 98pp.
FF110 US$22 DM32 £14 ¥2,300

43rd Annual Report – Activities of the Conference
Documents Approved by the Council of Ministers of Transport in 1996
September 1997
Describes the activities of the European Conference of Ministers of Transport during 1996 and sets out the Resolutions and Reports approved by the Council of Ministers of Transport during that year. The organisation chart of the Conference is also given.
(75 97 03 1 P) ISBN 92-82-11222-5, 275pp.
FF280 US$55 DM82 £36 ¥5,900

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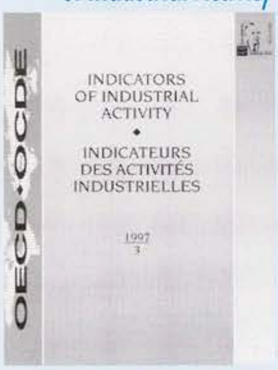

This publication provides an overall view of short-term economic developments in different industries for all OECD countries. It presents indices of output, deliveries, new orders, unfilled orders, prices and employment. The statistics are classified by major division, major group and group of economic activity following the international standard industrial classification (ISIC). Various qualitative data from business tendency surveys carried out in OECD countries are also included.

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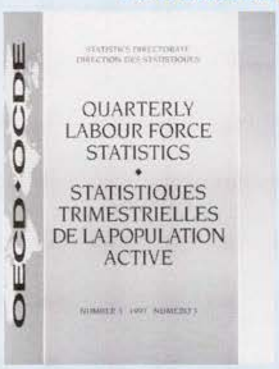

This quarterly bulletin provides data for the short-term evolution of major labour force components and employment by sector.

Detailed annual statistics on population, labour force, employment and unemployment, disaggregated by sex, employment status and kind of activity are available in this publication. It also provides participation and unemployment rates by sex and detailed age groups. Data are available for each OECD country and for all OECD, OECD-Europe and the European Union.

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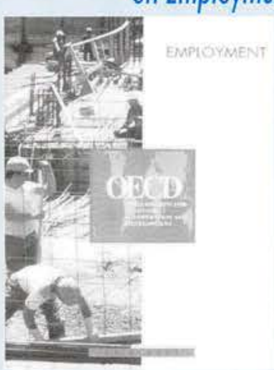

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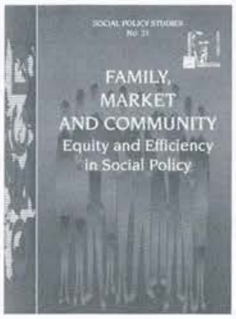

SOCIAL POLICY IS UNDER pressure in OECD countries because of concerns about public finances and changing work and family patterns. Over recent decades, social-protection systems have successfully provided individuals and families with income support and access to services. But policies which worked well when they were first introduced, sometimes fifty years ago, may now be protecting the wrong people against the wrong risks. How can labour-market and social exclusion be tackled? How can people with low skills be helped to get a job and generate incomes to meet the requirements of their families? How can the sources of income for those who are retired be broadened and those requiring long-term care services be sure they receive the right package of care? This publication examines new policy strategies intended to protect people against distress over the life-cycle. These strategies have to be equitable while promoting economic efficiency.

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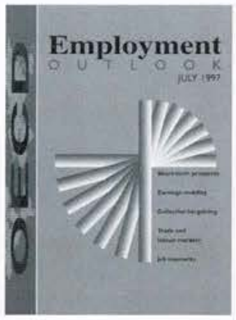

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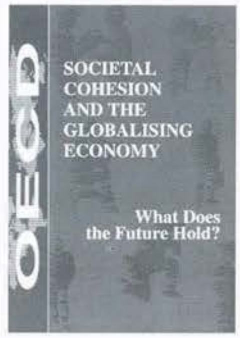

AS ECONOMIC GLOBALISATION runs its seemingly relentless course, the demands on OECD economies' flexibility are set to increase still further in the years to come. What kind of society will be able to cope with these pressures? How much and what kind of adaptability will be required of individuals, institutions and enterprises? What forces will hold OECD societies together in an environment shaped by intense international competition and fast-moving technological change? This publication looks into the prospects for societal cohesion in tomorrow's world. It assesses the long-run implications of continuing with the current set of policies, and examines ideas that may help societies strike a sustainable balance between economic flexibility and a cohesive social fabric.

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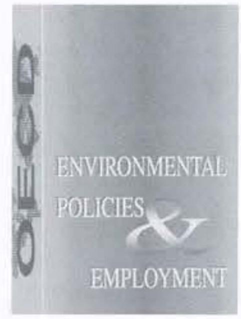

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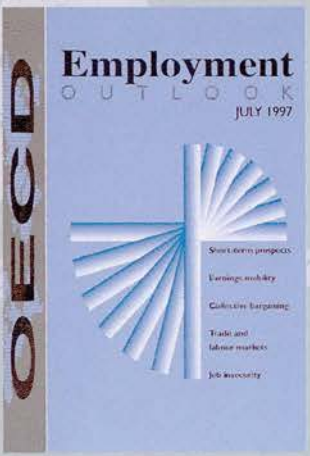

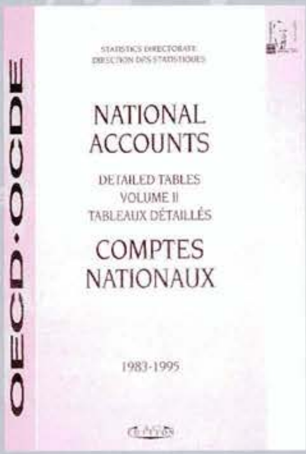

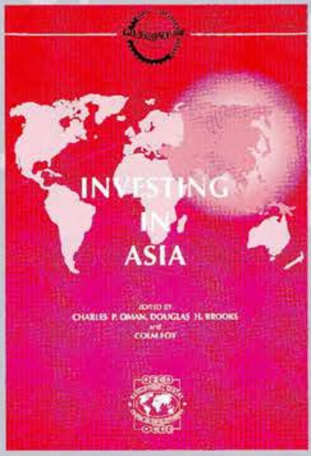

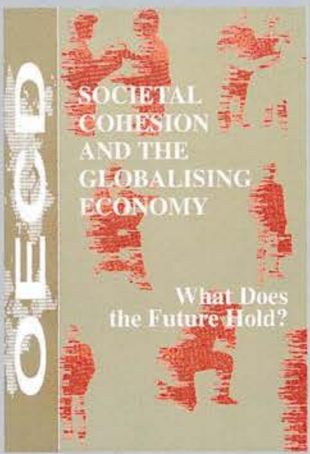

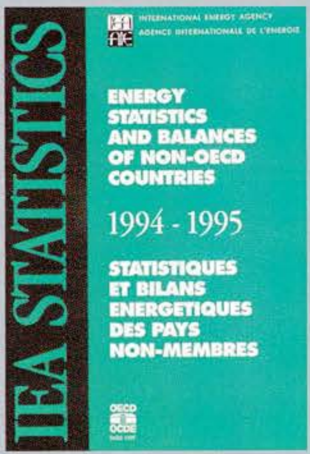

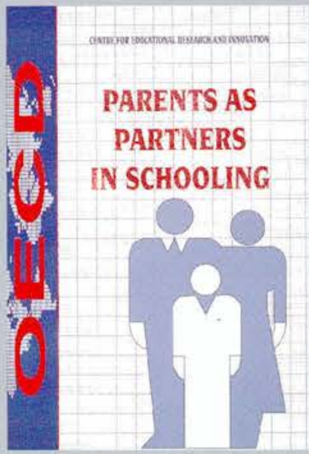

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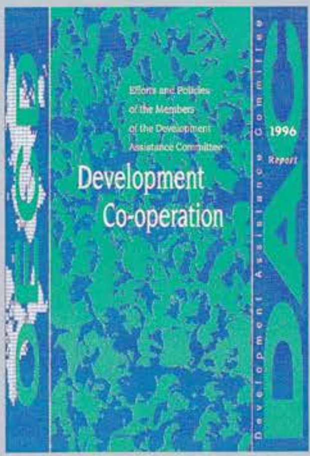

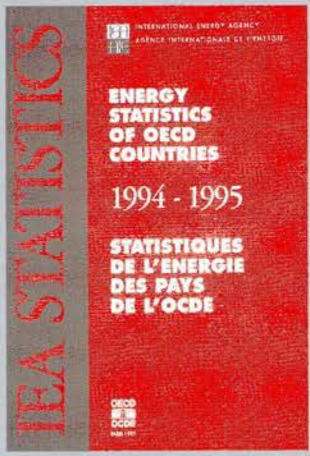

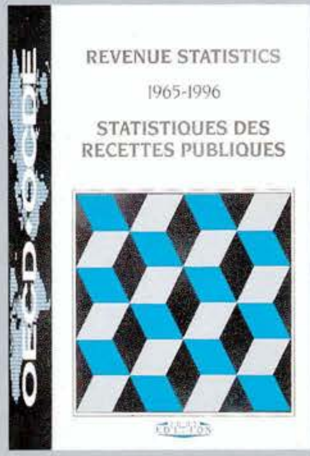

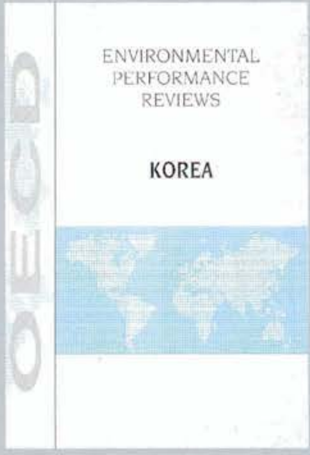

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A Tribute to George Marshall's Vision

27 May 1997 OECD, Paris

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A Tribute to George Marshall's Vision

OECD Colloquium to Commemorate the 5Oth Anniversary of
George Marshall's Speech at Harvard University, 5 June 1947
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On page 21 the name of the Deputy Prime Minister and
Minister of Foreign Affairs of the Czech Republic should read Josef Zieleniec.

We apologise for this unfortunate mistake.

OECD Colloquium to Commemorate the 50th Anniversary of George Marshall's Speech at Harvard University, 5 June 1947

"Economic Co-operation into the Next Century"
OECD, Paris
27 May 1997

Foreword

The success of international co-operation in the wake of the second world war ushered in an era of unparalleled prosperity in human history. But today, on the eve of the third millennium, the international community is having to face new and equally momentous challenges.

We must revive that spirit of generosity and realism which inspired George Marshall fifty years ago when he delivered a speech at Harvard University that was destined to change the course of history.

As the direct heir to the Marshall Plan, the OECD has remained faithful to these founding principles. I am convinced that this colloquium will help us all renew our commitment to these fundamental principles which must guide our action and our vision of the future.

Donald J. Johnston
Secretary-General of the OECD

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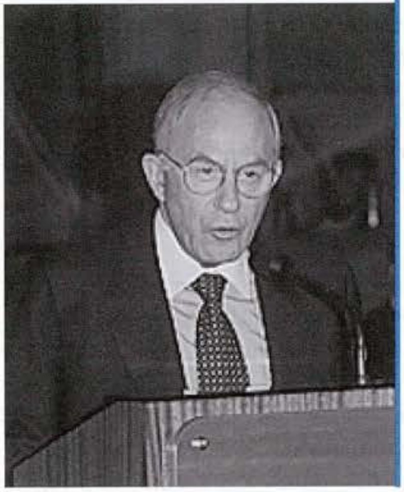
* Translated from French

Opening of the Colloquium

Ladies and gentlemen,

We are here to discuss the importance of economic co-operation at the dawn of the 21st century and the relevancy of George Marshall's speech in today's world. History has already settled the debate about international economic co-operation by sanctioning the failure of autarchic systems which attempted to restrict it. Interdependence is no longer an economic objective or philosophical goal; quite simply, it has become a reality. The expansion of the Organisation which brings us together here today is a remarkable example of this. Another, which serves to underscore the point is that the co-operation agreement just signed with Russia is another feather in its cap. All those who view this as a threat must be reminded that globalisation is another way of saying universalism, and that it is set to spread its influence ever wider over the citizens of the world.

Does all of this mean that we have reached the end of history, as some so hastily predicted, and that economic co-operation is indelibly written into the future of our societies? I doubt we can go so far.



Mr. **Hervé de Charette**, Minister of Foreign Affairs of France

Beyond its usefulness in promoting openness and growth, economic co-operation reflects a political objective: to prevent a return to aggression and conflict. However, today's world is quite different from that which prevailed when the Organisation was created. First, the move towards globalisation has been spectacular. The exchange of goods, as a proportion of GDP in our countries, has doubled since the 1960s. Direct investment increased threefold between 1970 and 1980, and has grown another threefold since then. Finally, trading on capital and exchange markets each day totals nearly one third of the value of our total trade.

At the same time, new actors have appeared on the scene. There is no longer East or West, and despite the fact that pockets of extreme poverty still exist, the economic successes of developing countries are helping to erase the old frontiers between North and South. Tremendous development in Asia, Europe's international affirmation, vigour on the American continent, and the opening of East European countries and the CIS are creating multiple poles of growth which stimulate the global economy, of which I hope the Mediterranean countries and Africa will soon become part.

Now, more than ever, our multi-polar world needs international co-operation. The structuring of the global economy is taking place in specialized forums, but also through regional organisations, and the European Union can take pride in having blazed the trail. The expansion of regionalism has never been as strong as during these past few years. Fortunately, following Europe's lead, the prevailing trend is towards regionalisation of an open variety, one which benefits members while allowing non-members to increase trade with the areas created. We must preserve this movement which is crucial to the cohesion of the global economic system, and we must avoid the risk of marginalising certain zones. If we can do this, I am convinced that there is no contradiction between further development of regional integration and the development of global co-operation. An organisation such as the OECD, which transcends regions and has successfully opened itself up to the most dynamic zones on the planet, is in a position to play a fundamental role in defining the rules of this new game.

To make globalisation work for everyone, we must set three priorities:

- a multilateral system adapted to a changing global economy
- a clear focus on social cohesion
- helping poor countries benefit more from globalisation.

In economic, financial, and commercial spheres, the multilateral system should certainly be strengthened. The co-operative tradition unique to the OECD helps provide an effective forum for discussion of these issues. As for regional development, it must be conceived in a way which reinforces and broadens the multilateral framework, rather than competes with it.

Next, as we move toward globalisation, we must maintain social cohesion. The increased openness of our economies and accelerating technological advances, while potential sources of progress, development, and freedom for citizens, nevertheless require considerable efforts of adaptation from all societies and individuals. In the absence of profound reforms, too many of our fellow citizens run the risk of not having access to the new prosperity. Proposing reforms, formulating strategies which can make economic efficiency compatible with social cohesion, comparing experiences, these are the areas in which the OECD can make an invaluable contribution, at both international and national level.

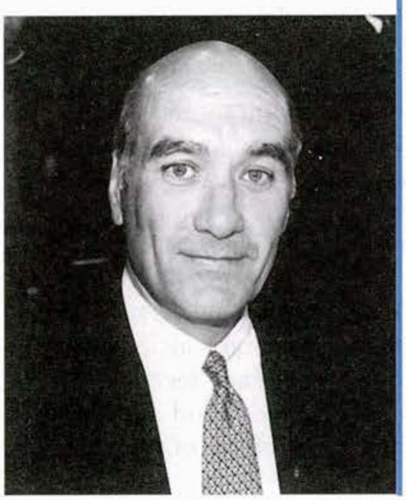
Finally, ladies and gentlemen, we must not forget that the benefits of globalisation remain distant realities for many poor countries. We must promote their integration into the international economy by concentrating our efforts on development aid. We can no more accept the exclusion of these countries from the global development process than we can allow certain social groups in our own countries, living in insecurity, to be marginalized. We are the club of the richest countries and, as such, we have the ability to aid the developing countries, in particular Africa. We must continue and maintain our efforts along these lines. Fifty years from now, we will not regret doing so, any more – I hope – than our American partners do not regret what they did for us half a century ago.

Thank you.

Mr Secretary-General, your excellencies, ladies and gentlemen,

It is my great pleasure to be here. The Marshall Plan has deep roots at the Commerce Department. In honouring and remembering one of the truly outstanding, meaningful accomplishments of this century, I would like to pay tribute to the wise leaders who gave the Marshall Plan shape, including one of my finest predecessors. Averell Harriman was the Secretary of Commerce when the Marshall Plan took shape – many years before his charming wife put a truly kind face on American interests here in France – and he was the first representative from the United States to the OEEC, the forerunner of the OECD, which co-ordinated trade and economic co-operation under the Plan.

Winston Churchill called the Marshall Plan "the most unsordid act in history". And fifty years later it still fulfils that high, and deserved praise – as a model for enlightened thinking on security issues; as an endorsement for the importance of commerce in a stable world; as a standard for compassion between nations; and as the cornerstone of both a peaceful, prosperous Europe and the steadfast, co-operative ties between Europe and the United States.



Mr. **William M. Daley**, Secretary of Commerce, United States of America

In many ways, the Marshall Plan was a natural answer to the pain of countries and people who Americans considered family. Just as the immigrants from every corner of Europe had made America great and strong – building railroads, developing much of an untamed continent, filling factories, and answering their new nation's call to arms – America, in turn, reached out to help Europeans revive their economies and rebuild their lives.

And, yes, the Marshall Plan was about national security and containing the threat of Soviet expansion. But what George Marshall foresaw on June 5, 1947, was a way to heal the "hunger, desperation, poverty, and chaos" which faced people here after World War II. And in doing this – in repairing roads and reopening factories, in restoring electricity and resuming schooling, in details as small as getting Norwegian fishermen new nets or Italian farmers new wheat crops for pasta – the Marshall Plan jump-started free markets and thriving economies that would not allow totalitarianism to take root.

The Marshall Plan was conceived not as a charity programme, but as an economic growth programme based on two key pillars: co-operation among countries to achieve a common goal, and an emphasis on free markets and the reduction of trade barriers. The Marshall Plan was "The dividing line between the old era of world affairs and the new", President Truman said, "the dividing line between the old era of national suspicion, economic hostility, and isolationism, and the new era of mutual co-operation".

It is a charge that applies to our world today as much as it did fifty years ago. Mutual co-operation and an emphasis on free trade and open markets have propelled world economic growth far beyond what even Marshall could have foreseen. And the OECD has served us all well during that time, changing and growing to meet the evolving global economic situation.

But we now face new challenges. The Cold War is ended, but the economic gap between Western and Eastern Europe, and with the former Soviet Union, is enormous. And threats to peace and stability still ferment in Central Europe, fuelled in part by economic uncertainty and poor living standards that only magnify older, perceived injustices.

This gap can only be eradicted by high rates of economic growth in Central Europe and the Newly Independent States. And that can only come with political and economic integration, open markets, and healthy two-way trade. The Co-operation Agreement signed earlier this afternoon between the OECD and Russia, and the historic NATO-Russian accord, are two factors that will go a long way toward fulfilling the goal of prosperous, growing, and hopeful nations that were once within the sphere of Soviet control.

The OECD accession process can be an important tool for supporting reform and accelerating changes now under way in Russia. The standards of OECD and WTO membership are high, and as Russia and other former Eastern bloc countries meet these standards, – which the Czech Republic, Hungary and Poland already have done – we will take further strides toward closing the prosperity gap and strengthening economic integration between Eastern and Western Europe.

There are other challenges as well. Electronic commerce and global data communications networks are the next dramatic step in the global economy. The communications revolution – including the Internet and the World Wide Web – will alter our world more profoundly than any technological invention since movable type made the printed page and an easy flow of ideas and education available to the world. It will redefine national sovereignty and bring the promise of the global economy within reach of virtually every community.

So, the coming global nature of commerce means that action to promote electronic communications must be an international, multilateral effort if it is to be effective. It is important that while the technological tidal wave sweeps through diverse nations and societies, decisions that will dictate its uses are made democratically and with political processes that can keep pace.

We must also reach out to the developing countries as the pace of globalisation quickens. One of the most valuable things we can and must do to nurture growth and opportunity in the developing world is to move ahead on eradicating bribery. The cost of bribery wastes precious resources and undermines the rule of law in too many emerging and poor countries. We can not idly watch this waste continue. And we can not demand others take a tough stand on corruption if we have not taken that stand, together, first.

There are, of course, other challenges to emerging stability and prosperity in the world. But we have tremendous resources to call upon – the resolve and determination of the United States and Europe, and our common faith in the power of economic growth to sustain co-operation and peace, and to sow the seeds of democracy.

George Marshall's speech unveiling his blueprint called on America to "do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace". Today, in the face of post-Cold War realities and an era of both change and possibility, the nations of the OECD have a clear mandate for continued economic co-operation to make the next fifty years just as productive, prosperous and purposeful as the last fifty.

Thank you.

On 5 June 1947 at Harvard University George Marshall, the American Secretary of State at the time, gave a speech that was to make history. With this speech he launched a groundbreaking co-operation programme between Europe and America designed to restore the Old World's shattered self-confidence and economic prosperity. In the dire straits in which Europe found itself in the year 1947, this was sorely needed. At the end of the devastating world war, the continent lay in ruins. Its people were exhausted with the horrors, suffering and hardship they had endured for so long, they were disheartened and without hope. With his message of international solidarity and co-operation, of helping people to help themselves, George Marshall gave the Europeans new heart.

The aim of American policy, as George Marshall put it, was to get the world economy back to work. America was willing to help the reconstruction efforts of all peace-loving countries. The only condition was that the countries of Europe should agree together on what needed to be done – agreement between former enemies, between the aggressors and their victims – on ways and means of rebuilding their region. For this there is, alas, still a crying need in South-Eastern Europe today! We must do all we can to ensure that this challenge is met.

Mr. **Klaus Kinkel**, Federal Minister of Foreign Affairs, Germany

The plan George Marshall conceived was magnanimous, altruistic and far-sighted. Magnanimous because it offered help to all, including defeated enemies, notably us Germans. Of the 13 billion dollars provided in American aid, the fourth largest amount, a sum of 1.3 billion dollars, in fact went to defeated Germany. But the figures themselves are no measure of the hope and confidence in a new beginning that was kindled in people's hearts. The Marshall Plan is the best example there has ever been of helping people to help themselves. It was, as George Marshall himself pointed out, directed not against any country or doctrine, and it was intended for the whole of Europe, including the eastern part of the continent. Stalin, however, opted for the division of Europe and rejected the Plan. Those countries that had become Soviet satellites were also forced to refuse the offered aid – and the Iron Curtain descended all across Europe.

The Marshall Plan was altruistic, there were no political strings attached. Recipients were to decide for themselves how the aid was to be distributed and for what purpose. That, so George Marshall believed, would help Europeans regain their confidence in their own abilities and in their political future. This, as it turned out, was to be the spark that first set in motion the process of European integration. The Council of Europe, the European Coal and Steel Community, the Treaties of Rome whose 40th anniversary we are marking this year – the whole process of building a united Europe was inspired by George Marshall's great vision of a free and peaceful Europe closely linked with the United States.

During the period of postwar reconstruction it was the Organisation for European Economic Co-operation that decided how the Marshall Plan funds were to be used. This later became the OECD, today a real success story. The OECD indeed now plays a key role in co-ordinating internationally the economic policies of the market-oriented industrialized countries. And that, in this increasingly interdependent world, is one of the major challenges facing us in the future.

The OECD, however, stands not just for co-operation but also for economic development. Helping people help themselves, this core concept of the Marshall Plan has now become the keynote of development co-operation all over the world. And to many countries it has brought success. Even more are making the transition from emerging economies to industrialized countries and hence potential OECD members.

This is particularly the case for the countries of Eastern Europe. Here lies a great historic task for all organisations in Europe and notably the OECD. Both by providing analytical and advisory services for these countries and also by inviting their participation and co-operation the OECD has already done much to support the transition to market economies. The Czech Republic, Hungary and Poland are the first new members of the OECD from Central and Eastern Europe. And just now a protocol has been signed with Russia setting up a Liaison Committee. That is an important step.This morning the NATO-Russian Founding Act was signed. We must do our utmost to make sure there is a clear place for Russia at Europe's table, that it be included in the partnership and not excluded from it. For only in partnership with Russia can we hope to shape the future of our continent in the economic, political and, in particular, in the security policy field.

More and more countries today aspire to join OECD. That is at once a token of the success and importance of the Organisation but also an immense challenge. The OECD must continue to integrate major economic powers that may emerge in the future, for that is the only way it can live up to its responsibilities as a recognized player and partner in the global arena.

Ladies and gentlemen, George Marshall, tribune for peace and former officer, received the acclaim he deserved with the award of the 1953 Nobel Peace Prize. Half a century ago he proclaimed a great vision. We all inhabit the same world and we must learn how to share it. It was a bold vision, one which could not fail to inspire the students at whose graduation Marshall outlined his Plan that day. His ideas are still an inspiration to us all, his legacy remains very much alive. George Marshall himself lived to see only part of his great vision realized, for Europe remained divided for too long. Today a tremendous opportunity beckons to complete the task this great man began. His legacy will be our commitment to work together in Europe as well as worldwide.

Mr. **Yukihiko Ikeda**,
Minister of Foreign Affairs,
Japan

Mr. Chairman, Secretary-General, distinguished guests, ladies and gentlemen,

On the occasion of the 50th anniversary of the historic speech by George Marshall at Harvard University, I would like to pay sincere tribute to those countries involved in this epoch-making project. Marshall's plan, which proposed massive assistance by the government of the United States to war-ravaged West-European countries, was of exceptional importance in the reconstruction of the post-war international political and economic order. In the Far East also, United States' generous assistance to Japan for its reconstruction was the motor behind Japan's subsequent economic development. We have never forgotten this and remain deeply indebted to the United States for its generosity. I believe that the spirit of the Marshall Plan laid the basis for the development of postwar free market economy.

The OEEC, which was originally established to help manage Marshall Plan funds, evolved into a global organisation, namely, the OECD, as its membership expanded to include non-European countries. Today, the GDP shares of OECD countries which were not original OEEC Members amounts to about 63%. We should be grateful for the clear foresight and wisdom of our predecessors who have promoted the evolution of the Organisation at each historical juncture, enabling the OECD to continue to play a vital role in the development of the world economy.

Today, with the rapid change in the global economic environment, the OECD's role needs to be reviewed in line with these changes. Japan expects that the OECD, while maintaining its fundamental role as a forum for policy co-ordination among developed countries, must also boldly tackle new issues of relevance to Member countries. For this purpose, we have made various proposals such as the follow-up work of the "Initiative for a Caring World" proposed by Prime Minister Ryutaro Hashimoto, and work on regulatory reform. To meet these new demands, the OECD must also abolish low priority activities and carry out self-reform. We have a responsibility to the future world economy to enable the OECD to vigorously tackle these issues.

Ladies and gentlemen,

In 1960, Japan joined the Development Assistance Group of the OEEC even before it officially joined the OECD. At that time, Japan was not only sensitive to the fact that it had joined the so-called "Club of Developed Countries", but was also strongly determined to consider how best to give assistance to the international community rather than gain from it.

To enable the OECD to develop further, Member countries, as well as those wishing to become members, should think about what they can do for the international community through the OECD, and not what the OECD can do for them. I truly believe that this was the main idea behind the Marshall Plan fifty years ago and remains the key to the further development of the OECD in the new era.

Sir **Leon Brittan**,
Vice-President of the
European Commission

I am particularly delighted to have the opportunity to speak in this colloquium today, as I believe that the process of European Integration owes so very much to the co-operative process of European reconstruction which George Marshall launched in his Harvard speech on 5 June 1947.

Many of the lessons of that postwar reconstruction effort remain valid today. For the historic task which we are now engaged in in Central and Eastern Europe is a logical consequence of what Marshall launched fifty years ago. The United States helped put Western Europe on its feet. The torch has now been passed to us. We are now strong enough and united enough to take the lead in bringing the central and eastern European countries fully into the family of European nations.

In his speech on 5 June 1947, George Marshall said "it would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a programme to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe".

And so it has proved. The Marshall Plan was not just about the distribution of financial assistance. It was the catalyst for the development of a wide-ranging project of European co-operation, commercial disarmament and economic integration. In many ways it laid the foundations for the Treaty of Rome and for the modern European Union.

In simple financial terms, of course, the United States did make available huge resources. Between 1948 and 1952, the United States paid the equivalent in today's money of over 88 billion dollars to 16 European countries through a variety of aid and assistance programmes. At the end of the period, total production in the European countries was more than 65 per cent higher than at the start.

But that success was not simply bought with cash assistance. Success was built on a wide-ranging recovery programme involving a combination of aid, policies aimed at lifting production and productivity, and a careful mechanism to establish international financial stability. It led to a gradual end of quotas and other restrictions to trade, so that intra-European trade could expand. Its real long-term legacy was the emergence of a general commitment to intra-European co-operation.

The Marshall Plan was part of an integrated package of economic reconstruction, commercial disarmament and co-operative integration. It worked.

As I have said, we are now embarked on a similar process with the countries of Central and Eastern Europe. The great tragedy of the original Marshall Plan was the decision of the former Soviet Union not to participate. Following the end of communism, the enormous process of economic transition now going on amounts to a second wave of European economic recovery. All of the elements which were important in the success of the original European Recovery Programme from 1947 are just as important for us today.

It is natural that the EU – the successor to George Marshall's original concept of European co-operation and initiative – has led the effort to rebuild the economies of Central and Eastern Europe. Between 1990 and 1996 the EU and its Member States provided more than 58 billion dollars in assistance to central European countries, in addition to 12 billion dollars given by the US. The EU at the same time was able to mobilize more than 80 billion dollars in support of political and economic reform in Eastern Europe and in the states of the former Soviet Union.

We welcome the fact that our efforts in co-ordinating assistance to Central and Eastern Europe through the G24 here at OECD have enjoyed such widespread support not only in Europe, but also in North America and in Asia. It is important to help countries in transition to build the sort of societies and economies they will need to become eligible not only for particular goals, like EU membership, but also more generally to participate fully in the globalising world economy.

To achieve this, financial assistance has to be combined with technical assistance to improve productivity, and work to liberalise trade. It also involves efforts at financial stabilization and integration, and in some cases the establishment of the basic legal underpinnings for the operation of a market economy.

It is a task of the highest importance, not only because the political consequences of failing to take our partners in Central and Eastern Europe through the transitional process quickly and successfully would be incalculable, but also because quite simply we owe it to them.

But the lessons and legacy of Marshall go beyond Central and Eastern Europe. Much of our discussion in the last day and a half has focussed on the challenges of globalisation, a development which can lead to greater prosperity and enormous benefits worldwide. We have a duty to make every effort to ensure that all countries and all societies have the best possible chance of enjoying those benefits. That is the broader challenge which the legacy of Marshall should encourage us all to meet.

Mr. **Anthony Lloyd**,
Minister of State, Foreign
and Commonwealth Office,
United Kingdom

It is appropriate that we should use the 50th Anniversary of the Marshall Plan to look at the future of global economic co-operation. And it is strangely appropriate that a Labour Foreign Office Minister for the UK should do so. It was a former Labour Foreign Secretary, Ernest Bevin, who was one of the principal architects of the Organisation for European Economic Co-operation (OEEC).

The Marshall Plan, and the creation of the OEEC to implement it, were born of the desperate need for post-war economic reconstruction and US generosity in funding it. It was one of the foundations of the fifty years of peace and prosperity in Western Europe that followed, bringing benefits to both sides of the Atlantic.

The experience of the OEEC, and its successor the OECD, has demonstrated a number of crucial lessons:

- that aid is useful when it helps build liberal, open and market-based economies within liberal, democratic societies;
- that voluntary economic co-operation between countries is the surest way to rapid growth; and
- that markets, like politics, thrive on information and transparency. The OECD's role in providing reliable statistics and sound economic research as a basis for government policy-making is indispensable.

These are lessons that we should apply in our efforts to help the developing world and economies in transition.

What then should be our priorities for economic co-operation in the 21st Century? For the British Government there are three:

- making globalisation benefit all – so that global markets are open, fair and sustainable;
- making sure that in our pursuit of growth, we do not overlook the longer term quality of life;
- making a coherent effort to relieve poverty.

Globalisation

A free trading and investing global economy still has to work by rules. We therefore welcome the ongoing work of the WTO, including its recent successes on telecommunications and information technology and the continuing negotiations on financial services. We welcome the IMF's oversight of capital flows. And we welcome work in the OECD on the Multilateral Agreement on Investment and Bribery. We look forward to the successful conclusion of the work on both next year.

But the rules must provide opportunity for all. There are still too many cases of restriction on market access for poorer countries struggling hard to develop, for example, export sectors in agricultural products and textiles. These must be tackled so that open markets around the world reflect the interests of both developed and developing countries.

At the same time, we are committed to make every endeavour to eliminate abusive labour practices around the world, particularly the exploitation of child labour.

We should also provide financial stability so that vulnerable economies can benefit from capital flows without suffering from their occasional volatility

Quality of life

We believe trade and investment must better reflect the need to protect our environment and protect the human rights of others.

Any rational analysis of our long-term interests will conclude that to ravage the environment for short term growth is self-defeating. We must all take more notice of that in negotiating future rules for trade and investment.

As the Marshall Plan showed, economic growth and political stability reinforce each other. We should therefore avoid stoking up areas of conflict by exporting arms to countries that might use them for internal repression or international aggression. Growth and trade will flourish best where there is respect for human rights, civil liberties and democracy.

Tackling poverty

We want to make a concerted effort to accelerate growth in the poorest countries. Our aim should be to free them from the need for aid.

The OECD's Development Assistance Committee has produced a strategy in "Shaping the 21st Century" which we whole-heartedly endorse. One of its goals is to reduce by half the proportion of people living in extreme poverty by 2015. We want to see more decisive action to achieve this and its other aims.

This means developing a partnership with those countries, focusing our aid on helping the poorest people and encouraging economic liberalisation and good government in our partners. It also means pursuing coherent policies ourselves, for example on agriculture.

The OECD has a crucial role to play in all this. But none of us has money to burn. The OECD like other international organisations must focus its activities on the key problems and must run itself efficiently. The OECD can then help give us the means to face the undoubted challenges ahead. But it is up to us, the members, to meet problems and grasp opportunities in the next century to build a better world.

Address by
M. Joseph Zielnic
Deputy Prime Minister
and Minister
for Foreign Affairs
of the Czech Republic

(delivered on his behalf by
Minister of State
Mr. Cyril Svoboda)

Mr. **Cyril Svoboda**,
Minister of State, Ministry
of Foreign Affairs,
Czech Republic

Mr. Chairman, Secretary-General, distinguished guests, ladies and gentlemen

There seem to be many reasons but no need to argue that the Marshall Plan did much good to Europe. When Secretary Marshall asked George Kennan in the spring of 1947 to draft his speech at Harvard, he gave him one single guideline. "Avoid trivia", said Marshall. Let us be faithful to that tradition and keep clear of yet another reiteration of what everything the Marshall Plan meant for the postwar Europe. After all, the Czech Republic, then part of Czechoslovakia, was amongst the countries which, for reasons we all know quite well, in the end did not participate in the programme of European postwar recovery. It may be, therefore, more useful to outline how a country like ours views the Marshall Plan and its legacy not in the historic retrospective but in the light of contemporary European and Euro-Atlantic developments.

True, much has changed in the European as well as global economic and political environment since 1947.

Nevertheless, the amount of similarities between the early years of postwar recovery and the current post-Cold War situation are striking. Like in the late 1940s, Europe nowadays seems to be again at a historic crossroads. We all know what roads we have travelled in the past fifty years. Different as they may have been (to the pity of some of us) they brought all of us here. While rejoicing at the reunion, we realize we are not always entirely sure what road we want to take now to get us further. As we ponder the current crossroads, the legacy of the Marshall Plan and its logic can undoubtedly serve as one of the sources of inspiration in this respect.

Secretary Marshall's Harvard speech in June 1947 was visionary and yet pragmatic. The Marshall Plan itself was then a design full of grandeur and yet with enough sense for practical details. This combination of bold vision and realistic elaboration are undoubtedly the most inspiring characteristics of the Plan. The Marshall Plan came up with the idea of providing development assistance through the economic co-operation between more and less war-afflicted countries, accompanied by a call on the responsibility of the more affected economies to formulate clear domestic transformation strategies for themselves. Such an approach has proved to be the most effective way to achieve economic growth and higher performance. The understanding that assistance amongst states must not be a gift out of mercy from one country to another, but a hand offered as an invitation to co-operation is one of the most valuable lessons of the Marshall Plan years.

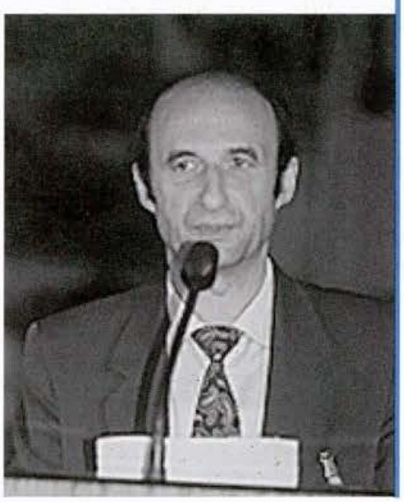
The Plan also offered an opportunity for individual European countries to demonstrate their true interest in an all-European recovery. As Jacques Santer once noted, the Marshall Plan was in its nature "non-ideological, non-paternalistic, non-adversarial, ..., frank and co-operative". As we nowadays run around Europe trying to come up with the best design for a new, more prosperous, co-operative and secure Europe, we cannot but pay much respect to Secretary Marshall's vision. For yet again we are trying to find a solution that will not be rooted in ideologies or adversarial logic and views but will stimulate co-operation and strengthen common interests, thus generating trust, prosperity and security. Much can be said in this respect for the role of the OECD. As an heir of the Marshall Plan logic and philosophy, the OECD has always remained faithful to its original role. The rule-setting capacity and the capability of the OECD to disseminate the principles of economic development through co-operation have always been strong features of its work. Current OECD's involvement in the quest for liberalization of investment regimes, strong protection of investment, and fight against cross-border bribery and corruption prove that the organisation has still a very clear *raison d'être*.

Fifty years ago the Marshall Plan was an offer made to all European countries, and it is much regrettable that Czechoslovakia was one of the countries which "opted out" of the proposal. Historians usually like to quote the truthful words of Jan Masaryk, the then Foreign Minister of Czechoslovakia. After his return from Moscow in 1947 where it had been decided that Czechoslovakia would not participate in the Plan, Masaryk noted: "I left for Moscow as the minister of a sovereign state and came back as Stalin's varlet". This was one of the turning points in the history of Czechoslovakia and, as a matter of fact, of Europe as a whole. The story is worth mentioning not for the purpose of some kind of a search for the guilty party. It is worth mentioning because it was a point when our country and Europe as a whole faced a challenge which in the end was not met. The political élite of that time let history slip in between their fingers, and ensuing generations of Czechs, Slovaks, and other Europeans paid the price.

Let the history of the Marshall Plan thus serve as a double reminder to all of us. It is not without sufficient vision and yet practical mind that we can construct a better future. It is not without the courage to raise to the challenges and the readiness to bear consequences of our steps that we can make the new construction viable. If only we were able to think of the imminent future of Europe with equal clarity, spirited mind and common sense practicality as George Marshall did half of a century ago. Let us hope that fifty-odd years down the history a new generation of politicians, historians, intellectuals and the like will come to evaluate the decisions we make these days with as much respect as we pay today to Secretary Marshall and his times.

Address by
Mr. Primakov,
Minister of Foreign Affairs of the Russian Federation

(delivered on his behalf by Mr. Alexandre Shevchenko)



Mr. **Alexandre Shevchenko**, Ministry of Foreign Affairs, Russian Federation

Esteemed Mr. Chairman of OECD Council Session at Ministerial Level, esteemed Mr. Secretary-General, esteemed colleagues, ladies and gentlemen,

The winds of change which have swept Europe and the whole world during the past years urge us to make a more levelled and unbiased evaluation of many events and phenomena of the past. From positions of the present day, we are trying to cast a glance at the pace of postwar development of Europe, which was largely influenced by the Marshall Plan.

Hardly anyone would deny today that the Marshall Plan played a positive role in the postwar economic restoration of Europe, turning it into a powerful industrial and agrarian sector of the world economy. However, we also remember that this plan was one of the instruments of "bloc" policy pursued in the course of many years between the West and the East, and that serious contradictions in postwar Europe were concentrating around it.

We can only welcome the fact that all this is now a matter of history, and that the end of the "cold" war era has generated completely new universal approaches to development of co-operation both in Europe and in the whole world. Their inauguration does not happen all by itself, and we have to work together to bring them to life, overcoming the inertia of the past.

The treaty signed between Russia and NATO today appears to be one of the results of our effort in this direction. Taking into consideration the present-day realities, this document creates a balanced foundation for development of our relations with NATO.

Major changes are under way in the sphere of foreign economic relations. They come increasingly under the influence of such factors as multi-polarity of the contemporary world, the growth of the number of participants in world exchanges, increase of the share of private sector in the world economy, tendencies towards liberalization and globalization of world markets.

Apart from benefits to the world community, these changes also ingrain the danger of intensifying competition in world trade, necessitate global structural and social changes in the world economy which would be adequate to macro-economic changes currently under way.

We suppose that under these circumstances, one of the logical answers to the challenge of the times could be a certain reconsidering of the role of international economic organisations, including OECD, in solution of world affairs, in part, specification of the "distribution of responsibilities" between them. Speaking of the way we envision its possible patterns, we can assume that some of these organisations, for example, UNCTAD, could play the role of a global forum for discussion of emerging economic problems, OECD – develop the principal lines of international agreements for their solution, and WTO – codify these agreements in concrete international treaties. The role of Bretton-Wood institutes could consist, in part, in financing the structural shifts called to life by the macro-economic changes reflected in the above agreements.

We would like to stress that all this does not at all lower, but, on the contrary, increases the responsibility of leading countries of the world for solution of world economic problems. In our opinion, in present-day conditions, it should be collective. As far as we are concerned, Russia cannot afford to evade this responsibility. We would like to believe that the world community also needs Russia to carry its burden of responsibility.

Our application for admittance to OECD filed last year was dictated exactly by these considerations. We stated with satisfaction that your Organisation supported our aspiration to join it, and like ourselves, qualified it as the purpose of our co-operation. We hope that the Liaison Committee linking Russia to the OECD evented today by the signing of a Protocol, will become an effective instrument of Russian-OECD dialogue in the interests of attaining our goal.

We would like to point out that we are guided by similar considerations, striving for Russia's full-fledged participation in other international mechanisms: G7, WTO, ATES.

Esteemed colleagues,

We are living in an epoch when the fundamentals of the world architecture of the 21st century are being created. Its frameworks are already beginning to transpire in practical deeds of politicians and public figures. We still have much work ahead to create a world order adapted to the future realities. I hope that everything useful and constructive strewn today will bring benefit to humanity in the future and deliver it from suffering and privations.

Thank you.

The brutality and horror which scarred the world following the Second World War is hard for most of us to imagine. The consequences of rampant nationalism, political aggression and hate left countless millions of dead, shattered cities, ruined lives and economies. The task confronting our political leaders after the war was far more daunting than anything we face today. But great men and women, driven by the force of vision and with determination, gave back to our peoples hope in the future, new models of democracy, economic prosperity and human rights. The Organisation for Economic Co-operation and Development, the living legacy of the Marshall Plan, has been an important instrument in that process.

The determination of the OECD family to build something new and better is a lasting legacy. Humanity will always be profoundly grateful. They built the prosperity of the 20th Century: they made the next 50 years of economic co-operation that has created wealth on a hitherto undreamed-of scale.

Fifty years later, our task remains to maintain the precarious balance between economic opportunity, civil society and political liberty. The challenges are immense, but the possibilities are even greater. We have ambitions for tomorrow: creating a world where trade enfranchises nations and continents, a world which is environmentally harmonious for our children; creating the understanding whereby nationality difference is something which lives hand in hand with commonly shared prosperity.

General Marshall left us with a legacy that is enshrined in this organisation: the vision that lasting peace, prosperity and security – though defended by military prowess – can only be acquired through economic development and co-operation – precisely what the OECD stands for. That is the legacy we cherish today, and will for many years to come.

Mr. **Donald J. Johnston**
OECD Secretary-General

Closing of the Colloquium

Ladies and gentlemen,

Thank you for participating in this colloquium which enabled us to pay tribute to George Marshall and the action he prompted the United States government to take, which in fact changed the face of the world. It has also shown us that we continue today to share the same ambitions and ideas of that era. Hence this is both a homage to the past and a shared hope for the future. Thank you, and thank you to all of the speakers for delivering their superb speeches. Thank you, Mr. Secretary-General, for organising this very interesting colloquium, the record of which will, I hope, be sent to us at a later date.

Mr. **Hervé de Charette**,
Minister of Foreign Affairs of France

GEORGE MARSHALL'S SPEECH AT HARVARD UNIVERSITY, 5 JUNE 1947

I need not tell you, gentlemen, that the world situation is very serious. That must be apparent to all intelligent people. I think one difficulty is that the problem is one of such enormous complexity that the very mass of facts presented to the public by press and radio make it exceedingly difficult for the man in the street to reach a clear appraisement of the situation. Furthermore, the people of this country are distant from the troubled areas of the earth and it is hard for them to comprehend the plight and consequent reactions of the long-suffering peoples, and the effect of those reactions on their governments in connection with our efforts to promote peace in the world.

In considering the requirements for the rehabilitation of Europe, the physical loss of life, the visible destruction of cities, factories, mines and railroads was correctly estimated but it has become obvious during recent months that this visible destruction was probably less serious than the dislocation of the entire fabric of European economy. For the past 10 years conditions have been highly abnormal. The feverish preparation for war and the more feverish maintenance of the war effort engulfed all aspects of national economies. Machinery has fallen into disrepair or is entirely obsolete. Under the arbitrary and destructive Nazi rule, virtually every possible enterprise was geared into the German war machine. Long-standing commercial ties, private institutions, banks, insurance companies, and shipping companies disappeared, through loss of capital, absorption through nationalization, or by simple destruction. In many countries, confidence in the local currency has been severely shaken. The breakdown of the business structure of Europe during the war was complete. Recovery has been seriously retarded by the fact that two years after the close of hostilities a peace settlement with Germany and Austria has not been agreed upon. But even given a more prompt solution of these difficult problems the rehabilitation of the economic structure of Europe quite evidently will require a much longer time and greater effort than had been foreseen.

There is a phase of this matter which is both interesting and serious. The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. This division of labor is the basis of modern civilization. At the present time it is threatened with breakdown. The town and city industries are not producing adequate goods to exchange with the food producing farmer. Raw materials and fuel are in short supply. Machinery is lacking or worn out. The farmer or the peasant cannot find the goods for sale which he desires to purchase. So the sale of his farm produce for money which he cannot use seems to him an unprofitable transaction. He, therefore, has withdrawn many fields from crop cultivation and is using them for grazing. He feeds more grain to stock and finds for himself and his family an ample supply of food, however short he may be on clothing and the other ordinary gadgets of civilization. Meanwhile people in the cities are short of food and fuel. So the governments are forced to use their foreign money and credits to procure these necessities abroad. This process exhausts funds which are urgently needed for reconstruction. Thus a very serious situation is rapidly developing which bodes no good for the world. The modern system of the division of labor upon which the exchange of products is based is in danger of breaking down.

The truth of the matter is that Europe's requirements for the next three or four years of foreign food and other essential products – principally from America – are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character.

The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole. The manufacturer and the farmer throughout wide areas must be able and willing to exchange their products for currencies the continuing value of which is not open to question.

Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative. Any government that is willing to assist in the task of recovery will find full co-operation I am sure, on the part of the United States Government. Any government which maneuvers to block the recovery of other countries cannot expect help from us. Furthermore, governments, political parties, or groups which seek to perpetuate human misery in order to profit therefrom politically or otherwise will encounter the opposition of the United States.

It is already evident that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all European nations.

An essential part of any successful action on the part of the United States is an understanding on the part of the people of America of the character of the problem and the remedies to be applied. Political passion and prejudice should have no part. With foresight, and a willingness on the part of our people to face up to the vast responsibility which history has clearly placed upon our country, the difficulties I have outlined can and will be overcome.

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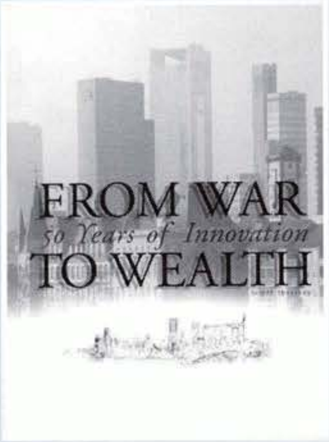

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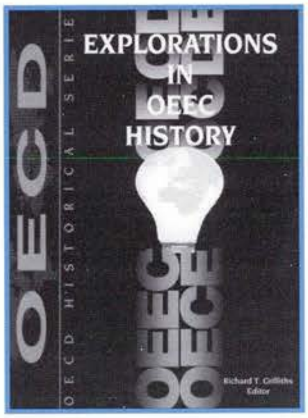

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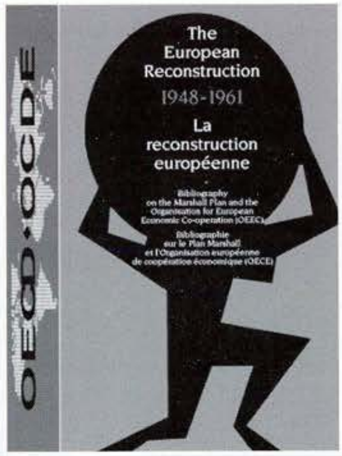

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