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Happy birthday EMU!

Spain's economy

NGOs on GMOs

Spotlight on corruption

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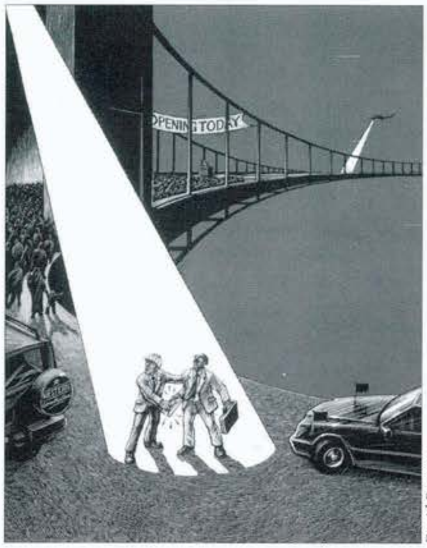
• Forum 2000: Partnerships in the New Economy •

No. 220 – APRIL 2000



David Rooney

Every year an estimated US$100 billion is paid out in bribes worldwide. It is the large exporting companies, many of which have headquarters in OECD countries, that supply most of the world's bribes affecting trade.

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On globalisation

Sir, I am intrigued by the Secretary-General's repeated emphasis in your columns on a new three-legged OECD paradigm. The main thrust appears to be that economic policies may fail unless due weight is given to a social dimension (social cohesion) and to a political dimension (good governance). Now that the failure of the Seattle trade negotiations has brilliantly demonstrated the pertinence of Donald Johnston's thesis, it is timely for the *Observer* to launch a debate on this issue.

Of course, some will argue that Seattle failed simply because it was badly prepared. But since well-prepared OECD negotiations on international investment suffered the same fate, are we not entitled to postulate that deeper forces are at play? Put simply, it could be argued that it is the neglect of Mr Johnston's second and third legs that has produced the set-back. On "social cohesion", the dominant economic doctrine has failed to deal with growing inequalities of income and opportunity. On "good governance", the doctrine that international organisations, including the OECD, are strictly "inter-governmental" has made them blind to the growing importance of civil society in modern, market-based democracies.

Fortunately, the OECD seems well placed to respond to this challenge because it has a unique professional capacity to analyse complex world problems in which economic, social, technological and environmental factors are inextricably linked. No other international organisation, be it the World Bank, the IMF or the WTO, has the same capacity to become a "world think-tank". Its outreach activities as well as its extended membership could to some extent legitimise such a role, but it would have to convince public opinion that the second and third legs of the new OECD paradigm are more than pie in the sky.

The first challenge lies in the field of economic growth and wealth creation. No one doubts the role of new technologies in the contemporary growth process and, indeed, the OECD has played a pioneering role culminating in the report on growth, technology and employment to the G7 in 1998. But the new technological paradigm does not appear to have influenced mainstream OECD economic policy, and it is to be hoped that the new growth study will bridge the gap.

Second, to be credible the concept of sustainable development, originally inspired by the need to reconcile economic and ecological considerations, now has to be extended to embrace "social sustainability". This is a very tough nut to crack, but the OECD at least has the advantage of past analytical work on human capital, more recently on knowledge-based economies, and some recent rumblings on social capital as the basis for development performance.

Of course, both economic growth and sustainable development have to face up to the reality of growing poverty, disparities of opportunity and, at the end of the road, social exclusion. The traditional welfare-state mechanisms of income maintenance, income redistribution and equality of opportunity appear to be running out of steam. Would not the new paradigm be more credible if OECD revived its interest in redistribution issues within its member countries, instead of turning a somewhat blind eye to equality?

This leads me to the third, political, leg of the new paradigm, and back to Seattle. The OECD should grasp the nettle that "good governance" means democracy. It is no good behaving as if globalisation, like the market, is a force of nature to which we just have to adapt. Mr Johnston surely exaggerates when he argues in his article on "Globalise or Fossilise" (*Observer*, December 1999) that the Darwinian principles of natural selection hold for the socio-economic world of today. "Our simian friends" had to adapt to the environment, but we human beings have immense power to change the environment. As the "world think-tank", OECD should be setting out the pros and cons of globalisation as a basis of policy choice, rather than banging the drum.

Yours sincerely,

Ron Gass
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Changing times

The conflicts on values will obviously coexist with a second and more traditional source of conflict: the quest for equality by some and the defence of existing positions by others over the distribution of national income, for example. Associated with this conflict is the growing concentration of power in trade associations, unions and pressure groups, which may in turn lead the state to intervene more often. It seems likely that the role of political negotiations will strengthen while that of the market will decline.

Interfutures, in *OECD Observer*, No. 100, September 1979.

Honesty is the best policy

DONALD J. JOHNSTON, SECRETARY-GENERAL OF THE OECD

The 1990s was a busy decade in the fight against international corruption. Several high-profile campaigns were launched, in the World Bank, the Council of Europe, the Organization of American States, to name but a few. In the Clean Hands campaign, the pool of Milan magistrates purged Italy's public sector with a thoroughness and a forthrightness that inspired other countries to follow suit. In 1995 Transparency International launched its corruption perceptions index, which, despite its critics, no country wishes to do badly on. Four years later, in February 1999, one of the most important initiatives of all entered into force: the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. This has made it possible for governments to criminalise the offer, promise or delivery of a bribe to foreign public officials in order to obtain or retain international business deals.

With so many soldiers in the field, one might think the battle against corruption was finally being won. Yet in a recent survey by Transparency International a third of respondents believed corruption had risen in recent years, not fallen. The survey was of professionals working in transition and emerging economies, which Transparency identifies as being particularly exposed to corruption. The respondents' views should not be taken lightly.

Nonetheless, there has been some tangible progress. In the 1970s bribing foreign public officials to clinch business contracts was common practice in many OECD countries. Today it is a crime in most of them. Why has this change come about? The reasons are simple.

It is now widely accepted that bribery wastes public resources, undermines development and distorts competition. Governments believe in the Convention because it can help them to stop corruption from corroding their democracies. Corporate leaders and labour unions back it because they know corruption undermines business and destroys jobs.

Still, every year an estimated US$100 billion is paid out in bribes worldwide. To put it in perspective, this sum is equivalent to nearly twice New Zealand's GDP. And that may be just the tip of the iceberg. Clearly, more needs to be done. The Convention is a major step in the right direction, but it is only a step. What more can OECD governments do?

A good start would be to ensure that the Convention is enforced. It is not enough to agree on the laws to be adopted, nor is it right to cite other governments' lax regimes as a pretext for delaying implementation. It is the large exporting companies, many of which have headquarters in OECD countries, that supply most of the world's bribes affecting trade. Signatory governments that have not yet adopted their legislation should do so as quickly and as fully as possible.

Implementing the Convention is vital, but as the Spotlight in this OECD Observer shows, governments cannot stop there. They must see to it that their legislation is effective too. And they must make sure that bribes can no longer be treated as deductible business expenses, as was the case in some OECD countries.

Governments also have a responsibility to do what they can to combat bribery within the private sector, as the OECD is mandated to do. One reason is that so many public-sector entities where bribery took place in the past have been privatised and now escape the reach of the Convention. But the essential aim should be to prevent the illicit market for industrial secrets or early warnings of mergers involving private companies from growing. OECD governments also have to strengthen their joint defences against money laundering, whose techniques are becoming more sophisticated as technology and markets evolve.

Fighting corruption needs more than punitive laws. Improving ethics and governance at every level is also essential. The OECD has a programme in place to help its governments instil excellence in public sector management, to strengthen their ethics infrastructure. On the private-sector side, the OECD's Guidelines for Multinational Enterprises, which are discussed briefly in this edition, have a similarly laudable aim. Like our Principles on Corporate Governance, they are not aimed primarily at fighting corruption, though they contribute to the cause by helping to build a more honest global market place.

The battle against corruption is being fought everywhere, not just in the developed economies, but in transition and emerging markets and developing countries alike. The OECD has an important role to play, through its development work, its partnership programmes in transition countries and by disseminating information, not least via its online anti-corruption network. Let us remember that five non-members are presently part of the Convention and many others are interested in associating themselves with its principles.

For them as for us, the OECD's Bribery Convention is not just about markets, but about values as well. Public repugnance towards corruption is deepening, which is reflected in the growing importance of civil society in the fight against bribery worldwide. Modern democracies depend on honesty in government and in business. They also rely on public trust. To lose that trust would be to shake the very rock on which our societies depend. Quite simply, the Convention is a pillar of support for our democratic values and beliefs. We have a duty to make it work. Only by doing so will we be able to reaffirm that honesty is the best policy. ■

• News brief •

Russian government faces many challenges

Russia has made some progress toward the creation of a market economy in the last decade, but the record of economic performance has been disappointing. This is a key message of the OECD's latest Economic Survey on the Russian Federation, published in March. Progress in macroeconomic stabilisation since 1995, leading to modest gains in output, living standards and financial market improvements by 1997, raised some hopes that the Russian economy had finally turned the corner. But these hopes faded with the stock market crash of 1997, the financial crisis of 1998 and further decline. Government attention has been absorbed by emergency management, rather than medium-term objectives. Hyperinflation was avoided by restrictive policies, bringing inflation to under 3% since February 1999 and stabilising the rouble. But the currency's sharp depreciation made debt servicing extremely difficult. On the other hand, a weaker rouble and favourable export prices have helped industry to lead a recovery in the last 18 months. There is even evidence of genuine progress towards the creation of a market economy. Moreover, the recovery has alleviated pressures on the federal budget. However, some of the causes of the recovery may be only temporary. The rouble has begun to strengthen since February 1999, for instance, and this could slow the expansion. Meanwhile, some prices, such as for transport and energy, have been controlled, leading to price distortions.

The government faces many challenges. The tax system, while slowly being reformed, has long been a thorn in Russia's transition. There is a need to restructure Russia's banks and to restore the cash economy, which has been demonetised in recent years. There are pressing social challenges too, since despite the recovery in GDP, real incomes remain lower than pre-crisis levels, and poverty and social distress have increased for much of the population. ■

The Economic Survey on the Russian Federation, March 2000. Also available in Russian. Available on the online bookshop, www.oecd.org/bookshop. Read the 12-page Policy Brief, available free at http://www.oecd.org/publications/Pol_brief/economic_surveys/e-russia.pdf

Joblessness eases, but rose in a few countries

The OECD area's unemployment rate on a standardised basis was 6.6% in February, unchanged from the January figure and 0.4 percentage points lower than a year earlier. The rate fell to 10.4% in France, 8.6% in Belgium, 8.4% in Germany, 6.7% in Australia, to 4.9% in Denmark and to 3.5% in Austria. Unemployment rose by a percentage point to 4.1% in the United States, the first monthly rise there for some time. However, the US figure was still below its year earlier rate of 4.4%. Portugal's joblessness also increased slightly, to 4.2%, as did Japan's, to 4.8%, Finland's, to 10.5%, and Spain's, to 15.2%. Spanish joblessness remains the highest in the OECD area (see article by Isabelle Joumard, page 7). The unemployment rate remained stable at 6.8% in Canada, 6.6% in Sweden, 5.1% in Ireland (down from 6.4% a year earlier) and 2.2% in Luxembourg, which was the OECD's lowest rate. The country with the next lowest unemployment was the Netherlands, which recorded a rate of 2.7% in January. ■

For a complete table, please visit: http://www.oecd.org/news_and_events/new-numbers/sur/sur00-03a.pdf

OECD growth continues strong

Economic growth has remained buoyant across the OECD area, according to recent figures (see Databank). Canada and the United States had real growth of 4.7% and 4.5% respectively year-on-year in the fourth quarter. Mexico's fourth quarter performance was similarly strong. The fastest growing OECD economy of late has been Korea, with year-on-year expansion of some 14% in October-December. France (3.2%), Germany (2.3%) and Spain (4%) each posted robust growth in the final three months of 1999. Not all OECD economies have done as well. Japan's GDP slipped by 1.4% on a quarter-on-quarter basis in October-December, while Turkey's economy shrank in the third quarter by 5% compared with the second quarter. ■
Keep up with OECD data at www.oecd.org/statlist.htm

Development aid falls in terms of GDP

After more than five years of continuous decline, Official Development Assistance (ODA) rose in 1998 by nearly 10% in real terms, to US$52 billion, according to the 1999 Development Co-operation Report, published in February. However, the rise reflects both

• News brief •

specific measures in the wake of the Asian financial crisis and decisions by several countries to stabilise or rebuild aid programmes. But although ODA may have gone up, the ODA of members of the Development Assistance Committee – which includes most OECD countries and the European Union – has in fact fallen as a proportion of GNP, to around 0.25%. That is well below the 0.33% average recorded for the 1970s and 1980s. This means there is US$20 billion per annum less in aid than would have been the case had the higher 0.33% ratio been maintained. Private flows continued their decline to US$147 billion in the aftermath of the Asian financial crisis. Still, private flows will continue to be far larger than aid flows.

One of the key messages of the Development report is the importance of poverty reduction rather than structural adjustments *per se*, and the key role of partnerships (governments, agencies, business, civil society) in implementing those poverty reduction strategies. And integrating developing economies into the global economy, including in trade negotiations, is also paramount. ■

The 1999 Development Co-operation Report (DAC Journal 2000 Volume 1) can be bought at the OECD online bookshop at www.oecd.org/bookshop

FATF may suspend Austria

Austria may be suspended as a member of the Financial Action Task Force (FATF) on Money Laundering. The FATF, an inter-governmental body, advised in February that due to Austria's continued failure to take action to eliminate its anonymous savings "passbook" accounts, it would suspend Austria as a member of the FATF from 15 June 2000. On 20 March the Austrian parliament introduced draft legislation to address the passbook question. FATF will be monitoring developments closely and will suspend Austria unless a number of conditions are unambiguously met by 20 May 2000. First, the Austrian government must issue a clear political statement that it will take all necessary steps to eliminate the system of anonymous passbooks by the end of June 2002. Second, the Austrian government must introduce and back a bill to prohibit the opening of new anonymous passbooks and to eliminate existing anonymous passbooks. Furthermore, no other measures to undermine the fight against money laundering, such as tightening banking secrecy, should be taken. The FATF is hopeful the conditions will be met. ■

OECD conference chairman calls for international consultative panel on GM foods

An OECD conference held in Edinburgh at the end of February on the scientific and health aspects of genetically modified (GM) foods ended with a call from the conference chairman for the creation of an international consultative panel to address all sides of the GM debate.

"There is a case for suggesting the development of some kind of continuing international dialogue," said Sir John Krebs, who is chairman designate of the future UK Food Standards Agency. How such a dialogue could be formalised would need to be discussed by governments in both the developed and the developing world, he said, adding that in his view its purpose would be "to inform rather than to make policy". He recommended, however, that such a panel should deal not only with the agricultural and food aspects of biotechnology, but also with a range of other issues, including trade, economic development, the environment and ethical questions.

The Edinburgh conference brought together 400 participants from more than 40 countries representing governments, industry and civil society organisations, including Greenpeace International, Friends of the Earth and GeneWatch. Hosted by the UK government, the conference formed part of an ongoing programme of work at the OECD on biotechnology. Its conclusions will serve as input into a report that the OECD will submit to the Group of Eight industrial countries for their summit at Okinawa, Japan, in July 2000.

In a draft summary, the rapporteurs of the conference identified a number of agreements at the conference. These included the need for a more inclusive and transparent debate and policy process, as well as an acknowledgement that GM technology had potential benefits. But the rapporteurs signalled some opposing views too. Some participants, they observed, regarded human health aspects of GM foods as inseparable from wider issues, such as the environment, trade and belief systems. There was disagreement on whether genetic modification was part of a continuum in plant breeding methods, or a fundamental change requiring new ways of assessing food safety. There was contention over whether individual countries should be allowed to develop GM foods according to their own needs, or whether there should be a global moratorium. There was also a lack of complete agreement on issues such as the mandatory labelling of GM foods and assessing consumer concerns. ■

GM Food Safety: Facts, Uncertainties and Assessment, OECD conference hosted by the UK government, Edinburgh, 28 February – 1 March, 2000. For more on this and the OECD's work on biotechnology and food safety, visit http://www.oecd.org/subject/biotech/

See article by Jean-Eric Aubert in this edition of OECD Observer.

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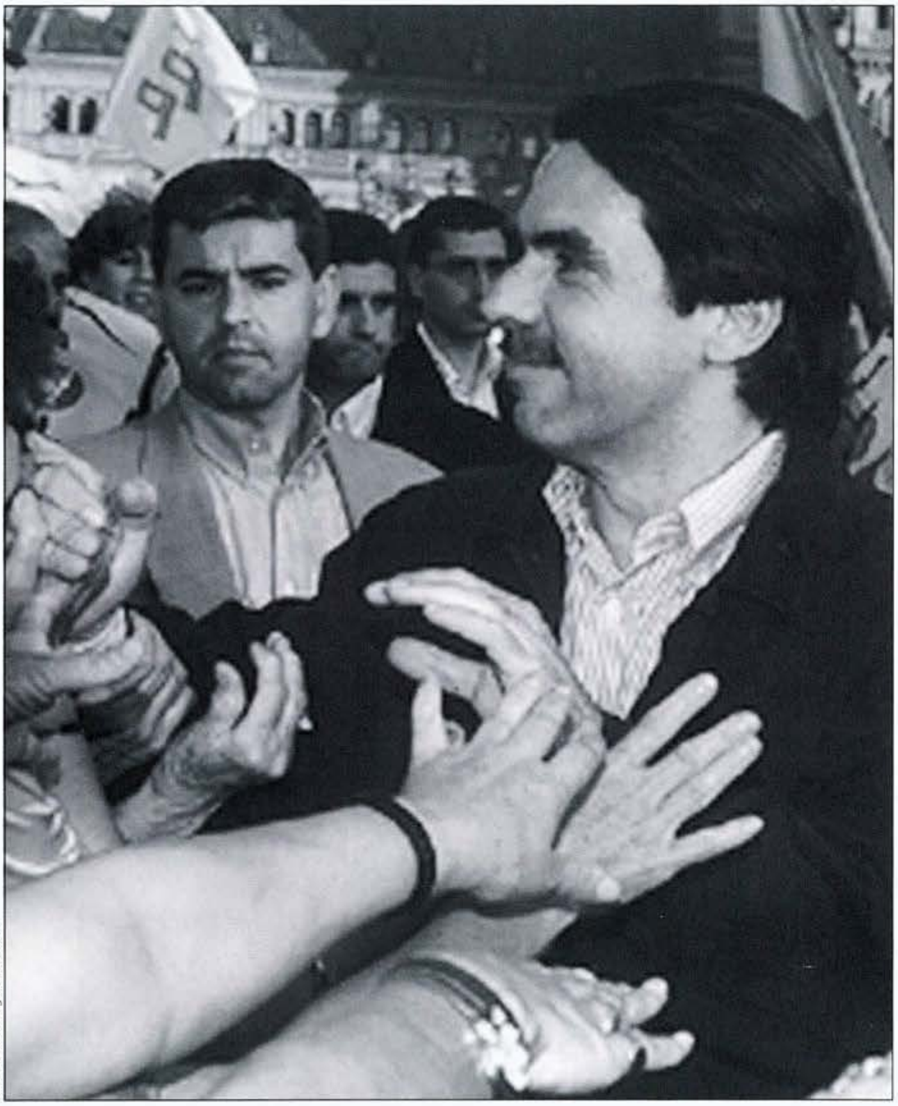
The Spanish bull: how strong is it really?

Isabelle Joumard, Economics Department, eco.contact@oecg.org

Spain's economic performance has been remarkable. Even so, the country still has some difficult problems to tackle.

¡*España va bien!* ("Spain is doing well") has been the constant refrain of José María Aznar, who remains head of the Spanish government after his centre-right party's clear victory in general elections in March. Since the mid-1990s, Spain's economy has indeed been robust, even though the country must still tackle some difficult problems. True, it has the OECD's highest unemployment rate, at nearly 16%, and inflation drifted up during 1999. Moreover, there are structural pressures on the government's finances which need resolving, such as on pensions.

Nevertheless, the pace of growth has quickened, rising to 3.7% in 1999 – significantly outstripping Spain's partners in the EU (2.1%) and the OECD (2.8%). The result has been a significant rise in employment, since nearly 1.4 million jobs were created between 1996 and 1999, accounting for nearly a quarter of aggregate EU employment growth. Spain has also appreciably strengthened its foreign trade position, making substantial gains in market shares. And according to official estimates, the budget deficit was trimmed to 1.1% of GDP in 1999, down from 6.9% in 1995.



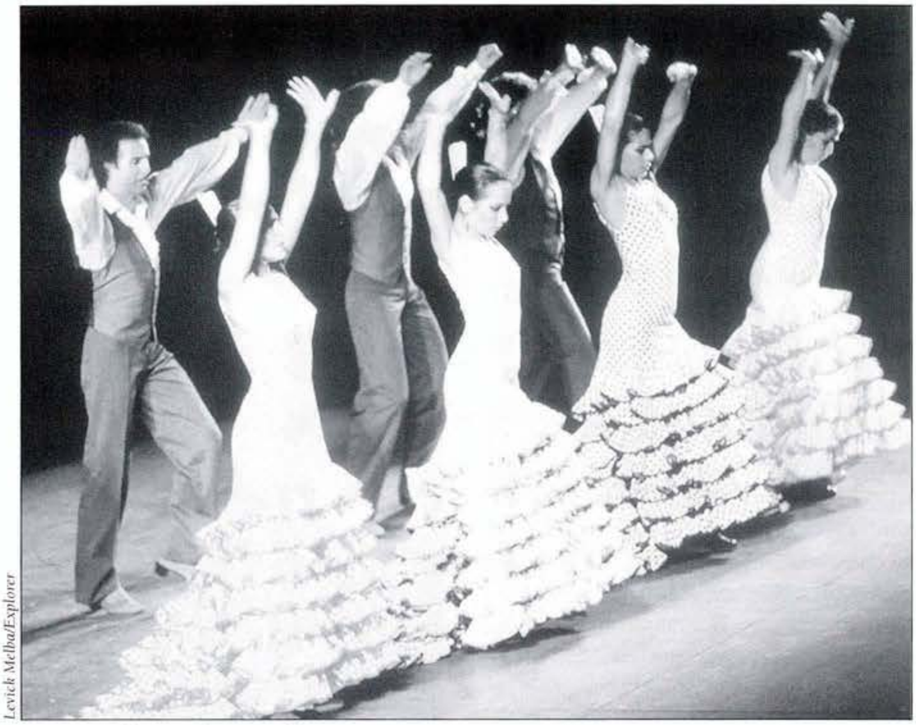
AFP/EPA-EFE/Jose Huesca

A satisfied Mr Aznar

A number of factors have contributed to these good results. First were the budgetary and monetary efforts expended to satisfy the Maastricht criteria, thus allowing Spain to join the euro area from the outset in January 1999. This membership bolstered the confidence of consumers and investors, both foreign and domestic. At the same time, interest rates dipped sharply, having a direct impact on the financing costs of businesses and households, which responded well to major tax reform and deregulation in labour and product markets.

The labour market reform of 1997 was the fruit of a rare display of unity between trade unions and management. With joblessness hitting 22% in 1996 and severance costs so high that more than 33% of employment contracts were fixed-term, Spain was setting records of dubious distinction. The situation impeded the formation of human capital and sapped the confidence of households, making it necessary to formulate a new pact, lowering severance costs and sharply reducing social security contributions. This facilitated the return to the job market of large groups of people most affected by unemployment, such as young people, women and the long-term unemployed. As a result, after hitting more than 42% in 1996, the youth jobless rate slipped back under the 30% mark in 1999. Moreover, the incentive to work was enhanced by the income tax reform of 1998, since the highest marginal tax rate was lowered from 56% to 48%, and the bottom rate from 20% to 18%.

Businesses have enjoyed a more favourable climate. They have improved earnings and strengthened their position in domestic and foreign markets. Furthermore, the 1995 reform of the corporate income tax eliminated double taxation of profits, thereby encouraging Spanish companies to expand internationally. Outward foreign direct investment increased more than tenfold between 1995 and 1999. Companies like Telefónica, Repsol (oil), Endesa (electricity), Iberia, and Banco Santander Central Hispano have become dominant players in South America, where Spain was the leading foreign investor in 1999. Moreover, a large number of clothing chains, such as Zara (one of the largest groups in the world), Mango and Springfield, have racked up remarkable export performances. They have succeeded by going for quality rather than low production costs alone. Meanwhile, in some key sectors like telecommunications, competition has driven prices down substantially and enhanced the quality and diversity of services on offer.



Levick Melba/Explorer

Keep your feet on the ground

Another sign of this new dynamism is Spain's modernised infrastructure: high-speed rail links (Madrid-Seville and soon Madrid-Barcelona and then onward to the French border); and expansion of its motorway system and airport capacities. This is good news for the tourist industry. After all, Spain is the number two visitor destination in the world, after France and ahead of the United States. And tourists are not coming merely for the sunny, though saturated, beaches. A vast campaign to promote cultural tourism has boosted the number of visitors outside of peak summer periods and away from coastal areas. It has paid off. For the past few years, it has been in spring and autumn that the number of tourists has risen fastest, with more trips to cities like Seville, Barcelona and Bilbao, site of the new Guggenheim museum.

Spanish unemployment 1994-99

Source: National Institute of Statistics (INE).

Spain has also become more attractive for foreign investors. This is reflected in the vitality of foreign investment flows – nearly 2% of GDP in 1998 and 1999, up from 1.2% in 1995. Moreover, many of the sectors concerned, such as automotive components (Renault, Daimler Benz, Daewoo) are highly competitive ones in which quality and value-added are essential.

Hold the fiesta

But as with all economic success stories, every silver lining has a cloud. Price stability is one of them. After dipping to a record low in 1997, inflation averaged 2.3% in 1999, as opposed to only 1% in Germany and France – Spain's leading trade partners. In addition, Spanish wages are more often indexed to inflation than in most of Spain's European partners. A large proportion of pay agreements include a catch-up clause that is triggered if inflation exceeds government targets. Yet any slippage in prices would impair the economy's competitiveness and have repercussions on employment. Also, participation in the euro area precludes any cushioning adjustment via the exchange rate. In the short term, a tighter budgetary policy could keep the lid on inflation, but in the longer term a reassessment of the conditions for salary indexation will be needed. At the same time, competition should be bolstered in certain product markets. Electricity prices, for example, remain among the highest in the OECD area, in part because competition between producers is limited.

Unemployment is another area where Spain has serious problems. The jobless rate, which in 1999 stood at 15.9%, remains the highest in the OECD area, whose average is 6.7%. Furthermore, Spanish joblessness varies considerably from one region to another, exceeding

Forecast summary, %

	1999	2000	2001
GDP real growth	3.7	3.7	3.5
Inflation[1]	2.8	2.4	2.5
Household savings ratio[2]	10.9	10.5	10.1
Unemployment rate	15.9	14.0	12.7

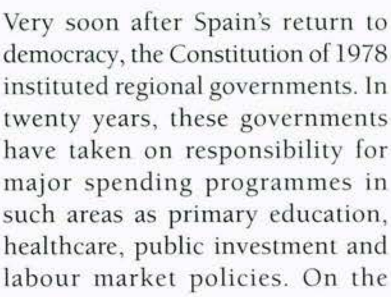
1. Private consumption deflator.
2. % of disposable income.

Decentralisation in Navarre and the Basque Country

Very soon after Spain's return to democracy, the Constitution of 1978 instituted regional governments. In twenty years, these governments have taken on responsibility for major spending programmes in such areas as primary education, healthcare, public investment and labour market policies. On the revenue side, it was not until 1997 that the regional governments were given some leeway in setting rates and bases, for personal income tax in particular.

Regional government financing 1996

Basque country Navarre



Source: Bank of Spain, Agencia Tributaria.

Two regions – the Basque Country and Navarre – are exceptions to this model. They receive no transfers from the State to cover their spending. On the contrary, they themselves pay the central authorities a contribution – the so-called *cupo* – for common expenditure, primarily on defence, foreign affairs and the development of infrastructure, such as airports. In return, the regional governments set their own tax rules (except VAT). They can lower or raise the tax burden to suit the demands of the local population. The trouble is they are also compelled to make cuts in public spending if local tax revenue diminishes. Some observers argue that these regions bear an additional risk, insofar as the amount of the *cupo* depends on spending decisions taken unilaterally by the State, whereas under most existing models of budgetary federalism it is the State that assumes most of the risks.

The model may work for the Basque Country and Navarre regions. But despite its attraction in enhancing the ability to respond to the preferences of local populations, extending it would nevertheless pose a number of problems. Giving each region broad powers to alter the base and the rates of their taxes would increase the complexity of the tax system. And it would pit the regions into competition with each other. While this would clearly have some beneficial aspects, such as encouraging local authorities to make their public services more efficient, it could also become harmful. It could lead to a "rush to the bottom", whereby each region scrambles to lower its tax burden faster than the others to attract taxpayers. The model would also reduce the redistribution of resources from rich regions to poor ones to a pittance. How ironic it would be if a country that enjoyed substantial structural transfers from the EU did not in turn redistribute its own resources. ■ I.J.

26% in Andalusia but at around 10% in Catalonia. And yet, wage levels in these two regions are very similar. Moreover, unemployment benefits are relatively generous, so it is not surprising that migratory movements between regions are rare. In fact, fewer than one in four workers say they would accept a job if it meant having to move. One way of reducing such rigidities is to allow the wage bargaining process to reflect local conditions more closely.

But as with all economic success stories, every silver lining has a cloud. Price stability is one of them. Unemployment is another.

Another idea would be to review measures that impose heavy penalties for breaking housing leases, to make labour more geographically mobile.

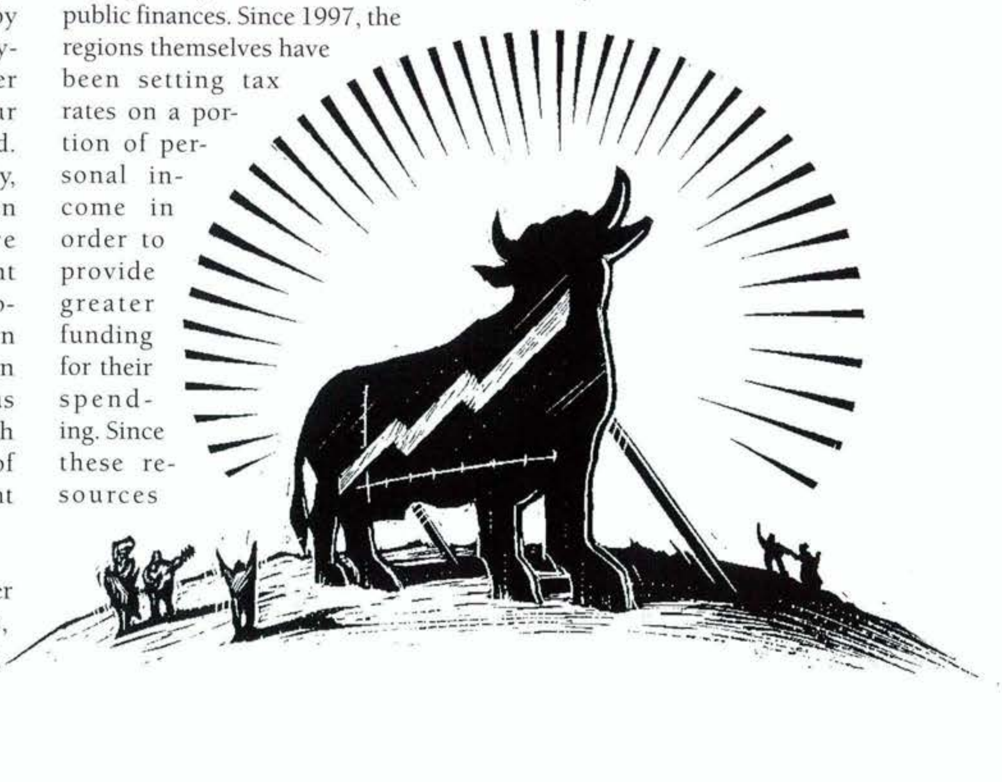
Another reason why Spain should keep its feet on the ground despite its successes is the budget and the structural tensions that weigh upon it. The transfer of powers from the central government to the regions and communes has been accompanied by an increase of public sector employment. And this, despite the rather drastic rule that only one in four retiring civil servants can be replaced. Given the problem of low mobility, instances of overstaffing have arisen in some areas while others have suffered shortages. The government has responded by taking on temporary workers. But if decentralisation is not to exert additional pressures on the budget, the civil service status will have to be redefined soon – with particular attention to the terms of mobility, training during employment and compensation criteria.

Spain's finances could also come under strain from demographic pressures, which are more unfavourable than for most of the other OECD countries. Today, there are four working-age persons to pay for the needs of one elderly person. Twenty years from now, the ratio will be three to one, and it is expected to grow very rapidly. Insofar as the retirement scheme has constituted little or no reserves to cover these future commitments, the potential cost to future budgets is considerable (several percentage points of GDP). Moreover, the ageing population will also have an impact on the labour market, and some economists are already projecting a shortage. All of this needs to be taken into account during the talks on pension reform that will be held this year. In particular, it will be imperative to reconsider the terms of early retirement and the level of benefits – which are currently far more generous than in most of the other OECD countries. After all, it would be economically dangerous if the retirement-plan recently offered to those over 52 by Telefónica became widespread.

If these risks were not enough, policymakers will have to prevent the current system of fiscal decentralisation from putting an additional strain on public finances. Since 1997, the regions themselves have been setting tax rates on a portion of personal income in order to provide greater funding for their spending. Since these resources are particularly volatile, a revenue guarantee system was set in place. Under the system, the State alone assumes the risks and potential costs. In order to avoid such a scenario while still giving the regions more power to tax, the revenue collected by the regions will have to be stabilised. One solution might be to levy more fees – for wastewater treatment, for example – but also to decentralise consumption taxes. Nevertheless, in moving towards greater decentralisation of revenue, the Spaniards will have to review the issue of solidarity between regions. Extending the model in force in the Basque Country and Navarre, which enjoy exceptional independence in tax matters, would seem unwise (see box on previous page).

All these are warning signs for Spain. Yes, the economy is "doing well". But there is work to be done if Spain's impressive growth performance is to be sustained. ■

Note: This article is based on the OECD's February 2000 Economic Survey of Spain. Aristomène Varoudakis and Miguel Jimenez also contributed to the draft of the Economic Survey.



Poland's successful transition

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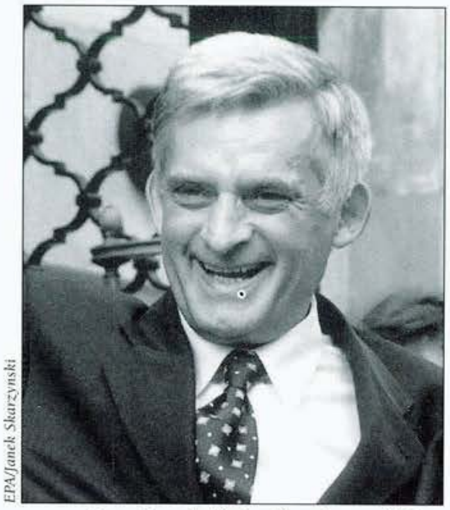
Poland is one of the most successful transitional economies in Europe. Can it keep up its good performance?



EPA/Janek Skarzynski

Jerzy Buzek, Poland's prime minister

Ten years after launching an ambitious programme of economic transformation, Poland has established itself as one of the most successful transition economies. Unlike other countries in central and eastern Europe, Poland did not encounter a mid-course depression, its currency has not been subject to speculative attacks, and the economy slowed down only moderately in the aftermath of the Russian crisis in August 1998. As a result, over the last four years output has expanded vigorously, inflation has declined and living standards have improved.

According to an economic survey published recently by the OECD, Poland's robust economic growth reflects large inflows of foreign direct investment (FDI) and the dynamism of small private enterprises. In 1998 Poland attracted 40% of all FDI flows to central and eastern Europe and the Baltic States. Foreign investors initially focused on the domestic market, which after all is the largest in the region, although they are now showing interest in using Poland as a base for exporting goods to other western markets, including high-tech activities. In addition, with deregulation and small-scale privatisation, a vibrant sector of small and medium-sized enterprises has emerged. More than two million entrepreneurs now operate in retail trade, construction and light manufacturing industry. They make an important contribution to output growth and job creation, and form a new class of consumers.

Barring unexpected developments both at home and abroad, and despite some tightening of macroeconomic policies, output growth should gather new momentum and reach some 5–6% in the next two years.

Private consumption is projected to grow as Polish consumers enjoy strong increases in real disposable incomes in an environment of plentiful consumer goods and emerging new services. Business investment should remain strong, as Polish businesses continue to modernise and foreign investors bring in more capital. With the revival of activity in the European Union, exports should reach double-digit growth rates. The projected economic growth is expected to create more jobs, but registered unemployment – currently around 13% – may decline only gradually in the near future, as large groups of new school leavers join the work force and increase the number of job seekers.

GDP at constant prices 1990-2001[1]

1. For 1990 to 1998, CSO Statistical Yearbooks; for 1999 to 2001, *Economic Outlook*.

Source: Central Statistical Office and OECD.

Beating inflation

An encouraging performance, but to stay on track Poland will have to deal firmly with two macroeconomic challenges, the first of which is to keep inflation under control. Until recently, the monetary authorities had been successful in reducing inflation to a single digit level. They responded to an overheating economy with pre-emptive interest-rate hikes and then dealt successfully with the contagion effect of the Russian financial crisis by aggressively easing monetary policy. These timely actions gave the independent National Bank of Poland and its Monetary Policy Council (MPC) the credibility it needed in the eyes of the financial markets.

But inflation has revived in the last six months and climbed back above 10%.

AFP/Marek Druszcz

Inspiring the transition: Lech Walesa, former president and Solidarity union leader

Such a level is not consistent with Poland's desire to join the European Union and eventually replace its currency with the euro. To get there, the MPC has introduced a new approach of "inflation targeting", a framework under which central banks announce their inflation targets to the public, and then adjust their stance whenever inflation is projected to slip off target. As a first step, the National Bank has announced that it intends to reach a medium-term target of below 4% by 2003. If accompanied with an appropriate monetary stance, this new framework should put Poland back on a path of gradually decelerating inflation.

The second challenge Poland faces is how to continue financing its large current account deficit, which now stands at some 7% of GDP. The deficit has widened in the last few years because of higher imports, a reflection of strong domestic demand. Exports have also been growing, but not fast enough to prevent the trade deficit from widening. While there is no specific level of the current account deficit which is unsustainable, a larger deficit would make Poland's economy more vulnerable to unexpected external events, such as a new financial crisis in emerging economies. Financial markets do not feel comfortable about economies with large external deficits and they need to be reassured that the authorities are committed to the right macroeconomic and structural policies.

That includes maintaining a business-friendly environment that encourages further FDI. Sweeping structural reforms are under way, covering decentralisation, taxation, healthcare, pensions, privatisation, labour, and education, but not all of them have been successful. A recent proposal

Forecast summary, %

	1999	2000	2001
GDP growth	4.0	5.2	5.8
Inflation rate[1]	7.2	7.1	5.4
Unemployment rate	11.4	10.8	10.3
Interest rate[2]	13.1	12.5	11.3
Current external balance[3]	–7.1	–6.7	–6.3

1. Consumer prices.
2. 3-month treasury bonds.
3. % of GDP, transactions basis.

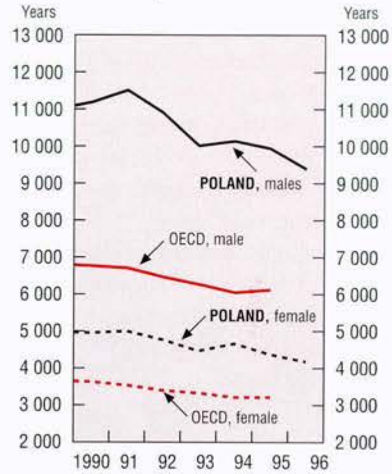
Polish health problems

The Polish economy seems in good shape, but what about its healthcare system?

Devising an effective, fair, accessible and cost-conscious healthcare system is difficult for any country, let alone those in transition. Poland has been grappling with healthcare reform for over a decade and though progress has been slow and piecemeal, some important reforms were implemented over the past few years. Getting them to work implies a change in attitude and habits not only on the part of medical practitioners, but also the general public, and that takes time.

The healthcare system that Poland inherited in 1990 from the Soviet bloc era offered universal coverage with a comprehensive programme of healthcare benefits distributed through facilities owned and run by the state. But the system was overcentralised, over-specialised and costly. It was also poorly managed. Regional inequalities, rationing and misallocation of resources emerged, with growing unofficial payments to public healthcare providers. Increasingly, patients perceived the quality of care to be poor and the general public's dissatisfaction has grown.

Potential years of life lost[1]



1. It is a measure of premature mortality which provides an explicit way of weighting deaths occuring at younger ages, which are, *a priori*, preventable.

Source: OECD Health Data 1999.

Some changes were introduced in the early 1990s, especially regarding the importance of primary care, and on 1 January 1999, a new general obligatory health insurance system entered into force. This latest reform, which operates through regional funds, splits purchaser and provider functions and emphasises the role of family physicians, should provide a strong impetus to the reform process, despite some initial financing problems. This marks a radical shift to a decentralised, insurance-based system. In addition, a comprehensive law on healthcare is currently under consideration that should resolve some of the problems of the new system, one of which is lack of clarity and transparency.

In Krakow and elsewhere in Poland, current "family doctor" experiments have proven to be largely successful in raising the profile of primary care physicians and encouraging patients to use them as gatekeepers to the overall system. However, reform efforts so far have been isolated to regional projects with limited overall effect. In order to attain the official target of 50% specialist and 50% primary care doctors, the family doctor network has to be extended. It will also mean making more training available to both practising and new doctors.

to reform the tax system has, for instance, met with stiff political opposition, and the authorities have been forced to drop some of their most innovative initiatives. And in healthcare, reform efforts have been lagging. Despite a new national insurance scheme and the fact that a comprehensive bill on healthcare is currently under consideration, much needs to be done to get the system right and win the public's confidence.

High marks from Brussels

Though not yet a member, Poland already enjoys a high degree of integration with the EU. Two-thirds of its foreign trade is with the Union. In fact, Poland has a larger share of its trade with the EU than either Greece or Italy, and most of its direct investment flows come from west European countries. The European Commission regards Poland as a functioning market economy, able to cope with the competitive pressures and market forces which being a full Union member will undoubtedly bring.

So where are the weak points? Along with other EU countries, Poland needs to carry out a painful restructuring of industries that receive subsidies inconsistent with EU rules, such as coal mining and steel milling. Its environmental standards remain the legacy of a bygone era and could do with some improving, which would mean costly investments in air and water clean-up equipment. Finally, its small-scale farming sector will have to adapt to EU rules. The goal of EU membership has mobilised the entire country and has been the momentum behind the reform programme. But there are signs of "accession fatigue" setting in, and Poland is right to aim for a swift integration.

Sustained strong economic performance will be a boon to Poland's ambitions. Of course, this presupposes that macroeconomic policy holds its steady course, and that measures are taken to weather the threats arising from both the widening current account deficit and the rise in inflation. Recent decisions by the Council of Ministers and the National Bank of Poland confirm that the authorities are taking these conditions seriously. Parliament has adopted a budget for 2000 that aims to cut the general government deficit and the government has adopted ambitious privatisation targets for the year which will provide the necessary financing of the budget deficit. And the Monetary Policy Council raised its interest rate three times since September 1999, proving its determination to keep the lid on inflation.

Who would doubt the Poles winning the battle? Arguably more than any other country, certainly among transition economies, Poland commands respect in the international arena and so far enjoys the confidence of the market. What remains to be seen is if Poland can sustain this remarkable performance over the long term. ■

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EMU, one year on

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The euro, which was a year old in January, has been a success. Although there is much to be done, its prospects also look favourable.

Katja Lenz/AFP

Wim Duisenberg, ECB president: one year gone

Macroeconomic conditions in the euro area were rather mixed at the time the single currency came into being. The 1997-98 string of emerging market crises was hurting exports, and growth was marking a pause. Sooner than many expected, however, economic conditions improved, helped by the strengthening of growth around the world and favourable monetary conditions at home. As the euro depreciated, exports and output picked up, while deflation fears subsided.

The vigorous ongoing recovery is creating more jobs than previous upturns, thanks to efforts to address some of the traditional labour market rigidities. The hope is now that this recovery will be sustained long enough to bring unemployment down well below what in many countries is still an unacceptably high level. This is a plausible scenario, provided the external environment does not deteriorate and the momentum of structural reforms, including the enforcement of the single-market legislation, does not abate.

Pragmatic policy mix

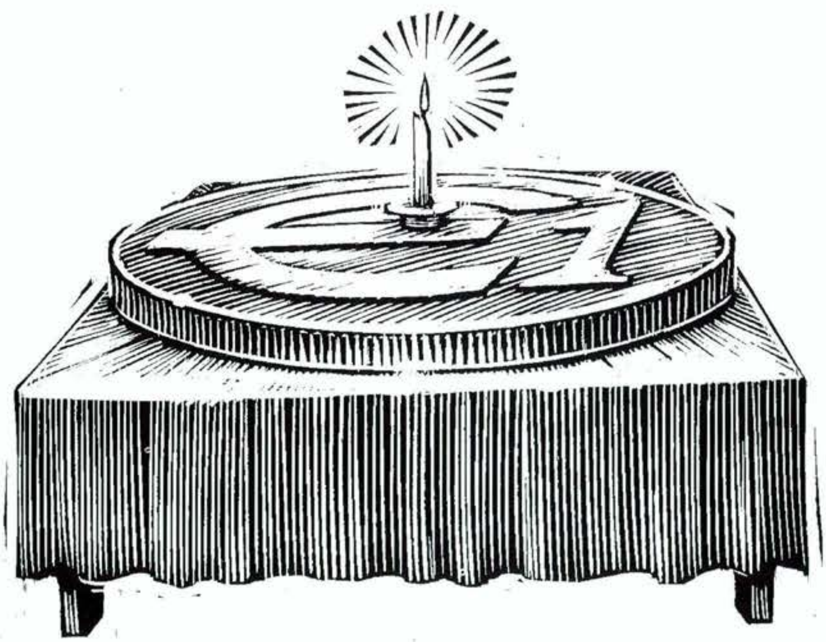
The macroeconomic policy mix in 1999 was broadly satisfactory, and helped support domestic demand in the face of the adverse external trade shock. The two interest rate moves (down in April, up in November) by the Eurosystem, which is the European Central Bank and the eleven participating central banks, met with little criticism and were indeed well-advised. Fiscal consolidation continued. It is proceeding only gradually, however, owing in part to "Maastricht fatigue" following several years of serious adjustment. Hence fiscal balances in a number of countries still need to move closer to what can be viewed as a range safe enough for automatic fiscal stabilisers to come into play, to allow for some slippage in the budget balance in the event of a downturn. Furthermore, business cycles in the euro-area countries are not perfectly synchronised. In those more advanced in the cycle – such as the smaller, fast-growing ones – there is a clear need for a relatively tight fiscal stance, given that monetary policy is tuned to the cycle of the euro area as a whole, for which output remains below potential. High public debt ratios as well as future pension liabilities also call for a measure of fiscal restraint in several countries.

It is difficult to pin down what the "equilibrium" exchange rate level of the euro actually is.

Against this background, the emphasis of fiscal policy is starting to shift from deficit reduction *per se* to the composition of spending and the trade-offs between further deficit compression (or surplus generation) and supply-side friendly tax cuts. This set of questions is being looked at closely in the OECD's surveys of individual euro economies, and the answers vary from country to country.

Talking to the markets

One lesson from the euro's first year is that the Eurosystem's policy framework and communication policy could be improved. The definition of price stability remains somewhat vague and the hierarchy of indicators used fuzzy (in particular with respect to the role of the broad money indicator, M3). Transparency is limited on some counts, for example, by omitting to publish the Eurosystem's own projections. It has also been difficult for policymakers to speak with one voice, or at least one message, on the exchange rate. Expressing any view on the euro is all the more challenging as, despite the widespread feeling that it is by now distinctly undervalued, it is extremely difficult to pin down what the "equilibrium" exchange rate level actually is. Econometric studies deliver a wide range of estimates, depending on the methodologies and benchmarks used, but they lack a fully credible empirical foundation, since the euro's history is so short. Nevertheless, there seems to be a genuine potential for the currency to appreciate over the longer run: growth is picking up in Europe, and at some point in the future the deterioration of the current account deficit and net external debt of the United States will have to be reversed. But how long is the long run?



More reform

Structural reforms are taking place in Europe, as witness the gradually increasing flexibility of labour markets, which translates into higher job creation per unit of output growth. This is a structural improvement in the labour market, as opposed to a temporary, cyclical one. Reforms have also transformed the network sectors, with prices tumbling in telecommunications and, more recently, electricity. Many of these reforms are desirable in their own right, irrespective of the single currency, be it for consumers or workers. But carrying them out helps reduce unemployment, and thereby contributes to making price stability a more acceptable policy goal.

Progress thus far has been good, but there remains a long way to go. Labour markets are still fairly segmented, as evidenced by the high dispersion of unemployment rates across countries and regions (see also last year's OECD study on EMU). Combined with wage and price rigidities, this means that the euro area-wide unemployment rate consistent with stable and low inflation is higher than it would be with more integrated and flexible markets. Further labour market reforms are clearly important. However, they might not deliver the results hoped for if product market reforms are not carried out at the same time. That is how structural reforms work, by taking a broad approach and exploiting synergies. After all, it would be a pity to suffer the pain of partial reforms and yet achieve little in return. ■

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Carlos Ghosn: cost controller or *keiretsu* killer?

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Didier Maillac/REA

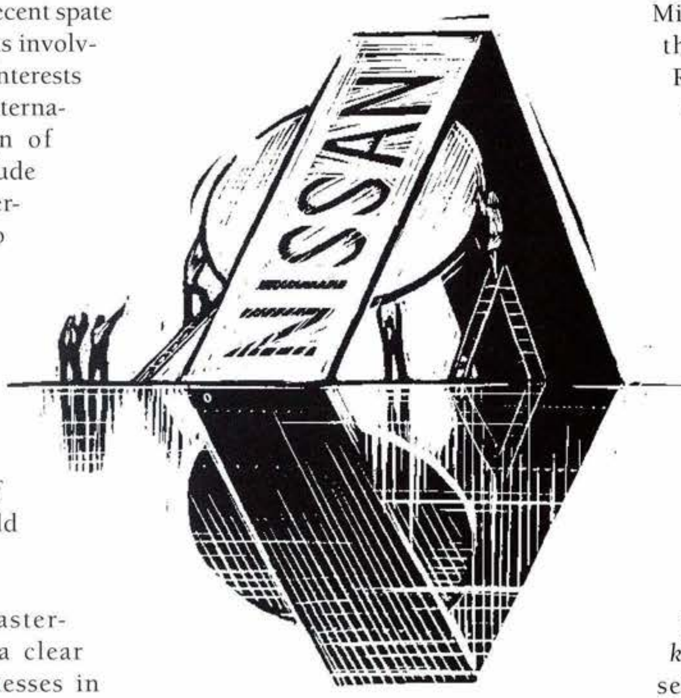
Mr Ghosn points the way forward

The biggest business news in Japan in 1999 was the merger between Nissan and Renault. Nissan Motor, which ranks second after Toyota in Japan, had been ailing financially during the 1990s and its rating had slid into the "speculative" category. The company had been looking for a partner to salvage it from its ever-deteriorating financial condition. But in March 1999, after a number of speculative rumours, the news was confirmed that the French automotive firm, Renault, would acquire 36% of Nissan stock and would send Carlos Ghosn as Chief Operating Officer to replace the bureaucratic and slow-moving management in Nissan. Since then, there is no doubt that this 45 year-old Frenchman is by far the most frequently interviewed and most often quoted businessman in Japan.

Those who remember the nationalistic sentiment that prevailed 20 to 30 years ago in Japan might be surprised by this reaction. Nissan was the most prestigious company in the strategically important Japanese industrial sector. Unlike the independently-minded Toyota, Nissan had traditionally been closed off and more attentive to the Ministry of International Trade and Industry (MITI), the powerhouse of the Japanese economy, which regarded Nissan as the centrepiece of its post-war industrial policy. However, when the deal was announced, to everyone's astonishment, there was no hostile opposition whatsoever, whether within Nissan, industry, government or in the press, to what might have been seen as a humiliating defeat for the Japanese champion company by the power of foreign capital. MITI even stated publicly that they welcomed the move. The Japanese accepted this news with traditional calm and understanding. After all, the move was the only alternative Nissan had left.

The Nissan story and the recent spate of mergers and acquisitions involving Japanese and foreign interests are now seen by many international experts as a sign of change in the insular attitude of the Japanese people. Perhaps Japan is starting to become even more open in its attitude to mergers and acquisitions than some of its counterparts in Europe, as the recent bid for Mannesmann AG of Germany by Vodafone of the United Kingdom would suggest.

The Nissan merger masterminded by Renault is a clear reflection of the weaknesses in the Japanese management system, which not so long ago had been revered by western business gurus. In fact, most of the actions that Mr. Ghosn proposed in the so-called "revival plan" represent a clear departure from the traditional way of doing business. Take *keiretsu*, for example, that circle of related stockholders which has encapsulated business relations in Japan for two or three decades. The purpose of *keiretsu* is multiple. Its system of cross-holding of stocks had been devised during the period of rapid economic growth in the 1950s and 1960s, when Japan was obliged to remove restrictions on the holding of Japanese stocks by foreigners, as a condition of entry to the OECD. Typically, 30-50% of stocks were cross-held by companies in the same *keiretsu*, as a means of preventing take-overs by outside investors. In a sector such as automobiles, for example, *keiretsu* fostered long-term relationships between buyers and suppliers, of parts and components. *Keiretsu* members worked together to carry



out joint R&D projects, to ensure a stable supply of parts and to provide mutual help when needed.

In Nissan's case, there is another aspect, which is less well-known but no less important. The senior managers of the *keiretsu* companies of the Nissan Group were former Nissan employees, and usually senior ones at that. This made it very difficult for Nissan to refuse to buy from these *keiretsu* companies, even when they were not competitive. This cohesive and long-standing supplier-buyer relationship has been one of the most important ingredients of both the Japanese corporate governance system and management. Breaking up this *keiretsu* link has always been considered taboo.

A repair job

Hence the logic of appointing Carlos Ghosn to the task. He had an impeccable track record as a cost cutter, which he earned as president of Michelin North America and later as the executive vice-president of Renault where, in 1998, he saved FF 9 billion (US$1.5 billion) by closing factories – including a politically controversial one at Vilfoord, Belgium – cutting staff-levels and terminating relations with uncompetitive suppliers. A major highlight of his "revival plan" for Nissan is to reduce the number of *keiretsu* companies tied by cross stock-sharing from 1,400 to a mere four. The stock currently held by Nissan in these companies will be sold off to generate some much-needed cash. This will probably backfire, as these *keiretsu* companies in turn sell their Nissan stock, a move

Nissan's revival plan, October 1999

	1999	2000
Production capacity million vehicles	2.4	1.65
Assembly plants	7	4
Components plants	4	2
Number of employees	148,000	127,000
Number of suppliers	1,145	600
Sales cost	..	–20%
Number of share-holding companies	1,394	4

which will drive down the ailing company's stock price even further. But Mr. Ghosn seems undeterred. As with Renault before, he is determined to streamline the supply source and cut costs. As a result, most of the present suppliers will be eliminated from the suppliers' lists, except the most competitive company that will take all the business. Many of the companies in the Nissan Group will face bankruptcy. What is more, managers who were formerly Nissan managers and who have friends and acquaintances in Nissan will become jobless. This attack on the *keiretsu* is something that Nissan could never have done alone, however urgent action had become.

The Nissan merger masterminded by Renault is a clear reflection of the weaknesses in the Japanese management system, which not so long ago had been revered by western business gurus.

Management was evidently the single most significant gain Nissan Motor made from the merger with Renault. It did not need much else. For many years, Nissan has been known for the quality of its technology. The company participated in the Japanese space development programme, developing an engine with the power to launch a rocket booster. Nissan's workers are regarded as industrious and disciplined. However, its sales were in the doldrums and the firm had begun to lose market share.

But the Japanese company did not appear to have the people it needed in top management to steer the 66-year-old company through today's tough global marketplace. Its business strategy lacked focus and its resources were scattered over too many product lines and overseas markets. It reflected an awkward and ultimately mistaken strategy of trying to compete on all product lines and markets where Toyota, its much larger rival and market leader, was present. So it suffered heavy losses in its operations in the United States at a time when Toyota and Honda were clocking up record profits.

Many proposals were drawn up to deal with the problem, but they were either rejected or just not implemented properly. As a result of the merger with Renault, at least it now has a manager who is free of the old bondage system and who can make the tough decisions needed to break up the *keiretsu* and revamp Nissan.

In 1853 Admiral Perry forced the Japanese *shogun* to open its doors to foreign vessels with four gunboats. In 1945 General MacArthur stood on the outskirts of Tokyo after it had been completely destroyed by air raids. Each event marked the end of one era and the beginning of a new one. At the start of the millennium, Mr. Ghosn may have his name inscribed in the history of Japanese business in very much the same way. He has many hurdles to clear before one can really talk of a new era. Whether Nissan will return to profit in the fiscal year of 2001 is far from certain. But it is unlikely to be Mr Ghosn's fault if it doesn't. ■

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Global business: getting the frameworks right

The OECD Guidelines for Multinational Enterprises are being reviewed. It's a timely, though delicate, task.

The far-reaching review of the *OECD Guidelines for Multinational Enterprises* is a delicate exercise. After all, any agreement has to take account of the different values, legal traditions and levels of economic development that are found in the many countries that would be affected by new norms. The Guidelines are non-legally binding recommendations to business by 32 governments (the OECD members plus those of Argentina, Brazil and Chile) covering a broad range of issues in business ethics. These range from labour relations and the environment to fighting corruption and protecting consumers. The trouble is that many of the Guidelines' recommendations have not been altered much since their adoption in 1976. So, by drawing on consultations with business, labour unions, NGOs and non-member countries, the OECD has resolved to update and improve them.

Chris Brown/Saba-REA

Reading the guidelines

The revised draft text is divided into ten sections: concepts and principles, general policies, disclosure, employment and industrial relations, environment, combating bribery, consumer interests, science and technology, competition and taxation.

The original Guidelines were adopted as part of the OECD Declaration on International Investment and Multinational Enterprise, which provides a balanced framework defining both the rights and the responsibilities of the business community. But in 1976 multinational enterprises (MNEs) were just emerging as a major force in the international economy. Through their trade and investment activities and their positive impact on technology and human resources, MNEs were known to bring substantial economic benefits to home and host countries alike. At the same time, though, the ability of MNEs to organise their operations beyond national boundaries caused concerns about possible conflicts with host country policies and economic and political power concentrating in the hands of multinationals themselves.

Many MNEs have tried to respond to these concerns, often by working in co-operation with civil society. In one of the most prominent trends in international business in recent decades, many have issued their own codes of conduct making corporate commitments that often cover the same issues as the Guidelines (the issues most often covered in the private codes are labour relations and environment). Companies have also refined and strengthened management controls and practices designed to help them to respect these commitments in their day-to-day operations. This movement has raised business awareness and boosted managerial know-how in such areas as environmental protection and combating corruption to levels that would have been unthinkable twenty years ago. In fact, in contrast to what is occasionally said of them, MNEs often lead other companies in defining and implementing high standards for business conduct.

MNEs are an integral part of the international economy they themselves have helped to build. They are clearly vital for capital flows and diffusing technology. And they are also an important source of tax revenues. However, civil society remains cautious about the social, economic and environmental impacts of their activities. The OECD Guidelines, though non-binding, seek to address those concerns, in part by reinforcing the efforts MNEs have already made. They will do this by providing a common frame of reference that will help MNEs to ensure that their operations and activities fulfil the expectations of their home and host countries. For example, both OECD members and most non-OECD governments share the goal of promoting human rights in the workplace. Multinational enterprises, acting on their own and through their supply chains, can make an important contribution in this area. The Guidelines provide an institutional setting in which signatory governments can encourage those efforts.

The Guidelines are, at present, the only multilaterally endorsed code of conduct covering so many areas of business ethics. When finalised, they will represent the consensus view on appropriate business conduct for 32 governments, including the home countries of most of the leading multinationals. Although corporate observance of the Guidelines is voluntary, governments, working with business leaders, are well placed to see to it that these principles are respected.

The current review, in trying to position the Guidelines in today's rapidly evolving global environment, is expected to result in a revitalised and more transparent instrument. As part of this transparency, the draft Guidelines have already been opened for public comment and scrutiny since early January 2000 and the level of feedback has been substantial (see web reference below). OECD is also actively looking at the follow-up procedures and it is expected that geographical coverage of the revised Guidelines will be made global. The results of this process are expected to be finalised at the OECD Ministerial Council Meeting at the end of June. Business and labour interests have always endorsed the Guidelines and there is every reason to believe that this will be the case when this review is concluded. It is also hoped that non-governmental organisations will enter this partnership with governments, labour and business so that all can contribute toward a shared goal: the continual improvement of the framework for international business to help raise the welfare and living standards of people everywhere. ■

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What is corruption?

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Corruption is talked about openly in most countries these days and few countries deny they suffer from it. Which is a good thing, since it provides politicians, business and labour leaders, journalists and civil society with a rare opportunity: that of agreeing on the urgency of stamping it out. But agreeing on what exactly is meant by corruption is another matter. Even the most widely used definition, which is "the abuse of public office for private gain", may err on the side of over-simplification.

The early 1990s witnessed a proliferation of initiatives aimed at fighting corruption – on the national, regional and international levels. Fighting corruption has engendered an unusually high degree of international co-operation, leading to an armoury of international instruments, such as the OECD's Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, or indeed, the Council of Europe's Criminal Law Convention on Corruption. The reason the international community has mobilised to fight the problem is simple: corruption respects no borders, knows no economic distinctions and infects all forms of government. In the long run, no country can afford the social, political or economic costs that corruption entails. It erodes public confidence in political institutions and leads to contempt for the rule of law; it distorts the allocation of resources and undermines competition in the market place; it has a devastating effect on investment, growth and development. Furthermore, corruption exacts an inordinately high price on the poor by denying them access to vital basic services.

A whole host of conditions can influence corruption, its different manifestations, its pervasiveness and, indeed, its perception by ordinary citizens. Understanding the multifaceted dimension of corruption is essential in order to identify workable ways of dealing with it.

Alain Pinoges/CIRIC

A tough stance

Corruption comes in many guises. Bribery, extortion, fraud, trafficking, embezzlement – but also nepotism and cronyism – are all different manifestations of it. Even the most straightforward acts of bribery need not always involve the exchange of money. Other gifts or advantages, such as membership of an exclusive club or promises of scholarships for children, have been used as "sweeteners" to clinch deals. Whatever form it takes, corruption is always a two-way transaction; it requires a supply side (the briber) and a demand side (the one who receives the bribe). That is why measures must be designed to hit both sides of the corruption equation.

Unfair play

Another aspect of corruption is that it can occur in many different sectors of the economy. A commonly cited and morally reprehensible form is when government officials abuse public trust by accepting bribes from private businesses. However, the distinctions between the private and public sectors have been blurred by privatisation, and corruption within the private sector is not without pernicious consequences as well. While not as common, bribes happen between public officials too. And a recent bribery scandal involving government representatives and officials of the International Olympic Committee in a bid to influence the choice of venue for the Olympic Games is a reminder that propriety is something to be maintained between public officials and respected non-governmental organisations as well.

Petty corruption can mean many more years of grinding poverty for the world's economically disadvantaged.

There are different degrees of corruption too. Some would distinguish between "petty" corruption and "grand" corruption. The former usually involves small sums paid to low level officials to "grease the wheels" or cut through bureaucratic red tape. The headline making cases of large multinational companies paying millions of dollars to government leaders or politicians to obtain lucrative business contracts are examples of corruption on a grander scale. The distinction should not imply that some forms of corruption are worse than others. Indeed, petty corruption which can interfere with the delivery of basic education and healthcare programmes, can have very serious consequences, even to the extent of causing many more years of grinding poverty for the world's economically disadvantaged.

When corruption permeates a country's political and economic institutions, it is no longer a matter of a few dishonest individuals, but rather institutional, systemic corruption. It is a phenomenon which thrives where institutions are weak or non-existent. And it is strongly related to poor governance. Systemic corruption happens most where adequate legislative controls are lacking, where there is no independent judiciary or oversight, and where independent professional media and civil society agencies are absent. Reforms aimed at providing greater transparency and accountability of public institutions and government operations are urgently needed to redress such corruption.

There is much to be done. And let it not be forgotten that wherever corruption occurs and at whatever level, the ultimate victims of corruption are ordinary citizens and society at large. That is why fighting corruption is so important. Finding effective, credible and enforceable measures to stamp out corruption and to hold those guilty accountable is more than a noble objective. Our economic, political and legal institutions may depend on it. ■

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Economics of corruption

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Ian Waldie/Reuters/MAXPPP

Fuzzy business

In a 1995 study of investment and loan risk data for 52 countries, Alberto Ades and Rafael Di Tella found that an increase of US$4,400 in per capita income would improve a country's ranking on a corruption index (0 for total corruption, 10 for total integrity) by two points. An increase in exposure to competition would also lead to an improved ranking. Such findings not only show the links between underdevelopment and corruption (see article by Irène Hors), but they underline the extent to which corruption has a strong economic dimension.

For most economists, the root causes of corruption lie in the delegation of power. It is the discretionary use of that power and the often monopolistic position public agents enjoy when dealing with contracts which make corruption possible. The incentives and opportunities for corruption depend on the size of the rents, or the personal profit, which public agents can derive from allocating those contracts.

Corruption therefore occurs at those points where the political, bureaucratic and economic interests coincide. There is legislative corruption when politicians betray the electorate by selling their votes to pressure groups, and administrative corruption when public officials take payoffs to allow someone to secure a procurement contract or to gain immunity for tax dodging. In fact, opportunities for misdemeanour exist at every level, from grand corruption at the highest public office, to petty corruption at the lowest rung on the ladder.

Like any other market, corruption is based on a contract between different interests. Firms, pressure groups and citizens try to maximise their gains by paying bribes, while public officials try to maximise their illegal earnings and politicians their power and wealth. Bribe payers may seek to avoid or reduce costs, through illegal reductions in taxes, lax enforcement of regulations, underestimated rent for public housing or the dropping of criminal charges. Multinationals might pay bribes just to jump the queue in getting a house or a telephone line connected. Even obtaining a research grant often presupposes a bribe. Bribers may even be coerced to pay, which is called extortion.

Incentive bribes, payoffs and extortion happen to be rare in developed countries, but frequent in developing ones. Corruption is, of course, present in developed countries. The dubious funding of political parties is one example, and before the OECD Convention came into being, multinationals found it easier to receive government export assistance than they do now. But, with strict property rights, mature institutions and well-paid civil servants, developed countries can hardly be said to suffer from systemic corruption. Supply is plentiful enough to remove the incentive to jump queues. And the scrutiny that public governance is subjected to makes corruption in most OECD countries very difficult to get away with (see article on the Public Sector).

The picture could not be more in contrast with the situation in many developing countries, where weak governance and rights are endemic. Property rights are at best just being established and remain open to abuse, at least for a time. Young democracies often find it hard to break free of the clientism, patrimonialism or corporatism that afflict undemocratic regimes. Bribes continue to be collected, often to line the pockets of the elite and to buy political backing.

Deliberate corruption and predatory behaviour

It is important to distinguish between the political and economic effects of corruption, since they are by no means identical. The concept of market power helps us to make that distinction.

There are four possible permutations of power involving the demand side (public officials) and the supply side (private agents) of the market.

The first is a bilateral monopoly, which occurs most often when power between the public and private sectors is evenly balanced, and when the political and economic elite is small and homogenous. It is the type of situation found in Europe and the United States. Here, the elite prohibits the petty corruption of bureaucrats and, if democracy is in place, the electorate can punish it too.

The second power relationship is where the demand side is stronger than the supply side, as in the so-called kleptocracies of the developing world, such as the former Zaire and Pakistan. Here it is the recipients of bribes who set the transaction prices. This is extortion. It thrives on maintaining constant competition between rent seekers, sometimes using violence and intimidation. Extortion exists when civil society or the private sector is weak, with few or no human or property rights. Political power may also be highly fractionalised between regions, ethnic groups or party factions. Corruption in this predatory situation leads to the most negative effects of all. Rents from raw materials or international aid dry up because they have either been over-exploited or exhausted. Tensions over their distribution increase, the social system breaks down and violence escalates. Civil war often follows.

In the third permutation, the supply side is stronger than the demand side. Private elite or multinational firms exert their power over minor public officials. The state gives in to organised crime, often under the threat of violence. Because the bribe payers dominate, the levels and prices of corruption are lower than in the demand-dominated system.

Sometimes the supply and demand sides are fragmented, leading to the fourth permutation as seen in the Ukraine, with multiple bribe payers in competition with each other. ■ J.C-B.

Making up the economic lag can lead to corruption. If there are natural resources to exploit, as in Mexico and Nigeria after the discovery of oil, they are likely to be sold for above-market prices, since bribes are usually needed to secure concession sales.

What costs?

The costs of corruption are difficult to calculate, partly because of the secrecy involved and also because the distortions caused are hard to measure. But some effects seem to be beyond doubt.

One result is lower overall investment. A 1997 study by Paolo Mauro of 67 countries covering data from 1960-85, found that if a country such as Egypt were to heighten the efficiency of its administration and improve its corruption score of 4 out of 10 to the same level as Argentina's 6, (again where 0 means total corruption and 10 means none at all), the rate of investment would increase by 3% and the growth rate would increase by 0.5%. Another study in the same year, by Shang-Jin Wei, argues that a worsening of Singapore's perfect score of 10 to that of Mexico's 3.25 would be the same as raising the tax rate by 21 percentage points.

cal (see box). The corruption that accompanied agrarian reform in Morocco in the early 1970s may have contributed to political stability, but it undermined economic growth. On the other hand, the same political stability may have boosted growth over the longer term.

But it should not be concluded that all corruption damages growth. The World Bank has found that countries with more predictable corruption have higher investment rates. Thus, countries with endemic but predictable corruption, such as Thailand and Indonesia, have had strong investment growth.

Businesses would be willing to pay additional taxes if corruption were eliminated.

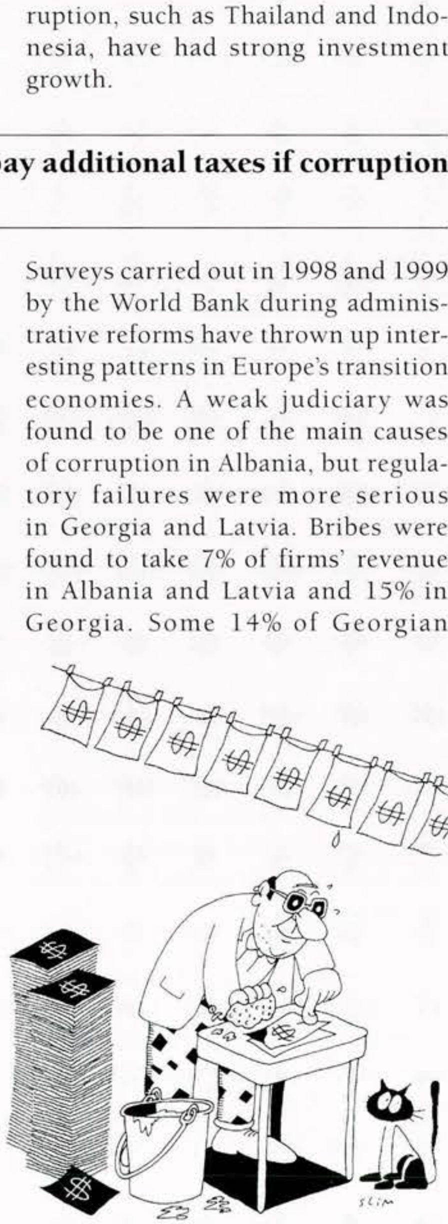
Another effect of corruption is that it tilts public spending towards projects that make it easier to collect on bribes, at the expense of priority programmes. Hence the proliferation of "white elephant" projects. And typically, spending on defence is preferred over education. This is because it is difficult to benchmark prices of custom-built high-tech equipment.

Crucially, corruption can lower the quality of public goods and services and even threaten safety. The collapse of buildings in Seoul and during the earthquake in Turkey was partially blamed on substandard contracts and shabby construction.

Corruption also distorts the redistributive role of the state. It fuels the informal sector and acts as an incentive to evade taxes. It also totally distorts programmes to combat poverty, undermining international aid and reconstruction programmes.

It is important to distinguish between the political and economic effects of corruption, since they are by no means identi-

Surveys carried out in 1998 and 1999 by the World Bank during administrative reforms have thrown up interesting patterns in Europe's transition economies. A weak judiciary was found to be one of the main causes of corruption in Albania, but regulatory failures were more serious in Georgia and Latvia. Bribes were found to take 7% of firms' revenue in Albania and Latvia and 15% in Georgia. Some 14% of Georgian



households admitted to paying bribes and 11% in Latvia. Not surprisingly, the survey, which covered between 350 and 450 enterprises, also showed that businesses would be willing to pay additional taxes if corruption were eliminated.

The losses can be even higher. In Uganda, according to the World Bank, public spending on primary education trebled in 1991-93, but oddly, enrolment rates did not rise. A survey of 250 schools showed that over 70% of capital funding got misappropriated.

So how does this economic analysis help us? It provides some insight into the causes of corruption by examining the concepts of information, power, monopolies and rents. The causes in turn highlight the roles of poverty, civil-service pay and social cleavages. Unfortunately, most studies suffer from a serious lack of data, and most of the research to date has been on developing countries. Yet, as noted, corruption is not absent in developed countries, especially at a business-to-business level. More research on this would help to build a clearer, more complete picture of corruption generally, along with its costs. Until then, corruption will continue to be a rather murky business. ■

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Money laundering: staying ahead of the latest trends

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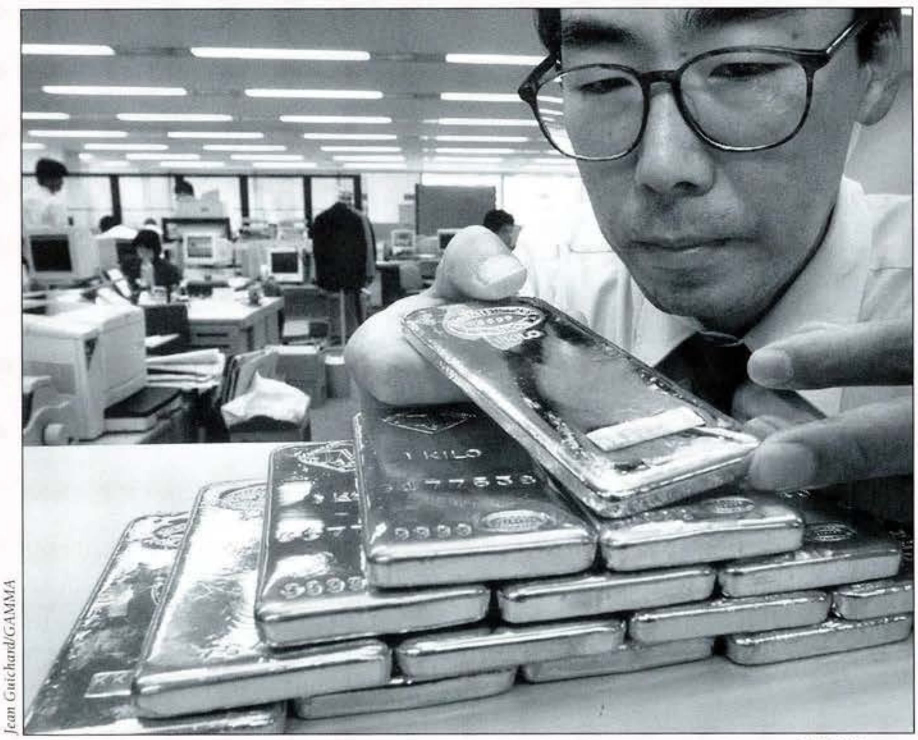
Today's typical money launderer may no longer be a suspicious-looking individual carrying a suitcase full of banknotes. Yet the purpose of his profession has not changed. It is still to give a legal existence to assets acquired illegally, camouflaging profits and concealing their origin. The only novelty is that to achieve their ends, launderers are using more and more sophisticated and complex means.



Jean Guichard/GAMMA

Gold fingers

According to the IMF, the scale of money laundering world-wide could be somewhere between 2% and 5% of world GDP. On 1996 statistics, this translates into a range of US$590 billion to US$1.5 trillion. Growing concern about this activity has prompted a number of initiatives at the international level. Organisations like the United Nations and the Basel Committee have been looking into the problem of money laundering since the late 1980s. But it was not until the Financial Action Task Force on Money Laundering (FATF) was set up by the G7 in 1989 that co-ordinated action really began to be developed. One of the first tasks of this body, which comprises twenty-six member countries and jurisdictions, two international organisations and three observers, was to spell out a number of measures that national governments should take to combat money laundering. These became known as the "Forty Recommendations". They cover the criminal justice system and law enforcement, and the financial system and its regulation. In addition, international organisations like the European Union and the Organization of American States, to name only two, have established anti-money laundering standards for their member countries, while the Caribbean, Asian and Eastern European countries have created regional FATF-type groupings.

Progress has certainly been made, notably in the countries that have introduced anti-money laundering measures, but the problem has by no means been resolved. The facilities and methods used by launderers are changing all the time as they try to circumvent the preventive measures put in place. Instead of introducing illegally obtained cash into the country's financial system, they move it to other countries where no questions are asked about its origin. Set-ups involving offshore financial centres seem to have certain common features: a series of financial transactions by the centre's intermediary, use of dummies or other intermediaries to handle the transactions and an international network of shell companies. Often a laundering deal will involve more than one offshore centre. The inability to obtain information about the real owners of the foreign entities with corporate status is one of the chief obstacles to detection, investigation and prosecution of persons suspected of money laundering. In this regard, the non-cooperative countries and jurisdictions, *i.e.* those that explicitly refuse to co-operate with the FATF, continue to be a cause of major concern (see bibliography).

But the problem of money laundering is more than just a matter of particular countries or jurisdictions. It also involves the professional service providers – accountants, lawyers and similar professionals – who operate not only in offshore zones, but also in some FATF countries. These service providers set up and manage entities with corporate status, thereby giving the apparatus of money laundering considerable sophistication and a gloss of respectability. At present, only a few countries require professional service providers to report suspicious transactions, and their notifications have been on a limited scale.

Increasingly sophisticated methods

With the ever-widening range of financial instruments on offer, other laundering possibilities are being opened up. The derivatives and securities markets seem particularly susceptible to recycling of organised crime proceeds because the audit trail is so easily blurred. A broker can very well launder a sum of money through a perfectly legal transaction, with no need even to make a false entry. All that is necessary is to assign genuine trading losses to the account in which the illegal funds will be deposited. For example, it is absolutely legal for a dealer in the financial futures market to hold two contracts for subsequent offset. By assigning trading gains and losses to two different accounts, one "regular" and the other to receive the laundered funds, the dealer can put through a laundering operation on the loss account without breaking the law.

Insurance – notably life, property and long-term capitalisation bonds – is another possibility. Launderers generally pay for the insurance with cash and then request early redemption of the policy or make a claim against their property insurance, thus obtaining payment in bank money from the insurance company.

Electronic fund transfers continue to be the preferred method for the layering of criminal proceeds once they enter the legitimate financial system. Frequently, these proceeds are smuggled out of one country, deposited in another, and then wired back to the country of origin. The new payment technologies – smart cards, online banking and electronic cash – can theoretically increase the opportunities for laundering. If an online financial institution is located in an area known for high levels of banking secrecy and requires little or no proof of identity for opening an account, the money launderer can then move funds from the convenience of his computer terminal. Certain smart card and e-cash systems likewise present a risk in that no upper limit is set on transactions. While most smart card systems do not permit direct card-to-card transactions, others are being developed that may have this capability of bypassing a financial intermediary. In the absence of consistent standards and suitable monitoring by the supervisory authorities, these new payment technologies could well be vulnerable to money laundering operations.

The new payment technologies can theoretically increase opportunities for laundering.

The gold "hedge"

As in the case of high-value commodity markets, the gold market is causing some concern over the money laundering possibilities it offers. A number of FATF members have received reports of suspicious gold transactions. In some instances, these transactions appeared to reflect attempts to avoid high VAT rates by making large purchases of gold in countries with low VAT rates and then exporting the bullion back to the country of origin. The use of gold for purposes of laundering is often intrinsic to movements of money through parallel banking circuits, an example being the South Asian hawala/hundi system. This particular system, based on trust and close business contacts, enables gold to be transferred without being physically moved. Using the system is more cost effective and less bureaucratic than moving funds through officially recognised banking systems. Laundering of this kind, which is extensively practised over the sub-continent, has spread to many other parts of the world. But the Gulf States are the hub of hawali/hundi gold movements to and from South Asia.

Euro wise

The introduction of the euro in eleven countries of the European Union is another source of risk. Preventive measures have been taken to forestall all attempts at money laundering. But the experts fear that the surge in exchange transactions during the period of changeover to the euro may swamp the personnel of financial institutions and make them more likely to miss or disregard indications of laundering. This could be the case during the period from January to June 2002, when euro coins and banknotes will replace national legal tender. However, the preventive measures in place – customer identification, due diligence, reporting of suspicions, etc. – should make it possible to detect any suspect transactions. Even so, some FATF members have decided to take additional measures to strengthen their anti-laundering precautions.

The fact remains that money launderers have time and again shown their ingenuity in circumventing the law and there is no reason to think that they will lose that innovativeness in the years ahead. Consequently, every effort has to be made to acquire maximum knowledge of the different methods and techniques of money laundering. Corporate and non-financial laundering and the new payment technologies should be given particular attention. Also, in the current context of globalisation, reviews of laundering typologies should be extended to other regions of the world: Asia, Africa, Latin America, Central and Eastern Europe. ■

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Enforcing the Convention

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The OECD Convention may have entered into force a year ago, but many of its signatories still have to incorporate it into domestic legislation and enforce it. A rigorous process that warrants close examination.

The fight against bribery is no easy affair. True, an important milestone was passed when the OECD Convention outlawing the offer, promise or giving of bribes to foreign public officials entered into force in February 1999. This is all very laudable, but what about its implementation? Certainly, there is no doubting the public show of political will. Of the thirty-four signatories, which are the world's biggest exporters, twenty or so – including Australia, Austria, Belgium, Canada, Germany, Japan, Korea, Mexico, Spain, Switzerland and the United States – have already amended their laws to accommodate the obligations laid down by the Convention. Elsewhere the parliamentary machine has been set in motion. The process may be lengthy, either because parliamentary agendas are full, as has been the case in countries such as France, or because domestic elections have made it necessary to postpone or restart debate on the bill at a later time, as has been the case in the Czech and Slovak Republics, Chile and Turkey. Moreover, different bodies have to be consulted before the text can be put before parliament, all of which adds more time to the process.


Gerard Uferas/Rapho

A fair judge

Even so, it is expected that by the end of 2000 or earlier all the countries that signed the Convention in December 1997 will have amended their legislation. Those which fail to do so, or whose legislation does not meet the Convention's criteria, will come under pressure from their peers to put their house in order. In fact, the consequences of doing nothing could be quite damaging for credibility and business. Countries that appear reluctant to punish bribery of public officials might quite simply start losing markets, not least because companies increasingly seek to do business where bribes are not part of the deal.

Peer pressure

At the end of the day, political commitments and conventions are meaningful only if they are enforced. To test whether they are, the OECD has adopted a system of peer review by the signatories. This procedure requires the signatories to review each other's regulatory system and measures to enforce the principles laid down by the Convention.

Those principles are four in number: first, imprisonment and fines for those found guilty of bribing a public official in order to obtain or retain business; second, criminal, civil or other penalties for companies that falsify their accounts in order to conceal payment of bribes; third, ending tax deductibility for commissions paid by companies to public officials in order to obtain business or another advantage (see article on Tax Deductibility); and fourth, increasing international judicial co-operation to ensure more effective prosecution of those committing acts of bribery.

So how does the peer review process actually work? Each signatory to the Convention is required to produce a progress report on the basis of a questionnaire drawn up by the OECD. The report is then examined by a working group, which meets in Paris about once every two months. Most of the experts who represent the signatory countries come from justice and finance ministries. They decide on a list of three, four or possibly five other countries to be reviewed before the next meeting. This pace is dictated by the fact that the laws of all the signatories have to be reviewed between now and the next OECD ministerial council summit, scheduled for June 2000.

Rapporteurs are appointed who present their conclusions to the working group in the light of a report prepared by the OECD. The report is a real exercise in investigation, analysis and expertise. The OECD not only peruses the national report produced by the country under review, but also analyses its statutory texts and law reports, reads the records of parliamentary and non-governmental debates, and talks to experts on all sides.

The *viva voce*

Then comes judgement day, when the review takes place. It is carried out in closed session to guarantee a frank discussion. Like any other *viva voce*, the session begins with a presentation by the country under review of the legislative measures it has taken to comply with the Convention. The two examining countries then present their evaluation. Next, each signatory country may ask questions on specific points of legislation or procedural issues and, where appropriate, express an opinion. The experts from the country under review may answer questions, clarify their country's position and, in short, defend themselves. It is rather like presenting a doctoral thesis, and the entire session lasts one or two hours, depending on the issues examined.

But the evaluation does not stop there. The two examining countries then write up their evaluation of the reviewed country's compliance with the obligations imposed by the Convention. Naturally, this text is sometimes the subject of intense discussion between the reviewed country and its counterparts. In practice, the examined country tends to accept the evaluation and commits itself to make the recommended amendments. These recommendations might ask a country to look again at the way its legislation deals with a particular element of an offence, like its definition of "foreign public official", or to consider imposing criminal penalities on corporations. They might even ask the country to consider toughening the sanctions for persons found guilty of bribery. All of the evaluations will be reviewed again by the Working Group prior to submission of the summary report to OECD ministers in June of this year.

Verifying the conformity of national laws with an international convention is one thing. Actually enforcing the rules is another. Accordingly, starting later this year, teams of international experts will visit each country to meet with political, administrative, police, customs, judicial authorities and other relevant bodies to discuss enforcement. The trips, whose findings will be the subject of a report, are expected to reveal any flaws in the Convention and throw up other issues for discussion.

The fight against bribery is clearly not over by any means. But at least the question of whether the Convention works is one we may be able to answer sooner rather than later. ■

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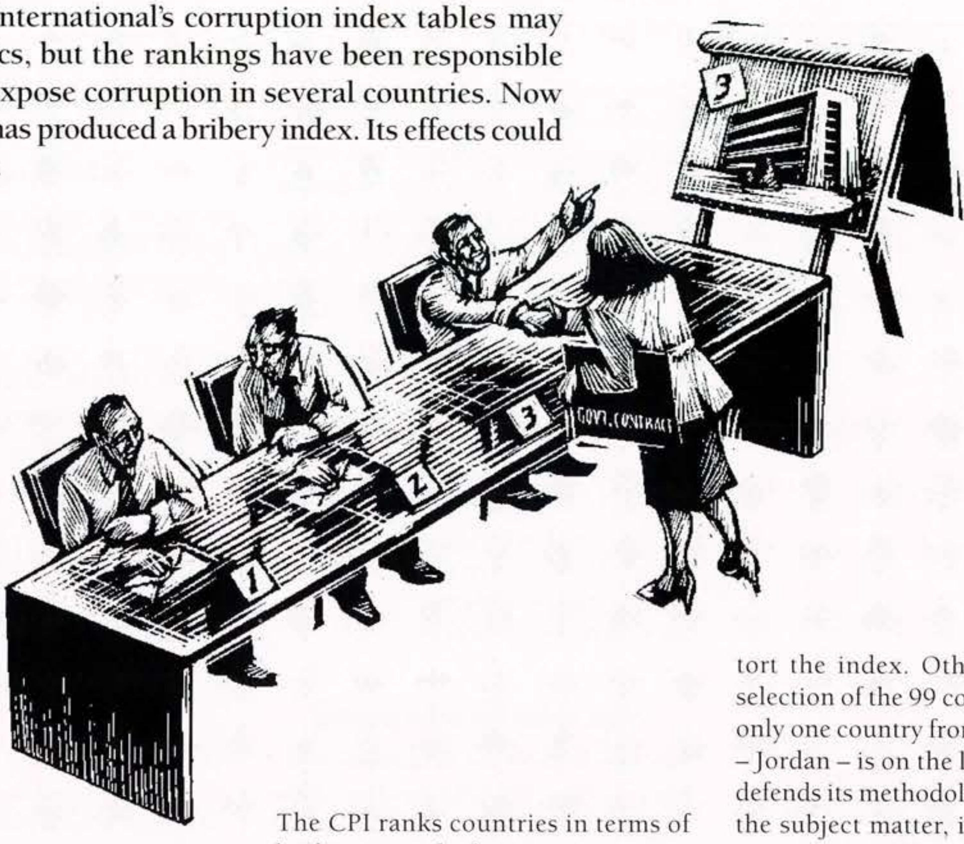
- Visit the OECD anticorruption unit at www.oecd.org/daf/nocorruption/ #The monitoring procedure

Transparent tables

Transparency International's corruption index tables may have their critics, but the rankings have been responsible for helping to expose corruption in several countries. Now Transparency has produced a bribery index. Its effects could be far-reaching.



In September 1998, Transparency International (TI) published the most comprehensive index to date on perceptions of corruption in eighty-five countries worldwide. Since its inception in 1995, the Corruption Perceptions Index (CPI) has encouraged debate and provided the basis for substantive anti-corruption reforms in a number of countries.

Transparency International focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. It is this misuse of public power for private profit that Transparency International's corruption index seeks to flush out.

The CPI ranks countries in terms of the degree to which corruption is perceived to exist among their public officials and politicians. The 1999 index ranks 99 countries, drawing on 17 different surveys from 10 independent institutions carried out among business people, the general public and country analysts.

Critical perceptions

There is no denying that the corruption index has been important in raising a broad public awareness of corruption. According to its authors, it has even prompted reforms in some cases. Yet the index has also attracted criticism. Some of that criticism has been about the quality of Transparency's survey methodology. Some have argued that the variable sizes of the surveys used in different countries distort the index. Others question the selection of the 99 countries surveyed; only one country from the Middle East – Jordan – is on the list. Transparency defends its methodology, though given the subject matter, it accepts there is room for improvement. Another accusation is that the index is unreliable because it is based on perceptions, not on hard empirical data. But then again, even hard data, such as comparing the number of prosecutions or court cases, can go soft when questions about the quality of prosecutors and the courts are added.

A less defensible point made about the corruption index was that it showed only one side of the corruption equation: the receiving end. The bribe payers were left out of the picture. Not surprisingly, the ranks of corruption-prone countries are overwhelmingly found among very poor countries. The countries with low levels of corruption are all advanced, industrialised countries. But who paid those bribes? And wasn't one of the founding principles of TI to highlight the very

1999 Transparency International Corruption Perceptions Index (CPI)[1,2]

Rank	Country	Score
1	Denmark	10.0
2	Finland	9.8
3	New Zealand	9.4
	Sweden	9.4
5	Canada	9.2
	Iceland	9.2
7	Singapore	9.1
8	Netherlands	9.0
9	Norway	8.9
	Switzerland	8.9
11	Luxembourg	8.8
12	Australia	8.7
13	United Kingdom	8.6
14	Germany	8.0
15	Hong Kong	7.7
	Ireland	7.7
17	Austria	7.6
18	USA	7.5
19	Chile	6.9
20	Israel	6.8
80	Armenia	2.5
	Bolivia	2.5
82	Ecuador	2.4
	Russia	2.4
84	Albania	2.3
	Georgia	2.3
	Kazakhstan	2.3
87	Kyrgyz Republic	2.2
	Pakistan	2.2
	Uganda	2.2
90	Kenya	2.0
	Paraguay	2.0
	Yugoslavia	2.0
93	Tanzania	1.9
94	Honduras	1.8
	Uzbekistan	1.8
96	Azerbaijan	1.7
	Indonesia	1.7
98	Nigeria	1.6
99	Cameroon	1.5

1. The CPI relates to perceptions of the degree of corruption as seen by business people, risk analysts and the general public, and ranges between 10 (highly clean) and 0 (highly corrupt).
2. This table is an extract, comparing the 20 highest ranking countries with the 20 lowest. A full table is available on www.transparency.de

global nature of corruption? After all, some US$100 billion annually is paid out worldwide in the form of bribes or some other pay-off, much of which comes from wealthier countries.

A new ranking was therefore added by Transparency International in 1999 to measure the propensity to pay bribes among leading exporting countries. Called the Bribe Payers Index (BPI), Transparency describes it as a logical response to the 1999 OECD Convention, under which most of the leading industrial countries are committed to taking action to stop transnational corporations in their countries from paying bribes abroad. According to Transparency, the new bribery index aims to bring public attention to the need for full implementation and enforcement of the Convention, as well as offering one possible way of evaluating the Convention's success.

What about the bribe payers?

The new bribery index ranks the leading exporting countries in terms of the degree to which their companies are perceived to be paying bribes abroad. It is the result of a special international survey conducted for Transparency International by the Gallup International Association in 14 leading emerging market economies from around the world – five in Asia/Pacific and three each in Africa, South America and Europe. Together the countries surveyed account for some 60% of emerging market imports. This is important, since the bribery index is supposed to capture the responsibility of exporting countries for corruption and the impact on developing and transition countries – what Transparency calls the "front line" in international corruption.

Gallup surveyed 55-60 respondents in each country, including chief executives of large foreign and national companies covering a wide array of business sectors, principals of commercial law practices, partners of leading accountancies and the heads of commercial banking at big banks. About 90% of the respondents were from non-OECD countries.

Some surprises

What are the main patterns thrown up by the 1999 indices? First of all, on the corruption index, some important

As with the corruption index, a Scandinavian country – this time Sweden – is again perceived to be the least likely to pay bribes. China and Korea were ranked lowest.

developed countries, like France and Italy, were not considered "clean" enough to make it into the top 20, even though both have been in the vanguard of the fight against corruption, as witness the "Clean Hands" operations of the Milan magistrates in Italy and similar tough procedures in France. Other European countries, where banking secrecy is a feature – and even questioned by the Financial Action Task Force on money laundering – did.

The last two countries on the list are African neighbours, Cameroon (ranked 99) and Nigeria (98). But as Transparency emphasises, they are perceived as the most corrupt on the list at a particular moment in time and their position might change on a longer, subsequent list. Another point dividing the highest from the lowest ranked is the size of their government spending as a percentage of GDP: lower than average for the sample in the most corrupt countries, considerably higher than average government spending for the least corrupt. Of course, this difference relates only to officially recorded expenditure figures.

As with the corruption index, a Scandinavian country – this time Sweden – is again perceived to be the least likely to pay bribes. This is interesting, since Sweden is one OECD country where the tax deductibility of bribes was until last year not completely disallowed (see article by Martine Milliet-Einbinder). China had the worst ranking, behind Korea, which was the OECD country perceived most likely to pay bribes. According to at least one newspaper survey after the bribery index was released, the Korean public appeared not to disagree with the finding. The pressures of being an emerging economy (and a post-crisis one at that) may be one reason for Korea's perceived propensity to pay out bribes (see article by Jean Cartier-Bresson).

Thomas Crown Affair/Kipa

This is my last offer

Needless to say, the new Bribery Index caused a stir when it was published in October 1999. In Germany, which along with the United States had a middle ranking, the president of the Confederation of German Industries (BDI), Hans-Olaf Henkel, called on exporting companies to deal with foreign bribery more vigorously. He said that many companies in Germany were still unaware of the new OECD Convention banning the bribery of foreign public officials. And as a sign of peer pressure in action, Mr Henkel appealed to the German government to lean more heavily on those OECD countries that still had not ratified the anti-bribery convention.

1999 Transparency International Bribe Payers Index (BPI)[1]
Ranking 19 leading exporters

Rank	Country	Score
1	Sweden	8.3
2	Australia	8.1
	Canada	8.1
4	Austria	7.8
5	Switzerland	7.7
6	Netherlands	7.4
7	United Kingdom	7.2
8	Belgium	6.8
9	Germany	6.2
	United States	6.2
11	Singapore	5.7
12	Spain	5.3
13	France	5.2
14	Japan	5.1
15	Malaysia	3.9
16	Italy	3.7
17	Taiwan	3.5
18	South Korea	3.4
19	China (including Hong Kong)	3.1

1. The BPI relates to leading exporters paying bribes to senior public officials. In the scoring: 10 represents a perceived level of negligible bribery, while 0 represents responses indicating very high levels of bribery.

Which sectors?

Another innovation of Transparency International in 1999 was to publish perceptions of bribery in business sectors. The results were not altogether a surprise, since business executives and professionals in leading emerging market countries see international bribe-paying to be greatest in the public works and construction sectors, followed by the arms industry. Banking and finance, interestingly enough, were perceived to have relatively low corruption levels. ■ R.C.

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Trade rules for fair play

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WTO rules can help in the fight against corruption. That would be good for trade.

There is no single international definition of bribery and corruption, just as there is no single area where corruption manifests itself. Still, international trade is an area that is particularly vulnerable to corrupt practices. Not surprisingly, within the detail of WTO agreements are rules which contribute to the fight against corruption by helping to build a domestic regulatory environment where corruption is less likely to occur.

There are essentially two ways to combat corruption, either by dissuasion or prevention. The former aims to reduce the gains from corruption through sanctions, such as criminalising corrupt behaviour or excluding corrupt companies from access to economic benefits. The latter seeks to introduce competition in government, reduce the areas of bureaucratic discretion by clarifying applicable rules, improve transparency and scrutiny to make corruption less rewarding and more risky, and eliminate the motives for corrupt behaviour. Improving the wage levels of public officials may be one way of doing this. Granting import/export permits more easily and without having to pay a bribe is another.

WTO rules and disciplines are on the "preventive" side. The implementation of various provisions, such as on Customs Valuation, Pre-shipment Inspection, Government Procurement and Rules of Origin, aims to clarify applicable rules, reduce the complexity

Michel Baret/Rapho

A tight procedure

of procedures and improve the predictability of the regulatory system. Even though neither the 1994 GATT agreement nor any of the other WTO agreements specifically address corruption and bribery, they certainly fight it by reducing bureaucratic arbitrariness and improving transparency and accountability, even to outside evaluators.

The gradual liberalisation of world trade in general, namely through tariff bindings, specific commitments in the General Agreement on Trade in Services (GATS) and provisions of agreements such as that on Technical Barriers to Trade, helps to eliminate the business incentives for corrupt behaviour by legally reducing overall operation costs. This means that conforming with WTO obligations is a process which not only helps countries to reap the benefits of trade liberalisation, but also to improve their domestic regulatory environment, making it less prone to corruption.

Rules of the game

Non-discrimination rules are vital to the multilateral trading system. They provide for equality of competitive opportunities between like products and services and help to prevent trade distortion. And they have to function properly to win the confidence of businesses and other stakeholders, including governments. Corrupt practices are clearly a violation of those rules because they result in discriminatory treatment. For this reason, the Agreement on Technical Barriers to Trade, for instance, requires that if fees are charged for assessing the conformity of products coming into a country, they should be no different to fees charged for assessing similar products of national origin or goods coming from any other country.

Bribery and corruption thrive on secrecy. The 1994 GATT requires that "laws, regulations, judicial decisions and administrative rulings ... be published promptly in such a manner as to enable governments and traders to become acquainted with them." And the Government Procurement Agreement contains a series of provisions, which seek to ensure that the tendering procedures are open and transparent to all interested parties. In fact, unsuccessful bidders have to be provided with such additional information on the contract award as may be necessary to ensure that the procurement was made fairly and impartially.

Assuring a stable and predictable business environment is one of the main reasons for creating a multilateral trading system in the first place. By reducing risks, a predictable trading system not only facilitates trade and investment flows, but could also remove any incentive firms may have for acting corruptly. Unwarranted administrative delays are in many cases seen as trade barriers, and bribes are often required to secure a more efficient service. This practice is one of the targets of the WTO's Pre-shipment Inspection Agreement, which requires that an inspection be concluded within five working days.

Clear rules make it harder for public officials to make abusive requests and for businesses to ask for unwarranted preferential treatment. In other words, impartiality is vital and the GATS seeks to achieve this, by demanding its signatories to "ensure that all measures of general application are administered in a reasonable, objective and impartial manner." The Agreement on Trade-Related Aspects of Intellectual Property Rights takes an equally tough stance: "Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly, or entail unreasonable time limits or unwarranted delays." And the preamble of the Customs Valuation Agreement recognises the need for a "fair, uniform and neutral system for the valuation of goods for customs purposes that precludes the use of arbitrary or fictitious customs values".

WTO obligations may affect corrupt public officials requesting or accepting bribes, but they do not concern the payment of bribes by private businesses to public officials.

WTO rules can make a contribution to building a less corrupt world, though technical assistance may be needed to help developing countries enforce them effectively. But while reducing the opportunities and motivations for corruption through trade regulations is a valuable preventive weapon in the fight against bribery, experience shows that it is not enough to eradicate corruption. Moreover, WTO rights and obligations apply only to states and not to individuals, businesses or other private parties. This means that the enforcement by a government of its WTO obligations may affect the acts of corrupt public officials requesting or accepting bribes, but it does not concern the payment of bribes by private businesses to public officials. That is where the OECD Convention comes in. The two instruments reinforce each other and are perfectly complementary. Indeed, together the Convention and the WTO rules can help make international trade both freer and fairer. ■

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Writing off tax deductibility

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The tax deductibility of bribes is a practice which the Convention has made easier to abolish.

Until recently, offering bribes to foreign public officials as a way of obtaining contracts was a perfectly normal way of doing business in many OECD countries. Companies seeking contracts abroad often expected to have to pay a bribe to foreign officials, just to stay in the race. Several governments saw no reason to disagree and offered favourable tax treatment for bribery payments, which could be written off as expenses. These governments argued that making bribes to foreign public officials non-deductible contradicted the principle that all expenses associated with earning taxable income should be taken into account for tax purposes. A second argument they cited was that non-deductibility would be an ineffective deterrent against bribery of foreign officials anyway, even if it changed the effective cost of a bribe. Both arguments were flawed. On the first argument of taxation principles, there are already exceptions for certain legal costs, such as entertainment expenses and gifts, as well as certain payments that are illegal under domestic law. As for deterrent effects, if companies could get a tax deduction for bribes, what incentive would they have for not offering one?

Disallowing the tax deductibility of bribes serves as a strong and politically visible symbol of the common international commitment to combat bribery.

The OECD has developed a simple argument: disallowing the tax deductibility of bribes serves as a strong and politically visible symbol of the common international commitment to combat bribery. And if combined with the criminalisation of bribery, non-deductibility becomes a potent force. Therefore, in April 1996 the OECD adopted a Recommendation on the Tax Deductibility of Bribes to Foreign Officials calling on those member countries which allowed the tax deductibility of bribes to foreign public officials to review their legislation with the intention of denying that deductibility. A Recommendation on Combating Bribery in International Business Transactions adopted on 23 May 1997 reinforced that call.

Not all OECD countries at the time treated bribery favourably for taxation purposes; in fact, about half of them disallowed the deductibility of bribes to foreign officials, though not all for the same reasons. In 1996 only 14 denied the deductibility of bribes to foreign public officials as a general rule. Canada, the United Kingdom and the United States denied it because of the illicit nature of the bribe in their own countries. In fact, if any part of the offence was committed in the United Kingdom, for example, whether the offer, the agreement to pay, the soliciting, the acceptance, or the payment itself, it would be covered by the corruption laws and would then not qualify for tax relief. Under Poland's law, bribery is illegal and an offence for both the briber and the recipient of the bribe and both are punishable.

Other countries adopted approaches that were perhaps a little less explicit. The Czech Republic, for example, classified all bribes as gifts, which were mostly not deductible. In Japan, bribes were categorised as entertainment expenses, which by definition made them non-deductible anyway. In several countries – Finland, Greece, Hungary, Ireland,

The Anti-Corruption Ring

A key element in an effective anti-corruption campaign is the sharing of information and experience on initiatives taken by countries, international organisations and civil society. With this in mind, the OECD's Anti-Corruption Unit has launched an extensive information centre on the web that includes regional networks. Participating countries and international organisations continuously supply the regional webs with relevant information on country-specific anti-corruption initiatives, survey results, research reports and other relevant anti-corruption information, including technical assistance programmes.

Three regional webs have so far been launched. The first one, set up in October 1998, is called the Anti-Corruption Network for Transition Economies, and is targeted at countries from central and eastern Europe and the former Soviet Union. All parties interested in reducing public sector corruption in the region – government, businesses, civil society, private individuals – can share action-oriented data through this network. The second one is for the Asia-Pacific region. It includes a regular forum on anti-corruption activities under the joint auspices of the Asian Development Bank and the OECD. The third one is for south-eastern Europe and is part of the Stability Pact Anti-Corruption Initiative for South-Eastern Europe, which it helps to monitor.

These three regional webs are part of one of the largest information centres on corruption and bribery on the web. Called the Anti-Corruption Ring Online or AnCorR Web, it is a repository of more than 3,000 references to books, journals, papers and other articles, as well as downloadable or on-line anti-corruption documentation, such as laws, international conventions, anti-corruption strategies and other anti-corruption information. Anti-corruption practitioners and individuals need to have concrete information in order to design and implement anti-corruption activities, and AnCorR provides the qualitative and quantitative knowledge that is required to assess all aspects of corruption. It also helps donors to identify the current situation in most regions of the world and to provide them with a real-time working tool to co-ordinate their assistance programmes.

By providing a forum for policy dialogue well as offering direct access to the regional initiatives, the AnCorR web enables experts and the public to keep track of the fight against corruption around the world. AnCorR is supported by a large number of partnerships, including with the American University of Paris, Basel University's Law School, the Business and Industry Advisory Committee to the OECD (BIAC), the Financial Action Task Force on Money Laundering (FATF), the Institute of Latin American Studies of the University of Sorbonne, the International Chambre of Commerce (ICC), the Trade Union Advisory Committee to the OECD (TUAC), the World Bank and the Stability Pact. ■ F.W.

AnCorR Web can be visited at http://www.oecd.org/daf/nocorruptionweb/index.htm

Italy, Korea, Mexico, Spain and Turkey – bribes of foreign officials simply did not qualify as a deductible expense, and were thus not allowed, even if there were no explicit provisions against them in some of these countries. In Denmark, Iceland, Norway and Sweden, bribes paid to foreign public officials were only deductible if they were documented business expenses and if they were a customary practice in the country of the recipient.

In the remaining countries – Australia, Austria, Belgium, France, Germany, Luxembourg, Netherlands, Portugal, New Zealand and Switzerland – bribes to foreign public officials were still as deductible as any other business

expense, at least in principle. In practice, a deduction for a bribe was often disallowed because of insufficient documentation to support the fact that the expense was a necessary part of the transaction in question. Moreover, the deductibility of bribes to foreign officials was generally conditioned upon disclosing the identity of the recipient to the tax authorities, which taxpayers are naturally reluctant to do.

The next move

Substantial progress has been made since the 1996 Recommendation. Within the last three years, the OECD countries concerned have reviewed their legislation on the tax deductibility of bribes to foreign public officials. In fact, most of them have passed legislation and only a few have bills pending in parliament. Concerning the non-member signatories of the OECD Convention, Argentina, Bulgaria, Brazil and the Slovak Republic have declared that they deny the tax deductibility of bribes to foreign public officials.

The deterrent effect of these changes depends on the measures put in place to ensure that taxpayers are complying with the law. The future OECD Audit Guidelines for the Detection of Bribes to Foreign Public Officials will help by training tax inspectors in the best techniques to use when examining accounts to detect suspicious payments. These guidelines will, for example, identify whether a company has significant transactions with governments and will contain recommendations to scrutinise recurring payments to anyone who is not a usual supplier.

Follow-up mechanisms are crucial to ensure the effective implementation of the Bribery Convention and Instruments. The OECD attaches great importance to ensuring that national legislation meets the standards set by the Convention. But ultimately, it is up to each country to enforce the laws implementing the Convention and bribery instruments in the area of taxation. If they do so, then the fight against bribery will stand a better chance of succeeding. ■

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Getting the public ethics right

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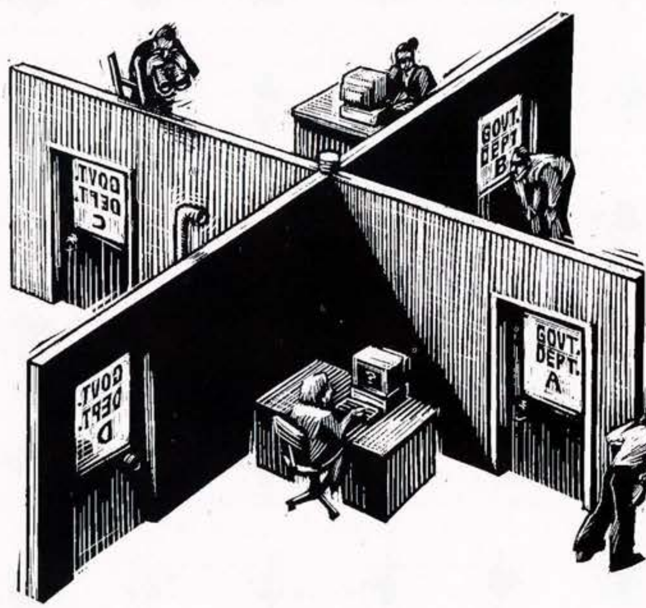
Corruption is more than a question of individual criminal actions. It is also the result of systemic failure. There is a way to combat it.

What is an ethics infrastructure? The term might sound like quite a mouthful, and yet it has become a cornerstone in a comprehensive strategy to fight against public-sector corruption in modern democracies. As far as public-sector ethics are concerned, corruption is a management problem. It spawns in conditions where even the finest laws do not make it beyond the statute books and where weak public institutions fail to enforce the rules or provide adequate control, oversight and transparency. Integrity is a fundamental condition of democratic government. And countering corruption and promoting public integrity are critical components of sustaining economic development and making a successful transition to a market economy.



Corruption is therefore not a cause, but a symptom of breakdown. To understand it means to address the factors influencing ethical behaviour in the public service. Which brings us back to our notion of an ethics infrastructure. OECD countries employ a range of tools and processes to discourage undesirable behaviour and to provide incentives for good conduct. They issue basic codes of conduct which employees are expected to abide by, like rules about protocol, behaviour and promotion. High standards of behaviour are required in high places, too, with senior staff being asked to lead by example, including operating in a transparent manner. There is no single method or miracle cure for stamping out public-sector corruption. Rather, a combination of incentives and sanctions is needed to encourage the right professional standards of conduct. It is the sum of these approaches that makes up an ethical infrastructure.

Different strokes

As one would expect of an infrastructure, all of the functions and separate elements that sustain it should be mutually reinforcing. Three building blocks hold the infrastructure up; they are control, guidance and management. These are all vital concepts and they are reflected in public management in all OECD countries. However, the emphasis given to one or other of them varies from country to country, probably for historical, political and cultural reasons.

Control is essentially a regulatory dimension, a legal framework which assures independent investigation and prosecution in the public sector, as well as full accountability, transparency and scrutiny. It is an approach which is particularly emphasised in the United States. Where rules exist, the control element ensures that they are implemented.

Guidance on the other hand relies more on leadership, personal responsibility and showing by example. Whereas under the control concept, problems have one solution, guidance sees not problems but dilemmas. And dilemmas can have several possible solutions. It is the managers' job to find the best one. The guidance approach is liked in the Scandinavian public sector and in the United Kingdom as well. Convention (though not necessarily conservatism) is a powerful force underpinning guidance, which is usually bolstered by codes of conduct, as well as professional education and the communication of values.

The third building block in the ethics infrastructure is management. European countries tend to lay emphasis on this approach of laying down practices and policies and seeing to it that the ethical system works on a routine basis. In most cases, management is the responsibility of the ministries themselves to deal with. But in a handful of countries it is handled by special outside bodies, such as the Public Service Commission in Ireland or the powerful US Office of Government Ethics (OGE), which is a sort of transparency watchdog, handling among other things the financial disclosure of high-ranking officials, including the president.

These ideas are quite subtle and building an ethics infrastructure can be confusing for governments and public-sector managers. Take whistleblowing, for example, which on the face of it seems a rather straightforward business; if an employee spots wrongdoing, he or she reports it. But are employees obliged to be whistleblowers and will their employment rights be protected? What if whistleblowing is abused and interferes with government business? Such questions are still the subject of intense debate in the OECD.

Visible costs

Arguably the most important ingredient of a healthy public sector is transparency. Transparency shows how much the three underpinning elements of control, management and guidance interact. It relies on leadership and example, but also basic rules which guarantee responsibility, accountability and scrutiny. And transparency has to be managed as a routine matter. After all, the public has an ongoing right to know how their institutions apply the power and resources entrusted to them. The OECD now argues that public-sector decision-making should be visible and open to independent scrutiny in all manner of ways. Even advertising job vacancies is a form of transparency which is sorely lacking in several countries. Information disclosure systems and a healthy and independent media are also forms of transparency which cannot be taken for granted.

Interestingly, building a transparent and trustworthy public sector may actually bring real economic savings. More evidence needs to be gathered on this, but the hypothesis is a valid one: that transparency reduces the overhead costs by reducing the need to create parallel institutions. A government sector which lacks an ethics infrastructure is likely to spend more money on ways to improve its trustworthiness. In some developing countries, several anti-corruption agencies can be found in the same public sector investigating each other's activities, which is a sign of the divisions and feelings of mistrust that are rife in some governments.

Getting the ethics infrastructure right is obviously about more than saving money. It is about progress, about upgrading the mission of government for the 21st century. That means building on values like honesty, rights and democracy. And for governments it may be the only way forward. For as Edmund Burke warned, a state without the means of change is without the means of its own conservation. ■

SIGMA: the front line in transition countries

A cornerstone of the OECD's anti-corruption programme is the work it performs through SIGMA – Support for Improvement in Governance and Management in Central and Eastern European Countries. This is a joint initiative which is principally funded by the European Union's Phare Programme. The initiative supports public administration reform efforts and advice on building modern, accountable, solid and transparent systems of administration in thirteen countries in transition, these being Albania, Bosnia-Herzegovina, Bulgaria, the Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. SIGMA counsels officials in areas like financial control, budgeting and public procurement.

Clearly, these responsibilities place SIGMA in the forefront of the battle against corruption. SIGMA has also teamed up with Transparency International to produce the Anti-Corruption Directory, an in-depth reference guide to the multinational programmes, institutions and personalities supporting anti-corruption efforts in central and eastern European countries. Readers can consult the directory on http: www.oecd.org/puma/sigmaweb/index.htm, clicking on their country of choice. For further information, contact Bart.Edes@oecd.org or Directory@transparency.org.

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Fighting corruption in the developing countries

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The fight against corruption is not the monopoly of the industrialised countries. Nor can recipes that have worked in OECD countries necessarily be applied to developing ones. Of the 134 countries that attended the 9th International Anti-Corruption Conference organised by Transparency International in Durban last October, over a hundred were developing countries. More and more of these countries are expressing their resolve to combat corruption, echoing international initiatives, such as the OECD Convention.


Luigi Baldelli/Agenzia Contrasto/REA

Despite the real efforts made, there has been little concrete progress to date. In most developing countries today, corruption is widespread and part of everyday life. Society has learned to live with it, even considering it, fatalistically, as an integral part of their culture. Not only are public or official decisions – for instance, on the award of government contracts or the amount of tax due – bought and sold, but very often access to a public service or the exercise of a right, such as obtaining civil documents, also has to be paid for.

Many politicians owe their careers and status to corruption and few of them, if any, will take a stand against it.

Several mechanisms help to spread corruption and make it normal practice in these countries. Civil servants who refuse to toe the line are removed from office; similarly, businessmen who oppose it are penalised vis-à-vis their competitors. Furthermore, an image of the state has grown up over the years according to which the civil service, far from being a body that exists to implement the rights of citizens – rights that mirror their duties – is first and foremost perceived as the least risky way of getting rich quickly. All of which helps to make corruption seem normal.

In practice, it is the environment in which public servants and private actors operate that causes corruption. Public administration in developing countries is often bureaucratic and inefficient. And a large number of complex, restrictive regulations coupled with inadequate controls are characteristic of developing countries that corruption helps to get around.

But to understand corruption, institutional analysis is not enough. A political and economic analysis is important too. Whether it be in Benin, Bolivia, Morocco, Pakistan or the Philippines – five countries examined in a study by the OECD Development Centre and the UN Development Programme – corruption is closely linked to the type of government involved.

The link between political and economic power can be direct. There is patrimonialism, as in Morocco, where access to political power ensures access to economic privileges. The link can be indirect too, as in the Philippines, where political power, such as a privileged position in a patronage-based system, can be bought and sold. In short, the process of allocating political and administrative posts – particularly those with powers of decision over the export of natural resources or import licences – is influenced by the gains that can be made from them. And the political foundations are cemented as these exchanges of privileges are reciprocated by political support or loyalty.

Feeding underdevelopment

Another feature common to the countries studied is their underdevelopment, which is conducive to corruption. In fact, underdevelopment encourages corruption. How is this? First of all, low wages in the civil service encourage petty corruption, and the imbalance between the supply of, and demand for, public services likewise creates opportunities for corruption. Also, individuals tend to invest in a career in the public service, given the shortage of opportunities in the private sector, thus increasing the likelihood of their involvement in corrupt practices. Another reason is that the low level of education found in underdeveloped countries maintains citizens in a state of ignorance of their rights, barring them from participating in political life.

Institutional analysis of corruption indicates where the remedies lie. Greater transparency, accountability and merit-based human resource management in public administration are principles which, if implemented, make it possible to curb corruption. Simplification of state intervention in economic activity also helps. A study of the customs administration in Senegal found, using econometric tests, that a reduction in import taxes, simplification of their structure, implementation of reforms reducing the discretionary powers of customs officials and computerisation of procedures helped to reduce the level of fraud by 85% between 1990 and 1995.

But identifying the direction that reforms should take is only part of the task. The main difficulty lies in implementing them. This requires a strategy that really is operational. Two kinds of obstacles are usually encountered. The first is economic. While underdevelopment does not inevitably generate corruption, underdeveloped countries do not have the same means as more advanced ones to escape it. It is difficult to replicate the strategy adopted in Hong Kong, for instance, which involved the creation of an investigative agency with a large staff and plentiful funds (see box). The fight against corruption must therefore be based on the development process itself.

The second kind of obstacle is political. Many politicians owe their careers and status to corruption and few of them, if any, will take a stand against it, either for fear of upsetting their own careers or the political status quo generally.

Civil society and the media can help by denouncing corruption and putting pressure on the government. But the real impediments to the fight against corrup-

Cleaner Hong Kong

The determined and innovative measures taken by the authorities of Hong Kong Territory are one of the few examples of a government instituting a major anti-corruption programme over a long period. In the space of twenty years or so, the scale of corruption has declined considerably. The Independent Commission Against Corruption (ICAC), a specialised body separate from the civil service and the police, and reporting directly to the governor, was set up. It co-ordinates the fight against corruption on three fronts: enforcement, with investigation and prosecution of recent cases of corruption; prevention, by modifying the organisation and culture of the bureaucratic apparatus and by providing advice and assistance to companies on preventing corruption; and educating the population about the evils of corruption. All types of corruption were targeted: both public and private corruption, and "petty" and "high-level" corruption. Lastly, and most importantly, the strategy brought together the authorities and the business community, and the support of the population was constantly enlisted.

The campaign has borne fruit, earning kudos recently from Transparency International who applauded the relatively "clean" construction of the Hong Kong airport and its massive infrastructure. The US$20 billion project was carried out between 1991 and 1998 with a minimum of corruption, yet on schedule and, more importantly, within budget. Hong Kong is now largely seen as intolerant towards corruption. And the public and business no longer seem to consider it as part of everyday life. The ICAC appears to have benefited from these improvements too, with opinion polls showing the public overwhelmingly in favour of its anti-corruption initiatives.

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Joining the Convention

Non-OECD countries that wish to join the OECD Convention and the Working Group may apply for accession. As mentioned in the Convention (Art.13) and the related Commentaries, the Convention is open to non-members that become full participants in the OECD Working Group on Bribery in International Business Transactions in accordance with clearly defined procedures.

As the depository of the Convention, the OECD decides, via its Council, whether to invite a non-member to become a full participant, or an observer, in the Working Group on Bribery in International Business Transactions. Governments interested in associating themselves with the OECD anti-corruption effort must be willing and able to fulfil all obligations and commitments inherent in joining the Working Group and in acceding to the Convention. Full information is available on request, including the conditions for joining the Convention and on other OECD initiatives to fight against corruption and promote high ethical standards and good governance.

To join, a country will undergo a thorough assessment of its economic situation and its institutional and legal framework. Any other relevant factors will also be taken into account.

If the assessment process results in a positive evaluation, the applicant country will be invited to become associated with the work of the Working Group as an observer for a probationary period. Subsequently, and depending on the country's progress in implementing anti-corruption provisions and on its record of attendance at Working Group meetings, the country may be invited to become a full participant in the Working Group and accede to the Convention.

Countries which do not join the Convention may still wish to co-operate in the struggle against corruption. This opens opportunities to organise additional regional events and other sorts of dialogue, for instance, in association with the Centre for Co-operation with Non-Members (CCNM). The scope of the information-sharing process may also be expanded through new or extended anti-corruption networks. The collaboration with different bodies active in the field could also be intensified. Other possible initiatives might include the development of an "Anti-Corruption" Declaration which would signal a country's adherence to the OECD anti-corruption principles and be a gesture which can reinforce national anti-corruption programmes.

An informal information meeting, aimed at non-member countries that have demonstrated an interest in the Convention and the work of the Working Group, will be held in June 2000. The meeting will inform participants of the key elements of the Convention and other OECD anti-corruption activities, as well as providing an opportunity to explore possible new initiatives. ■ Nicola Ehlermann-Cache, daf.contact@oecd.org

tion are as much the interests of the politico-administrative apparatus as the fatalism and ignorance of the victims, maintained by a culture of fear nurtured by those who benefit from corruption. But before one can act, it is necessary to be informed. That is why research into the incidence of corruption and its effects is so important. Only on that basis can action by civil society and aid agencies be guided.

The private sector can also make an important contribution to the fight against corruption, by policing its own codes of conduct and sticking to high standards of governance. International and regional organisations can also help, as can bilateral aid agencies, via programmes to strengthen institutional capacity, and of course by ensuring the transparency of the projects they support.

One thing is sure: the problem of corruption in the developing countries cannot be solved simply by applying anti-corruption structures that work in OECD countries. The experience the latter countries have acquired in terms of legislation, public procurement codes and control procedures, for example, is valuable, but it is just a technical element in a much more complex process of change. A reduction in corruption depends on economic development. It is thus for each country concerned to draw up its own strategy, by which it can then lead to a virtuous circle of development and good governance. ■

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NGOs on GMOs: the reasons for resistance

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The use of genetically modified organisms (GMOs) in food is probably one of the most controversial issues of the day and governments, initially quite in favour of the innovation, now seem uncertain about how to tackle it. If there is a shift towards circumspection, if not precaution, on the issue, it is largely thanks to the mobilisation of non-governmental organisations (NGOs). The OECD, mandated by the G-8 to shed light on biotechnology and food safety, has been listening hard to the views of the NGOs. First, it held a consultative meeting with NGOs on 20 November 1999. Then a major conference on the scientific and health aspects of genetically modified foods was held jointly with the British government from 28 February to 1 March 2000 in Edinburgh. Through both events it has been possible to form a much clearer picture of the reservations and arguments put forward by the NGOs. And it is pretty obvious that there is quite a range of views, including some differences, among them.

Probably the first and most vocal group to take issue with the new technologies are the environmentalists. In their view, GMOs may irreversibly upset the balance of nature. For that reason they are demanding a moratorium on the production and marketing of GMOs until more is known about their potential effects on flora, fauna and human beings.

Next in line come the consumer organisations. The Europeans, who have been particularly sensitive about food issues generally since the BSE (mad-cow disease) and other food-related scares, were the first to make their views heard. They demand freedom of consumer choice, and therefore clear and informative labelling as to the presence of GMOs in food, which the European Commission recently decided to do anyway. Consumer groups are not necessarily against GMOs *per se*, but they firmly believe that consumers should be able to choose not to buy the goods in question, on health, ethical, religious or other grounds. They also point out that there is no solid evidence of any financial, nutritional or other benefits for consumers from GMOs.

GM labelling could scare away some consumers from buying food which might be perfectly safe.

The European influence was soon felt across the Atlantic, helped by the impetus of global co-operation that links consumer groups together. Influential North American consumer unions have also begun to ask for compulsory food labelling. Such mandatory labelling does not exist in the United States and in fact is opposed by parts of the food industry. After all, labelling would mean, for instance, having to introduce rigorous methods of identifying, sourcing and tracing food, an operation which would be costly and difficult to implement. Moreover, there is some concern in the industry that GM labelling could unnecessarily scare away some consumers from buying food which might be perfectly safe.

However, ordinary Americans appear to be increasingly worried. The same can be said of their environmentalist and scientific compatriots. Most of them used to be in favour of GMOs, but some are now having fresh doubts, even to the point of claiming that the Food and Drug Administration (FDA) did not disclose the concerns some of its experts had privately harboured about the safety of GMOs as long ago as the early 1990s.

With all this opposition building in the developed world markets, multinationals in the new food sector have turned to the developing countries, where food requirements are enormous and GM crops are seen as the much hoped-for panacea. As a result of government encouragement, particularly in China and Latin America, more and more GM crops are being grown. But resistance is growing in the developing world too, again under the impetus of the NGOs. In Brazil, several states have signed a moratorium at the request of consumer organisations. In India, some NGOs are denouncing the risk of despoilment of local resources by multinationals and are trying to mobilise small farmers, while demanding that the argument that GMOs are a vital weapon in the fight against hunger should be examined more closely. They point out, for instance, that India has a national food surplus but numerous local shortages. The first problem to be tackled, they say, might not be cultivation, but distribution.

Faced with these challenges and uncertainties, governments have been turning to science, only to find that there is indeed little hard research to resolve the issue one way or another. On the other hand, the evidence to date has revealed very few significant adverse effects of GMOs on public health or the environment. So governments are stepping up research, refining decision-making (which means more emphasis on precaution) and asking international regulatory bodies specialising in food safety and trade to review their analytical tools (such as the notion of "substantial equivalence", see *Observer No.* 216, 1999) because they might not distinguish clearly enough between the properties of GM foods and conventional produce. Another proposal has been to set up a global institution. After all, the issue is by its very nature impossible to confine within national boundaries. Such an institution would monitor and shed light on scientific and technical developments relating to GMOs, perhaps along the lines of a model that has proved itself in the field of climate change, the Intergovernmental Panel on Climate Change (IPCC).

This latter proposal was in fact made by the UK government in Edinburgh. But NGOs have reacted with some reluctance, though without putting up a united front against it. Some NGOs even say the idea may be worth trying, while others want to continue the debate before institutionalising anything. Still others have replied that this kind of forum cannot be confined to scientific issues, since in their view scientists have merely served the "common interests" of government and industry, at least until recently. To prevent this from happening again, they say that any new forum will have to cover other questions too, such as trade and intellectual property rights.

Whatever the differences that exist over the GMO question, there would appear to be international and national consensus, first and foremost among governments, that transparent, open exchange in which civil society can have its say should be established and, indeed, become the rule. This would enable the current strident calls for resistance to GMOs to be heard within the framework of a more dispassionate – but nonetheless forthright and vigilant – dialogue. ■

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Trucks: the road to ruin or increased efficiency

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How can freight trucks be made heavier and still reduce road damage and cut transport costs? Technology may have the answer.

Pascal Rossignol/Reuters/MAXPPP

Smooth road ahead

Road maintenance is a huge public cost in most industrial countries. In fact, it can represent as much as three quarters of the total road infrastructure budget in some of them. One of the challenges for governments is how to improve efficiency in the administration of road expenditures to keep those costs under control, while achieving greater efficiency in road transport. Freight traffic is the main cause of road damage, which is why most of the debate has focused on heavy trucks. In fact, with engineering advances transport efficiency can be improved. It is even possible to allow an increase in heavy vehicle mass limits for vehicles using advanced suspension technology without causing an increase in road damage costs. Moreover, the increase in efficiency could provide end users with lower transport costs.

Over 70% of freight travels by road transport at some point from production to final consumer. For the period 1975-95, the volume of road freight (ton-kilometres) increased in OECD countries, see figure for growth rates in the United States, European Union and Japan. Countries with particularly high growth rates between 1980 and mid 90's include Australia (119%), Korea (288%) and Turkey (229%).

Given the importance of transport to the economy – the asset value of a road network averages one and a half to three times annual GNP in OECD countries – it is not surprising that government investment in transport infrastructure is big business. Take for example the 1998 United States Transportation Equity Act: US$198 billion to be invested in rebuilding the US transportation system over six years. That's more than the GDP of Sweden in the same year. Maintenance and rehabilitation account for the lion's share of annual road budgets in many OECD countries, since their major transport infrastructure is already in place. New construction can account for as little as 10% of the total infrastructure budget.

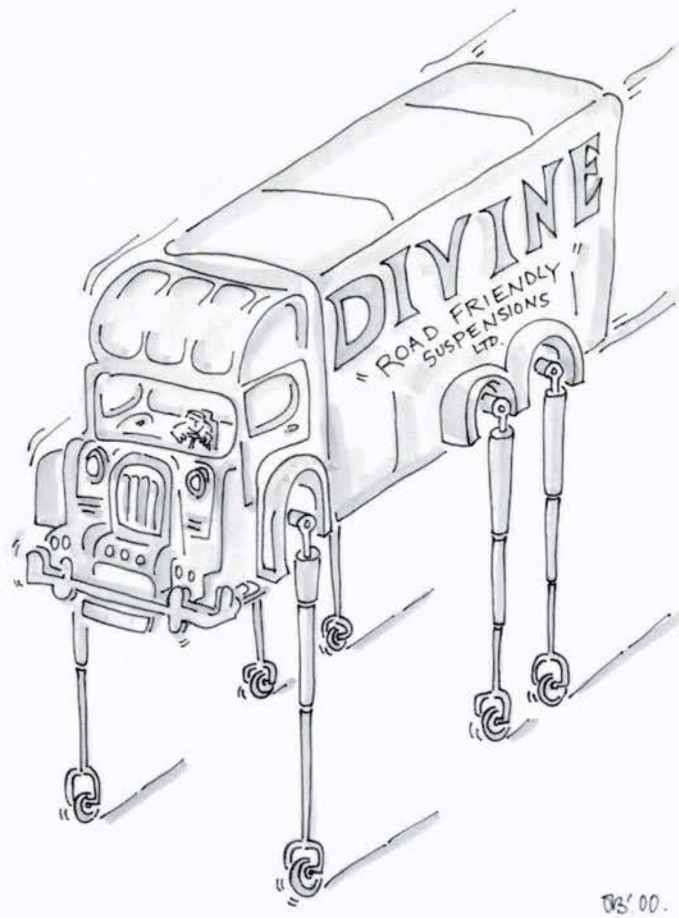
Good design

Various aspects of vehicle design have been improved to reduce pavement damage during the last 40 years or more, suspension performance being one of them. The extent of the progress has not been lost on the regulators. The European Commission, for instance, has introduced preferential weight limits for certain vehicles with "road-friendly" air or equivalent suspensions. Knowledge of the scientific and economic benefits of these air suspensions was very limited until comprehensive experiments were carried out through the OECD Programme of Research on Road Transport and Intermodal Linkages. The results of this study have been rather appropriately called DIVINE, which stands for Dynamic Interaction between Vehicles and Infrastructure Experiment. They will have important implications for future road construction and maintenance, as well as for suspension standards.

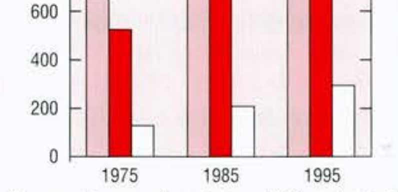
The potential economic benefits are broadly twofold. First, replacing the national fleet with road-friendly vehicles could considerably reduce maintenance and rehabilitation costs. OECD research estimates that road-friendly suspensions could increase pavement life by between 15% and 60%, depending on the pavement. That's a considerable saving.

Improving the productivity of road freight transport would benefit road safety and the environment too.

Second, by increasing the weight limits for road-friendly vehicles, transport efficiency is improved without increasing road wear. The National Road Transport Commission in Australia estimates that a 15% increase in vehicle mass limits would generate savings of AUS$840 million (or US$535 million) per year in transport costs. As a result, higher mass limits were introduced on the National Highway System in Australia last year for vehicles fitted with road-friendly suspensions. These two options are of course not mutually exclusive and countries will want to set their own mass limits to fit in with their overall transport policies.



Road freight transport



Source: European Commission; US Department of Transportation; Japanese Ministry of Construction.

One of the problems about the heavier trucks with the new suspension is that many bridges would have to be upgraded. That is a significant and costly task. However, when carried out in conjunction with general maintenance and rehabilitation programmes, the savings in transport costs should outweigh the additional bridge-related expenditure in the longer term.

Transport operators and governments are not the only ones to benefit from the efficiency gains; the wider economy should as well. And improving the productivity of road freight transport through a more strategic and efficient management of the road network could benefit road safety and the environment too, particularly if improved technology leads to a reduction in the number of freight vehicles on the roads.

Policymakers could consider several options. They can make mandatory requirements for heavy vehicle suspension systems to become more road-friendly. They can use price incentives to encourage the uptake of road-friendly suspensions by transport operators. And they could use operational incentives, such as allowing increases in gross vehicle mass limits for vehicles with road-friendly suspensions. The choice of approach is theirs. The benefits would be everybody's. ■

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Halving poverty

Can poverty be cut by half by 2015? According to a recent study, the chances are not all that great for many countries.

Georges Bartoli/MAXPPP

This could be a long innings

In 1998 the Nobel Prize for economics was awarded to Amartya Kunar Sen, the Cambridge economist of Indian origin, who showed that famine can happen even when the granaries are full. By that he meant that there could be "poorer people amongst the poor" and the main problem is that of allocations and entitlements. Amartya Kunar Sen's influence in development economics is reflected in the United Nations Development Programme (UNDP) in the formulation of an alternative concept of development – sustainable human development, which takes account of more than just GDP.

As we enter the new millennium, "globalisation" has become a buzz word. Some see this as a positive trend, others as a threat. Yet it is no secret that globalisation leaves some people by the wayside. In developing countries, despite the considerable advances made over the past fifty years, entire sections of the population are still living in the most abject poverty. And in many wealthy countries, begging, unemployment and homeless people are now commonplace. Poverty is among the main concerns of governments the world over. At the OECD Development Assistance Committee summit, held in Copenhagen in 1995, the international community accordingly stated its objective, that "the proportion of people living in extreme poverty in developing countries should be reduced by at least one-half by 2015". This noble objective was dubbed "Strategy 21". Can it really be achieved?

as ill-health, illiteracy, lack of access to basic services, insecurity, powerlessness, social and physical isolation and vulnerability to violence. Lastly, care has to be taken in analysing the findings given – for example, that, of the 42% of Kenyans living below the poverty line in 1992, the majority derived their livelihood from the underground economy.

Initial income distribution and the way it evolves over time are decisive factors if the object is to reduce poverty by half by 2015.

The ratio of earnings of engineers in Frankfurt, Germany, was fifty-six times that of female unskilled textile workers in Nairobi, Kenya, in 1994 – after allowing for differences in purchasing power.

In a recent publication entitled *Waging the Global War on Poverty,* Lionel Demery and Michael Walton argue that while many countries will succeed in halving their poverty rates by 2015, many others will not – notably most of the countries in sub-Saharan Africa. (A recent conference on Africa gave a more optimistic message – see article on Emerging Africa.) With the notable exception of east Asia, the number of people living in extreme poverty – considered here as living on less than a dollar a day – has increased in practically every developing country. In the early 1990s, the number stood at some 1.3 million, which is nearly 20% of the population of the developing world.

Again according to the yardstick of a dollar a day, sub-Saharan Africa and southern Asia have the highest percentage of poor, with 40% of the population living in absolute poverty. The choice of the criterion used to define poverty differs from one country to another. In middle-income countries, for example, the poverty line is frequently closer to two dollars a day. In fact, the figures are always to some extent related to societal norms. In most OECD countries, "necessities" deemed to be essential to normal living include an inside toilet, a refrigerator, a washing machine and home insurance. In most African and Asian countries, however, these are considered to be items of affluence. Also, apart from inadequate consumption, these countries suffer from other symptoms of poverty, such

According to one estimate, the ratio of income per person between the richest and poorest country has increased from eleven in 1870 to fifty-two in 1985. In terms of wage incomes, the ratio of earnings of engineers in Frankfurt, Germany, was fifty-six times that of female unskilled textile workers in Nairobi, Kenya, in 1994 – and that, after allowing for differences in purchasing power. Other equally revealing figures include the fact that, in South Africa, the top 10% of households account for almost 50% of total consumer spending, while the bottom 10% account for just over 1%.

Within countries, the picture is scarcely more encouraging. In Brazil, income distribution has been extraordinarily unequal for decades, though in India and Indonesia it is relatively equal. There are now signs of wider inequality in such countries as China, Hong Kong, Malaysia and Thailand.

The authors emphasise that, in general, the higher the initial poverty rate, and the greater the initial inequality, the higher will be the per capita growth required to cut poverty incidence in half by 2015. Take two middle-income countries, Brazil and Tunisia. Brazil has a slightly higher income but is much more unequal. It would require 3% growth to reduce the proportion of the population living on two dollars a day by half. In Tunisia, which has more equal income distribution and a lower initial poverty rate, the rate of growth would only have to be 1.3%. In India, whose income is much lower than that of Brazil but is much more equally distributed, annual per capita growth would have to be 1.4% to reach the target of one dollar per day, but 5% for two dollars a day.

For all these results, the authors have taken 1990 as the base year, a starting point which was not specified by Strategy 21, but which gives a generous quarter century in which to achieve the poverty reduction targets. The authors' next step was to compare, for 36 countries, the growth rates required to halve poverty over 25 years with recent recorded growth rates. The results are not encouraging. Apart from most of the east Asian countries, the majority of developing countries have been recording inadequate growth.

To take account of policy influences, another scenario was built which was based on the economic policies of 1990. Only half of the 36 countries reviewed reached the growth rate required to achieve the Strategy 21 poverty reduction goal. And whereas the big three Asian countries – China, India and Indonesia – would cut poverty by half, Brazil was unlikely to do so.

Messrs Demery and Walton then assume that governments will improve their economic policies during the projection period, with the policy variable switching from "poor" to "good" for all countries. Under this assumption, 28 of the 36 countries meet the target, including a number of African countries such as Kenya, Tanzania and Zimbabwe. The message is clear: halving poverty by 2015 also depends on how well economies are managed. Alarmingly, however, Brazil and several African countries such as Uganda and Zambia would still not reach the target. Good policies are important, but for poverty to be greatly reduced, they are clearly not enough. ■ L.K-C.

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Basel II: a risky strategy

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A proposal to link international capital requirements to credit ratings, rather than to whether or not the loan recipient is from an OECD country, will reflect market risk more accurately. But it could make capital flows to developing countries even more volatile. There may be a solution.

Hoang Dinh Nam/AFP

Checking the weights

In June 1999 the Basel Committee on Banking Supervision, which meets at the Bank for International Settlements (BIS) and whose decisions influence national regulators, issued a proposal for a new bank capital adequacy framework to replace the Capital Accord of 1988, known as the Basel Accord. If this Basel II proposal survives the broad consultation process now coming to a close, the importance of sovereign ratings for future emerging-market finance will rise even more. It is a framework which has its merits, but it has inherent dangers too.

The proposed revisions to the Basel Accord on bank capital adequacy will maintain the current 8% risk-weighted capital requirement set by BIS. However, the new risk weightings will be calculated using external credit assessments for all borrowers, rather than relying on internal ones. The new proposal will replace the present, over-simplistic, system of dividing the world up between OECD countries on the one hand and non-OECD countries on the other, and applying risk weightings accordingly.

Risk weights set the banks' loan supply and funding costs. They tell banks how much of a loan they must cover in capital, as banks have to acquire a corresponding amount of capital relative to their risk-weighted assets. The current Basel Accord gives OECD governments and central banks a zero risk weighting, while private banks get a favourable 20% capital weighting. Non-OECD countries face a hefty 100% weight, although private banks in emerging markets can obtain a 20% weighting on short-term loans. However, a punitive 100% risk weight has dissuaded creditors from offering loans with a residual maturity of more than one year to non-OECD banks. The upshot has been a bias towards short-term lending to emerging markets and away from long-term investment. It has also meant an over-reliance on the short-term interbank market, whose unpredictable volatility has made it the "Achilles' heel" of the international financial system. It is now accepted that this distortion is at least partly the fault of the 1988 Basel Accord and correcting it is one of the principle reasons behind the new proposal.

Another weakness of the present system is that OECD area banks and governments have benefited from rather lenient treatment by international creditors, even if their sovereign risks are inferior to some non-OECD emerging markets. Since the 1988 Accord went into effect, five countries have joined the OECD and are now enjoying lower risk weights on bank loans

OECD borrowers have had lenient treatment from international creditors, even if their risk ratings are inferior to some non-OECD markets

to their governments (0% instead of 100% as non-members) and to their banks (20% on long-term credit instead of 100%). These lower risk weights have naturally translated into reduced interest costs on new loan commitments to these new OECD countries, a fact that stands out when comparing interest rates of new members with their regional benchmark group.

The trouble is, with the new proposal to use independent credit ratings to set the risk weights, the reverse becomes true. In fact, OECD countries currently rated below double A have much to lose under the Basel II proposals. For example, risk weights for claims on Turkish sovereigns, whose B credit rating puts them in a non-investment grade, would jump from the zero rating they get from being an OECD member to 100%, a rise which would probably drive up borrowing costs. In contrast, non-OECD countries could benefit from the changes, particularly some emerging markets. Take Chile, which has an A credit rating, although it is not an OECD country. Its sovereign risk weighting would drop from 100% to a much lower weight if the Basel II proposals were adopted. The case of Chile, which in fact receives different ratings from different leading agencies, also raises the question of how the Basel II Accord will deal with split ratings, which are quite common in emerging markets. One supervisory concern is that the more lenient rating agencies would dominate, possibly leading to dangerously low risk weights and over-exposed lending.

Another potentially important impact of the Basel II proposals are the two options for claims on recipient banks. Option 1 would base the risk weighting on the sovereign risk weighting of the country in which the bank is incorporated. Option 2 would base the risk weighting on the individual rating of the respective bank. From the perspective of developing countries, Option 2 seems preferable, unless their sovereign rating suddenly climbs to an A level. But from a supervisory (and macroeconomic) perspective, Option 1 would be better since it would make long-term lending more attractive and would reduce the bias towards short-term interbank lending inherent in the existing Basel framework.

More boom and bust

Beyond these effects loom the widely ignored macroeconomic impact of Basel II. Both theory and practice suggest that the new accord could destabilise private capital flows to the developing countries. There are two reasons for this.

First, theory shows that linking bank lending to regulatory capital via a rigid capital ratio requirement acts pro-cyclically to amplify macroeconomic fluctuations. A negative shock to aggregate demand would reduce the ability of debtors to service their loans, causing bank equity to suffer and lending and investment to be restrained. And because of rigid capital adequacy requirements, banks will always lend more when times are good, but less when times are bad.

The second, empirical, reason is that sovereign ratings lag, rather than lead, the markets. There is little hope of that ever changing, as the nature of sovereign risk and the rather slow availability of sovereign default determinants make it nearly impossible for rating agencies to acquire an information lead over financial markets. Another point to bear in mind is that current income growth has a positive influence on credit ratings. During boom times ratings will improve, but decline during bust periods. The Basel II proposals would simply reinforce this tendency.

A better approach for Basel II would be to continue to base risk weights on banks' internal ratings, rather than on external risk assessments, and introduce more flexible capital requirement ratios which could fluctuate anti-cyclically. This would strengthen the risk analysis within banks, obviate the tendency of angry creditors and debtors to look for external scapegoats whenever there is a crisis and, above all, it would reduce herd-like behaviour in international lending. Such a balanced approach would be good, not just for global financial markets by making them more stable, but for development too. ■

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Meeting place of the millennium

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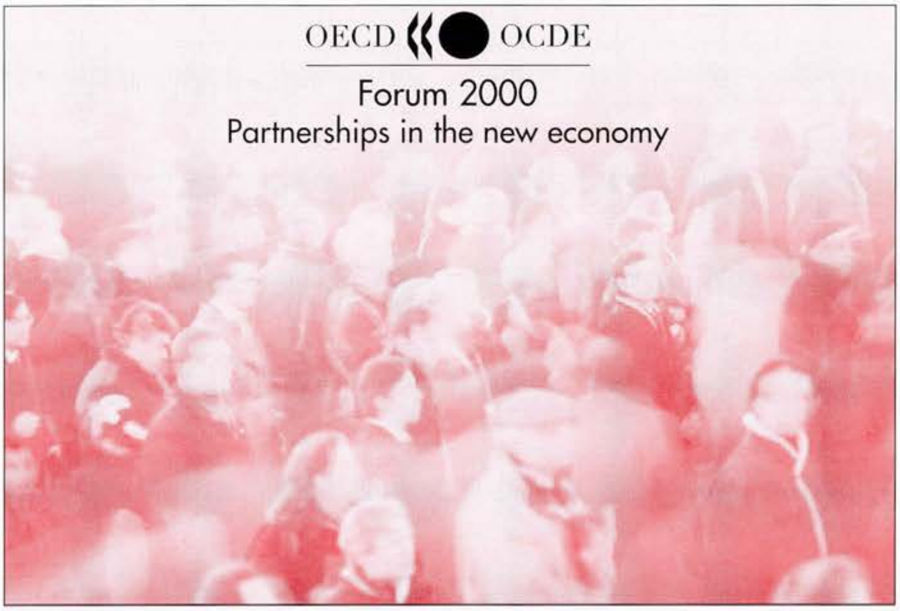


26-28 June 2000, CNIT, Paris

How can governments address claims that they are out of touch with citizens' needs and that public trust in government is diminishing? How can corporations build an atmosphere of better confidence with government, labour and civil society? What is good governance and how successful are partnerships between government, business and civil society in promoting it?

As a public international conference, OECD Forum 2000 will provide a meeting place where members of all segments of economy and society can come to discuss and air their views on a range of issues, and ultimately shape the development of the 21st century. After all, broad, inclusive policy dialogue is essential to identify tensions and manage systemic frictions in today's global economy.

OECD Forum 2000 will take place alongside the annual OECD Ministerial Council Meeting from 26-28 June 2000. Already there is an impressive roster of people who have signed up to speak or attend – people like Mike Moore, director general of the WTO; Martin Baily, chief of US Council of Economic Advisers; Maria Cattaui, secretary-general of the International Chamber of Commerce; Yotaro Kobayashi, president of Fuji-Xerox; Peter Sutherland, chairman of Goldman Sachs International; Professor Jagdish Bhagwati of Columbia University; and Bjorn Stigson, president of the World Business Council on Sustainable Development.

There are a range of key items on the agenda at Forum 2000. First up is the question: "Are We Living in a New Economy?" Information and communications technologies are transforming the way people work and do business worldwide. The 1990s have seen a spectacular performance in the United States economy, with probably the longest peacetime "boom" ever. Some analysts believe that the US has entered a "new age". In Japan domestic markets are becoming more open to international competition, market pressures are driving structural change, consumer interests are taking higher priority and personal choice and initiative are on the increase. In Europe, where productivity gains are starting to reflect the impact of new technologies, the introduction of the euro could yet stimulate widespread efficiency gains and drive the European single market programme further forward.

Is something special happening? Is it just a phenomenon limited to a few countries, with the United States in the lead, or is a similar transition being experienced in a large number of economies? What does it mean for government, business and civil society? Such questions will emerge through open debate at the Forum.

Second on the list of priorities at Forum 2000 will be partnerships between business, civil society and government for public policymaking. Globalisation, rapid technological progress and the spread of democracy are changing the relationships among states, markets and civil society. Governments are faced with a world in which the traditional concepts of citizenship, sovereignty, responsibility and the meaning of territory are all being challenged. The market has generally become more competitive, global and powerful. The speed of innovation and globalisation has been heady at times, leading to volatility in some countries and sectors. One feature of the new economy is that citizens and consumers are becoming more informed and assertive. They have become more diverse too, as reflected in the wide range of non-governmental organisations that have emerged in recent years.

Just as the ways of doing business are changing, governments too must adapt to stay effective in this new environment. But public sectors remain largely sheltered from the disciplining forces of competition, despite the progress in improving efficiency in some countries. In this complex environment, should business, non-governmental organisations and civil society be more active partners in public policymaking? How can governments become more effective actors in the fast-changing world economy?

Sustainable world

The Forum will also ask whether the world is moving towards sustainable development. Achieving and maintaining high rates of economic growth are only part of the challenges governments face. In fact, economic development that falls short of major environmental and social challenges will not be sustainable over time. Some types of economic decisions contribute to climate change, biodiversity loss and over-exploitation of natural resources, as well as to deeper income inequality and higher unemployment. Hence, moving towards sustainable development requires modifying economic incentives to incorporate environmental and social concerns as routine aspects of policy. But what kinds of policy changes are required? What are the costs? And how are businesses incorporating sustainable development into their strategic planning processes?

Reaping the full benefits of global trade will be the fourth theme of Forum 2000. Further liberalisation of world trade can be a powerful tool to assist development and enhance world prosperity for countries at all stages of development. A complete dismantling of existing tariffs on imports worldwide would result in an increase in world economic output of the order of 3% over the next decade, equivalent to a boost of approximately US$1,200 billion. Major gains are also expected from liberalisation of trade in services.

Governments are faced with a world in which the traditional concepts of citizenship, sovereignty, responsibility and the meaning of territory are being challenged.

There is some evidence to suggest that developing countries would gain the most from liberalisation in relative terms. Yet there is some concern that many of them, especially the poorest ones, are often not able to reap the full benefits of liberalisation, or even participate meaningfully in trade talks. OECD countries have a responsibility to show leadership in this area, by taking into account the effect of their own policies on developing and transition economies and by doing all they can to prevent the poorest and weakest economies from being economically isolated.

A digital dialogue

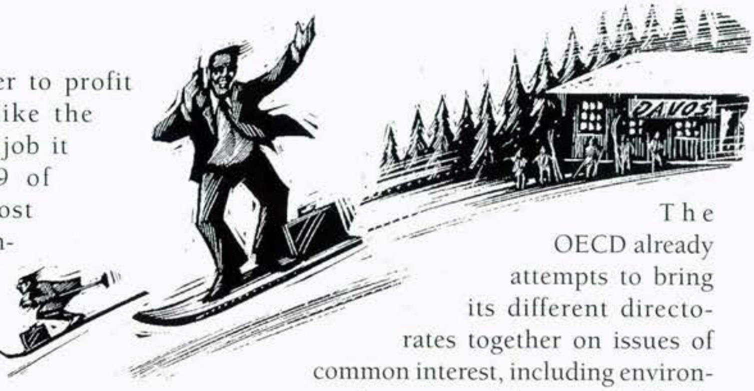
Another key issue to be discussed at Forum 2000 is electronic commerce and the growth of the Internet. This new medium underlines how interrelated national and global agendas have become. Perhaps the world has finally become the global village first talked about some 25 years ago. The number of consumers and businesses with access to the internet and the possibility to engage in electronic commerce, including setting up new businesses, has risen rapidly. The impacts of electronic commerce are now clearly discernible throughout our daily lives. The liberating and empowering potential of the Internet seems enormous. There are risks, however.

There is some concern among governments that e-commerce might lead to a loss of tax revenue, which in turn would undermine essential public spending. Work is under way at the OECD to address that concern. There is also the risk of an emerging "digital divide", with certain groups, even countries, being unable to participate in the new economy for lack of access to new technology. A better understanding is required of the social and economic impacts of the Internet, and of the needs of large and small business, government and non-governmental organisations and individuals, whether as workers, students, consumers or citizens in both developing and developed countries.

The political, economic and social challenges of the 21st century are daunting indeed. Overcoming them requires strong partnerships between government, business and civil society. It will demand ever greater transparency and clarity in policymaking. OECD Forum 2000 is an important initiative to assist in the task of forging those partnerships. The list of issues is large, and is likely to generate as many important questions as valuable answers. OECD Forum 2000 really could prove to be the meeting place of the millennium. ■

OECD, viewed from Davos

NICK BRAY, SPECIAL TO OECD OBSERVER



When the world's movers and shakers flock to the Swiss ski resort of Davos for their yearly fix on what's driving the global economy, they look forward to some intellectual challenge. The two main themes of this year's World Economic Forum (27 January – 1 February) were certainly challenging: the boom in e-business and the cloudy outlook for world trade negotiations following last autumn's fiasco in Seattle. But there were many other thoughts on the minds of the powerful and busy. So what's biting Nick Denton, one of a clutch of dot.com CEOs flown in by the Forum's organisers for five days of cerebral revelry?

"The only things I care about are immigration laws and telephone charges," the Oxford-educated journalist-turned-entrepreneur declares argumentatively over a coffee in one of the Davos conference centre's crowded bars. High telephone charges are holding up the development of the digital economy, he complains, while restrictive immigration rules on either side of the Atlantic are impeding the free movement of entrepreneurial talent between the United States and Europe.

Aside from pressing his case on those two issues, he has little time for chit-chat with the representatives of governments and multilateral organisations whose presence here is one of the main attractions for other Davos-goers. He's here to get new business ideas and whip up capital to back his news and information venture. If the world's policymakers aren't able to help him, he adds, "they can get out of the way."

There's plenty of such feistiness in Davos to flush out the brain ducts. And who better to profit than a body like the OECD, whose job it is to steer 29 of the world's most developed countries forward in the new environment of a globalised economy? In between sessions on topics ranging from "What should you do when you are angry?" to "The geopolitics of the drug trade", we asked Davos people what messages they would like to transmit to the OECD. Some, like Mr. Denton, responded with minimalist candour. Others were more reflective. All provided food for thought: in the 21st century, bodies like the OECD will constantly have to justify their existence or face criticism and, ultimately, decline.

People would be prepared to support an organisation that is worrying about supra-national problems.

One of the OECD's biggest challenges, in the eyes of onlookers, is the way it operates. "To a large extent, the organisation of the OECD is parallel to the organisation of governments," observes Joseph E. Stiglitz, the outgoing chief economist of the World Bank. In today's world, that's no longer appropriate. At a meeting on environmental policy, says Mr Stiglitz, "you have environment ministers meeting environment ministers. And yet we all know that within our own countries, when most of the important discussions get under way, the key issue is balancing off environment and labour."

The OECD already attempts to bring its different directorates together on issues of common interest, including environmental matters, via its so-called horizontal programmes. Nonetheless, tackling the problems of the new century will require much more interplay between departments representing different areas of government and the economy. Facing up to environmental challenges is one area where many people would like to see even more intergovernmental co-operation, and here the OECD is well placed to play a role. "People would be prepared to support an organisation that is worrying about a supra-national problem of this sort," says Ronald Cohen, chairman of Apax Partners & Co., one of Europe's largest venture capital businesses.

At the same time, he adds, it's vital to maintain the quality of what already exists. "One of the things we use from the OECD are its statistics," says Mr. Cohen. At a time when businesses are under constant pressure on many fronts, he maintains, "having statistics you can trust is very important."

For the OECD to continue to be effective, it also needs to reassess the way in which its members – mostly wealthy industrial nations – relate with the rest of the world. "We have moved into a world of increased global integration, and a key set of issues is going to be the relationship between the industrial countries of the OECD and the developing world," comments Mr. Stiglitz. Part of that relationship has always been the concern of the OECD's Development Assistance Committee, he acknowledges. "But the broader issues have not been given the prominence they ought to have."

The OECD made a move in that direction when it hosted talks at ministerial level with some major non-OECD countries last summer in parallel with its annual Ministerial Council Meeting. In addition to Slovakia, likely soon to become the organisation's 30th member, representatives attended from Russia, China, India, Indonesia, Argentina and Brazil. A number of non-OECD countries participate as observers in OECD committees, and some are currently taking part in negotiations for the updating of the OECD's Guidelines for Multinational Enterprises. The OECD has active co-operation programmes with China, Russia and Brazil. And plans are afoot to continue high-level involvement of selected non-OECD countries in OECD policy discussions later this year.

These are worthy steps. Davos Man might wish for more. But for that, he will have to talk more often with Government Man. Which suggests, despite all the criticism they incur, that Davos and other fora like it do indeed have a useful function to fulfil. ■

Empowering women

BANGKOK, 8-10 DECEMBER 1999

"Out of this nettle, danger, we pluck this flower, safety", said Diana Rivington, a lead speaker at the joint United Nations-OECD workshop on Women's Empowerment in the Context of Human Security, held in Bangkok in December. The quote comes from Shakespeare's *Henry IV*, yet it expresses a sentiment very much felt across the world today. Safety and security are rare commodities where there is conflict or where regimes are oppressive. Violence, war and fear are no longer merely temporary and dysfunctional features of society that disappear once "development" takes place. Every day millions of women and young girls confront threats to their security, be it in their homes, at school, in the work place or on the streets. They even run the gauntlet of danger in prisons, from policemen or soldiers, even from the courts.

Freedom from want and freedom from fear are key to human security. Yet violent conflicts interfere with efforts to uphold these basic rights, exposing vulnerable groups such as women. Most conflicts take place within countries, rather than between them. They are caused in part by social and political exclusion, poverty, diminished rule of law and security. Most casualties are no longer among soldiers, but civilians.

Based on experience from the United Nations, bilateral donors, NGOs from developing countries, and international financial institutions like the World Bank and the IMF, the Bangkok conference examined complex emergencies in places like Kosovo, East Timor, Bougainville, Sri Lanka and Burundi. The aim was to define strategic ways of achieving just and equitable societies where the contributions of women are placed centre stage. Women everywhere clearly have the potential, keen interest and the skills to contribute to complex security processes. They can act as economic agents, formal and informal negotiators, or as lobbyists and campaigners. But these security processes often preclude female participation, so women's voices go unheeded.

Women are already becoming "actors" in armed conflict and reconciliation rather than simply victims, and examples of this were highlighted at the conference. Women can be found at the negotiating table for peace. They help in reconstruction efforts, including strategy and planning. Women also become involved in conflict, sometimes as instigators, but mostly in the struggle against conflict and for the right to protect themselves. But there remains much to be done. As a start, the UN Department for Peace Keeping Operations suggested ways of making gender perspectives integral components of mandates and activities under UN peace keeping operations.

Women are already becoming actors in armed conflict and reconciliation, rather than simply victims.

The US speakers presented heartening examples of methods that are being used to empower women in Kosovo, such as supporting conciliation efforts of women's groups at community level. By getting involved with local councils, women have been able to respond directly to the issues that affect them. Such initiatives have helped women from one village where husbands, fathers and brothers were all massacred, to begin their own businesses and support their families again.

Australian representatives at the conference shared the lessons learned from grappling with long-term security challenges in Bougainville, where devastated and fragile social, economic and political life has created special needs for healing and trust-building. It had been implicitly assumed that the positive role women played in the peace process would continue. Concerted efforts were required, however, to ensure women's continued participation in decision-making, public policymaking and governance structures.

Bridging empowerment and security

The Bangkok conference emphasised that human security interventions in today's complex emergencies can present key opportunities to promote women's empowerment and leadership. Development co-operation can build initiatives to reinforce women's capacities and skills, as well as helping to reinforce institutions in developing countries, like NGOs, the judiciary and the media, which are key bridges between empowerment and security.

This begs the question of what to do when there is no functioning state to speak of. One solution is to promote women's leadership through policy dialogue with NGOs and other civil society groups. Inter-governmental bodies like the OECD can play a role too, by ensuring that vital data collection, such as building lists of women's associations, is carried out.

A follow-up panel discussion will be held in March in New York during the preparatory committee for the Beijing + 5 Conference, under the title "Gender Perspectives in the Dayton Accords". ■

Francesca Cook, dcd.contact@oecd.org

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- *Women's Empowerment in the Context of Human Security,* workshop held by the OECD DAC Working Party on Gender Equality and the United Nations Inter Agency Committee on Women and Gender Equality, 7-8 December 1999, Bangkok.

Links

- http://www.oecd.org/dac/gender
- http://www.unifem.undp.org/
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Will this be Africa's century?

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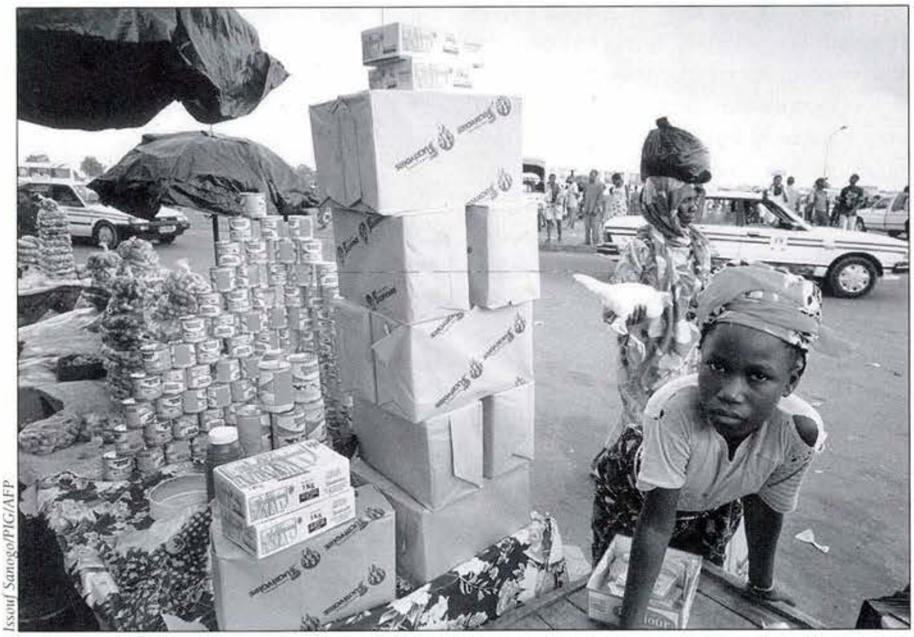

Issouf Sanogo/PIG/AFP

A rising market

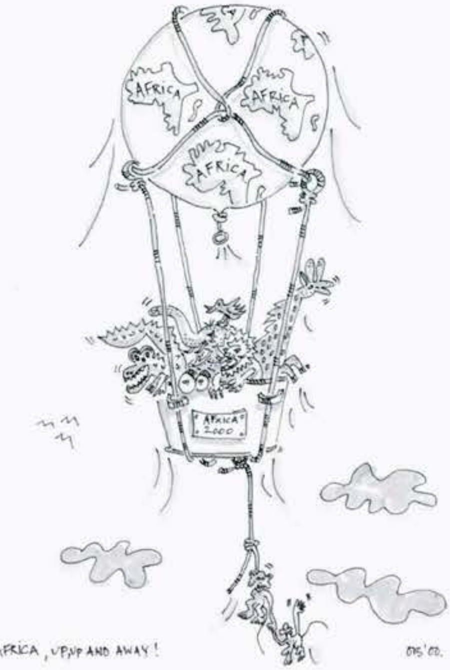
For Jean-Louis Terrier, Chairman of Credit Risk International, a consulting firm, there are good reasons to be "Afro-positive". Speaking at the first International Forum on African Perspectives, organised by the OECD and the African Development Bank and held in Paris on 3 and 4 February, Mr Terrier, a country risks expert, highlighted the importance of the large market that Africa could become.

His logic is simple: there can be no economic growth at a rate lower than population growth. Starting with that axiom, which he argues always holds true in the long run, Mr Terrier builds a prediction for 2015 based on projected economic and demographic growth rates, in urban areas in particular. He opts for a "reasonable" scenario, assuming that economic growth will average 3.5% between 1996 and 2005 – close to the levels of the last three years – and a slight acceleration for 2006 and 2015. Since the population is expected to increase by 58% between 1995 and 2015 – tripling in the cities – per capita GDP will rise automatically by 35%. As a result, the number of Africans with purchasing power of US$10,000 per year will quadruple; so that by 2015 the African continent could represent a market equivalent to that of China today.

This would be a tall order. After all, Africa is a diverse continent, unlike the tightly managed country that is China. True, some African countries may be doing well. According to Omar Kabbaj, president of the African Development Bank, there is a group of at least 20 countries that are performing above the African average and these countries could be described as "emerging". But whether they can draw the rest behind them, through the so-called "hauling principle", is an open question.

Still, Mr Terrier is convinced that investing in sub-Saharan Africa is worthwhile, provided one is prepared for the double-barrelled revolution taking shape – an acceleration in urbanisation and a greater regional integration. In Mr Terrier's view, these trends could have far-reaching effects. On a more realistic note, he points out that Africa holds the dubious distinction of combining various types of risks – risks of non-payment by States, risks to property rights, risks of non-transferability and non-convertibility in some cases, and risks related to the environment and the absence of the rule of law. Without overcoming these, Mr Terrier's scenario of an African bull in the 21st century seems a little optimistic.

If Africa is to "emerge", its countries must diversify their economies, emphasised Jean-Claude Berthelemy, Director of the French think-tank, CEPII (Centre d'études prospectives et d'informations internationales). Only then can investors spread their risks and generate more profitable products, earning greater returns on capital, thereby yielding higher growth. Mr Berthelemy cited Mauritius, a prosperous African country which has succeeded in diversifying its economy after creating an institutional framework more open to private initiative, shaping a smoother-functioning financial system and investing in education.



In other words, the future of Africa depends on domestic structural change and reducing aid dependency. As Mr Berthelemy stressed, doubling the effectiveness of aid would be equivalent to doubling the volume of aid. But is that enough? Africa is still cruelly in need of financing if its hopes of "emerging" are to be realised. A large number of African representatives at the conference voiced concern over the steady decline in aid volumes – between 1990 and 1997, aid to the West African region of the Sahel shrank by more than a quarter. Might it be possible to offset the decline of aid with an increase in investment? Certainly, Mr Terrier's Afro-positive approach could catch on, but on the evidence global investors may need a little more convincing. ■ L.K-C.

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Sustainable development on the web

Sustainable development, defined by the United Nations as meeting the needs of the present without compromising the ability of future generations to meet their own needs, is a priority on the OECD work agenda. A new web site, launched in December, aims to highlight the richness and complexity of this issue by synthesising the sustainable development work undertaken at the OECD. It is designed to give visitors an easy, direct and central access to all relevant information that the Organisation generates. The site contains documents and insights into climate change, with reviews of the cost of meeting the Kyoto targets, for example. The role of technology is also examined. And there is an area devoted to the question of measuring sustainable development, which looks at how the present data can be combined in ways that are useful for practical policies. The site includes a news feature, a list of OECD activities and publications on sustainable development and a series of links to informative external web sites.

For more information, contact Gunter.Pauls@oecd.org. Visit the OECD web site on sustainable development at http:/www.oecd.org/subject/sustdev/index.htm

Cities and regions

TDS.CONTACT@OECD.ORG

"Local decision-making and better co-ordination is necessary to give regions a head start in the competitive global economy". This theme was repeated throughout the OECD conference "*Devolution and Globalisation – Implications for Local Decision-Makers*", 28-29 February 2000 in Glasgow, Scotland. The conference, which brought together 120 international experts, culminated with the launching of the OECD Forum of Cities and Regions by the Local Economic and Employment Development Programme (LEED).

Globalisation and technological change have had a powerful effect on regional and local economies. There is a greater emphasis on partnerships between regions and, at local level, between firms, communities and local authorities. A new paradigm has evolved to help policymakers think globally, but act locally.

With its newly devolved status within the United Kingdom, Scotland was a fitting venue for the conference. It has a buoyant economy, with a plethora of small and medium-sized firms in technology and other high value-added global sectors. Several OECD countries have decentralised and the freedom of their cities and regions to link up together across borders has increased. The launching of the new OECD Forum is therefore timely. It will support networking between its members, via meetings and reports. Its partnerships should help small firms and local populations not just to survive, but to thrive, in the "borderless" world market. The next forum takes place in Milan at the end of 2000. ■

Calendar of upcoming events 2000

Please note that many of the meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For further information, please contact the Media Relations Division or consult the OECD website at http://www.oecd.org/news_and_events/, which is updated weekly.

MARCH Some highlights

8 — **Russian Federation**, OECD Economic Survey published.

9-10 — **Indicators of Development Progress**, UN/OECD/World Bank/IMF joint forum.

13 — **"Information Technology Outlook 2000"** published.

13-14 — **Developing New Tools for Education Policy Making**, OECD education ministers forum organised by the Nordic countries and the Directorate for Education, Employment, Labour and Social Affairs (ELS). Copenhagen, Denmark.

14 — **France, Review of Aid Policies** by the Development Assistance Committee (DAC).

25-26 — **21st Century Governance: Power in the Global Knowledge Economy and Society**, conference organised by the OECD Forum for the Future. Hanover, Germany.

29-30 — **Development Finance – The Way Forward**, seminar organised jointly by the Development Centre and DAC.

30 — **"Financial Market Trends No. 75"** published.

30 — **The Role of Government in the Delivery of Education Systems**: joint OECD/World Bank meeting, co-organised by the Centre for Co-operation with Non-Members (CCNM)/ELS Transition Economies Programme.

APRIL

3-4 — **Corporate Governance in Developing Countries and Emerging Economies**, workshop organised by the Development Centre.

3-6 — **Insurance and Private Pensions**, forum organised by the CCNM and the Directorate for Financial, Fiscal and Enterprise Affairs (DAF). Prague, Czech Republic.

3-14 — **Securities Market Regulation**, Third International Seminar organised by the CCNM/DAF/Emerging Asian Economies Forum. Tokyo, Japan.

4 — **Environmental Strategy**, high-level meeting by the Environment Policy Committee.

10-11 — **Government Citizen Connection**, working group organised by PUMA.

10-11 — **Spatial Development Policies and Territorial Governance in an Era of Globalisation and Localisation**, meeting organised by the Territorial Development Service (TDS) in co-operation with the Japanese National Land Agency.

11-12 — **Capital Market Reforms in Asia**, roundtable organised by CCNM/DAF. Tokyo, Japan.

13-14 — **Gender Equality**, working party meeting organised by DAC.

13-14 — **Economic Assessment of Costs of Environmental Degradation and Benefits from Environmental Measures**, meeting organised by the CCNM/ENV Russia Programme. Moscow, Russia.

15-17 **Ten Years of Transition: Prospects and Challenges of the Future for Public Administration**, conference organised by SIGMA in conjunction with the Network of Institutes and Schools of Public Administration. Budapest, Hungary.

17-18 **Learning Cities and Regions**, conference organised by the Centre for Educational Research and Innovation (CERI) and TDS. London, UK.

19 **Review of Agricultural Policies of Romania**, organised by the CCNM/AGR South Eastern Europe Regional Programme.

25 "**Agriculture Outlook**" published.

26-28 **Corporate Governance for Latin America**, OECD/World Bank roundtable organised by CCNM/DAF. Sao Paolo, Brazil.

26-28 **Agricultural Policies in Non-Member countries**, forum organised by CCNM/AGR Emerging Market Economy Forum.

MAY

7-11 **Advances in Reactor Physics and Mathematics and Computation into the Next Millennium**, international meeting co-sponsored by the Nuclear Energy Agency and Physor 2000. Pittsburgh, PA, USA.

8-10 **Electronic Commerce**, workshop organised by CCNM/DAF Emerging Market Economy Forum, in conjunction with the German authorities. Berlin, Germany.

8-10 **Privatisation and Capital Market Development in Asia**, meeting organised by DAF.

11-12 **Development Assistance Committee high-level meeting**, plus ceremony to mark the 40th anniversary of the DAC.

15 **DAC Review of Aid Policies of New Zealand**. News release.

21-23 **Ageing, Housing and Urban Development**, meeting organised by TDS. Oslo, Norway.

21-23 **Review of Labour Market and Social Policies**, organised by ELS. Budapest, Hungary.

30 "**Economic Outlook No. 67**", preliminary version – news conference.

JUNE

5-6 **Valuing Rural Amenities: Dealing with public goods, non-market goods and externalities**, workshop organised by TDS in co-operation with the US Department of Agriculture. Washington, D.C., USA.

7 **DAC Review of Aid Policies of Italy**. News release.

13-15 **Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies**, high-level conference organised jointly by STI and the Italian Ministry of Industry. Bologna, Italy.

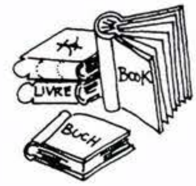
19-20 **Electronic commerce conference on Dispute Resolution Mechanisms**, organised by STI in conjunction with the Dutch government. The Hague, Netherlands.

19-20 **Housing Finance in Transition Economies**, workshop organised by DAF/CCNM Transition Economies Programme.

26-27 **OECD Council at Ministerial Level**. Foreign affairs, finance and trade ministers hold their annual meeting. News conferences.

26-28 **Partnerships in the New Economy, OECD Forum 2000**, public international conference and knowledge fair held concurrently with the OECD Ministerial meeting. CNIT (Center for New Industries and Technologies), Paris.

26-28 **Contribution of Social Sciences to Policy Making**, meeting organised by STI. Bruges, Belgium.



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- The Budget and Finance Service is currently undergoing a major process of reform. Budget reductions have increased pressure on the OECD's treasury situation requiring regular reporting on treasury-related activities. The Organisation has cash flows of about Frf150 million per month (mostly international payments).
- We are looking for an individual capable of creatively adapting the existing treasury reporting to a new strategic approach in line with OECD reforms and financial objectives. You would also be responsible for a certain number of financial management activities.
- The chosen candidate will also participate in objective setting for the division as well as in staff resource management.

The Person

- Advanced university qualifications specialising in finance and management (such as a recognised business school diploma, MBA or certification in chartered accounting).
- Seven years' experience, of which at least three in treasury management and international finance, acquired in an international commercial, industrial or financial institution. Experience in maintaining banking relations in Europe.
- Proven experience in managing large amounts of funds, and in designing and implementing treasury procedures to manage and control risk.
- Comprehensive knowledge of modern treasury, accounting and financial electronic systems.
- Business sense, multicultural background, negotiating ability, decision-maker, independent, ability to build personal networks, political acumen, integrity, ability to motivate/direct staff.
- Good judgement. Communication skills. Ability to take initiatives.
- Experience in supervising a team.
- Fluent in English and French. Proficient at preparing written reports in at least one of them.

SCIENCE AND TECHNOLOGY POLICY ADMINISTRATOR

Directorate for Science, Technologie and Industry

The OECD is offering an initial appointment for two or three years to an experienced economist or scientist interested in working in a rewarding multicultural environment. An attractive financial package will be offered to the successful candidate.

The Job

- Develop activities focusing on science policy issues, particularly those related to the financing and management of basic research.
- Review and assess Member countries' practices aiming at fostering interaction and dialogue with civil society in the design and implementation of S&T policies.
- Contribute to the work on international co-operation in S&T and to analytical work focusing on the relationships between scientific activities and innovation.
- Draft policy-relevant reports and present them to committees/working parties.
- Liaise with policy officials of Member countries and international organisations.
- Supervise economists, statisticians and consultants.

The Person

- Advanced university degree in economics or science.
- At least ten years' experience in policy issues related to the organisation and performance of science systems or S&T policy issues, preferably acquired in a policy-making or a policy assessment environment.
- Proven organisational skills and ability to liaise with high-level officials.
- Good communication and interpersonal skills, ability to maintain harmonious working relations in a multicultural environment. Experience in supervising a team. Ability to manage projects with strict deadlines and within budget.
- Good IT skills.
- Excellent knowledge of one of the two official languages of the Organisation (English and French), including drafting ability in that language. Good working knowledge of the other language. Knowledge of other Member country languages would be an advantage.

The OECD is an equal opportunity employer and encourages applications from female candidates.

Applications from nationals of OECD Member countries, quoting reference **OBS(00)14** for the Treasury Reporting and OBS(00)18 for the S&T Policy, should be sent via the on-line application form which can be found on www.oecd.org/hrm or by mail (type-written letter + CV) to OECD, HRM/MSPD, 2 rue André-Pascal, F-75775 Paris Cedex 16, France, by **13 April 2000**.

We regret that, due to the high number of applications we receive, only candidates selected for interview will be contacted.

AID POLICY SPECIALIST

Development Co-operation Directorate

The OECD is offering an initial appointment for two or three years to an experienced international/development affairs specialist interested in working in a rewarding multicultural environment. An attractive financial package will be offered to the successful candidate.

The Job

- Contribute to the Country Peer Reviews of the development co-operation policies and programmes, and analysis of the development co-operation efforts and performance of the members of the Development Assistance Committee (DAC): collect information, monitor, analyse.
- Undertake missions to capitals and field visits to recipient countries.
- Provide input to the annual Development Co-operation Report of the DAC and other special reports.
- Supervise staff.

The Person

- Advanced university degree in economics, government, law or political science with specialisation in international and development affairs.
- At least ten years' experience in a national or international aid agency, preferably both at headquarters and in the field.
- Demonstrated skills in handling policy coherence and non-aid aspects of relations with developing countries.
- Experience in international aid evaluation and consultative processes.
- Capacity to adapt rapidly and to cope with a tight work schedule with frequent missions abroad. Ability to work in a multicultural environment, independently and as part of a team.
- Good judgement. Communication skills. Ability to take initiatives.
- Experience in supervising a team.
- Excellent drafting ability of technical and policy-oriented reports in English, preferably also in French. Excellent spoken English, good working knowledge of French.

The OECD is an equal opportunity employer and encourages applications from female candidates.

Applications from nationals of OECD Member countries, quoting reference **OBS(00)16**, should be sent via the on-line application form which can be found on www.oecd.org/hrm or by mail (type-written letter + CV) to OECD, HRM/MSPD, 2 rue André-Pascal, F-75775 Paris Cedex 16, France, by **13 April 2000**.

We regret that, due to the high number of applications we receive, only candidates selected for interview will be contacted.

SUPPORT STAFF

STATISTICAL ASSISTANTS

Ref. OBS/STAT. MAR2000

- Requirements: post-secondary level of education and good knowledge of applied statistics; economics; standard software (Excel, Access, MS Exchange), statistical/analytical software (*e.g.* SQL, PC-Express, FAME, EVIEWS); some knowledge of programming software; excellent knowledge of English or French and good knowledge of the other.
- Recruitment of statistical assistants is subject to a written examination designed to test knowledge of statistics, economics, data processing, interpretation of graphs.
- Gross starting salary for full-time work FF17,862 per month.

BILINGUAL SECRETARIAL ASSISTANTS

Ref. OBS/SEC. MAR2000

- Requirements: excellent knowledge of English or French and good knowledge of the other; confirmed competence in word processing and other IT applications (approx. 50 words per minute). Part-time positions also available.
- Gross salary for full-time work FF11,900 to 15,600 per month.

OTHER

Ref. OBS/OTH. MAR2000

- For example, accounting assistants, data operators (ACCESS)... with at least one year's relevant experience. Excellent knowledge of English or French and good knowledge of the other.

Bilingual qualified candidates interested in working in a multicultural environment are appointed initially on temporary contracts.

Applications from nationals of OECD Member countries, quoting appropriate reference (see above), should be sent via the on-line application form which can be found on http://www.oecd.org/hrm or by mail (type-written letter + CV) to OECD, HRM/MSPD, 2 rue André-Pascal, F-75775 Paris Cedex 16, France.

We regret that, due to the high number of applications we receive, only candidates selected for test/interview will be contacted.

Indicators

databank

			% change from:				level:	
			previous period	previous year			current period	same period last year
Australia	Gross domestic product	Q4 99	1.0	4.3	Current balance	Q4 99	-5.12	-4.90
	Leading indicator	Dec. 99	0.5	7.4	Unemployment rate	Jan. 00	6.8	7.5
	Consumer price index	Q4 99	0.6	1.8	Interest rate	Jan. 00	5.66	4.79
Austria	Gross domestic product	Q3 99	1.7	3.0	Current balance	Dec. 99	0.65	0.35
	Leading indicator	Jan. 00	0.4	8.4	Unemployment rate	Jan. 00	4.2	4.6
	Consumer price index	Jan. 00	-0.1	1.4	Interest rate*		..	..
Belgium	Gross domestic product	Q3 99	1.2	2.9	Current balance	Q3 99	2.51	2.76
	Leading indicator	Dec. 99	1.7	8.8	Unemployment rate	Jan. 00	8.6	9.2
	Consumer price index	Feb. 00	0.4	1.9	Interest rate*		..	..
Canada	Gross domestic product	Q4 99	1.1	4.7	Current balance	Q4 99	-0.23	-2.19
	Leading indicator	Jan. 00	1.7	8.4	Unemployment rate	Jan. 00	6.8	7.9
	Consumer price index	Jan. 00	-0.1	2.3	Interest rate	Feb. 00	5.25	5.02
Czech Rep.	Gross domestic product	Q3 99	-0.4	0.9	Current balance	Q3 99	-0.15	-0.33
	Leading indicator		..	..	Unemployment rate	Jan. 00	9.0	7.4
	Consumer price index	Jan. 00	1.7	3.5	Interest rate	Feb. 00	5.39	8.18
Denmark	Gross domestic product	Q3 99	0.8	0.9	Current balance	Nov. 99	-0.56	-0.86
	Leading indicator	Nov. 99	0.4	4.9	Unemployment rate	Dec. 99	4.1	4.7
	Consumer price index	Jan. 00	-0.1	3.2	Interest rate	Jan. 00	3.70	3.49
Finland	Gross domestic product	Q3 99	1.3	4.5	Current balance	Q4 99	2.78	2.51
	Leading indicator	Oct. 99	0.3	15.1	Unemployment rate	Jan. 00	10.0	10.7
	Consumer price index	Jan. 00	0.0	2.2	Interest rate*		..	..
France	Gross domestic product	Q4 99	0.9	3.2	Current balance	Nov. 99	2.43	3.55
	Leading indicator	Jan. 00	0.2	5.7	Unemployment rate	Jan. 00	10.3	11.5
	Consumer price index	Jan. 00	0.0	1.6	Interest rate*		..	..
Germany	Gross domestic product	Q4 99	0.7	2.3	Current balance	Dec. 99	-3.05	-0.25
	Leading indicator	Jan. 00	0.6	7.4	Unemployment rate	Jan. 00	8.8	9.1
	Consumer price index	Jan. 00	0.3	1.6	Interest rate*		..	..
Greece	Gross domestic product	1998	..	3.7	Current balance	Mar. 98	-0.82	-0.75
	Leading indicator	Dec. 99	-0.2	3.0	Unemployment rate		..	..
	Consumer price index	Feb. 00	-0.2	2.9	Interest rate	Dec. 99	9.80	11.87
Hungary	Gross domestic product		..	..	Current balance	Dec. 99	-0.57	-0.69
	Leading indicator		..	..	Unemployment rate	Dec. 99	9.8	9.3
	Consumer price index	Jan. 00	1.5	10.1	Interest rate	Jan. 00	12.20	15.80
Iceland	Gross domestic product	1997		4.4	Current balance	Q3 99	-0.17	-0.15
	Leading indicator		..	..	Unemployment rate	Jan. 00	1.5	2.1
	Consumer price index	Feb. 00	-0.3	5.6	Interest rate	Jan. 00	10.48	7.64
Ireland	Gross domestic product	1997	..	10.6	Current balance	Q3 99	0.96	0.80
	Leading indicator	Dec. 99	1.0	18.3	Unemployment rate	Jan. 00	5.8	7.1
	Consumer price index	Jan. 00	-0.2	4.0	Interest rate*		..	..
Italy	Gross domestic product	Q4 99	0.4	2.1	Current balance	Q3 99	5.49	10.23
	Leading indicator	Dec. 99	-0.5	6.9	Unemployment rate	Oct. 99	11.1	11.8
	Consumer price index	Jan. 00	0.2	2.2	Interest rate*		..	..
Japan	Gross domestic product	Q4 99	-1.4	0.0	Current balance	Dec. 99	8.49	12.32
	Leading indicator	Dec. 99	1.1	8.5	Unemployment rate	Jan. 00	4.7	4.5
	Consumer price index	Jan. 00	-0.3	-0.9	Interest rate	Jan. 00	0.12	0.69
Korea	Gross domestic product	Q4 99	2.8	14.0	Current balance	Dec. 99	1.40	3.08
	Leading indicator		..	..	Unemployment rate	Jan. 00	4.6	7.8
	Consumer price index	Feb. 00	0.3	1.4	Interest rate	Jan. 00	7.30	7.00

			% change from:				level:	
			previous period	previous year			current period	same period last year
Luxembourg	Gross domestic product	1997	. .	3.7	Current balance		. .	. .
	Leading indicator	Jan. 00	1.1	14.9	Unemployment rate	Dec. 99	2.6	2.6
	Consumer price index	Jan. 00	-0.9	3.2	Interest rate*		. .	. .
Mexico	Gross domestic product	Q4 99	0.7	5.4	Current balance	Q3 99	-3.38	-4.79
	Leading indicator	Dec. 99	-0.1	3.0	Unemployment rate	Jan. 00	2.3	2.8
	Consumer price index	Jan. 00	1.4	11.0	Interest rate	Jan. 00	17.43	32.27
Netherlands	Gross domestic product	Q4 99	1.2	3.9	Current balance	Q3 99	4.32	5.76
	Leading indicator	Jan. 00	-1.3	3.2	Unemployment rate	Dec. 99	2.7	3.6
	Consumer price index	Jan. 00	-0.2	1.9	Interest rate*		. .	. .
New Zealand	Gross domestic product	Q3 99	2.4	4.1	Current balance	Q3 99	-1.39	-1.14
	Leading indicator		. .	. .	Unemployment rate	Q4 99	6.3	7.7
	Consumer price index	Q4 99	0.2	0.5	Interest rate	Feb. 00	5.90	4.30
Norway	Gross domestic product	Q4 99	0.5	2.1	Current balance	Q4 99	3.33	-2.16
	Leading indicator	Jan. 00	0.6	5.8	Unemployment rate	Q3 99	3.3	3.2
	Consumer price index	Jan. 00	0.5	2.9	Interest rate	Feb. 00	5.89	7.27
Poland	Gross domestic product		. .	. .	Current balance	Nov. 99	-1.15	-0.83
	Leading indicator		. .	. .	Unemployment rate	Jan. 00	13.0	10.9
	Consumer price index	Dec. 99	0.9	9.8	Interest rate	Jan. 00	15.86	13.58
Portugal	Gross domestic product	Q4 98	2.4	2.8	Current balance	Q4 99	-3.29	-2.90
	Leading indicator	Oct. 99	0.6	-2.6	Unemployment rate	Jan. 00	4.2	4.7
	Consumer price index	Jan. 00	-0.2	2.1	Interest rate*		. .	. .
Spain	Gross domestic product	Q4 99	1.0	4.0	Current balance	Nov. 99	-1.22	-0.54
	Leading indicator	Dec. 99	-0.4	3.2	Unemployment rate	Jan. 00	15.1	16.9
	Consumer price index	Jan. 00	0.3	2.9	Interest rate*		. .	. .
Sweden	Gross domestic product	Q3 99	-0.2	4.2	Current balance	Dec. 99	0.39	0.72
	Leading indicator	Jan. 00	0.4	9.9	Unemployment rate	Jan. 00	6.4	7.7
	Consumer price index	Jan. 00	-0.8	0.5	Interest rate	Jan. 00	3.90	3.14
Switzerland	Gross domestic product	Q4 99	0.9	2.5	Current balance	Q3 99	9.56	5.85
	Leading indicator	Jan. 00	-0.3	3.9	Unemployment rate	Jan. 00	2.2	3.2
	Consumer price index	Feb. 00	0.4	1.6	Interest rate	Jan. 00	2.26	1.15
Turkey	Gross domestic product	Q3 99	-5.0	-5.6	Current balance	Q3 99	-0.31	1.44
	Leading indicator		. .	. .	Unemployment rate	Q2 99	7.3	6.4
	Consumer price index	Feb. 00	3.7	69.7	Interest rate	Jan. 00	36.79	78.88
United Kingdom	Gross domestic product	Q4 99	0.7	2.8	Current balance	Q3 99	-3.93	2.38
	Leading indicator	Jan. 00	0.2	7.8	Unemployment rate	Nov. 99	5.9	6.2
	Consumer price index	Jan. 00	-0.4	2.0	Interest rate	Feb. 00	6.15	5.42
United States	Gross domestic product	Q4 99	1.7	4.5	Current balance	Q3 99	-89.95	-63.48
	Leading indicator	Jan. 00	0.9	3.4	Unemployment rate	Jan. 00	4.0	4.3
	Consumer price index	Jan. 00	0.2	2.7	Interest rate	Jan. 00	5.95	4.89
Euro zone	Gross domestic product	Q3 99	0.9	2.2	Current balance	Dec. 99	2.63	7.15
	Leading indicator	Dec. 99	0.4	6.6	Unemployment rate	Jan. 00	9.6	10.4
	Consumer price index	Jan. 00	0.2	2.0	Interest rate	Feb. 00	3.54	3.09

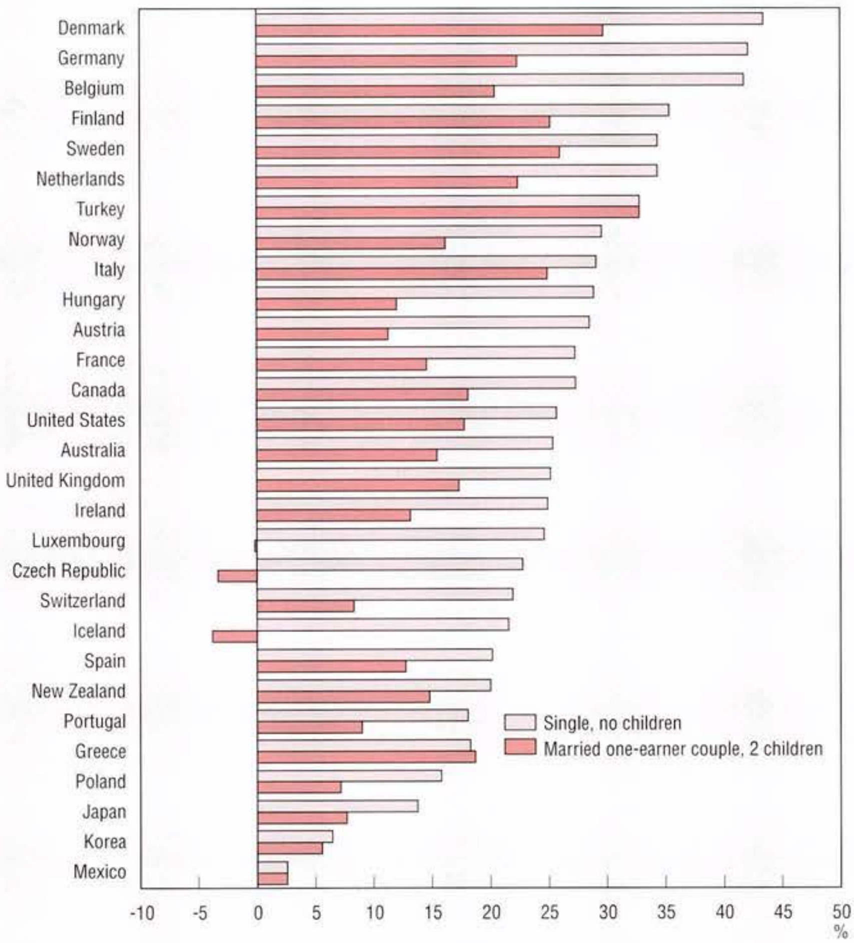
Definitions and notes

Gross domestic product: Volume series, seasonally adjusted except for 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 form Turkey; ***Interest rate***: Three months, except for Turkey (overnight interbank rate); *. . not available; *Refer to Euro zone.*

Source: ***Main Economic Indicators***, OECD Publications, Paris, March 2000; Quarterly National Accounts database.

Tax burdens

Income tax plus employee social security contributions less cash benefits
by family-type, as % of gross wage, 1998



Source: Taxing Wages 1998/1999, OECD, 2000.

Income tax on wage earnings, child cash transfers and contributions to finance social security systems continue to vary widely from country to country. Average tax rate figures, calculated as a percentage of gross wage earnings of the average production worker, known as the APW for short, also differ significantly across various types of households.

The graph illustrates the combined burden of income tax and employee social security contributions, less child cash transfers, at the APW wage level in OECD countries in 1998. The average burden for single individuals without children ranges from 2.6% in Mexico to 43.4% in Denmark. With the exception of Turkey and Greece, reduced average tax rates apply to married one-earner couples with two children, with negative rates found for Iceland (-3.9%), the Czech Republic (-3.4%) and Luxembourg (-0.2%). This means that cash benefits in these countries bump up net take-home pay so much so that it exceeds gross wage earnings.

The underlying data show income tax as a percentage of gross APW wage earnings ranging from a low of zero in Mexico to 33.7% in Denmark, in the case of single persons without children. Add on employee social security contributions and the average tax burden of a single person without children exceeds 40% in Denmark (43.4%), Germany (42.1%) and Belgium (41.8%). At the other extreme, the average tax rate excluding transfers remains below 20% in Mexico (2.6%), Korea (6.4%), Japan (13.8%), Poland (15.8%), Portugal (18.1%) and Greece (18.3%). Cash transfers are found to lower average tax rates, in some cases significantly, in those countries with child cash benefit programmes. ■

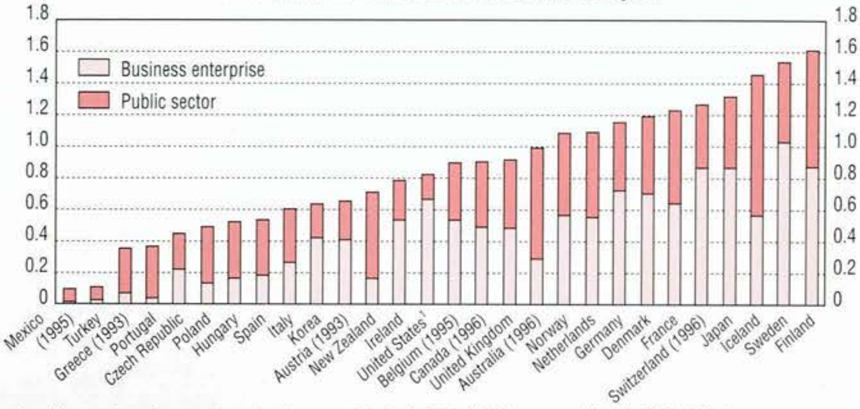
See the new OECD report, ***Taxing Wages***, available at www.oecd.org/bookshop

R & D personnel

Data on R&D personnel help to gauge the extent of a country's R&D activity. They depend on a number of different factors, including research outlays, the skills level of the labour force, industrial specialisation and, of course, government funding. The data available encompass all persons performing R&D, though people providing services directly linked to R&D work, such as managers, administrators and office workers, are also included. Such professionals fall into three categories: researchers, scientists and engineers; technicians and similar personnel; and support staff. The chart incorporates all categories of personnel assigned to R&D, except for the United States, where only the number of researchers is available. The chart shows that the Nordic countries and Japan have a large number of people assigned to R&D in relation to the total labour force. In 1997 some 1.6% of the labour force was working in R&D in Finland, more than 1.5% in Sweden and 1.3% in Japan. Not far behind were Denmark, France, Germany and the Netherlands, where research personnel accounted for over 1% of the labour force. But in technologically lagging countries, such as Mexico, Turkey and Greece, the proportion did not exceed 0.1%.

R&D employment

% of labour force, 1997 or latest available year



1. The number of researchers has been used instead of total R&D personnel for the United States.

Source: Main Science and Technology Indicators, 1999-2, OECD, January 2000.

The breakdown of R&D workers between the public and business sectors varies by country. The large size of R&D personnel in the public sectors of New Zealand and Australia reflects the fact that the indicators for those countries include R&D staff working in universities. ■

Foreign firms pay more

Foreign-controlled manufacturing firms tend to pay their workers more than the national average. This is the case in every country for which the data are available. The compensation differentials are narrower in the United States and certain Nordic countries (Sweden, Finland), but they do exist nonetheless. In Hungary, Japan and Turkey foreign firms pay a lot more than local firms, 124% more in the latter's case. The main reason is that foreign affiliates in these countries are much bigger than the average domestic firm. Furthermore, the jobs created or maintained by foreign affiliates in the host countries are significantly higher-skilled than the national averages, since the sectors involved – chemicals, pharmaceuticals, electronics, computers and automobiles – are technology-intensive. In some countries, such as Hungary and Ireland, compensation paid by foreign affiliates accounts for over 53% of the manufacturing sector's aggregate wage bill, whereas those same affiliates account for just 13% and 16% of the total number of their countries' manufacturing firms. Another point about foreign firms is that they account for a large share of R&D, with 12% of the total spent in the United States, nearly 20% in France and as much as 40% in the United Kingdom. ■

Pay levels in foreign affiliates

per employee, in manufacturing

Source: OECD database, Activities of Foreign Affiliates.

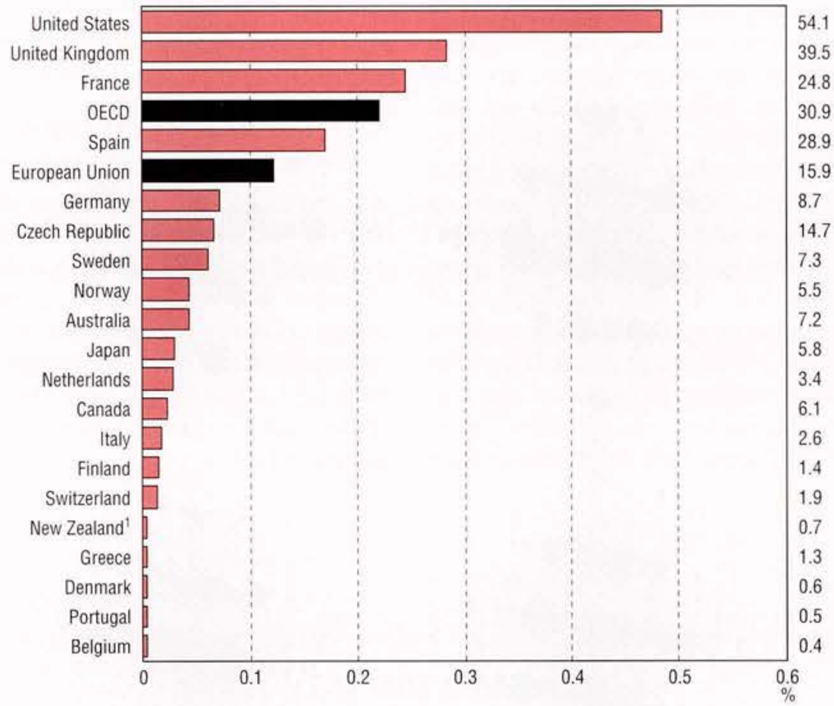
R & D defence spending falls

OECD countries tend to spend less on defence than they have in the past. Or at least that is what the trend in government appropriations for research and development in the defence sector would suggest. The volume of funds earmarked by central or federal governments for R&D to be carried out in the public or private sectors, at home or abroad, fell from 0.32% of OECD-area GDP in 1991 to less than 0.25% in 1998. As a proportion of total budgetary appropriations for R&D, the amount spent on defence declined from 37% to 30% between 1990 and 1998. Military spending has not kept pace with economic growth, but the decline also shows how government socio-economic priorities – between defence, healthcare, environmental and education issues, etc. – have shifted.

The United States still heads the list, putting some 0.48% of its GDP into defence-related R&D, or more than twice the proportion allotted by the United Kingdom or France. This represents 55.3% of total government-financed R&D, but the percentage is not really comparable because it includes funds that some other countries would classify as industrial development support. Japan is one of the only countries to record a steady increase in defence budget R&D as a percentage of GDP. But it is starting at a low base, since among large OECD countries Japan remains towards the bottom of the ladder with a ratio of only 0.03% of GDP allocated to defence R&D, or 5.8% of aggregate R&D spending. ■

Defence budget R&D

% of GDP, 1998 or latest available year



1. 1997.

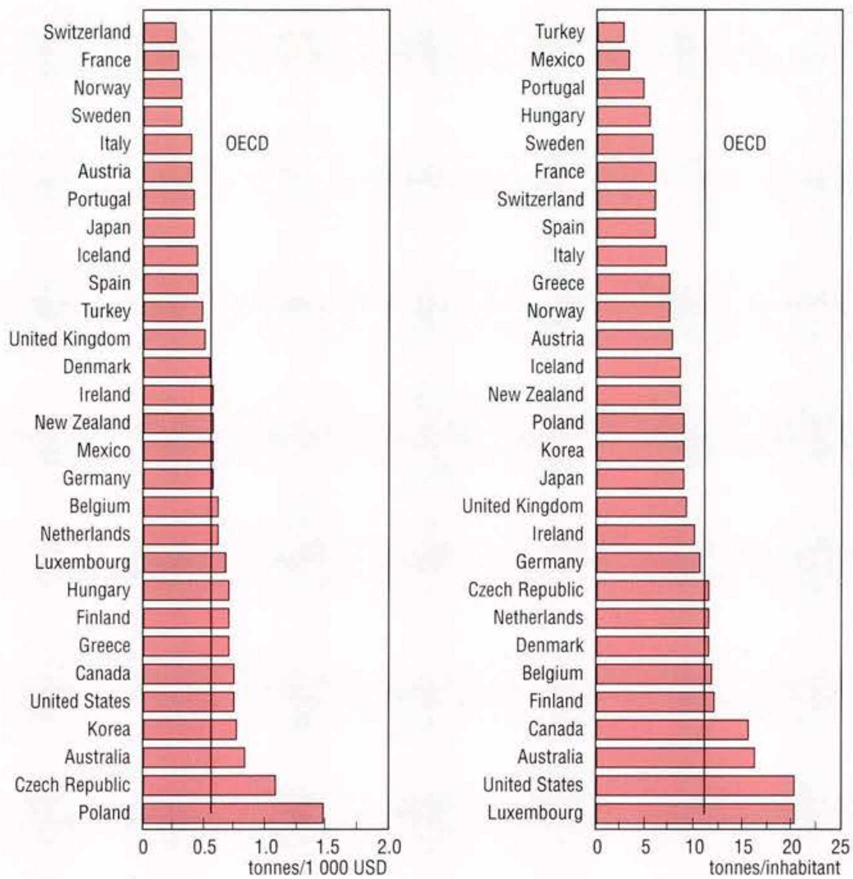
Source: Scoreboard of Science, Technology and Industry, 1999, OECD.

Pollution alert!

Carbon dioxide (CO_2) emissions from the burning of fossil and biomass fuels play a key role in the greenhouse effect which affects climate change. At present, the OECD countries account for 54% of CO_2 emissions worldwide. Since 1990, these emissions have increased by an average of 9% across the area as a whole, with different trends in each region: in North America, the rise was 12%, whereas in Asia-Pacific countries the rate varied from 10% in Japan to 81% in Korea. Emissions in Europe remained stable over the period. The various countries' contributions to the greenhouse effect, and the intensity of their emissions, vary widely, as the chart shows. This intensity, or emissions per unit of GDP, reflects the linkage, or non-linkage, of economic activity and the emissions generated by that activity. Put simply, a country with a low intensity of emissions pollutes less to produce 100 dollars of national income than a country with a high intensity does to produce the same 100 dollars.

CO_2 emission intensities, 1997

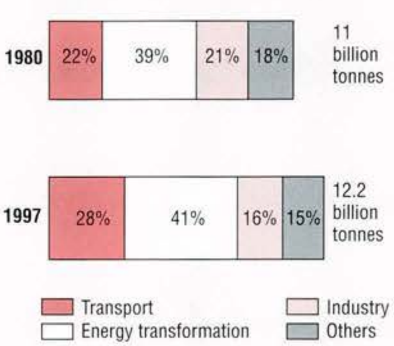
per unit of GDP | per capita



Source: OECD Environmental Data: Compendium Edition 1999.

Source of CO_2 emissions

in OECD countries



Source: OECD Environmental Data: Compendium 1999.

But this does not necessarily mean that a low-intensity country does not emit a great deal of pollutants. Intensity per unit of GDP depends on a number of different factors: the level and structure of economic activity; the structure of industry; the energy efficiency of production processes in the various branches of activity, and so forth.

The ranking of emissions per capita is a closer reflection of total emissions. It also serves as a reminder (albeit a rough one) that each consumer is indirectly responsible for the emission of a certain quantity of CO_2. ■