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Tackling the US deficit
China business
Jobs Strategy: What lessons?
City sense
The world: Plan B?

Balancing globalisation

OECD Forum 2006

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Water solution

In your article "Virtual solution" (No. 254, March 2006), you write that "any effective policy to encourage efficient use of scarce water resources must be based on pricing." As you explain, increasing the price of water to better reflect its scarcity would cause low-value, water-intensive crops to become uncompetitive in water-scarce countries, and their imports more attractive. There is no disputing this logic, but any water policy prescription must be based on more than pricing and consider factors other than simply water scarcity if it is to be effective and adopted by governments.

Three key considerations come to mind: the employment value of crops; the feasibility of developing a water-efficient economy that will generate the foreign exchange to buy imported goods and to employ those farmers who can no longer afford to grow their water-intensive crops; and the ability of groups benefiting from water-intensive activities to influence policy.

Many water-stressed countries are also capital-scarce and labour-abundant. Certain water-intensive crops are also labour-intensive and it might be wiser to start by cutting into the production of goods that have a lower labour-to-water requirement ratio than to price water indiscriminately of its end use. In the meantime, water-efficient economic activities need to be promoted. Failure to do so might result in higher unemployment and jeopardise political stability, which is why some governments are reluctant to raise water prices.

The virtual water trade prescription makes sense at the macro-level, but shifting production towards less water-intensive goods entails adjustment costs and risks for individuals and firms at the micro-level. Those benefiting from water-intensive activities are likely to oppose a virtual water trade strategy. The ability of a government to steer production away from water-intensive goods will be affected by the level of political influence of those competing for scarce water, and by the resources available to the state to offer as incentives for making the transition. Where actors benefiting from water-intensive activities (principally farmers and agribusinesses) are able to influence the water policymaking process, the state will be able to adopt a virtual water trade strategy only if it is able to minimise their expected losses, for example, by providing employment and business opportunities in other sectors.

Katherine Cinq-Mars
McGill University, Canada

Natural dilemmas

Reconciling environmental conservation and the necessities of development will be very difficult in a developing county like mine. We know that the source of man's welfare is the biosphere, and so to grow we must use its resources, particularly natural ones.

As an example of the problems that our people must contend with in preserving the natural environment, some time ago, near Virunga park, indigenous people were barred from logging firewood to preserve our so-called "international" heritage. Because of this, the price per bag of firewood has shot up, from US$5 to $20, in a country where the average salary per capita is about a dollar a day. Think about it.

I am far from opposed to preserving our ecosystem. At the same time, I would suggest that before national authorities–in keeping with the international community–make these decisions, that they take into account the effects they can have on local people. For example, it might have been a good idea to construct a hydroelectric dam and provide nearly free electricity to the indigenous people. That could have been a more positive way of helping this poor population to develop.

Japhet Mbali Saga
Economics student
Lubumbashi, Democratic Republic of Congo

On the cover

Balancing globalisation
By *OECD Observer*
Photo:
Anthony Pardines

Balancing globalisation is at the heart of this year's OECD Forum on 22-23 May. Globalisation delivers great benefits, but is undermined by imbalances in access to capital and natural resources, health, knowledge and education. Good policies are critical, but are too often blunted by politics and other interests. Though a powerful force, globalisation is a fragile enterprise, and requires dialogue among all stakeholders to be successful.

Reforms
for growth and prosperity

Kostas Karamanlis, Prime Minister of Greece and Chair of the 2006 OECD Ministerial Council

The OECD Ministerial Council Meeting and the Forum are major opportunities for member countries and other emerging economies to exchange views on global economic issues, share best practices and discuss policy priorities. Our central theme this year is "Delivering prosperity" and our focus is on the wide-ranging reforms required to make our world a safe and thriving place for its citizens.

In the light of recent developments in the world economy, I believe that we would all agree on what we need to do. More than ever, we need to implement policies which ensure economic stability and improve performance. **We need to promote reforms for growth and employment at the national level and improve international policy co-ordination**. We have to work together in order to enhance economic prosperity, reduce poverty and promote social cohesion.

The world economy has expanded rapidly in recent years and growth is expected to remain strong in 2006. The impressive strength of the world economy is mostly due to benign financial conditions and an unprecedented increase in trade and worldwide economic integration. However, there are risks due to large global imbalances and mounting insecurity in energy supply. Price stability, which has shown a remarkable persistence in recent years, may be at risk from the recent surge in oil prices.

The large external deficits of some countries, combined with the surpluses of their trade partners and the oil-producing countries, are threatening world economic stability as they are not sustainable over the medium term. Exchange rates that reflect economic fundamentals more closely could be useful in addressing the problem.

It is in our mutual interests to discuss and understand the causes of these problems and try to solve them. **Multilateral co-operation and policy co-ordination are necessary**. Large organisations such as the OECD can provide a forum for constructive discussions and fruitful exchange of views among all interested parties. Agreement on common policy guidelines is most welcome.

With the growth forecasts as favourable as they are, the time is right for policy adjustments. In the European Union the reform agenda is shaped by the Lisbon Strategy, aimed at increasing growth potential and fighting unemployment and social exclusion in a framework of sustainable development. Increasing resilience to shocks is also being pursued. EU member states have agreed on the central goal to make the Union the most competitive, knowledge-driven economy in the world with an emphasis on social dividends and environmental priorities. This is the common vision we share.

The ensuing policies focus on: maintaining fiscal discipline, making the business environment more attractive, promoting research, development and innovation, modernising labour markets and ensuring increased security of energy supply combined with environmental sustainability, all while adhering to the principles of a social model that is deeply valued by its citizens.

Reforms can be applied only if accompanied by a common understanding. We all have experiences of reforms being hard to implement, especially in labour markets, where benefits come later and seem more uncertain. The same holds for pension reforms, where the challenges of selecting the right timing and ensuring consensus are not always met. Such considerations often result in reforms being mitigated or even cancelled. The optimal strategy for implementing necessary reforms and achieving social consensus would be an interesting topic to exchange views on.

Consensus building entails exhaustive explanation of problems, detailed clarification of alternative solutions and joint agreement and commitment on courses of action. Wide ownership of the reform agenda is required. Social partners have to work together until they reach enforceable agreements. In this way social peace can be maintained. The political constraints to reform can only be avoided through honest co-operation and a process of trust building that lead to the accumulation of much needed "social capital".

Finally, fostering trade can lead to a new era of prosperity for the world. Trade and globalisation should not be seen as a threat to job security but rather as a challenge for a more prosperous world. Maintaining living standards in our societies cannot be achieved by protecting jobs in uncompetitive industries, but by investing in knowledge, innovation and well-targeted social welfare systems. Also, training, re-training and life-long learning systems have a crucial role to play. There are several examples of countries demonstrating that open, competitive economies can achieve prosperity, without sacrificing social cohesion, especially when assistance for adjustment during transition facilitates the introduction of reforms.

Trade and competitiveness are inextricably linked and a successful conclusion of the Doha Development Agenda is needed now more than ever. To this end, we must remain optimistic that the Doha round will be concluded successfully by the end of 2006. A balanced and realistic outcome is feasible, providing a stimulus to the global economy and bringing benefits to all, but mainly to the poorest countries of the world.

I am honoured to chair this year's Ministerial Council and look forward to fruitful and open discussions among all participants. Our intention is to create a fuller understanding of the threats to world prosperity and to produce solutions which will make our world a better place to live in. ■

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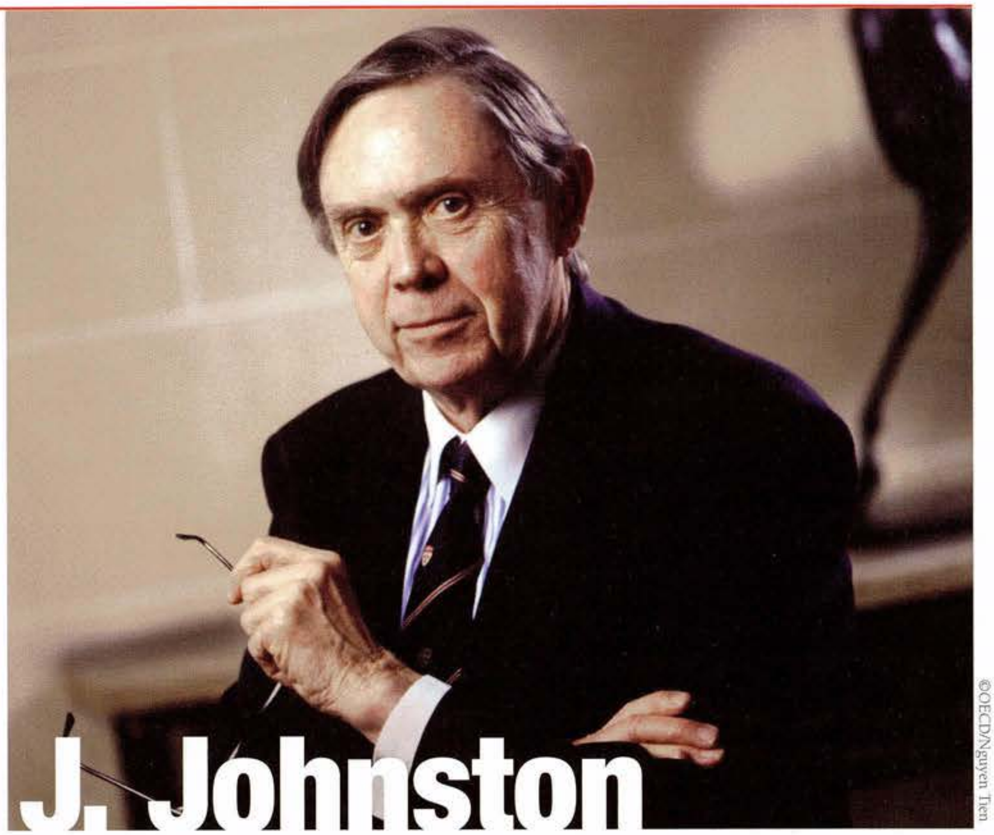

Interview Donald J. Johnston

At the end of the 2006 Ministerial Council Meeting (MCM), Donald Johnston will complete his second 5-year term as the fourth secretary-general of the OECD and will formally hand over office to Angel Gurría, who was nominated by OECD member countries last November. A former lawyer and minister in the Canadian government, Mr Johnston took over the reins from Jean-Claude Paye in 1996. We asked the outgoing secretary-general for his reflections on what has proved to be a period of great change in the global economy.

***OECD Observer*: You are stepping down in May 2006 after two terms as secretary-general of the OECD. What particular memories will you bring with you?**

Donald J. Johnston: I have so many wonderful memories gathered over a ten-year period that it is impossible to single out a favourite. On the other hand, one memory in particular is inscribed forever in my mind which could be described as my least favourite, namely the catastrophic events of 9/11.

When it occurred, some of us were in a meeting. Caio Koch Weser of Germany, my neighbour at the table, asked if I had seen the plane hit the World Trade Tower. CNN was being screened live in the entrance of our building. I stepped out since the meeting was just beginning, to see one tower belching smoke, and returned to the meeting table concluding that there had been an accident, just as I recalled a military aircraft hitting the Empire State Building when I was a child. Little did we realise how the events of that brief period on the morning of 11 September would change the course of history.

When 18% of the population has 80% of global wealth, progress is not sustainable in the long term.

What do you consider the biggest achievement during your mandates?

There are so many accomplishments by the OECD team over ten years that to single out some would be unjust to many others. However, I would say that the globalisation of the OECD over the past decade is a major achievement. We have global relationships and are active in important country programmes in China, Russia, Brazil and hopefully soon in India, where we are embarking upon a first-ever economic review. Indeed, through regional and global fora we now engage with more than 70 non-OECD economies.

Also, I cannot resist saying that the launching of the new site project to renovate the OECD headquarters in Paris is a major achievement, which will contribute to the working environment and productivity of the organisation for many years to come.

Any regrets?

Of course I have regrets. I suppose there are a considerable number. But my most significant is not having been able to bring the member countries to grasp the necessity of enlargement for the organisation and its role in helping to shape globalisation for the benefit of all humanity. This requires abandoning the notion of a small exclusive membership, where the OECD is looked upon as a mere "think tank", and reaching out to all major economic players, not just through outreach, but by bringing them as members to the OECD table. I have not even succeeded in convincing members to issue an invitation to Russia to start the accession process, despite the fact that Russia applied for membership in 1996 and the OECD council agreed that this should be a shared goal, that Russia has the most observerships in our committees and that it is a member of the G8!

Many argue that Russia has regressed in its evolution towards a democratic state committed to open market economics, and this should disqualify it from being on a membership track. I disagree. Those of us old enough to have visited the Soviet Union see how far Russia has evolved, far beyond what I could have imagined possible on an official visit to the USSR in 1983. Let us not squander what has been harvested since that time. Russia must join the OECD, the sooner the better!

You once wrote in an *Observer* editorial that the OECD would have to evolve or risk becoming a "fossil… a dinosaur for future generations to gape at". Do you think the OECD has finally started evolving as you would like?

The evolution of the organisation's programme of work illustrates that it is not a "fossil". However, it risks being marginalised if the major international actors are not more closely engaged. On the issues, I believe we have stayed ahead of the curve. We are world leaders in many areas including information and communications technology, health and education, where the creation of a new directorate has given profile and impetus to this most important area for knowledge-based economies of the 21st century.

You have frequently referred to a triangular paradigm of balance between the economic, social and governance dimensions of policy. How do you see the present state of that paradigm?

Since my arrival here I have argued that all societal progress depends upon balancing that triangular paradigm. My analogy is that of a tightrope walker with a balancing rod. The government is the walker; one end of the balancing rod represents economic growth, while the other represents social cohesion. Imagine yourself on a rope weighed down at either end to the prejudice of the other. You will spend all your time trying to stay upright and at worst you will fall off. That is where a number of our countries are and where the world is. When 18% of the population has 80% of global wealth, global progress is not sustainable in the long term, perhaps even the medium term. And so it is within our OECD countries.

The OECD has to help governments find that balance. If they do not, robust democracies are in peril.

Wealth/poverty gaps are increasing in many countries and I do not see that as sustainable. In the past this has resulted in social upheaval, often violent, such as the French Revolution. A primary task of the OECD is to help governments find that balance. If they do not, robust democracies are in peril.

What will you miss most about working at the OECD?

I will always have cherished memories of the OECD, which includes the staff of the secretariat. They represent a wonderful mix of talents and nationalities, and have produced outstanding work during my stewardship of the organisation. I will miss them, but I hope to stay in touch with the many friends I have acquired here, some of whom have already left the organisation and others who will follow in the near future. As I said in my new year's wishes this past January, the most valuable asset I leave to my successor will not be the new improved site, nor the rich OECD archives, but the women and men who make this a truly outstanding international organisation.

What advice would you give your successor, Angel Gurría?

I do not see Angel Gurría as needing advice from me. He is spending a great deal of time and effort acquainting himself with the work of the OECD committees and their sub-structures, with the structure of the secretariat and with the council and individual ambassadors, so that he will be able to "hit the ground running" at the end of May. Once one understands that this is an organisation where committees have to drive the work programme, where the secretariat must always attract the most competent personnel to support committee work, the conclusion is simple.

In real estate the secret is location, location, location. Here it is quality people, quality people, quality people. I believe Mr Gurría will be a great success as secretary-general. His background and skills, including linguistic capabilities, will be very valuable. He also has a great sense of humour. And I have learned that humour is essential to manage this many-faceted multinational complex organisation, the governance structure of which is a curious accident of history.

Would you do it again?

However much you may enjoy your challenges in a particular position, most organisations will benefit from new blood, new ideas, new approaches and the shedding of biases and particular viewpoints. Hence, the time has come for me to move on. ■

Interview by Jill Ramsey, chief editor of *@tmosphere*, the OECD's staff magazine, and Rory J. Clarke

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- For editorials by Donald J. Johnston in *OECD Observer*, see www.oecdobserver.org/donaldjjohnston.
- Visit: www.oecd.org/secretarygeneral.

Structural reforms in Europe

Jean-Claude Trichet
President, European Central Bank

The euro area has recorded a disappointing economic performance over recent years. Its per capita income grew on average by 1.3% between 2000 and 2005, compared to 1.9% in the US over the same period.

The main explanatory factor behind these developments is the diverging trend in hourly labour productivity growth between the euro area and the US. Hourly labour productivity in the euro area increased on average by 1.2% between 2000 and 2004 (against 2.4% in the 1980s and 1.8% in the 1990s) compared to 2.8% in the US over the same period (against 1.3% in the 1980s and 1.5% in the 1990s). These disparities can broadly be explained by differences in technological progress and the diffusion of innovation.

This notwithstanding, the euro area witnessed a slight improvement in labour utilisation, which increased on average by 0.2% per year between 2000 and 2004. This mainly reflects the rise in the euro area employment rate from 61.5% in 2000 to 63.6% in 2005, which corresponds to the creation of more than 11 million new jobs over the same period.

Remarkably, employment growth in the euro area showed resilience to the economic slowdown at the beginning of this decade. However, the employment rate in the euro area remains low by international standards. As the OECD has also stressed, the lack of sufficient structural reform in Europe is a major cause of the gap in economic growth between the euro area and the US.

There are **four key priorities** for reform in Europe, namely, getting people into work, increasing competition, unlocking business potential and supporting an innovative environment.

First of all, **well-functioning labour markets** are needed. Necessary labour supply-side measures include the reform of tax and benefit systems to increase incentives to work. Measures aimed at reconciling family with professional life, such as the provision of childcare, may also raise participation rates. Furthermore, the use of flexible forms of work, such as part-time and temporary work, may also provide further working incentives. To stimulate labour demand, there is a need to promote wage flexibility and address labour market rigidities.

Increasing competition is the second prerequisite for better economic performance. Europe should step up measures to boost services market competition in order to support a higher level and growth rate of labour productivity and promote a more dynamic economy. In this context, an internal market for services and the adoption of the EU Services Directive would constitute an important step forward.

All in all, the economic strategy of Europe is on the right track.

The third prerequisite for higher growth in the euro area is the **unlocking of business potential** by creating an entrepreneurial-friendly economic environment and lowering administrative costs imposed by the public sector. The immense importance of this issue is increasingly appreciated and several initiatives at national or EU level aim at "better regulation".

Fourth, to fully exploit productivity potential, labour and product market reforms need to be complemented by **policies that help to diffuse innovation**, including measures to support higher investment in research and development. To be most effective, these measures need to be accompanied by efforts to improve the labour force's level of education and expertise in such a way that human capital is continuously adjusted to labour market needs.

Since the launch of the Lisbon strategy in 2000, progress with structural reforms has been made in some areas. However, all in all, the reforms have not been far-reaching enough and many measures still need to be implemented.

Against this background, the mid-term review of the Lisbon strategy in 2005 led to a re-launch of the process by shifting the strategy's focus more strongly on growth and employment. As an outcome of this process, all EU countries have prepared so-called National Reform Programmes that outline the necessary structural reform measures for the years 2005-2008. Applying comprehensive structural reforms is of particular importance for the euro area countries, in order to increase wage and price flexibility and the resilience to shocks, facilitate structural adjustment, raise potential output growth and job creation, and reduce price pressures, thereby facilitating the task of the single monetary policy.

Also, the ECB's monetary policy has a role to play in supporting the implementation of structural reforms. A credible monetary policy aimed at maintaining price stability in the medium term contributes to a stable economic environment. In a stable macroeconomic context both the areas where reforms are needed and the benefits of reforms are made more visible, thus supporting their acceptance.

All in all, the economic strategy of Europe is on the right track, there is a consensus on the appropriate objectives and agreement on the right institutional setting to be set in place. The next decisive step is to put these plans into practice. The earlier this happens, the earlier economic activity, employment and innovation in Europe can be lifted to a higher level and standard. ■

Mr. Trichet is a special guest speaker at the 2006 OECD Forum.

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• News brief •

Heads together

Secretary-General Donald J. Johnston (right) shares some thoughts with his successor, former Mexican finance minister, Angel Gurría, who takes over as head of the organisation after the 2006 ministerial meeting. Mr Gurría will be the OECD's fifth secretary-general since the OECD was set up in 1961.

In the background is a portrait of Robert Marjolin, the first secretary-general of the Organisation for European Economic Co-operation, the precursor of the OECD, founded in 1948. ■

Inflation rising

Inflation rose in the OECD area in March. Consumer prices increased by 2.6% in the12 months to March 2006, compared with 2.8% in the year to February 2006. On a monthly basis, the price level rose by 0.4% between February and March 2006 compared with 0.2% between January and February 2006.

The rise was due mainly to increases in food prices, up 1.4% year-on-year in March compared with 1.8% in February, and energy prices, which rose by 12.7% year-on-year in March compared with 14.5% in February. ■

See www.oecd.org/ctp/statistics.

Spanish bribery

Spain should rapidly amend its laws to ensure that companies can be found directly liable for bribing foreign public officials and sanctioned with serious fines, according to a new report by the OECD Working Group on Bribery.

The main recommendations encourage Spain to expand the applicable penalties on companies to include dissuasive fines, increase the penalties on bribery of foreign public officials to obtain favourable discretionary decisions, expand the definition of foreign bribery to include bribes composed of non-monetary benefits and to improve the flow of information to prosecutors and judges about possible foreign bribery by Spanish companies.

The latest review of Spain is the 24th country report out of 36 by the working group, part of Phase 2 evaluations, which look at the enforcement of the OECD Convention on Combating the Bribery of Foreign Public Officials in International Business Transactions in member countries.

The report also highlighted positive aspects of the fight against foreign bribery by Spanish companies and persons, including Spain's recent decision to give its specialised anti-corruption prosecution service broader responsibilities with regard to the investigation and prosecution of foreign bribery cases. Spain recently improved its legislation regarding the confiscation of assets, including those related to foreign bribery. ■

For more on OECD reviews to combat bribery and corruption, visit www.oecd.org/corruption.

Unemployment stable

The OECD area unemployment rate remained unchanged from January to February, at 6.3%–a 0.5% decrease from a year earlier. The euro area rate, down 0.6% from a year ago, dipped 0.1% in February to 8.2%. ■

For more details, see www.oecd.org/std/labour.

Tax wedges shrink

When it comes to pay, there is a difference between net take-home pay of employees, including any cash benefits from government welfare programmes, and the total labour costs to the employer. That difference is called a tax wedge, and it has recently shrunk slightly in size in most OECD countries. According to the latest *Taxing Wages*, an annual publication, this trend partly reflects tax cuts as governments attempt to get more people into work. However, these cuts have been limited by the need to maintain budgets. Still, single earners without children on average wages in services and manufacturing faced an average tax wedge of 37.3% in 2005, down from 37.9% in 2000.

Taxing Wages shows Belgium, Germany and Hungary with the highest tax wedges for single persons on average earnings, while Korea, Mexico and New Zealand show the narrowest. For a single-earner married couple with two children on average earnings, Turkey (42.7%), Sweden (42.4%) and Poland (42.1%) have the biggest tax wedges. By contrast, Ireland (8.1%), Iceland (11%) and the US (11.9%) have the smallest tax wedges. ■

Excerpts from *Taxing Wages* are available at www.oecd.org/ctp/taxingwages.

• News brief •

Aid tops $100 billion

A new record was set in aid when Official Development Assistance (ODA) to developing countries from the OECD's Development Assistance Committee (DAC) rose 31.4% to US$106.5 billion in 2005. This represents 0.33% of DAC members' combined gross national income, up from 0.26% in 2004.

Much of the increase was in the form of debt relief grants–these rose by more than 400%–while other aid increased 8.7% in the same period. In 2005 OECD-DAC members, who account for around 90% of total bilateral assistance, provided debt forgiveness grants of nearly $14 billion to Iraq and a little over $5 billion to Nigeria. Further debt relief to Nigeria will be included in ODA figures in 2006 and to Iraq for the next three years, under existing Paris Club agreements. Still, ODA is expected to ease back in 2006-2007. The tsunami disaster in December 2004 was another factor behind the 2005 increase. DAC members provided about $2.2 billion in official assistance to the countries affected. ■

Visit www.oecd.org/dac.

New pension guidelines

OECD governments have agreed to adopt new guidelines that create a standard for the effective, transparent management of pension funds. More than one million funds operate in OECD countries, holding more than US$16 trillion in assets at the end of 2005. Pension fund investment strategies are becoming more sophisticated and diverse as their importance continues to rise. The new guidelines act as a road map, calling on regulators to give pension funds more flexibility in their investment choices and on trustees to be more diligent in monitoring their fund's investments.

They propose that funds follow the so-called "prudent person" rule, meaning that governments must define an overall investment policy and follow it; ensure that the governing body acts in the "best interest" of beneficiaries when investing plan assets; establish internal controls and procedures to effectively implement and monitor the way investments are managed; and identify, measure, monitor and manage the risks to which the fund is exposed. For example, the market value of the fund's assets and liabilities should be disclosed on a regular basis to give trustees early warning in the case of any underperformance and enable them to take swift action. Another guideline is that legal provisions should not prohibit investment abroad by pension funds. ■

The full text of the guidelines is at www.oecd.org/daf/pensions.

Plus ça change...

"From the point of view of the individual, economic changes can, however, appear as both costly and troublesome. They may mean the abandonment of old skills, of security created by seniority rights or adherence to a social insurance scheme."

Gösta Rehn, "Manpower adaptability and economic growth" in No. 1, November 1962

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Spam alert

Governments and industry should step up their co-ordination to combat the global problem of spam, according to a new set of OECD recommendations. Governments recently approved a "Recommendation on Cross-Border Co-operation in the Enforcement of Laws against Spam", urging countries to ensure that their laws enable enforcement authorities to share information with other countries and do so more quickly and effectively. The report further instructs governments to establish a single national contact point to facilitate international co-operation.

The report states that educating people on how to deal with spam is also important. Governments, working with industry, should run nationwide campaigns to raise awareness about spam and Internet security in schools and among senior citizens.

The new recommendations form part of the evolving Anti-Spam Toolkit that gives policymakers a comprehensive package of concrete regulatory approaches, technical solutions and industry initiatives to fight spam. It also includes a guide to best practices for Internet Service Providers and other network operators, and for email marketing. These tips were produced by the Business and Industry Advisory Committee to the OECD (BIAC), in co-operation with the Messaging Anti-Abuse Working Group (MAAWG), an organisation of Internet Service Providers. It is the first effort by the private sector to develop a series of common best practices at the international level. ■

The OECD Anti-Spam Toolkit is available online at www.oecd-antispam.org.

Chancellor Angela Merkel sizes up the challenge.

Germany's economy Back to new strength?

Eckhard Wurzel
OECD Economics Department

The picture of the German economy seems brighter than for quite some years. Should we feel confident?

Several indicators point to relatively strong economic growth in Germany in 2006. Activity accelerated in the first quarter of the year, business expectations have reached their highest levels for more than a decade and order books are filling up. Furthermore, over several years German export performance turned out to be considerably stronger than that of the OECD overall. Indeed, Germany has recovered its position as the world's leading exporter of goods, benefiting from strong demand for investment goods in particular. Even more importantly, since the middle of the 1990s, there has been a marked improvement in the economy's external competitiveness, as measured by the depreciation of the real effective exchange rate vis-à-vis Germany's main trading partners.

So, does this mark Germany's return as one of the OECD's most robust economic performers? Perhaps not quite yet. After all, let's not skip the other side of the story. Over the last 15 years German GDP growth potential decelerated to just 1.5% annually, according to the OECD's estimates. The economy remains bedevilled by a persistent dichotomy between relatively strong exports and very weak domestic demand, and the volume of employment–as measured by the total number of hours worked–has trended down since the beginning of the 1990s, undercutting the level that prevailed in the 1993 recession by 6%. How do these apparently diverse observations about the external and domestic sides fit together, and what are the policy implications?

The economy remains bedevilled by a persistent dichotomy between relatively strong exports and weak domestic demand.

Our analysis suggests that since the beginning of the 1990s, the evolution of aggregate demand relative to trading partners was the main driver of Germany's international competitiveness, rather than events on the supply side of the economy or monetary developments. At the beginning of the last decade a temporary boost in demand, largely thanks to massive transfers to eastern Germany and lively wage increases, combined with rising interest rates to trigger a real appreciation of the German Mark. This loss in competitiveness was associated with a swing in the current account from a sizeable surplus into deficit. After this unification-induced boom, retrenchment on the demand side of the economy has played a dominant role in re-establishing Germany's competitiveness on external markets, through a deceleration in wages and prices as well as cuts in employment. Several other events impinging on the domestic economy, such as the transition to European economic and monetary union, added to the pressure to adjust. In recent years, positive supply-side effects on external competitiveness have also emerged, reflecting corporate restructuring and international sourcing of inputs at lower cost abroad.

The output and employment foregone can be considerable during a prolonged period of retrenchment, particularly if prices and wages have difficulty adjusting to a changing environment and productivity growth remains subdued. By contrast, structural change can become the vehicle that generates higher income and employment if the regulatory environment fosters a reallocation of resources into new areas of activity. That may also include channelling any savings from off-shoring into the development of new lines of production at home, for instance.

Fortunately, the previous federal government started reforms in a number of fields to help overcome the rigidities impairing Germany's economic performance. More efficient activation policies for the unemployed, measures to put the pension system on a more sustainable footing, and raising competition in the crafts sector are some examples. However, there is scope for the new government to deepen and extend regulatory reform in various areas and so raise the economy's capacity to generate employment and increase productivity growth. For instance, disincentives that

More can be done to lighten the administrative burdens on entrepreneurship.

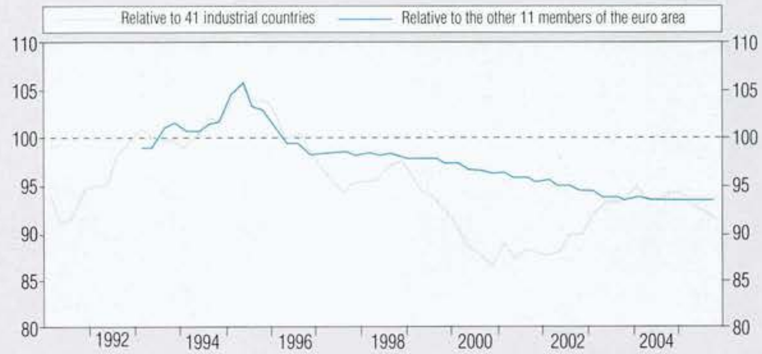
weigh against older employees and spouses in the labour force still need to be reduced, such as channels to early retirement or shortages in the supply of childcare services.

On the pay front, though determining wages and work conditions between employers and employees has become a more flexible process over the years, wage rigidities by qualification have to be softened further to fight unemployment of low qualified job seekers. Employment protection legislation needs further tuning in favour of more flexible contracts, though at the same time avoiding segregating the labour market into highly protected regular employment on the one hand and marginal jobs on the other.

Competition is another area requiring attention, both for innovation and productivity growth. Germany's outward

Germany's better competitiveness

Using real effective exchange rate, CPI based, 1993 = 100*



*Calculated using weights which take the structure of trade into account.
A rise of the graph indicates a real appreciation (loss in competitiveness).

Source: OECD Economic Outlook Database

policies are traditionally open, and the general competition and enforcement framework is in most respects a success story. However, much more can be done to foster competition in specific sectors, notably in services and in network industries, and to lighten the administrative burdens on entrepreneurship. Legislation being prepared to reduce the overhead costs of doing business is a step in this direction.

In short, there is no single policy path for the government to follow. Indeed, it must take a comprehensive approach by exploiting synergies between different measures. Efforts to generate new employment, for instance, would be more effective if they looked beyond labour market reform to include other regulatory measures, such as reducing barriers to entry for new firms and impediments to the growth of enterprises. In the same vein, more competition in product markets ultimately favours consumers by forcing down prices. This, in turn, contributes to strengthening domestic demand and can enhance the public acceptability of reforms in other areas, notably the labour market.

Fiscal consolidation will have to rank highly on the German policy agenda, not least in view of the stress a rapidly ageing society implies for public sector budgets further ahead. While an increase in the standard VAT rate by three percentage points has been scheduled for 2007, the bulk of future fiscal adjustment will need to fall on the spending side of the general government budget, including the elimination of distorting tax expenditures. This is important for potential growth prospects to be preserved. Reform in federal fiscal relations, healthcare and the pension systems, as well as the education system, including at tertiary level, are all important areas where public sector action could generate large benefits. Legislation is being prepared in some areas, and first steps have been made to cut distorting tax expenditures, such as subsidies for residential construction.

Several other major industrialised countries have been through periods of intense structural and fiscal changes that were triggered by economic underperformance. Germany's new government will need to firmly anchor and broaden the path of regulatory reforms that it has recently embarked on. If it does that, then we might soon be able to say with greater confidence that the German economy is indeed on the way back. ■

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Greece's fitter economy

Though legend has it that the ancient Olympic Games were founded by Heracles, a son of Zeus, the very first Olympics of the modern era took place in Athens, in 1896. The government at the time was unable to fund construction of a stadium, so a wealthy architect donated a million drachmas (over $100,000) to restore and use the Panathenaic Stadium, originally built in 330 BC.

There were no such complications in 2004 when the Olympic Games returned to their birthplace, complete with a new state-of-the-art Athens sports complex centred on the Olympic Stadium, with its futuristic roof. It is too early to determine the precise impact the 2004 Games have had on Greece, though their positive effect may have eased off.

Take growth, for instance. Real GDP grew by 3.7% in 2005, which is slower than 2004 when it expanded by nearly 5%, although it remains well above the euro area average. This deceleration mainly reflects a sharp decline in public investment after the Olympics. Gross fixed capital formation fell by around 1.5% in 2005, after an annual average increase of some 8% over the previous five years.

Consumption growth, while no doubt fuelled by some festive spending among households, also eased back a little in 2005, though remaining buoyant on the back of still rapid credit expansion.

Weaker demand has affected the external sector, too, as import growth faltered after a spurt in 2004. The result is that net exports have added to output growth. In the meantime, the current account deficit has widened, mainly as a result of a burgeoning trade deficit from higher oil prices, despite a small increase in the surplus on the services balance.

Those higher oil prices, and to a lesser extent an increase in indirect taxes in April 2005, lifted consumer price inflation to about 3.5% for the year as a whole. However, the weaker pressures from domestic demand, together with subdued growth in unit labour costs, put a lid on core inflation. In fact, the differential with the euro area, which averaged approximately 2 percentage points in 2005, has narrowed significantly in early 2006. On the other hand, unemployment, at some 10.5% in 2005, remains high by international standards, even if the rate has eased.

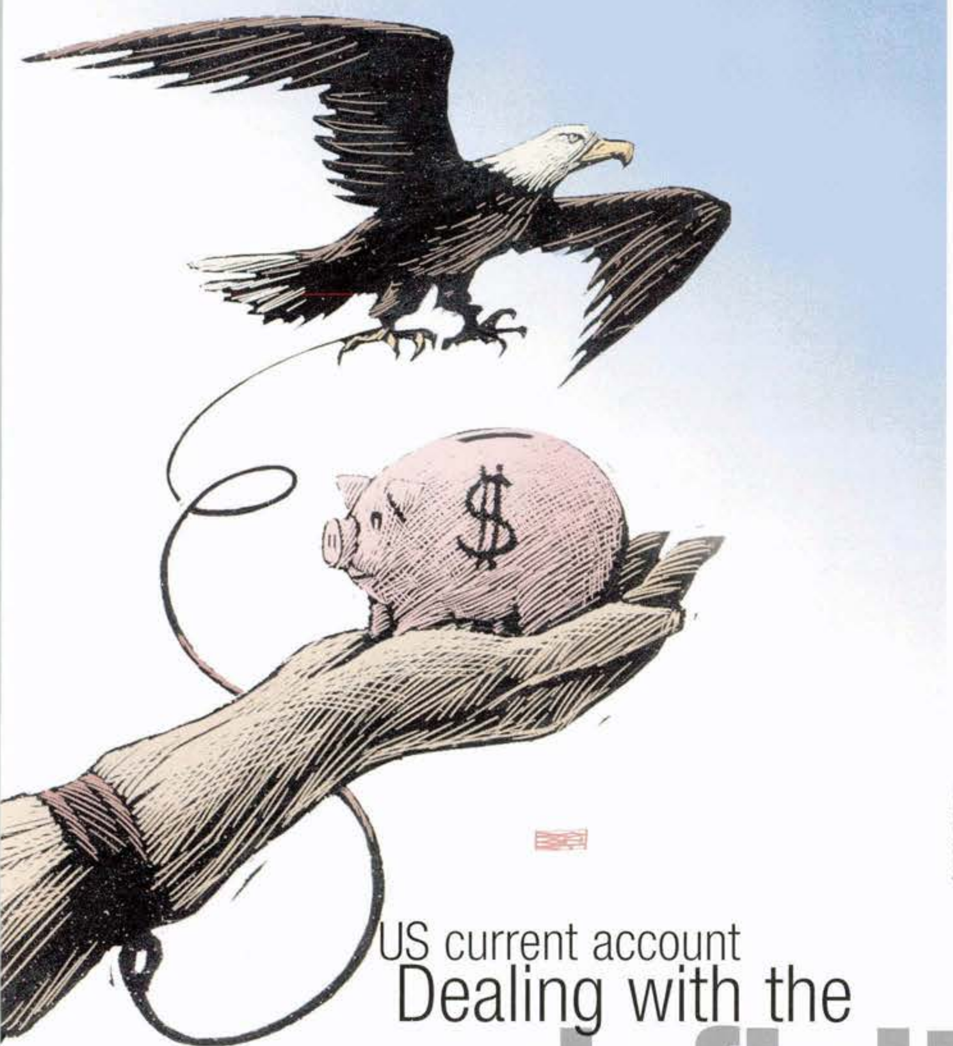
As to the government's fiscal position, this improved markedly in 2005 with the general government deficit shrinking by 2.5 percentage points of GDP to 4.5%. This reduction was achieved despite underperforming tax revenues and can be tied to the sizeable drop in public investment outlays after the Olympic Games, accompanied by a restrain in the growth of primary expenditure. The government's stability programme aims to lower a deficit of 2.6% of GDP targeted for 2006 to gradually below 2% by 2008, though there is a risk that the deficit will come in a bit higher.

Though Greece might not be hosting the Olympics again for a while, the outlook for the economy remains positive. In fact, a rebound in investment activity from post-Olympic lows is expected, compensating for a likely deceleration in consumption as a result of fiscal retrenchment. Low interest rates, and a number of investment-boosting policy initiatives, including a gradual lowering of corporate tax rates, a recent law providing fiscal incentives for private investment projects, and legislation covering public-private partnerships, should bolster domestic activity.

Exports are set to rise, despite some further deterioration in cost-competitiveness, though import growth should also pick up as domestic demand firms, causing the net effect of the foreign balance on growth to turn slightly negative. Still, real output is projected to outpace the euro area average by a decent margin.

Two major domestic uncertainties affect this outlook. First, will inflation indeed ease? And second, will the fiscal position improve as intended? The answers largely depend on government action, though the risks on the external side from oil prices and the resilience of global growth could also pose a challenge. ■ *RJ*

The next forecast for Greece, complete with data, will be published in the *OECD Economic Outlook* No. 79, June. A preliminary edition will be released on www.oecd.org/eco/ on 23 May at the OECD ministerial meeting.



US current account
Dealing with the deficit

Peter Jarrett, OECD Economics Department

Few economic questions in recent times have challenged policymakers and economists the world over quite as much as the US current account deficit. Some worry that it is a global economic time bomb. More recently, a contrasting argument has emerged that dismisses the deficit as little more than a harmless mirage. But most serious experts simply agree that the present situation is unsustainable. What has caused the deficit? Why is it a problem and how should it be dealt with?

The first thing to note is that the deficit is indeed huge. In 2005 it reached more than $800 billion, or 6.4% of US GDP. That's about 1.8% of world GDP. It was near zero in the early 1990s and has nearly doubled just since 2000 (see chart). That is not to say that the deficit is a creature of the last decade or so; already in the 1980s there were signs of trouble ahead, as increases in US domestic spending started outpacing GDP growth. A deficit that peaked at 3.4% of GDP in 1987 was reversed after a dollar decline boosted exports and dampened imports. However, a decline in the dollar since 2002 has not had the same effect.

If the US was a youthful, developing nation that needed substantial capital investment in infrastructure for instance, today's large external deficit might make more sense. But it has the world's largest and arguably most advanced economy, and most of the corresponding capital inflows are serving to finance current public and private consumption and housing, spending that will not make reimbursement any easier. In May 2005 an article published by Lehman Brothers suggested that: "were the US an emerging market economy–which it decidedly is not–…[its risk indicators] would imply a near one-in-two chance of a financial crisis".

While a crisis might not be imminent, it seems clear the external balance has become a problem. One reason for this is that the deficit has to be funded, which inevitably means debt. Luckily, the US enjoys the privilege of being able to borrow in its own currency–the US dollar is the world's primary reserve currency–but how long this peculiarity will allow the US to continue dodging a disruptive adjustment is hard to know. In any case, net foreign debt is rising inexorably, to around $2.5 trillion or 22% of GDP in 2004. Though the US is easily the world's largest debtor, it is still far from being the largest in GDP terms.

In short, trade-related factors are not the only cause of the current account deficit. True, the size of the deficit reflects the imbalance in goods traded as households and firms have been sucking in more goods from abroad than the country exports. Indeed, many argue that Americans have a particular penchant for spending their extra income on imports compared with their trading partners. It has been known for some time that even if the US economy and the rest of the world grow at the same rate, the US trade deficit tends to widen. The result of this long-standing trend is that imports now exceed exports by 60%, and the dollar value of the deficit will continue to rise unless and until the tables are turned and export growth exceeds import increases by that same margin.

But apart from goods and services, the current account is also influenced by global market expectations of productivity and returns, asset prices, interest and exchange rates. To understand how this works, start with this basic fact: the US spends far more than it produces. This is reflected in an excess of imports over exports on the current account side, but it also shows up as the nation's excess of investment over saving. Indeed, gross saving has fallen as a share of GDP since the 1980s. Households, rather than firms, seem to be

For many experts, there is a risk that even the massive US economy will soon exhaust its "credibility range" with foreign investors.

responsible for this trend. Moreover, while the decline in saving may reflect the decline in inflation, low interest rates and rising confidence and wealth, budgetary policies have also fuelled what might have been a shortage of domestic finance available for productive investment.

Fortunately, the context has recently been one of global excess saving, so that foreign credit has been available on reasonable terms. But, while financial inflows from Asia and Europe have bolstered US investment, allowing capital to accumulate, the claims on that capital are held by residents of other countries.

Steeper decline

Current account balance, % of GDP, 1940-2005

Source: US Bureau of Economic Analysis

And that means the resulting income will accrue to them.

Meanwhile, although global capital flows have risen sharply, foreigners are still more attracted to buying US assets than are Americans to purchasing foreign assets. The upshot is that by 2004 US gross foreign liabilities of around 107% of GDP surpassed its gross foreign assets of 85% of GDP. Since 2003 the US appetite for investments abroad has strengthened, but foreign demand for US assets has also surged, mostly from central banks and private institutional investors. Direct investment and portfolio investment in equities were star attractions before the stock market bubble; more recently prudence has triumphed, with the United States drawing the safe-haven card: indeed, enough US Treasury debt securities were sold to non-residents in 2004 to fund most of the federal government deficit that year. Now they hold nearly half of US federal government debt.

Is this a problem? For many experts, there is a risk that even the massive US economy will soon exhaust its "credibility range", with foreign demand for higher returns to compensate for the increased portfolio risk pushing asset prices and the dollar down and interest rates up, raising the spectre of a crisis.

Despite being stretched, most experts see the deficit widening anew, with a trillion dollar deficit now in sight and the possibility that it will reach a double-digit share of GDP a few years down the line.

However, not everyone agrees that the current account deficit is problematic. One popular hypothesis is that capital inflows will continue to meet the requirements of a growing current account deficit because the US is such a good investment location. This idea is heard less often since the stock market plunge of 2000-01. Some now claim that it will remain in the interest of emerging-market economies–notably China–to maintain export-led growth to absorb almost limitless amounts of surplus rural labour.

Others argue that the US line of credit with the rest of the world has no clear time frame for repayment, especially since all those central bank lenders are not hunting for profit. Then there is that recent novel argument, mentioned at the start, that the whole deficit is a mirage, caused by a massive failure to record implicit exports of so-called "dark matter" in the form of external liquidity services (seigniorage) or, less credibly, insurance services and know-how.

However reasonable or otherwise such positions may be, there is a risk that the dollar will simply lose its place as the leading international reserve currency if confidence in its value is undermined or if

Not everyone agrees that the current account deficit is problematic.

the euro becomes more attractive. The view gaining wide acceptance is that the risk of the *dénouement* coming in the form of a crunch will grow with the foreseeable greater US indebtedness.

Solutions?

Can–or indeed, should–anything be done to reverse the current account deficit? There is no easy way out, but it seems clear that as the result of a plethora of decisions by individuals and firms, it will continue to be large as long as the policy environment remains unchanged. A floating dollar and free capital movements destroy the case for any deliberate policy to rein in the deficit. Slapping the brakes on demand, for instance, would slow imports, but it would also cause heavy damage to the wider economy, including key trading partners.

Yet the problem should not be ignored. The US authorities should at the very least avoid compounding the imbalance with budgetary decisions that fuel dissaving. The role of budgetary policy in shaping current account outcomes has long been recognised. Correcting this is where US policy responsibilities must lie. The contractionary effects of budget deficit reduction can be offset by easier monetary policy.

True, the federal government is aiming to cut its deficit in half by 2009 and to raise private saving, through educational and health savings accounts, for example. And as the deficit is also caused by weak growth abroad, it is working with partners too, for example, through the US-Japan Economic Partnership for Growth.

But perhaps the most efficient way to raise national saving and shrink the external deficit would be to remove biases in the US tax code. Take the tax treatment of owner-occupied housing. This is probably its biggest single distortion because the deductibility of mortgage interest provides a strong incentive to borrow. In fact, half the proceeds is spent on consumption, thereby boosting the trade deficit. Eliminating this deductibility would spur saving instead. If the federal deficit could be gradually reduced while bringing the tax treatment of housing to neutral over time, the dollar would depreciate, and the external accounts would ease back towards balance.

Such a policy would nudge overall production towards tradeable goods and services. This is no bad thing, since a shift of this kind will be required anyway if the US current account deficit is to narrow. Complementary policy changes would facilitate moving to what would essentially become a new industrial structure, such as revamping business taxation and corporate bankruptcy law and upgrading employee skills, which is one area where the US is clearly lagging. More vigorous market opening abroad, as well as growth-enhancing structural reforms in other OECD countries would also cut the deficit, though only modestly to be sure.

Whatever approach is adopted, a large real depreciation of the dollar seems inevitable. The only way to reduce the pain of such an adjustment would be to ensure that capital and labour can shift easily from non-tradeable to tradeable activities–both goods and some services, such as engineering and financial services. That means the government must aim for flexibility in US product and labour markets. Luckily, the US has arguably the most flexible markets in the OECD, as reflected in the fact that, despite recent shocks, unemployment has remained low.

The basic messages are simple: yes, the problem of the US current account deficit could become serious, and no, direct intervention is not the solution. Rather, the government should get its policy settings right. That means bringing down the budget deficit–which is prudent in its own right–while at the same time removing any anti-saving biases from policies and enhancing the capacity of the economy to shift resources to production of tradeable goods and services. At the end of the day, the market, if allowed, can do the rest. ■

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BRATISLAVA
A CITY OF ITS OWN CLASS

Sponsored statement

The City of Bratislava - the capital of Slovakia - has a special economic and social climate. Its GDP per inhabitant is now almost equal to the average in the European Union 15. It does not suffer from unemployment. The city is a traditional educational centre with 8 major universities, a wide range of colleges and 60,000 students. Sometimes it seems as if Bratislava is closer to foreign countries than to other Slovak regions.

Bratislava has a new zoning master plan which has sparked interest of both investors and developers alike recently. "We'd like to make what we call a 'white city' out of Bratislava supporting investments into office buildings, apartment constructions, retail. We'd like our city to become a cultural and social centre, but at the same time we're trying to diversify the risks that the prosperity of the city will be tied only to a certain segment of the economy," says Mayor Andrej Ďurkovský.

So why not try something different and see what Bratislava has to offer? Because the most common question from visitors is: "How did you manage to keep this beautiful city secret for so long?"

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BRATISLAVA

Jobs Strategy
Policy choices that work

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Raymond Torres
Directorate for Employment, Labour and Social Affairs


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Working on flexicurity

A new revised OECD Jobs Strategy is due for release in June 2006. It will review progress in improving labour markets since the first jobs study was issued in 1994. Key lessons have been learned.

A decade ago, when the OECD Jobs Strategy was first launched, unemployment was high and persistent in several OECD countries. Since then, a number of them have made significant progress to reduce joblessness. At the same time, the challenges for labour market policies have become broader, with greater recognition of the importance of high employment and better working conditions for good living standards.

Another development since the original Jobs Strategy is the environment in which today's employment challenges are set. Rapid technological advances and globalisation, with its huge extra workforce notably in China and India, make it all the more important for workers in OECD countries to be ready and able to adjust quickly to new challenges and stiffer competition. And then there is the looming issue of population ageing, which threatens to reduce living standards unless action is taken.
Some of the basic characteristics that make up strong labour markets are timeless, however: high employment, low unemployment and high productivity, with ease of movement of skilled, confident workers from all backgrounds among dynamic, high valued-added sectors and the capacity to absorb and adjust to shocks. Add to the package an ongoing ability to attract and retain fixed investment, whether domestic or foreign, and broadly speaking this is how most governments would like their labour markets to function.

Only a handful of OECD countries can claim to fulfil this broad characterisation, and even the very best have weaknesses that need addressing, such as appropriate skills.

Too many countries remain hampered by old arrangements that, however sensible they once may have seemed, now damage the job prospects of many people. Whether excessive non-wage costs, red tape in hiring and firing or an absence of effective measures to help the jobless regain employment, such rules affect young and unskilled workers, as well as older, skilled employees. The upshot is to deny the entire economy its full productive potential, causing unemployment, underperformance in productivity and weak growth. This drives up social costs.

Breaking this circle requires determined government policies. The revised Jobs Strategy aims to help that process by showing which experiences work and which do not.

The experience

OECD area unemployment has fallen since 1994 and those countries that embraced the recommendations of the Jobs Strategy have done particularly well. Nevertheless, so have those that have adopted Nordic-type approaches, such as Denmark's much discussed "flexicurity" hybrid which combines relatively easy hire-fire with strong backup for, and obligations on, jobseekers. Austria and the Netherlands have adopted a similar approach. But countries that have not reformed enough, including France, Germany and Italy, as well as some central and east European countries, have performed least well. Their unemployment is high and employment rates relatively low, despite strong global growth (see graph).

Nor is the employment rate of prime age men the main reason for the gap in overall performance–indeed, it is high in most OECD countries– but rather the performance of two sub-groups: women and older workers. Female participation rates have generally increased and the trend decline in labour force participation of older workers (55-64) appears to have been reversed in some countries. But in Germany and Italy, female participation is relatively low, whereas in France this is the case for workers over 55.

Welcome as recent improvements are, most economies remain unprepared for the looming challenge of ageing, even if the "greying" of OECD societies will affect some countries like the US, Canada, some of the Nordics, Australia and New Zealand less than others.

Meanwhile, young workers are another category where joblessness has been too high–three times higher on average than for prime-age men. Longer careers in education explain some of this, though not the weak employment performance of

16-18-year-olds with less than upper-secondary education.

Policy benefits

A key lesson since the 1994 Jobs Strategy concerns the role of so-called "activation/mutual obligations" measures. These can improve re-employment chances of those out of work. If governments respect jobseekers' "rights" by providing effective re-employment services, counselling, training and financial incentives to help them get back to work, benefit recipients must take steps to seek work and improve their employability. Moderate sanctions are needed in cases where these obligations are not met. This approach has been implemented successfully in high-benefit regimes such as those found in the Nordic countries, and in lower-benefit regimes such as those in English-speaking countries.

In other words, barriers to job markets must be removed, and well-designed social support measures that facilitate employment should not be seen as an obstacle.

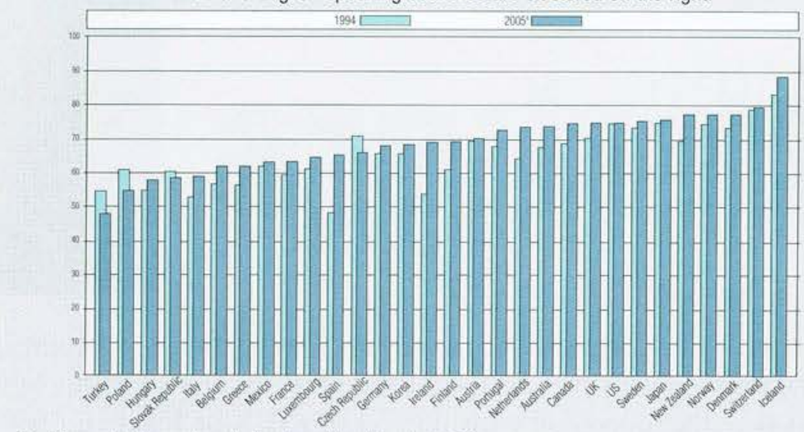
While new lessons have been learned since 1994, experience has also confirmed several points. For a start, some social benefits can entail work disincentives. Too many people in some countries are on sickness, disability and lone-parent benefits, for instance, and pension and other benefits tend to encourage early retirement. Yet, many of these people could and often want to work. Governments should tighten up entry to these schemes and develop ways of activating people on such inactive benefits.

The evidence also shows that high payroll taxes and social charges prevent job creation for low-productivity workers. The rise in the cost of private health plans seen in a few countries does not help either. Several countries have cut employers' social security contributions on low-wage employment and some have reported more hiring of such workers. But this has to be balanced against the cost of such schemes to the public purse.

Another of the original Jobs Strategy's recommendations for reforming wage-setting institutions also remains valid. Real wages that do not adjust to supply and demand pressures hurt employment. Though decentralised and centralised wage bargaining clearly offers more flexibility than sectoral agreements, change in this area has been slow.

Labouring behind

Employment rates have risen in most OECD countries.
Nordic and English-speaking countries are clustered on the right.[a]



Countries are ranked in ascending order of employment/population ratios in 2005.
a) The employment/population ratio refers to the persons employed aged 15 and over divided by the population aged 15-64.
b) 2003 for Austria.

Source: OECD (2006), *OECD Employment Outlook*

Labour markets are just one side of the coin, of course. Product markets count too, and a consistent finding over the years has been the negative effect on employment of anti-competitive regulations.

Proper labour- and product-market policies need to be supported by sound macroeconomic policy that encourages investment and growth, and reduces cyclical fluctuations in the economy.

Finally, better skills will help workers adjust to change. Policy should help promote investment in human capital, while also addressing existing learning inequalities.

No single package

In short, experience over the past two decades shows that there is no single combination of policies for good labour market performance.

High employment can be achieved by combining low levels of welfare benefits and limited taxation, as well as light employment protection legislation and few collective agreements. The price is relatively wide income disparities.

Good performance can also come from a system based on co-ordinated collective bargaining and social dialogue, with generous welfare benefits and serious activation services for jobseekers, as well as employment protection legislation which helps labour market dynamism while also providing security to workers. Income disparities are lower, though the costs for the public purse are higher.

The revised Jobs Strategy is a comprehensive package, and is based on the tried and tested experience of OECD members. Whether it gets implemented largely depends on political will, skill and judgement. Reform has to be implemented firmly to realise the benefits for citizens at large. However, even in those countries in serious need of change, there may be resistance to reform, regardless of the wider advantages reform might bring.

Yet inaction is not an option. The key message for everyone is that good labour market performance is essential for maintaining and raising living standards. And it can deliver high employment, security and growth. At a time of intensifying global competition and ageing, this is good news indeed. ■

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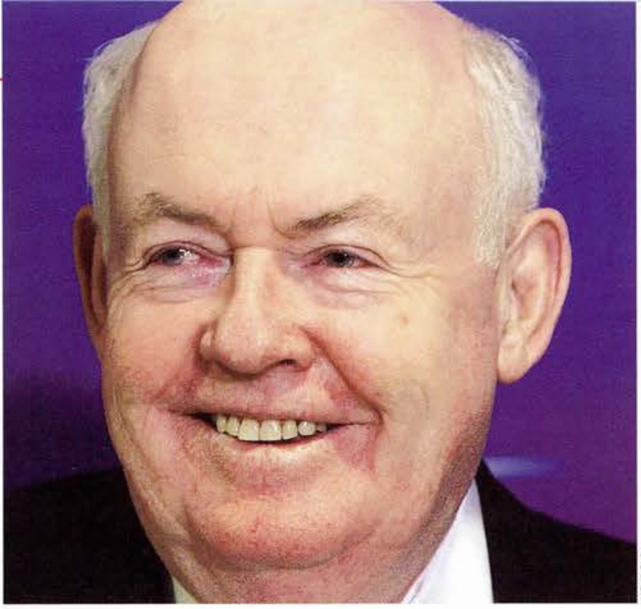

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Why workers count

John J. Sweeney, President, AFL-CIO*

For growth and prosperity, companies must focus on high-quality products, customer service and continuous innovation. That means looking beyond shareholders and addressing the needs of ordinary workers, not least in OECD countries.

The entry of China, India and Russia into the global economy poses an unprecedented challenge to living standards in the developed countries of the OECD. The global labour force has effectively doubled in just 15 years and millions of the new entrants work for wages and in conditions far below those of workers in more developed countries. Unless appropriate policies to regulate globalisation and provide decent work and sustainable development are adopted by the OECD and developing country governments alike, globalisation, rather than bidding up living standards for everyone, will produce even greater inequality between rich and poor, and between capital and labour.

The effects are already visible in many developing countries as companies threaten to shift production to China, where workers' rights to organise are not respected. Yet assuring the human rights of workers must become as important an objective of international trade and investment agreements as protecting intellectual property rights.

In the US, workers are suffering a generation-long stagnation of wages and living standards even as the economy grows.

In some OECD countries, the historical relationship between higher productivity and real wage growth has been broken over the past two decades. It was this close relation that powered rapid growth and broadly shared prosperity in the boom years after the Second World War. In the US, workers are suffering a generation-long stagnation of wages and living standards, even as the economy grows and overall productivity and profits surge. In fact, all kinds of people find they have to hold down two jobs just to get by. Meanwhile, European governments anxious to get unemployment down are pushing reforms that seem to be heading in the same direction. But rather than making labour markets more flexible, in practice they will simply end up reducing quality by making jobs cheaper and more precarious.
If productivity and competitiveness are the goals, then this is hardly smart economics. Globalisation is not supposed to reduce living standards. But when policies between the interests of corporations and workers are as unbalanced as they presently are, a drop is inevitable. Developing countries must be given equitable access to the global economy but we need the right policies and the right rules for globalisation to ensure a "race to the top" and not a "race to the bottom".

The OECD was founded by governments to promote growth and development through global co-operation. It has an important role in helping build a consensus around a balanced set of policies to guide the globalisation process. We must all adopt a more pragmatic approach to trade and investment agreements and not impose free market orthodoxies on labour as though it were just another input.

Given the enormous differences in compensation in the global economy, how can companies in high-wage countries meet the competition from companies in the lower-wage countries without undermining living standards in the developed countries? It is a tough question. The US has lost 3.5 million manufacturing jobs since 1998, more than half of them to companies losing market share or offshoring production to cheaper places. Alan Blinder, a distinguished American economist, estimates that as the challenge of offshoring spreads to services, as many as 28-52 million American jobs could be at risk. The OECD has also advanced estimates which paint a similar picture.

The solution is no secret. Companies must adopt new business and competitive strategies that focus on high-quality products, customer service and continuous innovation. Ordinary workers hold the key. Every day, they learn about products and processes. Companies that do not reward workers fully or provide incentives will not win the workers' commitment to share that knowledge. They will be unable to harness the unique firm-specific knowledge needed to improve quality, productivity and build sustained competitive advantage.

The circle of continuous innovation, productivity and growth is not easy to accomplish, of course, but it is the only feasible strategy for OECD countries. Unfortunately, too many companies –operating in a poorly regulated global environment– are adopting business and competitive strategies that, even when they succeed, benefit only their shareholders and CEOs. Rather than fostering continuous innovation, these companies are content to profit from international wage arbitrage. They can hardly be trusted to transfer technology, invest in proper jobs in poorer countries and raise standards everywhere.

Meanwhile, companies trying to compete insist on "flexibility" at home to hire and

When it comes to labour reform, European governments should not throw the baby out with the bathwater.

fire workers at will in a bid to maintain margins. Yet what they really need is "flexibility of *work*," not "flexibility of labour."

Workers will respond positively to these challenges of change in return for reasonable security and benefits such as proper training, health insurance, pensions, and so on. Robust social welfare and active labour market programmes can help provide a solid framework for both companies and workers, as Nordic countries have demonstrated. The OECD recognises the value of Nordic labour markets, so why does it not map out a strategy to help other countries emulate them for a change? After all, where insecurity and fewer rights are on offer, as is the case in the US and to a lesser extent the UK, the supply of skills and knowledge becomes badly compromised.

When it comes to labour reform, European governments should not throw the baby out with the bathwater. There are many value-adding qualities in their labour practices that workers in the US need, in training and workplace rights, for instance. Shoe-horning people into jobs without such *quid pro quo* is a recipe for decline. Corporations and some commentators have spun a great story that under globalisation, labour should be thankful for work and basic wages, that unemployment is labour's fault, and businesses are blameless. Yet while benefits and contractual obligations to workers have been chopped back, the truth is that huge profits have been earned on the back of labour forces both at home and offshore. Strong growth in the US has benefited only the very highest of high-income earners.

Supporting development and making a place in the global economy for hundreds of millions of new workers without undermining the living standards in OECD countries requires concerted action by governments to forge more balanced global economic policies. It also requires corporations to see beyond CEO and shareholder interests. The OECD is the forum where serious discussion on these matters can take place. To be useful, however, our discussions must honestly and pragmatically address the challenges we face. And we must leave our ideologies and textbook theories at the door. Business as usual will not restore balance to the global economy. A major new policy consensus is needed. ■

* American Federation of Labor - Congress of Industrial Organizations

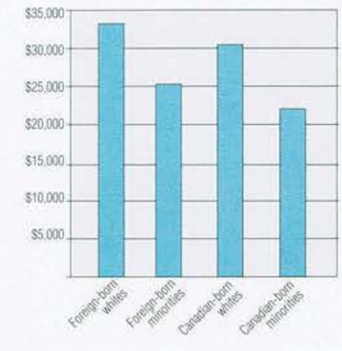
Racial gap?

Balancing globalisation is not just about narrowing the gap between countries as winners and losers, but also how the gains and costs of globalisation are distributed within each country. The trouble is, though migration may increase interaction between ethnic groups, racial inequality still persists in the workplace, as an October 2005 report by the Canadian Labour Congress shows.

As a group, Canadian-born whites earn CA$4,936 more on average than foreign-born visible minorities. A lack of Canadian work experience, cultural adjustments and language barriers may be contributing factors, but then again, foreign-born whites earn most of all! Also, Canadian-born visible minorities, who according to the report are the highest-educated group of Canadians aged 25 to 44, earn $8,158 less than Canadian whites. Meanwhile, the Canadian report seems to echo a study in the UK which found that while 21% of blacks and Asians have degrees compared to whites at 15%, their unemployment rate had increased by 2% since 1990. Moreover, minorities were twice as likely as whites to be working in the low-wage hotel and restaurant sector.

Wages by race and origin

Average annual incomes in CA$, 2001



Source: Cheung, Leslie (2005), "Racial Status and Employment Outcomes"

Globalisation has ushered in an era of mutually beneficial interactions between different countries. Now it must work on removing ethnocentric "glass-ceilings" within countries too. ■ *PW*

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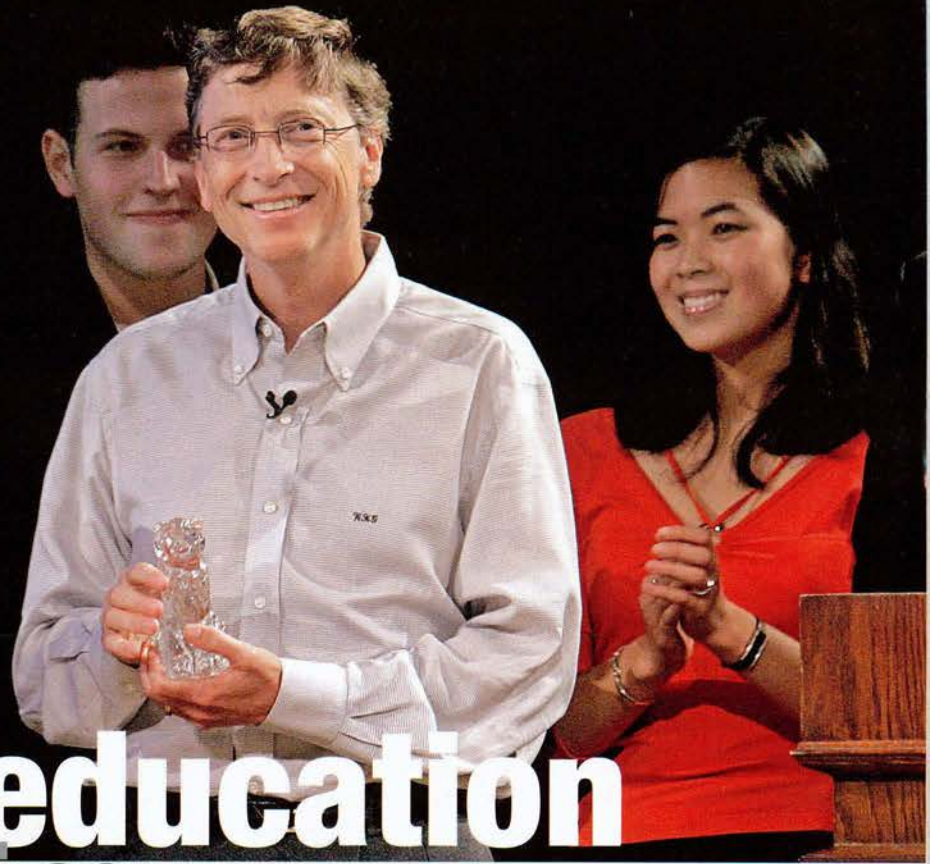


Higher education for a changing world

Bill Gates reaps network benefits

Barbara Ischinger, Director, OECD Education Directorate

Achieving and sustaining quality in higher education is a tough challenge. A new stakeholder contract may be needed, and better performance measures would help light the way forward.

Higher education is attracting unprecedented public attention across the OECD. In Germany a competition to create universities of excellence is fuelling debate; in France discussions continue about struggling mainstream universities versus more well-endowed *grandes écoles*; in the UK there is a debate about education as a public good versus faculties as market-oriented enterprises; and in the US public focus continues on accessibility, competition and costs. The list goes on.

These concerns are to be expected since knowledge is so important to our economies. They also reflect the globalised nature of tertiary education, which in some countries, particularly in Europe, is in something of a quandary. Top US universities, though expensive in terms of fees, draw top talent and appear to outshine many leading European ones. Why is this?

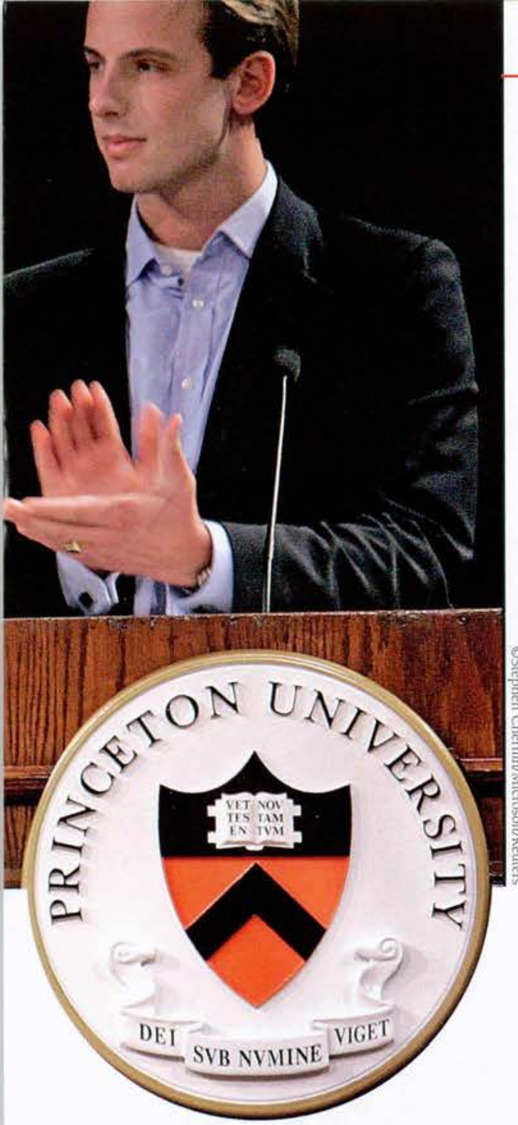
Historical influences, institutional developments, the role of education in society, past and current attitudes to funding, quality and access: when it comes to measuring quality, relevance and impact of universities, we simply need more evidence.

Institutions of higher education everywhere are increasingly encouraged—if not obliged–to draw a higher proportion of their resources from non-state funds. Just as the health system and pension funds can no longer be solely funded with public money, university "consumers" will increasingly be asked for a financial contribution.

There is a paradox: on the one hand governments and the public request public universities to provide greater access, improved quality and to cut costs. On the other hand, public funding is reduced. In some countries higher education may as a consequence become scarcer, and access more limited. Some change, whether in approach or structure, seems inevitable.

Regional drivers

Education reform is far more than just about funding or turning educational institutions into businesses. It is about promoting a new social contract involving all stakeholders, beyond governments, teachers and students. The terms of the social contract which has underpinned these institutions until now–mainly public finance based mainly on taxation–are changing. Also, governments have to make sure the challenges are met quickly, since the knowledge economy relies heavily on higher education for its raw material of human capital.



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It is important to consider higher education in a regional as well as a global context. The higher education and research institutes made their entry into regional policy in the 1980s, when entrepreneurship became central to local development. There were new incentives to create closer ties between knowledge institutions and trade and industry, led by the likes of Silicon Valley in California, Route 128 in Boston and other high technology centres. The idea of growth centres, including a university or a university-affiliated research institute, has conquered the world from Tokyo to Paris and Helsinki to Munich.

Regions and their universities have drawn new "road maps" towards dynamic local forces capable of competing in a global economy and delivering social well-being. Such forces require a stable infrastructure, including best-performance schools and universities, research laboratories and a networked technological infrastructure. As Microsoft's Bill Gates puts it, cutting-edge companies now base their location decisions on the availability of talent pools and a culture for innovation, rather than tax policy.

This is not just theory and it is not just happening in the US. Consider Finland, for instance. Between 1990 and 2000 the Finns doubled their higher education enrolments. The decision to do so was taken when the Finnish economy had lurched into a long and deep recession

Education reform is far more than just about funding or turning education into a business.

following the collapse of the Soviet Union. But rather than doubling the size of the existing rather rigid university system, they decided to create a new one based on a regional infrastructure. This led to the creation of a polytechnic system, aimed at upgrading vocationally-oriented education and catering for changing local needs, including in the labour market. Whether Finland's economic resurgence, including in employment, is due to these innovations in education is an open question.

Nor has regionalisation solved all the problems: Finland still faces the prospect of a long-term decline in student numbers, and as a consequence, will soon begin consolidating a number of institutions. The OECD is acting as advisor on this question.

Testing performance

Clearly, adequate funding is a key element in assuring the quality of any higher education institution. But while much emphasis has been placed on the evaluation and quality assessment of research, little attention has been given to the quality of teaching at higher education institutions, or indeed to how they serve regional requirements. Measuring these contributions may require different approaches, but the choices are unclear. We need to build a better understanding of the advantages and disadvantages of the different ways to evaluate quality.

An issue we should be careful about is the use of league tables. One of the major problems with rankings, especially where they cover whole institutions rather than individual faculties or disciplines, is that they compress everything into a single indicator that fails to capture the diverse meaning and objective of quality. In other words, simplistic, narrowly-defined, quantitative assessments of quality can actually harm the diverse missions of higher education.

For accountability, certain elements are worth measuring in relation to particular disciplines or courses: number of graduates, duration of studies, costs per student, etc. But do these measures help set overall strategies in higher education? Measuring quality should go beyond quantitative measures of cost, for instance.

To assess regional involvement, quite different metrics are required. We are conducting a major study of the precise ways institutions of higher education support economic, social and cultural development across the OECD. It is a challenging exercise.

So far as teaching in higher education is concerned, a measure of student competencies would probably be the most credible tool, rather as the OECD has done with PISA for secondary education. However, this would be expensive and difficult to carry out. Even if such a measure were made available, it would have to be supplemented by ways of determining whether better results reflected the quality teaching or, say, a more advantaged student intake. After all, do some US colleges shine because of their teaching or because they only admit high calibre students in the first place? Do some old-fashioned European universities suffer because they take on too many students?

This raises the problem of how to compare like with like. Different countries have different traditions, and the status of universities and other institutions varies from place to place. For instance, for engineering, do we compare, say, Stanford with a mainstream French university, or with a specialised school such as the Ponts et Chaussées? Are these schools producing enough talent or responding quickly enough to new employment demands? Can French, German or other European universities continue to supply skills to the likes of Siemens or Airbus, or indeed, to emerging European knowledge-based industries?

Such questions need to be cleared up. The OECD's tertiary reviews, regulatory reform reports on education and innovative work on university futures offer some insights, but also reveal gaps in measurements for comparing countries. A productive route would be to look at consumer judgements about the perceived quality of teaching. By consumers, I mean mainly students, though also parents and future employers.

There are some good examples to examine, such as the German Centre for Higher Education Development's online tool, which

We need to build a better understanding of the advantages and disadvantages of the different ways to evaluate quality.

aims to dispense with all-institution ranking of data by comparing single disciplines in Austria, Germany and Switzerland. As it is interactive, "client" students can rank institutions according to their needs. A study on the methods used in gathering such consumer information across the OECD would be quite straightforward to set up, and the OECD could achieve quite a lot with a relatively modest investment.

OECD education ministers will meet in Athens on 27-28 June. The question of achieving and sustaining quality in higher education will feature highly on the agenda. India, China, Russia, Chile and other non-members will also be represented. Such deep interest from around the world is a sign of how important higher education is for us all. Together we must meet the challenge of attaining the quality we need and our children deserve. ■

For a list of OECD reviews and studies on education, see www.oecd.org/edu.
Visit www.oecd-pisa.org.

Universities
A social duty

Richard Descoings
President, Sciences Po, Paris

Besides providing training, research, documentation, publishing, and the like, do universities have any particular responsibility towards society? And more to the point, do they have a role to play in the development of education systems? The answer is a resounding "yes".

Last February, some 20 universities, brought together in a task force created by the UN secretary-general, met in Princeton to examine the way in which universities might respond in a new and innovative way to the intellectual, scientific, political and economic changes taking place in our societies. One issue at the fore of these discussions was the social responsibility of universities.

Obviously, research results and expertise must be made available to society as a whole. At the same time, however, universities can and must take direct action in their own field, namely education. They can do this by allowing

others to benefit from their research, for example, into inequalities at school and their influence on urban segregation, and also from their skills in terms of teaching and running educational establishments. They can also mobilise their partners in industry, government and even the media. As social institutions, universities must actively help build social solidarity and no longer be content simply to look after their own development.

It is with this in mind that in 2001 Sciences Po launched a programme of Priority Education Agreements with secondary schools in underprivileged areas. We currently work with 33 schools and have provided places to 189 particularly outstanding students whose access to selective higher education would have otherwise been impossible due to the social biases of the normal selection procedures based on dissertations, and also to a kind of self-censorship practised by the students themselves.

Our sole merit is to have deliberately gone out to find these candidates on the basis of teachers' reports and in-depth interviews at Sciences Po. What are the results six years down the line?

Obviously the first outcome has been the social diversification of students at Sciences Po, leading to similar initiatives in other higher education establishments. There has also been a knock-on effect in the hiring practices of firms, which have made diversification a cornerstone of their human resources policy. Even the French government administration is considering introducing new selection procedures.

Most of all, this genuine partnership with schools has considerably improved the degree to which secondary school children are prepared to invest in their own education. It has raised the level of their ambitions: they are now setting their sights on training at a far higher level. Our action has had an impact well beyond the walls of Sciences Po.

Universities must help build social solidarity and no longer simply look after their own development.

Drawing on this experience, we are now launching a new initiative based on the same principles, in which the starting point is that of educational establishments and individuals who alone are capable of identifying successes and analysing failures. In many cases the French educational system is incapable of mobilising all pupils in disadvantaged areas. Also, there is growing concern among firms that they may not be able to find enough motivated and educated recruits to replace the baby-boom generation about to retire. True, teachers and headmasters continue to find innovative ways to lend new momentum to teaching establishments and motivate pupils. But the organisational and managerial system in place is unable to properly identify, codify and disseminate good practices.

An association of headmasters, teachers and local activists has drawn up a framework project by simply pooling teaching methods which work well elsewhere but which few people ever think of sharing. These include regular meetings with families, one-on-one tutorial support, multidisciplinary courses, active co-operation with firms, collaboration with colleges and higher educational establishments to instil genuine career guidance procedures, etc. This educational project will be implemented at the start of the 2006 academic year in four secondary schools in Seine-Saint-Denis, a particularly disadvantaged Paris suburb, with the aim of networking with all other establishments which might like to take part in the project. A new secondary school may also be set up.

In all countries, the debate over education is of a political, if not ideological, nature and involves government ministers, parties and trade unions. However, we remain firmly convinced that we can only bring about changes for the better in education by starting at the grass-roots level.

It is fascinating to see how experimenting can alter our approach. Teachers' unions regularly inveigh against "recruiting" secondary school teachers according to the fitness of the match between their experience and the plans for the establishment. Seniority is the main system used to assign teachers to schools in this complex system, regardless of the quality of their professional skills. But four secondary schools now working on a new teaching project have all reached the same conclusion, namely that teachers must be recruited on the basis of the project.

Many commentators worry about barriers in contemporary society and the difficulties of reform. But we are convinced that our societies know perfectly well how to adapt and innovate on a permanent basis, provided we start with practical real-life situations. The universities stand ready to mobilise their resources and help move this process forward. ■

Visit www.sciences-po.fr/english/index.html.

The asset test

Dara Duguay
Director, Citigroup Office of Financial Education

Should financial education form part of standard school curricula, alongside history or mathematics?


©Andrew Winning/Reuters

Board kids: Children take part in a financial education course at Mexico City's stock market in 2005.

You cannot expect someone to be able to build a house just by giving them a saw, a hammer and some wood. Likewise, you cannot expect someone to be able to manage their finances just by giving them an income, a mortgage, a credit card and an insurance policy. People need to be taught how to use these tools in order to succeed. Simple skills like saving and investing, budgeting and using credit wisely are crucial for young adults to master. The best starting point is in school because many parents are poorly informed about personal finance issues and may not be the best role models. Even parents who are savvy about money matters often find it difficult to talk to their kids about money; it remains a taboo subject. Kids will eventually need to learn financial survival skills and school is the best place to get the job started. So how effective has their education been?

Learning about money is more often taught through the trial and error method than through formal education. Though personal finance is a necessary life skill like reading and writing, it is not treated as such in all but a handful of our school systems around the world.

In the US, the Jump$tart Coalition for Personal Financial Literacy has been conducting a biennial survey since 1997 to ascertain the financial literacy level of high school seniors. The 2005 results have just been released, with an average score of 52%–a failing score on most US grading scales. The survey reported that only 16% of the respondents had taken an entire course in personal finance in high school. A slightly higher percentage, 30%, received at least a week of instruction within another subject, such as economics or mathematics. Jump$tart's survey provided empirical evidence that not enough young adults are receiving this critical instruction and the vast majority are unprepared financially to enter the "real world".

An OECD report produced by its Financial Education Project found that relatively few countries have conducted surveys of financial literacy levels. The report identified surveys in Australia, Japan, Korea, the UK and the US. Each of these varied from the others in terms of questions asked, the characteristics of the population surveyed, and the goal of the survey. However, the conclusion of all of them is that consumers are lacking in information about financial issues and need financial education.

The good news is that the tools to address the problem, such as curriculum and teacher-training programmes, are abundant. For example, the Jump$tart Coalition's web site (www.jumpstart.org), contains a Clearinghouse database of over 600 high quality education materials for students in all grades. However, the challenge is to drive demand up to equal the supply.

One of the most formidable obstacles is the fact that standards or guidelines determine what ultimately ends up in the curriculum in many countries. For example, by 2004 in the US, only nine states out of 50 included personal finance instruction within a required class. However, in 2005, seven states passed legislation making this inclusion a requirement in coming years. Currently in 2006, there are over a dozen states with similar pending legislation. The role of legislation in affecting educational policy cannot be emphasised enough. The trend seems to be that more and more legislators and government agencies are taking up this challenge. Since most countries determine educational policy on a local or state level, that means encouraging all local jurisdictions to make personal finance education a required subject.

There is an exception, however, because in the UK, personal finance instruction is included within national curriculum standards. One driver behind this is the Personal Finance Education Group or pfeg for short, a non-profit charity set up to help teachers to develop financial capability in young people. Its professed aim is "to make sure that all young people leaving school have the confidence, skills and knowledge in financial matters to take part fully in society" (see www.pfeg.org). Pfeg has established a "quality mark", which identifies materials that have been vetted for excellence by professionals and takes much of the guesswork out of selecting teaching resources. The Citigroup Foundation funded a project with pfeg to demonstrate how personal finance education could be delivered as early as the primary curriculum through developing a management handbook for teachers and school heads.

Financial education works. For example, research conducted by Stanford University,

The vast majority of young adults are unprepared financially to enter the "real world".

entitled "Education and Saving: The Long-term Effects of High School Financial Curriculum Mandates", showed that education policies mandating instruction on topics related to household financial decision-making led to a gradual increase in assets of affected students. The gain was equivalent to an additional year of net income over the course of an average individual's lifetime.

Furthermore, the National Endowment for Financial Education's High School Financial Planning Program® has been shown to have made a significant, positive difference in the personal financial behaviour of teens. The study found that three months after students completed this programme, some 60% had changed their savings patterns to save for what they wanted or needed or, in some cases, every time they received money. Moreover, almost 60% had adopted wiser spending patterns.

Additionally, Citigroup has a well-respected and proven curriculum, with lessons as early as kindergarten and on through adulthood. A recent study of this curriculum's effectiveness with a control group of low-to-moderate income adults showed that after receiving instruction, 17% more followed a budget; 20% more developed a financial plan; 7% more balanced their checking account; 8% more contributed to a retirement account; and 6% more became home owners.

Meanwhile, a survey of adult workers who were exposed to workplace financial education showed that participation and contributions to voluntary retirement savings plans were higher, particularly among non-highly compensated employees.

With Citigroup's global presence (300,000 employees working in over 100 countries), our goal is simply to help people improve the quality of their lives and to help small businesses and institutions better their communities. Providing them with the information and tools they need to make sound and informed financial decisions helps achieve this goal.

In 2004, Citigroup and the Citigroup Foundation made a 10-year, US$200 million commitment to support financial education globally. In 2005, financial education support equalled almost $30 million, funding initiatives in 68 countries. As we move forward, Citigroup will continue to strive to make a positive difference and contribute to the communities where we live and work. We are also delighted to be working alongside the OECD to further this work. It is the foundation of the company's community commitment and a value that is deeply embedded in our corporate culture. That is why financial education is, and will continue to be, a major focus of the philanthropic efforts, business programmes and employee volunteer efforts of Citigroup in the years ahead. ■

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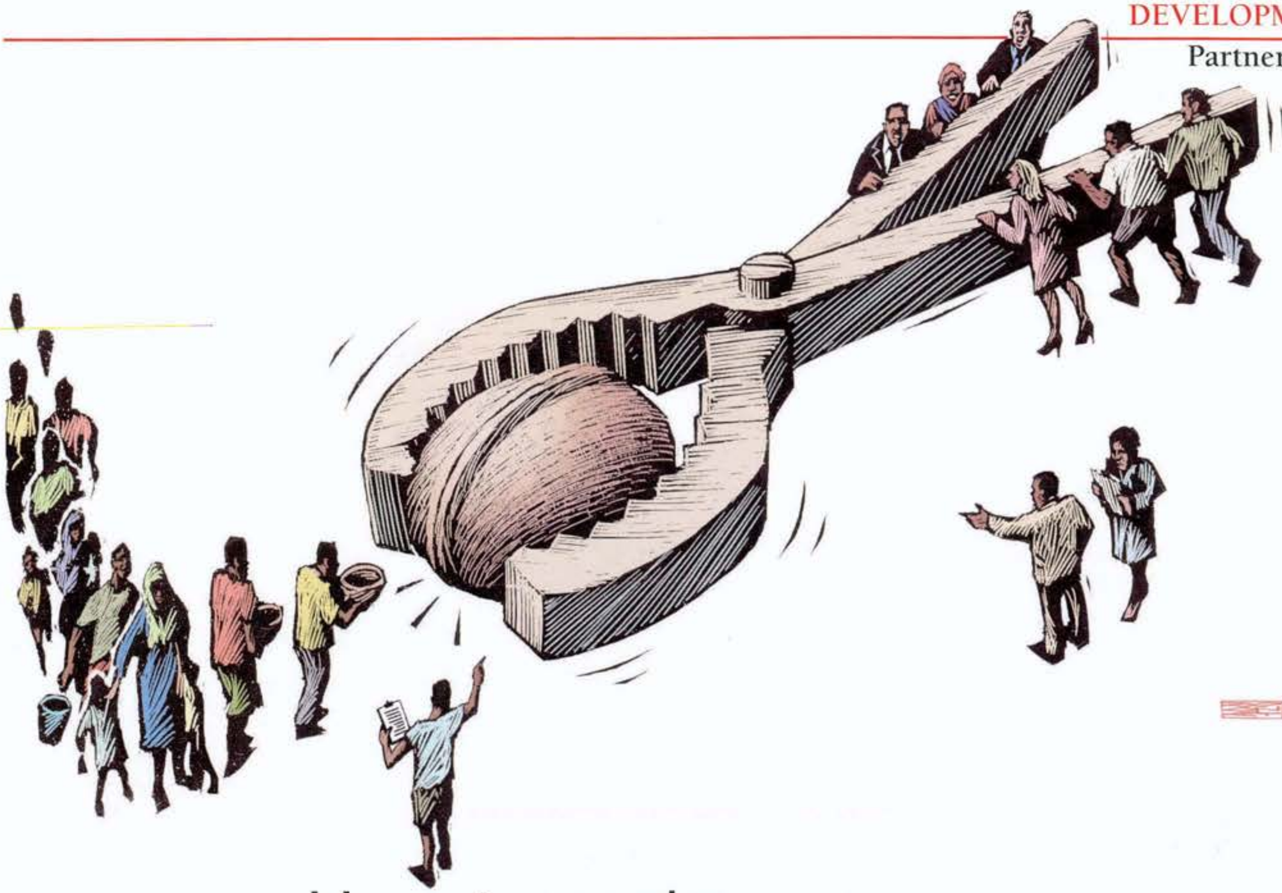
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How to make **development partnerships** work

Dan Runde, Director of the Office of Global Development Alliances
United States Agency for International Development (USAID)

Public-private partnerships have been criticised for underperforming on promises in recent years. But for development, well-managed alliances not only work, they can boost aid effectiveness too. Here is how.

Imagine a type of nut that could save hundreds of thousands of people in poor countries from starvation. In fact, imagine one that costs about $20 per child for a month, roughly the same as therapeutic milk, but which, unlike most other therapeutic foods, does not require preparation, is packaged, keeps fresh after opening, and can be easily transported and distributed directly to parents and children. Now, imagine that all that was needed to get that nut out to the people most in need was investment in local production, know-how and promotion.

Sounds far-fetched? Yet, such a nut exists, and thanks to a brilliantly simple initiative by the United States Agency for International Development (USAID) in partnership with Nutriset, a French food company dedicated to humanitarian nutrition solutions, it is now being used for famine relief.

We call USAID's public-private alliance initiative the Global Development Alliance (GDA). Nutriset makes Plumpy'nut, which is a high protein, high energy, peanut-based, ready-to-use therapeutic food. The nut is now being processed and packaged in local peanut producing areas such as Malawi and Niger. In other words, as well as saving people, the partnership transfers knowledge and technology, and so helps to build the capacity of governments and people in affected areas to face the challenge of malnutrition.

This is an example of public-private alliances in action. It is an agreement between two or more parties to define and address a development challenge. As with Plumpy'nut, it is an approach, not an end in itself. Much more than simply outsourcing a private contractor for a service, USAID and its alliance partners combine resources and share risks in pursuit of common objectives. In addition to cash, resources include human capital, technology and intellectual property, market access, cutting-edge business practices, policy influence, in-country networks, and other expertise. And because this partnership brings scale, effectiveness and innovation to development efforts, public-private alliances can help make aid more effective and accelerate progress towards the Millennium Development Goals.

GDA is a development assistance model that combines aid dollars with the resources, expertise and creativity of a range of players. Together, they provide a growing share of funds, human capital, and other resources for global development. These partnerships unite the unique skills and resources of each partner and apply them to problems that no one actor could solve alone.

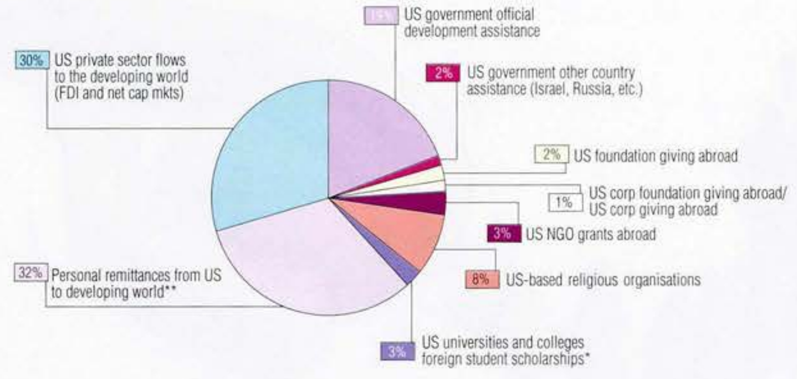
To launch the Plumpy'nut product, GDA and a non-governmental organisation (NGO) called Project Peanut Butter (PPB) teamed up with Nutriset to establish a production facility in Malawi. Nutriset donated financing and shared its intellectual property–in short, the recipe. Being humanitarian, Nutriset did not earn a profit for its efforts, which aided 60,000 children. USAID gave $130,000 to PPB to finance the production facility and training of Malawian staff. PPB and Nutriset provided cumulative funding and in-kind resources worth $450,000. The production facility uses local raw materials and will soon have its capacity expanded.

Clearly, a strategic approach not only targets the implementation of development projects but also their identification, design and funding. USAID believes this approach is applicable in every sector that it operates, including agriculture and health, but also democracy and governance.

USAID has historically worked with NGOs, foundations, for-profit companies and others. But today, through GDA, it also works with philanthropies, diasporas, and other actors. It is USAID's response to the changing environment in which we all work. In the last 30 years, resource flows

A fuller development picture

Total economic engagement 2004 = $99.7 billion, preliminary



*In 2002-03, 586,323 international students studied in the US, an increase of less than 1% over 2001-02. Nearly 75% of international students are self-sponsored or fully funded by sources from abroad.

**Foreign-born population was 31 million in 2000 and 33.5 million in 2003, according to the US Census Bureau.

Source: USAID 2006

USAID has leveraged more than $1.4 billion of its funds with over $4.6 billion of other partner funds through nearly 400 public-private alliances.

from the United States to the developing world have shifted, with 85% of resource now coming from fixed capital investment, remittances, and various forms of private giving. Some 15% of resource flows from the United States to the developing world come from Official Development Assistance (ODA). In the 1970s, the breakdown was almost the opposite, with the US Federal Government then the largest source of development resources.

ODA remains essential of course, and the Bush administration has increased net ODA on a percentage basis by more than any administration since the Truman administration. The estimate for 2005 is more than $25 billion, up from $10 billion in 2000.

Still, with the private sector and civil society playing larger roles, the creation of the GDA made good sense. In the four years since the initiative was launched, USAID has leveraged more than $1.4 billion of its funds with over $4.6 billion of other partner funds through nearly 400 public-private alliances.

In some sectors, working with private companies is essential. In the agricultural sector, for instance, grocery stores are increasingly spreading into rural areas of developing countries, like Nicaragua. Grocery stores require that farmers meet private standards and codes, and so, act as gateways for smallholder farmers to global markets.

Apart from Plumpy'nut, there are several other examples of how successful partnerships work. The Dutch company, Royal Ahold, is one of the largest buyers of food in the world. As well as bringing its knowledge of agricultural quality, phytosanitary standards and product development to the table, Royal Ahold co-funds projects with NGOs on the ground in Ghana. Most importantly, they bring their supply chain to the development process, which is an asset USAID obviously can benefit from.

Thanks to this alliance, the company has found opportunities to encourage new businesses, such as cosmetic product lines from shea butter. USAID has contributed more than $2 million to the alliance which Royal Ahold has more than matched through cash contributions, technical expertise and so on.

Other partnerships include the Sustainable Tree Crops Program (STCP) Alliance with the Swiss company Nestle along with US, British and other buyers of global cocoa in West Africa. They all work together with smallholder farmers to improve agricultural productivity and the quality of cocoa produced in the region. USAID contributed $2.1 million to the STCP Alliance in 2002, while alliance partners contributed $7.6 million. There is also the Sustainable Forest Products Global Alliance, with the Swedish firm Ikea, Home Depot and other large buyers of forest products, for which USAID has contributed over $7.5 million since 2002, and alliance partners more than matched with over $27.5 million in funding.

In the area of governance, USAID is a partner in the Balkan Trust for Democracy, along with the German Marshall Fund, the Charles Stuart Mott Foundation, the Rockefeller Brothers Fund and the governments of Sweden, the Netherlands, and Greece. The Trust, which was set up in 2003 to fund local and regional initiatives to build peace, democracy and regional co-operation in southeastern Europe, has so far provided more than 240 grants totalling more than $6.2 million.

GDA is not the only government agency building alliances. In recent years other OECD countries have also become involved, through Germany's GTZ*, the UK's Department for International Development (DFID), and the Canadian International Development Agency (CIDA), for instance. Still, there are some valuable lessons we can share from our experiences.

First, we have found that grant mechanisms rather than budget support work best. Typically, USAID and its private partners fund the implementing organisations, usually NGOs. We find that companies, philanthropists, foundations and others all prefer to work through NGOs, with host country governments and local authorities involved as alliance partners.

A second key lesson is that partnerships can boost aid effectiveness in some sectors. In agriculture, productivity appears to have been enhanced by bringing market disciplines and expertise about cultivation and quality standards to bear. And thanks to internships and full-time job placements in partner companies, the return in terms of human capital can be substantial.

But there are lessons of warning to be drawn too. One is to realise that partners share risk, but do not make that risk disappear. Good projects have been known to come unstuck late in the process because of a sudden shortage of business funds, for instance. Nor are partnerships without cost in time and effort; indeed, they require constant attention.

Also, there are lobbies against partnerships, some seeing them as "imperialist" efforts to standardise global markets, creating losers

We have found that grant mechanisms rather than budget support work best.

among, for example, local farmers that do not make the cut. Such arguments tend to underestimate the mutual benefits of partnerships, for local people as well as agencies and companies. Partners should nonetheless think more about how farmers who do not meet productivity requirements in particular markets can diversify into other agribusiness, such as food processing and packaging, or even switch to other areas, such as tourism.

There is no doubt that well-managed partnerships can evolve to everyone's benefit, but development agencies should heed some basic steps.

First, they should look at the totality of their country's economic engagement in development beyond the donor agency. Building capital investment, grants and charities, even scholarships, into the aid picture will help change mindsets about what development co-operation really means.

A second step is to strengthen the institutional aspects of public-private alliances by setting up a sort of brokerage unit, including partnership co-ordinators. After all, building partnerships takes a considerable amount of time, and requires dedicated people and resources. Such an institutional set-up will help when incorporating public-private alliances into strategic planning, and not just treating them as some adjunct to the aid process.

There are other steps to consider, too, from training sessions to raise awareness, identify skill sets and build team capacity, to targeted networking and communications, to acquire new ideas and create new partnerships.

It is also important that alliances, while learning from mistakes, showcase their successes. Too many development agents toil in anonymity and reporting on their achievements can motivate staff and agencies alike, while highlighting best practices.

As for the crucial issue of funding, remember that budget support and partnerships rarely, if ever, mix. Agencies considering partnerships must make sure that some grant money is made available to support NGO partners.

Building partnerships is hard work and, like development itself, a long battle. But it is rewarding. At GDA, as we watch partnerships evolve and development goals become clearer, we know we are moving in the right direction. Returning to the ways before Plumpy'nut would be unthinkable now. ■

*Geselleschaft für Technische Zusammenarbeit.

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Pointing the right way? Argentina's President Nestor Kirchner (left), with Bolivia's Evo Morales and Brazil's Lula (right)

Latin America's new pragmatism*

Javier Santiso, Chief Development Economist and Deputy Director, OECD Development Centre

Unprecedented stability and growth have taken hold in some major Latin American countries. The reasons are more original than they may seem.

Latin America is back in the spotlight this year. The political climate is warming up once again, with major elections taking place in several countries. Economic prospects remain bright, as low interest rates and high prices of raw material exports bolster Asian-style growth rates, while China in particular sucks in huge quantities of soya, iron, copper, oil and gas. The emerging markets are awash in liquidity, with high yields attracting investors. Latin America has recorded three successive years of growth, its first such run in half a century and one that looks set to continue in 2006.

But underneath this impressive performance lies a rather turbulent social and political picture. Global markets may have spurred the growth, but a cocktail of persistent poverty and social discontent have enhanced the popular appeal of anti-globalisation policies. Presidents have been driven out of office in Argentina, Bolivia, Ecuador and Peru, replaced by populist icons such as Bolivia's Evo Morales, an indigenous Indian, leftist and critic of the US.

Latin Americans–and the markets–are divided about this sea of changes. Some see instability and worse poverty ahead. Others see hope and a better, more independent, future. But putting these events into perspective, what really stands out are not so much the popular protests as the profound–and less noisy–domestic transformations that have been taking place in some of the countries of the region over several decades. Indeed, for the last quarter century several countries in Latin America have been laying institutional pillars, and casting monetary and fiscal anchors, without the confines of any predetermined path or strict ideology. Chile is one of those countries, Brazil and Mexico also.

Take **Chile** first of all. Long held up as a pioneer of economic transformation, Chile again broke new ground in March 2006 when Michelle Bachelet became the first woman president in South America. Yet far from being a radical swing, this significant event reflected Chile's ongoing pragmatism as the socialist leader has promised continuity. In other words, rather than lapsing into *fracasomanía* (failure syndrome) as countries in the region have done in the past, it portrays a widespread optimism, what Albert Hirschman would call a "bias for hope".

Consider for instance the privatisation of pension funds, which in regulatory terms was a jewel of top quality institutional craftsmanship. Launched in the early 1980s, the pension funds produced high

What really stands out are not so much the popular protests as the profound–and less noisy–domestic transformations.

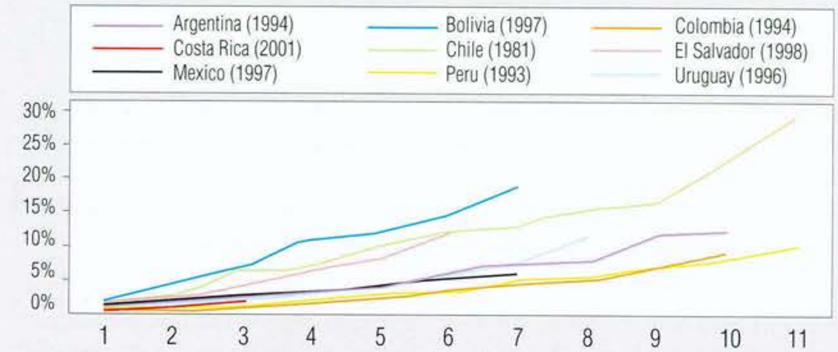
yields during the first half of the 1990s, and tried to accommodate the country's low savings rates of barely 20% of GDP. Reforms also addressed the informal job markets in a bid to cast the pensions net as widely as possible. The result is that over half of Chile's workers now have coverage, far more than in many other Latin American countries. Moreover, assets are estimated at 71% of GDP ($75 billion in 2005) with strong annual growth.

After the return to democracy in 1989, there might have been a temptation to create yet another model in a euphoric break with the previous military regime. Not a bit of it. Chilean democrats stepped up existing reforms, combining monetary and fiscal orthodoxy with social measures and a drive for balanced growth. In short, the reform is symbolic of the new shift towards pragmatic and gradual transformation after years of dizzying ideologies.

True, the pension system may not be perfect–coverage is still far from universal, and more has to be done to encourage savings and raise normal state pensions, which currently stand at about $130 per month. But the process has allowed

Pension fund growth

Asset trends since year of implementation (in brackets), selected countries, Latin America



Source: OECD

healthy long-term capital markets to develop and to reduce Chile's dependence on external financing. The country's pension reforms have even been emulated by several Latin American countries, with varying degrees of success. Little wonder the regulatory body, the *Superintendencia*, has earned respect as one of the country's most credible and technically accomplished institutions.

There has been pragmatism on the external front too; while Chile opened up its markets and signed free trade agreements with countries all around the world, including Japan, Korea and, lately, China, it nonetheless retained some capital controls (albeit "suspending" them in 1998).

Also, despite widespread privatisation, the country's main company has remained a public one; indeed, Codelco, the copper giant, is a true world leader, providing 30% of the world copper production and 20% of Chilean total exports. This makes it the largest single asset in the country, providing 15% of the national budget and accounting for nearly 5% of GDP.

Mexico's pragmatism kicked in a little later, with the signing of a free trade agreement with the United States and Canada in 1994. Sure enough, the country had already joined the GATT and in the same year became the first Latin American member of the OECD. But the North American Free Trade Agreement marked the first time in history that an emerging economy from the "south" had joined a free trade area with industrialised countries from the "north". It proved to be a test for Mexico, as witness the currency crisis shortly after NAFTA's launch, followed by tough restructuring programmes.

However, the economy came through in the end. In the same way as Spain with the European Union a decade or so earlier, the process was to allow the economy to benefit from a credible anchor on the external side. By 2000, the country had undergone a smooth change of government, for once without sparking a financial crisis—this newly found political normality represented another breakthrough.

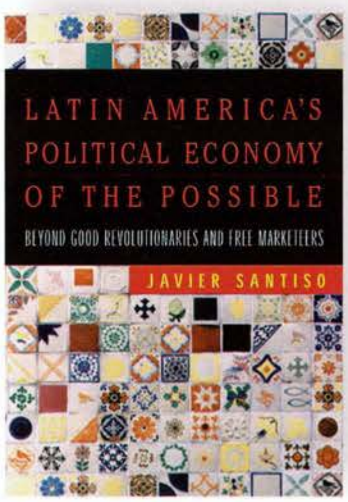
Mexico can now count on a range of institutional stabilisers, with economic pragmatism becoming the alpha and omega of government policy. While the central bank accumulated more than $70 billon in reserves, Mexico's by now freely floating peso steadied and its inflation rate eased. In fact, by 2005 it reached as low as 3.3%, down from 5.2% a year earlier, its lowest rate in nearly four decades. Public finances are now broadly balanced and Mexico is the only major Latin American country, apart from Chile, to benefit from an investment-grade sovereign credit rating. No one would dream of putting such hard-won stability at risk now, not even Andrés López Obrador, the former mayor of Mexico City and left-wing candidate in the 2006 presidential race, whose recent "market-friendly" regional tour included a stop-off in Wall Street.

The fact that the governor of the politically independent central bank will remain in office until 2009 will help reassure the markets, as will the presence of the Federal Electoral Institute (IFE), another innovation to assure the independent supervision of democratic elections. Future governments will have the tough job of tackling such challenges as widespread poverty and furthering the structural changes needed to help Mexico close the gap with its OECD partners. But on the whole, the economic and institutional scene is set for the winner of the 2006 elections to uphold pragmatic reforms and so help Mexico step up its remarkable transformation of the last decade.

The **Brazilian** story is different. In fact, after much promise and several false starts, the financial markets became nervous in 2002 with Lula's rise to power, but were in the end pleasantly surprised by the left-wing president's attachment to the monetary and fiscal orthodoxy of the previous administrations. In 2004, Lula managed to bring the country's economic growth rate to around 5%. At the same time, as for Chile and Mexico, he looked to trade to anchor the transformation process. Even though the exchange rate appreciated by almost 15% in 2005, the trade surplus reached a record $45 billion, as total exports broke the $100 billion barrier for the second year running.

The momentum for change has been powerful and several important fiscal, pension and banking reforms have withstood the test of parliament. Lula's social programmes and investment in infrastructure, though much criticised, have not damaged the new found fiscal and monetary orthodoxy. Moreover, Lula has attempted to stick to promises of more just, efficient and equitable growth. He has raised the minimum wage and tried to boost social programmes in education and health. His fight against hunger may also be working, with a reduction of poverty recorded for the past two years by the local-based research institution, Getulio Vargas Foundation. Whether Lula is to be re-elected again in 2006 is an open question, but pragmatism seems to be so well anchored now that whoever wins next October will probably not change course.

Rather than engaging in impossible strategies, the trio of Chile, Mexico and Brazil have used the art of the possible to deliver change. Will these experiences inspire the rest of Latin America to set their compasses and sail clear of the rocky shores and their populist sirens? Some are up to the challenge, Uruguay for instance, where a left-wing government claiming this new pragmatism has also come to power. But in Bolivia, Ecuador and Venezuela, clearly the signals point in the opposite direction. Nevertheless, the election year is still young and while it remains to be seen which trend gains the upper hand, the chances are that Latin America's new wave of pragmatism will not fade just yet. ■



*This article is based on the author's new book, *Latin America's Political Economy of the Possible: Beyond Good Revolutionaries and Free-Marketeers*, published by MIT Press (Cambridge, Mass.) in 2006. The article was written specially for the *OECD Observer*.

Africa's outlook

Average economic growth rates of African regions, %

Region	2005(e)	2006(p)	2007(p)
Central Africa	4.8	5.0	3.6
East Africa	5.6	5.3	5.6
North Africa	4.8	6.3	5.6
Southern Africa	5.0	6.0	5.7
West Africa	4.4	5.3	5.5
Total	**4.9**	**5.8**	**5.5**

Note: Due to lack of data, these aggregates do not include Liberia and Somalia. Authors' (e) estimates; (p) projection.

Source: *African Economic Outlook*

The latest *African Economic Outlook* from the OECD Development Centre, which looks at prospects for 29 countries, reports that economic activity overall in Africa rose by nearly 5% in 2005 amid windfall gains from booming markets in oil and minerals. The *African Economic Outlook* sees growth accelerating to 5.8% in 2006 and easing to 5.5% in 2007. These figures hide large differences between countries, particularly in light of endowments in natural resources.

But they also conceal the danger of over dependence on too few commodities. If diversification does not take place, giving rise to internal sources of growth, the future could be more fragile. The report urges governments and their partners to capitalise on any windfall gains from strong markets to reduce poverty and improve the social infrastructure. Wasting such a bounty, however, is an abiding danger, the report warns. For those economies without high-demand natural resources, the report calls for more targeted aid.

Despite some success stories, transport is one area in need of particular action. A special focus in the 588-page report concludes that a redefined role for the public sector in ensuring proper planning and regulation, as well as partnerships and donor involvement, would improve the network to Africa's wider benefit. ■

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Business China

China has dominated policy and business thinking since the start of the century. Much has been written about its economic transformation and governance, about its huge business potential, and more recently about its influence as a major player in the wider world economy. But what is it actually like to do business there? Joerg Wuttke is vice-president of the European Chamber of Commerce in China and has been doing business there for 16 years, formerly with ABB China and now with BASF China. We asked Mr Wuttke for some personal insights.

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The new economy

OECD Observer: Just how important is China to the global economy?

Joerg Wuttke: China is a continent in itself, vast by any measure. As large as western Europe, yet with 1.3 billion people, it is a challenge to the imagination. The Middle Kingdom has re-emerged in the last 20 years. Will it become the second largest economy in the next 15 years, or will it succumb to the weight of history and unattainable expectations?

Expatriates often make the mistake of misjudging China, by underestimating the country's ability to transform itself and change. As a businessman, my estimations focus primarily on the economy, because this determines my market. I see the Chinese economy probably continuing to grow by above 7% annually for the next 10 years.

The Chinese are said to be overwhelmingly in favour of free markets. Is that your impression?

It depends. China remains an autocratic country, with a communist political structure, but with a very open economy. The country has a large private sector, but with many prices artificially low or fixed. This causes problems in the supply chain, as with oil and gas, and encourages wastage, in water and energy, for instance. Also, remember that while China increasingly understands the benefits of an open market, it has to safeguard its many poor: about 100m people live on a dollar a day. Many foreigners forget this when they stay at the Shangri-La in Shanghai. China will never fully embrace Hayek's philosophy on ultra-liberalism, but the leadership is set to encourage more efficiency by raising prices, and at the same time putting mechanisms in place to protect the poor.

How hard is it for a business to get established in China?

Generally, the Chinese authorities are pro-business, and they see benefits in permitting foreign firms to establish there. The setting up procedure in China demands far fewer steps than in some other countries, such as Brazil for instance, and is comparable with India or Japan. The real difference shows in the time required to get through those procedures: in China it takes about 41 days to establish a firm, in India about 89, and 152 in Brazil. The Chinese delay is even shorter than in my own country, Germany, which is a world leader in terms of receiving foreign direct investment but where establishment nevertheless takes 45 days.

What about location?

Shanghai is the business capital, particularly for services, though it appears to be declining in importance for manufacturing due to an explosion in costs. Industries have started to move into the surrounding provinces of Jiangsu and Zhejiang, and even further, thanks to improving infrastructure. Central provinces like Anhui and Jiangxi are developing fast. However, Beijing remains the city if you are seeking approvals for major projects, or considering investment with large state-owned companies, for instance, PetroChina, Sinopec, etc., but also so-called provincial champions, like Anshan Steel and Shide, both from Liaoning Province, which are heavyweights in the Asian region.

China is a challenge to the imagination.

How do you find business skills in China?

These have improved. Take the quality of engineering–many multinational companies have moved some engineering tasks to China, where some 350,000 science and technology students graduate each year. That's equivalent to the entire engineering pool of ASEAN countries, quite a talent pool to draw on. Their basic design engineering is fine, though detailed engineering is not easy and requires a lot of supervision. Also, there is the ever-present question of intellectual property rights (IPR) to watch out for. Protecting the intellectual capital we bring from abroad is key. Violations are a major impediment.

What about the general workforce, in services for instance?

The Chinese are very efficient, and always eager to learn. Skills are easy to cultivate, which we do by exposing graduates to the "real world". They enjoy getting their hands dirty primarily by job rotation. This is important in large firms, though it is not easy in China, as people do not like to move beyond their city. Loyalty in the junior ranks can also be a problem, but this is mostly not the case among staff over 30 years old, as the more career-minded managers and engineers see value in staying on in the same company.

Surprisingly, the people are not always good team players, probably because competition is high, and individuals have to safeguard their turf. This might explain their lack of a communications culture.

Interestingly, I find that women have a far better attitude when it comes to services than men, especially in northern China, where a rather Mandarin attitude reigns amongst men. Chinese women make excellent sales people.

One recent change I have noticed is the age of company leadership. When I arrived for my present stint in China in 1993, all company bosses were 30 years older than me. Now, though I too have aged of course, many senior business people are in their late 30s or early 40s. They are still mostly Chinese-speaking, though particularly in long-established industries they tend to surround themselves with internationally trained staff. And in the new Internet industries, the chiefs of all the major players speak English.

What are the most important challenges going forward?

There are internal and external challenges. A starting question is whether growth is sustainable. A scenario of a GDP collapse or a sharp decline in growth is unlikely with the present government's administrative control and the Chinese pattern of high saving, urbanisation and demographics, particularly the demographic "sweet spot" just ahead of fewer children and not too many pensioners. In China, an ageing problem is going to kick in after 2020.

There are other worries. Provincial growth varies, with coastal regions growing fastest, and inequality and social disparity in areas like education and health could eventually slow down growth and even lead to unrest. The government is introducing new policies to avoid this, like development in its western region, second-tier city growth and social welfare improvements.

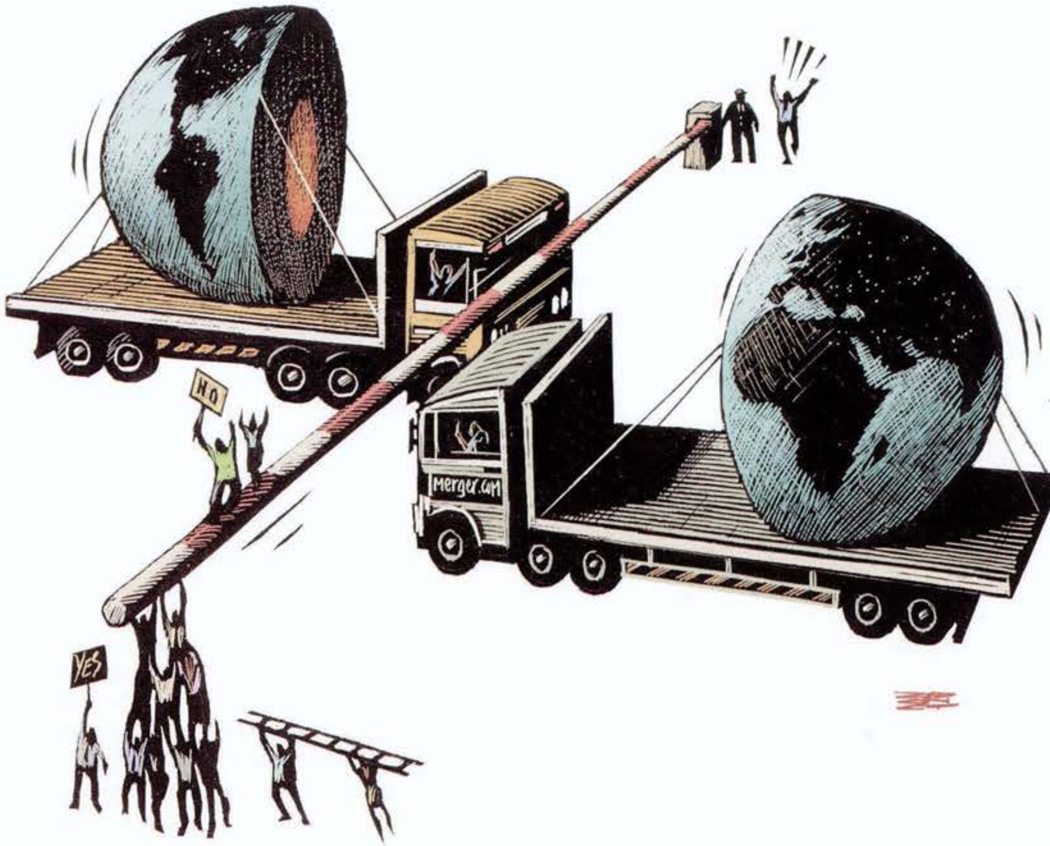
Also, China is a fragmented local market, and GDP can be improved tremendously by reducing intra-provincial trade barriers. The government is introducing this in a targeted way, for instance allowing national rather than just provincial procurement, instituting bankruptcy laws that permit claims beyond provincial borders, and so on.

Beyond these domestic issues, the most important task today is to integrate China into the world economy, something that is not always easy to achieve, as history shows. Just look at Germany's rise in the late 19th century! It needs a lot of wise people at the top to communicate to their constituencies that China is not a threat, but an opportunity. Many people have jobs thanks to the emergence of China, while others will lose theirs. Sadly, the focus has tended to be on the losers. Politicians and business leaders, but also workers and others that know or deal with China, have to make sure that their home countries hear about the mutual benefits. Multilateral organisations like the OECD must also do their bit, to build understanding and make sure that prejudices are not being kidnapped and misused for domestic policy purposes. In business, China must accept that it has to play by the rules. That means IPR protection is a must. Sales of company products, for example, should not be made conditional on technology transfers.

Women have a far better attitude when it comes to services than men.

What about cultural acceptance?

Cultural acceptance of foreign staff varies. The Chinese tend to like Americans and Europeans but, for historic reasons, still feel antagonistic towards the Japanese. This is a little unfortunate, since Japan's companies are not only large investors and employers, but display good corporate governance, which is important for China. On an individual level, while the Chinese have embraced a western lifestyle, sipping a latte from Starbucks does not turn them into Americans. Rather, they feel more nationally proud than ever, and understandably so. A great nation is on the way back. ■



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Resist protectionism

Thomas R. Vant
Secretary-General, Business and Industry Advisory Committee to the OECD (BIAC)

There seems to be a backlash among major OECD governments against free trade and investment. Businesses are worried.

A dangerous new trend is emerging in many industrialised countries. Widespread pockets of anti-globalisation sentiment, furthered by alleged national security concerns and a perceived need to protect "strategic" sectors have led to a resurgence of protectionism. Even in countries that have long promoted and benefited from global markets, politically-motivated barriers are being resurrected. These winds have temporarily chilled economic progress.

We have all watched the trade debacle as governments played tit for tat in the WTO negotiations on the Doha Development Agenda, regardless of the consequences for world development. The missed deadline for making a deal on agriculture and industrial goods on 30 April was merely the most recent chapter in a long story of missed opportunities to show real commitment to delivering the great benefits of free trade to the world. Policy leaders must now take the process out of the realm of one-upmanship and give negotiators the green light they need to make a real difference.

However, what we are seeing in the investment arena signals that government support for trade liberalisation seems to be waning and OECD policy leaders appear to be turning their attention to stop certain cross-border investments. This is worrying. Several governments have recently interfered in business deals involving "domestic" and "foreign" companies, no matter how sensible those deals may be.

Earlier this year, the French rushed in a merger between domestic energy companies to fend off a bid by a foreign one. In the wake of a takeover case involving Arcelor, a steel company, Luxembourg flirted with the idea of anti-merger legislation. Several European countries have intervened to prevent mergers in their banking sector. In Asia, normally dynamic Korea recently resisted a US bid for a tobacco company. Meanwhile, the US's lawmakers have proven themselves to be no angels either by vigorously opposing, amid much public fanfare, a foreign investors' plan to take over running some ports.

Nobody can really know how many more similar investment plans were dumped in CEOs' waste baskets because potential investors anticipated knee-jerk government protection. But let's not confuse protectionism with patriotism. For politicians, resorting to protectionism can boost short-term popularity. However, the reality is that such responses harm the very industries–and jobs–they claim to protect. How? Protection deprives targeted companies of additional capital, for a start. Improving management, restructuring business strategies, opening new markets: all of this is sacrificed. Protectionism not only means missed opportunities, but can prolong weak management or underemployment among production workers. That is why it makes countries poorer.

In contrast, there are very many examples of sectors and economies that have benefited from takeovers and mergers. Your employer, your airline or your bank may be the result of one. Nor are mergers and acquisitions (M&A) abating: from January through March, the global value of M&A averaged $10 billion a day. This is the highest since the dot.com boom in 2000. Governments, through good policy, have contributed to such successes. They should continue to welcome bidders from other countries, rather than trying to scare them off.

This is not to say that mergers are always the right thing to do. They can work or they can fail, but that is a business matter. If a merger goes wrong, markets will push companies into making changes, and probably at much lower expense and at greater speed than the cost and time it can take to correct a heavy-handed government decision.

We are not saying globalisation is perfect, but the alternative would be disastrous.

Sure enough, governments have a duty to assure that strategic interests and security are not compromised, but that argument is too easily abused. In ports, for instance, national interests can be served through proper governance and oversight–whoever runs the business. As for steel, quite how a national interest can be justified to stop a cross-border merger that promises higher output in that stricken sector is unclear.

Ultimately, most OECD governments know perfectly well that protectionism will not prevent overall cross-border merger activity from happening. Also, thanks to existing international rules under the OECD, WTO and regional agreements, governments have only limited leverage left to actually block deals. Governments themselves wanted it that way! After all, they set up these organisations with a mission to remove obstacles to growth and development, not to introduce barriers.

Meanwhile, the dynamics behind globalisation continue strong. Companies have cut costs, reduced debts, restructured balance sheets and raised profits. Cash is abundant, debt can be financed cheaply and most economists, including those at the OECD, are generally upbeat about the world economy, despite some downside risks. In this context, companies will persevere with restructuring, hunting economies of scale and higher international market share through investment and M&A activity.

While protectionist-leaning politicians cannot stop this, their interference can drive up costs and generate the kind of uncertainty that forces companies to look for less beneficial alternatives. This makes life more painful for the sectors, companies and employees affected. Surely, policymakers should concentrate on creating a growth-friendly environment and developing a legal and regulatory framework in which economies can smoothly adapt to the pressures of globalisation. Clearly, recent government actions show that all countries have much to do before this lesson is fully understood.

The OECD must play a lead role in changing this. The organisation has done more to promote the benefits of foreign investment over the past four decades than any other international body. Its members, who are home to the vast majority of global investors, have all made binding commitments under the OECD Codes of Liberalisation and the Declaration on International Investment and Multinational Enterprises to promote international investment long before the WTO started to negotiate investment under the GATS. Furthermore, the OECD's Guidelines for Multinational Enterprises have positively influenced the responsible behaviour of multinationals and through this further enhanced the benefits of direct foreign investment. Now, the Policy Framework for Investment continues this work.

Still, the OECD must become more vocal in warning against the dangers of unnecessary government protection, whether in trade or investment. More must be done to defend the merits of globalisation and call the bluff of protectionist policymakers and cynics. We are not saying globalisation is perfect or that investors have all the answers to the world's problems. But the alternative of more protection and less trade, investment, wealth creation and jobs would be disastrous for everyone, rich and poor alike. ■

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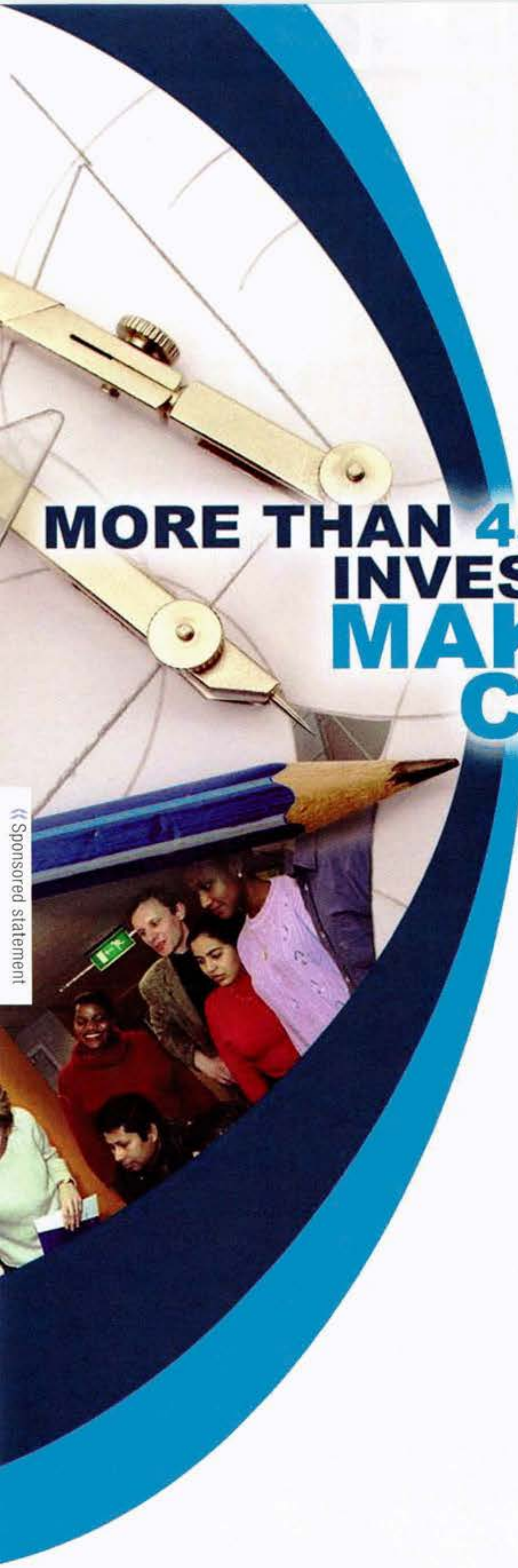

Making city sense

Concept painting for Fritz Lang's 1927 movie, *Metropolis*, by Erich Kettelhut.

Mario Pezzini
OECD Directorate for Public Governance and Territorial Development

Cities are economic drivers at the heart of globalisation. Policymakers should look more closely at their potential, too. Here is why.

"A street as if in full daylight lit by neon lights and topping them, oversized, luminous advertisements, moving, turning, flashing on and off, spiralling…the buildings seemed to be a vertical veil, shimmering almost weightless, a luxurious cloth hung from the dark sky to dazzle, distract and hypnotise."

When German film director Fritz Lang made these remarks, he was describing not the city of the future as depicted in his 1927 masterpiece, *Metropolis*, but New York, as he viewed it from the SS Deutschland anchored in the harbour in 1924. And that was a decade before the construction of the Empire State Building! How cities have evolved since then.

Cities were not born in 1920s America, of course. Memphis in Egypt was perhaps the first. Athens and Rome were the eyes of civilisation, education and power for thousands of years. Babylon, according to research by Tertius Chandler, was the first city to exceed 200,000 people, around 600 B.C., and Baghdad was the first city to reach a million inhabitants, around 775 A.D.

A thousand years later, the industrial revolution and trading ports began asserting themselves. By 1850 Beijing, also by then with a million people, had been displaced by London as the world's largest city. Indeed, whereas in 1800 six of the world's top ten cities were in China or Japan, by 1900, only Tokyo was in the top ten, behind London (6.5 million), New York (4.2 million) and Paris (3.3 million).

The 20th century was the era of urbanisation, though. In 1900, only 14% of the world's population lived in cities, compared with about half today. In 1950, there were 83 cities with over a million people; by 2000, there were over 400. The last 40 years saw the emergence of huge agglomerations and conurbations, starting in the developed world. In studying the urban area stretching from Boston to Washington DC in the early 1960s, French geographer Jean Gottmann reinvented a Greek term "megalopolis" to describe conurbations that run in chains across the countryside.

Today "megacities" of over 10 million are not uncommon–Tokyo, Seoul, Mexico City, Mumbai, Sao Paulo, New York, Lagos–the list goes on. By 2015, there will be more than a score of them. In Europe, Istanbul, Moscow and Paris are now megacities, and under a broad OECD definition based on metropolitan regions, so too is Germany's "megalopolis" of the Rhine-Ruhr, which sprawls between Essen, Dusseldorf, Cologne and Bonn.

Cities are not just about size, of course, they are the way we live. Today around half of the population in OECD countries live

Broadband bubbling

Though the dot.com crash of 2001 burst the e-commerce bubble, recent figures show that broadband has remained dynamic. Indeed, growth in the number of broadband Internet connections in OECD countries has risen from an average of 2.9 in 2001 to 13.6 subscribers per 100 inhabitants in December 2005.

Total connections in OECD countries increased rapidly in 2005, from 136 million in June to 158 million by December. Iceland has the highest broadband penetration rate at 26.7 per 100 inhabitants, followed by Korea, the Netherlands and Denmark, each with more than 25. The strongest per capita subscriber growth came from Iceland, Finland, Norway, the Netherlands and Australia, as each country added more than 6 subscribers per 100 inhabitants during 2005. The US has the largest number of broadband subscribers in the OECD, at 49 million, or just less than a third of the world total.

Digital subscriber line (DSL), which is based on upgraded phone networks, is still the leading platform in 28 OECD countries, accounting for 62% of all technologies. Cable subscribers outnumber DSL in Canada, which leads the G7 group of industrialised countries in broadband penetration. This technology accounts for 31% of all platforms, with the likes of satellite, fibre and fixed wireless making up the rest.

One broadband market to have exploded to an advanced stage of development is Korea's, where subscribers regularly switch platforms in search of more bandwidth. Fibre-based broadband connections grew 52.4% there in 2005. The switchover was reflected in losses for other platforms though, with DSL down 3.3% and cable by 1.7% during the year.

More information is available at www.oecd.org/sti/ict/broadband.

in predominantly urban areas, while up to nearly 80% live in less densely populated countries, such as Iceland. Business, property developers, families, conservationists, education, transport, environment, architecture: cities are today's theatres of economics and power. That means politics, which is appropriate, since another Greek word, *polis*, means "town".

Cities raise great passions. Some people love them for their architecture, their vibrancy, others dismiss them for their crime, the land and resources they consume, their overcrowding and stress. In the 1960s and 1970s, with protest movements in full swing, particularly in the US and France, they became the focus of intense research into social conflict, led by Manuel Castells, an icon of the French urban sociology school and now at Berkeley, and later on, by the likes of Italy's Enzo Mingione.

As Charles Abrams, a renowned urban civil rights activist from the US, put it, "A city has values as well as slums, excitement as well as conflict, a personality that has not yet been obliterated by its highways and gas stations." Another North American activist, Jane Jacobs (who died in April 2006), raised the alarm about uncontrolled property development crowding out central city neighbourhoods. Her 1961 book, "Death and Life of Great American Cities" became a leitmotiv for planners concerned about inner-city ghettos and suburban sprawl. The business district of La Défense outside central Paris reflected similar concerns. It was conceived in the 1960s in part to siphon real estate pressures away from the fragile and heavily protected historic core of the French capital.

In 1950, there were 83 cities with over a million people; by 2000, there were over 400.

A century of urbanisation has helped planners to see cities in a pragmatic light. Rather as architect Le Corbusier saw houses, cities began to resemble machines for living in. They could be directed, equipped, oiled and tuned to achieve goals, like employment, innovation or economic growth. Growth poles, technopoles and clusters sprung up. Some excelled, others struggled and waned. Planners have discovered that transport links and tax breaks, even skill pools, are not always enough. Tricky economic laws of how value operates in space–what influential British geographer David Harvey characterised as capital flows into the built environment–also count. French planners trying to replicate the success of La Défense in an area east of the city where land values were historically far lower, found this out the hard way.

Above all, planners have realised that a key ingredient is governance. This is to power and planning what wheels are to a car. It is partly for this reason that the OECD's work on cities concentrates on metropolitan regions, which are the places where people live and work. They are, in a way, the policy expression of urban areas.

A difficulty for policymakers is that many administrative zones have often been overtaken by history as major cities have spilled past old boundaries, and have joined up with other towns and cities, even across national borders. Urban fiscal management has been complicated by these divisions, as tax revenue can flow to one local authority while public needs are concentrated in another. There are also relationships between second and third tier cities, debates about the services these should have, fiscal arrangements to manage tax transfers and competencies, co-operation over roads, schools, transport, and so on. Many cities have long worked together on transport and physical planning, and more of them co-operate on fiscal management issues, through tax base sharing, such as in Pittsburgh and the Twin Cities in the US.

Also, defining where cities begin and end–the zones where policies can reach in effect–is difficult. Does population size count, transport commuting belts, educational authorities, cultural catchments or satellite images of sprawl? Metropolitan regions comprise a mix of these.

According to the OECD ranking, Tokyo is the largest metropolitan region with nearly 35 million, followed by Seoul at 24 million, and New York and Mexico City, both with nearly 19 million. The contribution of metropolitan regions to national output is striking, often higher than for population: nearly the half for Seoul, Budapest, Copenhagen or Dublin, and about 30% for London, Stockholm, Tokyo, and Paris. Globalisation is also a new dimension for policymakers to deal with. New York, Tokyo, Paris, London, once exotic names on perfume bottles and cigarette packs, are now locked into each other as part of a network. Other rapidly expanding cities, from Seoul to Sao Paolo and Shanghai, from Mexico City to Manila, are also plugged into that network, as are smaller metropolitan areas like Dublin, Helsinki and Montreal. As Castells put it, having by now switched his sights to globalisation and technology, cities are nodes in a networked society.

Global cities compete head on with each other, but also can have more in common than with other cities in their own countries. They share problems associated with scale and size and, whereas planning is traditionally concerned with local or regional spacial issues, now they must think internationally as well. Global civil society movements, from labour unions to environmental campaigns, also bind cities together. In many ways, national territories have been overtaken by a separate, though networked and interdependent, global metropolitan marketplace.

But this does not make cities hostage to fortune. Rather, as British urban expert Michael Parkinson puts it, they are capable of shaping their own development trajectories. Speaking at an OECD conference on cities in 2004, Parkinson outlined some very practical reasons why city policy matters. Successful cities tend to drive successful economies, are more innovative and comfortably outperform national GDP. They retain their populations too, whereas less competitive ones lose skills and see their tax bases weaken.

The OECD, which has long been involved in regional development issues, has further tested such practical thinking, carrying out in-depth reviews of 15 metropolitan regions. According to a forthcoming OECD publication, *City Competitiveness in the Global Economy*, government action in cities must now combine "remedial" action aimed at correcting the usual negative effects of urbanisation, such as sprawl and social deprivation, with "proactive" measures for competitiveness, such as enhancing local social capital networks, developing links between higher education institutions and industry, and strengthening communications, from roads and airports

National territories have been overtaken by a separate, though networked, global metropolitan marketplace.

to information highways. They point to strong leadership to build a common strategy, such as in the Öresund region straddling Copenhagen in Denmark and Malmö in Sweden.

City competitiveness also relies on educational attainment, and the provision for adult education and skills training counts. While experts tend to point to places like Mexico City or Istanbul, where education efforts are clearly challenged in a context of very small, often informal firms, large cities in rich countries, from New York to Sydney, also suffer. It is something of an urban paradox: in wealthy cities, the highest incomes in the land cohabit with some of the lowest, the most skilled with the least. Exclusion and segregation are marked in wealthy cities like Milan and even egalitarian Stockholm, where 40% of foreign-born university graduates from non-EU countries have a skilled job compared with 90% for Swedes.

Still, large cities need migrants, and not just for the hotel, catering or care sectors, but high tech and even finance too. Indeed, many leading firms hunt for their talent in India and China. Madrid, for instance, boosted its immigrant population from 2% to 16% in six years to meet demand in the local economy.

US cities like Boston, San Francisco, Seattle and New York dominate the top of the OECD's competitiveness ranking based on GDP per capita for 78 metropolitan regions of 1.5 million inhabitants and more, with cities like Naples, Athens or Seoul in the bottom half of these rankings. The gap can be explained by productivity issues, local unemployment rates, and so on. Improving these fundamentals alter city competitiveness, too. Also, there is the degree of specialisation in low-productivity industries, quality of capital, etc.

Holding onto competitiveness is not a given. Policymakers the world over know that a city's fortunes can change. The once great port of Liverpool still boasts fine buildings with grand entrances and ornate ceilings as testimony to a time not long ago when it was at the centre of world trade and commerce.

Today, metropolitan authorities work hard with each other to keep their cities vibrant and alive. Many cities rely on their image as tourism centres, capitals of culture and entertainment, even of food and business. The quality of life has improved in many, with populations returning to renovate inner cities, such as in Dublin's Temple Bar. In Seoul they have reclaimed land by demolishing elevated highways, in London and Paris they have created cycle ways and new parks.

Building cities is about building competitiveness and attractiveness, as well as being drivers of regional and global economies. Balancing these forces is the crux of the challenge facing cities in today's globalised world. Ultimately, what the OECD can do is help policymakers set sensible policies to create successful cities for their citizens. As Shakespeare put it, "what is the city but the people?" ■

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- Visit www.oecd.org/gov/.

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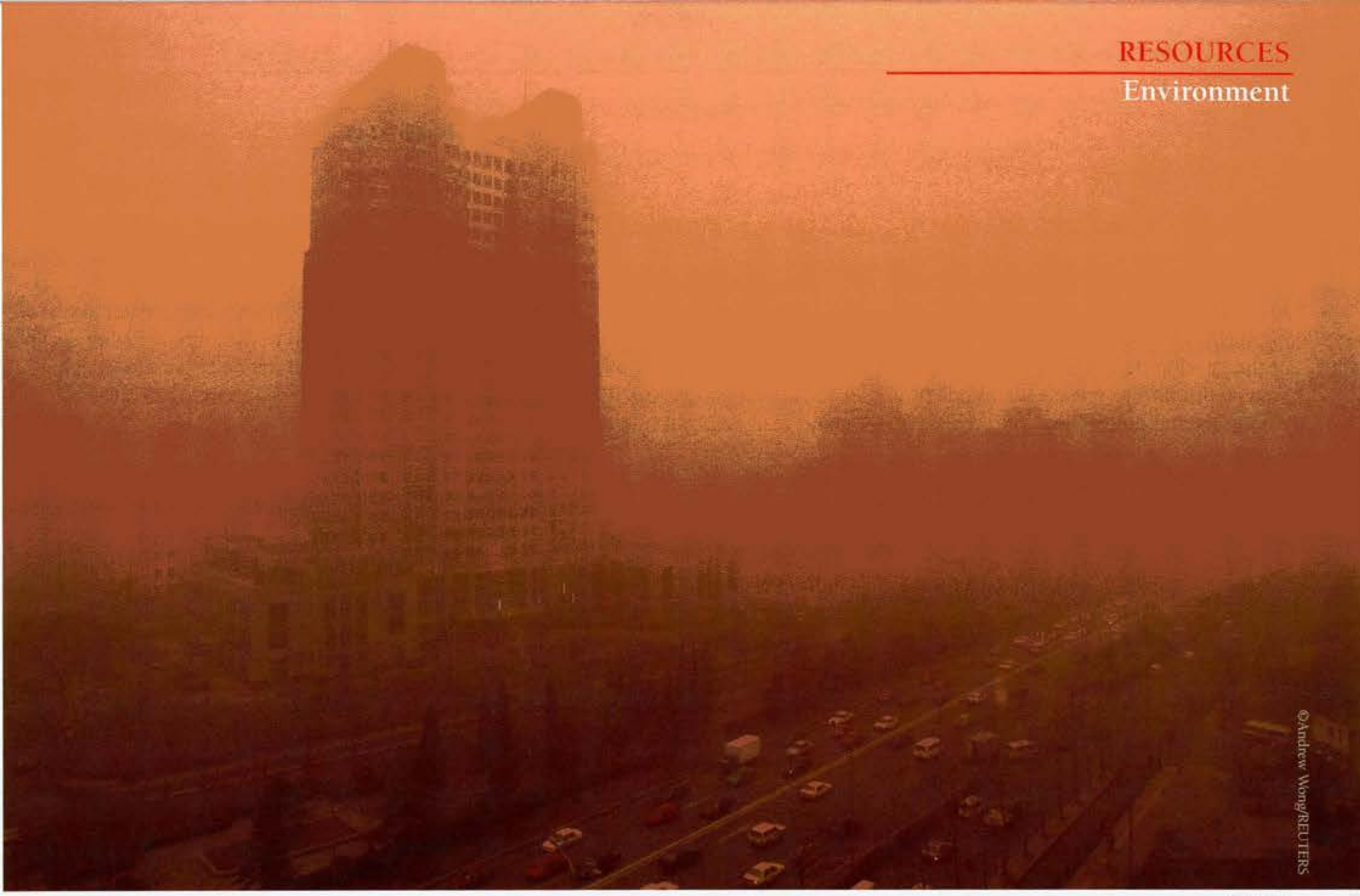

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Plan A

Rethinking our economic future

Lester R. Brown, Founder and President of the Earth Policy Institute*

Pressures on the earth's resources are building, but is the current economic model reaching breaking point? What can be done?

Many earlier civilisations at some point found themselves on an economic path that was environmentally unsustainable. Some understood what was happening and were able to make the needed adjustments and survive, even flourish. Others either did not understand the gravity of their situation or, if they did, could not adjust in time. They collapsed.

Our global civilisation today is also on an economic path that is environmentally unsustainable, a path that is leading us toward economic decline and collapse. Environmental scientists have been saying for some time that the global economy is being slowly undermined by the trends of environmental destruction and disruption, including shrinking forests, expanding deserts, falling water tables, eroding soils, collapsing fisheries, rising temperatures, melting ice, rising seas and increasingly destructive storms.

Although it is obvious that no society can survive the decline of its environmental support systems, many people are not yet convinced of the need for economic restructuring. But this is now changing with important new evidence from China.

For some decades the United States, with 5% of the world's people, consumed a third of the world's resources. But now China has become the top consumer of most basic resources except for oil. The western economic model–the fossil fuel-based, auto-centred, throwaway economy–is not going to work for China. If it does not work for China, it will not work for India, which by 2031 is projected to have a population even larger than China's.

Nor will it work for the 3 billion other people in developing countries who are also dreaming the "American dream." And in an increasingly integrated world economy, where all countries are competing for the same oil, grain and steel, the existing economic model will not work for industrial countries either. It is time for Plan B, time to build a new economy and a new world.

Plan B has three components: restructuring the global economy so that it can sustain civilisation, an all-out effort to eradicate poverty and stabilise population–in order to elicit participation of the developing countries–and a systematic effort to reverse the trends of environmental destruction.

Glimpses of the new economy can be seen in the wind farms of western Europe, the solar rooftops of Japan, the fast-growing hybrid car fleet of the US, the reforested mountains of South Korea and the bicycle-friendly streets of Amsterdam. Virtually everything we need to do to build an economy that will sustain economic progress is already being done in one or more countries.

In this economic restructuring, the biggest changes will come in the energy economy as the world strives to stabilise atmospheric carbon dioxide levels and reduce dependence on oil. Over the last five years, oil and coal production have expanded by 2% annually while the use of wind and solar energy have grown by more than 30% per year. The energy transition is already under way. But it is not moving nearly fast enough.

Among the new sources of energy–wind, solar cells, solar thermal, geothermal, small-scale hydro, biomass–wind is breaking through into the big time. In Europe, which is leading the world into the wind era, some 40 million people now get their residential electricity from wind farms. The European Wind Energy Association projects that by 2020, half of the region's population–195 million Europeans–will be getting their residential electricity from wind. Wind energy is growing fast for six reasons: it is abundant, cheap, inexhaustible, widely distributed, clean and climate-benign. No other energy source has this combination of attributes. Although corn growers support the production of corn-based ethanol as an automotive fuel, this pales beside wind as an energy source. A large, advanced-design wind turbine sited on a quarter-acre of land in northern Iowa can easily produce $100,000 worth of electricity per year. The same quarter-acre in corn would produce 40 bushels of corn, yielding 100 gallons of fuel ethanol worth perhaps $200.

For the US automotive fuel economy, the key to greatly reducing oil use and carbon emissions is gas-electric hybrid cars, which could easily cut gasoline use by half over the next 10 years. This would involve no change in the number of cars or miles driven, only a shift to the most efficient automotive propulsion technology now available. Beyond this, a gas-electric hybrid with an additional storage battery and a plug-in capacity would allow us to use electricity for short distance driving, such as the daily commute or grocery shopping. This could cut US gasoline use by an additional 20%, for a total reduction of 70%.

It is time for Plan B, time to build a new economy and a new world.

Building an economy that will sustain economic progress requires a co-operative worldwide effort. This means eradicating poverty and stabilising population–in effect, restoring hope among the world's poor. As Jeffrey Sachs regularly reminds us, the world now has the resources to do this.

A strategy for eradicating poverty will not succeed if an economy's environmental support systems are collapsing. This means putting together an earth restoration budget, one to reforest the earth, restore fisheries, eliminate overgrazing, protect biological diversity and raise water productivity to the point where we can stabilise water tables and restore the flow of rivers. Adopted worldwide, these measures require additional expenditures of $93 billion per year. Restructuring the economy does not require its own budget, primarily because it is mostly a matter of shifting existing subsidies from, for example, fossil fuels to renewable energy sources.

Combining social goals and earth restoration components into a Plan B budget requires an additional annual expenditure of $161 billion. Such an investment should not be seen as a charitable act but as an investment in the world in which our children will live. If we fail to build a new economy before decline sets in, it will not be because of a lack of fiscal resources, but rather because of outdated priorities.

The world is now spending $975 billion annually for military purposes. The military threats to national security today pale beside those posed by the trends of environmental destruction and disruption, which threaten the sustainability of the existing economic system and thus of global civilisation itself. New threats call for new strategies. The threats now are environmental degradation, climate change, the persistence of poverty and the loss of hope. Restructuring the global economy to avoid economic decline and collapse is challenging, but we know from history that rapid economic restructuring is possible.

Of all the resources needed to build an economy that will sustain economic progress, none is more scarce than time. With climate change and Arctic ice melting fast, we may be approaching the point of no return. The temptation is to reset the clock. But we cannot. Nature is the timekeeper. It is decision time. Like earlier civilisations that got into environmental trouble, we can decide to stay with business as usual and watch our global economy decline and eventually collapse. Or we can shift to Plan B: building an economy that will sustain economic progress. In this situation, inaction is actually a decision to stay on the decline-and-collapse path. ■

* This article is adapted from a presentation by Lester Brown to the OECD on 2 February 2006. A full version of the presentation entitled "Will China Force the World to Rethink its Economic Future?" is available at www.oecd.org/env.

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- See also Lester Brown's book, *Plan B 2.0: Rescuing a Planet Under Stress and a Civilization in Trouble* (2006), W.W. Norton & Co., NY, ISBN 0393325237.
- Visit www.earth-policy.org/

Delivering prosperity OECD MINISTERIAL COUNCIL MEETING 2006

The short-term economic outlook; how to ensure economic stability and improve economic performance; how to implement economic reforms for growth and employment; the follow-up to last December's WTO ministerial meeting in Hong Kong-China; and the future strategic direction of the OECD; these are the main topics for discussion at this year's OECD Ministerial Council Meeting (MCM) in Paris on 23-24 May 2006. "Delivering prosperity" will be the overarching theme of the meeting, which is the summit in the OECD calendar. Kostas Karamanlis, prime minister of Greece (see editorial in this edition), will chair the discussions which will be held at the French Ministry of Foreign Affairs, Quai d'Orsay.

Selected emerging and developing countries have been invited to send representatives to some sessions of the meeting. In parallel, participants are expected to join discussions at the OECD Forum 2006, which brings together leaders of governments, business, labour, civil society and the media to debate the issues on the ministerial agenda.

At the end of the MCM, 24 May, Secretary-General Donald J. Johnston will complete his second five-year term and will formally hand over office to his successor, former Mexican finance minister, Angel Gurria, who was appointed in November 2005. ■

- The 2005 MCM was chaired by Sweden's prime minister, Göran Persson. See www.oecdobserver.org, under "Leaders".
- Visit www.oecd.org/mcm2006 and www.oecd.org/secretary-general

Balancing globalisation

Donald J. Johnston, Secretary-General of the OECD

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"Globalisation, propelled by trade and investment liberalisation, and rapid technological change, has delivered prosperity and reduced poverty for millions of people in recent decades. We have learned, however, that reaping the full benefits of globalisation requires many elements, including good public and corporate governance; policies that promote structural adjustment and social cohesion; greater access to education; efficient financial markets; and sound policies for research, innovation and development. Of course, policies are critical, but implementation is too often undermined by domestic political considerations.

Balancing all these elements, while promoting globalisation and delivering prosperity, requires an open and inclusive dialogue involving business, government, civil society and labour groups. This is the purpose of the OECD Forum–to forge a better understanding of the challenges, and to promote consensus on the necessary policies and their implementation.

Because of the presence of those involved in this dialogue, especially political decision makers responsible for policy implementation, there is no better environment anywhere to address these issues and the political economy of implementing reform. This is the seventh annual OECD Forum and my last as secretary-general. Each has proved to be a great success and I hope they will be continued well into the future." ■

- This article is the welcome message to the OECD Forum 2006 on www.oecdforum.org.

The OECD Forum

Restoring balance is very much at the heart of this year's agenda at the OECD Forum on 22-23 May. Economic imbalances; the contribution of financial markets; technology and innovation; managing global challenges such as natural disasters and pandemics; managing the successful integration of China and India into the world economy; creating jobs in the 21st century; and how to ensure effective and ethical trade and investment, are just some of the themes.

Since its creation in 2000, the OECD Forum has become a "must-go" event on today's crowded international calendar for several reasons. Not only is it a "multi-stakeholder summit" which brings together business and labour leaders, civil society personalities, government ministers and leaders of international organisations to discuss the key issues of the 21st century, but it is held in parallel with the annual OECD Ministerial Council Meeting (MCM), held this year on 23-24 May. This makes it a rather rare and valuable forum of high-level exchange between all stakeholders concerned with building a better world.

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Prof. Jagdish Bhagwati at the Forum

Kostas Karamanlis, prime minister of Greece, who chairs the MCM, will make a keynote address at the Forum. Greek minister of economy and finance, George Alogoskoufis, will report on the Forum 2006 discussion to the annual OECD ministerial meeting.

Jean-Claude Trichet, President, European Central Bank (see page 6), will also speak at the Forum in a keynote capacity. Other special guests include Stanley Fischer, Governor of the Bank of Israel; Yves-Thibault de Silguy, Senior Executive Vice-President of International Affairs, Suez; Jagdish Bhagwati, Professor of Economics, Columbia University, US; and John J. Sweeney, President, American Federation of Labor–Congress of Industrial Organizations (AFL-CIO, see page 20). ■

- For a complete programme, list of speakers, commercial sponsors and more, vsit www.oecdforum.org or contact John.West@oecd.org.


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Remembering Chernobyl

The Chernobyl accident was the worst in the history of commercial nuclear power and contaminated large territories in the former Soviet Union and Europe. Twenty years later, its consequences still affect the daily lives of many people.

The OECD Nuclear Energy Agency (NEA) is marking the anniversary of the disaster with two new publications. *Stakeholders and Radiological Protection: Lessons from Chernobyl Twenty Years After* demonstrates the importance of local involvement in addressing the needs of affected populations to reduce their radiation dose. It highlights the importance of involving local stakeholders in the long-term, post-recovery phase. The active engagement of radiation protection professionals has helped to improve living conditions in the contaminated territories. The experience could help in planning the response to other large-scale disasters, whether an industrial accident, a natural catastrophe or a deliberate terrorist act.

The second publication, *International Nuclear Law in the Post-Chernobyl Period*, jointly published with the International Atomic Energy Agency (IAEA), is a compendium of articles on international nuclear law initiatives since Chernobyl. Within six months of the catastrophe, two conventions on early notification and assistance in the event of a nuclear accident had been adopted by nearly 100 countries. In 1994, a convention on nuclear safety worldwide was adopted, and a convention on the safety of spent fuel and radioactive waste management followed in 1997. The existing international regimes governing the liability and compensation for nuclear damage were reinforced and a new global regime created.

Both publications are part of the NEA's engagement to address the consequences of the Chernobyl accident, which include: nuclear safety; emergency preparedness and crisis management; and long-term rehabilitation activities. ■

The full reports are available at www.nea.fr

Enterprising action

An action statement to help small and medium-sized enterprises was launched at a conference on "Better Financing for Entrepreneurship and SME Growth" held in Brazil on 27-30 March 2006 (see previous edition, No. 254). Stakeholders, business people and government representatives at the conference agreed that access to funding was one of the biggest obstacles to the creation, growth and development of small businesses. Policymakers need to make sure that SME specific needs are properly understood and should work to remove red tape, and reform regulations and taxes that hamper access to financing.

The action statement highlights two issues: **debt and credit financing**, particularly the need for competition among lending institutions, measures to promote better risk-sharing between lenders and SMEs, and government guarantee schemes; and **risk capital**, where there is a need to enhance awareness, and to educate and widely communicate the value of equity financing. But there is also a need to remove obstacles to venture capital and to promote "business angel networks". ■

- For more information see www.oecd.org/cfe/sme.

Space forum

The OECD has launched a Global Forum on Space Economics to help researchers better analyse the opportunities and challenges facing the space sector and its technology applications.

Space affects people's daily lives more than ever before and is a growing international policy concern. From exploration to communications technology and intelligence, the world increasingly relies on space. There are problems to consider too, such as satellite interference and safety. Yet, the reality of budget constraints make co-operation essential.

The new forum will collect and evaluate data and socio-economic indicators and provide evidence-based analysis to help agencies and governments shape policies to help realise the full potential of space. The initial founders of the new global forum–National Space Center, Centre National d'Études Spatiales, Canadian Space Agency, Dutch Ministry of Trade and Industry, European Space Agency, National Oceanic and Atmospheric Administration, Norway Space Center and US Geological Survey–are expected to be joined by other agencies and ministries from OECD countries. A working group including private sector and other representatives is set for launch in June. ■

New ambassadors

19 April 2006–Sarah Dennis is the new ambassador for **New Zealand** to the OECD, succeeding Adrian Macey.

11 January 2006–Steffen Smidt is the new ambassador for **Denmark** to the OECD. He succeeds Peter Brückner.

Calendar of forthcoming events

Please note that many of the OECD 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 a more comprehensive list, see the OECD website at www.oecd.org/media/upcoming, which is updated weekly.

MAY

16-17 **Global Forum on Agriculture**, organised by the Directorate for Food, Agriculture and Fisheries.

17-18 Ministerial session of the **European Conference of Ministers of Transport** (ECMT). Dublin, Ireland.

17-18 **African Economic Outlook 2005/2006**, presented by the African Development Bank and the OECD Development Centre. Ouagadougou, Burkina Faso.

17-18 **Scientific Challenges for Energy Research**, conference organised by the Global Science Forum.

17-19 **Creating a Sustainable Future**, Global City forum organised by the OECD and Global City. Lyon, France.

18-19 **Research Use of Patented Inventions**, conference organised by the Spanish government and the Directorate for Science, Technology and Industry. Madrid, Spain.

20 **Ministerial meeting of the Good Governance for Development in Arab Countries Initiative**, organised by the Directorate for Public Governance and Territorial Development. Sharm-el-Sheikh, Egypt.

22-23 Balancing Globalisation: **OECD Forum 2006**.

23 **Economic Outlook No.79** published.

23-24 Delivering Prosperity: **OECD Council meets at ministerial level**.

26 **Integration of the Mesoamerican Region: Governance, Competitiveness and Development Challenges**, conference and presentation of the Spanish edition of *OECD Territorial Reviews: The Mesoamerican Region – Southeastern Mexico and Central America*. Tegucigalpa, Honduras.

JUNE

5-6 **OECD Initiatives in International Taxation: Looking Ahead**, conference organised by the OECD, the US Council for International Business, and the Business and Industry Advisory Committee (BIAC). Washington, D.C., US.

7 **Forum on African Perspectives**, meeting organised by the OECD Development Centre and the African Development Bank.

14-15 **R&D Priorities and Energy Technologies of the Future**, high-level meeting organised by the Round Table on Sustainable Development.

14-16 **Emerging Models of Learning and Innovation**, conference organised by the Centre for Educational Research and Innovation (CERI) with the Mexican Ministry for Education. Merida, Mexico.

15-16 **Jobs Strategy**, high-level conference organised by the OECD and the Canadian Department of Human Resources and Social Development. Toronto, Canada.

15-16 **Household Behaviour and Environmental Policy**, workshop organised by the Environment Directorate.

19-21 **Measuring Well-being and Societal Progress**, workshop organised by the Centre for Research on Lifelong Learning, and the OECD Statistics Directorate. Milan, Italy.

19-21 **Environment, Resources and Agricultural Policies in China**, workshop organised by the Directorate for Food, Agriculture and Fisheries, the Environment Directorate, and the China Ministry of Agriculture. Beijing, China.

19-23 **Financial Action Task Force on Money Laundering** (FATF) meets.

26-27 **South East Europe (SEE)** ministers of economy and trade meet. Vienna, Austria.

27-28 **OECD Education Ministers meet**. Athens, Greece.

JULY

6-7 **Benefits of Climate Change Policies**, Global Forum on Sustainable Development organised by the Environment Directorate.

11-12 **Developing our Understanding of Public Investments in Science**, workshop organised by the Global Science Forum. Helsinki, Finland.

11-13 **Educational Security conference**, organised by the International Security Management and Crime Prevention Institute, and the Directorate for Education. Adelaide, Australia.

15-17 **G8 Summit.** St. Petersburg, Russia.

25-27 **Growing Regions conference,** organised by the Australian government, with participation of the OECD. Brisbane, Australia.

Further ahead

SEPTEMBER

28-29 **Women in Science, Engineering and Technology: Strategies for a Global Workforce,** conference organised by the Directorate for Science, Technology and Industry. Madrid, Spain.

OCTOBER

25-27 **World Congress on Communication for Development**, organised by the World Bank, the FAO and the Communication Initiative. Rome, Italy.

NOVEMBER

9-11 RIO 6, **World Climate and Energy Event**. Rio de Janeiro, Brazil.

Russian hour

Road Safety Performance,
National Peer Review: Russian Federation

When Irish government minister Liam Lawlor died tragically in an accident while being chauffeured along Moscow's Leningrad Shosse in October 2005, local newspapers pointed out that high-speed crashes are common along such boulevards due to the often reckless driving of Muscovites. At a time when the rest of Europe tightens its seatbelts, Russia is only beginning to wake up to its alarming traffic accident statistics.

The European Conference of Ministers of Transport (ECMT) reports that among its member countries, the Russian Federation has the highest road death rate, with 35,000 people dying on the road each year. This amounts to 24.59 deaths per 100,000 population, compared to 14.66 in the US, 10.16 in France and 5.92 in Sweden.

The report *Road Safety Performance: Russia,* an unprecedented peer review and first-time collaboration for the World Bank, the World Health Organization and the ECMT, suggests that the increase in traffic accidents in Russia, as in the rest of eastern and central Europe in the 1990s, may be partially linked to economic growth. As well as excessive speeds, it points to alcohol, refusal to wear seatbelts, and weak law enforcement. Inadequate infrastructure is also blamed. The head of the Russian traffic safety department noted in 2004 that "every fourth kilometre of the road network requires improvement".

The problem is predominantly urban, and more than 12% of the crashes, injuries and fatalities in the Federation occur in and around Moscow. *Road Safety Performance: Russia* claims that serious traffic accidents could be avoidable with support from the very top. One example they could follow is France, where President Jacques Chirac introduced a national road safety plan in 2002 to reduce excess speed within cities and on the autoroutes and to cut the country's high fatality rate. Thanks to digital video cameras, automatic number plate recognition and a system for automatic consultation with remote vehicle and driver licensing registries, as well as public awareness, traffic deaths fell by 21% in 2003. The trend has continued to improve since. ■

ISBN 9282103552. See the New Publications pages or www.oecdbookshop.org for ordering details. See also: Short, Jack (2004), "Road safety: Making roads healthy", *OECD Observer* No. 243, May.

Innovation education

Schooling for Tomorrow:
Think Scenarios, Rethink Education

If secondary education died tomorrow, what would its epitaph be? This question was used as a springboard by school administrators in the Netherlands to rise above the distraction of today's pressing needs and spur innovative ideas on what tomorrow's schools should look like. *Schooling for Tomorrow: Think Scenarios, Rethink Education* points out that today's educational thinking profoundly influences the lives of individuals and the health of whole communities for decades to come, yet much decision-making tends to deal with immediate issues.

Not that there is anything inherently wrong with that. Five years ago a study by the OECD Centre for Educational Research and Innovation (CERI) proposed six forward-looking scenarios of how schooling might develop, and the potential role of policy to help shape these futures. The models range from a robust bureaucratic archetype where change is resisted to a "meltdown" scenario in which a lack of teachers and sliding standards brings schooling to a crisis. In between are market-oriented schools, the school as community centre, a focused-learning scenario that prioritises quality instruction, and the school as part of a high-tech networked society.

Five years later, CERI's *Schooling for Tomorrow: Think Scenarios, Rethink Education* looks at how different countries have adapted these scenarios to their own needs. For instance, Canada's Vision 2020 asked what impact each CERI forecast would have on francophone school governance and, specifically, on a French-language school. With the participation of students, young parents and teachers, Vision 2020 created a seventh scenario for a French-language School of the Future. The Netherlands' Slash/21 project envisions schooling based on two core concepts: the rise of the knowledge society and increasing individualisation. England's FutureSight programme asked if a school can operate without timetables or subject-based curricula.

Other questions have been raised: Who "owns" education? What do children want to learn, and what must they learn? How can schools educate world citizens? *Schooling for Tomorrow: Think Scenarios, Rethink Education*–which will also appear as a chapter in the forthcoming *Education Policy Analysis*– explores how educational planners may expose the values and assumptions that influence their thinking. In the words of one planner, this may help avoid "redesigning a school which was created 30 or 40 years ago." ■

ISBN 9264023631. See the New Publications pages or www.oecdbookshop.org for ordering details.

Europe's destiny

Destination Europe: the political and economic growth of a continent by Kjell M. Torbiörn
Manchester University Press, 2003

Charles Jenkins
Director for Europe, Economist Intelligence Unit

Destination Europe is a slightly misleading title since its subject, the political development of Europe from 1945 to 2003, is a journey with a point of origin when Europe, which a generation earlier dominated the world, lay in ruins with *no* destination. The only certainty about the future was that nothing would remain the same. We now know–and Kjell Torbiörn would probably not have been surprised–that the latest attempt to fix the EU's development around a constitution appears to have failed.

Though the EU is the central theme of this book, NATO is also tackled in detail and other organisations, such as the Strasbourg-based Council of Europe, where Mr Torbiörn is now a senior official*, and the Organisation of Security and Co-operation in Europe, also have walk-on parts. The Organisation for European Economic Co-operation (OEEC), precursor of the OECD, plays a key early role as the body which managed the Marshall Plan aid over 1948-52, and thereby started Europe's post-Second World War economic revival. However, while Mr Torbiörn is an economist, this is a political history, with economic change only mentioned to provide the necessary context. Most importantly, *Destination Europe* looks at Europe's journey against the changing landscape of world history, including the Cold War and the subsequent collapse of the Soviet Union, accompanied and followed by rapid expansion of world trade and capital, together with the development of the Internet, all of which have given rise to the concept of globalisation.

It is a good read. The structure of the chapters is excellent, each of easily manageable length and subject matter backed up with interesting notes. The first half of the book takes the reader rapidly, but not superficially, to 1989. The second half goes more slowly through the years, but somehow seems less informative. This may reflect an EU which has lost its way since the Treaty of Maastricht and the major achievement of enlargement to include most of the former communist countries.

A possible weakness in Mr Torbiörn's book, though one of which Europe's greatest novelist, Tolstoy, would have approved, is that personalities play a generally minor role. For example, the fact that in 1956 Konrad Adenauer, the formidable German chancellor, is only mentioned twice in passing in the main text, and the fact that Adenauer overruled his powerful economics minister, Ludwig Erhard, to agree to Germany joining the proposed European Economic Community rather than settling for the British-backed free trade area, is relegated to a footnote.

Only one character is given a major role in the story: Mikhail Gorbachev, the Russian leader who brought the Cold War to an end. Mr Torbiörn quotes from the vision of a new Europe he gave in his speech to the Council of Europe in July 1989–the Berlin Wall fell just four months later. I would agree with the choice of Gorbachev, though his own country is no longer even in the loosest sense of shared values trying to become a part of Europe.

However, one personality who gets little mention in the story is Jean Monnet, and only then largely to suggest that his contribution failed. Yet, it was the Schuman Plan drafted by Jean Monnet which led to the foundation of the institutions of the EU. Monnet, who had been deputy secretary-general of the ill-fated League of Nations, set out to breach the ramparts of national sovereignties in a "limited but decisive" manner. Admittedly, Monnet never made much direct impact on the wider public, even in his own country France.

In closing the book, Mr Torbiörn quotes the Spanish philosopher of history, José Ortega y Gasset: "Man's real treasure is the treasure of his mistakes". The story since 1945 includes its share of mistakes, but also some things that Europe has got right. *Destination Europe* should help the reader learn from both. ■

*Mr Torbiörn is Head of the Office of the Secretary-General of the Council of Europe's Parliamentary Assembly.

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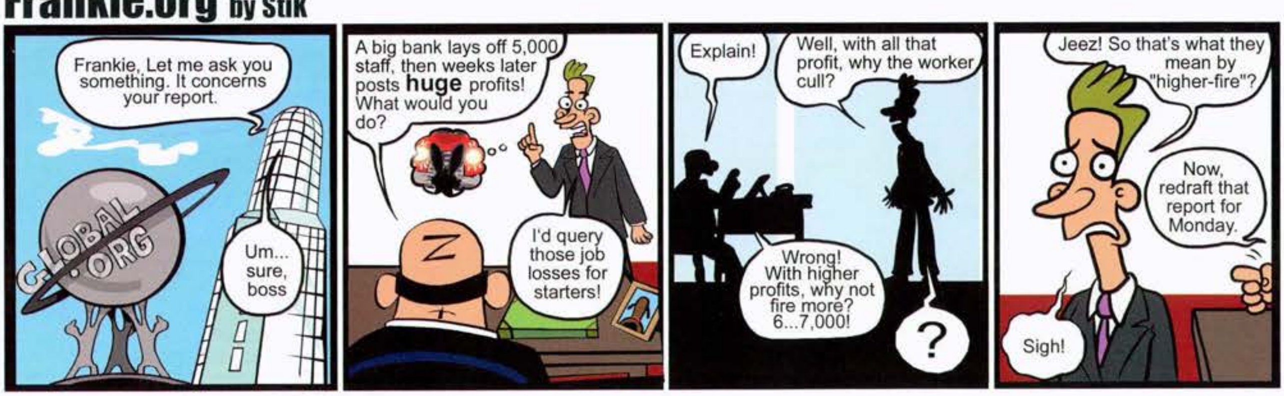

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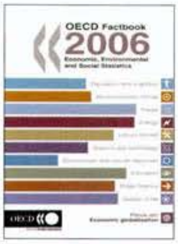

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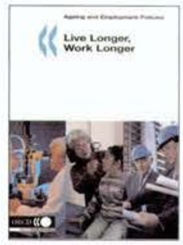

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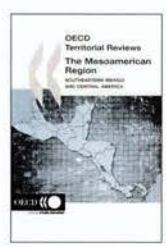

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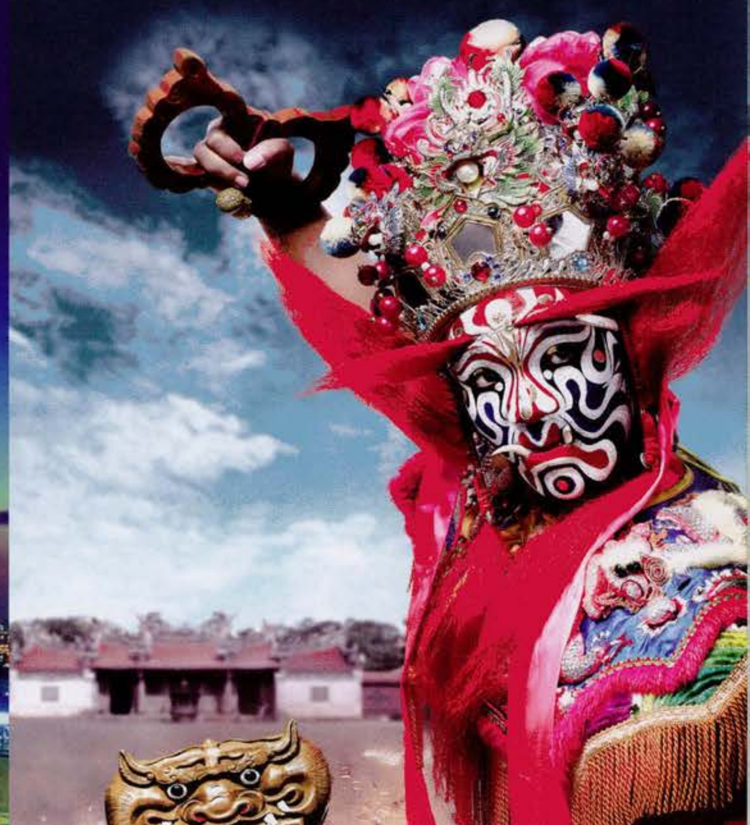

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Donating rights

Integrating Human Rights and Development: Donor Approaches, Lessons and New Challenges

Jannat Bibi, who lives in a village in south Pakistan, was engaged to an older man at the age of three. In the circumstances, that would normally be the end of her story. Yet when she was 16, Jannat participated in the Girl Child Project, an initiative of UNICEF and the Swiss Agency for Development and Cooperation (SDC), whose workers encouraged Jannat not to rebel against her family but to convince her elders to support her own choices. Despite initial strong resistance, Jannat was able to persuade her family to cancel the engagement. The Girl Child Project changed her life.

In recent years the notion of human rights and the field of development have been converging. The Millennium Development Goals, for instance, acknowledge that "development rests on the foundations of democratic governance, the rule of law, respect for human rights and peace and security". This growing recognition of the importance of human dignity, and that there are crucial links between rights violations, poverty, exclusion, environmental degradation, vulnerability and conflict, has led many OECD countries and multilateral donors to look at human rights more thoroughly as a means for improving the quality of development co-operation. Some have adopted so-called human rights-based approaches to development, while others have preferred to integrate human rights implicitly into various dimensions of their development work, especially into their governance agendas.

Integrating Human Rights and Development: Donor Approaches, Lessons and New Challenges, produced by the OECD Development Assistance Committee, shows how these approaches bring "added value" to the quality and success of development aid. This study, the most comprehensive and up-to-date of its kind, describes various ways that donor agencies have integrated human rights more strategically into their work, from improving literacy in Iran to providing equitable water access in Tanzania.

Examples like the Girl Child Project, the Right to Identity project in Bolivia, organised by the UK Department for International Development (DFID), and UNIFEM's programme on Women's Rights to Land in central Asia, illustrate both new opportunities and some conceptual and practical challenges to human rights in connection with the evolving development partnerships between donors and partner countries. Apart from ethical, political and basic humanitarian considerations, tackling human rights is increasingly recognised as contributing to other objectives, from better governance to aid effectiveness. Like Jannat, it ultimately changes lives. ■

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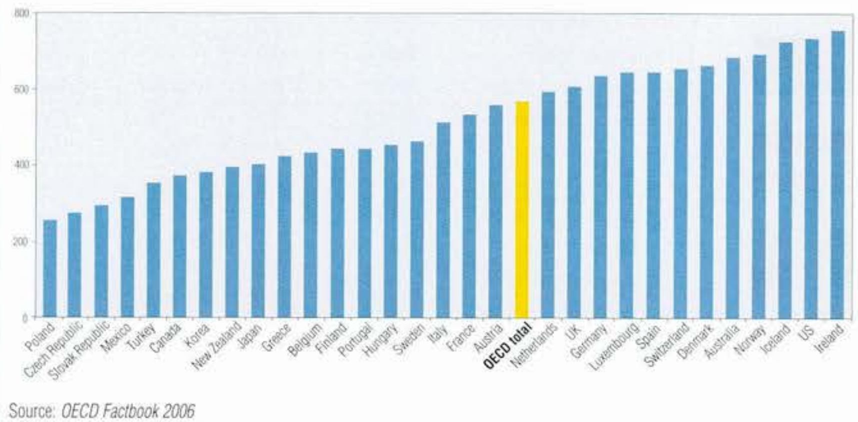
Celtic waste

Ireland, which has been the OECD's fastest growing economy in recent years, also produces the most municipal waste per capita in the OECD area, at some 760 kilograms per head in 2003, according to the latest *OECD Factbook*. Next is the US, with 740 kg per head. Iceland and Norway are the only other countries to generate more than 700 kg per capita. Poland produces the lowest amount, at 260 kg per head, behind the Czech Republic. The average per capita for the OECD area is 570 kg.

Meanwhile, total municipal waste generated in the OECD increased by 14% from 1995-2003. Ireland's total rose by 62% to 3 million tonnes, reflecting its rapid expansion from a low base, compared with just over 2.3 million tonnes and a rise of 12% in Finland over the same period. The only OECD members to register a decline were the transition countries in eastern and central Europe.

Municipal waste generation

kg per capita, 2003 or latest available year



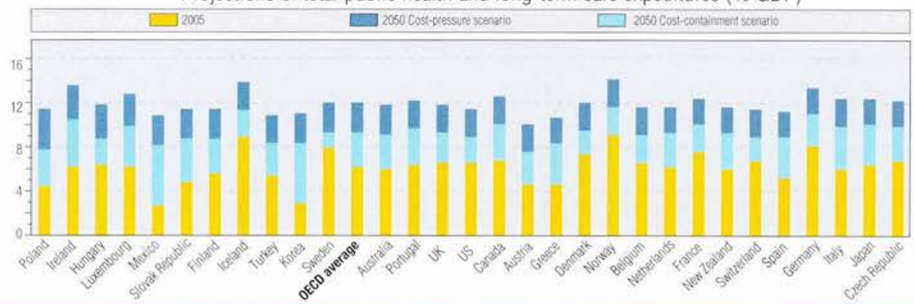
Source: *OECD Factbook 2006*

Among the larger countries, the US generated 214 million tonnes, or about 36% of the OECD total. Germany and Japan produced 53 and 52 million tonnes respectively, followed by the UK (37), France (34), Mexico (34) and Italy (30). That means a combined total of some 240 million tonnes, albeit for a population of nearly 500 million, compared with 293 million in the US. ■

Order the *OECD Factbook 2006* at www.oecdbookshop.org.

Rising health costs

Projections of total public health and long-term care expeditures (% GDP)



Source: OECD

Unhealthy outlook

The public cost of health and long-term care in OECD countries will double by 2050 if current trends continue, a new OECD report finds. The rising medical demands of ageing and wealthier populations could send average health costs in the OECD area up from 6.7% of GDP to 12.8%. Even if governments manage to contain that rise, spending would still reach the equivalent of around 10% of GDP by the middle of the century.

Ageing populations are not the only pressure on healthcare spending. Advances in medical technology and a rapid spread in health services will also push up costs, because even where new technology brings down the cost of individual treatments, demand for those treatments will rise.

In a worst-case scenario, if current trends persist, countries like Iceland, Norway and Ireland could see their health burdens rise as high as 15.2%, 15% and 14.5% of GDP, respectively. Conversely, even if cost increases are eventually brought back in line with income growth, ageing populations could still cause the proportion of health spending to leap from 6.6% to 10.7% in Italy, 6.9% to 10.9% in Japan and from 5.6% to 9.6% in Spain. Even if these increases reflect contemporary choices about the importance of healthcare allocations in public budgets, governments will nevertheless be compelled to manage those costs to make them sustainable. ■

See "Projecting OECD health and long-term care expenditures: What are the main drivers?", OECD Economics Department Working Paper No. 477, February 2006, available at www.oecd.org/eco.

Indicators

			% change from:				level:	
			previous period	previous year			current period	same period last year
Australia	Gross domestic product	Q4 05	0.5	2.7	Current balance	Q4 05	-10.74	-12.25
	Leading indicator	Feb. 06	0.0	1.7	Unemployment rate	Mar. 06	5.00	5.20
	Consumer price index	Q4 05	0.5	2.8	Interest rate	Feb. 06	5.61	5.63
Austria	Gross domestic product	Q4 05	0.7	1.9	Current balance	Q3 05	0.71	0.05
	Leading indicator	Feb. 06	0.9	6.6	Unemployment rate	Feb. 06	5.10	5.10
	Consumer price index	Feb. 06	0.3	1.2	Interest rate		*	*
Belgium	Gross domestic product	Q4 05	0.6	1.4	Current balance	Q4 05	-1.96	2.68
	Leading indicator	Feb. 06	0.7	5.1	Unemployment rate	Feb. 06	8.20	8.40
	Consumer price index	Mar. 06	0.0	1.7	Interest rate		*	*
Canada	Gross domestic product	Q4 05	0.6	2.9	Current balance	Q4 05	11.32	4.32
	Leading indicator	Feb. 06	0.6	1.5	Unemployment rate	Feb. 06	6.40	7.00
	Consumer price index	Feb. 06	-0.2	2.2	Interest rate	Mar. 06	3.93	2.64
Czech Republic	Gross domestic product	Q4 05	1.9	6.7	Current balance	Q4 05	0.03	-0.95
	Leading indicator	Feb. 06	0.7	8.5	Unemployment rate	Feb. 06	7.70	8.00
	Consumer price index	Feb. 06	0.1	2.8	Interest rate	Mar. 06	2.08	2.08
Denmark	Gross domestic product	Q4 05	0.1	3.8	Current balance	Q4 05	2.57	1.13
	Leading indicator	Feb. 06	-0.1	7.6	Unemployment rate	Feb. 06	4.40	5.30
	Consumer price index	Feb. 06	1.0	2.1	Interest rate	Mar. 06	2.79	2.13
Finland	Gross domestic product	Q4 05	0.9	2.9	Current balance	Jan. 06	0.38	0.49
	Leading indicator	Feb. 06	-0.4	2.4	Unemployment rate	Feb. 06	8.10	8.50
	Consumer price index	Feb. 06	0.8	1.4	Interest rate		*	*
France	Gross domestic product	Q4 05	0.4	1.5	Current balance	Jan. 06	-3.93	-4.69
	Leading indicator	Feb. 06	0.2	2.1	Unemployment rate	Feb. 06	9.10	9.70
	Consumer price index	Feb. 06	0.4	1.9	Interest rate		*	*
Germany	Gross domestic product	Q4 05	0.0	1.6	Current balance	Q4 05	25.02	25.39
	Leading indicator	Feb. 06	0.8	5.9	Unemployment rate	Feb. 06	8.90	9.70
	Consumer price index	Feb. 06	0.4	2.1	Interest rate		*	*
Greece	Gross domestic product	Q4 05	-0.2	3.7	Current balance	Jan. 06	-2.11	-1.80
	Leading indicator	Feb. 06	1.1	3.8	Unemployment rate	Dec. 05	9.60	10.20
	Consumer price index	Feb. 06	-1.2	3.2	Interest rate		*	*
Hungary	Gross domestic product	Q4 05	1.0	4.2	Current balance	Q4 05	-1.55	-1.92
	Leading indicator	Feb. 06	1.3	12.1	Unemployment rate	Feb. 06	7.60	6.70
	Consumer price index	Feb. 06	0.2	2.5	Interest rate	Mar. 06	6.16	7.41
Iceland	Gross domestic product	Q4 05	-3.7	3.6	Current balance	Q4 05	-0.85	-0.53
	Leading indicator		..	..	Unemployment rate	Feb. 06	1.40	2.40
	Consumer price index	Mar. 06	1.1	4.4	Interest rate	Feb. 06	14.05	7.99
Ireland	Gross domestic product	Q4 05	1.9	5.1	Current balance	Q4 05	-0.66	-0.57
	Leading indicator	Feb. 06	1.3	14.0	Unemployment rate	Feb. 06	4.30	4.30
	Consumer price index	Feb. 06	1.1	3.3	Interest rate		*	*
Italy	Gross domestic product	Q3 05	0.3	0.1	Current balance	Oct. 05	-1.37	-1.56
	Leading indicator	Feb. 06	0.2	-0.1	Unemployment rate	Dec. 05	7.70	7.90
	Consumer price index	Mar. 06	0.2	2.1	Interest rate		*	*
Japan	Gross domestic product	Q4 05	1.3	4.3	Current balance	Jan. 06	12.93	13.92
	Leading indicator	Feb. 06	0.1	1.3	Unemployment rate	Feb. 06	4.10	4.70
	Consumer price index	Feb. 06	-0.3	0.4	Interest rate	Mar. 06	0.07	0.04
Korea	Gross domestic product	Q4 05	1.6	5.3	Current balance	Feb. 06	-0.39	1.44
	Leading indicator	Feb. 06	3.6	10.0	Unemployment rate	Feb. 06	3.60	3.70
	Consumer price index	Feb. 06	0.2	2.3	Interest rate	Feb. 06	4.30	3.60

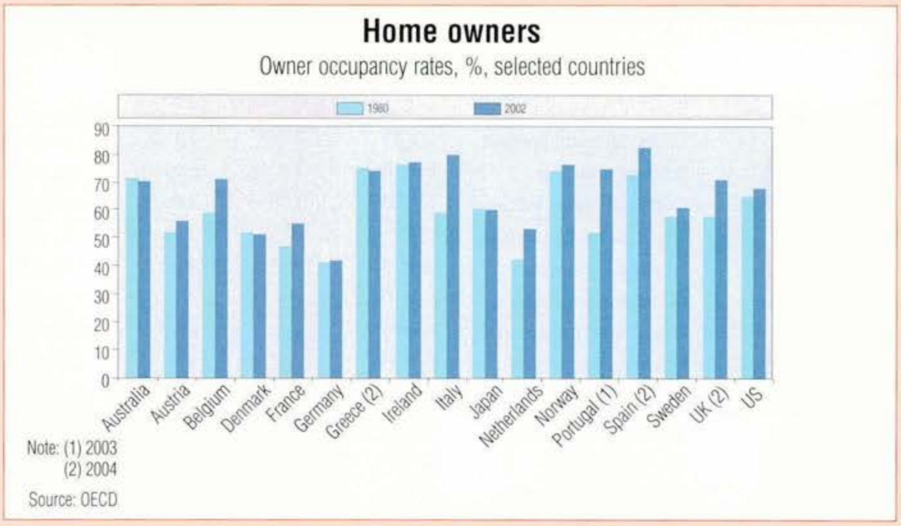
			% change from:				level:	
			previous period	previous year			current period	same period last year
Luxembourg	Gross domestic product	Q1 05	-4.9	3.1	Current balance	Q4 05	1.15	1.07
	Leading indicator	Feb. 06	1.4	10.5	Unemployment rate	Feb. 06	5.40	5.00
	Consumer price index	Feb. 06	1.7	3.0	Interest rate		*	*
Mexico	Gross domestic product	Q4 05	0.6	2.7	Current balance	Q4 05	-0.90	-2.94
	Leading indicator	Feb. 06	0.8	4.0	Unemployment rate	Sept. 05	3.50	3.90
	Consumer price index	Feb. 06	0.2	3.7	Interest rate	Mar. 06	7.38	9.74
Netherlands	Gross domestic product	Q4 05	0.8	2.1	Current balance	Q4 05	10.63	15.14
	Leading indicator	Feb. 06	0.8	4.5	Unemployment rate	Feb. 06	4.40	4.90
	Consumer price index	Feb. 06	0.4	1.1	Interest rate		*	*
New Zealand	Gross domestic product	Q4 05	0.0	1.9	Current balance	Q4 05	-2.34	-1.88
	Leading indicator	Jan. 06	-0.5	-4.7	Unemployment rate	Q4 05	3.60	3.60
	Consumer price index	Q4 05	0.7	3.2	Interest rate	Mar. 06	7.49	6.99
Norway	Gross domestic product	Q4 05	0.2	2.5	Current balance	Q4 05	14.67	9.58
	Leading indicator	Feb. 06	0.7	8.4	Unemployment rate	Dec. 05	4.20	4.50
	Consumer price index	Feb. 06	0.9	2.6	Interest rate	Mar. 06	2.72	2.02
Poland	Gross domestic product	Q4 05	12.0	4.7	Current balance	Jan. 06	-0.33	-0.68
	Leading indicator	Feb. 06	0.1	7.0	Unemployment rate	Feb. 06	17.00	18.00
	Consumer price index	Feb. 06	0.0	1.1	Interest rate	Mar. 06	4.17	5.91
Portugal	Gross domestic product	Q4 05	0.1	0.7	Current balance	Jan. 06	-1.30	-1.88
	Leading indicator	Feb. 06	0.4	2.3	Unemployment rate	Feb. 06	7.70	7.30
	Consumer price index	Feb. 06	0.2	2.8	Interest rate		*	*
Slovak Republic	Gross domestic product	Q4 05	1.8	6.7	Current balance	Q4 05	-1.83	-0.24
	Leading indicator	Feb. 06	0.6	-2.1	Unemployment rate	Feb. 06	15.80	16.70
	Consumer price index	Feb. 06	0.6	4.4	Interest rate	Dec. 05	6.12	7.44
Spain	Gross domestic product	Q4 05	0.9	3.5	Current balance	Dec. 05	-7.06	-5.43
	Leading indicator	Feb. 06	-0.3	0.4	Unemployment rate	Feb. 06	8.70	9.90
	Consumer price index	Feb. 06	0.0	4.0	Interest rate		*	*
Sweden	Gross domestic product	Q4 05	0.7	2.9	Current balance	Q4 05	5.48	6.63
	Leading indicator	Dec. 05	-0.9	3.6	Unemployment rate	Mar. 05	6.30	6.30
	Consumer price index	Feb. 06	0.5	0.6	Interest rate	Mar. 06	1.96	1.97
Switzerland	Gross domestic product	Q4 05	0.5	2.8	Current balance	Q3 05	11.84	12.84
	Leading indicator	Feb. 06	0.2	4.3	Unemployment rate	Q3 05	4.50	4.40
	Consumer price index	Feb. 06	0.3	1.4	Interest rate	Feb. 06	1.18	0.76
Turkey	Gross domestic product	Q3 05	31.6	7.0	Current balance	Q4 05	-6.06	-4.19
	Leading indicator	Feb. 06	0.3	1.0	Unemployment rate	Q4 05	10.60	10.00
	Consumer price index	Mar. 06	0.3	10.1	Interest rate	Dec. 05	14.00	19.87
United Kingdom	Gross domestic product	Q4 05	0.6	1.8	Current balance	Q4 05	-19.16	-10.14
	Leading indicator	Feb. 06	0.1	-0.2	Unemployment rate	Dec. 05	4.90	4.60
	Consumer price index	Feb. 06	0.4	2.4	Interest rate	Mar. 06	4.53	4.92
United States	Gross domestic product	Q4 05	0.4	3.2	Current balance	Q4 05	-224.88	-188.36
	Leading indicator	Feb. 06	0.5	3.2	Unemployment rate	Feb. 06	4.80	5.40
	Consumer price index	Feb. 06	0.2	3.6	Interest rate	Mar. 06	4.88	2.97
Euro area	Gross domestic product	Q3 05	0.6	1.6	Current balance	Jan. 06	-3.97	-1.47
	Leading indicator	Feb. 06	0.5	3.4	Unemployment rate	Feb. 06	8.20	8.80
	Consumer price index	Feb. 06	0.3	2.4	Interest rate	Mar. 06	2.72	2.14

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted except for Iceland, Luxembourg, Poland and Turkey; ***Leading Indicators:*** A composite indicator based on other indicators of economic activity (qualitative opinions on production or employment, housing permits, financial or monetary series,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 US$; seasonally adjusted; ***Unemployment Rate:*** % of civilian labour force — standardised unemployment rate; national definitions for Iceland, Mexico and Turkey; seasonally adjusted apart from Turkey; ***Interest Rate:*** Three months. *refer to Euro area. ..=not available.

Source: *Main Economic Indicators*, April 2006

Owning up

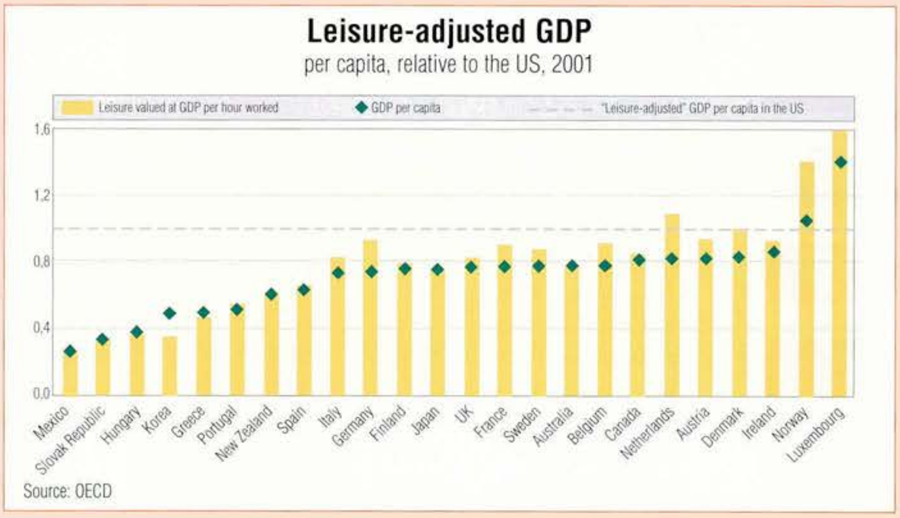


Home ownership, rather than rented accommodation, has become the norm in most OECD countries over the last 20 years. In fact, Germany is the only OECD country where the owner occupation rate is well below 50% of the total. Indeed, its rate has remained broadly unchanged (around 41%) since 1980. Elsewhere, owner occupancy rates have increased quite markedly in countries such as France, Italy and the Netherlands, with strong upsurges in recent years reflecting booms in property markets. Particularly sharp rises were recorded in Spain, which had the highest owner occupation rate at 83% in 2004, just above Italy at 80%. Portugal's owner occupation rate leapt from 64% in 2002 to 75% in 2004. If there is a pattern, the highest owner occupancy rates are in Anglo-Saxon and Mediterranean countries, though Norway's rate at 77% in 2002 was also among the highest.

Meanwhile, property prices have been rising in real terms in most countries since the mid-1990s, reflecting the growing importance of housing wealth in the current economic upswing. However, in some countries prices may be overvalued, though the extent of that depends largely on longer-term interest rates and other fundamentals. Nonetheless, policymakers and newer home owners are concerned as any downward correction could well be sharp and protracted, with impacts on spending and investment. ■

See "Recent House Price Developments: The Role of Fundamentals", Economics Department Working Paper No. 475, available at www.oecd.org/eco.

Wealthy fun



Work may drive growth, but for most people, more free time contributes to well-being, as long as it is not accompanied by lower income. Still, one often-heard remark about the gap in economic performance between OECD countries is that US workers may earn more money but they work longer hours, whereas Europeans prefer more leisure to more work, or indeed, more money, and so are better off. But would ascribing monetary values to leisure time, however arbitrarily, alter GDP per head rankings in favour of European countries? Not by much, according to the latest *Going for Growth* report. By estimating workers' time devoted to personal (unpaid) activities, it reports that leisure-adjusted GDP per capita relative to the US is higher for most countries than for the normal measure. But the ranking of OECD countries stays broadly unchanged, with the US still in the top five.

Separately, the *OECD Factbook 2006* reports that US household spending on leisure has risen faster than the OECD average over the last decade. It measures spending on recreation and culture by households and government on a range of items from music, show business and sport to pets and photography. Gardening and gambling are also included, but restaurants, hotels and most travel are not. By this measure, the US spends more than France, but less than Spain or the UK. ■

See *Going for Growth 2006*, and *OECD Factbook 2006*; both are available at www.oecdbookshop.org.