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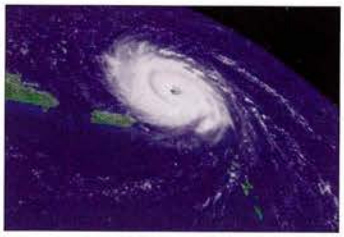

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On the cover

Winds of change

By *OECD Observer*

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Globalisation presents opportunities and challenges for countries everywhere. Whether adapting to climate change or competing in new markets, innovation in the form of new ideas and technologies can deliver some of the solutions. Indeed, innovation has driven much of the rise in living standards for centuries. But there is an imbalance opening up, with far too many people still deprived from the benefits of innovation. The dynamic relationship between innovation, growth and equity holds potential for human progress; harnessing this potential will help us craft a smarter, more prosperous and fairer future.

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Globalisation's first King

Alex King, a much-admired director of the OECD, passed away on 28 February 2007. He was 98.

Now that the OECD has gone "global", it is worth remembering that Alex King was also the founder, in co-operation with Aurelio Peccei, of the Club of Rome, which first put the spotlight on the crisis of globalisation (notably in a report published in 1972 entitled *The Limits to Growth**).

Alex burst into my life in 1952 when he "rescued" me from doing a doctorate at Oxford. He was then a chief scientist in the British government, charged to do in peacetime what so-called "operational research" had achieved in World War II. Science for policy, and then a policy for science was the leitmotif of his professional life, both in Whitehall and in Paris.

Professionally he was a chemist, but he was also a Scot, and the mixture was potent, both in intellect and preparation. In his hands, "science" was both natural and social, and humanism was the driving force of it all. He could have been a poet, as the OECD Council was to find out when he had to convince them of some purpose or project!

In London, he formed an Intelligence Divison to conduct and supplement research, to raise British productivity. The King chemistry turned this into an amazingly adventurous effort to use science to modernise industry, ranging from the social and economic implications of automation, the management of innovation and the human relations in enterprises.

Internationalism was in his blood, so it was natural that the productivity issue should lead him to Paris as co-director of the OECD European Productivity Agency! The centre of the OECD (or then OEEC) was, in the early 1950s, dominantly macro-economic and, through the Keynesian heritage, economics had become a policy making science. But Alex King, with the war-time experience in his baggage, widened the Organisation's vision of how analysis could set out policy orientation and option–bringing in the natural sciences, technological forecasting, education and social policy. If today the strength of the OECD lies in its capacity as a multi-disciplinary policy "pathfinder", in a complex global environment, then King can be attributed a big chunk of the credit.

But it is on the question of globalisation that Alex King continued to write, after leaving the OECD on retirement in 1974. His memoirs, *Let the Cat Turn Round, One Man's Traverse of the 20th Century*, were published only last year. He re-wrote the last chapter to issue a warning: that globalisation, through its adoration of money, risks descending into an inhuman, materialistic culture.

Let us hope that the OECD, with its essentially professional culture and political neutrality, can let the truth be said and hold the course for a better world. In that event, the cat would turn round with pleasure!

Ron Gass
Ville d'Avray, Paris
France

* A condensed version is available at www.clubofrome.org.
See also Mark Tran's 2002 article, "Seasoned thoughts of the green King", in *The Guardian*, 15 August.

Doha truths

As you point out, a key cause of the problems of the Doha trade round has been a lack of understanding among voters and opinion makers in the developed world on the importance of farm trade liberalisation (No 257, October 2006).

Since May 2004, when Hungary joined the EU, our press has been full of stories about rotten meat and expired eggs "flooding" our supermarket shelves from our European neighbours. Whether factually correct or not, the underlying message these reports carry is that trade liberalisation is bad and only Hungarian farmers are trustworthy. Until those few politicians, who have a vision, bother to explain to voters that liberalisation is not the culprit, the Doha round will continue to face opposition. I wonder how many trade ministers have given television interviews to explain the stakes to their voters?

Miklos Gaspar
Budapest, Hungary

We welcome your views. For more letters, visit www.oecdobserver.org/letters

Innovation, growth and equity

Pedro Solbes
Deputy Prime Minister of Spain and Chair of the 2007 OECD Ministerial Council

"Innovation: Advancing the OECD Agenda for Growth and Equity": that is the theme of this year's annual Ministerial Council on 15-16 May, and it reflects what many governments believe are clear priorities.

Achieving durable and sustainable economic growth is undoubtedly a major objective of OECD countries, but equity issues also count. Their intrinsic importance may be a matter of political debate, but equity has a bearing on the economic agenda, insofar as it can influence social support for pro-growth policies.

Economic theory increasingly stresses the importance of innovation as a driver of growth, as opposed to just capital accumulation. Innovation contributes to boosting per capita income, not only through its direct effect on welfare, but also through its indirect effects—innovation deepens the knowledge pool, which in turn facilitates further advances and welfare improvements. Its notable positive spin-off effects on growth make innovation one of the few areas where there is general agreement on the necessity of public action. The Ministerial Council meeting will explore the most appropriate means for harnessing these effects to increase society's welfare.

Growth and equity relate to other items on the ministerial agenda, including the role that the OECD should play in the wider world. In its near-five decades of existence, this organisation has significantly contributed to the extension of the market economy and good governance worldwide; its influence will continue to be prominent in the international arena. But, just as other international organisations are rethinking their roles in a changing world, it is also appropriate for the OECD to do so. For instance, we must examine the most relevant issues and challenges in international trade, against the backdrop of the ongoing Doha Round negotiations. Thanks to its abundant know-how on trade, the OECD should play a role in this area, while respecting the remit of the World Trade Organization.

Also important is the issue of the OECD's enlargement, granting entry to new members and reinforcing the ties with other countries and regions. Several countries have conveyed their interest in joining the organisation, while there is a clear need to intensify collaboration with emerging countries and other regions of the world.

Mr Solbes

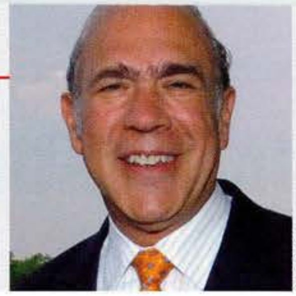
Our discussion will build on the work carried out in the OECD in response to the enlargement mandate issued by the Ministerial Council in 2006, and should contribute to enhance the organisation's influence on the international scene.

Ministers will also address an often neglected topic at this year's conference: the political economy of reform. In other words, how can governments overcome the practical difficulties encountered when trying to implement reforms, including those aimed at growth and equity. It is well known that structural economic transformations, while raising welfare in the medium and long-term, sometimes entail short-term losses to society and practically always work to the prejudice of some groups of citizens. This can generate political obstacles to reform, which hamper or even prevent important measures from being adopted. A successful reform strategy should deal with these practical impediments to change; the sequencing of reforms, the crafting of an adequate communication strategy and the possible compensation to losing groups will be some salient matters to ponder. The essence of the OECD output will continue to consist of policy recommendations, but the consideration of political economy issues will undoubtedly represent a valuable complement to the organisation's core mandate.

The Ministerial Council has set itself an ambitious and far-reaching agenda, which I am sure will help Secretary-General Angel Gurría continue the dynamic he has set in motion at the OECD. Now we must see it through to a successful conclusion. ■

Towards a smarter, fairer future

Angel Gurría, Secretary-General of the OECD



The global economy is into its fifth year of growth. The expansion enjoyed in the OECD area has benefited from the dynamism of large non-member economies, especially in Asia. Globalisation has helped these countries raise living standards and reduce poverty. Indeed, the participation of China, India and other non-OECD nations in global economic flows has been increasing at a remarkable pace, now representing around half of total world GDP (measured by purchasing power parities), about 40% of world exports and nearly half of the world's energy consumption. They have become massive outward investors, too.

Despite its successes, there is widespread distrust of globalisation throughout the world, and sometimes even a backlash against it, as demonstrated by renewed protectionist moves and difficulties in the Doha trade round. Globalisation to many is associated with widening inequalities, uncertainty and job insecurity. Other challenges that require global answers continue to face us. These include climate change, endemic poverty and resource depletion, including water and energy.

Winning back faith in globalisation is one of the most important challenges of our time.

Winning back faith in globalisation is one of the most important challenges of our time. To galvanise support, we must overcome some of the difficulties and ensure that the benefits are more evenly shared, both within and between countries around the world. The OECD is well-placed to make a contribution to this effort.

We know that reaping the benefits of globalisation requires a permanent reallocation of human and capital resources across all sectors of our economies, intensifying the need for timely reform. It requires better dialogue among countries and between governments and their citizens.

Within all of this, we believe in a renewed relationship between growth, innovation and equity, which could help light the way ahead. These are the core themes of this year's Ministerial Council Meeting and the parallel OECD Forum in May.

Innovation has driven much of the rise in living standards for centuries and now its impact on growth is reinforced by globalisation. Increased competition and access to new ideas and technologies are at the root of this new innovation process. And at the same time, the emergence of new competitors adds pressures for OECD countries to adjust and innovate.

In short, innovation is a crucial source of competitiveness, economic development and social advancement. Globalisation is itself a product of innovation. Improved communications, financial integration and global connectivity and awareness have made our economies more interdependent, with our cultures flourishing through an intensified exchange of goods, services, ideas, values and expertise.

Innovation has moved to the centre of corporate strategies too. From world-leading firms to small businesses, it can make a competitive difference. It is estimated that nearly half the US GDP is linked to intellectual property. And with the need for R&D, many policymakers perceive the association between universities and corporations as the space where the future lies. The EU has set a target of increasing R&D to 3% of GDP by 2010. And China, according to OECD estimates, is now among the world's largest investors in R&D.

While many citizens are worried about the possible impact of globalisation on living standards and job security, the actual impact can be enhanced by the proper execution of good policies. Examples are policies aimed at reducing the barriers to business start-ups or improving workers' skills.
While we all know that innovation is key to addressing global challenges such as climate change, on the other hand it could also reinforce global inequities, simply because it is so highly concentrated in a few well-off countries. This affects the global distribution of income and opportunities. People talk about digital divides, but there is also an innovation divide. Far too many people are deprived of its benefits and risk being marginalised. Wider inequalities can harm globalisation, but with access to innovation, there is hope. We must harness this process to help us resolve development challenges. We have the know-how and the technology to do so.

Innovation needs open markets in which to flourish, but it also needs innovative government policies. Talent is an indispensable ingredient for innovation. A brain-drain, which may be a tolerable cost in OECD countries, debilitates poor ones. We have to strengthen our work with developing economies to help them expand and improve their education systems and build their economies so they can profit from their own talent.

Providing technology is also part of the equation. The "One Laptop per Child" project is a dramatic example of a simple but far-reaching initiative.

The dynamic relationship between innovation, growth and equity has clear potential for human progress. Harnessing this potential will help us craft a smarter, more prosperous and fairer future. ■

Building global partnerships

Dr Matei Hoffmann
Ambassador of Germany to the OECD

On 1 January, Germany took over the presidencies of the European Union and the G8. The last time our country had this dual-chair role was in 1999. Our basic goal this year is to address global challenges and to tap fully the opportunities of globalisation.


© German government service

Dr Hoffman

The interests and concerns of the EU and the G8 are by no means identical, but there are several areas where we can take the opportunity of our dual presidency to build useful synergies.

Global economy, responsibility and dialogue

"Growth and Responsibility" is the theme for our G8 presidency, and enlisting the emerging economies in global governance is our watchword. After all, not only do emerging economies have a greater responsibility for resolving global issues, but their own expectation of that role is also evolving. Progress in globalisation demands a workable and dependable framework. And it demands dialogue on pressing economic questions. That is why Chancellor Angela Merkel is inviting the major emerging economies to the G8 summit in the Baltic resort of Heiligendamm this June. This is not the first time these countries have taken part in a G8 summit, but in Heiligendamm we can lay the foundation for long-term co-operation in a manner that can be pursued further in other fora. We call it the "Heiligendamm process" and the OECD can play an important role in helping the process forward.

Consider the all-important economic area, for instance. We must drive home the message that market-oriented rules, together with a social concept of globalisation and a sustainable approach to resource management, are preconditions for global development and prosperity. It is in this context that we wish to come to an understanding with our partners on the core challenges facing the global economy.

By stressing the positives in the world economy, we intend to set out a "G8 Agenda for Global Growth and Stability" that will chart the way forward by building on achievements so far.

We will aim for a G8 declaration on freedom of investment in both industrialised countries and emerging economies in a bid to counter today's trend towards investment protectionism. At the same time, we want to consider international investment rules that will guarantee comparable and fair conditions for foreign investors.

Innovation is of central importance to our knowledge-based societies and we are particularly determined to move forward on ways to safeguard innovations from piracy and prevent violations of intellectual property rights that undermine our economies. That will involve raising our international co-operation in science and research to a new plain.

Finally, for Germany and increasingly for other countries too, it is essential to bolster the social pillars of globalisation on the basis of common and universal values. This key dimension will be emphasised at Heiligendamm, where corporate social responsibility principles, including the OECD Guidelines for Multinational Enterprises, will feature prominently on the agenda.

Energy security and climate

G8 and OECD countries all share a huge interest in building reliable, transparent and co-operative relations with all energy users and suppliers.

In December 2007, Federal Foreign Minister Frank Walter Steinmeier will host a conference in Berlin within the G8 framework, on the topic of "promoting foreign policy for secure and lasting energy supply". One aspect of this is to diversify our energy links. As a member of the International Energy Agency (IEA), Germany already promotes open international energy markets, competition, energy efficiency, environmentally sound delivery, and further international co-operation. But we must also work together towards establishing secure structures for co-operation between the major producer, transit and consumer countries.

The acceleration of global warming also poses a tremendous challenge to the world. The EU is prepared to lead the way in climate protection policy and, regardless of the outcome of international negotiations, will press ahead with structural changes towards a more energy-efficient, climate-friendly economy. Indeed, the European Council of 8-9 March 2007 has sent a strong political signal that the EU is ready to play a pioneering role in climate protection policies by cutting greenhouse gas emissions by 2020 to 20% below their 1990 levels.

However, the EU can only influence some 15% of worldwide greenhouse gas emissions. To combat man-induced climate change, the Kyoto protocol must be succeeded by a comprehensive climate protection regime for the post-2012 era that will be binding on all major emitters. The EU goal is to launch treaty negotiations at the international climate conference in Bali in December 2007, and wrap them up by 2009. In the context of such an international treaty, the EU would be prepared to reduce its emissions to even 30% below 1990 levels by the year 2020.

Thanks to the G8 initiative of 2005, countries such as China and India are now on board. Germany intends to build on this in the context of its dual presidency and through other partnerships. Energy efficiency is a central concern, and we see three areas with worldwide potential for savings: power generation (clean coal technology), transportation (clean cars) and construction (sustainable buildings). The IEA has established more than 40 so-called "implementing agreements" to spur the development of such technologies. Emerging economies have a growing appetite for energy too, and are now co-operating more closely through special networks of experts. Such co-operation is vital if climate policies are to succeed.

Trade

On trade, the focus is three-fold. First, there is the Doha round. Developed economies thrive from trade with the entire world. Though we may derive particular benefits from fast-growing emerging economies, we are obliged by our own interests and our commitments to developing countries to help ensure that the Doha round is successful.

Transatlantic trade relations are the second issue. The links between the US and the EU are of course very close, but there is still much room for improvement in product standards, intellectual property, financial markets, energy and the environment. These questions are the object of Chancellor Merkel's Transatlantic Initiative. They are also central to Foreign Minister Steinmeier's push for an EU-US technology partnership, which concentrates mainly on facilitating transatlantic research in energy and climate change.

The links between the US and the EU are of course very close, but there is still much room for improvement.

Third, there is trade with the ACP countries–Africa, the Caribbean and the Pacific. In particular, the EU hopes to conclude negotiations under the German presidency on economic partnership agreements designed especially to promote development and integration into the world economy.

Growth and governance in Africa

Another focus of the German presidency is Africa, in whose future we reaffirm our confidence. We intend to press ahead on the G8 reform partnership with Africa, and part of that job is to place greater emphasis on the responsibility of African countries themselves. We must provide further support for reform, especially among the reform-minded countries of the New Partnership for Africa's Development (NEPAD) initiative. We want to reinforce the foundations of good governance, and help democracy and the rule of law take deeper root. Such are the preconditions for building an efficient administration and effective education, health, taxation and social security systems.

The G8 has backed its partnership with Africa by providing multilateral debt relief and additional official resources, as demonstrated at the 1999 Cologne summit and at the 2005 Gleneagles summit, for instance. But official funding alone will not be enough to achieve the UN Millennium Development Goals. An important task must also be to stimulate private sector growth. That means improving investment conditions by developing infrastructure, introducing appropriate financial instruments, and fighting corruption.

Our EU presidency is also working hard to build a partnership for securing the future of Africa's energy resources. The aim is to ensure that resource wealth and raw materials markets are harnessed responsibly, efficiently and transparently as part of promoting development and overcoming poverty. The EU-Africa summit at the end of 2007 should produce agreement on a common strategy to this effect, and preparations for that event are already in full swing under the German presidency.

In short, we must all strive to give political direction to globalisation. We must make it sustainable and fair economically, ecologically and socially. And we must draw the emerging economies in more closely as responsible stakeholders in global governance on the economic and political fronts. In its 2007 dual presidency, Germany is determined to do justice to the special responsibility the EU and the G8 have in laying a dependable and workable framework for the future of the world economy. ■

For more on Germany's presidency of the EU, visit: www.eu2007.de

For more on the G8 presidency, visit: www.g-8.de

• News brief •

Women off line

Women have generally lower shares than men in specialised employment in information and communications technology, a recently published OECD report shows.

In most OECD countries, women account for between 30% and 50% of employees in occupations that use IT. However, of these occupations, women tend to have much higher shares of traditional office and secretarial positions, and lower shares in scientific and professional ones. The female share of these traditional occupations is greater than 60% in all OECD countries and just over 90% in Finland and Poland. Female IT specialists account for between 10% and 20% in all OECD countries, except for Hungary and the US where the share lies at a little over 25%.

In terms of general IT access, women tend to lag behind men. These gaps are generally declining, though they remain large in older age groups. In 2005, male access to IT was at least 5% greater than women in more than half of the 23 OECD countries for which data was available. Only in Finland, the US and Ireland did women have greater access than men.

The report also highlights differences in online activities: women frequently use the Internet for shopping and health-related searches, whereas men tend to focus on entertainment and banking. ■

OECD (2007), "ICTs and Gender", March, available under documents at www.oecd.org/ict or by request at observer@oecd.org

Broader faster

Broadband subscribers leapt by over a quarter in the OECD, latest figures show. The rise to 197 million in December 2006 from 157 million subscribers in December 2005 also led to an increase in OECD broadband penetration rates, which grew from 13.5 to 16.9 subscriptions per 100 inhabitants during the same period.

Denmark and the Netherlands were the first countries in the OECD to surpass 30 subscribers per 100 inhabitants. These were followed by Iceland, Korea, Switzerland, Finland, Norway and Sweden, each with between 26 and 30 subscribers per 100 inhabitants.

Strong subscriber growth per capita was seen in New Zealand, Norway and Ireland, with each country adding almost 6 new subscribers per 100 inhabitants during the past year.

At 58.1 million, the US has the largest total number of broadband subscribers in the OECD. US broadband subscribers now represent 29% of all broadband connections in the OECD. Japan had 26 million broadband subscribers and Germany had 14.1 million, the highest in Europe. ■

See www.oecd.org/sti/ict/broadband

Economy

In the OECD area, **consumer prices rose** by 2.1% in the year to February 2007, compared with 1.9% in the year to January 2007. On a monthly basis, the price level increased by 0.3% in February 2007, after a 0.2% rise between December 2006 and January 2007. Euro area inflation was up by 1.9% in the year to February, while in the US, the consumer price index rose by 2.4% over the twelve months to February, after 2.1% in January. Japan's consumer prices were down by 0.2% in February over a year earlier.

Consumer prices for energy rose by 0.8% year-on-year in February, after showing no change in the year to January.

At 5.7% in February 2007, the standardised **unemployment rate** for the OECD area remained unchanged from the previous month, a 0.5% drop from a year earlier.

For the Euro area, the standardised unemployment rate was 7.3% in February 2007, while the US's rate for February 2007 was 4.5%, 0.3 percentage points lower than a year earlier. For Japan, the rate was 4% in February 2007, the same as the previous month and 0.1 percentage point lower than in February 2006.

Meanwhile, **in trade**, the G7 countries experienced a slight, seasonally-adjusted 1% growth in goods trade volume in the fourth quarter of 2006, compared with the previous quarter. Import volume growth continued to shrink, falling 0.1%. G7 trade volumes continued to grow on a year-on-year basis, but at lower rates, with exports 5.9% higher and imports up 3.6%.

At 2.5%, the US yielded a growth well above the G7 average for quarter-on-quarter trade exports, while imports declined by 1.0% for the first time in two years. ■

For more detail, www.oecd.org/statistics/news-releases

• News brief •

Cropping problems

Governments are increasing farming aid in emerging and transition economies, but this aid is not being applied effectively, *Agricultural Policies in Non-OECD Countries*, a forthcoming OECD report, will reveal.

Average government support to agriculture in OECD countries, as measured by the Producer Support Estimate, is currently about 30%. For the 2003-2005 period, it was less than half of this in many of the eight nations examined by the report–Brazil (5%), China (8%), India*, South Africa (8%), Russia (17%), Bulgaria (8%), Romania (27%) and the Ukraine (3%)–which together produce nearly a third of the world's agricultural output.

However, recent years have seen a rise in subsidies to most of these countries. Instead of inefficiently propping up prices, the funding could be improved for areas such as research and development, training, marketing and infrastructure investment.

The OECD report also analyses government response to common challenges such as alleviating poverty, promoting rural development, ensuring food security and assisting farmers to adapt to global competition. The report cites a need for greater diversification of income sources in rural communities. Improved education and health services, land rights and tax reform would encourage this diversification and reduce sole dependency on agriculture, the report will show. ■

Visit www.oecd.org/agriculture

* PSE data is not yet available for India.

Tax accord

Tax co-operation has been strengthened through the signing of an agreement between the OECD and the United Arab Emirates. The agreement will help to reduce the tax barriers to trade and investment flows both within the Arab region and between the countries of the Middle East and North Africa and OECD countries. An official Arabic version of the OECD Model Tax Convention will also be produced.

The UAE was also one of more than 80 countries to contribute to the OECD report "Tax Co-operation: Towards a Level Playing Field–2006 Assessment by the Global Forum on Taxation."

A total of 33 jurisdictions have committed to work with OECD countries under the OECD's Global Forum on Taxation, which is targeted at improving transparency and establishing effective exchange of information for tax purposes. ■

Visit www.oecd.org/taxation

Home straight

Top soil is spread out in the garden of the OECD headquarters, April 2007. The new OECD conference centre (on the right and indicated by the line of garden skylights) is expected to be open for business in January 2008. The OECD headquarters renewal project also includes renovation of the 1922 château, completed in 2005, and of the main OECD office building, which is expected to re-open fully in 2009. A French-American team of architects SCAU Macary, Menu & Delamain, and Pei, Cobb, Freed & Partners is leading the project which began in 2003. ■

For more information, see OECD Headquarters Site Redevelopment Project at www.oecd.org/about or contact observer@oecd.org

Anti-corruption crusades

In a bid to strengthen ties in the fight against corruption in North and South America, the OECD has signed an agreement with the Organization of American States (OAS).

Under the agreement's framework, the organisations will work more closely together on issues related to their respective international treaties against corruption, including prevention, detection, investigation and prosecution of corruption crimes. Co-operation will equally focus on avoiding conflicts of interest, promoting integrity through transparency and accountability, and enhancing resistance to corruption in risk areas such as public procurement, contract management and lobbying.

OAS secretary-general, José Miguel Insulza, said the issues to be tackled are "very important so that our democracies are not only democracies from an electoral point of view, but also countries that are able to continue developing political and civilian citizenship and citizen participation."

Building upon a relationship that began in 1963, the organisations will also co-operate on state modernisation for more efficiency and transparency.

The OECD leads the global fight against corruption and already counts Argentina, Brazil, Chile, Canada, Mexico and the US from the American continent among the 36 signatories of its 1997 anti-bribery convention. ■

Visit www.oecd.org/bribery and see *OECD Observer* No 260, March 2007.

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The minimum wage
Making it pay

John Martin, Director, and **Herwig Immervoll**, OECD Directorate for Employment, Labour and Social Affairs

Minimum wages are hotly debated as ways of improving equity and boosting the wages of lower skilled workers. All OECD countries apply some kind of wage floor. Do they achieve their goals?

When an employment search website was launched in Germany a few years ago, it caused a stir, not least because of its provocative title: Jobdumping.de. The idea was crudely simple, too. An employer posts a vacancy and the wage they are ready to pay. Job seekers make their bid, and the employer either hires the cheapest worker or bids up the wage to get the worker they want. The idea took off. Jobs were advertised and snapped up at low pay rates, including some, such as cleaning jobs, at well below the German average. This promoted exploitation at a time of high unemployment, some blogs cried, and broke strict labour agreements, others remarked.

Did it? Germany's labour market is well-regulated, though it is one of nine OECD countries with no nationally applicable minimum wage. This group of countries, which also includes Austria, Italy and the Scandinavian countries, has traditionally relied on collective bargaining agreements to set wage floors, covering sectors and occupations which account for a very high proportion of the workforce. However, some workers are not covered by these collectively-negotiated wage minima and legislation has sometimes intervened. For example, it was partly to prevent unfair wage dumping from contractors using cheap labour, often from abroad, that Germany adopted a wage floor for the construction sector in 1997. Then in March 2007, lawmakers agreed to set a minimum wage floor for 850,000 cleaners, too.

Minimum wages are a long-standing tradition in many other OECD countries. A minimum wage was first introduced in New Zealand in 1894, and followed a few years later by Australia. The US federal minimum wage was passed into law in 1938. Japan and Korea now have minimum wages, while in Europe, so do France, Greece, Portugal, Spain, the Benelux countries and many countries in central and eastern Europe. Ireland and the UK (not for the first time) introduced national minimum wage systems in the 1990s.

Today 21 of the OECD's 30 member countries have statutory minimum wages, and in just over half of these countries minimum wages have risen slightly faster than average wage levels in recent years. Only in the US have the real earnings of workers on the minimum wage dropped sharply in recent years, and there is strong pressure to raise them again.

What are the pros and cons of having a minimum wage? Wage floors dissuade employers from pocketing tax concessions aimed at improving take-home pay of low-wage workers or passing on any payroll taxes by lowering wages. They can improve equity by lifting the incomes of lower paid workers and encourage those on the edge of the labour market, such as the low-skilled, to hunt for a job. If set too low, they lose this usefulness. However, if set too high, minimum wages will stop employers from hiring lower skilled workers, and may end up protecting the "insiders" with the jobs.

For some firms, the cost of taking on extra staff, even at the minimum wage, can be a hurdle. In fact, social contributions and other payroll taxes add, on average, around 18% to the cost of employing minimum-wage workers. Most countries charge similar rates for minimum-wage labour and higher-earning employees, but preferential rates are found in Belgium, France, Hungary, Ireland and the UK.

If several countries with legal minimum wages have low unemployment rates, it is largely because the level is deliberately set so as not to constrain job growth. In the UK, a special commission has been quite

A minimum wage need not have negative effects on job prospects.

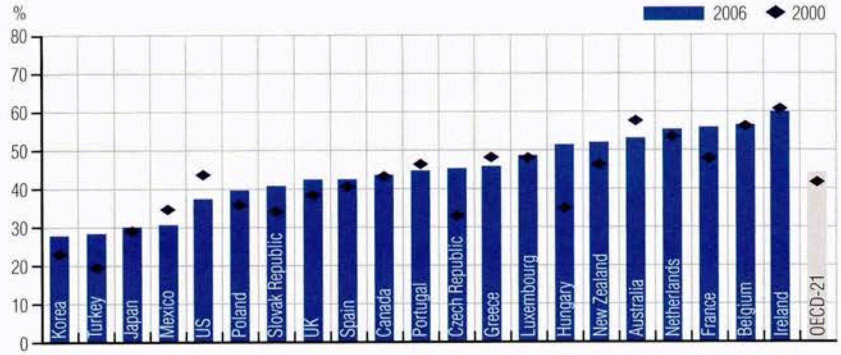
effective to date in ensuring that the minimum wage keeps up with living costs and growth, while not rising too high.

On balance, the evidence shows that an appropriately-set minimum wage need not have large negative effects on job prospects, especially if wage floors are properly differentiated (e.g. lower rates for young workers) and non-wage labour costs are kept in check. But what about the goal of boosting incomes among lower paid workers? Do wage floors "make work pay"?

Consider gross earnings first. On average across 21 OECD countries, the gross earnings of a full-time minimum-wage earner came to nearly 38% of average wages, ranging from roughly 25% of the average in Korea and Mexico to more than 45% in Australia, France, Ireland, the Netherlands and New Zealand. Moreover,

Net minimum

After-tax value of hourly minimum wage for full-time workers, % of the net average wage, 2000 and 2006



Source: OECD (2007), *Taxing Wages*, Paris

StatLink: http://dx.doi.org/10.1787/203355843027

since 2000, gross minimum wages have grown by approximately 8.5% in real terms on average across the 21 countries.

How much of these increases go towards improving people's net wages? A higher gross minimum wage may boost gross income, but what really matters is net take-home pay. This is the amount workers actually get into their pockets, and it depends on how tax and benefits apply to low-wage earners. Minimum-wage workers are paid the lowest wages but they still pay taxes. Add in social contributions and the overall burden on minimum-wage earners remains considerable, at between 15% and 28% in half of the countries. On average across the 21 countries, income taxes and social contributions reduce the take-home pay of full-time minimum-wage earners by just under 15%.

After adjusting for differences in prices across countries using purchasing power parities for 2006, this leaves a net income of about $4.50 per hour in the US and Japan. A full-time minimum-wage job pays most in some west European countries and in Australia, at a PPP equivalent of around $7.50 per hour.

The after-tax value of hourly minimum wages ranges from 27% of the net average wage in Korea, up to 60% in Ireland. In seven countries it is above 50%, and in another six below 40%, including in the US and Japan (see chart).

Some 10 countries have eased tax burdens on low incomes in recent years. Over the 2000-2006 period, the sharpest tax reductions for minimum-wage workers have been in Belgium, France, Ireland, the Netherlands and, in spite of a large increase in minimum-wage levels, in Hungary. Also, tax burdens of average wage earners have fallen less strongly than for minimum-wage earners.

In other words, raising minimum wages might lift labour costs, but not necessarily boost net incomes as much as they should. Policymakers may achieve more impact by improving disposable earnings via changes in the tax and benefit system. By blending such measures with appropriately-set minimum wages, work can be made to pay. ■

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Manufacturing ideas

Remember manufacturing? For some policymakers with an eye on the future, it may be easy to forget. After all, manufacturing is on the decline in the OECD area in terms of GDP and employment. But according to "The Changing Nature of Manufacturing in OECD Economies", an OECD working paper, there are many reasons to take manufacturing seriously, not least because of its role in technological innovation.

Indeed, manufacturing still accounts for the bulk of business spending on research and development, although it is highly concentrated in a few industries and firms. For example, in Canada, Finland, Ireland, the US and the UK, over 60% of all manufacturing R&D is accounted for by high-technology industries. In Germany, Japan, the Czech Republic and a few others, medium-high technology industries account for a large share of the total. Combined, these two technology groups account for 80%-90% of total manufacturing R&D in most OECD countries.

The authors point out, however, that the share of R&D in manufacturing has also declined, reflecting a variety of factors, such as growing R&D in certain services sectors and the outsourcing of R&D to specialised labs. And with the end of the "new economy" bubble in 2000, R&D in manufacturing has shrunk.

Still, according to the paper, manufacturing explains much of the OECD's dominance in global innovation. It establishes this partly by looking at the R&D undertaken by manufacturing firms and how it is turned into patentable innovations–part of the intellectual property of firms. The data for major innovations filed at all three major global patent offices–the US Patent and Trademark Office, the Japan Patent Office and the European Patent Office–show that countries such as China and the Russian Federation spend a lot on R&D, but account for a small share of these so-called "triadic" patents. These countries are still primarily oriented towards imitation. In contrast, data show that countries like Japan, Germany, Switzerland, Sweden and the Netherlands make a relatively larger contribution to such patents. These countries are the innovators.

A paradox of manufacturing is that while it is in relative decline in value-added and employment terms, it continues to register healthy growth, fuelled by strong consumer and business demand for goods.

So why the fall in employment? The expansion of services is an obvious structural reason. However, the authors point out that in the G7 countries–these account for approximately 70% of OECD manufacturing employment–most of the decline in employment has occurred in just two activities: textiles and metals. In areas like food products, chemicals and motor vehicles, G7 employment has been quite stable.

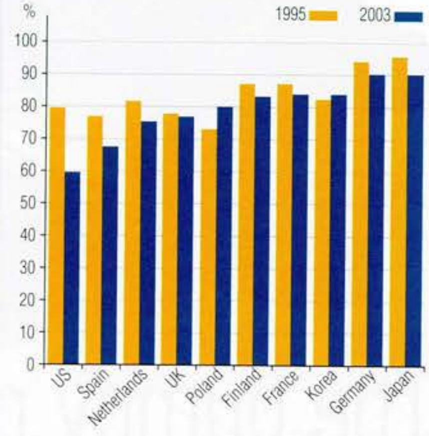
One common mistake is to assume manufacturing employment has simply flowed into high-tech industries. This was true in the 1980s, but not so lately. In fact, only one such industry in the OECD area–pharmaceuticals–has experienced employment growth over the past decade, with the likes of computers and aircraft in sharp decline.

Nor has manufacturing employment declined because of offshoring to non-OECD countries. Sure enough, the number of manufacturing workers in non-OECD countries is far higher than in the OECD area. But estimates show that manufacturing employment in large emerging economies such as Brazil, China and Russia, has also declined.

Ultimately, beyond services, a key cause of the underlying fall in manufacturing employment everywhere is rapid productivity growth, whether by restructuring inefficient plants or deploying skills, knowledge, technology and new processes to boost efficiency. The annual growth in manufacturing productivity in the OECD stands at some 2%-4%, which is far higher than the economy-wide figure. As the manufacturing story confirms, innovation is not just about new products, but new and better ways of doing old things as well. ■ *RJC*

R&D production

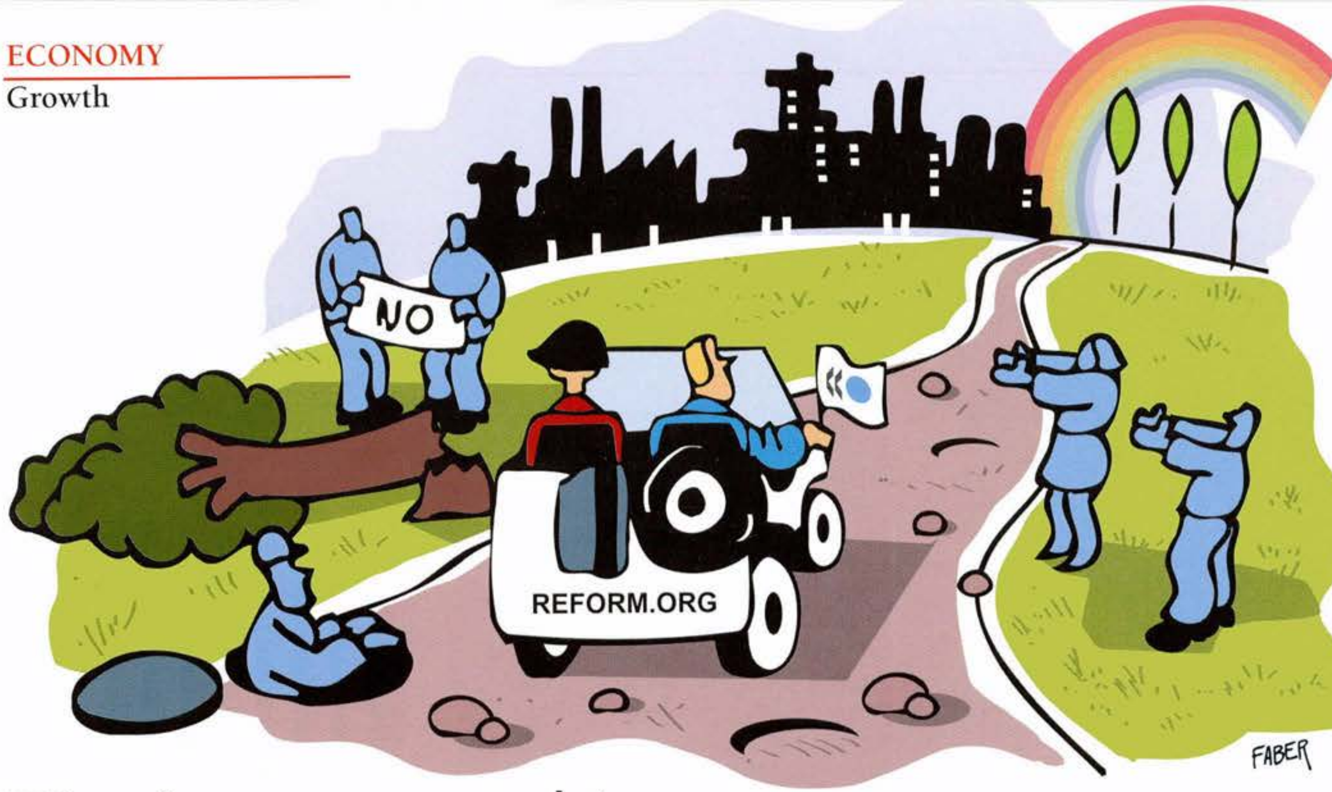
Share of manufacturing in total business R&D, 1995 and 2003*, in %



*Or latest available year. More countries in the source. See reference.

Source: OECD (Pilat et al.)

Pilat, Dirk, Agnès Cimper, Karsten Olsen and Colin Webb (2006), "The Changing Nature of Manufacturing in OECD Economies", STI Working Paper 2006/9, OECD, Paris. It is available at www.oecd.org/sti under Publications & Documents, scroll to Working Papers.



The bumpy road to structural reform

The world economy seems to have entered a rebalancing phase, with Europe in particular showing signs of firmer growth just as the US economy is decelerating. This would seem to make it as good a time for reform as ever, and several large and small OECD countries are in fact moving ahead. While all countries should continually adjust to new global circumstances, for some the need to reform is particularly pressing. The road ahead will be challenging, but there may be lessons for policymakers to help them smooth over some of the bumps.

OECD countries have made considerable progress in structural reform in the past two decades. From lowering barriers to international trade and foreign direct investment to financial market liberalisation, many have come a long way since the early 1980s.

But looked at more closely, it seems that while product market reforms to free up various sectors have moved forward, less progress has been achieved on the labour front. Some countries such as France, Germany and Japan have reduced employer costs for low-skilled workers and introduced more flexible temporary job contracts, ostensibly to boost employment or improve competitiveness. However, the effectiveness of these reforms has frequently been blunted by other policies, such as overly strict hiring and firing rules for permanent contracts. The upshot has been a dual labour market, in which some groups enjoy highly protected jobs with good incomes, but in which others, notably younger workers and women, are denied decent career prospects.

Even in product market reform, the depth and pace has varied from country to country and sector to sector. The US and the UK, together with a few others, undertook such reforms in telecoms, road freight and airlines in the 1980s and 1990s. France made its first forays into privatisation in the latter half of the 1980s, but the opening up of continental Europe's major network sectors did not get fully under way before the 1990s. Moreover, instilling more competition into energy, postal services and railways has proved trickier.

The reasons for such mixed progress are several. Vested interests, worried staff, or deep-rooted institutional arrangements that are hard to budge can clutter the road to reform.

Then, technological developments matter: advances in communications technology probably made it easier to open up telecoms markets, all the more so as competition in turn spurred further technological progress.

Different starting points can also influence the pace of reform and it naturally helps if popular opinion agrees there is a problem to fix in the first place. Electricity blackouts and "winters of discontent" set the public mood in favour of reform in the UK in the 1970s and 1980s. Railway reform is also influenced by public opinion. In France, for instance, the railway's reputation for timeliness and technical prowess makes it hard to argue too loudly for deregulation, whatever the balance sheet might say. Nor would such an argument be helped along by some other examples of rail privatisation which, though carried out with public support, have struggled to deliver the promised improvements.

In the end, economics rarely clinches the reform battle, whereas politics holds the key. This is because reform challenges the status quo. It brings into play notions of fairness, job security and dependability on the likes of medical cover or unemployment benefits. Though reforms tend to exact costs on particular groups, they may find allies in the wider community.

Designing strategies to win over such opposition is what the political economy of reform is about. Thanks to good design, a

Economics rarely clinches the reform battle, whereas politics holds the key.

number of OECD countries have managed to reduce unemployment and stimulate output growth, despite diverse circumstances and different reform paths. In common was a determination to adopt workable combinations of fiscal adjustment and labour and sectoral reforms, and where possible, to build some element of public consensus among stakeholders as well.

Context matters a lot when devising strategies to grease the wheels for change. For instance, demographics have a bearing on reform. Ageing generations wary of their retirement may support changes in financial services and healthcare, and it may be easier to make labour markets more flexible in countries with relatively large young populations or active immigration, such as in Ireland.

Getting the sequence right with consistent, mutually reinforcing policies is key. Experience shows that liberalising product markets is a good precursor to labour market reforms. This is because more competition reduces the ability of firms to earn excess profits by squeezing their price-cost margins, and obliging workers to alter their demands too. Also, because product market reform can boost demand, this raises employment and wages, facilitating further reform.

In the political economy of reform, judgement and timing are vital. For instance, changes to income support are more likely to work during upswings when public momentum is upbeat. People will swing behind reforms as their beneficial effects become more apparent, as has generally happened regarding telecoms.

In short, steady, persistent and coherent change is better than no change at all. And not reforming causes fractiousness, a loss of confidence and weaker economic performance. It can also end in a crisis.

Major crises are no comfort to policymakers, but they nevertheless drive change. Indeed, OECD research suggests that an output gap (the shortfall between actual and potential output) of 4% increases the probability of a major structural reform in product and labour markets by almost a third.

It was a crisis, with recession, spiralling wages and wide deficits that forced change in the Netherlands in the 1980s, and in Canada and Finland in the early 1990s with public finances to the wall. A morose economy eventually forced Japan's hand on reform too.

Europe is an instructive case. Countries that pushed reforms long and hard, such as Denmark, Ireland, the Netherlands and the UK, show how important crises were in garnering support and setting reforms in motion. In fact, reforms were stepped up as economic circumstances improved and potential opposition fell into line. Policymakers applied consistent and mutually reinforcing labour supply and fiscal policies. Deal-making helped secure the co-operation of diverse interest groups: wage moderation in exchange for tax cuts in Ireland and the Netherlands, and sharpening active labour market policies while shortening unemployment benefit duration in Denmark, for instance.

When it comes to reforms, each country should naturally devise its own strategies based on its own circumstances, but there are some general lessons for policymakers to bear in mind.

First, reforms work better with proper sequencing and co-ordination within and between policies, even though in practice this may be a luxury. Also, co-operation between countries may yield benefits, whether in building a fair and open international trade regime, as with the Doha round, or a services market for suppliers and consumers, as in the EU.

Second, promote supportive macroeconomic policies. If these keep aggregate demand close to potential output, they will oil the reform process by minimising the fear factor associated with structural change. In this context, whereas fiscal laxity may entail painful corrective action later on, sound public finances can create the wherewithal required for the introduction of reforms by providing confidence and room for manoeuvre.

And third, always be transparent about the costs and benefits of reform, and be ready to communicate in the face of well-drilled opposition. Outside expertise has been shown to be useful here, as policymakers embark along the bumpy road of reform.

Given the difficulties, political leaders understandably worry about losing popularity, or votes. However, as experience demonstrates, by marshalling the political economy of reform, (very different) governments can make decisive breaks with the past, and still look forward to winning the next election as well. ■ *RJC*

Note: Effective international support for reform can play a significant role in helping to improve policy design and advancing the political economy of reform. Under the responsibility of Deputy Secretary-General Aart de Geus, the OECD aims to make a major contribution in that direction

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Whose current accounts are out of line?

Should the US current account imbalance still cause global concern? The question is never far from the headlines in any major business newspaper or television channel. "Mysteries Of The Gaping Current-Account Gap" is how *Business Week* screamed it a few years ago. And last year an article in the *OECD Observer* noted that while some dismissed the deficit as a harmless mirage, most experts agreed that the deficit was unsustainable. There has been little change in the situation since then. The fact that the imbalance is happening at all is in some ways still surprising.

From a global point of view, the most striking anomaly is that in recent years capital has been flowing the "wrong way". According to textbook theories, capital should flow out of rich countries, where it is abundant and labour is scarce, into poor countries where the opposite is true and where the rate of return to capital should be greater. The counterpart of this flow should be current account deficits in the developing world and surpluses in the industrialised nations. But today we see the opposite happening.

One explanation is that the rate of return to capital in many emerging countries has actually been lower than in the most advanced countries. This is because weak policies and structural problems have cancelled out the advantage they should have had in attracting savings. Another reason is the productivity surge in the US, which as a mature developed economy should in theory have been slowing down by now, but instead continues to draw in global savings. In fact, in this respect the US is more a "still developing" country than the world's most advanced one.

Current account positions are determined by many factors in the short term. These range from structural differences across economies, such as demographics and the level of development, to policy-driven factors such as changes in the fiscal stance. Two economists, Joseph Gruber and Steven Kamin, found that for 61 developed and developing countries they examined from 1983 to 2003, a surplus is normally higher (or a deficit lower) if: per capita income is higher (as described above); the fiscal surplus is higher; there are more middle-aged families, as young people and the elderly tend to dissave; the economy is more open to international trade; and if institutional settings such as property rights and the rule of law are unfavourable, because they become less attractive for foreign investors.

The model predicts a small surplus for the euro area–the current account is in fact broadly balanced and so pretty close–and deficits in Australia and New Zealand, which is the case. The trouble is, using the work by Messrs Gruber and Kamin, one would also expect a surplus in the US, because its higher incomes are large enough to offset its higher growth rate and its fiscal deficit. But no variation of their model was able to explain the ballooning US deficit. On the other hand, the large surpluses in emerging Asia could in part be put down to an investment slump after the 1997 financial crisis.

There are differences between the actual and predicted current account positions for most of the countries examined, which reflects the extent to which current accounts appear to be out of line with fundamentals. According to the model, the euro area surplus was around 0.5% of GDP smaller than expected over that period, whereas deficits are larger than expected in the US, Japan and Australia.

By this measure, the euro area contributes little to global current account imbalances, and for many, it is the US deficit which is the tricky one to resolve. That does not mean direct intervention can help. Rather, as the *OECD Observer* article noted a year ago, the market has a lead role to play, as long as the government limits the budget deficit and removes anti-saving biases from policies, while allowing enough fluidity in the economy for resources to shift towards the production of tradable goods and services. ■ *RJC*

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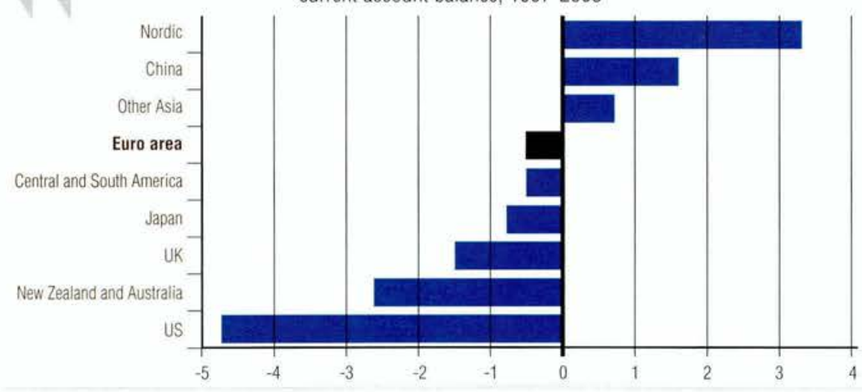
Gaping gaps

Difference between actual and predicted current account balance, 1997-2003



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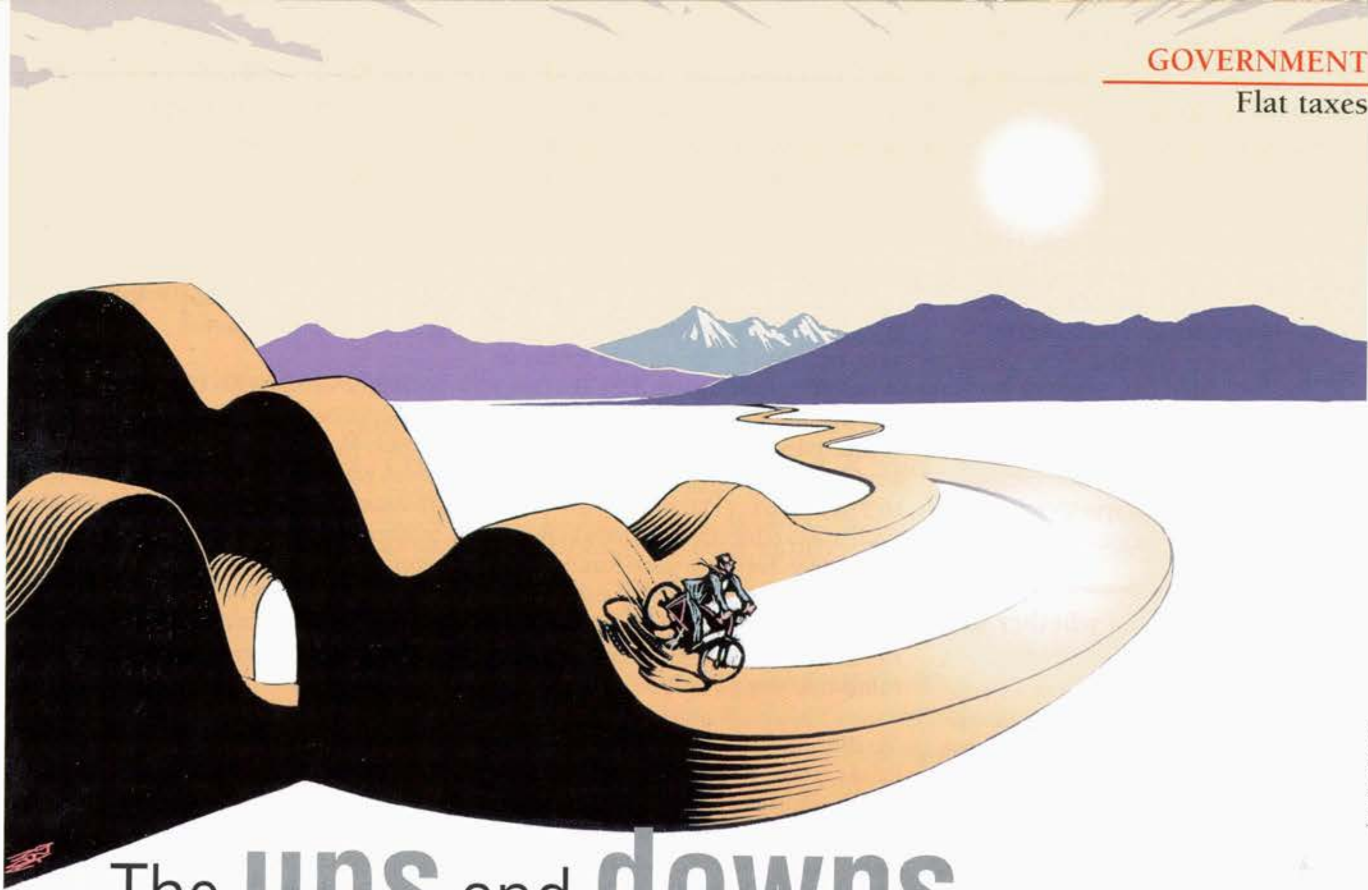
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The ups and downs of flatter taxes

Jeffrey Owens, Director, OECD Centre for Tax Policy and Administration

There is no clear consensus on what is the ideal personal income tax. Could flat taxes be the way forward? The answer is not that simple.

Imagine a tax return no longer than a postcard. This at least is what proponents of a "flat tax" system predict. Filing is simplified, since gone are most deductions and exemptions. A flat tax improves the transparency of the income tax, cuts the administrative and compliance costs and, if the rate is low, reduces the temptation to evade tax. It even stimulates growth, its defenders claim. But there is a price: a move to a flat tax system strongly affects income distribution. Advocates of the flat tax say it has already proven its worth in Russia and other economies in transition, such as the Slovak Republic. The idea has now caught the attention of some OECD countries, including Italy, Greece and Mexico.

While no government has implemented a pure flat tax, politicians in many OECD countries have recognised the need to reform their personal income tax system over the last two decades. Paired against mounting expenditures brought on by ageing populations, healthcare and other social needs, a broader tax base can shore up tax revenues. But governments must also make taxes competitive in order to lure investors and prevent the decampment of their own businesses and workers. Yet no clear consensus has emerged on what is the ideal personal income tax. Could flat taxes be the way forward?

A flat tax system is generally understood to mean a single positive marginal tax rate for personal income, set relatively low. In such a system, capital and labour income is taxed at the same rate for everyone, rich or poor, as the rate schedule is reduced to a single rate. Unlike a "progressive" system, earning more does not mean being subject to a higher tax rate. Although most deductions and exemptions are eliminated, a standard tax threshold is given to all taxpayers, above which they start paying tax.

In theory, a low rate flat tax creates incentives to work, to save and invest, to become an entrepreneur and to take risks. In addition, the flat tax system's simplicity may encourage people to comply with the tax rules. Moreover, proponents say it helps the poorly educated or elderly who are often baffled by the complexity of tax forms or are ignorant of the exemptions to which they are entitled.

The crucial question is whether flat tax systems fairly distribute the tax burden. Depending on the flat tax rate and basic allowance, flat tax reform most likely implies that high-income earners gain at the expense of middle-income earners who will have to pay a higher tax rate. Whether low-income earners will benefit from a flat tax reform depends on the size of the basic allowance.

Most OECD countries run along the tracks of either a "comprehensive" or "dual" personal income tax system, with variations on both. Comprehensive systems include all sources of income in the same tax base and levy progressive rates, usually with generous allowances and exemptions. They are founded on the principle of both vertical and horizontal equity: taxpayers at the same income level are taxed equally, and taxpayers at a higher level of income are taxed more as a proportion of their income. The advantage of these systems is that they limit income shifting, a practice in which higher-taxed labour income is transformed into lower-taxed capital income. Their weakness lies in the reduced efficiency as a result of the often high and progressive rates and in the high compliance and administrative costs. At present, no OECD country has a purely comprehensive system, since all countries with these systems have special tax treatment for fringe benefits, capital gains, owner-occupied housing, pensions and so on.

A crucial question is whether flat tax systems fairly distribute the tax burden.

Taking the alternative road, Scandinavian countries and the Netherlands opt for a dual approach, levying a progressive tax on labour income, but a proportional tax on capital income. This lower tax on capital income recognises that capital income is more mobile than wage income.

One weakness of this approach is that the effective tax levied on total income will depend on the relative amounts of capital and labour income earned. This might undermine the tax code's vertical equity, especially because income from capital tends to be concentrated in the upper income brackets. And, of course, in the dual system, there is an incentive to shift highly-taxed labour income into lower-taxed capital income.

So, what of the flat tax? Academics, in the US and elsewhere, have been debating the question for a quarter century, but it was Russia that became the first major country to adopt one when it imposed a flat tax rate on income, of 13% in January 2001. Over the next year, personal revenue jumped by 26% in real terms, and as a percentage of Russia's GDP, incomes increased by a fifth.

Small wonder that other countries in the Eastern bloc, hoping to jump-start their transition economies, followed suit: Ukraine, the Slovak Republic, Georgia and Romania joined Estonia, Lithuania, Latvia and Russia in implementing a flat tax.

Nevertheless, the linkage between a shift to a flat tax system, revenue yield and economic growth is ambiguous. Whether Russia's economic fortunes can be attributed to the adoption of a flat tax is not so clear. Russia's GDP grew by 4.6% in the first six quarters following the adoption of the flat tax, whereas in the preceding six quarters, it grew more than twice as much at an annual rate of 10.6%. The government had already undertaken vigorous tax reforms, aimed primarily at curbing evasive practices among Russia's wealthiest. In 2001, just from reining in tax evaders, tax authorities remitted double the amount they had a year earlier. In fact, as a paper in *Economic Policy* suggests, it appears that greater transparency, ease of compliance, and enforcement of tax laws exerted a bigger influence than did the actual change in income tax rates (see references).

But while the Russian reforms tackled an inept and corrupt tax system, revenues also rose to reflect a surge in the price of oil (Russia's most important export commodity), which nearly quadrupled between 1999 and 2000, as well as an 18% increase in real wages in 2001. Moreover, the personal income tax reform, with marginal rates of 30, 20, and 12% replaced by a flat 13% tax rate, only benefited the top two tiers; the poorest taxpayers experienced a small increase in tax rate. But compared to its neighbours, Russia's poor may have got off lightly. In seven out of eight countries, the poorest wage earners paid up to 25% more on their income, although this increase was buffered by more generous allowances. As for the argument that cutting tax rates increases labour supply, the figures are inconclusive. Labour supply in Russia did not change in any of the groups, despite the dramatic reduction of rates. On the other hand, compliance improved.

Judging how much a flat tax contributed to the successes of Russia and Eastern Europe is difficult. Moreover, neither Russia nor the Slovak Republic has implemented a genuine "flat" tax system. For instance, both countries continue to levy social security contributions separately. The use of social security contributions means that there continues to be gains from income shifting between capital and labour income, even under a flat personal income tax system.

It is also hard to say whether flat taxes can adequately address one of the biggest challenges posed by a global economy: maintaining a strong tax base in a world of increasingly mobile capital. Given the government's revenue needs, having a flat tax on capital and labour income might require a rather high tax rate, which might raise problems because of the international mobility of tax bases. On the other hand, implementing a rather low flat tax rate would undermine the benefit system in many OECD countries and would adversely affect income redistribution.

Though no OECD country has adopted any of the comprehensive, dual or flat systems fully, the trend appears to be for flattening. How far governments will tread along this path is an open question. Taxes may be getting flatter, but there are still mountains to climb.■

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The pensions challenge

Financing retirement was the theme in the latest in a new series of online public discussions, "Ask the economists". Held in April, OECD experts fielded a dozen questions from readers in Canada, France, Germany, Korea, the UK and the US, as well as the World Bank, about issues such as taxation, equity, early retirement, life expectancy, mortality-linked debt, the role of savings in stocks and real estate, and private versus public provision. The following are just a few extracts from the debate.

Q. Currently income taxation in most countries is quite modest on pension incomes and, as it is politically very hazardous to decrease pensions, shifting to consumption taxation is a way to make pensions less generous by stealth. Is this a plausible interpretation and do you as economists for the OECD have a clear view on the efficiency and equity issues involved by this shift and its intergenerational impact? Patrick Broullard, France

A. There has been a global shift to consumption taxes, not only in Europe. (...) Savings are a means to future consumption, and so consumption taxes will be paid in the future when the (saved) money is spent. So a shift to consumption taxes may increase the tax burden on pensioners, but when the change is fully in place, they will have paid less in income taxes when they were working.

Many countries do, indeed, offer tax concessions to older people, meaning that the effective burden of income tax on pensions is small. However, it is difficult to justify the fact that a pensioner on the same income as a worker pays less in tax. (...)
In the 16 OECD countries that have had major pension reforms since 1990, benefits for a worker entering the labour market today are, on average, 25% lower than they would have been without reform. This dwarfs the effect on pensioners of the shift from income to consumption taxes.

Q. Do individuals understand the need to save for retirement and how best to do that? Ingeborg Scheven, Germany

A. Surveys across OECD countries and worldwide consistently show alarmingly low levels of financial literacy in general and understanding of the need and importance of saving for retirement in particular. For example, surveys in the US have shown that four out of ten workers are not putting any money aside for retirement, while a report in New Zealand found that many individuals are either "unwilling or not able" to save enough for retirement, with around 30% of households spending more than they earn. 71% of respondents in a Japanese survey had no knowledge about investment in equities and bonds, and in Canada, respondents considered choosing the right investments for a retirement savings plan more stressful than going to the dentist!

Though measuring the impact of financial education is challenging, programmes can play a role in improving individuals' understanding of the changing pension environment, of the need to save and how to invest. For example, in Germany providing information on pension entitlements has been found to play a significant role in additional planning for retirement. (...)

Q. Which country has the best pension system? Andrew Clark, UK

A. This is a tricky question. There are many elements of OECD countries' pension systems that work well and can serve as "best practice". But there is no single model that can or should be applied in every country. OECD pension systems developed gradually and were strongly influenced by each country's economy, societal values and cultural norms. What works well in Switzerland or Sweden will not necessarily be the best solution for Mexico or Japan.

It also depends on the criteria one uses to assess the best system. Is it the system that offers the highest pension replacement rates? In this respect, the earnings-related pension systems in Greece and Luxembourg would be the best but they would score much lower on financial sustainability. Or is it the system that is most targeted towards the poor? With these criteria, the universal flat-rate pension schemes of Ireland and New Zealand or the basic pension in the UK would score highest. Another criterion could be diversification of retirement income source. On this count, Sweden would score the highest since pensioners there receive benefits from five different pension system components, funded and pay-as-you-go, defined-benefit and defined-contribution, public and private. Having the best of all worlds will require determining the various objectives of the pension system. (...) The OECD tries to contribute to this through its work on public and private pensions.

The full text of "The pensions challenge - financing retirement" and previous "Ask the economists" can be found at www.oecd.org/asktheeconomists

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Corporate tax warning

Kristian Weise, Policy Research Officer, International Trade Union Confederation (ITUC)*

Corporate tax is falling, both as a share of GDP and in the global tax take. Yet, just like other economic players, businesses rely on public investments too. To avoid a crisis, companies should assume a higher share of the overall tax burden.

"In this world nothing is certain but death and taxes", Benjamin Franklin once famously said. But for corporations, paying taxes is anything but a certainty. Statutory corporate tax rates are plummeting in most countries, while business keeps finding ever more creative ways of getting around paying any taxes at all–leveraging debt in privately held corporations being the most recent trend of this. While the OECD has put itself in the driver's seat of the international effort to combat tax evasion and avoidance in the form of transfer pricing and the use of tax havens, the detrimental tax competition that many of its own member economies are engaging in has so far been receiving scant attention. Yet if more attention isn't given to this issue we could soon face a global tax crisis.

Within the last 20 years, corporate tax rates have fallen from around 45% to less than 30% on average in OECD countries. And lately, with increased mobility of multinational corporations, tax competition has intensified. Thus from 2000 to 2005, 24 out of the 30 OECD countries lowered their corporate tax rates while no member economy raised its rates. The consequence is that average rates in all OECD countries dropped from 33.6% in 2000 to 28.6% in 2005.

The conventional wisdom is that it is primarily small economies that feel compelled to cut corporate taxes in order to attract foreign investments–Ireland and a handful of the newest EU members are often put forward as examples of this–but it is actually some of the largest economies in the world that have lost most tax revenue from corporations over the last decades. Most notably, between 1970 and 2003, corporate taxation as a share of total taxation dropped by 51% in Japan and by 39% in the US and in Germany. And from 1995 only, the weight of corporate taxation to public finances dropped by around 20% in the US, Japan and Italy (see graph).

Yet at the same time corporate profits are booming and wages are stagnating. After-tax profits in the US are, as a proportion of

GDP, at their highest in 75 years, and in the euro area and Japan they are also close to 25-year highs. Wages, on the other hand, are making up an ever smaller part of national income, down from 68% in 1982 to 59% in 2005 in the 15 EU members. And at 56.9% in the US in 2005, they are, except for a brief period in 1997, at their lowest level since 1966. Hence, relying on the income and spending of wage earners to fund ever larger parts of public finances will either hollow out government budgets or lower workers' incomes.

Other developments emphasise the mistiming of the present corporate tax break. Business increasingly bases its success on institutional and societal competitiveness–in short the qualities of the societies they are part of, such as the skills of their workforce, publicly funded research and infrastructure, and well-developed legal systems and intellectual property regimes. As a result, more and more government spending is used to enhance such competitiveness. Yet surely corporations, as beneficiaries of these investments, should pay their share in taxation? Surely the burden should not fall on workers or on consumption? For the sake of both equity and efficiency, business tax cannot be allowed to go on falling.

And with ownership structures of private business becoming more international on a daily basis, corporate profits in the form of dividends increasingly escape national tax collection and thus contribute nothing to the spending and investments necessary to

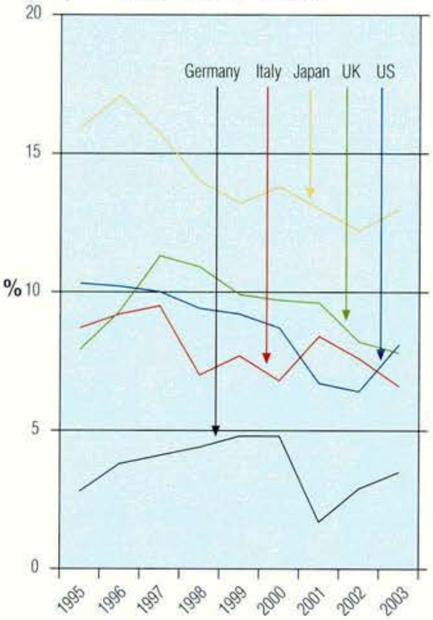
For equity and efficiency, business tax cannot be allowed to go on falling.

maintain and extend institutional and societal competitiveness. If tax on corporate dividends increasingly eludes national taxation, then taxing corporate profits should be the obvious place to find compensation.

Corporate tax competition inevitably leads to declines in the amount of taxes paid by corporations, a loss of public revenue in many cases, particularly if economic activity is slack, and a greater burden on

Trending lower?

Corporate taxes as a share of total taxes



Source: ICFTU, OECD

individuals. Since tax bases have been broadened while rates have been cut, globally the corporate tax crisis is still at bay. But there is a limit to how much corporate tax bases can be broadened. And in the OECD countries in particular, this limit is not far away. Even the broadest tax base will not matter if tax rates tend towards zero. And this might happen earlier than we think. If the linear trends in the OECD countries are extrapolated into the future, statutory corporate tax rates will hit zero by the middle of this century.

The somewhat tragic irony is that the countries that have participated most actively in this downward tax competition haven't even had the short-term gains in the form of increased foreign direct investment that motivated them to do so. The reason is simple: cutting tax to attract investment cannot work on its own and may be counterproductive. Take Ireland, often held up as a low tax success story. Yet Ireland's inward investment and robust economic growth owe much to a strong public sector and smart use of tax spending in areas like education and infrastructure, not just to its tax cuts. It would be foolhardy to think that any country can emulate Ireland's success by cutting taxes. In fact, given the need to build up their frameworks, they may end up damaging their prospects. Little wonder that research shows that the "new" member states of the European Union haven't received more investments from the "old" member states in the years they have aggressively cut their corporate tax rates. Elsewhere, in G7 Canada a cut in the statutory corporate tax rate from 28% to 21% between 2000 and 2006 was followed by a decline in net inflows of FDI in the same period.

Without action, we could be on the verge of a global tax crisis that could hurt economic activity. The tax burden cannot be carried by labour and consumption alone. The upshot of inaction would be a loss of revenue for governments and a downward spiral in economic activity. Governments must realise that "beggar-thy-neighbour" tax competition risks eroding their own economic and social foundations. And they must recognise that all countries have a common interest in co-operating to achieve fair levels of corporate taxation. This requires multilateral solutions.

The message that tax systems enable growth and that corporations must pay their share surely makes sense to most governments. Is there any choice but to step up initiatives on harmful tax practices and discourage unfair tax rivalry? The EU has taken a first step by starting work on creating a common corporate tax base. Yet while positive in itself much further initiatives must be taken, both within and outside the EU, to address the fragility of current corporate tax practices. Political will and dedication is needed, but the public gains would be worth it. Surely that is what co-operation and development is all about. ■

*The views expressed in this article are those of the author and do not necessarily reflect the views of the OECD or its member countries. ITUC is a partner organisation of the Trade Union Advisory Committee to the OECD (TUAC).

Visit www.ituc-csi.org and www.TUAC.org

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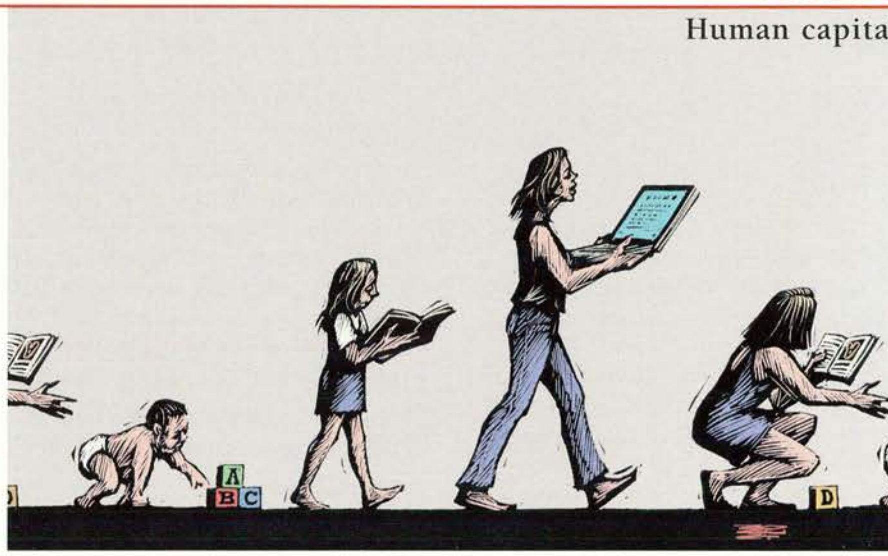
Human capital
A revolution?

Brian Keeley, OECD Public Affairs and Communications Directorate



If we want to build competitive economies, we need a human capital revolution. But what does that actually mean? A new book from the OECD explores this question and the human side of economic man and woman. Here, the author offers some personal reflections on the need to understand the bigger picture of how human capital is formed and the role that education can play.

"Our values and beliefs inhibit us from looking upon human beings as capital goods, except in slavery, and this we abhor." So wrote American economist Theodore Schultz in 1961 in his pioneering analysis of the role of human capital in economic growth.

Schultz did not share that inhibition. In the same article he rejected the idea that there is anything demeaning in the notion of people consciously investing in themselves–through education and training, for instance–to create a "capital" that brings long-term returns. "By investing in themselves, people can enlarge the range of choices available to them," he declared. "It is one way free men can enhance their welfare."

Schultz, and many economists who followed him, helped reshape our social and political attitudes. Today, it is hard to imagine any politician or business leader arguing against investment in human capital. "In the economy of the 21st [century], knowledge, human capital, is the future ...", the British prime minister, Tony Blair, declares. On the other side of the world, Australian opposition leader Kevin Rudd announces, "it is now time for a third wave of economic reform–a human capital revolution, an education revolution, a skills revolution."

There is a problem with revolutions: they rarely run to plan. A course is settled amid the shadowy light of blazing ruins when it might better be left for the cold light of day. Mistakes are made and then multiply, unleashing forces that no one could have foreseen. In the human capital revolution there's plenty of potential for mistakes–beginning with a question of definition: what do we mean by "human capital revolution"? The reality is that what many of today's *sans culottes* are really talking about is an upheaval in education.

Why do the human capital and education revolutions get mixed up? For one thing, formal education is an important factor in human capital formation, albeit not the only one. Social background is significant too:

There is a problem with revolutions: they rarely run to plan.

being born to well-off parents generally raises an individual's levels of human capital, both by producing better school results and stronger health, itself an aspect of human capital. But the sort of social engineering that might iron out these differences would be unacceptable in most countries. Regrettably, even far more modest changes that might mitigate the impact of social background in forming human capital–such as public investment in childcare and pre-school education, especially for children from immigrant and underprivileged backgrounds–seem to be hard, too.

So, the reality is that when governments attempt to develop their countries' human capital, it is formal education–both in the compulsory and tertiary phases–that tends to be seen as offering the widest and most visible range of policy levers. Which levers are pulled needs to be given very careful consideration: bad decisions will affect the people–children and teenagers mainly–who are the future of our societies. (Ironically, it is these same young people who have the least say in making these decisions.)

Decisions need to be guided by more than just the aim of boosting growth. Education and human capital are too complex, both in their individual composition and their relationship, to be seen purely in terms of serving a single goal. This point was given welcome recognition in the Human Capital Index developed by Peer Ederer for the Lisbon Council, a Brussels-based think tank that examines the challenges facing Europe. His index naturally includes formal education, but it also tries to factor in things like the role of parenting and on-the-job training, which are simply ignored by traditional measures of human capital, such as the number of years adults have spent in education.

Equally, while education is important to developing human capital, it also has a much wider role in instilling social values. If we become slaves to the logic that "more education leads to more human capital leads to more growth", we risk losing sight of this wider picture. We will also risk creating education systems that are configured so closely to meeting the needs of specific industries that they have less and less space for unconventional students–the creative eccentrics, the emotionally gifted, or kids who are just not academically inclined.

So, before we launch a human capital revolution–and particularly when it comes to how we can fight the battle on the education front–we need to pause for thought. Rushing in boldly, especially in education, can be risky.

Take the New Math revolution, which swept through OECD countries in the 1960s and 1970s in response to the apparently enormous technical strengths of the Soviet Union, as exemplified by the Sputnik launch in 1957. Worried by the success of their Cold War enemy, the West moved to raise standards in science and maths through a series of reforms to curricula and teaching methods. The OECD played a role in helping to formulate these changes.

New Math was part of this. It encouraged students–and this writer was one of them–to think about mathematical structures and processes, rather than simply trying to solve problems. Or, as the American satirist Tom Lehrer sang–not inaccurately–"the important thing is to understand what you're doing rather than to get the right answer."

The problem was that very few people did know what they were doing. Parents–and surely many teachers–were bewildered by the new concepts, while secondary schools didn't always take account of the fact that students coming up from primary schools had been exposed to a whole new way of thinking about mathematics. So while today many children of my generation can still talk knowledgeably about "set theory", we may be hard pressed to multiply one double-digit number by another.

Are we better equipped today to avoid repeating the errors of the New Math era? For one thing, we have access to far more high-quality statistical data, such as from the OECD's PISA programme, to give us insights into what works in education and what doesn't. Unfortunately, policymakers don't always take the time to go behind the numbers to consider the different social, economic and educational contexts of performance that PISA highlights.

Finland is now a "poster child" for schools, but it is matched by other systems, such as in Hong Kong, China.

For an example, look at Finland. Youngsters there regularly come first in world surveys of student ability, and even weaker students and those from disadvantaged backgrounds do well by international standards. As a result, Finland is now a "poster child" for how to run schools. But what is sometimes overlooked is that Finland's scores are virtually matched by some other school systems, such as that of Hong Kong, China. Yet the systems are quite different.

In Finland, teachers hold Master's degrees; in Hong Kong, China, only about half of primary teachers have degrees. In Finland, private tuition outside school hours is rare; in Hong Kong, China, the faces of "superstar" teachers from extra tutorial schools grin out from billboards across the city; in Finland, classes are small and teachers are given autonomy to develop their own programmes; in Hong Kong, China, classes are large, and teachers are told what to do by principals, schools inspectors and the education department. None of these crucial differences, however, are apparent in the headline performance scores of students from these two places.

Context is crucial in other ways. While countries should borrow ideas from each other, they must remember that education systems are not merely the products of the latest thinking, but reflect the deeply embedded cultures of very different societies. For instance, Finland leans towards social egalitarianism while Hong Kong, China is influenced by the traditions of hierarchical Confucianism; the former doesn't stream students, the latter does. Without wanting to be overly reductionist, it is not hard to believe that all this might be connected.

If the links between societies and cultures and education are complex, the same is true for the relationship between education and human capital formation. Take those attractive targets that politicians like to trot out at election time: Doubling the number of places in universities will certainly win votes, but its ability to raise economic growth will be compromised if all those new graduates find themselves locked out of labour markets by rigid practices or are prevented from starting up their own businesses by the unavailability of capital, red tape or tight controls on business start-ups. Without the right economic and social policies, these bright graduates will contribute to growth all right, but in the countries they emigrate to.

Equally, we need to ensure that everybody–and not just those working in the high-human-capital, high-value-added end of the economy–gets a chance to develop their human capital. This is especially true for those who effectively stopped forming their economically useful human capital sometime in their teens. In our new knowledge-based economies, more and more people are at risk of finding themselves thrown to the margins both of economic and social life because they lack training and retraining and, because of this, the ability and confidence to handle new realities. Unless we find ways to develop the abilities of all our fellow citizens, our societies may find themselves facing more than just a human capital revolution. ■

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They both need answers

Attracting and retaining teachers

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Lynn Olson, *Education Week*

Concerns about the supply and quality of teachers are generating new policies in many OECD countries. Here's why.

What is the most important school-related factor in student learning? The answer is teachers. The trouble is the effectiveness of individual teachers and schools varies widely. A critical issue for any country that hopes to keep its education system internationally competitive is how to recruit, retain, develop and nurture a high-quality teaching force.

In 2005, the OECD released *Teachers Matter: Attracting, Developing and Retaining Effective Teachers*, which comprehensively reviewed teacher policies in 25 countries. The report confirmed how prevalent the concern is across nations about the supply and quality of teachers. The Aspen Institute Education and Society Program, a think tank based in Washington, D.C., collaborated with the OECD to invite about two dozen leading policymakers, researchers and practitioners from eight countries–Australia, Canada, England, Japan, Singapore, Sweden, Switzerland and the US–to a seminar in Bellagio, Italy, last autumn. The task was to delve more deeply into key issues raised in the OECD study, and to explore ways to strengthen teaching policies. Each country brought its particular culture, tradition and circumstances, but the participants all shared a common interest in strengthening and restructuring the teaching profession.

Now is the time for such thinking, for as the OECD report notes, in most countries far more new teachers will enter the profession in the next five to ten years than at any time since the 1970s. That new generation of teachers, at least in the US, will look different too. The retiring cohort of teachers entered the profession in the late 1960s and early 1970s, when many women and people from ethnic minorities had limited access to other lines of work and were content to stay as classroom teachers, earning relatively modest salaries, for their entire careers.

The best and the academically brightest are more likely to leave teaching.

In contrast, in many countries the incoming generation of teachers has many more job options that probably pay more, have higher status, and provide better working conditions. Also, people no longer look at teaching as a lifelong career. In the US, 30% of new teachers leave within three years. Half are gone within five years. Ironically, studies show that the best and the academically brightest are more likely to leave. At the same time, career changers have been entering teaching from other lines of work, bringing with them heightened expectations.

The competitive labour market in the US and other countries also has heightened concerns about how to attract adequate talent into teaching. Many experts worry that individuals choosing to become teachers are generally less talented, less ambitious, less curious, less diverse demographically, and more risk-adverse than the workforce as a whole. As Stefan Wolter, the director of the Swiss Coordination Centre for Research in Education, put it, to make sure they are getting the best, countries need to consider how their teacher policies affect not only the existing teacher force, but also those with the potential to become teachers.

But that also means focusing on the conditions under which teachers work. As Christopher Spence, the director of the Hamilton-Wentworth District School Board in Ontario, Canada, noted: "Put a good teacher in a bad system, and the system wins every single time."

Starting out

Consider the case of new teachers. Even countries with rigorous teacher-preparation programmes recognise that new teachers need extensive support and learning on the job. Research documents that new teachers struggle with similar issues in their first few years in the classroom, including classroom management, dealing with differences among students, assessing student work, motivating students to learn, interacting with colleagues, and communicating with parents. To help teachers cope with these professional demands, countries such as Switzerland, Japan and the US are creating **special induction programmes.**

In Japan, for example, the first year of teaching includes about 90 days of intensive, subsidised training, in and out of school. Each new teacher is assigned an experienced teacher to act as a mentor or guide, and both parties are given reduced teaching responsibilities so they can work together effectively throughout the year. In Switzerland, almost all cantons have induction programmes that novice teachers must complete to be fully certified. For Heinz Rhyn, who directs the department of quality assurance for the Swiss Conference of Cantonal Ministers of Education, "newcomers face specific problems, and we have to help them get over these problems."

In the US, Peer Assistance and Review Programs, operated under joint agreements between unions and school districts in such cities as Cincinnati, Columbus and Toledo, Ohio, and Rochester, N.Y., are designed, in part, to identify who is likely to be an effective teacher and who is not, and to dismiss or counsel the latter before they receive tenure. New teachers also use this scheme to decide whether teaching really is the right job for them.

Developing a **working environment** that is more conducive to teaching and learning, for example, by matching assignments to skills, and providing a sense of leadership, vocation and teamwork, is also key to increasing teachers' effectiveness and keeping them in the classroom. In Ontario, Canada's Literacy and Numeracy Strategy is a major initiative designed to have all students read, write, do math, and comprehend at a high level by age 12. Reducing primary class sizes is part of the strategy, and providing intensive training in how to teach literacy and numeracy effectively is also provided. The initiative has also increased the number of "lead teachers" in the primary grades, who share best practices with other teachers in their schools.

The common element in all countries is the recognition that good teaching is an intellectual enterprise, in which teachers draw upon knowledge and evidence to solve problems particular to their school. Retaining and supporting effective teachers means making them part of that knowledge-generating enterprise, not just passive recipients of prescriptions handed down from above.

But policies also have to address issues of **teacher pay** and the potential for career growth. According to the OECD report, in the last 20 years, in most countries teachers' salaries have declined relative to other occupations that require similar levels of education and training. Moreover, in 70% of the countries studied, the report found that it takes at least 20 years for lower secondary teachers to move from the bottom to the top of the salary scale, which is long compared with many other professions nowadays.

More states and districts in the US are experimenting with paying teachers based on their performance.

To help make teaching a more attractive career choice, many countries are creating new roles and responsibilities for teachers that reward their expertise without taking them out of the classroom. Creating a stronger connection between teachers' contributions and the pay and other rewards they receive will be central in redesigning teaching for the next generation.

Among the countries participating in the Aspen-OECD seminar, Singapore has arguably the most developed career system for teachers, with a performance-based pay plan in place for about a decade. More recently, the government has created three career tracks for teachers: a leadership track, a specialist track and a teaching track. The "teaching track" caters to the majority of educators, who want to focus on achieving excellence in the classroom. Within that track, teachers can move up from a "senior teacher" to a "master teacher" with their pay rising to reflect both their expertise and additional responsibilities. The track approach helps the school keep the really good teachers in the classroom, says Wong Siew Hoong, the director of schools for the ministry of education.

The US also has promising ingredients for the development of a full-fledged teacher career and compensation system. Nearly 50,000 US teachers have earned recognition from the National Board for Professional Teaching Standards, a voluntary assessment programme that certifies accomplished teachers who have met professional standards. A growing number of states and districts are also experimenting with paying teachers based on their performance.

In today's knowledge-based global economy, schools and teaching must evolve. While no country can simply transpose the teaching policies of another, "there is tremendous learning to be gained from looking at more comprehensive international examples and cutting-edge states and districts," argues Arlene Ackerman, a professor at Teachers College, Columbia University.

There is much work to be done, and the examples in the Aspen-OECD work suggest ways the profession might change to help teachers become more effective in the classroom and make teaching a truly competitive career choice. ■

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Aid alert

Development aid from OECD countries fell in 2006. What are the prospects for 2007?

After several years of encouraging increases, development aid slumped in 2006. The 22 member countries of the OECD Development Assistance Committee (DAC), the world's major donors, provided US$103.9 billion in aid in 2006, down by 5.1% from 2005, in constant 2005 dollars.

This figure includes $19.2 billion of debt relief, notably exceptional relief to Iraq and Nigeria. Excluding debt relief, other forms of aid fell by 1.8%.

On the plus side, 16 of the DAC countries met the 2006 targets for official development assistance (ODA) that they set at the 2002 Monterrey Conference on Financing for Development. However, aid to sub-Saharan Africa, excluding debt relief, was static in 2006, leaving a challenge to meet the Gleneagles G8 summit commitment to double aid to Africa by 2010.

Total ODA from DAC members came to just 0.3% of countries' combined gross national income (GNI), well short of the 0.7% UN recommendation. It was the first fall in real terms since 1997.

The fall was expected, however. ODA was exceptionally high at $106.8 billion in 2005 due to large Paris Club debt relief operations for Iraq and Nigeria. In 2006, net debt relief came to a little over $3 billion for Iraq and nearly $11 billion for Nigeria, but this aspect is now expected to taper off.

The only countries to reach or exceed the UN target of 0.7% of GNI were Sweden, Luxembourg, Norway, the Netherlands and Denmark. The largest donor in 2006 was the US, followed by the UK, Japan, France and Germany.

Net ODA by the US in 2006 was $22.7 billion, down 20% in real terms, and causing the ODA/GNI ratio to slip 0.17%. The US forgave all its outstanding debt with Iraq in 2005. However, net ODA flows to the least developed countries were at their highest level ever. US disbursements to sub-Saharan Africa at $5.6 billion reached a record high, again because of debt relief of $1.4 billion, but also reflecting increased disbursements for education, HIV/AIDS and malaria programmes.

Japan's net ODA was $11.6 billion, representing 0.25% of its GNI. The 9.6% fall in real terms since 2005 was partly due to exceptionally large expenditures in 2005, including relief for the Indian Ocean tsunami and debt relief to Iraq. Still, despite a slight rise in 2005, Japan's net ODA has been declining since 2000.

The combined ODA of the 15 DAC-EU members rose by 2.7% in real terms, from $55.7 billion in 2005 to $58.9 billion in 2006, and the increase was mainly due to debt relief grants.

The biggest aid rise in the EU was Ireland (up 33.7%), Spain (20.3%), Sweden (15%) and the UK (13.1%). Aid provided by the European Commission rose by 5.7% to $10.2 billion. The highest fall was in Italy (-30%), though this reflected the timing of its contributions to international organisations. Other notable falls were in Finland (-9.9%) and Austria (-6.0%).

Significant patterns for other DAC countries were Australia (up 22.8%), primarily due to debt relief, Canada (-9.2%), due to the decline in debt relief and a fall-back after the tsunami disaster in 2005; and Switzerland (-7%), again reflecting the lower volume of debt relief.

The headline numbers for net ODA from other countries outside DAC were as follows: Chinese Taipei (3.6%); Czech Republic (6.4%), due to increased contributions to the EC; Iceland (55.3%), due to a general scaling up of Iceland's contribution to development co-operation; and Korea (-44.6%), due to lower contributions to the World Bank and regional development banks.

Net ODA from the US in 2006 reached higher levels than expected but for budgetary reasons.

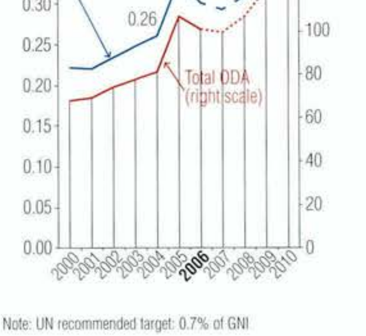
At the European Council in Barcelona in 2002, the then EU-15 had committed to collectively reach an ODA level of 0.39% of their combined GNI, with a minimum country target of 0.33% by 2006. The combined result was 0.43%, ahead of target. Moreover, most members reached their country target too.

ODA is expected to fall back slightly again in 2007 as debt relief for Nigeria and Iraq tapers off further. Various commitments point to a rise from 2008. ■

For more data, visit: www.oecd.org/dac

Aid slippage

DAC members' net ODA 2000-2006
OECD-DAC simulations to 2010



Note: UN recommended target: 0.7% of GNI

Source: OECD

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Food for innovative thought

Jessica DeWalt, International Food Policy Research Institute (IFPRI)

New initiative will offer a fresh take on agricultural investment.

More than two billion people in developing countries rely on agriculture to meet their basic food and income needs. While the development community has long recognised the importance of investments in agriculture to fuel economic growth, the strategies employed have been erratic, sometimes misdirected, and often ineffective. As a result, benefits that poor people might have derived from a vibrant agricultural sector have not materialised.

Of late, however, the poverty and hunger focus of the UN's Millennium Development Goals, plus the high profile accorded to agriculture by the African Union's New Partnership for Africa's Development (a region in which the overwhelming share of the rural population depends on agriculture for both sustenance and livelihoods), and bold new initiatives such as the Alliance for a Green Revolution in Africa, backed by the Bill and Melinda Gates Foundation (BMGF) and the Rockefeller Foundation, are all putting the spotlight on the need for greater and more sustained investment in enhancing agriculture's role in hunger and poverty alleviation. But capitalising on this renewed interest raises some challenging questions: To provide significant benefits to the poor, how much should be invested in agriculture? Where and in what? It is these questions that the new research initiative, HarvestChoice, seeks to answer.

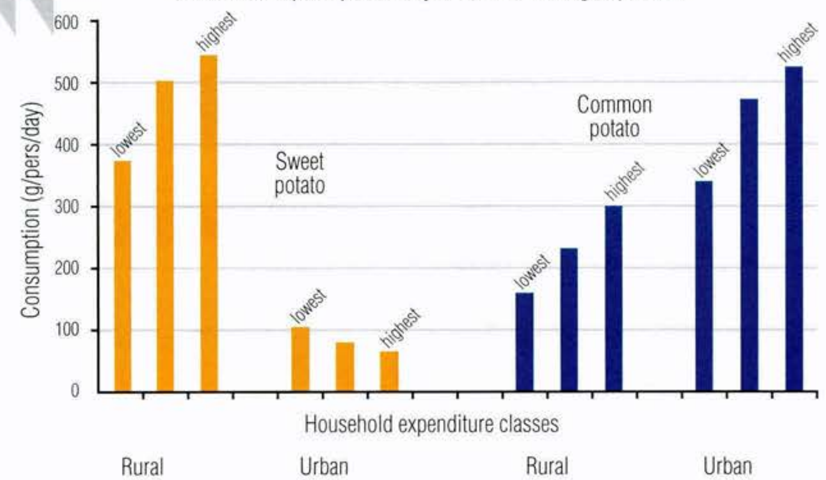
Supported by the BMGF, HarvestChoice is a three-year project to generate new knowledge on investment strategies for enhancing the productivity of the cropping systems on which poor people most depend. Ultimately it will provide the poor with a greater share of the overall benefits from agricultural growth. As a complement to this effort, an international roundtable, also sponsored by the BMGF, was convened in Minneapolis on 4-5 April 2007, to assess the potential role of improved information systems in helping to transform crop production. The results of this dialogue, to be published in summer 2007, will feed into the design and implementation of HarvestChoice, and articulate a broader agenda for greater investment in critical knowledge and information systems.

HarvestChoice researchers will use an extensive set of analytical tools, including household surveys, detailed poverty and production system maps, crop growth simulation, and multi-market and multi-sector economic models. These tools will be applied to pinpointing the most promising investments for raising cropping system productivity and delivering improved outcomes for the poor.

"By better understanding the degree to which different types of households—rich, poor, urban, rural, female-headed, male-headed—engage in the production and consumption of different types of agricultural products," notes Stanley Wood, senior research fellow with the International Food Policy Research Institute (IFPRI) and one of two HarvestChoice principal investigators, "we will be better able to target investments in raising productivity in ways that deliver the most benefits to poorer households." Our graph, from a national household survey in Rwanda, illustrates the kind of data used and some of the issues to be taken into account.

Sweet potatoes in Rwanda

Food consumption patterns by socio-economic group, 2000



Note: In rural areas, the highest income-expenditure groups consume more sweet potatoes than the lowest do, but in urban areas, it is the reverse.

Source: IFPRI analysis of Rwanda Household Expenditure Survey (2000)

The sweet potato is an important staple food in the diet of rural populations, who increase their per capita consumption at higher income levels. In urban areas, however, consumption is much lower and falls as incomes rise. With other higher-value crops, such as the common potato, urban consumption is higher than in rural areas and increases with incomes. In other words, improving sweet potatoes (e.g., the significant efforts currently being made to improve the vitamin A content of the sweet potato as a means of improving health status) will generate a much larger share of benefits for poor rural consumers, but those benefits can be expected to decline over time with increasing urbanisation and rising incomes. The evaluation framework attempts to value and compare such shifting patterns of economic benefits to different socio-economic groups.

As in the sweet potato example, researchers will also compare the geographic location of poor people with the location of major crop production systems within focus countries. The goal here is to better gauge where specific technologies, developed nationally or in similar locales in other countries, might be of most relevance to local communities.

To learn how to make efficient and effective use of new investments, HarvestChoice researchers will undertake economic assessments of potential crop production, consumption, prices and trade, and will study the likely hunger and income consequences of investing in a range of technology options used to address specific productivity conditions of poor farmers. What, for example, will be the relative payoffs to the poor of improved drought or weed tolerance in maize, stronger mosaic virus resistance of cassava, or better storage quality of potatoes? Researchers will also assess the potential benefits of alleviating constraints that currently undercut crop output and quality, such as drought, declining soil fertility, and pest and disease problems. Their findings will help investors and managers draw up a balance sheet of the likely benefits to poor people from different components of their research and development programmes. And because the evaluations will be made using disaggregated information, researchers and investors will be able to make more informed decisions about specific circumstances on the ground and avoid the pitfall of over-generalisation that has plagued agricultural development to date.

While the geographic focus of HarvestChoice is sub-Saharan Africa and south Asia, research findings are likely to be relevant to other regions, such as Latin America, where trade and technology spillovers may also be significant.

"Despite the buzz surrounding a myriad of new agricultural technologies," said Philip Pardey, director of InSTePP* and the other principal investigator for HarvestChoice, "the lag between investing in innovation and reaping the rewards is still substantial." By generating strategic information as a basis for future investments, HarvestChoice will open the way for policymakers, researchers and investors to further advance agricultural technology in developing countries. Poor people will then be able to reap the benefits of development aid. After all, as Stanley Wood puts it, "educated investments yield both higher economic returns and better lives." ■

* HarvestChoice is implemented jointly by IFPRI and the Center for International Science and Technology Practice and Policy (InSTePP) at the University of Minnesota and is supported by a distinguished, independent advisory panel. Implementation partners include the Food and Agriculture Organization of the United Nations, several centres of the Consultative Group on International Agricultural Research, plus universities, and individuals from public and private sector institutions.

References

- For more information about HarvestChoice, see: www.harvestchoice.org
- For OECD work on agriculture in emerging and transition economies, see: www.oecd.org/agr/ete/

Bring back the Yellow

China's clean choice

Jun Ma, Institute of Public and Environmental Affairs, Beijing and **Sheri Xiaoyi Liao**, Global Village of Beijing

The Green Choice Initiative has been launched.

On 22 March, World Water Day 2007, 21 Chinese environmental NGOs came together to launch a new "Green Choice Initiative". Aimed at China's vast consumer population, the hope is to encourage all individuals to consider a company's environmental performance in guiding their daily purchasing decisions. Unfortunately, too many brand name companies pollute illegally. By carefully scrutinising the goods produced by these illegally polluting enterprises, consumers can harness their own individual purchasing power to exert pressure on them to reform their harmful environmental practices.

World Water Day was a fitting date to launch such a proposal. China currently faces grave water pollution problems. High volumes of wastewater discharged by polluting enterprises play no small role in threatening our public health and damaging our already scarce water resources. Some enterprises are in such breach of legal wastewater standards as to cause serious pollution accidents and water supply stoppages. Yet such guilty parties face no repercussions for their reprehensible actions and instead continue to enjoy high business success. This sends companies a distorted market signal. Without so much as a slap on the wrist, companies continue to lower their environmental standards. Without any financial penalties, polluting enterprises enjoy market share gains, while slacking on their environmental protection responsibilities. When we consumers do not take a stand against polluters, the companies win and we lose. In the end, the pollution that results from production harms the quality of life and public welfare.

Companies that adopt genuine green supply-chain management and ensure clean processes from production to market will win the confidence and support of environmentally-minded consumers.

Today the conditions for a successful Green Choice Initiative in China are primed and ready. First of all, consumers face a multitude of well-known brands in the marketplace, which gives them the power of choice. Second, there are the efforts of the environmental protection arm of the government to disclose information based on government and official state media reports. In fact, the Institute of Public and Environmental Affairs has compiled a list of nearly 5,000 businesses in violation of pollution discharge standards. Most of these violators are small and medium-sized local firms, but the list also includes far too many large-scale industrial players and multinational corporations.

We hope that consumers will carefully consider the list of polluting companies and be mindful of particular brands. The next time consumers are confronted with a choice, we hope they will be able to identify the goods from violating firms and make a Green Choice, thereby sending a clear market signal to companies. Consumers can exert tangible market pressure, and ultimately force polluters to contemplate the damaging effect of illegal pollution on their brand reputation and market share. The power of consumer choices will eventually force companies to comply with discharge standards and become better stewards of the environment.

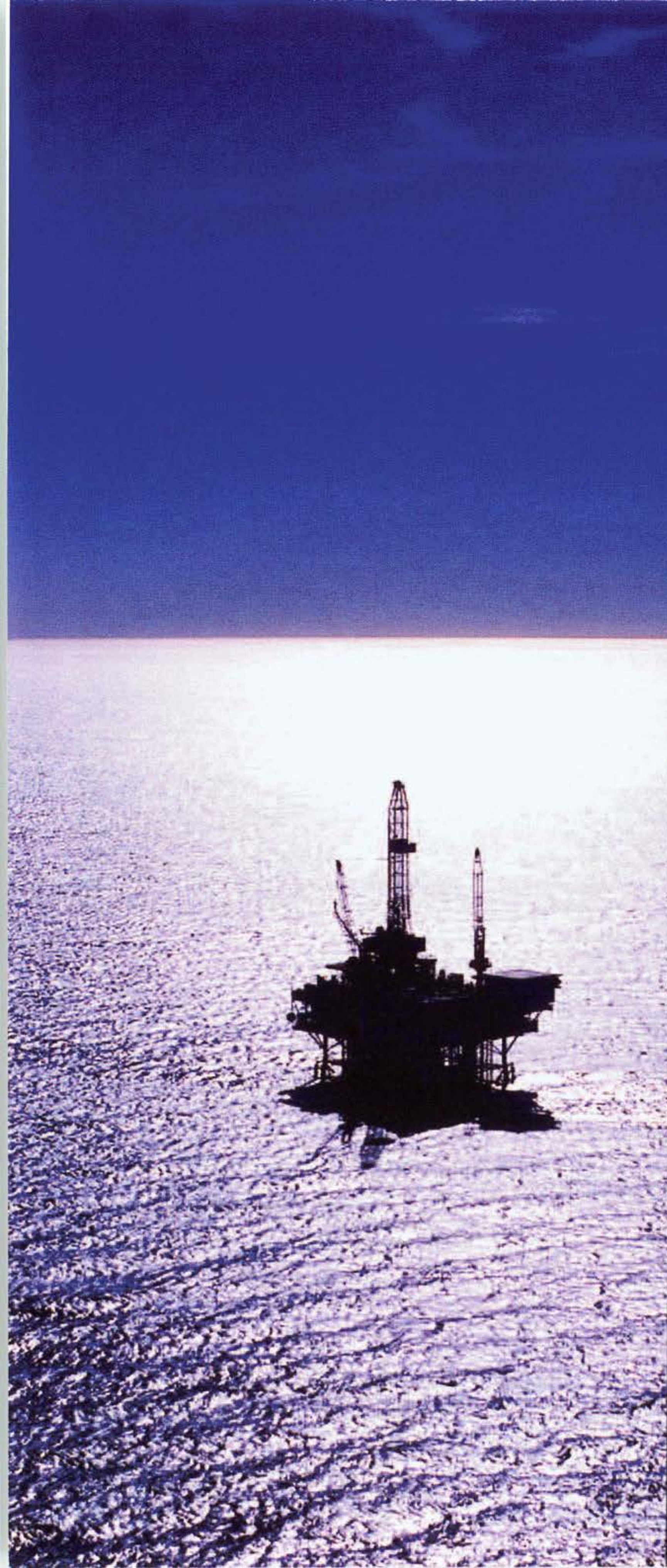
At the same time, we challenge large retailers and major industries to take the initiative of strengthening their supply-chain management by comparing their supplier lists with the list of polluters and then by conducting strict audits on suppliers that violate standards. Companies that adopt genuine green supply-chain management and ensure clean processes from production to market will win the confidence and support of environmentally-minded consumers.

We know that businesses contribute significantly to the country's economic prosperity and social development, but we also firmly believe that this does not give them the right to pass on the environmental costs of their manufacturing processes to the rest of society. No one has the right to violate environmental laws and regulations–neither a small family-owned business nor a large multinational company. We hope that lawbreaking enterprises will fully bend to public pressure and discontinue illegal discharges, and strive to improve their environmental behaviour. Only then will lawbreaking enterprises regain the public's confidence and trust. Our group of 21 Chinese NGOs is actively seeking to secure resources and will make every possible effort to assist those enterprises that want our advice and expertise to improve their environmental performance.

We are optimistic that Green Choice will exert real market pressure, and so help environmental protection agencies at every level of government in managing pollution more effectively. We are confident that Green Choice will help to build a fair and equitable marketplace–one in which environmentally sound firms remain competitive and financially successful. We are hopeful that Green Choice will be a catalyst for waste reduction and energy savings among commercial enterprises and will galvanize a positive new direction for our nation's economic development. We have faith that Green Choice will help the public defend and protect its right to a healthy environment, once again restoring the country's jade rivers and blue skies. ■

The Green Choice Initiative was launched by the following NGOs: Global Village Beijing; Green Earth Volunteers; Friends of Nature; Huai River Guards; Green Island; Center for Legal Assistance to Pollution Victims; Beijing Promotion Association for Sustainable Development; Nature Keeper; Environmental and Public Interests Association; Global Environmental Institute; Wild China; Xinjiang Conservation Funds; Hebei Voice of Green; Tianjin Friends of Green; Chongqing Green Volunteer Federation; Yunnan Green Watershed; Gansu Green Camel Bell; Hubei Green Hanjiang; Nanjing Green Stone Environmental Action Network; Wenzhou Green Eyes; Institute of Public and Environmental Affairs.

Visit the Institute of Public and Environmental Affairs: www.ipe.org.cn



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ENERGÍA SUPERIOR

Japan's foreign policy and global energy security

Mr Aso

Taro Aso, Minister for Foreign Affairs, Japan

Today, energy security is an indispensable subject even in general discussions about foreign policy. Securing needed energy resources is one of the prerequisites for ensuring sustainable economic growth. Dealing with the current rapid growth in demand for energy in Asia is a high priority on many agendas. As for Japan's perspective on energy security co-operation, I would like to touch upon the following three points: security of supply, energy and the environment, and the importance in energy response of the International Energy Agency (IEA), a sister organisation of the OECD.

Security of supply

Security of supply is vital for consumer countries such as Japan, while security of demand is vital for producer countries. What are the challenges that confront us?

Firstly, one challenge is geopolitical uncertainty in the Middle East and other energy producing regions. According to the IEA's 2006 statistics, about 30% of world oil production is concentrated in the Middle East, and the region's global share of oil production is expected to increase in the years to 2030. Achieving stability in the Middle East is, therefore, one of the most important foreign policy objectives for many countries in the world. As I said in a major policy speech entitled "Middle East Policy As I See It"*, delivered last February, Japan has maintained close dialogue with the countries in the region in an effort to promote stability.

Secondly, resource nationalism has resurged throughout the world as a result of the high prices of oil and other minerals. Resource nationalism in producing countries can entail the risk of delayed investment upstream and, consequently, undermine the security of supply. I believe that creating free and open markets, based on dialogue and co-operation between producers and consumers, will provide an attractive alternative to resource nationalism.

Thirdly, to mitigate the risks to supply security, we need further international co-operation for enhancing the security and diversity of energy transportation routes. The straits of Malacca, Singapore and Hormuz are particularly important. I hope that the IEA will be able to play a constructive role in sharing data and information on energy transport and related infrastructure for these vital transportation routes.

Energy and environment

Energy security and environmental protection have to be compatible. The urgent task for the energy side is to link energy efficiency improvements with reductions of greenhouse gas emissions. This is the task not only for developed countries but also for developing countries, which also consume energy resources and emit greenhouse gases. In this regard, the OECD's work on adapting to climate change, particularly in relation to development aid, is relevant. We should elaborate data quantifying the effects of improved energy efficiency on the reduction of greenhouse gas emissions. I believe that the IEA will be able to accelerate its studies on this subject. Without serious study of this vital question, I am concerned that any achievements in terms of conservation might not be properly evaluated in the context of climate change.

We also have to work closely with China and India in order to assist their efforts to improve energy efficiency. According to IEA estimates in 2006, both China and India will almost double their energy consumption by 2030. Japan has taken advantage of its low energy intensity, which is approximately one-ninth that of either China or India, and, together with like-minded OECD countries, has provided financial and technical co-operation, as well as technology transfers based on commercial transactions, to assist the efforts of these fast-growing Asian consumer countries. In addition to such co-operation, during the second East Asia Summit in the Philippines on 15 January this year, Prime Minister Shinzo Abe announced the Cooperation Initiatives for Clean Energy and Sustainable Growth for East Asia. These initiatives include the provision of energy-related official development assistance worth US$2 billion between 2007 and 2009, as well as technical co-operation for the promotion of energy conservation, biomass energy and clean coal technology.

Importance of the IEA

As uncertain and vulnerable elements in the oil market increase, the role of the IEA in ensuring global energy security takes on new importance. The Agency's **emergency response mechanism** mobilises the 27 member countries to collectively release supplies from their oil stockpile in the event of unexpected supply disruptions. You may recall the recent successful cases of hurricanes Katrina and Rita. However, there have been many cases where the mere existence of the IEA's mechanism gave sufficient comfort to market sentiment, without the mechanism actually having to be activated. One of the recent cases illustrating this was the disruption of the oil supply between Russia and Belarus.

An important task ahead of us is identifying how to work closely with non-member emerging economies like China and India in enhancing their oil stockpiling system. In December 2006, China hosted a Five Party Energy Ministers Meeting in Beijing. And China is now planning to gradually augment its oil stockpile. Our bilateral and multilateral co-operation through the IEA engaging with the emerging economies is now deeper and wider than ever before.

As to **G8 collaboration,** since the Gleneagles summit in 2005, energy security has been discussed in depth among G8 leaders. Last year, President Vladimir Putin also chose global energy security as one of the main agenda items at the G8 St Petersburg summit. Indeed one of the documents adopted at that summit, "Plan of Action for Global Energy Security", defined comprehensive principles for energy security. The IEA can play an instrumental role in ensuring the steadfast implementation of both the Gleneagles and St. Petersburg agreements. At Gleneagles, leaders also asked the IEA for a study on climate change and energy efficiency to be presented at the 2008 Japan summit. If we can translate those principles and agreements into reality, with the collaboration of China and India, global energy security will be further strengthened. I am looking forward to continuing to work with all my IEA and OECD colleagues, as well as our key partner countries.■

References
*Mr Aso's speech, "Middle East Policy As I See It", is available at
www.mofa.go.jp/region/middle_e/address0702.html
See www.iea.org

Innovation, globalisation and the environment

Brendan Gillespie and **Xavier Leflaive,** OECD Environment Directorate

Globalisation is exerting pressure on the environment, but it may also provide solutions. Could green be turned to gold?

Climate change, melting polar ice, rising sea-levels, unpredictable weather patterns, drought, rampant urbanisation, demographic explosions: the list goes on. Many people blame globalisation for these ills, and it is true to say that increased economic pressures inevitably leave a bigger footprint on our planet.

Consider the expert opinion. The Millennium Ecosystem Assessment, an authoritative scientific report prepared for the UN secretary-general, concluded that over the last 50 years, humans have changed the world's ecosystems more rapidly and extensively than at any comparable period in history. While gains in well-being are beyond question, the main message is that we are spending the planet's natural capital in unsustainable ways.

However, recoiling from globalisation will not solve environmental problems. Rather, thanks in part to the innovation, trade and investment that it spurs, as well as new markets, globalisation can promote more efficient use of natural resources and reduce pollution to levels below what they would otherwise have been.

In any case, recoiling is not viable because individual countries cannot set rules independently of what is happening elsewhere. The re-emergence of highly populated economic powers, particularly in Asia and Latin America, and the hope that Africa will soon grow too, means that environmental pressures will rise, not fall. In developing countries that rely on natural resources, the pressures will be particularly intense. Environmental pressures generated in the emerging economies are often commensurate with those of OECD countries as a fraction of GDP, but are much lower in per capita terms. Convergence with OECD patterns of production and consumption is not a realistic option, but it would also be unrealistic to expect developing countries to change first; richer countries must take a lead.

We have common but differentiated responsibilities: OECD countries generated most of the global environmental problems we now face, and have the means to address them. On the other hand, these efforts will not be effective if we do not engage the major emerging economies like China and India. The International Energy Agency estimates that China will overtake the US as the major source of greenhouse gases by the end of the decade. Yet China currently does not have any obligations to reduce its emissions of greenhouse gases. This must change.

In February 2007, the UN's International Panel on Climate Change, which brings together leading experts from around the world, stated "with confidence" that rising global temperatures since the mid-

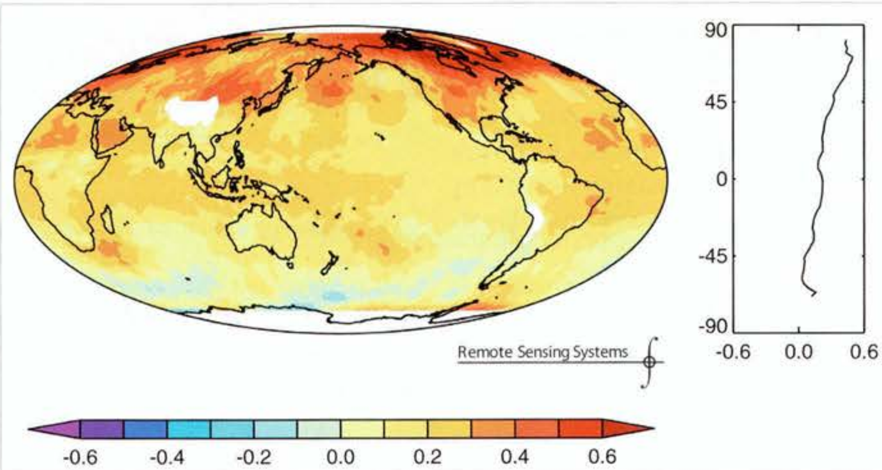
20th century "are very likely due to greenhouse gases" from human activity. They suggest that there is a relatively small window of opportunity in which to take decisive measures. The much-quoted Stern Report in 2006 argued that the benefits of taking such action would justify the costs. Innovation is essential if that opportunity is to be grasped.

A major obstacle to international action is the potential impact on competitiveness. But while environmental requirements may impose costs, their potential to stimulate innovation is often ignored. Innovation is not just about new devices, it is also about ideas and fast thinking, including among governments. With our policies and institutions (and individuals in general) we must deliver on what we have already promised. But beyond that, to encourage real transformations in markets and behaviour, government policy has much to do.

The encouraging news for governments is that the customers–their voters–want change! They no longer see the environment as a threat to economic performance, but increasingly as an opportunity. And that means markets. Economic globalisation, and the increased demand for natural resources it generates, is stimulating a new revolution, where eco-efficiency is the leitmotiv. Biofuels are coming on-stream–though their eco-benefits are still a matter of debate–wind farms are mushrooming, less-polluting "hybrid" cars are being marketed, eco-friendly houses are being built and new measures are being introduced to manage waste. As with other revolutions, those who harness the business opportunities first will gain competitive advantages over others. Notice that it is the major OECD players, from Japan to Germany via the state of California, that are already taking a lead on the business side.

In Germany, it has been estimated that the market for environmentally-related technology accounted for 4% of turnover for all sectors of trade and industry in 2005, and that this would grow to 16% in 2030.

Winds of change



Source: NOAA

The reddish colours indicate that almost the entire atmosphere of the earth is warming.

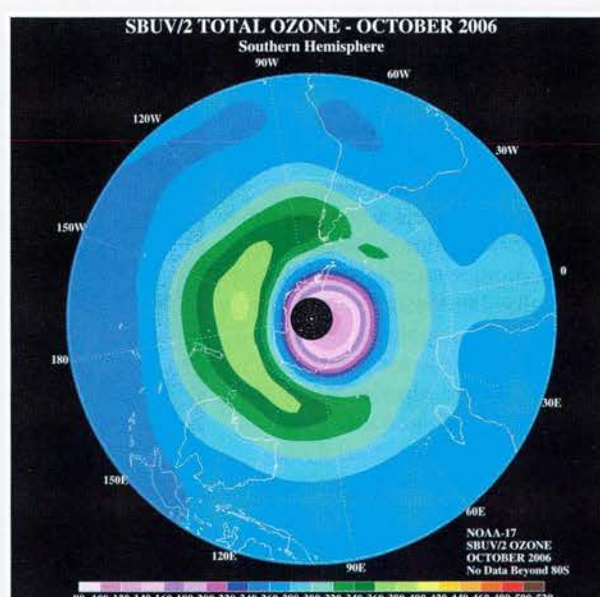
spacecraft, provide continuous, global measurements needed to establish where warming is occurring and, if so, at what rate. Accurate measurements of global climate change can also be used to check on the credibility of computer models that predict the future climate under various greenhouse gas emission scenarios. This information is needed by government leaders around the world to help them take decisions on prevention and mitigation of climate change.

The map shows the global distribution of lower atmospheric temperature trends since 1979–in units of degrees Centigrade per decade–as observed by the Microwave Sounding Unit (MSU) on NOAA's Polar Operational Environmental Satellites (POES). The reddish colours indicate that almost the entire atmosphere of the earth is warming. The snake-like graph to the right of the map sketches the average latitudinal variation of the heating. The observed rate–a few tenths of a degree Centigrade per decade–is consistent with climate model predictions.

Drought is another devastating environmentally-influenced phenomenon. Of the 2.8 billion people who suffered from weather-related disasters during the period 1967-1991, 50% were those affected by drought. Real-time monitoring of droughts provides governments and agricultural interests with data needed to mitigate their effects. NOAA uses the Advanced Very High Resolution Radiometer (AVHRR) on its POES satellites to monitor areas of stressed vegetation conditions, which are indicative of drought. The NOAA provides images of vegetation health over a week, with reddish areas of stressed vegetation clearly evident.

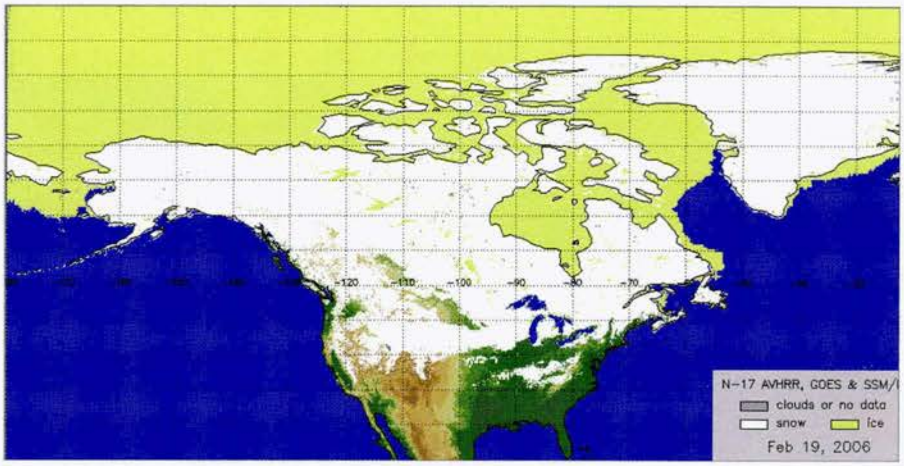
Ozone watch

The Antarctic ozone hole, as measured by NOAA's Solar Backscatter Ultraviolet (SBUV) instrument, during October 2006. Normal values of ozone are close to 300 Dobson Units, as shown by the blue areas at the tropical latitudes of the southern hemisphere. Over Antarctica, values are as low as 100 to 120 Dobson units. That means more than half of the Antarctic ozone is destroyed each spring as a result of the presence of the remaining human-produced CFCs that entered the atmosphere prior to the 1980s. ■



Source: NOAA

Snow and ice cover influences ground, air and sea transportation, affects water supplies and weather patterns, and forms a vital part of the climatic record. Weather stations measure snow amounts, over the continents, but it is difficult to map the snow cover over broad regions because of the observation gaps between stations on the ground. This observational handicap worsens for lake and sea ice. NOAA has developed a snow/ice monitoring system that uses images from both polar and geostationary satellites. The map shows snow (white) and ice (yellow) over North America and adjacent seas for 19 February, 2006. Daily images such as this provide detailed tracking of areas of snowfall/sea ice formation and melting as they occur.



Source: NOAA

There are other applications where NOAA's environmental satellites have proven their worth, for instance, in monitoring the still-fragile ozone layer whose recovery we rely on as protection against ultra-violet rays, or in checking the bleaching and destruction of coral reefs, which are unique and rich ecosystems that support vast arrays of animal and plant species. Together with the operational environmental satellites of other space-faring countries, our satellites form the space component of the World Meteorological Organization's World Weather Watch. They supplement the earth-observing research satellites, such as those of NASA and the European Space Agency. Together they contribute to a worldwide effort to build a Global Earth Observation System of Systems (GEOSS) over the next 10 years.

The goals are several: reducing loss of life and property from natural and human-induced disasters; understanding environmental factors affecting human health and well-being; improving management of energy resources; understanding, assessing, predicting, mitigating and adapting to climate variability and change; improving water resource management through better understanding of the water cycle; improving weather information, forecasting and warning; improving the management and protection of terrestrial, coastal and marine ecosystems; supporting sustainable agriculture and combating desertification; and understanding, monitoring and conserving biodiversity.

These are challenges the NOAA is committed to help resolve. ■

Visit: www.nesdis.noaa.gov

Note: NOAA was a participant in the OECD's Futures Project "The Commercialisation of Space and The Development of Space Infrastructure: The Role of Public and Private Actors" (2003-2005). The policy recommendations were published in the spring of 2005 as the OECD publication, *Space 2030: Tackling Society's Challenges*. It allows decision-makers to take stock of the opportunities (notably the identification of 14 promising applications*) and challenges facing the space sector, particularly civilian applications, with a view to reaching a better understanding of the issues at stake and the solutions that could be applied.

In 2005, the participants suggested that the International Futures Programme of the OECD should host a new platform for international dialogue on the social and economic aspects of space infrastructure and space-based applications: the OECD Global Forum on Space Economics. This Space Forum complements the existing institutional architecture. NOAA, as well as other agencies involved in space-based applications, such as the European Space Agency (ESA), British National Space Centre (BNSC), Canadian Space Agency (CSA), Centre National d'Etudes Spatiales (CNES), Italian Space Agency (ISA), the Norwegian Space Center (NSC), and the United States Geological Survey (USGS) are founding members of the OECD Global Forum on Space Economics.

***Potentially promising applications**

1. Distance education; telemedicine.
2. E-commerce.
3. Entertainment.
4. Location-based consumer services.
5. Location-based services: traffic management.
6. Land use: precision farming.
7. Land use: urban planning.
8. Land use: exploration (e.g. oil).
9. Disaster prevention and management.
10. Environmental applications and meteorology.
11. Monitoring of the application of treaties, standards and policies.
12. Space tourism/adventure (suborbital and orbital).
13. In-orbit servicing.
14. Power relay satellites.

Contact: Pierre-Alain Schieb, Head of Futures Projects, pierre-alain.schieb@oecd.org, or Anita Gibson, anita.gibson@oecd.org

Sustainable facts

Interview with Brice Lalonde Chair of the Round Table on Sustainable Development

©David Sterboul/OECD

"You cannot manage the environment without a strong economy." The remark seems oddly appropriate, sitting in an office overlooking the expansive woodland of the Bois de Boulogne, a "green lung" in the wealthy if congested west of Paris. Its author is Brice Lalonde, former French environment minister and lifelong environmentalist, who in February 2007 took up his new post as chair of the Round Table on Sustainable Development, housed at the OECD headquarters. He replaces New Zealander Simon Upton. Twice a green candidate for the French presidency, Mr Lalonde has a wise twinkle in his eye: "Greens often consider business as enemies of the environment. Well, I disagree."

The Round Table on Sustainable Development was established in 1998 to allow high-level decision-makers from government, NGOs, corporations and institutions to generate and test new ideas and build consensus for action on sustainable development challenges. Its meetings follow Chatham House rules of discretion to allow frank exchanges of views; it's a formula that pleases, since more than 100 ministers, more than 60 senior private sector executives and numerous governmental and non-governmental international organisations have attended the Round Table. Mr Lalonde describes the Round Table as one of the first intelligent high-level meetings where participants can actually agree on facts. "It is remarkable to see ministers happily there, discussing or just listening and learning."

Why the OECD? Mr Lalonde looks surprised: "The OECD has played an important role in environmental issues. This fact is not publicised enough!"

Politics and negotiation are important in the new job. "Business is ready to change, but governments have to do more to help them, by providing clear signals, long-term predictability, good regulations and frameworks. The carbon market is an example: it is ready to go. But governments are cautious, they want more assurances, on jobs, investment, and to be sure the private sector can deliver."

Governments must create standards–for industry, buildings, cars. And the market may not be enough: "I think that people are ready to take the right environmental action, they just haven't the tools to do so. This is where the OECD can help." Mr Lalonde refers to the solid reputation of the organisation, its statistics, best corporate practices, its work on chemicals, taxation, its legal instruments, and even the polluter-pays principle which, "if I recall, was first worked on at the OECD." The economic tools to deal with the environment are invaluable, he says: "less dramatic than some measures, but much more measurable. Which is what it takes, as we need methodology, goals, a timetable. And for that, we need the facts."

And because the OECD is taken seriously, it can help governments establish standards on energy efficiency, and put a price on carbon. And they can push technology. "Everyone talks about energy, but we have found that public spending for all R&D on energy is far less right now than it was 20 years ago!"

The OECD also believes in a well-regulated economy; it offers an array of solutions, including appropriate state intervention, Mr Lalonde continues. When the OECD emerged after the Second World War, its mission became "economic reform to open the way to peace", unlike "protectionism which brought us to conflict." The OECD is a good home for the Round Table, he believes, "for it is part of the mission to show that rich countries care about development, about equity, migration."

Mr Lalonde feels encouraged. "Nothing has developed as quickly as environmental awareness. When I was young we didn't know climate change existed. The green movement brought these issues to the public's attention, and then there followed the Rio Earth Summit in 1992 with its two conventions, on climate change and biodiversity." The environment is now part of the mainstream, he says: "You won't find an economist who would disagree that the natural environment is part of capital."

Since Rio there have been new developments, though: "India and China were not playing such a big role." Without globalisation, he says, "the world would not know about Sudan, about Africa's plight, about the life of women under fundamentalist regimes, and so on."

The Round Table on Sustainable Development meets two to three times a year, with a dozen or more ministers at each meeting. There are other smaller meetings, too. He goes on: "We invite the emerging countries. For the conference on illegal logging, we had ministers from Ghana, China and Indonesia." But then "OECD countries will have to get their houses in order too, before they ask emerging economies to clean up their acts".

Mr Lalonde is excited by renewable technology, but is also realistic. "The world is going to stay with fossil fuels for quite some time, including coal. This means we must adapt coal-fired power plants with carbon capture and sequestration. This may not be available for another 10 years."

So, how does the new chair define sustainable development? "To me it refers to how the economy should enable us to live better lives while improving our environment and our societies, from now on and within a globalised world." ■ *AB*

For more information, visit: www.oecd.org/sd-roundtable

Open innovation

Even the sharpest leading edge companies can no longer survive on their own R&D efforts, but must open up their networks and collaborate with others: this was the main message from an expert meeting held at the OECD on 27 April called "Globalisation and Open Innovation".

Take Philips. Previously its Dutch headquarters was a fairly foreboding, secret place where ideas were honed in labs and protected, before being rolled out to the market. Today, it is an open campus with thousands of researchers whose job is to network, exchange ideas and above all, innovate.

"Innovation is a buzzword now, even if not everyone is sure what it means", one participant said. It is not just about widgets or technology, but about policies and reactive thinking to create new opportunities. It is also about knowing how to deal with downsides of new products and services.

Kicking off a two-year programme, workshop participants heard how innovation was itself changing. The OECD plans to launch its own innovation strategy this year, which will include a checklist of best practices designed to help governments push the envelope on innovation.

Different countries have different levels of R&D. While many could boost theirs, merely pumping up R&D can hide the finer print, about education, business environments, innovation culture, infrastructure, and so on. Also, while governments know that holding on to intellectual capital is important, innovating also means knowing where to let go. Compartmentalising researchers is certainly a barrier: "in the US they get more value per dollar because engineers in the defence area also work in the civil area," one European research engineer points out. Open-ended collaboration means cross-fertilisation and innovation across the board.

The hope is that countries that feel they lack some basic elements, including a culture for innovation, will be able to flourish in this new open-ended, collaborative global atmosphere provided they get some of the frameworks right, participants believe. That includes developing nations. Economic opportunities should become more evenly spread as a result.■ *RJC*

For more information, contact Mario.Cervantes@oecd.org and Koen.DeBacker@oecd.org

Aid effectiveness

How can civil society help to make development aid more effective? Some 30 civil society organisation (CSO) representatives met to discuss this question on 7 March, at the OECD headquarters, with the Working Party on Aid Effectiveness, an international partnership of donors and recipient countries, hosted by the OECD's Development Assistance Committee (DAC).

The meeting kicked off with a dialogue on how to work together in implementing the Paris Declaration on Aid Effectiveness, signed in March 2005 by nearly 100 donor and partner countries. "Transparency and access to information were key ingredients enabling relevant CSO interventions in the 7 March meeting," wrote representatives of the CSOs in a letter to the Working Party after the meeting. It was the first in a series of dialogues that will take place in the run-up to the High Level Forum on Aid Effectiveness in Accra, Ghana in September 2008.

For more information, contact Meggan.Dissly@oecd.org

New ambassadors

11 April 2007-Paul-Henri Lapointe is the new ambassador for Canada, replacing Jocelyne Bourgon.

11 April 2007-Mats Ringborg takes up his post as Swedish Ambassador to the OECD. He replaces Gun-Britt Andersson.

Recent speeches by Angel Gurría

For a complete list of speeches and statements, including those in French and other languages, go to www.oecd.org/speeches

Reply to an article in *The Economist* of 20 April 2007
Statement by the secretary-general
20 April 2007

The global economy and financial markets—outlook, risks, and policy responses
18 April 2007
Statement to the International Monetary and Financial Committee, Washington, D.C., US.

The OECD Economic Survey of the Slovak Republic
5 April 2007
Presentation of the survey, Bratislava, Slovakia.

Regional economic integration and globalisation
4 April 2007
Speech to the Regional Economic Conference on Euro-Zone Challenges and Opportunities,
Bratislava, Slovakia.

What policies for globalising cities?: Rethinking the urban policy agenda
29 March 2007
Opening remarks to the OECD International Conference on "What Policies for Globalising Cities?",
Madrid.

Innovation in rural areas: An exception or a must?
22 March 2007
Keynote speech to the OECD Conference on Rural Development,
Centro Cultural San Francisco, Cáceres, Spain.

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

14 **African Economic Outlook 2007** published.

14-15 **OECD Forum 2007:** Innovation, Growth and Equity.

14-15 The **International Energy Agency (IEA) meets at ministerial level**, on Bridging the Energy Gap.

15-16 The **OECD Council meets at ministerial level**, chaired by Spain, on Innovation: Advancing the OECD Agenda for Growth and Equity.

18-19 **G8 finance ministers** meet. Schwielowsee, Germany.

24 **OECD Economic Outlook No. 81** published.

30 **G8 foreign affairs ministers** meet. Potsdam, Germany.

30-31 Ministerial forum of the **European Council of Ministers of Transport** (ECMT), on Reducing Congestion and Other Barriers to Efficient Transport. Sofia, Bulgaria.

31/5-1/6 **OECD Senior Budget Officials** meet. Istanbul, Turkey.

JUNE

4-5 **New OECD International Tax Initiatives: Looking Ahead**, organised by the OECD's Centre for Tax Policy and Administration, the US Council of International Business, and the Business and Industry Advisory Committee to the OECD (BIAC). Washington, D.C.

5-6 **Access to Water and Sanitation,** international forum on African Perspectives, organised by the Development Centre and the African Development Bank, at the French finance ministry.

6-8 **G8 Summit.** Heiligendamm, Germany.

16-18 **Tidewater** annual development conference. Brussels, Belgium.

18-22 **Corporate Responsibility,** roundtable organised by the Directorate for Financial and Fiscal Affairs, as part of the meeting of the National Contact Points for the OECD Guidelines for Multinational Enterprises.

19 **OECD Employment Outlook** published.

20-21 **High-level forum on Medicines for Neglected and Emerging Infectious Diseases,** organised by the Directorate for Science, Technology and Industry, and the Development Co-operation Directorate. Noordwijk-aan-Zee, the Netherlands.

21-22 **Sustainable Manufacturing Production and Competitiveness,** conference organised by the Directorate for Science, Technology and Industry, and the Environment Directorate. Copenhagen, Denmark.

26 **Reinventing Government: Building Trust in Government**, global forum organised by the Directorate for Public Governance and Territorial Development. Vienna, Austria.

25-29 **Financial Action Task Force on Money Laundering** (FATF) meets.

27-30 **Measuring and Fostering the Progress of Societies**, second OECD world forum on Statistics, Knowledge and Policy, organised by the OECD Statistics Directorate in co-operation with the European Commission, the United Nations and the World Bank. Istanbul, Turkey.

JULY

9-11 **International Migration and Development**, global forum organised by the Belgium government, with participation of the OECD. Brussels, Belgium.

AUGUST

12-18 **World Water Week.** Stockholm, Sweden.

31/8-1/9 **Housing, Housing Finance and Monetary Policy,** annual economic symposium organised by the Federal Reserve Bank of Wyoming. Jackson Hole, Wyoming, USA.

Frankie.org by StiK #19

Latin dragon

The Visible Hand of China in Latin America

Latin America is looking towards China and Asia–and China and Asia are looking right back. This is a major shift. For the first time in its history, Latin America can benefit from not one but three major engines of world growth. Until the 1980s, the US was Latin America's major trade partner. In the 1990s, trade in the region profited from the European investment boom. Now the emergence of Asia, and in particular China, has the potential to act as a third engine of growth, as it seeks resources and new markets.

This means both opportunities as well as challenges, says *The Visible Hand of China in Latin America*, recently published by the OECD Development Centre. "Angel or Devil?" asks one chapter, addressing China's trade impact on Latin America's emerging markets. Another looks at how Latin America is "competing with the dragon", comparing Latin American and Chinese exports to the US market. It also discusses China's impact on foreign direct investment in these countries.

Chinese growth has most certainly been favourable to Latin America, if only because China is such a powerful source of world economic growth. The country's expanded markets and better export prices, especially for primary goods, are an important source of revenue for Latin America. Yet China is forcing Latin America rapidly to restructure some of its productive sectors in order to defend its position in international markets.

China and Latin America have intensively developed their trade relations over the past decade. Trade volume rose from $2 billion in the early 1990s to $15 billion in 2001.

While foreign direct investment to Latin America has been tumbling during the early 2000s, FDI towards China soared. For Europe and the US, China's "visible hand in Latin America" is also a wake-up call. ■

ISBN: 9789264028388

Taxi burden

Improving Access to Taxis
(De)Regulation of the Taxi Industry

There are roughly 45 million disabled people living in Europe, but how do they and elderly people like to get around? They would call a taxi. The combination of the personal service that taxis offer, their wide availability and door-to-door operations enable them to respond particularly well to this population's special travel needs. Although several countries have made progress in improving the accessibility of taxi services, much remains to be done.

Recommendations on taxi vehicle design take a two-tiered approach: Type One for wheelchair accessible taxis, Type Two for standard accessible taxis. The recommendations are intended to be phased in within a reasonable time period–not necessarily to be implemented immediately. The study points out that good vehicle design alone is not sufficient to ensure accessibility, and explores other factors, including infrastructure and driver training, that, together with design, will lead to the development of a taxi service that is genuinely fully accessible.

Improving Access to Taxis, a study by the European Conference of Ministers of Transport (ECMT) and the International Road Transport Union, examines the design and manufacture of taxi vehicles, practical measures to increase the production and use of accessible taxis, plus working on infrastructure and driver training.

Of course, for taxis to really work for the elderly and everyone else, you have to be able to find one. Another book, *(De)Regulation of the Taxi Industry*, drawn from an ECMT round table, examines the case for liberalising the taxi industry across Europe. Experiences with deregulating the taxi industry have had mixed results, though liberalising the market has generally led to massive new entry, leading to shorter waiting times. In fact, the case could be made that this, as well as economies of density, warrant subsidies for entry. If you are reading this in a cab line, you will probably agree. ■

Improving Access to Taxis, ISBN: 9789282101032
(De)Regulation of the Taxi Industry, ISBN: 9789282101124

Grey matters

Understanding the Brain, Vol. 2: The Birth of a Learning Science

Are you a left-brain or a right-brain person? Do you learn while you sleep? Do men and boys have different brains than women and girls? Popular misconceptions such as these pepper ads, magazine covers and conversations. What is fiction and what is fact, and where did they originate? *Understanding the Brain: The Birth of a Learning Science*, the second and final report from a project launched by the OECD in 1999, challenges these neuromyths, and explores how brain science can be applied to learning science and the classroom.

"Learning Sciences and Brain Research", the project undertaken by the OECD's Centre for Educational Research and Innovation (CERI), was created to encourage collaboration between the learning sciences and brain research on one hand, and researchers and policymakers on the other. The first phase was summed up in 2002 in *Understanding the Brain: Towards a New Learning Science* and described what is most recently known about the brain, what is likely to be revealed shortly and what may ultimately be known. The second phase has focused on precisely how the brain works, how people learn best, and what educational provision can best help them.

Yes, there are differences between the male and female brain. The male brain is larger, for instance, while the relevant areas of the brain used in language are more strongly activated in females. Yet since no study to date has shown gender-specific processes involved in building neuronal networks during learning, *Understanding the Brain* says it would be meaningless to style teaching to gender. Instead of an exclusively cognitive, performance-driven approach, the authors suggest the need for holistic methods which recognise the close interplay between the emotional and the cognitive, the analytical and the creative.

The report also examines language, literacy and numeracy, discusses the impact of environment–says that "the brain is a sculpture carved by experience"–and emphasises the importance of understanding adolescence as a period of "high horsepower and poor steering".

Despite the powerful learning capacity of youth, the authors insist that education is not only for the young. Lifelong learning to keep the grey cells alive and crackling will be increasingly important as our societies age. In 2001 it was estimated that there were about 18 million people worldwide with Alzheimer's disease, and the figure was set to nearly double by 2025 to 34 million. While the brain does decline with age and in general the more we stop using it, lifelong learning can keep the grey cells active and healthy. The more there are opportunities for elderly people to continue learning and use their knowledge, the better will be the outcome in fighting the likes of neurodegenerative diseases.

For more on brain science and CERI: www.oecd.org/edu/ceri
CERI forum: www.teach-the-brain.org/ ■

ISBN: 9789264029125

Innovation reports

OECD Reviews of Innovation Policy: Switzerland

Was the dot.com boom a fortuitous circumstance, or the fruit of brilliant minds? Was it the hardware or the software that spurred the IT revolution? And to what extent did government efforts to free up markets and provide enabling business and innovation environments play a role?

Millions of gigabits have been devoted to questions like these. Nowadays, it is widely accepted that successful economies are built with ideas as much as with capital and labour, which is why governments need to encourage higher education, research and development (R&D) and small business creation. Not all countries are starting from the same point and part of the trouble for each is knowing where to begin.

A new series of OECD reports should help, and the first five are finished or soon to be published, starting with Switzerland. With a strong services sector and an orientation towards high quality, it is the home of strong R&D institutions, both in business and public research. However, the OECD nonetheless recommends that Switzerland negotiate and relax market barriers with the EU, make it easier for entrepreneurs to open small businesses, and use immigration policy to improve the supply of workers in science and technology. ■

ISBN: 9789264029743
Forthcoming in 2007: reviews of innovation policy for Luxembourg, Chile, New Zealand and South Africa. For more details, see: www.oecd.org/sti/innovation

New OECD publications

Now available on www.sourceoecd.org

OECD'S groundbreaking *Factbook* provides a wealth of data across the full range of topics covered by the OECD. Spreadsheet files of all the tables and graphs are available via *StatLinks*, URLs that link to spreadsheets via the Internet. The featured topic for 2007 is migration. The online version is freely available on SourceOECD, and the print version includes *StatLinks*.

OECD WARNS against reform complacency in *Economic Policy Reforms: Going for Growth*. With a number of the world's most advanced countries finally shaking off the sluggish economic growth of recent years, now is the time to step up, not slacken, the pace of reform. Now in its third year, this publication highlights the weaknesses that are holding back OECD economies from raising material living standards and suggests five priority areas for action for each of the OECD's 30 countries and the EU area.

Publications listed on these pages are available at subscribing institutions via our online service, **SourceOECD**, at the URL listed. If your institution is not a subscriber, ask your librarian to subscribe today! Listed publications are also available via our **Online Bookshop** at www.oecd.org/bookshop

GENERAL ECONOMICS

OECD Factbook 2007: Economic, Environmental and Social Statistics
29-Mar-2007, 285 pages; €42 $53 £30 ¥5 900
SourceOECD: www.SourceOECD.org/factbook
Online Bookshop: www.oecd.org/bookshop?926402946X
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OECD Economic Surveys: Belgium
15-Mar-2007, 138 pages; €49 $66 £35 ¥6 800
SourceOECD: www.SourceOECD.org/9789264031869
Online Bookshop:
www.oecd.org/bookshop?9789264031869

OECD Economic Surveys: Sweden
23-Feb-2007, 146 pages; €49 $66 £35 ¥6 800
SourceOECD: www.SourceOECD.org/9789264031975
Online Bookshop:
www.oecd.org/bookshop?9789264031975

OECD Economic Surveys: Korea
10-Apr-2007, 164 pages; €49 $66 £35 ¥6 800
SourceOECD: www.SourceOECD.org/9789264027367
Online Bookshop:
www.oecd.org/bookshop?9789264027367

Economic Policy Reforms: Going for Growth, 2007
15-Feb-2007, 183 pages; €60 $75 £41 ¥7 800
SourceOECD: www.SourceOECD.org/18132715
Online Bookshop: www.SourceOECD.org/18132715
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AGRICULTURE

The Implementation Costs of Agricultural Policies
30-Mar-2007, 191 pages; €45 $60 £32 ¥6 200
SourceOECD: www.SourceOECD.org/9789264030916
Online Bookshop:
www.oecd.org/bookshop?9789264030916

Agricultural Policies in Non-OECD Countries: Monitoring and Evaluation, 2007
Agricultural support data for Brazil, Bulgaria, China, India, Romania, Russia, South Africa and Ukraine.
24-May-2007, 150 pages; €40 $54 £28 ¥5 500
SourceOECD: www.SourceOECD/9789264031210
Online Bookshop:
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DEVELOPMENT

Financing Development: Aid and Beyond
30-Mar-2007, 152 pages; €40 $52 £28 ¥5 500
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OECD Journal on Development: Volume 7 Issue 2
Includes DAC peer reviews for Germany and Portugal.
05-Feb-2007, 200 pages;
Subscription: €197 $248 £136 ¥26 000
SourceOECD: www.SourceOECD.org/18168124
Online Bookshop: www.oecd.org/bookshop?18168124

Development Co-operation, 2006 Efforts and Policies of the Members of the Development Assistance Committee
16-Mar-2007, 238 pages;
€78 $99 £54 ¥10 400
SourceOECD:
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OECD Journal on Development: Volume 7 Issue 3
Includes DAC peer reviews for the UK and the Netherlands.
13-Mar-2007, 116 pages;
Subscription: €197 $248 £136 ¥26 000
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Online Bookshop: www.oecd.org/bookshop?18168124

EDUCATION

Higher Education Management and Policy, Volume 18 Issue 3
This issue includes articles on education funding and economic growth, diversity, revenue generation and organisational change, the entrepreneurial university, e-learning, education students, and quality assurance.
25-Jan-2007, 165 pages;
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EMPLOYMENT AND LABOUR MARKETS

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Energy Policies of IEA Countries: Hungary
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SourceOECD: www.SourceOECD.org/9789264109957
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Energy Policies of IEA Countries: United Kingdom
07-Mar-2007, 192 pages; €75 $101 £54 ¥10 400
SourceOECD: www.SourceOECD.org/9789264109773
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Energy Security and Climate Policy: Assessing Interactions
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Natural Gas Market Review 2007: Security in a Globalising Market to 2015
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OECD Environmental Performance Reviews: Switzerland
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FINANCE AND INVESTMENT/ INSURANCE AND PENSIONS

OECD Journal of Competition Law and Policy: Volume 8 Issue 3
This issue provides articles on competition law in Mexico and competition in the health professions and in hospital services.
1-Mar-2007, 251 pages;
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OECD Journal on Budgeting: Volume 6 Issue 2
Special issue on the Collaborative Africa Budget Reform Initiative
24-Jan-2007, 164 pages;
Subscription: €211 $265 £145 ¥27 900
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Online Bookshop: www.oecd.org/bookshop?16087143

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€24 $32 £17 ¥3 300
SourceOECD:
www.SourceOECD.org/9789264031784
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NUCLEAR ENERGY

Innovation in Nuclear Energy Technology
02-Mar-2007, 118 pages; €45 $60 £32 ¥6 200
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Engineered Barrier Systems (EBS) in the Safety Case: The Role of Modelling
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Online Bookshop: www.oecd.org/bookshop?9789264006645

SCIENCE AND INFORMATION TECHNOLOGY

OECD Communications Outlook, 2007
18-May-2007, 310 pages; €80 $108 £57 ¥11 100
SourceOECD: www.SourceOECD.org/9789264006812
Online Bookshop: www.oecd.org/bookshop?9789264006812

SOCIAL ISSUES

Society at a Glance: OECD Social Indicators, 2006
19-Feb-2007, 115 pages; €24 $32 £17 ¥3 300
SourceOECD: www.SourceOECD.org/9789264028180
Online Bookshop: www.oecd.org/bookshop?9789264028180
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Human Capital: How What You Know Shapes Your Life
20-Feb-2007, 148 pages; €15 $19 £10 ¥2 000
SourceOECD: www.SourceOECD.org/9789264029088
Online Bookshop: www.oecd.org/bookshop?9789264029088
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Taxing Wages 2005-2006
7-Mar-2007, 472 pages; €120 $162 £86 ¥16 600
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TRANSPORT

Improving Access to Taxis
12-Mar-2007, 75 pages; €35 $47 £25 ¥4 800
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Transport Infrastructure Charges and Capacity Choice: Self-financing Road Maintenance and Construction
ECMT Round Table No. 135
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(De)Regulation of the Taxi Industry ECMT Round Table No. 133
15-Mar-2007, 169 pages; €50 $67 £36 ¥6 900
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Cutting Transport CO² Emissions: What Progress?
24-Jan-2007, 264 pages; €70 $94 £50 ¥9 700
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OECD Regions at a Glance, 2007
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International Development Statistics
SourceOECD: www.SourceOECD.org/16081110

International Trade by Commodity Statistics
SourceOECD: www.SourceOECD.org/16081218

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SourceOECD: www.SourceOECD.org/1608117X

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Natural Gas Market Review, 2007: Security in a Globalising Market to 2015

Regions at a Glance, 2007

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Korea: Progress in Implementing Regulatory Reform
OECD Territorial Review of the Randstad, Netherlands
Sweden: Achieving Results for Sustained Growth

Focus on innovation
HIGHLIGHTS

OECD Science, Technology and Industry Outlook, 2006
A comprehensive review of key trends in science, technology and innovation policy, and an examination of recent policy developments in OECD countries.
4-Dec-2006, 252 pages; €80 $108 £57 ¥11 100
SourceOECD: www.SourceOECD.org/9789264028487
Online Bookshop: www.oecd.org/bookshop?9789264028487

OECD Reviews of Innovation Policy: Switzerland
The first of a series of comprehensive assessments of countries' innovation systems, focusing on the role of government and providing a series of recommendations.
18-Dec-2006, 151 pages; €35 $47 £25 ¥4 800
SourceOECD: www.SourceOECD.org/9789264029743
Online Bookshop: www.oecd.org/bookshop?9789264029743

INNOVATION POLICY

Women in Scientific Careers: Unleashing the Potential
1-Dec-2006, 228 pages; €45 $60 £32 ¥6 200
SourceOECD: www.SourceOECD.org/9789264025370
Online Bookshop: www.oecd.org/bookshop?9789264025370

Government R&D Funding and Company Behaviour: Measuring Behavioural Additionality
Explores the emerging concept of behavioural additionality: how government funding of business R&D affects the behaviour of firms.
16-Jun-2006, 248 pages; €50 $63 £34 ¥6 900
SourceOECD: www.SourceOECD.org/9789264025844
Online Bookshop: www.oecd.org/bookshop?9789264025844

Innovation and Knowledge-Intensive Service Activities
Shows how knowledge-intensive services activities contribute to the acquisition and growth capabilities of firms and public sector organisations.
16-Mar-2006, 180 pages; €40 $50 £27 ¥5 500
SourceOECD: www.SourceOECD.org/9789264022737
Online Bookshop: www.oecd.org/bookshop?9789264022737

Innovation in Nuclear Energy Technology
An overview of the state of the art in nuclear innovation systems.
2-Mar-2007, 121 pages;
€45 $60 £32 ¥6 200
SourceOECD: www.SourceOECD.org/9789264006447
Online Bookshop: www.oecd.org/bookshop?9789264006447

Governance of Innovation Systems, Volume 1: Synthesis Report
Examines how systems of innovation governance have come under pressure and how governments can adapt their practices to achieve better policies to promote innovation.
3-Aug-2005, 120 pages;
€24 $29 £16 ¥3 200
SourceOECD: www.SourceOECD.org/9789264011021
Online Bookshop: www.oecd.org/bookshop?9789264011021

Governance of Innovation Systems, Volume 2: Case Studies in Innovation Policy
15-Dec-2005, 356 pages; €68 $85 £47 ¥9 300
SourceOECD: www.SourceOECD.org/9789264013452
Online Bookshop: www.oecd.org/bookshop?9789264013452

Governance of Innovation Systems, Volume 3: Case Studies in Cross-Sectoral Policy
12-Dec-2005, 317 pages; €68 $85 £47 ¥9 300
SourceOECD: www.SourceOECD.org/9789264035713
Online Bookshop: www.oecd.org/bookshop?9789264035713

Innovation in Pharmaceutical Biotechnology: Comparing National Innovation Systems at the Sectoral Level
11-Apr-2006, 187 pages; €45 $56 £31 ¥6 100
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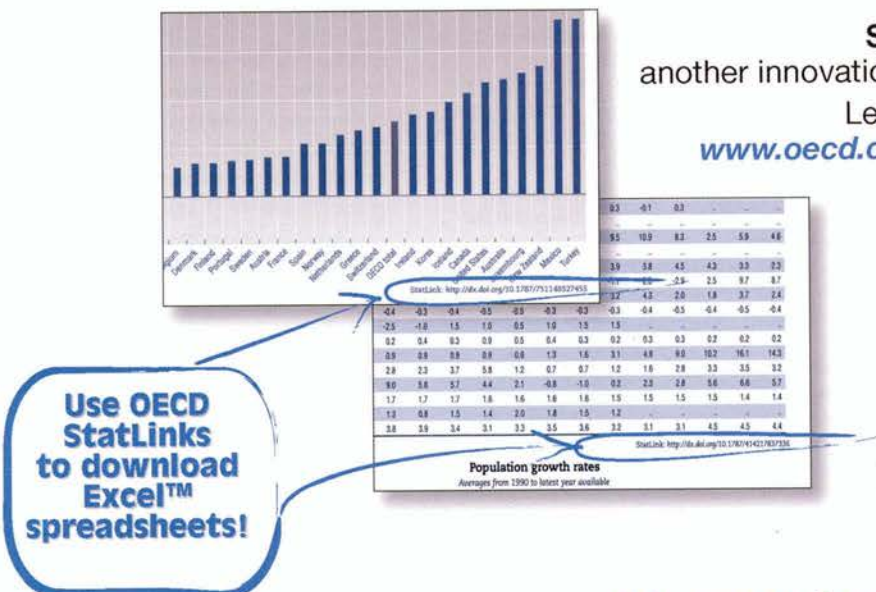

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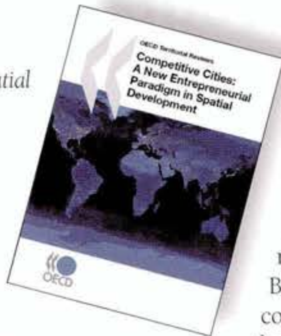
Urban business

Competitive Cities: A New Entrepreneurial Paradigm in Spatial Development



City managers are important economic players, handling as they do billion-dollar budgets and thousands of employees. In its second territorial review in a series on competitive cities, the OECD explains that in the last few decades, city managers have recognised that inner city problems could not be resolved by throwing more money at them. Rather, a pro-active, entrepreneurial approach is needed, with new industry and new jobs, "to regenerate the economic infrastructure...to attract inward investment and mobile talent".

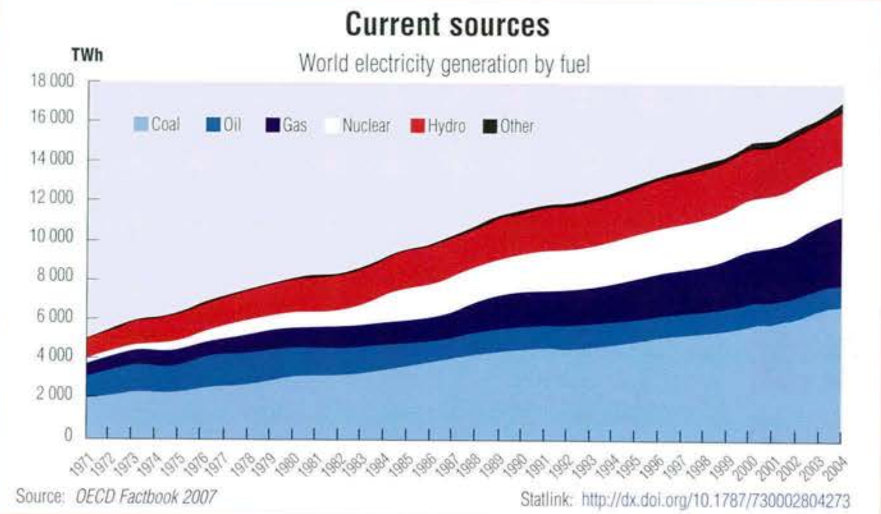
Good corporate sense is essential, says *Competitive Cities*, explaining that modern cities need to become as competitive as the most successful corporations. One reason is globalisation, with its rising immigration and environmental challenges, and the constant battle for investment, people and services.

Urban entrepreneurship underpins this model and it means promoting the city as a product in the corporate sense, developing a business plan and a marketing strategy, using a strategist and product designer. The splashiest reflection of this is the trend toward city branding, creating an innovative, dynamic urban image, often profitably accomplished through tourism, culture and sports. For instance, hosting the Olympic Games has polished and publicised Athens, Barcelona, Atlanta and Salt Lake City. Waterfronts and riverbanks have been renovated with positive economic effects in cities like Baltimore, Barcelona, London and Sydney. The thirst and competition for investment and revenue partly explains the current drive to open new casinos in the UK in a bid to emulate Las Vegas's success. Vienna's Museums Quarter has also inspired other cities, as have Paris's fashion salons. Dublin's Temple Bar shows how old neglected city centre districts could be reinvigorated with good policies.

However, the book warns of the trend toward a global "blandscape", where everywhere seems like everywhere else. A city's allure resides deeper than its concrete, and the report notes that city managers need to ensure that good business policy does not supplant good social policy. In the global market, social and environmental features are essential elements to make up a liveable, competitive city. ■

ISBN 9789264022409

Switching on



Source: *OECD Factbook 2007*
Statlink: http://dx.doi.org/10.1787/730002804273

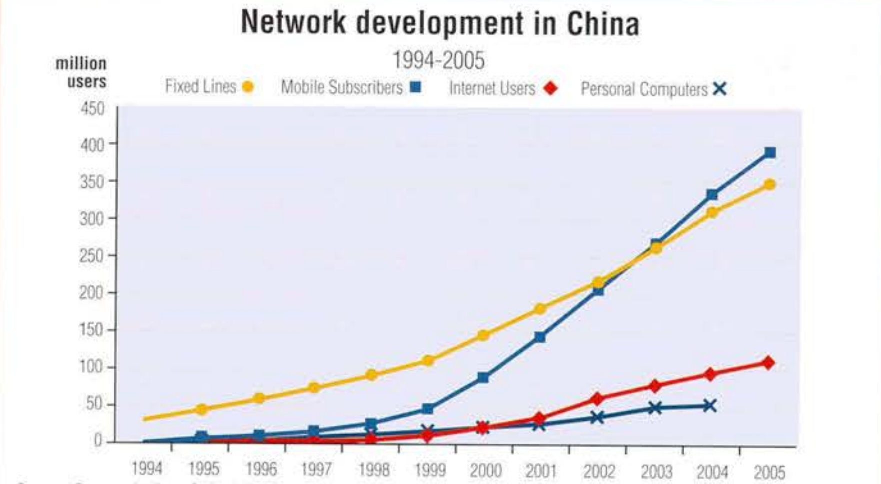
We live in an age of gadgets and gigabytes. Our mobile phones have morphed into multi-tasking life-support systems, with inbuilt cameras, calendars and messaging services. Computers are ever faster child's play, and Internet allows us 24-hour access to the rest of the world. However, all of this comes at a price: our increasing reliance upon electricity.

World electricity generation rose at an average rate of 3.7% from 1971 to 2004. This is greater than the 2.1% growth in primary supply. And it's not only our modern lifestyles that are the cause. Electrical heating in developed countries and rural electrification programmes in developing countries are also responsible for a surge in wattage.

So, where are we finding the fuel to feed our increasing quest for power? Coal still accounts for the largest number of terawatt hours (TWh) generated. There has been a significant move away from oil, which fell from being responsible for 20.9% of the world electricity generation in 1971 to just 6.7% in 2004. At the same time, nuclear energy has seen a rise from 2.1% to 15.7%, and much higher in many countries, including several of the largest industrial ones. Natural gas has also increased from 13.3% to 19.6%, while hydro-electricity's share has in fact decreased from 23.0% to 16.1% of the total.

Renewable resources represent a tiny portion of the whole. Only 2.1% of total energy production was generated from new and renewable energies (solar, wind, geothermal, biomass and waste) in 2004. ■

Dot.com evolution



Source: *Communications Outlook 2007*

China is becoming one of the world's fastest growing players on the global information and communications technology market. As well as being increasingly important exporters, the Chinese spent $52 billion on communications equipment and services in 2005. The country's Internet users have risen in number from 14,000 in 1994 to 111 million in 2005. In Russia, Internet users rose from 80,000 to 2.9 million during the same period.

Of China's 1.3 billion inhabitants, almost 400 million subscribed to a mobile phone in 2005. That may be a low proportion of the whole population, but is more than the US, where there are 213 million subscribers.

Nevertheless, China's market has some way to go to catch up with the OECD area, where mobile services now make up 40% of all telecommunication revenues.

High-speed Internet connections continue to transform the IT market. Of the OECD's 256 million Internet subscribers, 60% now have a broadband connection. The rise in broadband Internet access has led to a shift away from paying for voice to paying for data, which can be used to transport voice, with Skype being an obvious example.

The growth and development of the IT market is echoed in the trade of communication equipment, which now accounts for 2.2% of all trade in the OECD area. Future development is likely going to see closer integration of the broadcasting and telecommunications markets as more visual services are provided over digital telecommunications networks. ■

Indicators

			% change from:				level:	
			previous period	previous year			current period	same period last year
Australia	Gross domestic product	Q4 06	1.0	2.8	Current balance	Q4 06	-11.63	-10.47
	Leading indicator	Feb. 07	0.3	2.5	Unemployment rate	Feb. 07	4.60	5.20
	Consumer price index	Q4 06	-0.1	3.3	Interest rate	Feb. 07	6.37	5.61
Austria	Gross domestic product	Q4 06	0.8	3.6	Current balance	Q4 05	1.70	-0.07
	Leading indicator	Feb. 07	0.6	8.4	Unemployment rate	Feb. 07	4.50	5.00
	Consumer price index	Feb. 07	0.4	1.7	Interest rate		*	*
Belgium	Gross domestic product	Q4 06	0.6	2.9	Current balance	Q4 06	4.04	1.95
	Leading indicator	Feb. 07	-0.3	0.4	Unemployment rate	Feb. 07	7.70	8.50
	Consumer price index	Mar. 07	0.0	1.8	Interest rate		*	*
Canada	Gross domestic product	Q4 06	0.4	2.3	Current balance	Q4 06	2.62	11.10
	Leading indicator	Feb. 07	-0.2	3.6	Unemployment rate	Feb. 07	6.10	6.30
	Consumer price index	Feb. 07	0.7	2.0	Interest rate	Mar. 07	4.34	3.93
Czech Republic	Gross domestic product	Q4 06	1.4	5.8	Current balance	Q4 06	-1.37	-0.19
	Leading indicator	Feb. 07	0.8	11.1	Unemployment rate	Feb. 07	6.40	7.70
	Consumer price index	Feb. 07	0.3	1.6	Interest rate	Mar. 07	2.57	2.08
Denmark	Gross domestic product	Q4 06	0.1	3.1	Current balance	Q4 06	1.78	3.04
	Leading indicator	Feb. 07	-0.6	-1.5	Unemployment rate	Feb. 07	3.40	4.20
	Consumer price index	Feb. 07	1.1	1.9	Interest rate	Mar. 07	4.02	2.79
Finland	Gross domestic product	Q4 06	0.9	5.3	Current balance	Jan. 07	0.63	1.02
	Leading indicator	Feb. 07	-0.1	-3.5	Unemployment rate	Feb. 07	7.00	8.10
	Consumer price index	Feb. 07	0.6	2.2	Interest rate		*	*
France	Gross domestic product	Q4 06	0.7	2.5	Current balance	Jan. 07	-3.58	-2.93
	Leading indicator	Feb. 07	0.2	1.4	Unemployment rate	Feb. 07	8.80	9.70
	Consumer price index	Feb. 07	0.2	1.0	Interest rate		*	*
Germany	Gross domestic product	Q4 06	0.9	3.7	Current balance	Q4 06	56.24	29.33
	Leading indicator	Feb. 07	-0.3	2.4	Unemployment rate	Feb. 07	7.10	8.90
	Consumer price index	Feb. 07	0.4	1.6	Interest rate		*	*
Greece	Gross domestic product	Q4 06	-0.4	4.3	Current balance	Jan. 07	-2.96	-2.17
	Leading indicator	Feb. 07	0.0	0.6	Unemployment rate	Dec. 06	8.60	9.50
	Consumer price index	Feb. 07	-1.3	2.7	Interest rate		*	*
Hungary	Gross domestic product	Q4 06	0.7	3.4	Current balance	Q4 06	-1.45	-1.62
	Leading indicator	Jan. 07	1.2	10.2	Unemployment rate	Feb. 07	7.90	7.40
	Consumer price index	Feb. 07	1.2	8.8	Interest rate	Mar. 07	7.87	6.16
Iceland	Gross domestic product	Q4 06	1.9	3.1	Current balance	Q4 06	-1.26	-0.91
	Leading indicator		..	..	Unemployment rate	Feb. 07	1.10	1.40
	Consumer price index	Mar. 07	-0.3	5.9	Interest rate	Feb. 07	16.53	*
Ireland	Gross domestic product	Q4 06	0.0	5.1	Current balance	Q4 06	-1.35	-0.64
	Leading indicator	Feb. 07	0.1	9.1	Unemployment rate	Feb. 07	4.40	4.40
	Consumer price index	Feb. 07	0.8	4.8	Interest rate		*	*
Italy	Gross domestic product	Q4 06	1.1	2.8	Current balance	Oct. 06	-5.79	-1.92
	Leading indicator	Feb. 07	-0.1	-1.2	Unemployment rate	Dec. 06	6.50	7.50
	Consumer price index	Mar. 07	0.2	1.7	Interest rate		*	*
Japan	Gross domestic product	Q4 06	1.3	2.5	Current balance	Jan. 07	15.36	13.47
	Leading indicator	Feb. 07	-0.1	-1.8	Unemployment rate	Feb. 07	4.00	4.10
	Consumer price index	Feb. 07	-0.5	-0.2	Interest rate	Feb. 07	0.50	0.04
Korea	Gross domestic product	Q4 06	0.9	4.0	Current balance	Feb. 07	1.12	-0.19
	Leading indicator	Feb. 07	2.0	8.9	Unemployment rate	Feb. 07	3.20	3.60
	Consumer price index	Mar. 07	0.6	2.2	Interest rate	Feb. 07	4.95	4.25

			% change from:				level:	
			previous period	previous year			current period	same period last year
Luxembourg	Gross domestic product	Q3 06	1.0	5.4	Current balance	Q4 06	-5.47	0.79
	Leading indicator	Feb. 07	-0.6	2.3	Unemployment rate	Feb. 07	5.00	4.80
	Consumer price index	Mar. 07	0.3	2.1	Interest rate		*	*
Mexico	Gross domestic product	Q4 06	0.5	4.3	Current balance	Q4 06	0.21	-0.13
	Leading indicator	Feb. 07	-0.2	-0.1	Unemployment rate	Feb. 07	3.80	3.50
	Consumer price index	Feb. 07	0.3	4.1	Interest rate	Feb. 07	7.19	7.57
Netherlands	Gross domestic product	Q4 06	0.6	2.9	Current balance	Q4 06	14.30	8.93
	Leading indicator	Feb. 07	0.0	3.2	Unemployment rate	Feb. 07	3.50	4.20
	Consumer price index	Feb. 07	0.5	1.5	Interest rate		*	*
New Zealand	Gross domestic product	Q4 06	1.2	2.9	Current balance	Q4 06	-2.39	-2.50
	Leading indicator	Jan. 07	-0.2	2.0	Unemployment rate	Q4 06	3.70	3.60
	Consumer price index	Q4 06	-0.2	2.6	Interest rate	Mar. 07	7.88	7.49
Norway	Gross domestic product	Q4 06	0.5	3.0	Current balance	Q4 06	12.63	13.76
	Leading indicator	Feb. 07	0.3	4.7	Unemployment rate	Jan. 07	2.70	4.10
	Consumer price index	Feb. 07	0.4	0.8	Interest rate	Mar. 07	4.43	2.72
Poland	Gross domestic product	Q4 06	1.9	6.6	Current balance	Jan. 07	-0.93	-0.31
	Leading indicator	Feb. 07	1.4	10.9	Unemployment rate	Feb. 07	11.80	15.10
	Consumer price index	Feb. 07	0.3	1.9	Interest rate	Feb. 07	4.22	4.16
Portugal	Gross domestic product	Q4 06	0.5	1.7	Current balance	Jan. 07	-1.15	-1.45
	Leading indicator	Feb. 07	1.0	6.7	Unemployment rate	Feb. 07	7.50	7.70
	Consumer price index	Feb. 07	0.0	2.4	Interest rate		*	*
Slovak Republic	Gross domestic product	Q4 06	2.2	9.2	Current balance	Q4 06	-0.74	-1.72
	Leading indicator	Feb. 07	1.1	13.7	Unemployment rate	Feb. 07	11.00	14.40
	Consumer price index	Feb. 07	0.2	2.7	Interest rate	Feb. 07	7.96	6.01
Spain	Gross domestic product	Q4 06	1.2	4.0	Current balance	Dec. 06	-2.11	-6.22
	Leading indicator	Feb. 07	0.0	1.5	Unemployment rate	Feb. 07	8.60	8.80
	Consumer price index	Feb. 07	0.1	2.4	Interest rate		*	*
Sweden	Gross domestic product	Q4 06	1.2	4.9	Current balance	Q4 06	8.95	6.62
	Leading indicator	Dec. 06	0.3	6.4	Unemployment rate	Feb. 07	6.70	7.40
	Consumer price index	Feb. 07	0.5	2.0	Interest rate	Mar. 07	3.26	1.96
Switzerland	Gross domestic product	Q4 06	0.5	2.2	Current balance	Q4 06	12.90	14.21
	Leading indicator	Feb. 07	0.0	2.9	Unemployment rate	Q3 06	3.90	4.50
	Consumer price index	Mar. 07	0.1	0.2	Interest rate	Feb. 07	2.22	1.18
Turkey	Gross domestic product	Q4 06	2.1	4.9	Current balance	Q4 06	-6.13	-6.57
	Leading indicator	Dec. 06	0.2	-0.7	Unemployment rate	Nov. 06	9.60	10.60
	Consumer price index	Feb. 07	0.4	10.2	Interest rate	Dec. 06	18.78	14.00
United Kingdom	Gross domestic product	Q4 06	0.7	3.0	Current balance	Q4 06	-24.26	-17.56
	Leading indicator	Feb. 07	-0.1	-0.2	Unemployment rate	Dec. 06	5.40	5.00
	Consumer price index	Feb. 07	0.5	2.8	Interest rate	Mar. 07	5.50	4.53
United States	Gross domestic product	Q4 06	0.6	3.1	Current balance	Q4 06	-195.79	-223.11
	Leading indicator	Feb. 07	-0.3	-0.3	Unemployment rate	Feb. 07	4.50	4.80
	Consumer price index	Feb. 07	0.5	2.4	Interest rate	Mar. 07	5.30	4.88
Euro area	Gross domestic product	Q4 06	0.8	3.3	Current balance	Jan. 07	3.54	-0.66
	Leading indicator	Feb. 07	0.0	1.7	Unemployment rate	Feb. 07	7.30	8.20
	Consumer price index	Feb. 07	0.3	1.9	Interest rate	Mar. 07	3.89	2.72

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted. ***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 2007

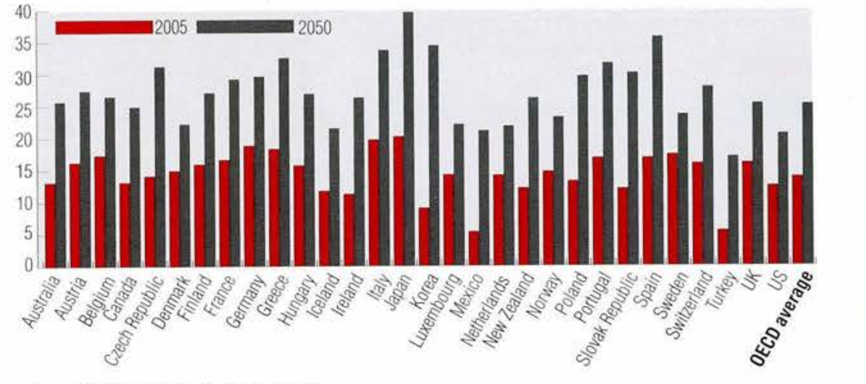
Grey new world

The OECD has only been around for half a century, but is nevertheless an ageing club. Just before it was set up in 1960, only one in twelve people was aged 65 and over on average in OECD countries. By 2005, this ratio had increased to one in seven. By 2050, the 65s and over will account for some 25% of the population in OECD countries. These projections, which are published in a working paper called "Trends in Severe Disability Among Elderly People: Assessing the Evidence in 12 OECD Countries and the Future Implications", work on assumptions that gains in life expectancy will continue in the future, and that patterns of declining fertility will not revert rapidly. Also, future international migration of younger people is assumed to have only a limited contribution to changing population trends.

However, while all OECD countries are experiencing an ageing population, there are large differences in the current and future population structures across countries. Based on current projections, a remarkable 40% of the Japanese population will be aged 65 or over in 2050. At present, one in five Japanese is in this age group. "Old Europe" is starting to reflect its billing, too, with almost 20% of Germans currently in the 65 and over bracket, rising to nearly 30% in 2050. Slightly ahead in the ageing marathon is Italy, with the Greeks greying in third. The OECD's youngest countries, including the US but also Iceland, Mexico, the Netherlands and Turkey, will only reach the current ageing of the "oldest" countries by 2030. ■

Ageing populations

Ages 65+ in OECD countries, 2005, 2050



Source: OECD Health Working Paper No. 26

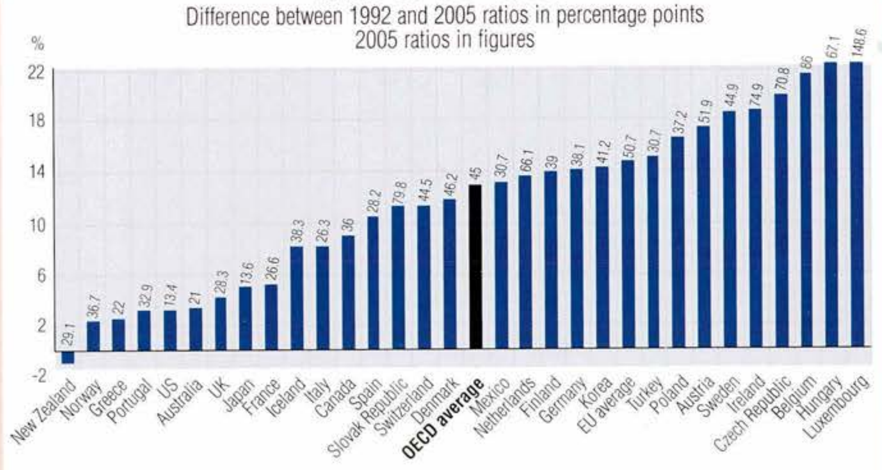
"Trends in Severe Disability Among Elderly People: Assessing the Evidence in 12 OECD Countries and the Future Implications", OECD Health Working Paper No. 26, available at www.oecd.org/health

Trading up

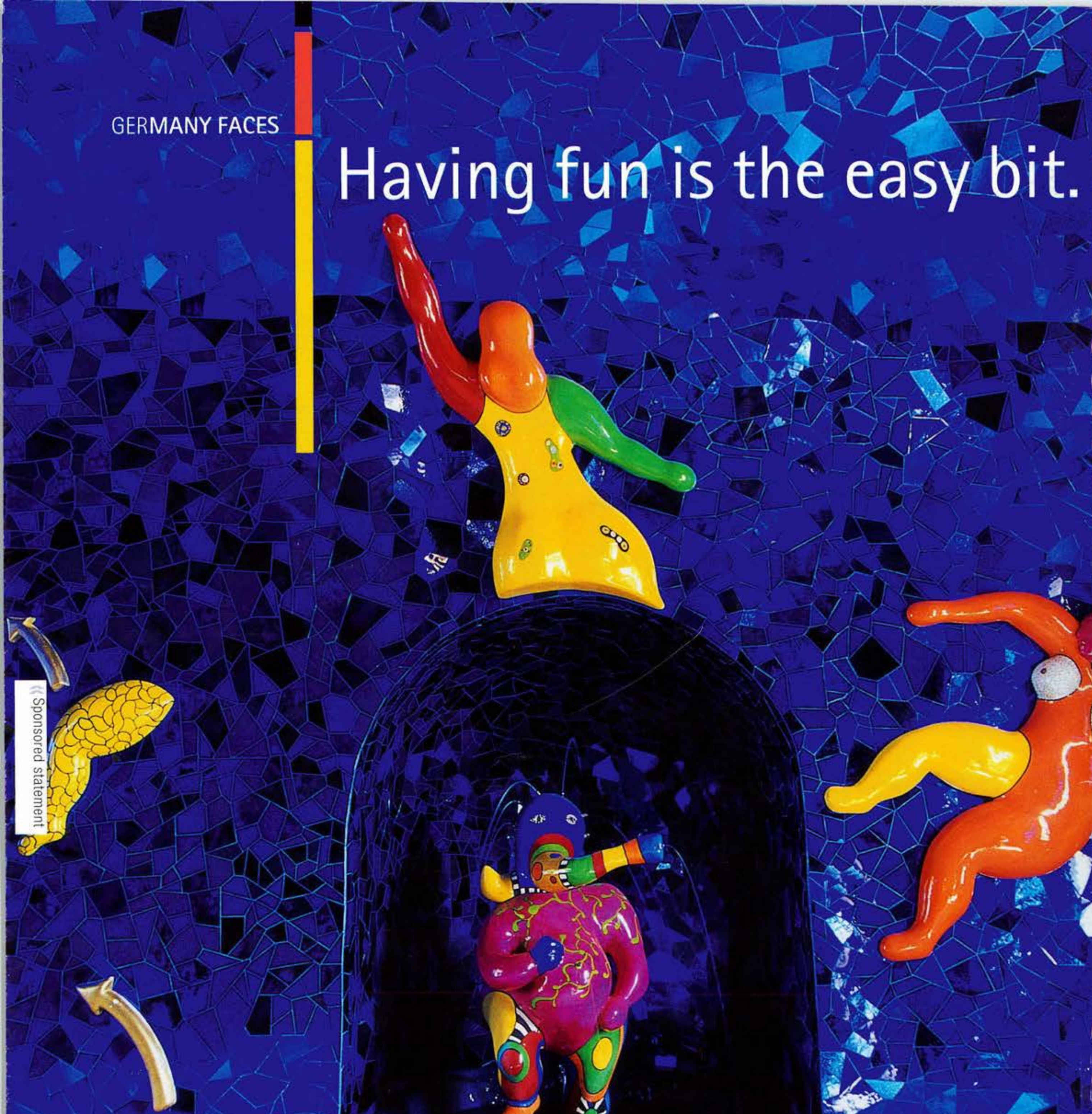
Globalisation may have accelerated, but how big is international trade in a country's income? For some major countries, the answer is not much bigger than before. In 2005, the unweighted average of the trade-to-GDP ratios for all OECD countries was 45% but this hides the fact that international trade tends to be greater for smaller countries, particularly those neighbouring trade-minded partners, than for those with relatively large domestic markets. Belgium's goods and services trade stood at 86% of GDP in 2005, for instance. Hungary and the Czech Republic each saw their trade share expand rapidly. Ireland's share climbed by over 18 points to nearly 75% of its GDP between 1992 and 2005, but trade in two of its main trading partners, the UK and France, expanded by just five or six points to reach 28.3% and 26.6% of GDP respectively. Trade in the US accounted for just 13.4% of the nation's GDP, up from slightly over 10% in 1992; Japan's share rose some five percentage points to 13.6%. Germany breaks the mould for the G7. Its trade expanded faster than the OECD average increase of 12.7 percentage points, from 24.3% of GDP to 38.1% in 2005. Sometimes geographical isolation and high transport costs do not help, which may in part explain why New Zealand's trade to GDP ratio slipped by a percentage point to some 29.1% of GDP in 2005. ■

Trade to GDP ratios

Difference between 1992 and 2005 ratios in percentage points
2005 ratios in figures



Source: *OECD Factbook 2007*



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