oecd Observer

No 273 June 2009 www.oecdobserver.org

MINISTERIAL COUNCIL AND FORUM SPECIAL

The crisis and beyond

Green growth or fragile shoots?

9 770029 705002

OECD

CONTENTS

Observer

No. 273 June 2009

Spotlight on tax, page 21

Financial crisis, from page 11

New leadership, page 35

Food and development, from page 39

OECD Observer

www.oecdobserver.org
© OECD 2009

2009 subscription rate:
€69 – US$90 – £47 – ¥9 700
ISSN 0029-7054
Tel.: +33 (0) 1 45 24 80 66
Fax: +33 (0) 1 45 24 82 10
sales@oecd.org

Founded in 1962
The magazine of the Organisation for Economic Co-operation and Development

OECD Publications
2 rue André-Pascal
75775 Paris cedex 16, France
observer@oecd.org
www.oecd.org

Published in English and French by OECD and Pressgroup Holdings Europe SA
San Vicente, 16-6-1
46002 Valencia, Spain
Tel.: +34 96 303 1000
Fax.: +34 96 303 1234
hq@pressgroup.net

EDITOR-IN-CHIEF: Rory J. Clarke
ASSISTANT EDITOR: Joan Tassy
WRITERS: Marilyn Achiron, Patrick Love, Lyndon Thompson
EDITORIAL ASSISTANTS: Frédéric Benhaim, Nicolas Szczepan, Loïc Verdier

ILLUSTRATIONS: André Faber, David Rooney, Stik
PHOTO RESEARCH: Silvia Thompson
LOGISTICS: Jochen Picht

Pressgroup:
PUBLISHER: Angus McGovern
ADVERTISING DIRECTOR: Richard Forster

Applications for permission to reproduce or translate all or parts of articles from the OECD Observer, should be addressed to:

The Editor,
OECD Observer,
2 rue André-Pascal,
75775 Paris, cedex 16, France.

All signed articles and letters express the opinions of the authors and do not necessarily represent the opinion of the OECD.

Reprinted and translated articles should carry the credit line "Reprinted from the OECD Observer", plus date of issue. Signed articles reprinted must bear the author's name. Two voucher copies should be sent to the Editor. All correspondence should be addressed to the Editor. The Organisation cannot be responsible for returning unsolicited manuscripts.

PRESS GROUP

Bubble outbursts

Your article on Islamic banking ("Islamic banking: an asset of promise?" No 272 April 2009) suggests that financial temperance is still possible. The ratio of assets leveraged against capital cited in the article–20 to 1 in US banks, 30 to 1 in Europe, yet only 10 to 1 in Islamic banks–reveals just how much the financial system has made greed systemic.

The OECD is working to reform the system, but to what degree can it reform thinking? As the economic horizon brightens, if only faintly, there is a growing tendency to believe that the crisis was simply the result of a few missteps, caused by bad judgement, not bad philosophy. Short-term thinking seems inextricably bound to short-term memory. There are already signs of amnesia. The biggest banks in the US are scrambling to pay off their second round of bail outs so that CEOs and traders can continue to collect their enormous bonuses, on the argument that without these bonuses talent will go elsewhere. It may, or it may not, but such assurances practically guarantee reckless behaviour, as top talent rarely pays the price. The danger is that policymakers will eventually be persuaded that there is nothing fundamentally wrong with the system, and that with "better judgement" and "sharper traders" similar calamities will be avoided. The sound of popping bubbles is only in your ears.

There is a theory in physics that our universe is only one of many, connected to the others, like those balloons that clowns twist into animals at children's birthday parties. The theory suggests something about market bubbles.

Whether in real estate, dotcoms or tulips, bubbles share a disturbing characteristic. Once we find ourselves in one, memory of all the others vanishes. Moreoever, once a particular kind of thinking is given official sanction, it is extremely difficult to change.

Robert James Thompson
Paris, France

"Comment.org"

The following is a comment registered at www.oecdobserver.org. Contacts available at the site. Send your letters to the editor to observer@oecd.org or post your comment at www.oecdobserver.org

"How can we find solutions that will increase Latin American investment in education without having this turn into a threat to its interests, that is to say without having them feel that the results of these investments–which will produce results in the long run–will be zero today." From Romy, originally in Spanish, commenting on "Innovating education", in No 270/271 December 2008-January 2009.

Setting the standards and building confidence

©Eleonor Grammatikas/OECD

Angel Gurría, Secretary-General of the OECD

When leaders of government, international organisations and civil society from around the world gather for critical discussions at the OECD summit meetings in Paris this June, one question will dominate the agenda: Is enough being done to restore confidence and long-term growth, and break the grip of the worst global crisis of our times?

Chairing the Ministerial Council Meeting on 24-25 June will be Prime Minister Han Seung-soo of Korea, who is well-placed to share Korea's own experience in overcoming the Asian crisis a decade ago and whose efforts may lead Korea to be one of the first OECD countries to emerge from the current downturn.

The *OECD Economic Outlook*, due for release on 24 June, will point to a protracted recession. However, our economies no longer appear to be in freefall, which, after a year of ever dimmer forecasts, is good news.

Still, governments must remain vigorous in their policy actions and not be distracted by "green shoots" of recovery, whether in the form of confidence surveys, or firmer energy and share prices. Encouraging as these signs are, they may reflect the stimulus from the massive government fiscal packages of recent months, and in the case of oil prices, perhaps some speculation as well. Evidence of a real recovery has yet to come through.

Let's be clear, the crisis has dealt a serious blow to our economic systems, undermining confidence, wealth and the productive potential of entire countries. We face a future of higher unemployment and probably lower investment, which will affect performance everywhere, including in emerging markets.

The social crisis presents a costly challenge and is putting severe upward pressure on taxation. Over 11 million people in the OECD area lost their jobs in the year to April 2009, and the total could exceed 25 million by end-2010. Public resources will be stretched in cushioning the impact, assisting the unemployed, safeguarding existing jobs and creating new ones.

Little wonder governments want those green shoots to grow quickly, so they can begin unwinding their emergency interventions and relieve the debt burden. But getting those "exit strategies" right is vital. As the OECD's Strategic Response warns, a hasty withdrawal could be counterproductive for markets and confidence.

Consumers and investors must feel that enough is being done to make the world economy stronger, cleaner and fairer than before. They must be reassured that financial markets will not collapse again, that the risk of a catastrophic "double dip" recession is avoided and that their future is relatively secure.

We can avoid that risk, but the onus is on political leaders to honour their commitments and correct the governance, regulatory and competition failures that gave rise to the crisis in the first place. This means pushing through reforms to improve accountability and risk management, and generally bring private incentives more into line with wider public interests. It means working hard to forge a more balanced, smarter and greener global economy based on well-governed, well-regulated open markets.

The mindsets of OECD policymakers must also evolve. Take development, for instance. Aid budgets are under pressure and donor support is needed to get the Millennium Development Goals on track. But efforts must go beyond that. In 2007 developing countries accounted for about a third of world trade, up from a fifth in the early 1990s. What is at stake for development and trade policy today, particularly where the Doha trade talks and efforts to resist protectionism are concerned, is the systemic health of the global economy.

People must feel that enough is being done to make the world economy stronger, cleaner and fairer

Nor must governments neglect the fight against climate change. With a "green recovery", governments can hit several targets, including reducing greenhouse gas emissions and spurring innovative long-term growth for all countries.

If there is one way governments really can win back public confidence, it is by making the world economy cleaner. That means improving governance.

The OECD is a global leader in setting the standards for the public and private sectors, thanks to its work on taxation, corporate governance principles, multinational enterprise guidelines, procurement, the anti-bribery convention, and more. Our international standards unblocked an impasse in the fight against tax havens at the G20 summit in London in April. It is surely time for such international standards to be developed more widely. This would not only help restore public faith, but make it easier to navigate the road to recovery too.

It is proving to be a long and testing crisis, and though there is work to do, we should feel encouraged by the international efforts made so far. We must all maintain this level of co-operation and determination as business, labour and civil society leaders gather with ministers at OECD Week and build momentum for the next major international meeting at the G8 in Italy in July. Only by working together will the grip of the crisis be broken and the outlook brighten in the months ahead. ■

www.oecd.org/crisisresponse
www.oecd.org/secretarygeneral
www.oecdobserver.org/angelgurria

The crisis and beyond

Building a stronger, cleaner and fairer economy

Han Seung-soo, Prime Minister of the Republic of Korea and Chair of the 2009 OECD Ministerial Council

The global economy today is facing difficulties like we have not seen for at least half a century. A global financial crisis which began with a sub-prime mortgage meltdown has already had profound repercussions on economies around the world, with the contraction in industrial output, trade volumes and foreign investment becoming increasingly pronounced worldwide. Unemployment rates stand at high levels in many countries, with some in double digits.

It is therefore crucial that we swiftly deal with the current financial and economic crisis while, at the same time, preventing it from turning into a social crisis.

©Pascal Lauener/Reuters

Amid such financial, economic and social challenges, the global community has been making every effort to reform the ailing financial system and stimulate the real economy. The recent G20 summit in London played a central role, convening both developed and emerging economies together to come up with concerted actions that could resolve this crisis. In line with these global efforts, the OECD is supporting its members and other countries through analyses and policy dialogue to assist them in overcoming the current economic turbulence and put the world economy back on a long-term growth and development path.

The OECD Ministerial Council Meeting, to be held on 24-25 June, promises to be one of the most critical since the OECD's inception in 1960. It will act as an important link between two major summits, the G20 summit in April and the G8 summit in July. At this critical juncture, ministers from OECD member countries as well as invited ministers from non-member countries will exchange and identify policy responses, insights and visions for the future under the theme of "The Crisis and Beyond: Building a Stronger, Cleaner and Fairer World Economy". Chaired this year by Korea–a country that acquired some experience by successfully overcoming the Asian crisis only a decade ago–the 2009 focus will be on four specific areas.

First and foremost, ministers will review and outline policy strategies in an effort to find a road to recovery beyond the current economic crisis. We will discuss systemic failures in regulation, supervision, corporate governance and risk management in the financial sector, as well as stimulus packages to boost the real economy. The meeting will also address competition, innovation and exit policies, and will strive to uncover better ways to move towards a stronger world economy.

Second, socio-economic policy responses are another pillar of the upcoming deliberations. While growing unemployment is a major cause of concern at the national level, the loss of momentum in reaching the Millennium Development Goals (MDGs) due to the economic crisis is also weighing heavily on the global community. To build a fairer economy, ministers will need to pay particular attention to domestic social issues, including unemployment, risks of social unrest and pressure on pension systems while at the same time continuing to promote global efforts to help developing countries reach the MDGs.

Third, although we are in a critical economic situation today, we must not lose sight of the long-term perspective beyond the current crisis. When designing and implementing economic policies, we should remind ourselves that humankind is facing the most serious environmental challenges of our time, with global warming as the top priority. In fact, a new paradigm for growth and development will be absolutely essential if we are to tackle climate change. It is quite encouraging to see that a "low-carbon and green growth" policy vision is gaining worldwide support. At the Ministerial Council Meeting, ministers are expected to agree on substantial and practical measures to implement a new vision for a cleaner economy.

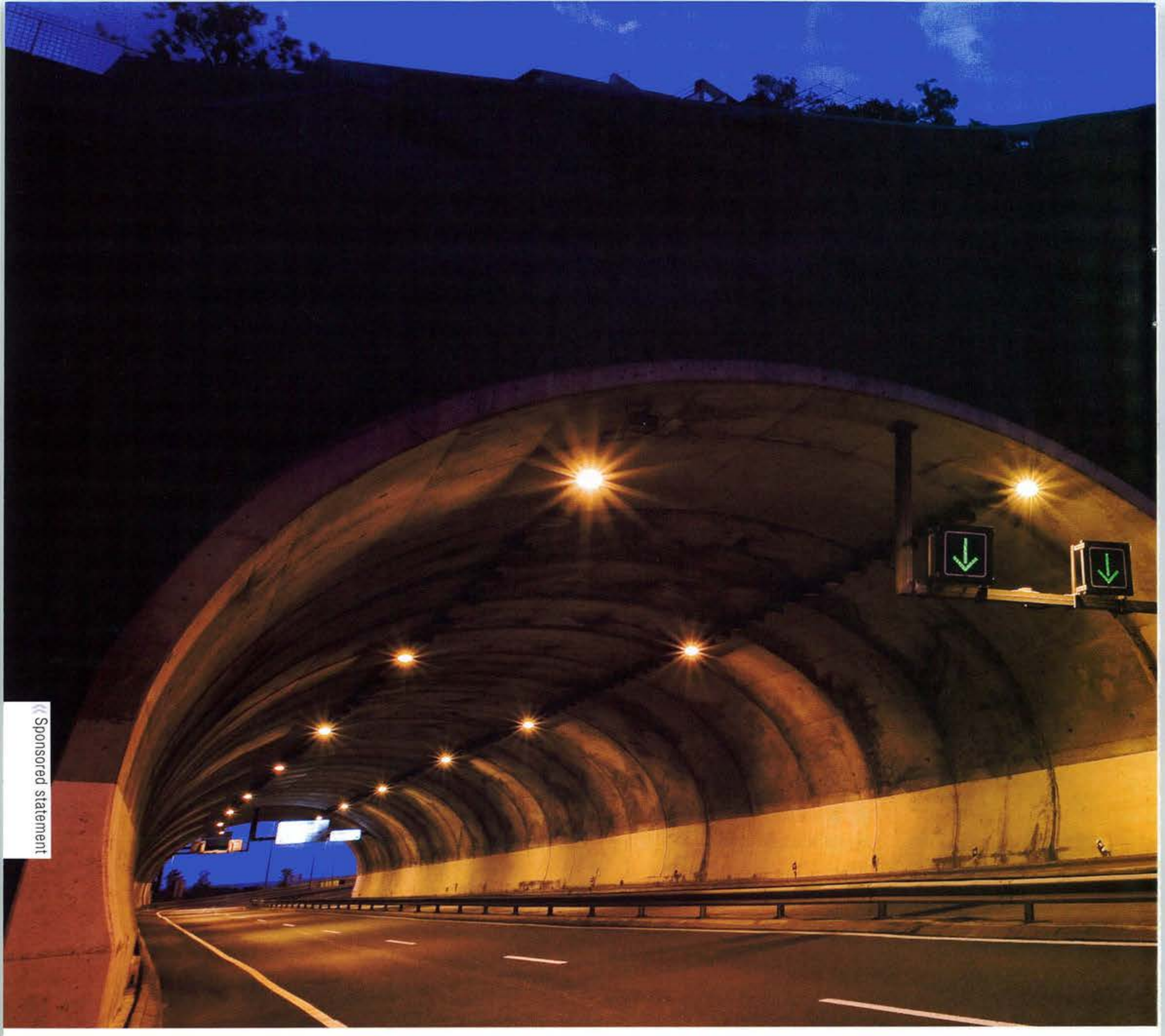
Finally, for the last three decades, liberalisation in trade and investment–a major vehicle of globalisation–has benefited most of the world, with emerging economies gaining the lion's share. However, world trade is falling this year for the first time in 25 years. During the crisis, policy makers will be more inclined to look towards protectionist measures. Yet we have learned from history that protectionism is the worst policy option during periods of crisis. At the OECD meeting, we will renew our determination to combat protectionism, in line with the conclusions of the G20, and seek to further reinforce liberalisation in trade and investment. Keeping markets open is the most important and effective way to recover from this crisis and avoid the perils of deglobalisation.

Ministers are expected to agree on measures to implement a new vision for a cleaner economy

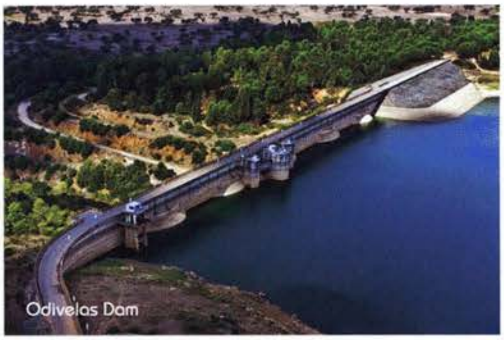
I hope that we will come away from the 2009 OECD Ministerial Council Meeting with a sense of urgency not only concerning the need to revive the world economy but also the importance of revitalising the organisation. Ministers will reconsider the role of the OECD in global policy development and co-operation, and revisit the orientation of OECD activities. The OECD also has to review the way it works in order to increase the relevance and impact of its policy proposals within the policy community and to better serve the public interest. It is important to stress that the OECD will need the political support and guidance of its member countries in order to enhance its visibility and fulfil its *raison d'être*.

In closing, I would like to underscore once again our commitment to a stronger, cleaner and fairer global economy. I am honoured to be presiding over the OECD Ministerial Council Meeting during one of the most urgent and demanding chapters of our lifetimes and I look forward to working closely with other ministers in order to discharge our mission with both ardour and success. ■

Visit www.pmo.go.kr




International Airport of Madeira


Odivelas Dam


Quintanilha International Bridge


Viaduct over Ribeira de Muge


Lisbon Subway – Alameda/Expo Line


Fajã da Ama Gallery

• News brief •

Record fall in GDP

OECD countries recorded a 2.1% drop in real GDP during the first quarter of 2009-the largest fall in GDP since the OECD began collecting this data in 1960. The quarterly loss followed a 2% slump the previous quarter-that was already a record. US GDP fell 1.6% in both the last quarter of 2008 and the first quarter of 2009, while GDP in Japan sunk a total of 7.8% in the six months to April 2009.

The decline was even more dramatic when compared to the same quarter a year ago. By that measure, economic output across the OECD area dropped 4.2% in the year to April 2009.

Of the G7 countries, only in France, where GDP fell 1.2%, did the rate of contraction ease in the first quarter. In general, though, GDP in the euro area was down 2.5%, following a 1.6% fall in the previous quarter.

Meanwhile, as a modicum of positive news, OECD **composite leading indicators** for April 2009 point to a reduced pace of deterioration in most of the OECD economies, with stronger signals of a possible bottoming out in Canada, France, Italy and the UK. The leading indicators for the OECD area increased by 0.5 point in April 2009 compared with March, but stood 8.3 points lower than in April 2008. That was slightly less pronounced than the fall in the year to March. The leading indicators for the US were 10.8 points lower than a year ago, while the indicators for Japan were 11.9 points lower. In the euro area, the difference from a year ago was slightly less dramatic, at 6.3 points lower. For more detail, see www.oecd.org/statistics. ■

Soundbites

Change of heart-

"Is French health system a model for US?"

Headline in article by Jim Landers in *Dallas News*, 18 May 2009.

-green mindsets-

"Politicians around the world do not appreciate how the supply side of green technology works."

Don Burbar of Avalon Rare Metals, quoted in *The Times*, 28 May 2009.

-and gender

"Men, especially young men, made a mess of things."

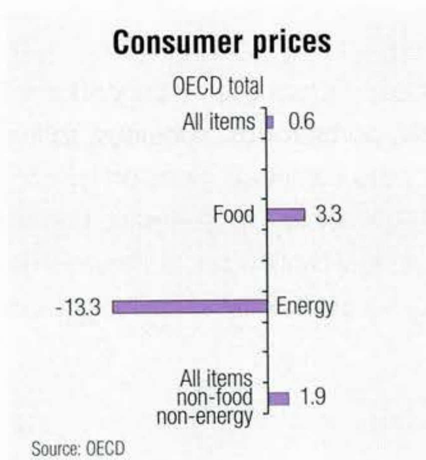
Kristjan Kristjansson, spokesman for Iceland's prime minister, Johanna Sigurdardottir, on the financial crisis, in the *Washington Post*, 10 February 2009.

Economy

Merchandise trade flows in the G7 area took an unprecedented drop in the final quarter of 2008, but there was a slowdown in the rate of decline during the first quarter of 2009. In the US, export volume growth dropped 7.8% and imports fell 5.1%, while Japanese exports plunged by 19.1% quarter-on-quarter, twice the rate of the G7.

Meanwhile, **consumer prices** in the OECD area rose by 0.6 % in the year to April 2009, compared with 0.9 % in the year to March. Month-on-month, prices rose by 0.2% in April after 0.3% in March 2009. Consumer prices for energy were down by 13.3% in the year to April 2009, following a fall of 11.9% in March. Consumer prices for food were up by 3.3% in the year to April compared with a 4.5% increase in March. Excluding food and energy, consumer prices rose by 1.9% in the year to April 2009, compared with 1.8% in March 2009.

The **unemployment** rate edged up in the OECD area to reach 7.8% in April 2009, 0.1 percentage point higher than in March and 2.2 percentage points higher than a year earlier. In the year to April 2009, euro-area unemployment rose by nearly 2 points, while unemployment in the US climbed 3.8 percentage points.



For more on these and other economic stories, go to www.oecd.org/statistics

• News brief •

Gender learning

Could gender stereotypes influence subject choice at school and subsequent careers? The OECD's PISA (Programme for International Student Assessment) tests of 15-year-olds finds that boys are more likely to take up computer sciences and girls to go into life sciences, despite the fact that boys and girls perform almost identically in life sciences at school.

Meanwhile, the sciences, in general, don't seem to have what it takes to attract either gender, which is not encouraging news for **productivity and innovation**. Across OECD countries, close to 40% of high-school students who come top in science subjects have no interest in pursuing a science-related career, while almost 45% do not want to continue studying science.

For more, see www.oecd.org/education

Plus ça change…

"More and cheaper electricity; these are the new prospects."

"Towards a European market in electricity", No 1, November 1962

oecd Observer

Other news

Bermuda and the Netherlands recently signed a bilateral agreement to **exchange information for tax purposes**. Bermuda was one of the first jurisdictions to commit to the international standard of transparency and exchange of information in May 2000, and one of the jurisdictions that helped to develop the Model Agreement on Exchange of Information in Tax Matters in 2002.

Luxembourg, too, stepped up its efforts to combat **tax abuse and excessive bank secrecy** recently by signing protocols to strengthen its exchange-of-information agreements with Denmark, France and the Netherlands.

Meanwhile, at a May meeting of the OECD's Forum on Tax Administration, tax authorities from around the world agreed on a new plan to encourage **tax compliance**, focusing on banks, wealthy individuals and offshore activities. "Individuals who hide assets overseas can expect an increasing number of revenue bodies to co-operate and share information to ensure people pay their fair share to help fund governments worldwide," said Douglas H. Shulman, commissioner of the US Internal Revenue Service and a participant at the Forum.
See www.oecd.org/tax and see Spotlight on taxation, from page 21.

An **action plan to support poor countries** trying to cope with the economic and financial crisis has been launched by members of the OECD's **Development Assistance Committee** (DAC), the world's major donor countries, and other donors, at their meeting in Paris in late May. Donors pledged to honour their aid commitments and to work with recipient countries to support their long-term development strategies, invest in women, and consider more predictable funding for multilateral aid institutions.

See www.oecd.org/development

©OECD

President Michelle Bachelet of Chile visits the OECD, 28 May 2009. See page 59 for an extract of her speech.

France should prioritise getting unskilled young people into employment, according to a new report. Many French youths (18-25 year-olds) are remote from the job market and run the risk of becoming a "lost generation", said Secretary-General Angel Gurría in launching the report in May.
Jobs for Youth: France is available at www.oecd.org/bookshop. See also www.oecd.org/employment

Australia should also move quickly to avert a major rise in youth unemployment, according to the OECD. Young Australians work more than in other OECD countries, but to boost career prospects the authorities should do more to encourage young people to stay in school after 16 for more skills and training. *Jobs for Youth: Australia* notes that between July 2008 and January 2009 youth (15-24) unemployment rose from 8.7% to 9.7%. Visit www.oecd.org/australia

Ireland's net official development assistance (ODA) was $1.3 billion in 2008, a 90% increase over 2003 in real terms. Ireland's aid grew from 0.39% of gross national income in 2003 to 0.58% in 2008 during a period of exceptional national economic growth. Ireland has been aiming to join a small group of OECD countries by reaching the UN recommended target of 0.7% of GNI, a target made more difficult by the economic downturn. The report praises Ireland for its efforts in making aid more effective and its focus on reducing poverty in some very poor African countries.

See www.oecd.org/ireland

Corporate governance
Lessons from the financial crisis

Positive signs: Richard Syron (left), Daniel Mudd, and Leland Brendsel, former chief executives of Freddie Mac, Fannie Mae and Freddie Mac respectively, are sworn in before testifying at a House oversight and government reform committee hearing on Capitol Hill in Washington DC, December, 2008.

©Jason Reed/Reuters (UNITED STATES)

Mats Isaksson and **Grant Kirkpatrick**, OECD Directorate for Financial and Enterprise Affairs

Failures in corporate governance contributed to the collapse in financial markets. What can be done?

If there is one major lesson to draw from the financial crisis, it is that corporate governance matters. Directors, regulators and shareholders, but also policymakers and the general public, need to pay more attention to corporate governance. This tells us how firms operate, their motives and principles, their reporting lines, who they are accountable to, and how they manage profit, remuneration and, in the case of many financial firms, other people's money. When times were good, too many people took their eye off the ball and now we see the consequences.

The public outcry has been loud and understandable, not least in relation to executive pay. And even some top executives have now admitted the lack of relationship between pay and performance and called for a salaries shake-up. We now realise that constantly rising share prices is not necessarily a sign of good corporate governance. In fact, as recent history shows, it could actually be the opposite.

The question is, what can be done to improve how financial firms operate?

We have been examining the crisis closely and in particular seeing how the OECD Principles of Corporate Governance might help or, indeed, be improved in light of recent experiences.

We see four key areas for urgent action: corporate risk management, pay and bonuses, the performance of board directors, and the need for shareholders to be more proactive in their role as owners. Let's start with remuneration. Recent surveys have shown that four out of five market participants believe that compensation practices played a role in promoting the accumulation of risk that led to the crisis. If they are right, the way that remuneration schemes are designed and supervised can have systemic impact on the financial system.

But to get it right we need to look at pay structures across whole companies, not just at their high-profile executives. It is equally important to come to grips with how bonuses are designed and paid among traders and portfolio managers throughout the company. We have seen too many examples of employees being given short-term incentives that are not in line with the long-term sustainability of the firm. This is what contributed to the build-up of unmanageable risks that eventually brought some companies down.

By applying the corporate governance principles, companies can establish a proper structure for deciding on issues such as remuneration. And the board will clearly play an important role, since to leave it to executives themselves is inviting disaster. When looking at various models for compensation, boards should explicitly ask themselves if the company's compensation model is aligned with prudent risk-taking and the long-term objectives and strategy of the company. Perhaps some firms asked this question and got the wrong answer, but it is also likely that too many firms ignored it.

The crisis has also thrown up some massive failures in risk management. Even where companies had mandatory internal controls on reporting for the financial accounts, their executives did not fully grasp or clearly communicate the financial risks of many of the instruments they were betting on. Many of these were in fact off the balance sheet prior to the crisis.

To fill this gap, risk management must be seen in a corporate-wide perspective where the risk management system is continuously adjusted in line with a corporate strategy and the appetite for risk. The oversight of risk management by board members must also be improved and they must also be given all the information they need to make informed decisions.

One way OECD believes this can be done is to encourage corporations to appoint a special risk officer. Moreover, to keep information clear, that person would report directly to the board of directors and not only via the CEO. Surveys of audit committee members have shown that they are not too satisfied with the current state of reporting. Only four out of ten said that the risk reporting they received was very good.

The crisis has thrown up some massive failures in risk management

Some boards have not only failed in the oversight of risk management systems but also in the remuneration practices of their firms, so the financial market collapse was their failure, too.

It is indeed true that boards have not always received high-quality information. But we must also ask if they had actually demanded the right information and in a suitable form. For example, knowing exposure to residential mortgages is not the same thing as also knowing what proportion is exposed to sub-prime. Being a board member in a large complex organisation is extremely demanding. And no board member can be expected to master all aspects of the business in detail. But in financial firms, a good understanding of risk management is vital. This is why the OECD has suggested that the "fit and proper person" test–which assesses if somebody is trustworthy to be a bank director–could be expanded to include technical and professional competence in areas like risk management. It might also be worth looking at strengthening the legal duties of board members–and the enforcement of those duties.

If boards have failed in many cases, then where were the shareholders? Some did raise their voices, or sold their investments, but others were just as interested in short-term gain as traders and management were.

The age-old debate about whether higher standards of corporate governance can be enforced by laws and rules or encouraged via guidelines and market behaviour has heated up considerably since the crisis. But the debate may be missing the point.

Consider the OECD Principles of Corporate Governance. In many cases the principles have been implemented through regulation and legislation. This creates a level playing field and is sometimes the preferred route for companies that may find it hard to "take the first step" among competitors.

But even where there are rules and laws on the books, they simply cannot ensure good behaviour. We also need to do better in monitoring their implementation and their effectiveness. That is why the OECD will put in place a process of peer reviews based on the OECD principles. These peer reviews will obviously scrutinise implementation, though they will also encourage transparency, consistency and mutual learning.

Not that all companies are sitting on their laurels. Since the crisis, the private sector has been taking a greater interest in improving their corporate governance. Board composition is changing and shareholders are rediscovering their voices too.

Many firms now realise that they need to re-gain credibility. Private sector initiatives to improve corporate governance are vital for progress and OECD has established a forum for companies and broader stakeholders to exchange views and best practices. In 2009 we also launched a global consultation on the Internet to garner input and suggestions from the public on how to improve corporate governance. As the financial crisis has underlined, good corporate governance is everyone's business. ■

References

- OECD (2009), "The Corporate Governance Lessons from the Financial Crisis", Working Paper by Grant Kirkpatrick, Paris, available at www.oecd.org/daf/corporateaffairs
- See the OECD Principles of Corporate Governance at www.oecd.org/daf/corporate/principles

Clearing up the banks

If the general consensus is correct–that the roots of global economic crisis are in the financial system–then it follows that to resolve the crisis the global financial governance and financial market regulation must be fixed. Some reforms are being implemented, but if a targeted and thorough overhaul is put off, the authorities could leave flaws in place that could cause another crisis in the future.

This is one of the key concerns that emerges from a chapter in the latest edition of *Financial Market Trends*.* The cost of the crisis rose, the authors point out, because policy action failed to keep pace with the deterioration of bank assets. This led to insolvency and a sharp contraction of financial activity, which has hit the real economy.

Referring to past solvency crises, such as the US savings and loans problems of the 1980s, when the issuing of insurance and other guarantees proved ineffective against falling asset prices, and the 1990s' Japanese crisis, when keeping "zombie companies" on bank balance sheets became "self-defeating", the report focuses on the three basic policy lessons: first, insure all relevant deposits during the crisis to prevent runs on banks; second, remove the "bad assets" from bank balance sheets; and third, recapitalise the asset-cleansed banks.

The second step is crucial, the authors say, as deleveraging and uncertainty rise in a declining economy, impairing assets not previously at risk and causing the crisis to spread. Institutions that are not systemically important and cannot reasonably be saved, should be promptly closed or nationalised.

Only if bank assets are "cleansed" will private investors participate in the important third step of recapitalisation. As the report asks, why would investors buy any bank shares with hidden problems that hurt earnings in years to come?

Is it feasible to cleanse banks' balance sheets with available funds? And how much capital is needed for a healthy banking system? The report looks at these issues and concludes that off-balance-sheet activity not yet consolidated onto bank balance sheets, or disguised by financial engineering with derivatives, remains a concern. This concern is perhaps greatest in Europe, which is the strongest issuer of synthetic (derivative-based) collateralised loan and debt obligations.

The clear advice is that to address the impact on the real economy, policymakers must deal properly with the financial crisis first.

The financial market collapse has since spread to the real economy in what has become a vicious circle. Banks have cut lending, including to credit-worthy clients, while people losing their jobs have been unable to pay off debt, leading to further loan impairment, falls in asset prices, and so on.

Arresting the deleveraging process as quickly as possible is a priority, the report says, not least for small and medium-sized firms, which are major employers and depend on banks for raising capital. Fiscal spending helps too, but can take more time to get under way. And though the cost of the crisis must be borne by the taxpayer, steps are also needed to prevent anti-competitive market structures and protectionist sentiment.

Beyond the crisis, the authors are adamant about one thing: the design of crisis measures cannot be divorced from thinking about "exit" and the sustainability of the strategies undertaken. Budget deficits are projected to rise to some 9% of GDP in the OECD as a whole by 2010, with government gross financial liabilities–or public debt–expected to rise to around 100% of OECD GDP, up from 74.5% in 2007.

The guarantees, loans, purchases of assets and capital injections amount to 73.7% of GDP in the US, 47.5% in the UK, and around 20% in France and Germany, with far higher numbers in some smaller European countries.

Budget deficits clearly have to be reduced and the loans, guarantees and investments on the public balance sheet have "to a very large extent" to be transferred to the private sector. But this "exit" process should not be rushed, the report warns, to avoid exacerbating the crisis, pointing out that the more policy actions are consistent with long-run goals, the more markets will judge these actions as credible. ■ *RJC*

*OECD (2009), "Dealing with the Crisis and Thinking about the Exit Strategy", by Adrian Blundell-Wignall, Paul Atkinson and Lee Se-Hoon, Financial Market Trends 1 1/2009, No.96. See also www.oecd.org/finance

©Fabrizio Bensch/Reuters

Pensions Where to look now?

Fiona Stewart, OECD Directorate for Financial and Enterprise Affairs

Pension funds suffered a blow in the financial crisis. So did public confidence. How can pensions be made more secure?

Old age, said Leon Trotsky, is the most unexpected of all the things that can happen to a man. Lifetimes do indeed fly, but if there is one event that even quite young people in OECD countries need to prepare for nowadays, it is their retirement. But with many pension funds in trouble from the 2008 collapse in financial markets, even some of the best laid retirement plans have had to be put off. No wonder trust is so low and the question of public versus private schemes has become such a hot debate.

In recent years, we have increasingly had to save for our retirement ourselves. We are all living longer–which is a good thing–but this has made it increasingly expensive for governments and employers to cover pension costs. Unfortunately, this meant that the financial turmoil and ensuing economic crisis has had a major impact on private pension assets–OECD estimates that these have plummeted by US$5.4 trillion globally, 20% of their value. Countries where pension funds were heavily invested in equities, such as Ireland and the US, faced the heaviest blows. No wonder confidence in private savings is being sorely tested and there are calls to return to what is seen as the "safe haven" of government pensions.

Yet there are many problems and dangers with making such a reverse turn. First it should be noted that pensions are long-term investments, and we should not make decisions affecting decades based on one year's results. Unlike the problems in the banking and insurance sectors, the decline in pension assets does not have short-term implications for most of us, and should recover over time. Indeed, despite recessions and bursting bubbles, over the last few decades balanced portfolios in OECD countries have earned an average 7% per year in real terms.

Even if we do find it hard to trust markets again, huddling back under the shelter of public pensions is not an option. For one thing, public pensions have also been impacted by the crisis, as unemployment rises and tax takes decline, reducing contributions to the system and adding to already stretched government deficits. Another key reason is the cost pressures arising from an ageing society, as the disproportionate ratio of retirees to workers will continue to strain government budgets. When most of these pension systems were introduced the retirement age was 65. But then, life expectancy was also 65. Now we might work for 30 years and be retired for 30 years. Public pensions alone are no longer the answer, and for most countries a mix of both public and private pension schemes is probably where the future lies–security through diversity is the key.

Still, it is important that public pensions do offer all citizens a proper degree of security. One way to ensure that market falls such as the latest one do not have such a devastating impact is to have a proper social security safety net in place. These have become uncomfortably weak in some OECD countries, and governments have been introducing measures, such as minimum pensions, to ensure that no one falls through the gaps.

But what else can be done to safeguard our hard-earned pensions?

For a start, employers should be encouraged to continue providing pensions to their workers. Assets of defined benefit pensions declined precipitously in the last year, requiring companies sponsoring these schemes to drastically increase their contributions to plug the funding gap needed to pay promised benefits. Yet these companies

Huddling back under the shelter of public pensions is not an option

themselves are struggling in the current difficult financial conditions. Demanding too high pension payments and driving a company into bankruptcy is clearly not the solution–hence OECD governments have been granting welcome flexibility with their funding rules and allowing more time for companies to repair their pension balance sheets.

Defined contribution pension funds–where we individuals bear the impact of the market declines–also need to be fixed. Like other investors, pension fund managers had every incentive to maximise returns through investments in such products as commodities and hedge funds, as well as more innovative financial instruments. The fact that pension managers were allowed to venture into this territory with people's life savings says quite a lot about the managers, but also about the negligence of their trustees and company boards. Short-term thinking and weak governance jeopardised long-term investments. Quick winnings rather than modest, stable returns were the goal. Clearly the governance of pension funds needs to be improved, with training and expertise required to make sure managers really understand what they are investing in.

Yet we, too, must take a closer, more responsible, interest in our investments, which will require an improvement in financial literacy; the OECD would like to see this area addressed in future reforms.

Individuals close to retirement–these were the worst hit by the financial crisis–can also be protected by automatically switching into less risky investments as they get older. Likewise, forcing people to buy an annuity at specific times risks locking in very low retirement income–as was the case with people unfortunate enough to retire at the bottom of the cycle this last year. A better approach would be to combine "phased" withdrawals, where a defined part of the fund is withdrawn each year with a "deferred" annuity paid out when an individual reaches a more advanced age.

Is the news all bad? Most pension funds suffered very limited exposure to "toxic" assets, less than 3% being badly affected. As long-term investments, most pensions will recover as long as confidence comes back. That depends on visible, well-targeted action. If we need public and private pension systems to help face the retirement challenges ahead, then governments have a role to play in making sure private systems stand the stress tests of future expectations.

A degree of risk is unavoidable, but greater vigilance and better stewardship, along with a wider diversity of investment options and a full disclosure of where those investments had been made, would go some way to restoring pension strength and giving future pensioners more than a hard chair to sit on. Trotsky may have been right about old age, but that is no excuse for denying people the pensions they earned and deserve. ■

References

- OECD (2009), *Pensions at a Glance*, ISBN 978-92-64-06071-5; see also 2007 edition. Available at www.oecd.org/bookshop
- Antolín Pablo and Fiona Stewart (2009), "Private Pensions and Policy Responses to the Financial and Economic Crisis", OECD Working Papers on Insurance and Private Pensions No 36, Paris. Available at www.oecd.org/daf/pensions

- For more information on pension work at the OECD, contact Fiona.Stewart@oecd.org and Edward.Whitehouse@oecd.org
- See also www.oecd.org/els/social/ageing

Financial markets
For whose benefit?

Amy Domini, Founder and CEO of Domini Social Investments

Banks and investment companies are more than mere financial firms. They hold and manage assets, such as retirement income, on behalf of others, whether individuals, companies or governments. In short, they have a fiduciary role to fulfill, based on trust. So why have the beneficiaries not really benefitted?

The moment has arrived for an honest conversation about the standards applied to fiduciaries. Fiduciary responsibility has, particularly in the United States though in other countries too, come to mean making money. But the best interest of the beneficiary may not rest on making money alone. If the money is made in a way that engenders a lower quality of life, or a shorter life, the beneficiary has in fact been ill-served.

This past year the world has been thrust into an economic decline brought about by a sharp collapse of credit markets. The millions who have lost their jobs did so not simply because there were greedy investment bankers involved. They fell victim to a system that allows the fiduciary to invest for return, often short-term focused, without considering the overall risks or costs to the beneficiary. We will never know how many of the new unemployed are the direct result of their own pension plan investing in reverse default swaps, but certainly the numbers are high.

It has become vividly clear that the way one invests matters. The investments of the past decade were largely the cause of global economic collapse. It is time for government regulators globally to address the biggest enabler in all this, the standard of prudence.

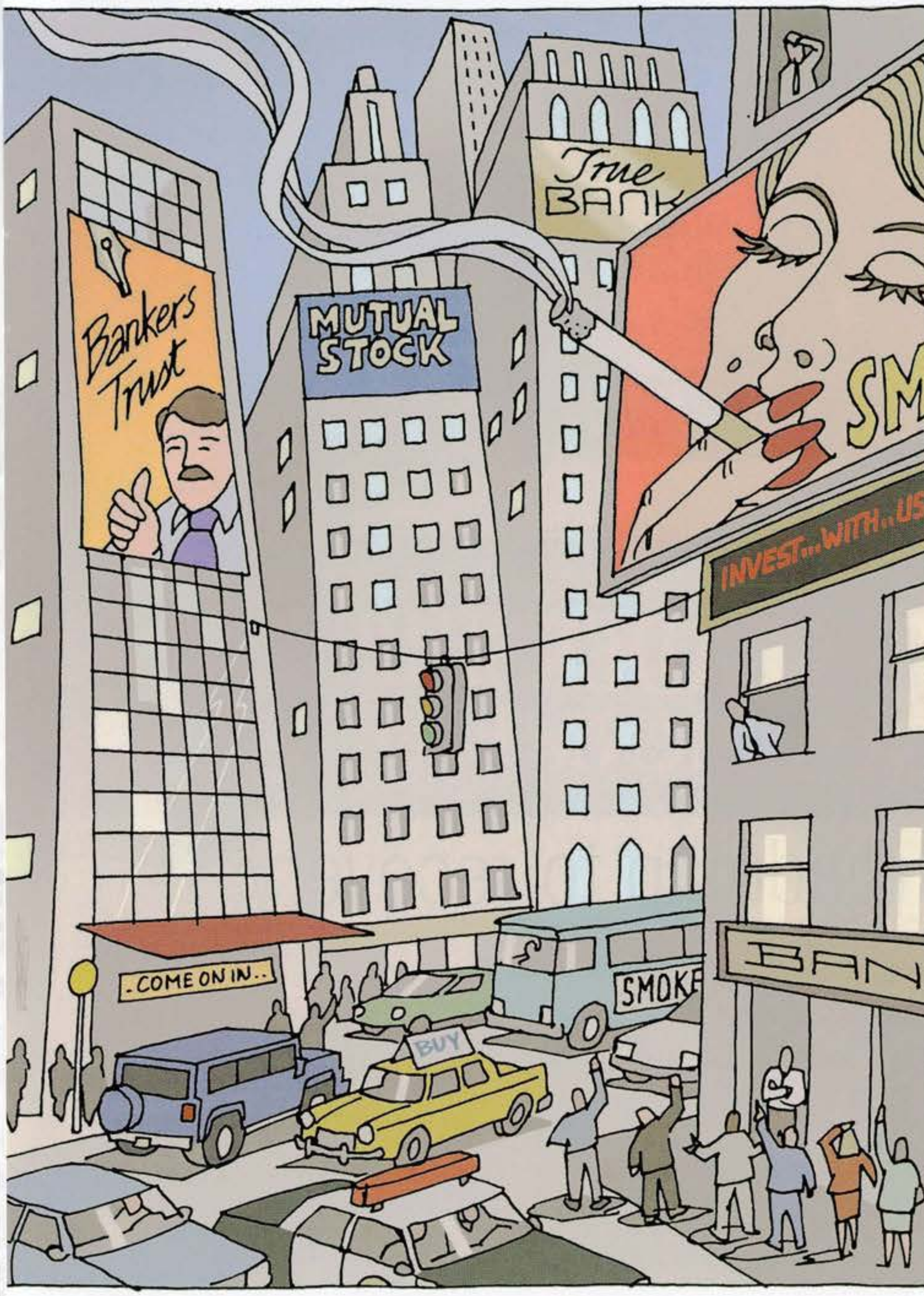
In the US, we have various standards that a fiduciary must look to but the most influential is the Employee Retirement Insurance Savings Act (ERISA), which Congress passed in 1974. This Act is looked to even by trustees of funds not governed under the Act for guidance. It established standards of conduct for fiduciaries and gives court redress when fiduciaries fail.

ERISA section 404(a)(1)(A) provides, in part, that: "A fiduciary shall discharge his [or her] duties solely in the interest of the participants and their beneficiaries and (A) for the exclusive purpose of (i) providing benefits to participants and their beneficiaries; and (ii) defraying reasonable expenses of administering the plan" (see reference below).

While looking after the best interest of the beneficiaries and their dependants sounds like a noble goal, this section, which has come to be known as the "exclusive benefit" section, has created an understanding that *nothing but making money* can enter into the mind of the fiduciary. But the language of the law, and I would argue the intent of the law, is not stated that way. The language directs the fiduciary to think of nothing but "the benefits".

It does not make sense that a fiduciary should invest in a polluting industry

We need clarification as to the meaning of benefit. To interpret it as meaning "make money" is to accept bizarre consequences.



Under that definition, I may kill people to make money. In fact, under that definition I could kill the beneficiary to make money. It does not make sense that a fiduciary should be encouraged to invest in, for example, a highly polluting industry, one that is either contributing immensely to the creation of greenhouse gases or causing serious health issues; that would be to the detriment of the beneficiary.

Grotesque though it may be, let us carry the line of thinking to another level. As a fiduciary, may I purchase shares of a company whose product is replacement organs? This company perhaps operates under a friendly government with little interest in the disappearance of healthy citizens. Am I as a fiduciary forced to overlook this and plow into the investment?

Oddly, the example is almost real. Some of the best performing stocks in America over the past several decades have been cigarette manufacturers. Current interpretation of ERISA seems to forbid the fiduciary from caring that the investment makes money by addicting and even killing many of its users. It also seems to allow the fiduciary not to consider the cost side of the equation. If we consider the loss of productivity and healthcare costs that beneficiaries pick up in the form of tax bills, the true economic benefit to the investment quickly disappears.

The problem is that the beneficiary is also a citizen. So if the company makes a bit more money by lobbying for and receiving a subsidy, the citizen is hurt; it costs tax money to give a subsidy. If the company makes a bit more money by changing the laws so that unusual and predatory mortgages can be sold, and then sells them to the detriment of the public, the beneficiary has lost economic benefit in the form of taxes paid to clean up the problem, not to mention the direct costs.

Because the US is so influential in setting standards for asset management, ERISA has an outsized influence globally. And for the same reason, the fix is simple. The Department of Labor, which oversees ERISA, must clarify that the intent is to benefit the entirety of what we call the beneficiary, not simply their retirement account. Anything less than this is robbing Peter to pay Paul. ■

References

- Department of Labor (1996) Employee Benefits Security Administration: Information Letter, Washington DC, www.dol.gov/ebsa/regs/ILs/il011696.html
- Kinder, Peter D. (2007), *Pensions and the Companies They Own: Fiduciary Duties in a Changing Social Environment*, www.kld.com/resources/papers/Pensions_the_Companies_They_Own_KLD07011.pdf

©Larry Downing/Reuters

A transparent roadmap to recovery

Huguette Labelle, Chair, Transparency International

Governments must put transparency and accountability at the heart of all rescue and reform measures if they are to regain public trust and investor confidence. Here is why.

As the effects of the global financial crisis reverberate around the world, millions of people face an uncertain future, while valuable progress on such issues as poverty, human rights and climate change is at risk of stalling.

Efforts to steer us out of the financial crisis and back on the road to economic growth have involved unprecedented amounts of money. We have witnessed the biggest corporate bail-outs in history, and leaders at the G20 summit in April announced that countries' fiscal expansion will total US$5 trillion by the end of 2010.

While it is clear that the global financial crisis demands coordinated, bold and decisive action, any steps are likely to be frustrated if they are not grounded in transparency, accountability and integrity. As recently noted in this magazine, the combination of an insatiable demand for high-risk financial products and flawed credit ratings resulted in the markets becoming impenetrably opaque. When this lack of transparency and regulatory failure became apparent, investor confidence disappeared and the markets collapsed.

To restore investor confidence and public trust, governments must ensure that transparency and accountability are at the heart of all rescue and reform measures. The public has a right to know how tax money is being used. All the terms and conditions in bail-out programmes should be fully disclosed. The credibility of governments' efforts is at risk if companies are not required to disclose information on how taxpayer money is being spent. Failure to do so will only result in public mistrust and frustration at a time when support and collaboration are crucial.

The G20 tasked the International Monetary Fund and the newly announced Financial Stability Board to provide an early-warning mechanism to avoid similar crises in the future. Transparency and accountability must be at the forefront of this effort. Civil society must be involved, too, as it is well positioned to provide credible, constructive input and monitoring, and gives a voice to the people most affected by the crisis.

A more consistent and internationally coordinated supervisory and regulatory framework of all financial institutions should include agreed accounting standards and the requirement that financial institutions report all derivative products and off-the-books entities. Action also needs to be taken to prevent conflicts of interest in the activities of rating agencies, and in relationships between financial firms and the public sector. Worryingly, more than half of the 73,132 people from around the world who responded to Transparency International's general public opinion survey, the *Global Corruption Barometer* 2009, believe that bribery is commonly used to shape public policies and regulations in companies' favour.

Half of the 73,132 people surveyed believe that bribery is commonly used to shape public policies in companies' favour

The OECD's focus on tax havens and the resulting agreement by several countries to adopt OECD standards are a positive development. However, international co-operation and disclosure need to go further still. Countries should divulge information for corruption investigations, too; those nations that refuse to do so should be listed as non-cooperative.

Companies also have a responsibility to set the ground for sustainable and equitable growth. There is concern that economic uncertainty will lead some executives to cut corners and resort to bribery in order to secure business. However, recent corporate scandals show that rather than securing contracts and lucrative profits, corrupt practices do not pay. Moreover, in the current climate, many businesses cannot afford the associated damaging publicity and hefty fines.

Foreign bribery is a commercial barrier that distorts competition and adversely affects development and the poor. Companies operating in countries where corruption is widespread can no longer cite local conditions as an excuse. In a globalised world, accountability must be guaranteed across borders and reach all the way down supply chains. It is more important than ever for companies to ensure that their anti-corruption systems are robust and rigorously enforced, and for all countries to fully commit to the OECD Anti-Bribery Convention.

Transparency International works with multinationals and non-corporate stakeholders to develop effective and practical tools to mitigate corruption risks. For example, the *Business Principles for Countering Bribery* provides a model of good practice adaptable to different company sizes and settings, while *Resisting Extortions and Solicitations in International Transactions* (RESIST) addresses companies' vulnerability to solicitation and extortion.

Transparency International has also seen great success with its "integrity pacts" in public contracting. An agreement between a government and all bidders for a public contract, an integrity pact sets out rights and obligations to the effect that neither side will pay, offer, demand or accept bribes, collude with competitors to obtain the contract, or engage in such abuses while carrying out the contract. Violations of these standards result in sanctions ranging from loss of contract, forfeiture of the bid and liability for damages, to blacklisting bidders for future contracts and taking disciplinary or legal action against government employees. In Argentina, a clean and open bidding process, involving an integrity pact monitored by Transparency International, resulted in the municipal government of Morón saving $13 million compared to the costs of the previous four-year contract.

The OECD's focus on tax havens is positive but must go further

By implementing such tools and honouring the principles of the UN Global Compact and the World Economic Forum's *Partnering against Corruption Initiative*, companies can send a powerful signal to stakeholders, investors and business partners that they are committed to clean, ethical business.

Good corporate behaviour, though, demands more than being seen to subscribe to the tenets of social responsibility. Management must ensure that transparency, accountability and integrity are instilled at the very core of their operations. For instance, publicly listed financial-service firms in all countries should fully and publicly disclose any shareholdings owned by directors to protect against any conflicts of interest.

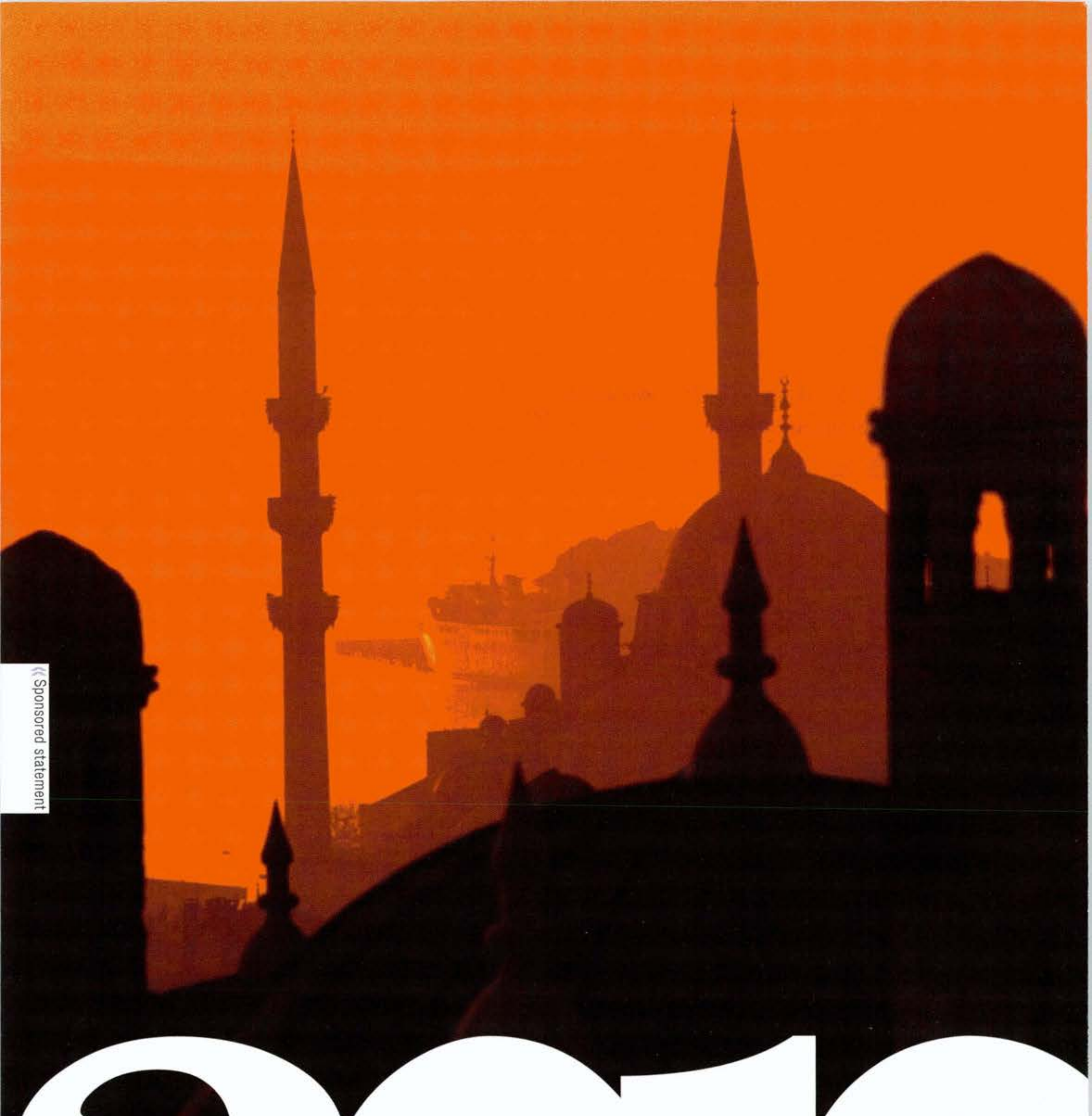
Management must also be vigilant that it does not inadvertently encourage corrupt practices. Employee incentives need to be carefully formulated to avoid promoting excessive risk-taking, cutting corners and conflicts of interest. There should also be procedures—and protection—for whistleblowers, since they are often the only people to raise the alarm about malpractice involving an entire team or subsidiary. Above all, the message from senior management must be clear: corruption cannot and will not be tolerated.

Rescue and reform measures must not be limited to the industrialised nations. Experts caution that the economic downturn could have disastrous humanitarian consequences. The UN Millennium Campaign reports that the fight against poverty has been pushed back by up to three years, while the UK's Department for International Development has likened the crisis to a tsunami, warning that 90 million people will be forced into poverty by the end of next year. It is critical that outstanding aid commitments are honoured. The increase in funding to the IMF and World Bank needs to be accompanied by accountability mechanisms and transparency requirements to make sure that aid truly benefits those in greatest need.

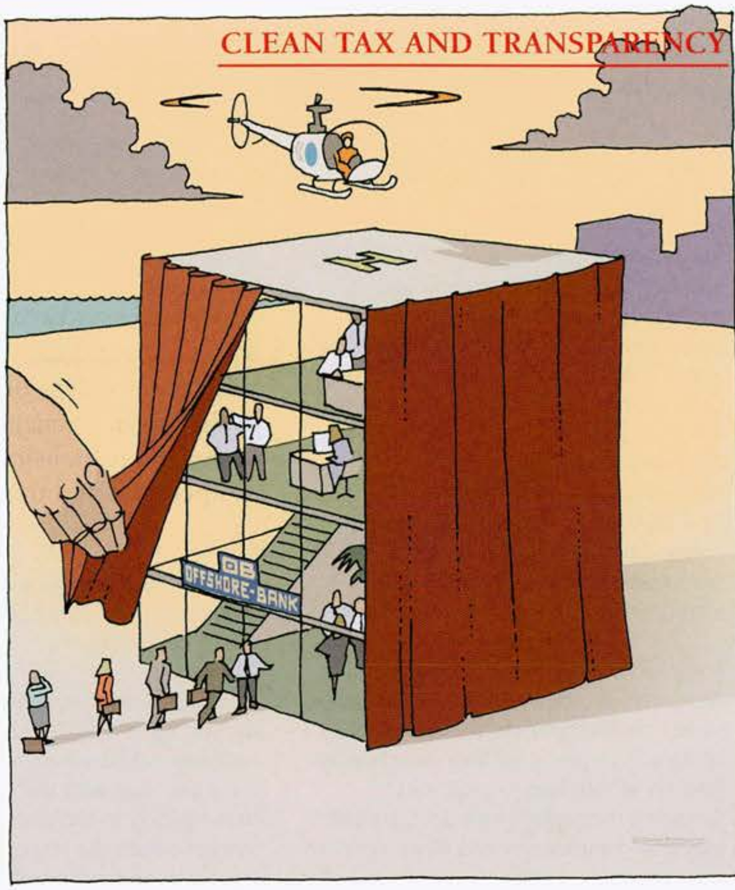
The complexity and opacity in financial markets that led to the global crisis should serve as a stark warning. Rescue and reform measures will fall short of their aims if they are not forged in the spirit of transparency, accountability and integrity to the benefit of everyone. ■

References

- Transparency International (2009), *Global Corruption Barometer*, Berlin, June.
- See www.transparency.org
- See OECD work against corruption at www.oecd.org/corruption



Clearer tax



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

In recent months there has been a sea change in the willingness of governments to co-operate in sharing tax information with other countries. Why?

In February 2009, Singapore and Hong Kong, China, undertook to bring tax transparency up to international standards and relax bank secrecy laws for tax purposes. Hot on the heels of these announcements were others from the Cayman Islands, Jersey, Andorra and Liechtenstein, and more recently we have seen Austria, Belgium, Luxembourg and Switzerland signing up to the OECD standard on exchange of information.

Why is this happening now? World leaders meeting in London on 2 April called for new controls over tax havens and strict bank secrecy jurisdictions as part of the G20's response to the financial crisis. But despite the welter of recent commitments to improve tax-information sharing, there are still plenty of voices calling for the havens to be left alone, on the grounds that the advantages they offer to business and private investors are irrelevant to the financial sector reforms called for by the crisis.

So is this simply a case of bullying and buck-passing on the part of the large and developed economies, or is there a genuine need to tackle what many economies increasingly see as a key faultline in the global financial system?

Improved sharing of tax information is essential in a reformed global financial system. It is not that the taxation–even non-taxation–regimes of havens and secrecy jurisdictions have contributed disproportionately to the causes of the current financial crisis and economic downturn. What is at issue is the shielding of business and private investor transactions from legitimate tax scrutiny in their home country. Recent financial-sector deleveraging has been sharp and painful. Secretive tax-driven arrangements were partly to blame for the gearing up that brought about that pain. Circular, "double-dip", financing arrangements that give companies fiscal advantages both at home and offshore ensured that normal tax benefits for debt financing were magnified out of all proportion to any conceivable tax policy justification, resulting in tax subsidies for excessive debt as well as for high-risk investments that would otherwise have been unviable.

Tax savings for borrowing engineered through such artificial and circular transactions clearly boosted financial sector balance-sheet and share values. But they added no real value to the global economy and served simply to further inflate global asset bubbles.

Governments have long been alert to tax-avoidance opportunities from what is euphemistically known as "structured finance", but the involvement of secretive jurisdictions in complex chains of structures and transactions has often hampered their attempts to counter this distortive scandal.

Tax havens are also home to the majority of the funds–mutual funds, hedge funds, private equity funds–investing in high-yield securities and highly leveraged shareholder investment that drove the pre-crisis credit boom. Investors in offshore funds are of course responsible for reporting their offshore income and gains to their own tax authorities, and there are of course reasons other than tax minimisation for locating funds offshore. But tax secrecy can tip the balance between an unattractive, taxed investment and one which is only attractive on the basis of non-taxation.

Some would argue that tax is inherently distortive, and that all tax systems are far more complicated than they should be. It's true that most countries' tax systems have an inbuilt bias to companies financing themselves with debt. It's also true that complexities and differences between many countries' tax systems offer opportunities for tax arbitrage that can distort investment decisions, irrespective of the level of transparency. And it may be that administrative burdens, complexity, or perceived ineffectiveness of some tax systems encourage taxpayers to evade or avoid tax, with or without the use of tax havens.

With the privilege of participation in the global financial market comes the responsibility of co-operation and transparency

However, if so many countries are now signing up to OECD's tax information exchange standards, it is because they recognise that with the privilege of participation in the global financial market comes the responsibility of co-operation and transparency–not just for the benefit of the tax revenues of other countries, but also for the stability of the financial sector as a whole. All countries have a responsibility to use their tax systems to promote, and not distort, sustainable economic growth, and to bear down on tax-driven distortions in the economy, while addressing local public expenditure needs.

That is a tall order for any country, even within its own tax system. At an international level, it calls for an open, co-operative approach. It is inconceivable that any country could be part of a future stable, global financial market without a clear commitment to that approach. This is the message that came out clearly from the G20 summit, and that the OECD will continue to promote. ■

*The views expressed in this article are those of the author and do not necessarily reflect those of the OECD or its member countries.

Tackling tax abuse

Though OECD work on making international tax fairer began over 50 years ago, it was not until 1998 and a report on harmful tax competition that the OECD stepped up its work against tax evasion, tax havens and abuse. Since then it has been committed to counter harmful tax practices and improve compliance, encourage exchange of information, combat aggressive tax planning and corruption, and improve co-operation between tax and anti-money laundering authorities.

The 1998 report defined a tax haven as a country or territory where there is no or nominal tax on the relevant income, combined with a lack of effective exchange of information, a lack of transparency, and no substantial economic activities.

The OECD has also developed standards of transparency and exchange of information that have been endorsed by governments and international organisations throughout the world and which serve as a model for most of the 3,000 bilateral tax conventions in existence today.

The standards require several things, such as **exchange of information on request** where it is "foreseeably relevant" to the administration and enforcement of the domestic laws of the treaty partner, and **respect for taxpayers' rights. Strict confidentiality of all information exchanged** is also required. Progress on improving transparency, information-sharing and compliance with tax laws accelerated in the lead-up and aftermath of the G20 summit in April 2009, which set the fight against tax havens as a priority.

All 30 OECD countries now meet the standard. Of the 40-plus tax havens that the OECD identified in 2000, nine–the Netherlands Antilles, Aruba, Bermuda, the British Virgin Islands, Cyprus, the Isle of Man, Guernsey, Jersey and Malta–are actively implementing the OECD standard either by means of Tax Information Exchange Agreements (TIEAs) or tax treaties, and the international community needs to recognise this progress. Macao and Singapore, as well as Hong Kong, China, have endorsed the standards and will take steps before the end of 2009 to start implementing them. Andorra, Liechtenstein and Monaco have also agreed to implement the standards. The Global Forum on Taxation, which is now the pre-eminent platform for international dialogue on this issue, will monitor commitments and push for compliance in more jurisdictions, as well as work to prevent the creation of new tax havens.

OECD (1998), *Harmful Tax Competition: An Emerging Global Issue*, Paris

For more details, see also www.oecd.org/tax/evasion

©Liechtenstein government

Open book

Interview with **Klaus Tschütscher**
Prime Minister of Liechtenstein

***OECD Observer*: A year ago Liechtenstein was in the glare of world media attention with accusations of widespread tax evasion, notably by Germans, using banks based in your country. Today, Liechtenstein is in the vanguard of international efforts to improve transparency and international co-operation in tax matters. How do you explain the turnaround?**

Klaus Tschütscher: Setting world media attention for Liechtenstein aside, I believe we all agree that the world has changed quite dramatically over the past 12 months. Today, when implementing OECD standards, Liechtenstein is operating largely on an international "level-playing-field". This is something we have consistently requested in order to move ahead with the development of our own financial centre.

Having said that, I should point out that our declaration on 12 March 2009 to commit to the OECD standards of information exchange in tax matters was in fact preceded by a transformation process that had begun many years earlier. In 2002 Liechtenstein had already concluded a mutual legal assistance treaty (MLAT) to combat tax fraud and the like with the US. This was followed by the implementation of the EU Savings Tax Directive by an agreement in 2005. Thereafter, Liechtenstein initiated negotiations to join the Schengen area which also foresees cross-border co-operation in the fight against fraud in direct and indirect taxes. As soon as Schengen is put into effect in Liechtenstein–hopefully by the end of 2009–its common rules will serve as a basis for comprehensive mutual legal assistance in cases of tax fraud.

At the national level, Liechtenstein relaxed the exemption in its Mutual Legal Assistance Act in 2007 so that assistance in cases of VAT tax fraud and for certain severe customs offenses is now permissible. Liechtenstein has been negotiating an Anti-Fraud Agreement with the EU for more than two years. After having substantially finalised these negotiations in June 2008, Liechtenstein offered to all EU member states to implement OECD standards by way of comprehensive bilateral double taxation agreements. This offer went largely unnoticed. Liechtenstein went ahead to conclude an OECD compliant Tax Information Exchange Agreement with the US in December 2008.

> **"The right to privacy will remain a cornerstone of our legal system"**

So what you see is not a turnaround but a step-by-step integration. This integration is the result of a sovereign political decision and yes, it is paced by the international efforts and progress in that area.

Liechtenstein is one of several financial jurisdictions to have signed up to the OECD global standards of transparency and exchange of information on tax in recent months. What concrete actions is Liechtenstein taking to honour that commitment and in particular to counteract non-compliance with foreign tax laws?

Our commitment stands and is an open invitation to other states to enter into agreements with Liechtenstein in order to implement these standards. We are currently in negotiations with Germany, the UK, Luxembourg and the EU. First contacts have taken place with France, the Netherlands, Belgium and also with other countries that have significant economic relationships with Liechtenstein. We are ready for a swift conclusion of these negotiations and the signing of agreements that will benefit Liechtenstein's economy as a whole. Even though the financial industry, with a 30% share of GDP, is an important economic pillar in Liechtenstein, bear in mind that industry is the single largest contributor to our wealth, with an annual average of 40% of Liechtenstein's GDP.

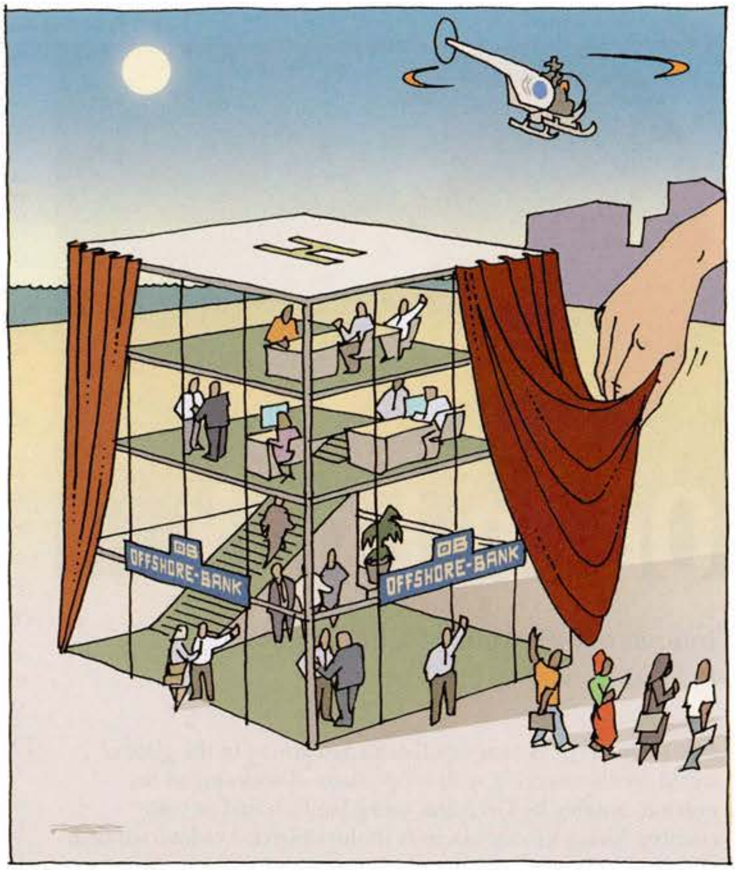
Are you confident that Liechtenstein's financial industry can remain competitive in a more transparent global environment?

Yes, very much so. I will give you three reasons. First, our financial industry is prepared and has had time to adjust. It is ready for new business models. Already back in 2006 the government and business associations identified transparency and international co-operation in tax matters as a meta-trend likely to affect the traditional offshore business model. The government subsequently initiated a two-year consultation period that produced a report in February 2008 setting out the cornerstones of a repositioning of our financial centre. Second, our financial centre is well regulated and uniquely stable. After the global financial meltdown in 2008 and the systemic failures that were due to a lack of oversight, I believe that our proven stability will be a key element of competitiveness in the future. Third, co-operating internationally in the combat against tax fraud does not mean that Liechtenstein's legal system no longer values the citizen's right to privacy. Even with greater transparency and co-operation in tax matters, the right to privacy will remain a cornerstone of our legal system because it is part of our constitution and our culture. In an age when technology and politics are threatening personal privacy, we will keep it as a closely guarded asset that the client of the future will value. ■

References

- Perez-Navarro, Grace (2008), "Tax, transparency and the global economy", in *OECD Observer*, No. 267, May-June 2008.
- Visit Liechtenstein's official website at www.llv.li

Why tax matters for development



Jeffrey Owens and **Richard Parry**
OECD Centre for Tax Policy and Administration

Stronger and cleaner tax systems would help development, but there is much work to be done.

In 2008 a US senate subcommittee issued a report alleging that banks located in tax havens cost US taxpayers some $100 billion a year in lost revenue. That is a considerable leakage, especially in light of US laws, institutions and other mechanisms to help control tax evasion.

But if parking money offshore leaves an intolerable dent on the legitimate tax revenues of wealthy countries, just imagine the gulf it leaves in those of developing countries where the legal and institutional apparatus to stop tax evasion is far weaker. Tax abuse not only debilitates efforts to fight poverty but also weakens the fiscal base needed for sustainable economic development.

According to the World Bank, illicit flows of cash from developing economies amount to between $500-$800 billion a year. How much of this is in the form of tax evasion is unclear, but it is not unreasonable to estimate that the lost revenue is equivalent to many times global bilateral development aid and more than the national income of several poor countries combined. It is money foregone that could be spent on healthcare, education and infrastructure. It means lives are lost that could be saved.

The ratio of tax to GDP in poorer countries is only about half of what it is in the developed world. Though sub-Saharan Africa is not expected to match Scandinavian levels of taxation, many low-income countries could boost their tax take by improving their fiscal systems, and by doing so reinforce development.

This is not a theory, as, for example, reforms in Rwanda have shown. The Rwandan Revenue Authority, with strong international support, carried out changes to strengthen internal organisational structures and training, as well as relationships with local government. The result was a sharp increase in domestic revenue from 9% of GDP in 1998 to nearly 15% in 2005 in what has been one of Africa's better performing economies.

Tax is more than just a source of revenue and growth. It also plays a key role in building up institutions, markets and democracy through making the state accountable to its taxpayers. Just as excessive tax burdens might hinder growth in wealthier countries, in developing economies a lack of tax structures is a major cause of weak, unresponsive governance. It also leads to an overreliance on aid. With tax, the public can hold governments to account for their decisions, and not feel tied to the will of aid donors. And because tax revenues are relatively predictable, governments can plan ahead with greater certainty.

True, developing countries need aid and will continue to do so, but they can also use it to help strengthen their tax capacity, increase their autonomy and reduce their long-term dependence on external assistance.

This idea is not new. Indeed, rich and poor country governments have agreed on the importance of tax for development for years. The 2002 Monterrey Consensus, for instance, which launched a new focus on development, recognised the key role of taxation in mobilising domestic resources–90% of domestic revenue is usually derived from tax.

However, recognising the importance of tax is one thing, improving its impact and operation is another bearing in mind cultural barriers, institutional weaknesses, and corruption, as well as international factors including capital flight, aggressive tax planning and trade pressures.

Consider tariffs, which many African countries rely on for over half of their government revenue. Though opening up trade is expected to bolster long-term

A lack of tax structures causes weak, unresponsive governance

economic growth, countries participating in initiatives such as Doha are required to cut their tariffs. This presents a major challenge to maintaining current revenue bases, let alone increasing them. In other words, trade talks are more than just about reducing tariffs and subsidies to improve market access, but about tax systems too. Before removing tariffs on cross-border trade, governments must feel assured that alternative sources of revenue are already in place.

This is a complex task, which is why weak tax administrations must be strengthened. Corruption is just one major obstacle. Developing countries have the misfortune to have tax systems run by poorly trained and underpaid officials working in antiquated administrative structures, often still based upon the old colonial models, with their separate departments to deal with income and consumption taxes. A dramatic improvement in these administrations is needed if developing countries are to move beyond the poverty trap, with the confidence to reduce tariffs and carry out reforms, such as broadening the tax base. Improvement requires independent revenue services led by strong visionary tax commissioners, working with better paid officials within an integrated administration. It requires clear direction and focus including risk management systems that strike a balance between enforcement and taxpayer service, as well as between public and business demands.

These improvements will be extremely hard to achieve without renewed and carefully targeted efforts on the part of aid agencies and civil society groups, as well as donor governments, to support projects aimed at improving tax capacity in poorer countries. In 2006 less than 0.1% of aid went into the tax area. If development is to take off in the years ahead, this ratio will have to be dramatically increased. Aid used in this way can provide the seeds for African-driven development.

The recent initiative of African tax commissioners from 30 countries to create an African Tax Administration Forum deserves strong support. This is an initiative designed by Africans, for Africa with bilateral and multilateral donors, including the African Development Bank and the OECD, playing a supportive role. The International Tax Dialogue–a grouping of the EU, IMF, Inter-American Development Bank, World Bank, the OECD and the the UK's Department for International Development–can also help co-ordinate donor efforts and provide benchmarks for measuring and guiding progress among tax administrations. This work would be reinforced if the UN and more national aid agencies joined the grouping.

Strengthening and improving tax administration will not happen overnight. In the meantime, the pressure on tax havens must continue. Tax havens which have no or nominal taxation and lack transparency, effective exchange of information and "real activities" are everywhere, and those with wealth to invest from developing and developed countries have easy access to them. If taxes on income flowing to these jurisdictions were collected by the rightful authorities, then billions of dollars would become available to finance development.

The OECD knows this, which is why for over a decade we have been leading the fight against tax havens by encouraging countries to agree to higher standards of transparency and exchange of information in tax matters. Our tax standards have achieved a global endorsement from the G20 and the UN, and implementation is moving forward (see box, page 22).

There is much left to be done of course, including on the technical side. New efforts are required to develop an internationally accepted methodology to measure the actual size of the offshore

World trade is more than just about improving market access, but about tax systems too

sector and the precise amounts of revenue lost to tax havens too. After all, though we may have a handle on the global loss of revenue to tax havens generally, for policy responses to be effective, we need to know how much specific countries, and particularly developing countries, are losing to particular offshore jurisdictions.

The global economic crisis has refocused public and political attention on the importance of defeating illicit tax abuse and improving bank transparency. It has ushered in a long-overdue public and political intolerance of regimes that flout tax laws and standards and deprive countries of their rightful earnings and assets. Properly and transparently organised tax systems are now accepted as engines of development, not constraints. Accepting this message is important for all countries, and implementing it would be a major step forward for developing countries. ■

References

- Visit www.oecd.org/tax

Banking on fair tax


©Government of South Africa

The financial crisis might not have been caused by taxation, but it nonetheless raises concerns about evasion, compliance and transparency in financial markets. The *OECD Observer* asked South Africa's minister of finance, Pravin Gordhan, who chairs the OECD's Forum on Tax Administration, to explain.

***OECD Observer*: What particular challenges do banks present for tax authorities?**

Pravin Gordhan: There are a few. Take for instance the complexity of some transactions undertaken by banks or the financial products developed by banks for their customers. This often makes it difficult for revenue bodies to differentiate between aggressive tax planning transactions and transactions that are merely complex but do not contain any significant tax uncertainty. Add to this the fact that banks operate on a global level, which means many of their transactions, or transactions facilitated for their clients, have tax impacts in more than one country. This makes it difficult to understand the overall context of a transaction and can also cause delay in arriving at a decision on the correct tax outcome.

The OECD's Forum on Tax Administration recently approved a study on building transparent tax compliance among banks. What are the main messages from the study?

The aim is to enable tax administrations to appreciate fully the commercial and international context of the complex financial transactions used by banks and their clients. So we encourage banks to offer a degree of transparency above the minimum required under existing tax laws. By obtaining information at an early stage, tax administrations can respond to emerging risks and ensure that their resources are targeted effectively. This minimises compliance costs for banks.

Tax administrations can also work together more effectively. By sharing information internationally, they can better respond to emerging aggressive tax planning as well as reduce the time taken to provide greater certainty to banks on transactions involving multiple jurisdictions.

Why did the OECD commission the report?

Unacceptable tax minimisation arrangements are one of the major risks that all countries need to manage. The role of tax advisors and financial and other institutions in promoting these arrangements has been a particular concern of ours for a few years now. The Forum on Tax Administration committed to examining the role of tax intermediaries in relation to non-compliance and the promotion of aggressive tax planning in 2006. This latest report on the role of banks in designing and implementing aggressive tax planning is the follow-up.

The crisis is an opportunity to improve transparency and tax compliance

The financial crisis developed as the study was being undertaken. What effect did the crisis have on the study's recommendations?

Though the report was not about the financial crisis, it was necessary to take it into consideration. Neither tax policies nor tax administrations appear to have been major influences on events or behaviours which led to it. However, clearly the crisis presents an opportunity for revenue bodies to work with other financial regulators to improve transparency and tax compliance. This is an important recommendation in the report and one that is part of strengthening the overall corporate governance framework. ■

References

- OECD (2009), *Building Transparent Tax Compliance by Banks*, CTP, Paris.
- OECD (2006), *Study into the Role of Tax Intermediaries*, CTP, Paris.

Charities and tax abuse

Johanne Charbonneau
Canada Revenue Agency

Charities have become the latest victims of abuse by tax fraudsters and money launderers. Can they be better protected?

For most people, charities are cherished organisations. The vast majority of them are not only genuine and authentic but make an important contribution to society, in areas such as health, social assistance and education. Such is their high standing that many governments give special recognition to the role the charity sector plays in building a stronger and fairer world. For instance, several countries provide tax relief to these organisations and their donors.

But while the vast majority of charities are honest and legitimate, fake charities emerge from time to time. Even bone fide charity organisations can be targeted by criminals to launder the proceeds of tax crimes and other financial offences.

Why charities? There may be a range of different reasons for this. For a start, the fact they are charities may make them a "soft touch" for criminals, who see them as being above public suspicion, and perhaps not subject to the kind of tough accounting vigilance afforded to regular businesses. Yet some charities handle vast amounts of money and, just like major corporations, often have to move those finances across borders.

As a result, the privileged status of a charitable organisation is too often wilfully abused, whether by taxpayers, by donors or by tax-return preparers. Terrorist organisations and fraudsters not only use charities, but many pose as charitable organisations themselves.

Little wonder governments now want to tackle abuse of charities, and this demands knowing more about how they function, and clearing out the blind spots.

In 2008 the OECD set about addressing this problem by carrying out an in-depth survey. The results threw up some surprises. The 19 countries surveyed show a great diversity in the way that charities are perceived in different societies–and the way in which charities and donors are treated for tax purposes.

The list of fraudsters is long, from tax-return preparers and professional fundraisers, to lawyers and doctors

For instance, in Austria, charities are mainly subject to tax, but are exempted from paying income tax if the given purpose of the charity is related to public welfare. As for the donors, only donations for charities with charitable goals related to science and research are passed as valid for tax exemption. Transparency is also important, as shown in Chile and Denmark, where charities must declare both the amounts they receive and the donors' identification to the tax authorities.

The extent to which charities are abused also varies widely. In fact, five of the countries surveyed–Austria, Chile, Denmark, France and Germany–reported that they had not identified any cases of abuse of charities for money laundering and tax evasion. However, for the other countries, there was some evidence of abuse, including organised crime.

How do they do it? The OECD identifies a range of common methods and schemes. For instance, a bogus company might pose as a registered charity that solicits contributions which end up in the pockets of its directors. There are registered charities that sell charity receipts to tax-return preparers for a commission. Taxpayers and tax-return preparers might counterfeit charity receipts of real charities. Or terrorists use charities to raise or transfer funds to their organisations.

The list of possible fraudsters is long, too, from tax-return preparers and professional fundraisers, to lawyers and doctors, and even charities themselves.

Take the case of a tax-return preparer described in the OECD report. This person prepared 1,190 income tax returns claiming false charitable donations. First, she charged a small processing fee to complete her clients' income tax returns. She then asked those clients if they wished to make a "donation" to a charity. The tax return preparer falsified the charitable receipts of those "donations" by using the names of legitimate charities and then claimed the false deductions on her clients' income tax returns. She charged her clients an additional fee for processing these fraudulent receipts. The result was an astounding total in forged charitable donation receipts of some €2.4 million. The tax-return preparer collected no less than €525,884 from her clients over a three-month period for her services. The consequent loss to the tax authorities was €675,804, not to mention the cost of having to reassess 1,190 income tax returns. In this case, the tax-return preparer was caught and ended up in prison.

Though not every case ends this way, detection is improving, thanks to a combination of intelligence gathering, data matching and risk profiling and analysis to uncover charity frauds. In-depth audits of the charitable organisation's bookkeeping can also help verify the tax status of the donors. The OECD report suggests that valuable tax information could come from domestic intelligence agencies such as the Financial Intelligence Unit (FIU), customs and immigration agencies, or foreign tax authorities. Informants can also provide leads.

Tax authorities can also find out quite a lot by working with law enforcement agencies, such as the US Federal Bureau of Investigation (FBI), the Royal Canadian Mounted Police (RCMP) and, in Italy, the Finance Police.

Campaigns to raise awareness about fraudulent charities and abuse are important. But so is legislation. Many countries have passed bills to exclude "remunerated donations", where the "donors" get something of value in exchange for their "donation", while others have made it obligatory to report suspicious transactions to the FIU. Several countries have set up special task forces and audit teams to combat the abuse.

Because charities and tax both have cross-border aspects, international organisations are stepping up to the plate. The OECD is doing its part by keeping track of developments and co-operating with members to identify best practices, including, for instance, whether compliance policy needs tightening up or not. A number of international organisations, including the EU Justice Directorate and the United Nations, have also expressed an ongoing interest in the need for transparency and good governance of charities, particularly where cross-border transactions are involved. And they are working with charities on the ground to ensure that they have the good practices and legislative protection they need to combat fraudsters and their accomplices. They all agree that the role of charities is too important to allow financial abuse and fraud to continue any further. ■

For more on tax abuse and charities, contact Brian.McAuley@oecd.org
www.oecd.org/ctp/taxcrimes

Reference

- OECD (2009), Report on abuse of charities for money-laundering and tax evasion, Centre for Tax Policy and Administration, available online at http://oecd.org/dataoecd/30/20/42232037.pdf


©OECD

A stronger, cleaner and fairer economy

Towards a new paradigm

Cristina Narbona Ruiz
Spanish Ambassador to the OECD
and former Minister of the Environment, Spain

The current crisis is an opportunity to launch a new economic model, in which the environment, as a pillar of human welfare, must be central.

In the past few months we have seen the emergence of the dire economic, social and environmental consequences of a system which privileges personal profit over the general interest, and greed and wastefulness over responsibility and prudence.

This crisis must be tackled urgently, but by first understanding its deep roots and not yielding to the temptation of tending only to the more serious symptoms. All the analyses point to an over-dominant financial economy that generated astronomical profits for a tiny minority of the world population, and promoted excessive consumption and indebtedness. Meanwhile, social inequalities and the systematic destruction of the earth's ecosystems have escalated, helped along by a lack of regulation and insufficient public oversight. Public authorities have been too tolerant of speculation and tax avoidance, which run alongside pollution and the exhaustion of natural resources. And all of this in the name of a type of economic growth that, instead of increasing the well-being of all, actually threatens it for future generations.

The reality is that the economy has never been "autonomous" from ecology: all economic processes depend on ecological processes. The consequences of having ignored this reality have become tragically evident today.

On the other hand, as some European countries in particular have repeatedly shown, higher and lasting levels of job creation and increasing well-being, alongside reinforced environmental and social requirements, are perfectly possible.

Since the mid-20th century our scientific understanding of the ecological risks posed by our economic model has increased. Since the 1990s there has been mounting evidence that global warming is the fall-out of economic growth. Climatic change is already on the political agenda of most countries, but so far, the effectiveness of existing policies has been minimal.

Climate change is fuelling more frequent meteorological phenomena that are felt more severely by the populations of less developed countries.

Africa is the great paradox. Despite contributing only 4% to the world emissions of greenhouse gases, it suffers the worst consequences of climate change: longer lasting droughts, more frequent floods, growing desertification and biodiversity loss. The UN Intergovernmental Panel on Climate Change (IPCC) estimates that by 2020 more than 400 million Africans will be severely affected by global warming.

Beyond climate change, other environmental challenges are still far from being a priority for political action. The loss of biodiversity is an example, despite, for instance, the extinction of species essential for the production of foodstuffs. FAO data from 2007 shows that almost 80% of fishing grounds are already exhausted or on the brink of depletion due to overfishing. Pressure on biological resources also reduces our capacity for remedying illnesses and encourages the propagation of pests. Yet there are hardly any binding commitments to protect biodiversity at national and international levels.

Then there are threats to public health from air, water and ground pollution, particularly in the poorest countries and developing economies. One million people die each year in China solely from pollution-related causes. Scarcity of drinking water and inadequate treatment of sewage is the number one cause of disease in the world.

Tackling these environmental dangers is important not just for ethical reasons. The OECD has been producing estimates on the economic cost of environmental inaction since 2004. Its methodology has since been adopted in World Bank reports (from 2006) and the well-known Stern Review on the Economics of Climate Change (2007).

All reports agree that, even from a strict economic approach that puts ethics aside, it is far less costly and therefore far more preferable to face up to environmental challenges sooner rather then later.

In short, the present crisis must be seen as a manifestation of the lack of economic, environmental and social sustainability of our present economic model. The economy is fully dependent on ecology.

As French economist Jacques Généreux puts it, "economic laws" are "man-made laws", reflecting human priorities and institutions, whereas "natural laws", be they from biology or chemistry, cannot be circumvented by human action without entailing results that may even become irreversible.

Environment and human rights

Quite simply, overcoming the present downturn calls for a paradigm shift. This begins with ensuring accountability and the recognition of the right to a dignified life for all the citizens and future generations of the planet.

Meeting environmental challenges is an indispensable precondition of human health, the quality of life and progress. Each and every human being is equally entitled to breathing unpolluted air, to have access to enough drinking water and to enjoy our natural habitat. Such rights are inextricably linked to the most fundamental right of all: the right to life.

To quote two other notable French economists, Jean-Paul Fitoussi and Eloi Laurent, "environmental equality is the true key to sustainable development".

It would be impossible to implement a "full equality of rights" to natural resources without first introducing sustainability criteria. For example, the right to food must be understood as an entitlement to an adequate calorific diet, but that should not automatically mean an unlimited right to an animal protein-rich diet, which may be both unhealthy and unsustainable environmentally, given methane emissions and intensive land and water usage. The same can be said about the right to use energy resources.

Such fair principles must underpin a future agreement on the fight against climate change. The EU, following a suggestion by Spain among others, champions the gradual convergence of CO_2 per capita emissions in order to introduce an element of justice that would make possible the involvement of developing countries in such an agreement. Following this approach, EcoEquity, composed of a group of researchers, has put forward a calculation method to distribute the effort required to mitigate climate change. The method takes into consideration the per capita emissions, total emissions accumulated since 1990, per capita income and the relative poverty level of each country. According to this approach, the commitments geared toward reducing greenhouse gases by 2020 would represent some 1.5% of the US GNP, 1.1% of the EU GNP, 0.7% of the Chinese GNP and only 0.08% of the GNP of all the developing countries combined.

If GDP is not an indicator of well-being, then it follows that the goal of our economic model is not well-being either

This brings up another point for governments to focus on, which is how to measure progress. Up to now the GDP has been the primary indicator of "economic success" and even of social advancement, even though it does not take into account basic components of well-being, such as wealth distribution, environmental quality, gender equality and quality of public services.

Alternatives to GDP have been suggested for many years, with a whole array of indicators devised since the 1990s, such as in the UN's Human Development Reports, and in the subsequent work by Nobel Laureate Amartya Sen.

However, this analytical work has barely influenced real political debate, where GDP continues to hold sway today. Yet, if GDP is not an indicator of well-being–and the OECD itself has recognised its limitations–then it follows that the main goal of the dominant economic model is, alas, not the well-being of citizens either.

This must change. Selecting the "best possible well-being indicator", or specifically weighing up several indicators, must fall in line with the goals of public policies and people's own perceptions of their quality of life.

The OECD is now playing a lead role in an international task force to improve the measurement of social progress. Early results will be made public in the course of 2009. In addition, the French government has also instituted a committee to pursue the same goal, headed by Joseph Stiglitz, together with Messrs Sen and Fitoussi.

Their common goal is to build a different outlook on our world by identifying those basic elements that are vital for happiness but whose significance has been relegated by the culture of the "consumer society".

Natural resources may be limited, but our imagination and determination in building a better world should know no bounds. Following on from the struggle for the rights of workers, women and minorities, this new struggle must urgently be pursued for the rights of all people to enjoy a better environment as a condition of a better quality of life. It is a struggle that OECD could do much to help us win. ■

References

- Fitoussi J.P. and E. Laurent (2008), *La Nouvelle Ecologie Politique*, Seuil, Paris.
- Généreux, J. (2005), *Les vraies lois de l'économie*, Seuil, Paris.
- OECD (2001), *The Well-being of Nations: The Role of Human and Social Capital*, Paris.
- Stiglitz, J. (2009), "Progress, what progress?" in OECD Observer No 272, March 2009, see also www.oecdobserver.org/news/fullstory.php/aid/2793

Innovating a recovery

Andrew Wyckoff, OECD Directorate for Science, Technology and Industry

A jolt of innovation can be a powerful antidote to recession. But innovation risks being hit hard by the economic crisis as the capital to finance research and develop new products grows scarce. The economic fallout could be serious, since innovation is a key driver of growth.

As financial markets collapsed last autumn and economies around the world plunged into recession, many venture capitalists started putting their wallets back in their pockets to wait out the crisis. Instead of funding start-ups, they are sparing capital to help firms in their portfolio survive.

The numbers are cause for concern. US venture investments started declining in early 2008. And in the first quarter of 2009, they plunged 60% compared with the same period a year earlier. In Europe, venture investments declined 40% in the first quarter, and in China, by 58%, according to Dow Jones Venture Source.

At many companies, funding for research and development (R&D) is also squeezed by the recession. Those struggling to remain profitable are forced to put risky, long-term R&D projects on hold or curb spending–since R&D tends to be financed from cash flow. Corporate reports for the fourth quarter of 2008 in many cases already show a decline or slower growth in R&D spending. And forecasts for 2009 confirm the trend. A recent survey by McKinsey of almost 500 large businesses worldwide shows 34% expect to spend less on R&D in 2009.

And even though some stronger companies reported taking advantage of the recession to outspend weaker rivals and gain competitive edge, available data show that even quarterly R&D expenditures of top information technology firms are dropping in many sub-sectors, notably semiconductors, which were down 14% in the first quarter over a year earlier. Whereas Internet and software firms still have rising year-on-year R&D spending in the first quarter of 2009, growth is down.

Why should a contraction in R&D or venture capital outlays matter more than any other nose-dives in this crisis? The answer is simple: this is not your parents' recession.

Productivity gains and GDP growth are strongly linked to new technologies and investment in a wide range of intellectual assets. The advent of personal computers, the world wide web and its offspring, broadband communications networks, all play a key role driving efficiency gains, new business models and new firm creation.

R&D is a powerful driver of innovation, but it's not the only one. Globalisation has changed the way economies transform knowledge into market value–the definition of innovation. That process now takes place increasingly outside the lab. New approaches to design, marketing and organisations are powerful drivers of growth. Companies can enhance efficiency by investing in new technology, but to reap greater gains they need to take advantage of technology by investing in new skills and approaches too.

In our knowledge-based world, investment in these "intangible assets" has become as important as that in traditional plant and equipment, accounting for 5% to 12% of GDP in many OECD countries.

Skills, networks and trading knowledge are vital to competing efficiently in today's economy where information travels in real time. Companies increasingly collaborate to reduce the cost and risk of bringing new ideas to market by tapping expertise around the globe. How can countries improve their ability to innovate? The OECD Innovation Strategy offers a way. With a final report due in 2010, the strategy is being designed to help governments devise policies that keep pace with change.
The goal is to unleash greater innovation

across all economic sectors, including services, which now average 70% of GDP in OECD countries. The Internet, for example, has become a platform for new business models, especially in marketing, retail sales and distribution. German automaker BMW used mobile-phone messages to reach a younger crowd of potential buyers for a new model it was launching in 2004, inviting them to sign-ups on BMW's website for pre-launch test drives. The experiment worked, sparking responses from 150,000 potential customers–and sales of the new model took off when it was launched.

A more well-known example is online auction house eBay, which began life on a personal computer 14 years ago, and which today is an $8.5 billion company and a virtual market-place for millions of people.

This is not your parents' recession; innovation matters more

Such examples are multiplying, but countries have still barely begun to tap the transformative power of innovation across all industries, the consumer landscape and even government itself. To accelerate that process, the OECD Innovation Strategy is developing a coherent policy approach, with guidelines and principles to help governments reap benefits across the entire economy.

The strategy will also help governments wield innovation to tackle challenges such as climate change, healthcare and food shortages more effectively. The economic crisis has prompted the creation of huge stimulus plans. By investing part of these packages in innovation and collaborating internationally, policymakers also have a rare opportunity to accelerate scientific breakthroughs and innovative solutions that can benefit the entire planet. On the environment, governments around the world are already setting aside billions of dollars of these funds to help drive a "green" recovery. Their aim is to provide incentives for the development, uptake and diffusion of innovations in energy, buildings and transport that will lower energy use and carbon emissions.

Innovation is a powerful force for development, too. Take the Bhoomi Project in the Indian state of Karnataka, which computerised 20 million rural land records of 6.7 million farmers, improving the availability of information on land rights and land use practices.

The initiative allowed bankers to provide crop loans much faster. Land disputes are declining, encouraging farmers to invest in their property. The success of the Bhoomi Project has prompted India's government to launch a similar programme to cover the entire nation.

Several countries have demonstrated the powerful impact of increased spending on the entire innovation ecosystem during a downturn. Finland emerged from a severe recession in the early 1990s with a strong communications technology industry, a more highly-skilled workforce and new economic muscle.

A key part of the Finnish plan was nearly doubling public investment in R&D from 1991-1995, which helped staunch the downturn in business R&D. Equally important were higher outlays for education and worker training. By 1995, Finland's GDP growth had rebounded to 5%. "Innovation is a high-risk business. We need the ability to take real risks," said Esko Aho, executive vice-president of Finland's world-leading mobile phone maker, Nokia, at a recent OECD conference in Denmark. Mr Aho was also the prime minister that led Finland out of that 1990s recession.

Innovation can do more than prime the growth pump. Combined with good crisis management, it can also accelerate structural change. Korea is an example. As the Asian financial crisis of the late 1990s buffeted Korean firms, triggering mass lay-offs, the Korean government developed policies to seed new small and medium-sized technology companies. Like Finland, Korea offset the decline in corporate R&D spending with a strong increase in public R&D and education. It also created a law in 1998 to promote venture capital firms, which was a key to developing private-sector funding for innovation. By 2001, the number of venture firms had grown to over 11,000–up from 100 on the eve of the crisis.

Not so venturous

Venture capital spending, 2005=100

*First round of funding, also called "first sequence"

Source: OECD

For economies around the world, a good dose of innovation can deliver a double win: a sustainable recovery and progress on social goals. But innovation is a complex and dynamic game and to succeed in the long run, countries will need to make innovation a central pillar of government policy and equip citizens everywhere to participate and harness knowledge for solutions. The OECD Innovation Strategy will be there to help. ■

Gail Edmondson contributed. For more on the OECD Innovation Strategy, write to sti.contact@oecd.org

References

- For further information see www.oecd.org/innovation
- "Innovation: A stocktaking of existing OECD work" at ttp://www.oecd.org/dataoecd/14/32/42095821.pdf
- "Fostering Entrepreneurship for Innovation" at http://www.oecd.org/dataoecd/11/41/41978441.pdf
- OECD Observer (2008), "Koreans online", No 268, June, see www.oecdobserver.org

Korea's economy

Korea was one of the OECD countries most severely affected by the global crisis, even though its financial sector had been relatively healthy. Indeed, the crisis has been quite a blow to an economy that had become one of the developed world's star performers in recent years, with the financial market volatility and the steep drop in the exchange rate reminiscent of the 1998 Asian crisis.

The exchange rate also depreciated by 30% in trade-weighted terms between July 2008 and the end of February 2009, reflecting concerns about the size of Korea's foreign debt as well as an outflow of foreign investment. This led to a sizeable drop in equity prices and reduced household wealth. Despite the weak exchange rate, exports plunged by more than 30% at an annual rate in the final quarter of 2008, causing a sharp contraction in output.

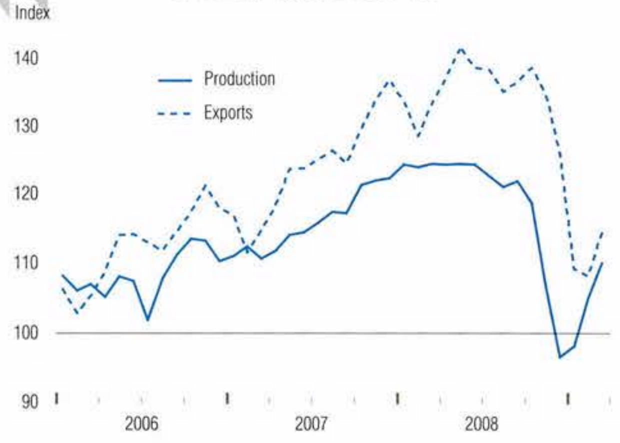
But the situation is improving. The Korean economy was one of the first among OECD countries to stabilise, recording slightly positive growth in the first quarter of 2009 thanks to a number of factors. First, the depreciation of the *won* strengthened Korea's international competitiveness by making exports cheaper, helping it gain market share even in still-shrinking markets. Second, the Bank of Korea had acted swiftly by cutting its policy interest rate from 5.25% in August 2008 to a record low of 2% in February 2009, and this bolstered lending to small firms and households. Third, the fiscal stimulus that the government introduced from the second half of 2008 began to take effect. Both government spending on goods and services and construction investment, led by public infrastructure projects, recorded double-digit increases in the first quarter of 2009. In April 2009, a fresh boost came from a supplementary budget amounting to 1.7% of GDP, which provided support for the unemployed, low-income households and small and medium-sized enterprises.

Beyond fiscal and monetary stimulus, the authorities have implemented a number of additional measures to limit the impact of the global financial crisis on Korea. In late 2008, they arranged currency swap arrangements with major countries and guaranteed domestic banks' foreign debt up to $100 billion, a move that helped ease concerns about Korea's external debt. The *won* has rebounded since March, although it remains well below its July 2008 level.

The government has also moved pre-emptively to limit any negative effect on the financial system from the economic downturn. It has injected capital in seven banks and established a 40 trillion *won* (4% of GDP) fund to purchase non-performing loans.

Exports and production have bottomed out

Seasonally adjusted, 2005=100



Three-month moving average

Source: Bank of Korea, Korea National Statistical Office

All of these initiatives have already paid off, both in a stabilisation of output, and a strong bounce-back in business and consumer confidence, which now exceeds its September 2008 pre-crisis level. Financial-market conditions have also settled, thanks to a revival in corporate bond issuance and a rally in equity prices.

In sum, the Korean economy seems poised for recovery, but there are negative factors to deal with. There is still the impact from shrinking employment, for instance. Also, exports account for about half of the Korean economy. This means the outlook depends crucially on world trade, which is projected to recover only gradually. ■

For more detail on Korea's economic performance, contact Randall.Jones@oecd.org

For latest economic projections on Korea, see *OECD Economic Outlook No 85*, June 2009, at www.oecd.org/eco/economic_outlook. See also, www.oecd.org/korea

Global leadership in a Web 2.0 world

©Ahmad Masood/Reuters

Soumitra Dutta, Roland Berger Chaired Professor of Business and Technology, INSEAD, and **Matthew Fraser**, Senior Research Fellow, INSEAD

If there is one lesson we have learned in the past year of economic crisis, it is that leadership in both business and government has suffered a severe erosion of credibility, trust and legitimacy. We need a new leadership model. Could Web 2.0 provide one?

Corporate executives have traditionally been preoccupied with managing the holy trinity of mass production/mass marketing/mass media. Management models were fitted to vertical, top-down organisational structures focused largely on manufacturing products, marketing brands, and communicating to consumers in a one-way conversation. Inside organisations, CEOs were regarded as quasi-infallible leaders whose judgement and decisions were expected to be obeyed and executed. For too long, this leadership model went unquestioned, doubtless because the rewards were too high.

That has changed. We don't need to see the fallout from the current crisis–bankruptcies of banks, insurance companies, car manufacturers and other once-unassailable pillars of global capitalism–to know that this model was disastrously ill-conceived. Corporate leaders, disengaged from their customers and preoccupied with their own interests, are now suffering the consequences of their approach. Indeed, we are all paying for it.

But there is good news. The crisis has forced business leaders to reassess not only the way corporations are structured and managed, but also the values that animate their operations. Fortunately, they have an alternative model at hand. Even before the global economic crisis struck, new forms of leadership were emerging thanks to the power of online networks.

Suddenly, there is intense interest in the Web 2.0 tools that, for many years, corporate leaders resisted as a needless distraction if not a disruptive threat to the status quo. Now that the status quo is part of the problem, many CEOs are embracing the Web 2.0 revolution. They understand that Web 2.0 tools are not just a technological add-on, but must be integrated into a company's entire operations in order to bring about a fundamental shift in values and perception. This change demands a new kind of corporate leadership.

The Web 2.0 leadership model requires management values that recognise the social architecture of companies. Instead of assuming that corporate leaders are all-knowing and infallible, the Web 2.0 model rewards leaders who openly engage with different stakeholders, using tools like blogs, tweets and wikis. Web 2.0 corporate leaders work through networks instead of hierarchies. They are open to ideas from sources beyond the vertical command system of corporate bureaucracy. This requires a large dose of openness and humility–two core values of Web 2.0 leadership–that have not always been hallmarks of corporate leadership in the past. Fortunately, the timing couldn't be better. If there is one virtue corporate leaders realise they must embrace, it is humility.

Could political leaders learn from the crisis in corporate leadership? After all, citizens are no less disenchanted with political elites, who are increasingly resented as arrogantly disconnected from the needs of the voters who elect them into office. Just look at the current public outrage over politicians' expense claims in the UK, one of the world's steadfast democracies.

If there is one virtue leaders realise they must embrace, it is humility

Like consumers who have become empowered with information thanks to networked Web 2.0 information, citizens are now participating more actively in the political process.

In most liberal democracies, politics has been organised much like commercial markets: dominated by large oligopolies whose leaders are selected within closed, vertical structures called political parties. The business of government, too, has been a top-down process that has alienated, not integrated, citizen participation. And yet voters and citizens can now organise themselves and mobilise support thanks to Web 2.0 platforms like Facebook and YouTube. If not addressed, this disconnect between citizen empowerment and the values of established elites could lead to social tensions, even violent disruptions, not unlike the anti-globalisation demonstrations of recent years.

Some leaders are paying attention. The power of Web 2.0 platforms to radically challenge this old model of political leadership was harnessed, with spectacular success, by Barack Obama in his campaign for the presidency of the United States. While many pundits were focusing on the question of his race, Obama was busy defeating his rivals online, thanks to his powerful techno-demographic appeal. His campaign leveraged not only Facebook and YouTube, but also MySpace, Twitter, Flickr, Digg, BlackPlanet, LinkedIn, and other Web 2.0 platforms. The MyBarackObama.com website was attracting more than 8 million monthly visits, including 35,000 volunteer groups that raised $30 million on the site. President Obama, who enjoys thumbing a BlackBerry, now uses a White House blog and Web-based videos to communicate directly with the American people.

In short, if Franklin Delano Roosevelt was America's first radio president and John F. Kennedy was the country's first television president, Barack Obama is its first Internet president.

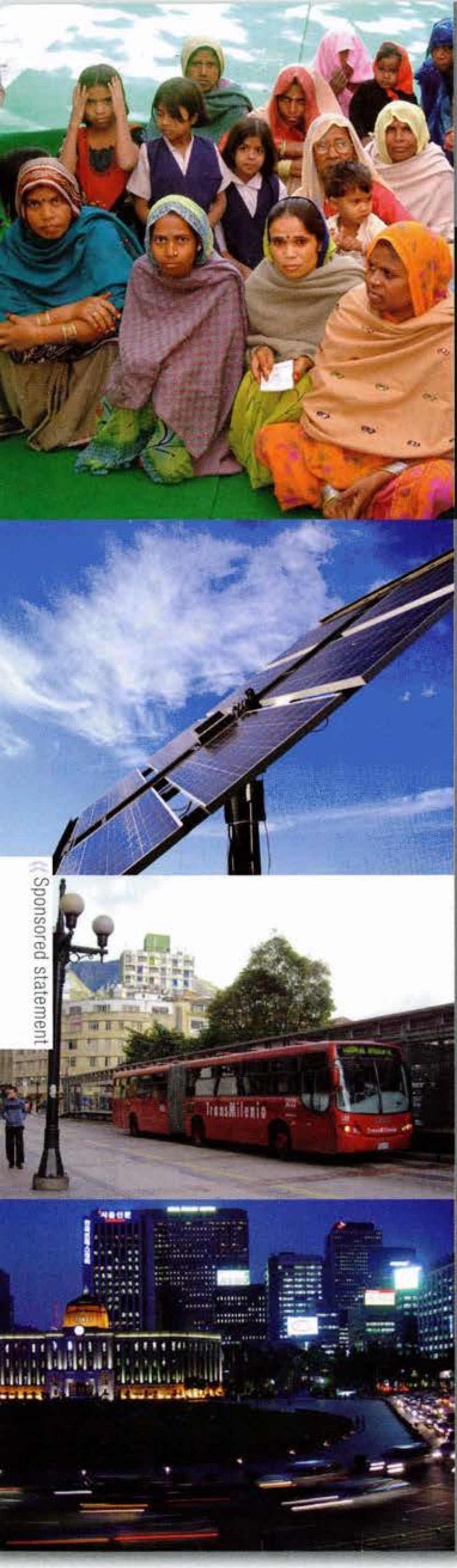
In liberal democracies, no politician can ignore the powerful networked effects of Web 2.0 platforms. Most western political leaders have closely studied Barack Obama's success with the Internet in order to deploy these same tools to similar effect at home. An even greater challenge will be using Web 2.0 tools to engage citizens in the complex process of government. Web 2.0 social networks diffuse power away from institutions and towards people.

No wonder dictatorships deeply resent, and frequently suppress, free expression on Web 2.0 networks, and even jail dissident bloggers deemed security threats.

Fortunately, democracies are different. Politicians, like corporate leaders, now understand that social networking is a powerful leadership tool. They have grasped that Web 2.0 is not a technological threat to be suppressed, but a revolution in communication presenting an opportunity to be seized. ■

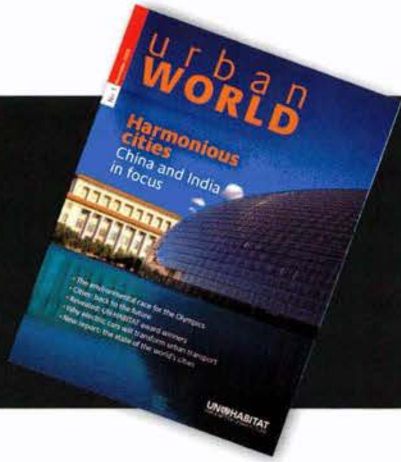
References

- Dutta, Soumitra and Matthew Fraser (2008), *Throwing Sheep in the Boardroom: How Online Social Networking Will Change Your Life, Work and World*, Wiley. Visit www.throwingsheep.com
- See www.insead.edu
- Visit www.oecd.org/corporate



Sponsored statement

urban WORLD



Urban World is the leading publication for those responsible for the social and economic growth of the world's cities, providing a unique source of practical solutions and information on sustainable development.

Each issue provides cutting-edge coverage of developments in:

- Water and wastewater
- Renewable and green energy
- Transport and infrastructure
- Financing urban development
- Tourism and heritage
- Disaster management

Regular news and features on Latin America, Africa, the Middle East, Central and Eastern Europe and Asia are accompanied by articles highlighting best practices from North America and Europe.

Readers include government ministers, mayors, local government officials, procurement heads, urban planners, development bank officials, CEOs and CFOs of companies assisting urban development, commercial and investment banks, consultants, lawyers and NGOs. *Urban World* is published in English, Spanish, Russian and Mandarin.

To subscribe contact: subscriptions@urbanworldmagazine.com

For further information about advertising in *Urban World* please contact our team at:

Advertising Sales Department
Pressgroup Holdings Europe S.A.
C/San Vicente Martir, 16-6º-1
Valencia 46002 – Spain
Tel: +34 96 303 1000
Fax: +34 96 394 27 88
Email: fernando.ortiz@urbanworldmagazine.com

UN-HABITAT
FOR A BETTER URBAN FUTURE

Into Africa

©Zohra Bensemra/Reuters

Africa did not cause the economic crisis, but will suffer from it. What are the prospects?

With developing countries now accounting for about 30% of world trade, development policies are about more than lifting people out of poverty and achieving the UN Millennium Development Goals. They have a serious and systemic impact on the welfare of the entire global economy.

Developed countries should be particularly concerned about Africa. Aid and technical support, but above all more trade and investment, would help reverse what is becoming an increasingly worrying economic outlook.

Only a year ago Africa's economic growth prospects seemed historically bright. However, then the OECD warned of an uneven picture, with oil exports, for instance, accounting for a disproportionate amount of growth. Poverty was still widespread, and was not helped by high food prices. Institutional reform and human capital were also areas in need of attention. But with the economy then looking relatively good, there was widespread optimism about progress.

But with the global crisis, GDP in the OECD countries is now expected to contract sharply in 2009 and be virtually flat in 2010, while growth in emerging economies will slow dramatically. World trade is expected to contract by 13.2% in 2009–its first decline in 60 years. For Africa, this means that growth projections for 2009 have fallen to 2.8% after four consecutive years above 5%, though further downward revisions cannot be excluded.

The hardest hit African economies are those that rely heavily on commodity exports for their income. Oil prices are starting to rise now, but some of that rise may be speculation. Most commodity prices are right back towards their 2005 or 2006 levels, many of them registering declines of 40% or more since early 2008. At the same time, the world downturn and dip in oil prices from last year have led to a slowdown in investment in oil and mineral production, which will affect growth in 2009 and 2010.

African countries that rely on importing oil and other commodities face challenges too, with GDP growth in many of them expected to fall sharply in 2009 and 2010. For many countries in the region, high prices for imported food persist, seriously affecting the poor, particularly in the cities. Meanwhile, inflation has been volatile, as increases in international commodity prices from recent years pass fully through to consumers.

If there is good news, it is that several years of solid expansion and reform were not for nothing. Africa is now better equipped to withstand an economic crisis than it was ten years ago. Wiser macroeconomic policies have strengthened fiscal positions, while debt relief has eased financing constraints. This should help many countries to avoid drastic spending cuts and even run budget deficits.

The business environment has greatly improved both for domestic and foreign operators, as shown by higher scores on the World Bank's "Doing Business" indicator. One reason is Asian and Latin American emerging markets whose growing influence in trade, investment and aid is reducing the continent's vulnerability to the woes of OECD countries.

Africa is better equipped to withstand an economic crisis than it was ten years ago

The trouble is, Asia and Latin America have also been affected by the crisis, and a prolonged downturn could leave a real dent in Africa's economy.

In other words, African countries need donor support more than ever to continue investing in infrastructure and structural reforms. To abandon these efforts would damage confidence and growth prospects, and the price of that would be more poverty.

Indeed, with foreign private capital flows and government revenues drying up, official development assistance (ODA) should not only be maintained, but scaled up and used against the downturn.

Globally, aid has risen and most donors are so far holding to their promises in the face of the crisis. Africa was not an exception. In 2008, net bilateral ODA from OECD donors to Africa totalled \$26 billion, of which \$22.5 billion went to sub-Saharan Africa. Bilateral aid to Africa and sub-Saharan Africa, excluding volatile debt relief grants, rose by over 10% in real terms.

The danger in 2009 and 2010 is that ballooning fiscal deficits and fragile political support could trigger a slide in aid levels. Donors must resist this. Also, though developing countries are increasingly important players in world trade, world trade remains essential to development. This makes it doubly urgent for countries to strengthen their efforts to conclude the Doha trade talks in 2009.

Trade finance has become more essential than ever, and fortunately OECD countries and other large economies have pledged to ensure that sufficient funds are available for exporting companies the world over, including in developing countries. Meanwhile, as the latest *African Economic Outlook* suggests, cash-rich countries, such as China, could set up facilities with regional multilateral agencies, like the African Development Bank, to provide the needed financing.

Good governance is essential

More trade and aid will have little effect without action on other fronts. Take political governance. Some countries continue to face particularly serious problems, such as the humanitarian catastrophe in the Darfur region of Sudan, the economic collapse in Zimbabwe, and political unrest in Guinea, Guinea-Bissau, Equatorial Guinea, Madagascar and Somalia. There is also embedded corruption in some states. Maintaining political and social stability will be a challenge, particularly if commodity prices spike again in the months ahead.

There are promising signs, though. Increased political awareness among the population has made some governments more accountable. They now convene regular electoral consultations and implement structural reforms in public administration, which have improved governance and increased transparency. In addition, some countries have improved their macroeconomic management and the regulatory environment. Positive signs also come from regional co-operation on governance in the framework of the African Union and in the African Peer Review Mechanism. However, while violent conflicts appear to have subsided, social instability worsened overall in Africa between 2007 and 2008, and many governments responded with tough measures. How this will evolve in the current period of economic stress is a matter of some concern.

Meanwhile, the economy presents major challenges to resolve in areas such as infrastructural development and maintenance, communications and investment. Technology offers some respite. Innovative use of information and communication technologies is breaking down long-standing barriers to market development. Four out of ten Africans own a mobile phone, and mobile-banking solutions are quickly scaling up on a continent with low levels of bank users. In Kenya, where only 26% of the population has a bank account, mobile-payment services have attracted over five million users in less than two years.

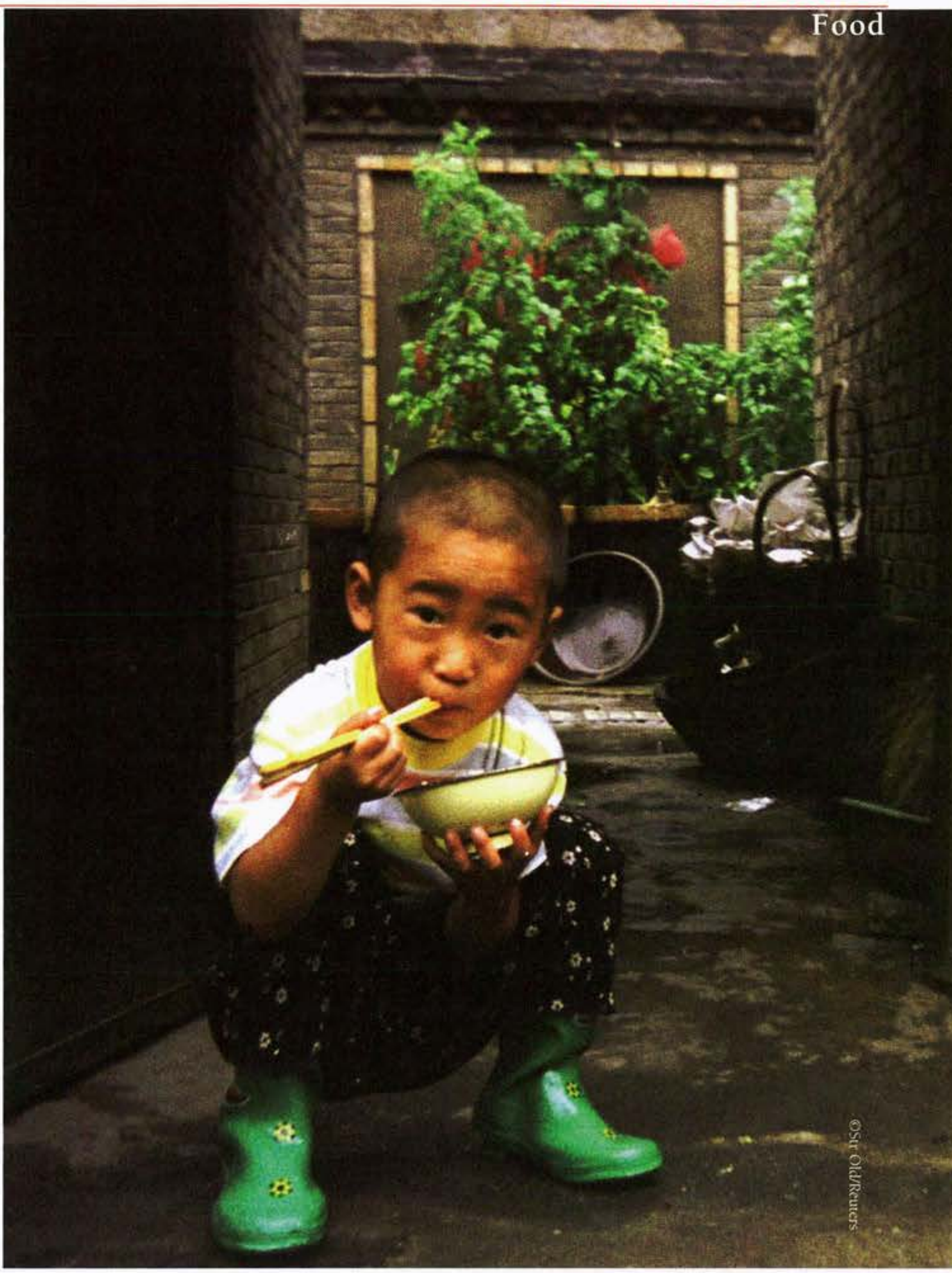
Such developments are making it possible for businesses to deliver sophisticated services to the continent's population for the first time. In agriculture, IT has brought together farmers and buyers in more transparent online marketplaces. In Senegal, farmers can check market prices in real time on their mobiles to obtain the best prices for their crops. Regional integration is being reinforced as more inland broadband links are built. Pan-African operators are already offering free roaming services across several countries. In fact, Africa is the only region in the world where this innovative business model exists. ■ *MA/RJC*

References

- See www.africaneconomicoutlook.org and www.oecdobserver.org/africa
- See also "Africa emerges", in *OECD Observer* No 267 May-June and "Make aid work", in OECD Observer No 269 October 2008
- Visit www.oecd.org/trade and www.oecd.org/development

Putting food security back on the table

Kanayo F. Nwanze
President, International Fund for Agricultural Development (IFAD)



©Str Old/Reuters

The good intentions of governments and donors to ensure long-term food security for all may be melting away in the face of the current global financial and economic crisis.

The food crisis of 2008 was a stark warning that the world cannot afford to overlook agricultural development. The number of people living on our planet is rising rapidly. Food production will need to increase by 50% by 2030 to meet growing demand. The impact of climate change and urban expansion means that demand will have to be met using less land and water, and without cutting down more forests for agriculture.

Support to agriculture should not be an emergency intervention only exercised in times of crisis.

Historically, agriculture has been a proven engine of economic growth and wealth generation, from 18th century England to 21st century Viet Nam. Studies show that GDP growth generated by agriculture is two to four times more effective in reducing poverty than growth in other sectors. Sustainable agricultural development can also guarantee long-term food security, and contribute to climate change adaptation and mitigation.

In the current financial crisis, as in most crises, the poorest people are the most vulnerable. There are 1.4 billon people living on less than US$1.25 a day. Some 75% of these extremely poor men, women and children live in rural areas of developing countries. The World Bank estimates that today's financial crisis has pushed an additional 50 million people into poverty, on top of the 150 million people who are thought to have fallen into poverty and hunger as a result of last year's food and fuel crises. This is further

Growth generated by agriculture is more effective in reducing poverty

jeopardising the first Millennium Development Goal of halving the number of people living in extreme poverty and hunger by 2015.

In addition, remittance flows–which are a lifeline for many poor rural people–are being reduced by the economic slump. In some developing countries, as much as 20% of GDP comes from remittances. The World Bank has estimated that remittances, which were $305 billion last year, could fall by 5% to 8% in 2009.

Migrants, who once were able to send money home, are returning to their villages in developing countries, having lost their jobs abroad. There has been a significant reversal of rural-urban internal migration within some countries. In China, an estimated 10 million migrants have returned to their villages after losing their jobs in urban centres.

For the International Fund for Agricultural Development (IFAD), the global recession further underscores the urgency of our work. IFAD is an international financial institution and a specialised United Nations agency dedicated to creating the conditions for poor rural people to lift themselves out of poverty.

At IFAD, we believe that the question of who produces the world's food is crucially important. Most of the world's smallholder farmers are struggling to live on less than $2 a day. Supporting them would enhance world food security and make a significant dent in poverty. Leaving them out of the equation will push many more people into greater poverty, desperation and hunger.

Agricultural development, by its very nature, must always respond and adapt to changing political, social, economic and climatic conditions.

As part of our response to the current financial crisis, IFAD is creating even more economic opportunities in rural areas. In China, for example, an IFAD-supported project is addressing the return of migrant workers by helping to expand standard agricultural production, such as raising pigs and growing rice, as well as assisting farmers in moving into more niche production of chestnuts, fruits and tea. Farmers are stepping up their work in more knowledge-intensive areas, such as greenhouse and organic farming. The IFAD project is also helping farmers organise new co-operatives to improve the quality of their produce, and create better links to markets and more opportunities to increase their incomes.

IFAD recognises the need for a concerted, comprehensive and co-ordinated effort by the international community to ensure food security. It plays an active role in the High Level Task Force on the Global Food Security Crisis, established by the United Nations Secretary-General in April 2008. The task force produced a Comprehensive Framework for Action that aims to ensure that the international effort is well planned and co-ordinated. IFAD now hosts the Rome hub of the Task Force's Secretariat.

As an advocate for poor rural people, IFAD is also doing its best to ensure that agriculture and the needs of smallholder farmers remain at the top of national and international agendas. But governments of developing countries themselves must play their part by investing more in agriculture and implementing supportive policies. Domestically, government investment in agriculture in developing countries has fallen about one third in Africa and as much as two thirds in Asia and Latin America since the late 1970s.

Where national governments are mobilising their own resources, donor countries must support them by following through on their aid commitments. At Hokkaido, Japan, in

The question of who produces the world's food is crucially important

July 2008, the G8 leaders pledged to reverse the decline in aid to agriculture–from around 20% of all aid in the 1980s to less than 5% in 2007.

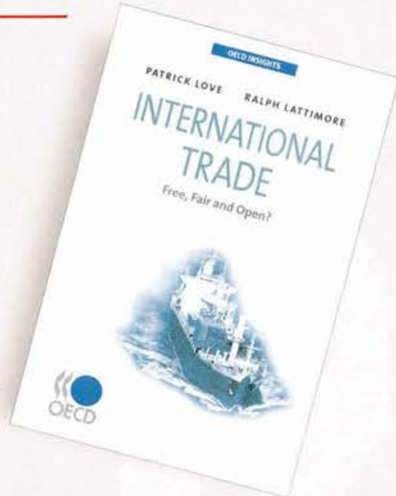
The pledge by G20 leaders in London this April to dedicate $50 billion of the $1.1 trillion rescue package to low-income countries will go a long way towards helping the world's poorest people, who spend as much as 80% of their income on food and have no safety net.

If the ultimate goal is to create a world that is more secure from economic, social and climate crises, world leaders must return their focus to food security–and keep it there. ■

For more on IFAD's work, see www.ifad.org
See also www.oecd.org/agriculture

Fair trade, open trade

International trade fell off the charts in the fourth quarter of 2008 and showed only a modest easing in the rate of decline in the early months of 2009. Well-regulated open trade is essential for economic recovery and development, yet in times of crisis, protectionism may appear an attractive solution. It should be resisted.



Protectionism has a high cost. By closing borders or otherwise restricting markets, consumers pay more, firms incur higher costs, and choice is limited. Consider a world with just two traders: you and me. If I no longer import from you, you no longer have the foreign exchange that is needed to import from me. And so on, across the globe. While an individual government might have some success with protectionist policies, as more governments employ the same approach, every country loses. In short, global protectionism means job losses, including in the relatively competitive export sector, to the long-term benefit of no one.

We generally think of protectionism in terms of measures at the border–tariffs, quotas or other mechanisms that restrict trade or make imported products more expensive. But there is a wide array of measures that governments can take behind their borders that have very similar effects–including various forms of direct subsidies. Support to one sector in one country, whatever the motivation, disadvantages competing sectors in other countries. As other countries then move "to level the playing field", a subsidy competition is launched that in the end benefits no country. But those that receive the subsidies may be better off than otherwise, and will vigorously defend their new entitlements. This explains in large part why subsidies to deal with a short-term problem often prove almost impossible to remove.

Developing countries that do no have the fiscal resources to compete on subsidies will be major losers in this situation, finding themselves excluded from protected markets. There is an enormous danger that the important advances made in recent years by some developing countries, helped by aid and by trade, will be lost.

Agriculture, one of the most highly protected sectors in many developed countries, illustrates this point. Support to producers in the OECD region in 2007–a period when many commodity prices were already very high–totalled US$258 billion, of which two-thirds highly distorted production and trade patterns. The difficulties in rolling back such high levels of support and protection are well known, as shown in the ongoing conflict in the current Doha Development Agenda negotiations.

Subsidies often prove almost impossible to remove

Agriculture also illustrates the extent to which the "distributive impacts" can go awry. Most of the benefits of support go to a small number of the largest producers, or leak away to input suppliers or processors. Very little goes to the vulnerable family farms that were the reason for creating the policies in the first place. And of course those competitive suppliers located outside the OECD area are denied an opportunity to compete on an equal basis in many OECD countries and in global markets.

Finally, governments have an opportunity to stimulate economic growth that does not require increased public spending: conclude current World Trade Organization (WTO) negotiations. There is little standing in the way of willing governments quickly moving to do so. Agreement on modalities for agriculture and non-agricultural market access would help pave the way for progress in other areas of the negotiations.

The reductions in levels of protection that are currently "on offer" in WTO negotiations would restrict the capacity of countries to raise protection from current levels in order to protect home industry and would, in many cases, force a significant further increase in market access and reduction in support that distorts trade. This is the case both for agriculture and for industrial goods. Concluding the Doha Round would help to avoid protectionist reactions to the current economic situation. It would also make trade more predictable. This is good for trade and growth because it avoids the disruption to supply chains and to consumers caused when trade can be switched on and off.

Opening markets further would improve overall economic well-being as resources

Trade plummet
World trade annualised quarter-on-quarter growth, %

Source: *OECD Economic Outlook Interim Report*, March 2009 could be used more efficiently thanks to the impacts of specialisation, scale economies, international investment, competition effects, innovation, and so on. According to OECD analyses, the economic gains from the removal of remaining trade barriers would be significant:

- A 10% increase in trade is associated with a 4% rise in per capita income.
- An "open" FDI climate could be expected to yield a 0.75% increase in OECD area GDP per capita.
- Lower regulatory barriers to competition could result in a 2% to 3% increase in per capita GDP in the OECD area.
- More efficient customs procedures (i.e. trade facilitation) could improve global welfare by $100 billion.
- Full tariff liberalisation in agriculture and industrial goods could increase global welfare by a further $100 billion.

Much higher gains would be expected if services trade was liberalised. And these are only "static" gains. In addition, "dynamic" gains associated with trade-related changes to the long-run rate of productivity growth would be many times as large again, providing a further boost to economic prospects.

The reasons for imposing barriers to trade can be economic, environmental, social, political, or a combination of these. Any number of factors may be more important than a particular trade opportunity. But what is important is that such decisions are clear and transparent, and that the benefits and the costs are well understood. Tariffs, even complex schemes, are relatively visible: many non-tariff barriers are much more complex, seldom very transparent, and their impact unclear.

Governments have a particular responsibility to ensure that the full range of impacts of tariff and non-tariff barriers, both intended and unintended, is considered before putting them in place. This is essential if explicit policy objectives are to be met at the least cost and without unintended negative consequences. It is also essential in order to ensure that narrow special interests do not benefit at the expense of others. Experience has shown that even ineffective policies, once in place, are difficult to remove. The "first best" course of action is to avoid poor policy choices. ■

Excerpt from *International Trade: Free, Fair and Open?* by Patrick Love and Ralph Lattimore, OECD Insights series, 2009, pp 71-74, ISBN 978-92-64-06024-1 available via www.oecd.org/insights

Buy local?

On 27 May 1882, *The Times* newspaper proclaimed, "Today we have to record such a triumph over physical difficulties, as would have been incredible, even unimaginable, a very few years ago". They weren't talking about Queen Victoria avoiding a recent assassination attempt by a poet she'd annoyed or Jesse James having less luck with a friend he'd trusted. They were talking about sheep meat. The triumph was the arrival at London docks of the Dunedin, carrying a cargo of frozen mutton and lamb from New Zealand. Only one of the 5,000 carcasses transported was declared unfit for human consumption. The rest were sold. The Dunedin proved that shipping frozen food from one side of the planet to the other could be a commercial success.

After the First World War, Clarence Birdseye, a fur trapper, taxidermist and gifted inventor who had lived in Canada's frozen north, perfected deep-freezing techniques after seeing how the Inuits' quick-freeze methods provided a far superior product to that found in markets in New York.

World trade in food products would not have expanded as much as it has if canning and salting were still the main methods for preservation. Nowadays, practically any food can be frozen and sold anywhere else. But progress comes at a cost to the environment. Transporting all this produce around the globe burns up fuel, contributing to CO_2 emissions. Tim Lang, Professor of Food Policy at City University, London, invented the term "food miles" to "highlight the hidden ecological, social and economic consequences of food production to consumers in a simple way, one which had objective reality but also connotations". And in 2005, a report published by the UK Department of the Environment, Food and Rural Affairs (DEFRA) calculated that the direct costs for the country of food transport are over £9 billion a year, mostly due to traffic congestion.

The food miles argument is used in campaigns to convince consumers and shops to "buy local". Of course retailers do this anyway when it is to their advantage, but for many environmentally-conscious shoppers, the argument is convincing. However, as the DEFRA report points out, distance travelled is only one of many factors in the environmental impact of food production and distribution. The Dunedin's voyage was so remarkable because New Zealand and England are as far apart as two trading partners can be. It's interesting then to see how this trade shapes up over a century later in environmental terms. A 2006 report compared the environmental impact of importing agricultural products to Britain from New Zealand versus using local products. The results show that for dairy and sheep meat production, New Zealand is far more energy efficient than the UK, even when transport costs are included–twice as efficient in the case of dairy, and four times as efficient for sheep meat. Importing from New Zealand is also a better environmental choice for the two other products studied, apples and onions.

Excerpt from *International Trade: Free, Fair and Open?* by Patrick Love and Ralph Lattimore, OECD Insights series, 2009, page 116, ISBN 978-92-64-06024-1 available via www.oecd.org/insights

When innovative mobility leads to a sustainable future

« Sponsored statement

More than half the world's people now live in cities and every year millions more migrate to expanding urban centres. In the face of such rapid urbanisation, a major challenge for the 21st century is the sustainable development of cities.

This requires cooperation – city planners, architects and mobility providers working together – as well as a common understanding that cities exist to serve all of their inhabitants, irrespective of social status or physical ability.

For well over a century, the Schindler Group has been developing innovative mobility solutions for urban environments. Schindler's elevators, escalators and moving walks are among the safest, most reliable and environmentally sound products in existence. They have shaped many of the world's cities by providing mobility in landmark structures across the globe.

Schindler believes that sustainable urban development depends on continuous, assured mobility throughout our cities. Schindler designs products and technologies for all urban environments from low-rise residential buildings, through stations, airports and hospitals, to commercial and high-rise towers.

Schindler's vision is one of barrier-free urban environments. A major focus of its business is developing traffic management systems to improve people flow, and it actively encourages young architects and schools of architecture to incorporate an «Access for All» philosophy into their design and curricula. For more information, go to: www.schindleraward.com

Schindler moves 900 million people every day – the whole world every week.

www.schindler.com

Schindler

The green growth race


©Aladin Abdel Naby/Reuters

Environmentally-friendly investments form part of many recently launched recovery programmes. With the right policies, they could achieve growth and a cleaner planet as well.

Sir Nicholas Stern, whose groundbreaking report in 2006 raised the alarm on climate change, recently declared that we had six years left to win the battle against global warming.

How realistic Sir Nicholas's claim is may be debatable, but there is no doubting the urgency of tackling the problem. Climate change is simply a matter of life and death.

The cost of inaction is well documented, not least by the OECD (see references), but until recently people have not talked enough about the benefits of action. That has started to change. The economic recovery programmes launched now see ecologically-friendly investments as a way to spur not just long-term green growth, but to jump-start a recovery. The policy is popular because it promises to deliver a healthier planet as well. Clean energy, innovation, new markets, new employment, and new wealth–the list goes on.

Korea launched the world's first "green new deal" stimulus package in January 2009, planning over $38 million in spending on various "green" projects. China is completing a $440 billion package to support wind and solar energy.

Many OECD countries are hoping green industry will be an antidote to unemployment. In May, US Vice President Joe Biden announced that the Obama Administration would create 450,000 "green collar" jobs for America's troubled middle class. Germany wants total renewables workforce to reach 900,000 in 2030.

Nor is all the enthusiasm misplaced. Even if the short-term benefits of green stimulus plans may not be large enough to compensate for jobs and income destroyed by the crisis, the positive effects of action can be felt quite quickly. In fact, before the crisis, the green business sector was already growing swiftly in some OECD countries.

Consider renewable energy. The Danish wind industry employs 28,400 people and contributes an annual €5.7 billion to the economy, according to the Danish wind industry association's annual statistics. There were 250,000 people working for Germany's renewable energies industry in 2007 (up from 160,000 in 2004), not to mention the 1.8 million that work in "environmental protection" more generally, in areas such as environmental services and investments, according to Germany's environment ministry.

Renewable energy has produced large-scale companies such as Denmark's Vestas, which recently raised $1 billion, and is currently investing around the world, creating 2,500 jobs in the US state of Colorado, although the crisis has forced it to shed jobs in Europe.

Many of these success stories did not happen overnight. Germany's reputation in solar energy was built over many years, requiring political will and government incentives along the way. The fact that Germany was already a world leader in engineering helped, too.

Renewable energy is just one source of green activity and employment; another is sustainable buildings. From state-of-the-art "green" tower blocks paraded by major architects to increasingly popular low-energy "passive" houses, a whole new market has started to take hold. Already in California, lower overheads mean that people can buy solar-panelled houses for less than ones connected to the grid. In Europe government standards setting new norms for energy efficiency, with the likes of double-glazing and insulation, are spurring what could become a major growth sector when the property market finally recovers.

Transport technology offers possibilities for clean growth, too, as automotive manufacturers are finding out, though also aviation and shipping.

The recovery packages will give a welcome boost to the renewables sector, too. According to a report from a commercial bank, HSBC, US wind installations could drop by 20% in 2009, though would fall further if it were not for public spending. And a 30% growth rate is expected in 2010. The International Energy Agency (IEA), a sister organisation of OECD, has warned of a 38% drop in investment for renewable energy in 2009, which is more than the overall energy investment decrease of 21%.

Nevertheless, the green stimulus packages have opened huge market perspectives for renewable energy companies. According to the United Nations Environment Programme (UNEP), investment in new renewable power generation, with about $140 billion, topped investment in fossil energy technologies for the first time in 2008. The renewables sector in Germany alone, where coal is still the main source of electricity generation, believes it can conquer a 47% share of power generation domestically by 2020; it held 15.1% in 2008.

The real difference for activity will come if market-based instruments are deployed

Meanwhile, the European Renewable Energy Council estimates that wind should grow by 8.5% a year from 2010 to 2020 to a total installed capacity of 180 GW. From 2011 to 2020, wind targets alone will drive €120 billion of investments, avoid €20.5 billion of fossil fuel costs and €8.5 billion in carbon costs. However, more investments are needed. The IEA recently pointed out that renewable energy generation had to double its share to 40% by 2030 to help contain global warming. That's 18,000 wind turbines a year!

Governments watching these trends understandably place high hopes in green industries to support future growth as well as mitigate climate change and address other environmental challenges. And if policies are properly designed, both economic and environmental targets can be hit.

Consider the fiscal packages. Many of them include direct public spending and tax incentives to support "green" investments in areas such as intelligent infrastructure, energy, public transport, water, sanitation and pollution control. But because such investments stay for decades, it is important that policy avoids locking in dirty and costly modes of production and consumption, and promote clean and effective alternatives instead. The crisis is an opportunity to get those policies right.

Take regulation. While key for such things as setting standards and guiding behaviour, OECD analysis suggests the real difference for long-term activity will only come if market-based instruments are deployed. That means policies to "get the prices right" to penalise polluters and greenhouse gas emissions and encourage green technologies, production and practices. Credible market prices help diffuse new technologies and practices by giving investors a clear signal about where to make appropriate investments for the future.

Technologies, such as carbon capture and storage, will not be aggressively deployed without a significant carbon price. According to OECD calculations, a carbon price path consistent with even just a moderately ambitious goal, such as a 550 ppm CO_2 stabilisation scenario, could lead to a four-fold increase in world energy spending, including on research and development, by 2050. That means more technological innovation in the fight against climate change.

Market-based mechanisms, such as cap-and-trade schemes and also taxes, will ensure the low-hanging fruit is taken care of first, where costs are lowest for cutting greenhouse gas emissions from ageing industries or inefficient technology. That should help contain costs. They also generate revenues to governments, which is useful when fiscal conditions are tight, and could also be used to offset cuts in other taxes, such as those on labour.

For coherence, this also demands putting an end to subsidising fossil fuels, costly biofuels and other environmentally damaging policies, and not just in developed countries. OECD estimates show that removing fossil fuel subsidies in some emerging and developing economies could reduce their greenhouse gas emissions by almost a third by 2050. These moves would also boost competition.

To be effective, pricing needs to be complemented by other public policies. Support for R&D is one area governments are targeting, though they could do more. Between 1992 and 2005, OECD countries increased budgets for renewable energies and energy efficiency by 51% and 38% respectively. However, public R&D budgets for fossil and nuclear energy are still about double those for renewables and energy-efficient technologies.

So will the stimulus plans make a difference? Clearly, this will have to be monitored. The Obama Administration has already engaged $432 billion on environmental projects through its American Recovery and Reinvestment Plan (from water in Maryland to energy in Indiana and weatherisation in Arizona), and more is coming as we write. The EU has decided to heavily invest in clean energy. For instance, through its Renewables Energy Directive, a 20% share of total energy consumption for electricity, heat and fuels (up from 9.3% in 2005) is targeted for renewables.

To be sure, it is important not to overestimate the greenness of any fiscal package. The IEA recently pointed out that only $21 million, out of $2.6 trillion of public money announced by the G20 on anti-crisis measures, went to renewables. What's more, several projects may have a negative impact on ecosystems that could cancel out some of the green measures: think large-scale canal building and energy-intensive desalination. The environmental benefits of some other measures are questionable, such as car-scrapping schemes and road-building. Unless care is taken with these policies, the result could be a net increase in emissions.

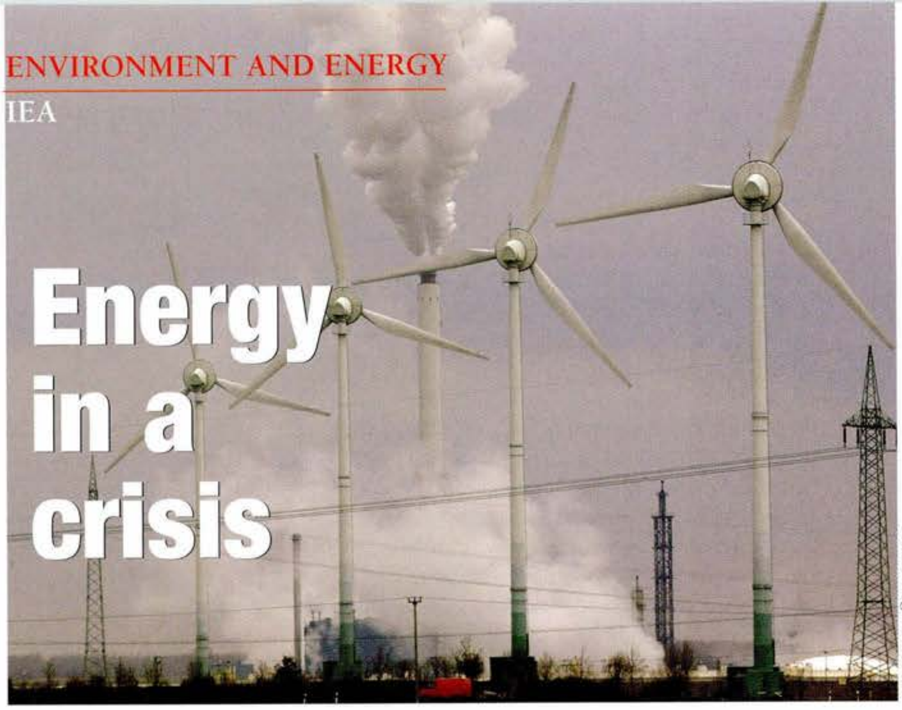
In sum, for the low-carbon economy to expand in the coming years, there are two issues to get right. One is finding the right carbon price to give incentives to find cleaner options, drive green innovation and contain costs. The other is co-ordination.

True, climate change policies offering emission cuts of varying ambition are being stepped up by several countries, but no country can go it alone. It will take enhanced dialogue in all forums, including at the OECD, to pave the way for a robust agreement at the UN Climate Change conference in Copenhagen in December and create an effective framework for action in the post-Kyoto environment. That would be good news for growth, jobs and the environment. Sir Nicholas Stern would no doubt take heart, too. ■ *FB/RJC*

References

- OECD (2009), "Economics of Climate Change Mitigation: How to Build the Necessary Global Action in a Cost-effective Manner?" Economics Department Working Paper No 42
- OECD (2008), *OECD Environmental Outlook to 2030*, ISBN 978-92-64-04048-9
- OECD (2008), *Climate Change Mitigation: What Do We Do?* ISBN 978-92-64-05961-0
- OECD (2008), *Cost of Inaction on Key Environmental Challenges*, ISBN 978-92-64-04577-4
- UNEP (2009), Global Trends in Sustainable Energy Investment, available at www.unep.org/pdf Global_trends_report_2009.pdf
- Visit www.oecd.org/environment, www.oecdobserver.org/environment and www.iea.org

Energy in a crisis



©Arnd Wiegmann/Reuters

Nobuo Tanaka, Executive Director of the IEA

The International Energy Agency (IEA) is 35 years old in 2009. A sister organisation of the OECD, it offers a timely reminder that a co-ordinated public response to a crisis can succeed.

In 1973-1974, when an oil embargo hit the industrialised world, the energy-consuming economies of the OECD realised that, unlike the OPEC countries, they had no forum from which to implement a swift and co-ordinated response. It was the US secretary of state, Henry Kissinger, who took the initiative in late 1973 to propose the creation of such a forum through the OECD, which already included the major oil-consuming countries. From that proposal, the International Energy Agency was born.

Today, 35 years later, the original aim remains as relevant as it was then: to promote the energy security of its 16 founding member countries by ensuring access to secure, reliable and ample supplies of oil in times of crisis. The agreement resulted in the creation of an oil emergency-response capability, which has remained integral to the role of the agency, even as IEA membership has grown to 28 countries with activities that span the globe (see footnote).

However, since I have taken up my duties at the head of the IEA, I have been repeatedly impressed by the extent to which this goal, while still fundamental to the core mission of the agency, has broadened and deepened in the intervening years. These new developments point the way to the future role of the IEA as an international reference for a wide range of energy-related issues.

Founded in November 1974 as an autonomous agency within the OECD framework, the IEA was immediately operational. The International Energy Program (IEP), agreed among the participating members, created the substantive backbone of co-operation: a legally binding agreement to establish and maintain strategic stocks of oil that could be used to relieve pressures on individual member countries or otherwise released to stabilise markets in times of supply disruption.

The mechanism has stood up to some stern tests, with the IEA helping to steady oil supplies and markets by the co-ordinated actions of its members during various international crises since that time. The emergency-response capability was recently activated in 2005, when hurricanes damaged production facilities in the Gulf of Mexico, and member countries, based on the assessment of the IEA, made emergency reserves available to the market, effectively offsetting a major supply disruption. When hurricanes hit the same region in 2008, resulting in an even greater supply disruption than in 2005, IEA expert analysis showed that slower demand and higher stocks would offset the loss so that no intervention was needed. Again, the IEA's readiness to act helped to calm the market.

Secure energy

Still, since 1974, energy markets have changed and the concept of energy security has evolved–secure, reliable and affordable energy supplies are still as essential as ever, but they are not limited to oil. IEA members have come to appreciate the increasingly important role of other energy resources in the global total: natural gas, coal, electricity, nuclear and renewables. In addition, energy efficiency in the use of existing resources is an important and growing part of overall energy policy development. Assuring energy security entails a fundamental integration of policy and practice with environmental protection, to produce sustainable economic growth over the longer term and mitigate climate change. These considerations have produced what we call the "three E's" of balanced energy policymaking which the IEA is focused on today: energy security, economic development and environmental protection.

The IEA has earned a worldwide reputation for the excellence, timeliness and reach of its statistics and analysis. But more than that, the agency acts as an energy policy adviser to member countries and beyond, and indeed, we have become a primary reference in energy-related matters for governments and organisations. We also work co-operatively with a number of other international organisations and forums, such as the G8, in whose summits we were first invited to participate in 2005 at Gleneagles. Our current work to produce alternative scenarios for a "clean, clever, competitive energy future" as a part of the on-going G8 Plan of Action on Climate Change, Clean Energy and

Sustainable Development was commissioned by that meeting. Most recently we submitted 25 consolidated energy-efficiency recommendations to the G8 summit in Hokkaido last year and will present further analysis to the upcoming summit in Italy in July.

Some of today's largest energy consumers are of course not members of the agency, a fact that directly influences how we work. Our own projections show that non-OECD countries collectively will account for 87% of the increase in primary energy demand between 2006-2030, with China and India alone claiming over 50% of this growth.

We are more closely engaged with countries outside the IEA, particularly with China, India and Russia, through a Partners in Dialogue initiative. In fact, each of these three countries has been invited to participate in the next IEA ministerial-level meeting of our Governing Board in October 2009 and we are looking forward to working more closely with them in the future.

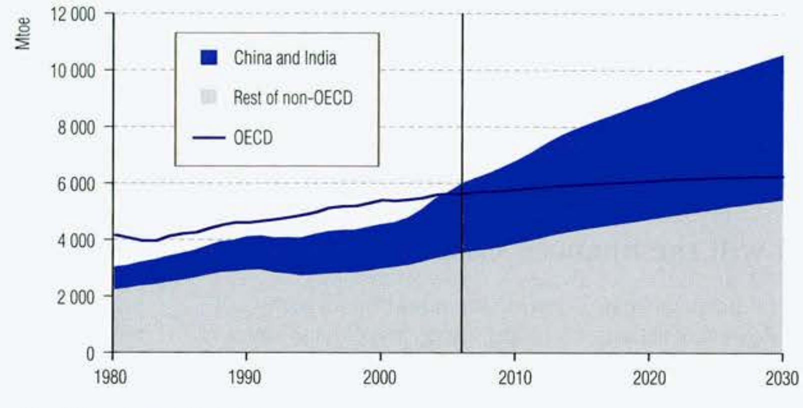
In addition, our experts are increasingly involved in a large number of training programmes and seminars with partner countries. We are looking to enlarge and extend these training activities, which not only sharpen policymaking tools, but help to harmonise practices and procedures worldwide, and to improve the timeliness and transparency of information available to energy analysts.

IEA's readiness to act helped to calm the market

The IEA works with producer countries, too, in a combined effort to strengthen the quality and availability of data on energy resources. An example of success in this area is the Joint Oil Data Initiative (JODI), begun in 2001 as an exercise by the IEA and OPEC together with APEC, Eurostat, the Latin American Energy Organization (OLADE) and the UN Statistics Division (UNSD).

Emerging energy demand

World primary energy demand by region, reference scenario



Mtoe = Millions of tonnes of oil equivalent

Source: IEA, *World Energy Outlook 2008*

As we move forward into the next 35 years, the IEA will continue to provide the comprehensive, timely and reliable energy data and statistics needed to better understand the functioning of global energy markets. It will also maintain its effective emergency-response system, co-ordinating with countries beyond its membership and perhaps responding to energy shortfalls other than oil. And its work will continue to evolve.

The annual production of our flagship publications and data will continue to enhance our reputation and usefulness to energy professionals and policymakers around the world (see references). At the ministerial meeting in October we will release the first IEA Energy Scoreboard, a ground-breaking publication that will track 35 key energy trends over 35 years in individual countries, helping to promote wider public understanding of the energy challenges our planet faces. Our interactions with non-OECD countries will continue to expand as their role in the world economy and its energy grows. And we will promote adequate energy-sector investment to insure that energy security and the sustainable economic development to which it is tied can be assured for future generations in every country.

Countries and their governments worldwide want a safe, secure and sustainable energy future for their peoples. The IEA will continue to play a key role in helping them attain this goal. ■

Note: The founding member countries of the IEA were: Austria, Belgium, Canada, Denmark, Germany, Ireland, Italy, Japan, Luxembourg, The Netherlands, Spain, Sweden, Switzerland, Turkey, the UK and the US. Greece and New Zealand joined in 1977, Australia in 1979, Portugal in 1981, Finland and France in 1992, Hungary in 1997, the Czech Republic in 2001, Korea in 2002, the Slovak Republic in 2007 and Poland in 2008. Norway has participated under a special Agreement since 1974.

Some leading IEA references

- OECD (2008), *World Energy Outlook 2008*, ISBN 978-92-64-04560-6, available at www.oecd.org/bookshop
- OECD (2008), *Energy Technology Perspectives 2008: Scenarios and Strategies to 2050*, ISBN 978-92-64-04142-4, available at www.oecd.org/bookshop
- *IEA Oil Market Report* (monthly by subscription)
- Visit www.iea.org
- See also www.oecdobserver.org for articles by IEA experts

The nuclear energy option

Luis Echávarri, Director-General, OECD Nuclear Energy Agency

How will the financial crisis affect nuclear energy?

The financial crisis is having an impact on all sectors of economic activity, including energy supply and demand. Some short-term impacts on ongoing or planned nuclear projects are already apparent in the form of delays in starting the construction of a plant and/or postponement of decisions to build new units. But in the long term, the development of nuclear energy will be driven by growth in energy and electricity demand and by the relative competitiveness of alternative supply sources, such as coal and gas, for base-load electricity generation.

Energy demand will inevitably rise in the medium and long term, which means the need for additional generation capacity will remain. Even with zero growth in electricity demand, which is not likely given the increasing world population and ongoing industrialisation, new power plants will need to be built to replace ageing units in service today.

All the scenarios envisaged recently by the OECD Nuclear Energy Agency and the International Energy Agency point to generation capacity increasing significantly in the coming decades. The growth of nuclear electricity generation is even higher in NEA and IEA scenarios that assume governments will adopt policy measures to reduce greenhouse gas emissions and to protect the environment from local and regional pollution than in business-as-usual scenarios.

Environmental issues remain high on the agenda for policymakers, partly because the crisis has highlighted the danger of unsustainable development. In this context, nuclear energy, which is nearly carbon free, has become a very attractive option. In fact, its competitiveness is reinforced by policy measures placing a price on carbon emissions.* The need for clean air and natural resource preservation will favour the development of nuclear energy for base-load electricity generation, and renewable sources for distributed generation and peak-load supply.

Security of supply is also a key consideration, not least in periods of financial uncertainty. Conventional uranium resources currently available can fuel nuclear power plants for many decades, even in scenarios projecting a significant increase in nuclear electricity generation. In addition, the geopolitical diversity of countries supplying uranium, covering all continents, practically guarantees cost and supply stability, a factor which risk-averse investors will find attractive.

The crisis means financing power projects might prove more difficult, although there is money available for building infrastructure. In the power sector, most projects are capital-intensive and nuclear is not unique in this regard. In order to support sustainable development, many governments have announced decisions to invest in infrastructures and to assist domestic industries through guaranteed loans, favourable tax regimes and so on. These and other measures can enable governments to support cost-effective investments in the nuclear sector without jeopardising market competition.

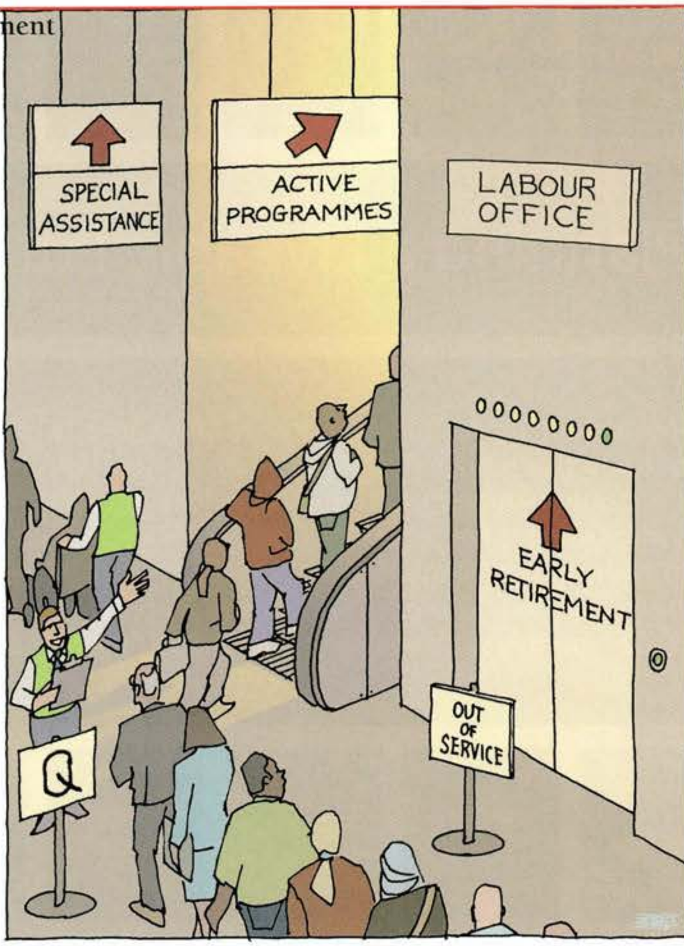
Institutional investors will be attracted to projects such as nuclear power plants, given that they offer predictable returns, provided that the political context of the country guarantees stable energy policy goals and measures. Pension funds and insurance companies that have traditionally funded large investments in infrastructure projects are likely to focus even more on this type of investment. But the nuclear industry must also demonstrate its ability to manage projects efficiently, and to keep to schedules and budgets.

Nuclear energy remains, however, highly capital-intensive with some 60% of the generation cost attributable to construction, which constitutes a challenge for investment finance. The sharp increase in the price of raw materials that occurred before the crisis affected the costs of all types of power plants. However, the reverse is also true, and slower economic growth will likely reduce construction costs of nuclear power plants, as well as labour costs.

In conclusion, the impact of the financial crisis on the nuclear sector is likely to be limited and an expansion of the sector is still very feasible in the long run. However, governments and the industry should co-operate further to ensure the robustness of financing schemes and the cost-effectiveness of each project. ■

*The NEA and the IEA are updating their study on projected costs of electricity generation. The publication, expected by January 2010, will provide insights into the changes in relative competitiveness of nuclear energy, fossil fuels and renewables.

Visit www.nea.fr



Employment policy
Passing the stress test

Stefano Scarpetta and **Paul Swaim**, OECD Directorate for Employment, Labour and Social Affairs

The main victims of severe economic downturns tend to be workers and their families, so governments are rightly stepping in to help job losers weather the storm. But while the severity of the unfolding jobs crisis may require extraordinary policy responses, how can governments avoid the wrong ones?

More than 11 million workers joined the ranks of the unemployed in the OECD area in the year to April 2009, as companies cut production, closed factories and offices, and dismissed thousands of workers. Despite recent hopeful signs that the recession may be easing off, with small improvements in home sales and manufacturing orders in the US and a modest uptick in business confidence in Germany and Japan, output is likely to continue to fall for some time, affecting large and small firms both in industry and services. The OECD sees a substantial contraction in OECD area output in 2009, close to 4% of GDP on average, and even when growth returns in 2010 it is expected to be mild. (For an update on these forecasts, see *OECD Economic Outlook* No 85, June 2009).

The trouble is, the jobs recovery is likely to lag substantially behind any pickup in economic growth, because employers tend to be cautious about hiring new staff in the early stages of a recovery when business conditions are still affected by uncertainty. Also, firms usually have scope to increase production without new hiring, especially if they restore working hours that were trimmed during the downturn.

Consistent with this historical tendency, unemployment for the OECD area is projected to continue to rise through 2010, approaching 10% in the second half of the year, an all-time high. If that projection should materialise, the number of persons unemployed would increase by almost 26 million over the course of the recession, representing an increase of 81% from the recent unemployment low registered at the end of 2007. And experience shows that, even if economic growth becomes vigorous late in 2010 and 2011, it will still take years to reabsorb this large pool of unemployed. Some countries have still not managed to regain their pre-crisis unemployment rates, even many years after the steep recessions in the 1980s and 1990s.

Most governments are responding vigorously to the current jobs crisis by strengthening their safety nets for the unemployed, scaling up measures to assist them finding a new job, and also propping up labour demand.

But this also means most governments face hard choices. Obviously, prompt help is needed to prevent the recession from becoming a full-blown social crisis. However, it is also essential that governments avoid repeating mistakes of the past, in particular by not allowing protections to become barriers to restoring high employment rates after economic growth resumes.

While it is too soon to assess how well employment policy is performing in the current crisis, it is clear that governments have moved vigorously to reinforce their policies. Of the 28 countries responding to an OECD survey on new policy measures to assist workers in surmounting the crisis, all report having undertaken multiple initiatives to plug gaps in the safety net for job losers and reinforce the assistance to help the unemployed to find new jobs. Twenty-one

All countries in our survey are expanding their active labour market programmes

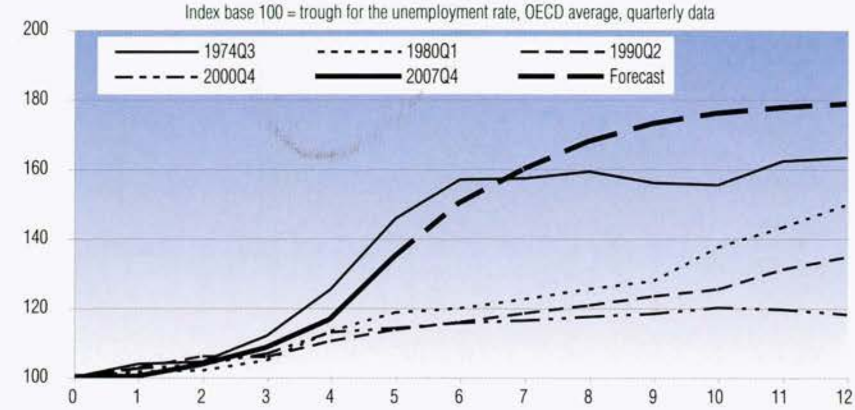
out of 28 countries surveyed have shored up unemployment benefits or other forms of income support available to people who have lost their jobs. For example, France and Italy have made benefits available to some workers whose temporary job has ended, while Finland and Japan have reduced the minimum employment period required to receive unemployment benefits. Greece and Poland are examples of countries that have increased the level of unemployment benefits paid, while Canada, Japan and Portugal have extended the maximum period during which benefits can be paid. Finland and the United States opted to do both.

All of the 28 countries in our survey reported that they have expanded active labour market programmes (ALMPs), which increase re-employment assistance for the unemployed or their options for receiving additional training. While governments have moved to reinforce these standard ALMPs, a large majority have also moved aggressively in ways that have been less common in recent years, such as expanding measures to directly bolster labour demand, including public sector job creation schemes as in Korea and Spain. Subsidies to employers to avoid layoffs by adopting short-time working plans have been introduced or scaled up in Austria, Germany, Italy, Mexico and the Netherlands. And several countries, including Australia, France and the United States, are focusing on expanding labour market assistance for low-qualified youth. This is particularly welcome for this age group since young people are at a disadvantage in a weak labour market and face a real danger of their long-term career prospects being compromised if they are not assisted.

So, can past mistakes be avoided? Here too, there are hopeful signs, though it is early days. In past recessions, many of those who lost their jobs drifted into long-term unemployment and were soon disconnected from the labour market, often never returning to work again. One reason for this is that spending on training and re-

Joblessness record ahead

Trajectories of unemployment rates during previous and current downturns



Unemployment in the current recession has followed a steeper rise than in any previous recession since the 1970s. Projections show unemployment to reach 9.9% in 2010, the OECD's highest ever rate. If March projections prove correct, the level of unemployment will be 80% above 2007 levels.

Source: OECD March 2009

employment assistance did not increase with unemployment, and public employment services soon became unable to provide timely help to the swelling numbers of unemployed. The plethora of initiatives to expand ALMPs in current programmes suggest governments are determined not to repeat this mistake. However, it will be some time before we can judge whether employment policy budgets are being scaled up enough, or whether the right types of assistance are being targeted.

Perhaps the costliest mistake governments made in the past was to try to mask the rise in unemployment by recategorising some job losers onto other social programmes, such as early retirement or disability benefit schemes. Many of these people were neither near normal retirement age nor disabled. Yet almost none of them ever returned to work. Moreover, it took a long time to get these programmes back on to sound operating principles, such as determining eligibility for disability benefits solely on the basis of a medical examination. Opening pathways to early retirement also proved not to have the hoped-for effect of expanding employment opportunities for younger workers–in fact, the contrary occurred. Governments seem to have learnt this lesson the hard way; only by reinforcing their unemployment benefits and expanding ALMPs will they keep job losers in the labour market and ready for the recovery when it arrives.

But while policy responses appear sounder this time, much will depend on the crisis and the effectiveness of other policies to end it. The longer and more serious the downturn, the greater the temptation will become to give in to expedient measures, such as early retirement. The OECD is working closely with governments to monitor changes in labour market conditions and "stress testing" various employment policies to check their effectiveness in the crisis. We will be reporting more on our findings to OECD employment and labour ministers when they meet in Paris on 28-29 September. Hopefully by then, our assessment will still be encouraging. ■

References

- *OECD Economic Outlook Interim Report*, March 2009, www.oecd.org/oecdeconomicoutlook
- See www.oecd.org/speeches for speech by the OECD Secretary-General to G8 Labour and Employment Ministers, 30 March 2009
- Visit www.oecd.org/employment
- For more on OECD work on employment, including information on the labour ministerial in September, contact Stefano.Scarpetta@oecd.org or Paul.Swaim@oecd.org

©AFL/CIO

John Sweeney is on the left and leads from the front

A stress test for the OECD?

John Sweeney, President of the AFL-CIO*

To be useful in helping countries to move out of the crisis, it is necessary for the OECD to look at its own history as an organisation and draw the right lessons for the future.

Today, as OECD ministers meet and we debate how to attain a "cleaner, stronger, fairer world economy" at the OECD Forum, we face the most serious economic crisis since the Great Depression.

Recovering from this crisis, addressing the underlying economic imbalances that caused the crisis and reforming the structure of global economic governance are the most serious challenges that governments have faced since the Second World War.

Sixty years ago, when the Trade Union Advisory Committee (TUAC) was formed, under the European Recovery Programme, the world was emerging from a long night of global depression and war. The industrial nations were creating the arrangements of the post-war global economy: the Marshall Plan and the reconstruction of war-torn economies, and the establishment of the United Nations and the Bretton Woods institutions.

Coming out of the Great Depression and the Second World War, the founders wanted a global order in which nations could grow and people could thrive. Governments regulated currencies while giving nations the space to stimulate growth. They curbed speculation while fostering real investment. They emphasised rapid growth, full employment, social protection and labour-market institutions to allow wages to rise with increasing productivity.

The system they created was far from perfect. Much of the world was outside their focus. But in the industrial world, we enjoyed a quarter century of rapid growth and development. And, with full employment and strong unions, we built the vibrant middle classes that are the foundation of our democracies.

Government actions, at both the national and international levels, were guided by a Keynesian consensus featuring a balance between free markets and effective government regulation, full employment, robust social protection and strong unions.

In reaction to the stagflation of the 1970s, however, the Keynesian consensus on economic policy collapsed and was replaced by neo-liberal policies that placed undue confidence in free markets, reduced the regulatory role of government at all levels, reduced social protection and weakened unions in the name of labour market "flexibility".

In response, much of TUAC's advocacy, from the early 1980s until today, has been to resist government polices that have slowed economic growth, produced serious structural imbalances in exchange rates, privileged financial innovation over effective regulation, weakened social protection and unions, and produced growing inequality within and between countries.

As the OECD meets in the midst of a global economic crisis, we may be at the beginning of a new phase of history. In 1948, the industrial nations had to create new institutions to revive investment and trade. In 2008, an expanding number of nations must engineer the recovery from a deep global recession, re-regulate global capital markets and create a more effective system of governance for an increasingly global economy.

We cannot return to a narrow interpretation of Keynesian policies designed for a much simpler period, but neither can we any longer tolerate the lack of effective global economic management and the excesses of free markets. We must chart a new course going forward to deal with the very different and more challenging global economy of the 21st century.

Just as the founders of the post-war economy had to understand and respond to the causes of Global Depression and World War, it is vital that we understand and respond to the causes of today's global economic and financial crisis.

A bursting housing bubble in the US triggered a global credit crisis and together they have dragged the global economy into a severe recession of uncertain depth and duration. We are now seeing negative growth for the developed world as a whole for the first time since the Second World War.

Workers in the US, as in all other countries, are the real victims of this crisis. Workers are losing their jobs, their homes, their pensions and savings.

Housing prices are falling at the rate of 20% a year. One in ten mortgages is seriously delinquent or in foreclosure, and one in five is now "under water". Millions of Americans are losing their homes and trillions of dollars in home equity have been destroyed.

Our credit market is choking on toxic financial assets, our major financial firms are collapsing and equity markets have lost over 40% of their value, punishing workers' savings and threatening our pensions.

Employment is continuing to contract rapidly as hundreds of thousands of jobs disappear every month.

Moreover, the three elements of this crisis–housing, credit and employment–are now interacting to produce a particularly dangerous and destructive dynamic. As workers lose their jobs, they fall behind on their mortgages and lose their homes. As housing prices fall, credit markets tighten. And as credit tightens, the economy slows further and more workers lose their jobs.

And, as we all know, a crisis that originated in the US now spans the globe, with those countries dependent on exports suffering most.

Just how deep and long the recession will be–and whether we will fall into an even more serious deflationary spiral–will depend on timely, aggressive and well-targeted government intervention at both the national and the global levels. We have seen some action and it is significant that in the US–where the Obama Administration's stimulus package was larger and deployed faster than elsewhere–the fall in GDP is now projected to be less than in Europe. But more needs to be done.

The crisis is also the end of an ideology. For 35 years governments have worshipped at the altar of neo-liberal idols–financial de-regulation, tight money, fiscal austerity and labour market flexibility. Corporations were freed from accountability, financial innovation and speculation blossomed into unsustainable "bubbles". Financial elites were empowered, while unions and parliaments were weakened.

We should be very clear: advocates of neo-liberal policies got it wrong. De-regulation, they said, might create greater instability, perhaps an occasional crisis to discipline the foolish. But the discipline and insecurity, they promised, would be a small price to pay for the blessings of growth and prosperity offered by the free flow of capital and financial innovation.

We should be very clear: advocates of neo-liberal policies got it wrong

Now we know the neo-liberal promise was a lie. The global crisis calls out for a radical revision of the neo-liberal policies and the economic ideas that support them.

In the debates over the last three decades, TUAC got it right when we warned about the peril of financial deregulation and speculation. We warned of the folly of sacrificing full employment in a fight against inflation. We warned that without social protection and strong unions, inequality would grow. We warned that a global economy requires effective global governance.

We need imagination and new ideas to deal with a rapidly changing global economy. But the principles of reform are clear, and the Global Unions Declaration, drawn up in the TUAC Working Groups for the recent G20 meetings in Washington and London, and calling on governments to move with urgency to address the crisis, provides our starting point.

We began the process of engaging governments on the global crisis when the G20 labour leaders met in Washington DC and in London.We will continue the engagement when the G20 meets in Pittsburgh in September.

There remains the question of the role of the OECD in responding to the crisis and helping to guide the process towards more effective governance of the global economy.

The OECD is well-placed to play a substantial, if not a leading, role in this process. The OECD represents a diverse array of the leading industrial countries that is an essential component of global governance–provided that the countries learn from each other and act in concert. And the OECD, unlike the G7 or G20, has a permanent secretariat with a serious research and policy capability to address the novel and complex issues raised by global governance.

To play a full role in the future of global economic governance, the OECD must move beyond the comforting, but now failed, neo-liberal policies of its recent past and embrace a more pragmatic and genuinely "evidence-based" approach to the now urgent problems of effective global economic governance. The OECD must lead in the development of a new paradigm in economic policy.

TUAC was created 60 years ago and the OECD in its present form will celebrate its 50th anniversary next year. However, we must begin our thinking anew. I pledge to you that the AFL-CIO will join with other labour movements in the OECD and beyond to define and fight
for urgent government action to address the crisis, restore balance between government and markets, re-regulate global capital markets and build more effective institutions of global economic governance for the 21st century. ■

* American Federation of Labor-Congress of Industrial Organizations

Sweeney, John (2006), "Why workers count", in OECD Observer No 255, May

Visit the website of the Trade Union Advisory Committee to the OECD at www.tuac.org
See also www.aflcio.org

Chile at the OECD

Michelle Bachelet
President of Chile

President Bachelet is welcomed by OECD Secretary-General Gurría

©OECD

"When I was elected as my country's president, one of my principal goals was to see Chile accepted as a full member of the Organisation for Economic Co-operation and Development.

International integration has been a keystone of the foreign policy of Chile's government coalition–the Concertación–since it was first elected in 1990 with the restoration of democracy. Its commitment to international integration was one reason for seeking admission to the OECD.

But not the only one.

Our interest in forming part of the OECD also has to do with the countries that make up the organisation–like-minded countries, countries that are committed to democracy, to promoting economic growth and trade, to creating jobs and raising living standards, to social equality and sustainable development, to maintaining financial stability, and to transparency. (…)

We also believe that full OECD membership will have unparalleled benefits not only for our country's position in the world but also at home for our citizens. (…)

As part of Chile's process of accession to the OECD, we have had to take a long and hard look at our laws, public policies and procedures–even at our statistics–and, in some cases, improve them to bring them up to the highest international standards.

Even before the OECD's invitation to seek accession in 2007, Chile was adopting OECD recommendations and guidelines as part of its process of modernisation of the state. (…)

We are convinced that Chile can contribute to this organisation in many ways, thanks to our progress and achievements in important areas of economic and social life. These include our fiscal policy and our system of financial regulation and supervision.

In previous crises, emerging countries found themselves shackled by fiscal deficits, high public borrowing, and currency misalignments. Chile tackled these problems. It put its accounts in order and, through fiscal prudence, reduced its borrowing. The result today is an economy that is far less vulnerable. (…)

The OECD's invitation to Chile, Estonia, Slovenia, Israel and Russia to enter into accession talks reflects your organisation's interest in aligning its membership with new global realities and, in this way, contributing to the development of non-member countries as well as member countries. (…)

You have been explicit about the need to forge closer ties with emerging economies of the weight and increasing influence of, for example, Brazil, China, India, Indonesia and South Africa, through your enhanced engagement strategy. (…)

But, just as the OECD is not the OECD we knew in the early 1990s, so too Chile is not the country you knew then, when democracy had just been re-established.

Today, Chile is a consolidated democracy and a middle-income economy. Building on these achievements, our goal now as a country is to attain development within the space of a generation. (…)

Chile has gradually completed the different stages of its roadmap, fulfilling each of the requirements. Our Congress is currently debating bills to adjust our legislation on exchange of banking information and the legal liability of companies in cases of bribery, the financing of terrorism and money laundering.

Chile is, in other words, approaching the home straight of a long process during which we have been able to improve and modernise our institutions and standards.

That is why I wanted to have this opportunity of meeting you personally. To underline my country's determination to reach the finishing line and–sooner rather than later–to form part of this community of democracies and best practices. Because that is what, in the end, leads to development." ■

Extract adapted from a speech by President Michelle Bachelet of Chile to the OECD Council in Paris, 28 May 2009. A full transcript is available at www.oecdobserver.org. A webcast of the speech can be viewed at www.oecd.org/chile

Language strength
The OECD and the French-speaking world

Philippe Marland, Ambassador, Permanent Representative of France to the OECD

Of all the ties linking people in the community, language is one of the strongest. For a language is not only a means of communication, it is the expression of a certain vision of the world, an embodiment of the imagination, a particular way of matching "words" to "things".

But French is not only an opportunity for those who use it on a daily basis; it is also, I believe, an asset to the organisation as a whole. For multilingualism is not merely the corollary of multilateralism, it is also one of its surest guarantees.

As Goethe said, "Those who know nothing of foreign languages know nothing of their own." You can only think properly in a language if you know that there are others, which reflect reality in a different way. Our two official languages are therefore the very embodiment of that dialogue between nations which lies at the heart of our work.

One linguistics study has found that, in the thousands of languages spoken across the world, only 300 words have exactly the same meaning in every one and they include *I, you; one, two, three; large, small; sun, moon* and *star.* These words are said to represent what Abdou Diouf calls "the smallest common denominator of humanity". Viewed from a different angle, this shows that all other words have no perfect translation, that it is never possible, when transposing them into another language, to convey their full meaning. This gives some idea of the difficulties facing interpreters and translators, and the importance of their work.

The use of French within the OECD is, in my view, a vital symbol of the influence of our organisation in a globalised world. It is in fact a dual symbol, of diversity and outreach.

It is first a symbol of our internal diversity. All of our member countries are, of course, deeply committed to the same values which lie at the very core of our organisation: democracy, the market economy, and economic and social progress. But these shared values do not and should not mean uniformity. "He who is different from me does not diminish me–he helps me grow", said Antoine de Saint-Exupéry. Those words may well take on a particular resonance when applied to our organisation. Accused by some of representing the rich, or the powerful, the OECD must demonstrate unstintingly how diverse and open it actually is. And the use of French in the organisation makes a noticeable contribution to that effort.

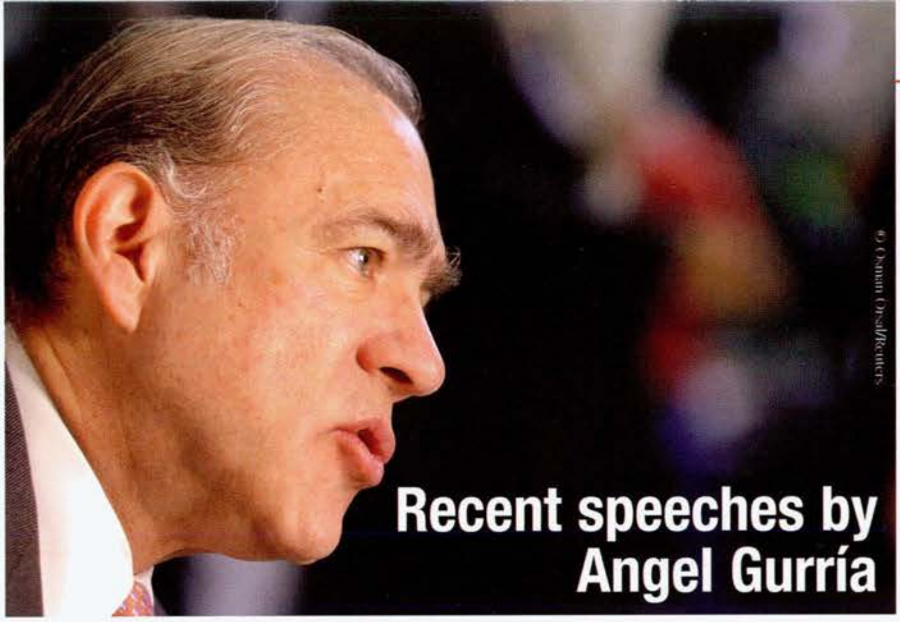
By the same token, the use of French is a symbol of our outreach across the globe. The French-speaking world, defined by Maurice Druon as "all those whose common heritage is the French language", now numbers 175 million people, many of them living in Africa or Asia. French is, with English, the only language spoken on the five continents. May I point out that the International Francophone Organisation now numbers 70 countries and governments.

Our languages are the embodiment of dialogue

French is very often the language of schooling and higher education in many developing countries. The translation of all OECD publications into French thus ensures that its work will reach a broader readership, particularly in the South. It is also a means of extending our outreach towards the emerging nations.

The OECD is currently facing some major challenges, and is probably at a crucial point in its history. Faced with the present crisis, it should more than ever assert its role and feature prominently in the new architecture of a tentative form of global governance. For this it boasts some major assets, in particular the values it shares with its members, its well-proven methods and its world-renowned expertise. But another of its assets may be the fact that it is a bilingual organisation. The new governance challenges involve restoring the balance of economic forces, but also raising awareness of cultural diversity. In an increasingly multi-polar world, the challenge for the future will probably lie in reconciling diversity and unity, cultural identity and universality. Preserving multilingualism in every major international forum is one aspect of that goal, but also a means of achieving it. Here too, the OECD should set the example. ■

Extract from speech by Philippe Marland, delivered at the OECD on 18 March to mark the 2009 *Journée internationale de la Francophonie*, a day dedicated to the French-speaking world. A full version of the speech is available at www.oecdobserver.org



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

The OECD's effort to help build a stronger, cleaner and fairer global economy

2 June 2009
Remarks delivered at the Council on Foreign Relations, Washington DC, US

The crisis and its impact on cross border investment

2 June 2009
Remarks during a lunch organised by the United States Council for International Business, Washington DC, US

The OECD's evolving role in shaping international tax policy

1 June 2009
Opening remarks at the United States Council for International Business conference, Washington, DC, US

Innovative financing perspectives in the new global economic outlook

28 May 2009
Opening remarks at the sixth plenary meeting of the Leading Group on Solidarity Levies to Fund Development, OECD Conference Centre, Paris, France

The role of ODA in the area of climate change

28 May 2009
Opening remarks at the DAC High Level Meeting, OECD Conference Centre, Paris, France

Visit of President of Chile

28 May 2009
Remarks at a special session of the Council for the President of Chile, Michelle Bachelet, OECD Conference Centre, Paris, France

The potential of ICTs to combat climate change and improve environmental performance

27-28 May 2009
Welcome and opening address at the high-level conference on ICTs, the Environment and Climate Change, Helsingør, Denmark

Responding to the global economic crisis – OECD's role in promoting open markets and job creation

21 May 2009
Keynote remarks delivered at the 2009 BIAC Business Roundtable, Lisbon, Portugal

Financial education

20 May 2009
Opening remarks at the OECD/IEFP Symposium on Financial Education, OECD Conference Centre, Paris, France

Financial Education

19 May 2009
Opening remarks at the third meeting of the International Network on Financial Education, OECD Conference Centre, Paris, France

The "Global Standard" of the 21st century

12 May 2009
Remarks made in Rome, Italy

High level meeting OECD-FAO

6 May 2009
Remarks delivered at the press conference following the OECD-FAO high level meeting, OECD Conference Centre, Paris, France

Building a cleaner world economy

4 May 2009
Opening remarks at the Global Forum on Public Governance, OECD Conference Centre, Paris, France

Statement by OECD Secretary-General and DAC Chair to the World Bank-IMF Development Committee

26 April 2009

Statement to the International Monetary and Financial Committee

25 April 2009
At the Spring 2009 meetings, Washington DC, US

Improve tax fairness and help the developing world

24 April 2009
Article by OECD Secretary-General Angel Gurría

Nuclear energy in the 21st century

20 April 2009
Keynote speech at the international ministerial conference on Nuclear Energy in the 21st Century, Beijing, China

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.

JUNE - highlights

9 **Trade and Climate Change**, OECD global forum on trade, organised by the Directorate for Trade and Agriculture.

15 **Corporate Responsibility**, roundtable organised by the Directorate for Financial and Enterprise Affairs and the Directorate for Science, Technology and Industry.

20 Publication of ***Jobs for Youth: USA***.

23-24 OECD Week: **Forum 2009** - The Crisis and Beyond: For a Stronger, Cleaner, Fairer Economy; Publication of ***Economic Outlook*** *No. 85*; **OECD Council meets at Ministerial level,** chaired by Korean Prime Minister HAN, Seung-Soo.

29-30 High-level Policy Forum on Migration, with launch of publication ***OECD Migration Outlook***, organised by the Directorate for Employment, Labour and Social Affairs.

29-30 **Higher Education at a Time of Crisis**: Challenges and Opportunities, conference organised by the Directorate for Education and the Copenhagen Business School. Copenhagen, Denmark.

29-30 **Agricultural Outlook: Preparing for the Future**, global forum on agriculture organised by the Directorate for Trade and Agriculture.

JULY

8-10 **G8 Summit** 2009. La Maddalena, Italy.

15-16 **Innovative Approaches to Turn Statistics into Knowledge**, seminar organised by the Statistics Directorate and the US Census Bureau. Washington DC, US.

15-17 **Potential Environmental Benefits of Nanotechnology**: Fostering Safe Innovation-Led Growth, conference organised by the Environment Directorate and the Directorate for Science, Technology and Industry.

AUGUST

19-21 **Financial Stability and Macroeconomic Policy,** Jackson Hole Economic Policy Symposium, organised by the Federal Reserve Bank of Kansas City. Jackson Hole, Wyoming, USA.

SEPTEMBER

8 Publication of ***Education at a Glance***.

18 **Climate Change and Economics**, high-level conference organised by the Economics Department and the Environment Directorate.

21-22 **Tax Treaties and Transfer Pricing**, global forum organised by the OECD Centre for Tax Policy and Administration.

28-29 **Labour ministers** meet, with launch of ***OECD Employment Outlook 2009***, presented by the Directorate for Employment, Labour and Social Affairs.

OCTOBER

6-7 World Bank Group and IMF 2009 annual meetings. Participation of the Secretary-General, Istanbul, Turkey.

14 Meeting at ministerial level of the International Energy Agency.

Frankie.org by StiK

Struggling with green goals

Ensuring Environmental Compliance: Trends and Good Practices

Despite their progress in developing green laws and policies, OECD countries are not on track to achieve some of their key environmental goals and commitments. There are several reasons for this gap between intent and action. Compliance with environmental requirements is seldom, if ever, complete. Defining an appropriate level of compliance can be challenging, and detecting and taking action against non-compliance is complex and resource-intensive. And the institutions that monitor compliance with environmental regulations must be independent and equipped to resist undue political pressure or corruption.

Ensuring Environmental Compliance: Trends and Good Practices compares the systems that assure environmental compliance in eight countries representing different legal, institutional, and cultural perspectives: China, Finland, France, Japan, the Netherlands, Russia, the UK, and the US. While the study shows that approaches to ensuring compliance are shaped by national traditions and cultures, the countries examined share many of the same problems.

Some trends are noticeable. Governments are promoting compliance more aggressively, targeting small and medium-sized businesses. There are also widespread moves to make enforcement more proportionate to the extent of non-compliance. For example, some countries are making more use of administrative, rather than criminal, measures for less severe violations. In more consensus-based cultures, such as in Finland and Japan, where a warning is often enough to restore compliance, sanctions in general, and criminal ones in particular, are extremely rare.

The study recommends looking more closely at whether the choice and design of environmental policies affect the level of compliance. That analysis could help improve initial policy design. The report also suggests determining the minimum human and financial resources necessary to comply fully with environmental regulations. That could help government and industry do more with less.

ISBN 978-92-64-05958-0

Good buys

OECD Principles for Integrity in Public Procurement

Governments and state-owned enterprises buy a wide variety of goods and services, from basic computer equipment to the construction of roads. But did you know that such public procurement represents some 10% to 15% of GDP across the world? Governments spend about US$4 trillion each year on procuring goods and services. But public procurement is also very vulnerable to fraud and corruption. In fact, bribery is estimated to add 10% to 20% to total contract costs. Put another way, taxpayers around the globe unwittingly underwrite corrupt practices to the tune of some US$400 billion a year.

The *OECD Principles for Integrity in Public Procurement* is a ground-breaking instrument that promotes good governance in the entire procurement cycle, from needs assessment, through the award stage, contract management and up to final payment. The book includes a practical checklist for implementing the principles at each stage of the procurement process, and offers a comprehensive inventory of the various ways procurement contracts have been tainted by corruption or fraud. Examples show that fraud occurs even in countries with longstanding and abundant legislation, and in which numerous checks are performed by honest officials.

Procedures that enhance transparency, good management, prevention of misconduct, accountability and control help to prevent the waste of public resources as well as corrupt practices. That's why the very first principle for enhancing integrity in public procurement calls on governments to provide an adequate degree of transparency in the entire procurement cycle. Another encourages governments to invite civil society organisations, the media and the wider public to scrutinise public procurement. Adopting principles like these can help governments make sure their orders are good buys for everyone.

ISBN 978-92-64-05561-2

New OECD publications

Now available on www.sourceoecd.org

This 2009 edition of OECD's annual *Factbook* presents data covering all sectors of the economy, including general economic trends, population, globalisation, labour, science and technology, environment, education, public finance, and quality of life. This issue's special topic covers equity. For each indicator, a two-page spread shows, on the one side, definitions and commentary on long-term trends and comparability and, on the other, tables and graphs. Includes StatLinks.

Presents, in an easily understood form, information on development aid on a continent by continent basis, accompanied by short texts presenting the main aspects of development aid for each region. It also focuses on efforts in the domains of education, health and water, which relate closely to the Millennium Development Goals. Includes StatLinks.

This book summarises the key findings of *Education at a Glance 2008* and presents them in easy-to-understand tables and charts. Indicators are presented in two-page spreads, with definitions and assessments of long-term trends on one side and tables and graphs on the other.

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

ECONOMICS

OECD Factbook 2009: Economic, Environmental and Social Statistics
This year's special focus covers inequality.
16-Apr-2009, 317 pages, €35 $50 £27 ¥5 200
SourceOECD:
www.SourceOECD.org/9789264056046
Online Bookshop:
www.oecd.org/bookshop?9789264056046
<<See left

OECD Economic Surveys: Euro Area
19-Jan-2009, 153 pages, €57 $75 £40 ¥8 100
SourceOECD:
www.SourceOECD.org/9789264048249
Online Bookshop:
www.oecd.org/bookshop?9789264048249

OECD Economic Surveys: Estonia
27-Apr-2009, 151 pages, €57 $75 £40 ¥8 100
SourceOECD:
www.SourceOECD.org/9789264060005
Online Bookshop:
www.oecd.org/bookshop?9789264060005

OECD Economic Surveys: France
6-May-2009, 135 pages, €57 $75 £40 ¥8 100
SourceOECD:
www.SourceOECD.org/9789264054318
Online Bookshop:
www.oecd.org/bookshop?9789264054318

OECD Economic Surveys: New Zealand
23-Apr-2009, **151 pages**, €57 $75 £40 ¥8 100
SourceOECD:
www.SourceOECD.org/9789264054295
Online Bookshop:
www.oecd.org/bookshop?9789264054295

AGRICULTURE

Agricultural Policies in Emerging Economies 2009: Monitoring and Evaluation
19-Mar-2009, **195 pages**, €40 $56 £31 ¥6 000
SourceOECD:
www.SourceOECD.org/9789264059276
Online Bookshop:
www.oecd.org/bookshop?9789264059276

Reducing Fishing Capacity: Best Practices for Decommissioning Schemes
9-Feb-2009, 118 pages, €24 $32 £17 ¥3 300
SourceOECD:
www.SourceOECD.org/9789264049116
Online Bookshop:
www.oecd.org/bookshop?9789264049116

DEVELOPMENT

Development Aid at a Glance 2008: Statistics by Region
30-Jan-2009, 159 pages, €30 $46 £21 ¥4 100
SourceOECD:
www.SourceOECD.org/9789264044081
Online Bookshop:
www.oecd.org/bookshop?9789264044081
<<See left

Is Informal Normal? Towards More and Better Jobs in Developing Countries
31-Mar-2009, 167 pages, €24 $32 £20 ¥3 000
SourceOECD:
www.SourceOECD.org/9789264059238
Online Bookshop:
www.oecd.org/bookshop?9789264059238

Armed Violence Reduction: Enabling Development
24-Mar-2009, 140 pages, €24 $32 £20 ¥3 000
SourceOECD:
www.SourceOECD.org/9789264060159
Online Bookshop:
www.oecd.org/bookshop?9789264060159

EDUCATION

Highlights from Education at a Glance 2008
26-Feb-2009, 100 pages, €24 $34 £18 ¥3 600
SourceOECD:
www.SourceOECD.org/9789264040618
Online Bookshop:
www.oecd.org/bookshop?9789264040618
<<See left

Education Today: The OECD Perspective
9-Apr-2009, 99 pages, €24 $32 £20 ¥3 000
SourceOECD:
www.sourceOECD.org/9789264059894
Online Bookshop:
www.oecd.org/bookshop?9789264059894

EMPLOYMENT, HEALTH AND SOCIAL AFFAIRS

Society at a Glance 2009: OECD Social Indicators
6-May-2009, 135 pages, €35 $49 £27 ¥5 200
SourceOECD:
www.SourceOECD.org/9789264049383
Online Bookshop:
www.oecd.org/bookshop?9789264049383

ENERGY

Cleaner Coal in China
29-Apr-2009, 363 pages, €100 $155 £72 ¥13 900
SourceOECD: www.SourceOECD.org/9789264048140
Online Bookshop: www.oecd.org/bookshop?9789264048140

Gadgets and Gigawatts: Policies for Energy Efficient Electronics
15-May-2009, 426 pages, €100 $135 £85 ¥12 500
SourceOECD: www.sourceOECD.org/9789264059535
Online Bookshop: www.oecd.org/bookshop?9789264059535

ENVIRONMENT

Japan: Large-Scale Floods and Earthquakes
OECD Reviews of Risk Management Policies
9-Mar-2009, 279 pages, €40 $54 £34 ¥5 000
SourceOECD: www.SourceOECD.org/9789264056398
Online Bookshop: www.oecd.org/bookshop?9789264056398

FINANCE AND INVESTMENT

Annual Report on the OECD Guidelines for Multinational Enterprises 2008
31-Mar-2009, 309 pages, €65 $92 £50 ¥9 700
SourceOECD: www.SourceOECD.org/9789264014954
Online Bookshop: www.oecd.org/bookshop?9789264014954

OECD Investment Policy Perspectives 2008
16-Jan-2009, 158 pages, €50 $71 £39 ¥7 500
SourceOECD: www.SourceOECD.org/9789264056831
Online Bookshop: www.oecd.org/bookshop?9789264056831

GOVERNANCE

OECD Regions at a Glance 2009
9-Apr-2009, 198 pages, €50 $67 £42 ¥6 200
SourceOECD: www.SourceOECD.org/9789264055827
Online Bookshop: www.oecd.org/bookshop?9789264055827
See Right>>

OECD Principles for Integrity in Public Procurement
9-Apr-2009, 142 pages, €24 $32 £20 ¥3 000
SourceOECD: www.SourceOECD.org/9789264055612
Online Bookshop: www.oecd.org/bookshop?9789264055612

Managing Water for All: An OECD Perspective on Pricing and Financing
19-Mar-2009, 151 pages, €24 $32 £20 ¥3 000
SourceOECD: www.SourceOECD.org/9789264050334
Online Bookshop: www.oecd.org/bookshop?9789264050334
See Right>>

Private Sector Participation in Water Infrastructure: OECD Checklist for Public Action
19-Mar-2009, 132 pages, €50 $71 £39 ¥7 500
SourceOECD: www.SourceOECD.org/9789264059214
Online Bookshop: www.oecd.org/bookshop?9789264059214

China: Defining the Boundary between the Market and the State
7-May-2009, 324 pages, €45 $63 £35 ¥6 700
SourceOECD: www.SourceOECD.org/9789264059399
Online Bookshop: www.oecd.org/bookshop?9789264059399

NUCLEAR ENERGY

Considering Timescales in the Post-closure Safety of Geological Disposal of Radioactive Waste
24-Mar-2009, 163 pages, €40 $54 £34 ¥5 000
SourceOECD: www.SourceOECD.org/9789264060586
Online Bookshop: www.oecd.org/bookshop?9789264060586

Strategic and Policy Issues Raised by the Transition from Thermal to Fast Nuclear Systems
24-Mar-2009, 88 pages, €40 $54 £34 ¥5 000
SourceOECD: www.SourceOECD.org/9789264060647
Online Bookshop: www.oecd.org/bookshop?9789264060647

SCIENCE AND INFORMATION TECHNOLOGY

The Bioeconomy to 2030: Designing a Policy Agenda
21-Apr-2009, 326 pages, €50 $67 £42 ¥6 200
SourceOECD: www.SourceOECD.org/9789264038530
Online Bookshop: www.oecd.org/bookshop?9789264038530
See Right>>

Computer Viruses and Other Malicious Software: A Threat to the Internet Economy
9-Mar-2009, 248 pages, €50 $71 £39 ¥7 500
SourceOECD: www.SourceOECD.org/9789264056503
Online Bookshop: www.oecd.org/bookshop?9789264056503

Well over one-third of the total economic output of OECD countries is generated by just 10% of OECD regions. This one-stop guide for understanding regional competitiveness provides comparative statistical information at the sub-national level, graphs, maps and growth strategies.

Water is a key prerequisite for human and economic development, and for maintaining ecosystems. However, billions of people lack access to water and sanitation services. The situation is becoming more urgent due to increasing pressure, competition and even conflict over the use of water resources. This book examines key issues related to water resources management including governance and inadequate investment and maintenance, the need for an integrated policy approach, and the need for a strong evidence base to support policy development.

The bioeconomy refers to the set of economic activities relating to the invention, development, production and use of biological products and processes. This book describes the current status of biotechnologies and, using quantitative analyses of data, it estimates biotechnological developments to 2015. Using other inputs, it creates scenarios to 2030. It suggests that use of biotechnology to create products for non-medical purposes is likely to produce marketable items fast and on a larger scale than those for medical purposes.

A list of OECD publications distributors is available at www.oecd.org/publishing/distributors. A list of institutions subscribing to SourceOECD is available at www.oecd.org/publishing/sourceoecdsubscribers

Using widely available Internet tools, internet thieves trick unsuspecting computer users into providing personal data, which they then use for illicit purposes, causing mistrust of online payment and banking services. This book defines identity theft and studies how it is perpetrated, outlines what is being done to combat the major types of ID theft, and recommends specific ways that ID theft can be addressed in an effective, global manner.

OECD countries still dominate the world economy, but their share of world trade dropped from 73% in 1992 to 64% in 2005, and some of the world's most important economies are not yet members of the OECD. Foremost among these are the so-called BRIICS: Brazil, Russia, India, Indonesia, China and South Africa. This book analyses key elements of the trade performance of the BRIICS.

Social enterprises are entering a new phase of consolidation after overcoming various challenges over the last 10 years in their efforts to foster sustainable local development, help create local wealth and jobs, and fight social exclusion. This book contains recommendations for national and local policymakers and presents a set of international best practices based on new legislation that has been enacted, novel frontiers that have opened up, and support and financial tools that have been developed.

Online Identity Theft
31-Mar-2009, 141 pages, €30 $42 £23 ¥4 500
SourceOECD:
www.SourceOECD.org/9789264056589
Online Bookshop:
www.oecd.org/bookshop?9789264056589
<<See left

TAXATION

Taxing Wages 2008
12-May-2009, 490 pages,
€120 $162 £102 ¥15 000
SourceOECD:
www.SourceOECD.org/9789264049338
Online Bookshop:
www.oecd.org/bookshop?9789264049338

TRADE

Globalisation and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa
19-Mar-2009, 457 pages,
€60 $85 £46 ¥9 000
SourceOECD:
www.SourceOECD.org/9789264044807
Online Bookshop:
www.oecd.org/bookshop?9789264044807
<<See left

TRANSPORT

The Cost and Effectiveness of Policies to Reduce Vehicle Emissions
13-Jan-2009, 184 pages, €65 $92 £50 ¥9 700
SourceOECD:
www.SourceOECD.org/9789282102121
Online Bookshop:
www.oecd.org/bookshop?9789282102121

Terrorism and International Transport: Towards Risk-based Security Policy
7-May-2009, 152 pages, €50 $67 £42 ¥6 200
SourceOECD:
www.SourceOECD.org/9789282102312
Online Bookshop:
www.oecd.org/bookshop?9789282102312

URBAN, RURAL AND REGIONAL AFFAIRS

OECD Territorial Review of Chile
29-May-2009, 164 pages, €40 $54 £34 ¥5 000
SourceOECD:
www.SourceOECD.org/9789264060746
Online Bookshop:
www.oecd.org/bookshop?9789264060746

OECD Rural Policy Reviews: China
18-May-2009, 261 pages, €50 $71 £39 ¥7 500
SourceOECD:
www.SourceOECD.org/9789264059566
Online Bookshop:
www.oecd.org/bookshop?9789264059566

The Changing Boundaries of Social Enterprises
This book contains recommendations for national and local policymakers and presents a set of international best practices for social enterprises.
9-Feb-2009, 276 pages,
€40 $56 £31 ¥6 000
SourceOECD:
www.SourceOECD.org/9789264055261
Online Bookshop:
www.oecd.org/bookshop?9789264055261
<<See left

OECD iLibrary

This summer, OECD will launch the new OECD iLibrary, which will replace SourceOECD. The new OECD iLibrary will operate faster, have home pages for all types of content, and have a vastly improved statistics area including individually discoverable key tables, data search capability, and much more. SourceOECD and the OECD iLibrary will run in parallel until the autumn, when SourceOECD will be withdrawn. Links used to access items on SourceOECD will automatically forward to the content on the iLibrary.

FORTHCOMING

Ensuring Environmental Compliance: Trends and Good Practices

Innovation in Firms: A Microeconomic Perspective

International Migration: The Human Side of Globalisation

International Trade: Free, Fair and Open?

Model Tax Convention on Income and Capital: Electronic Version 2008

Pensions at a Glance 2009: Retirement-Income Systems in OECD Countries

LATEST OECD POLICY BRIEFS

Free online at www.oecd.org/publications

OECD Economic Surveys: Estonia, France, New Zealand

Measuring the Pulse of Africa in Times of Crisis

Is Informal Normal? Toward more and better jobs

Keeping Markets Open at Times of Economic Crisis

Managing for Development Results

How Regions Grow

Rural Policy Review of China

Globalisation and Emerging Economies

Focus on crisis and recovery

HIGHLIGHTS

OECD Economic Outlook, Volume 2009 Issue 1
This issue of the *OECD Economic Outlook* projects recovery for 2010, but with variable timing and pacing for each country.

24-Jun-2009, 300 pages, €96 $125 £67 ¥13 600

SourceOECD: www.SourceOECD.org/9789264052819
Online Bookshop: www.oecd.org/bookshop/9789264052819

Financial Market Trends: Volume 2008 Issue 2
Focuses on the financial crisis and on related pension challenges and examines deposit insurance and financial safety net aspects, and lessons learned regarding resolution of weak institutions.
9-Mar-2009, 328 pages, 2009 Subscription to OECD Journal: €290, $396, £200, ¥48 100

SourceOECD: www.SourceOECD.org/19952864
Online Bookshop: www.oecd.org/bookshop?19952805

Economic Policy Reforms 2009: Going for Growth
Suggests that policymakers should take advantage of the current crisis to adopt structural reforms that will yield long-term benefits.
9-Mar-2009, 211 pages, €69 $90 £47 ¥9 700
SourceOECD:
www.SourceOECD.org/9789264052772
Online Bookshop:
www.oecd.org/bookshop?9789264052772

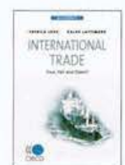
OECD Development Co-operation Report 2009
Addresses the issue of development in times of economic and financial crisis.
9-Mar-2009, 258 pages,
€91 $122 £77 ¥11 300
SourceOECD:
www.SourceOECD.org/18168124
Online Bookshop:
www.oecd.org/bookshop?9789264055049

OECD Private Pensions Outlook 2008
Monitors pension systems development and reviews their performance in an international context.
3-Mar-2009, 312 pages,
€80 $123 £62 ¥12 800
SourceOECD:
www.SourceOECD.org/9789264044388
Online Bookshop:
www.oecd.org/bookshop?9789264044388

Tax Co-operation 2008: Towards a Level Playing Field
The financial crisis has underlined countries' need to collect all taxes due. This report sets out in a series of tables, on a country-by-country basis, information on laws and agreements permitting the exchange of information for tax purposes.
29-Aug-2008, 218 pages,
€60 $92 £46 ¥9 600
SourceOECD:
www.SourceOECD.org/9789264039193
Online Bookshop:
www.oecd.org/bookshop?9789264039193

Private Pensions and Policy Responses to the Financial and Economic Crisis
OECD Working Paper
Freely available at:
http://dx.doi.org/10.1787/224386871887

OECD Principles of Corporate Governance 2004
The international benchmark for good corporate governance.
21-May-2004, 69 pages,
€25 $31 £18 ¥3 200
SourceOECD:
www.SourceOECD.org/9789264015975
Online Bookshop:
www.oecd.org/bookshop?9789264015975



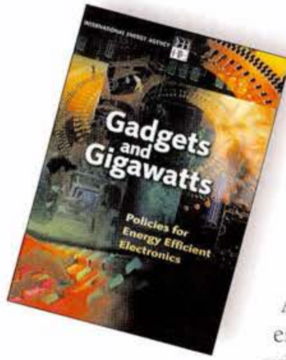
International Trade: Free, Fair and Open?
OECD Insights Series
A layman's guide to the impact of trade on the economy, which is highly relevant in these times of economic crisis.
1-Jun-2009, 190 pages, €15 $19 £10 ¥2 000
SourceOECD:
www.SourceOECD.org/9789264060241
Online Bookshop :
www.oecd.org/bookshop?9789264060241

Keeping Markets Open at Times of Economic Crisis
OECD Policy Brief
Freely available at:
http://www.oecd.org/dataoecd/48/19/42459971.pdf

Sustainable Development: Linking Economy, Society, Environment
OECD Insights Series
Examines what sustainable development means; how it is impacted by globalisation, how it can be measured, and what can be done to promote it.
12-May-2009, 142 pages, €15 $19 £10 ¥2 000
SourceOECD:
www.SourceOECD.org/9789264047785
Online Bookshop:
www.oecd.org/bookshop?9789264047785

Watts up

Gadgets and Gigawatts: Policies for Energy Efficient Electronics



Most people would be able to count between 20 and 30 electronic gadgets scattered around their own homes, from televisions to battery chargers. By 2010, there will be over 3.5 billion mobile phone subscribers around the world, 2 billion TVs in use and 1 billion personal computers. Electronic devices have become necessities in modern life, and they now account for some 15% of total household energy consumption. *Gadgets and Gigawatts: Policies for Energy Efficient Electronics*, gives a global assessment of the changing pattern in residential electricity consumption over the past decade and an in-depth analysis of the role played by electronic equipment.

Thanks to highly targeted government policies, the per unit energy consumption of most major appliances, such as refrigerators, washing machines and water heaters, has fallen dramatically over the past decade, even as these products have increased in size, capacity and power. But greater use of air-conditioners and lighting equipment, and growing urbanisation and access to electricity in rural areas everywhere around the world, is driving up overall electricity consumption. The global dependence on electronics will only add to the surge: the International Energy Agency, a sister organisation of the OECD, estimates that energy use by electronic devices will double by 2022 and increase threefold by 2030 unless policy measures are introduced to increase energy efficiency.

Electronic devices are now the most globally traded of all household appliances, and considerable benefits could flow from increased international co-operation in developing policies and measures to make them more energy efficient. *Gadgets and Gigawatts* reviews how government policies can create markets for more energy-efficient appliances and is essential reading for policymakers and anyone who wants to be plugged in to discussions about how to create smarter, more energy-efficient homes.

ISBN 978-92-64-05953-5

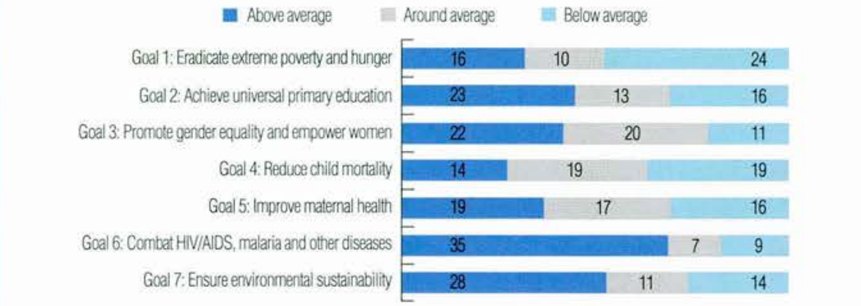
Arrested development

There are just six years to go to the deadline set by the international community for achieving the Millennium Development Goals (MDGs). The trouble is, reports now indicate that no sub-Saharan African country will attain all the goals by 2015.

The good news is that civil conflict on the continent has cooled and several African nations have launched reforms to accelerate growth and moves towards democracy. But forces beyond governments' control, such as world food prices, the global slowdown in economic growth and climate change are undermining efforts to attain the MDGs by the 2015 target date. Nearly half the countries on the continent are considered below average in their bid to eradicate extreme poverty and hunger (Goal 1). Child mortality rates are still unacceptably high in the majority of African countries (Goal 4).

Missed goals

Distribution of countries' status by MDG



Source: www.africaneconomicoutlook.org

And the scenario looks no brighter in the short term. Following half a decade of above 5% economic growth, the continent can anticipate only 2.8% growth in 2009, less than half of the 5.7% expected before the economic crisis. That slower rate translates into people sliding back into poverty. But that slide can be slowed, even averted, if developed countries honour their aid commitments. In 2008, total net official development assistance from members of the OECD's Development Assistance Committee (DAC) rose by 10.2% in real terms to US$119.8 billion–the highest dollar figure ever recorded and one which crisis-squeezed governments should do all they can to beat in 2009.

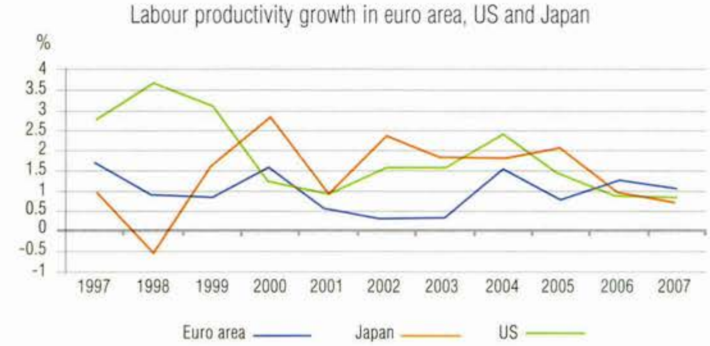
For more on the MDGs, visit www.oecd.org/dac/mdg. *African Economic Outlook 2009* is available at www.oecd.org/bookshop

Early warnings?

Productivity had been plummeting in OECD economies for a few years before the advent of the financial crisis. According to recent OECD statistics, the downward slide indicates several things. First, that the US has lost its lead in labour productivity, with a sharp decline in growth since 2004 putting it behind Europe by 2007. Second, that certain sectors at the heart of the crisis, such as the construction industry, were showing signs of exhaustion even at the height of the housing boom in 2005. Labour productivity growth had been decreasing since 2002; in the construction sector, it dived from -4% in 2005 to -10% in 2006 and -12% in 2007. In fact, productivity was already declining strongly just when the bubble was at its most inflated.

Productivity decline

Labour productivity growth in euro area, US and Japan



Source: OECD Productivity Database, OECD system of unit labour cost and related indicators database

By comparison, productivity in the euro area also dropped after 2006, while labour productivity in construction, at near-zero levels in 2006, slid slightly by 0.5%, while overall EU productivity edged up by 1%.

The convergence among OECD countries, albeit based on downward trends, also affects innovation, as measured by multifactor productivity (MFP), which captures the way labour, technology and know-how interact. The drop reflects weaker innovation, which needs to be reversed for a sustainable recovery to take hold.

Indicators

			% change from:				level:	
			previous period	previous year			current period	same period last year
Australia	Gross domestic product	Q1 09	0.4	0.4	Current balance	Q1 09	-3.05	-18.21
	Leading indicator	Apr. 09	-0.5	-4.8	Unemployment rate	Apr. 09	5.40	4.20
	Consumer price index	Q1 09	0.1	2.5	Interest rate	Apr. 09	3.10	7.84
Austria	Gross domestic product	Q1 09	-2.8	-2.9	Current balance	Q4 08	3.41	5.17
	Leading indicator	Apr. 09	0.2	-6.1	Unemployment rate	Apr. 09	4.20	3.70
	Consumer price index	Apr. 09	0.2	0.7	Interest rate		*	*
Belgium	Gross domestic product	Q1 09	-1.6	-3.0	Current balance	Q4 08	-5.70	-1.49
	Leading indicator	Apr. 09	0.3	-8.4	Unemployment rate	Apr. 09	7.50	6.70
	Consumer price index	May 09	-0.1	-0.4	Interest rate		*	*
Canada	Gross domestic product	Q1 09	-1.4	-2.1	Current balance	Q1 09	-7.27	5.84
	Leading indicator	Apr. 09	0.4	-7.6	Unemployment rate	May 09	8.40	6.10
	Consumer price index	Apr. 09	-0.1	0.4	Interest rate	May 09	0.63	3.15
Czech Republic	Gross domestic product	Q1 09	-3.5	-3.4	Current balance	Q4 08	-2.28	-1.24
	Leading indicator	Apr. 09	0.6	-11.3	Unemployment rate	Apr. 09	5.70	4.30
	Consumer price index	Apr. 09	-0.1	1.8	Interest rate	May 09	2.30	4.14
Denmark	Gross domestic product	Q4 08	-1.9	-3.6	Current balance	Q4 08	2.34	2.00
	Leading indicator	Apr. 09	0.4	-7.6	Unemployment rate	Apr. 09	5.50	3.10
	Consumer price index	Apr. 09	-0.1	1.4	Interest rate	May 09	1.80	4.88
Finland	Gross domestic product	Q4 08	-1.3	-1.8	Current balance	Mar. 09	-0.12	0.84
	Leading indicator	Apr. 09	1.0	-0.4	Unemployment rate	Apr. 09	7.80	6.20
	Consumer price index	Apr. 09	0.0	0.8	Interest rate		*	*
France	Gross domestic product	Q1 09	-1.2	-3.2	Current balance	Mar. 09	-2.91	-4.12
	Leading indicator	Apr. 09	1.2	-1.2	Unemployment rate	Apr. 09	8.90	7.60
	Consumer price index	Apr. 09	0.2	0.1	Interest rate		*	*
Germany	Gross domestic product	Q1 09	-3.8	-6.9	Current balance	Q1 09	21.73	69.82
	Leading indicator	Apr. 09	0.1	-13.4	Unemployment rate	Apr. 09	7.70	7.40
	Consumer price index	Apr. 09	0.0	0.7	Interest rate		*	*
Greece	Gross domestic product	Q1 09	-1.2	0.3	Current balance	Mar. 09	-2.37	-4.31
	Leading indicator	Apr. 09	0.4	-2.8	Unemployment rate	Dec. 08	7.80	7.90
	Consumer price index	Apr. 09	0.3	1.0	Interest rate		*	*
Hungary	Gross domestic product	Q4 08	-1.2	-1.3	Current balance	Q4 08	-3.31	-2.14
	Leading indicator	Apr. 09	1.8	-14.2	Unemployment rate	Apr. 09	9.60	7.60
	Consumer price index	Apr. 09	0.8	3.3	Interest rate	May 09	9.50	8.46
Iceland	Gross domestic product	Q4 08	-0.9	-1.3	Current balance	Q4 08	-1.53	-1.36
	Leading indicator		..	..	Unemployment rate		..	..
	Consumer price index	Apr. 09	0.4	11.9	Interest rate	Apr. 09	14.54	15.60
Ireland	Gross domestic product	Q4 08	-7.1	-7.4	Current balance	Q4 08	-0.57	-4.51
	Leading indicator	May 08	-0.8	-6.7	Unemployment rate	Apr. 09	11.10	5.20
	Consumer price index	Apr. 09	-0.8	-3.5	Interest rate		*	*
Italy	Gross domestic product	Q1 09	-2.4	-5.9	Current balance	Dec. 08	-9.92	-7.62
	Leading indicator	Apr. 09	2.1	-0.6	Unemployment rate	Dec. 08	6.90	6.40
	Consumer price index	May 09	0.2	0.9	Interest rate		*	*
Japan	Gross domestic product	Q1 09	-4.0	-9.1	Current balance	Mar. 09	9.23	18.36
	Leading indicator	Apr. 09	0.1	-11.9	Unemployment rate	Apr. 09	5.00	4.00
	Consumer price index	Apr. 09	0.1	-0.1	Interest rate	Apr. 09	0.36	0.70
Korea	Gross domestic product	Q1 09	0.1	-4.4	Current balance	Apr. 09	6.51	2.81
	Leading indicator	Apr. 09	2.5	-1.3	Unemployment rate	Apr. 09	3.80	3.20
	Consumer price index	Apr. 09	0.3	3.6	Interest rate	May 09	2.41	5.36
Luxembourg	Gross domestic product	Q4 08	-4.5	-5.4	Current balance	Q4 08	0.27	1.66
	Leading indicator	Apr. 09	0.2	-10.9	Unemployment rate	Apr. 09	6.30	4.70
	Consumer price index	Apr. 09	0.3	0.3	Interest rate		*	*
Mexico	Gross domestic product	Q1 09	-5.9	-8.6	Current balance	Q1 09	-0.70	-1.89
	Leading indicator	Apr. 09	0.5	-2.4	Unemployment rate	Apr. 09	5.30	3.70
	Consumer price index	Apr. 09	0.4	6.2	Interest rate	May 09	5.24	7.59
Netherlands	Gross domestic product	Q1 09	-2.8	-4.5	Current balance	Q4 08	15.32	18.00
	Leading indicator	Apr. 09	0.2	-11.0	Unemployment rate	Apr. 09	3.00	2.80
	Consumer price index	May 09	0.1	1.6	Interest rate		*	*
New Zealand	Gross domestic product	Q4 08	-0.6	-2.3	Current balance	Q4 08	-2.17	-2.47
	Leading indicator	Mar. 09	0.3	-0.8	Unemployment rate	Q1 09	5.00	3.80
	Consumer price index	Q1 09	0.3	3.0	Interest rate	May 09	2.82	8.71

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Norway	Gross domestic product	Q1 09	-0.4	-0.3	Current balance	Q4 08	15.78	18.50
	Leading indicator	Apr. 09	-0.2	-7.8	Unemployment rate	Mar. 09	3.20	2.40
	Consumer price index	Apr. 09	0.2	2.9	Interest rate	May 09	2.40	6.48
Poland	Gross domestic product	Q1 09	0.4	1.9	Current balance	Mar. 09	0.23	-2.90
	Leading indicator	Apr. 09	0.4	-3.2	Unemployment rate	Apr. 09	7.80	7.30
	Consumer price index	Apr. 09	0.7	4.2	Interest rate	Apr. 09	4.30	6.34
Portugal	Gross domestic product	Q1 09	-1.5	-3.7	Current balance	Mar. 09	-1.69	-2.49
	Leading indicator	Apr. 09	0.1	-11.3	Unemployment rate	Apr. 09	9.30	7.60
	Consumer price index	Apr. 09	0.2	-0.5	Interest rate		*	*
Slovak Republic	Gross domestic product	Q1 09	-11.4	-6.2	Current balance	Q4 08	-1.58	-1.67
	Leading indicator	Apr. 09	-1.0	-22.8	Unemployment rate	Apr. 09	11.10	9.80
	Consumer price index	Apr. 09	-0.1	2.3	Interest rate		*	*
Spain	Gross domestic product	Q1 09	-1.9	-3.0	Current balance	Mar. 09	-8.76	-17.05
	Leading indicator	Apr. 09	0.8	-4.6	Unemployment rate	Apr. 09	18.10	10.00
	Consumer price index	Apr. 09	1.0	-0.2	Interest rate		*	*
Sweden	Gross domestic product	Q1 09	-0.9	-6.4	Current balance	Q1 09	4.51	10.54
	Leading indicator	Apr. 09	-0.8	-9.3	Unemployment rate	Apr. 09	8.50	5.70
	Consumer price index	Apr. 09	0.2	-0.1	Interest rate	May 09	0.47	4.11
Switzerland	Gross domestic product	Q1 09	-0.8	-1.6	Current balance	Q4 08	11.77	8.82
	Leading indicator	Apr. 09	-0.2	-4.3	Unemployment rate	Q1 09	3.90	3.50
	Consumer price index	May 09	0.2	-1.0	Interest rate	May 09	0.40	2.78
Turkey	Gross domestic product	Q4 08	-3.8	-5.8	Current balance	Q4 08	-72.70	-7.45
	Leading indicator	Apr. 09	1.8	-10.8	Unemployment rate	Dec. 08	10.60	8.60
	Consumer price index	Apr. 09	0.0	6.1	Interest rate	Apr. 08	16.65	17.86
United Kingdom	Gross domestic product	Q1 09	-1.9	-4.1	Current balance	Q4 08	-11.94	-12.11
	Leading indicator	Apr. 09	0.7	-4.2	Unemployment rate	Feb. 09	6.90	5.10
	Consumer price index	Apr. 09	0.3	2.3	Interest rate	May 09	1.30	5.79
United States	Gross domestic product	Q1 09	-1.5	-2.5	Current balance	Q4 08	-132.82	-167.24
	Leading indicator	Apr. 09	0.2	-10.8	Unemployment rate	Apr. 09	8.90	5.00
	Consumer price index	Apr. 09	0.2	-0.7	Interest rate	May 09	0.57	2.66
Euro area	Gross domestic product	Q1 09	-2.5	-4.8	Current balance	Mar. 09	-8.45	-16.98
	Leading indicator	Apr. 09	0.8	-6.3	Unemployment rate	Apr. 09	9.20	7.30
	Consumer price index	Apr. 09	0.4	0.6	Interest rate	May 09	1.28	4.86
Russia[1]	Gross domestic product	Q4 08	-1.5	1.2	Current balance	Q4 08	9.39	25.01
	Leading indicator	Apr. 09	-0.3	-21.3	Unemployment rate		..	..
	Consumer price index	Apr. 09	0.7	13.1	Interest rate	Mar. 09	14.80	6.94
Brazil[2]	Gross domestic product	Q4 08	-3.6	1.2	Current balance	Q4 08	-5.13	-1.73
	Leading indicator	Apr. 09	-0.7	-12.8	Unemployment rate		..	..
	Consumer price index	Apr. 09	0.5	5.5	Interest rate		..	..
China[2]	Gross domestic product		..	..	Current balance		..	..
	Leading indicator	Apr. 09	0.9	-8.3	Unemployment rate		..	..
	Consumer price index		..	..	Interest rate	Apr. 09	1.12	4.51
India[2]	Gross domestic product	Q1 09	-2.4	0.0	Current balance	Q4 08	-14.64	-4.53
	Leading indicator	Apr. 09	0.4	-7.9	Unemployment rate		..	..
	Consumer price index	Apr. 09	1.4	8.7	Interest rate		..	..
Indonesia[2]	Gross domestic product	Q4 08	-0.2	5.2	Current balance	Q4 08	-0.01	3.66
	Leading indicator	Apr. 09	-0.4	-15.7	Unemployment rate		..	..
	Consumer price index	May 09	0.0	4.6	Interest rate	Apr. 09	10.09	7.23
South Africa[2]	Gross domestic product	Q4 08	-0.5	1.3	Current balance	Q4 08	-3.39	-5.59
	Leading indicator	Mar. 09	-0.1	-8.5	Unemployment rate		..	..
	Consumer price index	Apr. 09	0.6	8.8	Interest rate	May 09	7.88	11.55

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted. **Leading Indicators:** A composite indicator based on other indicators of economic activity, 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; *refers to Euro area.

..=not available

[1]Accession candidate to OECD

[2]Enhanced engagement programme

Source: Main Economic Indicators, June 2009

Bill of health

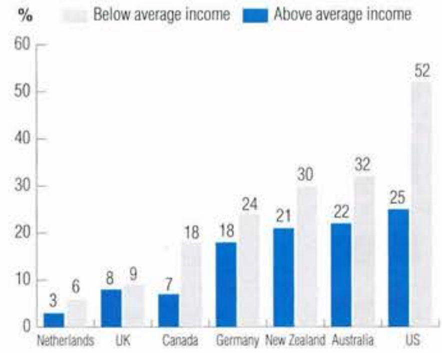
Everyone puts off visits to the doctor and dentist at one point or another; but how often do people forego a check-up, treatment, or decide not to fill a prescription just because it costs too much? Far too often, it turns out, and not only for those on below-average incomes.

There are several other reasons, such as a lack of healthcare providers, distance to the nearest health centre and excessive waiting times. But high cost is the most prevalent reason among adults with low socioeconomic status–whether as a result of income, lack of insurance coverage, or even racial or ethnic factors.

Nearly 10 times more people on below-average incomes in the US report unmet healthcare needs compared with the Netherlands, and all because of cost (see chart). In the US, having health insurance is often the determinant factor: adults with below-average incomes who have health insurance report significantly fewer cost-related problems in accessing healthcare than do their uninsured counterparts. Nearly 100 million Americans have either no or insufficient health cover, according to recent reports, whereas in the Netherlands, social security and medical insurance coverage is effectively universal.

Healthcare gap

Persons reporting an unmet care need(a) due to costs in seven OECD countries, by income group, 2007



(a) Did not get medical care, missed medical test, treatment or follow-up, or did not fill prescription or missed doses.

Source: "Measuring disparities in health status and in access and use of health care in OECD countries", Michael de Looper and Gaetan Lafortune, OECD Health Working Paper No. 43, 2009, available at www.oecd.org/health

Taking it easy

Where there's money, there's also time for relaxing. According to time-use surveys, Norwegians, who have the highest net national incomes among the OECD countries studied, spend more than 2,300 hours a year in leisure activities, which could include anything from watching television to white-water rafting. On the other extreme, Mexicans, whose average annual income is about US$ 10,000, report spending 1,000 hours a year less in relaxing pursuits than their Norwegian counterparts, which is the lowest in the chart.

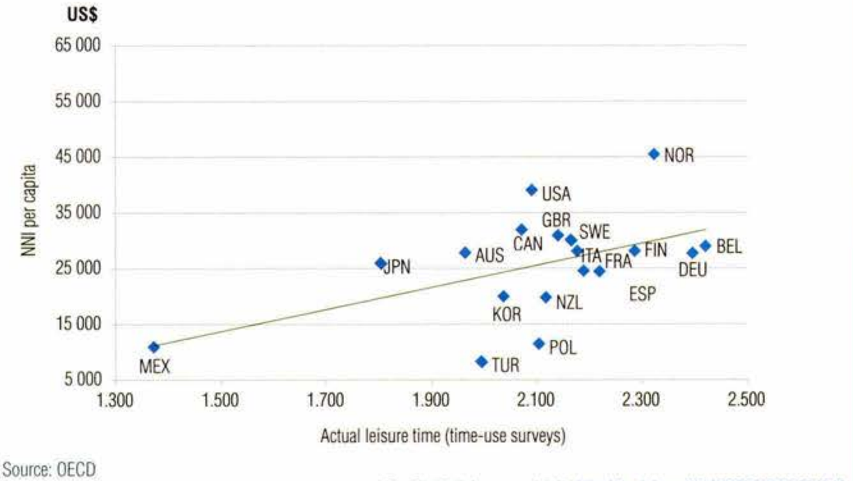
While those with higher incomes have come to expect–and demand–more time for leisure, the amount of time spent relaxing is also determined by national character. For example, Belgians and Germans earn only slightly more than their Japanese counterparts, but spend nearly 50% more time at leisure. Curiously, the French, who are known for their *joie de vivre*, are firmly in the average when it comes to time spent on leisure activities–although *Society at a Glance* does find that French people spend slightly more time sleeping, eating and drinking than any other OECD country.

What may be somewhat surprising is that in nearly every country surveyed, people spend more time watching television or listening to the radio at home than they do entertaining friends, attending cultural events or playing sports. As the global economic crisis hits incomes, relaxing at home might become even more popular than before.

Society at a Glance 2009: OECD Social Indicators, available at www.oecd.org/bookshop
ISBN 978-92-64-04938-3

Leisure time is money

Broad leisure time is positively correlated with per capita net national income, 2006 or latest available year



Source: OECD

See StatLink for more details http://dx.doi.org/10.1787/548783364748