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Governments and markets: Time to get serious
Bank crisis: Funding the gap
Microcredit's big future
Africa's tax system
Greening the OECD
Ireland's economy

Beyond GDP
Your Better Life Index

east forum

2011 europe and asia strategies

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INNOVATION RECOVERY HUMAN CAPITAL

COMPETITIVE GROWTH FOR QUALITY JOB

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July 4, 2011
Palazzo Barberini in Rome

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Readers' views

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Pension reform flaws

Everybody agrees that the pension rules have to be changed. It's obvious that the current rules won't allow the payment of pensions in 10 or 15 years from now. But here capitalism is in question. It is the first time in French history that social security is being decreased, and this proves that the current economic system has failed. As the communist system failed in the USSR, capitalism is failing in the West. Globally, it is failing because poverty is increasing all over the world, social security is decreasing, with more and more jobless, and more and more homeless all over the US and Europe.

The second point is the way the French government has made the change. This reform has some deficiencies:

1. Raising taxes and social contributions would have a positive effect if a new contribution on capital and financial transaction could be applied.

2. Virtually no one favours cuts and reduction of pensions. But in fact, the reform indirectly does this, by restricting access to full pensions for more workers. To extend working lives, the reform takes two approaches simultaneously, first increasing the contribution duration which allows retirement with full pension (37.5 to 42 years) and then applying a fixed age for workers to retire (60 to 65 and 60 to 67 to be retired without penalties). The longer the duration period of contribution, the less people can retire with their full pension. This reform also directly puts emphasis on extending working lives while indirectly cutting pensions.

3. This reform is unfair for women. Women with children usually stop working to take care of their children, so they rarely ever accumulate their 42 years of contribution.

4. This reform is unfair for blue collar workers. Some workers (such as masons) have exhausting jobs and may die younger, and get less pension than other workers. The fixed age should not be the same for industrial jobs as for office jobs.

5. The actual structure of employment does not allow youth employment to be raised, nor old workers to be retired later. Jobless people are often young people under 25 and older people over 55; it is widely assumed that old people are less efficient and cost more, while young people have no experience.

Jing & Fatemeh

Doctor, doctor...doctor

You claim that an increased supply of doctors in the US would cause increased competition and increased supply, and lower medical care prices. But there are studies that demonstrate that, in areas where there is a large number of doctors, there is a large number of unnecessary medical procedures and medical services. This problem must also be dealt with. With this proposal, we could end up with the worst of both worlds: an even greater excess of doctors performing an even greater excess of unnecessary medical services–with no net increase in actual patient health.

Maybe we already have too many doctors. Maybe what we need is an improved reimbursement scheme.

Al

Renewable promise?

Portugal and Spain are leaders in subsidising so-called renewables like wind and solar. This has helped both countries economies to tank, as high energy prices make them less competitive. A King Carlos University study showed that, in Spain, each renewable job created cost more than two jobs elsewhere in the economy.

Rolf Westgard

Innovative thinking

There is good innovation, meaningless innovation and dangerous innovation. How about that harmless practice of "financial innovation"?

My fear is that as long as policymakers believe innovation only means "cool new products" or slick new apps for the tablet which can tell you the time of day in 12 languages, we may miss the big picture of what innovation really means.

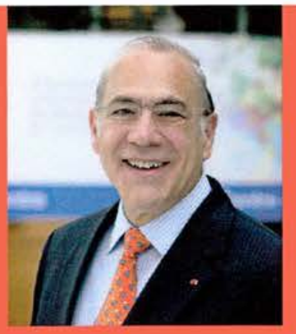
True innovation drives fundamental changes in the way society lives. For example, harnessing the energy of fire changed the way we produce, distribute and consume goods while addressing a number of practical challenges. We all benefited through improved living standards as a result.

Concentrating billions of dollars of investment capital on social buying sites like Groupon will not get us to the promised land.

Baye Kambui

Replies to these comments can be made at the above website, www.oecdobserver.org or http://twitter.com/OECDObserver

Building our future together



As well as "going structural" to unblock growth, policymakers must "go social"

Angel Gurría,
Secretary-General of the OECD

We are celebrating the OECD's 50th anniversary during the tail-end of the worst financial and economic crisis of our lifetimes. It's a good moment to take stock and to ask the right questions. Why couldn't we avoid the crisis? Were the policies and the policy mix we promoted the right ones, and how can we adjust these polices to new realities? What is more, are we doing enough to prevent another crisis? Are our economic theories, our models and our assumptions still appropriate? How should our organisation's work be adapted so that we continue fulfilling our founding mission of promoting better policies for better lives?

We must draw every lesson we can from the crisis. What is clear is that a return to "business as usual" growth will not be enough to resolve the problems we face. They go from massive unemployment, particularly among younger people, widening inequalities and parlous public finances, high food and commodities prices on the one hand, to pressing global issues such as climate change, poverty, and food, water and energy security on the other. The economic model we must champion has to address these issues. It must incorporate the environment, equal opportunities and redistribution, as well as the effects of trade, investment and migration. Above all, our models must have people's well-being as their top priority.

The crisis compels us to challenge conventional wisdom, including our own, and be bolder in advancing new thinking and approaches for addressing global problems. The OECD has not sat back. For instance, our institution can claim credit for having drawn policymakers' attention to the issue of inequality and for designing economic tools for managing the environment. Our organisation is also leading the search for policy responses to demographic and migratory challenges. These are just some examples, and by building on such strengths, we can find solutions to many of today's wide-ranging challenges. Growth remains key, though searching for new sources of growth that are greener, more equitable and more "gender friendly" is our common objective.

Inclusive and green growth should therefore permeate our thinking. Consider job creation, for instance. The OECD is determined to step up its much-valued work on employment, education, skills and social policies, and build on its traditionally strong collaboration with labour, business and civil society. Our concern is to create decent jobs, foster equal opportunities and combat social exclusion. Our focus must be on what I call the five E's: Employment, Education, Entrepreneurship, Equality and the Environment.

As well as "going structural" to unblock growth, policymakers must "go social"; our future well-being depends on combining action on both these fronts, from active labour market and equity policies targeting the most vulnerable, through investment in skills and lifelong learning, to family and gender policies, and measures to bolster intergenerational solidarity and secure our children's future. We must place even more emphasis on working with our social partners as we strive to reach these joint goals.

Another strategic priority is development. This is what the "D" in OECD means: indeed, the OECD story is one of promoting policies for development. We must continue to share our knowledge, analysis and advice with our partners in emerging economies and developing countries, not least in view of meeting the Millennium Development Goals. But as global wealth and power are shifting, we must also make a greater effort to listen to these countries and to benefit from their experiences.

At our 50th Anniversary Ministerial Council Meeting, we will propose to elaborate a broader OECD strategy for development with emerging economies, and to work with each other on an equal footing and in a more structured way, while adopting a medium- to long-term perspective. Moreover, we must work more closely with other partners in Latin America, Southeast Asia, Africa and Southeast Europe, and, particularly in light of current events, with the countries of the Middle East and North Africa. In this region, we should focus our efforts on an agenda for growth, but also for inclusiveness, investment, governance, employment, equality and gender, to make a real contribution to the transition.

Facing the future together demands having to work more coherently with other international organisations, while providing support for the G8 and G20. Better connectivity and more cross-fertilisation among countries and organisations would have served us well before the crisis, but has become vital now. By strengthening our partnerships and networks, we can reinvigorate multilateralism and make global policymaking more effective.

However, the test of that effectiveness goes beyond growth to people's welfare. How can that be measured? To find answers, we are launching the Better Life Index during our 50th Anniversary OECD Week. This unique instrument will enable ordinary people to assess their well-being according to their own preferences. Governments and citizens can then learn from this data and analysis to shape policies and get better results. The Better Life Initiative will empower everyone who cares about building a stronger, cleaner and fairer world.

"Better Policies for Better Lives" is much more than a birthday wish. It expresses the OECD's unflinching determination to work on behalf of people's welfare everywhere.

See also www.oecdobserver.org/angelgurria and www.oecd.org/secretarygeneral

News brief

Child poverty warning

Poverty in households with children is rising in nearly all OECD countries, a recent report reveals. The share of children living in poor households has risen over the past decade, to reach 12.7% across the OECD. One in five children in Israel, Mexico, Turkey, the US and Poland live in poverty. *Doing Better for Families*, the OECD's first-ever report on family well-being, says that families with children are more likely to be poor today than in previous decades. Governments should ensure that family support policies protect the most vulnerable, the authors argue.

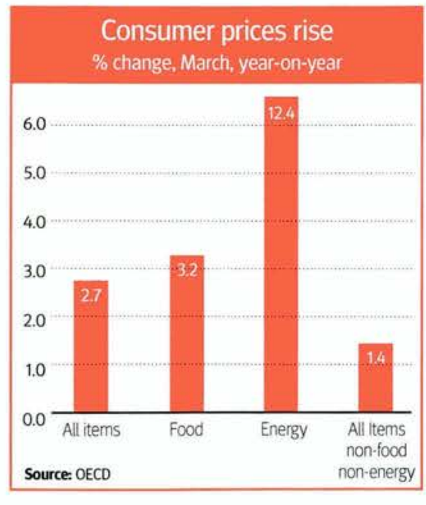
See Databank, page 45 and visit www.oecd.org/els

©REUTERS/Jas Lehal

Economy

The OECD's latest **leading indicators** point to mixed trends ahead for major economies. The indicators, which include order books, building permits and long-term interest rates, edged up by 0.2 points for the OECD area, though with a possible easing in expansion ahead in the EU.

Meanwhile, **GDP** in the OECD area grew by 0.4% in the fourth quarter of 2010, down from the 0.6% growth recorded in the previous quarter. It contracted by 0.3% in Japan and by 0.5% in the UK, and had slowed in Germany to 0.4% from 0.7% . In the US growth accelerated to 0.8% from 0.6%.



Consumer price inflation in the OECD area reached 2.7% in the year to March 2011, up from 2.4% in February. It was driven by an acceleration in energy prices to 12.4% in March, up from 10.2% in February. Food prices rose by 3.2% in March. Excluding food and energy, consumer prices rose by 1.4 % in March 2011, the highest rate in a year.

The **unemployment rate** of 8.2% in March 2011 in the OECD area was unchanged from February, following three consecutive monthly decreases. Indeed, for the first time since 2007, unemployment is showing a steady or declining pattern in most OECD countries.

Unit labour costs in the euro area rose by 0.2% in the third quarter of 2010 (quarter-on-quarter, seasonally adjusted), slightly up from the 0.1% rate seen in the second quarter.

Merchandise **trade** growth quickened in the final quarter of 2010 in most major economies, with record trade figures in China. Total **exports** of G7 and BRICS countries grew by 8% in the fourth quarter compared to 1% in the previous quarter, and total **imports** grew by 7% compared to 1%.

See www.oecd.org/statistics

Soundbites

Commodity price speculation

"Some of it (the food and energy price rise) of course is supply and demand related but I think there's another element to it [...]. The world's financial monetary authorities, particularly in the US, but also in the UK, have added enormous amounts of liquidity in the past couple of years through quantitative easing [...]. So I think you can quite clearly say that the Federal Reserve and to a lesser extent the Bank of England have actually partly fuelled this commodity price boom."

Richard Jeffrey, Chief Investment Officer of Casanove Capital Management, BBC Today radio programme, 6.22 am, 11 May 2011

Old Europe?

"Le retour des frontières en Europe divise l'Union. (The return of borders in Europe is dividing the Union.)"

Front page headline of *Le Monde*, 6 May 2011

Economic choice

In economics, the academic realm ought to be the home of pluralist discourse but the growth of peer review and journal publication has undermined this. University economists, of the sort gathered at Bretton Woods, are now under relentless pressure to conform to a narrow, established paradigm.

John Kay, *Financial Times*, 15 April 2011

Slower development aid?

Development aid from OECD donor countries totalled $129 billion in 2010, the highest level ever, and an increase of 6.5% over 2009. But with some donors not meeting agreed commitments, aid could rise at a slower pace.

See Databank for more, and www.oecd.org/dac

Japan rebuilds

©REUTERS/Toru Hanai

The 11 March earthquake and tsunami were Japan's strongest ever recorded and its worst disaster in half a century. Addressing reconstruction and humanitarian needs is a priority, the latest *OECD Economic Survey* issued in April says. This inevitably creates the need for short-term increases in public spending, though as the report notes, the fiscal situation has reached a critical point. While it is still too early to assess the full extent of the damage, the report says the immediate impact will be to reduce output, although this will later be reversed by reconstruction efforts. Meanwhile, the OECD will be working closely with the Japanese authorities to assist where possible.

See remarks by OECD Secretary-General Angel Gurría, page 34.

Visit www.oecd.org/japan

Brazil and India sign OECD chemical accord

Brazil and India have joined an OECD chemical testing agreement that allows countries to share and accept each other's results, saving money for governments and industry, and reducing the risk of trade disputes. The OECD system for the Mutual Acceptance of Data (MAD) in the Assessment of Chemicals ensures that the results of non-clinical safety tests done on chemicals and chemical products, such as industrial chemicals and pesticides, are accepted in all participating countries. OECD research has shown that this multilateral agreement saves governments and chemical producers around €150 million annually. Brazil joined MAD on 9 May, with India signing up on 6 April.

See www.oecd.org/environment

Tax burden on the rise

Income tax hikes and social security increases since the start of the crisis are putting pressure on take-home pay in some OECD countries, though some governments are cutting taxes, according to the OECD's latest *Taxing Wages* report. The annual report shows that tax burdens rose in 22 of the 34 OECD countries in 2010. The Netherlands, Spain and Iceland were among the countries with increases, while Denmark, Greece, Germany and Hungary were among those showing the biggest drops.

Comparing the total cost to an employer of hiring someone to that person's net take-home pay, including child and other family benefits, the report says that this tax wedge was highest in France (42.1% of labour costs), Belgium (39.6%) and Italy (37.2%) for one-earner married couples with two children earning the average wage, and smallest in New Zealand (-1.1%, meaning that net take-home pay is higher than costs to the employer), Chile (6.2%) and Switzerland (8.3%). The average OECD tax wedge was 24.8%.

Corruption: governments warned

Most governments are not meeting their international commitments to clamp down on bribery and corruption in international business, with only five signatories to the OECD Anti-Bribery Convention having sanctioned individuals or companies in the past year, according to an OECD report released in April. Five of the 38 nations that are signatories to the convention imposed penalties on individuals or firms in 2010, and the organisation wants to see more enforcement and compliance with the landmark treaty.

See www.oecd.org/corruption

Estonia joins the OECD

Estonia became the OECD's 34th member country on 9 December 2010.

See www.oecd.org/estonia

Shinier steel outlook

The outlook for the global steel industry is promising, with global demand forecast to increase by an annual 6% in both 2011 and 2012, the OECD's Steel Committee said on 13 May 2011, but warned of rises in raw material prices, high oil prices and sluggish growth in the OECD area.

See www.oecd.org/sti/steel

Cities under-served by carbon markets

Cities should be better served by the current carbon markets in the fight against climate change, a new report says. Cities use two-thirds of world energy and produce two-thirds of energy-related greenhouse gas emissions.

Search *Cities and Carbon Market Finance* at "What's New", 19 April at www.oecd.org/environment

Plus ça change...

"When it is a question of the development of society, it is not enough for a few experts to be familiar with all the aspects of certain problems and 'know-how'.[...] In publishing the *OECD Observer*, a step is being taken towards a wider dissemination of this knowledge."

Extract from the first editorial introducing the *OECD Observer* by Thorkil Kristensen, Secretary-General of the OECD, issue No 1, November 1962.

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Better measures for better lives

The OECD, a pioneer in the quest to measure the progress and well-being of societies, is launching an exciting new initiative, incorporating Your Better Life Index. The initiative is not only a major step forward in assessing people's true welfare, but involves people in the process too.

Your economy grew by 2% last year. So are you 2% happier or better off? Take national income per head or GDP per capita, which have been the standard measures of a country's economic progress for decades. Now, imagine a politician tells you that the GDP per capita in your country has leapt from $20,000 per head to $25,000 in three years. Has your income risen by that amount? And even it has, has your lifestyle improved, your environment become cleaner, or your country more honest than before? And anyway, how would you be able to tell for sure?

Nowadays, more and more people, including governments and economists, are becoming frustrated with the shortfalls of GDP as an indicator of the true well-being of individual people and society more widely. Indeed, several countries, including France, Germany, Italy, Japan, Korea, Spain and the UK, are now going beyond GDP and launching national initiatives on measuring progress. All share a common goal of trying to measure, and evaluate how countries are performing beyond mere increases in the value or volume of output and spending.

Indicators and data that attempt to go beyond income and profit are already quite common in business. NGOs such as the Global Reporting Initiative produce sustainability reporting for company accounting as part of corporate social responsibility (CSR), for instance, and some stock market indices now reward good CSR performance.

But such attempts have been fewer at economy level. Ever since the OECD started out in 1961, GDP has been the yardstick

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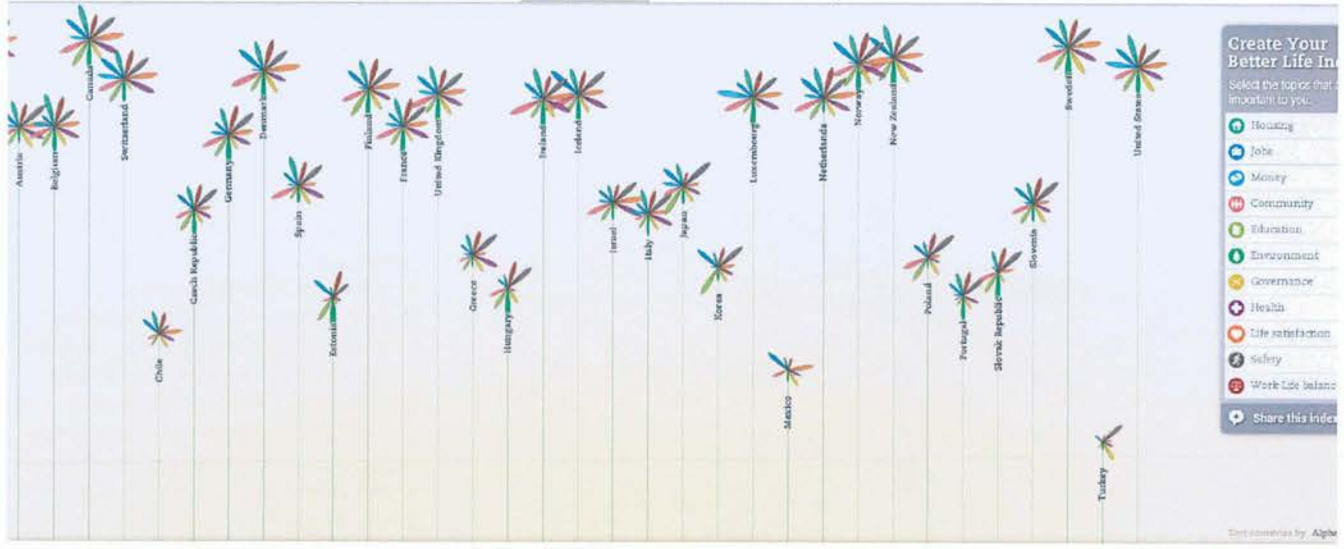
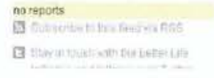


Create Your Better Life Index

There is more to life than the cold numbers of GDP and economic



by which it has measured and understood economic and social progress. But it has failed to capture many of the factors that influence people's lives, such as security, leisure, income distribution and a clean environment.

These are the kinds of factors which growth itself needs to be sustainable, which is why the question of what constitutes well-being and how to measure it is such a rich and vital debate of our time.

The OECD, already known for its leading indicators, PISA education surveys and several other influential initiatives, has been leading international reflection on measuring the progress of societies for nearly 10 years. Lately, it has been an important contributor to the work of the Stigliz-Sen-Fitoussi Commission on the measurement of economic performance and social progress, a French government initiative created at the beginning of 2008.

As Joseph Stiglitz recently wrote in these pages, the OECD's input proved very timely in today's economic downturn, and with other challenges, such as climate change and global inequality, models and ideas are understandably being questioned (see references).

Now, in its 50th anniversary year, the OECD is ready to unveil the first fruits of that hard work, the OECD Better Life Initiative, due to be launched during the 50th Anniversary Week. It will be the first instalment in a quite unprecedented broad-based international attempt to present comparative evidence on progress, leaning on two pillars: material living conditions and quality of life. Income and wealth count, but so do housing conditions. Quality of life considers aspects such as education, health, work-life balance, civic engagement and overall life satisfaction. Natural capital, physical capital, social capital and human capital will be considered as part of a future third pillar, sustainability.

As a central element of this initiative, the OECD is launching an index that will enable ordinary people to assess their well-being according to their own preferences: Your Better Life Index. The index is a new way of empowering and educating everyone who cares about building a stronger, cleaner and fairer world. This includes governments, who can then learn from this data to shape policies and get better results.

The Better Life Index web tool is simple and in many ways fun to use, even for those with no background in data or economics, in large part because it presents indicators in an attractive way that is easy to interpret.

At the time of launching, there were 11 dimensions for users to take on board: housing, income, jobs, community, education, the environment, governance, life satisfaction, safety and work-life balance. More factors will be added on as the index is developed.

Each country is represented by a flower, where the size of each one of the 11 petals illustrates the country's performance on a particular dimension, such as green for the environment, brown for safety, and so on.

The length of the stem changes with the country's overall performance, so the taller the flower, the better the country is doing. The length of the petals represents the country's score.

The OECD has not assigned weights to any of the dimensions: the user can choose to start with all the 11 dimensions weighted equally or to set their own preferences from the beginning. This neutrality means that the OECD selects the factors, but leaves the job of judging which ones count more than others to the public. People do this by using a control panel to fine-tune the weights in line with what matters to them.

This way, the Better Life Index allows users to measure and compare the quality of life across OECD countries–major emerging economies will soon follow suit–and to build and customise their own indices. By assigning their own weights to each of the 11 dimensions, they will be able to see how the emphasis they place on any particular factor affects the relative position of each country.

A new way of empowering and educating everyone who cares about building a stronger, cleaner and fairer world

Increase the weighting you wish to give to, say, the environment, and the length of the "stems" will adjust to reflect how other countries perform on the environment, while the width of the green petals will grow in size too. This creates a simple basis for making your country comparisons.

A closer look at the environment dimension helps to understand how the index works. Every dimension is made up of one to three indicators: the green petal denoting the environment reflects one for now: levels of air pollution in residential areas of cities with populations greater than 100,000. On a scale from 0 to 5, if you want to assign the greatest weight of 5 to environmental quality while keeping, say, governance, safety and all the other dimensions at 1, you'll find a list of countries topping your list. In this instance, Sweden, Australia, New Zealand or Canada capture most closely how you would define well-being. If you're more concerned about income and wealth, and adjust the weights accordingly, you may find you have more affinity with Luxembourg or the US.

These very personal assessments can then be saved and the results shared via email, Twitter or Facebook. The OECD experts, while respecting privacy norms, will be able to see the wider patterns of preferences among users and see how they vary by nationality, age and other criteria. This data will then be made available to shape ongoing work on measuring progress and help countries to understand the kinds of policies that promote well-being.

Indeed, the Better Life Initiative is firmly grounded in an important, long-term OECD project called How's Life? Beyond OECD Week, this project will continue with a major new book in September. Also called *How's Life?*, the book will focus on the living conditions of households and people, rather than the economy as a whole. It will ask whether employees are working particularly long hours, and how much time people devote to leisure activities and personal care, or to what extent mothers of young children participate in the workforce, and the effects this has on their well-being. It will even consider how much people socialise, whether they tend to vote, and how much confidence they have in their countries' institutions.

How's Life? and the Better Life Index are, by definition, works in progress. New dimensions will be added, particularly as the sustainability pillar is built, emerging economies are added and users provide continuous feedback. Also, while the Better Life Index incorporates household disposable income and wealth, consideration of how those are distributed in the country has yet to be included. GPD has its limitations as a measure of well-being, but it will undoubtedly remain a key measure of economic growth, not least because governments, markets and ordinary people are used to it. In any case, the OECD Better Life Initiative is designed to complement GDP-based indicators rather than replace them, by providing a human angle on how policies affect societies at large. Hopefully soon, countries, and the people who live in them, will have a better view of how they're really doing.

Create your Better Life Index on www.oecdbetterlifeindex.org

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For more on the Better Life Initiative and the OECD work on measuring progress and well-being, see www.oecd.org/progress

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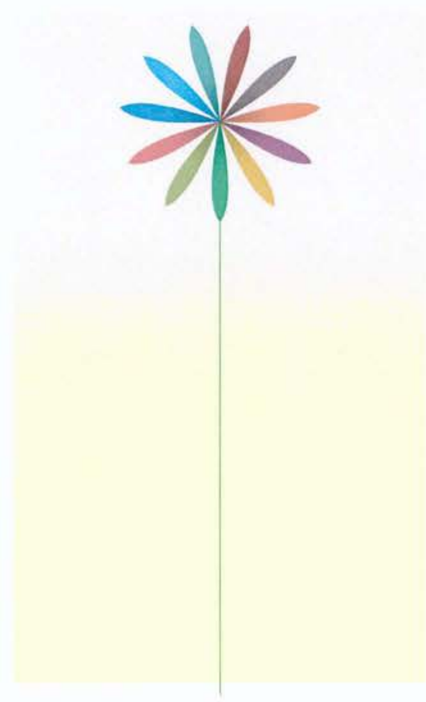

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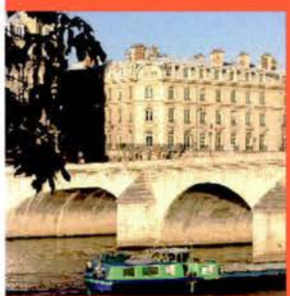

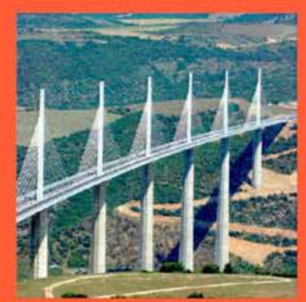

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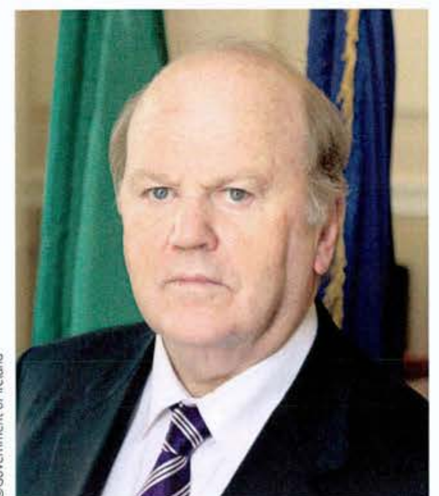
April 2011

Ireland: Confident of a return to force



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Michael Noonan, Minister of Finance, Ireland

A floor has now been placed under the banking crisis, albeit at a very high cost to the public purse.

The bursting of the property bubble has had substantial implications for the Irish economy. Living standards have fallen back to 2004 levels, while transitory tax revenues–which had been used to finance increases in public expenditure–effectively dried up. In addition, Ireland has had to cope with the collapse of our domestic banking system, resulting in exposure to very large losses.

Notwithstanding the fact that Ireland has been tackling the impacts of the changed budgetary situation since mid-2008, market sentiment towards Ireland deteriorated in the autumn of 2010, on foot of rising public debt amid large annual deficits and public support for the banking system. Access to markets was effectively closed, necessitating financial support from our EU partners and the International Monetary Fund.

A new government took office in March of this year with a very strong mandate from the Irish people. The government is committed to reducing the fiscal deficit below 3% of GDP by 2015, in line with our European requirements. Moreover, we envisage running primary surpluses from 2014 onwards, helping to ensure that public debt moves onto a declining path by the mid-part of this decade.

The government is also committed to implementing additional structural reforms to boost the productive capacity of the economy, enhance labour market prospects and further ensure that the public finances and our overall debt burden remain on a sustainable path.

Through its policy measures, such as its Jobs Initiative, the government is implementing various reforms to address the deterioration in the labour market; crucially, this will be achieved in a fiscally-neutral manner, and will help boost confidence and reduce precautionary savings.

A key focus of government policy is repairing the banking sector so that it is in a position to provide the credit necessary to support recovery. In broad terms, the approach is to recapitalise, restructure and deleverage viable institutions, and to facilitate the orderly winding down of unviable institutions. The recent Prudential Capital and Liquidity Assessment Reviews conducted by the Central Bank of Ireland have been well received by market participants, and there is a consensus that a floor has now been placed under the banking crisis, albeit at a very high cost to the public purse.

> Growth is expected to expand once again this year–the first time since 2007

The recent macroeconomic data flow has been relatively encouraging, and GDP is expected to expand once again this year–the first time since 2007. While further fiscal consolidation and private sector balance-sheet repair will continue to restrain domestic demand, the exporting sectors continue to perform very well. This rebalancing reflects the significant improvements in cost competitiveness evident in recent years. This has resulted in the current account of the balance of payments moving into surplus, which is a key positive indicator in terms of overall medium-term prospects for the Irish economy.

The external funding programme has provided us with the breathing space to implement appropriate financial, fiscal and structural policies. The recent quarterly review concluded that policy implementation has been strong and that the targets have been met. As our policies pay dividends in the months and years ahead, we are confident of a return to market-based funding for both the sovereign and the banking sector by the end of the programme period in 2013.

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For the views of other finance ministers from the OECD and partner countries on the economic challenges in 2011, see page 16 and our finance ministers' roundtable in the inaugural edition of the *OECD Yearbook 2011*, now available online at www.oecdobserver.org/yearbook2011

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Banking on a crisis and on its resolution

Sebastian Schich, OECD Directorate for Financial and Enterprise Affairs

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The recent financial crisis has left a hole in the public finances of many countries. Yet, with the right preparation, governments may have been better placed to fund that gap. This holds lessons for future crisis resolution strategies.

The worst crisis of our lifetimes should never be allowed to happen again. How often has this refrain been heard since Lehman Brothers crashed in 2008, taking much of the global financial sector with it?

Governments dug deep to save financial markets–"the lifeblood of our economic systems" as some put it–as taxpayers and savers looked on in disbelief: how could we have let it go so far? Many people have tried to answer this question, and the debate is a passionate and divisive one.

What no one disagrees on is that the crisis has been costly. In 2010 the IMF estimated the fiscal costs of direct support, net of recovered amounts, at some 2.8% of GDP for the advanced G20 countries. But these costs probably underestimate the total impact, which will be reflected in much higher debt: OECD public debt is now over 100% of GDP, compared with over 70% in 2007. Also, there have been major losses in jobs and output.

While it is too early to assess the full cost of the latest crisis, as history shows, financial crises are a recurrent event. So it is likely they will happen again. To be sure, new and improved rules will be introduced, and will hopefully limit the frequency and severity of future crises, but such is the nature of our system that occasional breakdowns will occur. There could, for instance, be overleveraging again, as borrowers get in over their heads, or as lenders, awash with cash, relax the rules in a bid to get their money working again.

> Without advanced action, countries will go forward unprepared until the next, possibly worse, crisis strikes

Beyond the swings and roundabouts of financial markets, there is another clear lesson, which is that governments should be far better prepared financially for crises than they appeared to be in 2008. Far too many of them were caught napping, in terms of assessing the gravity of their own situations and in responding to the problem at hand.

In fact, the entire response was based on reacting after the horse had bolted. These ex-post responses, while to some extent inevitable in any crisis, are ad hoc and costly.

Public authorities could be better prepared beforehand too, say, by storing up money in the kitty as a buffer, if not to prevent the crisis, then at least to reduce the size of the bill associated with resolving it. The effective funding of systemic crisis resolution will remain an issue, even if considerable progress is achieved in reducing systemic risks. This crisis has highlighted the existence of very wide ex-ante funding gaps in this regard.

More extensive use of ex-ante rather than ex-post funding for crisis resolution strategies would be complementary to current efforts to oblige banks to build up larger buffers of capital during good times, as a defence against future market shocks.

Good fiscal policies should also reflect ex-ante principles. True, several OECD countries did not start into the crisis from positions of strength, with wide fiscal deficits and public debt reaching or exceeding 100% of their gross domestic product. Those imbalances worsened in the crisis.

But some governments started out in far better positions than that. Take Ireland. In 2007 its general government finances were in surplus to the tune of nearly 3% of GDP in 2006, while its overall government debt was below 30% of GDP. Its unemployment rate was one of the OECD's lowest too. On the face of it, the country looked prepared. But when the crisis began to bite, even Ireland found that it could do little other than to provide a blanket guarantee for creditors and depositors. This had the effect of shifting bank sector risks and associated losses on to sovereign balance sheets.

Addressing current fiscal challenges and gaps is not enough, however. For unless advanced action is taken to set money aside for the future, a systemic funding gap will embed

itself into the system. That means countries will go forward again underprepared until the next, possibly worse, crisis strikes.

Moreover, given the causes of the crisis, the financial sector should play a fuller part in helping to build up ex-ante funds. As the G20 put it in their declaration at the Toronto Summit in June 2010, "the financial sector should make a fair and substantial contribution towards paying for any burdens associated with government interventions, where they occur, to repair the financial system or fund resolution, and reduce risks from the financial system."

Taxation is an obvious way of doing this. So far, any tax initiatives taken since the crisis broke were designed mainly to raise revenue in somewhat trying circumstances. Some were aimed at the financial sector, and some levies, in France, Italy and the UK, for instance, targeted large bank bonuses, with obvious political as well as economic intentions of getting the "fat cats" to pay their fair share. Did these measures work?

Yes and no. One high-profile example is the UK. Its tax, which expired in April 2010, was a one-off surcharge payable by banks equivalent to 50% of discretionary bonus payments above a specific threshold. The UK Treasury intended it as a way "to encourage banks to consider their capital position and to make appropriate risk adjustments when setting the level of bonus payments above the threshold." With City bonuses again ballooning as the crisis keeps its grip on the UK economy, the tax was not deemed very successful in changing behaviour. That said, it did raise welcome revenues for the exchequer.

Taxation is a tricky area, even if the aim is to recoup funds. There may be concerns about double-taxation for instance, or losing competitiveness, or indeed, penalising good banks and institutions that had nothing to do with the crisis, and whose proper management helped them survive the crisis in the first place. Setting taxes on financial institutions at relatively high levels could cause subsidiaries of foreign banks to reduce their activities altogether. Also, care is needed in taxing any single sector, since tax reforms have to be carried out in such a way as to maintain an effective overall tax structure.

Nevertheless, looked at closely, many tax officials feel that tax regimes affecting financial sectors in most OECD countries could do with some tweaks, since they tend to favour raising debt over, say, equity financing. Others believe that financial sector activities are under-taxed anyway, compared to manufacturing, for instance, partly because the application of value-added taxes to the financial sector is fraught with complications. In any case, the issue is not just to close current funding gaps that have opened up during this crisis, but to prepare for the future.

Perhaps the approach being watched most closely is Sweden's

New insurance approaches?

While schemes for insuring retail deposits exist in almost all OECD countries, systemic crises are not meant to be dealt exclusively with such arrangements. The recent crisis merely confirms that such arrangements are ill-equipped to absorb shocks of the magnitude we have just experienced.

Against this background, policymakers have been looking to the example of catastrophic risk insurance, such as for terrorism, nuclear accident risk and other emergencies, to see if models could be emulated there. Several OECD countries have already established specific public-private risk sharing arrangements for catastrophic events at the national level. This structure typically involves a first layer of funding consisting of deductibles and self-insurance by the private sector, and a top layer provided by the government. Other layers include insurance and reinsurance. Capital markets may also be involved through the issuance of catastrophe bonds.

But there are issues to consider with this approach. For a start, while financial market crises are man-made, not natural, disasters, they do share a common main problem, insofar as the insurance (and reinsurance) capacity is ultimately limited. Moreover, the financial management challenges of covering the risks of market meltdowns would be enormous, not least because of the sheer magnitude of the potential exposure. And as for averting crises, while moral hazard is not an innate flaw of insurance solutions, the very existence of catastrophic insurance for the financial sector could in theory encourage moral hazard, leading to more reckless borrowing and lending, not less.

Policy leaders

While it is difficult to say how much ex-ante funding would be needed to resolve a future systemic financial crisis, some governments are determined to find out. Germany, for instance, has passed a law on bank restructuring, which includes establishing a restructuring fund. The main aim of the law is to ensure the resolvability of any bank, including systemically important ones, while avoiding any major disruption to the wider economy. The law came into effect at the end of 2010, and will be monitored with great interest in Germany and abroad.

Perhaps the approach being watched most closely is Sweden's, precisely because of its funding aspect. Rather in the spirit of the oil-related investment fund which neighbouring Norway set up for future pensions in the 1990s, Sweden introduced a "stability levy" in 2009. Basically, it's an annual tax of 0.036% on most of a bank's liabilities, with the proceeds earmarked for a "stability fund". The aim is to build up funding to the tune of 2.5% of GDP within 15 years. This not-insignificant fund is intended to help to address disturbances in the financial system, though it will not obviate the need for developing effective rules for ex-post burden-sharing. Still, it will provide that extra cushion which taxpayers appreciate and which could limit the negative impact of the next crisis.

Very importantly, such crisis resolution funds would help to sever the link between the sovereign authorities and the domestic banking sector, a link which turned out to be so problematic in the case of Ireland and some other countries in the recent financial crisis.

Sweden's proactive initiative has attracted widespread attention. The IMF now suggests that, by accumulating taxes over a decade, such "crisis resolution" funds should aim for 2-4% of GDP. Such a fund would be attractive to many voters, particularly if the financial sector was seen to be contributing its fair share.

But even ex-ante funding is not a silver bullet for ending a crisis. Nor would it likely cover all the costs, as these vary so wildly that they cannot be foreseen with any real certainty: consider Indonesia's 1997 crisis, which cost nearly 60% of its GDP, or Finland's at the start of the 1990s which cost some 14% of GDP. That's roughly the estimate of the latest crisis for Iceland and the Netherlands.

All this said, some ex-ante funding to bridge inevitable funding gaps would be better than nothing at all and would at least reduce sovereign liabilities. Even minor benefits like this should not be underestimated, given the impending cost pressures of the likes of ageing, healthcare and climate change.

Crises will undoubtedly happen again, but building some kind of ex-ante fund towards their resolution, whether along Swedish lines or some other approach, may at least instil some "stability" in an otherwise unstable situation. That, in itself, makes it a policy worth considering.

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Bank crisis: Why private creditors should share the burden

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Interview with **Mohamed El-Erian**, CEO of PIMCO

The financial crisis has taken a heavy toll on government finances and taxpayers are still footing the bill. Could private investors do more to help out? Mohamed El-Erian, CEO and co-CIO of PIMCO, believes they should. He explains to the *OECD Observer*.

***OECD Observer*: Do you think the banking crisis is nearing the end or is the going still too fragile to call?**

Mohamed El-Erian: A lot of progress has been made in recapitalising the banking system, de-risking it and identifying what needs to be done to minimise the likelihood of another crisis. These positive developments have come at a significant cost to society, however. And it will take a lot of time to deal with the collateral damage and unintended consequences.

As an illustration, think of the following three issues:

First, governments in many advanced economies found it necessary to step in with their balance sheets, both to offset the disorderly deleveraging of the private sector and to avoid a global depression. Accordingly, the liabilities have been transferred to the public sector, with the result that too many countries now have budgetary deficits and public debt problems.Second, in some cases, such as Greece, Ireland and Portugal, the sovereign problems are so acute as to result in a full-blown debt crisis together with a legitimate, though previously unthinkable, debate about the possibility of debt restructuring in advanced economies.

Third, the debacle in the banking system has contributed to sluggish economic growth, thus aggravating the structural headwinds facing employment creation–

> The current approach piles new debt on top of old debt while shifting more liabilities from private balance sheets to taxpayers

especially in the finance-dependent economies, such as the UK and US, and those with acute debt problems, such as peripheral euro area countries. In the process, income and wealth inequalities are worsening. Because of this mix, the global economy is healing but only in a gradual, uneven and tentative fashion.

A few months ago you went on the record as saying that "a broader burden sharing" involving private creditors would be needed to help with bank bailouts. Could you explain?
In addressing the peripheral debt problem, the EU, ECB and IMF have essentially opted for a liquidity approach now and a solvency approach later. While understandable, this involves significant costs and risks.

Consider the euro zone countries–Greece, Ireland and Portugal–that have received large bailout packages. In all three cases, the burden has been borne by people domestically, who are experiencing severe austerity programmes, and official creditors who have made substantial financing available. Private creditors have been repaid in full, and the vast majority has resisted any renewal of their financial commitments.

This approach essentially piles new debt on top of old debt, while also shifting an increasing share of the liabilities from private balance sheets to taxpayers. It does very little to deal with the debt overhang that is undermining new investment, growth and employment creation.

It should therefore come as no great surprise that so many of the original objectives of the bailout packages have not been met. Consider Greece as an illustration.

Despite over a year of enormous sacrifices on the part of Greek society and exceptional financial support from the ECB/EU/IMF, the country is still very far from regaining economic and financial stability. Greek output continues to collapse, unemployment is rising, the budget deficit remains alarming, the domestic banks are extremely weak, and the already excessive debt burden is increasing further.

Meanwhile, doubtful liabilities continue to be transferred from private creditors, who knew that they were taking risks in lending to Greece and opted for earning a risk premium, to Greek and European taxpayers as well as to the balance sheet of the IMF.

So while the approach has bought time for other vulnerable segments and countries in the euro zone to get their house in better order, it has done very little to re-establish the conditions for growth in the peripheral economies. Meanwhile, the substantial burdens associated with this approach, both current and future, continue to be shifted on to taxpayers.

What are the major challenges you see in the months ahead for the global economy and what advice would you give policymakers in OECD countries and beyond?
The baseline of continued, albeit slow and uneven, global economic healing brings major challenges that should be understood and, in several cases, addressed.

First, the world has to deal with both a negative demand shock and a negative supply shock associated with higher oil prices and Japan's tragic triple calamity. It is not often that such a combination is in play, and it is even less common to have two sources of simultaneous negative shocks in play at the same time.

Second, if Europe does not adjust its approach to the peripheral debt crisis, the potential threats to the region and the world will grow over time.

Third, the failure to agree to medium-term fiscal reform in the US serves to weaken the outlook for the country and undermines its role at the core of the global system. This comes at a time when the authorities are also contemplating how best to exit from a series of unconventional policy measures, and when the housing sector remains vulnerable.

Fourth, emerging economies must deal with incidences of overheating and, more generally, continue to manage the success associated with their historical development breakout phase.

These risks are manageable, but they require steadfast attention, responsiveness and agility on the part of policymakers. By responding well to the challenges, policymakers have the potential to enable further healing in the global economy and, hopefully, get to a critical mass of healthy sectors that are able to pull up the less healthy sectors. If they fail, the world will face increasingly disruptive, stagflationary winds.

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Visit www.pimco.com

Israel's economic strategy

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Interview with **Yuval Steinitz**, Minister of Finance, Israel

A year ago, at the 2010 OECD Ministerial Council Meeting, Israel was formally invited to become a member of the OECD, following three years of accession negotiations. Israel duly became the organisation's 33rd member country a few months later, in September 2010. The *OECD Observer* asked the minister of finance, Yuval Steinitz, to outline his views on the country's economic challenges.

***OECD Observer*: What main economic challenges does Israel now face?**
Yuval Steinitz: Our key challenges include the rising competition to Israeli exports, the unsatisfactory performances of the education system and relatively high level of income inequality. The 2011-2012 budget strives to improve education, health and social welfare. In addition, it sets out to promote the high-tech industry, support higher growth and increase the integration of Ultra-orthodox (Haredim) Jews and Israeli Arabs into the workforce. Government expenditure is expected to increase by 2.6% in 2011 and 2012 alike, as dictated by the new fiscal rules.

What attributes would you highlight?
Our focus continues to be on promoting significant economic growth, increasing participation in the labour market, improving education and reducing the income inequality between the centre and periphery. In addition, we are working to develop a long-term and strategic fiscal planning based on:

- education, which is Israel's long-term growth engine;
- encouraging the Ultra-orthodox and Arabs to participate in the labour market by providing skills and job opportunities;
- promoting business in Israel by cutting red tape and streamlining regulations;
- investing billions of shekels in transport infrastructure, including roads and rail, with a focus on connecting the Galilee and the Negev.

How important has joining the OECD been for Israel and what can membership bring your country?
Becoming a member country of the OECD has already led to economic improvements and enhanced Israel's economic image, as well as improved the functioning of various sectors in Israel's society and economy, including environment, education and employment. The improvement and upgrading process is continuing as part of the government's commitment to ongoing peer review by the organisation and to adjust its regulation policy to OECD standards.

The process of joining the OECD has already encouraged us to adopt a variety of reforms and norms. We are building on the experience of the OECD member countries in forming government policy and implementing reforms, such as on the environment. OECD membership is a driving force for continual improvement of government efficiency through annual reports, peer reviews and the organisation's wealth of expertise. We plan on taking full advantage of what the OECD has to offer us. The OECD is also a unique forum in which we can discuss national experience and best practices, and find solutions to common problems.

The OECD is celebrating its 50th anniversary. What contribution do you think Israel can make to the organisation in the years ahead?
Israel shares the basic values of an open market economy and democratic pluralism. It ranks among the world's leading countries with respect to the number of scientists, engineers and high-tech start-ups per capita, as well as in R&D spending per capita. Due to its achievements in information technology, water management, industrial biotechnology and knowledge-based agriculture, Israel can contribute to improving standards of living through innovation. Moreover, we believe our fiscal frameworks–including the new "two-year budget model"–are modern and innovative, and can be examined by other member countries.

We look forward to contributing to OECD working groups on a variety of topics.

How do you see the economic challenges facing the world more widely?
In the short term, downside risks remain a concern. We are particularly concerned with the deterioration of global fiscal positions, the uncertainty related to a premature exit from expansionary fiscal and monetary policies, and the potential for inflation and rise in commodity prices. We are also monitoring the stress remaining in the financial sector and the imbalances in the global economy.

For more on Israel's invitation to formally join the OECD, see www.oecd.org/mcm2010 and www.oecd.org/accession

To mark Israel's first anniversary of accession to the OECD, a special spotlight on Israel's economy will be included in *OECD Observer* No 285, Q2 2011.

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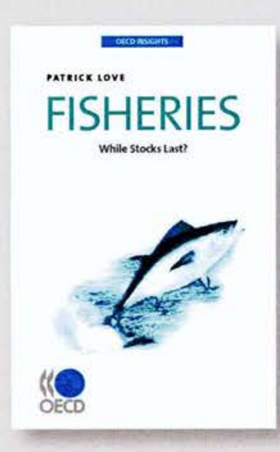
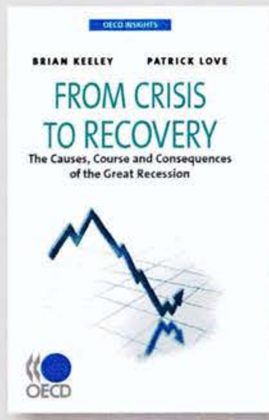
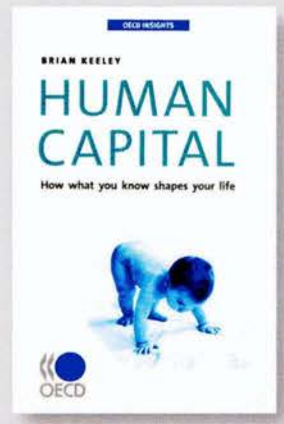
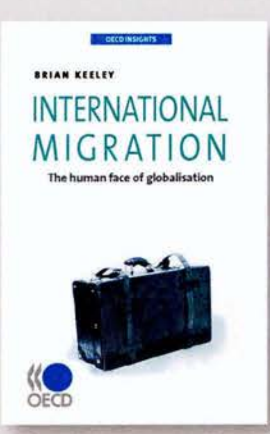
BETTER POLICIES FOR BETTER LIVES

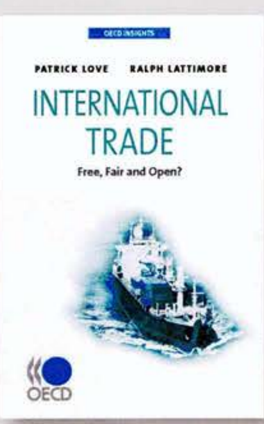
OECD Insights: Understanding the issues

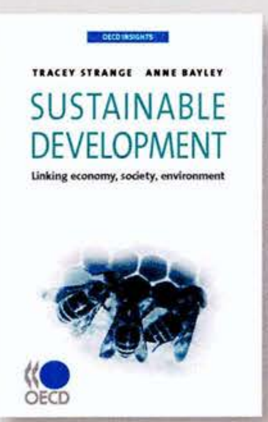












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Why does VAT/GST remain under-managed?

The 2008 financial crisis and resulting fiscal deficits accelerated the shift to indirect taxes, as governments looked to VAT and GST to provide sustainable tax sources. KPMG International's benchmark survey reveals that VAT/GST frequently remains under-resourced, under-measured and under-managed.

As a result, multinational enterprises face increased reputational and compliance risks, together with rising potential interest, penalties and business disruption costs.

As the global shift toward indirect taxation continues, businesses will encounter more challenges in achieving full compliance and more pressure on their resources and cash flow. Despite this pressure, global companies need to achieve a difficult balance between managing their indirect tax risk and creating value. Those companies that get the balance right stand to reduce their risk, add more value, and gain competitive advantage.

Based on The Benchmark Survey on VAT/GST, it would appear that the majority of today's organizations have a long way to go toward achieving the benefits of a fully realized VAT/GST management program. KPMG International's *Driving Indirect Tax Performance* publication sets out a framework for managing global indirect tax efficiently and effectively. Applying these principles, it is possible to implement a continuous VAT/GST performance benchmarking process through the five steps described below.

Step 1 – Engage widely within the organization to identify key business objectives and future direction.

Effective VAT/GST management should be founded on a set of clear, commonly understood policies that identify the key tax risks throughout the organization and offer insight on how they should be managed.

However, KPMG's survey shows that the existence and quality of documented policies designed to manage VAT/GST across the entire business was limited. Out of the 124 survey respondents representing 24 countries, only 9 percent rate their policies as excellent. Forty percent of respondents in the EMEA region have such policies and only 17 percent in the ASPAC and LATAM regions.

While these results are concerning, they are not a surprise. In reality, very few businesses have the sponsorship of the CFO or tax director to initiate projects intended to harmonize and standardize the management of VAT/GST across the business.

Step 2 – Assess the extent, quality, and usage of VAT/GST Key Performance Indicators (KPI) currently in operation in your organization.

Although the majority of respondents said they have well-established metrics for corporate tax performance,

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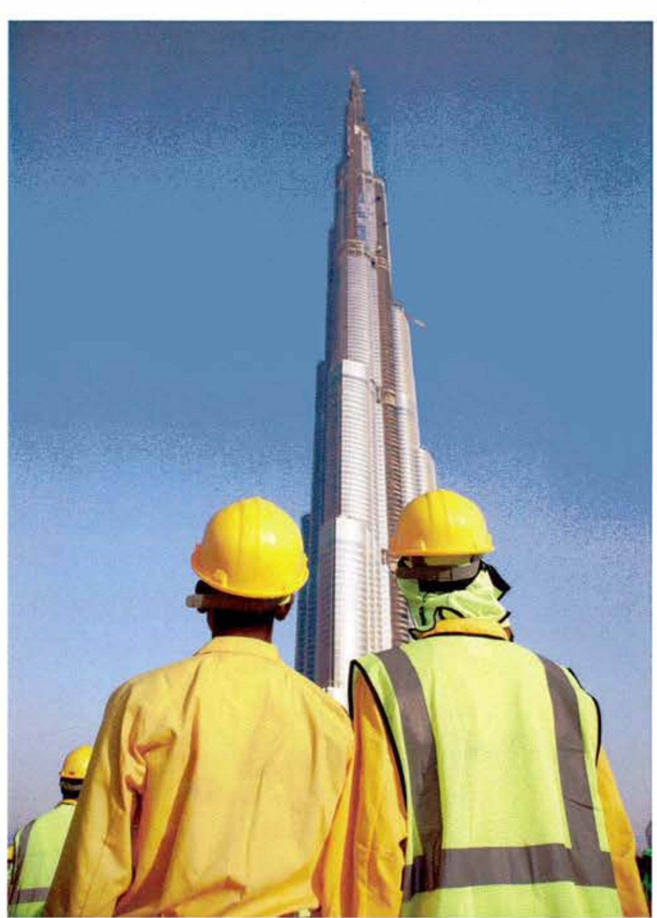

Five Steps for Setting Up a VAT/GST Continuous Improvement Benchmarking Framework

Step 1	Step 2	Step 3	Step 4	Step 5
Engage widely within the organization to identify key business objectives and future direction.	Assess the extent, quality, and usage of VAT/GST Key Performance Indicators (KPI) currently in operation in your organization.	Build a strong business case for investing in people, process improvement, technology, emphasizing where these investments will deliver value.	Determine appropriate VAT/GST performance benchmarks/KPIs for the organization.	Continuously review and update VAT/GST benchmarks in light of changing business, legislative and other variables change.

only a minority (20 percent) have specific VAT/GST performance goals visible to the CFO. Further, the range of VAT/GST metrics documented in global organizations is limited, and those that exist mostly focus on cash flow (55 percent of those having specific VAT/GST goals) and compliance management (50 percent).

The fact that cash flow is such an important metric is not surprising. More organizations are recognizing the impact that VAT/GST has on the cash available to the business and the need to proactively manage it where possible. The focus on compliance management is also understandable, particularly as tax authorities worldwide focus more on VAT/GST as a real-time tax on consumption, rather than on investment or profit.

Step 3 – Build a strong business case for investing in people, process improvement, technology, emphasizing where these investments will deliver value.

Seventy-six percent of respondents indicated turnover in excess of USD1bn and more than 30 percent indicated turnover in excess of USD20bn. Despite these figures, 66 percent of respondents do not have a global or regional head of VAT/GST. Seventy-five percent of organizations have 10 or fewer full-time equivalent employees managing VAT/GST globally, and these specialists spend the majority of their time managing compliance (80 percent) and handling tax audits (71 percent).

The other activities of these specialists include providing advice to the business (67 per cent), training (55 percent), and systems and technology (55 percent), with VAT/GST planning trailing at 47 percent. Given these results, many organizations have scope to improve their GST/VAT performance and deliver more value by increasing their investments in people, process improvement, and technology.

Step 4 – Determine appropriate VAT/GST performance benchmarks/KPIs for the organization.

It is essential that every organization have a clear idea of where it is headed in terms of its global VAT/GST management – what is the "end game" it is seeking to achieve? This end game should be challenging over the long term and take account of likely future changes and emerging best practices. However, it should also be broken down into smaller, bite-sized targets that can be achieved each year. For example, specific targets could be set for enhanced use of technology or the creation of regional centers of excellence.

As only the things that get measured are likely to improve, it is critical that all multinational businesses seriously consider what the most appropriate qualitative and quantitative measures are for their business, put in place a program of continuous improvement, and demonstrate over time how real business value can be generated through better indirect tax management.

Step 5 – Continuously review and update VAT/GST benchmarks in light of changing business, legislative and other variables change.

Given the scale of VAT/GST throughput being handled by multinational organizations, there is no doubt that significant opportunities are being missed by businesses – opportunities to improve cash flow, reduce costs, improve business processes, and enhance the bottom line. In addition, as information emerges from sources such as The Benchmark Survey on GST/VAT, internal benchmarks should be reviewed and updated in light of industry norms and emerging world-class practices.

The first KPMG benchmarking survey shows that many organizations are only just beginning to set a framework to derive real performance improvement in global VAT/GST. Realizing this value in practice will require a clear focus on the most critical KPIs and how they can be improved within the business over time.

About KPMG International's *Benchmark Survey on VAT/GST*

KPMG's Global Indirect Tax practice will conduct this survey on an annual basis to track the evolution of indirect tax benchmarks globally and share insights on indirect tax management and performance. This survey series will help companies enhance performance through greater visibility and the setting of more challenging indirect tax performance goals.

by Niall Campbell
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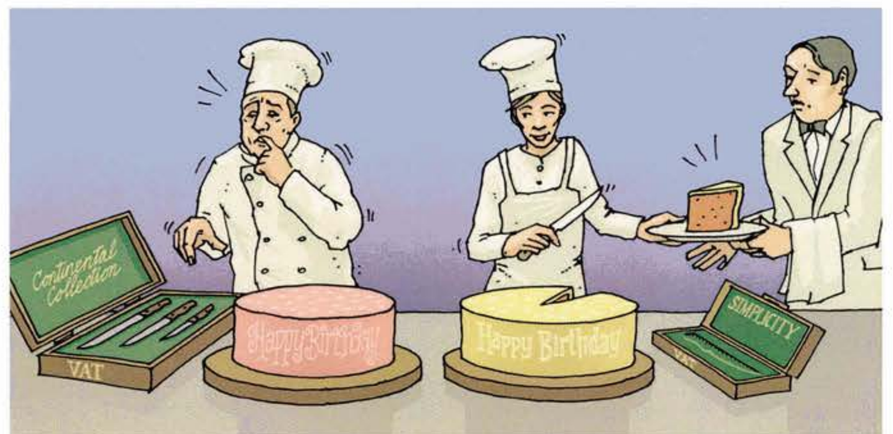
For a copy of the survey please visit:
http://www.kpmg.com/global/en/IssuesAndInsights/ArticlesPublications/Pages/The-Benchmark-Survey-on-VAT-GST.aspx

VAT's next half century: Towards a single-rate system?

Jeffrey Owens, Director, and **Piet Battiau**, OECD Centre for Tax Policy and Administration, **Alain Charlet**, WTS France*



Like the OECD, VAT has also been around for about 50 years. Is it time to reform some of the older, more unwieldy versions and go for a trimmer, broad-base, standard-rate VAT system instead?

Value-added tax is but a baby in the history of tax. It was a German businessman, Wilhelm Von Siemens, who, in the 1920s, first described the idea of putting a tax on the additional value of output at each stage of its creation, rather than just at the retail sales end. But it was a Frenchman, Maurice Lauré, a tax official, who was the first to implement one in 1954. VAT in various guises subsequently appeared in former French West Africa in the 1960s and in Brazil in 1965. By the late eighties, some 48 countries had VAT, mainly in Western Europe and Latin America. VAT is now implemented in over 150 countries, where it accounts on average for as much as a fifth of the total tax revenue. Today, all OECD countries, with the exception of the US, have VAT systems in place. In fact, revenues from VAT represented on average 18.7% of total tax revenues of OECD countries in 2008, compared to 8.8% in 1975.

Why have VAT systems become so popular with governments? For a start, they are effective in terms of raising revenue and are cost-effective to administer compared with other taxes. VAT is actually collected by businesses at each stage of the production and distribution chain. Along the stages of the value chain, businesses are charged a tax for the inputs they buy to produce further goods or services, but can recover that tax in the price of the good or service they sell to the next supplier. This means the total tax levied at each output stage is a constant portion of the value added to the good or service. In the end the total tax collected throughout the chain should correspond to the VAT paid by the final consumer. This makes it a secure tax to collect, compared with conventional sales taxes which can be lost if evasion happens right at the final sales stage. It is also an attractive tax from the taxpayers' perspective because of its transparent nature: people know what they pay, and if they don't buy the goods, they don't pay the tax.

There are economic attractions to VAT too. Research by OECD tax economists suggests that VAT is better for economic growth than income taxes, in that VAT has less negative impact on the economic decisions of households and businesses than income tax. For example, VAT does not discourage savings and investment. In international trade, VAT has proven to be the preferred alternative for customs duties in the context of trade liberalisation: it taxes importation and zero-rate exports, so it does not affect international competiveness. From a distributional perspective, there is more debate: some see it as a regressive tax, affecting lower income earners more than higher ones. This is countered by the argument that consumers have a choice to buy or not buy certain items, and, where daily essentials, such as food and shoes, are concerned, policymakers can intervene for equity purposes. Any debate on distributional issues needs to focus on the entire tax and benefit system, and not just on one tax in isolation.

Added potential?

Given the recent financial and economic crises, tax revenues from most other taxes, including personal and corporate income taxes, risk being relatively low for the next few years and could take time to recover. Companies will generate less income tax,

> Reduced VAT rates rarely achieve their objective

and with unemployment higher, so will households. Also revenues from social contributions will be relatively low. The ever-increasing importance of VAT is therefore likely to continue. Hence the importance of ensuring that VAT systems are designed and operated efficiently.

One area of priority is to make the system less complex. Simple tax systems are more efficient and offer more certainty to taxpayers. One way of reducing complexity is to broaden the VAT base, so that goods and services that are now subject to zero and reduced rates would be taxed at the standard rate. The use of multiple VAT rates creates complexity, and increases administrative and compliance costs.

Two groups

OECD countries can be classified into two broad categories. The first group–mostly European Union countries–has a narrow base of goods and services taxed at a standard rate, with reduced or zero rates surrounding it. The European VAT Directive allows EU member states to apply a standard rate of minimum 15% and two reduced rates that can go no lower than 5%. However, there are "reserved rights" for older EU member states to a lower rate,

if that rate was in place before 1991. The main motivation for Europe's reduced rates was to alleviate tax on basic necessities, such as food and clothing, for poor households.

The second group of countries has a much broader base at the standard rate. This is how VAT is designed in Australia, Canada, Korea, New Zealand, Singapore and South Africa, drawing lessons from the difficulties of rate differentiation within the EU. New Zealand introduced a Goods and Services Tax (GST) in 1986 that is levied on a broad base at a low single standard rate, with few exceptions or exemptions. The result is that New Zealand scores the highest on the OECD "VAT revenue ratio", which is an indicator that attempts to measure the gap between the revenues that would arise from a theoretically pure VAT system (a single rate with full compliance and full tax collection) and the revenues actually collected.

Simple VAT systems are more efficient and offer more certainty

Developing countries seem to have taken to these single-rate systems too. Of the 21 African countries that adopted VAT between 1990 and 1999, 14 have a single rate system, as have eight of the nine African countries that have adopted VAT since 2000. South Africa, which implemented VAT in 1991, only exempts or zero-rates a limited number of items such as basic foodstuffs and paraffin to help the poorest households. It also keeps its system quite simple by applying a relatively high VAT registration threshold so as to exclude small firms from the system.

Another feature worth noting is that the standard rate in such countries is often lower than the European Union minimum of 15%, with 10% in Australia, 15% in New Zealand and 14% in South Africa for instance.

Switzerland, interestingly, began a public consultation in 2007 as part of an assessment of its VAT system 10 years after its introduction. The first part of the reform came into force in January 2010. This should help reduce compliance costs for businesses. The second part of the reform–at this stage still only a proposal–would replace the three existing VAT rates of 2.5%, 3.8% and 8% by a single rate of 6.1%. It would also remove 20 of the 25 exemptions. Some studies suggest that the reform could reduce business compliance costs by 20-30% and add 0.1-0.7% to economic growth.

Growth and equity

OECD economists have long supported the view that, all things being equal, a broad base, single-rate VAT is the preferred tax approach. It is a growth-oriented approach that allows governments to increase their revenues while cutting administration and compliance costs. The European Commission, in its December 2010 Green Paper on the Future of VAT suggests that a "broad-based VAT system, ideally with a single rate, would be quite close to the ideal of a pure consumption tax that minimises compliance costs".

But what about equity and redistributive issues? After all, many countries justify reduced rates as a way of not penalising the poorest households for buying daily essentials, since these households spend more of their income on food and clothing. However, research on the merits of reduced rates suggests that they are rarely effective in achieving distributional objectives.

Reduced rates are not an effective way of alleviating the tax burden on low-income individuals. Indeed, the wealthy also benefit from reduced rates and, as they consume more, they benefit more too. A more effective policy would be to apply a single VAT rate and to implement compensatory measures that are directly targeted at increasing the real income of poorer households. The Mirrlees review, for instance, produced by the Institute for Fiscal Studies, argues that, in the UK, "ending all current zero and reduced rates (except for housing and exports) while increasing all means-tested benefit and tax credit rates by 15% would leave the poorest 30% of the population better off ...". The Swiss government in its reforms appears to back this view and has argued that redistribution policy will be better achieved via a single VAT rate rather than via one with reduced rates or exceptions.

On the other hand, the 2007 Copenhagen Economics study on the use of reduced VAT rates in the European Union suggested that reduced rates in carefully targeted sectors may provide some benefits, for instance when the locally supplied services employ many low-skilled workers. This may discourage working in the informal sector, for instance.

However, overall experience with reduced VAT rates confirms that they rarely achieve their objective. The 2001 South Africa zero-rating of paraffin for instance proved ineffective as suppliers took the benefits but did not pass them on to consumers. Or take France's decision in 2009 to cut VAT from 19.6% to 5.5% in a bid to bolster restaurant and catering services. According to the French national statistics institute, restaurant prices decreased by no more than 1.1% in July 2009 and actually edged up a little by October. Only 30% of the VAT cut would have been passed on to customers, studies showed, and the entire exercise could end up costing the government in lost revenue. More recently, this time in Germany, it has been reported that a VAT cut in the hotel industry, as part of the

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Tax official **Maurice Lauré**, who pioneered VAT in 1954

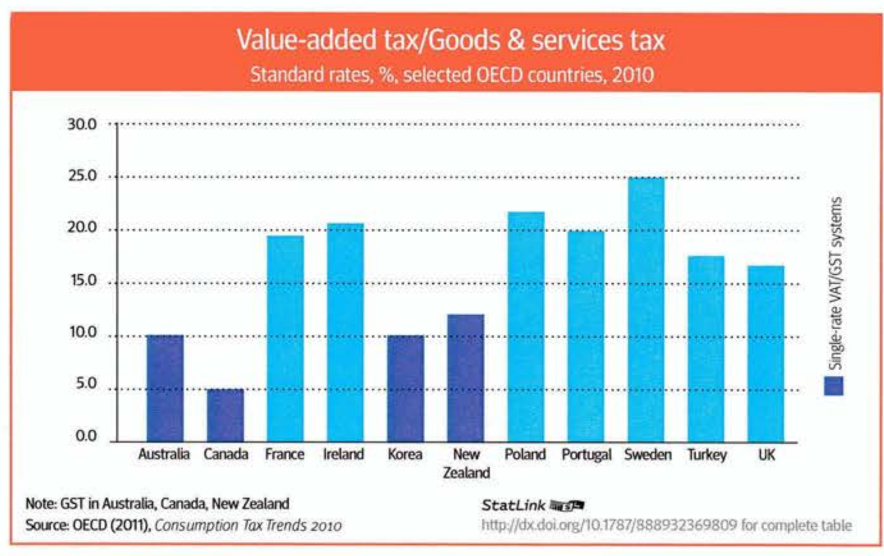
2010 tax cut, would not have been passed on to consumers. Some suggested the money saved by businesses was invested in renovation and acquisitions, instead of being passed on to customers.

All this is not to say that VAT does not have a regressive effect on poor households, but rather, that other means can be more effective in achieving redistribution goals than reduced VAT rates. In any case, VAT reform should not be considered in isolation from the tax system as a whole. Accompanying measures to compensate those that would lose out should be studied carefully, notably in terms of personal income tax, as well as social benefits. New Zealand's GST reform for instance, was balanced via changes in income tax and social welfare, with the revenues generated from the GST being used to finance redistribution.

In addition, a single standard rate decreases the cost of administration whereas multiple VAT rate structures with numerous exemptions make compliance more difficult for taxpayers and for tax administrations. Furthermore, they may lead to legal uncertainty, as similar products can be subject to the standard or reduced rate depending on their nature, as one famous UK case on whether a potato crisp should be taxed at the same low rate as a biscuit showed. Very recently a French high court decided that margarine should be taxed at the standard rate instead of the reduced rate that applies to butter, on the basis that public interest requires favouring dairy products. Such disputes can be time-consuming, and open up opportunities for lobbying and unwarranted tax planning or avoidance.

Political choices

Tax is ultimately the expression of political consensus and democratic debate. It reflects citizens' preferences, which vary from culture to culture. For policymakers wishing to reform VAT into a single-rate system, careful assessment of the costs and benefits, followed by public consultation, is essential. This is not just a matter of principle, but political longevity. Consider New Zealand again, which introduced its GST system in 1986 after much public discussion. This GST was levied on all products, including food and clothes, and was accompanied by redistribution initiatives for the poor. But the public was won over. In contrast, the political party that proposed introducing exemptions in 1987 lost the subsequent election.



Note: GST in Australia, Canada, New Zealand
Source: OECD (2011), *Consumption Tax Trends 2010*
StatLink http://dx.doi.org/10.1787/888932369809 for complete table

Just as with the OECD, after more than 50 years VAT may now be at a turning point in its life. As countries continue to deal with fiscal consolidation in the wake of the financial and economic crises and seek to restore growth, and as the increasing budgetary importance of VAT is likely to continue, it is time to consider reform to improve the efficiency of VAT systems. More analysis is needed, but the evidence so far suggests that reform to broaden the VAT base would be good for economic growth, revenues and social objectives. Political leadership is the value-added ingredient needed to make such reforms happen.

*Mr Charlet participates in the OECD Technical Advisory Group (TAG) on Consumption Taxes as a member of the Business and Industry Advisory Committee (BIAC).

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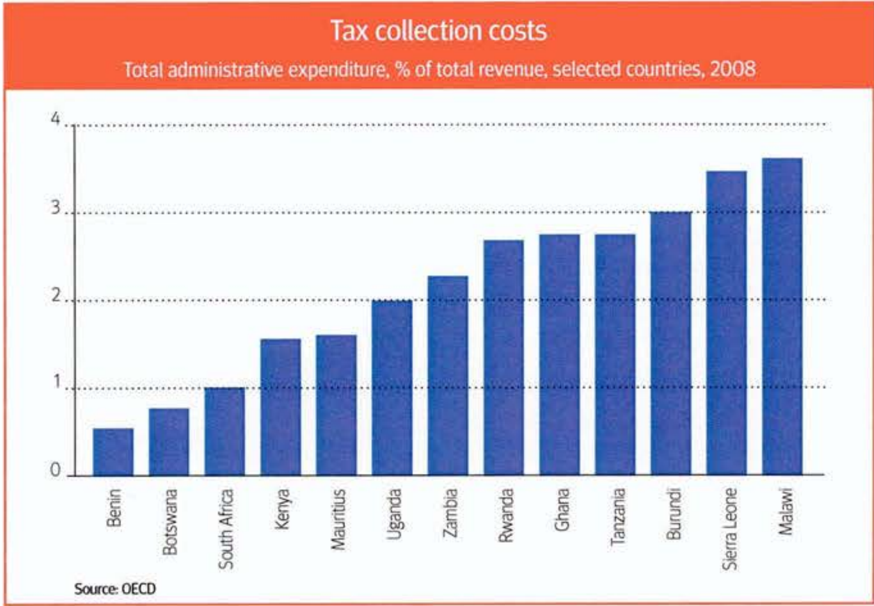
Africa's tax system: A survey

Alan Carter, OECD Centre for Tax Policy and Administration



Building tax administration capacity is needed to help spur development in Africa. A new survey shows that action is being taken, but more work is needed.

Tax revenues account for over a third of GDP in OECD countries. But they account for far less in developing countries, particularly in sub-Saharan Africa, where they correspond to less than a fifth of GDP.

More tax revenue would not only help the governments of these countries function and pay for goods and services, but would open the way for other market and state reforms that would promote economic, social and environmental development.

Raising tax burdens might seem like an odd proposition to policymakers in crisis-stricken OECD countries as they bid to raise revenues while keeping tax burdens as light as they can for the sake of growth. But when taxes account for 10 to 15% of GDP, a well-designed increase in tax is exactly what many developing countries need: just as an excessively heavy tax burden might crush activity, an excessively low one can starve an economy of the oxygen it needs to advance.

But how can more tax revenue be raised in poorer economies? One way is to generate more growth, but as many of the countries concerned lack the resources to administer tax, this approach may not be enough, that is, not unless efforts are made to improve the effectiveness of tax administration systems at the same time. That means strengthening the capacity and resources needed for better taxpayers' services and enforcement, reviewing tax structures, and investing in skills and management systems needed to produce corruption-free tax systems.

This is easier said than done, of course, but improving the effectiveness and transparency of tax administration systems is nonetheless widely accepted as a key step to achieving the UN Millennium Development Goals. And because it means mobilising more domestic taxation, it can also help in smoothing efforts to open up world trade by further reducing the reliance on border taxes. In other words, channelling funds, including development aid, towards better tax administration is money well spent.

Indeed, as OECD data shows, tax/GDP ratios in sub-Saharan countries where tax administration reforms are being implemented now exceed 16.8% of GDP, which was the average for fragile and lower income countries. But to make a bigger difference, more information is needed about how tax administrations actually work and where the problems lie.

To fill this gap, the International Tax Dialogue, a global initiative based at the OECD and involving the EU, the IMF and the World Bank, among others, has undertaken a survey of 15 sub-Saharan African revenue bodies–Benin, Botswana, Burundi, Ethiopia, Ghana, Kenya, Malawi, Mauritius, Rwanda, Senegal, Sierra Leone, South Africa, Tanzania, Uganda and Zambia. The aim is to build a clear picture as to the various approaches and practices used across the continent, to identify problems and to provide policymakers with a better view of the kinds of measures that might be taken to address them. Similar work has already been carried out for the 50 middle and higher income countries of the OECD's Forum on Tax Administration.

The good news is that all of the countries surveyed by the International Tax Dialogue are currently engaged in some pretty significant tax administration reforms, often with donor support. Nevertheless, our pilot survey has revealed some instructive trends and patterns.

Take cost, which is one of the main challenges facing tax administrators in developing countries. The cost of collection varies from 1% to 4% of the total collected in the region. Salary and related expenditures account for the largest portion–some 60-80% of the budget. In most of the surveyed countries, investment in information technology accounts for less than 2% of total administrative expenditure.
It should therefore come as no surprise to learn that most of the revenue bodies surveyed reported being dissatisfied with their existing IT systems. Efforts are being

some are developing or plan to implement integrated tax administration systems for self-help services such as online registration, filing and payment.

Further investment in administrative systems would undoubtedly help improve treatment of taxpayers too. As the survey shows, all revenue bodies, except South Africa, assign identification numbers ostensibly across all tax types, including customs. All personal and corporate income tax systems are based on self-assessment principles.

VAT is a feature across all countries surveyed, with a few countries using two thresholds, one for the sale of goods and another for services. In fact, indirect taxes contribute the highest proportion of revenue in seven of the countries surveyed, with direct taxes in six countries and international trade taxes in two countries. Non-tax revenues such as income from state-owned enterprises, fees and other payments for government services account for a very small proportion–about 1 to 2%–of total revenue collection. Compare this to developing countries in Latin America, where these can reach 10% or more of government revenues.
Regarding enforcement, all countries believe they have adequate powers to enforce the payment of tax, with various interest and penalty regimes for similar offences applying across tax types, specifically for income taxes on the one hand and for VAT on the other. However, it is unclear how effective these measures are in practice: this is an area for further exploration.

Institutional arrangements are another issue which can have an impact on the effectiveness of tax administration. The revenue bodies in most of the countries surveyed follow a relatively unified, semi-autonomous model, meaning that they have considerable freedom to interpret tax laws, allocate resources, design internal structures and implement appropriate human resource management strategies.

At the same time, they are responsible for tax, customs and non-tax revenue operations. Three of the countries surveyed are now integrating the collection of social security contributions with tax operations, a trend that is emerging in OECD countries too.

As for organisational arrangements, most are hybrid in nature. In line with current practice in tax administration, a number of revenue bodies have set up a headquarters

> Most of the revenue bodies surveyed reported being dissatisfied with their IT systems

function to provide operational policy guidance to field delivery. Moreover, all revenue bodies (except Botswana) have set up a "large taxpayers' office" to administer all tax affairs of major enterprises and some individuals. Apart from Botswana and Mauritius, the revenue bodies have also created special taxation regimes for small and micro-enterprises, and six countries have set up dedicated units to manage them.

Meanwhile, all revenue bodies surveyed produce 3-5 year business/corporate plans using established planning frameworks, with clear mission statements, visions and objectives, as well as the actions to reach them, as do OECD countries.

Most of the revenue bodies are funded through parliamentary appropriations, meaning that they develop budget proposals and bid for funding just like any other government department or agency. Some countries provide their revenue body with a performance bonus, such as a percentage of the collections, which is a practice rarely found elsewhere.

As this pilot survey suggests, real efforts are evidently underway to build effective tax administrations in several African countries, which is good news for long-term

©South African government

Collaborating with the OECD: **Oupa Magashula**, Chair, African Tax Administration Forum (ATAF)

economic development. However, the devil is in the detail, and a more comprehensive study is to be carried out in collaboration with the African Tax Administration Forum (ATAF) and other international institutions to paint a clearer picture of the character and particular needs of the various administrations across the region. This information will also feed into the G20-led push on tax and development. That means covering more countries, and collecting and further refining the data, while drawing comparisons with countries outside the region. It is a major undertaking, but if countries in sub-Saharan Africa can use the information to help them improve their tax policies and their development paths at the same time, then the task will be worth it.

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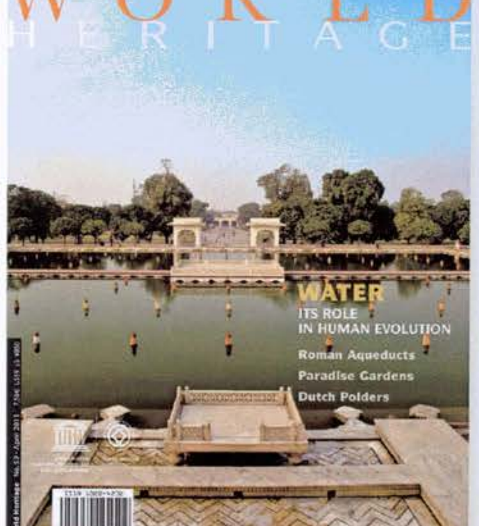

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Development: New world, new economics

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Interview with **Justin Yifu Lin**, World Bank Chief Economist

In 2008, the Chinese economist Justin Yifu Lin became the first person from a developing country to be appointed World Bank Chief Economist. At the Bank, Dr Lin has pioneered "New Structural Economics," which aims to find the right balance between the roles of the market and the state in developing countries' economies. In the run-up to the Annual Bank Conference on Development Economics (ABCDE), which this year will be hosted at the OECD, he spoke to Brian Keeley.*

Brian Keeley: Your work on New Structural Economics represents a change of direction for development economics. How would you characterise the discipline so far?

Justin Yifu Lin: Development economics is a relatively new discipline. It didn't appear until the post-war period. At the beginning, the understanding was that to reach high-income levels, a developing country needed to have the same industrial structure as a developed country. But developing countries didn't have that. The understanding was that this was because of market failures caused by some kind of structural rigidity. So governments were advised to intervene to support the development of those new industries and to adopt import substitution strategies. By the late 1970s and early 1980s, the development thinking switched to the Washington Consensus–government failures were perceived as more serious than market failures, so it was thought better to have a policy framework to achieve a balanced budget and for government not to intervene directly in industrial development. Its goal was just to level the playing field, and the market would essentially do the rest.

> Developing countries sought to develop the industries prevailing in high-income countries, but these were not aligned with their comparative advantages

You suggest these approaches were both flawed. Why?

Firstly, structural economics. Developing countries sought to develop the industries prevailing in high-income countries, but these were not aligned with their comparative advantages. So firms were not viable, and their products were not competitive in domestic and international markets; there had to be a lot of subsidies and protection, which opened the door for political and industrial elites (and the like) to have so-called rent seeking. That led to corruption and political capture in developing countries that pursued those kinds of policies.

Then, with the Washington Consensus there were two issues: it did not appreciate that the various distortions of the past were a way to support non-viable firms. If the distortions were removed immediately, those firms would go bankrupt, causing unemployment and social instability. Also, it did not consider the necessary role of the state in overcoming the issues of compensation for externalities and co-ordination of infrastructure improvement or institutional change, which are crucial for the development of new sectors.

A key aim of New Structural Economics is to better understand the roles of the market and of the state in economic development. I think it should be a more balanced view than the development thinking we've had so far.

How is it more balanced?

Economic development is a process of continuous technological innovation and structural transformation. In this process, a well-functioning market system is the

foundation for effective resource allocation. However, moving into new sectors and new industries requires co-ordination to ensure investment in hard infrastructure, like transportation and telecommunications, or improvement in soft infrastructure, like the financial system and education system. Individual firms will not be able to internalise all those changes by their own decisions. There's a market failure there: it is not something the market will do on its own, so it requires the government to co-ordinate various private firms' investments or for the government to make those investments itself. That's one role for the state.

> Since 2000, developing countries' growth rate has been much faster than developed countries'. Global governance needs to reflect these realities

The second concerns "first movers", who may experience failure or success as they enter new sectors. With failure, they pay all the costs. With success, it's a signal to the economy that this new sector represents the economy's comparative advantage, so it's going to attract a lot of new entrants, limiting the first mover's potential profits and its initial incentive to enter the new sector. In a high-income country, the patent system compensates the first mover. But in developing countries, they are entering into industries that are new to them but that are mature in the global system. So the government needs to find some way of providing incentives to the first mover.

Overall, instead of the government trying to move the economy from A to Z–from being based on agriculture to being heavily industrialised–in one giant leap, you're talking about nudging it from A to B, then B to C and so on?
Right! I use the term "facilitating state". The government's intervention should be limited to sectors where the economy has latent comparative advantage–in effect, there is a comparative advantage, but because of the lack of facilitation and co-ordination, it has not been harnessed yet. The government's role is to remove the constraints for domestic private firms, if there has been spontaneous entry, or to encourage the investment of foreign firms to the sector. In this interaction between the state and the private sector, the government facilitates, but it does not impose.

How do you prevent, say, corruption in your model?
I think the propensity for corruption and rent seeking depends on the scale of the subsidies. As the new sector in the above approach is consistent with the economy's comparative advantage, a government's small incentive to the first movers will be enough to compensate them for the information externalities they generate. The government's facilitating role is mostly in co-ordinating required improvements in hard and soft infrastructure. So the opportunity and incentive for any rent seeking will be small.

Does this model only work in an authoritarian state?
Government commitment is necessary, but it doesn't depend on whether it's authoritarian or democratic. Ireland is a recent example. Before 1987, its economy was a basket case. But after '87, the Irish Industrial Development Authority's industrial policy focused on selected industries, including information, electronic, pharmaceutical and chemical industries, and later on financial services. For 20 years, Ireland enjoyed a similar growth rate to East Asia and became one of the highest-income countries in Europe. Certainly, Ireland now has problems, but not because of its industrial policy. Mauritius also has had very successful industrial policies. Both of them have democratic systems.

How significant is it that a Chinese citizen is now World Bank chief economist, and does your appointment reflect a rethinking of global governance in response to the rapid evolution of the world economy?
Good question. Before 2000, more than 60% of global GDP was produced by the G7 countries, and the international institutions reflected that reality. But since 2000, developing countries' growth rate has been much faster than developed countries'. Global governance needs to reflect these realities. I think the reason why I have the honour to be the first Chief Economist from a developing country reflects these changes in the global landscape. In the past, the funding for development, as well as the ideas, mainly came from high-income countries. But now the world is entering into a new era: developing countries themselves can generate a lot of funds for development both in terms of investment and even in official development assistance. At the same time, developing countries provide useful lessons for each other. Robert Zoellick, president of the World Bank, gave a speech last fall at Georgetown University on democratising development economics, in which he asserted that every country should have an equal opportunity to make a contribution to development thinking and practice, and each country at every level of development can learn from each other.

You're clearly rethinking development economics. In the wake of the crisis, is economics in the market for new ideas?
In the past few years, one of the most popular terms in economics has been "rethinking". The function of economic theories is, first, to explain observed economic phenomena and to predict how they are going to evolve, and, second, to provide policy frameworks for coping with challenges or exploiting opportunities arising from the observed phenomena. This global crisis certainly was unexpected. The existing theory failed to predict its arrival and once it came, failed to predict its seriousness. For example, the existing theories believe that a financial system through competition will self-regulate. Well, now we understand that that kind of theory is imperfect. So there is a lot of rethinking in mainstream economics, and certainly in development economics as well. I think that's a very healthy trend.

*Dr Lin will speak at the ABCDE event, hosted at the OECD in Paris from 30 May to 1 June 2011. Brian Keeley is senior editor in the OECD Directorate of Public Affairs and Communications.

Microcredit, big future

©AFP

Interview with **Jacques Attali**, founder of PlaNet Finance

Microcredit has become a popular way to finance small businesses and local development projects, particularly in poorer countries. Economist, author, founder and first chairman of the European Bank for Reconstruction and Development (EBRD), Jacques Attali is founder of PlaNet Finance, which runs microfinance programmes in over 80 countries. In the run up to the OECD Forum in May 2011 where he is due to speak, Mr Attali talked to the *OECD Observer*.

***OECD Observer*: What is the origin of PlaNet Finance and what are its main activities?**
Jacques Attali: I founded PlaNet Finance in 1998 after meeting Muhammad Yunus several years earlier in Bangladesh*. I felt that he had created an extraordinary instrument for development and for assisting the transition to democracy through the creation of jobs and enterprises. After establishing the EBRD in London, the first programme I set up was a microcredit programme in Poland. I then had the idea of repeating this experiment throughout the world. The main goal of PlaNet Finance is to support development and microfinance though all possible avenues worldwide. At present, PlaNet Finance is an institution which has operations in 80 countries, 1,200 employees and several different activities: technical assistance, financing, the creation of microfinance institutions which we own and manage, micro-insurance, mobile banking and initiatives in the suburbs in France; we also allow various actors to loan money directly online to micro-entrepreneurs. We are also developing hundreds of different programmes, ranging from advising governments on regulations, to helping the unemployed and the homeless get themselves back into a position where they can become entrepreneurs.

What are the major challenges facing the PlaNet Finance Group today?
The challenge for us today is first of all to manage our tremendous growth rate of 20-30% a year, to constantly remain extremely professional, to improve the quality of our managers and to innovate through new products: I spoke earlier of mobile banking, but we have many other products. Another challenge is to extend our activities to new countries, notably countries currently emerging from conflicts such as Tunisia, Côte d'Ivoire or Iraq, countries where the transition to democracy rests entirely on the development of microfinance. Another major challenge is to raise international awareness of the importance of financial inclusion, because in far too many cases, as can be seen in the preparations for the G8 or the G20, financial inclusion is restricted to SMEs, and microfinance, which is absolutely crucial, is left out. I spend a lot of my time not only trying to secure funding for PlaNet Finance from the World Bank and the European Union, as well as certain individual countries, but also raising the awareness of actors such as the OECD, the G8, G7, G20 and major governments, about the important role played by microfinance in easing the transition to a stable democracy. Microfinance is an essential tool for ensuring the longevity of democracy.

> Contrary to the statements made by most policymakers, I fear that the crisis is far from over

Much therefore still remains to be done to convince decision-makers of the effectiveness of microcredit?
Yes, there are currently some 700 million micro-entrepreneurs, of whom only 190 million have access to microcredit. This shows the scale of what needs to be done. The reason there aren't more is that we don't have the resources, not so much in terms of credit lines (we work with a fund with assets of over a billion dollars, Responsibility, which allows us to offer credit lines), but in terms of money we can invest in training, capacity-building, improving the skills of micro-entrepreneurs, and easing the power struggle between micro-entrepreneurs and the major multinationals, so that they can make the most of their value chains. All this requires money to provide technical assistance,

Cooking lesson

which is the hardest type of funding to find.

What advice would you give to world policymakers to speed up global development and meet the challenges we currently face?

The magic square consists of opening up markets, microfinance, technology and democracy. These four elements are mutually reinforcing, and all four are essential for development. We can add education to the mix, but in my opinion, education flows from democracy.

At the 2000 OECD Forum, you shared the stage with Bill Joy, the founder of Sun Micosystems. At the time you spoke of the risks and opportunities that lay ahead of us in the future. How do you see the future now, not only in terms of development but also with regard to innovation?

I think that we are facing two tsunamis moving in opposite directions: the negative tsunami of the disasters in the financial system, and the positive tsunami of new technologies–information technologies, biotechnologies, nanotechnologies–which are engines of growth and which will perhaps help reduce all debt burdens. But I fear that the debt tsunami may well outpace technological progress. Contrary to the statements made by most policymakers, I fear that the crisis is far from over, since all we have done so far is to transform private-sector debt into public debt. Moreover, indebtedness is still rising and is simply a means of postponing the day of reckoning for the financial crisis. We cannot discount the possibility that technical progress will sweep all before it and resolve the crisis, but this would be an extremely long shot to bet upon.

* Professor Muhammad Junus established the Grameen Bank in Bangladesh in 1983, for which he received the 2006 Nobel Peace Prize.

See www.planetfinancegroup.org

Fatima Boscaro, founder of AFENA

©Flammarion/Michèle Constantini

A new kitchen can raise the value of any home, but in developing countries it can also save lives. That is why in 2010 the OECD's very own staff charity, the War on Hunger Group, decided to contribute funding to fitting a new kitchen in the headquarters of AFENA, an NGO dedicated to looking after abandoned women and children, and based in Niger's second city, Maradi.

On the face of it, AFENA's new kitchen is not unlike kitchens found in any developed country. But it is different to most kitchens in Niger in one key respect: it uses gas.

Niger is rich in natural gas, yet most people still use open fires and stoves to cook in their kitchens. Biomass is easy to come by, whereas gas is expensive, says Fatima Boscaro, the founder of AFENA, who spends her time between France and Niger. The trouble is, open stoves are one of the main causes of premature death in poorer countries, both from accidents and air pollution, with women and children being most vulnerable. Ms Boscaro has no doubt that the kitchen project she inspired, though a relatively inexpensive initiative at some €4,500 euros, covering design, sourcing locally made materials and installation, will not only improve lives for the adults and children using her charity, but will set an example for others to follow.

For the War on Hunger Group, such projects make good sense. "We are always pleased to establish new relationships with organisations which carry out effective development projects," says Michael Benton, who chairs the group. "When we met Ms Boscaro in 2010, we could see how deeply committed she was, and knew she would see the kitchen project through."

The group, which is nearly as old as the OECD itself, having been set up as a voluntary association in 1964, aims to improve the lives of the most deprived people in the world, with priority given to projects likely to have lasting effects, in health, nutrition, education and production methods, for instance. Only exceptionally does it give to emergency relief, such as flooding, earthquakes and civil wars. The group's 220 members contribute automatically from their salaries. All contributions go to project support, with no administrative expenses.

Together with microfinance and NGOs, charities like the War on Hunger Group are a small but vital cog in the development machine. And as AFENA in Maradi might say, charity doesn't just begin in the home, it begins in the kitchen.

For more on AFENA, contact Afena.Niger@yahoo.fr

Contact the War on Hunger Group at WHG.Chair@oecd.org

Afterword: Fatima Boscaro is more than the founder of an active NGO, she is also a firsthand witness to the abusive treatment women and girls in some developing countries can be subjected to. In fact, Ms Boscaro was sold by her family to a wealthy stranger when she was 11 years old, was raped and had children. Unlike many women trapped in the same situation, she managed to escape and later returned to rescue her own 11-year-old daughter who was about to be married the same way she was. Ms Boscaro's account has just been published as a book by Flammarion, *Fatima: Esclave à 11 ans* (*Slave, aged 11*).

Governments and markets: Time to get serious

Rolf Alter, Director, OECD Directorate of Public Governance and Territorial Development

How can we all learn from a crisis? Today, we find ourselves in a disappointing, if not altogether unexpected, predicament. The very governments who took bold and decisive action in the period of the financial crisis 2008-09 to bail out banks and keep financial markets alive now find themselves on the receiving end of severe punishment from financial markets. How could this be?

To make matters more frustrating, the rating agencies which came under sharp fire during the crisis for their blinkered support of what proved to be worthless financial products that destroyed the savings of millions of people, are now forcing governments back against a wall. From demanding spending cuts and tax cuts on profits, to forcing hasty privatisations, the effects have been to put at risk the ability of governments to do the job they were elected for.

The OECD argued two years ago that we should not return to business as usual, and while financial markets were in intensive care, the critical role governments play as partners in our economic systems was reaffirmed. Now several governments are simply too weak with debt to play that role with any confidence. What if the employment crisis continues, how will countries cope then?

How did this sorry situation come about? Has the revival of governments been that short-lived? Why have the financial markets turned so bitterly on their saviours?
Let's remember: it was barely two years ago, in the wake of the sub-prime disaster, that everyone, from experts to politicians, and right across public opinion, was quick to call for better regulation, better alignment of incentives and more effective enforcement and oversight of public policies.

The debt crisis was partly a logical consequence of people spending, or being invited to spend, more than they earned, but it was not that simple. Massive over-borrowing on one side of the equation was fed by very lax over-lending on the other. No assets, no income, no job–you could still borrow to "buy" your house. Government regulators in all countries must shoulder their part of the responsibility in this. And so, indeed, must governments, not just in terms of oversight, but because they also borrowed in overleveraged financial markets, exposing their taxpayers to massive indebtedness should the house of cards one day come tumbling down.

And tumble it did. But while the initial hangover has been painful for everyone, it has lasted longest for governments and taxpayers.

More or less everywhere, governments have been doing what markets understandably expect and taking drastic measures to deal with the debt crisis: reducing the number of public servants, cutting their salaries, "reviewing" spending programmes, closing tax niches, postponing public investments in areas such as roads and education, and yes, increasing taxes. And as if that were not enough, governments are now obliged to borrow at unsustainable rates on the financial markets.

> After all the discussion two years ago about a new start, there is every sign that some lessons have not been learned

Alas, ordinary people do not seem to appreciate the very decisive response governments took in the crisis. Their trust in government has actually fallen to lower levels than before. Do they believe governments conceded too much to the whims of private investors and imposed too much of the costs on their own voters? After all, the discussion two years ago about a new start, new paradigms and carrying out the reforms needed to prevent moral hazard, there is

every sign that some lessons have not been learned.

The good news is, it is not too late to put matters right. In fact, we have no choice but to step back and at least examine the course we have taken, and maybe change it altogether if we are to restore lasting confidence in government and financial markets, and avert future crises.

But first, this means answering some searching questions:

Were the Keynesian-style rescue packages used by governments the wrong response at the time? The answer to this depends on each country, but in general, should we have focused less on bailouts and stimulus, and more on banking reform, and even calling the bluff of "too big to fail" by ensuring investors took a bigger hit?

Have governments simply failed to explain their actions comprehensively to the population, making it clear that there would be no free lunch? Or were they too nervous to question the consensus that restoring full health to our financial markets came first?

Have policymakers missed a golden opportunity to reset the balance between markets and governments, as many of them wanted to do at the height of the crisis? Or could it be that policymakers are simply bad managers, not just in handling a crisis, but also now when so-called fiscal consolidation–no, let's call it austerity–has been allowed to take priority over other public policy goals?

There are no easy answers to these questions, nor answers that would apply to every crisis-affected country in the same way. Nevertheless, we must face some facts.

First, fiscal consolidation is hurting purchasing power, particularly among those who depend on social funding. Civil servants are being culled too. The upshot is weaker consumer demand, enfeebled public sectors and weaker growth. Will the private sector be willing and able to come to a rescue, and soak up the unemployed?

Second, many political leaders who were at the helm in combating the financial crisis are paying the price for their "courageous" action by losing elections, being ejected from government or being forced to rule in unstable minorities. That's how democracy works, but this kind of political instability could prove costly, and should really be factored into consolidation and debt repayment strategies.

Third, the *diktat* of fiscal retrenchment has put severe strains on public policies. Governments have been reduced to debtors who have to do whatever private creditors–and some central banks–believe is necessary to pay back their debt and regain the benediction of the financial markets. How then can government regain the trust of ordinary people and businesses? There is a risk here of a downward spiral which must be broken.

Fourth, the speed and scope of consolidation has sparked a very rich debate about the role of governments, be it in the way public services could be provided by the "third" sector of associations and committed citizens, in public-private partnerships (which are not easy to get right for either side) or even in the withdrawal of governments from education, health or pension systems. Innovation in the public sector has become a "must", the only "must".

To be sure, a crisis is a terrible opportunity to waste and a good time to reform, but haste can also be the enemy of good reforms. Policymakers faced with tough reform choices really must take the time to ask themselves how streamlining the state in the heat of the crisis can be organised over the medium term.

Fifth, financial markets showed how limited they were in 2008-09, then quickly regained their dominant role in society. But have they adapted their post-crisis mindset to become the instruments we need to help us build a stronger, fairer and cleaner world? It may be too early to say, but judging by recent profit growth and consequent bonus payouts (even in loss-making rescued banks), and the re-emergence of opaque financial products, the disconnect between the financial establishment our societies rely on and the daily needs of the wider world seems greater than ever.

In short, policymakers have to be given room to step back and assess the situation. The OECD has to help them provide the evidence they need for evaluating the crisis strategies they have adopted, to see how government can stay in the driving seat, at least as co-pilots. If they do not, and succumb to undeserved short-term pressure from creditors, then the risks are large. For instance, important efforts to address climate change, green growth, biodiversity, social inclusion, poverty and countless other essential public policy objectives that were front-burner policy issues before the crisis will lose steam.

No doubt investors will argue that they are innovating, funding research and new products, and spreading development. And many of them are. But this is not about semantics; it is about facts. In particular, the business community, even financial investors, cannot afford governments to be crowded out of the marketplace.

So what can be done to defend the public interest? Who else can take up the baton? Governments did their bit during the crisis and are still doing their bit to show how seriously they believe in the market basis of our societies. But they are running out of ladder. It is time for that proven and trusted approach to running successful market economies to re-emerge: governments and markets depend on each other and should support each other too. Both will benefit if they show they are serious about the public interest.

For more views by Rolf Alter, see www.oecdobserver.org.
Visit www.oecd.org/governance

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Greening the OECD

Peter Lübkert, Head of Buildings, Logistics and Services Division, OECD

When it comes to the environment, the OECD does not just tell a good green story to its members; as an institution, we are investing time and resources into practising what we preach.

Achieving green growth and moving towards a low-carbon economy requires everyone in society to play their part. The OECD secretariat is no exception.

Think of the OECD as a veritable village or a microcosm of our world. It has some 2,500 staff, it consumes goods and services, uses transport, needs catering and sanitation, and routine energy and waste disposal. In short, our organisation leaves a footprint. And in today's day and age, we must do all we can to ensure that it operates in more environmentally responsible and effective ways.

That is why the organisation has been undertaking a range of initiatives to apply good practices and help it reach a lower-carbon, greener path. These initiatives include, for example, reducing energy and water consumption, improving waste collection and recycling, managing our buildings in a more energy-efficient way and optimising the use of IT technologies to reduce travel and transport. Energy and green considerations guide us in the choice of IT technologies, as well as other goods and services we purchase, in terms of recycling, toxicity and energy efficiency. And we constantly inform staff of the various efforts we are making to transform the OECD into a cleaner, greener and better place to work.

It is an intense job. To get us there, we have set up a wide-ranging reflection group composed of staff members from across the organisation. An action plan has been agreed upon to ensure that environmental matters are reflected, if not "mainstreamed", in the daily operational work of the OECD.

Close involvement of staff and better communication are essential to ensuring that the green action plan has an impact on performance and awareness. One of the major goals we have set for ourselves is to obtain the French environmental standard certificate called the Haute Qualité Environnementale (HQE), a high environmental quality certificate. Having the OECD staff working together to obtain such a standard is as important as top level sponsorship and technical support.

But how do we measure our performance? Gathering solid baseline data is essential. For example, under our action plan, we are carrying out a detailed inventory of the OECD's greenhouse gas emissions, which were estimated at some 8,830 tonnes for buildings and travel in 2010–travel accounts for most of that, with just 1,400 tonnes emitted last year from OECD buildings. This data will be regularly updated and processed in an Environmental Management System (EMS) and used for reporting, both internally and externally.

Another important focus of this initiative is to reduce greenhouse gas emissions from business travel. The OECD staff travel about 50 million kilometres (30 million miles) per year, including international business journeys and trips to and from work. We are now exploring how best to manage this in a more environmentally-friendly way, for example, by setting targets and providing tools for managers and staff to better understand and evaluate the carbon footprint of their business trips on a cost-benefit basis. We already encourage travel by train where possible, and fewer staff to go on the same trip. Replacing travel with videoconferencing when possible is also being encouraged. Our efforts to green up the operations of the organisation mirror the important policy work done by the OECD in, say, the new Green Growth Strategy and in areas like energy and technology. We are determined to show that a greener workplace is a more effective and productive one too.

> An important goal is to reduce gas emissions from the organisation's business travel

None of this effort comes without cost: even the HQE certification has a price tag of some €30,000, in terms of set-up and procedures, for instance, and setting up the Environmental Management System also costs several thousand euros. Then there are hard-to-measure adjustment costs, as people adopt greener workplace and travel habits. In the end, we expect most costs to be offset by savings in terms of a more effective, environmentally-friendly OECD.

This ambitious yet indispensable green action plan will require the support and involvement of the entire staff of the OECD. There is no doubting the level of support we have received. In today's times, it shows we must take a lead in setting the clean standards we advise our members to adopt. It is a policy of our times and a fitting way to celebrate the OECD's 50th anniversary.

For more information, contact Peter.Lubkert@OECD.org

For more on France's HQE certification, see www.assohqe.org

Japan will bounce back quickly

©REUTERS/Toru Hanai

Angel Gurría, Secretary-General of the OECD

"[...] On behalf of the OECD, I express our profound sorrow at the enormous loss of life and extend our condolences to all those who have been affected by this terrible tragedy. At the same time, we admire the courage and resolve of the Japanese people in face of adversity, and we are confident that Japan will emerge from this disaster stronger and better.

The Great East Japan Earthquake struck just when Japan's economy was getting back on track and gaining momentum after a slowdown in the latter part of 2010. By early 2011, exports were accelerating, the unemployment rate was falling and confidence was rising.

The damage from the earthquake and tsunami is estimated by the government at 16 to 25 trillion yen–around 3-5% of GDP, making it the worst disaster in Japan's post-war history. To put it in comparison, the 1995 Kobe earthquake–the worst disaster in Japan's post-war history up to that point–caused 9.6 trillion of damage. The negative impact of the 3/11 disaster was magnified by the disruption of the electricity supply and the problems at the Fukushima plant.

In addition to the immediate damage and electricity shortages, the earthquake and tsunami have disrupted supply chains both within Japan and internationally. Tohoku is an important producer of parts and components in a number of industries, including autos. Even Japanese auto factories as far away as the UK have been forced to cut production in the wake of the disaster.

These negative factors will combine to reduce output in this quarter. The decline will not be near the 20% drop in the wake of the Lehman shock in 2008, but it will be significant nonetheless. It is important to stress that with very little data available since the 3/11 disaster, economic projections are exceptionally difficult and the error margins are large.

But we are already seeing signs of reconstruction spending that will drive Japan forward, including investment by firms and households. If we look back to Kobe in 1995, business investment in the Hyogo prefecture had risen by 18% two quarters after the earthquake, lifting business investment nationwide by 4%. Similarly, investment in housing was 54% higher.

And of course, the government has an important role to play in rebuilding infrastructure damaged by the earthquake and tsunami, and this will be an important driver of growth. Looking back again at the Kobe earthquake, government investment in Hyogo prefecture in the third quarter of 1995 rose by 21% on a quarter-on-quarter basis–116% at an annual rate–resulting in a 6% rise nationwide. We know that the current government is capable of a similarly rapid response.

But this time, there is one significant difference compared to the Kobe earthquake. In 1995, the government budget deficit was less than 5% of GDP compared to around 9% in 2010. And government debt was 86% of GDP, compared to almost 200% at present. This time, reconstruction spending will have to be combined with efforts to improve the fiscal situation, which has become an important risk for Japan. [...]"

Extract from remarks by OECD Secretary-General Angel Gurría, Tokyo, 21 April 2011. For the full 1,300 word speech, see www.oecd.org/speeches

The OECD is a "force for good"

©REUTERS/Toby Melville

David Cameron, Prime Minister of the United Kingdom

"The government's top priority is reducing the nation's deficit and returning Britain to strong and sustainable growth. That means the right economic policies at home and creating the right economic environment abroad.

As part of our work to get the global economy back on its feet, the UK will continue to champion the Organisation for Economic Co-operation and Development. It's one of the world's major international economic organisations and a force for good in building the intellectual and political case for open markets.

Today, I welcomed its secretary-general, Angel Gurría, to No 10 Downing Street. Over the last five years, he has revitalised the OECD and reinforced its role as a world leader in analytical and policy advice. And on the occasion of his visit to London, I congratulated the secretary-general on the OECD's 50th anniversary.

The UK was one of the founding members of the OECD in 1961. The last 50 years have seen enormous growth in living standards in all regions of the world, and the OECD has played a major role in fostering, supporting and sustaining that growth.

I believe the OECD has a vital to role to play in today's world economy. Through its engagement with the world's emerging as well as developed economies, the OECD has the experience and the commitment to deliver on its declared aim: to promote 'better policies for better lives' in its member states and in the wider world."

This statement was delivered 16 March 2011. See www.oecd.org/speeches

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 roots of jobless growth
9 May 2011
Remarks delivered at the conference, Jobs, Growth and Values: Creating Opportunities for New Generations, Milan, Italy.

Building a fairer future: The role of social policy
2 May 2011
Statement made at the meeting of the Employment, Labour and Social Affairs Committee at ministerial level, Paris, France.

Joining forces against corruption: G20 business & government
28 April 2011
Closing remarks delivered at the G20/OECD conference, Joining Forces against Corruption: G20 Business and Government, Paris, France.

OECD and Russia: Working together for a stronger world economy
25 April 2011
Lecture at the Higher School of Economics, Moscow, Russia.

Celebrating 50 years of OECD-BIAC
7 April 2011
Remarks delivered at the BIAC General Assembly Business Roundtable, Budapest, Hungary.

Maintaining Momentum: OECD Perspectives on Policy Challenges in Chile
4 April 2011
Remarks delivered at the launch of the publication, Santiago, Chile.

Harmony and dissonance in international law
25 March 2011
Remarks delivered at the annual meeting of the American Society of International Law, Washington D.C, US.

21st century multilateralism: The OECD in a G20 world
24 March 2011
Remarks delivered at the Center for Global Development, Washington D.C, US.

A better global governance: What is at stake?
22 March 2011
Remarks delivered at the China Sciences and Humanities Forum in Beijing, China.

China: New era of opening up
20 March 2011
Remarks delivered at the China Development Forum, Beijing, China.

Building a high-quality teaching profession
17 March 2011
Remarks delivered at the International Summit on the Teaching Profession, New York, US.

OECD at 50: Better policies for better lives
16 March 2011
Opening Keynote address at the London School of Economics and Political Science Seminar, London, UK.

Women: the future of our economies?
8 March 2011
Remarks delivered for the 100th Anniversary of the International Women's Day, Paris, France.

Benefits and challenges of a long-term perspective in financial activities: Making the most of capital flows
18 February 2011
Remarks delivered at the Eurofi High Level Seminar, Paris, France.

OECD Roundtable on Sustainable Growth
10 February 2011
Session remarks delivered in Helsinki, Finland.

Stability and growth: What role for EU cohesion policy?
1 February 2011
Remarks delivered at the EU Cohesion Forum, Brussels, Belgium.

Challenges and opportunities for Latin America and the Caribbean in 2011
24 January 2011
Remarks delivered at the III International Economic Forum Latin America and the Caribbean, Paris, France.

Fighting against bid rigging
13 January 2011
Signing of the Memorandum of Understanding on the Implementation of the guidelines for Fighting Bid Rigging in Public Procurement between the OECD, the CFC and the IMSS, Mexico City, Mexico.

50th anniversary of the OECD
13 December 2010
Remarks delivered at the Elysée Palace, Paris, France.

United Nations Climate Change Conference (COP 16)
10 December 2010
Statement made at the United Nations Climate Change Conference in Cancún, Mexico.

Education: PISA 2010 results
7 December 2010
Remarks delivered at the presentation of the PISA 2010 results, Washington D.C, US.

How to improve integrity and corporate governance in Latin America
3 December 2010
Remarks delivered at the 20th Ibero-American Summit, Mar del Plata, Argentina.

New ambassadors

7 March **Berglind Ásgeirsdóttir** took up her duties as the new ambassador for Iceland, replacing Thorir Ibsen.

2 February **Marten Kokk** took up his duties as the first ambassador for Estonia to the OECD, following the accession of Estonia.

24 January **Raul Saez** took up his duties as the first ambassador for Chile to the OECD, following the accession of Chile.

18 January **Judith LaRocque** took up her duties as the new ambassador for Canada, replacing Paul Henri Lapointe.

16 November **Andrej Rant** took up his duties as the first ambassador for Slovenia to the OECD, following the accession of Slovenia.

1 October **Stefan Flückiger** took up his duties as the new ambassador for Switzerland, replacing Eric Martin.

Calendar highlights

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 comprehensive list, see the OECD website at **www.oecd.org/media/upcoming**, which is updated regularly.

APRIL	
13	**Internal Control and Internal Audit: Ensuring Public Sector Integrity and Accountability**, OECD 50th Anniversary event, organized by the Institut Français de l'Audit et du Contrôle Interne (IFACI), the French Chapter of The Institute of Internal Auditors (IIA) with the OECD.
14-15	**US and Europe Tax Planning Strategies conference**, OECD Center, Paris, France.
26-28	**e-Gov Africa Forum 2011**: "Governance, service delivery and democracy through the use of ICTs", Yaoundé, Cameroon.
26-27	**NEPAD-OECD ministerial conference**, "Africa: Accelerating the pace of reform by mobilising infrastructure and agricultural investment", organised by the NEPAD-OECD Africa Investment Initiative, Dakar, Senegal.
27-28	**Joining Forces against Corruption: G20 Business and Government**, G20-OECD conference organised by the French Presidency of the G20 and the OECD.
28-29	**OECD Nuclear Energy Agency Steering Committee and Special OECD Council Session**, to be addressed by Yukiya Amano, Director of the International Atomic Energy Agency.
30	**World Conference on Sport and Environment**, Doha, Qatar.
MAY	
2	**Building a Fairer Future: the Role for Social Policy**, OECD Social Ministerial Meeting and Policy Forum.
9-13	**United Nations Conference on the Least Developed Countries**, Istanbul, Turkey.
11-13	**Measuring and Fostering the Progress of Societies: Equity, Development and Well-Being**, Latin American Conference, Mexico City, Mexico.
23-27	**OECD Week: OECD 50th Anniversary Forum and Ministerial Council Meeting.**
25-27	**International Transport Forum on Transport and Society**, Leipzig, Germany.
26-27	**Financial Literacy: Partnering to Turn Financial Literacy into Action**, conference organised by the OECD Project on Financial Education and the Financial Consumer Agency of Canada (FCAC), Toronto, Canada.
26-27	**G8 summit**, Deauville, France.
31-1/6	**Global Forum on Transparency and Exchange of Information for Tax Purposes**, Hamilton, Bermuda.
30/5-1/6	**Broadening Opportunities for Development**, ABCDE 2011 conference, organised by the World Bank and the Swedish government.
JUNE	
6-7	**OECD-US Council for International Business**, tax conference on the OECD's new international taxation initiatives. Washington D.C, US.
6-9	**The International Economic Forum of the Americas—a Changing Economic Order: New Realities, New Models**, Montreal, Canada.
15-17	**40 Years of Chemical Safety at OECD: Planning for the Next Decade**, organised by the OECD Environment Directorate.
28-29	**Internet Economy: Generating Innovation and Growth**, high-level meeting organised by the OECD Directorate for Science, Technology and Industry.
30	**Tax reform: challenges in designing competitive tax systems**, conference held within the framework of the OECD 50th Anniversary.
JULY-AUGUST	
4-5/7	**Europe and Asia Strategies (EAST) Forum**, organised by Unicredit, Rome, Italy.
6-8/7	**New Directions in Economics and Welfare II**, conference organised by the United Kingdom Open University and OECD Statistics Directorate.
18-19/7	**Aid for Trade Global Review (World Trade Organization)**, Geneva, Switzerland.
22-26/8	**Ecocity World Summit 2011**, Montreal, Canada.
SEPTEMBER-DECEMBER	
12-13/9	**Global Forum on the Knowledge Economy**, organised by the OECD Directorate for Science, Technology and Industry.
13-14/10	**G20 finance ministers meeting**, Paris, France.
25-26/10	**Making Water Reform Happen**, OECD Global Forum on the Environment organised by the OECD Environment Directorate.
2-4/11	**World Pension Summit**, with the participation of the OECD. Amsterdam, Netherlands.
3-4/11	**G20 Summit**, Cannes, France.

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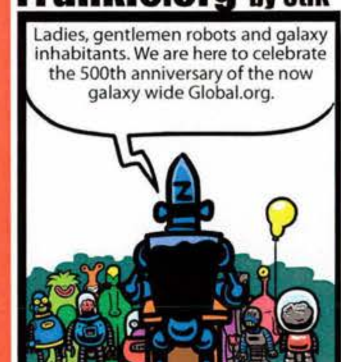

Green house?

How much more would you be willing to pay for renewable energy? Are environmental concerns a factor in how much you use your car? And are you really thinking about the environment when you buy organic food? All these questions, and more, are at the heart of the 2008 survey which forms the basis of *Greening Household Behaviour*. A part of the OECD's Green Growth Strategy, this survey covered 10,000 households across ten OECD countries to determine how our day-to-day relationship with the environment may affect reforms, and is due for another round in 2011. Household pressures on the environment are expected to rise in the near future, thanks to consumption, so figuring out how to control these pressures will be crucial. The survey, which identifies the immediate impact of humdrum daily actions, such as buying food or driving a car, is intended to help policymakers in designing successful environmental strategies.

Focusing on such questions as residential water and energy use, waste generation, transport choices and organic food consumption, the survey stresses the importance of addressing both the supply and the demand side of environmental measures, and suggests various policy approaches. The first–and for the authors, the most important one–is to provide market-based incentives and penalities, through the likes of price increases or taxes, which have been shown to have an impact on water or energy consumption, for example.But to work, these initiatives need to be backed up by proper information, on why they are needed, which products or services are affected, and so on. More generally, green growth is viewed as a bottom-up process in this survey. If environmental reforms are to succeed, governments first need to find ways to integrate greener household behaviour as a socially-desirable norm. After all, charity is not the only thing that begins at home.

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ISBN 978-92-64-08948-8
1-Sep-2010, 470 pages, €69 $96 £62 ¥8 900

International double taxation can occur when more than one country tries to tax a taxpayer for the same thing during the same period. These occurances have largely been eliminated by the *OECD Model Tax Convention*, which has set the standards used in bilateral treaties worldwide. Nevertheless, as economies and financial systems evolve, there is a need to constantly monitor and update the convention, and this 2010 edition brings the text of the articles and their commentaries up to date. Last updated in 2008, this new edition is selling faster than any previous edition.

OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2010

ISBN 978-92-64-09033-0
1-Sep-2010, 372 pages, €89 $124 £80 ¥11 500

Closely related to the *Model Tax Convention*, the *Transfer Pricing Guidelines* provide guidance on the application of the "arm's length principle", which is the international consensus on transfer pricing, the valuation, for tax purposes, of cross-border transactions between associated (multinational) enterprises. This edition updates the 2009 edition.

OECD Factbook 2010: Economic, Environmental and Social Statistics

ISBN 978-92-64-08356-1
1-Jun-2010, 288 pages, €50 $70 £45 ¥6 500

The *OECD Factbook* has become the standard international reference tool for international economic statistics. Not only does it provide reliable data for key series over a good time span, it also provides a clearly written and easily understood definition for each series, as well as commentary on the comparability of the data and an overview of the recent evolution of the series. Available as a book, on a USB flash memory stick and as an iPhone/iPad App.

Education at a Glance 2010: OECD Indicators

ISBN 978-92-64-05598-8
8-Sep-2010, 472 pages, €75 $105 £67 ¥9 700

Education at a Glance enables comparisons of education systems to those of others. It provides a rich, comparable and up-to-date array of indicators on systems, and represents the consensus of professional thinking on how to measure the current state of education internationally. The indicators show who participates in education, how much is spent on it, and how education systems operate. They also illustrate a wide range of educational outcomes, comparing, for example, student performance in key subject areas, and the impact of education on earnings and on adults' chances of employment.

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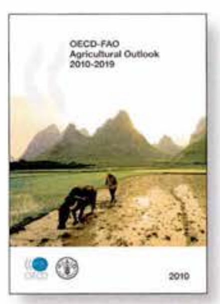

This edition covers the outlook for commodity markets during the 2010 to 2019 period and brings together the commodity, policy and country expertise of both organisations. The report analyses world market trends for the main agricultural products, as well as for biofuels. It provides an assessment of agricultural market prospects for production, consumption, trade, stocks and prices of the commodities analysed. This year's report also includes a special section on price volatility and price transmission from world to domestic markets.

OECD Employment Outlook 2010: Moving beyond the Jobs Crisis

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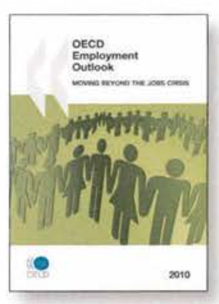

Opening with an editorial which analyses the immediate policy challenges and provides advice for OECD governments, and a first chapter that sets out the facts and figures related to recent employment developments, and sets them in the broader economic context, the *OECD Employment Outlook 2010* goes on to provide analysis in three specific policy areas: the jobs impact and policy response in emerging economies, institutional and policy determinants of labour market flows, and the quality of part-time work. The volume closes with a statistical annex which provides the latest available employment data.

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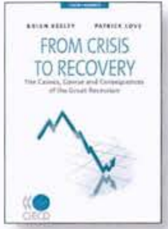

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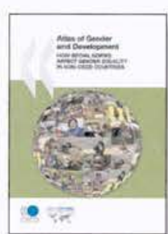

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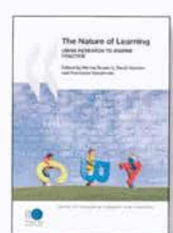

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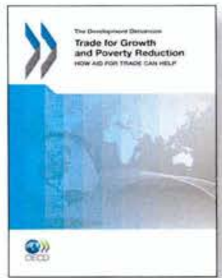
Trade for aid



As efforts to restart the stalled Doha Development Round negotiations intensify, the policy focus on world trade, and, specifically, its relation to development aid and growth in poorer countries, has become more acute. Trade is a powerful engine for economic growth, as the OECD's founders argued 50 years ago, and, as such, can contribute to reducing poverty. However, efforts to improve trade in developing countries are often hampered by domestic constraints, particularly a lack of adequate economic infrastructures, as well as institutional and organisational obstacles. *Trade for Growth and Poverty Reduction* focuses on the framework of the Aid for Trade Initiative, launched in 2005 by the World Trade Organization. This report identifies the four main objectives of aid-for-trade programmes: increasing trade, diversifying exports, increasing the capacity of countries to adjust to world trade, and linking with domestic economies.

Policymakers have to identify the constraints they may be facing in their own countries by combining various approaches, from consulting stakeholders and comparing with other countries, to scrutinising the entire value chain. Once these constraints have been identified, any measures to counter them need to fit a country's specific needs while targeting the sectors which poorer people work in. This can help to enhance productive capacity, reduce vulnerability and better integrate them into regional and global markets.

However, if the approach promoted by the Aid for Trade Initiative is to bear fruit, it must be grounded in international co-operation, as well as being supported by other policies, in education and training for instance, and providing social safety nets. Developing countries are now responsible for between a quarter and a third of world trade. By helping them to improve their trade mechanisms, OECD countries may find that they are also helping themselves.

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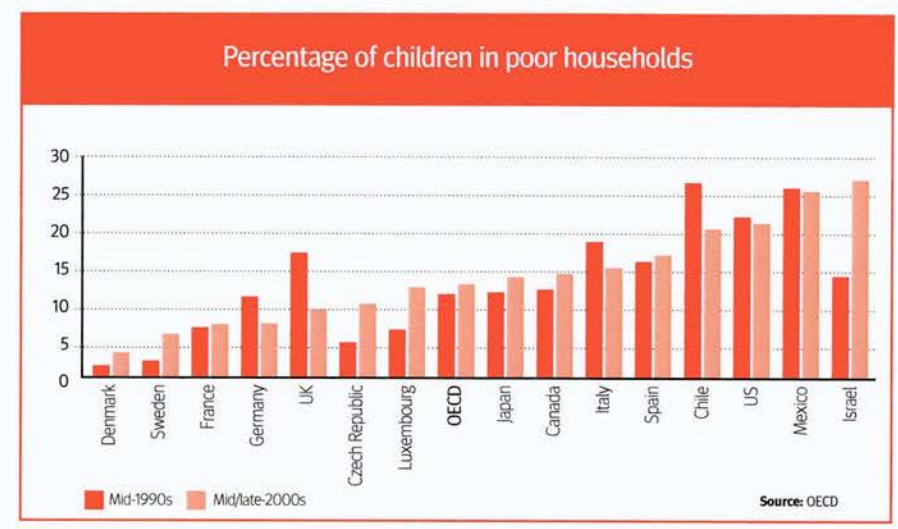
Child poverty rises–

A few decades ago the poorest in society were most likely to be pensioners. Now children are taking over that mantle, as poverty in households with children rises in nearly all OECD countries. Indeed, families with children are more likely to be poor today than in previous decades, according to *Doing Better for Families*, a new OECD report. The share of children living in poor households has risen in many countries over the past decade, to reach 12.7% across the OECD. One in five children in Israel, Mexico, Turkey, Poland and the US live in poverty. (The OECD defines "poor" as someone living in a household with less than half the median income, adjusted for family size).

Yet there are more dual-earner than one-earner families in almost every country. And female employment in the OECD has risen by more than 10 percentage points in the past 15 years, nearing 60% in 2009. The report argues that women are better educated too, overtaking men in the process.

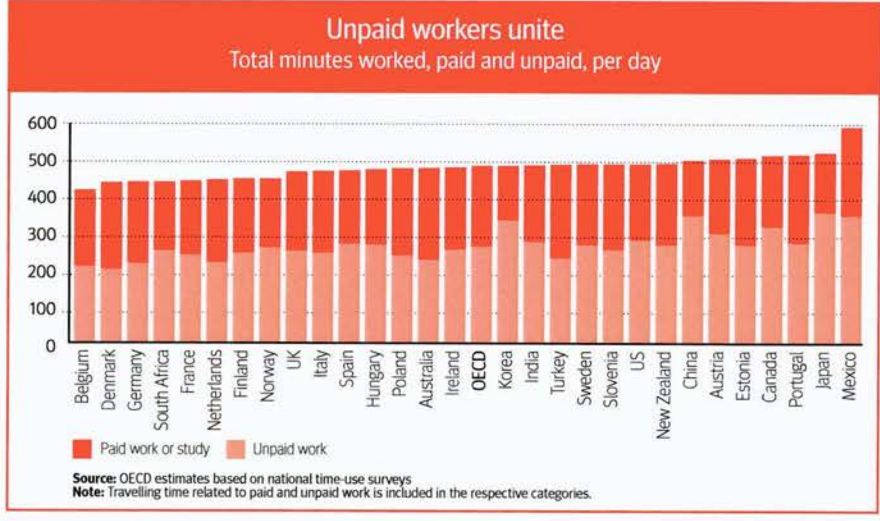


Could higher women's employment help reduce child poverty? Not necessarily, say the authors, and recommend measures to help families combine work and care commitments, meet childcare costs and better integrate their leave, care and workplace needs. Men must help out more with housework and non-paid caring work too. More investment is also needed in early childhood, and in linking high-quality services to cognitive development for poorer children in particular.

–but could addressing non-paid work provide answers?

From housework and homemaking to gardening and local community work, both women and men do so-called "unpaid work" on top of their paid jobs. But according to the OECD's report "Cooking, Caring and Volunteering: Unpaid Work Around the World", women do more unpaid work than men in every country. In fact, they work about an hour more than men in Denmark, and up to five hours more in India. On average across OECD countries, women invest some 150 minutes more of their time in unpaid work than men do.

Unpaid care work enables economies to grow, but unless such workers, and particularly women, are supported, their productive potential is constrained, as is their family's well-being. According to some critics, until unpaid work is more fully taken on board in economic data, policies that focus on increasing women's labour market participation may be blunted (see, for instance, "Changing the care-less economy" by Rosalind Eyben, at www.oecdinsights.org). Putting a value on unpaid work is not an easy task, and work is under way to address this, not least to measure changes in personal welfare more accurately. The data relate to 2008; it remains to be seen if the crisis has affected these gaps.



A pdf of the report can be found at www.oecd-ilibrary.org

Country	Indicator	Period	% change from: previous period	previous year	Indicator	Period	level: current period	same period last year
Australia	Gross domestic product	Q4 2010	0.7	2.7	Current balance	Q4 2010	-2.1	-5.9
	Industrial production	Q4 2010	-0.7	-0.3	Unemployment rate	Q4 2010	5.2	5.6
	Consumer price index	Q4 2010	0.4	2.7	Interest rate	Q1 2011	4.9	4.2
Austria	Gross domestic product	Q4 2010	0.8	3.1	Current balance	Q3 2010	2.5	2.7
	Industrial production	Q4 2010	3.0	9.0	Unemployment rate	Q4 2010	4.2	4.8
	Consumer price index	Q4 2010	0.7	2.1	Interest rate		*	*
Belgium	Gross domestic product	Q4 2010	0.5	2.0	Current balance	Q3 2010	-0.2	-0.2
	Industrial production	Q4 2010	0.3	9.8	Unemployment rate	Q4 2010	8.0	8.2
	Consumer price index	Q1 2011	1.4	3.4	Interest rate		*	*
Canada	Gross domestic product	Q4 2010	0.8	3.2	Current balance	Q4 2010	-2.7	-2.6
	Industrial production	Q4 2010	0.0	5.5	Unemployment rate	Q1 2011	7.7	8.2
	Consumer price index	Q4 2010	0.6	2.3	Interest rate	Q1 2011	1.2	0.4
Chile	Gross domestic product	Q4 2010	0.9	5.8	Current balance	Q4 2010	3.7	2.0
	Industrial production	Q4 2010	0.4	2.6	Unemployment rate	Q4 2010	7.1	10.0
	Consumer price index	Q4 2010	0.4	2.5	Interest rate	Q4 2010	3.3	0.5
Czech Republic	Gross domestic product	Q4 2010	0.3	2.6	Current balance	Q4 2010	0.4	-0.3
	Industrial production	Q4 2010	3.4	11.3	Unemployment rate	Q4 2010	7.1	7.4
	Consumer price index	Q4 2010	-0.1	2.1	Interest rate	Q4 2010	1.2	1.8
Denmark	Gross domestic product	Q4 2010	-0.4	2.9	Current balance	Q4 2010	6.6	4.1
	Industrial production	Q4 2010	-1.4	6.1	Unemployment rate	Q4 2010	7.7	7.1
	Consumer price index	Q4 2010	0.4	2.6	Interest rate	Q1 2011	0.9	0.8
Estonia	Gross domestic product	Q4 2010	2.3	6.8	Current balance	Q4 2010	10.5	9.0
	Industrial production	Q4 2010	10.1	33.8	Unemployment rate	Q4 2010	14.3	16.1
	Consumer price index	Q1 2011	1.1	5.4	Interest rate	Q1 2011	1.1	2.2
Finland	Gross domestic product	Q4 2010	1.7	5.0	Current balance	Q4 2010	6.5	6.5
	Industrial production	Q4 2010	3.1	8.9	Unemployment rate	Q4 2010	8.1	8.7
	Consumer price index	Q4 2010	1.2	2.5	Interest rate		*	*
France	Gross domestic product	Q4 2010	0.4	1.5	Current balance	Q4 2010	-2.4	-2.2
	Industrial production	Q4 2010	0.9	5.8	Unemployment rate	Q4 2010	9.6	9.9
	Consumer price index	Q4 2010	0.4	1.6	Interest rate		*	*
Germany	Gross domestic product	Q4 2010	0.4	4.0	Current balance	Q4 2010	6.1	7.1
	Industrial production	Q4 2010	2.9	13.5	Unemployment rate	Q4 2010	6.6	7.5
	Consumer price index	Q4 2010	0.4	1.5	Interest rate		*	*
Greece	Gross domestic product	Q4 2010	-1.4	-6.6	Current balance	Q4 2010	-9.3	-10.5
	Industrial production	Q4 2010	-1.5	-6.5	Unemployment rate	Q4 2010	14.1	10.2
	Consumer price index	Q4 2010	1.5	5.1	Interest rate		*	*
Hungary	Gross domestic product	Q4 2010	0.2	2.3	Current balance	Q3 2010	2.0	1.3
	Industrial production	Q4 2010	-1.7	9.7	Unemployment rate	Q4 2010	11.2	10.7
	Consumer price index	Q4 2010	0.5	4.3	Interest rate	Q1 2011	6.6	6.7
Iceland	Gross domestic product	Q4 2010	-1.5	0.1	Current balance	Q4 2010	-24.8	-14.7
	Industrial production	Q2 2010	0.5	..	Unemployment rate	Q4 2010	8.5	7.7
	Consumer price index	Q1 2011	0.4	2.0	Interest rate	Q4 2010	4.8	8.6
Ireland	Gross domestic product	Q4 2010	-1.6	-0.5	Current balance	Q4 2010	2.6	-1.1
	Industrial production	Q3 2010	2.6	11.4	Unemployment rate	Q4 2010	14.5	12.8
	Consumer price index	Q4 2010	0.2	0.9	Interest rate		*	*
Israel	Gross domestic product	Q4 2010	1.9	5.7	Current balance	Q4 2010	2.4	5.0
	Industrial production	Q4 2010	0.3	..	Unemployment rate	Q4 2010	6.6	7.2
	Consumer price index	Q4 2010	0.8	2.5	Interest rate	Q1 2011	2.4	1.3
Italy	Gross domestic product	Q4 2010	0.1	1.5	Current balance	Q3 2010	-3.1	-2.2
	Industrial production	Q4 2010	-0.4	4.2	Unemployment rate	Q4 2010	8.5	8.3
	Consumer price index	Q1 2011	1.0	2.3	Interest rate		*	*
Japan	Gross domestic product	Q4 2010	-0.3	2.5	Current balance	Q4 2010	3.5	3.4
	Industrial production	Q4 2010	-1.7	4.8	Unemployment rate	Q4 2010	5.0	5.3
	Consumer price index	Q4 2010	0.4	0.1	Interest rate	Q4 2010	0.3	0.5
Korea	Gross domestic product	Q4 2010	0.5	4.7	Current balance	Q4 2010	3.3	3.7
	Industrial production	Q4 2010	-0.5	9.9	Unemployment rate	Q4 2010	3.4	3.5
	Consumer price index	Q1 2011	1.8	4.5	Interest rate	Q1 2011	3.1	2.9
Luxembourg	Gross domestic product	Q3 2010	1.5	3.2	Current balance	Q4 2010	8.4	4.9
	Industrial production	Q4 2010	3.4	7.8	Unemployment rate	Q4 2010	4.6	4.8
	Consumer price index	Q1 2011	1.1	3.5	Interest rate		1.1	*
Mexico	Gross domestic product	Q4 2010	1.3	4.4	Current balance	Q4 2010	-1.3	0.0
	Industrial production	Q4 2010	0.8	..	Unemployment rate	Q4 2010	5.5	5.5
	Consumer price index	Q4 2010	1.8	4.2	Interest rate	Q1 2011	4.9	5.0

			% change from:				level:	
			previous period	previous year			current period	same period last year
Netherlands	Gross domestic product	Q4 2010	0.6	2.2	Current balance	Q3 2010	7.5	4.8
	Industrial production	Q4 2010	3.1	5.8	Unemployment rate	Q4 2010	4.4	4.2
	Consumer price index	Q1 2011	0.7	2.0	Interest rate		*	*
New Zealand	Gross domestic product	Q4 2010	0.4	1.4	Current balance	Q4 2010	-5.6	-5.9
	Industrial production	Q4 2010	1.5	-0.9	Unemployment rate	Q4 2010	6.8	7.0
	Consumer price index	Q4 2010	2.3	4.0	Interest rate	Q1 2011	3.0	2.7
Norway	Gross domestic product	Q4 2010	2.4	1.5	Current balance	Q4 2010	12.5	14.0
	Industrial production	Q4 2010	7.2	-3.9	Unemployment rate	Q4 2010	3.5	3.3
	Consumer price index	Q4 2010	0.9	2.2	Interest rate	Q1 2011	2.6	2.3
Poland	Gross domestic product	Q4 2010	0.8	3.9	Current balance	Q3 2010	-4.6	-2.4
	Industrial production	Q4 2010	0.4	9.3	Unemployment rate	Q4 2010	9.7	8.9
	Consumer price index	Q4 2010	1.0	2.9	Interest rate	Q1 2011	4.1	4.1
Portugal	Gross domestic product	Q4 2010	-0.5	1.0	Current balance	Q4 2010	-9.8	-9.3
	Industrial production	Q4 2010	1.2	1.0	Unemployment rate	Q4 2010	11.2	10.2
	Consumer price index	Q4 2010	0.7	2.4	Interest rate		*	*
Slovak Republic	Gross domestic product	Q4 2010	0.9	3.4	Current balance	Q4 2010	-2.5	-2.5
	Industrial production	Q4 2010	8.0	18.3	Unemployment rate	Q4 2010	14.1	14.1
	Consumer price index	Q4 2010	0.2	1.1	Interest rate		*	*
Slovenia	Gross domestic product	Q4 2010	0.6	1.9	Current balance	Q4 2010	-0.6	0.7
	Industrial production	Q4 2010	1.2	8.1	Unemployment rate	Q4 2010	7.8	6.4
	Consumer price index	Q4 2010	0.0	1.7	Interest rate		*	*
Spain	Gross domestic product	Q4 2010	0.2	0.6	Current balance	Q3 2010	-4.3	-4.6
	Industrial production	Q4 2010	0.7	0.5	Unemployment rate	Q4 2010	20.5	19.0
	Consumer price index	Q4 2010	1.6	2.6	Interest rate		*	*
Sweden	Gross domestic product	Q4 2010	1.2	7.2	Current balance	Q4 2010	5.9	4.7
	Industrial production	Q4 2010	0.5	11.1	Unemployment rate	Q4 2010	7.9	8.8
	Consumer price index	Q4 2010	1.3	1.9	Interest rate	Q1 2011	1.7	0.2
Switzerland	Gross domestic product	Q4 2010	0.9	3.2	Current balance	Q4 2010	13.9	14.9
	Industrial production	Q3 2010	1.3	5.7	Unemployment rate	Q4 2010	3.9	4.6
	Consumer price index	Q4 2010	0.7	0.3	Interest rate	Q4 2010	0.2	0.3
Turkey	Gross domestic product	Q4 2010	3.6	9.7	Current balance	Q4 2010	-8.2	-2.7
	Industrial production	Q4 2010	9.0	11.8	Unemployment rate	Q4 2010	10.0	11.9
	Consumer price index	Q1 2011	0.8	4.3	Interest rate	Q3 2010	..	..
United Kingdom	Gross domestic product	Q4 2010	-0.5	1.5	Current balance	Q4 2010	-2.9	-0.9
	Industrial production	Q4 2010	0.7	3.3	Unemployment rate	Q4 2010	7.8	7.8
	Consumer price index	Q4 2010	1.0	3.4	Interest rate	Q1 2011	0.8	0.6
United States	Gross domestic product	Q4 2010	0.8	2.8	Current balance	Q4 2010	-3.0	-2.8
	Industrial production	Q4 2010	0.9	6.4	Unemployment rate	Q1 2011	8.9	9.7
	Consumer price index	Q4 2010	0.3	1.3	Interest rate	Q1 2011	0.3	0.2
Euro area	Gross domestic product	Q4 2010	0.3	2.0	Current balance	Q4 2010	-1.4	-0.4
	Industrial production	Q4 2010	1.8	7.9	Unemployment rate	Q4 2010	10.0	9.9
	Consumer price index	Q4 2010	..	2.0	Interest rate		*	*
Non-members								
[1]Russian Federation	Gross domestic product		..	..	Current balance	Q3 2010	1.8	5.0
	Industrial production	Q4 2010	2.6	6.7	Unemployment rate		..	..
	Consumer price index	Q4 2010	2.1	8.1	Interest rate	Q4 2010	4.6	8.8
[2]Brazil	Gross domestic product	Q4 2010	0.7	5.0	Current balance	Q3 2010	-2.4	-1.5
	Industrial production	Q4 2010	0.8	3.5	Unemployment rate		..	..
	Consumer price index	Q4 2010	1.8	5.6	Interest rate		..	..
[2]China	Gross domestic product		..	..	Current balance		..	..
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q3 2010	0.6	3.3	Interest rate	Q4 2010	3.7	1.9
[2]India	Gross domestic product	Q1 2010	5.0	11.3	Current balance		..	..
	Industrial production	Q4 2010	0.1	6.0	Unemployment rate		..	..
	Consumer price index	Q4 2010	2.4	9.2	Interest rate		..	..
[2]Indonesia	Gross domestic product	Q4 2010	2.4	6.9	Current balance	Q3 2010	1.0	1.8
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q1 2011	1.7	6.8	Interest rate	Q4 2010	7.0	7.7
[2]South Africa	Gross domestic product	Q4 2010	1.1	3.7	Current balance	Q3 2010	-3.1	-3.4
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q4 2010	0.4	3.4	Interest rate	Q4 2010	5.7	7.0

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*, April 2010

Development aid to slow

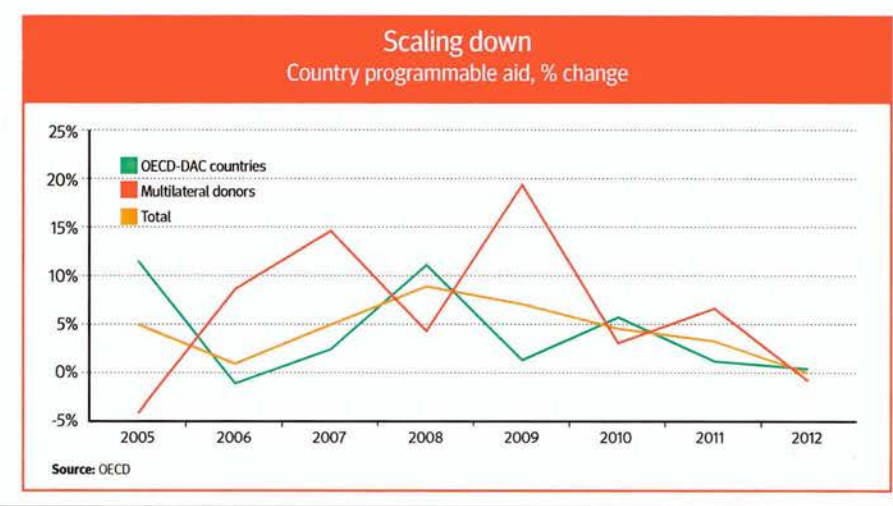
Development aid from OECD donor countries totalled $129 billion in 2010, the highest level ever, and an increase of 6.5% over 2009. But despite this record, the 2010 figures confirm that some donors are not meeting internationally agreed commitments.

In terms of the amount of aid, the US, the UK, France, Germany and Japan were the largest donors, while the EU-based members of the OECD donor group, the Development Assistance Committee (DAC), provided a combined total of $70.2 billion, or some 54% of the overall total.

However, total bilateral aid from OECD-DAC donors represents about 0.32% of their combined gross national income (GNI). Only Denmark, Luxembourg, the Netherlands, Norway and Sweden exceeded the United Nations recommended development aid target of 0.7% of GNI.

An OECD survey shows that most donors plan to increase aid over the next three years, though at a slower pace than before: 2% per year between now and 2013, compared to the average 8% per year over the past three years. Aid to Africa is likely to rise by just 1% per year in real terms, compared to an average of 13% over the past three years. At this rate, any additional aid to the African countries will be outpaced by population growth, which is not good news for the fight against poverty or reaching the Millennium Development Goals.

See www.oecd.org/dac/scalingup



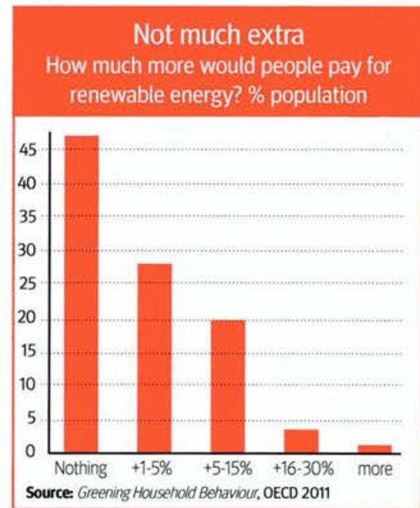
Renewable electricity bills

How willing are you to pay more for renewable energy? Judging by a survey we previewed in 2010 and whose results have now been published, the answer is: not that much. *Greening Household Behaviour* shows that while people may change their habits if given the right incentives and information, they are not quite as ready to dip deeply into their pockets.

Policymakers the world over have introduced a range of initiatives to encourage the take-up of renewable energy, including providing grants to firms and households for installing appliances. But while this latest survey shows that the general public attitude towards the environment (awareness, membership of environmental organisations, etc.) strongly influences demand for renewable energy, so does the price.

True, respondents paying charges are more likely to save energy, the survey confirms, whether by adopting behaviour such as turning off lights or investing in more efficient appliances. But the survey also shows that almost half of all respondents are simply not willing to pay too much more to use green energy. Over 45% of households said they are not willing to pay any premium to use renewable energy; and in a few countries, only a quarter of respondents say they would pay more than 5% above their current electricity bill to use green energy. Very few respondents said they would pay over 30% more. The survey–which was conducted before recent nuclear incidents following the earthquake and tsunami in Japan–enters another round in 2011 (see book review p.37 or browse at www.oecdbookshop.org).

See also "Saving energy" in *OECD Observer* No 276-77 2010, available online.



Creating Shared Value
Nutrition | Water | Rural Development

Do you have an innovative project in nutrition, water or rural development?

Get the chance to scale it up by nominating it for the **Nestlé Prize in Creating Shared Value!**

Spread the word and nominate innovative projects by the **30th June 2011**

The winning entry will benefit from an investment of up to CHF 500 000 (more than USD 480 000).

The Prize is open to individuals, governmental and non-governmental organisations, academia and small enterprises. Specific fields of achievement include, but are not limited to: agriculture, including extension services and use of new technologies; food science and technology; nutrition education programmes; water management; protection of water resources; etc.

In 2010, International Development Enterprises (IDE) Cambodia won the first Nestlé Prize in Creating Shared Value for their Farm Business Advisors programme.

For additional information please visit: **www.nestle.com/CSV/CSVPrize**

50 Years of Better Policies for Better Lives

Merck & Co., Inc. (known as MSD outside the US and Canada) Celebrates 50 Years of OECD Contribution to Innovation in Policy and Making the World a Better Place

Not just healthcare.

We would like to dedicate this page to thanking the OECD, its staff and its members for promoting policies that make it possible for a healthcare company like MSD to advance the interests of patients, improve public health and promote access to medicines and innovation.

During the last 50 years, the OECD has made a tremendous contribution to our societies by providing a forum for well-researched, fact-based and thoroughly discussed policies. For this, we thank the OECD.

As a research-based company, our key goal is to preserve and improve human life. This goal can be achieved only with a sophisticated mix of science, health and industrial policy. The OECD has been the leading architect for the development of the appropriate policy mix, thus making pharmaceutical innovation a daily reality. These are Better Policies for Better Lives in action.