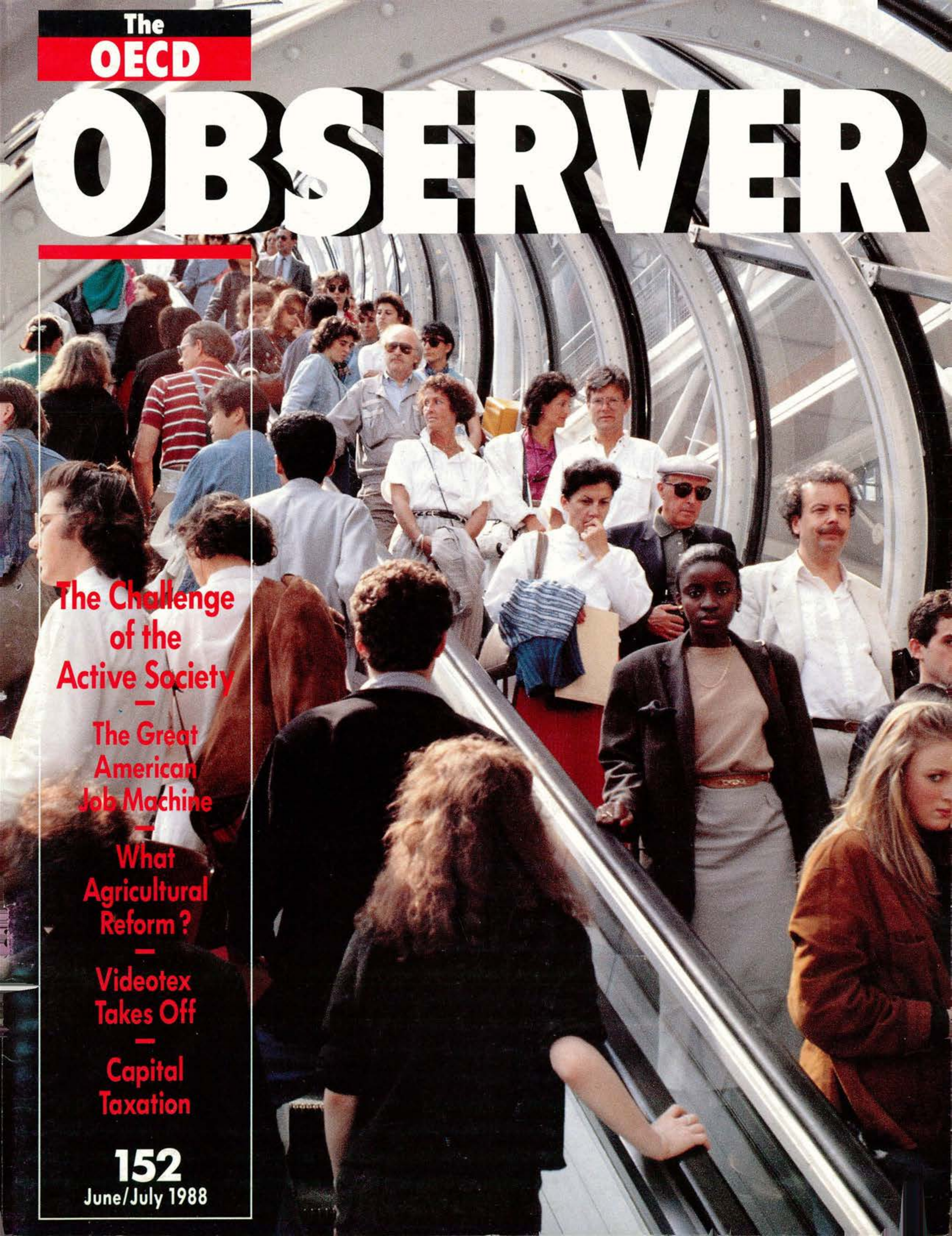
The OECD OBSERVER



The Challenge of the Active Society

—

The Great American Job Machine

—

What Agricultural Reform?

—

Videotex Takes Off

—

Capital Taxation

152
June/July 1988

Fill in the order form with this issue

the 10 best sellers of the past 2 months

The OECD OBSERVER

Published every two months in English and French by the ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT.

Editorial Address:
OECD Publications Service
Château de la Muette
2, rue André-Pascal
F 75775 PARIS CEDEX 16
Tel. (1) 45-24-82-00

Single copies
£2.40 US$4.40 FF20.00 DM9.00

Annual Subscription Rates
£11.70 US$22.00 FF100.00 DM43.00
Tel. (1) 45-24-81-66

Editor
Ulla Ranhall-Reyners
Associate Editor
Martin Anderson
Assistants
Yannick Bultynck
Brigid Gallen
Art, Production and Layout
Gérald Tingaud
Photo Research
Silvia Thompson-Lépot

CONTENTS

152
June/July 1988

PHOTOS Cover: Escalator at Georges-Pompidou Centre, Paris, A. Galievsky, G. Tingaud/OECD; p. 4: ILO; p. 6: COI, London; p. 7: J. Maillard/ILO; p. 8: *top* Pavlovsky/Sygma, *bottom* J. Maillard/ILO; p. 9: Guild Sound and Vision Ltd.; p. 10: O. Franken/Sygma; p. 11: *top* Baltimore Economic Development Corp., *bottom* Cooperative Home Care Associates, Bronx, New York; pp. 13-14: L. Jouan/OECD; pp. 16-17: Bibliothèque nationale, Paris; p. 19: Institut géographique national, St-Mandé, France; p. 21: L.L. Roger-Viollet, Lycée Arbez Carme, Oyonnax, France; p. 22: Siemens; p. 23: P. Sittler/R.E.A; pp. 24-25: S. Thompson-Lépot/OECD; p. 26: *top* I. Labussière for OECD, *bottom* Prestel, UK; pp. 28-31: D. Myers for OECD.

Towards the 'Active Society'

James R. Gass

Having a job—usually a salaried job—is more today than simply a means of earning a living. It brings with it dignity and status, social contacts, a sense of usefulness. It helps structure the use of time, both on a day-to-day basis and over a lifetime. Employment, in short, helps integrate individuals into society—as the massive entry of women into the labour market eloquently demonstrates.

This development has been paralleled since the Industrial Revolution by the weakening of family and community ties. They have given ground to the institutions of the 'welfare state', which has grown with the rise of the salaried classes. And the Industrial Revolution was accompanied by a profound change in the structure of society: the division of labour and economies of scale have led, in all sectors of society, to the growing institutionalisation of the ways in which individuals participate in society.

This complex equilibrium is under threat. Widespread, and frequently long-term, unemployment, the danger of shutting out a growing number of people, the often contradictory pressures on the systems of social protection, particularly through the aging of the population, the diminishing prospect of a return to high rates of growth, the necessity of rapid structural adjustment to the possibilities offered by the new technologies—these are among the factors that should encourage the search for a new consensus on the changes required.

How can new equilibria be devised to allow all individuals both to take an active part in economic and social life and to benefit fully from the suppleness that the new means of production will permit? That is the challenge of the 'active society'. It also forms the background to a meeting, in July, of OECD social affairs ministers, its theme the future of social protection.

The world of the last four decades has been characterised broadly by two competing views of how to construct the socio-economic systems of advanced, industrialised societies: an authoritarian political system combined with a centrally planned economy; and political democracies combined with a market economy, based on varying compounds of public and private sectors. Events have proved the liberal democracies better able to promote economic and social progress, as the current debate in Eastern Europe about *perestroika* and *glasnost* makes clear.

What accounts for the comparative success of the liberal democracies? The explanation is, of course, complex, but its essence probably lies in the capacity of economies based to a large extent on market principles to create a mutually reinforcing process of both rising economic efficiency and rising social standards. At least up to the early 1970s, the 'full employment' of all available resources and the 'welfare state', the twin pillars of the system, were linked, in a combination that proved to be a powerful engine of high rates of economic growth, rising standards of material and social welfare, and widening opportunities as a massive expansion of education brought new social groups into positions that society rewarded.

Strains on the Welfare State

Many economists ascribed this success to the 'Keynesian revolution': the apparent capacity of governments, for several decades at least, to 'manage' economies by increasing aggregate demand in the face of economic recession. Whether or not this virtuous circle of social *and* economic progress was broken by endemic inflation or by external shocks (such as the sharp rises in oil prices), or both, is still hotly debated. But what does seem clear is that the broad consensus on the priority of controlling inflation has meant slow recovery to relatively moderate rates of economic growth.

James R. Gass is Director, Manpower, Social Affairs and Education, and Director of the Centre for Educational Research and Innovation at the OECD.

Such rates are unlikely in the short term to restore full employment in the way the term is used in political debate–that everyone seeking a job will find it after a relatively short period. Higher rates of unemployment and longer spells of joblessness have increased the demands on the welfare state dramatically in some countries, and at the same time decreased the capacity to pay for it. Once policymakers realised that welfare spending could not go on indefinitely increasing its share of the cake, the emergence of a widespread political debate on the future of the welfare state became inevitable.[1] Up to now the debate has focussed on the importance of controlling the explosive growth of government spending on welfare,[2] and of overcoming the rigidities in the welfare system which hinder economic efficiency. But now it is beginning to be realised that both cost *and* quality of service are important to the public in health care, education and pensions, the main areas of spending. This reality provides a new opportunity to reconnect economic and social progress.

The outstanding rates of growth that followed the Second World War were built on the principle that a full-employment economy, based on the active population, was productive enough to provide at least a minimum income for its non-active members. This required the redistribution of income through taxes and social transfers.

But the powerful trend towards an aging society in OECD countries, the movement of new groups such as the long-term unemployed into the non-active population, and the increase of tax resistance (as taxes rose to pay for the welfare state) all threatened this lynchpin of the system. In macroeconomic terms, a shrinking active population coupled with a growing capital stock of increasing sophistication (in automated industrial plant, for example) might well continue to generate sufficient income for the tax system to provide the non-active population with a reasonable material standard of living. But in human and political terms such a 'dual' society, composed of 'insiders' and 'outsiders', is incompatible with accepted standards of social justice in industrialised democracies and thus is most unlikely to be a realistic long-term option.

The goal is that the most desirable, as well as realistic, alternative is the 'active society', in which government policies should help as many people as possible to participate fully in economic and social life. Paid employment in the market is the principal form of such activity, but it is now taking new and varied forms. Work outside the market, moreover, must be recognised and rewarded in new and appropriate ways. Further, even if (as seems likely) the market will meet, at least partly, the growing demand for leisure, health care and other 'social' services, increasing numbers of people (the 'young elderly', for example) are likely to be doing voluntary work outside the market. The choices facing individuals, and the mix of employment, non-market work and other activities, are likely to be more complex than in the past.

Individual Preferences in Advanced Societies

Developments in the advanced democracies are driven by the preferences of individuals and households. Individuals make complex choices in an effort to maximise income and control over time, often 'voting with their feet'–choosing how they spend their money, allocate their time, and where to live and to work. As the post oil-shock economy, involving major structural changes, gets underway, it becomes apparent that new social attitudes, values and behavioural patterns are having an impact on policy.

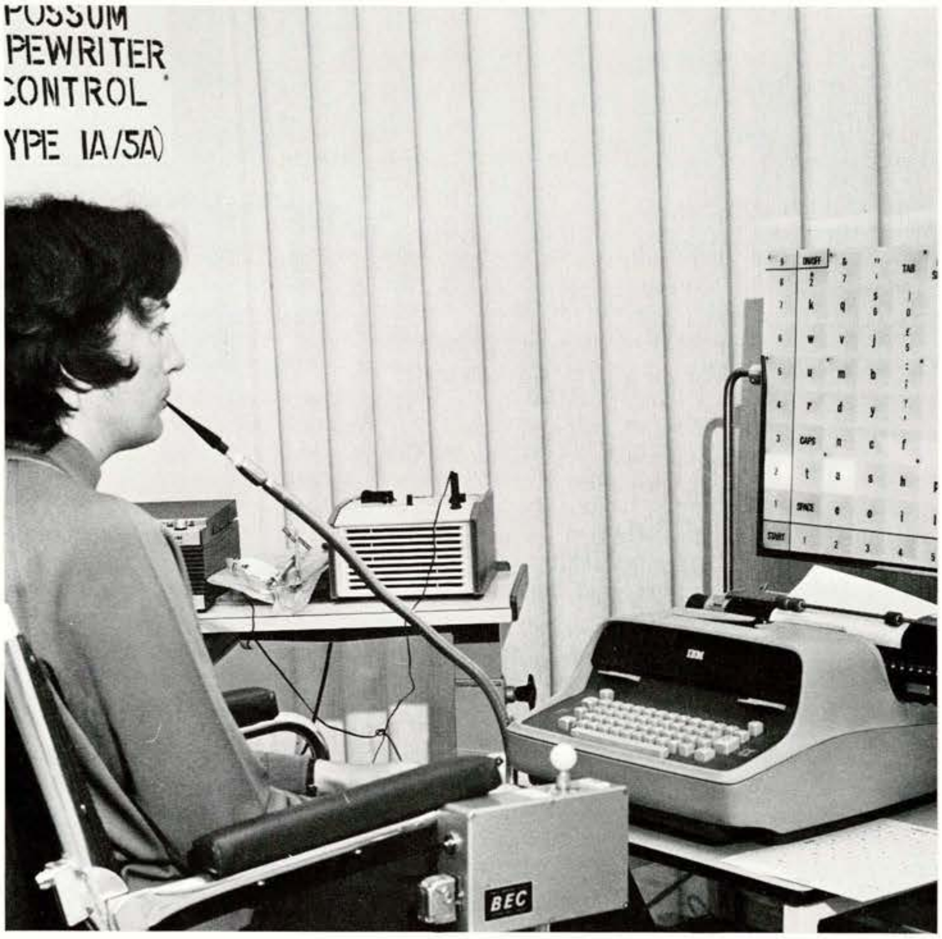
For many, the wider options and choices now available imply a major improvement in the quality of life (if also increased uncertainty). The diversity of careers open to many young people from different social backgrounds, the possibility of a change of career several times during a life-time, the prospect of more flexible patterns of education, work and retirement and

1. **The Welfare State in Crisis**, OECD, Paris, 1981.

2. **Social Expenditure 1960-1990**, OECD, Paris, 1985.

opportunities to travel are an obvious boon in democratic societies which require flexible and dynamic populations.

But there is another side to the coin. Success in education and the access it gives to the labour market are important keys to opportunity—but failure, or relative failure, can be the first step in a downward spiral of unemployment, exclusion and poverty. The long-term unemployed, the handicapped, the single parent and the drop-out find it difficult to enter, or re-enter, the rapidly moving mainstream of opportunities—and the longer out of the labour market, the more difficult it becomes. The emergence of such persistently disadvantaged groups, sometimes referred to as an 'underclass',[3] probably cannot be combatted by income maintenance alone—for it may foster the very dependence and alienation from which social policy should help them escape.



The central implication of this new analysis is a shift towards preventative policies to keep vulnerable people actively integrated in society, and towards remedial services which sustain skills and motivation as the foundations for a return to the labour market. Short-term subsidies for useful activities may also help to avoid long-term dependence on income maintenance. Such changes are already underway:

- preventive health programmes are growing implying a more active role for individuals in looking after their own health
- unemployment compensation is often associated with remedial training and with job-creation programmes
- a debate is starting about more flexible pension schemes which will allow retired or retiring people to be more active
- and education and training opportunities are being extended to adults whose skills become obsolete.

The institutions of the welfare state established in most OECD countries should now be re-examined in the light of the fundamental insight that access to employment is the key to most other opportunities. The redistributive power of welfare programmes has proved relatively slight in the face of inequalities in employment opportunities and is leading to the re-emergence of poverty in some OECD countries.

The consequence is clear: if the aim of social policy is to assist individuals to earn an adequate income and, as far as possible, perform a useful role in society, only new combinations of work and welfare are likely to achieve that goal for people at risk.

The most striking example of this proposition is in the policies now being developed for the handicapped, who more than any others may in fairness expect an adequate income from society. Yet they are exerting increasing political pressure for educational opportunities in the mainstream, followed by subsidised access to the labour market or, failing that, social integration through community institutions.

Many single parents, too, cannot expect adequate incomes or succeed as parents without access both to work and to child-care facilities. Income maintenance for the young unemployed is now combined in most countries with training and/or access to government-subsidised employment. Displaced adults require retraining, and here public/private co-operation has developed to promote relevant local employment initiatives. And many retired people seek paid jobs or voluntary activity as a means of maintaining their identity and contributing to society.

The validity of the distinction between the 'active' and the 'non-active' population is thus evaporating. Major policy innovations are now required to bridge the gap between them, perhaps best through deeper involvement of the private and voluntary sectors, particularly locally, in programmes that in most countries have traditionally been the province of central government. Whether or not such programmes should be 'privatised' is not the essential question. A combination of public and private services is likely to be best suited to people who can afford it; and markets will develop in one form or another for education, health and services for the aged, at least for the better-off. For them, some combination of public and private provision is thus the most likely outcome.

More importantly, how can flexible, innovative social programmes be developed to incorporate wider goals than income maintenance—preventing the slide into failure, rebuilding skills and employability and re-orientation

A society split between the active and the outsiders is no longer acceptable. New technologies (left) help the handicapped integrate themselves into the working population, but (right) what about the young unemployed?

towards work or other socially useful activity? This will call for clearer public priorities which can command the necessary links between national tax, labour market and social policies, and more local co-ordination between agencies (both private and public). Government services will have to be more responsive to individual requirements and thereby help people to escape from dependence. Voluntary and charitable actions can certainly contribute, but will be most effective within a comprehensive framework of policy.

The Evolution of 'Full Employment'

These developments will result in more demand for work, not less.[4] 'Active societies' are thus to lead to a more ambitious–and more realistic–form of full employment, which will require a variety of combinations of working time, education and other activities, in accordance with individual preference and family circumstance.

Labour-market policies in OECD countries will therefore have to be much more flexible, both in job creation and in encouraging new forms of participation. The rate of economic growth and the macro-economic policies which underpin it clearly have an important role to play–but the days when a rate of growth could be simply translated into an equivalent growth of employment seem to be over. Pricing people into jobs through 'wage-flexibility' obviously has some role to play, but it is not the only arbiter of the relationship between output and employment.[5] The new technologies, for example, tend to permit production systems in which decentralised units (even 'home work') and flexible working-time arrangements (including part-time work) facilitate a natural form of work-sharing. And such a process is likely to spread because a growing number of people appear to prefer to work in this way, not least those who wish to combine work with household and other activities.

New, small enterprises are now playing a key role in creating jobs. Modern economies evolve swiftly and are thus dependent on widespread entrepreneurial initiative. The social origins of entrepreneurs, forms of enterprise and ownership of capital appear to be changing rapidly. It seemed unlikely even a few years ago that unemployed people could be helped to create their own enterprises, and yet large numbers have now done so. Even some deprived inner-city populations have been able to escape from dependence on welfare with the help of policies which help them to take economic initiative. These examples may be at the extreme end of the spectrum, but they do point to the prospect of an entrepreneurial culture in which new, small firms, self-employment and new forms of economic initiative are given their head. Government policies could help enormously by redirecting part of the subsidies (perhaps through tax incentives) now going to existing, and sometimes obsolete, enterprises to giving the new entrepreneurs support in the take-off period.

Some commentators have predicted the demise of the large corporation as the main creator of jobs, not least through the decline of manufacturing in favour of services and, no doubt, the large manufacturers, under pressure from international competition and technological imperatives, will often be forced to rationalise and reduce their labour force. But that itself may generate demand for new services, and in the communities in which they operate the large corporations can be important providers of markets, managerial advice and capital to the emerging entrepreneurs in their localities.[6] Certainly it is neither realistic nor in their interest for them to operate as an oasis in an economic desert.

The importance of dynamic *local* economies in economic regeneration and job creation, of new partnerships between public authorities, business, trade unions and community organisations, is thus beginning to be realised. Already there are some striking examples of economic and employment recovery in depressed 'sunset'

3. See, for example, Ralf Dahrendorf, 'The Underclass and the Future of Britain', St. George's House, 10th Annual Lecture, 1987; Erol R. Rickett, Isabel V. Sawhill, 'Defining and Measuring the Underclass', *Journal of Policy Analysis and Management*, Vol. 7, No. 2; William J. Wilson, 'Cycles of Deprivation and the Underclass Debate', *Social Service Review*, December 1985.

4. The 1987 **OECD Employment Outlook** analyses the latent demands for work which are not reflected in unemployment satistics.

5. **Labour Market Flexibility**, OECD, Paris, 1986.

6. **The Role of Large Firms in Local Job Creation**, OECD, Paris, 1986.

Mature students—elderly but active.

The better the child-care facilities, the more active the parent(s) can be.

areas (such as North-west of England and the Lorraine region of France), where the obsolete manufacturing sectors of the industrial revolution are being replaced by new dynamic, world-oriented, local economies. The key to these developments appears to be mobilisation of local economic and human resources, not the attraction of massive, outside investments. Regional, industrial and urban and rural development policies must take account of this trend.

The service sector naturally plays an important role in these developments, particularly in employment. Both the United States and Japan appear to have been more successful in stimulating a big, labour-intensive service sector than Europe (p. 9). Is the advanced welfare state in Europe, with its emphasis on national and public institutions, frustrating the employment potential of the wide range of services which industrialised societies require? Or can the welfare state itself evolve new forms of solidarity, with public/private co-operation and the decentralisation of services, and thereby generate a labour market which is responsive to the requirements of an active society?

□□

No doubt there is some justification for the criticism of some commentators, notably trade unionists, that these developments are bringing insecure, low-paid jobs which undermine standards in the labour market, degrading the concept of full employment. But it is equally true that the labour market of the future is to a considerable extent dependent on them, and that they will emerge in the black market if not in the official economy. And standards will surely improve as part-time workers, the self-employed and workers in services are organised in trade unions and as government policies provide adequate social security coverage for them. They may also often be considered as acceptable 'entry' jobs, particularly for young people trying to get a start and married women trying to get back into the labour market, so long as training is provided to enable them to migrate to better jobs. ■

The Great American Job Machine


Growth in sophisticated services...

Whatever its other economic troubles, the United States continues to generate a large number of new jobs, while in Europe net job creation has been non-existent, if not negative, over the past 15 or 20 years. In response to the concern of European countries in general and France in particular, the OECD recently organised a conference of experts to discuss what lessons could be learned from the dynamics of employment creation in the United States.[1]

Since 1970 more than 30 million new jobs have been created in the United States, whereas there has been hardly any growth in employment in Europe. In the four biggest European economies (whose combined population is slightly more than that of the United States), the number of jobs stagnated between 1970 and 1987. As a result, the differential between American and European unemployment rates has been reversed since the mid-1970s. In 1970 the jobless rate was 2.4% in France and 4.8% in the United States; by 1987 the rate in France had almost quadrupled, to 10.5%, while in the United States it was only 6.1%. Between 1981 and 1984 650,000 jobs were lost each year in the EEC while 1.5 million were added in the United States. Since 1983 in particular, nearly 11 million jobs have been created in the United States, reducing the unemployment rate from 9.4% to 6.1% in 1987.

In the United States, moreover, the labour force has grown far more rapidly than in Europe (Table) reflecting among other things the high proportion of women that have entered it. Between 1972 and 1985 women took 64% of the 25 million net new jobs created. By 1986 some two-thirds of women of working age were in the labour force in the United States, compared to 57% in France.

Servicing the Labour Market

The service sector has generated almost all the new jobs in the United States since 1970–29 million out of 30 million. Services now account for some 70% of American employment, as against almost 61% in France. Already in 1970 service jobs represented over 60% of the total in the United States, compared to only 47% in France. That France has narrowed the gap during a period when total employment has stagnated suggests that service jobs have only substituted for traditional industrial employment, whereas in the United States the new jobs have come at least partly in addition to the existing job stock.

Service jobs tend to fall into two categories. On the one hand, low-skilled and poorly paid work is plentiful in retailing, fast food, health and social services, and routine services of all kinds, all geared to catering for the domestic consumer. On the other, there are more specialised, export-

1. **The Mechanisms of Employment Creation: Lessons from the United States**, OECD, Paris, forthcoming autumn 1988.

LABOUR FORCE, JOBS AND UNEMPLOYMENT								
	Labour force			*Employment*			*Rate of unemployment*[1]	
	millions		*Total change %*	*millions*		*Total change %*	*%*	
	1970	*1987*	*1970-87*	*1970*	*1987*	*1970-87*	*1970*	*1987*
United States	**84.9**	**121.7**	**43.4**	**80.8**	**111.8**	**38.3**	**4.8**	**6.1**
France	21.4	24.0	12.2	20.9	21.4	2.5	2.4	10.5
Germany	27.0	28.2	4.4	26.7	25.7	−3.8	0.8	6.5
Italy	20.9	24.2	15.7	19.8	21.2	7.1	5.3	11.1[2]
United Kingdom	25.3	27.8	9.8	24.7	24.8	0.4	3.0	10.3

Source: **OECD Labour Force Statistics, 1965-1985**, *supplemented by estimates from the OECD Secretariat.*
1. *Standardised Unemployment Rates*
2. *National estimates for 1986.*

oriented services such as banking and finance, accountancy, computer services, and management and marketing consultancy, which require highly qualified personnel who can expect secure positions and generous salaries.

A common factor on both sides of the Atlantic is that small business is the main source of new employment, having generated over 88% of new jobs in the United States between 1981 and 1985. The extraordinary vitality of small- and medium-sized firms in the United States goes hand in hand with the high proportion of self-employed. The self-employed now account for 13.5% of the American labour force, their share having risen by 50% since 1970.

High Tech, Low Job Growth

One myth that has to be knocked on the head is that the fast growing high-technology industries, which are a particularly strong feature of the United States economy, have contributed to the high rate of job creation. Unlike the service sector, these industries have not generated substantial numbers of jobs because of their very high productivity and their demand for highly qualified personnel. Between 1982 and 1985, for instance, they are estimated to have provided only 3% of the new jobs created in the United States. And what jobs they do generate tend to be concentrated in a few small areas, such as Silicon Valley and the Highway 128 enclave around Boston.

But the story of the Great American Job Machine is by no means one of total advancement of the social good. While job creation in the United States seems to have accelerated in recent years, one American economist, Irving Bluestone, Professor of Labour Studies at Wayne State University in Detroit, told the OECD conference that the annual rate of job creation under the Reagan administration, at 1.72%, had actually been lower than during the Carter years, when it averaged 3.3%.

He also took issue with the quality of employment created in the service sector. Whereas the United States Deputy Secretary of Labour, Dennis E. Whitfield, claimed that 'over 90% of the increase in employment has been in full-time jobs', that 'the great majority of those who work part time prefer part-time work' and that 'two-thirds of the increase in employment has occurred in the highest-paying occupations', Professor Bluestone pointed out that 'extraordinarily large numbers of the newly-created jobs in the past decade fall into the category of low-paid employment'. The result was that 'for the last decade or so the real income of average US households has been essentially stagnant and is now below the peak achieved in 1973'. He explained that 'manufacturing industries have lost more than 2 million jobs since 1979' and that 'average earnings in the industries in which employment is declining are $402 a week while average earnings in the industries of employment growth are $258 a week'. At the same time, the number of part-time jobs has steadily increased, now standing at 20.8 million altogether, of which 15.3 million are classified as 'voluntary' and 5.5 million as 'no-option'.

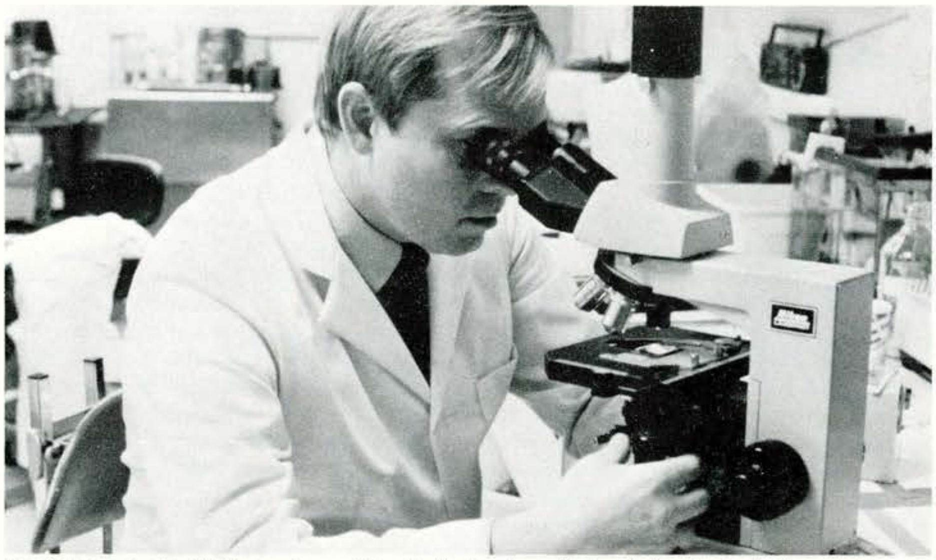
Fast food, fast job growth.

America Moves for Jobs

Quantitative macro-economic factors go only a small way towards explaining the buoyancy of the American labour market. The pace of economic growth, for instance, does not seem to be a key criterion: between 1969 and 1985 France recorded higher average GNP growth than the United States (3% as against 2.5%), but had a much lower rate of employment growth (0.3% compared with 2%).

The most significant economic factor is the much higher productivity growth in Europe than in the United States throughout the period after the first oil shock. In France that growth was translated into substantial earnings rises for those in work, but a growing number of jobless. The lower productivity growth of the United States has coincided with low gains in real earnings but healthy employment growth.

Far more significant factors in creating jobs are the celebrated flexibility and mobility of American labour. The lack of restrictions on the hiring and firing of staff mean that employers are more prepared to recruit, while on the other side of the fence unemployed Americans demonstrate a high degree of adaptability in their search for alternative work. Half the unemployed between 1980 and 1986 were ready


Economic revival in Baltimore through local initiative: here biology laboratories in Chesapeake sell their services in the market...

to take jobs that paid less than their previous employment, and two-thirds were prepared to accept a drop in income of over 20%. That goes a long way to explain the stagnation in real earnings mentioned by Professor Bluestone.

Workers in the United States are also inclined to change jobs more frequently than their European counterparts; in 1984 38% of American employees had been in their jobs for less than two years, compared with 18% in France. The general mobility of the American workforce can also be gauged from the fact that in 1986 only 8.7% of the unemployed in the United States had been out of work for over a year, whereas the figure was 48% in France and 41% in the United Kingdom. And Americans are prepared to move around the country to get work, which partly explains why unemployment rates in individual states and regions rise and fall quite considerably over time.

The attitudes of American workers and the balance of power between employers and employees in the United States are indicative of profound cultural differences *vis-à-vis* Europe. Americans have inherited an individualistic philosophy of life, giving them a spirit of independence and responsibility for their personal achievements. There is a strong belief in the notion that people should stand on their own feet and not rely on support from the state or any other *deus ex machina*.

Entrepreneurial Flair in New Business

One consequence is the considerable entrepreneurial flair of Americans in all spheres of economic activity. It is the creation of new businesses that effectively brings about the restructuring of local economies. The annual number of business start-ups has increased appreciably in recent years, with 668,000 new companies registered in 1986, against 533,000 in 1980. Although a similar trend has been apparent in France, as in other European countries, the rate of start-ups per head of population remains far higher in the United States, at 0.28 as compared with 0.18 in France. In particular, the number of firms owned by women is rising at more than twice the rate for men.

The Love Network

The venture capital industry cannot take much of the credit for the high rate of business start-ups in the United States, although it has developed far more than in Europe. Venture capital is estimated to account for only about 15% of the $45 billion invested annually in start-ups in the United States. For the other 85%, individuals going into business rely on personal sources–the 'FFA circuit' (friends, family and associates) or the 'Love Network' (those who know and trust you).

The entrepreneurial spirit goes further than starting up companies. It is also evident in the behaviour and involvement of all economic agents, including local authorities and financial institutions. Individualism and competitiveness do not prevent economic agents from co-operating in their mutual interest, to which end partnerships are formed between firms, educational/research establishments and local authorities to pool resources and make the most efficient use of them. The states and cities have become increasingly interventionist on their own turf, leading to the emergence of 'territorial economies', while the role of the federal government in the economic development process is now largely confined to the very valuable contracts it has to award.

Local authorities have acquired a good grasp of financial management and have shown considerable imagination in the way they fund their economic development programmes (box). Government funds are often only handed out on condition that a certain

... and in the Bronx a worker-controlled home health care organisation provides 200 local jobs.

REVITALISING THE CITIES

Most American states and cities have introduced a variety of schemes and programmes, tailor-made to meet the specific demands and shortcomings in their areas.

- The city of Greater Philadelphia, which with a population of 5.7 million is the fourth largest metropolitan area in the country, embarked on the redevelopment of its urban core and the expansion of the regional economy with financial support from both the public and private sectors. Major city-centre reconstruction projects have been accompanied by schemes for attracting new business to the region, while companies, local authorities and universities have co-operated in initiatives to attract high-technology industries and encouraging research and development activities in the area. The economic revitalisation of Greater Philadelphia has been achieved through a major restructuring of its economic base: instead of being one of the world's manufacturing centres for locomotives, ships, steam turbines and men's hats, the local economy now generates some 65,000-70,000 new jobs a year in a variety of activities, especially corporate administrative offices, business services, law, medicine, bio-technology, pharmaceuticals, chemicals, computers and technical instruments.
- Similar economic restructuring and urban renewal programmes have been implemented in the state of Massachusetts and the city of Baltimore. The re-adjustment and resurgence of the Massachusetts economy in the late 1970s and early 1980s were brought about by local government initiatives involving all relevant local interests (educational, financial, political, public agencies and community groups). Support was provided for new business creation, but solely on the basis of commercial criteria and market fundamentals – a new firm created as part of a community or urban regeneration programme had to be able to survive in the discipline of the market economy.
- In Baltimore, too, public-private partnerships in redevelopment schemes have revitalised the local economy. In particular, the Baltimore Economic Development Corporation has acquired and marketed vacant or under-used land and property for redevelopment as industrial and business parks and buildings, and has also provided finance for private developments. Since 1976 its activities have resulted in the provision of 5.25 million square feet of business premises, the injection of $1.25 billion of private funding, the safeguarding of about 28,000 jobs and the addition of a further 14,000.
- In the District of Columbia, the emphasis has been on promoting the creation of new businesses, especially in the black community, through training young people in business management. A subsidiary aim was to combat drug use and crime among the young. The programme provided for 60 youths a year, aged 14 to 21, to be given both theoretical and on-the-job training in the management of small local businesses, with the aim of creating and running at least 10 businesses on public housing developments each year.
- Pennsylvania sought to boost local employment by stimulating the establishment and development of advanced technology companies and improving the productivity of existing firms through the introduction of new technology. The so-called Ben Franklin Partnership programme brought together the local authority, universities and industry in a decentralised structure to promote specific projects between companies and research establishments. The public sector provided the leadership and the seed funding, industry the main financial support (on a performance-related basis) and the business know-how, and the universities supplied the research infrastructure and technical expertise.
- In the very depressed district economy of the South Bronx area in New York City, a worker-controlled home health care agency has been established; it has achieved the dual goal of providing a much-needed local service and affording secure and useful employment for minorities that have the most difficulty in finding rewarding work. A feasibility study suggested that within three years the proposed agency could achieve a turnover of $2.2 million, make a profit of $100,000 and employ 200 staff (70% of them full time). An initial capital base of $900,000 was raised from various commercial and non-commercial sources. Launched at the beginning of 1985, the agency got off to a shaky start and was in a serious financial position by the end of the first year. The situation improved thereafter, and by the end of 1987 the workforce had been built up to the target of 200, consisting almost entirely of black and hispanic women residing in the area.

amount of private funds is put up alongside them, the so-called 'leverage effect'. And a new kind of financial service is being offered by the local 'financial packager', his job being to 'close the gap' between the financial requirements of enterprises and the conventional funds available by drawing on alternative sources of finance.

Lessons for Europeans

The question the conference sought to answer was whether the initiatives which have rejuvenated many American cities could be exported to France. Philippe Séguin, the French Minister of Social Affairs and Employment at the time of the conference, clearly felt Europe had a lot to learn, both in terms of attitudes and in the institutional approach to economic regeneration. He drew comfort from the fact that the Great American Job Machine was not powered by a *laissez-faire*, hands-off approach, but was the result of partnerships between the public and private sectors. The state played a role in 'accompanying and reinforcing the partnership process in the United States', he said.

The main focal point of economic development activity was local, reinforcing the importance of substantial decentralisation of decision-making. Philippe Séguin suggested that in France central government had too much decision-making power but was impotent when it came to mobilising resources. The business environment in the United States is, by contrast, unencumbered, less cluttered by rules and regulations than is often the case in Europe.

The Minister returned to the familiar question of the flexibility of American workers, but pointed out that it had major drawbacks. Flexibility was associated with low wages, precarious jobs, poor social protection and poverty. But a measure of flexibility could enable some of the labour surplus to be absorbed, through the development of part-time and intermittent working.

The further expansion of the service sector offered scope for creating more jobs, especially in social services which could be run commercially, observed Mr. Séguin. There was room not only for discovering new services to offer the consumer but also for improving the quality of existing services. ■

Investment, Growth and Jobs

Leading industrialists, bankers and trade unionists from Europe, the United States and Japan were invited to consider some fundamental questions on investment, growth and jobs at a high-level meeting at OECD headquarters recently.

It is one of the paradoxes of the 1980s that the possession of a job has become almost as essential to bestow a social identity as for economic reasons, at the very time that the industrialised countries are finding it difficult to maintain, let alone increase, employment. Job expectations have been rising steadily since World War II, as the population has become better educated and as more women, in particular, have entered the labour market.

In the 1950s and '60s this demand was easily accommodated as the economies of the OECD countries enjoyed high rates of growth. But since the early 1970s the increase in unemployment has become a major preoccupation almost everywhere. The recent upheavals on world stock markets and foreign exchanges have merely added to the general sense of vulnerability and bewilderment, a forcible reminder of the interdependence of the world economy and the impossibility of sheltering within the confines of the firm, the industry or the nation, of ignoring what is happening elsewhere.

What must be done to tackle these problems in the medium to long term? Where would it be best to concentrate investment to promote economic growth: in 'intangibles' such as education, training, research and development; in physical capital and economic infrastructure? Why has European investment been less effective in creating jobs than North American and Japanese investment? Is there scope for more co-operation with the developing countries to improve prospects for investment, growth and job creation? What are the respective roles of government, the private sector and the trade unions? What might be the broader aims of collective bargaining, and how might they contribute to building a wider social consensus about the importance of change?

Jean-Claude Paye and Michel Albert.

These questions naturally evoked a wide range of responses at the OECD conference, but there was remarkably broad agreement on the nature of the problem and the goals to be pursued, even if there were differences of opinion as to the precise means of achieving them. It was interesting that the debate did not split the participants along 'them and us' lines: the businessmen were as likely to disagree with one another as with the trade unionists, and *vice versa*.

New Models, New Enterprises

Michel Albert, the rapporteur of the meeting, commented in his summing-up that there was a general lack of confidence that governments alone could overcome the difficulties, but nor was there particular confidence in the capacities of the private sector, and certainly no reference to the kind of recipes for success that would have been heard from the businessmen in the past: the importance of wage restraint, increased profits, the necessity of competitiveness.

Everybody, indeed, agreed with François Dalle that it is imperative to find completely new models, new kinds of enterprise, to break away from the mass-production 'civilisation of the automobile'. The only way forward is to develop new attitudes and approaches to the creation of wealth and jobs.

One reason for the disenchantment with governments is that they are perceived to be operating within the old model, seeking solutions only in traditional methods which are bound to fail. Mr Dalle argued for more 'espaces de liberté', where people could experiment with new ideas, using the same methods as businesses in feeling their way forward, being innovative, taking risks, being ready to retreat if an idea turns out to be impracticable.

The 'institutional economy' – characterised by large institutions in business and government – is simply not geared to work along these lines. He proposed, instead, the proliferation of individual, small-scale initiatives coupled with intangible investments to remedy the deficiencies on the supply side.

Helmut Schmidt's formula of 1983 – that today's profits are tomorrow's investments and the jobs of the day after tomorrow – was quoted by several speakers, although the feeling of the meeting was that this is an increasingly necessary condition but by no means sufficient for improved growth in employment. For one thing, all the speakers agreed with regret that the manufacturing sector is unlikely to create many jobs, even with high rates

of investment and growth, because of the speed of technological change and the reduced labour requirements of modern manufacturing industry. There was a period when much hope was pinned on the new technologies as a source of increased employment, but it now seems that they will have far wider impact on the structure and quality of the employment they offer than on its quantity.

François Dalle and Michel Geuenich; in the middle James R. Gass, Director, Social Affairs, Manpower and Education at the OECD.

The contrast between the generation of new and viable jobs and businesses in Europe and in North America and Japan appears to arise at least partly because the European economies have gone for high productivity but low growth in employment, whereas in North America and Japan there has been rather lower productivity growth, accompanied by much lower unemployment. (It is, of course, very difficult to arrive at accurate and comparable figures on productivity, and the participants at the meeting deplored the generally unsatisfactory nature of the techniques currently available.)

The 'New Domesticity'

This dualism between 'good' high-productivity jobs in competitive, innovative firms or industries and 'bad' jobs in what Michel Albert called 'the new domesticity' (services in the home, for the elderly, child-minding, entertainment and leisure, for example, which generally require little training or investment and offer low rates of pay) poses a real dilemma: is unemployment to be preferred to low-paid work? The obvious answer is that neither is preferable, and one of the common concerns of all the speakers was to ensure the growth of better-quality employment, especially if the service sector is to provide the main source of new jobs.

Some jobs in the service sector, of course, are highly skilled and very well paid; some, too, have been radically altered as a result of the introduction of new technologies (banking, telecommunications and fast food, for instance), and the trade union representatives voiced their concern that these gains in productivity should be shared more equally with the workers involved.

If these divergent trends continue, some way will have to be found to reconcile the demand from society for more employment, which tends to be felt nationally, and the economic importance of higher productivity, which is more and more an international concern. Michel Albert stressed the importance of a sense of solidarity to avoid the social tensions that this situation could produce, a point reiterated by the meeting's chairman, Jean-Claude Paye, who added that this solidarity should be sought from grassroots upwards and not only through the state or micro-economic measures.

Entrepreneurial Trade Unions

The change in firms' and trade unions' perceptions of themselves and their roles is encouraging. Businessmen react indignantly to the suggestion that their province is purely economic: they see their firms as meeting the complex requirement of shareholders, workers and consumers, and they are very much aware of their role in society. Western firms are thus moving closer to the Japanese model where, Shoichi Saba reminded the meeting, there has always been more emphasis on the human dimension, and the top priority has been to maintain stable employment.

At the same time, the concern of the trade unions is not merely to offer social protection to their members. As Björn Rosengren said, more entrepreneurs are desperately required, not least among trade unionists. The unions want to co-operate in promoting employment and raising living standards, and not only for their members, and they are prepared to make sacrifices which will contribute to long-term growth. In this connection, Josef Houthuys referred to the agreement reached a year ago between Belgian employers and unions which for the first time is concerned with the volume of employment in general, as well as with working hours and conditions and wage rates: how should some proportion of profits be divided between expenditure on infrastructure and training, and how can the available jobs be shared out?

Lane Kirkland, Michael Geuenich and Joseph Houthuys.

More investment in infrastructure emerged as another matter of general importance – and not merely physical infrastructure, but perhaps more social, educational and intellectual infrastructure. Yet it was less clear what strategies should be adopted. Michel Albert pointed out that for the last twenty years commentators have been unanimous that more should be done about education and training – and all that has happened in many OECD countries is that the educational systems have been put under increasing pressure, without ever reaching a solution.

Norbert Walter proposed that the private sector should take more responsibility, especially in view of the speed of technological change and the risk that teachers employed in the state system would have to be carried through to retirement although much

of their knowledge was now obsolete. He suggested economic incentives for training: young people could be persuaded to accept low initial wages if there were the carrot of a cycle of training linked to wage rises throughout their careers.

It was widely accepted that this improvement of infrastructures had to be financed in one way or another, and better positively and directly than in costs arising from the failure to do so — as Norman Willis said, 'If you think maintaining and developing infrastructure is expensive, try not doing it'. Jean-Claude Paye thought that each country would find its own style of finance depending on its traditions in such matters, although he felt that people in general would be ready to contribute, through higher savings or other sacrifices, to a better future if the investments were seen as fair and efficient.

Interdependence

The broader international context and the interdependence of the world economy were not forgotten in the discussions. Anxiety about possible economic slowdown was expressed most forcefully by Fritz Leutwiler: he was pessimistic about future economic growth in his assessment of the global situation; in his view, the stock market crash and the falling dollar are merely symptoms of the fundamental international disequilibrium whereby one of the richest countries — the United States — is maintaining large budget and foreign trade deficits and importing capital, while the developing countries are forced to show balance-of-payments surpluses and accept capital outflows. As long as the United States fails to make major adjustments — by reducing the budget deficit, increasing exports, reducing imports, raising interest rates and increasing savings — there is limited scope, Mr Leutwiler contended, for the rest of the world to make much impact on the situation.

The two main countries with surpluses, Germany and Japan, have already undergone substantial adjustments as their currencies were forcibly revalued upwards against the dollar. Restructuring in manufacturing and services, he continued, cannot usefully go any further — it now means closing factories in countries with strong currencies but not necessarily opening new ones or expanding production in areas with weak currency because of world over-capacity in many sectors. Germany and Japan are reluctant to go too far in expanding the money supply — the easiest thing to do on paper — for fear that inflation would quickly run out of control. The developing world, which is a huge potential market for goods produced in the industrialised countries, cannot afford to pay for them because of their enormous foreign debts. All in all, Mr Leutwiler feared, stalemate had been reached.

He thought that governments and bankers should agree to a package deal whereby the creditors of the developing countries would ease the burden of debt service by acknowledging that they had in effect written off some part of the debt in return for undertakings that the developing countries would invest their export earnings wisely in developing and expanding their infrastructure. This concession would allow the developing countries to run their economies without the distortion of the debt burden weighing so heavily, and the threat of social and political instability that goes with it. It would also give the industrialised countries new outlets for their exports and help lessen international tension.

Increasing international trade was identified by several participants as one of the most promising ways out of the current impasse. Shoichi Saba, too, stressed the necessity that the advanced countries explore new avenues in their relations with the developing countries, concentrating on higher value-added products and innovative design. Michel Albert described the situation very succinctly when he said that the fundamental source of growth is not national and individual but international and collective. Even the biggest countries, when operating alone, have very limited prospects of economic growth in the medium term, especially in view of the chaotic international monetary system. What is required, therefore, is more international co-operation: the international organisations like the IMF, the World Bank, the European Economic Community and the OECD must be strengthened; the OECD should seek not only to provide a forum for research and discussion of economic policies but also strive for increased co-ordination of policies, so that a common purpose can gradually emerge to improve both the quantity and quality of employment. ■

The meeting in Paris was attended by industrialists and trade unionists from eight OECD countries. It was chaired by Jean-Claude Paye, Secretary-General of the OECD.

Michel Albert,
Président, Assurances Générales de France (AGF), France
Lord Basnett,
former President, Trades Union Congress (TUC), United Kingdom
François Dalle,
Président, Comité Stratégique, L'Oréal, France, and First Vice-Président, Nestlé Ltd., Switzerland
Michael Geuenich,
Member, Exective Board, German Confederation of Trade Unions, (DGB), Germany
Josef Houthuys,
Président, Confédération des Syndicats Chrétiens de Belgique (CSC), Belgium
Lane Kirkland,
President, American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), USA
Fritz Leutwiler,
Chairman, Brown-Boveri, Switzerland
Curt Nicolin,
President, ASEA, former President, BIAC, Sweden
John Rhodes,
President, BIAC, and Vice-President, Booz-Allen and Hamilton, USA
Björn Rosengren,
President, The Central Organisation of Salaried Employees in Sweden (TCO), Sweden
Shoichi Saba,
Vice-President, Keidanren, and former President, Toshiba, Japan
Yoshikazu Tanaka,
Secretary-General, Domei, Japan
Norman Willis,
Secretary-General, (TUC), United Kingdom.

Agricultural Reform

A Long Row to Hoe

Developments in the main commodity markets in 1987-88 point to a slightly better balance between supply and demand, with the prospect that stocks of some products will decline this year. But serious imbalances remain, with total supply exceeding effective demand. Consumers, taxpayers and trading partners are thus continuing to bear the substantial costs of surplus production, which is largely due to national support policies. Since the call for a reform of existing policies by the OECD Council in May 1987, some steps have been made towards this objective, but progress has been limited, as a recent report monitoring the reform points out.[1]

Trade in agricultural products has generally fallen short of the growth in output during the 1980s (boxes). After zero growth in 1985 and a decline of 4% in 1986, the volume of world agricultural trade rose by an estimated 1% in 1987. Trade in cereals may increase by some 6.5% in 1987-88 to 198 million tonnes as a result of higher wheat imports by China and Bangladesh and increased coarse grain imports into the EEC. At that rate it will still fall well short of the 1984-85 peak of 218 million tonnes. Sugar imports are steadily shrinking, and a further 3% fall is expected in 1987-88 following the 2% drop in 1986-87 to 28.2 million tonnes (about 27% of world consumption). Trade in livestock products is stagnant, with a rundown of stocks stemming from reduced diary production rather than higher import demand. The more buoyant market for beef, the price of which rose significantly–in dollar terms–between mid-1986 and 1987, reflects both falling US production and Brazil's emergence (probably temporarily) as a net importer.

The medium-term outlook for these different markets does not point to any radical departure from past trends. The structural over-capacity in cereal production will continue if current degrees of support are maintained, although higher fertiliser prices may curb output to some extent. As an example, before the recent measures decided in the EEC, the European Commission was predicting that excess stocks of some 100 million tonnes (mostly of wheat) would accumulate between now and 1993. On present trends, OECD cereal production will increase by 2-2.3% a year for the foreseeable future, although growth will have to be reduced to only 0.9% a year if the predicted surpluses are to be avoided.

No Radical Change

In the meat and dairy markets, the substantial recovery from the very depressed situation of recent years could prove short-lived. The structural imbalance in the livestock sector mainly involves dairy products. There was an OECD-wide surplus of milk fat production of some 900,000 tonnes in 1987, and although the surplus should decline in 1988, it is forecast to return to 1987 figures again in the early 1990s even with EEC dairy quotas being maintained until the end of 1992.

Milk accounts for most producer support and is still the most widely assisted product in OECD countries. If assistance to agricultural commodities in general were reduced by 10%, it would be the world reference price of milk that would increase most (by 3%). More market-oriented policies are required to eliminate the structural surplus, and in the meantime measures to limit supply will still be necessary.

In the beef market, no substantial cyclical upturn is expected in North America and Oceania (the Pacific basin) to depress international prices in two or three years' time. EEC beef production is likely to fall as dairy herds are cut back, and the Community could even be a net importer by the early 1990s.

1. **Monitoring and Outlook for Agricultural Policies, Markets and Trade**, OECD, Paris, forthcoming summer 1988.

Grain

Grain consumption during the 1987-88 season will have exceeded production for the first time since 1983, as a result of a 4.3% drop in worldwide grain output in 1987-88 (and a 8.4% fall in OECD production). With consumption forecast to increase by 2.4% this year, world grain stocks should be run down by 14% to about 384 million tonnes. That would still leave them relatively high, equivalent to 22% of annual consumption overall. Wheat stocks in particular remain higher than average (26% of consumption), although they are expected to fall in 1988 for the first time in six years.

The market for sugar will continue to move towards a somewhat more balanced position, with consumption expected to go on rising at 2-3% a year, while production falls short of that. Stocks could thus decline by a further 2 million tonnes in 1988-89 to 32 million tonnes, a figure considered about 'normal' by the industry. But that could stimulate output and, assuming consumption of 116 million tonnes, it might increase to 118 million tonnes by 1992-93 and could thus lead to another cyclical stock build-up that would put renewed pressure on prices.

The relatively more favourable developments in most commodity markets in the past year or so are only partly attributable to policies to control supply and the responses of producers to market signals. Unforeseen circumstances, such as weather conditions, have also played a part. Furthermore, the decline in stocks has been largely due to special measures. In any case, stocks remain high and will thus continue to depress markets and prices in the medium term. And trade is still hindered by export subsidies and import barriers, which widen the gap between domestic and world prices.

In the longer term, the combination of limited growth in demand and rising yields and output will continue to put downward pressure on prices. In the OECD area, agricultural output per head is growing at about 1.5% annually, while consumption per head is stagnant. Even outside the OECD, there appear to be few expanding markets for surplus commodities, so that OECD producers face structural over-supply and declining real prices. ►

Meat and Dairy Products

In the livestock markets, OECD countries are currently endeavouring to limit milk supply and reduce stocks of milk products and beef. OECD milk output in 1987 may have fallen by 3-4% compared to the previous year, while beef production was virtually unchanged. In 1988, both milk and beef output in the OECD area are expected to decrease by around 2%. Pigmeat and poultry production is thought to have risen by 2.5% and 5.5% respectively in 1987 and is forecast to increase by a further 4% and 2% in 1988.

Demand for dairy products as a whole is not increasing, since growing consumption of cheeses and specialty products is being offset by stable or declining consumption of milk and other products. Beef consumption is also stagnating in many countries where beef support prices are high. That per capita meat consumption in the OECD area is still rising reflects increasing demand for poultry and pigmeat, whose share of total meat consumption is expected to increase substantially over the medium term.

Dairy stocks, especially of butter, have been considerably reduced since late 1986, not so much because of lower production as of special measures to dispose of them. EEC butter stocks were cut from a peak of 1,475,000 tonnes in September 1986 to 640,000 tonnes in March 1988. The stock disposal programme should result in further declines totalling 1 million tonnes in 1987 and 1988, and the revised EEC intervention policy for butter and skimmed milk powder should prevent any further sharp build-up in stocks. The EEC has also managed to reduce beef stocks, in particular through exports to Third World countries, but after being reduced to 531,000 tonnes in January 1987 they had risen to 752,000 tonnes by the end of February 1988.

Fruit and Vegetables

The 1987 crop of dessert apples in Europe was some 10% lower than the average for the last six years, although the output in the United States and Japan was exceptionally high, 20% above average. Citrus fruit production was down a little in 1987, although export availabilities were higher for most products except lemons. The tomato crop was 2% higher in Europe in 1987, due entirely to increased production for industry, as the consumption of fresh tomatoes is decreasing.

Sugar

World sugar production and consumption were initially in balance in 1986-87 at all-time highs of around 104.5 million tonnes, reflecting a 6% increase in output and a 4.4% advance in consumption. Output is forecast to decline to 104.2 million tonnes in 1987-88, and consumption to increase to 105.5 million tonnes. That would lead to a decline in stocks from 35.4 million tonnes in 1987 to 33.6 million tonnes this year, equivalent to 32% of consumption, the lowest stock/consumption ratio since 1980-81.

Resources in the agricultural sector must therefore be reduced overall.

On the whole, assistance to agriculture, as measured in terms of Producer Subsidy Equivalents (PSEs) and Consumer Subsidy Equivalents (CSEs) has increased in most OECD countries between the beginning of the decade and 1986, with price support policies remaining the dominant means of assistance. PSEs have increased both in those countries where they were low to start with (and where they remain relatively low) and in countries where they were already high. In particular, PSEs have been stepped up on crops, for which assistance was more limited than for livestock products.

The Cost to Consumers and Taxpayers

PSEs have risen particularly sharply in the United States, the annual average having doubled from about 16% in 1979-81 to 35% in 1986. Most of that has taken the form of budgetary payments, although consumers have also been faced with increasing costs in some products. In the EEC, PSEs increased from around 37% in 1979-81, and then rose from 1985 to reach about 50% in 1988. The average net percentage PSE in Japan rose from 57% in 1979-81 to 75% in 1986, while it increased from 24 to 45% in Canada, from 18 to 20% (1985) in New Zealand and from 9 to 15% in Australia over the same period.

What change can be observed in the different types of assistance used? There has been a sharp jump in direct payments, especially in the United States and mainly in the form of deficiency payments. As a result, the overall share of market price support has declined from 73 to 69%, while that of direct payments has increased from 5 to 11%. Trends in CSEs in most countries reflect changes in the element of PSEs given to supporting market prices. Only in countries where PSE growth is attributable to direct payments or to other non-market support does the CSE trend differ significantly from that of the PSE.

The cost of agricultural policies has increased in all countries during this decade. It can be estimated that, in the countries covered,[2] the total costs borne by taxpayers and consumers for supporting commodities, representing about three-quarters of total output, nearly doubled from an annual average of nearly 100 billion ECUs in the 1979-81 period to around 200 billion ECUs in 1984-86. Between 1979-81 and 1984-86 average annual outlays financed by consumers and taxpayers increased by 40% in the EEC, doubled in Japan and more than doubled in North America and Oceania. At the start of the decade the costs of agricultural policy in the United States were about half those of the EEC's Common Agricultural Policy (CAP), but in 1984-86 they are about the same. In Europe, though, about two-thirds of the cost is borne by consumers whereas in the United States the proportion borne by the consumer declined from one-third in 1979-81 to one-quarter in 1984-86.

CALCULATING THE SUBSIDIES

No two countries subsidise their farmers in exactly the same way. And commodities are very often subsidised differently. Where one country imposes tight import quotas on sugar, for example, a second will support its wheat farmers with deficiency payments while a third protects its dairy sector with guaranteed prices maintained by import taxes and export subsidies.

In an attempt to deal with these widely varying policies, the OECD has applied the concepts of Producer Subsidy Equivalents (PSEs) and Consumer Subsidy Equivalents (CSEs) to measure degrees of agricultural assistance, country by country and commodity by commodity, on a common basis.

The PSE represents the total payment that would be required to compensate farmers for the loss of income resulting from the removal of policies. It measures all market price and income support and, in addition, it takes into account the more indirect measures of assistance, such as research, advice and other cost-reducing policies. The PSE, expressed as a percentage, shows the ratio of assistance to producer receipts. The CSE, which measures the tax on consumption resulting from policies as well as any subsidies to consumption, can also be expressed as a percentage of consumer expenditure.

Prospects for Reform

In all countries, including in farming communities themselves, there is a growing recognition of the necessity of reform. A more integrated approach is being adopted to the problem, encompassing the whole gamut of commodities and policy instruments. It is generally agreed that more market-oriented policies are required if market imbalances and distortions are to be reduced significantly. But changes in agricultural policies, and in particular in their practical effects, have been limited so far.

The major concern of OECD governments is to cut, or at least contain, the cost of budgetary support to agriculture while at the same time preserving farm income. There is growing awareness that national policies are at the root of excess production and that to overcome that problem there has to be a cutback in the use of resources in agriculture. Moreover, in view of the close links between agriculture and the rest of the economy, there are increasing pressures from other sectors (especially those concerned with the environment and the alternative use of rural resources) to broaden the scope of the debate on agricultural policy. It is also recognised that a long-term strategy is called for to determine the role of agriculture in both the domestic and international economies.

Policy changes to date have been short-term reactions to existing situations rather than fundamental reforms. OECD countries have been reluctant to rely solely on price reductions to bring about a balance between supply and demand, preferring a variety of administrative devices for regulating the volume of production. In most coun-

2. Australia, Austria, Canada, EEC, Japan, New Zealand, United States.

high enough to induce increased production as soon as supply controls are lifted. But there may be unplanned side-effects to supply controls: quota systems applied to dairy production in the EEC and Sweden have had the effect of stimulating beef production, for example. Supply controls can also keep consumer prices high.

Some governments are now considering direct income payments unrelated to production as a means of support to farmers in particular circumstances. Such schemes are particularly suited to meeting the requirements of low-income farmers, including those in disadvantaged regions or the process of structural adjustment. Little progress has been made so far in this direction, and more analysis should be undertaken on the means and effects of such measures.

At the same time, there have been no major moves towards dismantling impediments to trade. For the principal commodities, access to domestic markets has not improved and there has been a substantial increase in the use of export subsidies by a number of countries. These competitive tactics for promoting exports on the part of the major producing countries, together with a number of unresolved disputes, have served only to perpetuate trade tensions, although more use is made of bilateral discussions and of the multilateral dispute settlement mechanism in the GATT.

The process of moving the Uruguay Round forward by specific proposals is well under way. Although these differ in scope, timing and priorities, they also contain a number of common elements and the GATT Round is addressing, in line with the ideas expressed in the OECD Communiqué, the fundamental causes of existing imbalances, which lie in all direct and indirect measures affecting international trade.

tries support prices have been either pegged or reduced, but that will not be enough to reduce output to the extent required to balance the market, given the rate of productivity growth.

Most OECD countries cut support prices for cereals in 1987-88, and in real terms support prices have continued to fall in all countries. Not much has been done in livestock markets to introduce market-oriented policies, although the real value of support prices has been reduced in the EEC and New Zealand, while Australia has overhauled its dairy marketing and assistance arrangements the better to transmit international prices to domestic producers.

Policies to manage supply have proliferated in recent years, to the point where few commodities in the OECD area are not subject to some form of supply control. These measures include production quotas, restrictions on crop acreage and livestock herds, land diversion schemes and producer levies for excess production. A number of countries have opted for supply limitation schemes that fix both prices and output volumes, instead of seeking to reduce support prices. Such measures have helped reduce output in some sectors, but they have adverse effects on long-term allocation of resources and efficiency. Furthermore, supply control measures in general not only lack flexibility in their operation but are difficult to dismantle once in place (even when introduced as a short-term device).

Supply control measures are often used in markets where guaranteed prices cannot be reduced down to the market-clearing levels. For instance, even though support of the dairy sector has declined, the overall amount is still

□□

The final conclusion of the report is very clear: 'It is imperative that policy reform efforts that are beginning in OECD countries be strengthened, both at the domestic and international levels. Effective reform is more than ever a matter of urgency'. ■

What Policies for Innovation ?

Jean-Eric Aubert

The gaps in productivity and technological performance between countries widen or shrink in response to underlying trends that often seem relatively impervious to action by government. How can this difficulty be overcome?

Measures taken to promote technology in countries losing ground seem to have little effect on the economic, sociological or other factors governing the competitiveness of their industry. And in countries edging into the lead, the policies adopted by government seem merely to reinforce trends that are already favourable. So it seems reasonable to conclude that technology policy, to be effective, must foster a 'climate' in which innovation can develop and spread.

Innovation is a complex social process that calls for a scientific, technical and business culture as well as a climate that encourages entrepreneurship and long-term vision. Such elements depend ultimately on institutions and the 'rules of the game' since it is they that condition behaviour, inhibit initiative, or provide suitable incentives. These institutions and rules have been moulded by the economic, administrative and political history of each country, and therefore do not evolve overnight, particularly as they are rooted, either consciously or unconsciously, in ideological, philosophical or religious systems of thought.

Another specific characteristic of innovation policy is that all sectors of the administration are involved, including those directly concerned with technology–science and industry–and others, such as education, finance, and social affairs. In the formulation of policy it is often essential to approach the intricacies of the administrative 'microcosm'. For example, there are rules that may stifle enterprise, such as procedures for starting up a business or filing for bankruptcy, conditions of competition, pension schemes, etc.; and there are teaching programmes and selection procedures in the educational system that militate against the development of a 'technological culture'.

To foster an awareness of the importance and complexity of the factors that affect innovation, and therefore competitiveness, growth, and, ultimately, living conditions, the OECD, at the request of interested countries (or regions), undertakes reviews of the relevant policies (box, p. 21).

A few salient facts from recent reviews of France (nationally) and Western Canada (regionally) will serve to illustrate the policies, institutions and measures that affect a given society's capacity to innovate.[1]

France

The study on France highlights certain aspects of French society that explain the strengths and weaknesses of France's position on innovation. Such aspects include French 'Cartesianism', centralism, and a form of elitism which, to complicate matters, steers the brightest intellects away from research or enterprise. These mental attitudes and institutional structures provide some insight, for example, into the dualistic nature of French industry. Although French industry has scored notable successes in large-scale projects (nuclear power, aerospace technology, and so on), engineered by a brilliant technocracy supported by government at the highest level and making the best use of government contracts, there are chronic weaknesses in 'ordinary' industries. France's overall trade balance for industrial products currently shows a deficit.

The study notes certain significant developments, such as the regionalisation of technology, dissemination of technology, improvement of the education system, and financial deregulation. It makes recommendations on pursuing such developments, on reforming the recruitment and promotion procedures of the 'Grands Corps' (senior civil servants, recruited from the *grandes écoles*) and generally on increasing the mobility of the scientific and technical work-force and promoting the dissemination of knowledge (box, p. 21).

Western Canada

In search of unity and identity, the western provinces of Canada–Manitoba, Saskatchewan, Alberta and British Colombia–asked to be reviewed as a single unit. Their economies are based on natural resources (wood, petroleum, potash, minerals, hydro-electric power) and agriculture (cereals, livestock). With a view to attempt to diversifing their activities, the provinces are currently seeking to invest in

Jean-Eric Aubert is a specialist in innovation policy in the OECD Directorate for Science, Technology and Industry.

1. In addition to France, national reviews have been made of Spain, Greece, Ireland and the Western provinces of Canada; a regional review has been made of the province of Mikkeli in Finland.

INNOVATION POLICY REVIEWS

The general review procedure, derived from that successfully applied to science policy, is as follows:

- preparation, by either the country concerned or the OECD, of a basic document describing the current situation
- week-long visit by a team of examiners, supported by members of the OECD Secretariat, consisting of three or four experts from the member countries (scientists, industrialists, civil servants)
- preparation of an 'examiners' report'
- discussion and circulation of the report at a 'review' meeting in the country concerned, followed by publication of the report by the OECD.

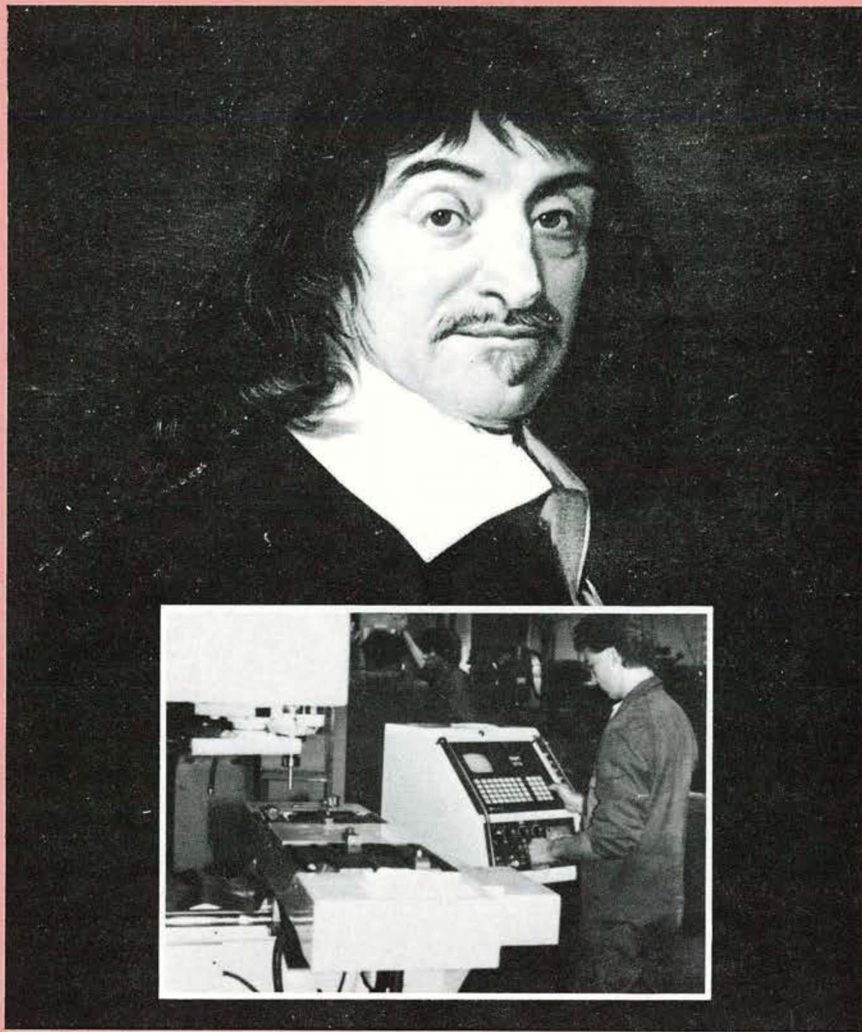
The visit of the examiners is important as they have to obtain an overall impression of the society in question within a very short period by assimilating information from a wide variety of sources. These include comments by members of institutions but also by the people working in the industries and activities in question; administrative reports but also industrial products; the scientific, technical and industrial aspects of the society and also its daily life and culture. Experience has shown that these disparate elements may generally be pieced together to make a consistent whole. This is understandable since individual elements, as part of a larger whole, all bear the mark of the society in which they originate and/or help to create. But it is a harder task to determine the adaptative capacity of the society in question, institutional flexibility (which bodies and groups are receptive to change), etc. Innovation policy is a useful concept since it poses questions about all other policies–and yet nowhere does it have a firm institutional basis. Future OECD reviews might therefore follow the example of Yugoslavia and examine science, technology and innovation policies together.[1]

1. **Science, Technology and Innovation Policies in Yugoslavia**, OECD, Paris, forthcoming summer 1988.

new technologies (electronics, telecommunications, information technology, biotechnology, and so on). Several 'advanced technology' centres, each comprising several hundred firms, have been set up throughout the region.

While the study supports this strategy and praises the spirit of enterprise that the provinces have shown, it also notes a certain degree of inertia. The attitudes of mind characteristic of the industries based on natural resources differ significantly from those founded

FRANCE
Summary of Recommendations



The barriers separating the intellectual elite from other students should be lowered in secondary schools.

More prestige should be attached to technical knowledge and education.

Teaching and research establishments should be given more freedom and more independence.

A more flexible approach should be adopted towards career progression and job assignment; in particular, rules that limit the mobility of researchers and teachers, or the diversification of activities, should be amended.

The barriers raised by membership of the 'Grands Corps' should be removed. For example, centres of scientific and technical excellence should be created; engineering students should be encouraged to take up research; posts at certain grades in the 'Grands Corps' of the French civil service should be open to candidates with a doctorate.

Human and financial resources should be directed away from the centre towards the regions, although care should be taken to avoid increased bureaucracy in regional bodies.

Strong support networks should be created for the modernisation of traditional industries.

Reform of the financial system should continue and should be aimed at aiding innovation.

Legislation governing the start-up of new enterprises should be simplified; barriers to starting up new businesses, or the closure of those that fail, should be eliminated.

The largest possible benefit should be derived from large-scale programmes by making wider use of small firms as sub-contractors; through widespread circulation of information regarding scientific and technical expertise; by meeting more satisfactorily the requirements of the end-users of infrastructure projects, etc.

A study centre should be set up to monitor measures designed to encourage innovation.

All innovative measures should take account of international, and particularly European, aspects.

Source: **Innovation Policy – France**, OECD, Paris, 1986.

on high technology, and the cross-fertilisation of the two sectors is proving problematic. Similarly, the scientists, managers and engineers now being trained in the provinces' educational institutions do not meet current requirements and, more importantly, will not meet those of the future.

Furthermore, the provinces in Canada's extensively decentralised federal system are fiercely independent and highly competitive. This facilitates neither co-operation between the western provinces nor individual specialisation, both of which are essential conditions for achieving the 'critical mass' required for the successful development of new technologies. The OECD has made practical proposals for improvement (box)

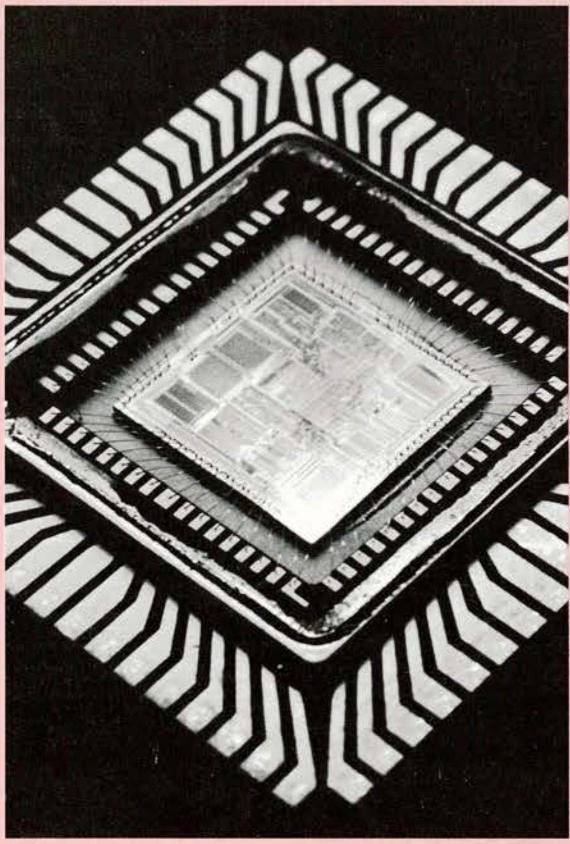
□□

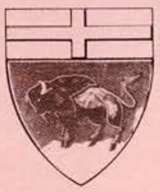
Mere reports cannot be expected to produce decisive developments, whatever their quality or authority. Yet their impact may be significantly increased if their findings are given careful attention. They should be seen as exercises—among other efforts—in social or behavioural analysis designed to make the society under review aware of its creative aptitudes and the principles that govern creativity. It can often take several years to attain such awareness and requires a willingness to face exposure to scrutiny and criticism. Then the recommendations must be considered, certain courses of action undertaken, publicly discussed and the results analysed. If this process of analysis were fostered by the administrations of the countries or regions involved, it could significantly increase their capacity for change and innovation.

The issue of innovation policy leads the discussion into the realm of 'qualitative economics'. Innovation policy addresses the structure of institutions, society and mental attitudes rather than the variables and quantities on which traditional analysis and economic policy are based. These structures, the form of which differs from one country to another, are in large part responsible for differences in long-term development. Qualitative economic policy would consist of achieving gradual changes in such structures within a reasonable period. This qualitative dimension is—as is generally recognised today—destined to play an increasingly important role.[2] ■

2. **Interdependence and Co-operation in Tomorrow's World—Symposium to commemorate the 25th anniversary of the OECD**, OECD, Paris, 1987.

WESTERN PROVINCES OF CANADA
Summary of Recommendations





- A technological 'identity' should be forged by linking new technologies to the requirements and strengths of the provinces (biotechnology to agriculture, electronics to natural resources, etc.) or through further development of local advantages (telecommunications, 'Arctic technologies', etc.).
- The environment for new industries should be improved by mobilising the large enterprises that exploit natural resources by further development of financial channels (establishment of a Western Canada Stock Exchange), and by relaxing the regulatory framework.
- Human resources should be enriched through increased investment in education (especially higher education), by introducing innovatory further-training programmes (for entrepreneurs, managers, manual workers), and by encouraging women to pursue careers in the new industries.
- 'Networking' between individuals and competent organisations should be encouraged by increasing the number of enterprise nurseries, evaluation centres and 'science parks'.
- Inter-provincial co-operation should be extended by encouraging staff exchanges between administrations, initiating co-operative research projects, setting up technology monitoring networks, organising an exhibition of regional technology, and establishing an open university of Western Canada (building on existing elements).
- Relations with the Federal Government should be improved by appropriate decentralisation of innovation policy, participation in international programmes, and generation of new statistical data.

The report also makes specific proposals for individual provinces. Creation of infrastructures to serve an entire region (Quality Assurance Center in Manitoba); 'critical mass operations' (biotechnology in Saskatchewan); stimulation of industry (hydrocarbon industries in Alberta); and revitalisation of existing technologies (natural resources in British Colombia). Moreover, it is suggested that a Special Commissioner for Innovation should be appointed in each province with the rank of Inter-departmental Advisory Officer.

Source: **Innovation Policy—Western Provinces of Canada**, OECD, Paris, 1987.

Videotex Systems Take Off

Robin Mansell

Videotex is the result of the union of computer and telecommunication technologies. Its commercial success has varied considerably among OECD countries, as have the methods used to promote its development and growth. The most successful systems seem to have benefitted from active government support and long-term development strategies. But government funding and promotion of videotex systems has not always brought about a rapid adoption of services.[1]

Videotex began as an experimental interactive service in the early 1970s to allow users to communicate with databases through a set of relatively simple and standardised procedures.

Videotex services can be differentiated from other on-line communication services by their interactive character and the special sets of standards which have been adopted in OECD countries. Users are able to receive information from a wide variety of suppliers and can respond to it. It uses telecommunication networks and terminals; services can be publicly or privately accessible and they can offer text and/or graphics capabilities. Digitised information is sent through telecommunication networks, received and displayed on dedicated videotex terminal, computer screens or modified television sets. A specially designed keyboard allows the user to request information using a simple menu system and to give other instructions.[2]

Videotex was conceived as a low-cost service to allow the general public access to a wide variety of information services. However, private individual users have come to represent a significant market for public videotex services in only a few countries, chiefly France, Australia and the Netherlands, and mainly for weather, travel and entertainment information, telephone directory assistance, home shopping and banking, and bulletin-boards where 'real-time conversations' can be carried on.

The business sector has proved a major and growing market for videotex services in most countries, and in all European countries except France two-thirds of service applications are business-oriented (e.g., stock-market quotations, news services). Private videotex systems have been developed to support intra- and inter-firm communication (e.g., exchanging orders and

Robin Mansell is Head of the Centre for Information and Communication Technologies, Science Policy Research Unit, University of Sussex.

1. **New Telecommunication Services – Videotex Development Strategies**, OECD, Paris, to be published in summer 1988.

2. Teletext is closely related to videotex. It is a one-way system of presenting information on a television screen (such as the United Kingdom BBC's Ceefax and the French Antiope services).

filing financial and stock-control data). A growing number of companies have found videotex to be an inexpensive and convenient method of accessing databases.

France is the undisputed world leader in public videotex services, accounting for over 90% of the terminals installed in Europe. At the end of 1986, there were over 2 million terminals in homes and businesses in France, compared to 70,000 in the United Kingdom and 50,000 in Germany. The number of terminals in France is forecast to rise to 10 million by 1990, an average annual growth rate of 50%.

The European market for videotex is forecast to reach US $1.6 billion in 1990, compared with $350 million in 1985. During this period, the French market alone will grow from $233 million to approximately $1.3 billion. In the United States estimates on revenues are difficult to assess because a much broader definition tends to be used (sometimes including text-only on-line services) and videotex networks tend to be local or regional and/or specialised. The business service market is nonetheless expected to be worth some $1.5 billion by 1990.

France Leads the Way

As with any new technological innovation, it is very difficult to isolate the conditions which combine to lead to commercial success. Seemingly small differences in timing of introduction, incentives for suppliers of information services, simplicity of use and user acceptance, advertising, and pricing can result in marked variation in growth patterns and emphasis on different types of applications. The strategy adopted in France is instructive because it has involved heavy initial government investment in expectation of future profits and a comprehensive, though not inflexible, planning process.

In 1978 the Direction Générale des Télécommunications (DGT) decided to develop a public videotex service, Télétel, as part of a larger programme to develop computer and telecommunication technologies. Commercial services were inaugurated in 1983. Two decisions were central to the French strategy. First, an electronic telephone directory to replace the printed version was provided, together with terminals, free of charge to all 23 million telephone subscribers. The unit cost of producing Minitel terminals on such a enormous scale has been estimated at $56, far below costs and market prices for terminals available in other countries. Second, the government decided in 1981 to allow telephone subscribers to continue to receive printed directories which resulted in additional cost (recovered, according to the DGT, by advertising revenues generated by the 'yellow pages' directory).

By the end of 1984, Télétel was clearly a success – 450,000 terminals were installed, (115,000 of which were leased and 15,000 purchased).[3] By 1985, the French system had nearly 1.5 million users, the PRESTEL system in the United Kingdom had 63,000 and the German Bildschirmtext 33,000.

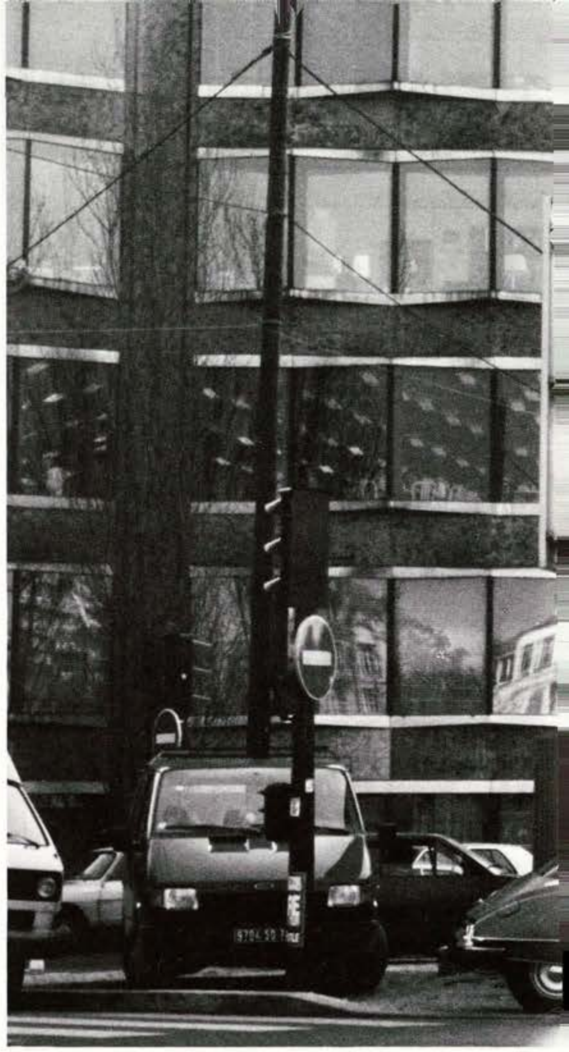
Users Making More Calls

The number of Minitels installed in France reached 1.9 million in July 1986 and some 23 million calls a month were being generated by Télétel's varied services. Indeed, the use of Télétel increased so swiftly in the summer of 1986 that the Transpac data network which provides the telecommunication infrastructure for Télétel was saturated. More than 7,000 businesses and nearly a million Minitel users found themselves unable to communicate because of a software fault, which was quickly remedied.

The large number of installed Minitels provided a ready market for private-sector information providers. By the end of 1985 there were 1,899 services in operation, 60% of which were directed towards the consumer market and 40% to the business market. Total services passed 3,000 in 1986.

Initially, users paid for most Télétel services on the basis of a fixed charge. This policy may have stimulated the recreational use of Télétel which accounts for approximately 42% of use. An unexpected trend has been an extraordinary boom in bulletin-board services which allow individuals to 'meet' electronically and now account for a major proportion of household Minitel use (excluding consultation of the electronic telephone directory). To stimulate the market for more sophisticated services such as databases and documentation centres, the DGT has introduced differential tariffs. This policy is expected to encourage business use, which is estimated to be growing at 30% per year.

Télétel is now in a mature growth phase with US $170 million in revenues generated in 1986. Yet it has been an expensive investment. By the end of 1986, the DGT had spent approximately $860 million on videotex and continuing yearly outlays are estimated at $300 to $400 million.



Nevertheless, the DGT estimates that its initial investment of $318 per subscriber pays for itself in four years, which is the same timescale as for a telephone line.

Other Users Reluctant to Pay

The OECD countries with the highest videotex terminal penetration after France are the Netherlands and Australia, both of which adopted the United Kingdom's PRESTEL system. The VIATEL system launched in February 1985 by Telecom Australia had by June 1987 400 information providers catering for 28,500 subscribers and a further 6,000 users connected to other videotex services.

Canada's TELIDON system began commercial service in 1981. TELIDON incorporates a superior display technology and the Canadian standard became the basis for the North American Presentation-Level Protocol Standard. Government funding in the development and early marketing phases was withdrawn in 1985, stand-alone terminals remain expensive and the public TELIDON system has very few subscribers. As in other countries, pri-

Most use of the French minitel system is by the general public, for directory enquiries and recreational purposes.

vate systems are being introduced and customers are able to use videotex services on adapted personal computers rather than single-purpose videotex terminals.

In Japan, too, the CAPTAIN (Character and Pattern Telephone Access Information Network) system operated by Nippon Telephone and Telegraph (NTT) has not met initial growth projections. The detailed technical standards for CAPTAIN were issued in 1984 (incorporating Japanese characters) following trials which began five years earlier. Commercial service started in 1984 and was available in all major cities by the end of 1986. Only 26,000 dedicated terminals had been sold by March 1987 and 680 information providers were offering services. Government support for CAPTAIN continues and NTT reduced terminal prices from US $1,305 to $474 in January 1986 in a bid to stimulate demand.

In the United States there has been no attempt to develop a nationwide public videotex service. Several early private-sector ventures have been abandoned, at considerable cost. In December 1986, for example, Knight Ridder Newspapers Inc. and Times Mirror Co. closed their services after cumulative losses of $50 and $30 million, respectively, over ten years.

The US consumer videotex market has been slow to take off, with revenues estimated at $88 million in 1986 and projected to double by 1990. The bulk of growth in the consumer market is likely to come from terminals in public kiosques. Home use of videotex is expected to develop increasingly around demand for tele-shopping and banking. In contrast, the private business market has been more buoyant and is expected to be worth approximately $396 million by 1990.

In European countries telecommunications administrations have played a major role in developing national public videotex services. The United Kingdom was the first country to experiment with the technology and launched its PRESTEL service as early as 1979. But the number of subscribers has built up slowly, especially for home use. The 50,000 mark was passed in 1985, but reached only 70,000 at the end of 1986. The majority of subscribers are business users. PRESTEL terminals remain costly and a significant number of users prefer to buy or rent modified television sets (at a cost twice that of an ordinary set). Although there currently are well over 1,200 information services available on PRESTEL, some information providers have criticised its relatively high charges. Even though public videotex has grown slowly in the United Kingdom, there are more than 4 million television sets capable of receiving one-way teletext information. In addition, it is estimated that there are approximately 100,000 dedicated terminals attached to private (non-PRESTEL) videotex systems in the United Kingdom (stock exchange and travel agency systems, for example).

In Germany, the Deutsche Bundespost (DBP) introduced a public demonstration of videotex using Prestel software in 1977. A decision to develop a nationwide system led to a contract with IBM. The Bildschirmtext (Btx) commercial service using a version of the European Standard for the Harmonised Enhanced Videotex Service was introduced in 1984. The number of subscribers reached 50,000 at the end of December 1986, only 25% of whom were private individuals. The number of information providers was 3,500 in December 1986. Customers can use Btx at local telephone rates, but additional charges are levied for connection and sending and receiving information. Until July 1986 information providers were offered substantially reduced charges. It is still expected that individuals will eventually form the major group of subscribers.

No International Dimension... Yet

Videotex markets are almost entirely national. The Conference of European Postal and Telecommunications Administrations (CEPT) has developed a set of common standards but, with the exception of some newer terminals, national systems are not yet fully compatible. A common standard agreement would enable commercial service providers to benefit from a much wider market and to compete on an equal footing with companies that use the North American Presentation-Level Protocol Standard.

Some countries have succeeded in exporting videotex terminals and software. The United Kingdom's software protocol has been adopted in several countries. Although in the lead in developing the domestic market, France has experienced difficulties in penetrating foreign markets. Suppliers

3. Where Minitels were not available free of charge, they could be leased from DGT. More sophisticated terminals could also be leased in areas where basic models were available.

have been handicapped by the diversity of videotex standards. But French software companies, notably Cap Gemini Sogeti, have been commissioned to develop services in other countries and have exported packaged videotex software for business use. Minitel manufacturers have received sizable orders from Spain and Switzerland and are exploring market opportunities in the United States.

'France is the undisputed world leader in public videotex services...'

Technology Push or User Pull?

France is the only country in the OECD area where videotex has lived up to (and exceeded) expectations. In most countries, policy-makers and telecommunications administrations seem to have misjudged the dynamics of the videotex market. Yet there is general agreement that demand for cheap, mass-market data communication networks exists.

Videotex was unexplored territory when the British, Canadian, French and other governments began considering its possibilities in the 1970s. There were few precedents to guide the marketing, pricing, regulation, design and management of systems in the public and private sectors.

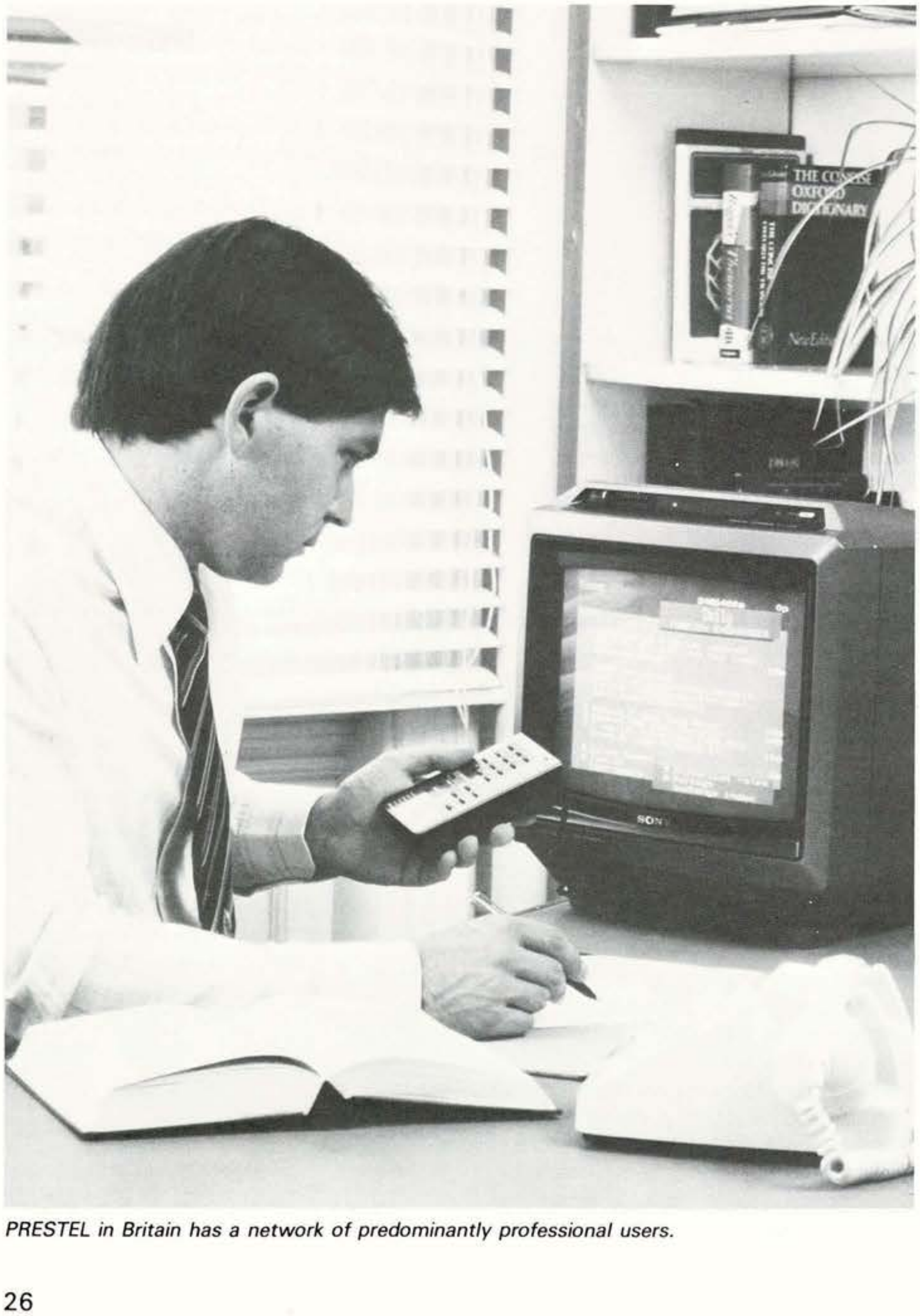
In the beginning, it was assumed that because the potential market for videotex seemed very large, the actual market would grow rapidly. There was a tendency to over-estimate willingness of users to pay for services and to under-estimate the time required for them to become familiar with a novel technology. Experience has shown that consumers cannot be expected to spend money on terminals and connection charges if the choice of services is insufficient. And similarly, private-sector information suppliers will not develop services if demand is insufficient to enable them to recover their investment over a reasonably short period.

The success of the French strategy is instructive. It clearly propelled Télétel along an assured growth path. At the same time, it required a government investment of nearly US $900 million and there is little evidence that even if other countries could adopt the same strategy as the French government it would meet with success.

In some countries initial government support for videotex has been discontinued in the belief that the private sector will maximise its potential as the market develops. As other types of on-line information and communication services have declined in cost and become more 'user-friendly', the degree of complementarity between videotex and other services is being reduced. Some observers believe that over time videotex will find a niche beside these services; others suggest that it will be superceded by other telecommunication network-based services.

□□

Will videotex become commercially viable and increase its market? Videotex technology has been received very differently by various types of users throughout the OECD area. There is a trend toward incorporating more 'intelligence' in videotex terminals which allow users to store and process information as well as acquire it. At the same time, on-line microcomputer-based services are diffusing very rapidly. Future growth will depend on the emphasis given to business versus public service applications, pricing strategies, terminal costs and whether videotex complements other evolving telecommunication network-based services. ■



PRESTEL in Britain has a network of predominantly professional users.

There are many different ways of taxing the wealth and capital gains[1] of households or individuals. OECD governments have adopted a variety of solutions which themselves have changed over time—hardly surprisingly, for the choices are numerous, involving fundamental issues in tax policy as well as offering varying degrees of difficulty in implementation. Nearly ten years ago the OECD's Committee on Fiscal Affairs completed an extensive analysis of the problems involved and a survey of country practices; it has recently been revised and updated.[2]

Capital Taxes Revisited

Kenneth Messere

The main rationale for capital taxes is nowadays provided by social considerations, such as the ability to pay or equity between persons and groups in society. These include both 'horizontal' and 'vertical' equity.

Horizontal equity requires the equal treatment of persons with comparable capacities to pay tax. But taxes on capital can at best only approximate to the additional taxable capacity that wealth confers. Different types of capital tax make this approximation in different ways. An annual tax on net wealth can be expected to take account of a continuing basis of the advantages conferred by wealth. Capital transfer taxes supplement income taxes by taxing wealth once (or more) in a generation. Capital gains represent an appreciation in capital assets and, if realised, are akin to current income, so that considerations of horizontal equity suggest that these also should be taxed.

What Economic Consequences?

Vertical equity, the appropriate tax treatment of persons with differing abilities to pay, requires the reduction of inequalities in wealth and disposable incomes. Insofar as such a goal is accepted, there remains a variety of opinions as to whether it is most effectively achieved by reductions in pre-tax differentials in income, by government expenditures, or through the tax system. If the tax system is to be used there is a case for levying all three taxes under consideration. But it should be added that in practice, given the low yield of capital taxes, they are unlikely to play much of a role in redistributing wealth, except away from the relatively few very rich.

Social considerations cannot be divorced from the economic consequences of introducing or changing capital or capital gains taxes. And economic arguments can be advanced for and against each form they take.

For...

Because the tax base is related only to past accumulations, both the annual wealth and the death tax may have less of a disincentive effect on work than taxing current income. Moreover, an annual net wealth tax, particularly if it is introduced as a partial substitute for income tax, may be expected to encourage transfers from assets which yield nothing, such as jewellery, to investments offering high yields. High marginal rates of income tax may, for example, encourage a wealthy man to use some of his capital to buy a very expensive car, which yields a tax-free income of satisfaction (what economists call 'psychic income') rather than invest in a taxable income-yielding asset. A wealth tax might counteract that tendency.

It is sometimes argued that there is no guarantee that the heir of a business or farm is competent to carry it on and that, after the death of its creator, heavy capital transfer taxes may fulfill a useful economic function in forcing such enterprises into the market where the enterprise may be bought by the most competent potential manager. A capital gains tax can also be justified on the grounds that investment patterns are less likely to be distorted by the diversion of savings into assets which offer the prospect of untaxed capital gains but yield little or no income.

And Against...

Capital taxes may adversely affect savings, as well as work undertaken with an eye to saving, because accumulated savings—unless invested in assets which are exempt—are taxed. A heavy wealth tax imposed on top of an already heavy income tax might not only discourage saving but stimulate dis-saving—that is, consumption out of capital. In addition, the argument that an annual net wealth tax encourages more productive use of capital ignores the objection that, in the real world, capital is not perfectly mobile, and that high yield and efficiency are not invariably synonymous.

Capital transfer taxes may also discourage savings motivated mainly by the desire to leave something to one's heirs. For many people, this may not be a dominant motive at the most remun-

Kenneth Messere is Head of the Fiscal Affairs Division in the OECD Directorate for Financial, Fiscal and Enterprise Affairs.

1. Hereafter abbreviated to capital taxes.

2. Both studies are published under the title **The Taxation of Net Wealth, Capital Transfers and Capital Gains of Individuals**. The first covered all OECD countries except Iceland, Greece and Turkey, the second all OECD countries except Iceland. The 1988 report generally reflects the position at April 1986 but changes between then and 1 January 1988 are taken into account. **The Taxation of Net Wealth, Capital Transfers and Capital Gains of Individuals** is concerned with the tax treatment of individuals, not of businesses or enterprises, though sometimes references are made to the taxation of small businesses or partnerships. Three main taxes are covered: *annual net wealth taxes* on the value of assets, minus debts related to such assets; *death and gift taxes*, generally referred to as capital transfer taxes, on transfers of assets during lifetime or at death and *capital gains taxes* on gains from the sale of assets (though not strictly speaking taxes on capital, they are included in the report because the objectives in taxing capital gains are often similar to those for taxing net wealth and capital transfers, and the administrative and valuation problems of these three taxes have much in common).

erative stage of their career, but it tends to become more important as wealth and years accumulate. These taxes may also have undesirable effects if enterprises become encumbered by debts incurred to pay the taxes—or the owner of a business may wish to build up liquid assets against future inheritance tax liabilities, a process which could check expansion. For this reason governments often consider it necessary to give relief to firms and small businesses even if it violates the principle of horizontal equity. Capital gains taxes may have the effect of locking in capital to avoid tax which applies only on realisations.

What Choices for Policy?

Under all three taxes similar questions arise.

- What should be the value of the assets or gains on which tax should become payable?
- What rate or rates should be applied to this value?
- Which kinds of assets or capital gain should be included and which excluded from the base of the tax?
- How should assets be valued and what allowance, if any, should be made for inflation?

Governments have found divergent solutions for all these questions. Each of these taxes involves also a number of decisions on specific issues. To cite only four examples from the net wealth tax:

- assets such as households and personal effects, works of art, owner-occupied principal homes, motor vehicles, jewellery and life insurance policies, may be totally or partially included in or totally excluded from the tax base
- a larger allowance may or may not be given to married couples than to

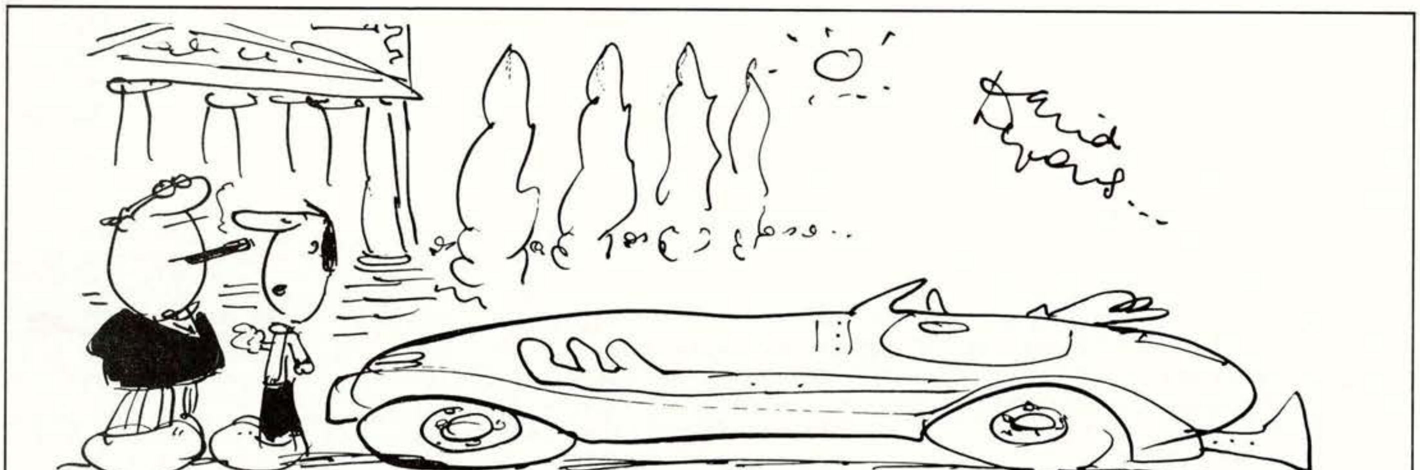
Table 1

FORMS OF CAPITAL TAXATION IN OECD MEMBER COUNTRIES

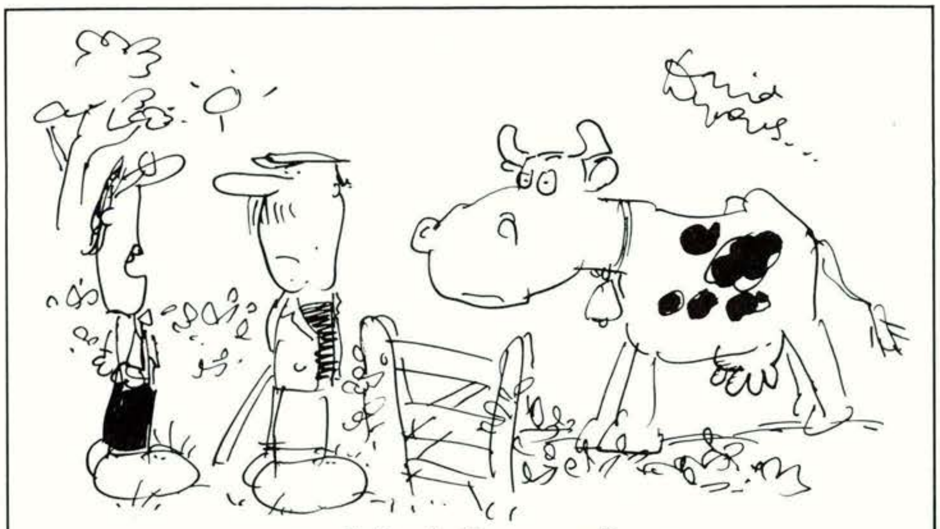
	Net Wealth Tax[1]		*Transfer Tax on Gifts at Death*		*Capital Gains Taxation*[2]	
	1 Jan 76	*1 Jan 88*	*1 Jan 76*	*1 Jan 88*	*1 Jan 76*	*1 Jan 88*
Australia	–	–	E	–	–	I
Austria[1]	W	W	H	H	B	B
Belgium	–	–	H	H	B	B
Canada	–	–	–	–	I	I
Denmark	W*	W	H	H	C	C
Finland	W*	W*	H	H	B	I
France	–	–	H	H	I	I
Germany[1]	W	W	H	H	B	B
Greece	–	–	n.a.	H	n.a.	B
Iceland	n.a.	W	n.a.	H	n.a.	I
Ireland	W	–	H,A[3]	H,A[3]	C	C
Italy	–	–	E,H	E,H	B	B
Japan	–	–	H	H	I	I
Luxembourg[1]	W	W	H	I	B	I
Netherlands	W	W	H	H	B	B
New Zealand	–	–	E	E	–	–
Norway[1]	W*	W*	H	H	I	I
Portugal	–	–	H	H	C	C
Spain	–	W*	H	H	I	I
Sweden	W*	W*	H	H	I	I
Switzerland[1, 4]	W*	W*	H,E	H,E	C,I,B	C,I,B
Turkey	–	–	n.a.	H	n.a.	I
United Kingdom	–	–	E	E	C	C
United States	–	–	E	E	I	I

W = *Single-rate net wealth tax.*
*W** = *Multi-rate net wealth tax.*
E = *Estate-type transfer tax.*
H = *Inheritance-type transfer tax.*
A = *Accession tax.*[3]
C = *Capital gains tax (separate).*
I = *Comprehensive taxation of capital gains under income tax.*
B = *Taxation of capital gains for businesses (whether or not incorporated) but no comprehensive tax on capital gains of individuals.*
– = *No tax.*
n.a. = *not available.*

1. *Net wealth tax covers also incorporated businesses. In Canada it applies only to incorporated businesses.*
2. *Excludes the taxation of the capital gains of individuals where such taxation is narrowly based or confined to short-term gains.*
3. *Accessions tax: aggregates gifts and legacies from any donor to determine the rate of tax.*
4. *All taxes are Cantonal with considerable variation between the Cantons.*



Dad, can I borrow the psychic income tonight?



Is it a bull or a cow?

single persons or to parents than to childless couples (figure)

- methods of valuation vary considerably both between countries and among assets (for example, the valuation of life assurance policies may be based on premiums paid, their redemption value, their surrender value, their capitalised value or some combination of all four)
- in most countries with such taxes total wealth is assessed annually, although in some Swiss cantons the period is two years and in Austria, Germany and Luxembourg it is three.

The range of choices governments have under the three kinds of taxes is immense. What are the most important policy choices? And what changes have occurred in OECD countries over recent years?

Net Wealth Taxes

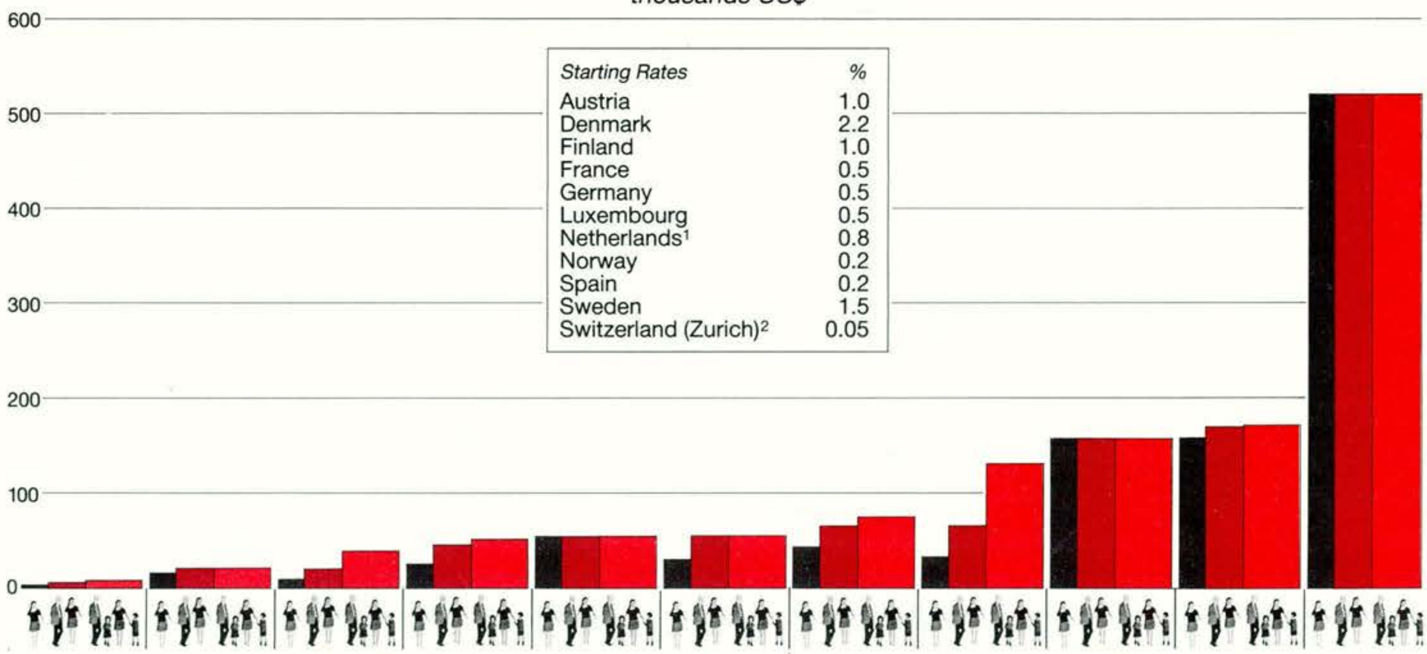
The first choice a government must make is whether or not to have this particular kind of tax. In practice half the 24 OECD member countries have chosen to tax net wealth and the other half not to. In ten countries they accrue exclusively to central/federal government, and in Switzerland to the cantons, while in Norway they are shared between central and local government. Net wealth taxes illustrate the often-expressed view that an old tax is a good tax since of the twelve countries with them ten have had them for over fifty years and an eleventh for more than forty years. The twelfth, Spain, introduced it in 1978.

Of the 12 countries without them only two have had them in recent years, and in each of these cases they were introduced after one change of government and abolished after another (Ireland introduced a net wealth tax in 1975 and abolished it in 1978, and France introduced a similar tax in 1982 and repealed it as from January 1987). The only other country to have rescinded a wealth tax was Japan, which had one for a short period about forty years ago. Countries with such a tax find it easy to administer and a useful means of helping to control the much more important income tax; in countries without such a tax, apprehension has been expressed at the administrative costs and problems that would be involved if it were adopted.

If it is decided to have a net wealth tax, one of the main choices involved is whether or not to impose a flat rate or whether higher rates should be imposed on larger amounts of wealth. Table 1 shows that countries with

WEALTH TAX THRESHOLDS

Single persons; married couples; married couples with two children
thousands US$



Starting Rates	%
Austria	1.0
Denmark	2.2
Finland	1.0
France	0.5
Germany	0.5
Luxembourg	0.5
Netherlands[1]	0.8
Norway	0.2
Spain	0.2
Sweden	1.5
Switzerland (Zurich)[2]	0.05

1. The Netherlands' single person threshold as shown on the graph is 56,000 fl. However, for single parents and for those over 27, it is 88,000 fl.
2. 0,05% is the base rate only; percentage additions are made each year by the canton and communes.

such taxes are more or less equally divided on this issue, Denmark having moved from differential rates to a flat rate in recent years. It shows also that countries are more or less equally divided on whether or not these taxes are applied to businesses as well as individuals.

Death and Gift Taxes

In contrast to net wealth taxes, death and gift taxes exist in nearly all OECD countries. Only Canada and Australia lack them, and in both these countries they were abolished quite recently (in 1972 and 1977 respectively). They accrue exclusively to central/federal government in all countries except Switzerland, where the cantons benefit.

The main policy options for governments is whether the amount of the tax on the bequest should be determined by the amount left by the deceased (donor-based or estate tax) or by the amount inherited by the beneficiary (donee-based or inheritance tax). The main claims made for the estate tax are that is is simpler and easier to administer and that it is a better revenue-yielder than inheritance tax. For the inheritance-type tax it is argued that it is more equitable than estate tax in that it accords more closely with ability to pay, can be more readily adjusted to the circumstances of the heir (by giving preferential rates to the immediate family), and is a better medium for encouraging a wider dispersion of wealth. There are arguments of varying force for and against all these claims.

In 1974 Ireland moved from an estates tax (with no general tax on gifts) to an accession tax covering gifts. Over the last 15 years, the United Kingdom has moved full circle, from an estate tax not covering lifetime gifts (other than those given seven years or less before death) to one which did cover gifts in 1974 and in 1986 to another one which applied only to donations given seven years or less before death.

Over a somewhat longer period there has been a move away from donor- to donee-based taxes. In 1970, all OECD countries had such taxes, 16 countries with donee-based taxes, six with donor-based and two (Italy and Switzerland) with both. By the end of 1987, only New Zealand, the United Kingdom and the United States had solely donor-based taxes; Italy has both; and most Swiss cantons have only a donee-based tax.

Table 2
COMBINED REVENUE FROM NET WEALTH TAXES ON INDIVIDUALS AND CAPITAL TRANSFER TAXES
as % of total tax revenue

Ranking in 1985		*1985*	*1976*	*1965*	*Ranking in 1965*
1	Switzerland[1]	3.06	3.42	4.46	1
2	Japan	1.19	0.85	0.71	21
3	Greece	0.94	1.12	0.95	18
4	Netherlands[1]	0.94	0.85	1.86	8
5	Denmark[1]	0.92	0.81	2.09	6
6	France[1]	0.85	0.46	0.56	22
7	Portugal	0.83	0.50	2.48	4
8	United States	0.77	1.41	1.99	7
9	Sweden[1]	0.68	0.62	1.29	13
10	United Kingdom	0.64	0.88	2.62	3
11	Norway[1]	0.61	0.91	1.67	10
12	Belgium	0.58	0.72	1.17	14
13	Austria[1]	0.51	0.73	0.85	19
14	Luxembourg[1]	0.51	0.54	1.14	15
15	Finland[1]	0.50	1.14[2]	1.07	17
16	Spain[1]	0.49	0.65	1.09	16
17	Germany[1]	0.42	0.76	1.53	11
18	Ireland	0.30	0.97	1.87	9
19	Italy	0.23	0.20	0.85	19
20	New Zealand	0.19	1.32	2.30	5
21	Turkey	0.19	0.33	0.17	23
22	Canada[3]	0.03	0.25	1.48	12
23	Australia[3]	0.01	1.37	2.74	2
	OECD average (unweighted)	0.66	0.91	1.61	

1. Countries with net wealth taxes in 1985; France and Spain did not have such a tax in 1976 or 1965; Ireland had one in 1976.
2. In 1976 there was an exceptional temporary increase in net wealth tax receipts.
3. Australia (1977) and Canada (1972) have abolished their capital transfer taxes but received a small residue of revenue from them in 1985.

Another recent development, which has also been happening in personal income tax, is a reduction in the number of rate bands and a lowering of the rates. Here New Zealand represents the extreme example: in 1976 it had 34 rates of taxes at death and 21 rates from taxes on lifetime gifts–and, by 1985, a single rate for taxes at death and four rates for taxes on lifetime gifts. New Zealand is currently the only country with a flat rate tax at death, progressive rates applying in all other countries. Countries with inheritance taxes also have a number of rates depending on the relationship between the deceased and the beneficiary, but these have been reduced in recent years, in, for example, Finland, Ireland, the Netherlands and Norway.

Capital Gains Taxes

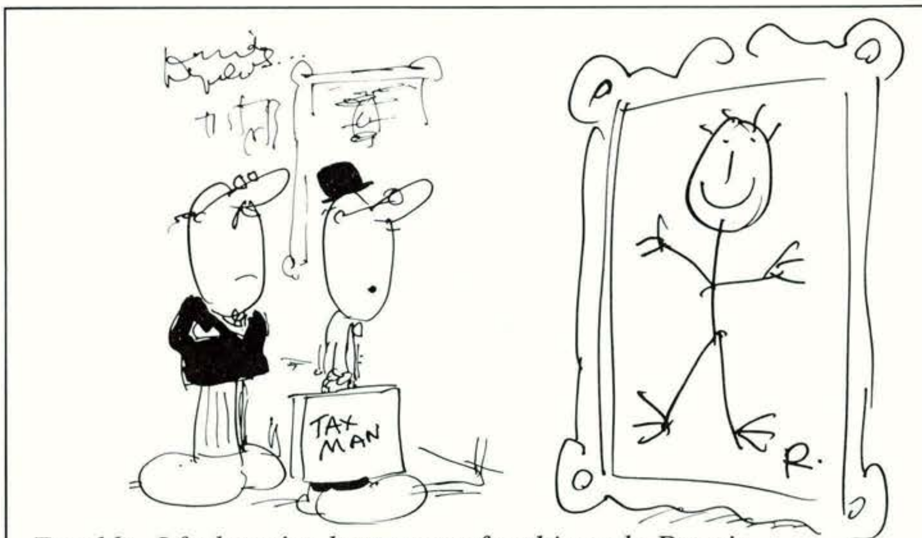
Because of the varying tax treatment by countries of gains from different kinds of assets–especially between those from shares and bonds on the one hand and those from real estate on the other, and between long-term and short-term gains–country comparisons are difficult to make unambiguously. Countries may be broadly divided into four categories:

- *those with a separate tax on capital gains*–Denmark, Ireland, Portugal, Switzerland (cantons), the United Kingdom
- *comprehensively taxed, whether long- or short-term*–Australia, Canada, Finland, France, Japan, Norway, Spain, Sweden, United States
- *provisions mainly restricted to short-term or speculative gains*–Austria, Belgium, Germany, Turkey
- *not taxed*–Italy, the Netherlands and New Zealand.

Perhaps the fundamental question facing countries in the first two categories is whether the objective is to tax real gains or nominal (including inflationary) gains, since the various kinds of mitigation from the principle of taxing capital gains as income can be

seen (at least in one aspect) as a move towards taxing only real gains. The form of mitigation most frequently seen is to exempt long-term gains altogether or to subject them to a lower rate than short-term gains (the differential between the two rates and the definition of 'long-term' varying from country to country). No distinction between 'long-term' and 'short-term' is generally made in Canada (where only half the gain is taxed, however), Norway (other than gains on shares), United Kingdom and the United States (since the recent tax reform). Nearly all countries in the first two categories also reduce the impact of inflation by adjusting, either automatically or on an *ad hoc* basis, the value of the gain or rate bands or both, by the equivalent of increases in the cost of living. How this is done again varies from country to country.

During recent years more and more countries have been adopting either separate capital gain taxes or taxing them as income. In Australia this occurred in 1985. Luxembourg, which previously taxed only short-term capital gains, moved to a comprehensive capital gains tax in 1979. Many of the other capital gains taxes are relatively new, Canada, France and Ireland all having introduced comprehensive capital gains taxes in the 1970s, and Portugal and the United Kingdom in 1965. Although many of the capital gains taxes have undergone considerable revision in the past decade, there is no instance of a comprehensive capital gains tax being abolished, although, in 1982, Turkey repealed a capital gains tax on real estate.



Frankly, I feel you've been stung for this early Renoir…

The number of different rates of tax on capital gains has been reduced mainly as a by-product of income-tax simplification. The outstanding example is the United States, where the 14 rates of capital gains tax in 1986 have been reduced to two.

Contribution to Revenues

Reliable statistics are available for receipts from net wealth taxes on individuals and from capital transfer taxes. They show that these taxes make a very small contribution towards government revenues and (Table 2) that the receipts have been declining in real terms over the last two decades. In 1985 net wealth taxes on individuals represented over 2% of total tax receipts in Switzerland, but in all the other 11 countries they represented well under 1% (Norway and the Netherlands with 0.5% being the next highest). Receipts from taxes at death and on gifts exceeded 1% of total tax receipts in 1985 only in Japan (1.2%). For those countries which can make the distinction, receipts from taxes at death by far exceed these from those on gifts, the latter amounting to less than 0.1% of total tax receipts in all countries except Greece (0.3%).

Table 2 shows that receipts from the two capital taxes declined in real terms between 1965 and 1985 in all OECD countries except Switzerland, France, Greece and Japan. And the ranking order of many countries, in receipts from these two taxes as a percentage of GDP, has changed markedly between 1965 and 1985: the most drastic are the changes of Australia from second to 23rd place (following the abolition of the capital transfer tax), of Japan from 21st to second, and of Greece from 18th to third place.

□□

Revenues from capital gains taxes are likely to be very volatile according to the state of the economy; and where there is no capital gains tax, much revenue from the income tax will be lost through tax avoidance devices which transform income into capital gains. Indeed, where capital gains are subject to a lower rate of tax than income, the governments of a number of countries have found that revenues are lost in this way. In the majority of countries the capital gains tax is integrated with the income tax, so that it is not possible to estimate receipts from capital gains tax. ■

Consumption out of capital…

Spotlight on

The United States

The present Administration of the United States came to office in 1981 with a four-part programme: to cut the rate of growth in Federal spending; to reform the tax system; to bring down inflation by slowing the rate of money creation and to deregulate the economy.

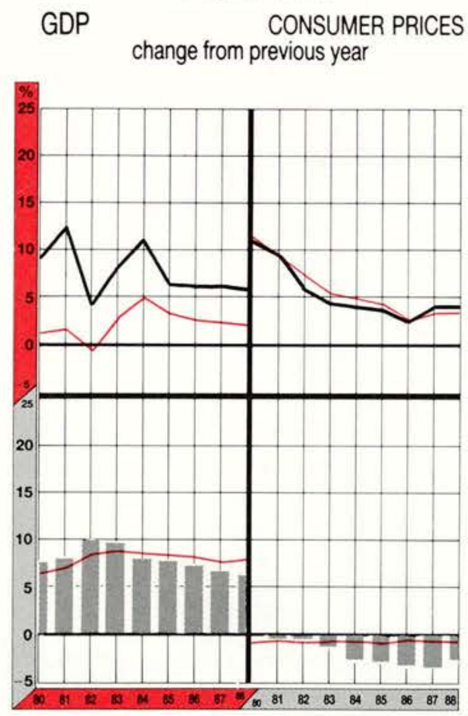
The programme has been largely successful in accomplishing these four objectives. The economy has now entered its sixth year of sustained recovery, making it the second longest US expansion in the post-war era. The country has been in the forefront of tax reform, and substantial deregulation has improved the competitive environment. Underlying inflation has been markedly reduced and employment creation has been vigorous, more so than elsewhere, reflecting strong economic growth and labour-market flexibility (see pp. 9–12). But the emergence of a sizable Federal budget deficit and a declining national saving rate, together with a large current external deficit, has complicated macro-economic policy and become a cause of domestic and international concern.

Over the medium term, the US economy is faced with the critical task of maintaining non-inflationary growth, while unwinding domestic and external imbalances. The recent budget agreement is therefore welcome, but may do little more than stabilise the Federal deficit at about $150 billion up to the end of the decade. For the external adjustment to be completed over the medium term, a sustained reduction in the deficit is necessary.

As a share of GNP, the general government deficit is not abnormal; nor is the Federal debt and burden of debt interest exceptional, especially when measured in terms of government and private-sector net worth. But government credit demands are large in relation to private saving. In this context, a continuing US demand for world savings, accompanied by a further build-up of dollar liabilities, could weaken confidence in the dollar and contribute to exchange-rate instability and interest-rate volatility. The growth of US domestic demand will have to be reduced if the transfer of real resources from the domestic to the external sector is to take place.

In these circumstances, it is essential that the provisions of the Balanced Budget Act be implemented, and that Federal budget balance be broadly achieved by 1993. This would be beneficial in its own right. But it is also essential that it be accompanied by increased efforts to raise the US private saving ratio, by faster growth of domestic demand abroad, and by continued structural adjustment in the United States and its main trading partners, as well as by progress in liberalising world trade.

INDICATORS



In the immediate future, the interests of the US economy and those of other countries would seem to be best served by a period of relative stability in exchange rates. The advantages and disadvantages of dollar depreciation depend crucially on the degree of capacity utilisation and labour-market tightness in the US economy, both of which have recently shown significant increases. With real net exports and manufacturing output expected to expand rapidly as a result of previous dollar depreciation, additional external stimulus could be inflationary. There is a significant possibility that the rise in the household saving ratio will be accompanied by a lasting improvement in the monthly trade data, reassuring currency markets on the viability of the current dollar exchange rate. If downward pressures on the dollar were to continue, however, they should be resisted.

Monetary policy will have to remain pragmatic and flexible. Given the particular uncertainties attached to the short-term outlook, the appropriateness of policy changes should continue to be assessed in the light of the strength of aggregate demand, the potential for inflationary pressure, and conditions in financial and exchange markets. Here the strategy followed immediately after the crisis of 19 October in equity markets—namely, announcing and supplying liquidity to meet the requirements of the economy—was essential, as it contributed to maintaining orderly conditions in

credit markets. In view of current economic conditions, the relatively cautious accommodating stance of monetary policy would seem appropriate, although the monetary authorities must remain alert to signs of inflationary tendencies.

The stresses of an outdated regulatory structure in the face of changes in the macro-economic environment have spurred a process of innovation in US financial markets. This development, aided by improvements in computer and telecommunication technology, has helped erode many long-standing distinctions between various financial institutions and increased the degree of competition in many financial markets. This rise in competition has extended beyond national borders, as US intermediaries, businesses and even households have become increasingly linked to foreign markets and institutions.

Along with internationalisation, innovation has also involved a diversion of funds away from the banking sector and into securities. With information and other transaction costs falling, ultimate borrowers and lenders are now often able effectively to dispense with bank intermediation and meet directly in capital markets. These changes, along with the increased use of risk-management tools and other innovative instruments, have increased the range and quality of financial services.

The stability of financial and monetary conditions appears all the more desirable since the vulnerability of the US economy to shocks may have increased. The profitability and, in some cases, the capitalisation of depository institutions has declined in the 1980s in the face of large loan losses. There has been a large increase in the indebtedness of the non-financial sectors, and in the business sector, a decline in net worth. The quality of outstanding debt has fallen.

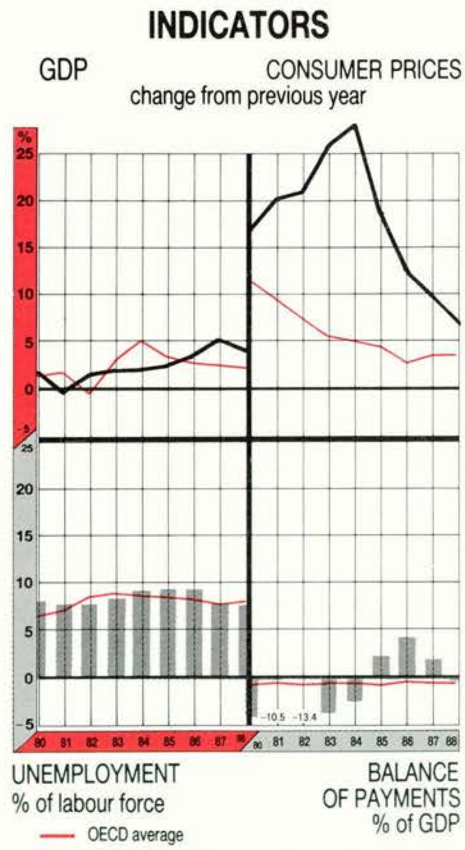
Yet these changes do not seem to have seriously compromised the stability of the economy: so far the October fall in stock prices has been absorbed with remarkably few difficulties. Nevertheless, many households and firms could have difficulties servicing existing debt in the event of a large increase in interest rates or a recession. Coupled with the nervousness lingering from the stock market crash, this vulnerability makes it especially important that the stability of the financial system be protected and enhanced.

Overall, the task of unwinding smoothly the existing large domestic and external imbalances is bound to take time but does not appear intractable over the medium term. It is also essential for the future of the world economy that protectionist tendencies in the United States and elsewhere be resisted and that progress in expanding trade opportunities be made under the continuing 'Uruguay Round' negotiations of the GATT. Finally, for co-operative action to improve market confidence, policies will have to be seen as credible and internationally consistent, both in macro-economic action and micro-economic structural reforms.

Portugal

Portugal's present Government–the first enjoying an overall parliamentary majority since the Revolution–is committed to opening the economy to the forces of the market. Steps have been taken to make public enterprises more efficient and to give interest rates a bigger role in allocating credit. Still more–tax reform and denationalisation–are under active consideration.

Entry to the European Community presents a challenge and an opportunity: more exposure to more flexible and competitive economies in the rest of Europe makes structural adjustment urgent. And the provision of EC grants gives Portugal the chance to improve its capital infrastructure rapidly. The last few years have provided ample evidence of the dynamism and responsiveness of the Portuguese economy: in the five years to 1987, the volume of exports rose by over 80%, a bigger rise than in any other OECD country. But Portugal's past experience with abrupt 'stop-go' policies underlines the importance of a stable macro-economic stance to avoid a relapse to demand-depressing measures dictated by external deficits or by accelerating inflation. The Government's intention–enshrined in the Programme for structural correction of the external deficit and unemployment (PCEDED)–is to reduce public borrowing. Early action in this direction is necessary if its ambitious medium-term objectives are not to be frustrated by more drastic, but delayed, correction.



The investments required to develop the Portuguese economy are likely to be very heavy, especially as further large investment in its infrastructures will be necessary. In the last couple of

years, aid to investment has been considerable; it runs the risk, in particular, of artificially depressing the cost of capital to business, encouraging projects with low real returns and the substitution of capital for labour. It is thus important that investment projects (national or foreign) in a labour-abundant and capital-scarce economy such as Portugal earn a high return on capital.

Reducing the budget deficit will be essential to put domestic savings to more productive use. The public sector borrowing requirement in 1986 amounted to almost 12% of GDP and outstanding debt was over 70% of GDP, a quarter of which was held externally. Some steps towards adjustment were taken that same year, although, since growth received a powerful stimulus from sizable terms-of-trade gains, further fiscal adjustment may have been desirable. Fiscal policy turned out to be expansionary in 1987 and the 1988 Budget envisages virtually no change in the size of the budget deficit relative to GDP.

Five measures might help powerful upward pressures on government expenditure to be resisted if developmental objectives are not to be compromised:

- the choice of projects with the highest return, although infrastructure investment remains necessary both inherently and also to benefit from EC grants
- better control of local government spending
- the long-standing embargo on public-sector employment must be applied to contain widespread overmanning in the public services and in public enterprises; public-sector pay increases must be limited, and the quality of the public administration improved through increased standards of appointment
- spending on social transfers (which rose in 1986 by about 17% in real terms) will have to be kept broadly in line with real economic growth
- tax reform is an urgent priority—a wider and a better-enforced tax system is required in the medium term.

Monetary policy will also have an important role to play in containing domestic absorption. It is obviously important that monetary management be co-ordinated with the financial programming of government and public enterprises as well as external financing so that major sectors do not escape control. The recent rapid development of a Treasury bill market—allowing the public to hold government debt directly at market-determined interest rates—is a useful first step.

Portugal's accession to the European Community reinforces the importance of maintaining international competitiveness. The depreciation of the escudo in 1986 has not fully offset inflation differentials between Portugal and the rest of the world.

Achieving a durable reduction of these differentials hinges critically on limiting nominal wage increases. The Government sets much store by incomes policy to help secure lower wage inflation. In Summer 1986 the social partners agreed to negociate wages in terms of prospective, rather than past, price increases. This strategy proved effective. According to collective wage agreements, nominal wages rose by 12% in 1987 compared with 17% the previous year. Acceptance of this policy was obviously made more palatable by substantial growth in real wages and by the payment of wage arrears. The current policy will face difficulties in the years immediately ahead. The outlook for world demand has deteriorated significantly, and significant terms-of-trade gains appear unlikely. These factors and the likely re-emergence of a current account deficit mean that real wages should rise less than productivity to create room for higher investment. Here incomes policy may continue to have a role to play.

Fear of adding to prices or costs should not inhibit the pursuit of the appropriate macro-economic policies. Not taking the necessary measures in time would produce only a spurious and transient decline in measured inflation, but complicate the task of eventual structural adjustment.

On this point, rather rigid labour legislation in recent years has damaged productivity and made employers too cautious in hiring. Recent proposals to help match labour supply and demand, to improve its mobility and the effectiveness of the state-run employment agencies could also help increase the flexibility of the labour market.

Finlan
its

The Finnish economy has performed remarkably well for a decade. GDP growth has consistently been somewhat better than the OECD average. Unemployment has remained relatively stable at around 5%, well below the OECD and European averages. Inflation has been roughly in line with the rest of Europe, serious external imbalances have been avoided and the public debt has remained low.

In early 1986, the temporary weakening of demand for forest products, unrest in the labour market and reduced exports to the Soviet Union under bilateral trade arrangements as a result of lower oil prices caused some slowdown in GDP growth, although exports to Western markets picked up strongly from the second half of 1986. Domestic demand accelerated sharply in 1987: private consumption was boosted by high growth in real incomes, expansionary fiscal policies and easier access to credit following financial deregulation. Credit-financed consumption is also stimulated by the tax system which allows interest payments to be deductible. And private investment has recovered in response to the booming exports to Western markets and strong domestic demand. As a result, imports have risen rapidly and the current account has deteriorated.

The slowdown of growth in the OECD area following the stock market crash of October 1987 is likely to affect Finnish exports adversely. Furthermore, all important wood products and paper industry exports are facing stronger competition from North American producers because of the

d: Economy...

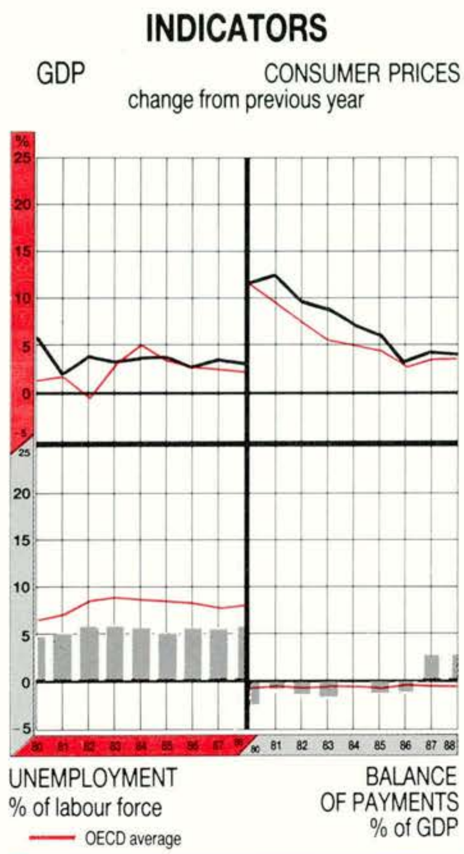
lower dollar; in addition, there is a risk that cost developments at home will jeopardise competitiveness.

The Finnish Government has already indicated to the employers' and workers' organisations that there will be little scope for wage increases in 1988. As a sign of its determination, it has adjusted tax brackets for inflation by only 2%. This decision will, in all probability, entail a tightening of fiscal policy, since wages, because of existing commitments, will rise by approximately 5%, even without any new wage increases.

Monetary policy is expected to result in interest rates which may seem high in view of the importance of improving competitiveness and stimulating business investment but nevertheless appear lower than may be necessary to check the growth of private consumption.

Medium-term prospects and existing constraints on policy may run counter to the Government's plan for a return to equilibrium in the balance-of-payments in the period up to 1992. And balance-of-payments considerations aside, the room for manœuvre in fiscal policy appears to be restricted by the importance of avoiding increases in government debt and the relatively heavy burden of taxation.

The principal contribution towards keeping the economy on a sustainable medium-term growth path, despite likely adverse international developments, can thus mainly be expected from policies to improve the supply side and thereby competitiveness. Wage moderation would therefore seem essential. But institutional features of the Finnish labour market may not help achieve this end. High productivity growth and buoyant demand in industry have weakened employers' resistance to wage demands, and strong egalitarian attitudes among labour unions have increasingly led to leapfrogging in wage negotiations.



Wages for public-sector employees, whose numbers have increased rapidly in the last ten years, pose a special difficulty since there are no clear-cut links between employment and the competitive remuneration of labour as exist for the sectors of the economy that are exposed to competition. Such a link could be provided by the introduction (following the recent example of Sweden) of cash limits on public-sector spending.

Population trends point to virtual stagnation of the labour force, with some specific skills already in short supply. Policies to increase the mobility of labour may therefore be called for and, in particular, the expansion and improvement of adult education and retraining.

The reduction of oligopolistic market power and the enhancement of competition among domestic suppliers would also appear to be important to reduce inflationary pressures in the Finnish economy. Similarly, the present system of agricultural price-setting may require revision: Finland has some of the highest prices for food in the OECD area.

The authorities have been very active in stimulating R&D activity. And the tax reform that has been announced could provide an opportunity to influence future productivity growth. It aims to improve the allocation of capital through changes in the taxation of investment income which render the tax system less discriminatory and better balanced. Furthermore, the reduction in marginal tax rates on contractual income could help moderate wage demands. The introduction of a VAT system might also be considered. The current system of indirect taxes, which relies mainly on sales taxes, remains distortive, and thus adversely affects the competitiveness of Finnish exports.

Some of the factors which helped industrial growth in the past may now have been exhausted. One obvious element is trade with the Soviet Union, where low oil prices have impaired prospects for Finnish exports, at least over the next few years–although low oil prices also benefit the Finnish economy which is very energy-intensive. And the high real interest rates may slow down growth of capital stock, although the effect of lower investment on unemployment may be alleviated by a reduction in the substitution of capital for labour.

The Finnish economy must therefore be expected to face continued pressure for adaptation. That will call for further efforts in modernising and rationalising production processes, not least international integration. And structural adjustment is required if the Finnish economy is to adapt itself efficiently to changing patterns of demand, especially where demand in traditional markets is likely to be saturated. It is thus essential that industrial policy continue to be non-interventionist.

Sources: **OECD Economic Surveys: United States, Portugal** *and* **Finland.** *OECD, Paris, 1988.*

...and Environment

Economic development and the state of the environment are closely linked, particularly in Finland where the economy depends, even more than most, on its own natural resources, forests especially. Because Finland's environment is experiencing the pressures associated with economy activity, emissions of SO_x and NO_x into the atmosphere and discharges of oxidisable matter in water have been higher (per unit of GDP) than Scandinavian, Western European or OECD averages. This is hardly surprising: between 1975 and 1985 Finland's GDP increased by 33% (against 24% in OECD European countries), its industrial production by 48% (22%), energy consumption by 24% (13%) and the number of road vehicles by 53% (24%).

These pressures from economic activity added to the effects of pollution from abroad, and the resultant pressure from public opinion led the Finnish government to take steps to improve environmental protection while continuing to ensure sustainable use of natural resources.

This is the context in which the Finnish Government asked the OECD to review its policy to date and suggest policies for the future.[1] The conclusions of the review are clear: although environmental protection has improved in recent years, Finland must reinforce the effectiveness of its policy of protection and, especially, take increased account of environmental concerns.

Economic Development and Environmental Impact

There is currently no obligation in Finland to assess the impact on the environment of major economic programmes, and it usually receives only limited attention. The report of the World Commission for Environment and Development[2] and the OECD review together provide an opportunity to examine in more detail, assess and align economic goals and environmental protection. Some progress, though limited, has already been achieved: low- and non-polluting technology in some industries, energy savings in buildings, combined production of heat and electricity, 'softer' forestry and farming practices. Such efforts could well be extended to all sectors of the national economy.

Obstacles to both environmental protection and economic efficiency should also be identified and removed. At present, both market and government fail to reflect, to any significant extent, the true cost of pollution and of the use of natural resources to the Finnish economy and society as a whole, despite certain advances in 'internalising' the external costs of pollution and natural resources. Charges for waste water have much reduced its production. Provision was made recently for gravel and sand extraction sites to be landscaped at the expense of the companies using them. The 'Polluter Pays' principle (for pollution) and the 'User Pays' principle (for natural resources) should nonetheless be extended and given more prominence in Finland's environment policy.

Planning for the Environment

Government planning procedures in Finland do not include any systematic impact on the assessment of their environment. Moreover, communications between the relatively new Ministry of the Environment (founded in 1983) and the Ministries responsible for such sectors as forestry, agriculture, energy, industry, transport, regional planning and financial and economic planning have often been too limited, although the situation is improving.

Although project appraisal has occasionally been accompanied in Finland by some degree of ecological assessment, no systematic evaluation of environmental impact is made, information is often missing or incomplete and, when it does exist, the subsequent decisions rarely take note of environmental assessments.

In the past few years, nonetheless, valuable preparatory work has been undertaken: co-operation between authorities responsible for the environment and those responsible for some major development projects (highway authorities, for example) has been intensified, advisory bodies have been established and pilot projects undertaken.

On the basis of these efforts and the experience of other countries, the OECD recommends that formal procedural requirements—mandatory but simple—for environmental impact assessment be created and applied at an early stage in the decision-making process.

The closer integration of environmental concerns with the administration of the economy requires that the environmental effectiveness of a number of regulatory and economic instruments be examined:

- Fuel pricing and fiscal policies must consider, for example, the relative taxation of leaded and unleaded petrol, and of petrol compared with diesel fuel, the choice between short-term considerations (following international market fluctuations) and long-term (promoting both energy conservation and environmental protection).
- The extent of explicit subsidies to public transport and of implicit ones to private vehicles through the non-internalisation of social costs—in air pollution, noise, congestion and accidents—must be examined if their effect on economic and environmental efficiency is to be determined. Organisational and regulatory aspects of goods transport may also significantly influence the means of transport and thus its environmental impact.

Energy Production and Consumption

Not only has energy consumption increased in Finland; its structure has changed, too, away from oil towards other fossil fuels (peat, wood, coal and gas) and towards nuclear energy, together with increased reliance on indigenous energy sources (peat, hydro-electricity). Accordingly, the main environmental concerns derived from energy production and use in Finland are the high degree of air pollution from the burning of fossil fuels, the destruction of the environment and natural habitats by flooding for hydro-power and by peat extraction, and the safety of nuclear power-plants and disposal problems posed by radio-active waste.

Progress is particularly noteworthy in three areas: the development and use by several industries of technology which produces little or no air pollution; large-scale combined heat and electricity production, resulting in improved energy efficiency; larger and more cost-effective production of

energy from the burning of waste liquors and waste wood in the pulp industry.

In spite of these advances, Finland continues to have very large energy requirements and is highly dependent on energy imports. The goals of energy and environment policies alike make energy savings particularly necessary, and even call for a thorough examination of all the more energy-saving options for economic developments. To integrate environmental concerns into economic decision-making in the energy sector, five developments in particular should be encouraged:

- air pollution should be monitored— the high rates of sulphur and nitrogen emission may, through acidification, damage Finland's forests and its forestry industry; this, moreover, requires international co-operation
- the cost of damage suffered by the environment as a result of energy-related activities must be internalised by use of economic and regulatory instruments
- comprehensive environmental assessment must be made when considering alternatives to both indigenous and non-indigenous fuels
- the damage caused by energy projects must be reduced by requiring environmental impact assessments to be made at a stage early enough to have some real effect
- the various kinds of license required by new energy facilities should be harmonised nationally, and all licences obtained before construction can begin.

Forestry and the Future

Although their relative importance is decreasing, forest products still represent some 36% of Finnish exports. And in remote areas the forest is a major source of employment and economic activity.

During the 1950s and '60s, Finland exploited its forest resources intensively, using 'hard' techniques such as large-scale clear-cuttings, drainage, deep ploughing, etc. This contributed to Finland's economic growth but also had a deleterious effect on the environment. A considerable effort has been made lately to change matters and there is today a consensus among the various individuals and organisations involved in forestry (authorities, owners, private companies) on two basic principles:

- forest management must maintain a balance between the various uses of the forest–wood production, protection and leisure activities
- economic development must be based on a reasonable use of natural resources and must not erode the heritage of future generations.

In the future, an effort will have to be made to maintain a balance between the effects of different trends:

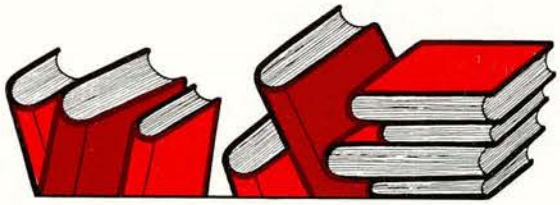
- the objective of increasing wood production (some of the management techniques used currently may prove to be harmful to the environment)
- increasing public demand for nature protection and recreational uses of the forest, especially for second houses
- the decrease in the average size of plots of land owned, and thus a potentially decrease in the standards of management, because of the growing proportion of owners who are town-dwellers
- research efforts towards the development of 'soft' forestry techniques, able to reconcile increased production with environmental protection and recreation.

If forestry and environmental policies are to be satisfactorily integrated, two developments are essential:

- the further improvement in communication between the Ministry of Agriculture and Forestry and forest administrations on the one hand, and the Ministry of the Environment on the other
- the continuation and elaboration of the recommendations and guidelines to owners, explaining in practical terms how to maintain or improve the balance between the multiple uses of their forests.

Lastly, it is proposed that consideration be given to enacting legislation setting out obligations (e.g., allowing old trees which are interesting 'ecotopes' to stand) or, conversely, prohibitions (e.g., on draining ecologically valuable zones, deep ploughing in recreation areas, large clear-cutting in sensitive areas, logging in delicate landscapes). ■

1. **Environmental Policies in Finland**, *OECD, Paris, 1988.*
2. *Our Common Future*, World Commission for Environment and Development, UNO, Oxford University Press, 1987.



New OECD Publications

General Economic Problems

OECD ECONOMIC SURVEYS
– ISSN 0376-6438
Detailed annual surveys of economic trends and prospects for OECD countries.
1987–1988 Series
(18 to 20 surveys to be published):

BELGIUM/LUXEMBOURG (March 1988)
(10 88 29 1) ISBN 92-64-13052-7, 136 pp.

FINLAND (April 1988)
(10 88 31 1) ISBN 92-64-13055-1, 130 pp.
Each booklet F50 £6.00 US$11.00 DM22
Subscription to the 1987–1988 Series
F400 £40.00 US$80.00 DM180

STRUCTURAL ADJUSTMENT AND ECONOMIC PERFORMANCE
(February 1988)
(03 87 02 1)ISBN 92-64-13006-3, 372 pp.
F195 £19.50 US$39.95 DM84

Energy

NEA (Nuclear Energy Agency):

NEAR-FIELD ASSESSMENT OF THE REPOSITORIES FOR LOW AND MEDIUM LEVEL RADIOACTIVE WASTE. Proceedings of an NEA Workshop organised in co-operation with the National Cooperative for the Storage of Radioactive Waste, NAGRA, Baden, Switzerland, 23–25 November 1987
(March 1988)
(66 88 02 3)ISBN 92-64-03060-3, 314 pp.
F200 £23.40 US$44.00 DM86

IMPLICATIONS OF NUCLEAR SAFETY REQUIREMENTS FOR THE PROTECTION OF WORKERS IN NUCLEAR FACILITIES. Report by an NEA Group of Experts
(March 1988)
(66 88 04 1)ISBN 92-64-13059-4, 114 pp.
F100 £12.00 US$22.00 DM43

Development and Aid

EXTERNAL DEBT. Definition, Statistical Coverage and Methodology. A Report by an International Working Group on External Debt Statistics of The World Bank, International Monetary Fund, Bank for International Settlements, OECD
(March 1988)
(43 88 02 1) ISBN 92-64-13039-X, 178 pp.
F60 £7.00 US$12.00 DM26

Development Centre Studies

COMMUNITY ACTION FOR FAMILY PLANNING: A Comparison of Six Project Experiences (February 1988)
(41 87 05 1)ISBN 92-64 13032-2, 134 pp.
F100 £10.00 US$21.00 DM43

DEVELOPING COUNTRY DEBT: THE BUDGETARY AND TRANSFER PROBLEM by Helmut Reisen and Axel Van Trotsenburg (March 1988)
(41 88 01 1)ISBN 92-64-13053-5, 196 pp.
F120 £14.00 US$26.40 DM52

OECD STATISTICS ON MICRO-COMPUTER

Statistics from a number of OECD publications are available in computer-readable format for use on IBM-PC (or compatible) micro-computers. They offer subscribers easy, rapid access to a wide variety of economic and financial data on OECD member countries.

Data are provided on 5 ¼ double-sided, double-density diskettes in an OECD-specific format. Each diskette contains a simple program for translating the data into DIF, SYLK, LOTUS WKS or LOTUS PRN formats, for easy transfer to popular spreadsheet packages.

Statistical data currently available on micro-computer diskette include:

THE ECONOMIC OUTLOOK
Annual subscription, FF1,900 US$400
ANNUAL NATIONAL ACCOUNTS
Annual subscription, FF1,200 US$250
QUARTERLY NATIONAL ACCOUNTS
Annual subscription, FF2,200 US$460
MAIN ECONOMIC INDICATORS
Annual subscription, FF6,000 US$1,260
MAIN ECONOMIC INDICATORS
Historical Series
Price per decade set, FF2,000 US$420
EXTERNAL DEBT STATISTICS
Annual subscription, FF500 US$110
GEOGRAPHICAL DISTRIBUTION OF FINANCIAL FLOWS TO DEVELOPING COUNTRIES
Annual subscription, FF1,200 US$250
INTEREST RATES ON INTERNATIONAL RATES ON INTERNATIONAL AND DOMESTIC MARKETS
Annual subscription, FF2,500 US$525
STATISTICS OF EXTERNAL INDEBTNESS: BANK AND TRADE-RELATED NON-BANK EXTERNAL CLAIMS ON INDIVIDUAL BORROWING COUNTRIES AND TERRITORIES
Annual subscription, FF500 US$110
LEADING INDICATORS AND BUSINESS SURVEYS
Annual subscription, FF5,000 US$1,100
MAIN SCIENCE AND TECHNOLOGY INDICATORS
Annual subscription, FF500 US$110

Many statistical files are available also on magnetic tape for use on mainframe computers. For more information contact:

OECD Publication and Information Centres
in Washington, Tokyo or Bonn
or
Clients Services Unit
OECD Publications Service, Paris

Industry, Science and Technology

INNOVATION POLICY: Western Provinces of Canada (March 1988)
(92 88 01 1)ISBN 92-64-13056-X, 108 pp.
F75 £8.50 US$16.50 DM32

REVIEWS OF NATIONAL SCIENCE AND TECHNOLOGY POLICY: DENMARK (April 1988)
(92 88 02 1)ISBN 92-64-13058-6, 120 pp.
F90.00 £10.50 US$19.80 DM39

Financial and Fiscal Affairs

FINANCIAL MARKET TRENDS
(Issued 3 times per year)
No. 39, February 1988
Special Feature
East-West Financial Relations: Recent Developments and Medium-Term Prospects
(27 88 01 1) 148 pp.
Per issue F70 £7.00 US$14 DM58
1988 Subscription F130 £13.00 US$58 DM58

BANK PROFITABILITY. Statistical Supplement. Financial Statements of Banks 1982/1986 (March 1988)
(21 88 01 3)ISBN 92-64-02969-9, 96 pp.
F80 £9.40 US$17.60 DM35

THE TAXATION OF FRINGE BENEFITS
(March 1988)
(23 88 01 1)ISBN 92-64-13054-3, 104 pp.
F60 £7.00 US$13.20 DM26

Transport and Road Research

TRANSPORTING HAZARDOUS GOODS BY ROAD (February 1988)
(77 88 03 1)ISBN 92-64-13051-9, 144 pp.
F95 £11.20 US$21.00 DM41

Environment

ENVIRONMENTAL POLICIES IN FINLAND
(May 1988)
(97 88 02 1)ISBN 92-64-13057-8, 230 pp.
F125 £14.70 US$27.50 DM54.00

TRANSPORT AND THE ENVIRONMENT
(April 1988)
(97 88 01 1)ISBN 92-64-13045-4, 130 pp.
F95 £11.20 US$21.00 DM41

Statistics

FOOD CONSUMPTION STATISTICS 1976–1985/STATISTIQUES DE LA CONSOMMATION DES DENRÉES ALIMENTAIRES 1976-1985 (March 1988)
bilingual.
(51 88 02 3)ISBN 92-64-03061-1, 530 pp.
F295 £35.00 US$65.00 DM127

MAIN SCIENCE AND TECHNOLOGY INDICATORS*
1988 Subscription ISSN 1011-792X
F150 £18.00 US$33.00 DM65

* A FREE SPECIMEN covering the period 1981–1987 is available on request.

Where to obtain OECD Publications

ARGENTINA
Carlos Hirsch S.R.L.,
Florida 165, 4° Piso,
(Galeria Guemes) 1333 Buenos Aires
Tel. 33.1787.2391 y 30.7122

AUSTRALIA
D.A. Book (Aust.) Pty. Ltd.
11-13 Station Street (P.O. Box 163)
Mitcham, Vic. 3132 Tel. (03) 873 4411

AUSTRIA
OECD Publications and Information
Centre, 4 Simrockstrasse,
5300 Bonn (Germany) Tel. (0228) 21.60.45
Gerold & Co., Graben 31, Wien 1 Tel. 52.22.35

BELGIUM
Jean de Lannoy,
Avenue du Roi 202
B-1060 Bruxelles Tel. (02) 538.51.69

CANADA
Renouf Publishing Company Ltd.
1294 Algoma Road, Ottawa, Ont. K1B 3W8
Tel. (613) 741-4333
Stores:
61 Sparks St., Ottawa, Ont. K1P 5A6
Tel. (613) 238-8985
211 Yonge St., Toronto, Ont. M5B 1M4
Tel. (416) 363-3171
Federal Publications Inc.,
301-303 King St. W.,
Toronto, Ont. M5V 1J5
Tel. (416)581-1552
Les Éditions La Liberté Inc.,
3020 Chemin Sainte-Foy,
Sainte-Foy, P.Q. G1X 3V6,
Tel. (418)658-3763

DENMARK
Munksgaard Export and Subscription Service
35, Nørre Søgade, DK-1370 København K
Tel. +45.1.12.85.70

FINLAND
Akateeminen Kirjakauppa,
Keskuskatu 1, 00100 Helsinki 10 Tel. 0.12141

FRANCE
OECD
Mail Orders:
2, rue André-Pascal, 75775 Paris Cedex 16
Tel. (1) 45.24.82.00
Bookshop : 33, rue Octave-Feuillet, 75016 Paris
Tel. (1) 45.24.81.67 or (1) 45.24.81.81
Librairie de l'Université,
12*a*, rue Nazareth,
13602 Aix-en-Provence Tel. 42.26.18.08

GERMANY
OECD Publications and Information
Centre, 4 Simrockstrasse,
5300 Bonn Tel. (0228) 21.60.45

GREECE
Librairie Kauffmann,
28 rue du Stade,
105 64 Athens Tel. 322.21.60

HONG KONG
Government Information Services,
Publications (Sales) Office,
Information Services Department
No. 1 Battery Path, Central

ICELAND
Snæbjörn Jónsson & Co., h.f.,
Hafnarstræti 4 & 9,
P.O.B. 1131 – Reykjavik Tel. 13133/14281/11936

INDIA
Oxford Book and Stationery Co.,
Scindia House, New Delhi 110001 Tel. 331.5896/5308
17 Park St., Calcutta 700016 Tel. 240832

INDONESIA
Pdii-Lipi, P.O. Box 3065/JKT. Jakarta Tel. 583467

IRELAND
TDC Publishers - Library Suppliers,
12 North Frederick Street, Dublin 1
Tel. 744835-749677

ITALY
Libreria Commissionaria Sansoni,
Via Lamarmora 45, 50121 Firenze
Tel. 579751/584468
Via Bartolini 29, 20155 Milano Tel. 365083
La diffusione delle pubblicazioni OCSE viene assicurata dalle principali librerie ed anche da:
Editrice e Libreria Herder,
Piazza Montecitorio 120, 00186 Roma Tel. 6794628
Libreria Hœpli, Via Hœpli 5, 20121 Milano Tel. 865446
Libreria Scientifica Dott. Lucio de Biasio "Aeiou"
Via Meravigli 16, 20123 Milano Tel. 807679

JAPAN
OECD Publications and Information Centre,
Landic Akasaka Bldg.,
2-3-4 Akasaka, Minato-ku,
Tokyo 107 Tel. 586.2016

KOREA
Kyobo Book Centre Co. Ltd.,
P.O.Box: Kwang Hwa Moon 1658,
Seoul Tel. (REP) 730.78.91

LEBANON
Documenta Scientifica/Redico,
Edison Building, Bliss St.,
P.O.B. 5641, Beirut Tel. 354429-344425

MALAYSIA/SINGAPORE
University of Malaya Co-operative Bookshop Ltd.,
7 Lrg 51A/227A, Petaling Jaya,
Malaysia Tel. 7565000/7565425
Information Publications Pte Ltd
Pei-Fu Industrial Building,
24 New Industrial Road No. 02-06
Singapore 1953 Tel. 2831786, 2831798

NETHERLANDS
SDU Uitgeverij
Christoffel Plantijnstraat 2
Postbus 20014
2500 EA's-Gravenhage Tel. 070-789911
Voor bestellingen: Tel. 070-789880

NEW ZEALAND
Government Printing Office Bookshops:
Auckland: Retail Bookshop,
25 Rutland Street,
Mail Orders, 85 Beach Road
Private Bag C.P.O.
Hamilton: Retail: Ward Street,
Mail Orders, P.O. Box 857
Wellington: Retail, Mulgrave Street, (Head Office)
Cubacade World Trade Centre,
Mail Orders, Private Bag
Christchurch: Retail, 159 Hereford Street,
Mail Orders, Private Bag
Dunedin: Retail, Princes Street,
Mail Orders, P.O. Box 1104

NORWAY
Tanum-Karl Johan
Karl Johans gate 43, Oslo 1
PB 1177 Sentrum, 0107 Oslo 1 Tel. (02) 42.93.10

PAKISTAN
Mirza Book Agency
65 Shahrah Quaid-E-Azam, Lahore 3 Tel. 66839

PHILIPPINES
I.J. Sagun Enterprises, Inc.
P.O. Box 4322 CPO Manila
tel. 695-1946, 922-9495

PORTUGAL
Livraria Portugal,
Rua do Carmo 70-74, 1117 Lisboa Codex.
Tel. 360582/3

SINGAPORE/MALAYSIA
See "Malaysia/Singapore"

SPAIN
Mundi-Prensa Libros, S.A.,
Castelló 37, Apartado 1223, Madrid-28001
Tel. 431.33.99
Libreria Bosch, Ronda Universidad 11, Barcelona 7
Tel. 317.53.08/317.53.58

SWEDEN
AB CE Fritzes Kungl. Hovbokhandel,
Box 16356, S 103 27 STH,
Regeringsgatan 12,
DS Stockholm Tel. (08) 23.89.00
Subscription Agency:
Wennergren-Williams AB,
Box 30004, S104 25 Stockholm Tel. (08)54.12.00

SWITZERLAND
OECD Publications and Information Centre
4 Simrockstrasse
5300 Bonn (Germany) Tel. (0228) 21.60.45
Librairie Payot,
6 rue Grenus, 1211 Genève 11 Tel. (022) 31.89.50
United Nations Bookshop
Palais des Nations
1211 – Geneva 10 Tel. (022) 34.60.11 (ext. 48.72)

TAIWAN
Good Faith Worldwide Int'l Co., Ltd.
9th floor, No. 118, Sec.2 Chung Hsiao E. Road
Taipei Tel. 391.7396/391.7397

THAILAND
Suksit Siam Co., Ltd.,
1715 Rama IV Rd.,
Samyam Bangkok 5 Tel. 2511630
INDEX Book Promotion & Service Ltd.
59/6 Soi Lang Suan, Ploenchit Road
Pathumwan, Bangkok 10500
Tel. 250-1919, 252-1066

TURKEY
Kültur Yayinlari Is-Türk Ltd. Sti.
Atatürk Bulvari No: 191/Kat. 21
Kavaklidere/Ankara Tel. 25.07.60
Dolmabahce Cad. No: 29
Besiktas/Istanbul Tel. 160.71.88

UNITED KINGDOM
H.M. Stationery Office,
Postal orders only: (01)211-5656
P.O.B. 276, London SW8 5DT Tel. (01) 622.3316, or
personal callers:
49 High Holborn
London WC1V 6HB
Branches at: Belfast, Birmingham,
Bristol, Edinburgh, Manchester

UNITED STATES
OECD Publications and Information Centre,
2001 L Street, N.W., Suite 700,
Washington, D.C. 20036-4095 Tel. (202) 785-6323

VENEZUELA
Libreria del Este,
Avda F. Miranda 52, Aptdo. 60337,
Edificio Galipan, Caracas 106
Tel. 951.17.05/ 951.23.07/951.12.97

YUGOSLAVIA
Jugoslovenska Knjiga,
Knez Mihajlova 2, P.O.B. 36, Beograd Tel. 621.992

Orders and inquiries from countries where Distributors have not yet been appointed should be sent to OECD Publications Service, 2, rue André-Pascal, F 75775 Paris Cedex 16.

44375

Director : Lucien Dantin

Printed in France

OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

MEMBER COUNTRIES :

AUSTRALIA / AUSTRIA / BELGIUM / CANADA / DENMARK / FINLAND / FRANCE / GERMANY / GREECE / ICELAND / IRELAND / ITALY / JAPAN / LUXEMBOURG / NETHERLANDS / NEW ZEALAND / NORWAY / PORTUGAL / SPAIN / SWEDEN / SWITZERLAND / TURKEY / UNITED KINGDOM / UNITED STATES

SPECIAL STATUS COUNTRY : YUGOSLAVIA

OECD Council Meets at Ministerial Level

Communiqué

The Council of the OECD met on 18 and 19 May at ministerial level. The meeting was chaired by Kjell-Olof Feldt, Minister of Finance, and Mrs Anita Gradin, Minister for Foreign Trade, of Sweden. The Vice-Chairmen were James A. Baker III, Secretary of the Treasury of the United States, and Panayotis Roumeliotis, Minister of National Economy of Greece. The following records the agreements reached by Ministers.

Achieving Better Economic Performance and Job Creation

There are encouraging features in the current economic situation:

● growth in OECD countries quickened in the second half of 1987, and expansion is entering its sixth year; world trade is growing robustly

● average OECD inflation has decelerated over the past years and now stands at a low rate

● OECD economies proved more resilient in the face of the October stock market crisis than expected

● major external imbalances are narrowing gradually

● international co-operation has been reinforced–notably through efforts to achieve greater co-ordination of economic policies and to foster greater stability of exchange rates following accords among the major industrialised countries and through the new round of multilateral trade negotiations

● tax reform, deregulation, reduction of subsidies and other structural reforms undertaken in member countries are improving the functioning of economies

● while most developing countries are still facing difficult problems, the situation of some of them is being eased by stronger growth of world trade and firmer commodity prices, adjustment policies pursued by many of the developing countries themselves, and a widening menu of techniques dealing with debt problems.

OECD governments will build on these developments in order to enhance job-creating, non-inflationary growth and to sustain it over the forthcoming years. There are no grounds for complacency. Important challenges remain:

● to ensure the continued reduction of large external imbalances which remain a major source of uncertainty and potential instability

● to reduce unemployment, which continues to be unacceptably high in many countries, notably in Europe

● to remain vigilant against any signs of a renewal of inflationary pressures

● to make steady progress in reducing structural rigidities and distortions within economies and internationally

● to strengthen the open, multilateral trading system

● to combat and curb protectionism in all its manifestations

● to co-operate with developing countries in addressing their problems and in working towards the full realisation of their economic potential

● to ensure that economic growth is compatible with environmental concerns.

Policy Directions

Macro-economic policies and structural adjustment policies support each other and must be exploited to the full. Improving the quality of structures and the flexibility of markets strengthens the responsiveness of economies, enhances the effectiveness of macro-economic management and improves the prospects for strong and sustainable growth. In turn, such prospects make structural adjustment more attractive and rewarding. International co-operation is an important ingredient of both macro- and micro-economic policies.

All OECD governments will contribute to the co-operative effort through the pursuit of monetary and fiscal policies aimed at supporting job-creating, non-inflationary growth, correcting external imbalances, containing budget deficits, striking appropriate balances between domestic saving and investment, maintaining orderly financial markets and achieving greater exchange-rate stability. They will intensify their action, nationally and internationally, to reform structural policies especially in such areas as trade, agriculture, industrial subsidies, tax systems, financial markets and international investment. In this context, they consider it important to promote widespread understanding and acceptance of structural reforms among business, labour and the public at large. Dialogue involving social partners has made a contribution to this end in a number of countries.

Ministers welcome the report on the reform of structural policies by the Economic Policy Committee[1] and endorse the priorities identified in Section II of this report. They invite the Secretary-General to develop further and strengthen the OECD's surveillance of structural reform and call for a report at next year's ministerial meeting.

For the **United States,** the essential requirement is to reduce further the Federal budget deficit. The US Administration and Congress are agreed on this objective, and action will be taken to ensure that the budget deficit is brought down substantially in 1989 and subsequent years. Structural reforms will be pursued with a view to improving the overall investment/saving balance, to strengthening the international competitiveness of the industrial sector and to reducing government spending, as well as removing distortions created by policies–for example, agricultural support. Monetary policy will be guided by the objective of ensuring that the economy remains on a path towards price stability, while nurturing orderly conditions in financial and foreign exchange markets. Continued budget deficit reduction and stronger private saving will ease pressures on monetary policy and will forestall domestic inflation pressures. Moreover, these actions will make room for continued strong expansion of US exports and will contribute to a reduction of the US current account deficit and hence to greater financial stability. Resisting protectionism remains a priority objective, as is the early implementation of the Free Trade Agreement with Canada in conformity with international obligations and the objective of maintaining and strengthening the open, multilateral trading system.

In **Japan,** the current process of growth led by strong domestic demand and accompanied by rapidly rising imports, which has been contributing to international adjustment, needs to be sustained. The short-term outlook in this respect is favourable. The Japanese Government will seek to ensure that this process continues. Fiscal policy will remain flexible within the medium-term framework of fiscal consolidation. Monetary policy will be conducted with care to contain the provision of

liquidity within ranges consistent with non-inflationary growth of demand, while continuing to contribute to external adjustment. Sustained structural reforms will contribute to reduced inflation risks and to adjustment, thereby expanding consumption opportunities and increasing imports. Policies are being designed and implemented, *inter alia*, to improve market access and to further promote deregulation as well as structural adjustment in wide-ranging fields including agriculture, land-use policy, the tax system and the distribution system.

In **Europe,** structural reforms will be continued and intensified. These reforms, combined with flexible implementation of macro-economic policies, are essential to maintain growth in demand and production and to enhance the economic potential of Europe. This will build confidence, improve the responsiveness of economies, create a better climate for investment and thereby strengthen the prospects for non-inflationary growth and better employment. While taking account of the differences between countries, European governments will continue to co-operate in the conduct of their structural and macro-economic policies so as to maximise the benefits from reform and to increase the scope for policy action by individual countries.

The programme of the European Community to complete the internal EC market by 1992, together with joint efforts by the Community and EFTA countries to deepen and extend their co-operation beyond the current free-trade agreements to create a European Economic Space, are imparting a strong momentum to structural policy reform and to growth. These moves will be taken in line with the objective of maintaining and strengthening the open, multilateral trading system and in conformity with international obligations.

Particular attention will be given by European Governments to the following reforms:

- increasing the flexibility of markets, including continuing liberalisation and integration of financial markets, by reducing regulation and, more generally, removing barriers to internal and external competition
- reforms of agricultural policies, including the continuing implementation of those recently agreed in the EC aimed at achieving a better balance between supply and demand in agricultural markets
- re-orienting government finances away from support of agriculture and industry towards reduced taxation and stronger, growth-supporting infrastructure investment
- reducing distortions created by tax systems, including the reduction in marginal rates of taxation where these remain excessive
- improving the flexibility of labour markets through education, training and other measures, including new legislation where required.

These reforms will create expanding opportunities for innovation and employment. They will also contribute to dissipating inflationary risks and to an environment conducive to lower interest rates. Stepping up the pace of structural reform in Germany will, *inter alia,* strengthen domestic demand and contribute to a reduction of its persistently large current account surplus and hence to a better distribution of external balances within Europe and globally. Mutually supportive fiscal and monetary policies in Europe will take full advantage of the scope for growth created by structural reforms and contribute to a climate of confidence, productive investment, price stability and lower unemployment.

Canada, New Zealand and **Australia** will pursue thorough structural reform. In the period ahead, Canada will undertake a second stage of tax reform and implement the recently concluded Free Trade Agreement with the United States in conformity with international obligations and in line with the objective of maintaining and strengthening the open, multilateral trading system. In addition, Canada will continue to give priority to reducing its budget deficit. It will also pursue further reforms in a broad range of sectors, including agriculture, to reduce economic distortions. New Zealand, which has undertaken the most far-reaching market reforms of any OECD country to open its economy to international competition and dismantle extensive government intervention in domestic markets, will continue to implement this programme. Australia will continue its broad programme of structural reform, including deregulation of domestic markets and extending significantly exposure to international competition.

Developing Countries

The situation and performance of developing countries vary widely. However, central to the prospects of all is a global economic environment conducive to strong and sustainable growth. The OECD countries have made a commitment to this objective. They will do all possible to ensure more open markets for the exports of developing countries, and they consider it important to maintain and as far as possible increase both official development assistance, particularly in grant form, and other financial flows. They will also encourage industrial and technological co-operation, and direct investment.

The developing countries, in turn, have important responsibilities in improving their own performance and policies, strengthening their credit-worthiness, creating a more attractive climate for investment and ensuring more open markets. The necessary, far-reaching domestic policy efforts are often difficult. Nonetheless they are essential. Many countries have already embarked on major growth-oriented reforms, whose success, in part, depends upon continued OECD support.

A number of middle-income countries with large debt burdens continue to have difficulty in achieving the financial stability and resumed investment necessary for sustainable growth. Generalised approaches or across-the-board measures cannot provide the appropriate answer to their differing problems. All parties involved must therefore continue efforts, on a case-by-case basis, to deal efficiently with debt problems and new financing needs, including a broad 'menu' of market-oriented options for commercial bank debt. Such approaches should take due account of the adjustment efforts of the developing countries concerned. To support these directions for the debt strategy, it is important that the IMF, the World Bank and other international financial institutions be equipped with adequate facilities and resources. In this regard, Ministers welcome the recent agreement on a General Capital Increase for the World Bank and the ongoing adaptation of the IMF's policies and instruments aimed at strengthening its central role in the debt strategy. They also welcome the efforts made in the Paris Club.

The important contribution that international direct investment, too, can make to adjustment and growth is now gaining wider recognition in developing countries. However, significant obstacles to the flow of direct investment remain and should be addressed by both host and home countries, and through co-operative action. The welcome new activities of the Multilateral Investment Guarantee Agency and the International Finance Corporation will help stimulate international investment in developing countries.

For the poorer developing countries the IDA replenishment, World Bank co-financing arrangements with bilateral donors and the Enhanced Structural Adjustment Facility of the IMF will help alleviate their situation. Improved terms for consolidating the debt of the poorest developing countries notably in Sub-Saharan Africa are also making a contribution. Nevertheless, debt burdens continue to mount. Proposals to ease these burdens for the poorest countries undertaking structural adjustment efforts therefore merit careful consideration, including, where possible, interest-rate reduction in official reschedulings or alternative measures having a similar impact. Improved

official development assistance, in quality and in quantity, is essential.

Relations with Newly Industrialising Economies

Important actors in the world economy are emerging from among the newly industrialising economies. This is a welcome development. It provides these economies with the opportunity to play an increased role in the co-operative effort to manage the open world economy and confers upon them a greater responsibility in the international adjustment process commensurate with their capacity. Discussions involving these actors–recognising mutual interests and taking into account the diversity of the economies concerned–could contribute to better understanding and the convergence of views on policy co-operation for the continued growth and development of the world economy.

Trade

The world trade picture shows a number of contrasts. Trade is growing robustly. However, protectionist pressures and trade tensions remain strong. While OECD governments have generally resisted these pressures, a fairly significant number of import restrictions have been either extended or introduced; there are still many serious bilateral disputes–though it is encouraging to note a more marked tendency to look for settlements within the GATT framework; the propensity for unilateral measures or bilateral agreements which are sometimes discriminatory remains a particularly serious threat to multilateralism. In order to create an environment conducive to the success of the Uruguay negotiations, resolute efforts will be made by the OECD countries to fight protectionism and to resolve trade frictions on an amicable and non-discriminatory basis. In this context, ministers recognise the need to strengthen the multilateral trading framework and the importance of better functioning of the GATT. Within the Organisation broad-ranging work, including strengthened monitoring of trade policies, will support these efforts.

The Uruguay Round has been proceeding satisfactorily in line with the timetable set in January 1987. A number of important proposals on the issues to be negotiated have been lodged, including on subjects such as agriculture, tropical products, services, intellectual property, safeguards and institutional issues such as dispute settlement and GATT functioning. As they enter their more difficult phase, it is vital to ensure the momentum of these ambitious negotiations, which aim to strengthen the multilateral system and adapt it to the needs of the modern world. The greatest possible advance must be made in the months to come, in all areas of the negotiations, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, member countries should seek to agree on a framework approach on all issues. Thus it will be possible to hold a mid-term review, at the meeting scheduled for December in Montreal, that establishes a solid base for the full and complete success of the negotiations in accordance with the Punta del Este Declaration.

The Uruguay Round should lead to positive results which ensure mutual advantage and increased benefits for all participants. The negotiations must take duly into account the growing and differentiated role of developing countries in the world economy, hence their interests and the responsibilities which they must bear, according to their level of development. In accepting higher levels of obligation within the GATT framework the more advanced developing countries would contribute to, and benefit from, the strengthening of the multilateral system. For developing countries, as for OECD members, trade liberalisation can play a positive role in rationalising and invigorating their economies.

The behaviour of member countries in trade matters will inevitably influence the climate of the Uruguay negotiations. It is essential, therefore, that, in line with commitments made, particularly at Punta del Este, standstill undertakings be strictly adhered to and that efforts be intensified to roll back protectionist measures that have been in force for a number of years. The abuse of anti-dumping and countervailing procedures will have to be avoided.

The adjustment and growth policies which member countries intend to pursue and intensify should also contribute to the success of the Uruguay negotiations by improving the expansion of activity and exchange market stability.

Liberalisation of trade in services remains an important objective for OECD members, because of the growing contribution of marketable services in their economies and those of their trading partners. The Organisation will persevere with its work in this field, particularly on approaches to a multilateral services agreement and on the strengthening of the OECD Codes.

Agriculture

Ministers took note of the joint report of the Agriculture and Trade Committees[2] and endorsed its conclusions. There has been some recent improvement in the market balance for certain commodities, resulting partly from supply control policies or from producer responses to market signals and stock disposal measures, and partly from weather conditions. Despite this improvement, supply in the OECD area, stimulated by policies which prevent an adequate transmission of market signals to farmers, continues to exceed effective demand. The resulting economic and trade problems remain acute. Since the beginning of the decade, according to OECD Secretariat estimates, the cost of agricultural support for the OECD as a whole imposed on taxpayers and consumers has nearly doubled, reaching about 200 billion ECUs per year in 1984-1986. It is difficult to make an assessment of the trend of policies and their consequences over a relatively short period. Some encouraging efforts have been undertaken, but it is clear that there has been only limited progress overall since the Ministerial Council in May 1987. It is therefore imperative that policy reform efforts be strengthened by all member countries as a matter of urgency. In this context it is essential that measures already introduced are underpinned by further positive actions. This will contribute to much-needed structural adjustment as well as to the success of the Uruguay Round.

Further measures will be taken, based upon the principles agreed upon at the last Ministerial Council, to allow market signals increasingly to influence the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support as well as by all other appropriate means, while consideration may be given to social and other concerns. Concerted international action on a multi-country, multi-commodity approach will strengthen the process of reform. Ministers re-affirm that the Uruguay Round is of decisive importance in this context.

The Uruguay Round negotiations are providing a setting within which member countries will continue to seek agreements reinforcing the attainment of viable long-term reform in agriculture as defined by ministers in 1987. It is important that the mid-term review add impetus to the negotiating process in this as in other fields. To this end member countries should seek to agree on a framework approach, in conformity with this Communiqué (above), including short-term as well as long-term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets.

Since trade tensions on agricultural markets remain very serious, notably due to the persistence, and in some cases intensification, of all forms of support, including export subsidies and import restrictions, member countries are urged to take measures in conformity with the Ministerial Communiqué of 1987, including its long-term objective, in order to avoid confrontational and destabilising trade policies.

The Organisation will pursue its work on the monitoring of agricultural reform and the process of structural adjustment in agriculture. In this context, it will carry out

thorough analysis of the effects of measures which are envisaged or have been taken. The improvement and updating of the analytical tools, such as the PSE/CSE and the OECD agricultural model, will be pursued. The Organisation will also study the possible contribution to agricultural reform that might be made by measures such as the quantitative limitation of production or resources used in agriculture; direct income support; other measures aimed at facilitating structural adjustment; and policies for rural development including environmental aspects. The work on the economy-wide effects of agricultural policies in the OECD countries will also be actively pursued and broadened.

Financial Markets

Liberalisation and regulatory reform in financial markets have improved the efficiency of financial intermediation and strengthened competition, thus enlarging the role for market judgements in guiding investment decisions. However, the stock market crisis of October 1987 and, in particular, the speed and pervasiveness with which shocks were transmitted between markets and across countries, have raised concerns about potential vulnerabilities and the limits of policies based on purely national approaches. International co-operation to ensure the smooth working of financial markets will be extended both within the OECD and more widely. The Organisation will intensify its efforts to analyse the nature and functioning of the emerging global financial system and to identify gaps and inadequacies in the coverage and co-ordination of prudential arrangements, especially in the case of securities markets.

International Investment

International investment has a significant role in the promotion of structural adjustment and technical advance, easing payments imbalances and contributing to economic efficiency and growth. Signs of emerging protectionist pressures in the investment area are therefore worrying. Ministers express their determination to resist such protectionism; to maintain an open investment climate; to fulfil their international commitments in this respect, notably those in the OECD Codes; and to strengthen the OECD National Treatment instrument. The review of the 1976 Declaration on International Investment and Multinational Enterprises provides an important opportunity to reinforce the international framework for furthering liberalisation and maintaining an open investment climate in the OECD economies. A progressive step-by-step approach will be developed towards extending the application of National Treatment. Backsliding must be avoided. Ways to set in place an effective process for further liberalisation will be explored. The balance that has characterised the Organisation's approach to international investment questions, including between the different elements of the Declaration, should continue to prevail.

Technology

Technological progress is one of the major driving forces in the development of the world economy. Among the aspects which figure prominently on the policy agenda of member governments are: the process of generation and diffusion of new technologies; their potential contribution to more dynamic economic performance and greater social welfare; the interaction between technology and society; and the implications for environment. Recognising the growing importance of these questions and their international dimension, ministers welcome the broad orientation for the future work of the Organisation contained in the Progress Report of the Secretary-General and invite the Secretary-General to report in due course to the Council at ministerial level. They amso welcome the recent Recommendation by the OECD Council on Principles for International Cooperation in Science and Technology which, reflecting the importance of science and technology to economic growth and social development, will promote openness in this area.

Environment

While taking account of their differing situations, environmental protection and enhancement are important objectives in all member countries. To this end, environmental considerations should be taken fully into account in a balanced and efficient manner in all appropriate areas of governmental decision making, thereby contributing to sustainable growth, as underlined in the report of the World Commission on Environment and Development. The Organisation's work on the integration of environmental and economic considerations in policy-making will be extended and strengthened accordingly. Priority is also placed on continued efforts to address environmental problems of a transboundary nature. Furthermore, the Organisation will intensify its efforts on global issues, including climate-warming, and on environmental degradation in developing countries. In this context, the Organisation should continue its work on developing common approaches to the environmental review of bilateral and multilateral assistance projects as a further contribution to sustainable development.

Education and Training for Better Employment

Occupational adaptability has become increasingly important in the modern workplace. Education systems must be geared to provide all young people with the fundamental competence to acquire skills and to adapt through their working life. Every effort should be made to have public and private opportunities for training and retraining available to meet the needs of all members of the workforce and all those wishing to join it. It is important that work-place opportunities for individual adaptation and redeployment be as widespread as possible. Attention should be given to the problem of the long-term unemployed.

Social Protection

Social protection systems, which are of considerable importance not only for the security and well-being of individuals but also for the efficiency and adjustment capacity of economies, are generally under budgetary constraint. This is particularly the case for publicly funded health care and pensions. These issues will be at the centre of the discussion at the meeting of ministers of social policy on 6-7 July.[3]

Energy

The energy situation has changed considerably over the last several years. In the present circumstances, security of supply in the short term at reasonable conditions is available. Nonetheless, energy security remains a central objective in both the short and the long term, through emergency preparedness and through structural changes leading to a more sustainable energy mix. Structural adjustments are taking place in all energy markets and industries in response to changing supply and demand patterns and prices, and new technologies, and as a result of government policies. Meanwhile, important issues relating to energy trade, to research and development, to environment and safety, to emergency preparedness, and to non-member countries are receiving greater policy attention.

In this situation, agreed energy policies regarding diversification of energy sources, development of indigenous energy resources, greater energy efficiency, enhancement of emergency response mechanisms and further liberalisation of energy trade should be continued. Careful monitoring and analysis of energy developments in member countries and, increasingly, elsewhere in the world will continue, in order to ensure that structural and policy adaptations necessary to maintain energy security take place. ■

1. *Progress and Priorities in the Reform of Microeconomic Policies.*

2. **Monitoring and Outlook of Agricultural Policies, Markets and Trade,** *OECD, Paris, forthcoming summer 1988; see also 'Agricultural Reform: A Long Row to Hoe', pp. 16-18 of this issue of* The OECD Observer.

3. *See 'Towards the "Active Society"', pp. 4-8 of this issue of* The OECD Observer.