OECD Yearbook 2014

BETTER POLICIES FOR BETTER LIVES

RESILIENT
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Inclusive growth, jobs and trust

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Angel Gurría, Secretary-General of the OECD

The economic recovery may finally be gathering some steam in the OECD area, but the world economy is still not firing on all cylinders. High unemployment and widespread underemployment hold back demand, and investment and international trade are sluggish, while credit to the private sector remains tight in several countries. Though growth in China may be holding up, it is below trend in some large emerging economies, such as Brazil and India.

In short, the longest crisis of our lifetimes is not over yet. It is said that a crisis is too important to waste, and for more than six years now the OECD has worked with member and partner countries, international organisations, the G20 and the public to draw lessons and devise policies for a more inclusive, resilient world.

In this fourth *OECD Yearbook*, OECD experts and high-level guests explore these lessons from three main perspectives: inclusive growth, jobs and trust.

Take inclusive growth first. One of the chief lessons of the crisis has been the extent to which inequality breeds exclusion, weakens our structures and undermines economic activity. Moreover, these inequalities had already widened before the crisis.

Today, in OECD countries, the average income of the richest 10% of the population is over nine and a half times that of the poorest, up from seven times 25 years ago. Even in traditionally egalitarian Nordic countries, the income gap has widened.

But inequality goes beyond income. It stifles opportunity and social mobility, and discriminates in areas of health and education. Inequality saps the public's trust in institutions and democracy.

Clearly, OECD countries must not only go for growth, but they must "go inclusive" to turn this vicious circle into a virtuous one. The OECD's Inclusive Growth Initiative highlights a way forward. It reflects our vision of win-win policies that combine strong economic growth with improvements in people's well-being–good health, jobs and skills, and a clean environment. It is multi-dimensional and actionable, and involves all countries, regions and citizens working together to improve these outcomes.

Inclusive growth is about being able to contribute to and share in the fruits of society. Being out of work denies this opportunity, and reducing unemployment is therefore crucial. This is why this *Yearbook* also looks in detail at the employment dimension of the recovery, calling attention to the need to create more and better jobs.

OECD-wide unemployment should decrease slightly this year, but there are still over 13 million more people unemployed than at the end of 2007. It is a social tragedy, and young people have been particularly hard hit: unemployment among under-25s is unacceptably high at over 16% across the OECD–exceeding 55% in Greece and Spain. Providing support, training and opportunities for youths is therefore vital.

But older workers also matter; the employment rate for 55 to 64-year-olds in the OECD area stood at 56.5% in the third quarter of 2013, compared with some 76% for those aged 25-54. They also suffered during the crisis, and many older people are no longer in the job market, having been pushed into early (often involuntary) retirement.

Society cannot afford this waste of human capital and experience, let alone the additional retirement costs. As the *OECD Yearbook* argues, more elderly people are in good health, and are willing and able to contribute to society through work. Making it happen means introducing flexible workplace and wage systems, softening (or abolishing) mandatory retirement ages, and changing attitudes and culture. Including the elderly in our strategies will make our economies more productive and smarter, and improve well-being too.

Inclusive growth policies can help restore the trust that the crisis has so badly damaged. This is the third key element that this *OECD Yearbook* focuses on. According to the OECD report *How's Life?*, only 40% of citizens in the OECD area trust their national governments. This is the lowest level since 2006: banks, companies, parliaments and international organisations have all suffered declines in public confidence. People have also lost trust in each other.

Rebuilding trust is essential for long-term growth and resilience. Nothing destroys this trust more than corruption. It undermines public services, damages investment and locks in inequality. To fight corruption the OECD has developed a powerful array of instruments to help governments, such as the OECD Principles for Enhancing Integrity in Public Procurement. We are also helping to reduce the risk of political capture by interest groups by taking a hard look at more stringent, transparent rules for financing political campaigns. Our CleanGovBiz initiative draws together the OECD's anti-corruption tools, reinforces their implementation and monitors progress. It includes the OECD Anti-Bribery Convention, which has been described by Transparency International as the "gold standard" in the fight against corruption.

Trust is also about ensuring fair levels of tax and fighting tax evasion, and the OECD Base Erosion and Profit Shifting (BEPS) initiative and Automatic Exchange of Information contribute by getting governments and businesses working together in a cleaner, more transparent framework.

Finally, building a more inclusive, resilient future demands more effective environmental policies, too. Indeed, our progress in going inclusive, creating more and better jobs, and restoring trust is dependent on a safe, healthy environment. Climate change affects all countries, rich and poor, though populations in poor countries have borne a high cost. At the outset of the economic crisis, policymakers everywhere gave lip-service to greener growth, both to make the world cleaner and to tap new sources of growth. But much more progress can and must be made on this front. The cost of inaction is already mounting. It is estimated that US$43 billion worth of economic losses were caused by extreme weather events in 2013 alone.

The OECD has called for achieving zero net emissions during the second half of the century to help countries limit global temperature rises from human activity to 2° Celsius. Tackling climate change is no easy task, but as the UN Intergovernmental Panel on Climate Change reported this April, it can be done without sacrificing living standards. Governments know what they must do to avoid a collision course with nature: remove subsidies that encourage fossil fuels, and make sure price signals encourage businesses to "invest green" wherever they operate.

The crisis has been a wake-up call for us all, reminding us that today's development challenges are global challenges. The OECD has not shirked from reassessing its analytical frameworks and policy assumptions. Its ongoing reflection is embodied in the New Approaches to Economic Challenges (NAEC) initiative, which will help light a path to a more resilient future. With the OECD Better Life Index, the organisation is developing indicators that go beyond growth to help policymakers and the public better understand well-being.

This year we celebrate the 50th anniversary of Japan's accession to the OECD. Japan's journey to becoming one of the largest economies in the world holds lessons that will no doubt nourish debate at OECD Week on 5-7 May, starting at the OECD Forum and feeding into the annual OECD Ministerial Council Meeting. I am delighted that Japan is chairing the 2014 ministerial meeting, thereby adding another chapter to our long history of co-operation.

We are at a critical juncture on the road to recovery. The lessons and challenges before us are all too clear, but so are many of the solutions. Co-operation will be needed, and not just among policymakers. Building an inclusive, resilient world relies mostly on the input of all citizens.

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Japan’s economic revival

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Shinzo Abe
Prime Minister, Japan

The year 1964, exactly 50 years ago, was marked by two events that symbolised Japan’s completion of its recovery in the period following the Second World War. One was the Olympic and Paralympic Games in Tokyo—their first time in Asia. The second was Japan’s joining the OECD, again, the first Asian country to do so. The newspapers of the day ran the headline, “Japan finally joins the ‘grown-ups’,” showing how accession to the OECD was emblematic of becoming a developed country.

For almost 20 years, Japan has suffered from deflation. However, the economy revived after I shot “three arrows”: an aggressive monetary policy; a flexible fiscal policy; and a growth strategy to encourage private investment.

Japan achieved annual GDP growth of 2.6% in the fourth quarter of 2013. The ratio of employment offers to jobseekers, which once dropped to 0.42, rose to 1.05 this February, the highest ratio in six and a half years. Wages have also risen to their highest level in 10 years. Japan is overcoming deflation.

The key for revitalising the Japanese economy is, as the OECD has pointed out, the third arrow, namely, the growth strategy.

I will create a society where women shine. Under my administration, women’s active participation constitutes the core of the growth strategy, rather than social policy.

In this respect, we have decided that at least 30% of all national government officials employed next year will be women. I have also been urging listed companies to add at least one woman as a board member. By encouraging the advancement of women in society we will raise our growth rate and promote “womenomics.”

Dynamic innovation will emerge through creativity in various areas, stimulated by a liberalised market. One major electricity company in each region has monopolised the whole process of generation, transmission and retailing of electricity in Japan. We will convert this system into a market based entirely on competition by 2020. Medical services will also be changed. I have already implemented regulatory reform in the area of regenerative medicine to take advantage of private sector dynamism.

The government will take initiatives to carry out dramatic regulatory reforms, particularly in the major cities that compete in the global market, followed by other cities. For this purpose, National Strategic Economic Growth Areas is about to be made fully operational.

In April, the government reduced the corporate tax rate by 2.4 percentage points. I will pursue further reform of the corporate tax system in order to adapt it to a time when companies conduct business on a global scale.

My endeavour for reform will never end. Accelerating negotiations on Economic Partnership Agreements (EPAs) is a pillar of my reform policy. Japan has recently reached substantive agreement on the EPA with Australia. The negotiation on the Trans-Pacific Partnership (TPP), which will build a single economic zone in the Asia-Pacific region, has entered the final phase. We will also be accelerating negotiations on EPAs with our partners around the world, such as a Japan-EU EPA and economic integration with Asian countries through a Regional Comprehensive Economic Partnership (RCEP), all at an entirely different speed than in the past.

Advancing the dynamic engagement of women, reforming our regulatory regimes, and promoting free trade are the topics for discussion at the OECD Ministerial Council Meeting in May under the theme of “Resilient Economies and Inclusive Societies.” As the chair of this meeting, Japan looks forward to discussing with other countries how we can best utilise our growth strategy to contribute to the world economy, and the measures necessary for realising “resilient economies and inclusive societies.”

The OECD Southeast Asia Regional Programme is also scheduled to be launched at this year’s Ministerial Council Meeting. I am truly pleased that the OECD is working to dispel the image by which it is at times referred to as a “club of rich nations”, taking steps to deepen its involvement with Southeast Asian countries, which form the world’s growth centre. Going forward, Japan will assume a role as a bridge that enables the countries of Southeast Asia and the OECD to forge a relationship in which they learn from each other.

It is my firm belief that through the initiative of Secretary-General Angel Gurría, the OECD will continue to carry out its role in leading the international community as the world’s largest “do tank.”

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Your Better Life Index

There is more to life than the cold numbers of GDP and economic growth. The OECD Better Life Index allows you to compare well-being across different countries, based on 11 topics the OECD has identified as essential, in the areas of material living conditions and quality of life. Each petal of the flower represents one topic and the size of the petal the country's rating for that topic. The height of the flower shows the country's overall rating.

The OECD Better Life Index enables you to rate countries according to the importance you give to the 11 topics. You can compare your well-being priorities with those of other users by country, age and gender, and share your results.

Create your own Better Life Index at:

www.oecdbetterlifeindex.org

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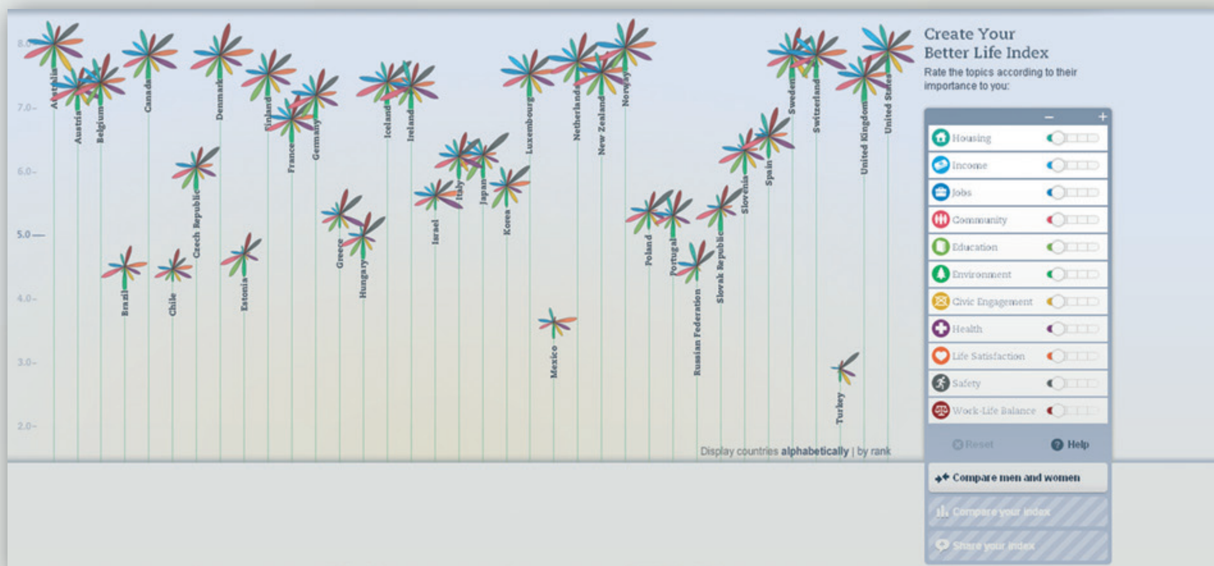
OECD Better Life Initiative



Compare your quality of life with other countries

Find out more about how life compares in OECD countries by ordering the book *How's Life? Measuring Well-Being*.
Available now on the OECD Online Bookshop: **http://www.oecd.org/bookshop**

Inclusive growth

Inclusive growth combines improvements in living standards and people's well-being–good health, jobs and skills, a safe, healthy world, and more. It is about fostering the best use of all resources–natural and physical capital, countries and regions, and citizens, and leaving no one behind. It means sharing ideas and innovations to solve problems such as disease and climate change. Under inclusive growth, productivity goals are a means to an end.

The writers in this chapter explore inclusive growth and ways of achieving it. For Yves Leterme, the crisis has exposed shortcomings in our economic models, and he argues that an inclusive growth must be for and by the people. Gabriela Ramos explains how inclusive growth is already inspiring new approaches to solving economic problems. David Pilling looks at what inclusive growth means in different countries across time. Diane Coyle asks whether conventional metrics of GDP are fit for purpose, while Orsetta Causa, Alain de Serres and Nicolas Ruiz look at new evidence on how GDP growth and inequality influence each other. Debra Whitman argues for a new approach to harness the potential of older people at work and in the community, a view shared by Karl Erjavec and Mateja Kožuh Novak, citing Slovenia as an example. Rob van Gijzel reports on Eindhoven, where he is mayor, and on how inclusive policymaking has produced a smarter, more resilient city. Chandran Nair believes that for inclusive growth to exist beyond fine words, radical change is needed. Tania Singer and Dennis Snower argue for a more caring economy, which they believe can be developed through training.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Inclusive growth must be for and by the people


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Yves Leterme
Deputy Secretary-General, OECD

Six years after the outbreak of one of the most challenging financial, economic and social crises of modern times, the global economy is still on the path to recovery. But the signs of growth are uneven and fragile. This should not be surprising, given the intensity and the depth of the shocks that our financial systems, businesses, workers, societies and citizens have been undergoing.

In 2008, the reaction of the political leaders and policymakers was to concentrate on the most pressing needs. First, steps were taken to avoid a complete crash of the banking system. Happily, these decisions proved correct even though the policymakers had no off-the-shelf roadmap for the unprecedented crisis our governments were facing. After all, the very heart of the global financial system was in jeopardy, as severe setbacks to the economy affected the lives of millions of people worldwide.

Finally, people's trust in our economies and institutions has been undermined. If trust is essential for economic and social interactions, it needs to be restored for a full recovery to take hold.

But how did it all go so wrong? What lessons have we learned to prevent such a crisis from occurring again? Institutions like the OECD, which admits to having failed to foresee the crisis, are now reassessing their assumptions of how our economies work. They are revisiting old concepts, developing new ideas and devising fresh approaches to deliver better policies for better lives. An essential goal for long-term prosperity is to make growth more inclusive. That means seeking to combine strong economic growth with improvements in living standards and well-being. Inclusive growth provides equal chances and better opportunities for everyone. In the 21st century, when skills have become a global currency, this approach would encourage people to unleash

> "Institutions which failed to foresee the crisis are reassessing their assumptions

their talents and willingness to work, to create, to innovate, to make the best out of their lives while simultaneously supporting those who are facing troubled times or unable to participate fully in economic and social activity. An adequate skills and education strategy is, therefore, key, as are policies aimed at producing a well balanced labour market, based on gender, equity and social cohesion. Solidarity and responsiveness will be key characteristics. The crisis has shown the lie of our former economic models, and has underlined the need to foster economic growth in a more inclusive manner.

As signs of stronger growth show through, the urgency of taking action has never been greater. Both the hesitant recovery and the persistent social crisis demand decisive policy action, to guarantee equal chances, fairer distribution of the fruits of growth, and opportunities for everyone. Looking forward, this spirit is above all an economic necessity. To thrive, our economies need all talents on board. It is also social necessity that we adopt policies that leave no one behind. And it is a political necessity restoring badly needed trust in our institutions and societies. Growth will only be sustainable in the long run if it is inclusive. Growth needs to be for and by the people. That is what inclusive growth is about.

Reference

www.yvesleterme.be

Inclusive growth: Making it happen


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Gabriela Ramos
OECD Chief of Staff
and Sherpa to the G20

Inequality has widened, with detrimental effects on our economies and societies. Can inclusive growth work? Yes, though it requires new thinking and approaches, and these are driving important initiatives at the OECD.

The benefits of economic growth do not trickle down automatically. This notion may run counter to orthodox economic wisdom, but it has been confirmed by the crisis. Indeed, the long period of economic growth that preceded the financial crisis was characterised by growing inequalities of income and opportunity. Our economic systems, with all their strengths and advantages, have been producing and perpetuating social disparity for decades, and this has worsened since 2008. We need to reverse this trend and ensure that the next phase of economic expansion benefits more than the lucky few. We have learned from the crisis, and now, as the recovery takes hold, a real opportunity has opened up to create more inclusive growth. The OECD is ready to help make it happen.

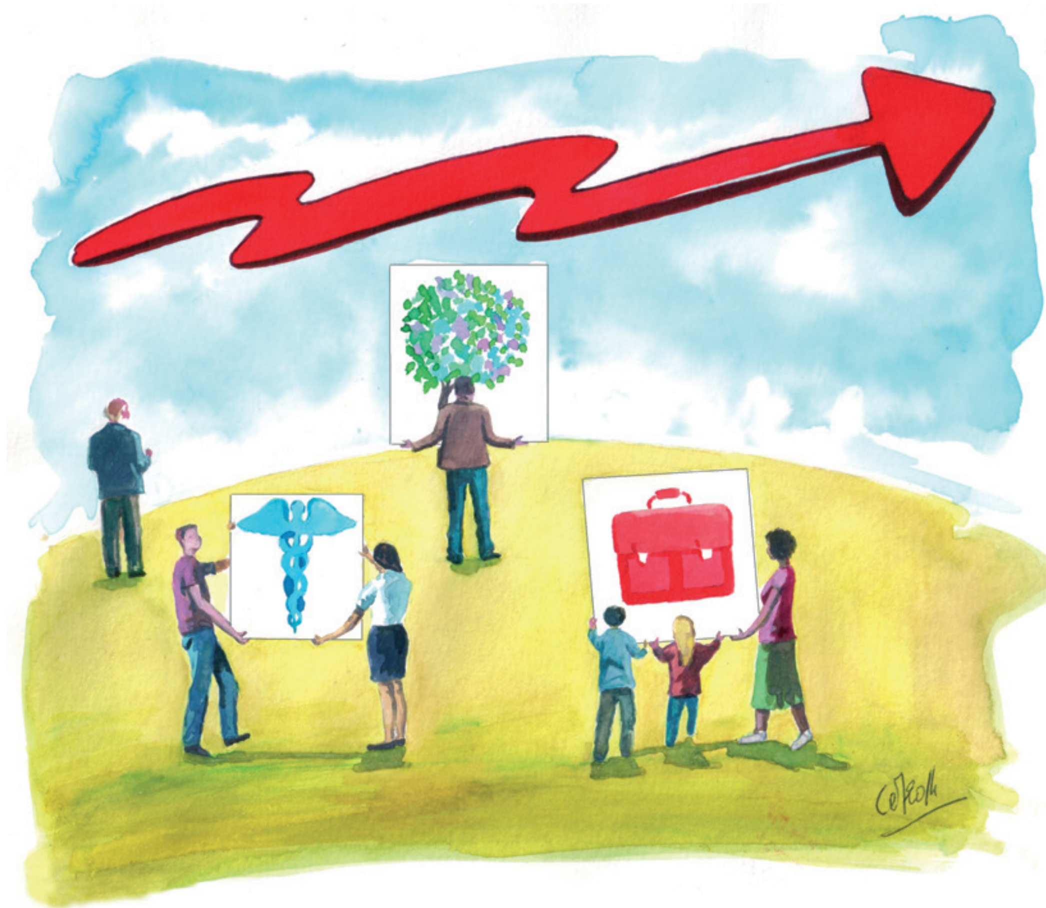
Inequality has reached unacceptable heights in many countries. In 2010 the average income of the richest 10% in OECD countries was 9.5 times higher than that of the poorest 10%, greater than at any moment in the previous 30 years. In other parts of the world, including in India, Indonesia and South Africa, inequality has soared. Only in very few countries, notably in Latin America, did inequality decrease, albeit generally from an extremely high level. In Brazil, for instance, the gap between the richest and the poorest 10% has narrowed, but nevertheless stands at 50:1. In many countries, lower-wage workers have been working harder and harder, but have not moved up the social ladder. Take the case of the United States: while average working hours among lower-wage workers increased by more than in other OECD countries before the crisis, household incomes of those at the bottom actually fell. The pernicious consequences of increased inequality, however, extend far beyond income. Access to employment, good health and educational opportunities are all disproportionately determined by socio-economic status.

The crisis has widened these gaps. In at least half of OECD countries, income inequality increased by more over the first three years of the crisis (2007-10) than in the previous 12 years. In fact, the cost of the crisis has not been shared evenly. Vulnerable groups have borne the brunt of adjustment. The full force of this effect was highlighted in an OECD-wide youth unemployment rate of 16% in 2013, twice the standard rate. And the employment prospects remain discouraging in many countries: equitable access to quality employment is becoming harder to achieve, with non-standard working arrangements now accounting for 40% of total employment. At the same time, in-work poverty has increased, and now affects 8% of the total population. In Greece, Israel, Japan, Spain and the US, the rate of in-work poverty can be as high as 12%. This rate is far greater in emerging and developing countries due to the size of their informal sector.

> "The OECD is leading the charge against income inequality

Inequalities which surface in the job market are often entrenched during education, which puts those at the bottom at a serious disadvantage. Poorer students struggle to compete with their wealthier classmates and go on to lower levels of educational attainment, smaller salaries, and most strikingly, shorter lives. Data from 15 OECD countries show that, at age 30, people with the highest levels of education can expect to live, on average, six years longer than their poorly educated peers.

The detrimental effects of inequality have translated into growing political disaffection and anti-market sentiment. Citizens are increasingly feeling that they are losing out, while a small elite siphons off the gains of greater prosperity. Millions of people report low levels of life satisfaction and are



losing confidence in the ability of policymakers to respond. In the OECD, confidence in governments stands at a record low 40%.

At the OECD we take these problems seriously. We know that applying the same policies that have resulted in these disparities or that have not helped to reduce them is not an option. We are conscious that we need to revise the ideas, theories and concepts that were used to measure, diagnose and produce our policies. This is why we have launched the New Approaches to Economic Challenges (NAEC) initiative. Our aim is to help governments to overcome the crisis through policies which take complexity and behavioural economics into account, and explore new ways to measure progress. The ultimate goal is to infuse a more inclusive, sustainable form of growth. Our focus is on economic growth, not as an end in itself, but as a means to improve well-being. It puts people at the centre of the policy debate.

The OECD is leading the charge against income inequality by devising metrics, analysing the evidence and developing the policy tools needed to combat it. We have pioneered new work to develop well-being indicators and measurements that go beyond GDP and productivity to reflect what matters most in people's lives. Inclusive growth means caring about people, and the NAEC initiative will explore new ways of combining strong growth with a better distribution of income and other outcomes, such as opportunity, education and a clean environment. This work will enhance policymakers' understanding of the adverse effects of rising inequality on growth, with the overarching aim of turning inclusiveness into a driver of strong economic performance.

Our approach is multi-dimensional, policy relevant and actionable, allowing policymakers to identify, analyse and exploit synergies among mutually reinforcing policy levers, and to make the right policy choices.

With government budgets under stress and the recovery still fragile, it is more important than ever to set in motion a virtuous circle of growth and inclusiveness. Our future prosperity and well-being depend upon it. At the OECD we are determined to help our member and partner countries design, promote and implement better policies for better lives. By fostering inclusive growth, we can make a measurable and positive difference in people's lives everywhere.

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Visit www.oecd.org/els/soc/OECD2013-Inequality-and-Poverty-8p.pdf

When economic growth benefits only a few

David Pilling
Asia Editor
Financial Times*

The concept of "inclusive growth" is one that, surely, no one could object to. It is the sort of uncontroversial idea, like "sustainable development", to which even the most well-heeled attendee of a charity auction could happily raise their champagne glass. But what does it actually mean?

It was Deng Xiaoping, a man who arguably did more than any other to alleviate poverty in the 20th century, who proposed: "Let some people get rich first". The disastrous communist economy was untethered and some Chinese–whether they were the savviest, the most ruthless or simply the best connected–pulled away from the pack. That sharply increased the economic divide. Today's China is terribly unequal. Yet in the process hundreds of millions of people have escaped poverty.

In India, the merits of "inclusive growth" are a matter of bad-tempered debate, fought most ferociously between two of the country's most famous economists, Amartya Sen and Jagdish Bhagwati. Mr Sen, a Nobel laureate, wonders what 20 years of growth have actually achieved. Even compared to much poorer Bangladesh, India's social indicators–from infant mortality to malnutrition and girls' education–lag behind. Mr Sen regards basic levels of health and empowerment not merely as a moral imperative, but as a prerequisite for sustained development. Conversely, Mr Bhagwati, an advocate of free trade and liberalisation, says growth is a prerequisite of poverty alleviation. He co-authored a book, *Why Growth Matters*, in which he argued that redistribution was no substitute for wealth creation.

The ideal is to generate growth and then use it in such a way as to bring about equality of opportunity, if not of outcome. Japan, Chinese Taipei and Korea all developed economic models that, while far from socialist paradises, emphasised equality. As global competition has intensified, though, even their models have come under strain. Hong Kong, China is far more extreme. With a per capita income of over $30,000, it looks like an advanced economy. But Hong Kong, China's social provision is so meagre and access to wealth so bound up with land that its inequality, measured by the Gini coefficient, is worse even than India's.

"The ideal is to generate growth and then use it in such a way as to bring about equality

In Thailand, inequality has led to social unrest. The long-running standoff between the "Reds" and "Yellows" is largely about access to the spoils of growth. Many of the rural supporters of Thaksin Shinawatra, the self-exiled former prime minister, feel excluded from the privileges enjoyed by their urban counterparts. Attempts to institutionalise inclusive growth, though, such as the bumiputra system of affirmative action towards Malays, can also cause its own problems. In Malaysia, it has bred resentment from the Chinese population. Arguably, it has also created distortions that have sapped the economy of some of its vigour.

For Hans Rosling, professor of global health at Sweden's Karolinska Institute, these are growing pains on the way to a generally more equitable world. Poorer countries, he contends, are rapidly closing the gap on their richer counterparts as they conquer preventable disease and reduce their birth rates. Even within poorer countries, he says, more people are gaining access to the minimum requirements for economic take-off. He cites statistics showing that 84% of the world's children receive essential vaccines, 84% of adults can read and write, and levels of extreme poverty have halved in 30 years. Hundreds of millions are moving into the world that Rosling describes as lying "somewhere between the light bulb and the washing machine".

As countries move from extreme poverty towards middle-income status, some growing inequality seems inevitable. Not everyone can move from the countryside to the cities at the same time. Few desperately poor countries can provide

Thai Reds want a fairer share

universal education or health care from the get-go. The trick is to use growth as quickly as possible to the advantage of the greatest number of people. That means a proper tax system. It means building solid social–and physical–infrastructure. It is likely to mean targeted redistribution, not wasteful blanket subsidies. It means a non-crony style of capitalism, such that poor people have a chance to escape poverty even if they have no connections. It could mean more radical measures, such as land reform, if entrenched patterns of privilege are to be overturned. The concept of inclusive growth, it turns out, is far from uncontroversial.

*David Pilling is the author of *Bending Adversity: Japan and the Art of Survival*, published by Penguin in 2014.

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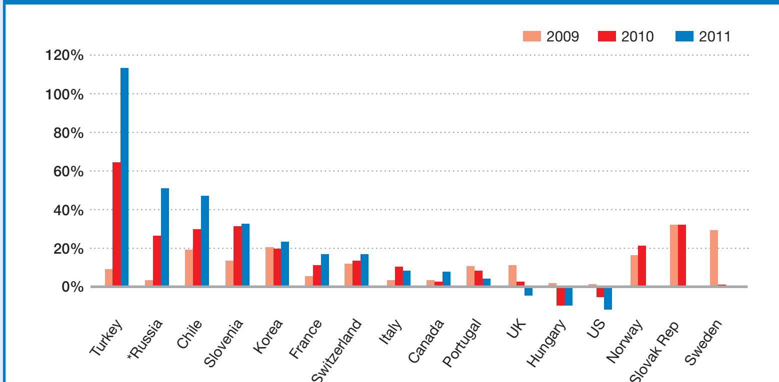
Tough terms for small businesses

Small and medium-sized enterprises employ up to 250 workers each, but did you know that together these so-called SMEs make up some 90% of employment in the OECD area? Surely therefore, to get the economy moving again, the focus should be on these motors of activity!

Financing is one area to change. Unlike large global firms which continue to borrow at cheap rates of interest and even issue bonds, SME access to finance remains challenging. In fact, according to *Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard*, SMEs generally faced higher interest rates for borrowing in 2011 than in 2009-2010. In fact, the interest rate spread between SMEs and large firms grew in many countries too.

SME loans struggle upwards

Trends in SME loans compared with 2007-2011 (2007=0)



Source: OECD SME Scoreboard 2013

*The base year for Russia is 2008

An analysis of financial indicators from 25 countries between 2007-2011 shows that SME lending grew moderately in many developed economies, and that there was a more pronounced increase in financing of small companies in emerging economies.

The sovereign debt crisis is likely to have led to a further deterioration in the lending activities of banks in 2012-2013, the report says. There was a flicker of recovery in investments in venture and growth capital, but overall loans remained below 2007 pre-crisis levels.

Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard provides detailed country profiles of financial conditions for SMEs in 25 countries.

See www.oecd.org/industry/smes

The ups and downs of GDP

©Diane Coyle

Diane Coyle
Professor of Economics
University of Manchester*

Economic policy can achieve results only if policymakers –and the voters to whom they are accountable–know what is happening to the economy. Understanding the economy as a whole depends on the available statistics. So economic statistics shape policy and events, and the most closely watched measure is the growth of gross domestic product (GDP).

Growth in real GDP is one of the important factors explaining the popular vote in many developed economies. So it is right for policymakers to pay attention to it, because after all, unemployment and household incomes depend on its growth.

Yet far too much attention is paid in the media and policy debate to the publication of GDP estimates. Inclusive growth has many more facets to it than these quarterly statistics.

Measuring growth is not like trying to estimate the height of a mountain; GDP is not a natural object but an artificial construct. There are many uncertainties and adjustments made in creating the national accounts statistics, and the margin of uncertainty is so large that it makes no sense to put too much weight on the difference between, say, a 0.2% and 0.4% change in GDP in one quarter.

Of course, GDP has plenty of critics. Some make the case for zero growth, despite the evidence that most voters would probably not welcome this. Others have argued for alternatives to GDP that adjust it for the negative side effects of growth, such as pollution and other environmental consequences, crime, and inequality. One problem with this approach is that it ignores some positives that are not captured in the statistics, above all the benefits of innovation. Growth nowadays is largely dependent on innovation. Despite efforts to adjust for quality improvements in some items, such as consumer electronics, the statistics do not remotely capture the gains from new goods and services.

The debate about alternatives to GDP is in fact marked by confusion between economic activity and social welfare or well-being. GDP is a measure of economic activity; it assesses spending or output. Before its introduction during the Second World War, some economists, notably Simon Kuznets, argued for the introduction of a measure of welfare instead, but the demands of war production won out. Critics

of GDP now are essentially making the same argument for a measure of social welfare instead.

Their point is entirely valid. We should want policy to pay attention to the factors that contribute to well-being, as well as to economic growth. But it is a mistake to try to combine all of these factors into a single indicator as an alternative to GDP. To do so buries the trade-offs that exist between different aspects of well-being, as well as an implicit

> Measuring growth is not like trying to estimate the height of a mountain

assumption about how much weight to put on each aspect. A "dashboard" such as the OECD's Better Life Index (BLI) makes the components and weights explicit, and can inform the policy debate in a constructive way.

However, there is room for improvement in this and other dashboards, which are in their early days. Voters in different countries might want to include different components more in line with their view of well-being, as well as putting different weights on them. It is also important to present changes in the dashboard over time, in an intuitive way, because it is whether or not things are getting better that holds policymakers to account. Data visualisation tools, such as the interactive and shareable ones found on the OECD website, can make an important contribution. As they are interactive, user feedback could in time influence their development.

The other vital issue is measuring sustainability, or the trade-off between the present and the future. Including indicators of environmental quality in a dashboard is only a start. Sustainability has multiple dimensions, including the financial and social aspects as well as environmental. Ideally, some would be incorporated in a performance dashboard.

Sustainability is a question about whether people in the future will enjoy at least the same standard of living as we do now. Are we devouring today's capital at the expense of tomorrow's resources? No dashboard can fully answer that question because it requires assumptions about future growth, technology and behaviour, but we could make a start by looking at the net saving or dissaving of different kinds of assets, from the financial and physical assets of the economy, to human capital and natural capital.

Collecting and presenting all these statistics is no small task. Measuring the economy in a way that will direct policy towards social welfare as well as economic growth is a vital task, though, and at least we have made a good start.

* Diane Coyle is author of *GDP: A Brief but Affectionate History*, just published, 2014, Princeton University Press.

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The meaning of life

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Every person aspires to a good life. But what does "a good or a better life" mean? Economists and governments speak about wealth and growth in a way that doesn't always chime with everyday experience. Economic measures of progress, such as GDP growth (or lack of it), provide little if any insight into overall levels of life satisfaction. Some activities which increase GDP correspond to a reduction in peoples' well-being (as in the case of higher transport costs due to congestion and long commutes). Also, economic activities such as childcare and neighbourly help undoubtedly contribute to well-being but are not captured by GDP.

The second edition of *How's Life?* paints a comprehensive picture of well-being in OECD countries and other major economies, by looking at people's material living conditions and quality of life across the population. In addition, the report contains in-depth studies of four key cross-cutting issues that have a bearing on well-being today: the economic and financial crisis; gender; workplace issues; and sustainability.

The edition also looks at how trust in institutions has weakened, and looks at new forms of social solidarity that have emerged in local communities, such as support from extended family members and volunteering.

How's life? is part of the OECD Better Life Initiative and provides a bi-annual assessment of people's well-being in OECD countries and selected emerging markets. Go to www.oecd.org/statistics/howslife.htm

The opportunities of an older workforce

Debra B. Whitman
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Ageing is often seen as a burden for economies. While it is true that changing demographics pose a challenge, they are also a source of opportunity.

Older workers can make important contributions to productivity and growth if employers recognise their value, adopt the right policies and establish a supportive culture in their organisations. In such an economy, growth will be sustainable and broadly inclusive and older individuals, and those who depend on them, will enjoy greater financial security. Companies will be stronger due to the maturity, stability, skill and institutional knowledge of long-time employees. We all will benefit.

It is not hard to understand why some of my fellow economists are worried about the ageing of the workforce. People over 65 currently represent 8% of the world population. By mid-century, that figure will more than double to about 17%.

Countries around the world are experiencing a significant change in the ratio of workers to retirees, putting pressure on national retirement systems. In addition, millions of adult workers–many of them women–are struggling to balance their duties on the job with efforts at home to care for elderly parents. In many cases, these same workers are part of a "sandwich generation" that still supports dependent children (some in their 20s but unemployed).

Yet the notion that ageing will derail future growth is a fallacy. There is a great deal we can do to optimise the potential of an older workforce. Three policy areas are available to steer the economy through the demographic challenge that is now unfolding.

First, provide support for employee caregivers. Millions of workers face competing demands to care for loved ones, while attending to their duties on the job. Time needed for caregiving can conflict with tasks required by an employer. It also undermines individual financial security (a study found that caregivers who leave the workforce after age 50 lose more than US$300,000 in income and benefits on average). Caregiving responsibilities are one reason that workers may retire sooner than they planned. Workplace rules that make room for caregiving, including leave policies, can help caregivers hold on to their jobs and contribute to the broader economy.

Flexible workplace policies are a second policy area. Older workers may face various pressures that affect their ability and desire to stay on the job, including personal health issues. Flexible scheduling, telecommuting, phased retirement, wellness programmes, family leave and paid sick days can add years to a worker's tenure. Employers benefit from reduced turnover, lower absenteeism and the know-how that is often possessed by experienced workers.

> "Caregiving responsibilities are one reason that workers may retire sooner than they planned

Training and education are the third policy area. Employers have a legitimate need to make sure their workforce is up to date on technology and best practices. And employees have a duty to keep their skills competitive, and to recognise that change is inevitable if not always easy. But most employers can do a great deal more to keep their workers up to date by providing training and development opportunities to workers of all ages.

Unfortunately, these types of policies will not be implemented on the scale required until employers–and the public–recognise the value of older workers. We should address more firmly the problem of age discrimination, which is harmful and widespread. Strict enforcement of fair employment rules is critical, but we also need to transform the culture of the workplace.

Education and advocacy to dispel unwarranted concerns and stereotypes about older people are needed to establish a culture that enables workers of all ages to thrive. AARP plays a leading role in this effort, both in the US and to some extent in other countries. For example, we sponsor an awards programme called "Best Employers for Workers over 50", and cite companies around the world. These are employers that recognise the value of their older workers. They make an effort to retain, train and recruit them. Winners have included a German automaker, a British retailer, a Japanese industrial equipment manufacturer, a Malaysian consumer products company and an Australian bank.

We also are circulating an employers' "pledge" in which companies vow to be fair to older workers and job applicants. This effort now has 260 signatories and continues to grow. The pledge is part of a broader effort called Life Reimagined for Work, which supports older job seekers with guidance, tips, contacts and tools to get ahead.

One way national economies prosper is through the entrepreneurship of citizens, and this is yet another area in which older individuals have a great deal to offer. Individuals between 55 and 64 were responsible for almost one in four US business starts in 2011. AARP works with the US Small Business Administration to provide counselling, mentoring and other resources to older entrepreneurs, an effort that has reached more than 119 000 people.

While different societies may need different strategies, all countries with ageing populations will benefit by investing in efforts that help keep older workers productive. It is vital that countries embrace this opportunity. The longer individuals are able to stay in the workforce and contribute to the economy, the greater the benefits for everyone.

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Visit www.aarp.org

Champs of Picardy

The French are noted for their good living as well as a relatively long life span. It's the so-called French paradox. The southwest in particular is said to have relatively more centenarians than anywhere else in the country. Some locals put their longevity down to the fact that they use olive oil rather than butter in their cooking, while others thank moderate imbibing of the tannic local wines, their high concentration of pyrocyanidins, for their healthy hearts.

But in the north, far from the olives and wine country, lies Picardy, an ancient region that is noted more for its beetroot fields and cider, and also nowadays, for its rather ancient sporting champions. Take 99-year-old Jean Leemput, a former swimming instructor with the fire brigade. On 16 February 2014 in the town of Nogent-sur-Oise, Mr Leemput set a new world record in the 50 metres backstroke, competing in the 100 to 104-year-old category—Mr Leemput will be 100 in June. Or take the equally remarkable case of Robert Marchand from Amiens who, just a couple of weeks earlier at the tender age of 102, beat his own hourly indoor cycling record at the national velodrome in Saint-Quentin-en-Yvelines on 31 January 2014.

Mr Marchand covered 26.9 km in an hour, destroying the record he himself had previously set of 24.3 km, in the Masters 100 Plus category, which the *Union Cycliste International* (UCI) set up especially for the champ from Amiens. The regular world record for the hour-long test is 49.7 km, set by the Czech cyclist, Ondrej Sosenka, in July 2005. Mr Sosenka was just 29 at the time.


Robert Marchand

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Le Parisien (2014) "Á 102 ans, Robert Marchand bat son record du monde de l'heure", in *Le Parisien*, 31 January 2014, www.leparisien.fr

Visit www.uci.ch and www.picardie.fr

A smart society is an inclusive society

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Rob van Gijzel
Mayor of Eindhoven
Netherlands

The end of the 1980s was a glorious time to be in the Dutch city of Eindhoven. The home football team PSV Eindhoven (PSV is short for Philips Sports Association) won the European Cup in 1988, and in the same year, the Netherlands won the European Championship in Germany. These victories united the country in celebration. At the same time, there were ominous clouds hanging over the region. The world economy was at low ebb and production facilities that had been the backbone of the local economy started relocating to low-wage countries. In the 1990s the two largest companies in town, Philips and DAF Trucks, fell on hard times. Tens of thousands of jobs were lost and Eindhoven's glory days seemed over. But then came what the locals called "the miracle of Eindhoven".

In the mid-1990s, Eindhoven's mayor at the time, Rein Welschen, joined forces with the chairman of the regional chamber of commerce, Theo Hurks, and the university's chair, Henk de Wilt, to start a fund to help the local economy. The initiative grew, becoming what has become known as the Triple Helix, in which government, knowledge institutes and entrepreneurs work together to build prosperity for Eindhoven and its surroundings. The region soon became a world leader in the fields of high tech, innovation and design. We call it the Brainport area.

Today, a new economic crisis has emerged, but Eindhoven has so far dodged the bullet. Co-operation and drive within the Triple Helix can be thanked for that. It is a spirit that goes beyond the Triple Helix: Eindhoven has the largest percentage of volunteers in the Netherlands, too. Just as matter becomes stronger as it forms more connections, so society grows more resilient with every connection it forms. Inclusion is more powerful than exclusion, and collaboration is more powerful than protectionism.

Today's crisis is a crisis of the global system. The world is changing due to new communications, technological progress, climate change, exponential population growth and a burgeoning global middle class. The systems that have worked for us for so long are now in dire need of change. Albert Einstein once said: "We cannot solve our problems with the same thinking we used when we created them". Now, our future should be about inclusion.

Inclusion means creating awareness that building a society is the right and obligation of everyone, not just policymakers. Our region is now developing a next generation "Quadruple Helix", involving people previously overlooked in the policy process. In fact, under new laws, every policy initiative and idea should be discussed with all the parties concerned.

A good example is a small "living lab" in the neighbourhood Doornakkers, where elderly immigrants teamed up with governmental organisations and knowledge institutes to experiment with modern health care. This process later expanded to involve the likes of insurance providers under the banner of "Smart Living 2020".

Other smart innovations are afoot which owe everything to co-operation. In 2016 every household in Eindhoven will be connected to the internet through fibre optics. Companies are experimenting with smart lighting within the city, working with local people to make them feel safer. Car companies and knowledge institutes are working on smart mobility to make more effective use of the infrastructure and reduce the environmental impact. Researchers and botanists are thinking up ways to produce more food with fewer resources. Bar and shop owners are working with customers and innovative firms to improve how people spend their leisure time. In short, in Eindhoven is a living laboratory, where everyone can be an explorer of the future.

Eindhoven is society in action. Our experience shows that solutions need to be built up by the people, not by the elite. Solutions need to be nourished with ideas from the very people who are directly concerned. Our work can be applied across borders and between communities too, tapping into international organisations such as the OECD, as well as using new technologies to help build different international networks based on specific specialities and interests.

We are not in a race, but on a mission. Everyone can participate and contribute, and no one has to feel left out. We believe that this is the only way we can turn problems into opportunities, and challenges into solutions. The mission towards the future starts today and everyone is invited to come along.

www.eindhoven.nl

Inclusive growth: Naive optimism or call for revolution?


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"Inclusive growth" has been transformed from a pressing global challenge into a social cause parroted by everyone, including multilateral agencies, business people, politicians and NGOs.

As with all well-meaning slogans–other examples include "green growth," "carbon neutrality," "shared value" and "the end of poverty"–the appeal of inclusive growth lies in the fact that it means all things to all people. And for multilaterals, corporations and developed governments, it has become a means of assuaging their guilt and reassuring the West's increasingly squeezed middle-class that the current economic crisis is just a passing blip and reminding them that others have it worse in Asia and Africa.

But the truly insidious thing about inclusive growth and its partner falsehoods is that they are words of submission being spoken by some of the most powerful people in the world. As with other forms of propaganda, "feel good" phrases and lazy analysis have replaced the need to look for solutions and the hard decisions necessary to achieve them. To be clear, the OECD, as one of the most influential and respected organisations in the world, is fully capable of effecting real change. It can be at the forefront of turning what are currently just "catchphrases" into a roadmap for the 21st century. But to do so will require a radical rethinking of the status quo.

This is because "inclusive growth" as presently defined is bound to fail because it is not radical, does not bring bold new ideas into the mainstream, and fails to address the root causes of what makes today's growth exclusive. For anyone that cares to look, it will be obvious that the current western model of economic growth, which has been adopted the world over, depends in no small part on excluding the majority in order to create wealth for a few. This has been the case since the colonial era. The same exclusion that was once practised by the East India Company is now practised on Wall Street and its excesses are accepted as part of the system by far too many governments. Developed world politicians, however, are all too happy to "include" others in the world economy by outsourcing them cheap and dirty jobs or polluting industries.

Crucially, this exclusion also extends into the media and cultural narrative. Whatever the issue, the only people with answers appear to be Western educated, "cosmopolitan" celebrities, all of whom seem to care and have access to the global media. They are the chief spokespeople, and if they are challenged, it is invariably by members of the same club. Inclusive growth never seems to extend to actually inviting people from the groups inclusive growth is meant to benefit, to speak at the exclusive forums where the good and the great extol its virtues.

> "It is high time to promote a radical rethinking of the way we govern our economies

You cannot bring everybody into an economic system, which by design depends on keeping the majority of people out, just like we will not eradicate poverty in our lifetimes or "fix" climate change and heal the planet. Indeed, the system is increasingly failing to provide even for the majority in the Western world whose incomes have stagnated, while inequality reaches levels not seen for a century. It is high time to put an end to the doublespeak and promote a radical rethinking of the way we govern our economies. Call it a revolution, if you will.

What exactly might this revolution look like? Here are just three propositions. First is to accept that the current system of global capital flows is one of the primary obstacles to sustainable development and has repeatedly brought promising economies to the brink of disaster. Central banks in developing countries can and should lead the charge against the belief in "trickle-down" where enough

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rich country money sloshing around will somehow create development in poorer ones.

An excellent corrective step would be to mandate financial institutions to allocate more funds towards small or medium-sized enterprises (SMEs), which, at the moment, are extremely underserved. The IFC says in a report cited by the ADB that the credit gap faced by SMEs amounts to a staggering $2.1-2.5 trillion in non-OECD Asia alone. Only 20% of SMEs in China are adequately covered by bank loans compared with 90% of larger companies. In India this figure is a mere 13% of its 1.3 million SMEs. Yet SMEs are an essential part of Asia's economy, making up 60% of China's GDP and 40% of the workforce and 40% and 97% of the workforce in India and Indonesia, respectively. Mandating proper funding of SMEs would help to protect against asset bubbles and capital flight, and divert capital towards spurring sustainable, socially beneficial growth instead.

Another area for reform is the unfair and counter-productive subsidisation of the rich world at the expense of the poor. Take the European Union's Common Agricultural Policy (CAP) that protects the 5% of Europe's population which work on a farm and produce 1.6% of the region's GDP. Nearly $80 billion is spent on these lucky few every year to the detriment of the 70% of the developing world who depend either directly or indirectly on agriculture. The US spends a comparatively paltry $20 billion annually on agricultural subsidies, much of which ends up in the pockets of hugely profitable oligopolies.

A far better use of this money would be to invest in rural infrastructure in both the developed and the developing world. Rural transport, irrigation, communication and storage are all woefully inadequate in Asia and Africa, and properly developed, would allow farmers to reach markets where consumers can pay a premium for value-added foodstuffs while reducing wastage. Also in sore need of development are rural supplies of water, electricity and sanitation services, the lack of which have pushed people out of the countryside and into urban slums, which well over 800 million already inhabit.

Finally, there is the global arms trade. It goes without saying that less state money spent on fuelling arms races, or preparing for imaginary or self-fulfilling conflicts, is a good thing, but the arms trade is also a $50 billion dollar a year transfer from poor countries to rich ones. The United States alone was the supplier in 60% of all arms sales in 2010, with Western Europe making up all but 8% of the remainder. Meanwhile, the United Nations, an organisation expected to prevent conflict and aid millions of people through its development programmes–in other words, to promote "inclusive growth,"–receives a scant 7.5% of what its member states spend on weapons. International co-operation will of course be required for any kind of reduction in arms spending, but a good first step would be for developed nations to place strict limits on the value of arms they supply to the developing world, just as they argue endlessly for poor countries to stop supplying them with illegal narcotics. Clearly implementing such a policy would not be easy, especially given the role the arms industry plays in both the politics and economics of many developed economies. But those who believe that such agreements could never be reached, even backed by global public opinion, would do well to take a hard look at the kind of co-operation required for inclusive growth, which will remain little more than a pipe-dream without at least as much international manoeuvring as arms reduction.

Many other problems exist and we will need to tackle them, but they all demand putting an end to the doublespeak terminology that distorts reality. If we can do this and give proper voices to the "excluded", the end result will hopefully be inclusive, by providing billions of currently disenfranchised people with a decent living and helping them keep it when another 4 billion people are added to the planet over the next fifty years.

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Elderly promise

Karl Erjavec
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In the last 60 years, we have seen a sharp increase in healthy life expectancy, which is an exceptional achievement. Policymakers should see the potential contribution to the betterment of society.

More attention and funding have been devoted to ensure active and healthy ageing in some of the most developed countries. The goal is to use the experience and knowledge of seniors to reduce social and health insurance costs and improve living conditions. Many countries have no clearly defined strategies for protecting older people, other than financing a few preventive programmes for healthy and active ageing, which is proving insufficient.

The situation of older people has deteriorated since the start of the crisis. Pensions are a significant part of some families' income, particularly those struggling with unemployment. Irresponsible public debates have often depicted pensioners and older workers as a social burden, which seriously endangers the intergenerational solidarity that is essential for the successful functioning of any society.

Slovenia is like many other European countries where the older population is rapidly increasing and is expected to do so for another 15 years. Older workers, whose unemployment rate is about 20%, are among the most vulnerable population groups and a cause for concern.

But in Slovenia, 80% of people over 65 take part in programmes of various NGOs and non-profit organisations and are actively engaged in humanitarian organisations. As part of a special project "Older People for Older People", volunteers identify older people in need and provide assistance in co-operation with other organisations. Also,

"Older people can do a great deal to improve the quality of their own lives

a number of active ageing programmes are run according to the principle of self-support by NGOs. For example, the Slovenian Federation of Pensioners' Organisations has 20,000 volunteers who organise 520 societies and clubs active in culture and sports.

Older people can do a great deal to improve the quality of their own lives when they are provided with the right conditions and a bit of support from the government. Older people are an active social group and can contribute significantly to society thanks to their wide range of experience and knowledge. They are certainly willing to be involved.

Slovenia's civil society is well-organised among older people and this provides the basis for representing and protecting their rights. It guarantees decision-makers will not overlook topics related to older people. Some older people established access to decision-makers in the past but deemed the effort insufficient. As a result, in 1990, a number of pensioners' societies established a political party (DeSUS: Democratic Party of Pensioners of Slovenia) to protect older people's rights and foster intergenerational co-operation. The party has been represented in parliament and the Slovenian government since 1992.

The older population in Slovenia is active politically and across civil society. Nevertheless, many challenges remain, the greatest being to convince policymakers that older people can contribute significantly to a successful society.

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Visit www.oecd.org/ageingandemploymentpolicies.htm

Visit www.oecd.org/slovenia/

Growth and inequality: A close relationship?

Orsetta Causa, **Alain de Serres** and **Nicolas Ruiz**
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Inequality has risen in the OECD area. Could policies aimed solely at growth be responsible? Can inequality undermine economic growth? New evidence suggests there is a possibility.

Income inequality has widened in most OECD member countries during the past two or three decades. These trends are well documented (see references). According to a traditional measure of inequality, the Gini coefficient, income inequality rose by 10% from the mid-1980s to the late 2000s, while the ratio of top income decile to bottom income decile reached its highest level in 30 years.

However, between countries the rise in income inequality has been far from uniform, and a decline has even been observed in some countries. From the mid-90s until the late 2000s, the OECD area experienced a sort of "inequality convergence", as inequality increased in countries such as Sweden, Denmark and Finland, but fell in countries such as Turkey, Mexico and Chile.

Within countries, indicators of inequality, such as the Gini coefficient, say little about who has benefited or lost from these trends. A closer look at the situation of households provides a more complete picture and shows that in many OECD countries, gains in disposable incomes have fallen short of increases in GDP. This has been particularly the case for poorer households: in nearly all OECD countries for which data are available, GDP growth was substantially higher than households' income growth in the lowest quintile.

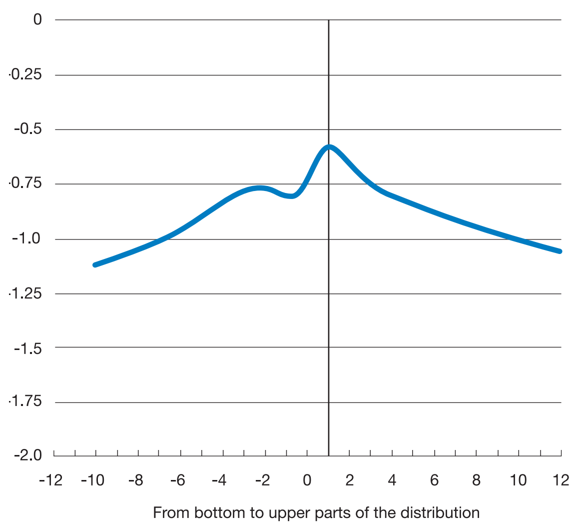
Middle income households have generally fared better, even though they also lag behind GDP growth in a large number of countries. There is a growing gap between low- and middle-income households which is particularly pronounced in Finland, Israel, Sweden, Spain and the US. More generally, growing income disparities between low- and middle-income households have been more widespread and pronounced than the average, as measured by the Gini coefficient. Some countries have seen widening disparities in the lower half of income distribution, taking place even when overall inequality has been narrowing–this pattern is particularly striking in Spain. In other countries, such as Australia, the United Kingdom and the US, between 20% and 50% of total income gains generated have accrued to the top 1% of households, pointing to rising inequalities also within the upper half of income distribution.

As OECD countries try to encourage recovery, how do growth-enhancing policies affect income inequality? Identifying the trade-offs between growth and inequality is no simple task. True, in a majority of OECD countries, GDP growth over the past two or three decades has been associated with growing income disparities. Recent OECD work has shown that this increase to a large extent reflects skill-biased technological change (OECD @ 100). However, the potential policy drivers of these changes in income distribution–within and between countries–are less clear. To shed light on this issue, one recent study by Causa et al. has investigated the long-run impact that structural reforms have had on GDP per capita and household income distribution. Based on this analysis, reforms that favour growth can be distinguished according to whether they increase, reduce or have no impact on disposable income inequality. It reveals some interesting trends. Indeed, several growth-enhancing reforms contributed to narrower inequality by delivering stronger income gains for households at the bottom of the distribution compared with the average household. Such is the case, for instance, of reducing regulatory barriers to domestic competition, trade and inward foreign direct investment, as well as stepping up job-search support and activation programmes.

> "Higher levels of inequality can reduce GDP per capita

Income inequality reduces GDP per capita

GDP elasticity to inequality across the distribution



Notes

1 Elasticities estimated from the joint estimation of GDP and household incomes equations.

2 For an increase of 1% in inequality in the middle of the income distribution, there is a decrease of 0.75% in the long-term level of GDP per capita; for an increase of 1% in the upper part of the income distribution, the long-term level of GDP per capita decreases by 1%.

However, a tightening of unemployment benefits for the long-term unemployed lifts average household incomes in the study, but reduces disposable incomes at the bottom of the distribution, an indication that it may raise inequality.

Finally, a few reforms leading to higher GDP per capita have an even impact on all households, regardless of income group. Examples include measures that aim at promoting investment in information and communications technology and at raising the average level of education in the working-age population, as well as reductions in marginal income taxes for wage earners.

All of this begs another question much debated nowadays: does growing inequality undermine growth?

A certain degree of income and wealth inequality is a characteristic of market economies, which are based on trust, property rights, enterprise and the rule of law. The notion that one can enjoy the benefits from one's own efforts has always been a powerful incentive to invest in human capital, new ideas and new products, as well as to undertake risky commercial ventures. But beyond a certain point, and not least during an economic crisis, growing income inequalities can undermine the foundations of market economies. They can eventually lead to inequalities of opportunity. This smothers social mobility, and weakens incentives to invest in knowledge. The result is a misallocation of skills, and even waste through more unemployment, ultimately undermining efficiency and growth potential.

On the face of it, all of this may seem to make perfect sense, but finding supporting evidence of a clear relationship between growth and inequality is far from straightforward. Knowing the initial level of inequality as well as the shape of income distribution, for instance, whether there is a relatively large middle class or if inequality is driven relatively more by income development in the bottom or upper part of the distribution, is important. Indeed, inequality in different parts of income distribution can affect GDP differently: in developing countries, inequalities in the upper end are sometimes associated with positive effects on GDP, while inequalities in the bottom end can induce negative effects.

To explore the question further, our study estimated a relationship for GDP per capita in which a change in income inequality was added to standard growth drivers such as physical and human capital. The idea was to test whether the change in income inequality over time has had a significant impact on GDP per capita on average across OECD countries, and if this influence differs according to whether inequality is measured in the lower or upper part of the distribution. The results show that the impact is invariably negative and statistically significant: a 1% increase in inequality lowers GDP by 0.6% to 1.1%. So, in OECD countries at least, higher levels of inequality can reduce GDP per capita. Moreover, the magnitude of the effect is similar, regardless of whether the rise in inequality takes place mainly in the upper or lower half of the distribution.

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Towards a caring economy

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New findings in social neurosciences show that humans not only have a natural capacity for empathy, compassion and caring, but that such caring behaviour can be acquired through training. Could economics learn to care too?

Humanity is not rising to many of the global challenges we face–from climate change to resource depletion, from banking crises to sovereign debt crises, from deficient education to poverty in the midst of plenty, from energy security to food security, from fragile states to weapons proliferation. Nor are our economies overcoming the scourge of poverty, or the inadequate provision of collective goods (such as public education, environmental services, fish stocks and rain forests). Our societies are increasingly fragmented, perceived loneliness as well as stress-related diseases such as burnout are increasing and our governance structures are inadequate to the problems we face. These problems also prevent many people from adjusting to a new era of rapid technological change that will require radical changes to their ways of working and living.

Much of our political and economic thinking remains based on a conception of human nature in terms of *homo economicus*. Accordingly, humans are taken to be self-centred, materialistic and rationally operating individualistic agents. Although such traits may be successful for efficiently solving some problems, they are not conducive for overcoming the problems we face. The reason is that in the presence of market failures, such as greenhouse gas emissions and financial crises, free economic markets do not adequately compensate selfish, rational individuals for their contributions to society. Policymakers may be able to create the necessary compensation through taxes, subsidies and regulations. However, if these policymakers behave like *homo economicus*, they will have no incentives to do so, since voting majorities are generally achieved by appealing to narrow but well-organised interest groups and ignoring the interests of future generations. On this account, many of the world's most important problems will remain insoluble.

The time has come to rethink our vision of human nature and to create new models as the basis for our political and economic systems. What is required is a better understanding of the human potential for altruism and pro-social motivation and to explore the resulting opportunities for human co-operation.

> Training actually increases pro-social behaviour

A deeper understanding of human nature can be achieved by interdisciplinary dialogue that goes beyond the political and economic sciences. In recent years, the emergence of new fields such as neuro-economics, and social-, affective- and contemplative neurosciences in combination with experimental micro-economics and psychology have helped to provide large bodies of empirical evidence suggesting a rather different picture of human nature than traditionally framed in the notion of *homo economicus*. An abundance of field and laboratory observations reveal that humans are actually often motivated by pro-social preferences such as fairness and care for each other, and they show altruism even when faced with complete strangers in need.

In contrast to the hyped up emphasis on individualism in western societies, new findings in social neurosciences paint a picture of a strong interdependence between human beings that is mediated by our capacity for empathy, compassion and perspective taking. A vast amount of evidence suggests that our brains are wired for affective resonance with each other and we automatically represent the mental and feeling states of others in our own brains and bodies.

However, studies reveal the potential for the trainability of such cognitive and socio-affective faculties as attention, compassion and pro-social behaviour in adults. They show that even short-term training actually increases pro-social behaviour, and to improvements in reported subjective well-being and health.

These promising findings should be translated into new economic models and concrete policy suggestions. For instance, there is a case for starting mental training already early on in schools, to assure forming an early and solid basis for secular ethics necessary to work towards a more caring society. As this mental training has also been shown to be efficient later in life, "mental gymnasiums" could be introduced in the workplace, as well as in political and research institutions. Furthermore, social environments could be adapted to foster co-operation and activate caring motivation, instead of fostering competition as well as achievement, power and status motivation. Fostering the "caring economy" provides a promising avenue to a world of inclusive well-being and mutual trust.

References

For more on this issue and on the joint research programme on "Caring Economics", see www.global-economic-symposium.org/.

For the free downloadable eBook on "Compassion. Bridging Practice and Science", see www.compassion-training.org.

Other related websites are:
www.caring-economics.org
www.resource-project.org
www.cbs.mpg.de/~singer

Building a platform with Southeast Asia

Southeast Asia, with more than half-a-billion people, is among the fastest growing regions in the world. However, levels of growth and prosperity within the region are very uneven. GDP per capita ranges from as high as US$48,000 in Singapore and Brunei to just $1,300 in Myanmar. Poverty remains high in some countries. Policy reforms will be needed if the region is to maintain strong growth and become more inclusive, boost productivity, reduce poverty, and avoid the "middle income trap" by moving up the global value chain. Policies that facilitate and promote regional integration are key.

The OECD Southeast Asia Regional Programme, which will be launched at the 2014 OECD Ministerial Council Meeting, will build on 25 years of engagement by providing a stronger platform for sharing good practices among policymakers in Southeast Asia and OECD countries. The aim is to inform and support reform, both at national and regional level, in policy areas such as investment, education and skills, SMEs, tax, regulatory reform and public-private partnerships for infrastructure. There will also be work on trade, innovation and gender.

Sharing perspectives will be a clear benefit of the programme. After all, many of the challenges facing Southeast Asian countries today are global challenges that also affect the OECD.

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A truck drives through a special economic zone near Yangon and past the flags of Myanmar and Japan, which has been a strong supporter of the OECD Southeast Asia Programme

For more information, visit www.oecd.org/globalrelations/seaprogramme.htm

\OECD WEEK \2014

Inclusive growth

While growth is essential for recovery, we also need to improve living standards and people's quality of life– with access to decent health care, quality jobs, opportunities to learn and improve skills, and a clean environment. Addressing inequality, which was on the rise even before the crisis, is crucial. Today, in OECD countries, the average income of the richest 10% of the population is approximately nine times that of the poorest, up from seven to one 25 years ago. While in some parts of the world the gap between the rich and poor has actually narrowed over the last decade or so, rapid growth in emerging economies, notably in Asian countries, has also been associated with persisting vulnerability and high inequalities.

OECD Forum 2014, see www.oecdforum.org

Inclusive growth may (or may not) deliver on its promise of inclusion but, because it willy-nilly implies a lid on talent and enterprise, it will certainly extract an unreasonable cost from the economy. This cost is paid in the form of opportunities missed, and the life-changing experiences foregone.

Ranjan Sreedharan, *The fallacy of inclusive growth*, June 2012

Social inclusion is the manner in which institutions understand and engage their communities, as well as how they explore, view, and challenge barriers, values, and behaviours. Social inclusion is also defined by how institutions develop, implement, and evaluate policies and procedures, how they provide equitable access to services, and finally, how they demonstrate the level of inclusion through tangible outcomes.

Canadian Urban Libraries Council, *What is social inclusion?* 2014

Inclusiveness–a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions–is an essential ingredient of any successful growth strategy. Here we emphasise the idea of equality of opportunity in terms of access to markets, resources, and unbiased regulatory environment for businesses and individuals. […] The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing incomes for excluded groups.

World Bank, *What is inclusive growth?* February 2009

Inclusive growth is both an outcome and a process. On the one hand, it ensures that everyone can participate in the growth process, both in terms of decision-making for organising the growth progression as well as in participating in the growth itself. On the other hand, it makes sure that everyone shares equitably the benefits of growth. Inclusive growth implies participation and benefit-sharing. Participation without benefit sharing will make growth unjust and sharing benefits without participation will make it a welfare outcome.

UNDP International Policy Centre for Inclusive Growth, *What is inclusive growth?*

The solution to the economic and political failure of nations today is to transform their extractive institutions towards inclusive ones. The vicious circle [formed by interacting economic and political interests] means that this is not easy. But it is not impossible, and the iron law of oligarchy is not inevitable. Either some pre-existing inclusive elements in institutions, or the presence of broad coalitions leading the fight against the existing regime, or just the contingent nature of history, can break vicious circles.

Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty,* March 2012

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Some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion, which has never been confirmed by the facts, expresses a crude and naïve trust in the goodness of those wielding economic power and in the sacralised workings of the prevailing economic system. Meanwhile, the excluded are still waiting.

Pope Francis, *Evangelii gaudium,* November 2013

The global crisis has motivated a debate about the costs of growing unequal. Rising inequalities, not only in terms of income but also other aspects of life that matter for well-being, thwart opportunity and alienate individuals and vulnerable social groups from economic life. This, in turn, stifles economic growth in the long term, as societies fail to use their human capital to its full potential. Rising inequality is often accompanied by increased polarisation, which undermines social cohesion, fosters discontent, and saps trust in policy and institutions. Contrasting experiences show that there may not be a trade-off between equity and growth, and that specific circumstances and policy settings allow societies to share the benefits of increased prosperity without undercutting economic performance. Understanding the costs associated with rising inequalities and the policy instruments that can be used to mitigate them is crucially important for Inclusive Growth strategies. Equally important is the question of whether or not greater inclusiveness may be a driver of sustained growth.

OECD, *Changing the conversation on growth: Going inclusive,* February 2014

Building trust in global supply chains

Philippe Amon, Chairman & CEO, SICPA

Safe international trade is essential for the economic growth governments are currently seeking but is threatened by the ever evolving asymmetrical threat of fraud and illicit activity. These crimes, be it through sale of counterfeits, contraband, tax evasion, avoidance of quality controls or theft of intellectual property, damage governments revenues, undermine policies and put at risk public health and citizens well-being.

The work of international organisations such as the OECD in promoting co-operation and best practice between governments is crucial to tackling the issue. So is direct action by national governments to reinforce their own capabilities and build robust systems which can be linked across borders to build an interoperable international network.

SICPA is at the forefront of those in the private sector investing in developing up-to-date tools for governments so they can meet these challenges now and in the future. Our SICPATRACE® platform is designed to accommodate numerous products, to protect licit industries and help promote the conditions suitable for economic development and investment.

Our approach builds on our long experience providing security inks and security features to protect bank notes and in working in partnership with governments. SICPA has developed a modern tool box which can be implemented in a modular way and adapted to take account of national needs. At the core of the approach is **secure track and trace** which provides transparency and control for governments across the length of complex supply chains which criminals are so adept at exploiting.

Digital technology is crucial but needs to be complemented by material-based security

Secure track and trace is based on marking legitimate product securely so as to guarantee authenticity and gives each item a unique identity so that it can be monitored through its life cycle from manufacturer to consumer. Digital technology is essential for monitoring and for the full exploitation of data, but to protect against the vulnerabilities of cyberspace secure marking needs to use material-based features such as high security inks.

To meet government needs, a secure tracking and tracing system should be modular and adaptable to a wide range of products–be they excisable goods, medicines or sensitive equipment. At each stage there are benefits. At the beginning of the supply chain benefits include production control which tackles the mis- or under-declaration which result in tax losses. There are further tax and health gains from preventing diversion frauds, adulteration and illegitimate repackaging. At inspection stages there are tools to counter corruption. Business intelligence, risk profiling and reporting modules exploiting 'Big data' ensure best use of enforcement resources. Real-time information of evidential quality improves enforcers' 'hit rates' for seizures and prosecutions.

Implementation requires a holistic approach and expertise

SICPA knows from its experiences across the globe that implementing a successful track and trace system requires a holistic approach and proven expertise. It needs to address the needs of all stakeholders. Permissive legislation needs to be in place. A good system is unintrusive and has minimal impact on production processes – it copes with difficult industrial environments. The integrity of data capture is crucial – it has to be error free and acceptable to all supply chain actors. It requires a fully reliable and secured system of aggregation so that e.g. a bulk package does not require unpacking. Checks by the authorities need to be quick and easy, compatible with trade facilitation schemes based on AEO and contain anti-corruption safeguards.

The cost of illicit trade is high. The benefits of combating it are significant. The technology now exists to do so successfully. It is a tool par excellence of good governance. We stand ready to support governments to make it happen!


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We believe in the potential of young people to imagine and realize a better future. That's why we're working with governments and nonprofits around the globe to create opportunities for youth to make a real impact for a better tomorrow.
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Growth, trust, sustainability

OECD Forum, 28-29 May 2013

Promoting inclusive growth; rebuilding trust; fostering sustainability: these were the three themes that drove discussions at the annual OECD Forum in May 2013. Since 2000 the OECD Forum has become a major stakeholder summit and is the traditional curtain raiser of OECD Week, being held in conjunction with the Ministerial Council Meeting. The public event provides an opportunity for people from all countries and backgrounds–business, labour, civil society, students and academics, as well as ministers–to debate and understand global challenges and to feed their views into the ministerial discussions. This year some 1,520 participants from 63 countries engaged with 176 speakers to discuss a range of pressing global issues, while millions more were able to participate online.

Reminding a packed audience of the importance of dignity in people's lives in his opening speech, Crown Prince Haakon of Norway set the tone for the sessions that followed. These started with a presentation of the OECD Better Life Index, which received more than 2 million visits from 180 countries since its launch in 2011, through lively debates on the future of education, banks, small businesses, the global middle classes, energy and politics, to discussions about austerity versus growth, trust in government, and how global value chains are changing trade. Inequality, gender, tax, Africa's renaissance, and the presentation of the latest biannual OECD Economic Outlook were features of the second day of the OECD Forum.

The OECD Forum is designed for full audience participation, with its "idea factories", food for thought lunchtime debates, live tweeting and interactive social media platforms, as well as a special custom-designed Forum app.

The soundbites below give just a flavour of the discussions. See www.oecdforum.org for more detail.


JOBS
"The global tax issue is about corporate social responsibility. Companies are in the process of reviewing how they want their footprint to be perceived by consumers. It is in their business interests to behave more cooperatively."
Fleur Pellerin
Minister delegate, SMEs, Innovation and the Digital Economy, France


'Banking's DNA hasn't changed… As soon as trust is regained, the animal will be back to its old tricks.'
Joris Luyendijk, The Guardian
TRUST

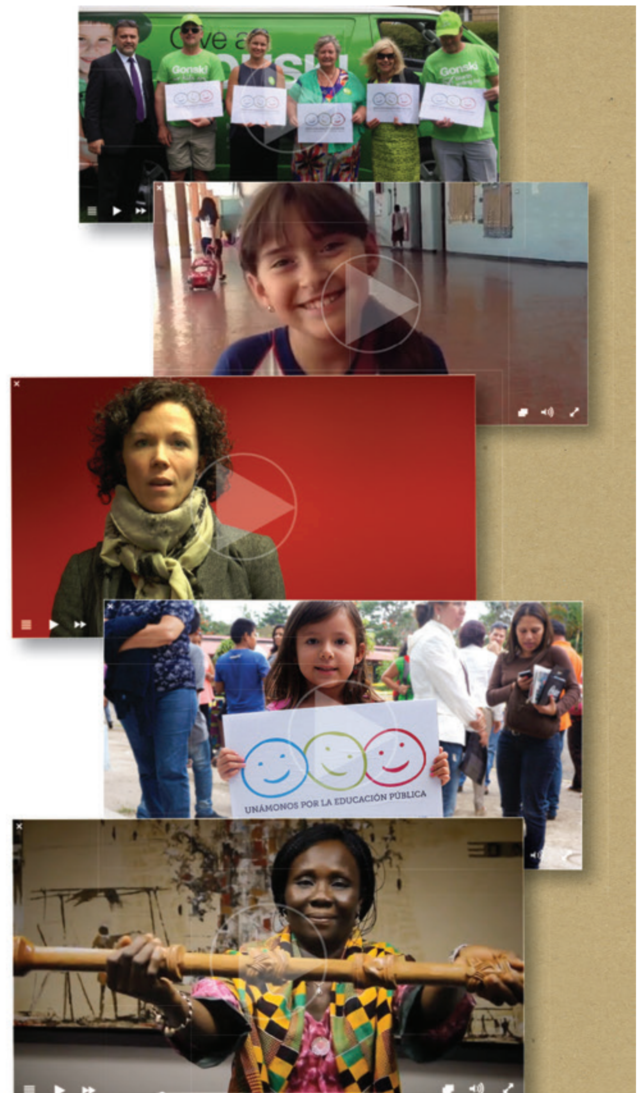

EQUALITY
"Equality is not a women's problem, it's a business problem."
Ronnie Goldberg, Executive Vice-President and Senior Chief Policy Officer, USCIB

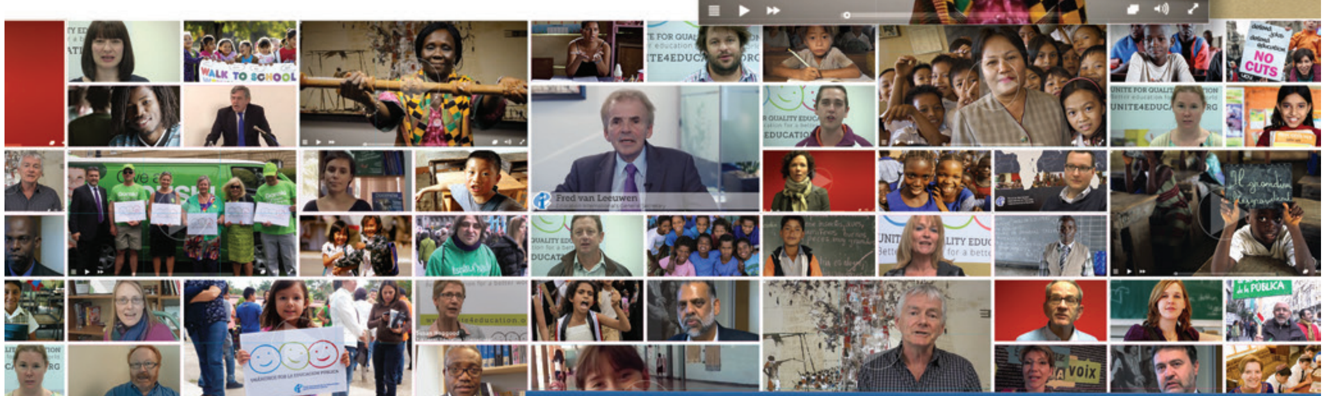

Creating Shared Value
Nutrition | Water | Rural Development
Nestlé
Creating Shared Value and meeting our 35 commitments
13 covering nutrition
4 covering rural development and responsible sourcing
5 covering water
6 covering environmental sustainability
7 covering our people, human rights, and compliance
To build a business capable of both delivering superior shareholder value and helping people improve their nutrition, health and wellness, Creating Shared Value is the approach we take to the business as a whole. Besides nutrition, we focus on water and rural development, given their critical importance not only to our business but also to our employees, farmers, suppliers, distributors and communities where we operate.
Find out more in our 2013 Creating Shared Value report at www.nestle.com/csv

Jobs

Creating quality jobs is key for resilience and inclusiveness, while investing in skills and knowledge is essential for progress. But more than 200 million people are out of work worldwide, including over 45 million in OECD countries. This represents a major waste of talent and resources. High youth unemployment, long-term unemployment, in-work poverty, early retirement and workplace discrimination are just some of the issues that must be addressed. Jobs must be created that are productive and which can boost people's well-being. With the emergence of global value chains and new production techniques, the skills we need are changing. Moreover, the impact of jobs and skills goes beyond economics, affecting health, social cohesion and trust.

In this chapter, Stefano Scarpetta argues that promoting sustained job creation is now the defining challenge for many governments around the world, but he believes that the tools required for action are at hand. For Andreas Schleicher, skills and competence in using those skills are fundamental; he calls for a plan for education. Randa Grob-Zakhary and Andrew Bollington of the LEGO Foundation believe that people, including educators and policymakers, can learn from playing, just as children do. For Katsutoshi Saito, the real challenge is one of "super-ageing" and pioneering solutions are badly needed. Nobuaki Koga calls for a secure society based on work, while Dianne Jeffrey sees working longer as being a long term trend, though this raises serious policy challenges. Thiébaut Weber believes a massive investment plan is now called for, while Willi Scholz and Kathrin Kupke see the digital route as the way forward, particularly for younger people.





Jobs are key for inclusive growth

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Stefano Scarpetta
Director, OECD Directorate for Employment, Labour and Social Affairs

Despite repeated signals that growth is resuming, unemployment or under-employment in low-paid jobs remain stubbornly high in many countries. Promoting sustained job creation is now the defining challenge of many governments around the world.

Coping with a job loss when offers are scarce and competition is fierce would be difficult for anyone. But being without work over a long period of time can have long-lasting "scarring" effects. Unfortunately, six years into the crisis such scarring has taken place and demands policy attention.

By the end of 2013 in the euro area, one in two unemployed persons was out of work for 12 months or more, corresponding to 17 million people. This group has almost doubled in size since 2007, with a particularly sharp increase among low-skilled workers.

Being out of work for that long can lead to a decline in skills, ill health and a loss of motivation to look for work. It raises the risk of dropping out of the labour market altogether, or at the very least taking on a poor quality job. The result is often exclusion and more demotivation, which can spill over into social tensions, while adding to the strain on public finances and long-term productivity.

The crisis has been particularly harsh on young people. In Europe, almost one young person in four is unemployed with the youth unemployment rate well above 30% in Portugal and the Slovak Republic, 42% in Italy, 55% in Spain and 58% in Greece. Youth unemployment is also high in some emerging economies–52% in South Africa, for example. In other countries, many youngsters are limited to low-paid, precarious jobs with little or no social protection in the informal economy.

The unemployment rate does not capture the full picture. While unemployment has driven some people to continue their studies and delay their job search in order to improve their qualifications, others do not even bother to look for work anymore. Almost one young person in six (15-24 years of age) in the OECD area is unemployed or, worse, not in any kind of employment, education or training–the so-called NEETs.

To make matters worse, many governments still face the daunting challenge of having to "do more with less" by providing effective labour market and social services to millions while controlling unprecedented public deficits.

High unemployment cannot be addressed without a return to sustained growth. But growth alone does not guarantee adequate job creation, as recent spates of "jobless growth" testify. More and better jobs with decent prospects are needed to kick-start a virtuous circle of rising confidence in the future and sustainable growth. A broad range of structural reforms is also needed to increase competition and enhance productivity, as are labour and social policies that orientate workers towards more productive jobs, and provide support to jobseekers and vulnerable groups.

> Growth alone does not guarantee adequate job creation

Helping youths get off to a good start in their careers is an absolute priority. This is why we have devised an Action Plan for Youth, launched at our OECD Ministerial Council Meeting in May 2013, which combines short-term measures to boost job creation for youth with more in-depth reforms to enhance access to jobs, improve education and strengthen the skills match.

Promoting inclusive growth requires both higher participation in the workforce and more productive and rewarding jobs that draw people to the labour market. An important aim should be to increase female participation rates, for instance, and to make sure women do not feel confined to low-paid/low-productivity employment with dim prospects of improvement, but can access better-paid, full-time jobs too. Nor should women feel forced to take on unprotected informal jobs, as is frequently the case in emerging markets. With labour forces set to shrink in many OECD and partner countries over the next 20 years, and with women increasingly outperforming men on several fronts in education, policies that boost female labour force participation and tear down long-standing structural obstacles to their employment would yield widespread benefits, while making economies more resilient and societies more inclusive. This applies not only to women but to other groups that are underrepresented in the labour market, such as youths, disabled people, low-skilled workers and older unemployed people.

The road ahead may be challenging, but with the right policy tools and effective co-operation, including among social partners, governments can not only put millions of people back to work, but help make labour more inclusive and rewarding for everyone.

Reference

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A plan for education


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Andreas Schleicher
Special Advisor on Education Policy to the Secretary-General, and Acting Director, OECD Directorate for Education and Skills

Jobs, wealth and individual well-being depend on what people can do with what they know. There is no shortcut to equipping people with the right skills and to providing them with opportunities to use their skills effectively. If there's one lesson the global economy has taught us, it is that governments cannot simply spend their way out of a crisis.

We can do much to equip more people with better skills to collaborate, compete and connect in ways that lead to better jobs and better lives. The OECD's *Skills Outlook* released in October 2013 shows that poor skills severely limit people's access to better-paying and more-rewarding jobs. It works the same way for countries: the distribution of skills has implications on how the benefits of economic growth are shared. Put simply, where large shares of adults have poor skills, it becomes difficult to introduce productivity-enhancing technologies and new ways of working, which stalls improvements in living standards.

Skills affect more than earnings and employment. Adults with low skills are far more likely to report poor health, perceive themselves as objects rather than actors in political processes, and trust less in others. In short, without the right skills, people will languish on the margins of society, and economies will be unable to grow to potential.

Today's youth, who cannot compete on experience or traditional social networks in ways that older people can, are particularly vulnerable. While young people with advanced skills have weathered the crisis reasonably well since 2008, those without fundamental skills have suffered. Indeed, unemployment among young people without a high school education soared 20% in Estonia and Ireland and 15% in Greece and Spain. The short-term impact on individuals, families and communities begs for urgent policy responses; the longer-term scars, in terms of skills loss and de-motivation, will affect not only the recovery but long-term potential too.

But there is good news. What is often overlooked amid the grim statistics is that a few countries, like Austria, Chile, Germany and Korea, saw a sizeable drop in unemployment rates among their youth. With the right policies and economic environment, these countries have proven success along three lines: build the skills that foster employability; give young people the opportunity to make their skills available to the labour market; and ensure that those skills are used effectively at work.

We need to put a premium on skills-oriented learning throughout life instead of on qualifications alone. The OECD's *Learning for Jobs* studies, which have been under way since 2010, show that skills development is far more effective

> Building skills is the easy part. Providing opportunities for young people to use them is far tougher

if the world of learning and the world of work are integrated. It is not difficult to understand why. Skills that are not used will atrophy. And, compared to purely government-designed curricula taught exclusively in schools, on-the-job learning allows people to develop "hard" skills on modern equipment and "soft" skills, such as teamwork, communication and negotiation, through real-world experience. Workplace training can also help to motivate young people and stoke their interest in education.

Nordic countries, the Netherlands and Canada, for example, have been much better at providing high-quality lifelong learning opportunities, both in and outside the workplace, than other countries. They've developed programmes that are relevant to users and flexible, both in content and in how they are delivered. They've made information about adult education opportunities easy to find and understand, and provide recognition and certification of competencies that encourage adult learners to keep learning. They've also made skills everybody's business, with governments, employers and individuals all involved. Building skills is the easy part. Providing opportunities for young people to use them is far tougher. Employers need to offer greater flexibility in the workplace. Labour unions need to reconsider how employment protection for permanent workers can be adapted to benefit job seekers too. Long trial periods are needed to enable youths to prove themselves and facilitate a transition to regular employment. And some countries need to lower the minimum wage for younger workers, making it easier for low-skilled young people to get their first job and discouraging drop-outs (by lowering the opportunity cost of staying on at school).

Last but not least, we need to ensure that talent is used effectively. High-quality career guidance services, complemented with up-to-date information about labour-market prospects, can help young people make sound career choices, reduce mismatching and avoid dead-end jobs. Policymakers also need to maintain and expand the labour-market measures which have proven effective, such as counselling, job-search assistance and temporary hiring subsidies for low-skilled youth. In addition, income support should be linked to searching for work or other efforts to improve their employability.

The steps outlined here are not complicated, but require leadership and determination on all sides: governments to design financial incentives and favourable tax policies; education systems to foster entrepreneurship and provide vocational training; employers to invest in learning; labour unions to ensure that investments in training are reflected in better-quality jobs and higher salaries; and individuals themselves, to take better advantage of learning opportunities and shoulder more of the financial burden. It's time for all of us to take the lessons we learned from the crisis and turn them into a sustainable, practical plan to give our young people the prosperous future they deserve.

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Playing your way to work

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Could educators learn from playing? Creativity and collaboration matter, and education systems could improve by drawing hard lessons from such soft skills.

Today, economic and social well-being in many countries is threatened by high levels of youth unemployment. Yet, companies report that recruiting suitable staff is a challenge. A recent survey of 500 US executives revealed that 92% believe there is a job skills gap. And of that overwhelming majority, nearly half believed the gap was in critical thinking and "soft skills" such as communication, creativity and collaboration. Given this contradiction, isn't it time to look more carefully at our education systems?

Education is a cumulative process in which each successive year builds upon what has already been learned. The foundation is laid in early childhood. High quality research, tracking children into adulthood over 20 years, reveals that those who benefit from as little as two years of proper early childhood education are less likely to live on benefits, more likely to have a well-paid job and less likely to commit a crime.

Even more surprising, most experts agree that quality early childhood education is largely about playing. Can investing in playing really improve employability and reduce crime?

At the LEGO Foundation we have been examining that question. Our conclusion is that better early learning is not about learning *more* or *earlier* but about developing the skills that *underpin learning for an entire lifetime*.

Our growing understanding of brain development shows that it is at play that young children best develop their working memory, pattern recognition, eye tracking, language and fine motor skills that they will need when learning to read and write. Skipping these pre-literacy skills leaves gaps in the cumulative learning process. These gaps can lead to frustration and disengagement, creating the need for much more expensive remedial intervention later on.

If this is true of literacy, then it is highly likely that some of the "soft skills" that employers seek are also developed in this way. When children negotiate rules for a game, learn to share a ball or make a paper plane, they are in effect setting down the foundations for the teamwork, collaboration, critical thinking and problem solving that 21st century jobs

demand. There is ample hard evidence that these so-called "soft skills" are among the best predictors of success in later life and that these skills are established in early childhood. Academics point to many other cognitive and behavioural skills–self-regulation and executive function, for example–all with a similar message. Playing is one of the most important and effective ways in which children develop critical skills.

> It is at play that young children best develop their working memory

Choosing to spend on remedial interventions with older children at the expense of providing more early childhood education is a difficult habit to break. Because learning at this age happens everywhere and all the time, parents need help to understand these issues and provide the right opportunities for their children. More investment is needed in the training of early childhood teachers–too often, early childhood staff are low-paid care workers with a minimum of training in how to nurture childhood development. We need age-appropriate programmes in our nurseries and junior schools, rather than children simply *learning earlier* and skipping crucial stages as a result.

The social and economic arguments are equally strong. Nobel Prize winning economist James J Heckman's 2006 study of the issue concluded: "Investing in disadvantaged young children is a rare public policy initiative that promotes fairness and social justice and at the same time promotes productivity in the economy and in society at large [...] At current levels of resources, society over-invests in remedial skill investments at later ages and under-invests in the early years."

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Who's smiling now?

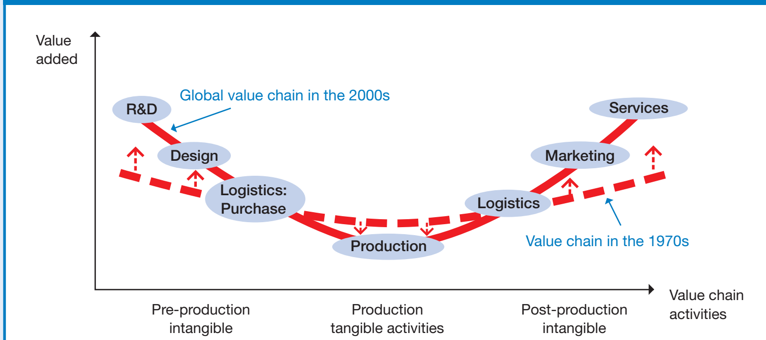
Case studies of specific products, particularly in the electronics industry, show that value creation along a global value chain tends to be unevenly distributed among activities. The highest value creation is found in upstream activities, such as the development of a new concept, research and development (R&D) and the manufacturing of key components. But it is also found in downstream activities, such as marketing, branding and customer service. In between, value-added is low in activities such as product assembly, which is frequently offshored to emerging and developing economies. This is the basic idea behind the so-called "smiling curve", originally used in 1992 by Acer's founder Stan Shih to illustrate the problems of information technology (IT) manufacturers in Chinese Taipei, which found itself along the bottom of the curve.

Some argue that there has been a tendency in OECD countries for the smiling curve to deepen, moving from relatively flat–meaning value evenly spread all along the chain–to U-shaped, with fabrication and assembly accounting for a much lower share of value added. The offshoring of labour-intensive manufacturing and assembly to low-wage economies has, in fact, decreased the cost of these stages. Rising up the value chain has become a goal of many policymakers, particularly in emerging economies, where large manufacturing activities may not capture as much value from producing goods for the global market as was originally thought.

See also: "Made in the World: How value affects trade policy" in *OECD Observer* No 294, Q1, 2013.

See www.oecd.org

The smiling curve
Value distribution along the global value chain



Source: "Interconnected Economies Benefiting from Global Value Chains", OECD 2013.

Solving the "super-ageing" challenge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Katsutoshi Saito
Chairman, Dai-ichi Life Insurance Company, Ltd; Vice-Chairman, Keidanren*; and Vice-Chairman, BIAC Executive Board

Japan's population is ageing at a globally unprecedented pace. As of 2012 the share of those 65 or over had reached 24%. By 2025 the figure is expected to reach 30%, and by 2060 the share will probably be almost 40%. This is a level of "super-ageing" that no country has ever experienced.

Population ageing, accompanied by working force shrinkage, pulls down the potential growth rate, and it places greater burdens on the social security system. Increased social security costs are a major cause of Japan's fiscal deficit. And because of the declining birth rate, younger people must bear a heavier burden to keep the system solvent. These trends threaten the sustainability of the existing set of schemes.

Countries in Europe and Asia will soon experience a similar ageing of their populations. Sooner or later they will confront the same sort of issues that Japan is facing now.

A report issued last year by the National Council on Social Security System Reform expressed Japan's determination to tackle the issue. Instead of taking a negative view, the council declared this change to be an opportunity to build a "mature society"–a super-aged society in which people can live full lives–and suggested tackling the challenge accordingly.

The advanced longevity that today's Japanese enjoys is due in considerable measure to the nation's universal public health insurance system. Maintaining universal coverage must be one of the planks of social security reform. Since ageing is expected to cause increases in medical and nursing care costs, steps must be taken to enhance the sustainability of existing health and long-term care insurance systems.

First, we must see to it that the financial burden of supporting these systems is shared among different generations in a manner consistent with their ability to pay, and we must rigorously prioritise benefits and enhance their efficiency. We should also seek to lengthen "healthy life expectancy", focusing on initiatives to promote good health and prevent disease so that people can enjoy longer, healthy lives. This will improve people's quality of life, and it should also help control the rise in medical and nursing care costs.

"We should also seek to lengthen "healthy life expectancy"

Efforts are already under way. Business corporations have started to view employee health as a management issue. Promoting good health and preventing disease among employees, in addition to improving their quality of life, can lead to higher productivity and lower medical care costs. Some corporations have launched "data health plans" under which they analyse the results of regular physical check-ups and records of visits to medical facilities to identify employees at high risk from chronic illness and provide intensive guidance to keep them well.

In addition, the Japan Revitalisation Strategy, the government's growth strategy, calls for a comprehensive package to encourage the development of new businesses that can help lengthen people's healthy life expectancy without drawing on public funding. In addition, a newly created Next-Generation Healthcare Industry Council has started deliberating ways to improve the environment for health care-related businesses and health-promotion activities.

Japan is addressing the issues of population ageing that other countries around the world will be facing. In this respect, Japan is a "problem pioneer", It is my hope and expectation that Japan will soon be a "solution pioneer".

*Keidanren is a confederation of Japanese business and a member of the Business and Industry Advisory Committee to the OECD.

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Towards a "secure society based on work"


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Nobuaki Koga
President, Japanese Trade Union Confederation (RENGO)*

This year marks the 50th anniversary of Japan's accession to the OECD. In 1964, the year of its accession, Japan was in the midst of an era of high economic growth. In that same year, Tokyo hosted the first Olympic Games to take place in Asia, and four years later, Japan's economy surpassed Germany's to take second position globally.

There are clear differences between then and now. Japan has entered an era of population decline with the most rapidly ageing population among developed countries worldwide. Governments and social partners such as RENGO, Japan's trade union national centre, must do more to foster opportunities for dialogue and to share knowledge and ideas with the aim of building a secure society based on work.

After the recent global financial and economic crisis, RENGO embarked on a debate about the social and economic model that could serve as an alternative to neo-liberalism, which led to the crisis in the first place. RENGO began defining the vision of society that Japan should pursue, based on five policy principles, namely, solidarity, fairness, discipline, cultivation and inclusion. "A secure society based on work" is a society in which anyone, regardless of their age, gender or ability (including disability), is able to play an active part in society through various ways of working, and under fair labour conditions. It is about achieving social and economic independence in a mutually supportive environment.

A society develops only when people work and support each other. People interact with one another through the world of work, in households, firms, volunteer activities and beyond. "Working" bolsters society by giving it financial strength and funds it through taxes and social insurance premiums.

But society has been struggling lately. We have seen, in many places in the world, an increase in the number of people who are unemployed or unable to work due to labour market difficulties or family responsibilities. These people quickly become excluded from society and end up living in isolation and poverty. This vicious circle has led to a widening social gap, which labour market deregulation and cuts to welfare spending have simply made worse.

RENGO believes that by eliminating the various difficulties associated with employment and by building paths–or "bridges of security"–to the world of work, people's well-being and sense of security will not only be enhanced, but they will feel more enthusiastic and productive at work, too.

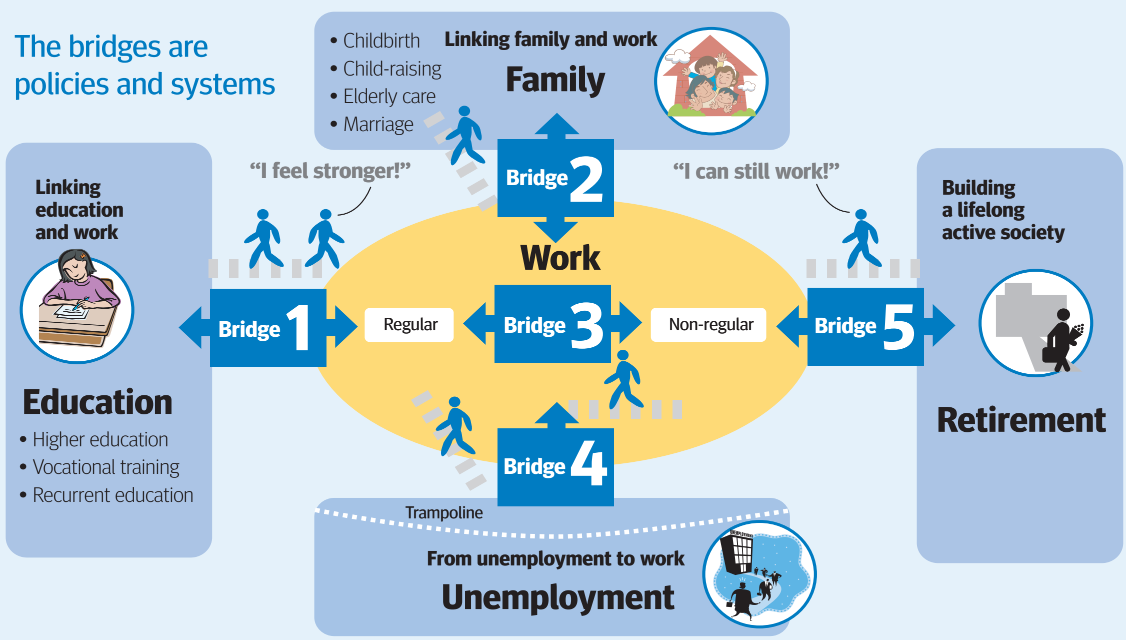
Five bridges of security are needed, based on five broad policy areas (see diagram): first, measures to allow people to obtain the skills needed to work; second, measures to enable people to remain active despite family obligations such as child and elderly care; third, action to promote flexible work schedules to balance work and family life and promote well-being; fourth, efforts to provide proactive employment measures such as training; and fifth, measures to provide support for older workers wishing to remain in the labour force and retire later.

> "For the vast majority of people in the world, the route to advancement is via normal work

To build these bridges, a policy incorporating the following four elements is needed. First, a multi-layered safety net must be constructed. We have seen growing insecurity in employment, which should in itself be the primary safety net. There are more non-regular workers and more working poor. In parallel, more people are unable to obtain unemployment insurance, which serves as the second safety net.

RENGO recommends creating a trampoline-style safety net that allows people to undertake job training, while providing them with conditional income support. To support this initiative, policies would need to be developed that link employment/labour policy with social security and education policy, as well as industrial policy. After all, a key aim is employment creation.

Guaranteeing participation by removing obstacles and providing links to work = Building five "bridges of security"



"Linking" means building bridges for people to freely cross back and forth; in other words, building policies and systems to remove risks and obstacles.

The second issue is to raise income levels, including raising the minimum wage. The principle of equal pay for work of equal value should be incorporated into economic systems. It goes without saying that to guarantee a decent wage, we, trade unions, must strengthen our organising efforts and spread the benefits of collective labour relations to as many working people as possible.

The third issue is to revive a solid middle class. To achieve sustainable growth, it is important to correct the labour's distorted share of income, rebuild society centred on the middle class and stimulate domestic demand. Income redistribution must also be improved, through social benefits and the tax system.

Lastly, there is the role of the international framework, so that global business respects and enhances the value of work, and does not bid it down so low as to lead to even wider social gaps. As globalisation accelerates, it will be necessary to establish an international framework in order to ensure competition under fair rules. Having an international framework is critical, particularly for the financial sector, to address issues including pernicious cross-border speculative funds.

For the vast majority of people in the world, the route to advancement is via normal work, and work is the cornerstone of a decent, secure and prosperous society. No challenge can be overcome without working. For policymakers everywhere, building a world based on secure work is therefore the only way forward.

*RENGO is a member of the Trade Union Advisory Committee (TUAC) to the OECD

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Visit www.jtuc-rengo.org

Visit www.tuac.org

Older candidates, please apply

Dianne Jeffrey
Chairman of Age UK

Today in the United Kingdom there are more people aged over 65 in the labour market than ever before. Older people increasingly need to work for financial reasons, and many indeed *want* to work.

Working longer is part of a long-term social trend. Average retirement ages have been slowly increasing since the early 1990s, and now there are over 1 million people aged 65+ in work. It is becoming more normative to keep working, and the idea of a traditional retirement age is increasingly anachronistic. Moreover, the social benefits of working and the feeling of making a contribution to local communities are highly motivational.

Policy changes, notably the abolition of the default retirement age and the raising of state pension ages, do–one way or another–incentivise people to keep working. Coupled with the ageing workforce, it is essential that the government pursues social policies that help both individuals and employers meet the challenges they are likely to face.

At present there are simply too many gaps in government policy to meet the practical needs of most older workers. There has been some limited action taken to improve access to flexible working (by extending the right to request) and occupational health (the forthcoming Health and Work Advisory Service), but overall efforts have been piecemeal and the effectiveness of new policies is unclear.

One area for focus is tackling the negative stereotypes of older workers. Many of these, for example, that older workers are less productive, are deeply ingrained, and changing attitudes is difficult. Last year Age UK commissioned the University of Essex to carry out a literature review of common perceptions of older workers, which found that there is little or no evidence to bear out the majority of such assumptions.

Age UK believes more engagement with employers across all these issues is crucial. The recent UK government publication *Employing Older Workers* expects there to be 13.5 million new job vacancies over the next decade, and only 7 million school leavers–helping more older workers stay active is a major part of the solution.

Last but not least, arguably the most important part of the "extending working lives" agenda is how the older workers themselves manage to stay employed. For some, this will never be a problem, but for many others there will be barriers.

Maintaining and updating skills has long been difficult for the over-50 cohort. Government funding for training is focused on young people, and while this is of course imperative, in practice this is often done at the expense of older workers. It doesn't need to be; the two are not mutually exclusive. Older workers should have equal access to training, while making sure people can learn about new technologies as they emerge.

> "Re-entering work past the age of 50 is harder than for any other age group

More support for working carers is essential–all too often the challenges are too great and people are forced out of work. Age UK estimates this costs the economy £5.3 billion (US$8.8 billion) a year. Employees need far greater flexibility in order to balance caring responsibilities, and we believe that the government and employers should make all jobs "flexible by default" by the end of the decade, a potentially radical change in attitudes to how jobs are designed and work is viewed.

Those who find themselves out of work have perhaps the toughest challenge of all. Re-entering work past the age of 50 is harder than for any other age group. People in this age group who lose their job face over a decade on lower unemployment benefits before reaching state pension age, placing an additional weight on back-to-work support services–at present these services often fail to provide the needed support. Creating employment opportunities for older jobseekers should be at the top of government agendas.

The issues mentioned so far place the focus on formal employment, but older people's contributions to the economy and society go much further. They perform unpaid caring and volunteering duties, which add a huge amount to national prosperity, even though it is largely unheralded.

Such contributions are not easily captured in formal measures, but are essential to keep the economy functioning. With the funding crisis and declining role of the state in social care, ever more older people are caring for adults, or are relieving the pressure of high childcare costs, thereby allowing younger generations to go to work. Age UK estimates informal care by people aged 50 or over is worth £28.6 billion.

Older people have a great deal to add, both in formal employment and unpaid additional work. At present this group is an underutilised resource, held back by negative stereotypes and a lack of opportunity, but with the potential to drive the economy forward and make people of all ages better off.

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Visit www.ageuk.org.uk

Not so patient

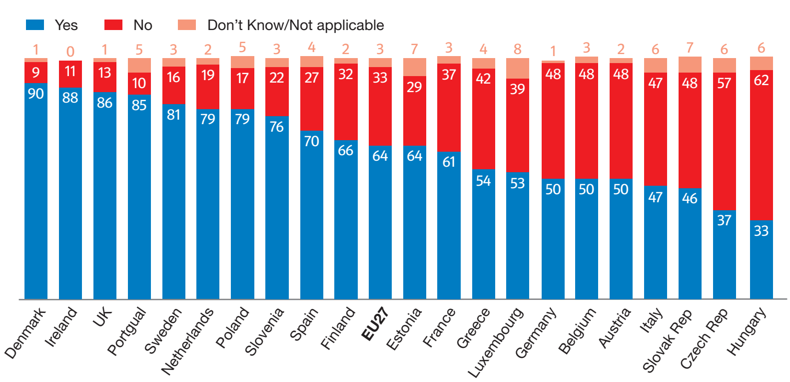
Patients in most OECD countries face long hospital waiting times, whether for primary care, out-patient specialist care or even emergency care. Tax payers rightly expect better service, and hospital waiting times are understandably a contentious political issue. According to *Waiting Time Policies in the Health Sector: What Works?*, which examines and compares different country cases, what really matters is the actual waiting time of patients on the list, and not just the number of patients.

What can patients do if waiting times are too long? One option is to go to where they are shorter. This is happening in the EU where in March 2011 a new directive (2011/24/EU) obliges countries to reimburse patients for treatment received in other EU member states if treatment at home was subject to "undue delay".

A European Barometer survey shows that 64% of EU-wide respondents would travel to get faster treatment (our chart).

Travelling for faster treatment

Patients willing to travel to another EU country to receive medical treatment more quickly



Source: OECD Waiting Time Policies in the Health Sector: What works? 2013

StatLink http://dx.doi.org/10.1787/888932753913

But would this decrease waiting times? One Norwegian study says it would, but suggests costs might be higher too if travel and accommodation for relatives and nurses are included. As the trend for travelling grows, good management will be crucial, both for sending countries trying to reduce their long waiting times and recipients trying to safeguard theirs.

Visit www.oecd.org/health

Undeclared labour doesn't work

Jacques van den Broek
Chief Executive Officer
Randstad Holding nv

Rather than clinging desperately to "old" values such as jobs for life and rigid pension schemes, labour market policy needs to reflect and anticipate today's new reality.

The world is undergoing fundamental shifts, such as globalisation, political and economic volatility, an ageing population, and new technologies. Attitudes to work have also changed. As a result, the labour market is faced with a new set of challenges, including a high level of unemployment, an increasing mismatch between supply of and demand for skills, increasing global migration flows and new forms of labour relations.

Take the undeclared economy, where businesses and workers operate outside the catchment of tax, social insurance, health and safety norms, or other formal legislative frameworks. It is widely recognised that the undeclared economy is prevalent in many regions of the world. In fact, out of a global working population of some 3 billion, almost two-thirds work in the undeclared economy. It is also generally acknowledged that the undeclared economy lowers the quality of work and working conditions, undermines the business environment through unfair competition, and puts the financial sustainability of social protection systems at risk. Clearly, undeclared activities should not merely be discouraged, but should be transformed into regular work.

There are two root causes of undeclared work. On the one hand, the open-market school argues that the undeclared economy is a direct result of high taxes, state corruption and burdensome regulations. On the other hand, there is the "structuralist" school, which argues that undeclared work is the by-product of inefficient regulation, combined with a lack of labour market intervention and social protection.

A recent study commissioned by Randstad, showed that in advanced economies the size of the undeclared economy varies widely–from less than 10% in countries such as Japan, the Netherlands, the UK and the US to more than 25% in parts of southern and eastern Europe. The study also revealed that countries with a smaller undeclared economy are those in which it is easier for companies to resort to temporary employment opportunities to meet labour demands and in which, at the same time, there is greater social protection (in the form of labour market policies that protect and support vulnerable groups of workers). In short, undeclared work does not mean more flexibility. On the contrary, successful economies reduce the supply and demand of undeclared work by providing workers and employers with flexible alternatives.

Certainly, if policy makes it easier for businesses to obtain temporary employment to meet their labour demands, undeclared work will diminish. Workers will also benefit from more flexible job opportunities, giving them a chance to develop and grow, and to achieve the work/life balance that best suits their circumstances.

In order for businesses, and indeed economies, to remain innovative and competitive in today's environment, flexibility – and, therefore, flexible labour – will be imperative. The debate about whether or not to allow flexible labour and temporary work is misplaced. Rather, the discussion should centre on how best to regulate work to create a win-win situation for both businesses and labour.

A well-regulated flexible labour market is one that is inclusive. It allows and encourages all people of working age to participate and provides a framework for their development. Currently, groups such as women, youth, older workers and low-skilled

> "Successful economies reduce the supply and demand of undeclared work by providing flexible alternatives

workers are under-employed and tend to disappear into the undeclared economy. In a labour market where flexibility and security are combined, it is much easier to create more and better jobs for these groups, while safeguarding well-being and jobs too. This leads to greater worker commitment, which in turn enhances productivity and economic growth.

There is clearly a need for labour market policy to be approached much more actively, with unjustified restrictions on temporary work being lifted and relevant interventions stepped up. Governments should be encouraged to create a social protection system that not only supports workers who are ill or temporarily out of work, but also encourages an accessible, well-regulated market for temporary employment and temporary employment agencies.

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www.randstad.com/press-room/research-reports

Wanted: A massive investment plan

©CFDT

Thiébaut Weber
Confederal Secretary
French Democratic Confederation of Labour (CFDT)

To describe oneself as a staunch European citizen, which is what I am, takes a great deal of courage nowadays. Job insecurity seems to have become a sad and permanent feature of the lives of millions of Europeans, rather like a crisis which takes over our past, present and future.

As our stomachs have gradually become accustomed to the scarcity of food, we have inevitably had to downscale our expectations regarding the share of life's cake we want to carve out for ourselves. Some commentators are even starting to tell us we need to learn to live with less. Others, that job insecurity is simply unemployment and that any kind of a job is always better than no job at all.

Does this mean that we should therefore accept that the concepts of "full employment" and "high-quality jobs" are no more than naive ideals? Is the new development model we must prepare ourselves for primarily one of greater unemployment, job insecurity and poverty? Is the battle for our future already lost?

The generation of young trade unionists to which I belong refuses to accept that the only future it can look forward to is one of such inescapably grim reality. Our ideals are not dreams, but prospects which will determine the direction of our union's actions. Solutions exist and an ounce of optimism leavened by political will could well help change the hand we have been dealt, even if only incrementally.

Let's take the example of the fight against job insecurity. Let's look here at the so-called "job security" agreement signed in France on 11 January 2013 by employers and unions (including my own union, the CFDT). This agreement, which has been enacted into law, places a number of curbs on the use of short-term employment contracts. By as early as 2014, a minimum threshold of 24 hours will become the rule for part-time employment. This is designed to limit the impact of "job insecurity traps" into which women and young people often fall. Another measure which was successfully negotiated is that short-term contracts are now taxed according to their duration. The shorter the contract, the greater the cost to the employer. The idea here is not only to penalise the use of short-term employment contracts, but also to encourage employers to think about organising labour differently and to put an end to the often far too easy use of short-term contracts.

However, regulations alone will not be enough to end the vicious circle of job insecurity. Beyond these admittedly necessary measures targeting a given type of contract or category of the population, in actual fact it is the entire European economic machine we need to restart. But with what? Investment, more investment and then even more investment!

The European Trade Union Confederation, our trade union at European level, is arguing for the rapid roll-out of a massive investment plan to set Europe back on the road to growth and sustainable high-quality jobs. Raising the equivalent of 2% of European GDP over 10 years could generate €250 billion of investment and create some 11 million new jobs. By way of comparison, this sum would amount to no more than a quarter of the sum spent on saving the banking system and a quarter of that lost every year to tax evasion and fraud.

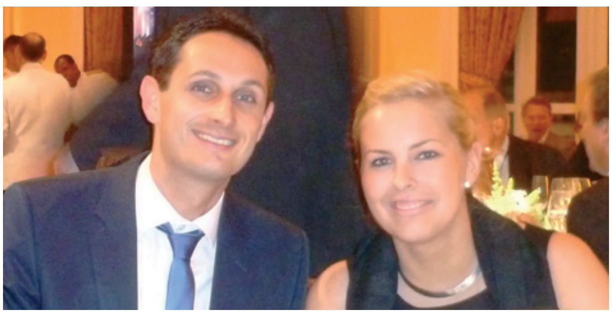
Far from adding further to public deficits, this plan would be financed by dedicated resources such as the tax on financial transactions or by European borrowing (projects bonds, etc.).

Far from being yet another "euro in the jukebox", this plan would provide the essential leverage for the ecological transition towards a new development model, by prioritising innovation and creation in sectors such as industry, infrastructure and transport, digital technology, education, health, and smart housing. Lastly, through the introduction of "social clauses" into fund allocation procedures, in order to guarantee the quality of jobs, such a plan would promote the return to a "powerhouse Europe" from not only an economic but also a social and environmental standpoint.

"Where there's a will, there's a way". All that remains now is to end the insecurity sapping the political resolve of our leaders.

*Confédération Française et Démocratique du Travail: visit www.cfdt.fr. The CFDT is a member of the Trade Union Advisory Committee to the OECD: visit www.tuac.org
Visit www.etuc.org

Cutting youth unemployment in a digital age



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Willi M. Scholz, Member of the Executive Board,
and **Kathrin Kupke**, Project Manager, Global Economic Symposium (GES)

The rapid progress in information and communication technologies has dramatically redefined how people live, work, communicate and learn. These shifts have been accompanied by difficult times for both employers and workers and create pressure on social security systems and institutions. The GES offers a variety of policy solutions.

One very vulnerable group is young people. Youth unemployment is soaring in many countries and, because youngsters become less employable the longer they stay out of work, social problems such as human capital erosion can arise and have a lasting impact on future growth opportunities.

How can we create employment opportunities that make the economy more resilient during times of disruptive change? How do we preserve and increase human capital and improve the match between the supply and demand of skills?

There are several other questions to address, too. Do internet platforms have a role? Should vocational training be stressed? Should job security be graded, and should policies target specific social groups?

These are major questions and the Global Economic Symposium (GES), an annual forum of leaders in policy-making, academia, business and civil society, has identified several innovative approaches as necessary to reduce youth unemployment and the skills mismatch.

To start with, the system of temporary and permanent employment contracts needs to be replaced with a single, open-ended contract with gradually increasing employment protection. Many employers hesitate to hire employees on permanent contracts due to rigid labour market regulations, but prefer to rotate workers in a sequence of fixed-term contracts rather than to upgrade them to permanent contracts. The higher turnover rate becomes detrimental for productivity, while temporary jobs become dead-end jobs instead. Replacing temporary contracts with open-ended ones, in which the level of employment protection increases gradually over time, would eliminate this wasteful rotation.

An additional approach identified at the GES would be to improve aspiring business owners' prospects; countries should offer start-up subsidies to unemployed workers. While such policies help to reduce unemployment, their impact is subject to financial and human capital constraints,

> "How can we create employment opportunities that make the economy more resilient?

with many unemployed workers lacking the knowledge, experience or confidence needed to launch a new venture. Therefore, start-up subsidies should be combined with subsidised entrepreneurial apprenticeships.

The internet offers numerous possibilities, too. It can enable people to become part of the global value chain. Tasks that can be transmitted electronically can be done anywhere in the world. Young people, who are typically comfortable with new technologies, can offer their services to a much larger market. This may be particularly valuable in remote parts of the world.

In the long run a combination of macroeconomic policies, general labour market reforms and targeted policies is needed. As a first step, it is essential to equip students with marketable skills to improve their transition into the labour market. Governments should invest too, but not just in the technology.

Technology means much more than closing the "digital divide" by equipping classrooms with computers and providing internet access. It is primarily about how well technology is applied and embedded into pedagogical concepts to enable interactive learning experiences.

Personal learning approaches, teacher professional learning and collaboration should play a critical role in ensuring that new pedagogies and technologies are well designed and implemented. Leaders in education should be recognised and supported as champions of new approaches through incentive programmes. All of this should go hand in hand with targeted investments in research, particularly in such areas as teaching with technology and pedagogical integration of information technology.

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Rethinking skills

Analysing information, solving problems, working in a team: these are the skills that are in demand in the 21st century. Indeed, the job prospects of skilled workers have improved since 2000, whereas the prospects for unskilled have declined. In fact, the low-skilled are more likely than others to be unemployed and have bad health, and earn less than skilled workers if they do get a job. Countries with greater inequality in skills proficiency also have higher income inequality. In short, skilling up is essential for building a stronger, fairer economy. The OECD Skills Strategy is designed to help governments devise the policies that work.

For more on this and the first *OECD Survey of Adult Skills* issued in October 2013, see videos at http://www.youtube.com/oecd and visit http://skills.oecd.org/

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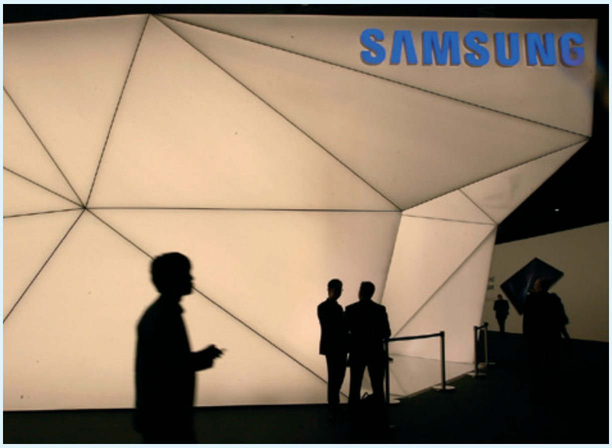
Samsung: Smart skills, smart future

Sang Woo Kim
President
Corporate Affairs Europe
Samsung Electronics

Society is in the midst of a global digital revolution. Through innovation and connectivity Samsung is helping to create a world of new possibilities, transforming how people work, explore, share and create. Meanwhile, public policy agendas continue to be impacted by measures of austerity and high unemployment.

Across Europe, one quarter of all young people between the ages of 16 and 24 are unemployed–that's almost six million young people who are not getting the training, experience and confidence gained through productive work. Yet despite this high unemployment, employers in Europe cannot find the skilled candidates they need. The European Commission estimates that there could be 900,000 vacancies for information and communications technology (ICT) professionals by 2015. There is a clear mismatch in how young people are being prepared for the technologically-driven work place, and the opportunities the ICT sector is creating.

By 2020 90% of jobs will require digital skills. But according to European Schoolnet, only a third of students in the EU are considered digitally competent. The education-to-employment systems are failing to equip young people with the necessary skills to thrive in the digital world.



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It is especially important to reach young people in disadvantaged areas. They have the most to gain from the digital revolution, but unless they get the access and opportunity they will be left further behind.

Children born into the digital world are coming of age. But how can young people thrive in the digital economy without the support and skills they need?

Samsung's corporate citizenship agenda is simple, yet effective. It focuses on creating shared value: value for citizens, for consumers and for business. Individually and in collaborations with partners, our goal is to help everyone live healthier, better educated, more sustainable lives. Samsung's philosophy is that "a company is its people". Investing in people is the only way to ensure stable, smart and inclusive growth.

Samsung Europe recently reaffirmed its pledge to invest in its Europe-wide digital education programme to provide young people with access to 21st century technologies, skills and training. Samsung's digital education programme started in 2013 with "smart classrooms" for 6-16 year olds

> "A company is its people

in disadvantaged areas, and vocational training in "tech institutes" for 16-24 year olds. By the end of 2014 the programme will have reached over 45,000 school children and almost 10,000 students.

Europe has been a driver of the global digital economy. Its creative talent pool and entrepreneurial spirit is world renowned. Creative solutions for business, healthcare, mobile software, transport, networks and connectivity depend on a creative and talented workforce. Europe's prosperity and societal wellbeing in the digital world of tomorrow will depend largely on maintaining this edge.

Through its products Samsung embraces convergence and connectivity, creating devices that inspire and enable creativity. Through its investment into education and training, Samsung helps to reduce the skills gap and unlock the potential of young people.

Together we can reaffirm Europe's place in the technology race.

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\OECD WEEK \2014

Ageing

Ageing is a major social, economic, political and development issue for the 21st century. Today, there are more than 900 million people in the world over the age of 60. By 2050, that number will have grown to 2.4 billion, and a very large proportion of the world's population over 60 will be living in developing countries. Inequality in income, wealth and health may result in increasing numbers of older people finding themselves in poverty. Growing numbers of older people are in good health, have valuable skills and experience, and are willing to make a significant contribution to society. Allowing people to stay active as they grow older and to continue contributing to society is key.

OECD Forum 2014, see www.oecdforum.org

In a globalised economy, a declining national population means a nation with a high percentage of elderly, non-working people will compete against nations of young, productive (often low-wage) people–and lose.

Worldwatch Institute, *The Economic Conundrum of an Aging Population*, 2013

Because life expectancy has increased so quickly, we are still immersed in cultures designed for lives half as long as the ones we are living. Two hundred years ago, human development did not include a distinct stage of life called 'adolescence'. There was no more significance afforded to 65 than 55 or 45 years of age. […] Societies today are enormously ill-prepared for populations in which there are more people over 60 than under 15. Not only are cultures youth-oriented in the popular sense of favouring the young, but physical and social environments and institutions are quite literally built by and for young populations.

Laura L. Carstensen and Linda P. Fried, "The meaning of old age", *Global Population Ageing: Peril or Promise?*, Global Economic Forum, 2012

Most developed countries have had several decades to adjust to this change in the age structure of the population. […] In sharp contrast, developing countries are forced to adapt to a new age structure over a shorter period of time with a much larger population base. […] Many developing countries are likely to confront population ageing without the economic growth that accompanied the ageing process in many of the developed countries.

Pranitha Maharaj, *Aging and Health in Africa,* 2012

The body is constantly damaged and is therefore always trying to repair the damage by making new cells. Nevertheless, not all damage can be repaired and will be multiplied over the course of one's lifetime. Because of the damage, there is a loss of various functions which is ageing, and eventually we die. Ageing seems inevitable–but this is not true. Our ageing is different than before, and there appears to be no limit to what the maximum age will be. […] Whether the human is also capable of escaping the ageing process entirely, only the future knows. But the manner and speed at which we age is not conclusive.

Leyden Academy on Vitality and Ageing

Although the evidence regarding the age-related decline of cognitive skills is widespread and the explanation that this may be part of 'normal ageing' is intuitively appealing, it is not possible regardless of research design to identify whether ageing effects are caused by neurological maturation effects, behavioural and practice effects, or the interaction of these with contextual effects. Moreover, there is some evidence to suggest that there are several factors that can mitigate, delay or prevent the cognitive decline that is associated with so-called 'normal ageing'. Education, training, and a number of physical, social and mental activities have all been implicated as possible factors which help to mitigate the age-related decline in cognitive skills. This suggests that policy can make a difference.

Richard Desjardins and Arne Jonas Warnke (OECD), *Ageing and skills: A review and analysis of skill gain and skill loss over the lifespan and over time,* 27 March 2012

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The world's aging represents one of today's best business opportunities. With the relative mastery of communicable disease in the developed world in particular, both quality and length of life have increased globally. Among other outcomes, these advances have left healthcare systems with the new obligation to pay for maintenance of long-term chronic diseases, a phenomenon as new to developed economies and their political systems as it is burdensome. The demographic implication to this reality is only beginning to be felt in both the developed and emerging worlds, as countries work to address pension plans, healthcare systems and long-term care requirements specific to the needs of their aging populations.

Benjamin Shobert, *Today's best business opportunity: Global aging,* 10 March 2013

Ageing and well-being

The University of Geneva addresses a challenge for the individuals and for the world

From 1980 till now, the number of people aged 60 and more went from some 380 million to more than 760 million. And the United- Nations projections predict 2 billion by 2050. Those figures are often used to provoke fear. As a matter of fact, since the world population as a whole will continue to increase, in the mid of the 21st century, elderly will represent 15 to 18 percents of our planet's inhabitants, with peaks until 28/30 percents in the most affected countries. Ageing will obviously transform our societies, but not necessarily break them. It will require a considerable effort of adaptation from not only States, but also from families and individuals.

The University of Geneva is proud to have welcomed in 1972 the first geriatric hospital of the European continent, impulse by Professor Junod, a pioneer of a humanistic approach of medicine for the elderly, someone who considered that we should not only "add years to life but also life to years". For over more than 20 years now, the Centre for the Interdisciplinary Study of Gerontology and Vulnerability (acronym CIGEV in French) defends the position that maintaining, or even increasing, individual's well-being and the social ties must be the objectives of all the answers to the ageing challenges. This is indeed what the European Union validated when 2012 was proclaimed year of the active ageing and intergenerational relations, with an emphasis on citizenship and social participation. Being positive is highly valuable but it must not hide that old age remains the period of life when losses exceed gains, where the elderly endures bereavements and the perspective of death, has to adapt his/her life style and personal identity as an old person, and to face the threat of losing his/her autonomy and becoming dependent.

This is to study those complex human processes that CIGEV developed an internationally recognized expertise in survey methods, so to hear the voice of the elderly themselves, to objectively observe their living conditions but also to capture their subjective feeling. Such ambition imposes an interdisciplinary perspective, a dialogue between social sciences, psychology, medicine, but also law and ethics. It is with this skill set that CIGEV has become one of the initiator of the National Centre of Competences in Research LIVES, which is an alliance of several Swiss universities. LIVES studies vulnerabilities across the life course and, of course, resistances and frailties in old age are an important component.

Beyond the border of Switzerland, a worldwide challenge like ageing requires the engagement of an international science, which is an essential part of the excellence cultivated in the University of Geneva. Among the developed countries, a network devoted to gerontological researches is rooted in the strategic partnership that engage together the Universities of Geneva, Montreal and Brussels. This group includes also Western Ontario, the Spanish Council for Scientific Research, the Swedish University of Umea and its "Aging and Living Conditions" cluster, and soon other centres in France, Japan and Korea. As a second step, this network will have to imperatively include research teams from the South, working in developing countries and emergent giants where the population will age far before a complete escape from poverty! To face this quite peculiar challenge, it will be crucial to organize intelligent transfers of knowledge and experiences, from the North to the South, but also from the South to the North. The University of Geneva will be a prominent actor in this dialogue to come.


THIS IS HOW
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THE SPREAD
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*Efficient cleaning reduces the risk of infections
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Trust

Trust in politics, business, public institutions and the media has plummeted to dramatically low levels. Trust between countries has also taken a knock, notably from accusations of spying. An inclusive, more resilient world relies on trust and confidence among households, businesses and governments. Trust is about knowing that our institutions and people in positions of responsibility are doing the jobs they were hired to do. It is about ordinary citizens being able to get on with their lives without having to feel vulnerable, helpless or without a voice. It is about being able to lead full, healthy lives, and reap the benefits of learning, work, investment and leisure. Trust cannot be taken for granted, but must be built, nurtured and earned.

The writers in this section explain some of the ways this must be done. Rolf Alter looks at how better metrics of trust can help, notably to develop "big trust" on major issues that lie beyond the control of individuals. Pascal Saint-Amans argues that in the policy world tax is all about trust, while evading tax undermines it, a view echoed by Margaret Hodge and Winnie Byanyima. Carolyn Ervin explains how building trust is fundamental to the wealth of nations, the standards we set, aspire to and encourage others to reach. For Drago Kos, governments must do much more to tackle corruption, while Salil Shetty decries the lack of progress in fixing financial markets. For Philip Coggan, trust (not money) makes the world go around. And in an area of medical science that has generated a lot of mistrust, stem cell research, Nobel laureate Shinya Yamanaka explains a promising approach that could ease ethical concerns.

TRANSPARENCY IN MOTION

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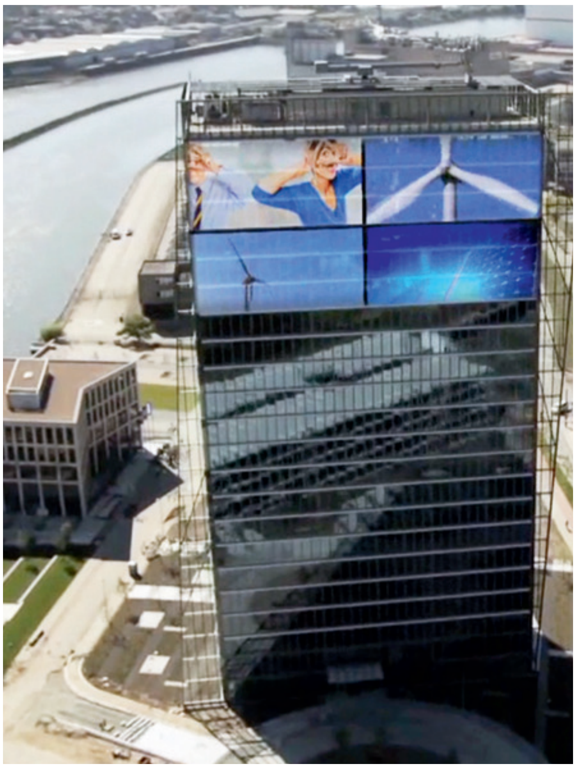

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Building up trust

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

In 2008, a Gallup poll reported that, on average, less than half of the OECD population trusted their government. The crisis worsened the situation with an additional decline of 4 percentage points since then. Public actors and institutions have been blamed for their failure to cope with the crisis and for the impact it has had on people's lives. The crisis highlighted serious regulatory failures, uneven enforcement of rules and many other governance problems that called into question the government's capacity to manage the economy.

The impact of low levels of trust is becoming clearer. Trust in institutions increases economic activity by encouraging the investment and consumption decisions that foster growth. Trust in institutions (as well as interpersonal trust) reduces the perception of risk related to a range of decisions, from whether a firm should hire new staff to whether an employee should invest in training. Trust extends the planning horizon of economic agents, increasing their dynamism. Economic prosperity is linked to the ability of institutions–economic, justice, social, etc–to guarantee a predictable and stable environment.

Trust helps governments too. Many structural reforms involve short-term sacrifices in anticipation of longer-term gains, and require broad social and political consensus to be effective and sustainable. In a high-trust environment, such reforms can be properly implemented and sustained long enough to bear fruit. In a low-trust climate, citizens will prioritise immediate benefits, and will induce politicians to seek short-term, visible gains. At a time when so many countries are embarking on deep but necessary structural reforms, trust can make a huge difference.

Rules and regulations are never enough to eliminate or deter abuse. Their effectiveness depends on the extent to which people see them as fair and legitimate enough to outweigh the benefits of non-compliance. For example, mistrust in government undermines tax compliance, which in turn reduces revenues available for social expenditures. Citizens are more likely to perceive tax obligations more favourably, and comply with those obligations voluntarily, when their government is seen to be acting in a trustworthy manner. For all these reasons, trust is not simply a confirmation of good economic management; rather it is an important ingredient in economic success–a prerequisite, as much as an outcome.

How then can governments start to win back the trust of their citizens? First we need to improve the measurement of trust and generate data to help policymakers understand the expectations of citizens. Second, we must address "big trust", the ability of government to reassure citizens that it is taking care of the things that are beyond the control of individuals, though in a fully accountable, transparent fashion. Government has to demonstrate that it can "govern for the future" and "govern for the unexpected". Third, we need to build fairness in policymaking. This has

> "At a time of deep but necessary structural reforms, trust can make a huge difference

at least two dimensions: first, prevent undue influence in policymaking by addressing the challenges posed by political financing and lobbying, and second, make policymaking and implementation processes more inclusive through information, and consultation with the public.

Governments that can demonstrate that they are reliable, fair and responsive can reap a trust dividend with tangible economic and social benefits.

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Tax is all about trust

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Pascal Saint-Amans
Director, OECD Centre for Tax Policy and Administration

Following the financial crisis in 2008, millions of citizens faced hardship as they set about repairing the damage done to their economies and to public finances. For most people, the necessary sacrifice was bearable as long as it was shared fairly by everyone in society. Unfortunately, the evidence shows that this was not the case when it came to some large global companies.

It is well known that trust is hard to earn and easy to lose. It is just as obvious that, in times of crisis, people find it harder to accept anything on trust alone. Since 2008, those two elementary truths have had the effect of propelling taxation to the heart of public policy discourse. This is no surprise. After all, a healthy tax system is an essential requirement for a resilient society.

The trouble is, the international tax system designed almost a century ago to prevent double taxation (companies being taxed at home and abroad on the same transaction) had been overtaken by modern business methods and could now be manipulated by some companies to pay low, single-digit, effective tax rates. Profits could be shifted in and out of jurisdictions to reduce tax bills, leading to an erosion of tax bases in the process. Citizens, who have shouldered higher taxes everywhere, could not understand why companies, some of which were blamed for causing the financial crisis, were being allowed to get away with it. Corporate tax issues, which in the past may have got a passing mention in the financial press, became front page news.

Trust in the international tax system was evaporating fast, and governments were under pressure to take action, even unilaterally. Otherwise, it would have taken a generation to rebuild an international tax system based on consensus. That matters because cross-border investment and world growth require an efficient tax system that prevents double taxation, tax avoidance and abuse.

The need to move quickly to sustain and restore trust in the international system was clear. Our work on Base Erosion and Profit Shifting (BEPS) has been founded on the clear determination of G20 leaders to modernise the world's tax system on a multilateral basis. This could not be done by OECD countries alone if it was going to work. That is why we have involved non-OECD countries from the outset, with everyone working together on an equal footing. Responsible business leaders also back the work we are doing. After all, large firms have come to realise that that the way that they arrange their tax affairs now has a direct impact on their reputation and their trustworthiness. But to restore trust, it is not the only tax issue to address. Just as citizens are not prepared to accept large-scale tax avoidance by global businesses, they will not tolerate a situation in which the wealthy few can hide their money with impunity in tax havens.

> "Nothing we have accomplished could have been achieved without trust

Unlike legal fiscal planning by large firms, this behaviour involves illegal tax evasion that is commonly linked to other crimes. However, the effect is the same: ordinary law-abiding people are left with the impression that they have to bear the cost of rebuilding society alone, while the rich shirk their responsibilities.

In April 2009 the G20 declared that the era of bank secrecy was over. Since then the Global Forum on Transparency and Exchange of Information for Tax Purposes, which is based at the OECD, has delivered an ambitious programme of evaluations and reviews to ensure adherence to the existing standards of exchange of information, both in principle and in practice. The Forum issued its first set of comprehensive country ratings in November 2013. A new standard, intended to deliver a truly global model for the automatic exchange of financial account information, will be issued in mid-2014. More than 40 countries have already committed to early adoption of the standard. Taken together these measures represent a comprehensive and robust response to the scourge of offshore tax evasion.

However, trust is needed on several levels for implementation to go smoothly. Take tax inspectors. The OECD's Forum on Tax Administration brings together the heads of tax administration in 45 countries, including the G20. These 45 people lead 2 million tax officials who collect most of the world's taxes. Their job demands placing emphasis on building positive relationships based on trust.

Building up capacity in tax administration can also help in restoring trust. This is particularly important in emerging economies, where acquiring the skills needed to address international tax issues is not always easy. Enabling them to address tax issues involving big business would not only improve tax receipts but also their own citizens' trust in tax systems as a whole and their readiness to comply.

Finally, trust underpins the OECD's work too. Nothing we have accomplished in the fight against tax evasion since 2009 could have been achieved without the trust that has been built between our smart, hard-working staff and the countries and institutions they collaborate with.

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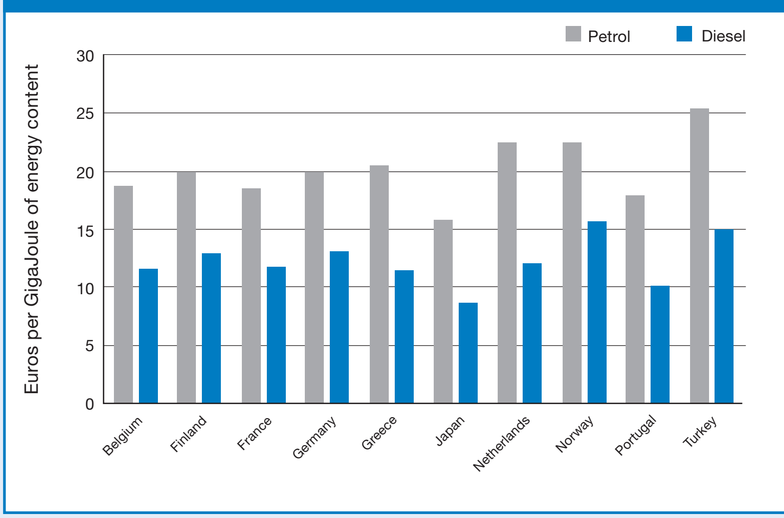
Visit www.oecd.org/tax

Fuel for thought

A litre of diesel has around 10% more combustion energy than petrol, but produces roughly 18% more CO_2 emissions. Yet, when taken as tax per unit of energy produced, the average effective tax rate on diesel is 32% lower across OECD countries than it is on petrol. In fact, the US–where tax rates on both diesel and petrol (or gasoline as it is called in the US) are very low anyway–is the only OECD country where diesel is taxed more than petrol on a per-unit of energy basis. With regard to combating climate change, this tax policy makes little sense, not least because the lower tax amounts to a hefty subsidy to diesel. To be sure, taxing both fuels equally with regard to carbon emissions would mean that taxes on a litre of diesel should be 18% higher than those for petrol.

Effective tax rates of diesel versus petrol



Trust and the wealth of nations

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Carolyn Ervin
Director, OECD Directorate for Financial and Enterprise Affairs

In the 17th arrondissement of Paris you can walk past a bust of the 19-20th century French writer Tristan Bernard. It carries a maxim that always makes me smile, roughly translated: Only trust yourself and then not very much. ("Ne compter que sur soi-même et encore pas beaucoup.") It is simple, but invites reflection on the staggering level of trust that each of us invests in countless fellow humans.

Every day we have contact with hundreds of people and trust their civility. Our high standards of living and social well-being rely on trust in thousands more–to teach our children, cure illnesses or present us with clean water from the tap, etc.!

Of course the fundamental elements of trust among people are regulated by strict law (for example against doing wilful harm to others). But much of the behaviour we expect from others is not about obeying the law–but rests on deeply ingrained shared concepts of civility. Public and private institutions–for example, schools, the family and religious beliefs, or businesses and the media–promote social and cultural norms that contribute to trust.

Similarly, much of economic behaviour is based on trust. True, the functioning of markets is governed by many sets of rules for engagement among individuals and companies: competition rules; accounting and disclosure rules; laws to protect labour rights, payment rights, investor and creditor rights; laws to protect the environment. And, governments establish the means to control whether the rules are followed and to enforce them. But no regulator or inspector is watching every element of every transaction. We trust people to be honest (and we think we have a collective idea of what that means).

In democracies we rely on politics to balance interests in forming social and economic rules. But what happens if we stop believing that politics delivers rules that are fair? In politics, does everyone have their fair say? In economics, does every worker or business get their fair chance? Individuals and companies can accept failure to win a job or contract, if they feel that the rules and the systems give equal chances. In the wake of the recent financial and economic crises doubts have arisen about the systems that set the rules.

What happens when there is interaction across national borders? Let's focus on economics–the heart of the OECD. Countries have very different histories and traditions; behaviour is different and perceptions of behaviour (of strangers!) will differ. Economies are organised along different lines. And they enjoy widely different standards of living. In fact, the exchange of goods and investments is based on the idea of using these valuable differences, in skills, natural resources, assets and the like, to promote well-being among workers, consumers, entrepreneurs, youths, retirees, etc.

> "The OECD's founding convention is dedicated to promoting global well-being

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Tristan Bernard by Henri de Toulouse Lautrec, 1895

International exchange depends on trusting that the rules of engagement are fair. Without this trust, politics will lead to protectionist impulses.

Many people work to foster international trust. Governments and private actors sponsor education and cultural exchanges. In the economic sphere, governments have negotiated bilateral and regional treaties and created international organisations like the OECD and the WTO. Governments have also negotiated and agreed broad standards on human or labour rights, for example. The OECD's founding convention is dedicated to promoting global well-being. Its agreed rules on open capital markets and against bribery in international business, and its standards on investment rules, corporate governance, responsible business conduct, to name a few, are expressly designed to create shared expectations about the conduct of governments and companies in order to promote trust and exchange.

These standards are not the product of the imagination of a few bureaucrats; they are built upon facts and analysis and the experience of dozens of countries around the world. They are debated at length so that we achieve shared understanding. Our standards are aspirational; no country would score 100% on any one of them. They chart a direction. They are open to others and they are open to improvement. Engaging and working together on shared solutions help us trust eachother more–possibly even more than trusting in just ourselves.

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Visit www.oecd.org/finance

Trust in tax, not its avoidance

Margaret Hodge
Chair, Public Accounts Committee
British House of Commons
UK Parliament

Tax avoidance is not just an economic issue, but a moral one that goes to the heart of public trust and confidence in our governments and institutions.

Tax is a basic part of the social contract. Wherever you stand on the political spectrum, most people agree with the principle that everyone should make a fair contribution to the common good in order to fund the public goods and services on which we all rely.

This holds more resonance than ever in the wake of the financial crisis, when governments are cutting public spending in order to reduce their deficits and ordinary people are struggling to cope with the impact of cuts and the rising cost of living.

That is why there has been such a huge public outcry over the tax practices of multinational companies such as Google, Starbucks and Amazon. Their behaviour has offended the basic sense of fairness of the British people.

Opinion polls show that the British public is now more concerned about this than any other issue of corporate conduct. People are furious that while they are working hard and paying their fair share, big corporations are cheating the system to avoid paying theirs. These companies enjoy the benefits of our public services and infrastructure, so they should make a fair contribution towards funding them–yet Amazon pays less corporation tax on its UK profits than it receives in government grants.

Small businesses are furious, because they cannot compete with the likes of Starbucks and Amazon, who can keep their prices low because they pay little or no corporation tax. It infuriates me when people accuse campaigners against tax avoidance of being anti-business. We are not. We are pro-fairness! Tax avoidance by global companies is anti-competitive and puts domestic businesses at an unfair disadvantage.

All this has not just shaken public confidence in our tax system. It causes people to question whose side the politicians who design that tax system are really on. Corporations and individuals who shift profits or exploit loopholes for no purpose other than to avoid tax are seen to be allowed to get away with it while the rest of us pay our taxes unquestioningly–it feels like one rule for them, another for everyone else. And in an era of deficit reduction, failure to maximise government income by tackling aggressive avoidance means deeper cuts to public services and benefits than might otherwise have been the case.

It is not just that governments have been too slow to respond to the changing nature of the global economy. For too long government has run scared, fearful that businesses will abandon the UK if we stand up to them on tax. I simply do not believe that is true; Eric Schmidt himself admitted, "Google will continue to invest in the UK no matter what you guys do because the UK is just too important for us." Of course global problems require global solutions, and through the various OECD and G20-led initiatives we are starting to make real progress. But I have always believed that this cannot be used as an excuse by politicians for inaction at home.

There are things national governments could and should do now to show they are serious. Transparency has always been at the top of my list–for example, "naming and shaming" of companies the UK tax authorities find to be engaging in aggressive tax avoidance. There is also consumer action. For example, I am encouraging the UK government to endorse a "fair tax mark" to empower the public to direct their custom towards responsible businesses that pay their fair share of tax.

While at the OECD's Parliamentary Days conference on tax matters in February 2014, someone said to me, "if we don't tackle this now, we'll never do it". Across all our countries, people are demanding greater fairness in our economy and in our tax systems. If we can start to deliver, then we can start to rebuild public trust in democratic institutions. Otherwise, the gulf between people and their elected representatives will continue to grow.

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http://margaret-hodge.co.uk

Tackle corruption to restore trust


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Drago Kos
Chairman, OECD Working Group on Bribery

Fighting corruption is a sure way of boosting public trust, but governments are not doing enough to address it. Some even have an interest in doing nothing at all. Yet increasing trust would bring widespread benefits.

Trust among citizens depends, to a large extent, on the governments' actions to fight corruption. There is plenty of historical evidence to back this assertion. Yet there are still those in power who either leave the prevention of corruption for technical experts to take care of, without adequate political support, or who hinder anti-corruption efforts to protect themselves and their allies. This is a particularly risky ploy during periods of major economic or social turmoil, as public intolerance can be provoked, as many governments in the Middle East and North Africa, not to mention Eastern Europe, have recently shown.

If politicians were to take a look at the evidence of research alone, they would immediately draw two very simple conclusions: first, that countries with more corruption have lower levels of citizens' trust, especially in government; and, second, countries with less corruption enjoy far higher levels of citizen trust.

But in reality, the issue is not always so straightforward. There is a relationship, but it is neither direct nor automatic.

The question is, of course, whether governments around the world–for whatever reason–understand the importance of citizen trust. They certainly talk about it quite a lot, and occasionally even ask citizens for their trust, but in most cases they only want this trust at election time. They might even appeal for more trust in times of crisis. But on the ground, there has been little if any real evidence of any specific anti-corruption efforts taking place, despite the fact that governments all know that such action would result in garnering the kind of trust that is sorely needed to overcome the crisis swiftly and effectively. Thus, with a relative degree of confidence, we can argue that not all governments are really serious about fighting corruption. They certainly behave as though their citizens were willing to put up with just about any level of corruption, as well as the austerity measures, increased taxes, welfare cuts and other severe measures that governments dish out during a crisis. Thankfully, citizens are not so fickle, and governments that ignore this point risk paying a high price in the future.

A successful fight against corruption influences a range of fronts, such as transparency; accountability; non-discrimination; meaningful social, economic and civic participation; legal and income equality; and more. All of this matters to citizens in every country. Any improvement in these fronts shows that government genuinely cares about people and their welfare, and will be reflected in a higher trust level.

> "Too many governments still do not appreciate how important trust is

What does that higher trust mean? A look at the research shows what a successful fight against corruption really means. In fact, a decrease of just one index point in corruption levels would:

- increase the school enrolment rate by 5 percentage points
- increase life expectancy by 2.5 years
- increase investments by 2.5 to 4.5 percentage points
- decrease tax rate by 7.5 percentage points
- increase public expenditures by 1.3 to 3 percentage points
- increase GDP growth by 0.13 percentage points
- increase GDP per capita by US$425.

More broadly, successfully tackling corruption leads to a wider acceptance of public institutions, decreased poverty and inequality levels, respect for the rule of law, and strengthened political stability. It means more non-partisan decision-making, improved civil and political rights, and more income equality. Successfully combating corruption leads to a fairer and more effective allocation of resources

and talents, improved public expenditures, and less reliance on aid. It leads to higher productivity and more innovative thinking. And it means lower crime rates and a smaller shadow economy, etc.

A higher level of citizens' trust is a key factor to making all of this happen. So why do so many governments come up short in the fight against corruption and not do so much more to win back public trust?

The answer to this question is not complicated: while citizens and society as a whole benefit from the consequences of the efficient fight against corruption, some powerful individuals and their narrow circles of allies do not have the slightest interest in benefiting anyone but themselves. We have seen the sad truth of this in recent history, when corrupt leaders managed to empty state funds belonging to citizens into their own pockets. Trust finally collapsed, leading in some cases to public demonstrations to demand change. However, too many governments still do not appreciate how important trust is for everything else they have to do, and how much benefit they can derive from building trust up.

All of this demands considerable energy, resources and time from politicians, but there may be a shortcut to help them. Theorists call it "legal equality for all". Ordinary citizens see it as "putting the bad guys behind the bars". For policymakers, it means nothing more than properly engaging in executive and judicial branches of power and making sure that once-untouchable individuals are subjected to proper police investigations, prosecutions and convictions. And if this happens, citizens will feel satisfied that the legal system works for everyone, regardless of their status, wealth or personal connections. Who knows, citizens may even begin respecting their politicians? Of course, this respect will only be short-lived if these basic measures are not accompanied by long-term efforts in the fight against corruption.

Unfortunately, some governments have no real serious intention to fight corruption, let alone put people behind bars. However, in our information, inter-connected, age, the international community and citizens know who they are. The public's tolerance will not last forever. Therefore, it is time to step up pressure on all governments to fight corruption seriously, for everyone's sake.

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Trust (not money) makes the world go ’round

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Philip Coggan
Buttonwood Columnist
The Economist*

Trust is essential for virtually all economic activity. I must trust that the takeaway coffee I buy is not poisoned and the vendor must trust that the five pound note I hand over is not fake. When we order products online, we must trust that the item will arrive and be of the quality we expected, and that our credit card details will not be misused.

More broadly, our entire monetary system is based on trust. Although British banknotes contain the phrase “I promise to pay the bearer on demand the sum of x pounds”, this is a meaningless gesture. No gold or silver exists to back it up. Rather like the fairy Tinker Bell in *Peter Pan*, who is kept alive because the audience claps to affirm its belief in her existence, it is our faith that keeps the system going.

What exactly do we believe in? While fiat money is not a formal debt of government, its widespread usage surely depends on our faith in a reasonably efficient government that can keep the economy running and allow only gradual erosion of the value of money. When that faith breaks down, as it did recently in Zimbabwe, then citizens start to use alternative currencies such as the dollar. Indeed, the enthusiasm of traders for accepting dollars (or euros) instead of local currency is a pretty good indicator of the government’s economic competence.

Alternative currencies, such as bitcoin, that lack government backing have received a lot of publicity. But short of a serious economic crisis, it seems unlikely we will be using them at market stalls any time soon.

As the 2008 crisis made clear, our faith in the banking system is very closely tied up with our faith in governments. When the banking system struggles, government finances are sure to follow; neither Iceland nor Ireland had much government debt before the crisis. Given the existence of deposit insurance, few retail investors pay much attention to the balance sheets of commercial banks these days; they assume that, if a bank fails, the government will step in. While this may create moral hazard, the consequences of “bailing in” depositors have not been that encouraging, as the Cyprus example has shown.

Arguably, our faith is based, not on governments in general, but in central banks in particular. The European debt crisis indicated that some banking systems are too large for even the national government to rescue. In such cases, help from the international community is required. Various bailout plans came and went but the problem appeared to be spreading until Mario Draghi, in the summer of 2012, announced that the European Central Bank would do “whatever it takes” to save the euro. Italian and Spanish bond yields promptly fell and have not regained their former levels.

> “Faith in central banks is touching but it raises some fundamental questions for democracies

And it is not just bonds. The equity markets hang on every announcement from the Federal Reserve; they wobbled briefly when the Fed talked of tapering (reducing asset purchases) last year. The 30% gain for the US stock markets in 2013 was not really the result of a rapid increase in profits (excluding financials, earnings per share were up by 7.5%) but by investors’ willingness to buy shares in the face of low yields on bonds and cash.

Central banks are the ultimate rich uncle, able to dole out goodies without any apparent limit. When a central bank guarantees a loan or buys bonds to depress yields (quantitative easing, or QE for short), there appears to be no immediate cost. There is a potential liability of course; the guarantee might be required and the bonds might be sold at a loss. But economists still debate whether a central bank’s balance sheet has any real significance; would it matter if a huge hole appeared?

By the same token, the "monetisation" of government debt used to be regarded as a deadly sin, and is ruled out by the European Central Bank's charter. In history, it was the resort of desperate regimes such as the French revolutionaries after 1789 or the Confederates in the American Civil War. What government, faced with a hostile electorate, would ever raise taxes or balance its budget again, if it could simply rely on the central bank to come up with the money?

The official line is that quantitative easing is not monetisation; the bonds will either eventually be sold or the central bank will hold the bonds until maturity, and then not reinvest. But the QE programmes have gone on longer than was originally thought and there is no sign yet of them being reversed.

As yet, of course, there has been no sign of the inflation that critics feared would result, largely because commercial banks have been shrinking their balance sheets while central banks have been expanding theirs. Broad money growth has been sluggish, especially in Europe. But perhaps the biggest area of trust, or faith, is that central banks will be able to retreat from these huge bond market positions without causing severe financial disruption.

This faith in central banks is touching and may well have been the reason the world avoided a second Great Depression. But it raises some fundamental questions for democracies. Are we happy for so much power to reside in the hands of unelected technocrats, especially as their polices can have substantial redistribution effects, e.g. pushing up equity markets and benefiting the rich while pushing down interest rates and cutting the incomes of the retired? If the central banks do get things wrong, who can we blame? Most importantly, if central banks do lose our trust, will this undermine the financial system completely?

*Philip Coggan is author of *The Last Vote: The Threats to Western Democracy*, published in 2013, Allen Lane.

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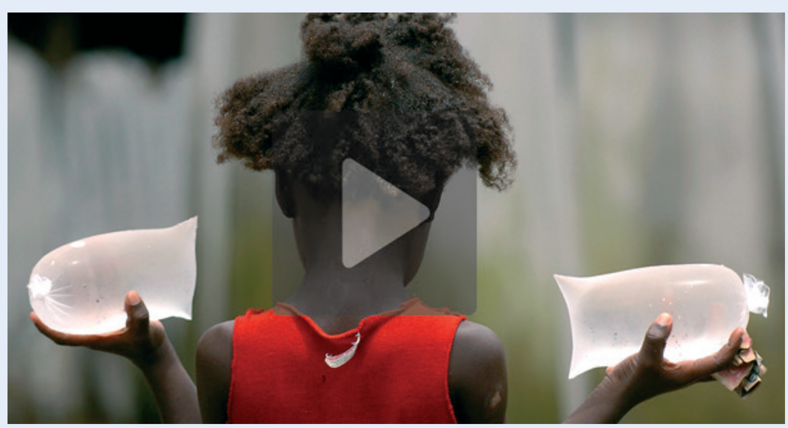
Rethinking development aid



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Since the OECD began monitoring aid flows over half a century ago, the geography of poverty has changed dramatically–and so has the way development is financed.

Countries like Brazil, China and Korea have grown richer, pulling hundreds of millions of people out of poverty and using their new wealth to invest in and help poorer countries. This is blurring old lines between what we used to think of as donor and recipient nations.

Developing countries everywhere are gaining more access to finance and private capital flows are leaping ahead of what we have historically referred to as aid. Traditional OECD donors provide $130 billion a year in public development aid, but seven times as much now flows in as things like foreign direct investment, bank loans and private philanthropy.

Poor countries are improving their tax systems and using those revenues to fund their own development priorities. The remittances that migrant workers send home are another key source of funds.

The most impoverished countries, however, especially those hit by conflict and instability, still struggle to attract private investment, and remain much more dependent on aid.

In this changing landscape, the OECD is working to modernise the way it defines and measures aid in parallel with the UN's work on post-2015 development goals.

For more on this, see our video, "Rethinking development aid" at www.youtube.com/oecd. See also www.oecd.org/development

The impact of immigrants: It's not what you think

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In the land of tabloid terrors, immigrants loom large. Flick through the pages or online comments of some of the racier newspapers, and you'll see immigrants being accused of stealing jobs or, if not that, of being workshy and "scrounging benefits".

Such views may be at the extreme end of the spectrum, but they do seem to reflect a degree of public ambivalence, and even hostility, towards immigrants in a number of OECD countries. Anecdotal evidence is not hard to find. A columnist from The Economist reported this encounter between a British legislator and one of his constituents, Phil: "'I'm not a racist,' says Phil, an unemployed resident of the tough Greenwich estate in Ipswich.'But we've got to do something about them.'"

Surveys offer further evidence. For example, a 2011 study in five European countries and the US found that at least 40% of respondents in each country regarded immigration as "more of a problem than an opportunity". More than half the respondents in each country also agreed with the proposition that immigrants were a burden on social services. This sense that immigrants are living off the state appears to be widespread. But is it true?

New research from the OECD indicates that it's not. In general across OECD countries, the amount that immigrants pay to the state in the form of taxes is more or less balanced by what they get back in benefits. Even where immigrants do have an impact on the public purse–a "fiscal impact"–it amounts to more than 0.5% of GDP in only ten OECD countries, and in those it's more likely to be positive than negative. In sum, says the report, when it comes to their fiscal impact, "immigrants are pretty much like the rest of the population".

The extent to which this finding holds true across OECD countries is striking, although there are naturally some variations. Where these exist, they largely reflect the nature of the immigrants who arrive in each country. For example, countries like Australia and New Zealand rely heavily on selective entry, and so attract a lot of relatively young and well-educated immigrants. Other countries, such as in northern Europe, have higher levels of humanitarian immigration, such as refugees and asylum-seekers.

> "The "fiscal impact" of immigrants is more likely to be positive than negative

That said, there's been a general push in many countries in recent years to attract better educated immigrants, in part because of the economic value of their skills, but also because such policies attract less public resistance. For example, a survey in the UK, where resistance to immigration is relatively high, reported that 64% of respondents wanted to reduce immigration of low-skilled workers, but only 32% wanted fewer high-skilled immigrants. Indeed, one objection that's regularly raised to lower-skilled immigrants is the fear that they will live off state benefits.

But, here again, the OECD report offers some perhaps surprising insights. It indicates that low-skilled migrants–like migrants in general–are neither a major drain nor gain on the public purse. Indeed, low-skilled immigrants are less likely to have a negative impact than equivalent locals.
Brian Keeley

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Financial reform: Progress, what progress?

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Salil Shetty
Secretary-General
Amnesty International

More democratic and ethical principles must be brought to a marketplace run amok. Also, concerns about economic instability and widening inequality of income and wealth around the world are issues that demand both government and multilateral action.

A series of inter-related events, beginning with the emergence of a global financial and economic crisis in 2008, has significantly dented public trust in political leaders and their ability and willingness to act in the public interest.

Many see the root cause of the crisis as corporate greed, enabled by government policies or serious failures of government oversight. Despite much hand-wringing and promises of change, there has not been sufficient, meaningful reform of the systems that led to the crisis. The practices that underpinned the financial crisis included predatory lending, the promotion of unsustainable private debt and reckless speculation. Millions of people have been driven into hardship and poverty. Yet very few of those responsible have been held to account. Already, in some countries, bad practices seem to be re-emerging.

If the crisis gave people cause to mistrust government, the response further eroded public confidence in political leaders. People watched as public money was used to bail out banks–the very actors that were instrumental in creating the financial crisis. While the bank bailouts may–in some cases – have been necessary to protect customers, they should have been tied to accountability measures and reforms. With a few exceptions, this did not happen. According to the Center for Economic and Social Rights, the bailouts compounded the problems of recession-hit countries and contributed to public debt and borrowing problems in countries like Ireland. This, in turn, was one of the contributory factors in the imposition of austerity measures.

Austerity has been accompanied by growing unemployment, falling real wages, cuts in the social welfare system and privatisation of public property. Information gathered by non-governmental organisations and UN bodies has exposed how some of the poorest and most vulnerable have been the hardest hit by the crisis and the austerity response. Even in those countries where the response to the crisis was not austerity-focused, it is clear that income inequality has been increasing.

Data on growing income inequality are shocking. According to a recent Oxfam briefing paper, even when taxes and social security payments are taken into account, the richest in some crisis-hit EU countries have seen their share of total income grow, while the poorest have seen theirs fall. According to the Bloomberg Billionaires Index, the richest people on the planet got even richer in 2013, adding $524 billion to their collective net worth. In September 2013 *The Economist* newspaper summed it up: “The recovery belongs to the rich.”

> Income inequality is structural and sustained by governments

The income inequality we are witnessing is structural, and the structures that enable it are created and sustained by governments. As crisis and austerity unfolded we witnessed shocking revelations about tax avoidance by massive multinationals. Money that could be used by governments to fund social spending and achieve human rights and poverty reduction is being diverted into private hands through channels that are legal, but widely seen as unjust. Global and national rules–systems like tax havens, tax treaties and other incentives for foreign investment–provide powerful protections for private wealth. The same systems also facilitate the movement of illicit wealth.

A 2013 report by Global Financial Integrity and the African Development Bank found that the developing world lost US$5.9 trillion in illicit financial flows from 2002-11, with such outflows increasing at an average rate of more than 10% per year. The data show that the outflow–the proceeds of bribery, theft, kickbacks, and tax evasion and avoidance–was far greater than the $80 billion that flowed into Africa in foreign direct investment and aid each year.

Why do governments enable all of this? Part of the answer lies in the fact that too many governments have crossed the line from providing legitimate support for business to pandering to private interests and allowing a very small few to dictate the public policy that affects millions. The links between massive wealth and political power have long been a concern; they are now a key battleground, and how governments respond to public concerns over such issues as inequality and tax avoidance and evasion is central to restoring public trust in political leadership.

Policymaking in the public interest is impossible if the public good is over-ridden by private interests. As US President Barack Obama noted in a speech on inequality in December 2013: "Ordinary folks can't write massive campaign cheques or hire high-priced lobbyists and lawyers to secure policies that tilt the playing field in their favour at everyone else's expense."

Yet despite the public anger that revelations about inequality have sparked, there has been only limited action to address it. It is everywhere on the agenda–but where is it in terms of real reforms?

The structures that enabled a minority of extremely wealthy actors to influence government policymaking on issues that entrench inequality must be dismantled. Initiatives–such as those of the G8 and G20 on beneficial ownership, tax avoidance and secrecy–are useful. But the lobbying power of vested interests will undoubtedly weaken such initiatives behind the scenes. To break the cycle we need to break the system. Open public debate and multilateral action are key.
Such debate helps chisel away at received wisdom, for instance, that some bad practices are just part of economic life. Tax avoidance and tax havens are the natural by-products of a globalised economy, some argue. If we don't allow them, investment will move to countries that do, taking jobs with them. And despite the scourge of the crisis, we are still told that very large salaries and bonuses are needed to attract the best and the brightest talent–with no question about how so many banks so catastrophically failed.

It is time to stand up to these deceptive, economically manipulative arguments.

We must not allow and accept rules that have no place in a world where the rights and dignity of everyone are valued. These rules and the way states and firms do business must change. And of course, they can change and multilateral forums, such as the OECD, have an important role to play in making sure they do. A truly open debate, where technological advances can be used to enable wide participation, is also vital. What choices are being made, and why, must be open to scrutiny.

The human rights agenda is not an anti-business agenda. Indeed, thriving businesses–from the market vegetable stall to the massive multinational–are vital to realising human rights. But greed, secrecy and massive inequality are not vital ingredients of a prosperous economy. That much, at least, should be common ground. So let's work to eradicate them.

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It’s time to tax

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Winnie Byanyima
Executive Director
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Progressive taxation and a fairer global tax framework are essential to rebuilding trust and to ensuring that policymaking is not captured by the “1%”.

We live in a world where the 85 richest people own the wealth of half of the world’s population. The biggest benefits of growth are being captured by a tiny elite–an enormous threat to stable, inclusive political and economic systems. Instead of moving forward together, people are separated by economic and political power. Massive concentrations of income and wealth weaken the checks and balances meant to ensure that majorities are heard, heighten social tensions, and erode the social contract between citizens and the state. As a result, the rise of economic inequality is shattering global public trust in government and financial institutions.

The World Economic Forum has reported that global elites rank widening income disparities as the second greatest worldwide risk in the coming 12 to 18 months. Global polling by the Pew Research Center suggests that people in all regions of the world are concerned about rising inequality. And Oxfam’s own polling has revealed an overwhelming sentiment, across developed and developing countries, that laws and regulations are designed to benefit the rich. A survey in six countries–Spain, Brazil, India, South Africa, the UK and the US–showed that most people now believe laws are skewed in favour of the rich. Similarly, most agreed with the statement, “The rich have too much influence over where this country is headed”.

Among these skewed and mistrusted laws: outdated and unfair international tax rules.

In the last 30 years, an enormous and complicated global network of tax havens has evolved. Oxfam conservatively estimates that wealthy individuals hide $18.5 trillion offshore away from taxation. This network of secrecy is draining capital from the poorest countries and holding back millions that could be invested in public services, which would help to narrow inequality gaps and boost economies.

At the same time, the “race to the bottom” effect of these very low tax jurisdictions has contributed to ever-lower corporate and personal tax rates for the richest individuals and corporations. In Zambia, for example, copper exports in 2011 generated $10 billion, while government revenues from the resource were just $240 million–this in a country where more than two-thirds of people live in extreme poverty. Similarly, in Niger in 2010, uranium exports were worth almost $5 billion but the government received just 13% of the exportation value.

As the OECD has pointed out, just as the process of taxation generates capable administrations, taxes can also promote accountability and reinforce the social contract. Conversely, tax systems that are skewed to rich minorities at the expense of a broad global public undercut accountability and erode trust.

The best–and perhaps only–opportunity for financial institutions and governments to win back trust is to right these wrongs. Without a concerted effort to tackle inequality, the cascade of privilege and of disadvantage will continue down the generations. Left unchecked, extreme concentrations of wealth will lead to “opportunity capture”–the lowest tax rates, the best health and education, and the opportunity to influence will be claimed not just by the rich but also by their children.

The good news is political capture and economic inequality are not inevitable. Trust can be rebuilt. There are abundant examples of good governance policies tempering the influence of wealthy elites and allowing society’s resources to be shared more equitably. In countries that have successfully reduced inequality, progressive taxation has been an important tool, particularly when coupled with government policies to invest in good quality and widely accessible health care and education.

The OECD’s work to design a fairer global tax framework could be an important contribution to tackling income inequality, and pivotal to the project of rebuilding public trust. But we will achieve real reform that benefits all only if we involve all countries–including developing ones–in these international tax negotiations. If we work together as a global community, overcoming poverty and exclusion are firmly within our grasp.

Visit www.oxfam.org

Responsible mining
A catalyst for sustainable development

Vania Somavilla
Executive Director of Human Resources, Health and Safety, Sustainability and Energy, Vale

Governments, the private sector and civil society are increasingly joining efforts to ensure a more sustainable world. This is clear in the initiatives underway aiming to shape the post-2015 development agenda.

Since Rio+20, the importance of the private sector in fostering sustainable development is reinforced. This welcome development stems from the critical contributions of responsible business, and embodies an acknowledgement that the challenges facing the global sustainability agenda need to be addressed through collective action.

The impact of the extractive sector on the broader economy has also been recognized. There is stronger understanding not only that responsible mining can unleash benefits beyond much mining but also that this win-win situation happens when investors, governments and civil society strive together.

We are aware that we are catalysts for change, creating opportunities for advancement from a local to global scale, as the impact of responsible mining can be truly transformative.

Transport corridors: sustainable growth and diversification

An excellent illustration of this transformative change is seen in transport corridors and their use beyond mining, for general cargo and passengers. They pave the way for road, energy and telecoms investments, and harness the potential of diverse forms of general cargo.

These benefits set the scene for a more viable investment environment. They attract business from other sectors to formerly "remote" regions, bringing them into the global map of competitive economies, spurring diversification, sustainability and growth.

Vale is investing billions to build the Nacala Corridor, giving access to the sea to almost "off-the-grid" regions of Mozambique and landlocked Malawi. This project is intended to benefit them much beyond mining activities per se. Through the use of the logistical infrastructure, it will make exports of agricultural goods competitive on global markets, and facilitate imports.

Local content and capacity building

Another crucial legacy of responsible mining consists in strengthening the professional skills through training of local workers and support in capacity building for local suppliers, which is vital to attract investors from other sectors and diversify beyond mining.

Vale's investments in Mozambique in mining and related infrastructure rely on a work-force of several thousand, of which over 85% are Mozambicans. In 2013, we spent more than USD 1.5 billion in services and goods in Mozambique and Malawi, 75% of which with local suppliers.

Mining companies play an important role in enabling local suppliers to meet their standards. Beyond mining, however, this support also strengthens their ability to grow, thereby contributing to the availability of top-notch, professional services.

Collective action

Regarding the global development agenda, we are engaged in a diverse range of initiatives. Among these is our leadership in the Sustainable Development Solutions Network, tasked with helping transform the current MDGs into the UN's Post-2015 Sustainable Development Goals.

As Co-Chair of the WBCSD's Action 2020 initiative–a framework for action to rally the efforts of business to deliver on the economic, environmental and social issues that will feed into the UN's SDGs–, we endeavour to ensure the vital link between the private sector and structural, sustainable development solutions.

Good governance is a foundation of fair growth, essential to ensuring that mutually beneficial policies are enacted. Through partnership with the UN Global Compact, support for the EITI and alignment with the ICMM, responsible mining companies support transparency initiatives.

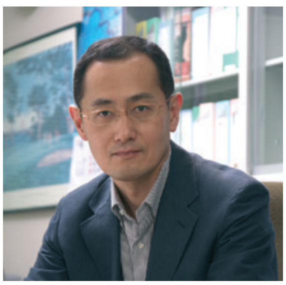
Conclusion

Vale is committed to transforming natural resources into sustainable development. We believe that sustainable development is achieved when our businesses provide value to our shareholders while establishing a positive social, economic and environmental legacy where we operate. Doing what is right, valuing our people and prizing our planet are fundamental values which guide our actions.

Note: Extractive industries play a central role in the OECD's Policy Dialogue on Natural Resource-based Development. For an information brochure, see http://oe.cd/wL

Vale supports and participates in this initiative

Health, innovation and iPS stem cells: Why co-operation matters



Shinya Yamanaka
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There are several thousand intractable diseases in the world for which no therapy has yet been developed. Stem cell technology known as iPS cells could provide a solution, but international co-operation will be needed to secure the future of this important innovation.

Stem cells known as iPS cells are produced by taking skin, blood, or other somatic cells from humans or animals, inserting specific genes or other factors, and culturing them for a few weeks. Developed as a world's first by our research group in 2006, iPS, or induced pluripotent stem cells, are not to be confused with embryonic stem cells, which are another type of artificially created pluripotent stem cell first developed in 1981. Both iPS cells and ES cells have the ability to continue almost unlimited proliferation, while their pluripotency means they are able to differentiate into nerve cells, myocardial cells, blood cells or any other of the body's various cell types. However, ES cells are created by culturing cells extracted from the fertilised egg (blastocyst). As this necessitates the destruction of the fertilised egg, which can be seen as a burgeoning life form, there is strong opposition to their use.

The objective of iPS cell development was to create cells that were like ES cells but without destroying fertilised eggs. Indeed, being from somatic cells, there is no need to use fertilised eggs at all. Moreover, as iPS cells utilise gene insertion technologies already in general use in life sciences, they can be produced relatively easily after a certain amount of training. The procedure for creation of iPS cells has a high degree of reproducibility, while the procedures for their culture and differentiation into the target cell type have a degree of interchangeability that allows us to apply the knowledge gained in ES cell research.

These factors help to explain why iPS cell technology achieved rapid and widespread dissemination. Another major difference between iPS and ES cells is that iPS cells can be prepared from the patient's own cells, allowing reproduction of pathological processes, which gives potential for application in the elucidation of pathological states and drug discovery.

Many researchers worldwide have engaged in iPS cell research over the eight years since our discovery, and science is steadily progressing toward the realisation of iPS cell-based medical applications. In 2013 iPS cell-based clinical research was approved by Japan's Ministry of Health, Labour and Welfare and cell transplantation therapy is forecast to begin before the end of 2014. Drug development using iPS cells is also becoming a reality.

> "iPS cells can be produced easily after a certain amount of training

New drug potential

At present, there are said to be several thousand intractable diseases in the world for which no therapy has yet been developed. iPS cell technology has great potential to contribute to elucidating the causes of disease and realising new drug development.

For instance, using iPS cells means that, even with the cells of disease sites from which it is difficult to collect cells by biopsy, it is possible to obtain cells for research at the time needed and in the quantity needed. Using patient-derived cells also makes it possible to elucidate the causes of disease and the mechanism of progression. This opens up the prospect of screening to identify substances effective as pharmaceuticals from among an enormous number of candidate substances.

Researchers around the world have, in fact, started work on research on this. At Kyoto University's Centre for iPS Cell Research and Application, where I serve as director, the research group of Professor Haruhisa Inoue took iPS cells derived from patients with amyotrophic lateral sclerosis (ALS) and Alzheimer's disease and induced them to differentiate into nerve cells, thus successfully creating

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a pathological model of the disease. These iPS cells are now being used in ongoing research aimed at elucidating disease mechanisms and establishing new therapies.

Using patient-derived iPS cells can also allow more precise classification of diseases, as conditions which had hitherto been classed together because of their symptoms can be categorised more accurately according to the cause of the disease in the individual patient. This means that iPS cell technology can also contribute to personalised medicine, in which patients are given the drugs most suited to their individual condition.

Regenerative medicine

Research is also making progress in the field of regenerative medicine for cell transplantation therapy. In July 2013, the research group of project leader Masayo Takahashi of the Riken Centre for Developmental Biology, working with the Institute of Biomedical Research and Innovation Hospital, received approval from the Ministry of Health, Labour and Welfare to undertake iPS cell-based clinical research into the eye disease known as age-related macular degeneration. In this clinical research, iPS cell-derived retinal pigment epithelial cells generated from patient somatic cells will be transplanted back into the same patient in an attempt to restore visual strength. The world's first transplantation using iPS cell-derived cells is envisaged before the end of 2014.

At our research centre, Professor Jun Takahashi's research group plans to file an application in 2015 for approval of clinical research in Parkinson's disease patients, while Professor Koji Eto's research group, having developed a method of producing platelets in large volumes from iPS cells, is looking to commence clinical research in chronic thrombocytopenia patients in 2016. At Keio University, the research team of Professor Hideyuki Okano is working toward clinical research into spinal cord injury using iPS cell-derived neural progenitor cells, while at Osaka University the research team of Professor Yoshiki Sawa is targeting clinical research into myocardial regeneration therapy for severe heart failure using iPS cell-derived myocardial cell sheets.

If Japan leads the world in the field of regenerative medicine using iPS cells, it is because structures were put in place to realise early-stage research and development and medical applications using the new technology immediately after the successful creation of human iPS cells had been announced in 2007. There was also strong backing from the Japanese government. Generous budget allocations were made for iPS cell research, with research funding of more than ¥50 billion provided in the six years from fiscal 2008. From fiscal 2014, the Japanese government is committed to continuing intensive budget allocation to the regenerative medicine field including iPS cell research, with plans to provide funding of more than ¥100 billion (US$1 billion) over nine years.

iPS cell stocks needed

The generation of iPS cells requires time, and if we follow a procedure whereby iPS cells are prepared from patients, the treatment could be too late for many diseases. Moreover, operating an exclusive process of iPS cell generation and target cell differentiation for a specific disease with just one patient would be impractical from a logistical point of view. It would also incur huge medical costs.

An iPS cell bank like a blood bank could help overcome these limitations. Our centre prepares clinical-grade iPS cells in advance from the cells of healthy subjects and distributes them to research or medical institutes that carry out advance preparation of iPS cell-derived cells for transplantation. We refer to this as iPS cell stock operations. With the support of the Japanese government, we are progressing with a range of related preparations to enable supply of iPS cells for use in regenerative medicine.

Building an iPS cell stock would make it attractive to use iPS cell-derived tissue from a subject other than the actual patient—in terms of time and medical costs. This so-called allogeneic transplantation would also be an effective method of promoting widespread clinical application of iPS cells. Of course, in iPS cell supply through such operations, due consideration must be given to safety, efficacy and ethics, which are not an issue in autologous transplantation, where the transplanted cells are derived from the patient's own tissue.

International co-operation matters

iPS cell research is flourishing at universities and research institutions, not only in Japan but also in OECD member countries and in the rest of the world. International co-operation is important to realising the medical application of this technology. In the UK and the US, there are plans for iPS cells banks, where iPS cells, whose safety has been confirmed in advance, will be produced and then stored. Building up an international network of such iPS cell banks is also important in promoting regenerative medicine at global level. However, different countries have different regulatory systems in the field of medical treatment, while the quality control standards applying to iPS cell production and storage also differ. We therefore need to overcome formidable barriers if we are to realise a level of international co-operation whereby the iPS cells stored in different banks can be supplied multilaterally across national borders.

Obtaining important iPS cell-related patents is also an important strategy towards the realisation of medical applications for iPS cells. So far, Kyoto University has been granted fundamental patents in 29 countries and one region worldwide, including the US and Europe. By establishing important fundamental patents and granting non-exclusive licenses, a public institution like ours can enable many business enterprises to utilise technologies at an appropriate price, which should speed the realisation of medical applications. Moreover, to prevent certain enterprises from gaining exclusive use of important patents, we are investing energies in acquiring and maintaining patents that also cover peripheral technologies.

Ethical issues

While iPS cells avoid the destruction of the fertilised egg, which is an issue with ES cells, they are not completely free of ethical questions. For instance, iPS cells contain the genetic information of the somatic cell donor, and this point needs to be adequately explained to the cell donor, with checks to ensure that the genetic information is appropriately protected and managed. There are also questions as to how far permission should be given for research that makes use of germ cells derived from iPS cells, or research into the use of iPS cells to grow human organs inside animal bodies. These and related matters need to be widely debated in society, with consideration given to the possible outlines of international ethical regulation.

The advent of iPS cells offers exciting prospects and hope for millions of people by making it possible to select the pharmaceuticals most suited to the individual and to cure disease using the potential contained within the cell. In other words, tailor-made medicine may become a reality. However, before drug discovery and regenerative medicine based on iPS cells can find widespread application in medical practice, a range of other issues must be addressed, including development of technology for inducing differentiation, transplantation methods, regulatory enhancement, and resolution of ethical issues.

Time must be allowed for discussion and debate. iPS cell technology is not only revolutionising medical science and medical treatment, but stands to bring major changes in society too.

*Shinya Yamanaka and John Gurdon were awarded the Nobel Prize for Physiology or Medicine in 2012

Reference

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Resilience

In Japanese culture, bamboo is used as an illustration of resilience: bending but not breaking under the weight of winter snow, growing taller and straight as the snow melts. For an economy, this would translate as the ability to withstand a shock, or bounce back quickly after being hit. Recently, the meaning of resilience has evolved from a characteristic to be strengthened to a goal in itself–resilient societies. The popularity of the term and its wide range of applications mean that it can be difficult to agree on how to achieve resilience and, more basically, what is to be achieved. If we consider an optimistic and more forward-looking approach, resilience refers to learning to prosper from the randomness, uncertainty and disorder that characterise our systems.

OECD Forum 2014, see www.oecdforum.org

A good illustration of a resilience characteristic that challenges the way we currently undertake development interventions can be found in the acceptance of the 'non equilibrium' dynamics of a system and recognition that there is no stable state to return to after a disturbance. This requires building in the changes that disturbance creates as part of a continually evolving system. This also challenges the tendency to try and restore previous conditions when in fact new conditions have emerged.

Katie Harris, *Resilience in Practice*, 2012

If you're like me, you've thought about where resilience comes from and wondered whether we are helping our children build this vital capability for their futures. I believe we have cause for worry. When parents help their kids navigate every challenging situation, from 'extra' help with homework to completing college applications for them, they are doing an incredible disservice to their children. Parents want to protect their kids from failure, but doing so deprives them of the opportunity to practice not just a life skill but an essential work skill. When self-esteem becomes more important than results, we are inadvertently training young people to become less adaptable, not more.

Sydney Finkelstein, *Resilience: A lesson from Sochi*, 20 Feb 2014

It is as though the state is fast becoming exhausted by its own logic of security and wants a newer concept, something better and bolder: enter 'resilience'. […] Resilience is by definition against resistance. Resilience wants acquiescence, not resistance. Not a passive acquiescence, for sure, in fact quite the opposite. But it does demand that we use our actions to accommodate ourselves to capital and the state, and the secure future of both, rather than to resist them.

Mark Neocleous, *Resisting resilience*, Mar/Apr 2013

A key point to emphasise is, as in many domains, timing is everything. The responses of the brain and body to environmental challenges need to be well regulated in the temporal domain: activated quickly and only in the appropriate situations, maintained for the duration of the perturbation, and terminated efficiently and effectively. Similarly, these responses may change depending on the life history stage of the organism, making different responses appropriate at different stages of development.

Ilia N. Karatsoreos and Bruce S. McEwen, *Resilience and vulnerability: A neurobiological perspective*, May 2013

Adaptive governance of interdependent social and ecological systems is key to address complex interactions and to manage uncertainty and periods of change. A central characteristic of such adaptive governance is collaborative, flexible and learning-based issue management across different scales. Adaptability in a resilience framework implies the capacity not only to respond according to the preferences of important stakeholders but also to respond to and shape ecosystem dynamics and change in an informed manner. 'Informed manner' means that adaptations and innovation acknowledge our dependence on the biosphere.

Stockholm Resilience Centre, *Adaptive Governance*, No date

Resignation or submissiveness, which sometimes give the impression of being strong or tolerant when facing poverty, are in fact the absence of resilience […] It is important not to equate resilience (ability to implement positive changes) with humble and stoic gestures in the face of increasing adversities […] Another important consideration […] is the cost of solving a problem, or the cost of resilience itself. To what extent can an emergency situation justify rushed decisions that exacerbate future demands and the lack of better solutions?

Clovis Ultramari and Denis Alcides Rezende, *Urban resilience and slow motion disasters*, 2007

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Resilience is […] the ability to cope with changes in capacity, effectiveness or legitimacy. These changes can be driven by shocks–sudden changes–or through long-term erosions (or increases) in capacity, effectiveness or legitimacy. Resilience derives from a combination of capacity and resources, effective institutions and legitimacy, all of which are underpinned by political processes that mediate state-society relations and expectations. It is resilience in the social contract that creates stability in a state. Every time tension in the state-society relationship is managed successfully, legitimacy is reinforced, perception of the state's capacity to manage change is enhanced and the resilience of the state increases.

OECD, *From Fragility to Resilience*, 2008

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