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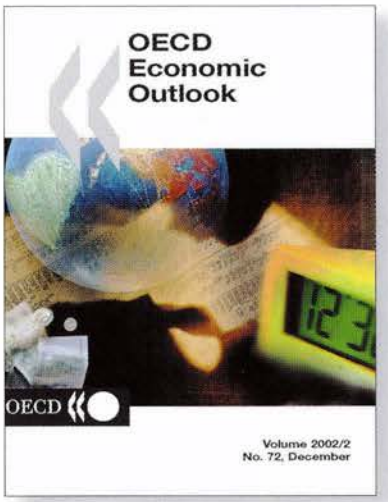

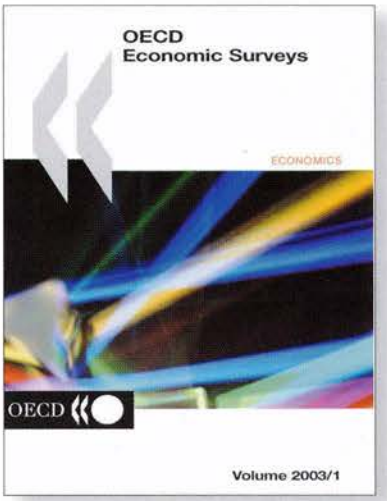

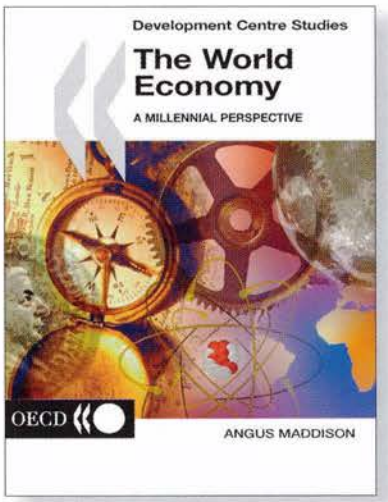

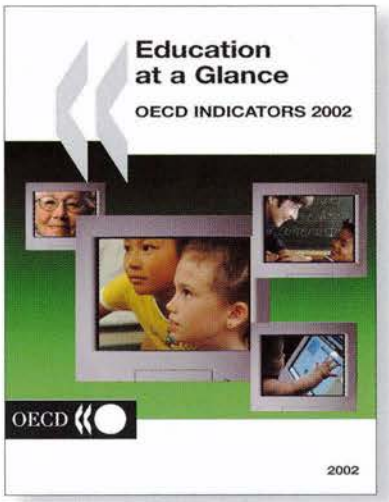

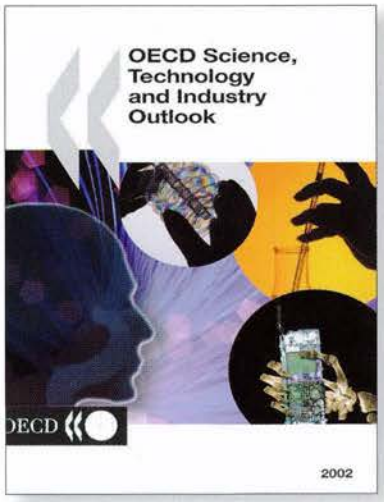

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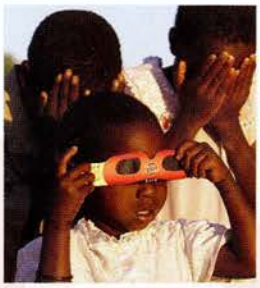

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EDITOR-IN-CHIEF: Rory J. Clarke
SENIOR EDITOR: Sue Kendall-Bilicki
STATISTICS EDITOR: Eileen Capponi
EDITORIAL ASSISTANTS:
Alison Benney, Miguel Bonte, Rosemary Chas
PHOTO RESEARCH: Silvia Thompson
PRODUCTION CO-ORDINATOR:
Nadine N'diaye-Robinson
WEB EDITION: Rory J. Clarke
MARKETING: Jill Colonna
LOGO:
Café Crème
HEAD OF PRODUCTION (FTB):
Mhairi Swann
PRODUCTION (FTB):
Celine Bijleveld, Kay Burton
COVER DESIGNER
Paramjit Virdee
ASSOCIATE PUBLISHER (FTB):
Angus Cushley

GLOBAL ADVERTISING MANAGER (FTB):
Adrian Northey, +44 (0)20 7896 2345

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No cover up

Congratulations on presenting Corporate Social Responsibility as very much an issue for governments and unions rather than just for companies – or at least I presume that was your intention with your cover and inside photo (*OECD Observer* No.234, October 2002). For those with shorter memories than myself, while described as a boardroom meeting in your caption, it in fact shows the members of the UK's National Economic Development Council (alas! now no more), circa 1965, and includes on the right-hand side of the photo, such trade union luminaries as Jack Cooper, Ron Smith, Sid Greene, Harry Douglas, Bill Carron and George Woodcock. The cover even includes Frank Cousins – but as a government minister, along with Ray Gunter and George Brown at the back. While your inside photo for your lead article on corporate responsibility shows the full council before session, including the business representatives around the table, these got cropped out for your cover version, leaving just government and unions. How ironic that reality is all too often the other way around.

Peter Coldrick
Chief Economist
European Trade Union Confederation

***

I enjoyed your sense of irony in using a picture of the UK's National Economic Development Council on the cover of *OECD Observer* to illustrate traditional views of corporate governance.

Although it is almost exactly 10 years since the organisation was closed down by the government, it offered a remarkable example of how employers (nearest the camera), trade unions (to the right), government (led by George Brown on the far side) and independents (on the left) could help shape the development of the national economy and industries within it.

Improving corporate governance and particularly the quality of reported information was indeed one of the NEDC's many achievements. Such organised attempts are currently unfashionable corporatism.

Given the dent that the credibility of published information on firms, discussed in your article, has taken round the world in recent years, perhaps the time has come to recreate some of the corporatist organisations.

Having to satisfy three groups with conflicting objectives is a great help to clarity, objectivity and credibility. One of the difficulties with the corporate governance agenda, as the implementation of the OECD's own Principles of Corporate Governance shows, is that it appears only some of the interest groups get a say in what is done. This may help explain why the spirit of the Principles is often not applied.

David G Mayes
Advisor to the Board
Bank of Finland
Helsinki

Health cover

Your healthcare special raises some interesting points about the role of insurance and the differences across OECD countries (*Observer* No. 229, November 2001, also available online). But maybe your expectations of private insurance provision are a little optimistic. As a businessman that has just returned to live in the US after living in France and Hungary for most of the 1990s, I was calmly expecting a well-developed private insurance system that may be costly compared with some countries, but at least it would be efficient. What I have found here is a quilt of 50 chaotic patches, since most health insurance is overseen at the state level.

A recent opinion piece in *The Wall Street Journal* sums up the muddle: "But over the past four decades state legislatures have passed more than 1,500 [mandates], requiring that insurers cover everything from infertility treatments to wigs for cancer patients. Together with procedural mandates such as 'community rating' (insurers can't price based on differing risk factors such as age) and 'guaranteed issue' (you can wait until you're sick to buy insurance), [these mandates] are largely responsible for the vast disparities in the cost of health insurance among states." The same article says that a self-employed 30-year-old man in New York State would have to spend more than $250 a month to insure himself, but just $36 if he moved a few miles away to Connecticut.

The effects are myriad. Insurers dodge among the state regulations to provide expensive and possibly flawed coverage that fails when crisis hits. And still, healthcare prices are inflated by bureaucracy. The result of all this? According to *The New York Times*, the number of Americans without health insurance has jumped by a quarter, from 32 million to 40 million since 1990.

How long will it be before health insurance disparities cause the healthy to seek out states with lower insurance costs and the sick to move into states that mandate guaranteed issue and community rating?

Henry Copeland
Massachusetts
United States

A global mandate for the next 40 years

Donald J. Johnston, Secretary-General of the OECD

This is the 40th anniversary edition of the *OECD Observer*, it being created shortly after the OECD itself. It is timely to recall the aims of the OECD set forth in Article 1 of its founding Convention, and to do a general stocktaking as to where we have met those aims and where we have fallen short. The aims are:

> *(a) to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
> *(b) to contribute to sound economic expansion in member as well as non-member countries in the process of economic development; and*
> *(c) to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

When I arrived at the OECD in 1996, I presented member countries with my vision of the OECD as an instrument for governments, to help them achieve balance in the triangular paradigm of economic growth, social stability and political stability. All three of these must be achieved through good governance in order to deliver the economic and social progress for which the OECD was created. Improving economic and social well-being, as required by the Convention, means keeping in harmony and balance the three different poles of the paradigm. Each society finds its own balance within that vision, based on the particularities of its own social, economic and cultural values, but the loss of that equilibrium will bring progress to a stop and, in the extreme, give rise to violent revolutions, as history has proven time and again.

Are we closer to equilibrium or to a halt in that progress? How well has the OECD fulfilled its role of maintaining that balance in the face of the pressures of globalisation?

In terms of maximising economic growth and wealth creation, the OECD has performed remarkably well, and perhaps better than our founders could have expected. But of course that is only one dimension of the paradigm, and so only one measure of success. What do the social indicators tell us?

Frankly, on this front, we have not been as successful. True,

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OECD citizens are now healthier and have a longer life expectancy than ever before. They have more access to education on the whole as well. But when it comes to spreading the benefits of wealth creation, we have done far less well. So far, the rising tide has not lifted all boats and we are some way away from Rousseau's dream of riches for everyone. This is true both within our countries and worldwide. OECD wealth has grown manyfold in 40 years. But while this testifies to the vitality of markets, we have yet to make them work for everyone. After all, what is the value of wealth creation if so much of humanity continues to exist in appalling poverty and squalor?

The work of the OECD is far from over. We have shown our strengths over the years. We have brought many improvements in member governments' policies which impact directly on the capacity of societies to provide a broad distribution of wealth. We have demonstrated that high employment in productive jobs is the best means of stimulating national income distribution, on condition that it is supported by effective education and training, efficient and accessible health systems, and adequate social safety nets for those unable to participate in the labour market for reasons of age or disability. In each one of these areas the OECD

has been successful in helping its member countries define best practices and in carrying out high quality professional analyses in support of policy recommendations.

Markets are fundamental, but if there is one clear reminder of recent times, it is the importance of government. The invisible hand of the marketplace is all very well as long as good governance and frameworks are in place to keep the hand honest as well as efficient. Without public trust, our economic model becomes fragile and vulnerable. Strong, though not interfering, democratic government has reaffirmed itself as a vital partner in our economic and social future.

Securing and building on the achievements of the OECD remain very much "work in progress" within our members, but more importantly in developing countries. With Doha, Monterrey, the G-8 Summit and Johannesburg, we appear to have launched a well-intentioned, if not well-financed, war against global poverty. The OECD's members account for most of the world's wealth, trade and development aid. Far from standing on the sidelines, we have a natural duty to take a lead in this most crucial of wars. We will do so!!

Europe, Japan and North America have all seen their share of bloodshed. The OECD has not only succeeded in binding these once bitterly divided continents together, but has been the catalyst of their development and progress. Peace has been a prerequisite of this achievement.

Our economic and fact-based expertise, our advice, our capacity to bring different cultures and stakeholders together in a non-adversarial, business-like setting to deal with differences and make progress on thorny issues, are attributes that the world must invest in. Our business is not just improving public policy, or fixing problems, but building the foundations of our global village, through measures such as regulatory reform, tax co-operation, anti-corruption, technology databanks, trade, the social, economic and environmental pillars of sustainable development, development aid and so on.

The OECD must exploit its historical legacy in the Marshall Plan to carry on the positive, constructive action it has begun around the world. This is not a fresh, new challenge; a paragraph in the preamble to the Convention of the OECD reads as follows:

"Recognising that the economic recovery and progress of Europe to which their [the founding member countries of the OECD] participation in the Organisation for European Economic Co-operation [the predecessor of the OECD] has made a major contribution, have opened new perspectives for strengthening that tradition and applying it to new tasks and broader objectives;..."

Could the historical mandate of the organisation be any clearer? We have achieved much in the OECD, but the job has only begun.

Increasing the interdependence of national economies as we have done is fundamental to global peace and security. I see the future of the OECD as spreading its messages and its practices throughout the entire global village. We are already working in the Balkans, as part of the Stability Pact, and working specifically on the Investment Compact. We must intensify our co-operation with the countries of the Middle East, Africa (as we are doing with the New Economic Partnership for African Development), and indeed, in all areas where conflict has divided nations and people. It is in the arena of 21st century globalisation that the virtues of economic co-operation and development, as defined in the OECD Convention, will become clearer than ever.

Europe, Japan and North America have all seen their share of bloodshed. The OECD has not only succeeded in binding these once bitterly divided continents together, but has been the catalyst of their development and progress, and, to a great extent, balance in the paradigm. Peace has been a prerequisite of this achievement.

The OECD has a mandate of immeasurable importance for the global community. Together in partnership with other international organisations, governments and civil society, we must fulfil it. ■

On the cover: Faces past and present

The cover for this 40th anniversary edition of the *OECD Observer* is a special montage of the political personalities that have come to the OECD in Paris or were involved in OECD work from the very beginning. From de Gaulle and Kennedy through Brundtland and Greenspan to current leaders like Fox and non-member Wade, all but a very few shots were selected from the OECD's rich picture archive that our photo editor, Silvia Thompson, began building in the 1960s. A complete list identifying each photo will be printed in the next edition. In the meantime, readers are invited to send their best "who's who" guesses to observer@oecd.org

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If you can't measure it, then you can't manage it

"If you can't measure it, then you can't manage it." As South African minister of finance, the Hon Trevor Manuel, said at an April 2002 workshop in Cape Town, South African stakeholders are striving to agree on common indicators of progress towards development. Yet for much of the developing world, the capabilities for producing the statistics required to monitor progress have stagnated or have been largely ad-hoc.

For the development partners struggling with the challenge of ensuring that their resources are optimally spent in the world's poorest countries, the focus is now on aid effectiveness. Convincing supporting evidence to assess the performance of development efforts comes largely from statistical systems. Without gauging the extent to which efforts to reduce poverty are effective, those efforts proceed in the dark. Statistics shed the light necessary to see the path to sustainability.

Statistics

Unfortunately, statistics are perceived as dull, which has hampered investment in statistical governance. Very little public acclaim is earned from an investment in statistics, compared with investments in health, agriculture, and nutrition. Yet without statistics to measure the benefits of investments in social programmes, who can say that the money was well spent?

To achieve our common goals of development – including the millennium development goals (MDGs) agreed in the 2000 millennium declaration – development practitioners on all levels must work hand in hand. And if measuring the progress of development is not treated as one of the costs of meeting the MDGs, then we, globally, are unable to hold all the signatories accountable.

Data on a country's progress must originate from within the country. Statisticians are now being asked to meet new challenges, good governance is widely regarded as a prerequisite for development, and statistics are now being used in calibrating governance indicators. Statistics are themselves part of good governance. While the major users of statistics are governments themselves, statistics must also be made available to the general public and to civil society to hold their governments to account. Statistics are vital to the democratic process; they ensure transparency and accountability and provide the background information against which private investors make their decisions. It is for this reason that support to statistical offices in developing countries for sustaining the design and implementation of poverty reduction policies and monitoring their impact is crucial.

Statistics are vital to the democratic process; they ensure transparency and accountability

Partnerships

The New Partnership for Africa's Development (NEPAD) promotes principles of country ownership, transparency, good governance and the fight against poverty. These principles are complemented by those of the Partnership in Statistics for Development in the 21st Century (PARIS21) in its collaborative action with national, international and regional bodies in Africa to promote country-owned strategies for the more effective use of information and statistics in the development process.

Hosted by the OECD's Development Co-operation Directorate, PARIS21 acts as a catalyst for promoting a culture of evidence-based policymaking and monitoring. We focus on promoting high-quality statistics, making these data meaningful and designing sound poverty-reduction policies. Our role in PARIS21 is to foster more effective dialogue among those who produce development statistics and those who use them, through facilitating international events, supporting country-based activities, organising regional workshops, and convening subject matter task teams. PARIS21 actively promotes south–south co-operation and lesson learning between countries in the region, reinforcing NEPAD's peer review approach.

Initiatives such as NEPAD are echoing the call for dialogue on how to provide information and statistics in developing countries. This demand must be met with a change of culture and with professionals communicating between countries and across their areas of specialisation to accelerate the change process.

PARIS21 exists to facilitate this communication, and we therefore feel a kinship with the *OECD Observer*'s mission, as we both serve as a forum for dialogue on issues related to policy development. PARIS21 congratulates the *Observer* for its 40 years of dedicated service to the OECD and the wider community of policy experts. We applaud your work in opening discussions on important themes and wish you continued success.

PARIS21, OECD/DCD, Office no. 1642, 2 rue André Pascal, 75775 Paris Cedex 16

email: contact@paris21.org web: http://www.paris21.org

• News brief •

Russia scratched from money-laundering list

Russia has been taken off the list of countries failing to co-operate in the international fight against money laundering, after carrying out significant reforms of its anti-money laundering system. "This is a great success for Russia and the international community in the fight against money laundering and terrorist financing," said Jochen Sanio, president of the Financial Action Task Force on money laundering. Russia has implemented significant reforms to its anti-money laundering system and given strong assurances that it will continue with the reforms until the process is completed. The FATF also removed Dominica, Niue and the Marshall Islands from its list of non-co-operative countries and territories in the fight against money laundering in light of their progress in improving their anti-money laundering systems.

But it also recommended that FATF members impose counter-measures against Nigeria and Ukraine from December 15 unless they enact further anti-money laundering legislation. The other countries on the current list of non-cooperative countries and territories are: Cook Islands; Egypt; Grenada; Guatemala; Indonesia; Myanmar; Nigeria; Philippines; St. Vincent and the Grenadines. FATF members ask their financial institutions to pay special attention to businesses and transactions with persons, including companies and financial institutions, in listed countries or territories. The FATF will review the list again at its next plenary meeting on 12-14 February 2003. The FATF is also collaborating with the IMF and the World Bank to assess the countries in the world on their compliance with the FATF Recommendations on combating money laundering and the financing of terrorism, using a common methodology. A review of the FATF's Forty Recommendations on combating money laundering is due to be completed in 2003. The FATF is an independent international body whose Secretariat is housed at the OECD. ■

- For more information about the FATF, its efforts to combat terrorist financing, the review of the Forty Recommendations and the present list of non-co-operative countries and territories: www.fatf-gafi.org

OECD launches campaign to strengthen corporate governance

Many people, governments and institutions were caught out by the sudden spate of corporate scandals that swept some OECD countries in the past several months. Whatever the cause of these scandals, they have cast a light on the ability of existing regulatory frameworks and principles to prevent abuses that have undermined public trust in companies and markets. This includes the OECD's own benchmark, the Principles of Corporate Governance, first adopted in 1999. Now they need review and strengthening.

On 15 November 2002 Secretary-General Donald Johnston headed a high-level brainstorming meeting to launch the OECD on a drive to strengthen corporate governance practices worldwide. Guests included Sir Adrian Cadbury, who headed an influential UK review of corporate governance in the early 1990s; Andrew Crockett, general manager of the Bank for International Settlements and chairman of the Financial Stability Forum; Veronique Ingram, an Australian Treasury official who chairs the OECD steering group on corporate governance; and representatives of business and labour unions.

They discussed the role of the OECD's Principles of Corporate Governance, ahead of a forthcoming review mandated by OECD ministers at their annual meeting in Paris on May 2002, and of other OECD Instruments relevant to market integrity, such as the OECD Guidelines for Multinational Enterprises and the Anti-Bribery Convention. The procedural challenge facing policymakers is to strike a balance between government and market oversight. But the aim is to improve corporate governance and reduce the risk of Enron-type tragedies happening again. Review begins in 2003 and OECD ministers are expected to receive the completed review in 2004.

The Trade Union Advisory Committee to the OECD (TUAC) is encouraged by the initiative, but would like to see more binding rules as well as a stronger role for stakeholders. "Corporate governance is too important to leave to an inner circle of CEOs and accountants," says John Evans, TUAC secretary-general. ■

- For expert articles on corporate governance, see *OECD Observer* No. 234 and www.oecdobserver.org
- Also, see www.oecd.org/corporate

• News brief •

OECD/WTO joint action on the Doha Development Agenda

WTO Director-General Supachai Panitchpakdi and OECD Secretary-General Donald Johnston met at OECD headquarters on 29 November to sign a progress report on trade-related technical assistance and capacity building in the follow up to Doha. The report draws on information provided by a joint WTO/OECD database and provides a snapshot of capacity building efforts in this area between 2001-2002.

The report will be updated in time for the WTO Ministerial meeting in 2003. The document can be updated regularly and used to monitor implementation of the Doha Development Agenda. Information in the database is supplied by countries, intergovernmental organisation, the OECD Development Aid Committee, and regional banks. ■

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WTO Director-General Supachai Panitchpakdi

Inflation stubborn in euro area

Despite the economic slowdown, inflation in the euro area has remained stubbornly above the 2% level the European Central Bank considers to be consistent with price stability. As the latest OECD *Economic Outlook* shows, inflation has remained persistent in the large, slower-growing economies, such as Germany and Italy. Inflation in these countries, though relatively low, has not declined sufficiently to offset higher rates of inflation in faster-growing economies, like Ireland.

This prevents the euro area-wide rate from falling. The OECD study points to various rigidities, which structural reforms to raise productivity growth would help to address. ■

Lifting the "veil" on substandard shippers

Who is the owner of the tanker "Prestige", which sank off the coast of Spain carrying 70,000 tonnes of heavy fuel oil on 19 November? Early reports suggest that the company listed as the owner of the "Prestige" may not be the final "beneficial" owner, as that company is a single vessel company with no other apparent assets.
The company may only be a subsidiary of another corporate entity in a different jurisdiction. To get past the spider's web of corporate connections and find the real owner is like peeling the many skins of an onion. In fact, a ship owner may have as many as 100 ships each registered as a separate company, each with its own owner and stockholder.

The OECD is investigating the means ship owners use to hide their identities and avoid being held liable when something goes wrong. Hiding the identity of owners is a far too common international business practice which has already been investigated by the OECD in work on the "Corporate Veil" in response to tax havens and money laundering. As in the "Prestige" case, the same principles apply to shipping. In uncovering the mechanisms used by some unscrupulous owners of substandard ships, the OECD hopes to increase shipping accountability and make it harder for dishonest shippers to operate globally.

The OECD undertook this project primarily for security reasons after the events of 11 September. But the increased transparency and accountability that it will afford could prove useful in the follow-up to disasters like the "Erika" off the coast of France in 1999, and now the "Prestige". The OECD project supports and is complementary to the activities of the UN body responsible for regulating the maritime sector, the International Maritime Organization (IMO).

The IMO can create the rules, but it cannot enforce them. This is the responsibility of the "Flag State" countries where the vessels are registered. The OECD hopes that lifting the corporate veil will help them enforce the rules. How to dismantle the mechanisms is an important part of the work ahead. The message to owners of floating disasters is clear: shape up or ship out! ■

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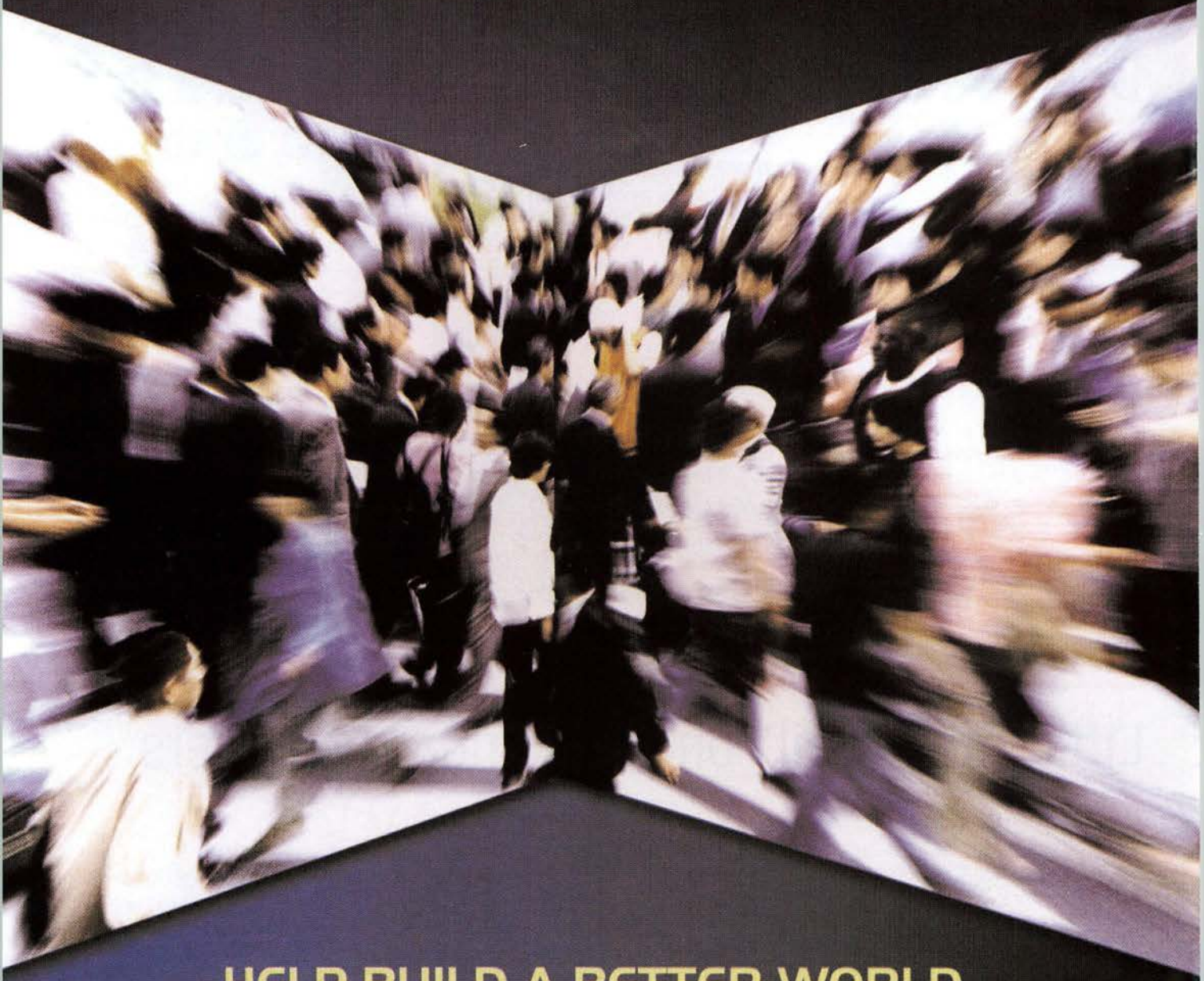

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The economists

To introduce this special 40th anniversary edition of the *OECD Observer*, we invited a group of leading economists to discuss some of the economic transformations and achievements of recent years and to highlight some key challenges for the future. Three former OECD chief economists, Ignazio Visco, Kumiharu Shigehara and David Henderson, together with special guests, Robert Mundell of Columbia University, Kenneth Rogoff of the IMF and Steven Fries of the EBRD, offer their views on some contemporary long-term challenges, from monetary stability, market openness and transition, to demography, innovation and governance. In our development section, the distinguished economic historian, Angus Maddison, offers his view of the prospects for non-OECD countries in the "West and the Rest". And to introduce the Economic Outlook section, the OECD's new chief economist, Jean-Philippe Cotis, outlines some of the key reasons behind the global economy's hesitant recovery.

After 40 years

Towards a more stable monetary world

Robert Mundell, Professor of Economics, Columbia University, and 1999 Nobel Laureate for Economics

International financial crises have been an on-and-off feature of the global economy in the past 40 years. Understanding how the international monetary arrangements came into play can point to ways of establishing a greater degree of control in future, argues Professor Mundell.

Forty years ago, when the OECD replaced the Organisation for European Economic Cooperation (OEEC), the world was very different. A major standoff was underway in the Cold War, there was a crisis in the international monetary system, and globalisation, if the word was used at all, meant freer trade within the "free world."

In the past 40 years much has changed. The international monetary system broke down and flexible exchange rates led to increased international monetary instability. Social revolutions occurred in gender and race and the balance of terror of the Cold War ended with the fall of the Berlin Wall. The oil-price revolution of the 1970s effected a huge transfer of wealth and

power to the Middle East. Computer and Internet revolutions transformed information technology and brought on productivity gains and cost reductions in every sector of economic life. The euro area brought into focus the new oligopoly of currency areas.

International monetary arrangements today are dominated by the currency triad of the dollar, euro and yen areas. These three areas together make up over 50% of world gross domestic product (GDP). Any changes in the "architecture" of the international monetary system will have to grapple with the instability of exchange rates between these areas.

In the post-war gold exchange standard, the major currencies were kept fixed to the dollar and the United States in its turn kept the price of gold fixed. The system broke down in the early 1970s because soaring dollar liabilities made convertibility of the dollar into gold impractical and the price of gold, after the inflations of three wars, had become unrealistic.

When in 1971 the US took the dollar off gold, it was the end of a long era. For more than 25 centuries gold or silver had been at the centre of the international monetary system and had kept inflation in check. The gold standard gave the world a kind of monetary unity without explicit political unity. With, however, the centralisation of gold in the superpower in the two world wars, and the rise of the paper dollar as an alternative international money after the Second World War, gold ceased to be at the centre of the international monetary system.

For most countries the important issue was not so much the fate of gold, but the effect on exchange rates. When the US dropped gold, the other countries dropped the dollar, giving rise to fluctuating exchange rates. The international monetary system no longer acted in unison but as a collection of national monetary systems.

A short-lived attempt to re-establish a global currency area based on the inconvertible dollar foundered on disagreement between Europe and the United States over US monetary policy. Without consensus on the common rate of inflation, no currency area can survive. In 1973, therefore, generalised floating began. Later, in 1976, the IMF Board of Governors agreed to amend the IMF charter to allow for "managed" flexible exchange rates.

The adoption of flexible exchange rates was at most a second-best solution. It left much to be desired. Most countries had relied upon currency convertibility as the fulcrum of monetary discipline. Countries that had for decades anchored their currencies to the dollar had achieved the same degree of monetary stability as the United States. When these countries shifted to flexible exchange rates, monetary discipline broke down and many countries succumbed to rampant inflation.


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Robert Mundell

The absence of a world central bank, the absence of a global unit of account and the absence of a mechanism or convention for stabilising exchange rates: removing these deficiencies needs to be at the top of the agenda for international monetary reform.

The adoption of flexible exchange rates by the international monetary authorities failed to take into consideration the relevance of the size configuration of economies, the possibility of currency areas, and the inefficiency of 190-odd fluctuating currencies. How much more efficient it would be to have a common international money that could be used throughout the world.

It is ironic that generalised floating for most of the world coincided with steps in Europe in the opposite direction. The advent of the euro has already changed perceptions. The transition period demonstrated that a credible fixed exchange rate system could be effective in establishing common interest rates and inflation rates and eliminating speculative capital movements. Europe was now perceived as a zone of price stability and its new currency is coming to be accepted as a suitable anchor for other countries and a useful asset for central banks to hold in their reserve portfolios. Elsewhere, the euro example is studied to see if it could be a model for larger currency areas in Asia, Africa, the Western Hemisphere, the Middle East and the former Soviet Union.

Three corrections

Present arrangements suffer from three major deficiencies. One is the absence of a global unit of account in which international debts and payments could be denominated and to which other or prospective currency areas could be anchored. A second is the absence of a world central bank to produce and manage the international currency and to conduct global monetary policy. The third is the absence of a mechanism or convention for stabilising exchange rates. Removal of all three deficiencies should be at the top of the agenda for international monetary reform. ■

Reference

• Visit Robert Mundell's home page at www.columbia.edu/~ram15/

Forward thinking

Ignazio Visco, OECD Chief Economist, 1997-2002

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Ignazio Visco

Forty years of economic achievement can be undone if the right institutions and policies are not in place, argues Mr Visco. Some of the challenges ahead leave no room for complacency, like pressures from migration and ageing. One ingredient that is vital to help sustain progress is knowledge.

What have been the most important transformations of the last 40 years? An obvious answer, one might say, is the new wave of globalisation, accompanied by major demographic changes and the overwhelming success of the market economy. This answer should, however, be qualified, as it is rather the nature of the process towards closer integration of markets that has really changed. To be sure, world trade has grown more than twice as fast as world GDP. And capital has certainly become much more mobile, with sharp increases in fixed direct investment outflows, especially in the past two decades.

But from an historical perspective, these are not really new achievements. Between 1870 and 1915, in fact, another major globalisation wave had seen substantial integration of the world's economies, whose effects have been visible not only in trade and capital movements, but also in the exceptional freedom people had to move across regions. International migration is now very much restricted, and contrary to popular perceptions in OECD countries, rather low compared with a century ago.

One could also point out that, while more integrated than in the 1950s, the world economy still shows a relatively low degree of openness on several levels. Tariff rates have been substantially cut in the OECD economies, but major barriers remain for a number of products, particularly in agriculture and textiles. And after their dramatic plunge in the 19th century, shipment costs continued to fall sharply during the first half of the last century, but in the past 40 years technological progress has not led to further significant cuts, with the exception of airfreight, and even this was only until 1980. While the EU, with its single market, and other less sophisticated regional trade arrangements, are important steps in the direction of higher economic openness, protectionist pressures are still far from vanquished.

The truly new achievement of recent decades has been the dramatic fall in communication costs. This, and the technological breakthroughs behind it, has led to a diffusion of ideas, technological know-how and general spread of information at a pace that is quite unprecedented in the history of humankind.

The truly new achievement of recent decades has been the dramatic fall in communication costs. This, and the technological breakthroughs behind it, has led to a diffusion of ideas, technological know-how and general spread of information at a pace that is quite unprecedented in the history of humankind.

Even if cause and effect are difficult to disentangle, this new wave has at the very least underpinned economic progress. Its effects have not been limited to the OECD economies, though the catching-up of the rest of the world has been far from uniform, at least in terms of per capita income. Worse, some of the poorest countries have been unable to make any progress at all.

Economic growth is neither a mechanical nor a smooth process. We have learned in the post-war period that peace and democracy, as well as macroeconomic stability, are fundamental conditions for a

sustained rise in economic performance. Furthermore, without good institutional settings and effective rules of the game, these conditions might not last. As we have been recently reminded, nothing should be taken for granted, not even in the OECD; institutions must be maintained, looked after and skillfully adapted to changing times.

Being adaptable is clearly one of the major challenges ahead, as the current difficulties in the New Economy and the attendant corporate fallout show. These, as well as the stock market reversal of the past couple of years, should not alter the principle that, with the right policies and institutions, the higher productivity growth we have observed in several countries in the past decade can be maintained and extended to other economies around the world. These productivity gains are clearly linked to continued investment in physical capital, education and research. But, if the rules of the game start to become blurred or non-transparent, sustained economic progress may be deeply affected.

This is equally important for the second challenge before us: that of making the best use of the opportunity that comes from the diffusion of knowledge to close the gap in well-being between the developed and developing world. Remember, the catch-up process cannot be taken for granted; protectionist attitudes remain a great obstacle, and markets that lack confidence and support risk being too weak a tool to overcome this.

Obviously, political and diplomatic relations cannot be limited to the economic sphere. Nor can peace and democracy be considered as inevitable steps in the development of nations. They are intertwined with the fundamental challenges that a large part of the world still faces with respect to poverty, health and education. Which brings me to one of the most difficult challenges ahead: population.

Even if decelerating since 1970, world population growth is still above 2% in the less developed countries, compared with less than 0.5% in the more developed ones. Developing countries now account for over 80% of the world's population and this share is set to rise. Nevertheless, much progress must still be made to reduce infant mortality, which is still above 60 per 1000 births in the developing countries and 100 per 1000 births in the least developed countries, compared to just 6 in the industrialised countries. Substantial population movements seem inevitable, unless economic growth and living standards rise sharply in the developing world.

In OECD countries demography poses a different challenge. The drop in fertility rates and the spectacular rise in life expectancy of recent decades have led to a much older society. This phenomenon can also be found in some major developing economies such as China. Ageing will have important consequences for public finances and the working of labour markets worldwide and will affect many other fronts, from immigration flows to changes in preferences and consumption patterns, even corporate strategies. It clearly calls for the introduction of major reforms. The challenge to economic policy and politics *tout court* cannot be underestimated.

To quote the 19th century Danish philosopher Søren Kirkegaard, "Life can only be understood backwards, but must be lived forwards". So, to end on an optimistic note, let's remember that GDP per capita in developing Asia (excluding Japan) is now close to five times that of 1950, despite population having more than doubled. While such great progress has not been smooth across all Asian countries, it shows that even major development challenges can be met. But to do so, we must make sure we have good institutions and good policies. This also demands sharing knowledge as much and as widely as possible. ■

He is worried about his pension fund too

Looking for models in pursuit of prosperity

Kumiharu Shigehara, Head, International Economic Policy Studies Group. Formerly Chief Economist (1992-1997) and Deputy Secretary-General (1997-1999) of the OECD, and previously Chief Economist of the Bank of Japan

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Do not underestimate some of the economic and political achievements of the last few decades. And do not overestimate some of the present transformations either. In the search for stability and prosperity, there is much to learn and no country has all the answers.

Looking at the economic difficulties of Europe and Japan these days, it is all too easy to forget some basic historical truths: in particular, that over the last forty years, western Europe and Japan have achieved unprecedented economic prosperity, and that their progress followed two devastating and debilitating world wars. Anyone that witnessed the flattened cities of Dresden or Hiroshima must never have imagined the recovery that was to follow. Within two short decades Japan and the former West Germany had established themselves as the second and the third industrial powers after the United States.

How did these so-called economic miracles come about? One reason was a sheer lack of choice. Deprived of military power to secure export markets and access to natural resources abroad after defeat, the onus fell on their well-educated workers, business managers, bankers and an eager new state to achieve results. True, they were helped in these efforts by post-war international trade liberalisation and a generally favourable external climate, but it was by working together and targetting high value-added products, from automotive goods to science and technology, that high economic performance and social progress became possible. In effect, West Germany and Japan each forged their own market-based economic models whose efficiency and social equity were exemplary of how free market economies could succeed in the face of centrally commanded economies in the Cold War period.

This does not mean that the international relationships of free market economies were always smooth. In the 1960s, expenditure increases associated with the Vietnam War and increased inflationary pressure in the United States started gradually to undermine the gold and foreign exchange system with the US dollar as the primary reserve currency. The shift from the fixed exchange rates of Bretton Woods to the floating rate system introduced for major currencies in 1973 strengthened the capacity of free market economies to absorb external shocks. Indeed, had the floating rate system not been in place, the economic management of countries highly dependent on imported oil would have been disrupted far more by the two oil crises of the 1970s than it actually was. However, floating currencies did not provide a panacea for curing imbalances in external payments, nor could it free domestic economic policy from external constraints. Flexible rates have sometimes moved in abrupt and erratic ways that were difficult to explain in normal economic terms. Sustained misalignments upset the allocation of productive resources across free market economies and fuelled protectionist sentiment in deficits countries, notably the United States.

In terms of international institutional set-ups, the EU is the most complete model of regional integration and it marks one of the most significant achievements of the last four decades.

This caused particular concern in the late 1970s and 1980s as both Japan and West Germany each ran persistent surpluses.

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Shiny new Dresden: Volkswagen's glass factory, Glaeserne Manufaktur, in Dresden, eastern Germany, where the new luxury car Phaeton is assembled. Volkswagen means the People's Car in German, but will the masses be driving the Phaeton, which costs $96,000?

These imbalances became subject to both bilateral and multilateral surveillance. However, uncertainties about the balance-of-payments effects of domestic demand and exchange rate changes as well as failures of various attempts, including those by the IMF and the OECD, to identify precisely the equilibrium levels of exchange rates left room for ad hoc arrangements and at times unhelpful political intervention.

We still face this core challenge today: how and on what basis to bring large global economies together so that they might manage their affairs in "mutual self-interest". Bilateral co-operation, multilateral co-ordination, unilateralism, independence: all these are possible, and not necessarily in mutually exclusive ways.

Take the European Union. It was born in large part from a desire to secure economic and monetary independence from the United States while fostering peace, co-operation and economic and social progress among Europe's main protagonists. It now has a single (albeit still evolving) market for goods, services, people and capital, while the euro has been introduced as the single legal currency in 12 EU countries. Moreover, despite widespread concern inside and outside the EU about the risk of increased European protectionism, the average level of its trade protection against non-EU countries has continued to decline. In terms of international institutional set-ups, the EU is the most complete model of regional integration and it marks one of the most significant achievements of the last four decades.

How and on what basis can we bring large global economies together so that they might manage their affairs in "mutual self-interest"? Bilateral co-operation, multilateral co-ordination, unilateralism, independence: all these are possible, and not necessarily in mutually exclusive ways.

Another boon to Europe came from the unification of Germany in October 1990 and the shift of former Soviet bloc countries towards market economies. But this transition has had a less significant impact on world economic relationships than expected. A greater impact was to come from the emergence of high growth markets in Asia, notwithstanding their financial crisis of the late 1990s.

Nevertheless, the dissolution of the former Soviet bloc and the rapid economic development of China, which has started to open its market to foreign trade and investment, have changed the basic framework for international economic co-operation and reduced the risk of worldwide military confrontation.

China's opening up has given new promise to the burgeoning regional economic and monetary co-operation in Asia that also involves Japan, Korea and member countries of the Association of Southeast Asian Nations (ASEAN). This, and arrangements like the EU and the North American Free Trade Agreement (NAFTA), have raised the question of how to reconcile regionalism with the multilateral efforts towards liberalisation of international trade and investment that have been key to achieving prosperity in the post-war era.

Meanwhile, greater regional integration and globalisation present their own challenges. The latter, more often than the former, has been blamed by many as a cause of social and environmental distress, including job losses for unskilled workers, widening income disparity within and across countries, and deteriorating ecological and social standards, as well as increasing the instability of the international financial system. There is also a growing concern about ageing populations in most OECD countries and the economic, social and political strains that will arise in 2010-30 when the baby-boom generation reaches retirement. Policy response to these challenges should involve cutting across traditional boundaries of economic, financial and social disciplines.

No country has got all the answers. Even in the United States where spectacular overall economic growth in recent years has been accompanied by a soaring political and cultural influence around the world, the country's growing income inequality, its endemic violence and other deep social problems have raised serious doubts about the sense, let alone desirability, of the universal application of the so-called US model. At the same time, there has been delay in structural reforms that are needed to help Japan, Germany and several other European countries to remain efficient in the new age of globalisation and to meet the challenges of population ageing.

In all of these countries, social conflicts in the reform process and inward-looking, myopic politics for balancing economic and social concerns run the risk of compromising the needs of partner countries and narrowing the scope for international co-operation. This would undermine other objectives too, including development assistance efforts required to reduce poverty in less developed regions of Africa, Asia and Latin America and so tackle the source of so much domestic insecurity and perhaps international terrorism. Domestic policy formation and execution in rich countries and international policy co-operation in pursuit of economic prosperity and security must be buttressed by a better understanding of social partners' needs and wishes and of the economic and social concerns of all peoples around the globe. ■

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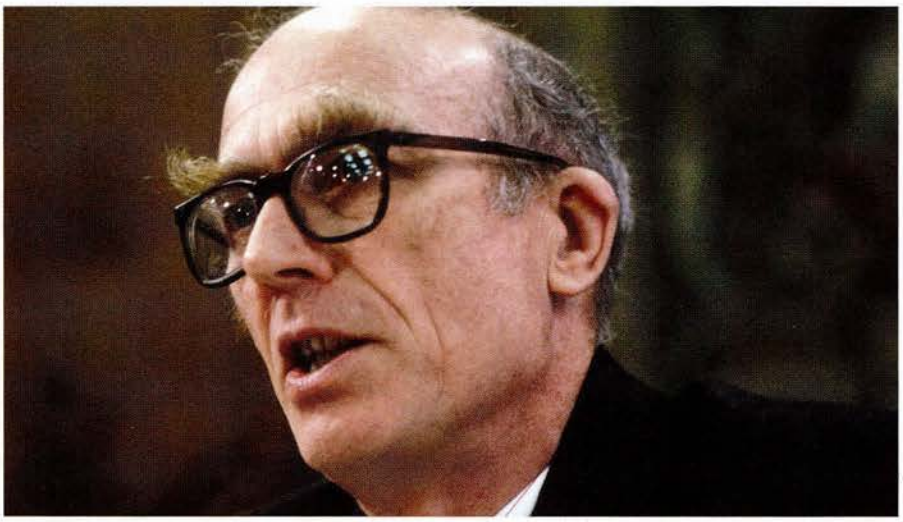
Markets, progress and development:

Lessons of the past half-century

David Henderson, Visiting Professor at the Westminster Business School, London, and Head of the OECD Economics and Statistics Department from 1984 to 1992



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There have been many economic success stories over the last four decades, although many countries have struggled. For Professor Henderson, economic progress of the poor depends largely on internal factors, including the dynamism of the economies in which they live and work.

The main lessons of the years since the end of the Second World War are for me economic. They emerge from some remarkable developments which neither I nor anyone else foresaw. Both the speed and the extent of economic progress have exceeded what past experience would have suggested as likely or even possible.

Part of the story relates to the countries which already counted as economically advanced in 1950: these were to be found in western Europe, North America, Australasia and Japan. For all of them this past half century, viewed as a whole and despite local and temporary setbacks, has been a period in which material welfare has advanced at rates substantially higher than past history would have suggested as likely or even possible.

But the record of economic progress during

the half-century goes beyond this group of already advanced countries, in ways that no one foresaw or even imagined, and which mark a still more decisive break with the past. Up to 1950, and even after, it was possible to doubt whether modern economic growth, and with it a sustained rise in material welfare for people in general, could be achieved outside a magic circle of countries which were all, with the exception of Japan, either European or of predominantly European origin. Such doubts have now been dispelled. A number of poor countries have achieved sustained rates of growth in material standards of living which were virtually unprecedented in any country, rich or poor, in previous history.

Which are these newly successful economies? So far, nine countries stand out. In eight of them the record of success goes back to mid-century or thereabouts. This group comprises three countries in southern Europe – Spain, Portugal and Greece; four in east Asia – the so-called "tigers" of Hong Kong-China, South Korea, Singapore and Chinese-Taipei; and Israel, which I would include, though growth performance there has been less spectacular than in the other seven. The ninth country is China, where the record of outstanding economic progress begins with the reforms of 1978 which set off a continuing process of liberalisation, both internal and external. Besides these, there are a number of today's developing countries where growth performance has been impressive by past standards.

From this record of economic progress since the Second World War, both in the established countries and in the newly successful ones, three lessons in particular emerge.

The first is that, generally speaking, the sustained high growth rates owed little or nothing to foreign assistance.

Second, these events have further confirmed, what earlier economic history already indicated clearly, that everywhere the progress of poor people depends primarily on the dynamism of the economies in which they live and work. It does not chiefly depend on the activities of trade unions, the regulation of wages and employment, or even on the development of social services and progressive taxation.

Third, the various success stories likewise confirm that in countries where there are stable governments, where governments act responsibly in matters of public finance and the control of the money supply, where property rights are well established and maintained, where economic decision-making rests largely with private individuals and enterprises, and where the economy is substantially open to transactions with the rest of the world, material progress is now likely to go ahead at rates which half a century ago would have been viewed as unthinkable. This bodes well for the many countries across the world in which these conditions are met and seem likely to continue to be met.

OECD countries should refrain from actions that would be contrary to the interests of people in poor countries. Attempts to prescribe and enforce common international standards would darken their prospects further.

Unfortunately, however, there are today many countries where the conditions are not met. Alongside the success stories there is a long list of what Angus Maddison has termed "faltering economies": he identifies no less than 168 of these, though many are small. In the light of past history, what can be said about their situation and prospects?

The argument that is now often made, that these economies have been marginalised by globalisation, is wholly false. The more successful developing and transition countries have gained both from making their own trade and investment regimes freer and from the market opportunities provided by other countries. Faltering economies have not made such gains because of internal influences, including, in many cases, the actions and policies of their own governments.

Progress in these countries, as elsewhere, will largely depend on internal changes. There is no clear route by which the people of these countries can be "empowered" through collective action on the part of the international community.

The most direct way in which the OECD countries can help "faltering economies" – or at any rate, those where the internal situation permits business enterprises to grasp commercial opportunities – is by keeping their markets open to imports and further reducing their trade barriers. (They would of course make their own people better off by doing so.)
A second line of action, which raises more problems but could also bring significant gains in both groups of countries, would be for the OECD countries to adopt less restrictive policies in relation to "economic migrants".

The reverse side of the coin is that the OECD countries should refrain from actions that would be contrary to the interests of people in poor countries. Attempts to prescribe and enforce common international standards, to be applied to these countries along with the rest, would darken their prospects further. Such notions as "global social governance" can do nothing but harm if put into effect. There is now a real risk that the OECD countries will move towards over-regulating the world, as well as their own citizens.

For the same reasons and in the same way, actions taken by multinational enterprises to establish in poor countries norms and standards that are not appropriate to local circumstances, under pressure from public opinion and in the name of "corporate social responsibility"', are likely to run counter to the interests of the people of those countries.

The economic history of the past half-century has been encouraging in important respects. The main single lesson that has emerged from it is that economic progress can be expected to go ahead in any country, large or small, that has a well-functioning market economy. For the future, this gives point to the case, in all countries and on the international scene, for extending the scope and improving the working of markets. ■

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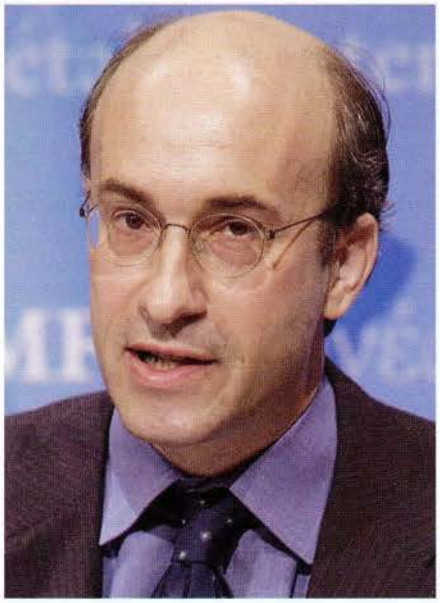
Four challenges for 40 years

Kenneth Rogoff, Economic Counsellor and Director of the Research Department, International Monetary Fund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The IMF and the OECD both emerged from a common postwar vision of the future of the international economy. Both have grappled with difficult issues, adapting themselves to face the enormous changes in the world economy since their creation. Both will surely need to grapple with enormous changes still to come. Here are some thoughts on four issues of mutual interest that just might fill the pages of *OECD Observer* over its next 40 years.

1 The IMF has become known as a champion of economic stability and modest deficits, yet there is no paradox in saying the real challenge for the future is to find ways to sustain larger **current-account deficits**. Industrialised countries will need goods and services for a ballooning number of retirees over the next few decades. Who will provide them? More immigrants from the developing world would help. But so would large current-account surpluses vis-à-vis the developing world, which would allow industrial countries to save abroad for the decades after 2030, when they will want to run deficits of 3-4% of GDP. Right now, the system cannot easily tolerate the giant debt accumulation that would allow countries to save for that day.

We have to make the global economy work better. Expanding trade would help support deeper capital-market integration. Better procedures to govern international lending contracts are also essential, as the IMF has recently emphasised.

2 Since the breakdown of the Bretton Woods system of fixed **exchange rates** in 1973, the world has seen a panoply of different exchange arrangements. As many as 15 distinct systems have been tried, across the spectrum from fixed to floating, according to a recent IMF study. What have we learned from this over the past 30 years?

That many parts of Africa have made great progress in lowering inflation, liberalising markets and resuming growth is a testament to the perseverance of the Africans themselves. Still, the challenges remain, and we will need to find new approaches in the years ahead.

First of all, with freely flowing capital, maintaining a fixed exchange rate is akin to a game of Russian roulette in which survival is a matter of luck. Second, countries that have tried to sustain rigidly fixed rates indefinitely via capital controls have generally seen the effectiveness of this approach eroded over time. Indeed, a close look at many so-called fixed exchange rate regimes reveals dual exchange rates, parallel markets, and other forms of "back-door" floating. Third, it is often very hard to explain floating rates – front door or back door – in terms of underlying macroeconomic fundamentals like interest rates, inflation rates and growth.

So where do we go from here? Since 1945, the number of currencies in the world has doubled along with the number of countries. Perhaps the arrival of the euro marks a turning point, and over the coming decades this number will plummet, ending perhaps in two or three core currencies, with a scattered periphery of floaters. Getting there, and managing

macroeconomic policy with less exchange-rate flexibility, is one of the major political and economic challenges of the 21st century.

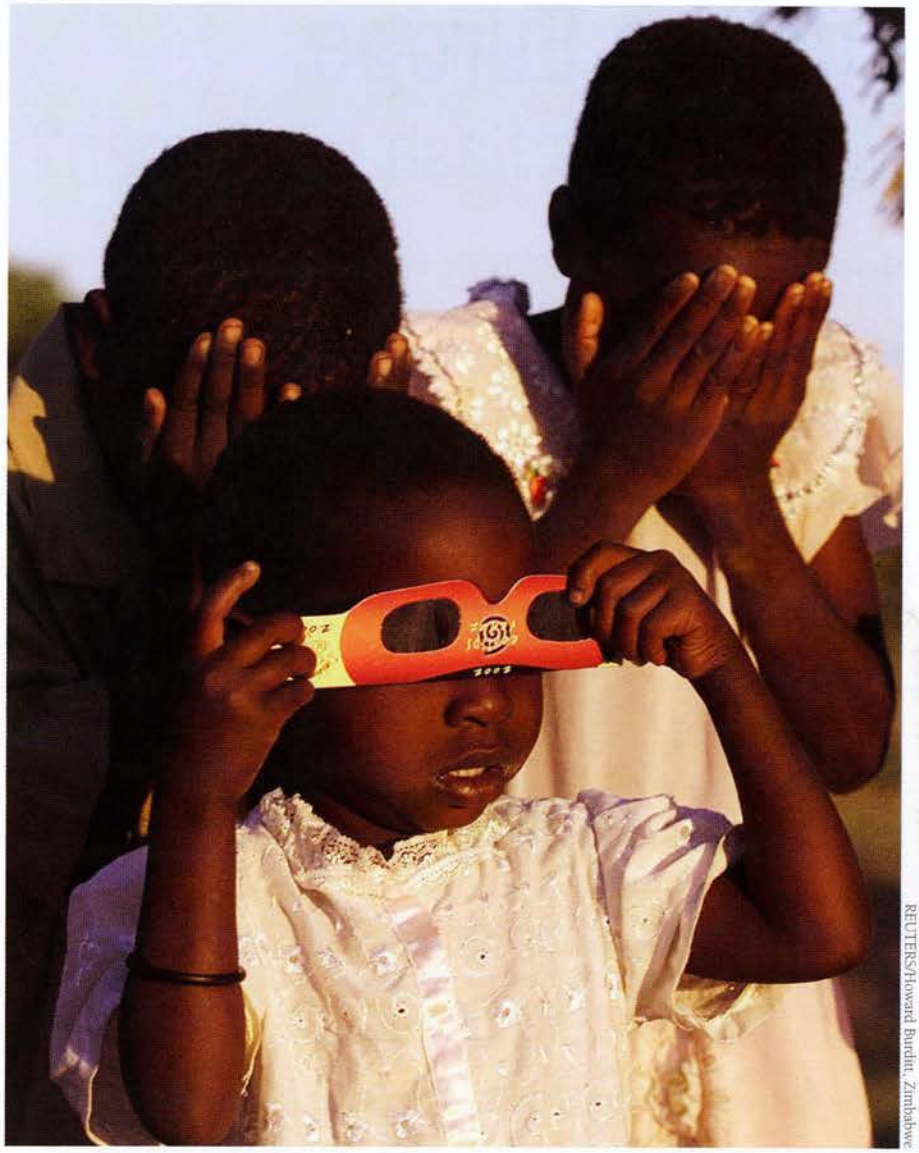
3 Since its creation, OECD countries have largely abandoned **capital controls**, and for good reason. As economies become more open and develop more sophisticated financial sectors, capital controls become more and more difficult to enforce. If capital controls are too heavy, the need to comply with complex regulations hampers trade. And in countries with governance problems, capital controls can be a particularly insidious source of corruption.

Yet it is important not to be dogmatic. Experience has shown that there are real risks in lifting long-standing exchange controls before the internal regulatory structure can handle the resulting capital flows. And even in countries that have largely dispensed with capital controls as a regular mechanism, there may still be a role for limited and temporary controls, particularly on inflows, but in some cases on outflows. Finding the right pace at which to dismantle clearly pernicious capital controls will not be easy, however, and achieving the correct balance should be high on our research and policy agendas.

4 Making economic policy in **Africa** is no job for the faint of heart. Many countries have suffered from civil conflict. This problem has diminished somewhat but drought remains an issue – and a far worse one if civil conflict is simultaneously present. Factor in the HIV/AIDS crisis, which in addition to its tragic human toll is literally decimating the most economically productive members of many African societies. Add to that the unpredictability of international aid flows, which is topped only by the extraordinary price volatility in world markets of their primary exports. How can one possibly stabilise such economies?

In practice, policymakers often try to shield the economies from extreme volatility by imposing tight controls across the economy. Unfortunately, such controls not only block the price signals that help the economy react to changing circumstances, but also feed inefficiency and corruption. That many parts of Africa have made great progress in lowering inflation, liberalising markets and resuming growth is a testament to the perseverance of the Africans themselves. Still, the challenges remain, and we will need to find new approaches in the years ahead if the UN's Millennium Development Goals are to become anything more than a dream for Africa.

The IMF was established not long before the OECD to address problems like these. Finding approaches that resolve them – and the many more immediate dilemmas facing our 184 member countries – constitutes the heart of the IMF's work programme. I applaud the work of the *OECD Observer* in shedding light on these complex topics and bringing them to the attention of a broader circle. ■



REUTERS/Howard Burditt, Zimbabwe

She's controlling the inflow

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Eastern Europe
More than a flash in the pan?

Steven Fries, Deputy Chief Economist, EBRD


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Investing in transition economies of eastern Europe was a heady trend of the early 1990s that promised so much but ended in disappointment and loss for many western companies. But there are signs of a healthy recovery in the region, including among home-spun enterprises. It may be time to take transition countries more seriously again.

For the second year in a row, the transition economies of eastern Europe have outperformed western Europe and indeed the OECD countries as a group. But is this good performance simply the inevitable bounce-back from a long bout of poor economic performance or the start of more enduring growth?

One development that points towards a sustainable expansion is the steady increase in foreign direct investment in transition economies. Investment that brings with it new products or better ways to produce existing ones is fundamental if the transition economies are to shed their communist legacy, to boost their productivity and to raise living standards towards OECD levels. Domestic investment has also made a significant contribution to aggregate demand growth in the ongoing expansion in the region.

The experience of transition, however, has been too much wasted investment and too little quality investment and innovation. Resistance to adapt to market pressures has been strong and governments all too often have conspired with vested interests to impede this process. The result has been a relatively poor business environment in the region beset by arbitrary taxation and business regulation, corruption and poor legal systems. In this environment, businesses have often been preoccupied with extracting privileges, grabbing assets and manipulating markets rather than with innovating and investing in the future.

Even corruption is starting to diminish, as fewer firms report paying bribes. And those that do, pay less as a share of their annual sales revenue.

Doubts clearly remain about the quality of the business environment and the evenness of playing field in the transition economies, especially as one moves south and east beyond the front-runners for EU accession. But change in these areas is especially difficult to assess across 27 countries. That is why the European Bank for Reconstruction and Development and the World Bank have launched an unprecedented survey to listen to the firms of transition economies – through 10,000 face-to-face interviews – and hear their own assessments of the obstacles they face. The results are surprising.

The 1999 and 2002 rounds of the survey show that some aspects of the region's business environment have improved significantly, especially in countries of south-eastern Europe and the Commonwealth of Independent States (CIS) that remain neglected by most foreign investors. Discriminatory practices that favoured the old socialist dinosaurs over small firms and start-ups have begun to diminish. Tax regimes have improved. Finance and infrastructure are less of an obstacle.

Even corruption is starting to diminish, as fewer firms report paying bribes. And those that do, pay less as a share of their annual sales revenue – an average of 1.5% in 2002,

Yugoslavia's potential

The economy of the Federal Republic of Yugoslavia was devastated during the 1990s, but according to the latest OECD economic survey of the country, reform since the end of 2000 has marked a sea change in policy that has already had a number of positive effects. Difficult decisions have been taken to implement some structural reforms, and the economy has been substantially liberalised and stabilised. Inevitably there are risks to the hitherto positive macroeconomic developments, especially in Montenegro that has relied heavily on foreign aid. Export-led growth may suffer from the economic slowdown in Europe, Yugoslavia's largest market.

At the same time, the economy needs to attract inflows of capital. Hence the government needs to keep up the pressure of reform in order to reshape the domestic competitive environment. It takes time for structural reforms to become effective and new institutions to take root. In due course reforms will benefit domestic firms and industry, simultaneously providing fertile ground for the foreign investment that is needed both to support the balance of payments and to help seed a wider domestic recovery.

- **The OECD's Economic Survey on the Federal Republic of Yugoslavia can be ordered at www.oecd.org/bookshop**

down from 2% in 1999, when the first round of the survey was conducted. Moreover, obstacles faced by small, entrepreneurial firms are starting to come down. In 1999, the "bribe tax" paid by these firms was almost four times that paid by large, state-owned enterprises; in 2002 the gap was reduced significantly – but not eliminated.

Notwithstanding these improvements, a degree of scepticism about the sustainability of recent growth and good performance in the region is understandable. Have the vested interests whose sustenance came from rent seeking seen the advantages of innovation and investment in the future? Have political institutions and cultural norms become more effective constraints on this rent seeking behaviour?

Part of the answer lies in two important areas where the survey results show that progress continues to disappoint: business regulation and the judicial system. Onerous regulation and arbitrary bureaucratic interference in business decisions continue largely unabated in many countries of the region. Courts still have a long way to go in providing timely enforcement of property rights and contracts. Moreover, many aspects of the business environment remain tilted against entrepreneurial firms.

Part of the problem comes from states still too weak to rein in their own officials or to enforce their own rules and laws. Just as important are relationships between politicians and powerful firms and individuals that are still too cosy and too opaque, creating incentives to keep taxation, regulation and the courts in arbitrary and weak condition.

These developments point to a cautious assessment about the region's future. The encouraging news from the survey is the positive changes in several countries once thought to be trapped in a no man's land between central planning and a market economy with insecure property rights, arbitrary state intervention and Wild West corruption. Moreover, those countries that are relatively advanced in transition – the front-runners for EU accession and Croatia – are attracting greater inflows of foreign direct investment and achieving resilient macroeconomic performance.

But if policymakers across the region want to encourage dynamic new firms, to draw in much-needed foreign investment, and to attract back some of the billions of dollars that their own businesses have parked abroad, then they need to build on recent successes. They need to hear the voice of their own businesses and entrepreneurs, highlighting the considerable progress of the past few years, but pointing out the still substantial challenges that remain.

Despite the vulnerabilities, prospects for the region have clearly brightened and have sparked growing investor interest. The current period of resilient growth, however, should not give rise to complacency. There are both pressing medium-term challenges to maintain macroeconomic stability, and longer-term challenges to build sound market supporting institutions necessary for catch-up growth. This latter challenge, particularly in south-eastern Europe, Russia and other CIS countries, will be the most difficult test of transition.

Details of this year's Business Environment and Enterprise Performance survey are highlighted in the EBRD's *Transition Report 2002* and in forthcoming EBRD and World Bank working papers. In three years' time, the two institutions will listen again to hear from the region's businesses if the current period of growth was used to redouble reform efforts, or as an excuse for complacency and drift. ■

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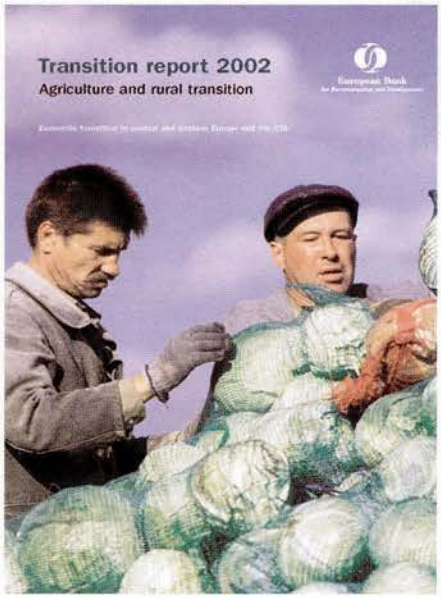


European Bank
for Reconstruction and Development

Packaging recycling for a better climate

The Green Dot complies with the Agenda 21 model for sustainable development

Responding to the global vision of sustainable development, to which the international community has been committed since the Rio de Janeiro Conference in 1992, the German Government has declared sustainability to be a fundamental principle of its policy. To this end, the 'Green Cabinet' undertook to devise a National Sustainability Strategy, calling on all decision-makers involved in business, politics and the community to adapt their decision-making procedures and courses of action to suit this strategy.

Against this background, Duales System Deutschland AG commissioned the Basle-based Prognos AG to undertake a study that would assess the present services and capabilities of the Dual System in Germany from the point of view of sustainability and evaluate the alternative systems options and development scenarios.

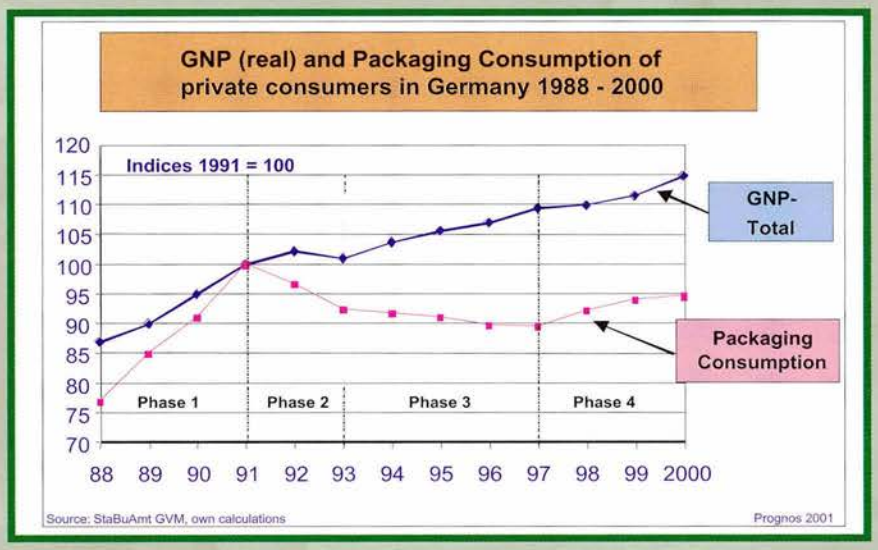
The Dual System

With the consensus of industry, trade and politics, the Dual System was set up as a non-profit 'self-help organisation' in September 1990, legally governed by the German Packaging Ordinance of 1991. It was designed as an industry-owned network to take over the funding of city-owned recycling programs and pay for them by collecting fees from the German producers.

The Dual System finances itself by granting licences for the use of the Green Dot. The licence fees reflect the actual waste management costs for packaging on the basis of material, weight and item.

As a viable financing model it gives industry an incentive to develop and produce recycling-friendly packaging, and to reduce the use of packaging and packaging material and hence ecological costs. Savings in waste management costs are directly passed on to the licencees by way of fee reductions.

In Germany, this has led to a clear division between economic growth (GDP growth) on the one hand and the consumption of packaging on the other.



Findings of the Prognos AG Study

In 2000, effective packaging consumption in Germany was about 18% lower than the hypothetical consumption of a waste management concept without packaging recycling. This is the result of the study *Duales System Deutschland – An Assessment of Sustainability and Prospects for the Future* by Prognos AG, Basle. (see www.green-dot.com)

The central statement of the Prognos study is that the Dual System has made a positive contribution to sustainable development in Germany with its focus on the conservation of resources and protection of the environment.

The recycling of packaging causes far lower emissions of greenhouse gases and pollutants than waste disposal by means of incineration or landfilling.

Thanks to the efforts of the Dual System, the volume of residual packaging waste to be disposed of each year (by way of landfills or incineration) was reduced by approximately 65% between 1991 and 1999/2000.

Thanks to innovative recycling techniques, presorted PET drinks bottles can now be processed into recyclables that feature the same properties as the virgin material

The lifecycle assessment – a guide for corporate strategy

The study *The Green Dot and its Benefit for the Environment* (see www.green-dot.com), which was prepared by the Öko-Institut in Darmstadt, compares various future scenarios on recycling and the disposal of waste for the years 2010 to 2020. According to this study, the recycling of lightweight packaging with fully automated sorting techniques has only positive environmental effects as compared to waste incineration. Example incineration: This pollutes the environment with CO2 emissions which have a harmful effect on the climate. The recycling of two million tonnes of lightweight packaging by the Green Dot company in contrast considerably reduces CO2 emissions. The experts' overall judgement is therefore positive: the Green Dot can have a sustainable effect in the sense of Agenda 21. The recommendation given by the experts is to collect more lightweight packaging and to improve the quality of plastics recycling by using high-quality mechanical recycling techniques on a nation-wide basis.

Saving energy by recycling plastic packaging

With the aid of an in-house resources balance which was performed for the first time in the year 2001, the ecological contribution made by the Dual System can now be quantified in concrete terms. Primary energy amounting to around 20 billion megajoules was saved in the year 2000 by recycling plastic packaging within the framework of the Dual System. This amount of energy would suffice to supply all 1.8 million private households in Berlin with electricity for 130 days. In 2001, the decrease in CO2 emissions which are harmful to the environment was calculated in order to quantify the efficiency of recycling in Germany. The result is quite remarkable: by recycling around 2.3 million tonnes of lightweight packaging, the Dual System has succeeded in saving some 400,000 tonnes of carbon dioxide in only one year. This greenhouse gas reduction corresponds to the amount of carbon dioxide produced in one year by 64,000 average German households, each consuming 2,000 litres of heating oil – or, in other words, the production of a city the size of Potsdam or Heidelberg.

PET Extruder in the Cleanaway Plastic Recycling plant in Rostock: the smelted PET passes through the extruder before being shredded into granules

The savings in primary energy as a result of lightweight packaging recycling amounted to around 33 billion megajoules in the year 2001.

Cutting costs through innovation

In order to reduce costs and simultaneously enhance sustainability, it is essential to change over to innovative sorting and recycling techniques. This is also underlined by both the Prognos and the Öko-Institut-study. To this end, the Dual System has been promoting the development of the near-infrared technique for some years. Today, the near-infrared technique is a mature solution for the automatic sorting of lightweight packaging. Fifty per cent of the lightweight packaging waste is already being sorted automatically in Germany. The modern technologies lead to high material output as well as high purity of the recyclables and consequently help to reduce the cost of packaging recycling. With reference to the recycling of PET bottles, the Dual System has also realised a new concept for high-grade mechanical recycling in co-operation with various waste management partners, whereby, for instance, used drink bottles can be turned into new drink bottles or products for the textile sector.

As a result of the investment in modern sorting and recycling techniques, the Green Dot has over the years steadily become cheaper, for industry, trade and consumers. In the year 2001 alone, DSD customers saved around €130 million. And the costs dropped by about one fifth between 1995 and 2001. The consumer pays only €1.90 per person per month for the household-oriented and regular collection of packaging waste. In order to exploit the long-term sustainability and cost-reducing potential of the Dual System to an even greater extent, the use of its collection logistics for other recyclables, such as scrap electrical appliances, is conceivable. This would bring more benefits for consumers and simultaneously help to protect the environment.

CONTACT:
Helmut Schmitz
Duales System Deutschland AG
International Communications
Frankfurter Str. 720-726
51145 Cologne, Germany
Tel: +49 2203 937 253
Fax: +49 2203 937 599
Further information is available at:
www.green-dot.com

The Green Dot convinces Europe

The most widely circulating trademark in the world, the Green Dot is meanwhile used as a financing mark in 15 European countries. All 15 national systems operate independently. They have all developed carefully adapted recovery and recycling systems which take account of industry's interest in free trade, use a common financing logo, and form balanced partnerships with the entities in charge of packaging waste – local authorities or waste management companies. It is only natural that these schemes also take into account the ecological impact of collection and sorting processes.

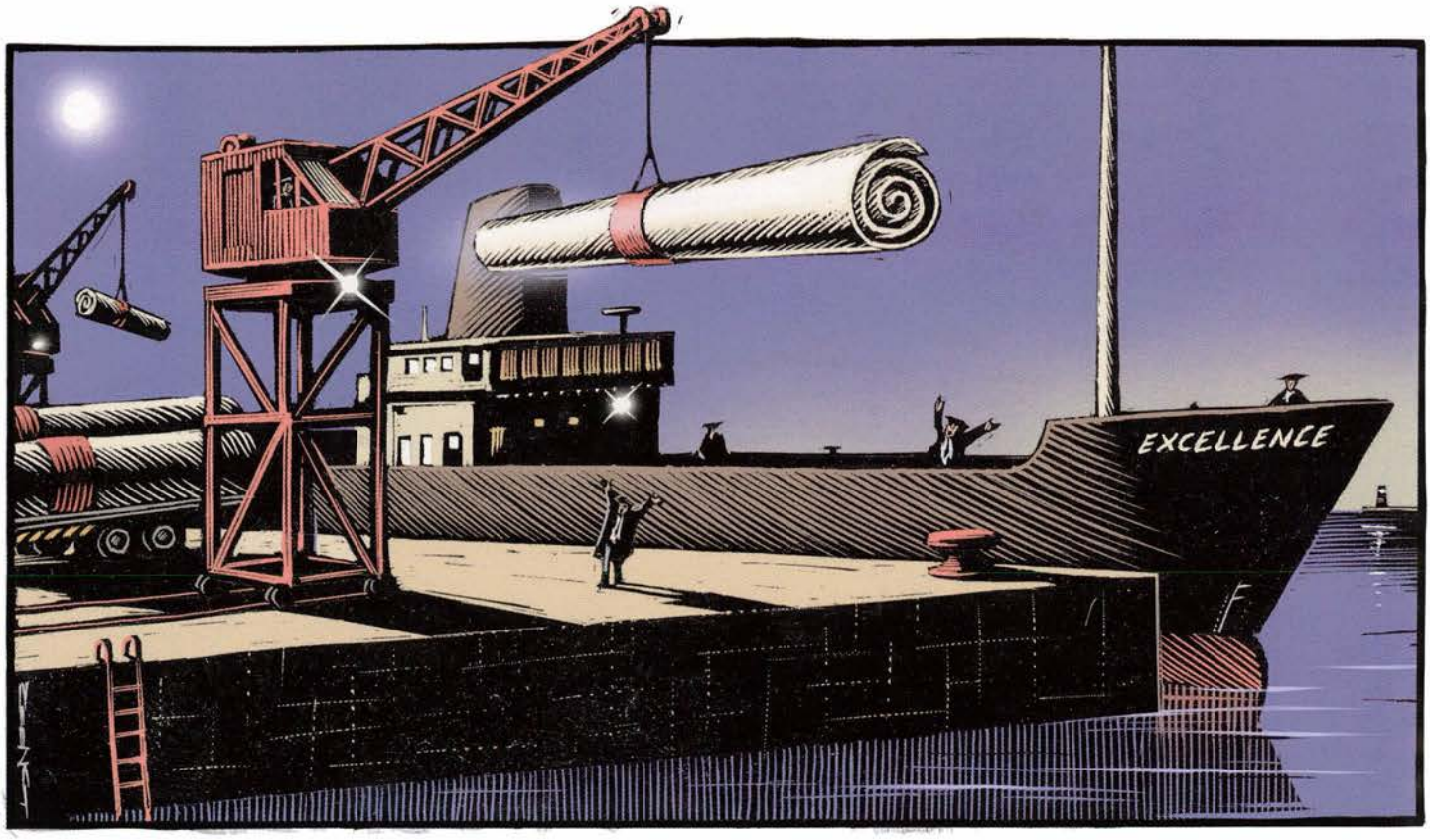
In order to avoid trade barriers in the implementation of the EC Packaging Directive, the Brussels-based organisation Packaging Recovery Organisation Europe s.p.r.l., (PRO EUROPE) was founded in 1995. Acting as the umbrella organisation of participating national Green Dot partner systems, PRO EUROPE is responsible for granting the right to use the Green Dot in Europe. Its key task is to issue the Green Dot financing mark to national collection and recovery systems which meet the requirements of the European Packaging Directive of 1994 and of national regulations and, in this way, establish it as a European trademark.

PRO EUROPE has also concluded co-operation contracts with Valpak UK in Britain and CSR in Canada. The two contractual partners ensure that only authorised companies use the trademark in the UK and Canada. ■

The learning business
Can trade in international education work?

Kurt Larsen and Stéphan Vincent-Lancrin, OECD Centre for Educational Research and Innovation

Education is largely a national affair, but it is fast becoming a worldwide service industry too, even for publicly-funded systems. Does trade in education help and can education be traded on the global market without compromising on issues like cultural independence or quality? These questions raise important challenges for governments, educators and students alike that will grow in the years ahead.



Until recently, it would have been incongruous to refer to international student mobility as international trade in educational services. Today in some OECD countries, there are clearly business motives as well as traditional cultural and political rationales behind policies to internationalise higher education. These two separate approaches have fuelled the growth in trade in educational services over the past decade. The current talks on "educational services" in the General Agreement on Trade in Services (GATS) negotiations in the World Trade Organisation (WTO) highlight the importance of these trends, as well as raising awareness of issues, especially in relation to post-secondary education.

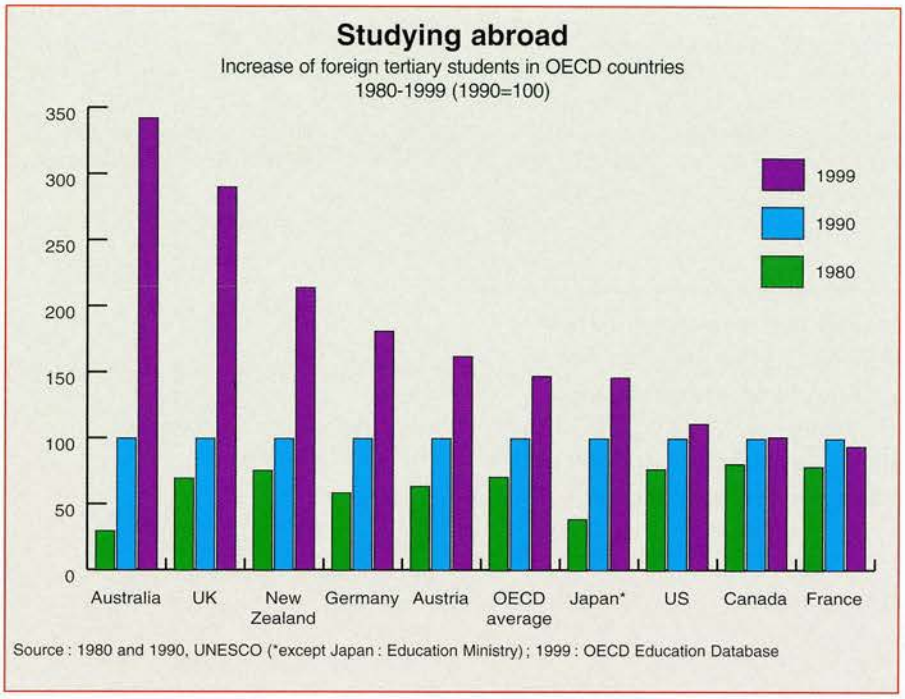
International student mobility to OECD countries has doubled over the past

20 years. Between 1995 and 1999, the number of foreign students rose almost twice as fast as the total number of tertiary-level students in OECD countries (9% for the former as against 5% for the latter). Most international trade in higher education services takes place within the OECD area, which received 85% of the world's foreign students. Foreign students represent an important source of export revenue in some OECD countries. They incur large expenditures for their travel expenses, education costs and living expenses. Export revenue in education services amounted to an estimated minimum of US$30 billion in 1999, not much less than the financial services sector.

Every OECD country finances student and teacher mobility to some extent via university bursary schemes, bilateral or multilateral agreements and, increasingly, ambitious regional schemes. However, in recent years, problems have mounted in the funding of higher education, largely as a result of greater scale and demand. This situation encouraged some countries to look for commercial solutions.

Although the extent to which higher education is subsidised varies considerably across countries, higher education is largely publicly funded in the OECD area; domestic or home students pay over 30% of the real cost of their tertiary education in only three of the 22 OECD countries for which data are available (Korea, Japan and the US). The main feature of the commercial approach is to offer educational services to students from abroad at unsubsidised rates, with the students covering at least the cost of their education. Australia and New Zealand have rules that actually prevent universities from providing subsidised educational services to such students. But, as with any other marketed service, the commercial challenge is how to attract a large number of international students or corner a large share of the market.

International trade in educational services has not only increased substantially in the OECD area, in some cases it has also taken new forms, including educational institutions operating abroad, and educational services being supplied across borders through e-learning. Australia is a striking example of a country whose exports of post-secondary educational services are increasingly delivered in the student's home country: between 1996 and 2001, such "offshore" enrolments increased from 24% to 37% of all international students enrolled in Australian institutions. Most of these students attended offshore campuses (28% of all international students in 2001) and fewer (9% of all international students) were enrolled offshore in distance education, although this number is growing. More than half of the international students from Singapore and Hong Kong-China studying in an Australian educational institution are enrolled in offshore courses. This involves lower personal costs than studying abroad, and although such services might not offer the same cultural and linguistic experiences as foreign study, they are likely to meet a growing demand in the future. The international market for educational services has to a large extent been demand-driven, particularly by students from the rapidly emerging countries of north and south-east Asia. These students may face capacity constraints in their home countries, while there is the appeal of more widely recognised qualifications, in mainly high-income and English-speaking countries.



But high demand leads to supply pressures, whether on traditional universities, distance-learning institutions, or private education and training companies. Initiatives are being taken, and providers are joining together in partnerships to meet demand more effectively.

Trade issue

But is liberalisation the answer? Not according to the 2002 Porto Alegre Declaration, which was signed by Iberian and Latin American associations and public universities. The Declaration is radically opposed to international trade in educational services. The signatories maintain that promoting international trade would lead to deregulation in the education sector with the removal of legal, political and fiscal quality controls, that national governments would abandon their social responsibilities, and that other outcomes would include an increase in social inequalities, the weakening of ethical and cultural values, and a standardisation of education, thus negating the sovereignty of the people.

The Joint Declaration on Higher Education and the GATS, signed by four associations representing 5,500 American, Canadian and European institutions, takes a cautious, though more ambivalent stance: rather than coming out against international trade in educational services, the signatories call for a

freeze on WTO trade negotiations on educational services. In their view, there is no need for trade negotiations, particularly since they might significantly jeopardise the quality, accessibility and equity of higher education and restrict the right of national authorities to regulate and publicly subsidise their higher education systems. Meanwhile, student representatives from OECD countries see trade and market competition in the education sector as a threat to public funding and intellectual freedom in higher education.

Export revenue in education services in the OECD area amounted to an estimated minimum of US$30 billion in 1999, not much less than the financial services sector.

There is clearly uncertainty about the repercussions that open trade and direct competition among educational service providers will have on national higher education systems, especially as far as funding, cost, quality, diversity and stability are concerned. But as international trade in educational services has had no need of the GATS to achieve high growth in the past, the WTO negotiations will probably not have a major impact on growth in the near future. They may accelerate the development of international trade in educational services with no student mobility (offshore campuses, e-learning, etc.), but not in trade involving student mobility. More important there are the potential barriers from host-country visa and immigration policies, and these do not fall within the scope of the GATS. Nor does the assurance of quality in international educational services, which is one of the major brakes on the expansion of trade in education (see below).

Most requests for market opening under GATS concern educational services in the private sector. The United States, for instance, has confined its request for market opening to private post-secondary education, making it explicit that it does not apply to public higher education.

Education for all

One of the notions of the last ten years has been the need to close the so-called knowledge divide between rich and poor countries. Undeniably, international trade in post-secondary education could help improve access to post-secondary education in the developing world. In most developing countries, less than 5% of the population currently has access to post-secondary education. The number who wish to enrol is bound to increase substantially in the coming years as the internationally-driven goal of providing basic education for all is progressively achieved.

Clearly, many developing countries will have difficulty meeting this demand in the near future. Initiatives in distance-learning programmes that are linked with educational infrastructure in other countries can help. Offshore campuses of foreign educational institutions are another means, and they might also help contain the "brain drain" caused by students leaving their home country. Programmes currently underway in China and India show that widening access in these ways can work.

But the growth of international trade in educational services also raises a number of questions for OECD governments. What should their direct or indirect roles be in funding, regulating, monitoring and delivering post-secondary education? They must respond to a more complex environment with a wider range of education and training providers becoming involved, increased connectivity and interdependence among national education systems, and pressure for greater coherence among the national frameworks of post-secondary education. Moves towards greater coherence are already evident, for instance, with the European Higher Education Area, but the challenge is just beginning.

Quality battle

Quality is another hotly debated subject. At present, very diverse quality assurance and accreditation mechanisms for higher education are in place in different OECD countries. Almost all current quality assurance models are confined to the educational activities of institutions within national boundaries. These are supplemented by international initiatives such as the UNESCO/Council of Europe Lisbon Convention and the European Bologna process to secure better consumer protection against low-quality programmes and to enhance transparency. However, the prospects for convergence or even compatibility between these models are still as remote as they are uncertain. Most student mobility programmes and existing schemes of credit recognition and transfer do not involve any quality control.
Some international procedures for validation, and sometimes even accreditation, of programmes and institutions have been established by professional organisations such as in engineering and accounting, and within the information and communication technology sector. The importance of such accreditation procedures will undoubtedly grow, and with it, the pressure to co-ordinate quality assurance and accreditation across borders.

Undeniably, international trade in post-secondary education could help improve access to post-secondary education in the developing world.

A comprehensive international quality assurance system is unlikely to be developed in the near future that could substitute national policies and procedures. But given developments in transnational education, including e-learning, a new global educational market may emerge that will challenge current national quality assurance and accreditation systems. Pressure would then mount for education to become more global. ■

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- See www.oecd.org/education

What future for government?

Rolf Alter, OECD Public Governance and Territorial Development Directorate

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Government has been on the retreat for the past decade or more. But there are signs it is staging a comeback. This may be a good thing.

Does government have a future? For a public organisation such as the OECD the question seems purely rhetorical and the answer obvious. Does anyone seriously believe that the world could function without government? Yet, the proposition is far from being fanciful. Only a decade ago, just as we were being told about the end of history, many voices, including some well-known economic and political thinkers, argued that the end of government would be part of the package. The defeat of communism and the fall of the Berlin Wall in October 1989 symbolised the victory of individual freedom, personal initiative and markets over government interference, oppression and authoritarian planning.

In the aftermath of these historical events, which had been dismissed as unlikely dreams just a few months before they happened, the role and function of public authority, even if democratically elected to rule on behalf of citizens, were scrutinised.

Fundamental issues were raised. Why should people go on trusting the wisdom and judgement of those who claim to be acting in the public interest? Shouldn't everyone have the right to decide for themselves on social, economic or environmental matters and be free to make full use of their own innate potential? Why tolerate restrictions that only cramp creativity and innovation and hold back progress and development? Surely, the pursuit of individual happiness would boost the welfare of us all.

The size of government and public sector waste were criticised, as were the systemic

lack of transparency and the potential for corruption.

The management of government came under the spotlight too. Its taxation, expenditure and debt, its laws and regulations: such areas as these were considered as an obstacle to economic growth, dynamism and development, while private sector solutions for previously publicly-owned services, like telecoms and railways, were considered more efficient and responsive to people's needs. "Small is beautiful" was the mantra of the day, leading to downsizing and other prescriptions in a well-meaning bid to purge society of "big" government.

The revolution in communications technology, in particular the Internet, added another dimension to the "dream" of a world free of governments, since it opened up an uncontrolled – and virtually uncontrollable – private space in which governments would not be able to apply their policies, rules or broader frameworks, even if they wanted to. In the same vein, as the last century drew to a close, the frantic growth of the stock markets around the world was seen as a sign of an unprecedented growth path to a new economy and proof of the supremacy of the market. There simply seemed to be no space left for government.

These were challenging times for those of us who clung to the view that governments would still be needed to help manage the process of globalisation, who believed that markets could not meet all social, environmental or even economic needs, and that the unlimited exposure of the individual to market forces would not necessarily mean prosperity for all, both within countries and between the industrialised world and the developing economies. But the voices that doubted the perfect rationality of markets were lost in the din of the "money machine", which spat out more growth and more wealth for some and the prospect, however illusory, of riches for many.

But "many" and "all" are not the same thing. Confrontational language re-emerged, like digital divide and anti-globalisation. In fact, the price of this rather heady period was greater awareness of the risk of exclusion for large parts of the planet. A limited backlash occurred in Asia, then Russia and elsewhere, though these were not described as such at the time. In the OECD world, the end of the speculative "bubble" led to requests for government action from stakeholders who had not been heard of for a while. Government institutions like the WTO and the IMF were solicited to extend financial support or arbitration in cases of economic distress and conflict. Producers and consumers in OECD and non-OECD countries suffered from downturns and cried out for new frameworks to help them improve efficiency and survive. Privatised and deregulated industries showed weaknesses, even becoming liabilities to the functioning of whole economies. Whom better to ask for assistance than the government?

There appears to be recognition that efficiency cannot be the sole objective of economic activities, but that values like welfare and sustainability also count. We have also been reminded that the market alone is imperfect and cannot guarantee its own survival.

Whether this all adds up to a renewed understanding that, to function properly, markets might need strong frameworks, broad and flexible though they may be, it is too early to say. But there does appear to be recognition that efficiency cannot be the sole objective of economic activities, and that values like welfare and sustainability also count. With large corporate scandals and sagging public faith, we have also been reminded that the market alone is imperfect and cannot guarantee its own survival. Good governance, private and public, though with democracy leading by example, is clearly a key ingredient of economic growth and sustainable development.

By the same token, governments will never go back to being the way they were. Public sector efficiency remains a concern, and working methods and management practices in the private sector should be useful points of reference for the daily operations of the public sector. But there is also a growing emphasis on the importance of functioning markets, in other words, enhancing opportunities for individuals through the creation and enforcement of level playing fields within a transparent framework, which serves economic, social and environmental objectives. While the government as owner of productive assets continues its retreat, new forms of public-private partnerships, for example for investment in infrastructure or service delivery, are being explored. And finally, there is much more attention being paid to the participation of stakeholders and community advocacy in public policy-making and implementation.

Security is another reason why government is back. When it comes to the essential need for individual and collective safety, there seems to be no alternative to a strong and efficient government. Private partnerships will be involved, like insurance, security equipment, even some policing. But whether it concerns the security in airports, transborder flows of merchandise, biotechnology or food safety, the public sector is obviously considered to be the guarantor of last resort. That implies, of course, not only a reinforced responsibility of political players and public administrations, it also calls for even greater respect for the principles of accountability, transparency and the participation of stakeholders. Without proper, open government, these values cannot be guaranteed.

Governments will remain in business if they are smart, responsive and efficient, and maintain public trust. Good public governance will secure that confidence. It is a future's commodity in high demand. And that applies to organisations like the OECD too. ■

Reference

- Visit the public governance web pages of the OECD at www.oecd.org/puma

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Kofi Annan, UN Secretary General

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Consumers first

Louise Sylvan, President, Consumers International

Consumers International began life in 1960, around the same time as the OECD, with a mission to represent the rights of users of products and services throughout the world. It started with six members but now has more than 200 in 110 countries, as well as over 50 government consumer agencies in affiliate membership. Consumer rights have improved in 40 years, says Louise Sylvan, but there remain serious challenges, not least in improving corporate behaviour.

The backlash against recent corporate misbehaviour and corporate arrogance in our developed economies has been profound. The reputations of "big business" have never been lower and trust in them (which was not all that high in any case) has never been weaker.

The arrogance is the fundamental problem. It manifests itself in legal, yet immoral, acts, such as imposing the severe effects of market liberalisation on others while corporate "leaders" reap greedily for themselves, and in an attitude that they, rather than consumers, are "king" in the market.

Take the debate about genetically modified (GM) food: not, as its promoters would have us believe, an ignorant and irrational response driven by wild anti-science radicals, but a deep reaction by consumers to manipulation and misinformation from self-interested businesses. It's a salutary warning because the issues raised by GM foods are not principally about personal safety for consumers but about broader public interest dimensions – environmental contamination, patents on life forms, biological and agricultural diversity, control over the global food supply, etc.

At one level, consumer protection has moved forward very well over the last 40 years. Comprehensive legislation is in place, not only in OECD countries – where it has gradually been tightened up over the years – but in more and more other countries as well. In Latin America, for example, consumer protection is now commonplace, inspired in many countries by a framework "model law" drafted by Consumers International. Africa is now starting to follow the same path. A little known feature of the transition of China to a market economy is that it has established a comprehensive network of consumer advice centres, supported by the umbrella Consumers Association of China.

The growth of the consumer movement and the development of legislation and enforcement agencies reflects widespread recognition of the concept of consumer rights. US president, John F Kennedy (who played a key role in setting up the OECD) first articulated some specific rights back in 1962, but the international community accepted their fundamental importance in 1985 with the adoption of the UN Guidelines on Consumer Protection. These were extended in 1999 to include sections on sustainable consumption.

The NGO community has strengthened immeasurably in the last decade, partly in response to weaker governments. But it also reflects a strong public distaste for corporate excess, and recognition that economic activity has consequences for all of us, not just the buyer and seller.

Most of the legislation, and indeed the guidelines, have a social objective, aiming to protect individual consumers against exploitation by better-resourced and informed business. Most emphasis in the academic debate and government policies about economic development has been about the supply side – encouraging investment, concern about "red tape", tax and tariff policies and incentives, the effects of employment laws and so on. But markets do not work just because there are suppliers. Effective markets depend on competition, and this in turn requires knowledgeable, demanding consumers, willing and able to make discriminating choices in their acquisition of both products and services. Developed economies are well aware of this and generally have strong consumer as well as competition protection regulators.

Nevertheless, over the last 25 years the process of balancing the benefits of the market with public interests from economic activity has taken backward steps. Radical economic theorists have successfully promoted the cause of small government and unfettered markets, limited only by self-regulation. In many parts of the world liberalisation has simply replaced public monopolies with private ones, to the profound detriment of consumers in the absence of a strong regulatory framework. Meanwhile self-regulation has become a byword for non-regulation, characterised by an absence of sanctions, and a striking absence of government legislators batting for broader public interests. What has been true of national governments has often been reflected in some of the international agencies, most notably the World Bank and the IMF, but also the OECD.

Chicken rights

Concern for animal welfare is a widespread consumer issue these days, in part because of health scares and public demands for safer food, but also for altruistic reasons. Here, animal rights activists are protesting against the use of cages in battery chicken farming in Belgium.

REUTERS/Thierry Roge

The developing world in particular has been subjected to profoundly anti-consumer policies which have imposed unrestricted market solutions on communities that lack the experience, skills or knowledge to deal with them. The consumer movement is not anti-market, anti-business, or anti-liberalisation. But it does say that economic activity must ultimately serve consumers and that left to itself private enterprise fails this condition. That's why there are competition and consumer protection laws and why governments need to ensure that consumers are given countervailing power in the market through, for example, disclosure laws, mandatory product safety and quality standards, and statutory dispute resolution structures. A business's objective is profit and this is most easily secured not by competing but by limiting competition and as far as possible exploiting consumers through high prices and/or by supplying sub-standard goods and services. This has ever been the case and continues to be the case where governments have failed in their appropriate interventions. It is now many centuries since governments began to introduce the earliest consumer protection measures – to prevent adulteration of food, debasement of precious metals, short weight and so on. To these issues can be added the grander and more sophisticated manipulations indulged in today, like corporate fraud, privileged distribution arrangements as in the European car industry (now slowly changing), and global price cartels for vitamins.

Markets require effective consumers. But they have also to rely on fair and decent business practices meeting minimum standards of safety, honesty, transparency and genuine competitiveness; without appropriate laws and enforcement in place, consumer choice as the ultimate driver of market behaviour cannot work properly.

As well as the recognition of rights, the consumer movement places a very strong emphasis on equity. Consumer information and education is directed at achieving this by increasing the knowledge and skills of consumers in relation to business – in other words, to create a better balance in market "power". But the first consumer right is that of access to the means of meeting basic needs, and this requires the public management of at least parts of a market economy to protect the weak and marginalised.

Ensuring the rights of all consumers requires a profound change in the way agencies, governments and corporations see their role. Many corporate leaders, at least in private, endorse the need for business to build public benefit objectives into their plans and operations. In my experience, only a very few translate this into practice, and only then if there is a clear need to build consumer confidence in a business interest – for example, in the security of on-line purchasing. Mostly, profits come first and it is more usual to find firms confident that they can "manage" consumer interests and requirements without any kind of regulatory framework, whether government imposed or industry agreed.

Governments' stubborn belief in unfettered markets has enabled the recent crisis of corporate misbehaviour. And government attitudes will no doubt be exemplified by ineffectual US government action against Enron and others.

But we will see a change. The NGO community has strengthened immeasurably in the last decade, partly in response to weaker governments. But it also reflects a strong public distaste for corporate excess, and recognition that economic activity has consequences for all of us, not just the buyer and seller. Moreover, modern media and communications have helped to produce a global consumer community which is just beginning to understand its ability to influence.

Which returns me to the GM story. It has become a "litmus test" for ensuring proper public accountability for the actions of private enterprise. Governments as well as GM producers take note: "the bottom line made me do it" just doesn't wash as an excuse any more.

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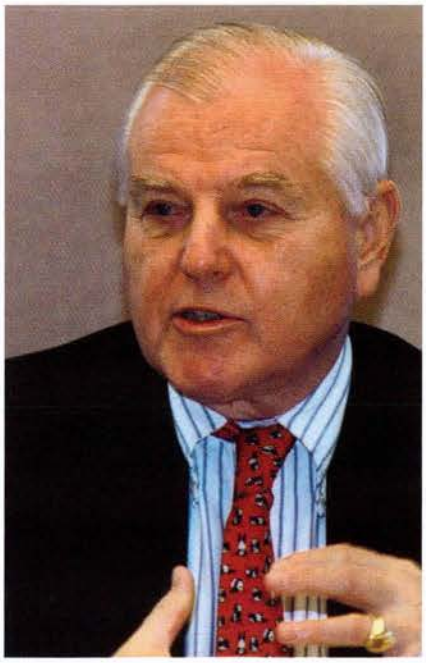
- Visit Consumers International's website: www.consumersinternational.org

Business and the OECD
For a fact-based public policy

Douglas Worth, Secretary-General, Business and Industry Advisory Committee to the OECD



©BIAC

Business and the OECD are engaged in policy-shaping at many levels. It is an example to be followed, says Douglas Worth.

Where I come from, government must listen to me. It's my constitutional right. In the First Amendment to the US Constitution, it is spelled out that Congress shall pass no law that abridges the right of the people to petition for redress of their grievances.

Thus, there has been created an elaborate system of advisory groups where business is represented. In addition, the business community has organised both broad and sectoral associations for high-impact... well, lobbying. So there, I've said the word. But remember, taking my case to government is my right.

In Europe and in the wake of the Marshall Plan, governments made an utterly prescient and bold move when they called upon the business community to organise itself...guess what...to lobby them. Well, perhaps it's not lobbying in the technical sense, because the OECD does not actually write laws as such. On the other hand, as in so many areas, the OECD has set a norm. It is the norm, as well as cogent and important, to engage the principal participants in the economy when you are discussing economically based policy choices.

During my business career, there was an era when you could count on your fingers and toes the number of governments with which the business community had a real dialogue. There was a time when the Japanese government was a granite wall; now, many ministries aggressively seek out advice. The European Union has sprouted dozens of advisory groups that enjoy increasingly broadened and deepened access. In North America, the sophistication of lobby groups nearly exceeds the capacity of government to digest their input.

Over the past few years, the OECD has stepped up considerably its outreach efforts to be an aggressive purveyor of fact-based public policy. It is the application of the organisation's disciplines that offers the most value to members and non-members alike. But it is in the developing world where policy mistakes do the most damage, hence the OECD's focus on private sector capacity building in emerging economies.

The range of issue areas and the depth of discussions between the business community and the OECD have undergone a burst of innovation and productivity in recent years. Business experts are active participants in much of the work programme. Initiative now comes from both sides.

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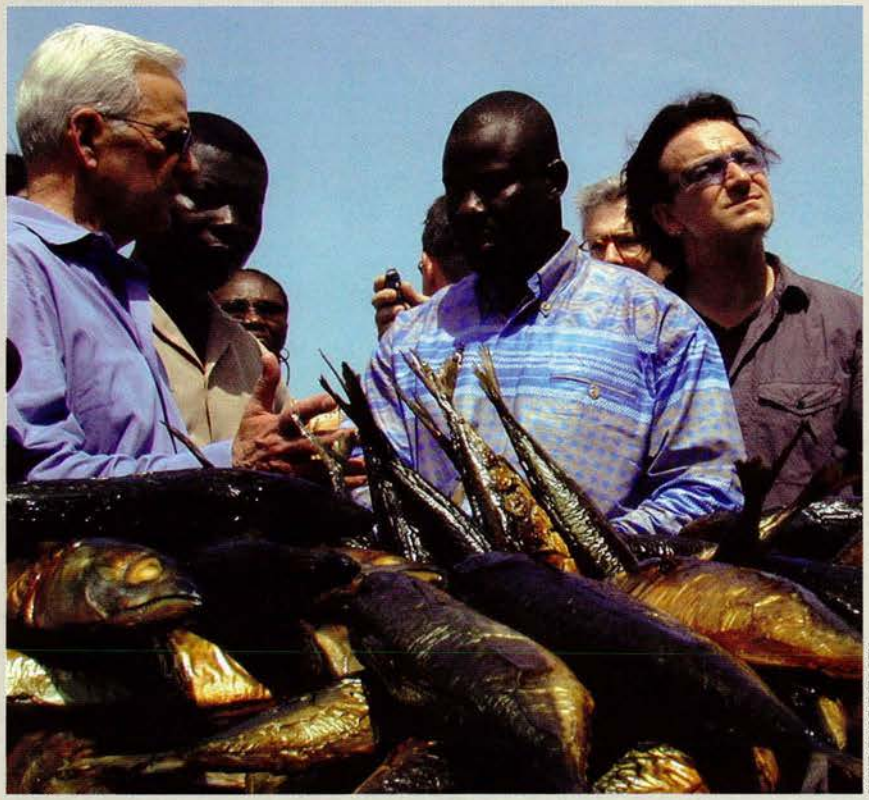
Pop politics

Rock and pop have been linked to social protest since the 1960s. But the advocacy role of major stars took on a whole new dimension when Irish pop star, Bob Geldoff, successfully raised over $100 million for African famine relief by organising the all-star televised Live Aid rock concerts in London and Philadelphia in July 1985.

Since then, several pop stars have become icons for good causes, not to mention headline political ones, like animal rights, debt relief and biotechnology. Major stars like Bono from U2 are de rigueur guests at large business forums and even political summits. The photo here shows former US treasury secretary, Paul O'Neill, accompanying Bono on a visit to a community fish-smoking project in Ghana, in May 2002. The unlikely travelling companions were on a four-country fact-finding tour, also visiting South Africa, Uganda and Ethiopia. Bono's aim was to persuade Mr O'Neill of the need for debt cancellation and more aid for Africa. Mr O'Neill was said to be unconvinced, so Bono did not find what he was looking for.



REUTERS/David Clarke

programme. Initiative now comes from both sides.

For instance, the complex array of issues surrounding the advance of biotechnology has proven to be one of the more nettlesome efforts undertaken by the organisation, and business has been actively working both at the technical and conceptual level to ensure that this vast new potential is not impeded by pop science and protectionism. The taxation of stock options granted, held and exercised across borders has been the subject of a joint working group of business people and tax authorities.

The OECD Committee on Information, Computer and Communications Policy has opened its programme of work on e-commerce to the full involvement of business expertise. The chemicals industry has co-operated with OECD governments to devise a common method of assessing new chemicals. The business community is participating in peer reviews for the implementation of the OECD Convention on Bribery, regulatory reform assessment and reviews of the implementation of the OECD Guidelines on Transfer Pricing. This work is real and a mutually valuable engagement with the private sector.

Purveying this norm of garnering business interests to what is still the vast majority of countries in the world is the single most important factor for shaping the policy mosaic that will enable sustained economic growth. The engagement is a two-way street. Business can indeed petition for redress of its grievances, but it can also develop a better understanding of the challenges faced by government.

In 1994, I was invited to make a presentation to the Communist Party School in Beijing. What was the subject? That's right, the value of engaging the private sector in the policy debates that presage policy change. There was quite a bit of interest among the provincial governors and vice-governors who were the up and comers in the Party. I believe that they have it figured out and understand what they must do to transform their economy.

I would suggest that the rest of the world watch carefully and follow the lead established by the OECD. Building a partnership with the private sector is the correct way to go, for only such a combination can meet the challenge of economic stewardship in the future. ■

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Internationalism for working people

Barbara Shailor, International Affairs Director, AFL-CIO, United States

For a quarter of a century, the industrial nations have worshipped at the altar of conservative idols, but that conservative era has come to an end, argues Barbara Shailor.

Although the *OECD Observer* is celebrating its 40th anniversary, the OECD's roots and the origins of the trade union advisory committee (TUAC) to the OECD go back further, to 1948. This was a time when the industrial nations were creating the arrangements of the post-war global economy – the Bretton Woods institutions, the Marshall Plan and the beginning of European co-operation.

Coming out of the Great Depression and the Second World War, the OECD's founders wanted a global order in which nations could grow and people could thrive. They regulated currencies while giving nations the space to stimulate growth. They curbed speculation while fostering real investment. They emphasised growth from the inside out and the bottom up – demand-led growth, based upon full employment and rising wages – and they created the mechanisms for greater trade and global development.

The system they created was far from perfect. Much of the world was outside their line of vision. But in the industrial world, we enjoyed 25 years of decent growth and development. And we all grew together – the rich got richer and working families prospered, building the strong middle classes that are the backbone of democracy. That was the environment when the OECD itself was created in its present form.

Now, 40 years on, we once again are present at the creation. Then, the world was emerging from a long night of global depression and war. Today, the world faces a looming nightmare of global deflation.

In the 1940s and 1950s, the industrial nations had to create new institutions to revive investment and trade. At the beginning of the 21st century, we must begin to create the institutions to bring the global economy under control, to curb speculation and revive sustainable growth.

Workers' retirement and savings funds own over 20% of all stocks in America...We have to regulate and reform our companies and provide "corporate governance principles" that put people first.

Just as the founders of the post-war economy had to understand and respond to the causes of global depression and war, it is vital that we understand and respond to the causes of today's global crisis.

This crisis marks the end of a conservative era that has lasted 25 years. For a quarter of a century, the industrial nations have worshipped at the altar of conservative idols – deregulation, tight money, fiscal austerity. Corporations have been freed from accountability, currencies and speculators liberated from regulation. Financial elites have been empowered, while unions and parliaments have been weakened.

A global market has been forged. It is dominated by a handful of global corporations and banks. Enron and other unfolding corporate scandals in the United States dramatically expose, not just a few bad apples, but the systematic outcome of this deregulated global economy.

The few are prospering, but the many are not. This economy does not work well for working people. In the OECD nations, we experience the effects in different ways. In Europe, the effect is widespread unemployment, particularly among the young. In the United States, jobs are created but with stagnant or declining wages and benefits for the majority of working people – families are working harder and longer simply to keep pace. In Japan, we witness continued and deepening recession.

We should be very clear: advocates of conservative policies got it wrong. De-regulation, they said, might create greater instability, perhaps an occasional crisis to discipline the foolish. But the discipline and insecurity, they promised, would be a small price to pay for the blessings of growth and prosperity offered by the free flow of goods and capital. Now we know the promise was a lie. Crises, as the former World Bank economist Joseph Stiglitz has recently emphasised, have not been occasional and isolated – they have been universal and frequent. Over 100 countries have been scarred by banking and currency crises since 1975, with the frequency and the severity increasing over time. And de-regulated financial markets have produced slower, not faster growth, in nations rich and poor, industrial as well as developing.

In the debates over the past quarter-century, labour unions got it right. We warned about the peril of deregulation without accountability. We warned of the folly of sacrificing full employment in a fight against inflation. We warned that without labour rights and environmental protections, a global race to the bottom could bring everyone down. If anything, our warnings were too tempered, our alarms too muted.

The conservative hucksters got things exactly backwards. They thought they had to create rules to unleash capital and build global markets. In fact, the corporations and banks and the revolutions in technology and communications and transport were doing that on their own. The fundamental challenge was to regulate that market, not to deregulate it, to curb speculation, foster real investment, empower workers, make corporations accountable. What should have been the central project of governments was instead left outside the conference room door.

Now the voice of labour must be strengthened, its stance hardened, its perspective sharpened. We need imagination and new ideas. But the principles of reform are clear. The industrial countries must make co-ordinated efforts to jumpstart growth. Bold initiatives are needed to rescue the people most impacted by the crisis. We must curb speculators and foster long-term investment. Corporations must be accountable to all stakeholders. The global trading regime must be grounded on building protection for core labour rights, consumers and the environment.

But being right, while satisfying, is not sufficient. We must be listened to. Labour unions need more than good sense and good statements – they need to back up the pronouncements with pressure, to make our agenda heard in national policy circles.

Workers' retirement and savings funds own over 20% of all stock in America. As investors, as employees, as consumers and as stewards of our communities, we must demand standards of basic decency and morality from corporations around the world.

As investors, we will no longer tolerate the greed of short-term speculators or corrupt insiders, and we will not tolerate companies that overcompensate executives, cheat their employees, lie to their shareholders, or cook their books – no excuses, no exceptions.

We have to regulate and reform our companies and provide "corporate governance principles" that put people first.

In these circumstances, it is vital that the concerns of working people and our unions be put forth forcefully within government circles, and backed by aggressive and independent political action and education.

We must start anew. The AFL-CIO is joining with the member unions of TUAC to define and fight for a new internationalism – an internationalism grounded in an economy that works for working people. We will stand up for that agenda in international dialogues as well as in national dogfights. Together we can generate the courage, the vigour, the imagination to rebuild a new global order on the ashes of the old. What better mandate for the new millennium? ■

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IT age: beyond the myth

The next 40 years are likely to see more people use information technology, at least if recent trends are anything to judge by. Then again, are OECD countries really embracing the information and knowledge economy, and if so how fast? Just what are businesses and individuals using the Internet for and how much are they paying for the privilege? And do enough people have the skills they need to compete in the new technology world? These are just some of the all important questions that the IT explosion of recent years has raised, not to mention the dot.com crash that followed.

A new OECD report, *Measuring the Information Economy,* offers some answers, as well as some useful insights into performance in the information economy. It is a much-needed reality check on the truth about the new economy. Some of the facts may surprise you. Take Internet access. An ever increasing number of people in OECD countries are hooked up to the Internet, but less than half of them actually use it daily. And while much has been said and written about global e-commerce, businesses chiefly use the Internet for marketing, not sales.

Rare knowledge

New technology means new skills. That may seem self-evident. But exactly what computer skills will be required in coming years, not just in the information technology industry itself but also in all the other businesses that use ICT? And how many people with a particular type of expertise will be needed? Indicators of skills required for the information economy are of increasing importance to policymakers, especially because of growing skills shortages in ICT in many industrial economies. And then there is the question of the levels required. True, when new technologies are introduced into the production process, demand for low-skilled workers generally drops and that for high-skilled workers rises. But not all ICT-related occupations are high-skilled. And in some cases new technology may simply replace middle-level managers, reducing the need for that category of high-skilled employee. The distribution of high- and low-skill ICT-related occupations in the US and EU shows an interesting pattern. Although the share of ICT workers is growing everywhere, in 1999 more of the ICT workforce in the US appeared to be relatively more highly skilled (77%) than that of the EU (56%). But one thing is clear in both areas: the demand for highly skilled ICT workers is growing rapidly. Jobs in this sector increased at about 49% annually in Finland between 1997 and 1999, for example. But the sector still accounted for only an average 1.6% of the total EU workforce in 1999 and 2.4% of the US workforce. This makes skilled ICT workers quite a rare species. Data are not easy to compare, as there is no internationally agreed list of ICT-related occupations, but high-skilled ICT-related jobs include computer designers and programmers and industrial robot controllers, while low-skilled include repairers and installers of electronic equipment and telephone lines. ■

E-commerce or just e-marketing?

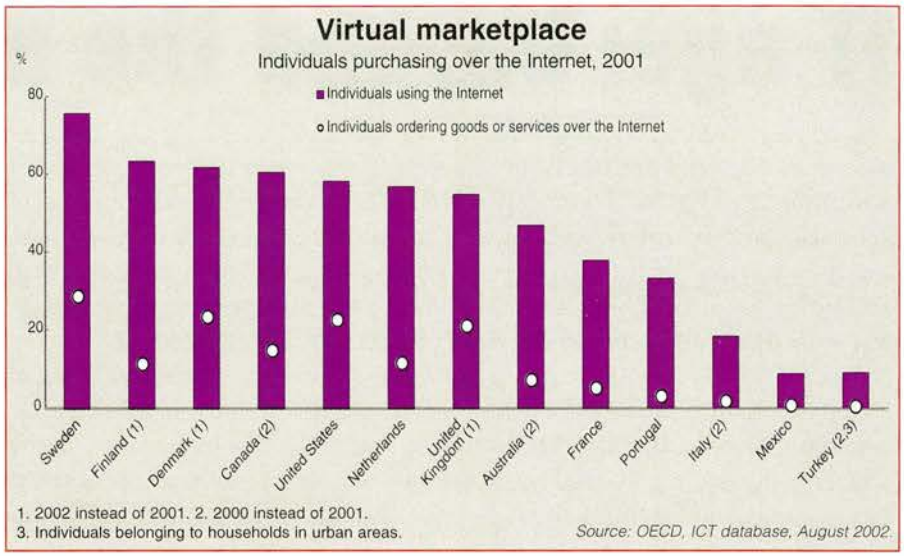
The Internet has changed ways of doing business worldwide, but not necessarily in the way experts originally expected. Take electronic commerce. The vision of a stay-at-home society using keyboards to order their milk or car or even life insurance policy has simply not happened at the scale many projected. In fact, the Internet is still chiefly used for marketing and advertising, rather than actual selling, and the Internet accounts for just a very small proportion of total sales. What is more, most of the sales that do take place online are among businesses and, far from being global, are largely domestic. Many firms may be using the Internet, but few of them are actually distributing their goods and services online or offering interactive electronic payment facilities. A survey of US business in 2000 found that some firms offer online customer support, but do not take online orders. Others will let you order online but will not accept electronic payment. And of the firms who paid their own bills online, almost a third (29%) were not using electronic means to place their orders.

To be sure, online buying and selling is more widespread in services industries than in manufacturing, and business transactions account for the bulk of electronic commerce, with sales to households accounting for less than 30% of total Internet sales. Nonetheless, it is business-to-consumer Internet trade that has attracted most attention in recent years. This may be at least partly because household expenditure in OECD countries typically accounts for more than half of total domestic demand. And the growing interest of policymakers in issues such as consumer trust and privacy protection in the online environment has raised demand for information and indicators of consumers' online transactions.

The level of Internet sales to households

varies widely among OECD countries, however, from about 30% in Finland and Luxembourg to little more than 2% in Korea. And they can be limited to very specific sectors. Internet sales in the UK account for 0.36% of total sales, but if financial services and banking are excluded, Internet sales are just 0.1% of the total.

One interesting aspect of the figures available so far shows that for consumers, access to the Internet is not the only factor when deciding whether to shop online. Over 60% of individuals in Denmark and Finland had access to the Internet in the first quarter of 2002, although only some 18% of them actually bought goods and services over the Internet in Finland as compared to more than double (38%) in Denmark. ■

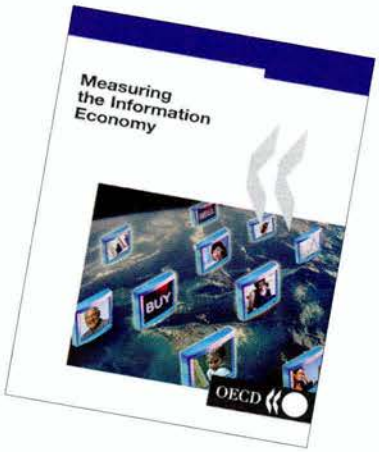


Online security: for the new trust-e

Despite the headlines, electronic commerce is far from finished. It is just starting. It remains central to the OECD's vision of a networked world and the potential it holds for economic growth, job creation, increased world trade and improved social conditions. And improving trust is central to developing e-commerce. Consumers and businesses need to know that their use of network services is secure and reliable, whether a company is tendering for an overseas contract by e-mail or an individual is ordering an organic free-range turkey for Sunday lunch.

The OECD has been working in this area of trust since the information economy was in its infancy and produced its first Security Guidelines for Information Systems a decade ago. But information and communications technology (ICT) has changed substantially since then. That is why the 1992 Security Guidelines were updated in 2002 to take account of the latest developments in the online world. A review every five years has been recommended by the OECD.

A key element of the new Guidelines is the fact that everyone connected with a network system, whether the designer, the builder or the casual Internet user in his living-room, is part of an increasingly interconnected, interdependent environment, and that all share responsibility for keeping it safe. The Guidelines are designed to develop a "Culture of Security" among governments, businesses and users and are organised around nine basic principles:



Awareness of the need for security of information systems and networks and what they can do to enhance security; **responsibility** for the security of information systems and networks; **response** in a timely and co-operative manner to prevent, detect and respond to security incidents; **ethics**: participants should respect the legitimate interests of others; **democracy**: security of information systems and networks should be compatible with essential values of democratic society; participants should conduct **risk assessments**; **security design and implementation**: participants should incorporate security as an essential element of information systems and networks; participants should adopt a comprehensive approach to **security management**; **reassessment**: participants should review and reassess the security of information systems and networks, and make appropriate modifications to security policies, practices, measures and procedures.

Although the Guidelines are non-binding, they are the product of a consensus between OECD governments, resulting from discussions that also involved representatives of the information technology industry, business users and civil society. The issues addressed are also of concern beyond OECD countries, wherever there is access to networked information systems. For that reason, governments in non-OECD countries are invited to adopt a similar approach. ■

• The text of the Guidelines is available in English, French and Spanish at http://www.oecd.org/ict/guidelines

SESAME
Opening a scientific door for co-operation in the Middle East

Herwig Schopper, President of the Interim SESAME Council*

New scientific research centres are a fairly common event these days, but in January 2003 a facility with a difference will see the light of day in Amman, Jordan. The international backers of the new research centre, called SESAME, are determined that scientific collaboration will help open the door to greater co-operation in the Middle East.

So far, Bahrain, Iran, Jordan, Oman, the Palestinian Authority and Turkey have formally decided to join SESAME. Other member states of the interim council are Egypt, Greece, Israel, Morocco, Pakistan and the United Arab Emirates. Countries with observer status are Armenia, Brazil, Cyprus, France, Germany, Italy, Japan, Kuwait, the Russian Federation, Sudan, Sweden, the UK and the US.

SESAME was inspired by scientists working closely with the European Organization for Nuclear Research, CERN, whose founding in 1954 in Geneva, Switzerland also had the twin aims of advancing scientific and technological knowledge as well as fostering stability through co-operation. Since 2001 the new project has won the full backing of UNESCO, which has virtually adopted it as one of its flagship projects. One major hope, as UNESCO's director-general, Koichiro Matsuura, has stressed, is that SESAME "will work against the brain-drain by attracting scientists based in the Middle East and also those originally from the region who now work abroad." Clearly, an opportunity for the young scientists of the region for whom the Middle East has always been synonymous with conflict and war. Mr Matsuura suggested: "Through their scientific rapprochement they will be in the vanguard of the political rapprochement that this region so badly needs."

The scientific aspects of the project are promising too. SESAME – whose name stands for Synchrotron Radiation Light for Experimental Science and Applications in the Middle East – is a so-called third generation light source. There are about 45 synchrotron-light sources in use around the world today. They operate by whirling particles, generally electrons, around a ring at a tremendous speed. Light sources are used in a wide range of research, from unravelling the structure of viruses to understanding the detailed behaviour of the semiconductor materials that underlie much of modern-day life. Synchrotron light covers a broad range of the electromagnetic spectrum (infrared to hard x-rays). It is the best available source of x-rays, providing a valuable source of information for scientists working in many fields, making it a uniquely multidisciplinary facility.

Not all Middle Eastern countries have bought in, though others have expressed an interest in joining when the political situation in the region stabilises.

Demand for these essential light sources is growing. Europe, France, Spain and the UK are currently building new facilities. Across the Atlantic, new light sources are also being made ready in Canada and the US. Some Middle East countries have jumped at the opportunity, Jordan being selected to host it. SESAME will carry on work using components of a light source in Berlin that was closed down in 1999. Scientists from Stanford, US and Hamburg, Germany had suggested that the old core German facility be recycled as a new laboratory and soon after, SESAME took shape.

Not all Middle Eastern countries have bought in, though others have expressed an interest in joining when the political situation in the region stabilises.

Still, funding has not been a major problem. Thirteen interim council member states undertook to provide US$50,000 per annum each for three years from 1 January 2000 for preparatory work, and the US State Department and Department of Energy contributed $200,000. A training programme for young scientists and engineers is an essential part of the project. Workshops and seminars have been organised and several experts have been sent to laboratories in Europe for more than a year. The International Atomic Energy Agency (IAEA) in Vienna and other sponsors provided funding. Brazil has offered fellowships that will allow SESAME scientists to spend time working at a light source in Sao Paolo.

The European Commission is set to provide €7 million for installation of the new facility along with extra funds for training once it is up and running. This is dependent on SESAME demonstrating that a viable scientific programme has been established. Several proposals have been put forward, and these will be formalised soon. Several laboratories have offered equipment, and financial support is being sought from the IAEA and from US agencies. Meanwhile, the Jordanian government has agreed to finance construction of the buildings that will house the centre at a campus of the Al-Balqa' Applied University in Allan, 30 km from Amman. Running costs will be borne by SESAME's member states, with some voluntary contributions from observers.

SESAME will formally be opened by Jordanian King, H.M. Abdullah II and UNESCO's Mr Matsuura in a special ceremony on 6 January 2003. After that, the political support for SESAME will grow. ■

* The author was director-general of CERN from 1981 to 1988.

World Wildlife Fund: making a genuine and lasting difference to the planet

Globalisation is having a profound effect on the environment and governments and industry have a crucial role to play if the threats to the planet are to be addressed, says **Robert Napier**

Spend, spend, spend! Cash registers are ringing noisily from Aberdeen to Auckland as insatiable consumers show no signs of letting up. Little wonder that the overall volume of world merchandise trade is estimated at some US$6.5 trillion, and rising.

Wherever they are, consumers have a greater choice of goods and services than ever before. In the developed world, more and more products are inexpensive imports from countries where labour and development costs are cheap. In our increasingly global market, the result is greater competition.

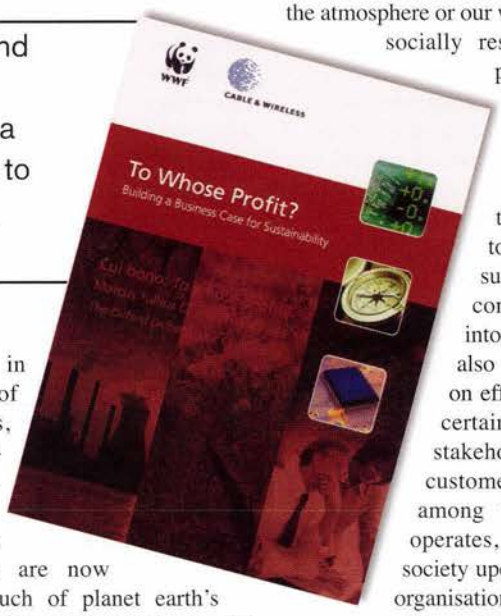
The problem is that while this trade liberalisation has brought significant economic rewards globally, it is also having a profound effect on the environment – witness the growing levels of greenhouse gas emissions, deforestation and biodiversity loss, for example.

If proof were needed, take a look at the latest WWF Living Planet Index, which tracks trends in populations of mammals, birds, reptiles, amphibians and fish. Published earlier this year, it reveals that we are now consuming so much of planet earth's natural resources that we are eating into its capital stocks of forest, fish and fertile soil. This deeply worrying predicament is accentuated by globalisation: in an increasingly competitive market, where each country is reluctant to be the first to introduce stricter environmental regulation, ecological considerations can become stuck in the mud. That's the stark reality, and the responsibility for change lies with us all.

The World Wildlife Fund (WWF), the global environment network, is probably best known for its work to protect endangered species, but this is merely part of what we do. We also work with governments, industry, educators and society in general to seek sustainable solutions to the planet's environmental problems. Industry has a crucial role to play if global threats to the planet are to be addressed and solved.

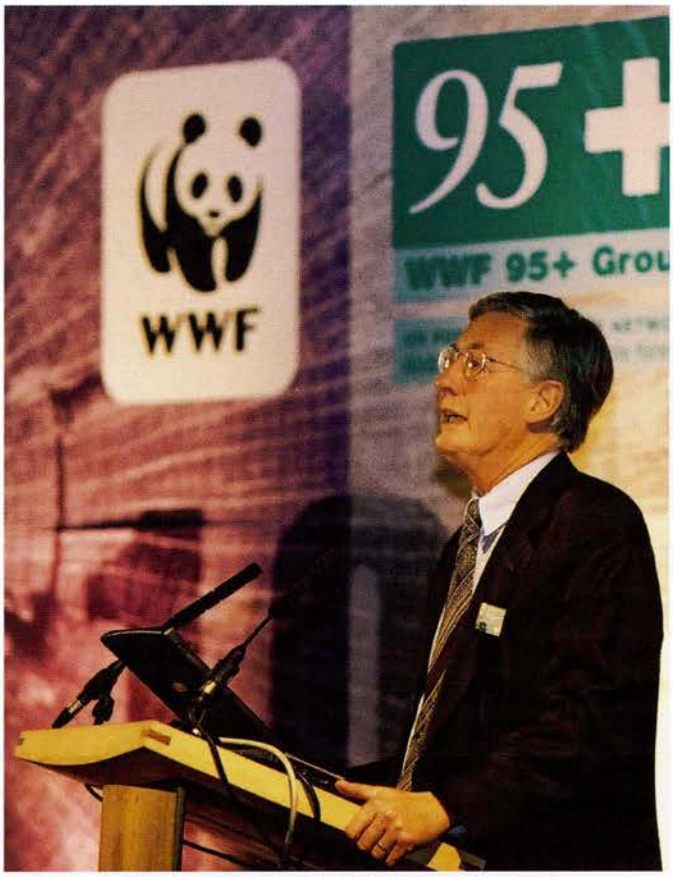
WWF wants to see businesses throughout the world operating sustainably – not only because such a modus operandi has a direct and beneficial effect on the environment, but also because sustainable practices contribute hugely to the global economy. That is why WWF in the UK, and in many other parts of the world, makes a point of working closely with business and industry. It's my firm belief that together, we can produce results that will make a genuine and lasting difference to the wellbeing of the planet. What's good for the environment is good for business.

Good business practices come in many forms, of course. Not discharging waste into the atmosphere or our waterways, operating a socially responsible investment policy, and being genuinely considerate to employees are three obvious but important examples that come to mind. Incorporating such accountable, conscientious practices into the business machine also has a positive knock-on effect – for shareholders certainly, but also for stakeholders such as the customer, the community among which the company operates, and the broader society upon which any business organisation relies for its profits.



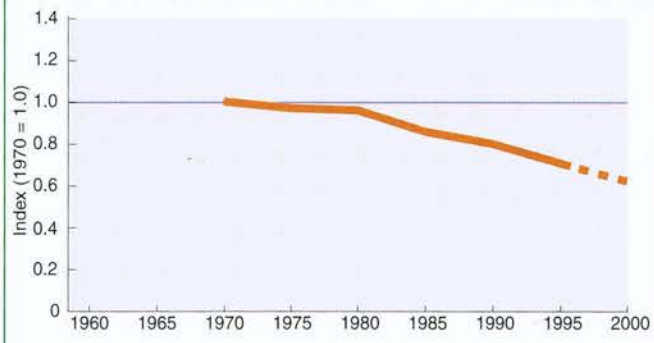
The economic power of business is quite staggering. The latest UNCTAD figures reveal that 29 of the world's 100 largest economies are transnational corporations. Top of the list is Exxon Mobil, whose value added (the sum of salaries and benefits, depreciation and amortisation, and pre-tax income) is US$63 billion – bigger than Pakistan at US$62, Peru (US$53 billion) and New Zealand (US$51 billion). General Motors, Ford, General Electric, Shell and BP also figure prominently.

Such economic clout brings with it a very high level of social responsibility, which is all

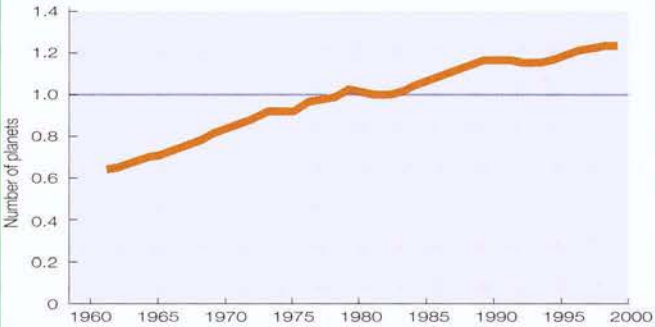


Michael Meacher at the 95+Group 10th Anniversary Conference

The Living Planet Index: The index measuring changes in forest, freshwater and marine ecosystems fell by 37 per cent between 1970 and 2000.



World Ecological Footprint: Humanity's use of renewable natural resources grew to a level 20 per cent above the Earth's biological capacity between 1961 and 1999.



the more reason why WWF engages with the business sector. By entering into constructive working partnerships, we can harness business and industry's influence for the better, collaborate as partners in the search for solutions to environmental problems – and, where appropriate, secure funds for WWF's conservation work. We all benefit.

We are now consuming so much of planet earth's natural resources that we are eating into its capital stocks of forest, fish and fertile soil

In the UK, WWF is strengthening its relationships with the business sector. At the same time, we're also robust in challenging bad business practice and we continue to press key sectors of industry to apply international guidelines for good corporate behaviour and to take responsibility for achieving sustainable development. And as the business community comes to understand the need to ensure that its activities are environmentally and socially sustainable as well as economically viable, WWF has launched an innovative new toolkit for managers.

To Whose Profit? is a manual which sets out in simple language the arguments for sustainability being a business imperative. Because environmental performance is no longer an add-on, but an essential part of business strategy, *To Whose Profit?* provides a wide range of data in a way that's compelling to financial directors.

I'm pleased to say that the business community would seem to agree. Within a few months of its launch, *To Whose Profit?* had been downloaded from WWF-UK's website more than 10,000 times. Marks and Spencer, one of many users, described it as an "excellent contribution to a rapidly evolving debate".

In the end, a sustainable business strategy will maximise opportunities such as higher productivity levels from better trained staff, access to new markets, and an enhanced reputation that leads to greater loyalty from staff, customers and investors alike.

The pressures on both the corporate sector and the environment are considerable. But pressure is there to be overcome. Meanwhile, the challenge is to harness the opportunities of globalisation – particularly for the benefit of developing countries, their people and their natural resources – while limiting its cost to the planet and the environment. WWF is playing its full part in meeting that challenge.

■ *Robert Napier is chief executive of WWF-UK.* To Whose Profit? *and the WWF Living Planet Index can be downloaded from www.wwf.uk.org*

Steely questions

High-level international talks on steel get under way at the OECD, 18-19 December 2002. We asked Herwig Schlögl, OECD Deputy Secretary-General, to explain.

What are the main issues at stake in the OECD steel talks resuming this December?

Herwig Schlögl: The OECD High-Level Steel Initiative launched in September 2001 focuses on two principal areas. First, the closure of inefficient steel-making capacity and related industry restructuring; and second, the strengthening of multilateral rules – what we call "disciplines"– on government measures and industry practices that distort steel markets and are one of the main causes of inefficiency in the first place.

At the meeting on 18-19 December 2002, further progress is likely to be made with respect to the intergovernmental peer review of steel capacity and industry restructuring. The high-level group will also discuss ways to improve monitoring, so as to ensure more accurate, complete and timely reporting and review. As far as accelerating and facilitating closures is concerned, the group may give a mandate to the OECD Capacity Working Group to come up with ways that will help finance the social and environmental costs associated with closures. This could include further work on the use of levies, for instance, on steel consumption, to help pay for closures. Further co-operation with international financial institutions, such as the World Bank and regional development banks, will also be explored. On tackling government measures, the main issue will be a decision on what countries could do to cut back subsidies. They will be asked to endorse a talks' process towards an agreement that would sharply limit government support for steel, and in the meantime to make immediate voluntary commitments to limit, and where possible eliminate, steel subsidies.

Do we know how much over-capacity there is in the market? Will we be talking numbers or broad principles?

Mr Schlögl: There is no single agreed definition of over-capacity. However, world crude steelmaking capacity, which is about 1,067 billion tonnes, exceeded production by around 225 million tonnes in 2001. The overhang is expected to decline in 2002 and 2003 to a level of around 178 million tonnes. According to the information provided by countries participating in the OECD talks, up to 128 million tonnes of inefficient steelmaking capacity have already been or will be permanently closed between 1998 and 2005. A more important question is how much of this overhang is inefficient – in other words, capacity that would not be kept on stream without government support. Remember, while it is over-capacity that has clearly led to a glut in the market, the OECD initiative is designed to clear that glut by improving efficiency. It is not some attempt to prop up steel prices artificially – that would be contrary to the spirit of the OECD. Rather, our intention is to remove unfair distortions in the market place and restore efficiency.

Remember, while it is over-capacity that has clearly led to a glut in the market, the OECD initiative is designed to clear that glut by improving efficiency. It is not some attempt to prop up steel prices artificially – that would be contrary to the spirit of the OECD.

Facilitating the closure of such inefficient capacity is one of the key issues that is being addressed at the OECD in December and beyond.

Why is steel such a thorny market to deal with?

Mr Schlögl: Steel producers face particular problems when demand is declining because of the high costs of exiting the market. Companies cannot easily close shop and leave, but are often bound to workers, whole communities and local economies, sometimes over many generations. Moreover, governments worldwide often intervene in their domestic steel market for strategic or protective reasons, and this has contributed to the massive build-up of over-capacity, resulting in significant, long-term distortions in steel markets. In addition, international steel trade is more affected by industry practices and government measures than almost any other traded merchandise sector. Take the likes of safeguard measures, anti-dumping and countervailing duty orders: steel, which represents only 2% of total world trade, is the target of up to 50% of all measures taken under each of these areas, and trade disputes over the alleged abuse of trade remedies are common.

Steel producers have been at loggerheads before. What might make the difference this time?

Mr Schlögl: Our High-Level Steel Initiative provides a unique opportunity to reach agreement on a broad range of such front-burner issues. Virtually all steel producers in the OECD area, and a good number in transition and developing economies, are determined to find a solution to the problems we face in the global steel market. In fact, agreement among industry participants on the need for a multilateral solution and the appropriate way to address the main culprit of market-distorting subsidies appears to be even

stronger than among governments. If a sufficient number of governments had the political will, I am convinced that an agreement could be struck quite quickly. That would be good for steel and international trade in general. OECD governments are participating in the meeting, as are governments from most key steel-producing non-OECD economies. This is most encouraging.

If there is an agreement, how can you ensure it will be implemented?

Mr Schlögl: We would like a multilateral agreement on steel subsidies hammered out at the OECD to be eventually incorporated into the WTO framework. This way, any failure to carry out the provisions of the agreement would be subject to binding settlements under the WTO's Dispute Settlement Mechanism. This framework should be finalised in 2003, which is why we need to get off to the best possible start at the OECD in December. If we do that, then support for the agreement will grow.

And if the deadlock is not broken in December?

Mr Schlögl: First of all, I would say that there is not really any deadlock as such. Participants in the OECD process concur – without exception, I think – that subsidies are one of the principal factors contributing to the steel industry's long-term problems with over-capacity. They would all like to see the situation change for the better. How this could be done is not so clear, particularly when viewed in the broader context of international trade. Once again, however, I would emphasise that if the political will were there, impediments would melt away like ice cream on a summer's day. Remember, there is no explicit deadline for the OECD High-Level Steel Initiative, so discussions could continue. But in my view, in order to keep up the momentum of this process, substantive progress on the two issues at stake in the December meeting is absolutely vital for this important initiative to succeed. ■

- For more information on the steel talks and their outcome, contact dsti.contact@oecd.org or visit the Newsroom on www.oecd.org

Don't undo Doha!

Reports of the death of Doha have been greatly exaggerated, even if the process is looking slightly off colour. For the sake of development, deadlines must be respected and the process allowed to work. Jean-Marie Metzger, head of the OECD trade directorate, explains.

In Qatar, last year, the 144 WTO members which adopted the so-called Doha Declaration did not so much agree to trade liberalisation or any new trade rules to be implemented, as to the launch of a new process, the Doha Development Agenda. They would negotiate a wide range of issues, and – hopefully by 1 January 2005 – agree in a single undertaking to new steps in trade liberalisation and improvement of the rules-based multilateral trading system.

According to the agenda, members set regular deadlines for "interim deliverables", most of them as a contribution to the negotiating process (modalities, requests, offers), and some of them being of a more substantive nature (such as improving access to medicines).

No one participating in the negotiations can afford to let the deadlines slip, both on timing and on substance. This point has been reaffirmed recently by the Trade Committee of the OECD and was given political impetus at the "mini-ministerial" held in Sydney in November, where the issue of access to medicines for those countries lacking the manufacturing capacity to make their own was given particular support.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Waiting for Doha

Members should build on this political impetus rather than unravelling the progress made so far or preempting the results of the negotiations. Such tactics would only lead to a stiffening of positions. We would all lose. WTO negotiators must remember the key word in the Doha Declaration: "development". That means richer and poorer countries alike, sharing responsibilities in accordance with their ability to contribute.

Thankfully, the Doha process is still alive and well, but it is showing a few unhealthy symptoms. Its full recovery will depend on everyone rallying to a simple cry: solidarity, one and all.

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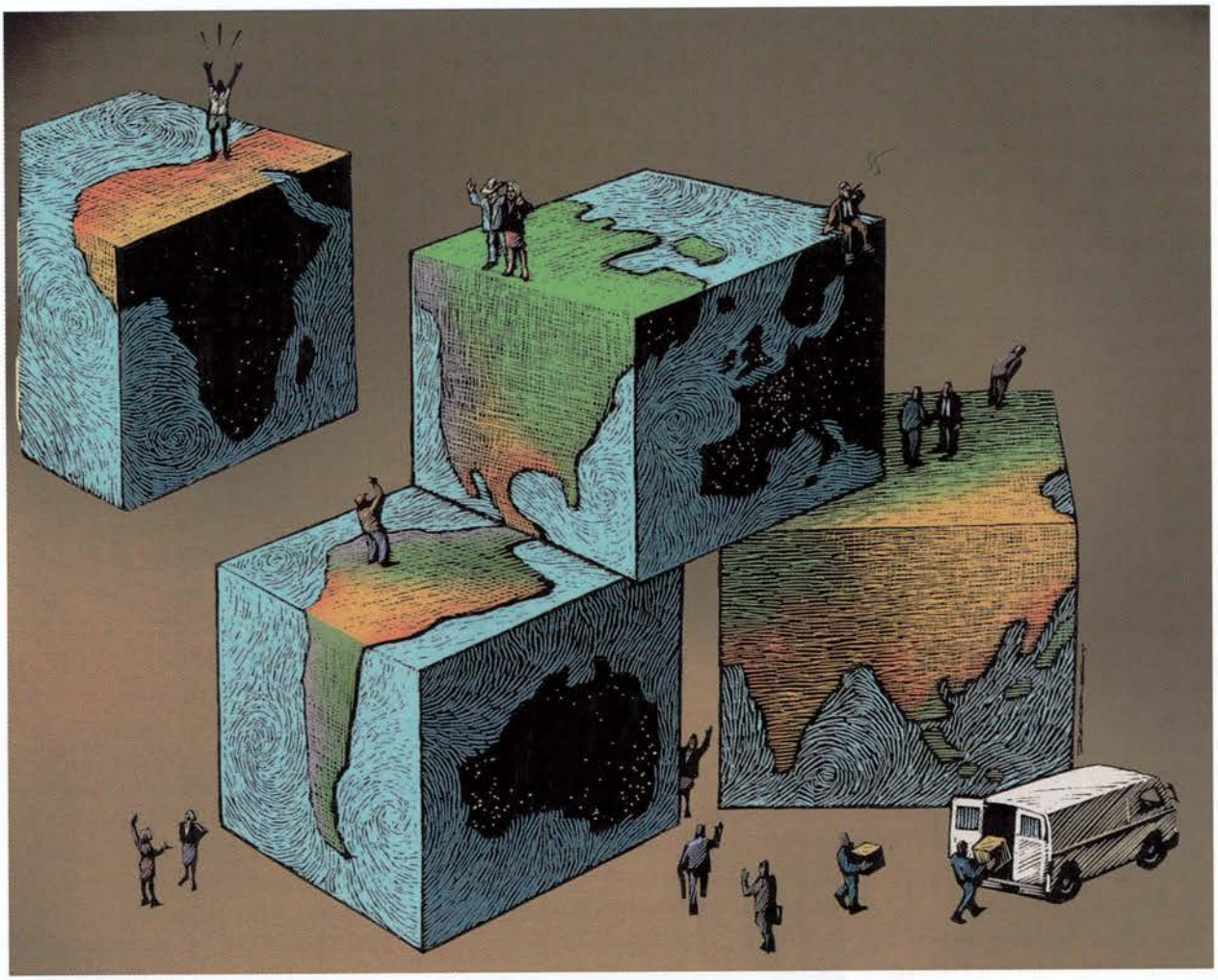
The West and the Rest
in the International Economic Order



The international economic order has changed in the last 40 years and will no doubt go on changing, as leading economist, Angus Maddison, explains.*

In 1962, we usually divided the world into three regions. The advanced capitalist group was then known as the developed world. The second was the "Sino-Soviet bloc". Countries "in course of development" were the third world. The China-USSR split occurred in the early 1960s; most of the communist regimes collapsed around 1990, and the hostility of the cold war has largely faded away. The income gap between the former communist countries and the advanced capitalist group has become very much wider than it was. For this reason, a tripartite division of the world economy is no longer appropriate.

For rough comparisons, it is now useful to divide the world in two and compare developments in the advanced capitalist group with the aggregate for lower-income countries – designated as the "West" and the "Rest" in our tables. On average, the West increased its income per head fourfold from 1950 to 2001 – a growth rate of 2.8% a year. In the rest of the world there was a threefold increase – a growth rate of 2.2%. In both cases this was much

better than earlier performance. From 1820 to 1950, income grew 1.3% a year in the West and 0.6% in the Rest. Though the gap in income level was still increasing, the acceleration in performance was bigger in the Rest.

Population of the West rose by half from 1950 to 2001 (0.8% a year), about the same pace as in 1820-1950. In the Rest, the situation was very different. Population grew by 2.0%, compared with 0.6% in the earlier period. This reflected a major improvement in welfare as mortality declined and life expectation rose from 44 to 65 years in 2001 – much faster than in the West. In the past two decades birth rates have fallen rapidly – a demographic transition which happened earlier in the West.

The West is now a relatively homogeneous group in terms of living standards, growth performance, economic institutions and modes of governance. Over the past five decades there has also been significant convergence in most of these respects. This is not true of the Rest. There are more than 180 countries in this group. They have nearly all increased their income levels significantly since 1950, but the degree of success has varied enormously. Most of Asia is experiencing fast per capita income growth. Most African countries are fairly stagnant. Most Latin American countries found it very difficult to keep a steady trajectory of advance in the 1980s and 1990s. Population growth is fastest in Africa, a good deal slower in Latin America and slower still in Asia. Life expectation and levels of education are lowest in Africa, better in Latin America, and better still in Asia.

Between 1950 and 2001, the Asian group increased per capita income fivefold and narrowed the relative gap between their incomes and the West. In other regions there was no convergence. Latin American income rose more than twofold, in the former command economies of Eastern Europe and the USSR less than twofold and in Africa about two thirds.

The divergence was even more striking in 1990-2001. In this period the Western group increased their income by a fifth, the Asian group by half, Latin America by a sixth, Africa stagnated and in the former communist countries per capita income fell by a quarter.

American policy since 1973 has been much more successful than that of Western Europe and Japan in realising potential for income growth. The incidence of unemployment is now about half of that in Western Europe, whereas in 1950–1973 it was usually double the European rate. Labour force participation increased, with employment expanding from 41% of the population in 1973 to 49% in 1998, compared with an average European rise from 42 to 44%. The percentage drop in working hours per person was half of that

Private capital flows

Private capital flows to developing countries were about US$2.2 billion in 1962, about a third of official aid flows. By the 1980s they were generally larger than the aid flow, and they rocketed upwards in the 1990s, peaking around US$300 billion in 1997. The most useful from the viewpoint of development was direct investment which was drawn particularly to Asia by the dynamism of its growth, and the availability of skilled labour at much lower wages than in the West.

By 1998, the total stock of foreign direct investment in the Rest was US$1.3 trillion, about US$248 per head of population. This investment supplemented domestic saving but was more important in transferring technology, skills and competitiveness of exports. However, such investment was much bigger within the West, where the stock was US$2.8 trillion in 1998, US$3,266 per head of population. A large part of the private financial flow was speculative and rose rapidly after payments restrictions were ended in Western Europe, Asia and Latin America in the 1990s.

The Asian and the Russian crises of 1997-1998 sparked off large reverse flows of short-term capital. The provisional IMF estimate for 2001 shows a net flow of US$160 million, a huge drop from the US$300 million peak of 1997. The volatility of these flows prompted Joseph Stiglitz (2002), former chief economist of the World Bank and Nobel laureate, to suggest that liberalisation of financial flows had gone too far, that IMF bailouts give excessive protection to foreign investors, and that borrowers in difficulty should have more scope for bankruptcy and debt default (as they had in the 1930s and earlier).

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Currency crisis in Indonesia

in Western Europe. These high levels of activity were achieved with a rate of inflation which was generally more modest than in Western Europe.

US policymakers have been less inhibited in operating at high levels of demand than their European counterparts. Having the world's major reserve currency, and long used to freedom of international capital movements, they generally treated exchange rate fluctuations with benign neglect. The Reagan administration made major tax cuts, and carried out significant measures of deregulation in the expectation that they would provoke a positive supply response that would outweigh potential inflationary consequences. The US operated with more flexible labour markets. Its capital market was better equipped to supply venture funds to innovators. Its economy was as big as Western Europe but much more closely integrated. Demand buoyancy was sustained by a stock market boom in the 1990s.

The United States was a major gainer from the globalisation of international capital markets. In the postwar period until 1988, US foreign assets always exceeded liabilities, but thereafter its net foreign asset position moved from around zero to minus $1.5 trillion (more than 20% of GDP). Thus the rest of the world helped to sustain the long American boom and financed the large US payments deficit.

Future prospects

The table (see page 52) provides a quantification of growth performance of eight major regions of the world economy and some very tentative projections for development up to the year 2015.

The demographic projections are those of the United Nations Population Division, and indicate a continuing decline in the rate of population growth in virtually all parts of the world. Nevertheless there will still be a very striking difference between the advanced capitalist group and Africa. At 0.33% a year it would take 210 years to double population in the first group. In Africa it is likely to happen within 32 years.

The West is now a relatively homogeneous group in terms of living standards, growth performance, economic institutions, and modes of governance. Over the past five decades there has also been significant convergence in most of these respects. This is not true of the Rest.

In making per capita GDP projections, I assumed a continuance of 1990-2001 rates of performance in Western Europe and Japan and a mild slowdown in the USA, where the information technology bubble of the 1990s has burst, and where the capital inflow which financed its trade deficit seems likely to slacken substantially. Aggregate per capita growth in the "West" seems unlikely to slow down very significantly, but combined with the demographic slowdown, it means that aggregate GDP growth would be about 2% a year. This pace would be similar to that in 1913-1950. Growth momentum transmitted by the "West" is likely to be more modest than in 1870-1913 and 1973-2001.

Asia (excluding Japan)

The most buoyant part of the world economy since the early 1970s has been Asia (excluding Japan). These economies have grown faster than those of the West and their buoyancy has been sustained in great part by their own policies. Their weight in the world economy is much larger than any other non-Western region. I assumed that their per capita growth 2001-2015 will be at the same pace as in 1990-2001.

These economies are catching up with the West and are still at a level of development where "opportunities of backwardness" are unlikely to erode. The combination of high investment rates and rapid GDP growth means that their physical capital stock has been growing more rapidly than in other parts of the world. The East Asian economies also have a high ratio of employment to population. This is due to falling fertility and a rising share of population of working age, but also reflects the traditionally high labour mobilisation of multi-cropping rice economies. In all cases which are documented they had high rates of improvement in education and the quality of human capital. Equally striking were the rapid growth of exports, the high ratio of exports to GDP, and a willingness to attract foreign direct investment as a vehicle for assimilation of foreign technology. These characteristics of China, South Korea and Chinese-Taipei have made for super-growth, but there is a second tier of countries whose growth is accelerating rapidly. The most notable case is India which has the potential to join the super-growth club. There are other economies where prospects are more problematic, but these are only a sixth of the Asian total. The projections assume no substantial change in their performance.

Latin America

Latin America is the second largest non-Western region with about 8% of world product and a slightly bigger share of world population. Until the 1970s, economic policy was different from that in the advanced capitalist group. Most countries never seriously tried to observe the fixed rate discipline of Bretton Woods. National currencies were repeatedly devalued, IMF advocacy of fiscal and monetary rectitude was frequently rebuffed, high rates of inflation became endemic. Most countries reacted with insouciance to the worldwide explosion of prices, and governments felt that they could accommodate high rates of inflation. They were able to borrow on a large scale at negative real interest rates to cover external deficits incurred as a result of expansionary policies.

However, the basic parameters had changed by the early 1980s. By then, the OECD countries were pushing anti–inflationary policy very vigorously. The change to restrictive monetary policy initiated by the US Federal Reserve pushed up interest rates suddenly and sharply. Between 1973 and 1982, external debt increased sevenfold and the credit

Angus Maddison

worthiness of Latin America as a whole was grievously damaged by Mexico's debt delinquency in 1982. The flow of voluntary private lending stopped abruptly, and created a massive need for retrenchment in economies teetering on the edge of hyperinflation and fiscal crisis. In most countries resource allocation was distorted by subsidies, controls, widespread commitments to government enterprise and detailed interventionism. Most of them also had serious social tension, and several had unsavoury political regimes.

In the 1930s, most Latin American countries resorted to debt default, but it was not a very attractive option in the 1980s. World trade had not collapsed, international private lending continued on a large scale. The IMF and World Bank had substantial facilities to mitigate the situation, and leverage to pressure Western banks to make involuntary loans and legitimate a substantial degree of delinquency.

In the 1980s, the attempts to resolve these problems brought major changes in economic policy. But in most countries, changes were made reluctantly. After experiments with heterodox policy options in Argentina and Brazil, most countries eventually embraced the neoliberal policy mix pioneered by Chile. They moved towards greater openness to international markets, reduced government intervention, trade liberalisation, less distorted exchange rates, better fiscal equilibrium and establishment of more democratic political systems.

The cost of this transition was a decade of falling per capita income in the 1980s. After 1990, economic growth revived substantially but the process was interrupted by contagious episodes of capital flight.

My projections for Latin America assume some modest improvement in per capita performance in 2001-2015.

Africa

Africa has nearly 13% of world population, but only 3% of world GDP. It is the world's poorest region. Its population is growing seven times as fast as in Western Europe. Per capita income in 2001 was below its 1980 peak. African economies are more volatile than most others because export earnings are concentrated on a few primary commodities, and extremes of weather (droughts and floods) are more severe and have a heavy impact.

As a result of rapid growth, little more than half the population is of working age. Almost half are illiterate. They have had a high incidence of infectious and parasitic disease (malaria, sleeping sickness, hookworm, river blindness, yellow fever). Over two thirds of HIV-infected people live in Africa. As a result the quantity and quality of labour input per head of population is much lower than in other parts of the world.

European powers became interested in grabbing Africa in the 1880s. Twenty-two countries eventually emerged from French colonisation, 21 from British, 5 from Portuguese, 3 from Belgian, 2 from Spanish. Germany lost its colonies after the First World War, Italy after the Second. The colonialists created boundaries to suit their own convenience, with little regard to local traditions or ethnicity. European law and property rights were introduced with little regard to traditional forms of land allocation. Hence European colonists often got the best land and most of the benefits from exploitation of mineral rights and plantation agriculture. African incomes were kept low by forced labour or apartheid practices. Little was done to build a transport infrastructure or to cater for popular education.

Colonisation ended between 1956 and 1974. In South Africa, the mass of the population did not get political rights until 1994. Independence brought many serious challenges. The political leadership had to try to create elements of national solidarity and stability more or less from scratch. The new national entities were in most cases a creation of colonial rule. There was great ethnic diversity with no tradition or indigenous institutions of nationhood. The linguistic vehicle of administration and education was generally French, English or Portuguese rather than the languages most used by the mass of the population. Africa became a focus of international rivalry during the cold war. China, the USSR, Cuba and East European countries supplied economic and military aid to new countries viewed as proxies in a worldwide conflict of interest. Western countries, Israel and Chinese-Taipei were more generous in supplying aid and less fastidious in its allocation than they might

otherwise have been. As a result, Africa accumulated large external debts which had a meagre developmental pay-off.

There was a great scarcity of people with education or administrative experience. Suddenly these countries had to create a political elite, staff a national bureaucracy, establish a judiciary, create a police force and armed forces, send out dozens of diplomats. The first big wave of job opportunities strengthened the role of patronage and rent-seeking, and reduced the attractions of entrepreneurship. The existing stock of graduates was too thin to meet the demands and there was heavy dependence on foreign personnel.

The process of state creation involved armed struggle in many cases. Many countries have suffered from civil wars and bloody dictators. These wars were a major impediment to development.

In many African states, rulers have sought to keep their positions for life. In most states, rulers relied for support on a narrow group who shared the spoils of office. Corruption became widespread, property rights insecure, business decisions risky.

A major factor in the slowdown since 1980 has been external debt. As the cold war faded from the mid-1980s, foreign aid levelled off, and net lending to Africa fell. Although the flow of foreign direct investment has risen it has not offset the fall in other financial flows

The challenges to development in Africa are greater than in any other continent, the deficiencies in health, education and nutrition the most extreme. It is the continent with the greatest need for financial aid and technical assistance. The per capita GDP projections assume that these kinds of aid will be increased and that per capita growth will be positive. However, it is unlikely that African countries will, by 2015, be able to establish a trajectory of rapid catch-up such as Asian economies have achieved.

Eastern Europe

In Eastern Europe, the economic system was similar to that in the USSR from 1948 to the end of the 1980s, and so was economic performance. In 1950-1973, per capita growth more or less kept pace with that of Western Europe, but faltered badly as the economic and political system began to crumble. From 1973-1990, it grew at 0.5% a year compared with 1.9% in Western Europe.

The transition from a command to a market economy was difficult in all of the countries. The easiest part was freeing prices and opening of trade with the West. This ended shortages and queuing, improved the quality of goods and services and increased consumer welfare. However, much of the old capital stock became junk; the labour force needed to acquire new skills and work habits; the legal and administrative systems and the tax/social benefit structure had to be transformed; the distributive and banking networks to be rebuilt from scratch. The travails of transition led to a fall in average per capita income for the group from 1990 to 1993, but it rose by over 3% a year from then to 2001. My projection assumes that this pace of advance can be maintained at least until 2015. In fact, these countries can probably do better than this if they can be integrated into the European Union with better access to its goods, labour, and capital markets, its regional and other subsidies, than they have thus far enjoyed. Present real income levels are only a third of those in Western Europe. Wages are also much lower, but the disparity in skills is much less. The Eastern economies are therefore capable of mounting a catch-up dynamic similar to that of Asia if the integration takes place.

The process of state creation involved armed struggle in many cases. Many countries have suffered from civil wars and bloody dictators. These wars were a major impediment to development.

Successor states of former USSR

Fifteen successor states emerged from the collapse of the Soviet Union in 1991. In all of them, there was already a very marked deceleration of economic growth in 1973-1990. There was colossal inefficiency in resource allocation, a very heavy burden of military expenditure and associated spending, depletion and destruction of natural resources.

Capital/output ratios were higher than in capitalist countries. Materials were used wastefully. Shortages created a chronic tendency to hoard inventories. The steel consumption/GDP ratio was four times as high as in the US. The average industrial firm had 814 workers in 1987 compared with 30 in Germany and the UK. Transfer of technology from the West was hindered by trade restrictions, lack of foreign direct investment and very restricted access to foreign technicians and scholars. Work incentives were meagre, malingering on the job was commonplace.

The quality of consumer goods was poor. Retail outlets and service industries were few. Prices bore little relation to cost. Consumers wasted time queuing, bartering or sometimes bribing their way to the goods and services they wanted. There was an active black market, and special shops for the *nomenklatura*. There was increasing cynicism, frustration, growing alcoholism and a decline in life expectation.

Soviet spending on its military and space effort was around 15% of GDP in the 1970s and 1980s, nearly three times the US ratio and five times as high as in Western Europe. There were significant associated commitments to Afghanistan, Cuba, Mongolia, North Korea, Vietnam and Soviet client states in Africa.

In the 1950s a good deal of agricultural expansion was in virgin soil areas, whose fertility was quickly exhausted. Most of the Aral sea was transformed into a salty desert. Exploitation of mineral and energy resources in Siberia and Central Asia required bigger infrastructure costs than in European Russia. The Chernobyl nuclear accident had a disastrously polluting effect on a large area of the Ukraine.

In 1985-1991 Gorbachev established a remarkable degree of political freedom and

GDP per capita (1990 international $)

	1950	1962	1973	1990	2001	2015
Western Europe	4,594	7,512	11,534	15,988	19,196	24,226
Australia, Canada, NZ & US	9,288	11,537	16,172	22,356	27,892	36,400
Japan	1,926	4,778	11,439	18,789	20,722	23,472
"West"	**5,663**	**8,466**	**13,141**	**18,798**	**22,832**	**29,156**
Eastern Europe	2,120	3,250	4,985	5,437	5,875	8,886
Former USSR	2,834	4,130	6,058	6,871	4,634	6,450
Latin America	2,554	3,268	4,531	5,055	5,815	7,163
Asia (excluding Japan)	635	837	1,231	2,117	3,219	5,487
Africa	852	1,038	1,365	1,385	1,410	1,620
"Rest"	**1,091**	**1,478**	**2,073**	**2,707**	**3,339**	**5,101**
World	2,114	2,921	4,104	5,154	6,043	8,100

Population (million)

	1950	1962	1973	1990	2001	2015
Western Europe	305	332	358	377	391	397
Australia, Canada, NZ & US	176	218	251	298	333	369
Japan	84	96	109	124	127	126
"West"	**565**	**646**	**718**	**799**	**851**	**892**
Eastern Europe	87	101	110	122	121	120
Former USSR	180	222	250	289	290	295
Latin America	166	230	308	443	529	631
Asia (excluding Japan)	1,296	1,637	2,139	2,979	3,534	4,138
Africa	228	296	388	621	811	1,078
"Rest"	**1,960**	**2,485**	**3,196**	**4,454**	**5,285**	**6,262**
World	2,525	3,132	3,913	5,253	6,136	7,154

GDP (billion international $)

	1950	1962	1973	1990	2001	2015
Western Europe	1,402	2,497	4,134	6,032	7,506	9,618
Australia, Canada, NZ & US	1,635	2,519	4,058	6,666	9,288	13,432
Japan	161	458	1,243	2,321	2,636	2,957
"West"	**3,198**	**5,474**	**9,435**	**15,020**	**19,430**	**26,007**
Eastern Europe	185	328	551	663	711	1,066
Former USSR	510	915	1,513	1,988	1,343	1,903
Latin America	424	753	1,398	2,239	3,076	4,520
Asia (excluding Japan)	825	1,370	2,633	6,307	11,375	22,705
Africa	195	307	529	860	1,144	1,746
"Rest"	**2,138**	**3,674**	**6,624**	**12,057**	**17,649**	**31,940**
World	5,336	9,147	16,059	27,076	37,079	57,947

Between the rouble devaluation of 1998 and 2001, the economy had three years of rapid growth, with per capita GDP rising nearly 6% a year. This is too brief a period to be used as a basis for projection, so I simply assumed that the economies of the former USSR will have the same growth of per capita GDP as Eastern Europe. Source: 1950-1998 from Maddison, *The World Economy: A Millennial Perspective*, 2001, Appendix C. GDP updated to 2001 from IMF, *World Economic Outlook*, April 2002. Population 2001-2015 (medium variant) from UN Population Division, *World Population Prospects*, 1998 Revision, New York, 1999.

liberated Eastern Europe but had no coherent economic policy. From then to end 1999, Yeltsin broke up the Soviet Union, destroyed its economic and political system and moved towards a "market" economy. The economic outcome was a downward spiral of real income for the mass of the population. On average, GDP was nearly 30% lower in 2002 in the 15 republics than in 1990. Fixed investment and military spending fell dramatically, so the drop in private consumption was milder. There were very big changes in income distribution. Under the old system, basic necessities (bread, housing, education, health, crèches and social services) had been highly subsidised by the government or provided free by state enterprises to their workers. These all became relatively more expensive, the real value of wages and pensions was reduced by hyperinflation, and the value of popular savings was destroyed. There were major gains in the income of a new oligarchy.

The new "market" economy is grossly inefficient and unfair in allocating resources. There has been legislation to establish Western style property rights, but in practice accountancy is opaque and government interpretation of property rights is arbitrary. Many businesses are subject to criminal pressure. Property owners such as shareholders or investors are uncertain whether their rights will be honoured. Workers are not sure their wages will be paid. ■

* This article is an adapted extract from Angus Maddison's chapter, "The West and the Rest in the International Economic Order", in *Development is Back*, OECD Development Centre, 2002.

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Good business environment

Mixing competition and the environment might raise some eyebrows, but they may help each other. Take the UK's energy market reform. According the OECD's latest environment review of the UK, the resulting "dash for gas" in power generation should enable the UK to meet its 12.5% greenhouse gas (GHG) reduction target under the Kyoto Protocol. The switch from coal to gas fuel in thermal power production, driven largely by the liberalisation of the UK electricity market, led to a 20% reduction in CO2 gas emissions in the UK over the period 1990 to 1999.

This was the easy part; reductions in CO2 and other GHG emissions will be more difficult and costly to achieve in the future, the review says. The lower electricity prices brought about by market liberalisation have acted as a disincentive to conserve energy on the part of consumers. But with further measures in place and still being written, the UK's climate change programme forecasts that national GHG emissions will be 15% below 1990 levels in 2010.

For instance, the Non-Fossil Fuel Obligation, part of the 1989 Electricity Act, required electricity supply companies to get specified amounts (2.8% in 2000) of new generating capacity from non-fossil sources, including renewables. A new proposal on the table, the Renewables Obligation, expects to increase that amount to 10% by 2010, if consumers agree to shoulder some of the cost.

Another promising regulation is the Climate Change Levy (CCL), a charge levied on businesses and public sector organisations for energy use. It adds about 15% to typical energy bills, but the carrot is that businesses which accept and subsequently meet energy reduction targets get an 80% discount on that levy. As of June 2002, over 40 CCL agreements were in place, covering 5,500 companies in some 13,000 sites. Britain's efforts to push the environment higher up the policy agenda have also put into motion such "no regret" measures as the road-fuel duty escalator, the landfill tax credit programme and the emissions trading scheme.

But privatisation has not yet worked the same wonders in water services, according to the environmental review. While the report congratulates the government on its decoupling of economic growth from environmental pressures like CO2 increases, the UK's overall environmental ranking is only average compared to other OECD countries. The survey, a follow-up to the first report in 1994, advises that more attention needs to be given to such areas as waste and waste-water treatment infrastructure; agriculture and urban runoff; nitrogen pollution; and marine habitats and biodiversity conservation measures. ■

References

- The OECD's Environment Peer Reviews can be ordered at www.oecd.org/bookshop. Also, visit the website at www.oecd.org/environment

Challenges at the cutting edge

Regulatory reform, like housework, is usually only noticed when left undone. However, the OECD recently gave the UK government a glowing report on its orderly house.* According to the report, the UK's economic turnaround of the last two decades is owed at least in part to its pioneering regulatory reforms, especially those changes that increased competition and strengthened the business sector. The result is today's flexible labour market with unemployment that is among the lowest in the OECD, a world-class financial services sector, and investment flows that are among the highest in the world.

But some areas still need polishing. According to the OECD, privatisation of the railways went off track partially because of muddled regulation that impeded much-needed investment, and the automotive industry is still the source of considerable trade tensions.

Efforts continue. The Regulatory Reform Act of 2001, for example, addresses the lack of legislative capacity in the UK Parliament, seen as a barrier to changing inefficient laws on the books. Proposed reforms include modernising and simplifying procedures for renewal of business leases, or improving grants and loans arrangements for renewal of private sector housing. It also proposes relaxing the strict rules on closing time for pubs.

The UK has set the European standard for privatisation in the last two decades, particularly in opening up its electricity and gas sectors, and set the pace for reforming the telecoms sector. By privatising British Telecommunications (BT) in 1984, a number of new providers emerged, innovating the market place. But local access services are still dominated by BT. So, while Britain is a fast growing broadband market, it has taken time to get up to speed.

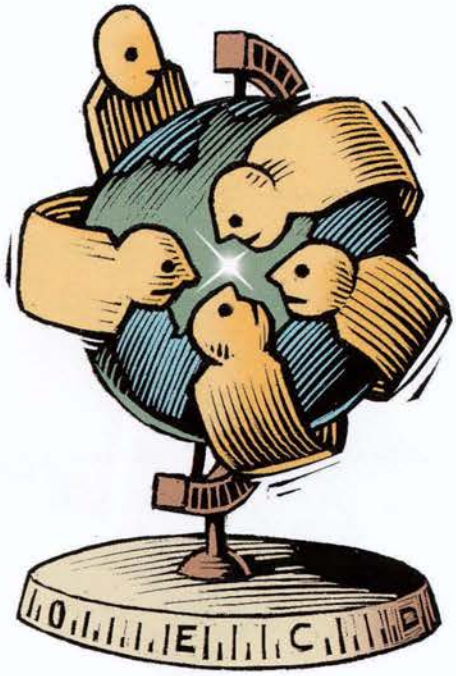
Competition reform has cured several of the market's ills, but whether it can deal with the UK's lagging productivity is another question. The 1998 Competition Act is already being supplemented by further reforms, principally to strengthen the institutions that apply the law and the sanctions for infringing it.

The OECD review team commends the government's use of voluntary codes and agreements, though warns that the UK now faces more complex, "second-generation" issues with brand new challenges at the cutting edge. ■

*OECD (2002), *UK Regulatory Reform, Challenges at the Cutting Edge*, can be ordered online at www.oecd.org/bookshop or by using the order form. Visit www.oecd.org/regreform

Peer review
A tool for global co-operation and change

Fabrizio Pagani, Legal Adviser, OECD



Peer review lies at the heart of international co-operation in the OECD. Why is it so important and what does it achieve?

Best practice is a fashionable term in policymaking these days. Governments and agencies will say they do all they can to ensure their policies are not only in the best interests of their electorates, but that they follow the best tried and tested experience available. But how can we be sure that governments really make such best choices?

One tried and tested instrument is the peer review. It is the assessment of the policies and performances of a country by other countries. The goal is to help participants to improve their policies and comply with established standards and principles. It is often through this process that best practices are identified.

Peer reviews show that international organisations can indeed be creative, for it would not be an exaggeration to claim that the OECD "invented" the modern peer review process. Since it began in the 1960s, it has been adopted by other organisations such as the EU, IMF and WTO. Now it is in the process of being adapted to the needs of the New Partnership for Africa's Development (NEPAD).

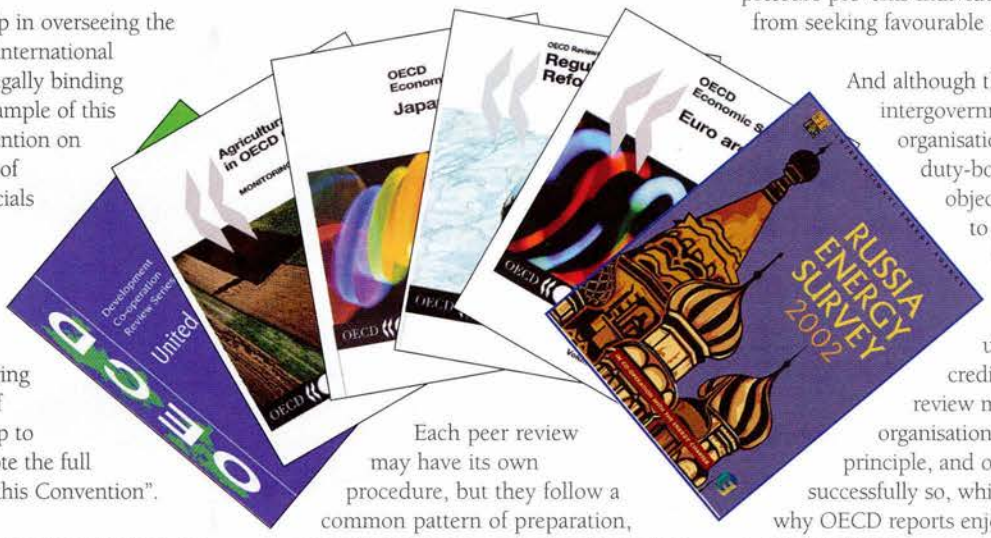
Every OECD member country accepts the method of peer review in most policy areas. It is the basis for OECD economic surveys as well as reviews of environmental, energy and foreign aid policies, not to mention performance on regulatory reform. These studies end up as reports, though they are not just aimed at public information, but at policy action. A country seeking to reduce unemployment, for example, can learn valuable lessons from its peers on what has worked and what has not. It subjects its own policies to the scrutiny of peers and experts at the OECD secretariat in Paris. A report's conclusions can also help governments win support at home for difficult measures. Importantly, because everyone puts themselves through the same exercise, no country under review can feel it is being singled out in any way. Today's critics become tomorrow's subjects.

Effective peer reviews are updated regularly so as to consider progress, shortfalls or indeed changing circumstances such as an economic downturn. This regularity of discussion among partners creates a certain dynamic pressure on peers to act on the advice they receive. Usually, there is no rigid position or obligatory course of action, but rather an agreed best strategy. The aim is open dialogue among countries in a non-adversarial setting. Peer pressure is the driving force which makes the review effective. Its influence strengthens when the outcome of the review is made available to the public, as is usually the case at the OECD. Media involvement and public scrutiny are key elements in the process.

Peer review aims at complying with international guidelines, standards and principles. One reason behind the success of the OECD's 1994 Jobs Strategy was commitment among members to adhere to principles and benchmarks for creating and maintaining stable employment and to collectively review the measures which have

been implemented. Those that performed best tended to be those that adopted most of the strategy. The method produced positive results largely because the "rules of the game" were clear from the start and all the countries involved accepted them. This prevents any risk of the exercise degenerating into diplomatic jockeying for position.

Peer review can help in overseeing the implementation of international treaties and other legally binding instruments. An example of this is the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which provides for signatories to "co-operate in carrying out a programme of systematic follow-up to monitor and promote the full implementation of this Convention".



The guidelines, standards and principles against which the performance of the reviewed country is conducted vary widely. These may include, for instance, quantitative reduction in carbon dioxide emissions for environmental performance reviews, or development spending when it comes to development assistance reviews. They may test performance against previously agreed objectives, such as the OECD Environmental Strategy for the First Decade of the 21st Century, or historical benchmarks and legislation, such as the much-quoted UN-set target for bilateral development assistance of 0.7% of GDP.

Peer review is the combination of the activity of several players: the group within which the review is undertaken; the reviewed country; the examiner countries; and the secretariat of the OECD. It is undertaken in the framework of the activities of a review body, such as a committee or working party. The reviewed country co-operates by making documents and data available, responding to questions and requests for self-assessment, facilitating contacts and hosting on-site visits. The role of the examiner countries is to represent the collective body in the early stages of the process and to guide the debate itself. Peer review is a mutual learning process and examiner countries learn from it too. The secretariat acts as keeper of the historical memory of peer review. The independence, transparency, accuracy and analytic quality of the Organisation's work are essential to the effectiveness and credibility of peer review.

Each peer review may have its own procedure, but they follow a common pattern of preparation, consultation and assessment. At the final phase, a collective discussion on a draft report is held in the review body. In some cases there may be disagreements over assessment or recommendations. These reports may be hotly negotiated since they have to be accepted by the whole review body. In some cases, exceptions to the rule of consensus are possible and the report can be adopted without the agreement of the reviewed country. However, generally, the final report is the fruit of consensus. This can occasionally mean a rather prudently neutral report that none of the actors object to, leading to criticism of blandness, even political expediency. But mostly, governments are ready to accept considerable criticism, even if they disagree with it, as a price for participating in the peer review system. In a sense, peer pressure prevents individual governments from seeking favourable treatment.

Every OECD country accepts the method of peer review in most policy areas. It is the basis for OECD economic surveys as well as reviews of environmental, energy and foreign aid policies, not to mention performance on regulatory reform. These studies end up as reports, though they are not just aimed at public information, but at policy action.

And although the OECD is an intergovernmental organisation, examiners are duty-bound to be objective and fair, and to resist any influence of national interest that would undermine the credibility of the peer review mechanism. The organisation upholds this principle, and on balance, successfully so, which is probably why OECD reports enjoy political and public credibility.

Another reason for this success is that, compared with some arguably harder edged private-sector country studies, there is a distinct prospect that OECD conclusions, however negotiated, will be acted upon. From an international perspective, this "soft law" quality of peer review can prove more effective in encouraging compliance with recommendations than any traditional enforcement mechanism like a court or other judicial body. But a peer review can function properly only if there is a commitment to act by the participating countries – and that means not only supplying enough money to carry it out, but also being fully engaged at every stage in the process.

Far from being excessively procedural and impotent, as some critics have argued, peer review can create a catalyst for policy enhancement and far-reaching change. ■

References

- See www.oecd.org/legal for more information on peer review at the OECD.
- See www.oecd.org/corruption for information on the Anti-Bribery Convention.

Healthy partnership

Stronger co-operation between governments, charitable foundations and bio/pharmaceutical industries in developed and developing countries could be an effective and cost-efficient path to long-term health security in a world where disease threatens social and economic stability in many areas. That was one conclusion from an OECD conference on Biotechnology for Infectious Diseases, which brought together politicians, scientists, industry and health policy experts in Lisbon in October. Participants agreed that the current situation, where 72% of the world's population has access to only 11% of the medication, is not acceptable. HIV/AIDS in South Africa has meant a 50% loss of agricultural production and a crumbling education system trying to cope with dying teachers and orphaned students. But infectious diseases are also a developed country problem. OECD countries are seeing a re-emergence of diseases such as measles and tuberculosis once thought to have been eradicated, either through mutation or because people are no longer taking prophylactic measures to protect themselves. In all countries, vaccines, many of them produced through advances in biotechnology, are the most cost-effective way of preventing infectious disease. Every dollar spent on a shot for measles, mumps and rubella saves US$16.35 in healthcare costs and every dollar spent on the diphtheria, tetanus and pertussis (whooping cough) vaccine saves US$6.21. Still, vaccines represent only 3% of the market for medicines. As OECD countries lead the research, development and production of new vaccines, they have a responsibility to build public/private partnerships in this area, conference participants said. These partnerships will allow researchers to find cures, pharmaceutical companies to make the profit their shareholders demand, and help developing countries to build the capacity and infrastructure to provide their citizens with the medications they need. ■

- Read the rapporteur's report on the conference: www.oecd.org/sti/biotechnology

President Fox

"We hope we can move ahead collectively to improve the situations of those nations that urgently need development", said president of Mexico, Mr Vincente Fox, on a visit to the OECD of 15 November 2002. "We need things to improve, because where there is no growth, there are no jobs. And where there are no jobs, there is more poverty, violence, crime and political instability. The more fragile countries are already paying a heavy price for this 18-month recession." ■

- For more on Mr Fox's recent visit, contact observer@oecd.org

Latin steps

The OECD and the Inter-American Development Bank (IADB) have launched a partnership to promote competition law and policy and encourage greater competitiveness in Latin American economies. The two organisations will join forces to promote competitive markets in the region as a key element in boosting economic growth, employment, innovation and living standards. The first event under the new programme will be a Latin American Competition Forum in Paris on 7-8 April 2003. The Forum will feature a peer review of Chile's competition institutions as well as discussions of the impact of foreign direct investment on competition in key infrastructure sectors such as electricity, telecommunications and financial services.

Stabilising influences

Southeast European countries have made much progress in efforts to increase private investment in the region, but the level of achievement varies significantly from country to country. That is the conclusion of a new report, *Progress in Policy Reform in South East Europe: Monitoring Instruments*, presented by OECD Secretary-General Donald Johnston and Special Co-ordinator of the Stability Pact for South East Europe Erhard Busek at a meeting of government representatives in Paris in November to review progress on economic reform. The meeting also addressed other steps to improve the region's attractiveness to investors, focusing on monitoring progress, regional initiatives to implement reform, assuring political support for the reform process, and encouraging private sector involvement.

According to the *Monitoring Instrument* report – published under the auspices of the Investment Compact for South East Europe, a key initiative of the Stability Pact – the countries of South East Europe are showing a new determination to build a more stable and investment-friendly economic environment. Close to 50% of specific measures targeted by the SEE countries in the past two years have already been implemented.

However, the pace of economic reform remains uneven. Over the past 12 months, Romania, Bulgaria, Croatia, as well as Serbia, Albania and Montenegro have achieved positive results in implementing economic reform. However, the pace of reform was slower in Bosnia-Herzegovina and Moldova and the Former Yugoslav Republic of Macedonia. ■

Calendar of forthcoming events 2003

Please note that many of the meetings mentioned are not open to the public or media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For further information, consult the OECD website at www.oecd.org/, under "Key upcoming events", which is updated weekly.

DECEMBER – HIGHLIGHTS

18-19 **The Steel Industry**, high-level meeting organised by the OECD Directorate for Science, Technology and Industry (STI) to discuss the current steel market situation.

JANUARY 2003

8-9 **Maritime Transport**, workshop with non-member economies, organised by STI.

14-17 **Policy Frameworks for the Digital Economy**, global forum organised by STI in preparation for the World Summit on the Information Society (December 2003). Honolulu, Hawaii, USA.

19-23 **Global Broadband, Global Challenges**, conference organised by the Pacific Telecommunications Council (PTC). Honolulu, Hawaii, USA.

20-22 **Near Earth Objects (NEOs): Risks, Policies and Actions**, Global Science Forum hosted by the European Space Research Institute. Frascati, Italy.

23-28 **World Economic Forum**, gathering of business and political leaders. Davos, Switzerland.

29 **Improving Business Taxation**, roundtable organised by the OECD Financial, Fiscal and Enterprise Affairs Directorate (DAF).

FEBRUARY

3-4 **The Learning Government**, symposium organised by the Public Management Committee (PUMA).

6-7 **Changing Dimensions of the Food Economy**, conference organised by the OECD Directorate for Food, Agriculture and Fisheries (AGR) and the government of the Netherlands. The Hague, Netherlands.

10-11 **OECD Global Forum on Competition Policy** will hold its third meeting, organised by DAF, featuring a peer review of South Africa's competition institutions.

10 **Financing of Terrorism**, meeting organised by the Financial Action Task Force on Money Laundering (FATF).

12-14 **Financial Action Task Force on Money Laundering**, FATF plenary meeting.

MARCH

3 **African Perspectives**, fourth international forum organised by the Development Centre.

4-5 **Integrating ICT in Development Programmes**, OECD/UN/World Bank Global Forum on the Knowledge Economy.

4-5 **The Distribution of Benefits and Costs of Environmental Policies**, with the Environment Directorate.

5-7 **Society and Nuclear Energy**, meeting organised by the OECD Nuclear Energy Agency.

11 **Increasing Access to Venture Capital**, forum organised by STI.

16-23 **World Water Forum**, third annual forum organised by the World Water Council. Kyoto, Japan.

17-18 **Climate Change**, forum organised by the Environment Directorate.

23-25 **Environmentally Sustainable Transport in the Asian Region**, conference organised by the Environment Directorate.

APRIL

22-25 **Harmful Tax Practices**, forum organised by DAF.

28-29 **International Energy Agency (IEA) Ministerial meeting.**

28-29 **OECD Forum 2003**, public gathering of senior figures from governments, business, academia and civil society.

29-30 **Annual OECD Council Meeting** at Ministerial level of foreign affairs, finance, economy and trade ministers.

MAY

14-15 **Development Assistant Committee** meets at senior-level.

19-20 **Global Forum on Agriculture**, organised by AGR.

19-24 **World Health Organisation annual assembly**. Geneva, Switzerland.

29-31 **Fighting Corruption and Safeguarding Integrity, Global Forum on Governance.** Seoul, Korea.

JUNE

20-21 **European Union Summit Meeting**. Thessaloniki, Greece.

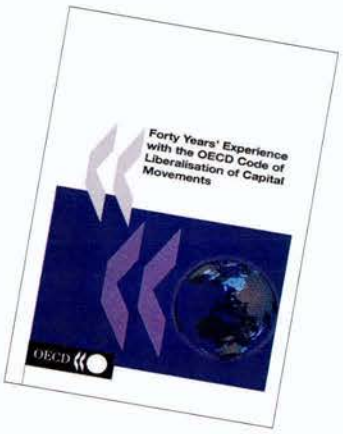
24-26 **Annual Bank Conference on Development Economics**, organised by the World Bank and ABCDE-Europe. Oslo, Norway.

SEPTEMBER

10-14 **World Trade Organization, 5th ministerial conference**. Cancun, Mexico.

23-24 **IMF/World Bank annual meeting**. Dubai, United Arab Emirates.

Decoding capital trends



Forty Years' Experience with the OECD Code of Liberalisation of Capital Movements

More than 40 years ago, the OECD spelled out the code of conduct for freeing up the flow of international capital, and today it stands as an achievement. But what has experience taught us? After the strong booms in private capital flows around the world, spectacular reversals marked both the Mexican peso crisis in 1994 and the Asian crisis in 1997. Malaysia made headlines when it shrugged off the IMF's advice and clamped controls on its capital movements.

The difference, according to the OECD, is that controls must be removed prudently and with the proper institutional back-up. An appropriate and workable sequencing of liberalising capital movements needs to be developed, with priority given, for instance, to direct investment and equity related portfolio investment. Furthermore, the free flow of capital can only work with a corresponding flow of information and transparency.

The selling point is that the Code is not an all-or-nothing contract. Before signing, each country has the right to remove certain transactions from the agreement. For instance, limiting a bank's net foreign exchange exposure or maintaining certain crucial ratios in their balance sheets may be viewed, not as restrictions, but as prudent measures for investor protection. Signatories can only reduce or delete exemptions, they cannot add or extend them. The regulatory framework is designed to evolve in the direction of further liberalisation.

In any case, with virtually all the restrictions on the free flow of capital now abolished in OECD countries, recourse to exchange controls is not in prospect. And 40 years on, the OECD Code continues to evolve as the only multilateral tool there is to promote liberalisation of capital movements (see also article in Economy by Kenneth Rogoff). ■

Who will be mother?

Babies and Bosses: Reconciling Work and Family Life

In 1995 the UN estimated the value of mothering worldwide at approximately US$11 trillion. The *Wall Street Journal* reported in 1999 that a mother's "multi-tasking" is worth US$500,000 a year. Behind those figures lies the fact that, 30 years after women around the world clamoured for equal rights, Mom is still the parent who runs the home and brings up the kids. And whereas nannies get paid and usually receive social security, full-time mothers normally do not. Responding to such issues, *Babies and Bosses: Reconciling Work and Family Life*, the OECD's first report in this series, focuses on family policies in Australia, Denmark and the Netherlands.

The surprising news is that in the last three decades, female employment has doubled in the Netherlands, from 30% to 70%, and has increased in Australia from 45% to 70%. In Denmark, where family policies are more aggressively aimed at keeping women on the job market, the female employment rate was already close to 60% and increased to 75%.

Earnings disparities with male workers still exist, and many women are working part time or in temporary jobs, and concentrated in certain sectors, mainly health and social care. In Australia and the Netherlands, about a quarter of all female workers work less than 20 hours/week. The report suggests that Australian moms work longer hours as their children age, whereas Dutch mothers keep their part-time status. In fact, in the Netherlands, part-time workers have rights equal to their full-time counterparts.

Every mother, even at home, is a working mother, but this view is still not supported in the working world. When mothers return to work after maternity leave, they rarely achieve the same status as if they had left the newborn at daycare and gone directly back on the job. Gaps across countries vary, but mothers tend to earn less than their childless peers over a lifetime. This affects pension entitlements too.

The problems are both economic and cultural. For years staying at home was seen as conservative and dependent. Perhaps as the cost of day care rises, such contradictions will become more apparent.

Babies and Bosses: Reconciling Work and Family Life can be ordered from work or from home at www.oecd.org/bookshop ■

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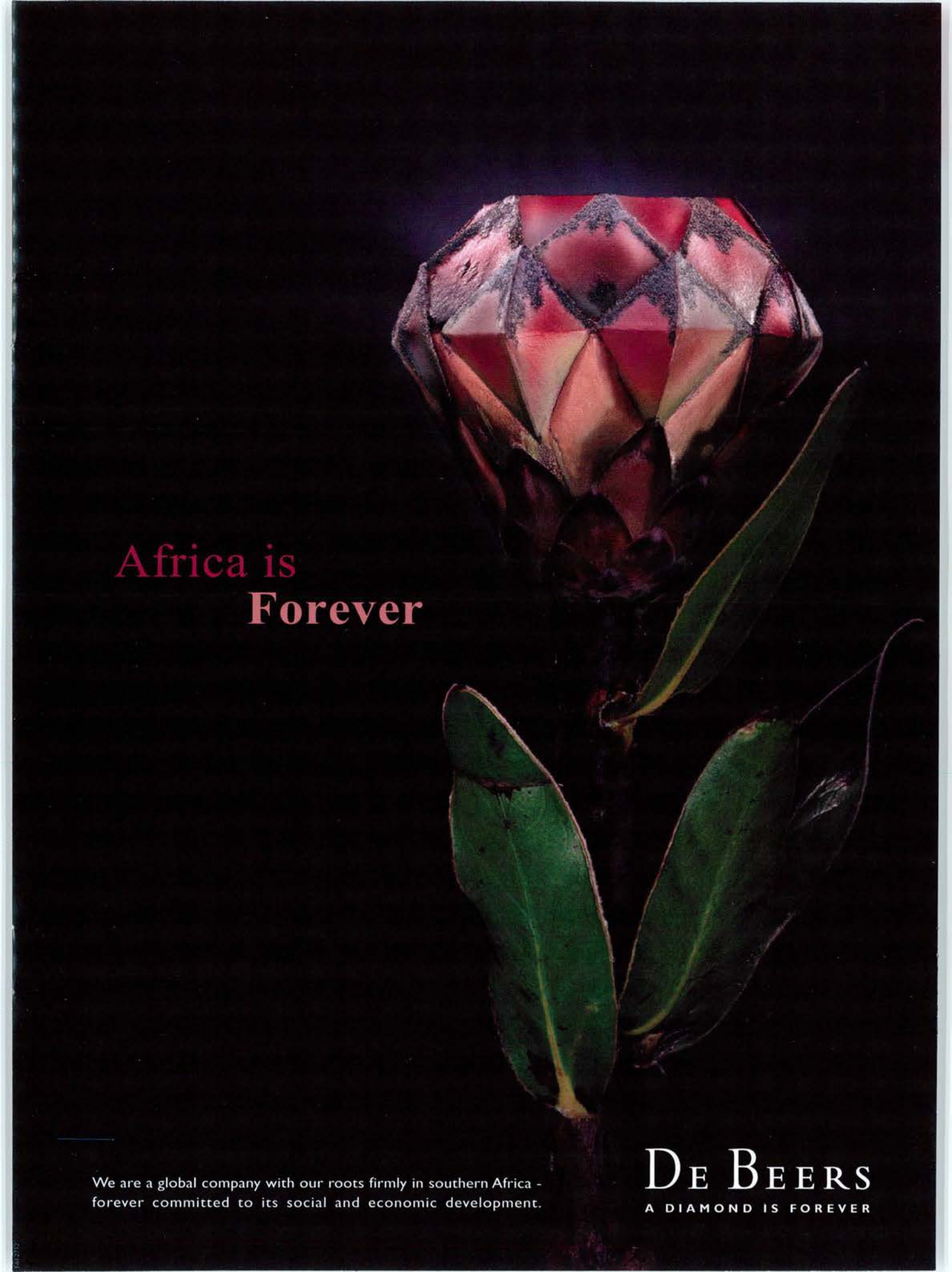
Big businesses go out with a bang, but small businesses come and go like winter snow. Yet, small and medium-sized enterprises (SMEs) represent 95% of all businesses in most OECD countries, and are often seen as the dynamic drivers of the economy, including for innovation. They are the laboratories of "creative destruction". Even in 1962, as the OECD Observer reported at the time, a company like General Motors utilised 26,000 suppliers in the United States, 16,000 of them employing fewer than a hundred workers. Now, as then, large businesses are increasingly taking advantage of the quality, flexibility and local expertise found in smaller enterprises by outsourcing their services, especially across borders. Until seven years ago, manufacturing SMEs mainly profited from these alliances, but in 1996 small companies in services caught up and passed the manufacturing sector, to outnumber such alliances four times over in 2000. One reason for this recent growth is outsourcing, in particular in areas like R&D, computing and other technical services. Human resource services, business organisation and consulting have also seen fast growth – what can broadly be called "strategic business services".

OECD Small and Medium Enterprise Outlook looks at SME policies in 28 OECD countries, and it includes a special focus on Romania, a non-OECD country. The SME Outlook indicates where improvements are needed in areas like encouraging entrepreneurship, promoting innovation, providing financial breaks, and supporting startups. It can be ordered at www.oecd.org/bookshop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DE BEERS
A DIAMOND IS FOREVER

Anchor man

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Anker Randsholt: First editor of the *OECD Observer*

What would strike you as being a good idea for a 40th anniversary edition of a magazine? Get in touch with the first-ever editor of course. Well, I didn't. I mean, where to begin? Luckily, just before deadline, the first-ever editor got in touch with us. "This is Anker Randsholt," boomed a voice. "I remember everything, how it all happened, and do you know, it was the secretary-general himself, Thorkil Kristensen, who had the idea to set it up and he appointed me to do it." I had not yet even recovered from my good fortune in getting this call, nor had I asked a question. Mr Randsholt's enthusiasm was impressive, so was his memory and astute sense with which he filled the next hour and a half of fascinating conversation.

Anker Randsholt was a political reporter during the Second World War in his native Denmark. After the Liberation, he joined *Information*, a former underground resistance newspaper whose new legal offspring he helped rebuild. He got to know (and even criticise) Thorkil Kristensen, who was then a member of parliament and finance minister, and who some 15 years later would become the OECD's first secretary-general. One of Mr Kristensen's first ambitions was to improve the OECD information service by creating "a periodical". In June 1962 he hauled in Mr Randsholt, who in turn was joined by a Briton, Peter Tewson. Mr Tewson had worked for the OECD's predecessor, the OEEC. "Without him I could never have done it!" The *OECD Observer* magazine was born, with a mission to influence policies by bringing the organisation's work to the attention of busy parliamentarians.

Plus ça change…

Highlights from the first edition of the *OECD Observer*, November 1962

Naturally, the first editorial was devoted to the new magazine: "The OECD Observer" by Thorkil Kristensen, secretary-general of OECD. It would be distributed "especially to people who are most directly concerned with the development of society, i.e. members of governments, members of parliaments, labour and management leaders, leaders of industrial and agricultural organisations, trade organisations, bankers, educational institutions, scientists and the press".

"Nobody has time enough to read all these (OECD) publications, and nobody needs to know everything about every specialised subject, but there are people who do feel a need…to follow the work in a more general way."

The magazine's respect for confidentiality in the organisation was not without condition: "The certainty that nothing will be published on these (political) deliberations is the fundamental basis for obtaining significant results….However, the study work crystallises in rich material, the value of which would be multiplied if it were more widely known".

In "What Makes an Economy Grow? The Role of Research and Education", Ingvar Svennilson, economics professor, Stockholm university, notes that "all OECD member countries are faced with a grave shortage of teachers, particularly in scientific and technical subjects". One feature that has somewhat changed concerns the photo, which shows French students at a lecture in the Sorbonne – they are all men.

Opening up the film and movie market to more competition is the theme of another article, showing that the "cultural exception" was alive and well in 1962. The article points out that the OECD "provides a forum in which members – together with a committee of film experts – could evaluate each other's restrictions".

The OECD's 2002 *SME Outlook* has just come out; the 1962 edition wondered if "Among the business giants can small industries survive?" The piece points out that "General Motors utilise 26,000 suppliers in the United States, 16,000 of them employing fewer than a hundred workers." It describes the problems small businesses have in getting hold of information as "one of the most striking paradoxes of our age: at the same time that the means of imparting information are being vastly improved and extended, it has become increasingly difficult to get that information into the hands of those who need it most."

In "The Social Consequence of Office Automation", a survey found that "as automation increasingly simplifies office work, the staff becomes more and more divided between a relatively small élite in charge of the computers and the mass of employees doing routine work. At the same time, relations between the management and office workers tend to become similar to the relations between management and manual workers…in addition, the desire to use an expensive machine to full capacity induces management to introduce shift work for office workers".

And in a special focus on aid, the Development Assistance Committee warns that while tying aid to commercial deals with a donor country may at times be necessary, "it has numerous disadvantages for the recipient countries." *SK, RJC*

"It was not an original idea, as other organisations had excellent magazines too, in particular UNESCO's *Courier*", Mr Randsholt recalls. But with all the serious technical and organisational difficulties, the fact that the first edition came out at all was "a wonder". Still, he and his team got it out just in time for the ministerial council that November. However, the magazine was initially not distributed at the meeting because a director stopped it out of "a fear of critical voices". But the secretary-general quickly unblocked the situation and the *OECD Observer* has not looked back since. Indeed, the very next day *The Times* of London carried a highly complimentary review of the new edition.

What kind of person was Mr Kristensen? "He could see above and below the horizon of most other people. Sharp and diplomatic, he got his way without being hated." A book Mr Kristensen had written before taking up his post, *The Economic World Balance*, is still on sale today. Mr Randsholt remembers that before writing an obituary on John F. Kennedy, the secretary-general remarked: "I am not going to do this every time, but this man had so much to do with the creation of OECD, that I have a reason for doing it. Nobody else did so much."

What kind of reputation did the OECD have at the time? "Allow me to smile at that question, for the OECD had the highest reputation you could imagine. The OECD was something new, Europe was beginning to breath again, seeing what co-operation did." Mr Randsholt remembers giving an information lecture on the OECD to senior students in Denmark: "There were standing ovations!"

Mr Randsholt wondered about the role of the OECD today. "What you produce is good, but the OECD is being squeezed aside by other organisations. What is its role?" But he remembers: "Of course in the past, the OECD had a natural resource to help it and that was the Marshall Plan. It was new, it was captivating."

What did people think of the Americans then? " We loved them!" But Mr Randsholt was worried about attitudes now, and feared that powerful interests were starting to take over again, to the detriment of balanced co-operation. "The OECD is a free trade organisation, and for that you need co-operation, not least with the poorer majority of our planet. The OECD also stands for development."

Mr Randsholt edited the *OECD Observer* for 12 years and left the OECD in December 1976. He was born in 1916 and now lives in Les Landes in south-west France with his Danish wife. One question I forgot to ask him was why he got in touch when he did? But I like to think it was just an one of those editorial hunches, four decades on. To your good health, Mr Randsholt! ■ *Rory J. Clarke*

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40 years ago

● **The Chinese Zodiac** horoscope for 2002 says: "For those born in 1962 (Year of the Tiger), everything will run smoothly, and you may achieve outstanding results. But avoid long working hours."

● **The Cold War:** This was the year of the Cuban crisis and the Bay of Pigs. The first US nuclear-powered surface ship, N.S. Savannah, was put to sea. And US pilot Francis Gary Powers, shot down over Russia in a U-2 spy plane in May 1960, came home, exchanged for Soviet spy Rudolf Abel. The Cold War was good box office too – this was that year that fictional spy hero James Bond made his first appearance in *Dr. No* with the inimitable Sean Connery as 007.

● **French connection:** An assassination attempt against French president **Charles de Gaulle** failed (though not several box office thrillers the attempt gave rise to at the time). Forty years on, a man took a pot-shot at current president Jacques Chirac during the 2002 Bastille Day parade.

● It was not all doom and gloom. The end of the **Algerian war** was declared on 19 March 1962.

● **Founded:** Organisations founded in 1962 include the **Peace Corps**, the Basque Separatist Movement **ETA**, the **Center for Strategic and International Studies** (CSIS) and the **World Wrestling Federation**.

● The **World Food Programme**, due to go into operation in 1963 was up running before it could walk, providing food aid in the wake of an earthquake in Iran, a hurricane in Thailand, not to mention five million refugees in newly independent Algeria. Originally planned as a three-year experimental programme, it is still in operation.

● **Independence:** Jamaica, Burundi, Uganda, Western Samoa, Trinidad and Tobago, Algeria

● **Lifestyle landmarks:** First **Wal-Mart** (US chain superstore) opens; **YSL** haute couture brand was founded in 1962 by Yves Saint Laurent, who retired in 2002. Seattle hosted a World's Fair and unveiled the **Space Needle.**

● **Technological changes:** Satellite TV was made possible by the launch of **Telstar I**, the world's first communications satellite, from Cape Canaveral, Florida on July 10. It was designed by Bell Labs, which is now the R&D division of Lucent Technologies. Anglo-French agreed to develop the supersonic passenger airliner **Concorde**. AT&T introduces the **Bell 103**, the first commercially available modem for transmitting data over phone lines (at 300 baud).

● **Sport: Sonny Liston** became world heavyweight boxing champion, knocking out Floyd Patterson ….. and **Evander Holyfield** was born. **Brazil** won their second soccer World Cup. **Galatasaray** won the Turkish football league…again.

● **Cinema:** *Lawrence of Arabia* starring Peter O'Toole won the Oscar for best picture; Japan's **Ozu**, to some, one of the greatest artists of the 20th century, made his last film, *Autumn Afternoon*.

● **Pop: The Beatles** scored their first No.1 single in the UK in October with "Love Me Do" while the US preferred **Elvis Presley's** "Return to Sender".

● **Births:** Entertainment/sport headliners born in 1962 include Jodie Foster, Demi Moore, Jon Bon Jovi, Jackie Joyner-Kersee, Rosie O'Donnell, MC Hammer, Pam Shriver, Tom Cruise, Ralph Fiennes.

● **Deaths:** Marilyn Monroe, William Faulkner, Eleanor Roosevelt and Herman Hesse. Adolf Eichmann was hanged.

● And finally, **a thousand years ago**, the massacre of Saint Brice on 13 November 1002 led to the Danish invasion of England.

Risky future

Managing risk will become an increasingly important challenge for society in the years ahead. A forthcoming OECD report will cast light on the nature of the problems we might face and provide governments and other decision-makers with key pointers for the way forward.

"By the end of the century, infectious diseases will no longer pose a significant threat to human beings, even in the poorest countries". Sounds fantastical? Yet, this was a prediction that underlay an accord called "Health For All 2000" signed by UN members in 1978. Around 13 million people die every year from infectious diseases, primarily from cholera, AIDS, tuberculosis and malaria.

Optimistic end-of-century forecasts like the UN one were commonplace. Their fault was not necessarily poor forecasting methodology or collective delusion, but probably a serious underestimation of the risks inherent in the predictions they were making. Today, it appears that the long-term trend of progress in the control and eradication of infectious diseases that fuelled this optimism has been reversed, as a consequence of the spread of drug-resistant microbes, the emergence of new devastating infections and the surge in unhelpful socio-economic factors like megacities with poor sanitary conditions, cross-border migration and the like.

Risks have always been around, but significant changes have occurred in recent years in the nature of major risks, and further changes can be expected in the future, both in range and in our capacity to manage them. Important factors include extreme and volatile weather conditions; population explosions; over-concentration and polarisation of wealth and economic activity; not to mention risks associated with technological and scientific discovery. And of course, there are risks from conflict and global terrorism.

Disasters can have huge social, economic and political impacts, as can our reactions to such risks. Take the terrorist attacks in the United States on 11 September 2001. Apart from the 3,000 deaths they caused, lost physical assets were estimated in the national accounts to amount to over US$15 billion. Rescue and clean-up amounted to some $11 billion. Lower Manhattan lost approximately 30% of its office space and scores of businesses disappeared. Some 200,000 jobs were destroyed or displaced, at least temporarily. Since the attacks, defence and security costs have risen.

Terrorism is at the fore of many people's minds now, but it should not obscure other important risks. New major hazards are emerging, some of which are characterised by extreme uncertainty, even irreversible harm. According to various measures, the damage caused throughout the world by catastrophic events, seen as the realisation of major risks, seems to have increased in recent decades. First, the observed number of natural disasters, including floods, storms and droughts, has risen dramatically since the beginning of the 1960s. In the past decade, such disasters have resulted annually in some 79,000 fatalities, and 200 million people affected.

Fortunately, these human costs are by and large smaller than in the first part of the century, thanks to progress in health care, urbanisation and construction, and emergency services. Financially, though,

damage has grown exponentially and is concentrated in developed countries (especially if insured damage is considered). Hurricane Andrew, that hit the United States and the Bahamas in August 1992, had 38 fatalities and caused economic losses close to $30 billion in 2000 prices. By comparison, Tropical Cyclone Gorky killed 138,000 people in Bangladesh in April 1991, with only modest insured losses.

Recorded technological disasters such as explosions, fires and transportation accidents have also risen rapidly in the last 40 years. Their human cost has increased in parallel. Most are relatively small events, but there are very large accidents too, such as the 1987 ferry collision in the Philippines (4,375 victims), the 1984 chemical factory accident in Bhopal, India (3,000 victims), or the 1986 nuclear reactor meltdown in Chernobyl (31 immediate victims, 135,000 reported affected, $2.8 billion of economic losses).

It is developing countries that suffer most from infectious diseases. But OECD countries also are vulnerable to risks of pandemics, the resistance of microbes, and food-borne diseases. Even tuberculosis, which was almost eradicated from Europe, has bounced back in recent years.

An important feature of modern disasters is that they can rapidly spread in space and time. To quote a major reinsurance company, disasters can reach "a level that can result in the collapse of the economic system of entire countries and may be even capable of affecting financial markets throughout the world" (Munich Re, 2000).

Admittedly, data on impacts of disasters have to be taken with caution. Better tools of observation highlight them more. Also, costs are hard to compare. The 1997 floods in Poland appear as a medium-size disaster in absolute terms (some $3 billion), but still came to 3% of GDP. Insured losses cannot be used as reliable indicators of economic loss either: infrastructure, which often represents a large share of physical damage, is not always insured. [Nor, increasingly, are risks from terrorism.] And the notion of disasters does not capture various risks with diffuse effects, such as pollution or asbestos.

Dealing with risks

So, we know the future will bring significant risks, the question is how to deal with them. This is a question the OECD, notably through its International Futures Programme, is busily examining in a major project on Emerging Systemic Risks in the 21st Century. The final report is expected to be published in March 2003. The project identifies a number of key areas in risk management in need of improvement. For instance, assessment and prevention of emerging risks need to be designed in a more forward-looking way, and implemented with greater coherence. In order to reduce the vulnerability of complex systems (such as critical information infrastructures and global supply chains of essential products) more attention needs to be paid to diversifying sources and providing alternative back-up solutions.

For instance, of growing concern is the issue of risk inside our ever more complex systems and the potential for negative consequences of an accident. According to US scientist Charles Perrow, the evaluation of the consequences of an accident is often limited to short-term losses, while the long-term consequences, that are admittedly much harder to estimate, can be considerable, too. An accident often results from the coincidence of two or several failings, each of which had been anticipated by the designers and system operators, but the conjunction of which was totally unexpected. The trouble is, the probability of such a conjunction increases with the system's degree of complexity. And a lack of prior knowledge can even lead to corrective action that will worsen the situation. In Mr Perrow's view, accidents in complex systems are not only difficult to predict, but are effectively "embedded" in the system.

Still, forewarned is forearmed, and risk management is not only essential, it appears to pay off, having been adapted to complex systems like nuclear reactors. The tricky point there is that accidents are so rare that there is little empirical evidence for study. As a result, for nuclear reactors, risk assessment is often based on failure mode and effect analysis. A first step consists in identifying all the ways in which the system's functioning can be altered, and finding all the possible chains of events (involving material or men) that could lead to such failure modes. Elementary failure probabilities are then estimated and rules of risk management are derived.

Nuclear risk management is about preventive action, though it involves a dose of the so-called precautionary principle, which consists of recognising the need for action against risks even in the absence of a clear assessment of their nature and magnitude. But whereas preventing a nuclear disaster implies acting against revealed and quantified risks, precaution implies acting against potential risks, in contexts often characterised by a high degree of scientific uncertainty and controversy. We might not really know if genetically modified food damages health or not, but we know what a nuclear accident might do. The notion of precaution has existed for a long time in food and health regulations. Numerous references to the precautionary principle can be found in international agreements, notably the 1992 Rio Declaration on Environment and Development and the 2000 Protocol on Biosafety. Various countries have integrated the principle into their national legislation and it has become a useful tool in international co-operation.

These are just some of the issues considered by the OECD International Futures Programme and more can be consulted in the documentation (see www.oecd.org/futurestudies). There are many unanswered questions which the forthcoming report, which draws on international expertise and experience, will endeavour to answer. But remember, no matter how many questions are resolved, there is always a risk something will go wrong. *RJC* ■

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Further information:

The Copenhagen Centre
Blegdamsvej 56
DK-2100 Copenhagen
Tel: +45 3528 8580
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The Copenhagen Centre

A hesitant recovery

Jean-Philippe Cotis, OECD Chief Economist

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This *Economic Outlook** is published at a time when the world recovery appears more hesitant and less widespread than expected. Activity bounced back early in 2002 but then lost momentum, in a context of weakening consumer and business confidence. This pattern of fits and starts is not unusual in the initial stages of a recovery but it has been associated with a further deterioration of equity and financial markets, which marks a clear departure from past business cycle experience.

The continuation of an already protracted phase of financial correction is not, however, a complete surprise. It underscores the very singular nature of the cycle currently unfolding, with its large initial capital overhang and financial imbalances.

With hindsight, it appears, indeed, that developments over the course of 2002 featured both normal and unique cyclical characteristics. The rebound at the beginning of the year was very much a technical recovery in the usual sense, signalling the end of a period of abrupt destocking. And the subsequent slowdown came as confirmation that sound economic and financial "fundamentals" had not yet been completely restored. The capital overhang had not yet been fully worked through and equity valuations were perhaps still too high.

Recent developments have also featured large growth differences between North America, continental Europe and Japan, prompting worries that stabilisation policies were not appropriately fine-tuning global demand in certain OECD areas. A closer examination of available evidence does not point, however, to a marked "cyclical divergence" across OECD countries. To the contrary, the recent cycle seems to have been highly synchronised. What we are witnessing might rather be a phenomenon of "structural divergences", with potential growth in North America far exceeding what can be observed and expected in other OECD regions.

Three questions

Looking forward, world economic prospects hinge on the answers to three fundamental questions. First, how far are OECD economies from the restoration of healthy financial fundamentals? Second, do stabilisation policies provide the appropriate cushion to prevent economic activity from undershooting in the short run, in the form of a double-dip? And finally, have sufficient structural reforms been undertaken for other parts of the OECD area to resume the catch-up process with North America?

The recent spate of corporate scandals and the fears it raised among investors should not mask the progress already realised towards sound stock market evaluations. Price/earnings ratios, for instance, have moved back closer to their historical "confidence band". In the United States, net household wealth relative to income is now close to its historical average, indicating a return to normality. However, economic agents, both businesses and households, are likely to adjust their spending behaviour to these changing parameters with a lag. This is why the present *Outlook* incorporates a period of sluggish spending in most of the OECD until mid-2003, followed by a progressive strengthening at the 2004 horizon.

This scenario is not without downside risks. In the short run, economies can easily undershoot their medium-term path, especially when confidence is weak. In countries, such as the United States, where strong personal consumption may run out of steam, the recovery of investment may come too late to take over as the main engine of demand. In other countries, where personal consumption remains sluggish, such as

Germany or Japan, current problems have an important structural and therefore longer-lasting dimension, with negative consequences for confidence and the strength of the expected recovery. In such a context, it is of course of utmost importance for macroeconomic policies to provide the appropriate cushioning. In this respect, the scenario put forward in the *Outlook* takes into account the recent loosening of US monetary policy as well as the Federal Reserve's willingness to act again, if necessary. It also incorporates an early 50 basis points cut from the ECB, in a context of weakening inflationary pressures and subdued recovery. Hence, in the near term, monetary conditions are set to remain extremely supportive in the United States and to be broadly accommodative in Europe.

Fiscal policy has been very supportive on both sides of the Atlantic, with Europe relying more on its large automatic stabilisers and the United States on discretionary stimulation. Going forward, it is assumed that, as a general rule, automatic stabilisers are allowed to operate, while discretionary policy errs on the side of caution to preserve the long-term sustainability of public finance, following, in the case of large European countries, a period of ill-timed loosening during the good years of the late 1990s. Indeed, policy-makers in a number of large OECD countries are currently facing a dilemma: because past fiscal policies proved less than principled, there may be, at present, a conflict between the needs of economic stabilisation and the pursuit of long-term sustainability. As a result the task of conjunctural stabilisation may fall disproportionately on monetary policy.

This uneasy outcome presents a number of countries with the challenge of designing better fiscal rules or at least improving their implementation and clarifying their interpretation. The challenge is, indeed, to formulate fiscal rules that are well-designed, transparent, enforceable and likely to work both during upswings and downswings. The perfect rule probably does not exist. But whatever the rule chosen, it should take account of cyclical influences on budget balances, let built-in stabilisers play, and focus on achieving long-term sustainability in light of demographic ageing. The present issue of the *Outlook* pays particular attention to this very important question of fiscal rules.

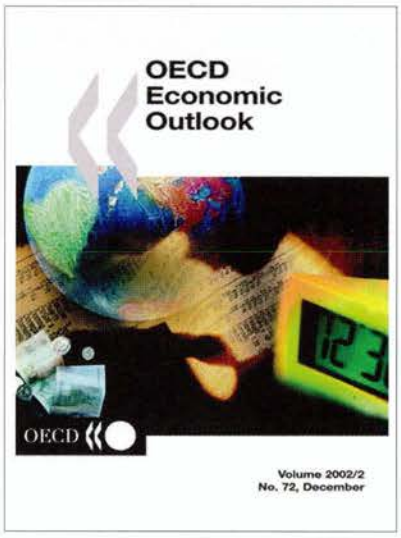
A distinctive feature of the difficulties currently facing a number of large OECD countries is how entangled macro and structural policies are at present. In Japan, decisive structural reform of the banking sector is now overdue in order to restore at least some effectiveness to monetary policy. Deflation will not come to an end without economic reforms, while economic reforms could worsen deflation in the short run if not accompanied by supportive macro policies. Without wholesale implementation, the current plans of the Japanese authorities to restore the fitness of the banking sector will not succeed and potential growth will remain less than modest. In Germany, the search for better-functioning labour markets, drawing on the recent successes of other European countries as well as on the findings of the Hartz Commission, will be crucial for lifting potential growth in the medium term. It may also provide a decisive spark for the recovery by boosting household and business confidence and improving the resilience of the economy in the face of future conjunctural shocks.

As the experience of successful countries amply shows, good structural policies can provide a decisive contribution to short-term stabilisation, thus giving greater room for monetary and fiscal policies to balance more effectively their short and long-run commitments.

From a more general perspective, it seems increasingly likely that structural policies will become an integral part of the policy mix, even in a very short-run sense. As the experience of successful countries amply shows, good structural policies can provide a decisive contribution to short-term stabilisation, thus giving greater room for monetary and fiscal policies to balance more effectively their short and long-run commitments.

Beyond the short run, economic reform remains an essential ingredient for long-term growth. There is, for instance, a strong case for action to raise participation rates among older persons in a large number of European countries. This is important not only for the sake of facing the public finance consequences of ageing but also with a view to raising long-term growth and bringing it closer to the Lisbon objectives. In this area, the printed version of the *Outlook* will show, in a very thorough way, that much needs to be done to provide ageing workers with financial signals that do not discourage them from remaining economically active.

The printed issue of the *Outlook* will also explore in some depth the consequences of increased product market competition on OECD-wide growth and employment, drawing extensively on recent empirical OECD and outside research. Here again, it appears that the importance of good structural policies should not be underestimated. ■



* This article is extracted from the latest *OECD Economic Outlook*

References

- Order the *OECD Economic Outlook* No. 72, December 2002, at www.oecd.org/bookshop

General outlook

The global recovery is slow and fragile. In the initial stages, its momentum hinges on developments in the United States. By mid-2003, the support from monetary and fiscal policy, in conjunction with ongoing improvements in corporate balance sheets, should lead to the pick-up in US business fixed investment needed to underpin the expansion.

In the euro area, exports have been the main motor of output growth in 2002, but private consumption is expected to firm in 2003, as actual and perceived inflation slowly ease and confidence improves. Higher consumer demand should be accompanied by renewed inventory accumulation, with business investment benefiting, later in the projection period, from both higher domestic spending and improving export demand. However, performance is not projected to be uniform. Germany and Italy in particular appear to have less domestic stamina than other economies within and outside the euro area.

In Japan, growth has come out of negative territory, but this partly reflects slower destocking, and activity is projected to remain weak against the backdrop of continued, if relatively stable, deflation. Growth still heavily depends on exports, which expanded briskly during the first half of 2002 but slowed over the summer. Structural adjustment in the enterprise sector continues to weigh on corporate investment and employment, and high unemployment and weak income growth on household spending.

World trade decelerated markedly during the downturn but is projected to rebound in the course of the recovery. With the United States and Europe sharing similar recovery patterns, and Japanese domestic demand persistently weak, the large current external imbalances could widen further.

Outlook summary[a]

	2002	2003	2004
Real GDP (% change)			
United States	2.3	2.6	3.6
Japan	-0.7	0.8	0.9
Euro area	0.8	1.8	2.7
Total OECD	1.5	2.2	3.0
Inflation (%)			
United States	1.1	1.3	1.3
Japan	-1.0	-1.6	-1.4
Euro area	2.2	1.9	1.8
OECD less Turkey	1.5	1.4	1.3
Total OECD	2.2	1.8	1.6
Unemployment (%)			
United States	5.8	6.0	5.7
Japan	5.5	5.6	5.6
Euro area	8.3	8.5	8.3
Total OECD	6.8	6.9	6.7
Current account balance (% of GDP)			
United States	-4.9	-5.1	-5.3
Japan	3.2	3.8	4.2
Euro area	0.9	0.9	1.2
Total OECD	-1.2	-1.2	-1.2
Short-term interest rate[b] (%)			
United States	1.8	1.6	3.4
Japan	0.1	0.0	0.0
Euro area	3.3	3.0	3.6
World trade (% change)	2.6	7.7	8.8

a. Assumptions underlying the projections include:
- *no change in actual and announced fiscal policies;*
- *unchanged exchange rates as from 4 November 2002; in particular 1$ = 122.50 yen and 1.003 euros;*
- *the cut-off date for other information used in the compilation of the projections is 8 November 2002.*

b. US: 3-month eurodollars; Japan: 3-month CDs; euro area: 3-month interbank rates.

Source: OECD Economic Outlook, No. 72, December 2002

Monetary policy is expansionary against a background of low inflation

Policy-controlled interest rates in the three largest OECD currency areas (United States, euro area, Japan) long remained on hold at low levels following the 2001 cuts. This wait-and-see posture was related to a weaker than expected upturn and mixed signals about the outlook. Recently, however, risks to growth gained prominence and on both sides of the Atlantic rates were brought down by another 50 basis points. Compared with past downturns, lower inflation and enhanced credibility allowed the US Federal Reserve to ease more substantially, and the current level of 1.25% for federal funds is the lowest in over four decades. In the euro area, inflation has exceeded 2% most of the time during the last two and a half years, and perceived inflation – as captured in household surveys – has been higher still following the changeover to euro cash. Even if the Eurosystem is only aiming to keep inflation below 2% over the medium term, this made it more difficult to cut interest rates. On the

other hand, the substantial appreciation of the euro since last spring helps damp down inflation, as does a widening output gap. The Eurosystem should stand ready to move further if prospects were to weaken substantially.

In Japan, the nominal policy rate has essentially remained at the zero bound for some time but deflation expectations are entrenched. Moreover, the yen has been appreciating, notwithstanding massive forex interventions in spring 2002. Real short-term interest rates remain stuck at over 1% and bank lending continues to contract. Indeed, the long-standing problem of bad loans blunts the effectiveness of monetary policy impulses. New measures have been announced recently to address it, including purchases by the Bank of Japan of equity held by banks, tighter loan quality assessments, enhanced provisioning requirements, and accelerated resolution of non-performing loans. How effective they will be has yet to be seen. The risk persists that fresh public money could be channelled to moribund companies which are undercutting healthier competitors. In addition, the playing field in the banking sector is still tilted in favour of some public institutions, thus undermining private banks' profitability.

Fiscal policy: the need for spending restraint

Fiscal positions have sharply deteriorated during the downturn, both in actual and in cyclically-adjusted terms, following the substantial strides in fiscal consolidation made during the 1990s. The momentum of fiscal adjustment weakened in the late 1990s. In a number of countries (particularly in the larger euro area member states), the opportunity was lost during these relatively buoyant growth years to bring budgets into surplus or at least close to balance, which would have put governments in a better position to let the automatic stabilisers operate unimpeded during the downturn. Overconfidence about the permanence of tax receipts coupled with overoptimistic growth projections (reminiscent of the mid-1970s and late 1980s) served to justify tax-cutting and new spending initiatives. However, the room for new tax cuts is now limited or non-existent, especially where spending is being allowed to rise rapidly. In general, engineering tax reductions will require effective restraint on the spending side, in terms of both *ex ante* budgetary planning and *ex post* execution. Once the recovery is underway, it will be of utmost importance to consolidate swiftly, if structural balance and tax objectives are to be met. Robust and effectively applied fiscal rules can be of assistance in this respect (see the special chapter on this subject in *Economic Outlook* No. 72 for more details).

While fiscal sustainability is increasingly a longer-term concern in many OECD countries, it is a more obvious and immediate one in Japan. Current OECD estimates suggest that just to stabilise the gross debt-to-GDP ratio at the extremely high level of 180% by 2010, and on fairly optimistic assumptions, a general government primary surplus of 1.75% is needed, which leaves a gap of over 8 percentage points of GDP as compared to the present primary deficit. Without a credible framework for consolidation, there is a real and growing danger of rising long-term interest rates and/or household saving, if consumers cut spending in the expectation of increased taxes to finance future debt payment. Fiscal consolidation efforts should be centred on cutting and redirecting spending towards more productive uses.

Upside risks should not be ignored, given the sheer size of the policy stimulus that is still working its way through, and in light of the precedent of the 1987 equity market collapse, which was followed by an unexpectedly rapid and strong rebound. But downside risks seem to dominate at this juncture. New financial market shocks might hit, which would further defer the revival of corporate investment.

Financial headwinds

The effectiveness of the aforementioned macroeconomic stimulus measures is likely to have been diminished, and the investment recovery put back, because of financial developments. Price falls in equity markets have contributed to increases in the cost of capital for companies and reduced household wealth. Financial institutions, which generally speaking entered the downturn in good health, are also being affected, with negative implications for credit terms and availability. In a context of starker legal and reputation risks, businesses are now likely to put more emphasis on cleaning up balance sheets and generating cash rather than on expanding operations, which might also depress investment. Furthermore, a number of firms need to replenish their in-house pension schemes, which with the stock market collapse have turned out to be underfunded.

Tensions and risks

Uncertainty has worsened since the spring edition of the *OECD Economic Outlook*, as reflected in bond and stock market nervousness. Upside risks should not be ignored, given the sheer size of the policy stimulus that is still working its way through, and in light of the precedent of the 1987 equity market collapse, which was followed by an unexpectedly rapid and strong rebound. But downside risks seem to dominate at this juncture. New financial market shocks might hit, which would further defer the revival of corporate investment. Household wealth may decline if property prices were to fall, dragging down consumption. A disorderly unwinding of international imbalances cannot be ruled out. Some emerging markets are in a precarious position and a crisis in one or several of them might have adverse spillover effects. Last but not least, a surge in oil prices could lie ahead. ■

- This is based on the *OECD Economic Outlook* No. 72, December 2002. For more detailed analysis, graphs, data and background, the full edition can be ordered on www.oecd.org/bookshop, or by writing to sales@oecd.org, or by using the order form in this edition of the *OECD Observer*.

United States: Uneven recovery

The recovery has proceeded somewhat unevenly. While low interest rates and disposable income gains have spurred household spending, much of the bounce-back in GDP in the first half of the year was due to inventory adjustments. Government purchases have also supported demand, but a turnaround in business fixed investment has not yet materialised. Growth appears set to slow somewhat, as the impetus from household purchases wanes with lower equity prices and a stagnant labour market. Later, strengthening export markets and a sharper pickup in investment should underpin a more robust expansion. Inflation is likely to remain quiescent, reflecting persistent slack in product and labour markets, but the current-account deficit may widen further.

Monetary policy has remained supportive. With recent signs that the labour market is weak and inflation subdued, interest rates should be kept low for the time being. But once the expansion gathers pace, they will need to be raised, moving steadily towards a neutral stance. Fiscal policy has loosened considerably as a result of new spending priorities and tax measures, and renewed restraint will be needed to re-establish fiscal discipline.

KEY ECONOMIC FORECAST & INDICATORS

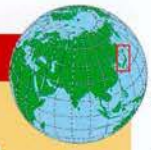
UNITED STATES

POPULATION (000s)	275 372
AREA (000 SQ KM)	9 372
CURRENCY	DOLLAR
GDP (BILLION USD) – 2001	10 143.2
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	79.4, 73.9
TOTAL LABOUR FORCE (000s)	142 054
GOVERNMENT TYPE:	FEDERAL REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	2.3	2.6	3.6
HOUSEHOLD SAVINGS RATIO	3.7	4.5	4.7
CONSUMER PRICE INDEX	1.6	1.9	1.8
SHORT-TERM INTEREST RATE (%)*	1.8	1.6	3.4
UNEMPLOYMENT RATE (%)	5.8	6.0	5.7
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-3.1	-3.0	-2.7
CURRENT ACCOUNT BALANCE (% GDP)	-4.9	-5.1	-5.3

* 3-month euro-dollar

Source: OECD



KEY ECONOMIC FORECAST & INDICATORS

JAPAN

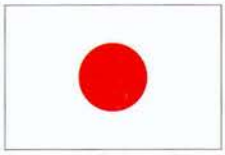
POPULATION (000s)	126 926
AREA (000 SQ KM)	378
CURRENCY	YEN
GDP (BILLION USD) – 2001	3 364.5
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	84.6, 77.6
TOTAL LABOUR FORCE (000s)	67 660
GOVERNMENT TYPE:	CONSTITUTIONAL MONARCHY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	-0.7	0.8	0.9
HOUSEHOLD SAVINGS RATIO	9.9	9.9	10.1
CONSUMER PRICE INDEX	-1.1	-1.1	-1.1
SHORT-TERM INTEREST RATE (%)*	0.1	0.0	0.0
UNEMPLOYMENT RATE (%)	5.5	5.6	5.6
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-7.9	-7.7	-7.8
CURRENT ACCOUNT BALANCE (% GDP)	3.2	3.8	4.2

* 3 month CDs

Source: OECD

Japan: Dealing with deflation



The economy recovered during the first half of 2002, underpinned by a low level of inventories and a sharp increase in exports. However, these factors have already weakened and, with domestic demand likely to be constrained by flat household incomes, real GDP growth is projected to ease to around 1% during the rest of the year and to continue at that rate in 2003 and 2004. Financial sector strains, the need to issue a large volume of public debt without pushing up interest rates, and the possibility that deflationary forces could strengthen represent major downside risks to the projection.

The resolution of non-performing loans should be accelerated in line with the government's new goal, accompanied by further structural reforms and if necessary by the direct injection of public funds. Monetary policy should take the lead in dealing with deflation by increasing liquidity further through the purchase of a wider range of financial assets. While the fiscal stance should for the moment remain neutral, it will also need to be sensitive to the speed and scale of the resolution of bad debts. Fiscal policy must now be placed in a medium-term consolidation framework going beyond the government's present plan and incorporating relatively short-term targets for real expenditures.

KEY ECONOMIC FORECAST & INDICATORS

GERMANY

POPULATION (000s)	82 205
AREA (000 SQ KM)	357
CURRENCY	EURO
GDP (BILLION USD) – 2001	2 185.3
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	80.7, 74.7
TOTAL LABOUR FORCE (000s)	40 104
GOVERNMENT TYPE:	FEDERAL REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	0.4	1.5	2.5
HOUSEHOLD SAVINGS RATIO	10.4	10.1	10.2
CONSUMER PRICE INDEX	1.6	1.4	1.1
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	7.8	8.1	7.7
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-3.7	-3.3	-2.6
CURRENT ACCOUNT BALANCE (% GDP)	2.0	2.3	2.8

* 3-month interbank rate

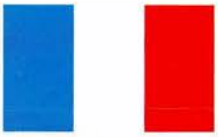
Source: OECD

Germany: Raising the growth path

Output grew slightly in the first half of 2002, as strengthening net exports more than offset a continuing fall in domestic demand. The recession in equipment investment deepened and private consumption continued to contract. The stronger external contribution to growth was due to a rise in exports but, more importantly, a marked fall in imports reflecting the weakness in domestic demand. While destocking might have reached its trough, growth remains very weak and unemployment is increasing. Growth should pick up in 2003, driven by strengthening exports. As activity broadens in 2004, GDP is projected to grow above potential, at some 2.5%.

The general government deficit is projected to total 3.7% of GDP in 2002 and remain above 3% in 2003. Further expenditure reforms are required to reduce the cyclically-adjusted deficit in a sustainable way, and measures need to be taken to raise the growth path of the economy, notably with respect to improving the functioning of labour markets and streamlining government transfers.

France: Fiscal concern



After picking up sharply at the beginning of the year, GDP growth slowed to 1.6% in the second quarter. Demand was supported by relatively robust personal and government consumption expenditure, while investment spending and stockbuilding remained weak. Growth has lost momentum during the second half of the year as consumer and business confidence weakened markedly. The slowdown appears to have halted the trend rise in core inflation, while the unemployment rate has remained broadly stable at a level close to its structural rate. Looking forward, growth is projected to remain moderate before slower rates of destocking and a pick-up in external demand prompt a recovery, with output increasing by somewhat less than 2% and 3% in each of 2003 and 2004.

In its execution, the 2002 budget represented a substantial easing of fiscal policy, with almost half of the slippage being structural in nature. The draft budget for 2003 does not include well identified measures to redress these overruns, so that the fiscal situation may deteriorate further if cyclical weakness persists. In order to prevent the overall debt from exceeding 60% of GDP and so as to ensure the future sustainability of public finances, especially in the face of rising pension obligations, substantial budgetary savings will need to be found in the near future.

KEY ECONOMIC FORECAST & INDICATORS

FRANCE

POPULATION (000s)	58 892
AREA (000 SQ KM)	549
CURRENCY	EURO
GDP (BILLION USD) – 2001	1 525.5
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	82.5, 75.0
TOTAL LABOUR FORCE (000s)	26 306
GOVERNMENT TYPE:	REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.0	1.9	2.9
HOUSEHOLD SAVINGS RATIO	11.9	11.3	10.5
CONSUMER PRICE INDEX	1.9	1.8	1.8
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	9.0	9.4	9.1
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-2.7	-2.9	-2.5
CURRENT ACCOUNT BALANCE (% GDP)	1.8	1.4	1.4

* 3-month interbank rate

Source: OECD

United Kingdom: Within the rules

The economy has weathered the downturn relatively well and the recovery should compare favourably with that of the other major European countries. Strong household demand has been a key element, supported by low interest rates and rising housing wealth. Rapidly growing public expenditure is providing additional support to activity and will continue to do so, being gradually supplemented by growing external demand and a revival of investment.

Monetary and fiscal policy have provided a stable macroeconomic environment to date. However, the current surge in house prices creates a dilemma for monetary policy as to whether to act before any potential bubble becomes a risk to macroeconomic stability. The large increases in public expenditure, needed to address deep-seated structural problems in education, health and transport, are not expected to break the authorities' fiscal rules. However the government faces a challenge in ensuring that the higher spending is fully translated into better public services.

KEY ECONOMIC FORECAST & INDICATORS

UNITED KINGDOM

POPULATION (000s)	59 766
AREA (000 SQ KM)	245
CURRENCY	POUND
GDP (BILLION USD) – 2001	1 526.1
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	79.8, 75.0
TOTAL LABOUR FORCE (000s)	29 412
GOVERNMENT TYPE: CONSTITUTIONAL MONARCHY	

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.5	2.2	2.5
HOUSEHOLD SAVINGS RATIO	5.1	5.4	6.0
CONSUMER PRICE INDEX	2.0	1.8	2.1
SHORT-TERM INTEREST RATE (%)*	4.0	4.2	5.0
UNEMPLOYMENT RATE (%)	5.2	5.2	4.9
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-1.4	-1.4	-1.3
CURRENT ACCOUNT BALANCE (% GDP)	-1.7	-2.3	-3.0

* 3-month interbank rate

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

ITALY

POPULATION (000s)	57 189
AREA (000 SQ KM)	301
CURRENCY	EURO
GDP (BILLION USD) – 2001	1 510.6
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1997	81.6, 75.3
TOTAL LABOUR FORCE (000s)	23 720
GOVERNMENT TYPE: REPUBLIC	

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	0.3	1.5	2.5
HOUSEHOLD SAVINGS RATIO	15.8	16.3	16.1
CONSUMER PRICE INDEX	2.5	2.3	1.9
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	9.2	9.2	9.1
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-2.3	-2.1	-2.8
CURRENT ACCOUNT BALANCE (% GDP)	-0.8	-0.5	-0.2

* 3-month interbank rate

Source: OECD

Italy: Decisive action needed

Growth in the first half of 2002 was minimal, and is expected to have recovered only slightly in the second half of the year. The economy is projected to gather strength during 2003 and in 2004. A pick-up in world trade is likely to boost exports, while low real interest rates should underpin a revival in domestic demand. Inflation is expected to decline to below 2% by 2004.

The budget deficit remains high, with the risk that progress on debt reduction will stall. Wage settlements geared to targets and developments at the European level would yield beneficial effects on inflation, employment and competitiveness. At the same time, there is a need to strengthen the underpinnings of growth through more decisive action to liberalise product markets and to improve the functioning of the labour market.

KEY ECONOMIC FORECAST & INDICATORS

CANADA

POPULATION (000s)	30 750
AREA (000 SQ KM)	9 976
CURRENCY	DOLLAR
GDP (BILLION USD) – 2001	893.2
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	81.7, 76.3
TOTAL LABOUR FORCE (000s)	16 059
GOVERNMENT TYPE:	CONFEDERATION

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	3.3	3.1	3.5
HOUSEHOLD SAVINGS RATIO	5.3	5.3	5.7
CONSUMER PRICE INDEX	2.2	2.7	2.3
SHORT-TERM INTEREST RATE (%)*	2.6	3.5	4.5
UNEMPLOYMENT RATE (%)	7.6	7.3	6.9
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	0.6	0.5	0.6
CURRENT ACCOUNT BALANCE (% GDP)	1.9	2.2	2.4

* 3-month deposit rate

Source: OECD

Canada: Steady and strong

After recovering vigorously from last year's mild downturn, economic activity in Canada seems to have maintained its momentum, in contrast to the United States. Employment growth has remained strong and is set to continue so, albeit at a slower pace. Although some signs of softening have recently appeared, partly connected to global uncertainties, the sustained expansion of consumer demand and a further pick-up of business investment should ensure that any moderation will be mild and short-lived, and growth should return to above potential rates some time next year.

The budget surplus has declined significantly and is expected to remain modest in coming years, leaving limited room for new spending. The monetary stance is still expansionary. With the economy already close to full capacity and core inflation near the top of the target range, a gradual but steady monetary tightening will be required to keep price pressures under control.

Australia: Positive horizons

The economy continued to perform strongly in the first half of 2002, as buoyant domestic demand more than offset the weakness of exports. With monetary conditions remaining supportive and the global environment expected to improve, economic growth is projected to remain robust, despite the current farm drought and a likely downturn in the residential property sector. The labour market may improve further, while the combination of wage moderation and sizeable productivity gains will help keep labour costs and inflation under control.

The favourable economic outlook should permit a more neutral setting of monetary and fiscal policies, to lock in price stability and ensure budget balance over the economic cycle. Further decentralisation of wage bargaining should help to lower the still high structural unemployment, while reform of the income support system should aim at strengthening the incentives of welfare recipients to participate in gainful employment.

KEY ECONOMIC FORECAST & INDICATORS

AUSTRALIA

POPULATION (000s)	19 157
AREA (000 SQ KM)	7 687
CURRENCY	DOLLAR
GDP (BILLION USD) – 2001	517.7
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	82.0, 76.6
TOTAL LABOUR FORCE (000s)	9 701
GOVERNMENT TYPE:	INDEPENDENT FEDERAL STATE, UK MONARCH

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	3.5	3.7	3.8
HOUSEHOLD SAVINGS RATIO	2.5	3.0	3.3
CONSUMER PRICE INDEX	3.0	2.9	2.7
SHORT-TERM INTEREST RATE	4.8	5.4	5.5
UNEMPLOYMENT RATE (%)	6.3	6.1	6.0
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	0.1	0.4	0.6
CURRENT ACCOUNT BALANCE (% GDP)	-3.0	-2.9	-2.8

Source: OECD

Austria: Export driven

Economic activity has been slowly picking up since the end of 2001. However, the expansion has mainly been supported by firmer export growth, as domestic demand has remained weak and imports have fallen. Growth should firm from mid-2003 as world trade recovers, but unemployment is unlikely to begin falling before 2004.

The general government budget, which was balanced in 2001, is likely to be in deficit this year by about 1.5% of GDP, and improve only marginally in 2003. A durable path towards a balanced budget requires both the full implementation of planned fiscal consolidation measures at all levels of government and the replacing of one-off revenue measures with lasting savings.

KEY ECONOMIC FORECAST & INDICATORS

AUSTRIA

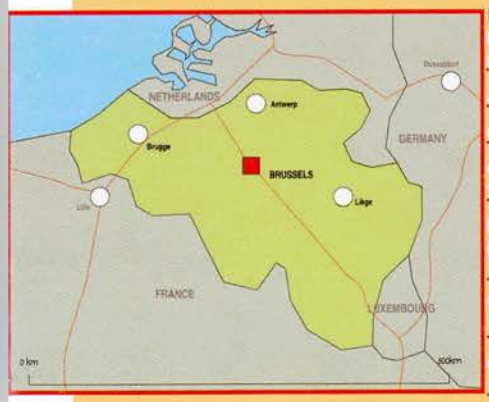
POPULATION (000s)	8 110
AREA (000 SQ KM)	84
CURRENCY	EURO
GDP (BILLION USD) – 2001	226.0
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	81.2, 75.4
TOTAL LABOUR FORCE (000s)	3 915
GOVERNMENT TYPE:	FEDERAL REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	0.7	1.9	2.6
HOUSEHOLD SAVINGS RATIO	6.2	6.1	6.4
CONSUMER PRICE INDEX	1.7	1.6	1.7
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	5.6	5.7	5.3
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-1.6	-1.4	-0.8
CURRENT ACCOUNT BALANCE (% GDP)	-0.8	-0.7	-0.6

* 3-month interbank rate

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



BELGIUM

POPULATION (000s)	10 251
AREA (000 SQ KM)	31
CURRENCY	EURO
GDP (BILLION USD) – 2001	276.9
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	80.8, 74.4
TOTAL LABOUR FORCE (000s)	4 455
GOVERNMENT TYPE:	CONSTITUTIONAL MONARCHY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	0.7	2.1	2.8
HOUSEHOLD SAVINGS RATIO	14.5	14.3	13.7
CONSUMER PRICE INDEX	1.6	1.4	1.7
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	6.9	6.9	6.8
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	0.0	0.0	0.5
CURRENT ACCOUNT BALANCE (% GDP)	5.8	5.8	6.0

* 3-month interbank rate

Source: OECD

Belgium: Debt challenge remains

Economic growth is largely determined by international demand conditions and is likely to remain weak until early 2003. Thereafter growth is projected to pick up to 2.75% in 2004 in line with a recovery of export markets. Underlying inflation is likely to fall to 1.75%, reflecting lower increases in unit labour costs.

Fiscal policy has sought to offset the cyclical deterioration in the budget position and sustained consolidation will be required over the coming years to keep debt reduction on track.

KEY ECONOMIC FORECAST & INDICATORS

CZECH REPUBLIC

POPULATION (000s)	10 272
AREA (000 SQ KM)	79
CURRENCY	KORUNA
GDP (BILLION USD) – 2001	155.2
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	78.4, 71.7
TOTAL LABOUR FORCE (000s)	5 186
GOVERNMENT TYPE:	PARLIAMENTARY DEMOCRACY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	2.5	3.3	3.6
HOUSEHOLD SAVINGS RATIO	11.6	13.1	13.7
CONSUMER PRICE INDEX	2.1	2.5	3.1
SHORT-TERM INTEREST RATE (%)	3.6	3.8	4.4
UNEMPLOYMENT RATE (%)	7.4	7.4	7.4
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-5.7	-6.3	-5.7
CURRENT ACCOUNT BALANCE (% GDP)	-4.2	-4.3	-4.2

Source: OECD

Czech Republic: A better year ahead

Growth has slowed to about 2.5% in 2002, essentially reflecting a slowdown of external demand as private consumption has remained robust and public consumption increased strongly. Falling food prices and an appreciating currency have contributed to a marked decline in inflation. The big drop in tourism receipts in the aftermath of recent floods can be expected to be reversed and the pace of expansion is projected to pick up in 2003 and 2004, following a broadening recovery in western Europe.

The fiscal policy stance has loosened excessively this year and should be tightened. International competitiveness has remained weak, despite strong disinflation and even though the authorities have managed to limit exchange-rate appreciation in the face of massive foreign direct investment inflows. A determined pursuit of structural reforms is needed to improve the performance of the domestically-owned corporate sector, increase trend productivity growth and bolster international competitiveness.

Denmark: Ahead of the curve?

Denmark is already enjoying a recovery in private consumption and stronger exports. The pace of activity is projected to pick up gradually as the international situation improves and firms regain sufficient confidence to increase investment and expand employment. But unemployment is already lower than its structural rate and labour shortages accompanied by accelerating wages could re-emerge as the expansion quickens.

The authorities continue to steer a prudent fiscal course, and the "tax freeze" should help to constrain public consumption growth in the face of strong upward pressures. Recent initiatives to get more people into work and reduce reliance on benefits are welcome, and further reforms to boost participation should be pursued.

KEY ECONOMIC FORECAST & INDICATORS

DENMARK

POPULATION (000s)	5 340
AREA (000 SQ KM)	43
CURRENCY	KRONE
GDP (BILLION USD) – 2001	160.0
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	79.0, 74.2
TOTAL LABOUR FORCE (000s)	2 853
GOVERNMENT TYPE:	CONSTITUTIONAL MONARCHY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.5	2.0	2.5
HOUSEHOLD SAVINGS RATIO	4.8	5.3	4.9
CONSUMER PRICE INDEX	2.4	2.0	2.2
SHORT-TERM INTEREST RATE (%)	3.5	3.2	3.8
UNEMPLOYMENT RATE (%)	4.3	4.2	4.1
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	2.2	2.4	2.9
CURRENT ACCOUNT BALANCE (% GDP)	2.4	2.8	2.9

Source: OECD

Finland: Dealing with ageing

Output growth continues to be volatile, with a surge in the second quarter mainly due to exports. As international demand picks up, GDP growth should reach 3% next year, in line with potential, and may exceed it in 2004. If the export recovery is delayed there is a risk of labour shedding and weakening domestic demand, which until now has held up reasonably well.

The general government account has remained in surplus. However, slippage against fiscal targets needs to be addressed, especially given a rapidly ageing population. In this context, the recent agreement on pension reform, which increases incentives to work longer and provides adjustments to reflect increasing life expectancy, is welcome. Further improvements in the labour market will require additional reform of the tax and benefit systems to raise work incentives and increase demand for low-skilled workers.

KEY ECONOMIC FORECAST & INDICATORS

FINLAND

POPULATION (000s)	5 181
AREA (000 SQ KM)	338
CURRENCY	EURO
GDP (BILLION USD) – 2001	134.5
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	81.0, 73.8
TOTAL LABOUR FORCE (000s)	2 600
GOVERNMENT TYPE:	REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.6	3.2	3.8
CONSUMER PRICE INDEX	1.7	2.0	1.8
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	9.3	9.5	9.4
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	3.2	2.9	3.6
CURRENT ACCOUNT BALANCE (% GDP)	6.5	6.5	7.6

* 3-month interbank rate

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

GREECE

POPULATION (000s)	10 543
AREA (000 SQ KM)	132
CURRENCY	EURO
GDP (BILLION USD) – 2001	188.8
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1998	80.7, 75.5
TOTAL LABOUR FORCE (000s)	4 437
GOVERNMENT TYPE:	REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	3.6	3.9	3.8
CONSUMER PRICE INDEX	3.9	3.3	3.2
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	10.1	9.8	9.5
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-1.1	-1.0	-0.7
CURRENT ACCOUNT BALANCE (% GDP)	-6.5	-6.1	-5.8

* 3-month interbank rate

Source: OECD

Greece: More progress needed

Following a brief slowdown in 2002, growth is projected to recover to around 4% in 2003 and 2004, reflecting buoyant domestic demand and stronger export demand. This should lead to a further decline in the still-high unemployment rate. Inflation is expected to decelerate over the projection period, influenced by lower food and energy prices. Inflationary pressures remain, though, because of the strong cyclical position of the economy.

Further efforts to control primary government expenditure are required to reduce the still high debt-to-GDP ratio and ensure fiscal sustainability. Recent reforms of the social security and tax systems are steps in that direction. More rapid progress in addressing the remaining structural rigidities in the labour market, a faster opening of network industries to competition and bold reforms in public administration would help towards the convergence of incomes to European Union levels.

KEY ECONOMIC FORECAST & INDICATORS

HUNGARY

POPULATION (000s)	10 024
AREA (000 SQ KM)	93
CURRENCY	FORINT
GDP (BILLION USD) – 2001	132.2
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	75.6, 67.1
TOTAL LABOUR FORCE (000s)	4 112
GOVERNMENT TYPE:	PARLIAMENTARY DEMOCRACY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	3.1	4.1	4.0
CONSUMER PRICE INDEX	5.4	5.2	4.2
SHORT-TERM INTEREST RATE (%)	9.2	9.9	10.1
UNEMPLOYMENT RATE (%)	5.5	5.3	5.3
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-6.7	-5.0	-4.0
CURRENT ACCOUNT BALANCE (% GDP)	-5.3	-5.4	-5.5

Source: OECD

Hungary: Pressure on monetary policy

GDP is likely to expand by more than 3% in 2002 led by strong domestic demand. Although competitiveness has weakened and the net contribution from trade has become strongly negative, the growth impulse will carry over to 2003, when international recovery will add further stimulus.

Ongoing fiscal loosening is putting pressure on monetary policy. Fiscal policy needs to be tightened substantially, both to forestall overheating and to allow monetary policy to be more supportive of competitiveness so as to avoid undue deterioration of the foreign balance and a negative impact on foreign direct investment inflows. Labour market reforms should support employment adjustments in the government sector and encourage business sector demand for low-skilled labour, in order to provide a boost to Hungary's low employment rate.

Iceland: Improved fundamentals

With robust export growth largely offsetting the contraction in domestic demand, the economic downturn has been milder and shorter than expected. It has, nevertheless, sufficed to correct the sizeable external deficit and high inflation that had emerged in recent years. Improved fundamentals have allowed some monetary easing and set the stage for a gradual recovery.

As inflation has moved well within the target band, further interest cuts might be warranted. However, steady monetary tightening will probably be required later in the projection period when the output gap is expected to close and major investment projects are likely to get underway. Public spending discipline will be crucial to offset the fiscal effect of both tax cuts and infrastructure expenditure related to those projects.

KEY ECONOMIC FORECAST & INDICATORS

ICELAND

POPULATION (000s)	281
AREA (000 SQ KM)	103
CURRENCY	KRÓNA
GDP (BILLION USD) – 2001	8.7
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	81.4, 77.6
TOTAL LABOUR FORCE (000s)	160
GOVERNMENT TYPE:	CONSTITUTIONAL REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	0.0	1.7	3.7
CONSUMER PRICE INDEX	5.2	2.8	2.8
SHORT-TERM INTEREST RATE (%)	8.6	6.8	8.0
UNEMPLOYMENT RATE (%)	2.8	2.8	2.3
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	0.3	0.0	0.3
CURRENT ACCOUNT BALANCE (% GDP)	-0.1	-0.2	-1.2

Source: OECD

Ireland: Public sector challenge

Growth in the first half of this year was underpinned by an unanticipated surge in public consumption and strong exports, both of which should fade. Nonetheless, output growth is projected to pick up gradually from 3.5% this year to 4.5% in 2004, supported by private consumption and a recovery of investment. Inflation is projected to edge down, but if wage growth fails to decelerate there would be a further loss of competitiveness and slower growth.

The government needs to move quickly to bring the rapid growth of public employment and consumption under control so as to maintain needed improvements to infrastructure without increasing the budget deficit. The recommended rise in public sector wages should only be granted against commitments to improve work practices. There is no room for another national wage agreement based on tax cuts.

KEY ECONOMIC FORECAST & INDICATORS

IRELAND

POPULATION (000s)	3 787
AREA (000 SQ KM)	70
CURRENCY	EURO
GDP (BILLION USD) – 2001	120.3
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	79.1, 73.9
TOTAL LABOUR FORCE (000s)	1 746
GOVERNMENT TYPE:	REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	3.6	3.6	4.4
CONSUMER PRICE INDEX	4.7	4.3	3.8
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	4.4	5.1	5.3
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-0.5	-1.3	-1.8
CURRENT ACCOUNT BALANCE (% GDP)	-0.2	-1.2	-1.3

* 3-month interbank rate

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

KOREA

POPULATION (000s)	47 275
AREA (000 SQ KM)	99
CURRENCY	WON
GDP (BILLION USD) – 2001	748.8
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	79.2, 71.7
TOTAL LABOUR FORCE (000s)	21 950
GOVERNMENT TYPE:	REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	6.1	5.8	5.7
HOUSEHOLD SAVINGS RATIO	9.5	10.1	11.4
CONSUMER PRICE INDEX	2.7	3.5	3.3
SHORT-TERM INTEREST RATE (%) *	4.8	5.4	5.8
UNEMPLOYMENT RATE (%)	2.9	2.8	2.7
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	5.8	4.7	5.0
CURRENT ACCOUNT BALANCE (% GDP)	1.1	1.0	1.3

Source: OECD

Korea: Inflation concerns

Buoyant private consumption has fuelled a recovery from the 2001 slowdown. With a pick-up in external demand, output growth of around 6% is projected to continue through to 2004. The unemployment rate is below 3% and, though inflation has stabilised at around 3%, a double-digit hike in wages and a sharp increase in housing prices are raising concerns about the outlook for inflation.

Given the pressures emerging in the labour and real estate markets, it will be necessary to reverse gradually the decline in short-term interest rates that occurred in 2001 in order to achieve the medium-term inflation target of 2.5%. The privatisation of government-owned banks is important to promote corporate restructuring and to cover at least part of the cost of financial-sector restructuring. A prudent fiscal policy will be needed to absorb the remainder of such costs.

KEY ECONOMIC FORECAST & INDICATORS

LUXEMBOURG

POPULATION (000s)	439
AREA (000 SQ KM)	3
CURRENCY	EURO
GDP (BILLION USD) – 2001	22.2
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	81.2, 74.7
TOTAL LABOUR FORCE (000s)	267
GOVERNMENT TYPE:	CONSTITUTIONAL MONARCHY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	0.8	2.5	4.5
CONSUMER PRICE INDEX	2.1	1.7	1.5
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	3.0	3.5	3.4
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	1.8	0.3	0.5
CURRENT ACCOUNT BALANCE (% GDP)	8.7	5.6	5.1

* 3-month interbank rate

Source: OECD

Luxembourg: Economy hit hard

GDP is expected to grow at well below potential in 2002 for the second consecutive year, as this small and open economy specialised in financial services has been hard hit by the fall in asset prices and sluggish manufacturing activity in Europe. These adverse external shocks are cushioned to some extent by relatively robust domestic demand, which has been boosted by tax cuts and substantial increases in public investment. A pickup in external demand and stabilising financial market conditions should lead to a marked acceleration in growth as from the end of 2003.

As economic conditions improve, the government should seek to raise the cyclically-adjusted budget balance to be prepared for the fiscal impact of population ageing.

Mexico: Account deficit to widen

Activity bottomed out in the first half of 2002, but the recovery is still hesitant and seems likely to become well-established only in 2003, when private domestic demand is projected to pick up. Inflation is expected to slow further. The current account deficit, which has narrowed in 2002, is expected to widen gradually as activity gains momentum.

Economic policies were tightened in 2002, in the context of a weaker peso and stalling disinflation. This stance needs to be maintained to keep disinflation and fiscal consolidation on target and retain market confidence. Implementation of the structural agenda, including the electricity and tax reforms, would reduce business uncertainty and improve growth prospects.

KEY ECONOMIC FORECAST & INDICATORS

MEXICO

POPULATION (000s)	97 379
AREA (000 SQ KM)	1 996
CURRENCY	PESO
GDP (BILLION USD) – 2001	906.7
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	77.6, 73.1
TOTAL LABOUR FORCE (000s)	38 607
GOVERNMENT TYPE:	FEDERAL REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.5	3.3	4.0
CONSUMER PRICE INDEX	4.7	4.0	3.5
SHORT-TERM INTEREST RATE (%)	7.6	7.7	8.0
UNEMPLOYMENT RATE (%)	2.8	2.7	2.4
CURRENT ACCOUNT BALANCE (% GDP)	-2.7	-3.3	-3.8

Source: OECD

Netherlands: More on education

After stagnating in 2002, real GDP growth is set to recover only slowly. The economy will receive positive impulses from exports and stockbuilding in 2003 but growth will be limited by a loss in competitiveness and by fiscal tightening. Unemployment is projected to rise, leading to somewhat lower wage increases, but the labour market will remain relatively tight. Inflation is projected to fall to 2% by 2004, reflecting lower import prices and a decline in unit labour costs.

Sustained wage moderation is essential to restore competitiveness, especially in view of the risk that pension fund losses might necessitate a further increase in contribution rates. Incentives to work need to be strengthened, while higher expenditure on education, which is relatively low in comparison with other OECD countries, as well as on innovation, could contribute to better overall performance.

KEY ECONOMIC FORECAST & INDICATORS

NETHERLANDS

POPULATION (000s)	15 926
AREA (000 SQ KM)	41
CURRENCY	EURO
GDP (BILLION USD) – 2001	457.8
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	80.6, 75.5
TOTAL LABOUR FORCE (000s)	8 058
GOVERNMENT TYPE: CONSTITUTIONAL MONARCHY	

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	0.1	1.6	2.6
HOUSEHOLD SAVINGS RATIO	13.1	13.4	13.0
CONSUMER PRICE INDEX	4.0	2.7	2.0
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	2.7	3.5	4.0
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-0.8	-0.6	-0.3
CURRENT ACCOUNT BALANCE (% GDP)	3.1	3.6	4.0

* 3-month interbank rate

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

NEW ZEALAND

POPULATION (000s)	3 831
AREA (000 SQ KM)	269
CURRENCY	DOLLAR
GDP (BILLION USD) – 2001	79.8
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	80.8, 75.7
TOTAL LABOUR FORCE (000s)	1 902
GOVERNMENT TYPE: PARLIAMENTARY DEMOCRACY	

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	3.8	3.0	3.4
CONSUMER PRICE INDEX	2.6	2.3	2.1
SHORT-TERM INTEREST RATE (%)	5.7	5.9	6.5
UNEMPLOYMENT RATE (%)	5.1	5.5	5.4
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	1.6	1.2	1.1
CURRENT ACCOUNT BALANCE (% GDP)	-2.7	-3.6	-4.0

Source: OECD

New Zealand: Spending to slip?

Activity in the first half of 2002 was exceptionally strong, as the flow-through effects of high export prices fuelled domestic demand. But this stimulus has weakened markedly, and growth is likely to have fallen substantially in the second half. The pace of expansion should pick up again next year and into 2004 in line with global recovery, though not so much as to lead to overheating.

The mild slowdown, with the new less-aggressive inflation target, should stay the central bank's hand until a robust recovery is clearly in place. After that, interest rates would need to rise only slightly to return monetary conditions to neutral. The fiscal stance remains appropriate but there are substantial challenges to maintaining surpluses over the medium term. Expenditure slippage may also be harder to resist now that the government has not renewed its three-year spending cap.

Norway: Buoyant growth ahead

Despite some easing of activity, bottlenecks have persisted. Monetary conditions are tight and profits have been squeezed, but tax cuts and solid pay rises continue to boost consumption. Mainland output growth could strengthen from 1.5% in 2002 and 2003 to 2.5% in 2004. The unemployment rate is expected to stabilise at 4% with inflation remaining subdued. With oil prices also soaring, the current account surplus may reach 15% of GDP.

The authorities should not ease fiscal policy beyond the room for manoeuvre provided by the new fiscal guideline and should offset spending overruns by expenditure cuts elsewhere. Pension reforms are needed urgently to safeguard the long-run sustainability of public finances.

KEY ECONOMIC FORECAST & INDICATORS

NORWAY

POPULATION (000s)	4 491
AREA (000 SQ KM)	324
CURRENCY	KRONE
GDP (BILLION USD) – 2001	140.4
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	81.4, 76.0
TOTAL LABOUR FORCE (000s)	2 350
GOVERNMENT TYPE: CONSTITUTIONAL MONARCHY	

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	2.0	1.6	2.3
HOUSEHOLD SAVINGS RATIO	5.2	5.3	5.8
CONSUMER PRICE INDEX	1.2	2.3	2.5
SHORT-TERM INTEREST RATE (%)	6.9	6.5	6.6
UNEMPLOYMENT RATE (%)	3.9	4.0	3.9
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	12.4	10.2	9.8
CURRENT ACCOUNT BALANCE (% GDP)	16.4	16.4	15.8

Source: OECD

Poland: Cut interest rates

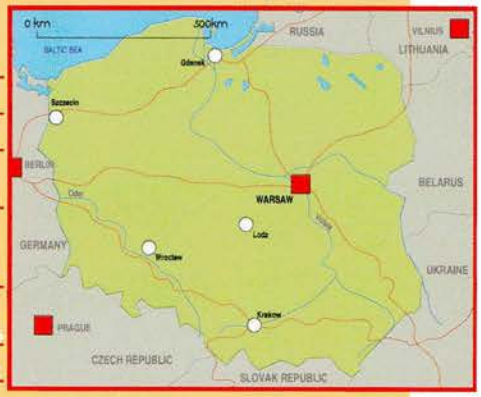
Output grew by only 0.6% in the first half of this year. Although volatile, recent data suggest a recovery is under way. As a result, GDP growth is projected to continue to firm, reaching about 3% in 2004. With unemployment at about 20% of the labour force and a substantial output gap, inflation is expected to remain broadly stable in both 2003 and 2004.

Substantial reductions of nominal interest rates and the decline in the currency have eased monetary conditions, but policy remains tight and further cuts are required. In order to improve the policy mix, general government spending needs to be reduced as compared with the levels proposed in the 2003 draft budget. Such a step also appears necessary to prevent debt levels from breaching constitutional limits.

KEY ECONOMIC FORECAST & INDICATORS

POLAND

POPULATION (000s)	38 646
AREA (000 SQ KM)	313
CURRENCY	ZLOTY
GDP (BILLION USD) – 2001	382.6
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	78.0, 69.7
TOTAL LABOUR FORCE (000s)	17 376
GOVERNMENT TYPE: REPUBLIC	



	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.2	2.5	2.9
CONSUMER PRICE INDEX	2.1	2.5	2.7
SHORT-TERM INTEREST RATE (%)	8.8	7.4	7.6
UNEMPLOYMENT RATE (%)	19.7	20.4	20.0
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-6.0	-6.3	-5.9
CURRENT ACCOUNT BALANCE (% GDP)	-3.3	-4.4	-5.2

Source: OECD

Portugal: Above average inflation

Real GDP growth decelerated further in 2002 to below 0.5%, reflecting weak exports, sluggish private demand and cutbacks in government investment. A gradual export-led recovery is projected for 2003. By 2004, with private investment reviving, GDP growth could approach potential, at around 2.5%, but still leaving a large output gap. In this context, inflation is expected to ease, while remaining higher than the European Union average.

Fiscal consolidation will have to be pursued forcefully, despite the weak outlook, requiring strong measures to limit government spending, including tight control of the public payroll and structural reform in social spending areas.

KEY ECONOMIC FORECAST & INDICATORS

PORTUGAL

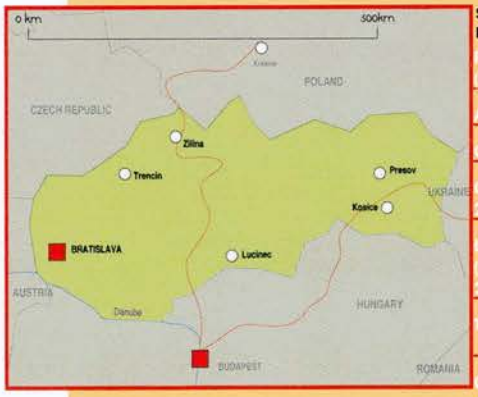
POPULATION (000s)	10 008
AREA (000 SQ KM)	92
CURRENCY	EURO
GDP (BILLION USD) – 2001	187.6
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	79.1, 72.0
TOTAL LABOUR FORCE (000s)	5 113
GOVERNMENT TYPE: PARLIAMENTARY DEMOCRACY	

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	0.4	1.5	2.3
HOUSEHOLD SAVINGS RATIO	11.2	11.4	11.3
CONSUMER PRICE INDEX	3.5	2.8	2.4
SHORT-TERM INTEREST RATE (%)*	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	4.7	5.1	5.0
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-3.4	-3.0	-2.4
CURRENT ACCOUNT BALANCE (% GDP)	-7.8	-6.9	-6.4

* 3-month interbank rate

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS



SLOVAK REPUBLIC

POPULATION (000s)	5 401
AREA (000 SQ KM)	49
CURRENCY	KORUNA
GDP (BILLION USD) – 2001	66.4
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	77.2, 69.1
TOTAL LABOUR FORCE (000s)	2 608
GOVERNMENT TYPE: PARLIAMENTARY DEMOCRACY	

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	4.3	3.7	4.3
CONSUMER PRICE INDEX	3.5	8.8	8.5
SHORT-TERM INTEREST RATE (%)	7.8	7.9	7.3
UNEMPLOYMENT RATE (%)	19.0	18.7	18.2
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	-5.8	-5.0	-4.5
CURRENT ACCOUNT BALANCE (% GDP)	-7.0	-6.4	-5.4

Source: OECD

Slovak Republic: Improve incentives

Strong domestic demand has enabled Slovakia to maintain buoyant growth during the past two years despite global weakness. However, the current account deficit has been uncomfortably large. A pick-up in export demand is now projected to sustain growth at around 4% through 2004, resulting in a modest decline in unemployment, and a narrowing of the current account deficit.

It is essential that the new government reform the social security and social welfare systems in order to improve work incentives and reduce the budget deficit. Fiscal consolidation would also increase the scope for the central bank to cut interest rates further. Pushing ahead with privatisation will also be important in enhancing efficiency and in generating capital inflows.

KEY ECONOMIC FORECAST & INDICATORS

SPAIN

POPULATION (000s)	39 466
AREA (000 SQ KM)	505
CURRENCY	EURO
GDP (BILLION USD) – 2001	844.0
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	82.4, 74.9
TOTAL LABOUR FORCE (000s)	16 981
GOVERNMENT TYPE:	PARLIAMENTARY MONARCHY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.8	2.5	3.0
HOUSEHOLD SAVINGS RATIO	10.6	10.7	10.6
CONSUMER PRICE INDEX	3.5	3.0	2.8
SHORT-TERM INTEREST RATE (%) *	3.3	3.0	3.6
UNEMPLOYMENT RATE (%)	11.2	11.2	10.8
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	0.0	-0.1	0.1
CURRENT ACCOUNT BALANCE (% GDP)	-2.4	-2.6	-2.7

* 3-month interbank rate

Source: OECD

Spain: Link wages to productivity

Economic growth slowed considerably in the first half of 2002, reflecting weaker household spending and sluggish foreign demand. Despite subdued activity, inflation has accelerated and the differential with the euro area remains high. Stronger exports should revive domestic demand, lifting GDP growth to 2.5% in 2003 and above potential in 2004.

From 2003 onwards, all levels of administration have to aim at a budget in balance or surplus. Given the uncertainty about the final budgetary impact of the personal income tax cut planned for 2003, the government will have to control expenditure tightly to avoid a deterioration in the cyclically-adjusted balance. Reforms of the wage bargaining system should aim at establishing a closer link between wage and productivity growth, which should help in reducing the inflation differential with the euro area.

Sweden: A tight labour market

A recovery is well underway in Sweden, although output growth has remained below its potential rate in 2002. Growth of around 2.5–2.75% in the next two years could close the output gap and turn it positive by 2004. Prospects are nevertheless sensitive to developments in the information and communications technology sector and in the labour supply, since an already tight labour market is generating inflation pressures.

Interest rates will need to be raised in 2003 as activity gains steam. Although the general government financial surplus remains substantial, greater efforts are needed to rein in the surge in expenditure on sickness benefits and disability pensions.

Policies to increase effective labour supply would help to curb pressure on wages.

KEY ECONOMIC FORECAST & INDICATORS

SWEDEN

POPULATION (000s)	8 872
AREA (000 SQ KM)	450
CURRENCY	KRONA
GDP (BILLION USD) – 2001	227.9
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	82.0, 77.4
TOTAL LABOUR FORCE (000s)	4 418
GOVERNMENT TYPE:	CONSTITUTIONAL MONARCHY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.7	2.5	2.8
HOUSEHOLD SAVINGS RATIO	8.0	7.8	7.0
CONSUMER PRICE INDEX	2.3	2.2	2.3
SHORT-TERM INTEREST RATE (%)	4.2	4.4	4.7
UNEMPLOYMENT RATE (%)	4.0	4.1	4.0
GENERAL GOVERNMENT FINANCIAL BALANCE (% GDP)	1.7	1.6	1.9
CURRENT ACCOUNT BALANCE (% GDP)	3.9	3.5	3.7

Source: OECD

Switzerland: Growth should pick up

The slowdown in activity continued in conjunction with the slackening of the external environment and the appreciation of the franc. GDP growth, which was close to zero in 2002, should pick up, however, and reach around 1.5% in 2003, thanks to the international recovery and to an expansionary monetary policy. The improvement in the economic situation is unlikely to result in a fall in unemployment before mid-2003, while inflation could ease to less than 0.5%.

The very accommodating stance of monetary policy is appropriate and should be maintained until the recovery is firmly established. But a more expansionary fiscal policy is hardly advisable, and would not be consistent with the new debt containment rule, which implies a stable cyclically-adjusted balance. There is a need to boost potential growth and this requires a more efficient factor utilisation, which should be stimulated by enhanced competition.

KEY ECONOMIC FORECAST & INDICATORS

SWITZERLAND

POPULATION (000s)	7 184
AREA (000 SQ KM)	41
CURRENCY	FRANC
GDP (BILLION USD) – 2001	224.2
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 1999	82.5, 76.8
TOTAL LABOUR FORCE (000s)	4 013
GOVERNMENT TYPE:	FEDERAL REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	-0.2	1.4	2.2
CONSUMER PRICE INDEX	0.6	0.5	0.3
SHORT-TERM INTEREST RATE (%)	1.1	1.0	2.0
UNEMPLOYMENT RATE (%)	2.7	3.0	2.5
CURRENT ACCOUNT BALANCE (% GDP)	10.0	9.9	10.4

Source: OECD

KEY ECONOMIC FORECAST & INDICATORS

TURKEY

POPULATION (000s)	67 461
AREA (000 SQ KM)	781
CURRENCY	LIRA
GDP (BILLION USD) – 2001	407.1
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2000	70.9, 66.2
TOTAL LABOUR FORCE (000s)	22 531
GOVERNMENT TYPE:	REPUBLICAN PARLIAMENTARY DEMOCRACY

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	3.7	3.6	4.3
CONSUMER PRICE INDEX	45.3	31.7	16.2
SHORT-TERM INTEREST RATE (%)	64.2	37.1	16.1
UNEMPLOYMENT RATE (%)	8.5	8.3	8.1
CURRENT ACCOUNT BALANCE (% GDP)	-0.8	-1.6	-2.0

Source: OECD

Turkey: A good recovery

The Turkish economy is recovering unexpectedly quickly, following the worst recession in decades. Real growth of close to 4% is likely in 2002, with inflation slowing to below its target of 35% by year-end. Given renewed lira weakness since mid-year, achieving next year's 20% inflation target appears problematical, especially if the pace of growth were to strengthen further. However, with real interest rates also higher and policies set to remain tight, growth should be contained between 3.5% and 4.5% in 2003 and 2004.

A strong and credible government following the 3 November elections, able to carry through the current stabilisation programme, is key to any lasting improvement in Turkey's creditworthiness. A decline in the sovereign risk premium to reasonable levels is critical to achieving fiscal sustainability and low-inflation growth.

Brazil: A new government

KEY ECONOMIC FORECAST & INDICATORS

BRAZIL

POPULATION (000s)	176 030
AREA (000 SQ KM)	8 512
CURRENCY	REAL
GDP (BILLION USD) – 2001	1 340
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2002	67.9, 59.4
TOTAL LABOUR FORCE (000s) – 1999	79 000
GOVERNMENT TYPE:	FEDERATIVE REPUBLIC

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	1.2	2.0	3.5
INFLATION	9.0	9.0	7.0
FISCAL BALANCE (% OF GDP)	-3.5	-3.2	-4.5
PRIMARY FISCAL BALANCE (% OF GDP)	3.9	3.8	3.5
CURRENT ACCOUNT BALANCE ($ BILLION)	-11.0	-9.0	-10.0
CURRENT ACCOUNT BALANCE (% GDP)	-2.9	-2.2	-2.2

Source: OECD, EIU, CIA

The problems of Argentina and Brazil, and their spillover to neighbouring economies, have led to a weak economic performance of South America in 2002. In Brazil, real GDP has been stagnant, due in part to the political uncertainty surrounding the October elections. Argentina's crisis may be bottoming out, although the signs of recovery are fragile. Economic recovery is conditional on a smooth political transition and maintenance of prudent macroeconomic policies in Brazil and progress on reforms in Argentina.

In Brazil, the new government will take office on 1 January 2003. The transition of government appears to be preceeding smoothly and some continuity of policies seems to be assured. The president elect has declared his commitment to undertake urgent structural reforms of the pension and social security systems and the labour market. Under these conditions, growth is expected to pick up somewhat in the second half of 2002 and in 2003, driven in particular by private demand and exports.

China: Reforms needed

A marked pickup in real GDP growth in the Asian economies during the first half of 2002 was sparked by a recovery in manufacturing exports to the United States, reinforced by strengthening regional domestic demand. Trade within the region is also being boosted by the ongoing shift of regional production facilities to China. Despite the recovery in 2002, domestic demand in several economies is vulnerable to downside risks arising from continued internal financial strains and other structural problems. In China, these problems are likely to lead to a progressive weakening in domestic demand and real GDP growth in coming years unless further reforms beyond those now officially planned are undertaken.

KEY ECONOMIC FORECAST & INDICATORS

CHINA

POPULATION (000s)	1 284 303
AREA (000 SQ KM)	9 597
CURRENCY	YUAN
GDP (BILLION USD) – 2001	5 560
LIFE EXPECTANCY AT BIRTH: (WOMEN, MEN) – 2002	73.9, 70.0
TOTAL LABOUR FORCE (000s) – 2000	706 000
GOVERNMENT TYPE:	COMMUNIST STATE

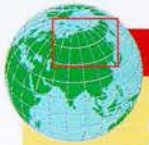
	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	7.9	7.5	6.9
INFLATION (CPI)	-0.7	-0.2	0.0
FISCAL BALANCE (% OF GDP)	-3.0	-3.2	-3.3
CURRENT ACCOUNT BALANCE ($ BILLION)	18.4	14.7	10.1
CURRENT ACCOUNT BALANCE (% GDP)	1.5	1.1	0.7

Source: OECD, EIU, CIA

Russia: Strong internal demand

Economic growth in south-eastern Europe and the Newly Independent States, whose trade is mainly linked to European countries, has benefited little from the recovery in the United States but continues to be underpinned by a strong expansion in internal demand. Real growth is expected to remain robust in 2002, at around 4% both for Russia and for the region. For Russia, growth of this order may be sustainable in the medium-term, mainly as a result of better management of Russia's large private enterprises and improved macroeconomic policies. However, a stable macroeconomic environment still depends critically on effective and prudent management of budgetary and foreign exchange windfalls stemming from current high oil prices, so that major current account and fiscal imbalances are avoided if oil prices weaken.

In 2003, further large wage increases in the public sector and repression of energy and transport prices in the run up to Duma and presidential elections should support continuing strong domestic demand growth. Real GDP growth in 2003 would be further boosted by recovery in the world economy. It is questionable, however, whether domestic demand can sustain real GDP growth at its current pace beyond 2003.



KEY ECONOMIC FORECAST & INDICATORS

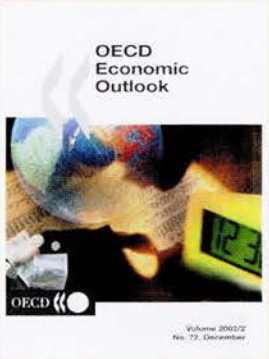
RUSSIA

POPULATION (000s)	144 978
AREA (000 SQ KM)	17 075
CURRENCY	RUBLE
GDP (BILLION USD) – 2001	1 200 000
LIFE EXPECTANCY AT BIRTH (WOMEN, MEN) – 2002	73.9, 62.3
TOTAL LABOUR FORCE (000s) – 2001	71 300
GOVERNMENT TYPE:	FEDERATION

	2002	2003	2004
	% change unless otherwise indicated		
GDP GROWTH	4.0	4.3	3.5
INFLATION	15.0	12.0	10.0
FISCAL BALANCE (% OF GDP)	1.6	0.6	0.5
CURRENT ACCOUNT BALANCE ($ BILLION)	27.5	18.5	10.0
CURRENT ACCOUNT BALANCE (% GDP)	7.8	4.7	2.3

Source: OECD, EIU, CIA

These country snapshots were brought to you courtesy of the *OECD Economic Outlook*, No. 72. The full edition contains more complete analysis and background, as well as special chapters on pensions and competition. It is packed with useful graphs and statistics from the OECD's renowned databank



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Beyond black lists: the spreading sta

"In every instance we have examined in detail, the instigators have operated with the assistance of a long chain of legal and financial advisors and intermediaries"

Mikhail Gorbachev
Chairman, Board of Trustees

Prof Alexander Nekipelov
Co-Chairman, Board of Trustees

Alexander Lebedev
President

In October 2002, the Financial Action Task Force (FATF) removed the Russian Federation from its list of nations failing to co-operate in the fight against money laundering.

As a consequence of direct actions by our Government, and swift passage of needed legislation in our parliament, the Duma, Russia now boasts one of the world's most effective systems of vetting financial flows for signs of underlying illegality.

The National Investment Council of Russia, representing leaders in business, science and politics, played a role in highlighting the vulnerabilities of Russian legislation and in mobilizing support for change. We held workshops in Russia. We commissioned our own research through leading institutes of the Russian Academy of Science. We even sponsored an international conference on capital flight and money laundering in London, in collaboration with the Royal Institute for International Affairs.

Naturally, we are gratified by the October decision. It removed a stain from Russia's reputation. But we remain puzzled why Russia was on this so-called black list in the first place, while other jurisdictions were not and are not listed. Our investigations have helped us understand the money laundering problem perhaps better than some others. We know for instance that every illegal international financial transaction involves multiple parties, and that by definition more than one jurisdiction will be implicated. Within Russia, it is common knowledge which jurisdictions our felons prefer to deal with, and why. Yet, these jurisdictions – their banks, their accountants, their lawyers, their registrars – have never appeared in the FATF black list.

We wonder whether the FATF is guided by too narrow a view of its mandate. Money laundering is not only about the legitimization of the proceeds of illegal drugs or arms deals. The scale is huge, the underlying crimes diverse and the means of laundering are highly sophisticated.

Even setting aside tax avoidance and evasion of currency exchange controls, vast sums have been secreted out of Russia and the other former Soviet states over the past decade, depriving shareholders, creditors and whole communities of value and savings.

in of international financial crime

In every instance we have examined in detail, the instigators have operated with the assistance of a long chain of legal and financial advisors and intermediaries, many if not most of whom have been foreign-based, and a remarkable number of whom work for well-known institutions within jurisdictions which are full members of the FATF.

Aiding and abetting can arise deliberately or, sometimes, unwittingly. For instance, it has recently come to our attention that some former managers of Russian industrial facilities, having been successfully removed from positions which they had used for wholesale looting, are now exploiting the international commercial arbitration system to try to regain access to their former employers' revenues.

How might this be possible? Illegal diversions from business revenues are commonly supported by phony contracts and false invoices which either misstate actual costs of goods or specify services not delivered. The contracts are with offshore companies registered under nominees, with actual beneficial ownership unknown.

Where the beneficial owner of one contractual party is in fact the manager of the other party, it is an easy matter to rewrite the contracts to fit the demands of an anticipated future conflict. Then, if the manager responsible is dismissed, he simply causes the contractor which he secretly owns to activate a carefully written arbitration clause in an appropriate foreign jurisdiction and, in effect, asks to be allowed to resume his looting.

Because arbitration proceedings are conducted in camera, it is possible to press these claims without drawing widespread attention.

A recent International Chamber of Commerce conference on international arbitration highlighted these risks, urging arbitrators to look beyond the agreements placed before them to the reality behind transactions and the true identities of the signatories.

But the FATF or a similar body could assist, acting as a clearing house for information gained in the course of criminal investigations into international financial crime.

Similarly, we know that certain financial institutions repeatedly surface in connection with the facilitation of questionable international payments. Encouraged by the over-aggressive pursuit of commissions and deal fees, and insufficiently restrained by internal enforcement measures, individuals and even entire units of major international banks have become handmaidens to the corrupt.

This is why the National Investment Council has advocated a black list for banks. In case after case, we are seeing the same institutions named - most from jurisdictions *not now named on the FATF black list*. The question we raise is, we think, a sensible one: Should the jurisdictions be blacklisted? Or should the FATF target instead those institutions which appear to be so chronically unable to turn away questionable business?

NIC has also raised questions about certain types of financial product which we feel lend themselves to abuse. In this category we regard so-called "derivative" products as especially vulnerable, including options, forwards and so forth, where massive losses and gains can cloak corrupt payments from official scrutiny.

In summary, the National Investment Council believes money-laundering has outgrown its label. There was a time when a cash business like a restaurant or grocery store might be used to disguise the proceeds of common street crime. Today, major international companies and financial institutions are being used. The degree of co-operation needed to fight this encompasses not just governments and law enforcement agencies, but business and the professions as well - in fact, all those who could be intermediaries and advisors in the chain of transactions needed to turn bad money into useable money.

For further information

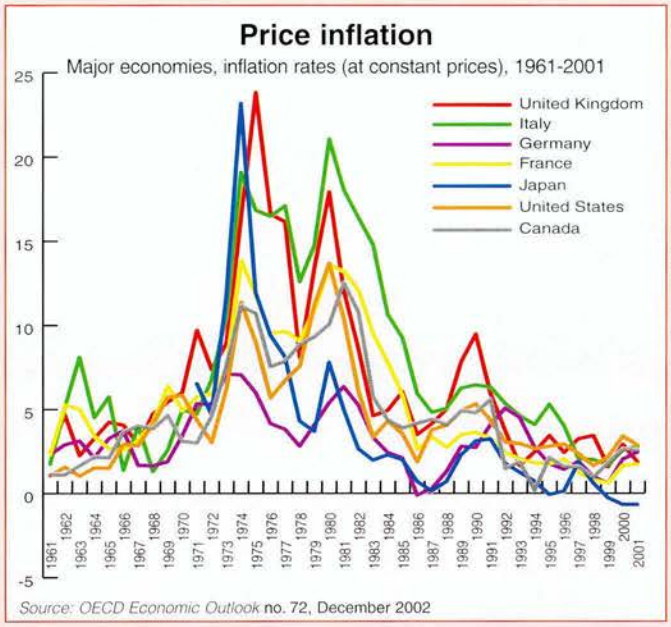
National Investment Council
37a Novaya Basmannaya St
Moscow 107066
Russian Federation

Tel +7 095 234-4857
Fax +7 095 956-3230
nic@rossia.com
www.rnic.ru

Deflating expectations

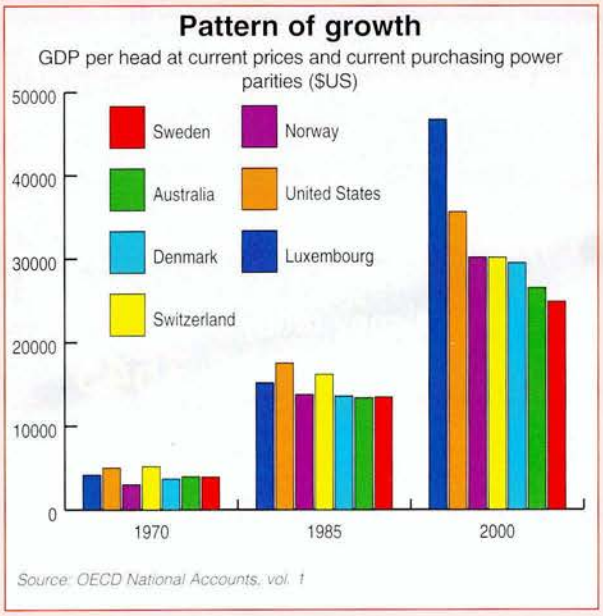
Barely a day goes by without a headline written about the end of inflation or even deflation. Looked at more closely, consumer price inflation has practically come full circle in the past 40 years, returning in the early days of the 21st century to the below 5% levels seen in the early 1960s, after spiralling into double digits in many countries in the 1970s and 1980s. Inflation expectations also changed over the years, though. In fact the very first *OECD Economic Outlook* in 1967 – when inflation in all the major OECD economies was below 5% – wondered whether European countries were in danger of over-correcting the "excessive" inflationary pressures of the first half of the decade. These pressures pushed Italy's inflation rate to 8% in 1963, for instance.

Just how high inflation could go was tested in the 1970s when the arrival of the first oil crisis compounded what the December 1973 *Economic Outlook* said was already an "extremely worrying" inflation picture and brought an end to "the strongest (economic) upswing since the Korean War". The following years saw inflation hit its highest level during the period, with Japan peaking at 23% in 1974 when the *Outlook* said that the effects of excessive demand buildup and the oil crisis were together "putting the economies of member countries to a test which is probably unprecedented outside of war." By the following year economic recovery was beginning and inflation was seen "levelling out", although the UK managed to register the highest annual inflation rate of major OECD economies over the entire 40-year period, at 23.7%.



By December 1980 when the oil price had risen 150% in the space of two years, the *Economic Outlook* was again warning that "the top priority for OECD countries is the reduction of inflation." In particular it cautioned that US inflation was likely to remain "stubbornly high, at around 9-10%", although with price rises of 13% that year the US was far from the worst performer, being outstripped by Italy with 21% and the UK with almost 18%.

When it came to the Gulf War in 1990-1991, OECD countries were less susceptible to a price shock. Inflation rose by less than many had expected, and generally stayed below 5% throughout the decade. ■



Wealth of OECD Nations

OECD economies have grown enormously in the past three decades, with gross domestic product (GDP) per head growing up to tenfold since 1970 in the largest economies. Our selection shows the top ranked countries in 2000 and compares this with their historical performance. At US$5,149, Switzerland, for example, was the largest OECD economy in terms of GDP output per head in 1970, and this includes adjustments for purchasing power parities (PPP) which elimate the differences in price levels between countries. Switzerland saw its income per head increase sixfold to more than US$30,000 in 2000. But by this time, it was displaced by Luxembourg and the United States, with per capita GDP at more than US$46,000 and US$35,000 respectively; both had incomes around the US$4-5000 range in 1970. Only Luxembourg, Switzerland and the US were in the top five OECD economies for GDP per capita throughout the last 40 years. But the fastest growth was in Korea: up twentyfold from little more than US$700 in 1970 to US$15,000 in 2000. And even among the top five economies, the pecking order has changed over the years. Norway ranked third in 2000 with per capita GDP of some US$30,000, but in 1970 it was in 18th position with just under US$3,000. And Denmark, in fifth place in 2000 at US$29,500, was in eighth position 30 years earlier with US$3,700. ■

MEMBERS	Gross Domestic Product period	% change from previous period	% change from previous year	Leading Indicator period	% change from previous period	% change from previous year	Consumer Price Index period	% change from previous period	% change from previous year
Australia	Q2 02	0.6	3.8	Oct. 02	0.7	3.0	Q3 02	0.7	3.2
Austria	Q2 02	0.1	0.7	Oct. 02	1.2	7.8	Oct. 02	0.3	1.8
Belgium	Q2 02	0.3	0.5	Oct. 02	-0.2	4.5	Nov. 02	-0.1	1.1
Canada	Q3 02	0.8	4.0	Oct. 02	-0.5	9.9	Oct. 02	0.3	3.2
Czech Republic	Q2 02	..	2.5		..	..	Oct. 02	-0.3	0.5
Denmark	Q3 02	-1.0	1.0	Oct. 02	-1.1	7.6	Oct. 02	0.2	2.5
Finland	Q2 02	2.1	2.5	Oct. 02	-0.3	0.1	Oct. 02	0.3	1.5
France	Q3 02	0.2	0.8	Oct. 02	0.0	3.6	Oct. 02	0.2	1.9
Germany	Q3 02	0.3	0.4	Oct. 02	0.1	7.6	Oct. 02	0.0	1.3
Greece	2001	..	4.1	Aug. 02	-1.1	1.8	Oct. 02	0.5	3.4
Hungary	2001	..	3.8		..	..	Oct. 02	0.6	4.9
Iceland	2001	..	3.0		..	..	Sep. 02	0.5	3.1
Ireland	2001	..	5.7	Oct. 02	2.4	19.5	Oct. 02	0.5	4.7
Italy	Q3 02	0.3	0.5	Oct. 02	-0.2	2.8	Nov. 02	0.3	2.8
Japan	Q3 02	0.7	1.5	Oct. 02	0.5	2.5	Oct. 02	-0.2	-0.9
Korea	Q3 02	1.3	6.3		..	..	Nov. 02	0.1	3.5
Luxembourg	2001	..	1.0	Oct. 02	-0.2	9.4	Oct. 02	0.4	2.2
Mexico	Q3 02	0.9	1.7	Oct. 02	2.0	7.1	Oct. 02	0.4	4.9
Netherlands	Q3 02	0.1	0.1	Oct. 02	0.5	4.6	Oct. 02	-0.1	3.4
New Zealand	Q2 02	1.2	3.8		..	..	Q3 02	0.5	2.6
Norway	Q2 02	0.8	1.7	Oct. 02	-0.4	-1.8	Oct. 02	0.4	1.8
Poland	2000	..	4.0		..	..	Oct. 02	0.3	1.0
Portugal	Q2 02	0.7	0.9	Oct. 02	-1.5	-5.6	Oct. 02	0.7	4.0
Slovak Republic	Q2 02	..	4.0		..	..	Oct. 02	0.0	2.7
Spain	Q3 02	0.8	1.8	Oct. 02	0.4	5.7	Oct. 02	1.0	3.8
Sweden	Q2 02	0.6	1.6	Sep. 02	-0.5	3.9	Oct. 02	0.3	2.3
Switzerland	Q2 02	0.1	-0.4	Oct. 02	0.6	3.8	Nov. 02	-0.2	0.9
Turkey	Q2 02	..	8.2	Oct. 02	0.7	11.5	Oct. 02	3.3	33.4
United Kingdom	Q3 02	0.8	1.8	Oct. 02	-0.6	3.4	Oct. 02	0.2	2.1
United States	Q3 02	1.0	3.2	Oct. 02	-0.3	5.3	Oct. 02	0.2	2.0
Euro area	Q2 02	0.4	0.7	Oct. 02	0.1	5.3	Oct. 02	0.3	2.3

NON-MEMBERS				Retail sales					
Brazil		..	..		..	..	Oct. 02	1.3	8.4
Bulgaria	Q2 02	-4.6	1.1	Aug. 02	0.5	3.6	Sep. 02	0.8	4.0
China		..	..		..	..		..	..
Estonia	Q2 02	5.4	6.9	Aug. 02	1.8	15.1	Sep. 02	0.1	2.7
India	Q1 02	1.0	5.8		..	..	Oct. 02	0.4	4.1
Indonesia	Q1 02	1.8	2.4		..	..	Oct. 02	0.3	10.3
Latvia	Q1 02	-0.6	3.7	Aug. 02	4.1	22.5	Sep. 02	0.8	1.0
Lithuania	Q2 02	2.7	6.9	Jun. 02	-1.4	6.6	Sep. 02	-0.5	-1.4
Romania	2000	..	1.6		..	..	Aug. 02	0.8	24.1
Russian Federation	2000	..	8.4	Jul. 01	5.3	17.2	Oct. 02	1.1	15.0
Slovenia	Q2 02	-1.2	1.6		..	..	Sep. 02	0.8	7.2
South Africa	Q1 02	0.8	2.1	Jul. 02	-2.7	3.1	Oct. 02	1.7	14.5
Ukraine		..	..	Feb. 02	-3.5	16.8	Mar. 02	-0.7	2.2

Definitions & notes

Gross Domestic Product: Volume series; seasonally adjusted except for Czech Republic, Slovak Republic, Poland and Turkey. Data for the Euro area supplied by Eurostat.

Leading Indicators: A composite indicator based on other indicators of economic activity (qualitative opinions on production or employment, housing permits, financial or monetary series, etc.), which signals cyclical movements in industrial production from six to nine months in advance.

Retail Sales: Volume series, seasonally adjusted

Consumer Price Index: Measures changes in average retail prices of a fixed basket of goods and services. HICP for Euro area.

Current Balance			Unemployment Rate			Interest Rate			
period	current period	same period last year	*period*	current period	same period last year	*period*	current period	same period last year	MEMBERS
Q3 02	-4.31	-1.57	*Oct. 02*	6.0	7.0	*Oct. 02*	4.90	4.36	Australia
Q2 02	-0.96	-1.32	*Oct. 02*	4.1	3.8		..	..	Austria
Q2 02	3.63	1.57	*Oct. 02*	6.9	6.7		..	..	Belgium
Q3 02	3.27	2.84	*Oct. 02*	7.6	7.4	*Nov. 02*	2.82	2.24	Canada
Q3 02	-1.62	-0.74	*Q1 02*	7.6	8.3	*Nov. 02*	2.77	5.08	Czech Republic
Q3 02	0.70	1.01	*Oct. 02*	4.7	4.3	*Oct. 02*	3.39	3.88	Denmark
Sep. 02	0.73	0.60	*Oct. 02*	9.1	9.2		..	..	Finland
Sep. 02	1.45	1.80	*Oct. 02*	8.8	8.5		..	..	France
Q3 02	17.71	6.51	*Oct. 02*	8.3	7.9		..	..	Germany
Sep. 02	-0.55	-0.54		..	..		..	..	Greece
Aug. 02	-0.36	-0.04	*Q3 02*	6.0	5.7	*Sep. 02*	9.57	10.78	Hungary
Q2 02	0.03	-0.08	*Jul. 02*	2.7	1.3	*Jul. 02*	8.23	10.95	Iceland
Q2 02	0.19	-0.05	*Oct. 02*	4.4	4.0		..	..	Ireland
Jun. 02	0.10	-0.65	*Jul. 02*	9.0	9.5		..	..	Italy
Sep. 02	8.30	8.26	*Oct. 02*	5.5	5.4	*Nov. 02*	0.05	0.04	Japan
Aug. 02	0.84	0.82	*Oct. 02*	3.0	3.5	*Oct. 02*	4.90	4.40	Korea
Q2 02	0.66	0.30	*Oct. 02*	2.6	2.0		..	..	Luxembourg
Q3 02	-3.76	-3.73	*Oct. 02*	2.6	2.8	*Nov. 02*	7.83	8.69	Mexico
Q3 02	4.37	3.20	*Sep. 02*	2.8	2.4		..	..	Netherlands
Q2 02	-0.37	-0.20	*Q3 02*	5.4	5.2	*Nov. 02*	5.90	4.87	New Zealand
Q3 02	6.34	6.91	*Q2 02*	3.8	3.4	*Nov. 02*	7.09	6.90	Norway
Oct. 02	-0.31	-0.71	*Oct. 02*	18.0	16.9	*Oct. 02*	7.05	13.09	Poland
Q3 02	-2.73	-2.98	*Oct. 02*	4.9	4.1		..	..	Portugal
Q2 02	-0.53	-0.44	*Q2 02*	18.6	19.2	*Oct. 02*	9.41	8.69	Slovak Republic
Aug. 02	-0.92	-1.36	*Oct. 02*	11.7	10.6		..	..	Spain
Sep. 02	0.51	0.75	*Oct. 02*	5.0	5.1	*Nov. 02*	3.91	..	Sweden
Q2 02	6.27	5.25	*Oct. 02*	3.2	2.0	*Nov. 02*	0.66	1.96	Switzerland
Q3 02	0.31	1.17	*Q2 02*	9.6	6.9	*Nov. 02*	44.53	59.00	Turkey
Q2 02	-5.84	-8.89	*Aug. 02*	5.2	5.1	*Oct. 02*	3.90	4.36	United Kingdom
Q2 02	-129.96	-99.23	*Oct. 02*	5.7	5.4	*Nov. 02*	1.39	2.03	United States
Sep. 02	7.85	0.27	*Oct. 02*	8.4	8.0	*Oct. 02*	3.26	3.60	Euro area
									NON-MEMBERS
Oct. 02	-0.30	-2.44		..	..		..	..	Brazil
Aug. 02	0.10	0.08		..	..	*Aug. 02*	3.75	4.75	Bulgaria
2001	17.41	20.52		..	..		..	..	China
Aug. 02	-0.02	-0.04	*Sep. 02*	5.8	6.5	*Sep. 02*	5.13	6.34	Estonia
Q1 02	1.51	0.13		..	..		..	..	India
Q1 02	1.28	2.06		..	..	*Jun. 02*	16.24	14.92	Indonesia
Aug. 02	-0.05	-0.06	*Sep. 02*	8.0	7.8	*Sep. 02*	6.50	10.60	Latvia
Aug. 02	-0.03	0.01	*Sep. 02*	11.1	12.7	*Sep. 02*	5.29	9.33	Lithuania
Jul. 02	-0.14	-0.08	*Aug. 02*	9.1	8.6	*Mar. 02*	33.40	49.90	Romania
Q2 02	7.83	9.29	*Dec. 01*	1.6	1.4	*Sep. 02*	9.60	7.50	Russian Federation
Aug. 02	0.03	0.02	*Dec. 01*	11.6	11.8	*Sep. 02*	10.76	10.93	Slovenia
Q2 02	0.03	0.22		..	..	*Sep. 02*	12.41	8.89	South Africa
Q2 02	0.60	0.55	*Nov. 01*	4.7	5.2	*Aug. 02*	24.00	31.70	Ukraine

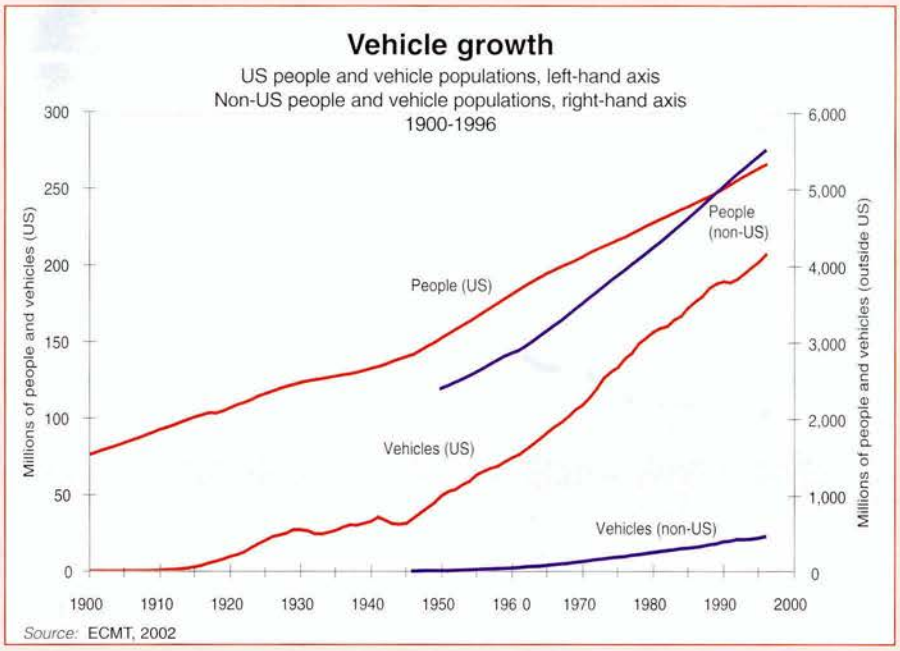
Current balance: Billion US dollars; seasonally adjusted except for Greece, Ireland, and listed non-member countries. Data for Poland are on a cash basis.

Unemployment Rate: Percent of civilian labour force – standardised unemployment rate; national definitions for Iceland, Korea, Mexico, Poland, Switzerland and Turkey; seasonally adjusted apart from the Slovak Republic and Turkey.

Interest Rate: Three months, except for Turkey (overnight interbank rate). Euro area rate is applicable for the 12 Euro area countries. * Refer to Euro area.
Source: Main Economic Indicators, December 2002; Quarterly National Accounts database.

Driving force

The rise of the car is one of the most striking aspects of social change not just in the past 40 years, but for the whole of the past century. In fact, the world's vehicle population grew faster than its human one during the 20th century, and the main reason that there are still more people than vehicles in the United States is that children generally do not own cars. To put it another way, in 1900 there was one car for every 10,000 people in the United States and by 1996 the figure was 778 cars for every 1,000 people. In 1996 in the rest of the world there were 84 cars per 1,000 people – a level the United States passed way back in 1920.



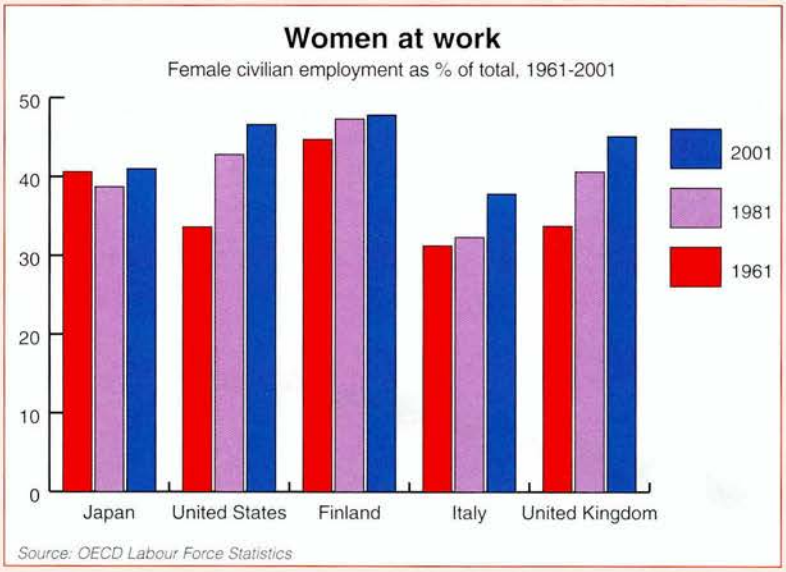
But if car ownership in the rest of the world grew much more slowly than in the US – it took the rest of the world 66 years (1930-1996) to increase from 5 to 84 vehicles per 1,000 people, an increase the US accomplished between 1910 and 1919 – the vehicle population was still growing faster than the human one. Between 1950 and 1996 the non-US vehicle population grew almost four times faster than the human population, at an average 6.9% per year compared with 1.8% per year for people.

While we cannot be absolutely certain that the car population is set to keep growing so fast in the years to come, one thing seems clear: if we ever reach the point where every adult on earth owns a car, then parking will be quite a problem. ■

• ECMT (2002), *Managing Commuters' Behaviour: A New Role for Companies*, Paris.

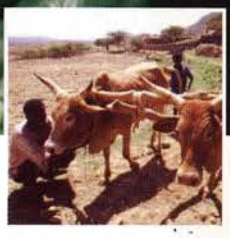
Female labour

The number of women going out to work has risen sharply in many OECD countries over the past 40 years, but they still account for less than half the workforce. And while the female share of the working population rose from 33% in the US and the UK in 1961 to more than 45% today, elsewhere trends are less marked. In Japan, women's share of the total workforce fell to 38% in 1981 from 40% in 1961 before climbing back up to 41% in 2001, close to the OECD average of 42.6%.



But even if men still outnumber women in the workplace, the fact is that more and more women have jobs outside the home in most OECD countries. Only about 43% of US women aged 16-64 went out to work in 1961, but by 1981 the workers were in the majority at 60% and by 2001 the figure was 70.5%. In Japan more than half of women of working age have been active in the workforce throughout the past 40 years, even if the ratio fell back from almost 60% in 1961 to 53% in 1981 before rising again to 60.1% in 2001. In countries such as Italy and the UK, too, working women have moved from the minority to the majority of the female population in the past 40 years. Northern Europe seems to have been ahead of the trend, with some 65% of women already going out to work in 1961, but even here the trend has been rising, to 70% in 1981 and 72% in 2001. ■

Invest in Africa's farmers for long term economic growth



If farming is the basis for rural livelihoods, should it not be the starting point for building a prosperous rural economy and the only sound base for building food security for the poor?

Start from where people are and build on what they have.

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