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Brazil reaches new heights:
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Higher education and globalisation

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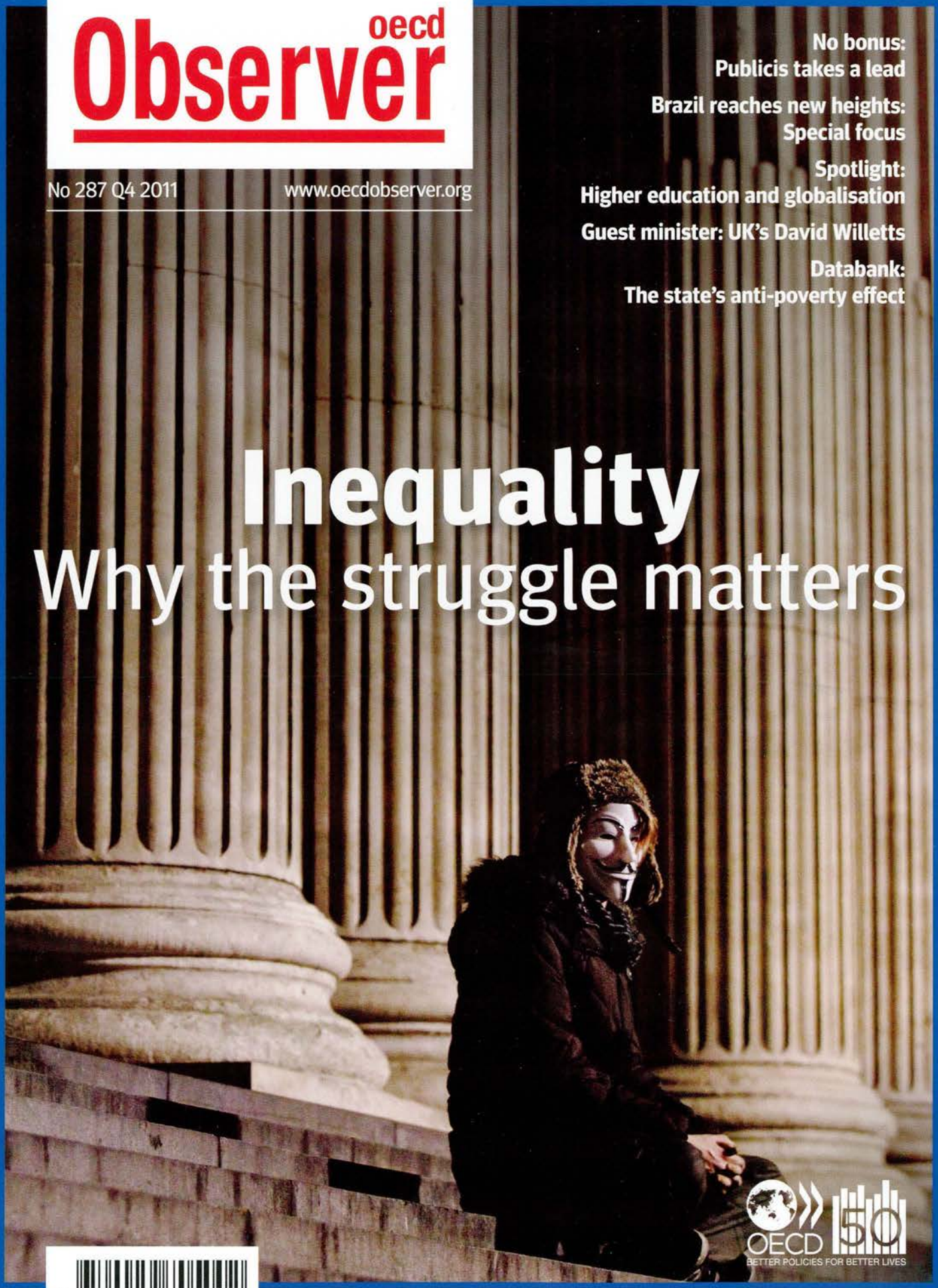
Inequality
Why the struggle matters



OECD 50
BETTER POLICIES FOR BETTER LIVES

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On the cover
An Occupy demonstrator on the steps of St Paul's Cathedral, London, January 2012
©Reuters/Luke MacGregor

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Readers' views

Tax tizzies

It's all far more complicated than necessary. A sales tax to replace the entire income tax structure would make more sense because it's much simpler, fairer and automatically more progressive when it is spent, not when it is earned, saved or invested. (Posted on: "Who pays the highest income tax?")

Garywsmithey

As long as the best brains in the western world are devoted to speculation, and not to creative or industrious work or "old-fashioned" honest activities, so the speculators will make easy money. So they will also remain on the winning side in these discussions. But the group of people who realise this very harmful duality in the world is growing, and little by little the "new royalty" will be pushed aside. Where to then? Maybe they can play with each other forever in virtual corners, but without monetary connections with real life. Let them play, without causing harm to the great majority. (Posted on: "Tobin tax: could it work?")

Juhjuh

Pensions for youth

I personally think there is a relation with later pension age and youth unemployment. Instead of increasing the pension age, which has been done in many countries, it could be decreased which would force companies to hire younger workers. (Posted on "Unfinished business: Investing in youth employment")

Otto

Private development

Let's not forget the private sector in the development debate. Governments continue to be essential for development, but are only part of the recipe for development and poverty reduction. It is the private sector that will generate most jobs, help improve public services, and provide the tax revenues that the public sector needs.

So where do development institutions come in? Firms in developing countries need financing to expand their operations, as well as better infrastructure, improved business regulations, and skilled employees. Without these, they cannot grow. Development institutions have experience in these areas and can provide needed capital in risky environments, making projects sustainable and attracting other investors. Moreover, they can make private sector development more inclusive, and promote high environmental, social, and corporate governance standards.

Can donor governments afford to support both the private and public sectors? The answer is yes, since development institutions are mostly self-funded, using repayments from their investments to support new projects. By contrast, aid to governments usually needs to be funded every year. Furthermore, since the enterprises supported by development institutions provide substantial tax revenues to their host countries, the need for assistance to the public sector is reduced.

Oliver Griffith, Head of Public Affairs, IFC, Western Europe

The impact of capacity building is often understated, which is unfortunate. Why? Because it leads to self-reliance and ownership, thereby weaning people off dependence in all its forms, breeds personal responsibility, and accountability.

Rachel Kasumba

Twitterings

LiamDelaneyEcon: Sensible oped by OECD's John Martin on youth unemployment

mikecampbell3: One of best pieces on #youthunemployment, John Martin from #OECD. But why, oh why, don't we do more about ALL unemployed.

EdConwaySky Ed Conway: The OECD forecasts today assume eurozone govts "muddling through". It admits that alternative scenarios "may be even more likely"

LukeRobboUK: Many on technically middle incomes won't have far to fall to become the working poor if OECD predictions prove correct #squeezedmiddle

PaddingtonMan: Blimey, the OECD is trending. Twitter raises its overall IQ rating 3 points above that of cro-magnon man.

Worse to come? Observer poll

In an informal opinion poll posted on www.oecdobserver.org, "Is the worst of the global economic crisis behind us?" 21% of respondents replied Yes, 13% didn't know, but 66% said No, the worst was not behind us. There were 522 responses, between October and December 2011. Vote in this quarter's poll at the website.

Comments and letters may be edited for publishing. See full comment at the respective websites, where replies can be made, or on Twitter @OECDObserver

Tackling inequality

Income inequality in the OECD area is at its highest level in half a century

Angel Gurría
Secretary-General of the OECD

The average income of the richest 10% of the population is about nine times that of the poorest 10%, up from seven times what it was 25 years ago. Even in more egalitarian countries, such as Germany and Sweden, the earnings of the richest are over six times higher than those of the poorest, compared with just over three in 1985. Inequality has narrowed in countries like Chile and Mexico, though the income gap between rich and poor is still 27 to 1, and in Brazil, which as this edition shows has implemented impressive programmes against poverty and inequality, the gap stands at 50 to 1. Clearly, the benefits of economic growth have not trickled down or been fairly distributed.

Why does this matter to policy makers? Inequality is a critical social and economic challenge. Widening disparities weaken the structures that hold our societies together and threaten our ability to move forward. This effect has become even more apparent with the current prolonged crisis, which has been felt by a wide range of income groups throughout the OECD area. Incomes at the bottom of the ladder have declined. Middle incomes have been squeezed too. Budget austerity has not only affected benefits and welfare entitlements, but also the delivery of services, such as healthcare and education. And although the employment crisis has hit young people, women, minorities and the long-term unemployed in particular, very few people feel completely secure in their jobs. People have joined protests such as Occupy Wall Street, the March for Jobs and the Indignados, and they have been using social media to express their frustration and anger. The fact that bonuses are being handed out in banks that are still propped up by the state adds a sense of betrayal to perceptions of endemic inequality.

Economic activity has suffered too. Friedrich Hayek believed economic advance to be the result of inequality, whereas at the other extreme Karl Marx saw widening inequality as an inevitable part of capitalism's decline. Both of these views clearly need to be revisited in light of the current economic and social landscape. Present-day economists wading in on this old and divisive debate increasingly acknowledge that sustained inequality inhibits growth, and this is an issue the OECD is studying closely.

Two major OECD reports, *Divided We Stand: Why Inequality Keeps Rising*, issued in November 2011, and *Going for Growth* in February 2012, examine the policy responses to widening inequality, while exploring how growth and equity interact.

In general, we see three main ways to tackle inequality: promoting employment for all; enhancing access and performance in education and training at every level by investing in people's skills; and reforming tax/benefit systems to help a fair distribution of income while fostering growth.

None of these is easy. Yet steps can be taken, such as providing better employment protection and in-work benefits for temporary and part-time workers, which help to reduce income disparities by preventing young workers, women, minorities and other unskilled workers from becoming trapped in low-paid jobs.

OECD data find that public spending on high-quality education, health and family care reduces inequality by about a fifth on average. Most people rely on the state to provide these services. Surely this crisis underlines the importance of strong policies that can protect vulnerable groups, give breathing space to middle-income earners, and ensure that everyone, including those on higher incomes, pays their fair share. Such policies would restore cohesion and give our economies more traction.

> Tax-benefit systems have become less effective in redistributing income in recent decades

Or take the tax-benefit systems, for instance. These have become less effective in redistributing income in recent decades, due to cuts in benefits, tighter eligibility rules and a shift away from progressive income tax. Some countries will find room to improve fairness by closing tax loopholes, eliminating deductions and tax havens, and reassessing taxes on wealth and property. Tax rates on high earners have declined in recent years, so raising marginal tax rates on high incomes would help restore fairness and generate some extra revenue as well.

Inequality is not inevitable, and it is up to policy makers to build comprehensive strategies for inclusive growth and better wealth distribution. The OECD can advise on those strategies and, by drawing on best practices, it can help design and promote better policies for better lives.

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

News brief

Mental illness alert

Mental illness is a growing problem in society and is increasingly affecting productivity and well-being in the workplace, according to a new OECD report.

Sick on the Job? Myths and Realities about Mental Health and Work says that one in five workers suffers from a mental illness, such as depression or anxiety. Three quarters of workers with a mental disorder report reduced productivity, compared to one in four workers without a mental disorder. Work absences are also much more frequent and about 30% to 50% of all new disability benefit claims in OECD countries are attributed to mental ill health. People with a mental disorder are two to three times as likely to be unemployed as people with no disorders. This gap represents a major loss to the economy, as well as for the individuals and their families. Moreover, the share of workers exposed to work-related stress is increasing, the report notes.

The report challenges some myths and urges policy makers to look for new solutions. It urges early intervention because half of all mental disorders start in adolescence, and notes that the population claiming disability benefits is getting younger. Good working conditions, monitoring of sick leave behaviour; and help with reducing workplace conflicts are among the remedies suggested in the report.

Visit www.oecd.org/els/disability

Rural promise

©Michael Dalder/REUTERS

The crisis has hit some areas far harder than others, in job losses for instance, and huge regional variations in economic and social conditions within a country require a rethink of how governments design economic policies, says a new report. The OECD's first *Regional Outlook* calls on policy makers to pay greater attention to regional factors such as amenities, infrastructure and demographics, as well as industry specialisations and networks, rather than relying on government transfers.

The report observes that on average 70% of the economic growth of OECD countries occurs outside metropolitan hubs, indicating that "rural" is not synonymous with decline. And with local and regional government accounting for two-thirds of total public investment in OECD countries, their capacity to manage in the most efficient, growth-enhancing way is critical, the report says.

Visit www.oecd.org/regional/outlook

Soundbites

Vive la différence

"France prefers taxes to savings"

Headline about austerity, in French daily, *Le Monde*, 24 December 2011

Euro trouble, as seen from China

"At this time of difficulties, members with more resources should not hesitate to extend their helping hands to debt-ridden neighbours, not only as a show of solidarity but also as a move necessary to keep themselves afloat in the long run."

Wang Haiqing for Xinhua, the official Chinese news agency, referring to the euro crisis, 7 January 2011

Latin goal

"Our goal is to become the third biggest Latin American economy and to join the Organisation for Economic Cooperation and Development."

Sergio Diazgranados, Colombia's minister of commerce, industry and tourism, quoted in *Colombia Reports*, 16 January 2012

Economy

Gross domestic product (GDP) growth in the OECD area decelerated sharply to 0.1% in the fourth quarter of 2011, against 0.6% in the third quarter, quarterly provisional estimates show. The OECD total masks diverging patterns however. In the US, GDP growth accelerated to 0.7% in the fourth quarter of 2011, compared with 0.5% in the third quarter, while in Japan GDP declined by 0.6% following the strong technical rebound (1.7%) in the third quarter. In the euro area and the EU, GDP also fell, by 0.3%, for the first time since the second quarter of 2009.

Meanwhile, composite **leading indicators** from the OECD, which are designed to anticipate turning points in economic activity, pointed to slower activity in most countries but showed stronger signs for Japan, the US and Russia.

Growth for six **Southeast Asian** economies, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam, is expected to reach 5.6% during 2012- 2016, according to the latest OECD *Southeast Asian Economic Outlook* released at the end of November. **Latin America and the Caribbean** countries are projected to grow 4.4%.

Consumer prices in the OECD area rose by 2.9% in the year to December 2011, compared with 3.1% in the year to November 2011. This easing in the annual rate of inflation mainly reflected the slower growth in energy prices, which increased by 8.1% in the year to December, up from 4.1% in November.

The OECD area **unemployment** rate was stable at 8.2% in November 2011, unchanged since August. The rate has hovered at this level since January 2011. However, stability at the aggregate level masks different national situations. The

Country roundup

With recovery slowing, swift implementation of new reforms is needed to ensure sustainable, inclusive long-term growth, according to the OECD's latest *Economic Survey of the* **Czech Republic** in November. The ongoing recovery has been weaker than in neighbouring countries, constraining the pace of convergence with more prosperous European countries. Worsening trade performance and declining domestic demand will limit economic growth to 1.6% in 2012.

©David W Cerny REUTERS

Young people in front of a mural of Vaclav Havel, who died 18 December 2011. A well-known Czech playwright, essayist, poet, dissident and politician, Mr Havel has been described as a symbol of world peace and one of the great figures of the 20th century. He was the last president of Czechoslovakia (1989–1992) and first president of the Czech Republic (1993–2003)

In recent years **Israel** has strengthened its environmental policies and now should develop a green growth plan that combines environmental, economic and social policies, the OECD *Environmental Performance Review of Israel* says.

For 35 years, the **Netherlands** has surpassed the UN target of spending at least 0.7% of its national income on Official Development Assistance (ODA). National belt-tightening will extend to ODA, albeit keeping it at 0.7% by 2012.

The **Russian Federation** must further modernise its economy to meet long-term development and income inequality challenges, while improving energy efficiency, the OECD said in two reports, a *Review of Labour Market and Social Policies in the Russian Federation* and the *Economic Survey of the Russian Federation*, both issued in December.

The **Slovak Republic** has made major progress in protecting the environment and enhancing the quality of life, but as the economy strives for recovery, the OECD *Environmental Performance Review of the Slovak Republic* recommends that it strengthens environmental policies and institutions, promoting green growth to help achieve its economic goals.

Though the economic crisis has forced **Spain** to cut public spending, including to development co-operation, its aid has almost doubled since 2003, the OECD's *Review of the Development Co-operation Policies and Programmes of Spain* notes, though urges more focus.

Sweden's 2008 reform of its labour migration policy, now one of the most open in the OECD, has helped businesses hire foreign workers quickly and cheaply, without hurting conditions for local workers, according to a new report in December.

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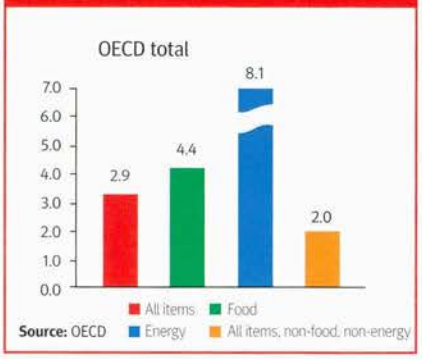
euro area's unemployment rate remained at 10.3% in November– the highest rate recorded since the start of the global financial crisis.

Merchandise trade growth stalled in most major economies in third quarter of 2011, as total imports of G7 and BRICS countries contracted by 1%, compared to 4.2% growth in the previous quarter. Total export growth slowed to 1%, compared to 4.6%.

Visit www.oecd.org/statistics

Consumer prices rise
% change, December, year-on-year



Source: OECD

Global steel slows

One good indicator of the health of the world economy is steel, which underpins industrial output and construction. World steel production and demand growth slowed in 2011. In the first three quarters, production reached 1,514 million metric tonnes (mmt) in annualised terms, representing a 9% increase from the same period in 2010. In China, in the first three quarters of 2011, steel production increased by 12% to 703 mmt annualised. International trade in steel expanded more slowly too.

World finished steel consumption increased by 7% in the first three quarters of 2011 compared to the same period of the previous year, marking a slowdown from 15% in the year earlier period. Annual growth rates of steel consumption from January to September 2011 stood at 6% in North America and Europe, 11% in the Commonwealth of Independent States (CIS) and 9% in Asia.

Green growth platform

Policy makers seeking to effect green growth policies now have a new information and advice resource, after four leading global organisations–the Global Green Growth Institute, the UN Environment Programme, the World Bank and the OECD–agreed in January to create a Green Growth Knowledge Platform. The initiative will address major knowledge gaps in green growth theory and practice, and aims to underpin local, national, and global economic policy making, and collaboration.

Visit www.greengrowthknowledge.org

Plus ça change...

Expenditure on education and research represents a very long-term investment. It initiates cumulative processes that extend over decades and, as a rule, does not yield quick returns. On the other hand, public finance has, by tradition, been shortsighted.

Ingvar Svennilson, in issue No 1 November 1962

50 Years of Better Policies for Better Lives

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

Not just healthcare.

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

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

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

MSD
Be well

Inequality: Why the struggle matters

©Reuters/Luke MacGregor

The economic crisis has been rich in history-defining images, from bank collapses and house foreclosures to street protests and growing lines of the unemployed. In 2011 one image stands out: that of protestors "occupying" major financial districts around the world. These protesters are demonstrating against a system that they accuse of having enriched the few at the expense of those at the bottom of the economic ladder.

While the story may seem simplistic, it is anchored in truth. Looking at CEO salaries, which can soar to 71 times the average salary in the Netherlands, 85 times in Canada, and a dizzying 183 times in the US–or over US$10 million a year–it is not difficult to see why people are enraged. For a quarter of a century, the gap between rich and poor has been widening in over three-quarters of OECD countries. This was already occurring before the Great Recession of 2007 when many countries were growing at a healthy clip.

In 2008, the income of the richest 10% across OECD countries was, on average, nearly 9 times that of the poorest 10%. True, in some European countries the gap is much smaller, with the incomes of the richest 10% at about 5 times those of the poorest 10%. But in the United States this ratio rises to about 14 to 1, while in Chile and Mexico the gap skyrockets to 27 to 1.

The problem has been worsening in recent decades. In Japan, for instance, the top 10% currently enjoy incomes of more than 10 times those of the poorest 10%, up from 7 times in 1985. Even in more traditionally egalitarian countries, inequality in earnings has been on the rise. In Sweden, for example, the top 10% earned 3.5 times as much as the bottom 10% in 1985, but that the gap has jumped to 6.3 times today. Unemployment has risen into double-digits in several EU countries, particularly among the young, and fiscal austerity has involved cuts in benefits. Wages at the bottom of the ladder are feeling the pressure, and in Greece the statutory minimum wage was cut by a fifth in February.

It is possible that disparities may accelerate further because of the crisis, due in part to austerity programmes. On the other hand, growing inequality may have been arrested by a drop in capital incomes during the crisis, as well as by government-supported low incomes.

The trouble is, inequality is not just a social or moral issue, but an economic one. An International Monetary Fund (IMF) report recently argued that inequality is bad for growth. Meanwhile, an OECD report, *Going for Growth*, issued in February 2012 focuses on institutional and policy settings in a bid to understand how growth and equity can work together; we will be looking at these issues in forthcoming editions. Another OECD report, *Divided We Stand: Why Inequality Keeps Rising* also examines the main causes and policy responses.

> Inequality eventually causes the economy as a whole to choke

One major explanation behind diverging incomes is the rapid progress in information and communications technologies, as this has benefited higher skilled workers disproportionately. Demand for the skills of people able to deal with new technologies has ballooned, as have their earnings. The same is true of people with skills in fast-growing high-value sectors, such as finance. Meanwhile, incomes of low-skilled workers have stagnated, and this has widened the earnings gap between the two.

The benefits accruing from the expansion of the most dynamic and innovative sectors have been captured mainly by high-skilled workers, though particularly by the top earners in very specific sectors such as financial services.

Regulatory reforms and institutional changes have increased employment opportunities in recent decades, but have also meant that more people are in low-paid jobs.

This, together with the increase in part-time employment, atypical labour contracts and a decline in the coverage of collective-bargaining arrangements in many countries, helps explain the wider disparities in earnings. In fact, the share of part-time workers in total employment across the OECD area rose from 11% in the mid 1990s to about 16% by the late 2000s. This was good news for many people who wanted jobs but could not find full-time work, and for others who found part-time employment attractive (see "Does part-time work pay?" *OECD Observer* No. 280, July 2010). But the result was more earnings inequality overall. Moreover, part-time workers often endure inferior workplace conditions than full-timers, with less in the way of training, pension entitlements, paid leave and so on.

Some factors have attenuated the increase in earnings inequality. The rise in the supply of skilled workers, for instance, offset the increase in wage dispersion associated with technological progress, regulatory reforms and institutional changes. The up-skilling of the labour force also helped employment growth.

One driver of inequality has been the uneven distribution of incomes other than wages. In particular, inequality in capital income from the likes of stock market windfalls and property investments has widened the gap more than wage earnings in two-thirds of OECD countries. The share of capital income in total household income, while at around 7%, still remains modest on average, so this does not fully explain why inequality has widened. There is also a generational dimension to inequality. Until recently, parents could reasonably expect their children to earn more than they did over the course of their careers. Today, upward "intergenerational earnings mobility" can no longer be taken for granted. Social mobility is actually low in countries such as Italy, the UK and the US, where income inequality is high, but it is high in countries where income is distributed more evenly. But while most children in, say, the Nordic countries can expect to fall into a different earnings class than their parents, that mobility can be up or down.

Inequality of opportunities has an impact on economic performance by affecting social cohesion, trust and motivation. And as the crisis has shown, this eventually causes the economy as a whole to choke.

What can policymakers do to reduce inequalities? The OECD sees three main pillars for action: tax/transfer redistribution policies, human capital investment and actively promoting employment.

Take tax and benefit policies, which offset much of the rise in market-income inequality before the mid-1990s. Overall, cash transfers and income taxes can reduce income inequality by as much as a third, and by a quarter among the working age population. However, the stabilising effect of taxes and benefits on household income inequality has declined in many countries. To make matters worse, changes in tax burdens and benefit entitlements were mostly regressive, particularly for single individuals and childless families. Also, the number of people entitled to unemployment-related benefits fell, in part as a consequence of tighter eligibility rules. And while benefit entitlement became more generous in value terms, benefits for the lowest income groups failed to keep pace with earnings growth. Addressing these issues is important, but policy makers should be careful to address taxes and benefits as a whole, rather than targeting a particular tax or entitlement in isolation. Redistribution is not only about cash. Governments spend as much on public social services, such as education, health and care services, as they do on all cash benefits taken together, some 13% on OECD average, ranging from 8% in Chile and Turkey to around 20% in Denmark and Sweden. True, the prime objective of such services is not redistribution, but the provision of a decent education, good health care and acceptable living standards for all. Nonetheless, they do reduce income inequality by as much as a fifth. In Brazil for instance, poverty and inequality have fallen, thanks in part to better education (see "Brazil's economy").

As for promoting work, training and education are important for everyone, but there is an urgent need in some countries to ensure that the young and rising tides of long-term unemployed get training and do not drift out of the workforce. Also, policies to improve in-work benefits such as earned income or child tax credits could be enhanced to encourage people to take up work. Or additional income support can target low-income households. Such benefits are in place in about half of all OECD countries already. They are generally paid to low-earners and are sometimes limited to a transitional period on taking up employment. In-work benefits often play a central role in "make work pay" strategies. Not only more, but better jobs are needed and it is crucial that policies foster employment gains in jobs that offer genuine career prospects.

In sum, there is nothing inevitable about widening inequalities. If the right policies are applied, the gap between people at the opposite ends of the economic ladder will no longer seem to some like an unfathomable gulf. *Ricardo Tejada*

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No bonus: More than a Publicis affair

Corporate bosses are not exactly enjoying the sunlight these days, what with public outcries against "fat cat" bonuses and excessive boardroom pay despite the crisis. So when the chair of advertising giant, Publicis, Maurice Lévy, renounced his bonus at the end of 2011, people took notice. A case apart or an example for other bosses to follow? Mr Levy explains.

©Publicis

Interview with **Maurice Lévy**, Chairman, Publicis Groupe

OECD Observer: On 1 December last year you announced that from January 2012 onwards you would no longer be paid a fixed salary. Why did you decide to do that?
My mandate as chairman of the management board of Publicis Groupe was due to expire on 31 December 2011. The supervisory board unanimously decided to reappoint the management board, for a further period of four years and insisted that I carry on as chairman. Having already spent more than 40 years at Publicis, I would rather have stepped down. So, to make it quite clear that I was not simply hanging on to my job or my salary, I decided that I wanted to be paid solely on the basis of my performance, or rather the amount by which I exceeded my performance. It's a kind of challenge I've set myself.

In the current economic climate, do you think that other heads of companies will follow your example?
My situation is to a very great extent the result of my particular career path at Publicis and I have no desire to set an example or give lessons to anyone at all.

At the moment, as a simple citizen, I think that those who benefit most from the system should be visibly seen to share in the efforts asked of us all in this time of crisis. I think it is absolutely essential that the first people to show solidarity should be those who have gained the most from both the merits and vagaries of life.

I have always thought that most business managers deserved their salaries, and indeed that some of them deserved to be paid even more. However, I'm not surprised that some might find these salaries shocking, although I would point out that footballers and top models are paid much higher salaries for much lower contributions to either growth or society.

I think that it is only normal that all those who have been given the opportunity to succeed and earn money should act out their role as citizens to the very full, particularly during the current period of hardship and uncertainty. This is why last August I appealed for the wealthiest members of society, and not just business managers, to make an effort.

Is a reduction in top salaries merely a symbolic gesture or does it genuinely help improve the economy?
You can only look at individual cases in this respect, and therefore at the symbolic value. In free economies, it would indeed be impossible to entertain the idea of having the legislator set maximum salaries upfront.

The principle followed by states that are based on free enterprise, free trade and industry, is to allow their citizens free rein and then to redistribute the wealth created through taxation. This is an extremely important principle and it would be a serious mistake to challenge it.

That said, there's nothing to stop some people, either individually or collectively, from cutting their salaries. The simple fact that we are in a crisis offers sufficient justification. When recession hit in 1993, we had a choice at Publicis of either making our employees redundant or offering them lower salaries. The employees opted for salary cuts (ranging from office workers to the chairman of the Board) and by "sticking together" we were able to survive the crisis, from which we emerged even stronger.

I give this example to make an important point: the enterprise is really the only relevant level at which such decisions can be taken. If they are imposed from outside the enterprise, the consequences can be extremely serious. At a more fundamental level we also need to look at our model of society: do we want a society based on mediocrity or do we want a meritocracy that allows us to move forward by rewarding the most deserving–even if the reward is disproportionate? I am against mediocrity and in favour of moving forward, enthusiasm and the opportunity for people, for everyone, to succeed.

The developed world is in the throes of the severest economic crisis for 50 years. Looking ahead to 2012, what are the greatest challenges that France, and at a wider level the global economy, will have to meet and what advice would you give to decision makers in this respect?
The main characteristic of the crisis we are currently experiencing is the speed at which it has spread to every different sphere of life: at first we thought it was a financial crisis, then it turned out to be an economic crisis and now, with the sovereign debt crisis, a political, and some would add, geopolitical crisis.

It is this mix which makes the current period a critical point in time and which best illustrates the phenomenon of globalisation. As a result, I think that it is necessary to vigorously work towards recovery.
A politician's job is not easy, but it does not preclude the use of imagination. This crisis is about a model and a sea change in the world; we will not overcome it if we just sit back and use ideas and tools which we inherited from that very model which is currently in crisis or, even worse, which were responsible for the crisis in the first place.

In the short term, it seems obvious to me that restoring public finances is a must (for the countries concerned), an obligation that has to be met, failing which it will be impossible to either plan for or build towards the future. No country can build a place in the world by living constantly on borrowed money or by accumulating mountains of debt.

> A politician's job is not easy, but it does not preclude the use of imagination

Regardless of how painful and difficult it might be, this means revisiting public expenditure on health, as well as the situation and organisation of the missions of public institutions. A hard look at the good governance of finance and banks is also essential: to date it has merely been examined sketchily and, unfortunately, fairly unevenly due to a lack of consensus and proper linkage between states and regulators. Lastly, a three-fold paradigm needs to be placed at the heart of the economy and public policies, namely knowledge, the spirit of entrepreneurship and creation. This is the price that a country must pay to put itself on the road to competitiveness in a globalised economy.

You manage the third largest communications group in the world. Are you optimistic about the future in your sector?
With hindsight, we can see that the main outcome of the crisis which began in 2008 has been to speed up changes in the communications sector.

One major change has been the integration of digital technology into every single aspect of communications. This makes me more optimistic about the future for communications, whose destiny is increasingly tied in with that of digital technology. There is no sector with a higher growth rate than that of digital technology. All this is highly promising for communications.

When the crisis first struck in 2008, we saw a sharp fall in spending on advertising. However, brands paid dearly for this decision, which they later regretted. Digital technology can indeed make it easier and quicker to both build and dismantle brands. No major brand in the market place can allow itself to cut back too sharply on investment. The speed at which brands and products become obsolescent is increasing and defending one's brands is the first investment that needs to be made to boost market share in a knowledge economy. Since our entry into the second phase of the crisis, the sovereign debt crisis, we are witnessing a very careful scaling back of investment rather than a sudden halt. Overall, growth in investment worldwide in the first half of 2012 should amount to around 4.5% to 5%.

Girard, L., "À partir de janvier 2012, je n'aurai plus de rémunération fixe", in Le Monde, 31 November 2011.

www.publicisgroupe.com

How tax can tackle the jobs crisis

Alastair Thomas, OECD Centre for Tax Policy and Administration

Since 2008, unemployment in the OECD area has leapt from 6.1% to 8.2% in 2011. Governments searching for ways to increase employment must at the same time deal with the large budget deficits that are also a legacy of the crisis. Tax reform can play a role in this balancing act.

Taxes affect incentives on both sides of the labour market. They can discourage employers from hiring, would-be employees from taking up work, and current employees from working longer and harder. Unsurprisingly then, cutting taxes can increase employment, but how can this be afforded? And if other taxes have to be increased to finance these tax cuts, won't this reduce employment?

Not necessarily; for as experience shows, different tax reforms affect some employee and employer decisions more than others. By targeting reforms at the employees and employers that are most responsive to changes in taxation, then the gains in employment can be significant. Moreover, any revenue lost from those changes can be kept to a minimum.

So what reforms can help? One option is to reduce employer taxes–employer social security contributions and payroll taxes–thereby lowering the cost of hiring workers. This may be particularly beneficial for countries with both high employer taxes and generous minimum wage levels which risk pricing some low-skilled workers out of the job market. Here, tax cuts can potentially generate sustained reductions in unemployment, even after countries fully recover from the crisis. Such cuts may also work on a temporary basis to boost labour demand–at least until the crisis ebbs.

Policy makers can get extra impact from these reductions if they target them at businesses that hire new workers, particularly those that have been most affected by the crisis such as youth and the long-term unemployed. This way they can help maintain skill levels and prevent joblessness from becoming structural and harder to tackle later on. Indeed, several countries have implemented targeted concessions in response to the crisis, including Finland, France, Hungary, Ireland, Portugal and Turkey. Meanwhile, 14 OECD countries had already targeted employer tax reductions at low-skilled workers. The evidence from such efforts shows that targeted employer tax reductions do increase employment.

The trouble with these changes is that they can be administratively complex and can create opportunities for taxpayers to "game" the system–by sacking workers and hiring new ones for instance. Care needs to be taken in correctly designing such initiatives, such as by linking temporary reductions to increases in the total number of employees, as has been done in Korea,

or to the total payroll. But the rule of thumb is to keep it simple: the more complex the concession, the less likely businesses are to respond to it.

Targeted tax reforms can also provide incentives for the out-of-work to hunt for jobs, and for those already with jobs to work longer and harder to earn more money. The people who are most responsive to such tax changes include low-income workers, older people, and second earners, which generally means women.

Start with low-income earners. Work incentives for this group can be increased in various ways. For example, a tax-free allowance can be introduced or increased, or personal income tax and social security contribution rates and/or thresholds can be altered. However, these reforms can be expensive to implement as they tend to also benefit higher-income earners. Work contingent tax credits, often paid out in cash, have become an increasingly popular tool to both increase work incentives and alleviate in-work poverty. They can be

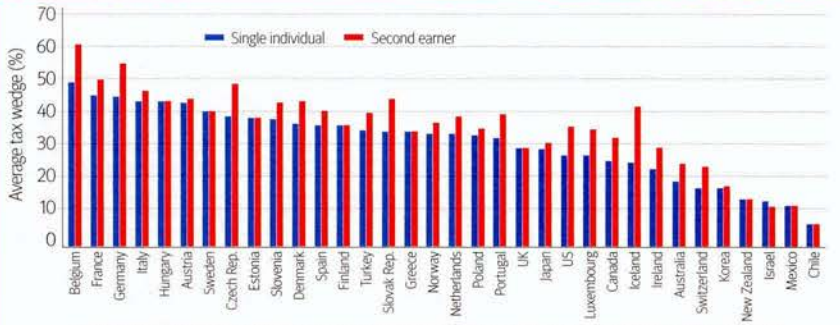
> Changes in tax can help maintain skill levels and prevent joblessness from becoming harder to tackle later on

targeted to restrict revenue losses too. Studies show that these tax credits can be very effective at increasing participation of low-income workers, particularly single parents. Small wonder that some 17 OECD countries have introduced such measures. However, again careful design is needed, as studies also show that the withdrawal of these tax credits up the income scale can reduce the number of hours worked by some middle and higher income earners.

As for older workers, many tax systems currently tax earned income more heavily than pension income, discouraging older people from continuing to work once they are eligible for pension payments.

Second earners often face higher taxes

Comparison of the average tax wedges (the difference between total cost of employee and take home pay) faced by a single individual and a second earner, both earning 67% of the average wage, 2010.



In Belgium, for example, about 60% of the total cost of a second-earner employee are made up of taxes and social security contributions; the wedge for single earners is less, at around 50%. Most countries in the chart show a higher tax wedge for second-earners. See the Taxation and Employment report for more details.

Information on data for Israel: http://dx.doi.org/10.1787/888932315602

Source: *Taxation and Employment*, OECD

StatLink http://dx.doi.org/10.1787/888932482707

To address this problem, policy makers should consider providing age-based rather than pension-specific tax concessions. Social security charges on older workers could also be reduced to match those due on pension income. Countries could go even further and actively encourage older people to keep working by providing work-contingent tax credits targeted at older workers. Some countries, such as Australia and the Netherlands, do this already.

For second earners the basic structure of many tax systems creates greater disincentives to work than for single earners. For example, family-based taxation and dependent spouse tax credits and allowances tend to cause second earners to pay higher average and marginal tax rates than are faced by single individuals (see chart). Under family-based taxation the second earner's income is effectively added on to the main earner's income, which pushes the second earner higher up the progressive income tax schedule; so even if they are earning low wages, they could be paying the top rate in income tax.

Moving from family to individual based taxation, and the removal of dependent spouse allowances can provide an easy win for governments as these reforms will improve second earner work incentives at minimal if any revenue cost. Unsurprisingly then, there has been a strong trend towards individual-based taxation in the OECD area over the last 30 years. Nevertheless 11 OECD countries still allow some form of family-based taxation.

Where politics rules out abandoning family-based taxation, an independent allowance or a work contingent tax credit for second earners could supplement existing arrangements instead. Indeed, these options have merit even in countries with individual-based taxation, especially those that target benefits on the basis of family income as this can create disincentives for second earners just like family-based taxation.

In the end governments need tax revenue, and even these targeted tax reforms can exact a cost in terms of foregone revenue. The task for governments is to weigh their immediate revenue needs against the potential (and beneficial) employment gains that such tax reforms can bring.

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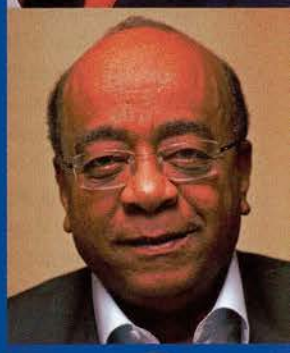

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SPOTLIGHT: The globalisation of higher education

Richard Yelland, OECD Directorate for Education

Higher education is growing rapidly, and becoming a veritable global sector in its own right. That means challenges for educators, students and policy makers.

If higher education were an industry, it would be one of the world's biggest and most dynamic. Take these numbers for the UK, for instance. The total revenue earned by universities there amounted to £23.4 billion (US$43 billion) in 2007/08, according to a report by Universities UK. This was comparable in gross output terms to the printing and publishing industry, and considerably larger than the pharmaceuticals industry.

Or take Australia, where education is one of the country's largest exports. Some estimates have put the value as high as Aus$17.2 billion in 2008-09, or about 1.4% of GDP, with growth of over 20% from the previous financial year. The global leader is of course the US, where higher education is estimated to employ 3.4 million people, or some 3% of the entire US service sector. Education is ultimately about students, and the number of students enrolled in higher education has grown steadily and strongly over the past 50 years. In fact, data from OECD's *Education at a Glance* shows that 30% of adults in OECD countries now have a tertiary qualification. International student numbers in the OECD have trebled in the past 20 years to more than 3.7 million, and that number can be expected to continue to grow rapidly.

The reasons for this growth are obvious: graduates earn more, have more satisfying jobs and live longer than those who don't graduate from higher education. This is as true for women, who now comprise the majority of tertiary students in OECD countries, as for men.

Developed economies rely on skilled labour to drive productivity and economic growth, as well as create a more confident and more affluent middle class. And the economic benefits of higher education flow not only to individuals, but also to society (see page 16).

As higher education has grown and expanded, it has also become more international. OECD data show that the number of students attending institutions outside their country of origin tripled between 1985 and 2008, and it is expected that this trend will continue. It is, however, a very asymmetrical market, dominated by some strong providers, mostly in English-speaking countries. The United States hosts the largest number of international tertiary students, while the proportion of such students is highest in Australia. It is a volatile market, as well, where public perceptions can be quickly swayed by relatively minor incidents. For example, the US market share has been declining since 2000, while the Russian Federation has doubled its market share during the same period, and many Asia-Pacific countries are now entering the field, as well.

Just as university education has become more global, so it has become more competitive. Yet, are educational establishments–those whose role it is to "produce" or supply education–able to compete and do their job? Look at it another way. Suppose you are running a business and are fortunate enough to have good brand recognition and tens of thousands of

customers trying to buy your product. You might choose to remain exclusive and raise the price of your product, or you might want to increase production to meet demand. But if your business is running a university, you might well find that your government won't allow you to do either of these things. Indeed, it might not even allow you to charge for your product at all–even while some of your competitors in other countries benefit from public subsidies, may charge fees and receive strong support for their efforts to "export" their product. In addition, government policy on immigration or institutional funding can influence your appeal to new students.

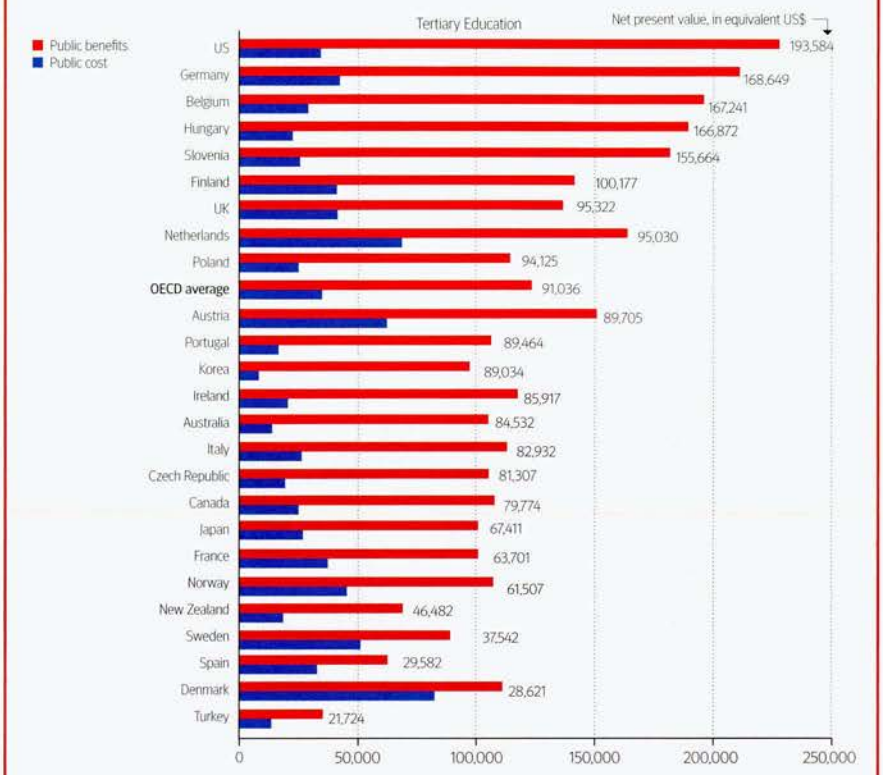
The challenges to those who are responsible for strategic planning in universities and other higher education institutions are clearly considerable. The OECD's Programme on Institutional Management in Higher Education (IMHE), will present some pointers and ideas, based on focus groups it is now running, at the OECD's higher education conference in Paris, September 2012.

> International student numbers in the OECD have trebled in the past 20 years to more than 3.7 million

But if those who are responsible for the "supply side" of higher education are struggling to keep up with developments, spare a thought for the students and prospective students who make up the "demand side". Many countries offer various scholarships and other kinds of financial assistance, while others let students fend for themselves financially. In addition, the quality and relevance of higher education programmes and institutions are far from obvious for prospecting students, even when hunting for courses within their own country. At the international level, students can fall prey to misleading–and sometimes fraudulent–advertising; often, their only guides are institutional rankings, which are largely based on research outcomes (see page 23). As a result, these students might not have all the information they need to make a well-informed choice about something that will have a significant impact on the rest of their lives.

Higher education pays

Public cost and benefits for a man obtaining tertiary education, 2007 or latest available year



Notes: Australia, Belgium and Turkey refer to 2005; Italy, the Netherlands, Poland, Portugal and the United Kingdom refer to 2006. All other countries refer to 2007.

Countries are ranked in descending order of the net present value at tertiary level of education.

Source: *OECD Education at a Glance 2011*

StatLink http://dx.doi.org/10.1787/888932460686

Some efforts to help them are at hand. The OECD and UNESCO, for instance, have worked together to develop guidelines on quality in cross-border higher education. First published in 2005, the non-binding guidelines invite governments to establish comprehensive systems of quality assurance and accreditation for cross-border higher education. They also call on institutions and providers of higher education to ensure that the programmes that they deliver, across borders and in their home country, are of comparable quality, and suggest that students become active partners at international, national and institutional levels in developing, monitoring and maintaining the quality of higher education. Do we even know what this demand side is demanding? Surveys, such as the Australian Survey of Student Engagement or the National Survey of Student Engagement in the United States, have collected information about how students learn and

what they expect from higher education. They provide institutions with detailed reports on how students spend their time and what they gain from attending college and university.

But not all students are 18 years old, and universities also have to be able to provide a service to lifelong learners and older students seeking to refresh, upgrade or complement their knowledge and skills. This is becoming increasingly important as the global economy retrenches and labour-market demands shift. At the moment, while policy makers are struggling to decide whether to treat higher education as a business or as a public service, some of our traditional models are evolving fast. Fees are being introduced in many countries, while the focus on quality and transparency that has been gathering pace over the past two decades will only become more intense.

And there will be a new drive for efficiency and productivity in higher education as public and private resources shrink and competition becomes more fierce. Students are becoming customers, seeing good higher education as something to pay for as a way to a better career. The notion of "free" tertiary education is becoming harder for governments to defend, either in theory or in practice. The governance and regulatory arrangements that apply to higher education will continue to come under ever closer scrutiny.

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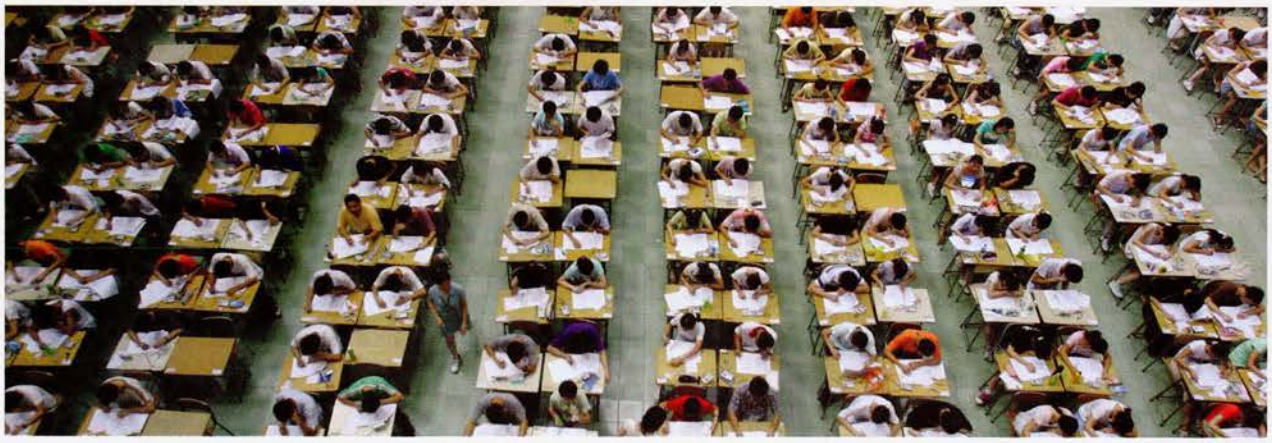
See www.oecd.org/edu/higher and www.unesco.org/new/en/education



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Higher education's crisis dividend

There has always been some debate about whether higher education is really something that everyone should be encouraged to pursue. If there aren't enough jobs requiring university-level degrees to go around, why spend the time and money–public or private–to obtain a degree? The debate has intensified somewhat since the economic crisis started, accentuating the seismic shifts that have affected the pattern of global labour markets.

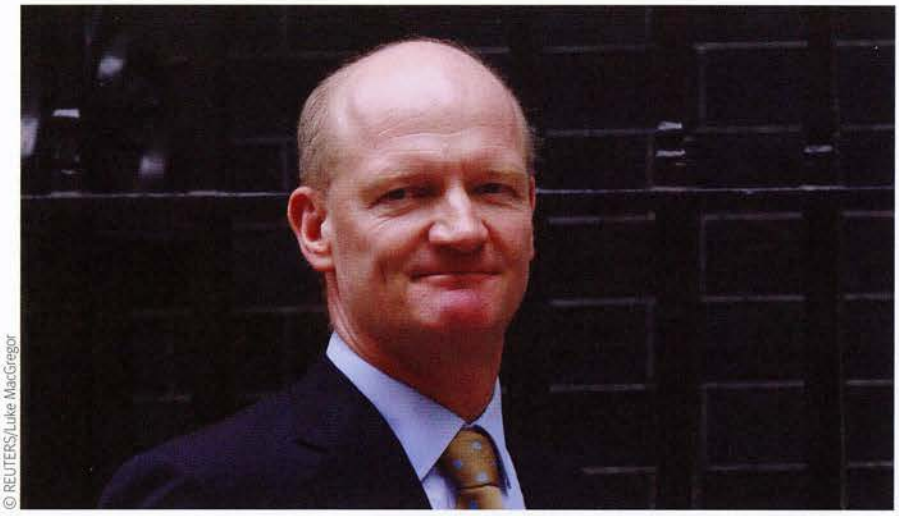
But despite the storm of the crisis, the evidence is clear: even during tough economic times, a person with a university-level degree can expect to earn an average of 50% more than someone who has only a secondary-school diploma. And for governments, the net public return on an investment in university-level education, seen in higher taxes, greater social contributions and lower social transfers, is almost three times the amount of public investment.

This is not pre-crisis thinking, but based on 2009 data reviewed in the OECD's 2011 edition of *Education at a Glance*. The report shows that benefits also accrue to those who pursue further vocational education and training: individuals who have earned a degree or certificate from a post-secondary, vocationally-oriented programme earn more than their counterparts who haven't completed secondary education. The difference in earnings may not be as large as for degree holders, but it is nonetheless consistent and real. What is clear from these findings is that investing in higher levels of education pays dividends, for both individuals and society, and that goes for those aiming for careers in molecular biology or plumbing.

See *Education at a Glance 2011* at www.oecd.org/edu/eag2011

Higher education: Funding and affordability

David Willetts, Minister of State for Universities and Science, Government of the United Kingdom



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The coalition government of the UK is seeking to achieve two main goals by reforming funding of higher education in England.

The first focuses on making sure that the finances of diverse institutions across our world-class sector are sustainable for the long term. In the face of a huge deficit reduction programme, it is impossible to increase university funding solely from the public purse. We therefore decided to require a greater contribution from graduates–the clearest beneficiaries of higher education, as OECD research demonstrates.

The second goal, however, concerns the affordability, accessibility and quality of higher education. Under the system which comes into force later this year, domestic and EU undergraduates will not be required to pay any tuition fees up front. Instead, they will begin to repay the cost of their education only upon earning more than £21,000 (about $33,000) per year. At the same time, any institution wishing to charge its students more than £6,000 per year for any degree can only receive authority to do so once it has provided a credible plan to grow its intake from less privileged parts of society (or can demonstrate that it already performs strongly in this regard); by the 2015/16 academic year, universities are set to spend more than half as much again as they currently do to attract disadvantaged students. So far as teaching is concerned, every university is now under greater pressure to convince potential applicants about the value of its courses, as more discerning students look harder for evidence of regular contact with lecturers, modern facilities and strong employment outcomes.

These benefits extend to adult learners. First-time undergraduates of any age are eligible for loans to cover their fees, as well as scholarships and bursaries from individual institutions. As important, we have broadened eligibility to include part-time students, so that parents and adults already in work have a real chance to fulfil their ambitions. One quarter of our students pursue their courses on a part-time basis, a proportion we expect to increase.

> We have broadened eligibility so that parents and adults already in work have a real chance

We are also exploring ways to ensure that the skills of graduates accord with what businesses need–a vital consideration for older students, for whom a decent job is all the more urgent. A review into business-university links will report imminently, with recommendations on co-designed courses, work experience opportunities and employer sponsorship.

It will obviously take time before we can accurately assess the impact of our reforms. The most recent higher education application figures suggest that demand among people from the most disadvantaged backgrounds remains strong, with a 0.2% decrease on the previous year, but we have seen a drop in applications to full-time courses from would-be mature students. This may well reflect understandable concerns about the current position of the labour market–and such individuals now have part-time study as a viable alternative. Others may view England's massively expanded apprenticeship programme as a more attractive route to advanced skills and rewarding careers.

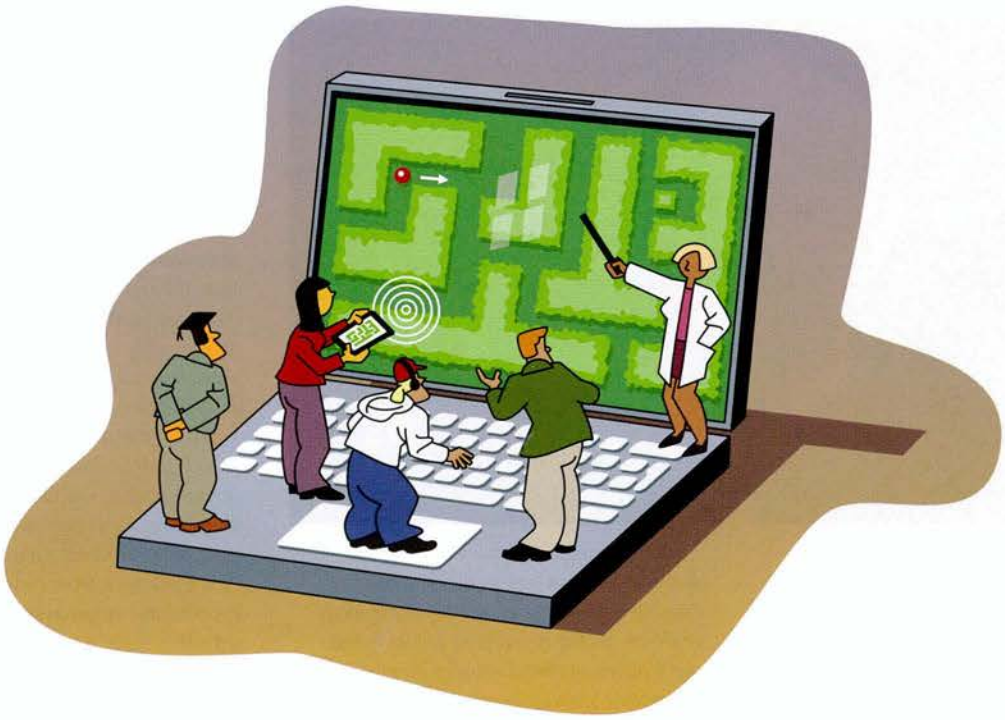
England is far from alone in changing the way it funds higher education. According to the OECD's *Education at a Glance 2011*, 14 out of 25 countries (for which data is available) have reformed tuition fees and support for students since 1995. Tuition fees, for example, have been introduced or increased in Australia, Austria, Japan, the Netherlands, New Zealand, Portugal, and the US.

Yet perhaps the more significant trend is the growing recognition, in all parts of the world, of the value of universities to national success and well-being. In an ever more competitive and international higher education system, we have taken the necessary steps to give our universities and colleges the resources to underpin world-leading teaching and research, and to give our graduates–adults included–every advantage in the global marketplace.

OECD (2011), *Education at a Glance*, Paris.

http://www.direct.gov.uk/en/EducationAndLearning/UniversityAndHigherEducation/index.htm

Technology and game theory



Mobile phones and e-books are already essential school supplies on many university campuses. But they're just slide rules compared to what education tools might look like in a few years.

Remember folders and heavy books, and the race for the library computer? That was then. Students entering higher education nowadays come fully teched-up: laptop, mobile phone, MP3 player and tablet. They enjoy wireless high-speed communications and use information and communication technologies extensively in their daily lives. Professors and lecturers are adapting more of their course work to take advantage, by using webinars, e-reading, and the like. Yet the OECD's Centre for Educational Research and Innovation (CERI) project on the Future of Higher Education finds that these "new millennium learners" do not expect to see technology play a significant role in their advanced education. They may still have a few new things to learn.

An international body of experts in education, technology, business and other fields recently published a report on emerging technologies and their potential role in education. According to *The Horizon Report 2011*, technology in higher education in the not-so-distant future will involve far more than just e-books and mobile phones. Over the next five years, the report suggests, such technologies as augmented reality, video- and computer-based games, gesture-based computing and learning analytics may also work their way into the hallowed halls of academe.

Some of these "serious" games are already in use on campuses in OECD countries. A series of games under the title Global Conflicts, for instance, helps to teach students about sensitive geo-political issues and comes with lesson plans and assignments for students. Melody Mixer, developed at the University of Wisconsin-Madison, teaches students how to read and compose music; and Virtual Forensics Lab, developed at a US school of nursing, teaches students how to conduct forensic examinations at a crime scene. Proponents of these types of games argue that more intensive use of video or computer games at university would help students to develop their abilities to make decisions, innovate and solve problems–precisely the types of skills needed in information-based economies. These types of games simulate real-life situations and offer students the opportunity to try to solve complex problems without risking real-life consequences. They also offer a chance to test and better understand different ways of approaching a problem. Ultimately, these games could lead to more interdisciplinary thinking within higher education institutions and beyond.

Still under development are what are known as "massively multiplayer online" games that are specifically designed for learning. These types of games, which already exist as entertainment or for training, bring players together from all corners of the globe to solve problems collaboratively. Proponents cite the variety of sub-games or paths of engagement that are available to those who play them. While they are often goal-oriented, at their highest levels these

games often require outside research. The challenge for designers of these types of games is to embed education content into them so that learning becomes a natural part of "play".

Another type of technology, learning analytics, aims to enable teachers and institutions to tailor education to the needs and abilities of individual students.

"Serious" games are already in use on campuses

It does so by analysing a wide range of data, such as how students do in completing assignments and taking exams, their online social interactions, extracurricular activities and posts on discussion forums, for example. The beneficiaries are not just students; these technologies could be used to assess curricula and pedagogy, as well. While admissions offices and fundraisers are already using some of this technology, most of the work in this area is still conceptual; it will be another four or five years, at least, before these systems are widely used to diagnose and improve the quality of teaching. In addition, concerns about student privacy and profiling, and the perception that the technology reduces human beings to numbers, will have to be addressed before there is broad take-up.

Apart from the cost of these technologies, which can be considerable, one of the greatest obstacles to their large-scale use is, perhaps surprisingly, insufficient digital literacy among both teachers and students. While there is broad consensus among educators and business people alike that students must be digitally literate in order to participate fully in our fast-evolving world, there is no broad agreement on what constitutes digital literacy skills, nor are these skills comprehensively and universally taught. And, as most consumers know, these technologies advance and change at such breakneck speed, most curricula may not be revised fast enough to keep up. Some critics note, too, that an apparent lack of digital literacy may simply be an absence of desire. Students may still like pouring over books, and research authors may still prefer to see their names in print.
The challenge for those who produce innovative educational e-tools is to make them not just exciting, but relevant and enhancing for learning and teaching. Only then will any vestiges of digital illiteracy go the way of the slide rule. *Marilyn Achiron*

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Visit www.oecd.org/cer

▲ *Denis Brière - Rector of Laval University*

"A lasting imprint on the world"

Laval University is very active worldwide. Could you tell us about the main aspects of this presence on the international stage?

Very significant efforts have been made over the last fifteen years to promote the unique expertise of Laval University and to become a Canadian leader in globalisation of its activities. This openness to the rest of the world has been borne out by the signature of 665 training, research and international mobility or development aid agreements with more than 470 partners in 60 countries.

The University has an international profile that enables students to complete up to two study sessions, which are fully recognised and credited, abroad. Several student mobility programmes allow almost 1,000 of our students each year to conduct a study project or traineeship abroad.

We have developed a series of delocalised training programmes: a masters in didactics in Gabon and in Cameroon, a masters in international development and a post-graduate diploma specialised in education science in Haiti, an MBA in logistics chain management in Morocco, amongst others.

Many research collaborations have been set up in as varied domains as climate change, Nordic studies, optics-photonics, genomics, bio-food sciences, sound and image technology, digital culture, heritage, infectiology, neurosciences, obesity, cardio-vascular and renal problematics, tissue engineering, etc.

What is your approach with regard to cooperation with developing countries?

For a number of years our professor-researchers and members of staff have been committed to a pro-active approach of sharing their knowledge and expertise in order to best contribute to the well-being and sustainable development of developing countries.

We have set up projects to support reconstruction of higher education in Haiti thanks to a funding envelope of 600,000 $ from donations collected by the University. The aim is to train highly qualified personnel in different domains: agriculture, education, tourism and heritage, climate change and sustainable development, governance and international development.

The project to support training in management of natural resources in the Congo Basin, directed by professor Damase Khasa from the Faculty of Forestry, Geomatics and Geography, funded by the ACDI, helped to give new impetus to university and technical training in the Democratic Republic of the Congo. The first cohort of 32 design engineers and 8 technician engineers were awarded their diploma this year. This project also enabled the training of doctoral students who will pick up the baton as professor-researchers in their countries of origin (DRC, Gabon or Cameroon) with a view to developing three centres of excellence in training and research.

UNIVERSITÉ LAVAL

Ville de Québec, Canada

Taking stock of skills

It is crucial for countries competing in an advanced economy to have a skilled workforce. But with labour markets changing so fast, how can workers keep up? The OECD Skills Strategy, due to be launched in May together with a comprehensive new survey of adult competencies, will help provide answers.

Unemployment is at record levels in the developed countries; but did you know that, in 2009 when the economic crisis was in full swing, more than 40% of employers in Australia, Japan, Mexico and Poland reported having difficulties in finding workers with the right skills for the job? Meanwhile, up to one third of workers consider themselves over-skilled for their current job, while 13% believe they are not skilled enough.

Over the past 50 years, the balance among employment sectors–and the kinds of skills those sectors require–has been shifting. From heavy manufacturing through smart technology to services, both traditional and new occupations demand more highly skilled workers. Employers' needs for specific skills are constantly changing and difficult to predict.

Since the 1980s, most countries have worked to increase the proportion of students who complete secondary education and move on to post-secondary and higher education. Higher levels of educational attainment are associated with lower rates of unemployment and higher earnings, on average. Conversely, it's costly for governments to support poorly skilled people who are unemployed or under-employed.

But it is not easy. Even in the most economically advanced countries, large proportions of adults have poor

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In 2011, Vale became Brazil's largest exporter, with a 13.55% share of the country's sales to foreign markets through the month of November. For 2012, it has announced investments of US$21.4 billion worldwide.

More food with less impact

The company is investing in fertilizer production to help the world overcome the challenge of producing more food with less environmental impact. Investments in the sector will be US$15 billion by 2020.

Vale Fertilizantes, created in 2010, now has 11 production units of potash, phosphate and nitrogen, with ten in Brazil and one in Peru. Six projects are under development, in Brazil, Mozambique, Argentina and Canada.

New energy sources

To guarantee energy for its operations, Vale operates hydroelectric power plants in Brazil, Canada and Indonesia, and is investing in reducing energy consumption and creating new sources of energy, each time with less environmental impact.

Since 2008, Vale has been investing in the development of biodiesel made from palm oil in Pará. At the Comandante Ferraz Antarctic Station, VSE (Vale Energy Solutions), a joint venture with Brazil's National Economic and Social Development Bank (Banco Nacional de Desenvolvimento Econômico e Social - BNDES), an ethanol-based motor-generator has been developed and is being tested. It will soon be able to supply the Brazilian base on the frozen continent.

Three pillars for sustainable development

The Vale sustainable development policy is based on three pillars: to be a sustainable operator, a catalyst for local development and a global agent for sustainability. In 2012, investments in corporate social responsibility initiatives will reach US$1.648 billion: US$1.354 billion for protection and conservation of the environment and US$293 million for social activities. Vale protects over 10,000 square kilometers of nature reserves in Brazil, Indonesia and Canada.

To support programs that combat deforestation and forest degradation in the Amazon, it created, on a voluntary basis, the Vale Fund, a non-profit organization that works in partnership with all sectors of society. One highlight of its sustainable initiatives is the rate of recirculation or reuse of water across global operations, of approximately 79%.

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League tables that rank

University rankings sell a lot of newspapers and magazines. But how seriously should teachers, students and, importantly, policy makers take them? While there are many national rankings of higher education institutions, it is the small number of international rankings that attract the greatest media attention. Of these, the annual Academic Ranking of World Universities (known as the "Shanghai ranking") is arguably the best known, although the *Times Higher Education World* University Rankings and the QS World University Rankings® also create a stir when they are published each year. While based on different criteria, all three have at least 15 US research universities in the top 25 and there are five institutions–Cambridge, Chicago, Harvard, MIT and Oxford–that appear in the top ten positions in all three. The most heavily weighted factors in each ranking are related to the institution's research output rather than to how well they teach.

This may be one drawback to watch out for in trying to make a complete assessment. Indeed, the effect of these rankings has been to focus attention on both the "best" universities and how to create and sustain them, rather than on how to improve the quality of higher education more broadly. UNESCO has been sufficiently concerned about this development that it co-organised, along with the OECD and the World Bank, an international Forum on Rankings and Accountability in Higher Education in May 2011.

It is increasingly recognised that research output is not the only, or even the best, measure, and that the other activities in which universities are involved–notably teaching, but also technology transfer and community engagement–matter just as much, if not more, to the quality of the education provided. But as of now, there is no way to measure the quality and impact of these activities comparably. In the meantime, the OECD's Assessment of Higher Education Learning Outcomes (AHELO) initiative is showing that graduate learning outcomes can be evaluated. And the European Commission is developing a tool that will enable users to rank institutions according to six aspects, and against a number of indicators, depending on the users' priorities and preferences.

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Special focus

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Poverty, page 32

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Brazil's economy: Reaching new heights

Brazil has emerged as a global economic player and expectations are rising of further success ahead. But there are several tests to pass along the way.

"The signs for Brazil are encouraging. Indeed, the country may have crossed that threshold from volatile to at least the beginnings of durable growth."
These words were written in the OECD Observer in 2001, and how close to the mark they proved to be. In fact, after weathering a shaky couple of years internationally, Brazil's economy rose to new heights, establishing itself as one of the world's most lucrative emerging markets.

Its GDP has grown by some 4.6% per year on average over the last five years. A glance at the macroeconomic indicators over that period shows buoyant activity in agriculture, industry and services, while the GDP has been driven by strong expansion in domestic demand and imports of goods and services have risen sharply. Export volumes have also grown strongly, but at a slower rate than imports. Unemployment has been relatively low at around 6-7%, and fell below 5% in December 2012.

Brazil briefly felt the chill of the economic crisis that spread from the OECD area, but quickly recovered. In fact, in 2010 the economy registered its highest annual growth in 20 years. However, this slipped back in 2011, with growth of just 3%. This is still above what is observed in OECD countries, but is the lowest rate in South America that year. The government is determined to haul growth back to over 4% in 2012, though this ambitious target entails some major risks. The OECD more cautiously sees reaching that figure as a possibility for 2013.

The challenges are formidable, particularly given the rather bleak global economic outlook. Even putting the external front aside, the dilemmas are several. For instance, despite higher prices, can the government keep the lid on the policy interest rates and avoid attracting too much short-term capital or exerting upward

pressure on the Brazilian *real*? Or can policy makers achieve lower interest rates for domestic borrowers, but at the same time raise savings rates for investment and keep inflation at bay?

From 2003 to 2010, the appreciation of the *real*, fuelled in part by short-term capital inflows and a demanding oil industry, amounted to 63% compared with its main trading partners and by 74% against the US dollar. Inflation pressures have emerged. Prices rose by an end-of-year of 6.5% in 2011—the ceiling of the monetary policy target range and the highest rate in seven years. A surge in food and energy prices has not helped, while housing and transport prices have also risen. To prevent excessive currency fluctuations and safeguard financial stability, the authorities initially combined increases in interest rates and reserve requirements with foreign exchange intervention and a temporary tax on short-term capital inflows. As the global outlook worsened, the policy mix was shifted towards easier monetary policy and some fiscal consolidation. If this proves insufficient, policy makers could resort to raising the tax on short-term capital inflows, adjusting capital requirements for banks, and other macro-prudential measures of this sort. Still, they should give more prominence to fiscal consolidation too.

> The population over 65 is expected to soar to 38% by 2050

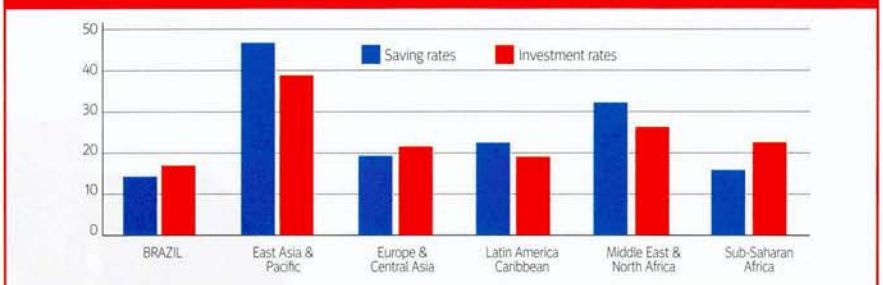
Brazil's macroeconomic policy has been sound since it was established a decade ago, with the Fiscal Responsibility Law in 2000 being a notable factor. The government has kept a sharp eye on inflation, maintained a flexible exchange rate and stuck to a fiscal policy with clear rules. The authorities have easily achieved their primary surplus target for 2011. But a confluence of slowing domestic growth and a more turbulent external situation has made it hard to keep pressures at bay, with the exchange rate rising and fiscal rules harder to implement.

To deal with these issues and underpin public and social security finances over the medium term, the government could move to a headline budget target and introduce an expenditure ceiling. Ending the link between the minimum pension and the rapidly rising minimum wage (while maintaining the value of the pension in real terms) would also contribute to spending restraint. In addition, making the budget process less rigid would help by making it easier to re-allocate funds to more effective uses.

At the same time, however, the government knows there is a need for more spending on

Investment and saving rates

% of GDP, selected regions, 2009 or latest year



Source: *2011 Economic Surveys: Brazil*, OECD

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infrastructure, not just in the headline area of sport—Brazil will host the 2014 FIFA World Cup and the 2016 Olympic Games—but in transport, electricity, and water and sanitation that the country urgently needs for progress and medium-term growth (see article: "Infrastructure: Not just a sporting challenge"). Again, this underlines the need for measures to boost investment.

It also means having to make good use of revenues from the oil sector and sharing them equitably, not just across regions, but across present and future generations as well. The new *Fundo Social do Pré-Sal* (social fund) is encouraging in this regard.

Undoing Brazil's Gordian knot of taxation would be a major boon to these efforts, as complex taxation has the effect of reducing after-tax returns and curbing incentives to invest. Can the government disentangle it? It certainly plans to try, by sending a proposal to Congress to introduce payroll tax relief and harmonise VAT among Brazil's states.

The country's capital investment rate at less than 20% of GDP is low compared with emerging markets as well as other Latin American economies. One reason is a low savings rate of nearly 15%, compared to well over 30% in China and India.

Another cause of low capital investment is high lending interest rates, with corporate borrowers still charged average interest rates of 31% and personal loans carrying a 45% interest rate. The reasons for these high rates are unclear. History may play a role, although it is unlikely to be the only explanation. Investment is also held back by relatively high taxes on corporate profits and very high tax compliance costs. In addition, private long-term capital markets are needed to bring capital to investors. Reforms in these areas could help boost investment. Brazilians with modest incomes do save, but less eagerly after the age of 40. Why the loss of momentum? Expectations of generous pension benefits have created little incentive to save for many. But like other emerging-market economies, Brazil will age rapidly, and the strain on public finances is going to be felt as the working population shrinks. Although less than 7% of the population is today over 65, that figure is expected to soar to 38% by 2050. The government could nudge people to save by introducing a minimum retirement age and toughening restrictions for those who choose to retire early.

There are three other long-term structural challenges worth highlighting which the government is not shirking from: one is poverty, whose incidence has been declining but is still high; the second is education, where Brazilian children are improving according to international benchmarks, though more effort is needed; and the third is the environment, in particular forestry. Reducing poverty remains one of the government's top priorities, led by programmes such as *Brasil sem Miséria* (Brazil without Poverty) and its predecessor *Bolsa Familia* (Family Grant), and this could ultimately help raise savings. Further progress in poverty reduction could be made by directing more resources to the successful *Bolsa Familia* cash transfer programme.

Expanding education is paramount in raising the incomes of the poor, as well as improving future competitiveness and growth in the long run. Brazil has made impressive progress in this area over the past decade: while only 30% of the labour force had completed secondary school in 1993, this share stands at 60% today. Student performance has also improved, and the country has moved from being one of the lowest performers in the OECD PISA international assessment of 15-year-olds to being something of a model of the kind of improvements that can be achieved.

Brazil's identity has a sylvan quality: the country owes its name to a rich redwood and is home to one of the world's richest and most expansive tropical forests. In June, the Rio +20 summit will mark two decades since the first groundbreaking earth summit of 1992, which helped raise awareness about biodiversity loss and gave political impetus to the concept of sustainable development.

On the ground, balancing environmental and development needs will inevitably be a delicate act in emerging economies such as Brazil. Nevertheless, the government has made tangible progress, thanks notably to a two-thirds reduction in deforestation, which is the main source of Brazil's greenhouse gas emissions. The country is now on track to meet its emission-reduction targets in good time. It seems certain that those returning to Rio for the Earth Summit will notice a far better-off and more confident country than the one they visited 20 years ago. But, with success expectations will rise, and as in the Olympic high jump, so the bar Brazilians set for themselves will be raised too. *Lyndon Thompson*

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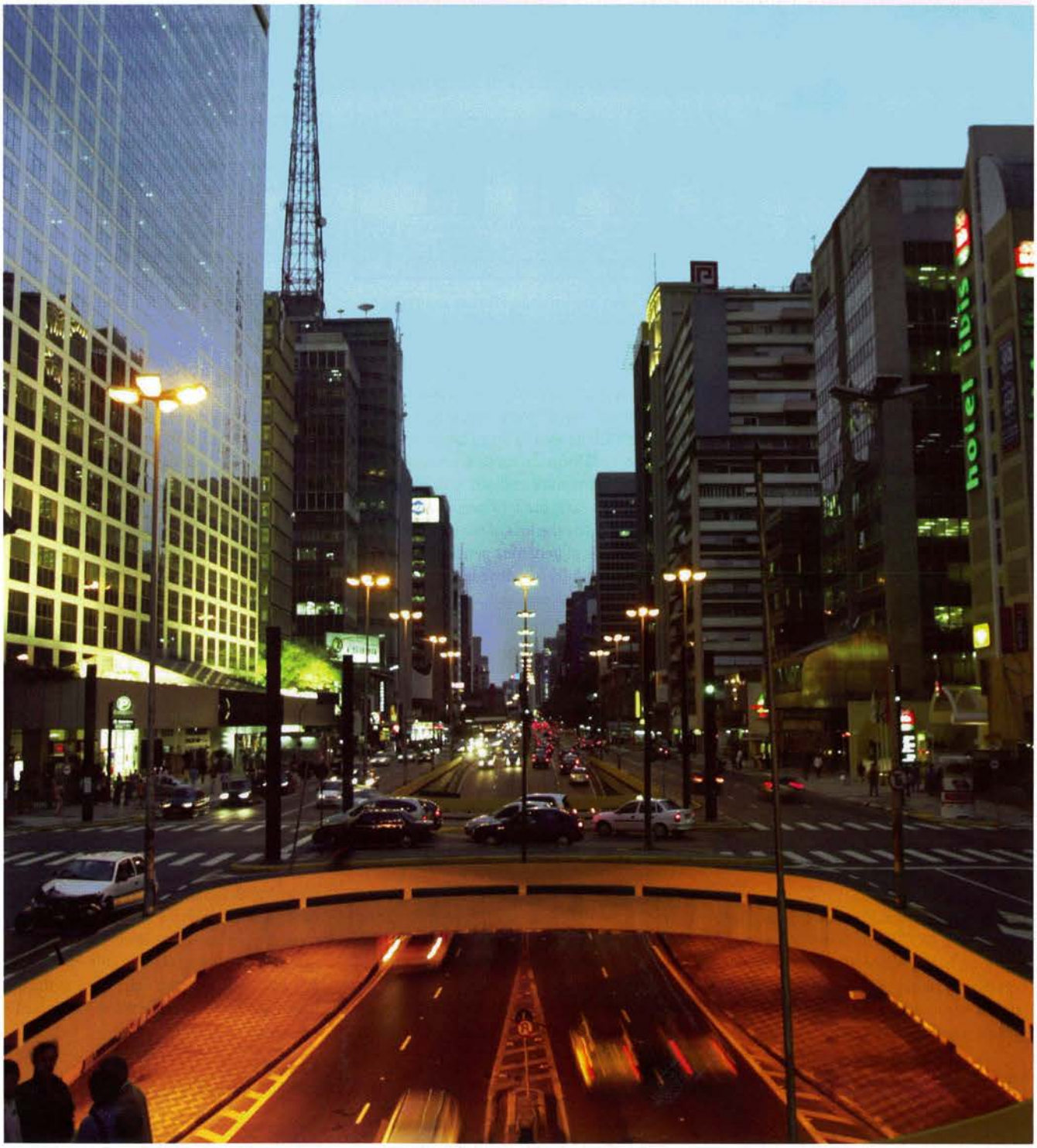
Financial model

Interview with **Cassio Antonio Calil**, president of JP Morgan's asset management unit, Brazil



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Financial district, São Paulo

Anyone wishing to gauge Brazil's status as one of the world's most lucrative emerging markets should look at the growth of its financial sector.

Industry figures show that the country's banking sector grew by 317% in 2005-2010, compared with 244% in Russia and 155% in China over the same period.* They also show Brazil's stock market going through the ceiling. Trade values rose from BRL400 billion in 2005 to over BRL1,600 billion in 2011. Can and should Brazil keep up this pace in light of global economic uncertainties?

Cassio Antonio Calil is sanguine about the country's prospects. As president of JP Morgan's asset management unit in Brazil, charged with expanding the firm's mutual funds, hedge funds and private banking businesses , he applauds the government's decision to give a wider berth to private and corporate borrowers, ending the "crowding out effect" caused by its hefty borrowing, which had pushed interest rates out of reach of almost everybody.

By giving investors more room, it has quickened their appetite for risk. "Spread products will be the most promising for years to come," Mr Calil suggests. "Non-spread products are offered by the government, and investors are searching for 'alpha' within the spread products. I don't know how fast this will grow, but it's very interesting. People are taking more risks."

Mr Calil joined JP Morgan in 2004. In mid-2011, he took over the asset management unit based in São Paulo. After nearly 24 years honing his skills in financial markets in Asia, Europe and North America, Mr Calil, a native Brazilian, felt the call to return home, inspired by the country's unflagging growth and the promise of things to come. He is one of a growing number of expatriate Brazilians whose expertise in global financial markets is being sought out to develop the latent opportunities at home.

Where are those opportunities to be found? "Brazil's mutual fund industry is the seventh largest in the world," says Mr Calil. "The industry is worth US$1.1 trillion, and another $300 billion are invested directly in securities outside of mutuals. If all fixed income in Brazil continued to grow at a rate of 10% per year, the sector would grow just with the rate of return from these savings."

When asked how Brazil kept its head above water during the 2008-2009 economic crisis, even rising above the waves last year, registering its highest growth rate in a decade, he points to Brazil's fiscal discipline via its primary surplus–the government's net borrowing and lending, minus its interest payments. "Brazil has been running a primary surplus for a very long time: about 2% of GDP, and remember that this excludes interest rates on servicing government debt. It has also accumulated sizeable foreign reserves over the last 10 years."

> Our most important trading partner is really China

These same factors ought to act as a bulwark against the crisis in the OECD area, particularly the euro zone, and ease worries about its impact on the Brazilian economy. In Mr Calil's view, there is little to worry about. "The export component to Europe is very small. From the viewpoint of trade, Brazil is not highly dependent on Europe. Our most important trading partner is really China. Brazil exports around 10% of its GDP and soybean and iron ore account for about 60% of its exports. Obviously, those are not going to Europe."

In the global stock market, the sand in the hourglass has been turned and is running in Brazil's favour. Mr Calil points out that the MSCI Global Equity Indices, which measure the performance of 1,600 global stocks, allocated a tiny 1% to Brazil in 2006. "But that rose to 2% in 2011. If you look at Europe, it was 19% in 2006 but fell to 16% in 2011. In the UK it was 10% in 2006. It is now 8%. So the market share that the UK, the US and Europe lost has been taken up by emerging markets."

Brazil's financial market may be putting on muscle, but it has vulnerable areas. "Brazil needs to become a better services economy," says Mr Calil. "There is a growing demand for services, such as hotels, airlines, and accounting and legal services–even plumbing. Education is an area that especially needs attention."

"If we want to catch up with India or Korea, we need more private investment, so that the government doesn't have to do it. We also have the PAC–the Growth Acceleration Program initiative–which will reach over $570 billion in investments by 2014. What we need to do is to keep investment rates above 25% of GDP. If you look at China, the investment rate is 48% of GDP."

But exaggerated growth rates have a nasty tendency to produce bubbles. Does Mr Calil foresee a sudden reversal of fortune? Not in the near future, but he does admit that Brazil's capital markets could use some tweaking, particularly through more developed rules within the Brazilian capital markets to support "conduits"–financial vehicles such as mortgages which hold asset-backed debts financed by short-term loans. But he is confident that Brazil will tie up those loose ends. "The world is beginning to accept Brazil's economic model," he says. "I'm very optimistic."
Lyndon Thompson

*Ministry of Finance (April 2011), *Brazilian Economic Outlook for 2011.*

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Infrastructure: Not just a sporting challenge

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Brazil needs to invest heavily in basic infrastructure to support its expanding economy. Progress is being made, but it is a daunting task.

Guarulhos Airport lies 25km good from the centre of São Paulo. But getting there in the cauldron of vehicles and blaring klaxons can take longer than you expect: air travellers are often advised to leave five hours before departure to make their scheduled flights in good time.

The inability of Brazil's airports, roads, railways and utilities to keep pace with development is a major policy concern. A growing middle class, nourished on rapid economic expansion, is one reason for the glut. Passenger traffic in Brazil has doubled since 2004. In 2010 alone it jumped 21%. The issue has become all the more worrying since the country won the bids to host the 2014 FIFA World Cup and the 2016 Olympic Games.

Major sports events are litmus tests for emerging economies. Hosting these events raises a country's profile, fires national pride and attracts investment. They also offer the opportunity to governments to get their houses in order. Unlike China, South Africa or India, however, Brazil is hosting not one but two of the world's biggest sports events in the next four years. The strain is showing. As of September, only seven of the 12 host cities had broken ground on projects.

The government knows what it's up against and has taken action to reverse 30 years of declining infrastructure investment. Public spending on infrastructure (from the central government and state-owned enterprises) has risen steadily over the past decade, reaching 3.1% of GDP in 2010. Not enough, according to Morgan Stanley, a global financial firm, which said that to achieve the level of infrastructure attained by Chile, the current leader in South America, Brazil will have to set aside around 4% of annual GDP for infrastructure investment over the next 20 years.

In 2007 the government launched the Growth Acceleration Programme *(Programa de Aceleração do Crescimento* or PAC*)* to spur both public and private investment in infrastructure. Although it spent a significant sum in the first phase of the programme, Brazil's Institute for Applied Economic Research (IPEA) says that only 82% of the funded projects were completed.

Brazil's vast road system is one of the longest in the world, a nearly two-million-kilometre network, of which less than 14% was paved by 2008. Yet Brazil's economy depends more on the health of its asphalt than do countries of comparable size: 60% of freight is transported by lorry, almost twice that of the US and three times that of China, reflecting the state of disrepair and underdevelopment of railways. More has to be done to resolve this. Meanwhile, some BRL23 billion has been allocated to improve the nation's highways, which is well short of the BRL170 billion recommended by the IPEA.

> Some 60% of freight is transported by lorry, almost twice that of the US and three times that of China

Energy is another sector feeling the strain. A growing population will push up electricity consumption by 5% per year until 2019, according to the Ministry of

Mines and Energy. Some 80% of electricity generation comes from hydropower. More facilities are planned, but are often delayed by disputes over environmental licenses, some of which have halted projects for over a decade. Although the licensing process has been streamlined, frequent disputes often slow projects down. When a license is finally granted after a public call for tender, it will end up costing the winning bidder between 15% and 20% of the total project, of which only a very small amount is related to environmental requirements. While the sector attracts some private investors, most shy away from it because of the lack of strategic planning, inadequate pricing and institutional weaknesses.

The situation of water and sanitation is grimmer still. Sewage is collected for just under half the population and only 20% of it is treated. Over half of municipalities, including major ones like São Paulo and Rio de Janeiro, will also face water shortages by 2015 unless BRL22 billion can be found. Easing these pressures will require publicly funded operators to expand the network while ensuring affordable tariffs for the poorest households. Over the next two years, investment is expected to rise by 92%, thanks to federal money.

When the first phase of PAC ended in 2010, the government decided to increase funding to BRL394.9 billion (around 2.7% of GDP per year). Some 30% of the financing in the first phase came from the private sector. Luring more private investment is key to achieve government targets. But investors remain wary. Despite some progress, the business and institutional environment do not encourage private firms to invest in infrastructure projects as private investors still perceive them as high risk projects. In addition, corruption dogs many of Brazil's infrastructure projects, including those major sporting events.

However, without private investors, PAC could flounder. But if infrastructure significantly boosts economic growth, the Growth Acceleration Programme could in principle pay for itself. If not, Brazil's deficit will deepen. To avoid such an outcome, private investment will have to significantly increase, an ambitious objective given the current business climate.

In 2004 the massive amount of private investment needed to safeguard Brazil's infrastructure prompted the government to adopt a law regulating public-private partnerships (PPPs) in addition to concessions. Brazil has considerable experience in signing concessions with private investors, especially in the road sector. Unlike concessions, however, PPPs involve some subsidies and guarantees from the government so as to make projects profitable for private investors. But this makes them more risky for the public sector. The new law has increased transparency and reduced regulatory uncertainties, but unfortunately it has yet to produce tangible results. So far the government has signed only two PPP contracts (both in the road sector). The situation could improve with standardised contracts, an overall streamlining of the process and by gaining more all round—experience of PPPs.

Brazil has a great sporting tradition, with its soccer team in particular setting the standard for others to reach. Can it set a similar standard in hosting the World Cup and the Olympics? Success would be the laurel for the reform efforts undertaken since the mid-1990s. With the right approach, Brazil's infrastructure, whether in sanitation, transport to the airport or sports, will turn out for the better. *Lyndon Thompson*

Brazil's infrastructure
Selected comparisons

	Brazil	South America[1]	OECD
	2008[2]	2008[2]	2008[2]
Water and sanitation			
Improved sanitation facilities (% of population with access)	80	83	97.5
Improved water source (% of population with access)	97	92.2	99.0
Energy and transport			
Electric power consumption (kWh per capita)	2 170.7	2 020.8	8 417.1
Electric power transmission and distribution losses (% of output)	16.1	15.1	6.3
Roads, paved (% of total roads)	13.8	–	84.9
Information and communication technologies			
Fixed broadband subscribers (per 100 people)	5.26	5.25	21.8
Internet users (per 100 people)	37.5	29.1	63.2
Telephone lines (per 100 people)	21.4	18.9	42.8
Mobile cellular subscriptions (per 100 people)	78.4	95.3	99.9

Notes: 1. Unweighted average of Argentina, Chile, Colombia, Paraguay, Peru, Uruguay and Venezuela.
2. 2008 or latest available year.
Source: *2011 Economic Survey: Brazil*, OECD

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Tackling poverty and inequality

Jens Arnold, OECD Economics Department

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Some 16.3 million Brazilians (8.5% of the population) live on less than $1.50 per day, which by most international definitions indicates extreme poverty. However, thanks to the efforts of successive governments, including that of the current president, Dilma Rousseff, the country has made tremendous progress in reducing that poverty and tackling income inequality too. In fact, income redistribution has become one of the pillars of Brazil's growth model. While the bottom decile of Brazilians have enjoyed very fast annual income growth rates, comparable with China's for instance, the top decile have had slower income growth, close to that of Germany.

A commonly used measure of inequality is the Gini index. According to this measure, inequality has declined at an average rate of 1.2% per year, and experts suggest that even without any growth in GDP per capita, the Millennium Development Goal of reducing poverty by half between 1990 and 2015 would have been met on time. Put differently, the economy would have had to grow by an extra 4 percentage points per year to achieve the same reduction in absolute poverty without this improvement in redistribution.

So, why the shift? It reflects changes in both wages and non-labour incomes such as transfers. One answer is education. Indeed, so-called "education premiums"—the gap between the remuneration of skilled and unskilled work—fell markedly as the supply of skilled labour increased. At the same time, better access to education has allowed more households to earn higher wages.

But arguably a bigger factor has been the effective use of social policies, and in particular a conditional cash transfer programme known as *Bolsa Familia* (or family grant). That measure provides small transfers to low-income families on condition that their children attend school, are vaccinated, and have regular health check-ups. It is a targeted programme, with each family's eligibility re-assessed every two years through personal visits by social workers. These regular assessments have resulted in the establishment of an almost exhaustive register of poor families in the country called *Cadastro Único*. The programme covers almost 13 million families, and while the cash transfers alleviate poverty in the short term, the eligibility requirement that children attend school fosters the acquisition of literacy and numeracy skills, with clear long-term social and economic benefits. And, at only 0.4% of GDP, *Bolsa Familia* is very cost-effective.

> A major feature has been the effective use of social policies

Old-age pensions have also reduced poverty and inequality. Rising pension benefits have been effective in reducing inequality because pension beneficiaries tend to have below-average incomes. In fact, Brazil redistributes a larger share of national income to the elderly than any other Latin American country. Much of the sharp rise in pension benefits over the last decade was due to the fact that minimum pension benefits are indexed to the minimum wage, whose real value has jumped by over 70% in ten years.

Notwithstanding these successes, the transfer system has not done enough for youths, whose poverty rates remain visibly above average (see chart).

Fighting poverty remains a top priority in the government's agenda. It has recently launched a new social policy programme called *Brasil sem Miséria* (Brazil without Poverty), which builds on and extends *Bolsa Familia* and aims to eradicate extreme poverty in Brazil by 2014. One focus of the programme is to provide poor families with more than just income transfers. In particular, the extensive information about the living conditions of poor families that has been acquired through *Bolsa Familia* and is collected in the *Cadastro Único* will be used to make other social services available to poor people according to their specific needs. This may include services like care for children and the elderly, training,

assistance in finding employment, or the provision of loans. The new measure will extend the reach of transfer programmes into regions where they are currently underdeveloped, improve their targeting and help young people. If the success of the *Bolsa Familia* can be further expanded, then President Rousseff could move closer to her vision of eradicating extreme poverty and forging a fairer society in Brazil.

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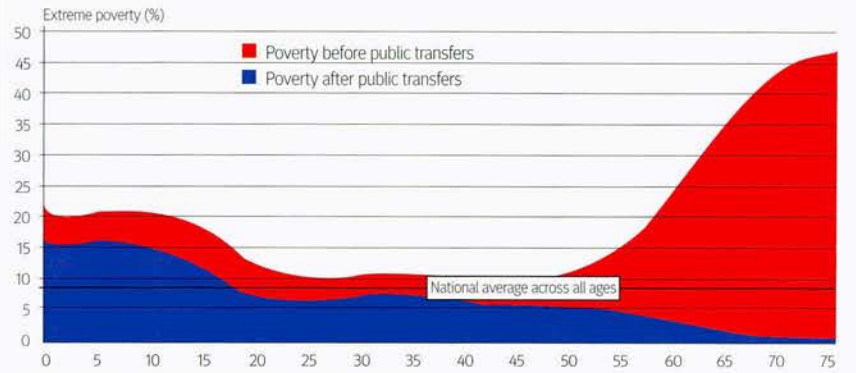
Poverty impact of public transfers by age group
2009



Note: Extreme poverty is defined as households having incomes below the federal poverty line of BRL70 per month.
Source: *2011 Economic Surveys: Brazil*, OECD

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Class performance

Brazil offers a good example of how international benchmarking can improve education.

In the 1950s, 64% of the Brazilian population still lived in rural areas and more than 50% of those people were illiterate. Improving education gradually became a priority among the country's leaders, but convincing parents of the importance of more and better quality education for their children was a challenge.

Brazil's geography made it difficult to improve access to education: the country's 193 million inhabitants are spread out over some 8.5 million square kilometres–an area slightly smaller than the US. With around 83,000 rural schools, many with one or two teachers, scattered across the country, the quality of both the teachers and the education they provided was limited. And the school system's extensive use of grade repetition meant that the age of students in any given class could span two to six years, making teaching more difficult. By 1995, 90% of students were in schools, but only half of them completed 8th grade. And those who made it that far took an average of 12 years to get there because of the poor quality of teaching and low student achievement that led to repeated grades. In 2000, 13.6% of Brazil's adult population was considered illiterate and 75% were functionally illiterate, meaning those people were not able to read long texts, follow subtitles, compare two texts, carry out inferences and syntheses, solve math problems, or work with maps and graphics. That year, Brazil was the lowest-scoring country in PISA.

But during the past decade, Brazil appears to have been able to produce measureable improvements in student achievement across different assessment areas. The country has invested significantly more resources in education, raising spending on educational institutions from 4% of GDP in 2000 to 5.2% of GDP by 2009, and allocating more of those resources to raising teachers' salaries. It is also spending that money much more equitably than in the past.

In addition, educators in Brazil cite the Basic Education Development Index (IDEB), created in 2005, as key to improving school results across the country. The index is based on both the average achievement on national examinations in Portuguese language and mathematics conducted in 4th, 8th and 11th grades, and on the rate of student promotion. The calculation creates a score from 1 to 10, with the levels linked to the international PISA scale. The explicit goal of the Brazilian government is to reach the average PISA score in 2021, the year before the 200th anniversary of Brazil's independence.

Educators have accepted the system because they believe it is fairer to compare a school's current performance to its past performance than to set an arbitrary score that all schools should reach. Unlike many other countries, Brazil includes both public and private schools in the assessment and for targeting purposes. Since the index was adopted, national performance in primary schools (1st to 4th grade) has risen from 3.8 in 2005 to 4.6 in 2009, outperforming the target of 4.2. In intermediate grades (5th to 8th grade), the index has gone from 3.5 in 2005 to 4.0 in 2009, outperforming the target of 3.7; and high school (9th to 11th grade) performance rose slightly from 3.4 to 3.6 during the same period.

PISA reading scores also improved between 2000 and 2009. Visit www.oecd.org/pisa

Managing the resource boom

Annabelle Mourougane, OECD Economics Department

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The production of oil has been growing in Brazil at a steady pace since the beginning of the 2000s, and the pace is set to intensify over the next few years. Indeed, massive oil reserves were discovered in 2007 in the Tupi area, 250km off the coast of Rio de Janeiro, and since then other offshore fields have also been found.

But there is a snag: known by the name "pre-salt", these oil fields are located very deep underwater under a thick layer of salt. If exploited, however, they could double Brazil's current oil reserves, placing the country within the top ten countries worldwide.

What would that mean for Brazil's massive economy? How would resources across the economy adjust and policy respond? Traditionally, a resource boom has been seen as a mixed blessing, because it can generate so-called "Dutch Disease" effects, whereby discovering oil or gas leads to a real exchange rate appreciation, and possibly higher incomes, which in turn fuels imports and squeezes manufacturing output, employment and net exports. Brazil's currency, the *real*, has already appreciated steadily since 2003, apart from a temporary dip during the global economic crisis. The bilateral rate against the dollar rose by 74% from 2003 to 2010. During the same period, the effective rate, based on the relative importance of Brazil's main trading partners, appreciated by around 63%. And rising real effective rates have started to affect price competitiveness. However, it seems likely that the extent of overvaluation is smaller than what might be inferred by simply looking at real exchange rate developments over time.

As a major emerging market, Brazil has attracted massive capital inflows, which have contributed to the currency's strengthening, even if their effect has been somewhat offset by a favourable productivity differential between Brazil and its trading partners. There is also evidence that growing oil production has pushed up the real's equilibrium exchange rate. The exploitation of the pre-salt fields would push this higher still. In 2010 the currency appeared to be overvalued by between 3 and 20%. While the resource boom has made Brazilians better off, there are signs of de-industrialisation as commodity exports, especially of oil, crowd out other economic activity. Manufacturing production has declined, although largely in the aftermath of the financial crisis, and manufacturing employment has continued to rise, albeit at a slower pace than in the economy as a whole. On the trade side evidence of Dutch disease is more conclusive: net exports of manufactures have declined since 2005, while those of oil have grown at a robust pace (see chart). But other factors, such as strengthening trade relationships between China and Brazil, with Brazil exporting mostly commodities for manufacture from China, may also explain some of this trend.

> The pre-salt oil fields could have major implications for fiscal policy

All this does not mean the resource boom is making Brazilians any worse off. However, a growing offshore sector could mean a regime shift, and the exploitation of the pre-salt oil fields will have major implications for fiscal policy, notably by raising the sensitivity of tax receipts to oil prices and potentially aggravating any would-be bout of Dutch disease. Some of these changes are already visible. As has been the case in other countries with large resource exports—Chile and Norway for example—Brazil's sizeable sovereign wealth fund (*Fundo Soberano do Brasil*) will help to smooth tax revenue oscillations while saving the revenue windfalls from the recent strong business cycle. In the end, policy makers should take advantage of the positive impacts of Brazil's impending resource boom, but at the same time take action against undesired side-effects, and this includes facilitating a smooth reallocation of resources across sectors.

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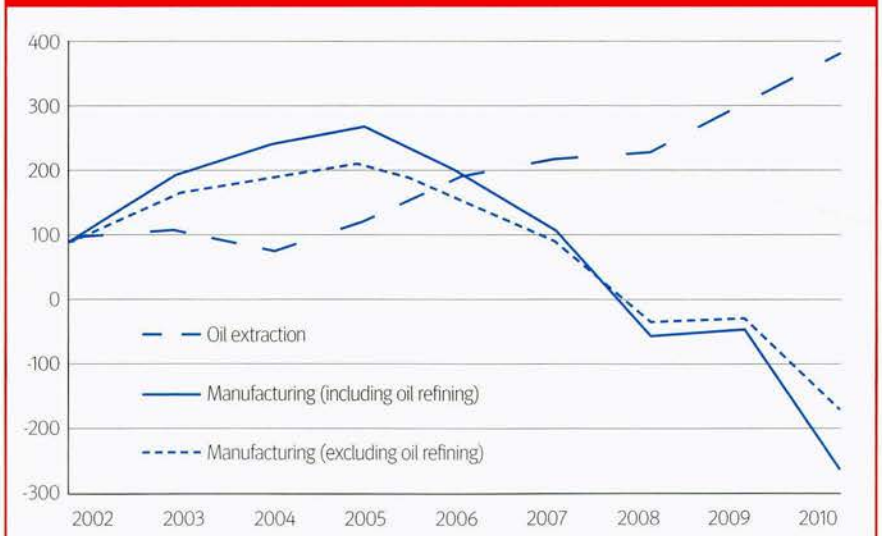
Net exports by product
2002 = 100

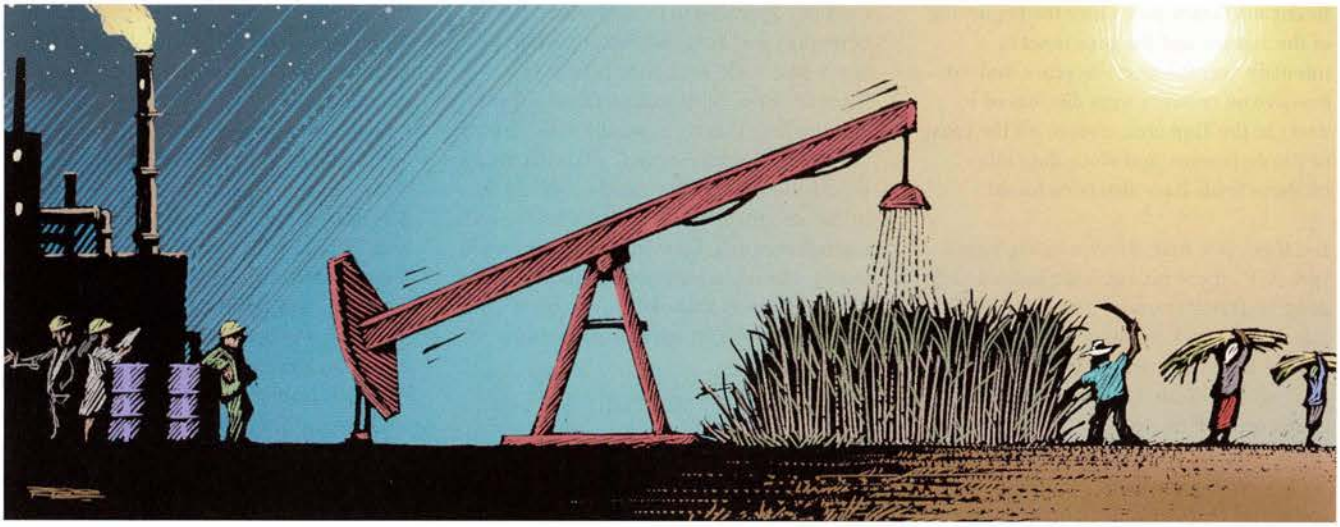


Source: *2011 Economic Survey: Brazil*, OECD

StatLink http://dx.doi.org/10.1787/888932519757

Brazil's biofuel sector: What future?

Anselm Eisentraut and **Michael Waldron**, Renewable Energy Division, International Energy Agency



The Brazilian biofuel sector has a bright future, though there are challenges to overcome.

For many years Brazil was the world's largest biofuel producer, until it was overtaken by the US in 2006. Brazil's biofuel production reached 28.5 billion litres in 2010, which according to International Energy Agency (IEA) estimates is 27% of world biofuel production, most of which is ethanol, only a small portion (2.4 billion litres) of that being biodiesel. For 2011, however, IEA estimates show a drop of more than 4 billion litres in Brazilian biofuel production compared with the previous year. But there is good reason to believe that this drop will prove temporary.

Brazil has been producing ethanol for fuel since the early 20th century, but it was not until 1975 that the Brazilian government launched the National Alcohol Program (PROALCOOL), driven by energy security concerns resulting from the first oil crisis in the 1970s and the low cost of sugar at the time. To achieve the programme's key target–the domestic production of 3.5 billion litres of ethanol from sugarcane by 1980–the government introduced support mechanisms such as low interest loans for farmers and ethanol producers and a fixed, financially supported, price at the pump to ensure it could compete with petrol. In addition, a mandate for blending ethanol with regular petrol was adopted that has since ranged from E10 (10% ethanol) to E25, depending on sugar prices and ethanol supply prospects.

Thanks to this policy support, and the introduction of vehicles that could run on pure ethanol, the sector grew rapidly until the late 1980s when falling oil prices, rising sugar prices and a cutback of subsidies led to a decline in ethanol production. In 1997 the Brazilian fuel market was gradually liberalised, extinguishing all price controls. Since 2002, the ethanol price relative to petrol price fluctuates freely, though in several Brazilian states ethanol benefits from an excise-tax differential compared with petrol. In 2003 the introduction of flex-fuel vehicles (FFVs) that are capable of running on any given mix of ethanol and petrol gave a new boost to the ethanol sector. Since FFVs in Brazil sell basically at the same price as conventional cars, around 90% of all vehicle sales in Brazil today are FFVs. Brazil's first National Biodiesel Production and Use Programme (PNPB), introducing a 2% biodiesel blend in regular diesel, was only launched in 2004. Thanks to the introduction of a 5% biodiesel mandate in 2008, this relatively small sector is set to grow.

> The ethanol biofuel sector has struggled since the financial crisis in 2008

The political responsibility for ethanol and biodiesel policy differs somewhat between the two sectors, though the common aim is for all the key players to be involved in the policy formulation process. So, while the National Energy Policy Council holds overall responsibility for biofuel policies, those that concern the sugarcane ethanol sector are developed in co-operation with the Interministerial Council for Sugar and Ethanol. This umbrella body is led by the Ministry of Agriculture and includes the Ministry of Mines and Energy, the Ministry of Finance, and the Ministry of Development, Industry and Trade. On the biodiesel side, policies are also being developed with the involvement of the Ministry of Mines and Energy, as well as the National Petroleum, Gas and Biofuel Agency, but they are implemented and supported largely through the Ministry of Agrarian Development, which also works to combat rural poverty and social exclusion. In other words, many players and interests are affected by the biofuel sector and have a stake in its future. The outlook

is mixed. While biodiesel production is expected to grow, the ethanol sector is currently facing some serious challenges that were reflected in a drop in ethanol output from 2010 to 2011. The sector has been struggling since the financial crisis in 2008 that left many, in particular smaller, producers with little cash. This resulted in slower than expected investment in new distilleries and in sugarcane cultivation in general. At the same time, buoyant demand meant relatively high global sugar prices that encouraged many producers to postpone the replanting of established sugarcane crops beyond the usual rotational six years. As a result, the average age of the existing sugarcane crop has increased and average yields have fallen. Moreoever, unfavourable weather conditions have affected three subsequent harvesting periods, adding to the sector's woes.

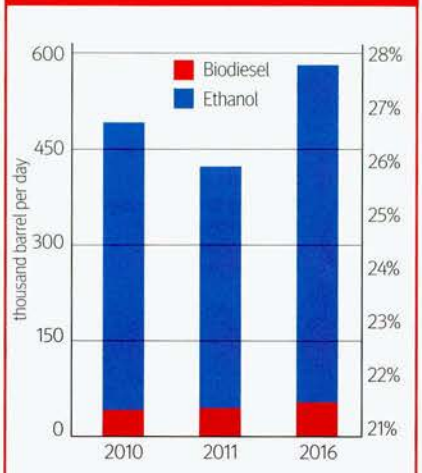
With Brazil and other sugar-producing countries suffering from poor sugarcane harvests, world sugar prices have recently risen to levels not seen since 1981. The high sugar prices, combined with a steady rise of the Brazilian *real*, have led to a roughly 40% increase in ethanol production costs compared to a few years ago, making producers switch from ethanol to sugar production. As ethanol production has dropped, so domestic prices have risen further still, and this has driven consumers away from ethanol and towards normal petrol, whose price is effectively capped by the government. Meanwhile, ethanol imports, primarily from the US, have increased, and the government has reduced the mandatory share of ethanol in petrol from 25% to 20%. The Brazilian ethanol sector should grow more slowly than expected a few years ago, not least because replanted and newly established sugarcane fields take several years to produce crops at an optimal yield. In the meantime, the government has introduced plans to offer tax reductions and access to low-interest loans in order to encourage producers to build up strategic stocks of ethanol for release in the off-season.

However, the medium-term outlook is brighter. Brazilian sugarcane is one of the highest-yielding biofuel feedstocks in the world today (up to 90 tons/ha/year, resulting in more than 6 000 litres of ethanol) and can be produced at a relatively low cost. Moreover, converting sugarcane to ethanol is highly efficient, as the process is fuelled by the electricity and heat generated by burning the crop's crushed residue, known as "bagasse". In fact, sugarcane ethanol can provide life-cycle savings in greenhouse gas emissions of the order of 70%-100% compared with conventional petrol. These emissions savings are considerably higher than those achieved by most other biofuels produced from starch and vegetable oil. Corn ethanol, for instance, typically manages some 20%-50% in emissions savings compared with petrol. It comes as no surprise, therefore, that sugarcane ethanol from Brazil has become particularly attractive in markets such as the US and the EU, which are obliged to respect strict criteria on both the quality and quantity of the biofuels they use as part of their emissions reduction efforts. This suggests that import demand for sugarcane-based biofuel is likely to grow over time.

> Sugarcane ethanol can provide major savings in greenhouse gas emissions

However, more demand means more land needs to be cultivated, which means risking more emissions as soil is turned over and prepared. On the plus side, sugarcane is not grown in the Amazon region, so it does not pose a direct threat to the rainforest. However, sugarcane can compete with other crops such as soy, which if displaced, could themselves cause deforestation pressure. To reduce this risk, the Brazilian government has introduced the Agro-Ecological Sugarcane Zoning programme (*AEZ Caña*). The programme identifies areas of underutilised pasture land that can be made available for sugarcane production in a sustainable manner, for instance, by increasing cattle densities on remaining pastures.

Biofuel outlook for Brazil
Output (left axis), % global share (right axis)



Source: *2011 Oil Market Report*, IEA

Several international companies are investing in Brazil's ethanol sector and interest is growing in developing advanced biofuels, in particular cellulosic ethanol and technologies for the conversion of sugar to "drop-in" biofuels, such as those used in aviation. With growing domestic and foreign demand for ethanol and biodiesel–fuelled largely by government-mandated blending requirements in the importing countries–Brazil's biofuel sector is set to grow. Though future sugar and petrol prices will always add some uncertainty, the speed of the sector's development will be determined by a variety of factors that policy can influence, including the access to funding and infrastructure investments in new sugarcane and soybean production areas.

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Social cohesion: Making it happen

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A famous Deng Xiaoping quote goes: "Let some people get rich first". Yet, in spring 2011, the Beijing city authorities banned all outdoor advertisement of luxury goods on the grounds that they might contribute to a "politically unhealthy environment."

The trouble with growth is that inequalities tend to rise with it. Growth does not necessarily translate into better life satisfaction–far from it, as the experience of Thailand or Tunisia shows. What happens when the fruits of growth are not shared, when people feel that income inequalities are rising and food prices soaring? Well, that's when the so-called "politically unhealthy environment" sets in.

Millions voiced their frustration during the Arab Spring. From Tahrir Square to the streets of Tunis, a huge emerging middle class showed that it has a tremendous capacity to mobilise people. It demands governments that are open and transparent, as well as more and better services. How can governments answer these demands? How can they go about redistributing the fruits of growth?

A new policy agenda is needed: one that focuses not only on growth but also on openness, fairness and inclusion. Social cohesion needs to be at the centre of policy making. Failing this, we may (re)enter a vicious circle where inequalities create a sense of injustice, which in turn can lead to (mass) protest and sometimes violence. As a result, social peace and stability, as well as long-term growth, may be jeopardised.

How can governments foster social cohesion? *Perspectives on Global Development: Social Cohesion in a Shifting World*, from the OECD Development Centre, answers this. With this latest report, the Development Centre again proves that it is engaged with the world we live in, whether discussing tax revenues or the merits of football as a factor of social cohesion: having a sense of community can make a difference. That, along with equality of opportunities, is what social cohesion is all about.

> We may enter a vicious circle where inequalities create a sense of injustice, which in turn can lead to protest and violence

The report first shows how the world has undergone a shift of historical significance over the past decade, with the centre of economic gravity moving towards the east and south. The figures speak for themselves: in 2000, OECD countries represented around 60% of global GDP but by 2010 this was down to 51%, and it will be only 43% by 2030. In fast-growing economies, per capita growth rate was more than double that of high-income OECD countries over the last decade.

It is precisely this shifting wealth that opens a window of opportunity for development and social cohesion. In fast-growing economies, fiscal revenues rose from 20% of GDP on average in 2000 to 27% in 2008. These countries now have the (fiscal) resources to finance social policies that can make the difference–or can they?

This report argues that public policies can make a difference. OECD countries with initially high income inequalities manage to redistribute income through taxes and transfers. The challenge is to leave no one behind. A cohesive society reduces inequality between groups and ensures that all citizens–the poor, the middle-earners, and the rich–are socially included.

Over the last decade, hundreds of millions of people were lifted out of poverty. This report argues that the emerging middle class should not be ignored either. Today, nearly 1 billion out of the 2 billion people living on 10 to 100 dollars a day in the world–the global middle class–live in fast-growing countries. This number is projected to exceed 3 billion in 2030.

The emerging middle class is a critical economic and social actor because of its potential as an engine of growth, particularly in the largest developing countries such as China and India. Its contribution to social cohesion can be high, and its expectations are sharply rising. What is needed is a social contract between citizens and the state, which

entails more and better services in exchange for paying taxes. This would foster a virtuous circle that boosts social cohesion as well as growth. Citizens are more willing to pay taxes in societies where they feel a sense of belonging. Fiscal policy is thus a good place to start.

As the report highlights, fiscal, social and employment policies should go hand in hand. With recent innovations in social protection, the poorest are covered by social assistance and the wealthy by either contribution-based or private alternatives. Yet, a considerable number of (informal) middle-class workers are stuck in the uncomfortable "missing middle" of coverage. More comprehensive social protection systems should protect all sections of the population.

Stronger labour market institutions are also needed. They should aim to create more "good" jobs and reduce the duality in labour markets–between standard and non-standard contracts or between formal and informal workers. This will be critical in reducing inequalities and fostering social cohesion.

A series of cross-cutting issues have to be addressed coherently as well, including education, gender equality, food policy, the integration of immigrants, and institutions.

As Albert Einstein once said, "Reality is merely an illusion, although a very persistent one". Ignoring people's desires and the reality in which they live is perilous. Technocratically good policies that do that just won't work and giving space to dissenting voices is essential to the creation of a sustainable, socially cohesive society.

Social cohesion is a means for development as well as an end in itself. What if social cohesion were the 21st century's Holy Grail? A Holy Grail that can only be attained with some long-term vision and commitment–and a smile. Failing that, there might be rough times ahead. *Anne-Lise Prigent*

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See www.oecd.org/dev/perspectives

See more about social cohesion on Wikiprogress: www.wikiprogress.org

OECD Development Centre: www.oecd.org/dev

www.OECDInsights.org

The year from AAA to ZZZ: It's the Insights quiz!

This was the most popular photo in 2011 and in 2010 on the Insights blog

The OECD Insights blog is both a source of insightful information and a sometimes irreverent look at global and OECD trivia.

If you enjoy the following questions and would like to know the answers, take the whole alphabetical quiz at: www.oecdinsights.org

A is for A. Triple A is to debt what the triple Axel is to ice-skating. Who was worried about the euro area falling on its A (add your own Anatomical Allegory) due to sovereign default?

A. China's finance minister, Xie Xuren.
B. Former Lehman's boss, Richard S. Fuld.
C. The OECD's chief economist, Pier Carlo Padoan.
D. European Central Bank president Mario Draghi.

F is for Forecasts. "With the underlying conditions sound, we believe that the recession in general business will be checked shortly and that improvement will set in during the spring." This forecast in the Harvard Economic Society's January 18 weekly letter was referring to:

A. The 1930s Depression.
B. The subprime crisis.
C. The 1997 Asian financial crisis.
D. The end of the dot.com boom.

Q is for Quality. The OECD has developed a Better Life Index to allow citizens to create their own definition of quality of life. It combines a number of different topics, but does not include:

A. Safety.
B. Mobility.
C. Health.
D. Housing.

Development and Korea: Yes we could

We'll start with a close-up of a woman on her knees. She seems to be scrubbing some tiles. We track back and see that in fact she's scrubbing the tyre tracks off a forecourt. Back a bit more and we see that she and her colleagues are in front of a huge conference centre. It's covered with banners in Korean and English announcing the Fourth High-Level Forum on Aid Effectiveness, HLF4. There's a metaphor there somewhere, and it's called Busan, the host city and the world's fifth largest port.

Busan is like a life-sized lesson for participants in this conference. As the Korean president, Lee Myung-bak, reminded delegates in his speech to the conference, when he was a child, this was one of the poorest countries in the world, and Busan was used to import food to stop people starving after the civil war. In *From Poverty to Power*, Oxfam's Duncan Green makes this point too, recalling that 50 years ago Korea's main export was wigs made from human hair.

Aid played a part in this, and it's worth looking at why Korea succeeded in moving from being a recipient to a member of the OECD Development Assistance Committee, the donor group that oversees Official Development Assistance (ODA).

The first lesson is that ODA has to be stable and reflect a long-term commitment. Korea could count on the US and Japan, and knew from one year to the next what funding to expect. Volatility makes programme management harder, or even impossible. I've heard stories from the field of health, education and about other projects that were started, were going well and then had to be stopped because promised funding suddenly dried up. The OECD says that the value of aid is reduced by 15% to 20% when it is unpredictable and volatile.

> In the 1950s and 1960s, practically all of Korea's foreign funding came from grants, but by the mid-1970s, grants only represented 11%, the rest being loans

For the outsider, one of the more opaque terms of the aid community's particularly opaque jargon is "ownership". What it means is that countries receiving aid take charge of the process. Korea didn't always agree with its partners, but the results show that it knew best what strategy corresponded to its needs and resources. It wanted non-military aid rather than the guns, tanks and planes it was being offered, and it insisted on focusing on large enterprises rather than the small and medium-sized businesses foreign development experts told it were the key to success. Samsung and Sons would no doubt have been a great little shop for the latest Japanese and American gadgets.

However, to "own" the development process a country needs to develop a whole range of skills and institutions. For instance, if it's going to export, it needs lawyers who understand international trade rules and port managers who can get the goods onto the ships on time. This is what's meant by "capacity building". Countries can't be expected to acquire all these capacities on their own, but they shouldn't depend on outsiders either. While over 1,500 foreign experts were sent to Korea between 1962 and 1971, over 5 times as many Koreans received training abroad.

Another thing about aid programmes is that the best ones become useless because they're no longer needed. In the 1950s and 1960s, practically all of Korea's foreign funding came from grants, but by the mid-70s, grants only represented 11% of funds, the rest being loans. The fact that Korea respected repayment conditions reassured private finance and encouraged foreign direct investment in the country.

Korea also proves that it's possible to recover from even the most desperate situation. At the end of the 1950s this was a mainly agricultural country still suffering from a war that had killed or injured over 2.5 million civilians. If delegates [at the Busan conference on aid effectiveness] want to see a success story, they just have to look around them. And if they want a reminder that the fruits of economic success aren't always shared equally, they can look at those women scrubbing the ground they walk on.

The 4th High-Level Forum on Aid Effectiveness took place at Busan, Korea, from 29 November to 1 December 2011. For outcomes and other information, see www.aideffectiveness.org/busanhlf4/en

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Visit: www.oecd.org/dac
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www.OECDInsights.org

Work life imbalance

©Robert Galbraith/REUTERS

Sigh Ho, Sigh Ho, it's off to work we go...

If you're fretting, chafing, sighing, grieving, complaining, finding faults, repining, grudging, weeping, vexing, disquieted in mind, with restless, unquiet thoughts, then you've probably been eating cabbage, which as you should know by now, sends black vapours up into the brain, provoking melancholy. It's not the only cause, of course, and you should also avoid sorrow, fear, shame, disgrace and any other emotion, as well as too much exercise, too much study, poverty, scoffs, pleasures immoderate and werewolves.

You'll find all this and more in the hundreds of pages of Robert Burton's 1621 masterpiece *Anatomy of Melancholy*, where he describes the causes and symptoms of psychiatric disorders and discusses possible cures, ranging from herbal teas to drilling holes in the head. What he doesn't mention is work, except to say that hardworking servants have no time for such ladylike maladies.

That's where the OECD steps in. *Sick on the Job? Myths and Realities about Mental Health and Work* says that on average, one in five workers in OECD countries suffers from a mental illness, such as depression or anxiety. From a third to a half of all new disability benefit claims are for mental health reasons, and that figure rises to 70% for young adults. The report highlights the "considerable lack of awareness, non-disclosure and under-treatment among adolescents and young adults, with the gap before the first treatment of a mental illness on average being about 12 years".

As a result, many young people struggle to get through school, and once they leave they are unfit for work and go straight onto disability benefit. The human cost is appalling, and the economic cost is considerable too–around 3% to 4% of the EU's GDP, according to the International Labour Organisation.

As the subtitle implies, *Sick on the Job* tackles some of the myths about mental ill-health, and notably the idea that prevalence is increasing. It's not, but there is much more public awareness of mental disorders, less stigma, and better assessment tools. Unfortunately, at the same time, that's also meant that more people suffering from mental disorders have been excluded from work, perhaps because many jobs now require social skills or cognitive competencies that workers with mental health problems don't have.

The problem could get worse though, as working conditions grow harsher and job insecurity grows. The share of workers exposed to work-related stress, or job strain, has increased in the past decade all across the OECD. And in the current economic climate, more and more people are worried about their job security, a rising fear among the employed, according to a 2011 Gallup poll.

What can be done to improve the well-being of people suffering from mental disorders? The OECD report argues a "three-fold policy shift will be required thereby giving more attention to common mental disorders and also sub-threshold conditions; disorders concerning the employed as well as the unemployed; and preventing instead of reacting to problems."

How about Burton? Apart from cutting down on the cabbage, what did he have to propose? In OECD jargon, we'd say a holistic approach to increasing overall well-being accompanied by timely, targeted interventions aimed at the most vulnerable.

But let's hear him argue for a welfare state, pensions, social security and justice in his own magnificent words: "If they be impotent, lame, blind and single, they shall be sufficiently maintained in several hospitals, built for that purpose; if married and infirm, past work, or by inevitable loss, or some such like misfortune cast behind, by distribution of corn, house-rent free, annual pensions or money, they shall be relieved, and highly rewarded for their good service they have formerly done; if able, they shall be enforced to work. For I see no reason why an epicure or idle drone, a rich glutton, a usurer... should live at ease, and do nothing, when a poor labourer... that hath spent his time in continual labour..., and without whom we cannot live, shall be left in his old age to beg or starve, and lead a miserable life worse than a jument." Cheers you up, doesn't it? *Patrick Love*

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www.OECDInsights.org

Youth employment

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Andrés Villena Oliver, leader of the 15-M Movement in Spain, speaking at the Youth Employment: A Call for Change conference, OECD

"Young people want a world economy that is more just, more equal and more human. The question is: how to make it happen?" OECD Secretary-General Angel Gurría asked this question at the conference on youth employment, organised by the European Youth Forum and the OECD, 13-14 December 2011. In refute of Mark Twain's remark that there was no sadder sight than a young pessimist, Mr Gurría called on participants to break the paralysis and to build a more optimistic future for our youths.

But the Secretary-General wasn't addressing the suits-and-ties policy makers and VIPs. The room was filled with youth activists and advocates, students and interns, anxious to share their concerns with policy shapers and hammer out solutions.

The hottest discussion centred the European Quality Charter on internships and apprenticeships, and how to refocus on opportunity rather than exploitation. "When you've finished your studies and you're being used for free labour, that's a crime" said Sharan Burrow, head of the International Trade Union Confederation (ITUC).

One positive opportunity was social media, which for Andrés Villena Oliver, leader of the M-15 or Indignados movement in Spain (our photo) gave people room to surprise, and arrest control of information from the establishment. Vesna Miloševič of the Slovenian National Youth said that the vicious cycle of youth unemployment/exploitation was postponing the lives of young people across Europe. Others spoke of anxiety, and a Greek journalist, Chatzistefanou Kyriakos, condemned police violence against youth demonstrations in his country.

The conference took place over two days and was organised by the European Youth Forum and the OECD.

For more information, see www.youthforum.org

Youth video contest

"Education and skills" is the theme of the 2012 OECD youth video competition. It was launched on 14 December at the Youth Employment conference. Open to youth ages 18 to 25, the challenge is to produce a video of no more than three minutes on the theme of education and skills, and the prize is a trip to Paris to attend the OECD Forum on 22-24 May. Three prizes are awarded, and youth around the world are invited to compete. Last year's theme was "What is progress?", and the winners came from Peru, Colombia and Ukraine, with special mentions from Australia and India.

See www.oecd.org/forum2012

Japan honours former OECD director

© Delegation of Japan to the OECD

Ambassador Yoshikawa and Mr Harmel

Permanent Representative of Japan to the OECD, Ambassador Motohide Yoshikawa (left), conferred honours on Roger Charles Harmel, former director of Council and the Executive Committee secretariat at the OECD, at a special ceremony held at the ambassador's residence on 7 December 2011. Mr Harmel was conferred the Order of the Rising Sun, Gold Rays with Neck Ribbon, a national decoration awarded by the Japanese government, created in 1875. The decoration was in recognition of his "outstanding contribution to the OECD for over 35 years, as well as the enhancement of relations between Japan and the organisation".

Mr Harmel joined the OECD in 1975 as an administrator in the International Energy Agency. Four years later he moved on to the general secretariat of the OECD. He served both the Council and the Executive Committee, first as chief and later as director, until his retirement in April 2011. As Ambassador Yoshikawa pointed out at the convivial award ceremony, Mr Harmel dedicated himself to the important task of assisting consensus building in the Council, the "highest body" of the organisation. "We all counted on his knowledge and wisdom", the ambassador said, recalling fond tributes from staff at the Japanese delegation, who described Mr Harmel as "the living dictionary and guardian of the OECD".

In his response, Mr Harmel underlined how deeply honoured he was to receive this very important distinction from Japan. Ambassador Yoshikawa and Mr Harmel have been close friends ever since they helped organise the Tokyo Council in 1989, which marked the 25th anniversary of Japan's accession to the OECD and which was the first OECD Council meeting to be held outside Paris.

See www.OECD.org/Japan

Development Centre at 50

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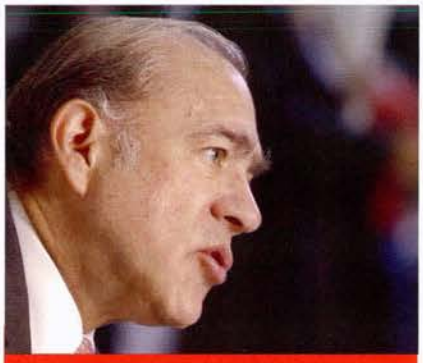
"I propose further that the OECD establish a Development Centre, where citizens and officials, and students and professional men of the Atlantic area and the less-developed world can meet to study in common the problems of economic development."
This statement by President John F. Kennedy was made to the Canadian parliament shortly after the OECD was created in 1961. His wish became a reality in 1962.

In 2012, the OECD Development Centre will celebrate its 50th Anniversary. Throughout this half century, the Centre has provided a platform for policy dialogue between developed, developing and emerging economies. To commemorate this special occasion, the Development Centre is organising a week of events, which will kick off on 27 February and culminate with the first ever High Level Meeting of the Development Centre's Governing Board on 1 March, where guests will include President Leonel Fernandez of the Dominican Republic, several ministers and development representatives from around the world.

The meetings will be an opportunity to share experiences and identify policy options in the quest to build competitive economies and cohesive societies in an increasingly interconnected world. The 50th Anniversary week will also give participants an opportunity to express their views on the OECD Strategy on Development, which was called for by OECD Ministers in May 2011 and will be submitted to Ministers for approval in May 2012.

For more information visit: www.oecd.org/dev

Recent speeches by Angel Gurría



For a complete list of speeches and statements, including those in French and other languages, go to **www.oecd.org/speeches**

Youth Employment: A Call for Change
14 December 2011
Introduction and keynote remarks delivered at the conference "Youth Employment: A Call for Change", Paris, France.

OECD Regional Outlook 2011: Building resilient regions for stronger economies
5 December 2011
Remarks delivered at the launch of the publication, Paris, France.

Divided We Stand: Why Inequality Keeps Rising
5 December 2011
Remarks delivered during the press conference organised for the launch of the publication, Paris, France.

How to maximise impact on development
1 December 2011
Remarks delivered at the plenary session of the 4th High Level Forum on Aid Effectiveness, Busan, Korea.

Busan partnership for effective development co-operation
1 December 2011
Remarks delivered at the press conference on outcome document of the 4th High Level Forum on Aid Effectiveness, Busan, Korea.

Aid effectiveness: From words to action
30 November 2011
Opening remarks delivered at the opening ceremony of the 4th High Level Forum on Aid Effectiveness, Busan, Korea.

Launch of the Economic Survey of the Czech Republic
18 November 2011
Remarks delivered at the press conference launch, Prague, Czech Republic.

Trade, jobs and inclusive growth
8 November 2011
Opening remarks at the OECD Global Forum on Trade, Paris, France.

G20 Leaders Summit: Financial regulation session
4 November 2011
Remarks delivered in Cannes, France.

G20 Summit: Roundtable on commodities and raw materials
2 November 2011
Remarks delivered in Cannes, France.

G20 Leaders Summit: Preparatory L20 meeting
2 November 2011
Remarks delivered in Cannes, France.

New ambassadors

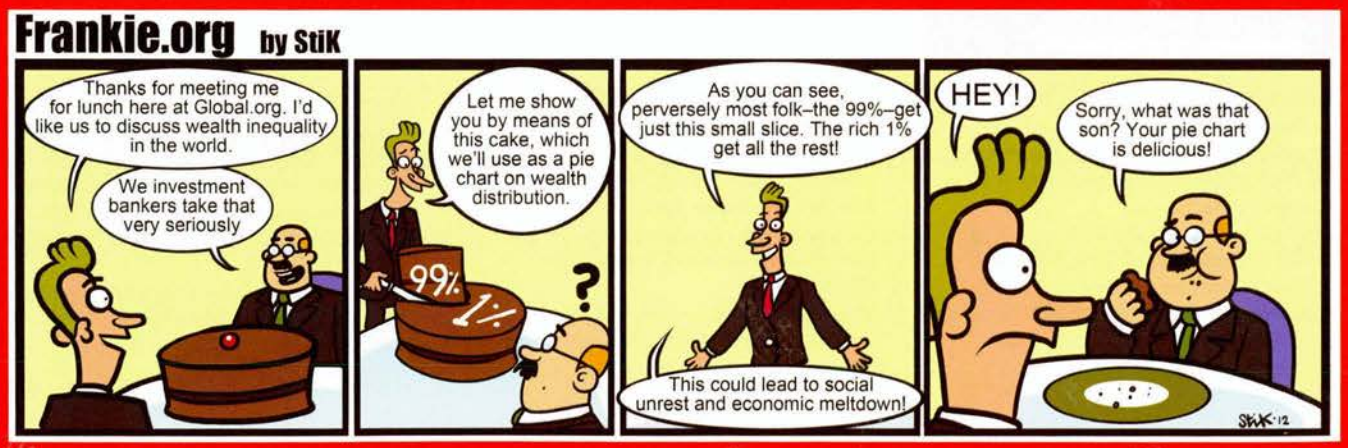
22 November **Ricardo Díez-Hochleitner** took up his duties as new ambassador for Spain, replacing Cristina Narbona Ruiz.

16 November **Nicholas Bridge** took up his duties as new ambassador for the United Kingdom, replacing Dominic Martin.

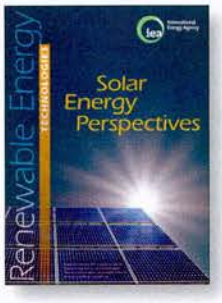
Calendar highlights

Please note that many of the OECD meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For a comprehensive list, see the OECD website at **www.oecd.org/media/upcoming**, which is updated regularly.

NOVEMBER	
3-4	**G20 Summit**. Cannes, France.
21-22	**Senior Budget Officials Network on Health Expenditures**, first meeting of a newly created network.
28	Publication of OECD **Economic Outlook No 90**.
29/11-1/12	**Aid Effectiveness**, high-level forum organised by the Development Co-operation Directorate. Busan, Korea.
DECEMBER	
29/11-9/12	**COP17**, United Nations Climate Change Conference. Durban, South Africa.
5	Publication of OECD report, **Divided We Stand**, on income inequality.
JANUARY	
12-13	**Green Growth: Addressing the Knowledge Gaps**, conference organised by the Global Green Growth Institute, the OECD, the UNEP and the World Bank. Mexico City, Mexico.
18-19	**Forum on Tax Administration**, organised by the Latin American and Caribbean Forum with OECD's Centre for Tax Policy and Administration. Buenos Aires, Argentina.
19-20	**OECD Global Forum on Public Debt Management**, organised by the Directorate for Financial and Enterprise Affairs.
23-24	**Starting Strong III: Implementing Policies for High Quality Early Childhood Education and Care**, OECD-Norway high-level roundtable. Oslo, Norway.
24-26	**Macroeconomics for Development: Fiscal Aspects**, seminar organised by the Latin American and Caribbean Institute for Economic and Social Planning. Publication of OECD's **Revenue Statistics**. Santiago, Chile.
25-29	**World Economic Forum**. Davos, Switzerland.
FEBRUARY	
7-8	**Capital Market Reform in Asia**, roundtable organised by the Asian Development Bank Institute and the OECD, with the government of Japan.
10	**Economics and Security Committee of the NATO Parliamentary Assembly**.
13-17	**Financial Action Task Force** plenary meeting.
16-17	**Global Forum on Competition**.
25-26	**G20 finance ministers and central bank governors meet**. Mexico City, Mexico.
MARCH	
1	**High-level meeting for the 50th anniversary of the OECD Development Centre**.
6	Publication of **Going for Growth 2012**.
8-9	**OECD Urban Roundtable of Mayors and Ministers** 2012. Chicago, USA.
12-17	**World Water Forum**. Marseille, France.
17-19	**China Development Forum**. Beijing, the People's Republic of China.
29-30	**Environmental Policy Committee meeting at ministerial level: Making Green Growth Deliver**.
APRIL	
12-13	**What Works**, conference on Internationalisation for Job Creation and Economic Growth, organised by the OECD Directorate for Education and the State University of New York. New York, USA.
20-22	**International Monetary Fund/World Bank spring meetings, and meeting of the G20 finance ministers and central bank governors**. Washington DC, US.
MAY	
2-4	**Seamless Transport: Making Connections**, high-level International Transport Forum summit. Leipzig, Germany.
22-23	**OECD Forum 2012**.
23-24	**OECD Council meeting at ministerial level**.
25	**International Economic Forum on Latin America and the Caribbean**, co-organised by the OECD Development Centre with the Inter-American Development Bank and the French Ministry of Economy, Finance and Industry.
JUNE	
14-15	**Second Annual Forum on Tax and Crime: A whole government approach to fighting illicit financial flows**, organised by the Centre for Tax Policy and Administration. Rome, Italy.
18-19	**G20 Summit**. Los Cabos, Mexico.
18-20	**Enhancing the Competitiveness of Universities through Educational Facilities**, conference organised by OECD's Centre for Effective Learning Environments and the Korean Educational Development Institute. Seoul, Korea.
20-22	**United Nations Conference on Sustainable Development, Rio+20**. Rio de Janeiro, Brazil.



Energy from the sun



Thomas Edison's assertion that "genius is 1% inspiration, 99% perspiration" is particularly pertinent to the solar energy sector. This remarkable technology could hold answers to so many of the world's energy challenges, but only at the cost of hard effort and investment. *Solar Energy Perspectives*, the first in-depth study dedicated to solar technology from the International Energy Agency (IEA), a sister organisation of the OECD, gives a comprehensive analysis of solar energy's potential as well as the policies required to increase its capacity in the coming decades. Solar energy currently generates a tiny fraction of the world's energy mix, paling even in comparison to established renewables such as biomass and hydro power, but the IEA predicts that up to 25% of global electricity could be produced by solar photovoltaic electricity (PV) and solar thermal electricity (STE) by 2050.

The investment required to get there is substantial, so government support is required if prices are to compete with conventional energy sources. Furthermore, as with most renewables, energy storage and transport are significant costs which must be taken on board. These initial restraints, according to the report, will decrease in importance as technology improves and infrastructure develops, provided there is sufficient policy support. There is no room for complacency, however, as solar energy will require decades of investment and careful planning before it can become a major energy supplier.

Governments must make bold policy decisions and stick by them, something which has not always been done in the past. False starts and setbacks, for instance the shelving of solar projects due to higher than expected costs, have so far hindered the potential of solar energy, according to the IEA.

It is estimated that 7 billion people will live in sunny regions with dry climates by 2050, compared to 2 billion in colder, temperate areas. Solar energy is ideal to meet their needs, despite its relative slow uptake in the sector to date, in comparison with current world leaders Germany and Japan. The report suggests that technology and expertise should be shared on a multilateral basis, to encourage sunnier places to increase their capacity.

ISBN 978-92-64-12458-5

Behind closed doors

"Wise men don't need advice. Fools won't take it," said Benjamin Franklin. Yet, from Machiavelli through Richelieu to Kissinger, people in power have always relied on good advice from people they trust. But where should the line be drawn (rather than blurred) between influence and intrigue, cost and benefit?

Ministerial Advisors: Role, Influence and Management indicates that the prime task of ministerial advisors, according to 95% of responses to a 2010 survey, is strategic advice in the design of policies or reforms. Their influence is felt in crisis management, diplomacy and in designing new laws and policies. Other functions include political and/or partisan advice, while two thirds of the surveyed countries emphasised media assistance.

Authoritative support can increase government responsiveness and help address strategic challenges faced by government leaders. Yet such close proximity to public decision-makers can be seen as delicate at best. In 74% of the 20 surveyed countries, ministerial advisors are answerable only to their minister, and there is little publicly available information on them. Furthermore, few countries have drawn up integrity standards specifically for ministerial advisors, and over one-third do not require ministerial advisors to disclose their private interests, including Finland, Hungary, Iceland, Spain, Sweden and Switzerland.

Then there is the cost. Only 23% of respondent countries make public the total cost of ministerial advisors or their job descriptions, according to the OECD. BBC News reported in 2009 that the number of advisors in the UK, or "people who live in the dark", practically doubled since 1996, with a total of 73 special advisors in 2008 costing the taxpayers £5.9 million ($10.8 million).

Although three-quarters of respondent countries report public concerns about ministerial advisors over the last decade, less than a third of them have followed up with action. However, in its case studies for Austria, Canada and the UK, the OECD describes actions for accountability, including Canada's stipulation that ministerial advisors are subject to the same conflict of interest and post-employment ethical guidelines as ministers and deputy ministers.

ISBN 13- 978-92-64-12493-6

Recent bestsellers

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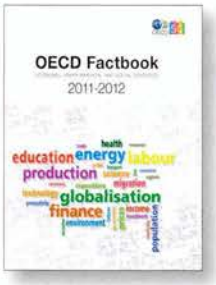

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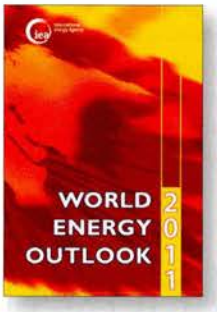

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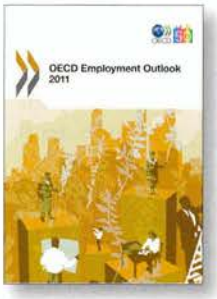

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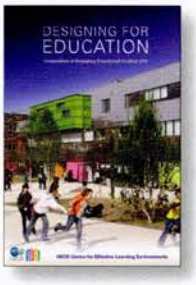

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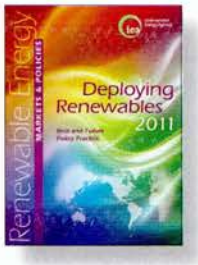

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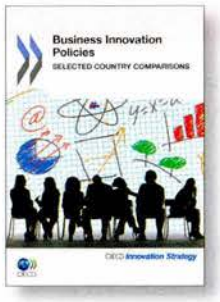
Support where it works



Inventors, entrepreneurs and start-ups offer a glimmer of hope in a time of low growth and austerity, with governments and economists alike shifting their attention towards innovation as a way out of a protracted crisis. Government-supported policies and programmes to support business innovation have been around for decades, but how successful are they and what lessons can be drawn for these more austere times?

Business Innovation Policies: Selected Country Comparisons looks at innovation policies across seven OECD countries, highlighting the trends in support measures. It also considers the growing shift towards so-called "demand-side" policies, aimed at increasing demand for innovation among enterprises. For instance, R&D tax credits are more generous now than they have ever been, and are currently provided in 22 OECD countries, up from 12 in 1995. Individual grants to entrepreneurs and inventors are also an important part of innovation policy; the Foundation for Finnish Inventions, for instance, financially supports the development and commercialisation of invention proposals, with awards typically ranging from US$2,800 to $280,000.

Successful non-R&D innovation policies include Denmark's Vækstfonden, which has used US$12 billion in public funds to support over 3,500 companies since 1992, and the UK's Knowledge Transfer Partnership, which encourages collaboration between businesses and universities through projects which receive government funding. The average project cost is around $93,000 a year, but results in an increase in annual profit of $357,000 for participating firms (of which there are typically over 1,000 at any given time). The report notes that some schemes require improvements, such as the Pre-Seed Fund in Australia, which encourages private sector investment in research institutions. The fund caps grants at US$780,000, which in certain cases leaves firms "stranded", lacking funds to continue with a project once they have already made large investments.

Investment in innovation does not come cheap, but it pays off, not only in the short term, but by opening up the business world to new technologies and job-creating growth.

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Where to cut?

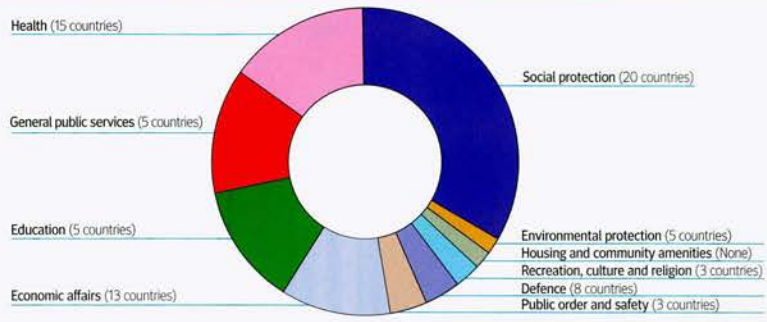
As governments around the world attempt to bring deficits under control and debt to manageable levels, just where to find the savings is a tricky question. Governments face a delicate balancing act as they try to achieve real fiscal discipline without mortally wounding public services, often in precarious political circumstances.

Many OECD governments cut funding for the programmes that absorb the most resources. On average, governments in OECD countries spend the most money on social protection programmes such as unemployment benefits, welfare and pension. This is followed by health programmes, general public services, education programmes, agriculture, and transport and communication. Most governments are focusing fiscal reforms on these "big ticket" areas, which can reduce expenditures over time, making public spending more sustainable.

However some governments have focused on areas that form a relatively small portion of total public spending but provide important public services. For instance, according to 2008 data, environmental protection, targeted by five countries, comprises 1.7% of spending or 0.7% of GDP on average. Likewise, three countries were targeting recreation, culture and religion, which make up only 2.7% of spending or 1.2% of GDP. Defence, targeted by eight countries, forms on average 3.7% of spending or 1.6% of GDP. And while general public services comprise 13% of spending, the five countries targeting this category focus on foreign aid, which accounts for only 5% of spending in this area, or 0.3% of GDP.

Identifying spending cuts

Structure of government expenditures by function and number of countries targeting these areas for cuts, average for OECD29, 2008



Note: Average does not include Australia, Chile, Mexico, Switzerland and Turkey.
Source: *Government at a Glance 2011*, OECD

StatLink http://dx.doi.org/10.1787/888932389398

The state's anti-poverty effect

Poverty rates are usually a measure of personal income. But how can public services affect relative poverty, that is, when the monetary value of public services, known as "extended income" is brought into the equation?

In fact, when public services are taken into account, the poverty rate for 27 OECD countries decreases from 10% to 5%. In Belgium, Ireland and the UK, poverty is reduced by close to 60%, which reflects the value of public services in these countries. The decrease is by about 27% in Estonia and Sweden, where income equality is higher to begin with. While inequality and poverty reduction are not the prime aims of education, health and other in-kind services such as housing and care for the elderly, they do have an impact on income distribution.

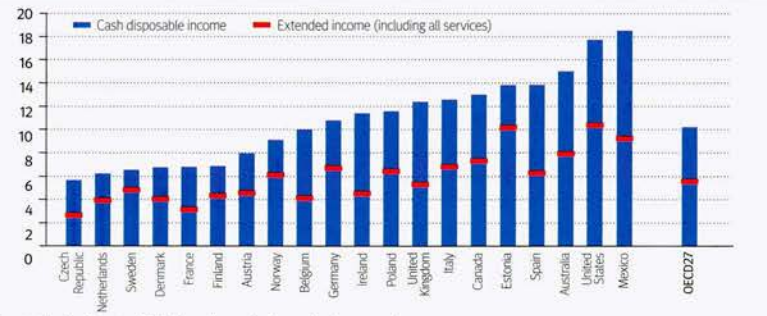
Take education. An increase in spending on compulsory education will reduce overall poverty more in countries where poverty is high among families with young children, and where participation in compulsory education is high. In Mexico, Denmark, Norway and Canada, the value of public education increases household income by some 15% or more.

Healthcare also reduces income inequality, particularly since public spending in this sector is concentrated on the elderly who, in general, have below-average incomes. Public health spending increases disposable income by 11% in Poland, Australia and the Netherlands, and reaches 17% in Belgium, France and Sweden. This increase is much more pronounced for the lower income groups and decreases as incomes grow.

See www.oecd.org/gov/egov/services

Poverty and public services

Income poverty rates before and after including total of public services, selected countries, 2007



Note: Poverty thresholds set at 50% of median cash disposable income and 50% of median extended income, respectively.
For more countries, see StatLink.
Source: *Divided We Stand: Why Inequality Keeps Rising*, OECD

StatLink http://dx.doi.org/10.1787/888932537009

			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Australia	Gross domestic product	Q3-2011	1.0	2.5	Current balance	Q3-2011	-1.5	-2.1
	Industrial production	Q3-2011	2.1	0.7	Unemployment rate	Q3-2011	5.2	5.2
	Consumer price index	Q3-2011	0.6	3.5	Interest rate	Q4-2011	4.6	5.0
Austria	Gross domestic product	Q3-2011	0.3	2.9	Current balance	Q3-2011	2.1	2.8
	Industrial production	Q3-2011	-0.5	6.5	Unemployment rate	Q3-2011	3.8	4.4
	Consumer price index	Q3-2011	0.1	3.5	Interest rate	Q4-2011	1.5	1.0
Belgium	Gross domestic product	Q3-2011	-0.1	1.7	Current balance	Q2-2011	-0.7	1.0
	Industrial production	Q1-2011	2.2	10.8	Unemployment rate	Q3-2011	7.4	8.3
	Consumer price index	Q4-2011	0.6	3.6	Interest rate	Q4-2011	1.5	1.0
Canada	Gross domestic product	Q3-2011	0.9	2.4	Current balance	Q3-2011	-2.8	-4.4
	Industrial production	Q3-2011	1.4	3.5	Unemployment rate	Q4-2011	7.4	7.7
	Consumer price index	Q3-2011	0.2	3.0	Interest rate	Q4-2011	1.2	1.2
Chile	Gross domestic product	Q3-2011	0.6	4.6	Current balance	Q2-2011	-1.7	-0.9
	Industrial production	Q3-2011	-1.4	1.8	Unemployment rate	Q3-2011	7.2	7.8
	Consumer price index	Q4-2011	1.3	4.0	Interest rate	Q3-2011	5.4	2.4
Czech Republic	Gross domestic product	Q3-2011	-0.1	1.2	Current balance	Q3-2011	-2.6	-7.6
	Industrial production	Q3-2011	-2.7	3.8	Unemployment rate	Q3-2011	6.6	7.1
	Consumer price index	Q3-2011	0.1	1.8	Interest rate	Q4-2011	1.2	1.2
Denmark	Gross domestic product	Q3-2011	-0.5	0.0	Current balance	Q2-2011	5.5	4.0
	Industrial production	Q3-2011	-2.8	0.6	Unemployment rate	Q3-2011	7.5	7.4
	Consumer price index	Q3-2011	-0.1	2.7	Interest rate	Q4-2011	1.0	0.8
Estonia	Gross domestic product	Q3-2011	1.2	8.3	Current balance	Q2-2011	-0.1	1.0
	Industrial production	Q3-2011	0.2	17.6	Unemployment rate	Q3-2011	11.3	16.1
	Consumer price index	Q4-2011	0.4	4.1	Interest rate	Q4-2011	1.5	1.1
Finland	Gross domestic product	Q3-2011	0.9	2.7	Current balance	Q2-2011	-0.6	1.8
	Industrial production	Q3-2011	-1.9	-1.2	Unemployment rate	Q3-2011	7.7	8.3
	Consumer price index	Q3-2011	0.3	3.8	Interest rate	Q4-2011	1.5	1.0
France	Gross domestic product	Q3-2011	0.3	1.5	Current balance	Q3-2011	-2.1	-1.8
	Industrial production	Q3-2011	0.5	2.8	Unemployment rate	Q3-2011	9.6	9.8
	Consumer price index	Q3-2011	-0.1	2.1	Interest rate	Q4-2011	1.5	1.0
Germany	Gross domestic product	Q3-2011	0.5	2.6	Current balance	Q3-2011	5.4	5.8
	Industrial production	Q3-2011	2.1	9.7	Unemployment rate	Q3-2011	5.8	6.9
	Consumer price index	Q3-2011	0.5	2.5	Interest rate	Q4-2011	1.5	1.0
Greece	Gross domestic product	Q1-2011	0.2	-5.5	Current balance		..	..
	Industrial production	Q3-2011	5.8	-5.2	Unemployment rate	Q3-2011	18.4	12.9
	Consumer price index	Q3-2011	-1.3	2.4	Interest rate	Q4-2011	1.5	1.0
Hungary	Gross domestic product	Q3-2011	0.5	1.5	Current balance	Q2-2011	2.4	1.0
	Industrial production	Q3-2011	0.6	1.8	Unemployment rate	Q3-2011	10.9	11.0
	Consumer price index	Q3-2011	-0.5	3.4	Interest rate	Q4-2011	6.6	6.0
Iceland	Gross domestic product	Q3-2011	4.7	5.1	Current balance	Q3-2011	-0.7	-3.3
	Industrial production	Q2-2011	0.6	6.0	Unemployment rate	Q3-2011	7.2	7.8
	Consumer price index	Q4-2011	1.0	5.2	Interest rate	Q2-2011	4.0	7.6
Ireland	Gross domestic product	Q3-2011	-1.9	-0.2	Current balance	Q2-2011	-0.4	-0.5
	Industrial production	Q3-2011	3.4	2.1	Unemployment rate	Q3-2011	14.7	13.7
	Consumer price index	Q3-2011	0.2	2.5	Interest rate	Q4-2011	1.5	1.0
Israel	Gross domestic product	Q3-2011	0.8	4.7	Current balance	Q2-2011	-0.9	4.1
	Industrial production	Q3-2011	1.0	2.1	Unemployment rate	Q3-2011	5.6	6.6
	Consumer price index	Q3-2011	0.4	3.3	Interest rate	Q3-2011	3.0	1.7
Italy	Gross domestic product	Q3-2011	-0.2	0.2	Current balance	Q2-2011	-3.6	-3.4
	Industrial production	Q3-2011	-0.4	-0.1	Unemployment rate	Q3-2011	8.1	8.2
	Consumer price index	Q4-2011	0.7	3.3	Interest rate	Q4-2011	1.5	1.0
Japan	Gross domestic product	Q3-2011	1.4	-0.8	Current balance	Q3-2011	2.2	3.6
	Industrial production	Q3-2011	3.9	-2.3	Unemployment rate	Q3-2011	4.4	5.0
	Consumer price index	Q3-2011	0.0	0.1	Interest rate	Q3-2011	0.3	0.4
Korea	Gross domestic product	Q3-2011	0.8	3.6	Current balance	Q3-2011	2.2	3.8
	Industrial production	Q3-2011	-0.1	5.4	Unemployment rate	Q3-2011	3.2	3.6
	Consumer price index	Q4-2011	0.2	4.0	Interest rate	Q4-2011	3.6	2.7
Luxembourg	Gross domestic product	Q3-2011	0.6	1.1	Current balance		..	..
	Industrial production	Q3-2011	-0.4	-1.8	Unemployment rate	Q3-2011	4.9	4.4
	Consumer price index	Q4-2011	0.9	3.4	Interest rate	Q4-2011	1.5	1.0
Mexico	Gross domestic product	Q3-2011	1.3	4.4	Current balance		..	..
	Industrial production	Q3-2011	0.1	..	Unemployment rate	Q3-2011	5.3	5.2
	Consumer price index	Q3-2011	0.4	3.4	Interest rate	Q4-2011	4.8	4.9

		% change from: previous period	% change from: previous year			level: current period	level: same period last year
Netherlands	Gross domestic product	Q3-2011	-0.2	1.3	Current balance	Q2-2011	9.5	5.2
	Industrial production	Q3-2011	1.6	2.8	Unemployment rate	Q3-2011	4.4	4.5
	Consumer price index	Q4-2011	0.3	2.5	Interest rate	Q4-2011	1.5	1.0
New Zealand	Gross domestic product	Q3-2011	1.0	1.8	Current balance	Q3-2011	-5.2	-3.2
	Industrial production	Q3-2011	2.1	3.3	Unemployment rate	Q3-2011	6.6	6.4
	Consumer price index	Q3-2011	0.4	4.6	Interest rate	Q4-2011	2.7	3.2
Norway	Gross domestic product	Q3-2011	1.4	3.7	Current balance	Q2-2011	13.1	12.1
	Industrial production	Q3-2011	3.5	2.6	Unemployment rate	Q3-2011	3.2	3.4
	Consumer price index	Q3-2011	-0.7	1.5	Interest rate	Q4-2011	3.1	2.6
Poland	Gross domestic product	Q3-2011	1.0	4.2	Current balance	Q2-2011	-2.6	-3.3
	Industrial production	Q3-2011	1.5	5.7	Unemployment rate	Q3-2011	9.7	9.5
	Consumer price index	Q3-2011	-0.4	4.1	Interest rate	Q4-2011	5.0	3.9
Portugal	Gross domestic product	Q3-2011	-0.6	-1.7	Current balance	Q3-2011	-7.4	-8.5
	Industrial production	Q3-2011	-0.7	-2.3	Unemployment rate	Q3-2011	12.7	12.2
	Consumer price index	Q3-2011	-0.3	3.2	Interest rate	Q4-2011	1.5	1.0
Slovak Republic	Gross domestic product	Q3-2011	0.8	3.2	Current balance	Q2-2011	-2.0	-2.2
	Industrial production	Q3-2011	-2.4	5.5	Unemployment rate	Q3-2011	13.4	14.3
	Consumer price index	Q3-2011	0.1	4.0	Interest rate	Q4-2011	1.5	1.0
Slovenia	Gross domestic product	Q3-2011	-0.2	-0.1	Current balance	Q2-2011	-0.4	-2.9
	Industrial production	Q3-2011	-0.9	1.0	Unemployment rate	Q3-2011	8.1	7.3
	Consumer price index	Q3-2011	-0.8	1.3	Interest rate	Q4-2011	1.5	1.0
Spain	Gross domestic product	Q3-2011	0.0	0.8	Current balance	Q2-2011	-4.2	-6.0
	Industrial production	Q3-2011	-1.0	-1.2	Unemployment rate	Q3-2011	22.1	20.4
	Consumer price index	Q3-2011	-0.5	3.1	Interest rate	Q4-2011	1.5	1.0
Sweden	Gross domestic product	Q3-2011	1.6	4.6	Current balance	Q2-2011	6.6	6.4
	Industrial production	Q3-2011	0.3	5.6	Unemployment rate	Q3-2011	7.4	8.3
	Consumer price index	Q3-2011	0.1	3.3	Interest rate	Q4-2011	1.4	1.1
Switzerland	Gross domestic product	Q3-2011	0.2	1.5	Current balance	Q2-2011	12.9	15.0
	Industrial production	Q3-2011	-1.0	-0.9	Unemployment rate	Q2-2011	3.4	4.1
	Consumer price index	Q4-2011	-0.2	-0.5	Interest rate	Q4-2011	0.0	0.2
Turkey	Gross domestic product	Q3-2011	1.7	8.5	Current balance	Q3-2011	-9.6	-6.9
	Industrial production	Q3-2011	-0.4	7.2	Unemployment rate	Q3-2011	8.6	10.5
	Consumer price index	Q4-2011	5.4	9.2	Interest rate		..	..
United Kingdom	Gross domestic product	Q3-2011	0.6	0.5	Current balance	Q3-2011	-4.0	-3.4
	Industrial production	Q2-2011	-1.6	-0.8	Unemployment rate	Q3-2011	8.2	7.7
	Consumer price index	Q3-2011	0.4	4.7	Interest rate	Q3-2011	0.9	0.8
United States	Gross domestic product	Q3-2011	0.5	1.5	Current balance	Q2-2011	-3.1	-3.3
	Industrial production	Q3-2011	1.5	3.7	Unemployment rate	Q4-2011	8.7	9.6
	Consumer price index	Q3-2011	0.4	3.8	Interest rate	Q3-2011	0.3	0.3
Euro area	Gross domestic product	Q3-2011	0.2	1.4	Current balance	Q2-2011	-0.8	-0.5
	Industrial production	Q3-2011	0.6	4.0	Unemployment rate	Q3-2011	10.1	10.1
	Consumer price index	Q2-2010	..	1.6	Interest rate	Q4-2011	1.5	1.0
Non-members								
[2]Brazil	Gross domestic product	Q3-2011	0.0	2.2	Current balance		..	..
	Industrial production	Q3-2011	-1.6	0.1	Unemployment rate		..	..
	Consumer price index	Q4-2011	1.4	6.7	Interest rate		..	..
[2]China	Gross domestic product		..	..	Current balance		..	..
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q3-2011	1.1	6.3	Interest rate	Q2-2011	4.7	2.5
[2]India	Gross domestic product		..	..	Current balance		..	..
	Industrial production	Q3-2011	-1.9	3.0	Unemployment rate		..	..
	Consumer price index	Q3-2011	3.9	9.2	Interest rate		..	..
[2]Indonesia	Gross domestic product	Q3-2011	1.3	6.6	Current balance	Q2-2011	0.3	1.0
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q4-2011	0.8	4.1	Interest rate	Q2-2011	6.9	7.0
[1]Russian Federation	Gross domestic product	Q2-2011	0.2	3.4	Current balance	Q2-2011	5.4	5.5
	Industrial production	Q3-2011	-0.9	5.0	Unemployment rate		..	..
	Consumer price index	Q3-2011	0.1	8.1	Interest rate	Q3-2011	5.6	4.2
[2]South Africa	Gross domestic product	Q3-2011	0.4	2.9	Current balance		..	..
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q3-2011	1.5	5.5	Interest rate	Q4-2011	5.5	5.7

Gross Domestic Product: Volume series; seasonally adjusted. **Leading Indicators:** A composite indicator based on other indicators of economic activity, which signals cyclical movements in industrial production from six to nine months in advance. **Consumer Price Index:** Measures changes in average retail prices of a fixed basket of goods and services. **Current Balance:** Billion US$; seasonally adjusted. **Unemployment Rate:** % of civilian labour force, standardised unemployment rate; national definitions for Iceland, Mexico and Turkey; seasonally adjusted apart from Turkey. **Interest Rate:** Three months.

..=not available

[1]Accession candidate to OECD

[2]Enhanced engagement programme

Source: *Main Economic Indicators*, December 2011

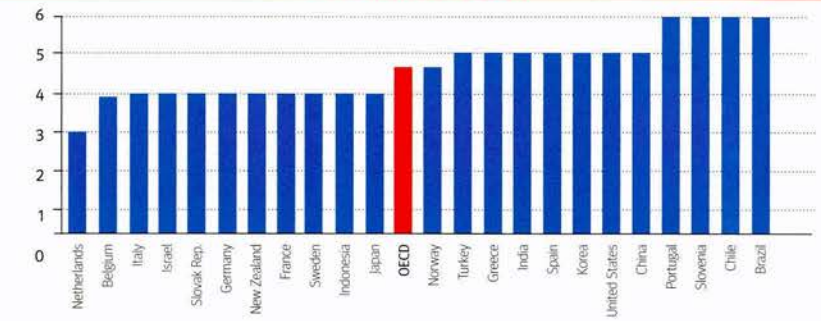
How's life?

Inequality is usually thought of in terms of income or wealth, but it might make even more sense to think of it in terms of how satisfied people are with their lives. A recent study, *How's Life?*, attempts to shed light on people's experience and the variation in life satisfaction within countries.

Looking at the difference between the life-satisfaction scores of the person at the bottom of the population's most satisfied 10% and the one at the top of the least satisfied 10%, some countries are certainly more equal than others. Much of western Europe, Israel, Japan and New Zealand have a relatively equal distribution of life satisfaction. Other countries, such as Chile, Slovenia, Portugal and Brazil, display a much greater variance with a wider gap between the most satisfied and least satisfied groups.

Inequality in life satisfaction

Difference between the 90th and the 10th percentiles of the Cantril ladder scores, selected countries, 2010



Note: The Cantril ladder is measured on a scale from 0 to 10.
Data refer to 2008 for Norway and to 2009 for Israel.
Information on data for Israel: http://dx.doi.org/10.1787/888932315602.
For more countries, see StatLink.
Source: *How's Life? Measuring well-being*, OECD

StatLink http://dx.doi.org/10.1787/888932493689

Many factors may account for the variation of subjective well-being across the population, but a number of the culprits are fairly predictable. Gender, access to education, employment and income distribution all influence inequality.

See: www.oecd.org/progress

Who pays if you're sick?

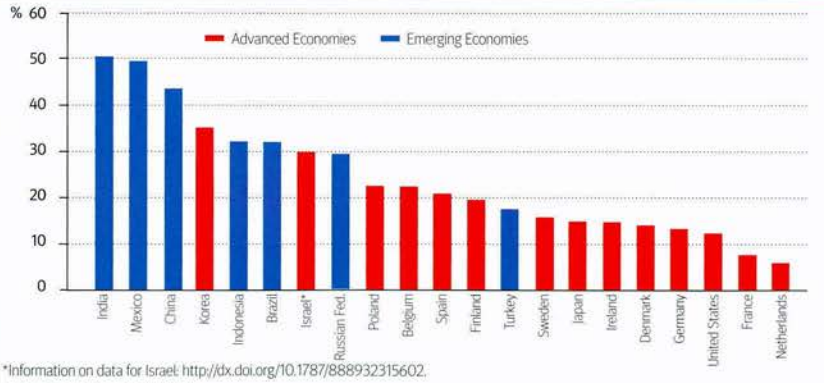
Emerging economies have made good progress on health coverage recently, but the share of out-of-pocket payments in total health expenditure remains significantly higher than in most advanced countries. Direct payments by people receiving healthcare can represent quite a blow to the living standards of households. This is especially the case for poor households, though can also be true for relatively better-off households when the costs of hospitalisation, medicines, or even forgone income are high.

Out-of-pocket payments are particularly important in India and Mexico, but also in China, where they covered more than 40% of total health expenditure in 2008. They covered almost one third of total health expenditure in Indonesia, Brazil and Russia.

Not surprisingly, studies have found that countries where out-of-pocket payments are higher tend to be those where the share of households incurring catastrophic, and therefore impoverishing, health expenditures are also elevated. To make matters worse, households faced with high out-of-pocket expenses for healthcare often postpone health checks and forgo care altogether when they fall sick. This is especially true for the poorest, who often need healthcare most. To be sure, the better-off receive more healthcare than the poor in those Asian countries relying most heavily on direct payments, such as India and Indonesia.

Out-of-pocket healthcare expenses

As % of total health expenditure, selected countries, 2008



*Information on data for Israel: http://dx.doi.org/10.1787/888932315602.
For more countries, see StatLink.
Source: *Employment Outlook 2011*, OECD

StatLink http://dx.doi.org/10.1787/888932479762

OECD Global Youth Video Contest 2012

Education and Skills - what are the big issues today?

Are you aged between 18 and 25 years old and have something to say about the subject?
Make a short video, telling us what you think - and you could be on your way to **Paris!**

Deadline for entries - 31 March 2012

To find out more visit: www.oecd.org/videocontest

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