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C/MIN(2010)2

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

12-May-2010

English - Or. English

COUNCIL

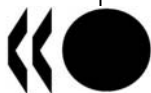
Meeting of the Council at Ministerial Level, 27-28 May 2010

DISCUSSION NOTES

Declassified

JT03283592

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ITEM 3 - FISCAL CONSOLIDATION AND EMPLOYMENT

3.1 **The global economy appears to have turned the corner following the worst recession in the post-war period.** Sustained growth in the major non-OECD countries, especially in Asia and particularly in China, has been contributing in a significant way to the recovery in the global economy. In the OECD, indicators point to a hesitant recovery proceeding at different speeds across countries. Headwinds stemming from the legacies of the crisis remain, including weak balance sheets, high unemployment and markedly deteriorated fiscal positions in many places. Recent market developments highlight the risks of renewed financial instability and the need for a swifter move to a more sustainable fiscal path in some countries.

3.2 **The effects of the crisis on public finances and labour market conditions will linger for years to come.** Discretionary fiscal measures, the disappearance of revenue buoyancy from high and rising asset prices, cyclical revenue losses and benefit expenditure increases have resulted in a sharp rise in budget deficits, which are projected to peak at 8¼ per cent of GDP in the OECD area as a whole in 2010. Gross government debt could exceed GDP in 2011 in the OECD area as a whole, about 30 percentage points higher than before the onset of the crisis. Debt-to-GDP ratios would still exceed pre-crisis levels in most countries, even if consolidation were sufficient to bring budgets back to balance by 2017. The OECD-wide unemployment rate is projected to peak at around 9% in mid-2010, falling slowly to around 8½ per cent by the end of 2011. Despite the achievements of government interventions in terms of jobs saved, this is equivalent to about 21 million fewer jobs than pre-crisis employment in the OECD area.

3.3 **It is now important to ensure that a durable recovery takes hold and that long-term growth is restored.** New growth strategies are needed to strengthen long-term growth potential. This includes through structural reforms, harnessing new sources of growth, such as innovation and green growth, and employment policies that increase labour productivity and maintain workers connected to the labour market. We need to consider all possibilities to enhance employment and the participation of women is essential to achieve this. The participation of youth, the elderly, the immigrants and low skilled workers is also a key to long-term economic growth. Closing gender gaps and integration into the labour market are crucial mechanisms which we can improve the workings of the economy. OECD countries may have lost over 4 per cent of their potential output as a result of the crisis, in part because of higher unemployment. A major risk in some countries is that unemployment becomes structural in nature, as many of the unemployed drift into long-term joblessness and slide gradually into inactivity.

3.4 **Global imbalances may begin to widen again.** Structural policies in both OECD and non-OECD countries should contribute to addressing the medium term determinants of such imbalances while boosting long term growth. They are an essential complement to macroeconomic policies in the current context. Mutual assessment of macroeconomic and structural policies, along with the interactions between them, could play an important role in supporting the necessary policy actions in the context of these global imbalances.

3.5 **It is also imperative to develop and implement credible and transparent plans for fiscal consolidation.** Consolidation plans will need to be formulated in conjunction with a broader policy normalisation strategy that will have to involve simultaneous actions across different domains. The credibility of exit strategies requires the backing of well designed and well communicated plans for fiscal consolidation. The pace and timeframe for fiscal consolidation ultimately depends on country-specific conditions and the state of public finances. In some cases, early action to cut deficits could undermine the recovery. At the same time, for some countries a slow exit could damage confidence, raise bond yields and worsen deficits. Furthermore, the fact that national fiscal consolidation and exit strategies have international spill over effects heightens the importance of maintaining a high degree of transparency and policy co-operation.

3.6 **Fiscal consolidation should privilege pro-growth instruments as much as possible.** There are policy trade-offs that need to be taken into consideration in the choice of spending components and sources of taxation to achieve consolidation. Also, to the extent that the costs and benefits of different instruments differ across social groups, fiscal consolidation will have implications for income distribution and equity. While expenditure cuts are needed, fiscal retrenchment should preserve pro-growth programmes, and there is much scope for making government spending more efficient in many countries. Efforts to improve public sector efficiency – producing the same output with fewer inputs – would contribute to fiscal consolidation. Not least, structural policy actions that lift the economy’s growth potential tend to improve the budget balance in the long term.

3.7 **Tax instruments can play a critical role in finding the right balance between fiscal consolidation and pro-growth strategies.** Further measures could be taken to broaden the tax base and improve tax compliance. Discretionary tax increases should rely on the least growth-distorting instruments, such as taxes on immobile bases. There could also be greater use of environmentally-related taxes, including receipts from fossil fuel taxes and carbon trading, which would yield a double dividend of contributing to fiscal consolidation and encouraging green growth. Efforts to eliminate harmful subsidies, including environmental subsidies, would contribute to free resources that could be redirected to the financing of poverty reduction.

3.8 **Effective labour market and social policies have a key role to play in promoting a jobs-rich recovery and restoring long-term growth.** While social protection systems have played an important role as automatic stabilisers to cushion the impact of the economic downturn, countries have devoted significant additional resources to labour market and social programmes in their stimulus packages. In the recovery phase and in a context of very tight public finances, it is important to continue to invest adequate resources in cost-effective labour-market programmes to support those at greatest risk of becoming long-term unemployed and losing contact with the labour market. Policies to reduce measured unemployment via cuts in the effective labour supply, such as opening up pathways to early retirement or easing medical criteria for accessing disability benefits, would exacerbate underlying labour market imbalances and deteriorate long-term fiscal positions.

Questions for discussion

- 3.a) *How should countries decide on the pace and timeframe for their fiscal consolidation efforts?*
- 3.b) *What are the most effective instruments for achieving fiscal consolidation without undermining employment and longer-term growth?*
- 3.c) *How can international co-operation contribute to stronger and more balanced growth?*
- 3.d) *How can policymakers best promote a jobs-rich recovery?*
- 3.e) *How can obstacles to women’s labour market participation be removed and gender wage gaps closed?*

ITEM 5 - GLOBAL ECONOMIC CO-OPERATION

5.1 **Global economic co-operation is essential for sustained growth and the achievement of world economic prosperity.** Contributing to such co-operation is a high priority of the OECD. This especially holds for the dialogue between economies represented at the MCM, including the largest emerging ones. In 2007 the OECD began strengthening its co-operation with Brazil, China, India, Indonesia and South Africa through a process of enhanced engagement with a view to possible membership. In addition, Russia is an accession partner. This reflects the interdependence of emerging and member countries, as well as OECD's goal of providing high-quality and objective advice to enhance prosperity in a wide range of countries. The working dinner will be a propitious occasion to hear the views of Accession and Enhanced Engagement countries regarding their expectations of OECD's work.

5.2 **The dialogue between partners participating in the MCM helps the OECD in its efforts to more effectively respond to new challenges, including in the face of the global crisis.** For example, the work on the Green Growth Strategy can benefit greatly from the perspectives of accession and enhanced engagement countries, given their relevant policy experiences and the global nature of the challenges the Strategy is designed to respond. The same is true for work on development, including the OECD contribution to major initiatives such as the Millennium Development Goals. Co-operation is also important in the design and implementation of structural policies to deal with major global imbalances. The *Going for Growth* report, for example, addresses key issues of common concern and this year looks for the first time at the long term prospects and structural policy challenges in the Enhanced Engagement countries. Other important areas for collaboration include innovation, social policies (income inequalities, economic informality and access to basic quality healthcare and education); adaptability, particularly the challenges posed by a rapidly evolving global economy (tax-and-growth analyses, tax administration, financial intermediation, and access to financing of SMEs, infrastructure policies); urban and regional policies; increasing competition in product markets; and policies to enhance public sector efficiency (for example, the analyses to strengthen the efficiency of public service provision).

5.3 **The OECD has been working regularly with emerging economies in the G20 and other global fora.** Notably, we have been providing specific contributions to the G20 on the *Framework for Strong, Sustainable and Balanced Growth*, as well as on taxation, trade and investment protectionism, fossil fuel subsidies, employment, and other areas. More broadly, we collaborate with the Financial Stability Board, International Labour Organization, International Monetary Fund, World Bank, World Trade Organization and others to maximise the collective impact of our contributions and to strengthen the functioning of the global architecture of international organisations.

Questions for discussions

- 5.a) *What are the expectations of the emerging economies about the OECD?*
- 5.b) *What steps can be taken in order to pursue common objectives in the OECD areas of activity?*
- 5.c) *How best to use co-operation between OECD and Enhanced Engagement countries to accelerate progress in developing countries and to improve global economic governance?*

ITEM 7 PROPRIETY, INTEGRITY AND TRANSPARENCY

7.1 **The work on propriety, integrity and transparency is of importance to the OECD.** The Conclusions of the 2009 Ministerial Council Meeting state: “We consider that a renewed commitment to responsible business conduct will help to rebuild trust and confidence in markets. We firmly commit to the principles of propriety, integrity and transparency. Thus, we agree on the need to develop a set of common standards and processes regarding the conduct of international business and finance. For this purpose, we welcome the OECD work in relation to the Lecce Framework and a Global Charter for sustainable economic activity. We call on the OECD to strengthen its work on corporate governance and financial literacy.”

7.2 **The crisis has revealed the extent to which the good functioning of markets and ultimately a stable world economy is connected to propriety, integrity and transparency in the conduct of business.** Going forward, as countries around the globe seek to rebuild their economies and ensure durable growth, they have a shared interest in strong, fair markets and the creation of healthy business conditions.

7.3 **Several recent initiatives have sought to highlight instruments, including OECD standards, that could contribute to a more coherent framework for markets and business conduct.** Important among such initiatives are the one of Chancellor Merkel for a “Global Charter for Sustainable Economic Activity” and of the Italian G8 Presidency in the context of the “Lecce Framework”. Given the importance of its role in setting international standards and its follow up tools, the OECD was called from the onset to support these initiatives. Most key instruments developed in OECD context have a broader adherence and include non member countries. Thus the OECD plays a central role in supporting the conception of global standards and tools for the well functioning of markets.

7.4 **Many of these instruments have been developed with the participation of partner countries, including the major emerging economies, in the context of OECD and other international bodies.** There remains considerable scope for supporting the effective implementation of these instruments and to review them.

7.5 **Clearly, the ultimate responsibility for business conduct lies with the business community itself.** It is the role of governments to ensure that, at both national and international levels, the right laws and incentives are in place. These are the reasons why it is important that government policies be conducive to propriety, integrity and transparency.

7.6 **Common standards in this area refer to existing instruments,** including, though not limited to, the following:

- OECD Principles on Corporate Governance (which are also part of the FSB Compendium of Standards);
- OECD Guidelines for Multinational Enterprises (which are under revision at present);
- Convention on Combating Bribery of Foreign Public Officials in International Business Transactions;
- OECD standards on tax transparency and effective exchange of information (endorsed by members of the Global Forum).

7.7 **A set of common standards will not replace any existing instrument or mechanism and will not dilute any previously agreed commitment.** Rather the contrary, a coherent framework of existing OECD instruments, would raise their visibility and coherence, ultimately enhancing their combined effectiveness.

7.8 **A draft Ministerial Declaration has been proposed by Italy to enshrine a possible text on propriety, integrity and transparency.** The OECD Declarations are political texts setting out policy commitments for the governments of Member countries and other adhering countries. They imply political commitments, but do not generate legal obligations. Usually, they are noted by the OECD Council and their application is generally monitored by the OECD. This could imply that the Secretary-General reports on the implementation of the Declaration.

Questions for discussion

- 7.a) How do OECD Ministers assess OECD's instruments on Propriety, Integrity and Transparency?*
- 7.b) How can the coherence of the existing standards regarding the conduct of international business and finance help to rebuild trust and confidence in markets?*
- 7.c) How can the implementation of OECD instruments regarding international business and finance be enhanced?*

ITEM 8 – SOURCES OF GROWTH

Innovation

8.1 **Innovation is an essential prerequisite for sustainable growth.** In response to the economic crisis, all countries are expanding their efforts to improve productivity performance, reduce unemployment and accelerate development. These challenges coincide with the pressing need to address a number of global and social challenges: climate change, poverty, health, food security and a growing scarcity of clean water. Innovation, which involves both the creation and diffusion of products, processes and methods, alongside investment in intangible assets, is critical to solving these problems in an affordable and timely manner. But unlocking the potential of innovation requires coherent and coordinated policies across a wide range of domains. Consistent with the mandate received at the 2007 Ministerial Council Meeting (MCM), the OECD's Innovation Strategy sets out key areas for government action to foster innovation: from education, skills and employment policies; to science, technology and research; ICTs; framework conditions, including open and competitive markets; infrastructure and investment; and public sector policies and governance.

8.2 **Innovation today is an interactive system where R&D is one, albeit important, element.** Education, research and high-tech infrastructure, remain critical. While cutting down on these public spending may provide short-term fiscal relief, it could hurt long-term growth if not properly targeted to inefficient spending. In some countries, rationalisation and simplification of the multitude of existing innovation support policies can help increase efficiency. In others, reforms of education and training systems and public research institutions, aimed at improving excellence and efficiency, can help increase the returns from public investment. Likewise, the removal of regulatory barriers to innovation and entrepreneurship, including administrative regulations, as well pro-growth tax reforms, can do much to strengthen innovation and growth.

8.3 **Others areas for action include removing the barriers to and fostering entrepreneurship and the growth of new firms, as these are key to turning ideas into value and jobs.** They are key factors, more generally, in generating a strong knowledge based environment where new, more efficient and productive activities can expand. Policy makers can seek to strengthen the links underlying the innovation system by easing the mobility of labour between institutions and encouraging the dissemination of technology. In addition, they can help foster markets for innovative goods and services, e.g. in areas such as health and climate change. This can be achieved by using tax and regulatory reforms to strengthen the incentives for investment and by improving the coherence between demand- and supply-side policy measures. This will also help accelerate the shift to green growth. There is also large scope to improve the dissemination of knowledge and ideas. The local dimension of innovation does also influence the innovation system.

8.4 **Addressing global challenges and strengthening innovation at the global level will require improved approaches to collaboration.** Global challenges in the matter of science, technology and innovation need to be addressed collectively because more concerted approaches to accelerate technological development and diffusion can help to achieve more effective implementation. To this end, new approaches and governance mechanisms to multilateral co-operation are required, as well as procedures facilitating access to knowledge and transfer of technology, without undermining the proper protection of intellectual property rights. OECD analysis also shows that firms that collaborate on innovation spend more on innovation than those which do not, suggesting that collaboration is not just about cost-saving, but rather a way to increase the overall returns on innovation investments. The growing importance of collaboration for innovation implies that it is critical to keep markets open and competitive. It also raises issues for skills and education, as well as the international governance model needed to meet challenges.

8.5 **In addition, strengthening innovation will require the support of improved approaches to skill formation.** Empowering people to innovate relies on broad and relevant education as well as on the development of wide-ranging skills that complement formal education. Success will depend on the capacity of countries to anticipate the evolution of labour demand; promote skill acquisition and equity of access to learning; deploy their talent pool effectively by ensuring that the right mix of skills is being taught and learned and employers find workers with the skills they need; and to develop more efficient and sustainable approaches to the financing of learning that establish who should pay for what, when, where and how much. Improving the education systems is key in all these different aspects and. Transitions to low-carbon and environmentally sustainable economies are an additional driver in the mix of skills that countries require. International migration is another source of skills, but one that needs to be appropriately managed by States in order to match individual aspirations with the needs of both sending and receiving countries. Last but not least, growth is not just affected positively by the available talent pool, but also negatively by the rising social costs associated with declining employment prospects for those without sufficient skills.

8.6 **Innovation is a key driver of development progress.** The incentives and infrastructure of science and venture finance that underpin innovation are missing in low income countries. Hence there is a significant shortfall in innovation and associated entrepreneurial activity, which does much to explain why agricultural productivity and value-addition are not the strong drivers of growth that they should be in many low income countries. This gap is underlined in the OECD Innovation Strategy as is the huge potential of filling it. Specific attention to innovation-led development is needed. Policies that exploit ICT based services and the availability of hand-held devices, can play a transformative role in low income countries over the next few years.

Questions for discussion

- 8.a) *What kind of efforts do countries need to implement in order to promote innovation in a coherent manner?*
- 8.b) *What policies are needed to enable people to participate in and benefit from innovation?*
- 8.c) *What steps can be taken to foster new firms and entrepreneurship, as well as small and medium sized enterprises, as engines for innovation and job creation?*
- 8.d) *What can be done to improve international co-operation of policies for innovation , including with a view to strengthen support for innovation capacities in low income countries?*

ITEM 8 – SOURCES OF GROWTH

Green Growth

8.7 **Green growth is gaining support across countries.** It enables economic growth and development while avoiding the environmental degradation, biodiversity loss and unsustainable natural resource use that has often accompanied growth in the past. Green growth aims at maximising the chances of exploiting cleaner sources of growth. It will involve seizing the opportunities for development of new green industries, jobs and technologies, as well as greening the more traditional sectors and managing the related employment and distributional effects. It will also require the adoption of eco-innovation, as well as developing new products and supporting new patterns of demand from households, businesses and governments. All this will affect work methods and business behaviours. At the 2009 MCM, Ministers from 34 countries endorsed a mandate for the OECD to develop a Green Growth Strategy. An Interim Report has been prepared to highlight preliminary findings on a number of key issues that policymakers are currently facing in promoting greener economies. The Synthesis Report of the Strategy will be delivered to the 2011 MCM, and will provide a policy toolkit that OECD and partner countries can apply to promote green growth and development.

8.8 **The risk of high and persistent unemployment over the coming years, underscores the importance to speed-up the transition toward greener growth.** Responding to the crisis, many countries increased their focus on green policies as a way to stimulate growth and employment. Such policies span over a broad range of areas, including energy efficiency, water supply and sanitation, and clean transport. Importantly, they also include policies to encourage the expansion of eco-industries, such as those related to renewable energy. While seizing these opportunities is important, the transition to a different model of growth will also involve some industrial re-structuring, re-allocation and re-skilling of workers. It will also require removing those subsidies that are environmentally harmful. This includes subsidies to fossil fuel production or consumption and some of the subsidies to agriculture and fisheries. Inefficient regulations and barriers to trade in environmental goods and services would also need to be removed. Looking forward, a consistent and effective policy and regulatory framework needs to be put in place to bring about a shift away from the current trajectories locking-in inefficient and polluting consumption and production patterns. This framework will need to be flexible, so that it can be adjusted and tailored to fit differing national and local circumstances. It will also need to comprise a mix of instruments, cutting across a number of different policy areas and providing the incentives and information for shifting demand and supply toward greener growth. Green growth policies should be in accordance with existing international agreements and based on the principles of free trade and investment.

8.9 **Economic growth and development are intimately linked to the management of environmental resources.** It is the low income countries and their people who rely most heavily on environmental resources, and are therefore most affected by their degradation. Global environmental challenges such as climate change and biodiversity loss have important implications for the economy, and cannot be solved without effective international co-operation. Adaptation to the impacts of climate change and the sound management of natural resources will thus be critical in designing pro-poor green growth strategies. The OECD Development Assistance and Environment Policy Committees have jointly developed Policy Guidance on Integrating Climate Change Adaptation into Development Co-operation.

Questions for discussion

8.e) *What policy mix has the greatest potential to secure the realisation of green growth?*

8.f) *What role can environmentally-related taxes or other market-based instruments play in enabling greener growth, e.g. by promoting innovation?*

8.g) What are the key labour and social policy issues that will need to be addressed in order to fully realise growth and employment opportunities from new green sectors and from the greening of traditional sectors?

8.h) How can we assist poor countries with the formulation and implementation of their green growth strategies?

ITEM 8 – SOURCES OF GROWTH

Trade

8.10 **International trade and investment are widely recognized to be essential sources of growth, development, and ultimately economic well-being.** Open economies achieve higher levels of economic growth, contribute to net job creation, help to raise real wages, and ensure lower prices and wider choice of products and services.

8.11 **A successful, ambitious, comprehensive and balanced conclusion of multilateral trade talks under the WTO's Doha Development Agenda (DDA) offers widespread economic benefits and a much needed boost to business confidence.** It would also represent an endorsement of the multilateral trading system, continued international engagement and dialogue on trade and development issues, and an approach to global economic governance centred on mutually-agreed rules and concerted action.

8.12 **Recent OECD work shows that for every one percentage point increase in the share of trade in national output, income levels rise by between 1 and 3 percent.** Open and well functioning international markets facilitate increased competition, innovation and specialization; this also implies structural adjustments, with expansion in efficient industries and contraction in less efficient ones. The process of transferring resources to more productive uses has been an important driver of sustained growth and higher living standards. The challenge is to exploit new opportunities, while at the same time limiting adjustment costs for individuals, communities and society as a whole.

8.13 **Global production networks, in which not only large multinationals but also more and more SMEs in developed and developing countries are involved, play an important role in enabling specialization within and across countries.** Global production networks have been shown to create benefits in home markets, including opportunities for more (and better) jobs, as well as creating job opportunities in other (often developing) countries.

8.14 **Today, many firms and many more jobs depend on imported inputs used in local value-added production, with the output often destined for export markets.** Most trade is in intermediate products and services: over 50% of goods trade and almost 75% of services trade. Take the example of the Boeing 787 Dreamliner. The wings are produced in Japan, the engines in the United Kingdom and the United States, the flaps and ailerons in Canada and Australia, the fuselage in Japan, Italy and the United States, the horizontal stabilizers in Italy, the landing gear in France and the doors in Sweden and France. The production involves 43 suppliers spread over 135 sites around the world. Indeed, whether used in domestic production, consumption or exports, imports allow firms access to critical inputs at competitive prices and to benefit from embodied new technologies, making it possible for these firms to become more productive and ultimately competitive in global markets.

8.15 **Policies that aim to avoid structural adjustment with the goal of “protecting” jobs are counterproductive, temporarily saving jobs in vulnerable sectors at the expense of often higher paying jobs in other competitive sectors of the economy.** For example, the quantitative restrictions in autos, steel and textiles in the US in the mid-1980s were estimated to cost \$118,000 (\$242,800 in 2009 dollars) per protected job saved every year; their removal was estimated to lead to large employment gains in other sectors, and even in the auto sector, whose domestic competitiveness was penalized more by these restrictions than it was helped. Delaying adjustment almost invariably translates into greater longer-term hardship than would be the case if policies of market openness were pursued.

8.16 **The current unacceptably high levels of unemployment and stress on fiscal positions in many countries add to the complexity of the challenges to which governments must respond.** Beyond

continued vigilance to guard against protectionist measures that would make the situation worse, improving global economic prospects would require a timely exit from any discriminatory actions taken in response to the economic crisis and an early conclusion of the DDA. By opening markets governments can obtain significant pay-offs, at little fiscal cost, in terms of stronger economic growth, development and job creation. In addition, acting together in this way to support the recovery would be a clear signal of their collective commitment to “do the right things” and would be a welcome boost to business confidence.

8.17 **The public sentiment today for further trade liberalisation is low.** In particular, the distorted negative picture of the relationship between trade and employment that exists in the public sphere makes trade liberalisation politically difficult. The solution is not to close markets, but to accompany market opening with broader economic reforms, appropriate social policies, and support for capacity building to ensure the benefits of liberalisation are shared widely.

Questions for discussion

- 8.i) *What can our countries do, individually and together, to not just guard against protectionism but to promote and advance trade and investment liberalisation, in order to contribute more to the global economic recovery?*
- 8.j) *How can public understanding of the role of trade and investment in job creation be improved, with a view to supporting greater market openness, a well functioning multilateral trading system and widespread economic growth and development?*