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DISCUSSION NOTES

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ITEM 1: ECONOMIC OUTLOOK - POLICIES TO FOSTER JOB-RICH AND GREEN GROWTH

1. **The global economy has shown some recent signs of firming, but fragilities remain.** The euro area is likely to be in shallow recession, prompted by the ongoing sovereign debt crisis. In the United States, there have been several signs that the recovery is gaining momentum, the deleveraging process seems to be coming to a conclusion and the unemployment rate has recorded a steady decline in recent months. Nevertheless, the surge in oil prices, emerging fiscal restraint, and the still-negative equity positions among many home owners will continue to weigh on the outlook. In Japan, growth has been weakening after the bounce back in activity related to reconstruction work and the rapid restoration of supply chains following the earthquake and tsunami in March last year. Emerging markets are also showing signs of a slowdown. While domestic factors account for some of this, external demand is also playing a role as world trade has plateaued. Spill-over effects from the euro-area debt crisis are now also being felt elsewhere.

2. **The balance of risks to the outlook is still on the downside**. While there have been some signs of a firming in confidence across the OECD, the risk of a renewed deterioration remains. With a still fragile financial system and the weakening economy, a systemic credit event in the euro area would be particularly disruptive. On the basis of recent progress in the policy response to the sovereign debt crisis, authorities need to continue to work to put public finance on a sustainable footing and tackle structural challenges. More generally, some economies risk being drawn into a "bad equilibrium" in which soaring yield spreads prompt painful fiscal austerity amid weak activity. While the focus is currently on the euro-area periphery, the risk of such a scenario is potentially more widespread. Hence, the pay-off for policy makers taking the right actions is very large.

3. **Structural reform is key to a durable recovery**. Structural reforms are needed to lift economies' growth potential and thereby assist fiscal consolidation, as well as to prepare for the challenges of rapid population ageing. A broad and ambitious reform agenda could raise annual GDP growth by as much as one per cent on average across the OECD over the next ten years. In major emerging economies, product market liberalisation could deliver sizeable gains as well, both in terms of growth and global rebalancing. Productivity-enhancing reforms, such as a reduction in barriers to entry in product markets, can help restore the external competitiveness of some European countries. Improving the corporate governance and transparency of state-owned enterprises is also key to raising competitiveness and ensuring competitive neutrality.

4. **Green growth, innovation and structural policies can be mutually reinforcing and contribute to sustainable development**. Environmental policies can boost the economic growth potential and support recovery in the short run, through the creation of new markets and boosting green investment. Spill-overs from green innovation can enhance the productivity of the economy. Structural reform can smooth the transition towards a greener growth path by facilitating the necessary reallocation of resources. Green taxes and the abolition of fuel subsidies can strengthen the price signals essential for green innovation and energy security, while supporting fiscal sustainability. Responsible Business Conduct (RBC) and green investment can also make an important contribution to greening the economy. Ministers will be invited to send a strong signal on policies for greener growth and sustainable development to contribute to the upcoming UN Conference on Sustainable Development (Rio+20).

Questions for discussion:

- *When will the recovery resume in full? What are the main downside risks and how should they be addressed? What role for fiscal, monetary, financial and structural policies?*
- *What are the most effective tools to stimulate job creation and fight youth unemployment?*
- *How can we reconcile and/or mutually reinforce the pursuit of job-rich growth, growth-friendly fiscal consolidation and environmental goals?*

ITEM 3: ALL ON BOARD – POLICIES FOR INCLUSIVE GROWTH AND JOBS

ADDRESSING THE ECONOMIC CHALLENGES: GROWTH, JOBS, INEQUALITY

5. **The fragile recovery leaves many economies with persisting high levels of unemployment, particularly for the youth. The economic and social costs of such a job crisis must be tackled.** Structural reform should help in this regard. This can be done through reducing labour-market segmentation, cost-effective training and job-search assistance for displaced workers, while encouraging the unemployed to actively seek work or improve their work related skills. It is also important to target job-subsidy measures and cuts in labour taxation towards the most disadvantaged groups and net job creation, while shifting the tax burden towards bases less damaging for employment.

6. **The gap between rich and poor in OECD countries has reached its highest level in 30 years, and the economic crisis has only added urgency to the debate**. It is thus crucial to ensure that current fiscal consolidation does not widen inequality still further. **Rising income inequality indeed creates economic, social and political challenges.** It can jeopardise social mobility, and the resulting inequality of opportunities will affect economic performance as a whole. Inequality may also fuel protectionist sentiments and weaken the social contract. Youths feel increasingly disenfranchised, while a growing number feel that they are bearing the brunt of a crisis they are not responsible for.

7. **The main driver behind rising income gaps has been greater inequality in wages and salaries**, as the high-skilled have benefitted more from technological progress than the low-skilled. Labour and product market reforms have brought more people into work but extended the wage gap. In many emerging economies, the high share of informal workers also leads to higher income inequality. Meanwhile, changing family structures have made household incomes more diverse, while the tax and benefit systems have become less redistributive since the mid-1990s.

8. **The most promising way of tackling inequality is through boosting employment and career prospects.** "Making work pay" approaches are useful in this regard, i.e. making more use of in-work benefits and tax credits and giving additional income support to low-income households, complemented by incentives to up-skill to escape poverty durably. Investing in human capital is also key, from early childhood through compulsory education, as well as throughout the working life. Reforming tax and benefit policies is also key to promoting a better distribution of income. Over the past two decades, there has been a move away from highly progressive income tax rates and net wealth taxes in many countries. Governments may consider re-examining their tax systems to ensure that wealthier individuals contribute their fair share. **In addition, they could provide accessible and high-quality public services, such as education, health and family care, with due consideration of the costs involved.** These foster upward social mobility and create higher equality of opportunities.

9. **Redistributive policies in emerging economies must also address the large informal sectors.** Targeted benefit programmes, such as conditional cash transfers, are more effective than tax measures while serving other objectives, such as increasing the use of health and education services. Universal pensions and unconditional child grants with higher rates for poorer households can also be powerful tools. However, in the medium term, the most effective route remains to promote the creation of better jobs in the formal sector and increase the coverage of social protection systems.

Questions for discussion:

- *What are the appropriate policies and tools to reduce inequalities and contribute to stronger and fairer growth in the current crisis context, especially for the most affected countries?*

- *Which tax reforms enable greater redistribution without unduly blunting incentives?*

- *What role should in-kind services, such as health, education, housing and care services, play in the reduction of inequalities?*

PROMOTING GENDER EQUALITY – EDUCATION, EMPLOYMENT AND ENTREPRENEURSHIP

10. **Reducing persistent gender inequalities is imperative for fairness and equity reasons, but also out of economic necessity.** Greater economic opportunities for women can lead to stronger, more inclusive and sustainable growth by raising human capital and labour productivity and helping to reduce poverty. Education, employment and entrepreneurship are key fields of action.

11. **Persisting gender imbalances in educational and occupational choices hinder women's careers**. Equality in education has been achieved in most OECD countries: girls even outperform boys on average. However, young women are much less likely to study Science, Technology, Engineering, or Mathematics (STEM). This is related to attitudes rather than gender-specific abilities. Furthermore, when they do, they are still less likely than men to work in these more promising sectors in terms of career progression and earnings. However, **in many developing countries, girls have lower participation in education than boys and poorer attainment,** especially at the secondary and tertiary levels. Abolishing school fees and providing safe transport and school environments can help promote in turn greater equality in employment, postpone early marriages, reduce infant mortality and improve the health and education of future generations.

12. **Despite progress in labour force participation, women are still less likely to work for pay, are employed in lower-paid occupations and sectors and with more temporary contracts than men**. They also work fewer hours, make more use of flexible working-time arrangements, progress less in their careers and are underrepresented in decision-making positions. On average, they are paid 16% less than men in OECD countries. Changes in the distribution of caring obligations for children and elderly relatives and in the costs of formal care could help, as well as paid parental leave, with exclusive rights for fathers, public child-care support and facilitating part-time or flexible work. Improving job quality within the informal sector can also help **in many developing and emerging economies**, but i**nvestments in education, training and child care remain key** in these regions.

13. **Female entrepreneurial activities are still hampered by gender-specific constraints, such as cultural attitudes and norms and restricted access to finance**. Everywhere women are less likely to choose entrepreneurship, they tend to own smaller businesses in different industries, with lower levels of overall capitalisation and growth than those of men. They also face higher barriers to access finance, due to different factors, including **gender-based discrimination by credit providers** and, in some regions, by legal and institutional barriers. Microfinance does partly close this gap, but can also trap businesses in their micro-levels. **An improved database is an indispensable requisite for evidence-based policy recommendations to promote female entrepreneurship**.

14. **Ministers will be invited to discuss the way forward,** to welcome the Report on the Gender Initiative and endorse its key policy messages, as well as the updating, broadening and strengthening of the 1980 Declaration on Policies for the Employment of Women into a Recommendation on Gender Equality as a first step in a monitoring process.

Questions for discussion:

- *What are the most effective tools to support gender equality and encourage more women to take up studies and employment in Science, Technology and Engineering or Mathematics?*

- *How could the persisting gender wage gap be reduced and which roles should be played by the social partners at the workplace? Which tools could promote women in senior management and board positions? How could progress be fostered in this regard within the OECD Secretariat?*

- *Why has progress been so slow in this field since 1980? What process could help speed up and monitor progress in the implementation of the OECD Recommendations?*

- *How could the gender-specific obstacles be addressed in entrepreneurship and a better environment for the start-up and management of female-owned businesses be fostered?*

INVESTING IN PEOPLE AND JOBS – THE OECD SKILLS STRATEGY

15. **Skills have become the global currency of 21st century economies.** Without sufficient investment in skills, people languish on the margins of society, technological progress does not translate into productivity growth, and countries can no longer compete in an increasingly knowledge-based global economy. Effective skills policies must also be part of any response to address the important evolutions in the workforce and the inequality challenge. But this 'currency' depreciates as skill requirements of labour markets evolve and individuals lose the skills they do not use. For skills to retain their value, they must be continuously maintained and upgraded throughout life. A global perspective on how the talent pool of skills is developing and deployed is therefore essential.

16. **Getting the best returns on investment in skills requires the capacity to assess the quality and quantity of the skills available in the population**, to determine and anticipate the skills required in the labour market, and to develop and deploy those skills in the most effective and equitable ways, including management skills. The online tool "Education and Skills Survey", to be developed in co-operation with the European Commission, will allow individuals and enterprises to benchmark their skills and will be instrumental in this regard. It also requires strong governance arrangements and sustainable approaches to who should pay for what, when and how, particularly for learning beyond school.

17. **The OECD Skills Strategy helps countries identify the strengths and weaknesses of their national skills systems**, benchmark them internationally with a whole-of-government approach, and develop policies to transform better skills into better jobs, economic growth and social inclusion.

18. **Changing labour demand combined with demographic changes make it essential to reinforce incentives for continuous learning over the lifecycle.** This puts in question entrenched views about formal educational institutions and sectors of government. Effective skills policies are also needed to **respond to emerging and cyclical challenges,** such as rising unemployment when economies contract or acute skills shortages when sectors boom. At the same time, **longer-term strategic planning** is vital for the skills that are needed to maintain a competitive edge and support required structural changes. Skills policies can also ensure that available skills are used effectively.

19. **It is costly to develop a population's skills and all governments face difficult choices when allocating scarce resources.** An approach to skills policies that considers how demand for, supply of and use of skills influence each other can improve efficiency in spending. Skills policies straddle a broad range of policy fields, including education, science and technology, employment and social policies. In addition,

there are links to many other policy fields: industrial development, including regional development, migration and integration, environmental issues and public finance.

Questions for discussion:

- *How could we provide more effective incentives and support for individuals to assume greater responsibility for their learning and for small businesses to train their employees? What incentives are created with different skill financing approaches to encourage investments in skills?*

- *What tools can be put in place to help employers in the private and public sectors make better use of the skills available and support skills development of their employees? More generally, how to improve the match between the skills of workers and those required in the labour market?*

- *How could the Organisation support countries in the collection and analysis of skills data and the development of national strategies?*

- *How could we help them in particular to foster a co-ordinated approach to skills policies in order to integrate the discussion on skills to the overall growth strategy, co-ordinate between relevant Ministries and identify trade-offs, such as between spending on early education and investing in welfare programmes later on?*

ITEM 6: PARTNERS FOR DEVELOPMENT

THE OECD STRATEGY ON DEVELOPMENT

20. **Development has been at the core of OECD's mandate and activities since it was established in 1961.** The global economic and political landscape has changed significantly since then and the Organisation has to evolve accordingly. New poles of growth and diverse development models have emerged. At the same time, inequality has increased and global economic inter-linkages have become stronger. These trends have made development a global objective. The OECD development mission remains fully relevant today. **Last year's MCM thus mandated the OECD to prepare a Strategy on Development to guide its contributions in addressing increasingly complex global development challenges**.

21. **It will be more important than ever to foster greater knowledge sharing and mutual policy learning, more comprehensive and coherent approaches drawing from a wide range of policy expertise and experience,** as well as stronger international coordination. The outcome of the OECD / DAC High Level Forum on Aid Effectiveness held in Busan in December 2011 is in this regard a turning point in international development governance and a key element in this new approach to development. The OECD needs to leverage its comparative advantages in genuine partnership with developing country partners, and incorporate lessons learned into its core work, including by taking advantage of OECD bodies such as the Development Assistance Committee, the Development Centre, the Africa Partnership Forum Support Unit and the Sahel and West Africa Club, and by promoting horizontal work. This will enable the OECD to contribute to international processes, enhance policy coherence for development (PCD) and identify policy options for countries aiming at sustainable and inclusive growth.

22. **The OECD brings policy makers together**, **using evidence-based analysis and comparative data to identify what works and what does not, adapt existing tools, and foster agreement on instruments and standards to help governments improve policies.** However, to enhance impact and help make reform happen, it needs to improve its understanding of the specific characteristics and institutional challenges of countries at different stages of development. It can do so by expanding partnerships with international and regional institutions, the private sector and other stakeholders. **The OECD should also strengthen its knowledge-sharing mechanisms to contribute to global, regional and country-specific debates** in areas where it has accumulated experiences, such as public-sector effectiveness, tax systems, innovation, the management of natural resources, the promotion of cohesive societies and gender equality. In supporting developing countries at a regional, 'cluster' or country level and applying a multi-dimensional diagnostic approach, the OECD will need to consider specific demands and partner with other development institutions.

23. **Strengthening Policy Coherence for Development is a key objective of the Strategy.** This implies working more with developing countries and other organisations to strengthen the enabling environment, quantify the costs of incoherent policies and the benefits of coherent ones across relevant policy areas, build stronger evidence to inform policy, and to develop new tools for assessment.

24. **The implementation of the Strategy will be demand driven, building on ongoing efforts, and then scaling up the OECD development contributions over time**. Priorities will be identified by OECD Committees and Directorates working together.

Questions for discussion:

- *Does the Strategy respond adequately to the changing global landscape? Do the proposals outlined in the Strategy reflect current policy priorities?*

- *How can we best leverage our partnerships with international and regional organisations and expand partnerships with developing countries and other stakeholders?*
- *How can we leverage effective knowledge sharing and mutual learning to promote better and coherent policies among countries at different stages of development?*

WORKING WITH KEY PARTNERS AND STRATEGIC REGIONS, INCLUDING MENA

25. **The 50th Anniversary Vision Statement calls for the OECD to become a "more effective and inclusive global policy network". This implies developing new forms of partnership and collaboration with five Key Partners: Brazil, China, India, Indonesia and South Africa.** They are now all increasingly engaged in the OECD's substantive work. All OECD substantive committees have deepened their engagement with the key partners and developed often innovative means to do so. Members are reviewing the tools and modalities, including institutional frameworks, to facilitate this engagement.

26. **Further consultations will be carried out with each Key Partner** on joint priority setting, intensified frameworks for technical co-operation, including through Secretariat presence in capitals and secondments of their officials to the OECD, expanded data exchange and further participation in committees, projects, instruments and standards. Far from risking diluting or weakening our disciplines and standards, this participation might contribute to their regular upgrading, modernisation and continuing relevance to the OECD.

27. Key Partners are expected to engage fully as peers in **a number of wide-ranging, horizontal projects to address issues of global interest,** such as the Development Strategy, the Skills Strategy, Gender Equality, Trade and Jobs, Measuring Progress and the Green Growth Strategy. A special consideration should be given to their engagement in the "New Approaches to Economic Challenges", a unique opportunity to work together on a critical endeavour.

28. Becoming an inclusive and global policy network also implies **strengthening our relations with other countries and regions.** The Organisation is thus developing various regional and country-specific initiatives in Southeast Asia, Latin America, Africa, MENA, Southeast Europe and Eurasia.

29. **In the case of MENA, the OECD has been working with the region since 2005,** through the MENA-OECD Initiative on Governance and Investment for Development and the joint EU-OECD SIGMA programme. It is well placed to assist new governments with their reform efforts while helping the international community better focus its support. There is a strong demand from some MENA countries, especially the countries in transition, for a deeper and broader engagement with the OECD. The Organisation **actively contributes to the G8 Deauville Partnership process,** in all its pillars, and has developed a consolidated approach that aims to help countries improve governance, social justice and job opportunities through private-sector development, gender equality and territorial development, while fostering policy conditions for growth.

30. It is also essential to continue the Organisation's contribution to global governance, working with other International Organisations to provide coherent policy advice, and **supporting the G20 and the G8 processes with substantive inputs that help inform policy decisions.**

Questions for discussion:

- *How can we better strengthen the relationship with Key Partners and involve them in new initiatives on issues of global interest? Would country-specific frameworks for co-operation be useful?*

- *How can we further co-operation with other countries and regions to help inform their policy making and increase the global relevance and impact of the Organisation?*

- *How can the OECD best support reform efforts in the MENA region, in co-ordination with other International Organisations?*

- *How can the OECD strengthen its support to global governance, and particularly the G20 and G8?*

ITEM 7: TRADE – TOWARDS A MORE OPEN TRADING SYSTEM AND JOB-RICH GROWTH (FIGHTING PROTECTIONISM, TRADE AND JOBS, TRADE IN SERVICES AND TRADE IN VALUE-ADDED)

31. Both the global economy and world trade growth have slowed considerably, while unemployment remains high and public budgets are at unsustainable levels in many countries. Multilateral trade negotiations are at an impasse and **many governments are pursuing various forms of plurilateral, regional, and bilateral trade arrangements to expand market openness**.

32. **Against this backdrop, the rules based trading system is coming under pressure as protectionist instincts respond to domestic economic and social strain**. Deep economic integration, existing multilateral obligations, and the lessons of history all mitigate against a repeat of 1930's style protectionism. The danger is that restrictions build up incrementally, slowly stifling trade and ultimately weakening the global economy. Once put in place, protection often becomes entrenched and difficult to undo. To complement on-going WTO-OECD-UNCTAD efforts to monitor protectionist measures, the OECD is assessing the impact of stylised policy measures introduced recently, with the aim to highlight priorities for removal.

33. **Innovation, including advances in information and communications technology, has contributed much to the emergence of regional and global value chains which offers opportunities for advanced and emerging economies at the same time.** This in turn has lead to more widespread availability of high quality/low price intermediate and consumer products and services. As goods and services now cross borders many times before being purchased by final consumers, traditional trade statistics also count these transactions multiple times, leading to a highly distorted picture of reality. In response, OECD and WTO have launched an initiative to measure trade on a value added basis. By identifying where value is being added it will be possible to identify where income and jobs are created leading also to a more accurate picture of bilateral trade balances.

34. **In the current economic environment, going for more inclusive growth and more jobs means more, rather than less, trade.** To provide evidence-based advocacy in favour of opening markets and introducing effective complementary policies, the OECD is also coordinating inputs from nine international organisations participating in the International Collaborative Initiative on Trade and Employment. This work highlights the benefits of opening markets and implementing complementary active labour market and social protection policies. It builds on the OECD, ILO, WB and WTO joint report to the Seoul G20 Summit, *Seizing the Benefits of Trade for Employment and Growth*.

35. **Another avenue to support inclusive growth and employment is to promote trade in services. Services sectors account for the largest share of GDP in high-income countries (71%), middle-income countries (57%) and low-income countries (45%).** Over the past decade, services sectors have also accounted for the majority of net new jobs created. But relative to goods, trade in services remains low and stagnant owing to high rates of protection provided via a complex array of regulations. On-going work at the OECD to build a regulatory database of measures that restrict services trade, by country and sector, and to quantify the likely impact of these measures, would provide the information needed for effective policy reform at both national and multilateral levels.

Questions for discussion:

- *How can the OECD further support Ministers' efforts to resist protectionist pressures and to pursue trade policy actions that promote more inclusive growth and employment?*

- *OECD work to assess regulatory barriers to trade in services and to measure trade in value-added terms is charting new territory. How can this work contribute to better trade policy making in your country and multilaterally?*