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The activities of the Organisation for Economic Co-operation and Development (OECD) in 2010-2011

Report[1]
Committee on Economic Affairs and Development
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1. Ce rapport est distribué conformément au Règlement relatif aux débats élargis de l'Assemblée parlementaire sur les activités de l'OCDE.

A. Draft resolution[2]

1. For the purpose of debating the activities of the Organisation for Economic Co-operation and Development (OECD), the Parliamentary Assembly of the Council of Europe meets annually in an enlarged forum including delegations from the non-European member states of the OECD and the European Parliament. The enlarged Parliamentary Assembly has reviewed the activities of the OECD in 2010-2011 in the light of the OECD's latest annual report, the report submitted by the Assembly's Committee on Economic Affairs and Development, and the contributions of other Assembly committees in the fields of health and social policy, the environment, agriculture, migration, education and science.

The OECD at 50

2. The enlarged Assembly welcomes the 50th anniversary of the creation of the OECD. For the past fifty years, the OECD has provided a unique setting where governments can come together to share policy experiences, identify good practices, find solutions to common problems and collaborate on addressing global challenges. This anniversary comes at a very significant moment for the OECD – and in a strangely turbulent period for the world economy – as the organisation expands both its core membership and its broader audience, and develops new strategies for building stable long-term growth in an increasingly complex and interconnected world. In this context, the enlarged Assembly also welcomes the OECD's valuable contribution to the evolving global architecture, including the G20. The OECD's active participation in the work of the G20 – some of whose nations are not OECD members – underlines the transformation in its role and its increasingly global dimensions. The enlarged Assembly encourages the OECD to further enhance international co-operation to address common concerns with the Bretton Woods Institutions (International Monetary Fund, World Bank), as well as with the World Trade Organization (WTO) and the International Labour Organization (ILO). The enlarged Assembly welcomes the OECD 50th Anniversary Vision Statement which sets out its renewed identity, orientation and activities.

3. The enlarged Assembly welcomes the continued OECD enlargement process, reflected in last year's accession of four new members: Chile, Slovenia, Israel and Estonia. In the same vein, it welcomes the progress made towards full membership of the Russian Federation, as well as the enhanced engagement with Brazil, China, India, Indonesia and South Africa, and the endeavours of the organisation to engage in varied and flexible relationships with countries and institutions so as to build a global policy network. The enlarged Assembly reiterates its belief that full respect for democracy, human rights and the rule of law, including international law, should constitute an essential criterion for judging whether a candidate country should be invited to join the OECD.

4. The enlarged Assembly is satisfied with the OECD's view of its relationship with parliamentarians as a vital element in its mission to help policymakers implement reform. It takes note that the OECD is expanding the breadth and depth of its parliamentary contacts to include not only its long-standing links with the Parliamentary Assembly of the Council of Europe and the NATO Parliamentary Assembly, but also a strategic partnership with the European Parliament and the OECD's high-level parliamentary seminars held twice yearly. It also encourages the efforts made to explore the development of an OECD Parliamentary Network that could improve parliamentary involvement in the OECD's work.

Global economy

5. The enlarged Assembly welcomes the OECD's assessment that global gross domestic product (GDP) rose by 4.6% in 2010, with growth expected to continue at 4.2% in 2011 and 4.6% in 2012. Global trade volumes have now exceeded their pre-recession peak, and are expected to grow by over 8% both this year and next. It should be noted, however, that this dynamism is very much driven by the larger non-OECD economies and particularly China, India and Brazil. Economic recovery appears to have come almost to a halt in the major industrialised economies, with falling household and business confidence affecting both world trade and employment. Thus, the global shifts in growth, wealth and influence continue, as a major impact of the crisis has been to hasten the decline in weight of the major developed countries within the world economy.

6. The enlarged Assembly is concerned that in most OECD economies the recovery is surrounded by a great many uncertainties and risks. These risks include concerns about public debt sustainability in some OECD countries as well as continued financial fragility in the euro area where sovereign debt problems are still looming high. Similarly, these threats to the economic outlook stem from a rise in commodity prices,

2. Draft resolution adopted unanimously by the Enlarged Committee on Economic Affairs and Development on 4 October 2011.

possible overheating in emerging economies coupled with increasing property prices, consumer credit and bank profits hitting all-time highs. The enlarged Assembly is conscious that the global economy is by no means returning to business as usual. In the aftermath of an unprecedented crisis, there is now a considerable challenge to be taken up, in order to establish stable, healthy and fair global growth.

7. The enlarged Assembly notes with concern that the financial and economic crisis has left many Council of Europe member states, as well as other OECD member states, with a legacy of modest growth, weak public finances and persistently high unemployment. New economic strategies are imperative to address the problems stemming from this predicament. High unemployment cannot be accepted as the "new normality". Indeed, the enlarged Assembly regards combating unemployment as one of the central challenges confronting the OECD economies today.

8. The enlarged Assembly takes note that, if the economic crisis – and the food crisis – affects everyone, its impact is particularly apparent to the poor. If the volatility of commodity prices, especially in energy and metals, has been a consistent feature of recent global economic growth, severe instability in pricing of food commodities – particularly basic foodstuffs – has become an increasingly important issue for the most vulnerable economies in the last couple of years. The enlarged Assembly shares the OECD's view that the best way to prevent this will be to improve planning, boost the flow of information about stocks available, remove restrictions, and put in place timely and effective assistance programmes, in order to maintain reasonable stability, and prevent abuse of the commodity trading system by speculators, to the detriment of the world's most vulnerable consumers.

9. The enlarged Assembly is convinced that today's key challenge is to strike the right balance between policies aiming at achieving fiscal consolidation and those which promote a job-rich recovery with decent work and decent standards of living. The enlarged Assembly therefore calls on the OECD to continue its work and to develop appropriate policy advice in order to tackle youth unemployment and to prevent high long-term unemployment rates from becoming entrenched. The greatest threat to our economies is a persistent period of modest growth, or prolonged stagnation, with negative long-term structural consequences. The enlarged Assembly therefore calls on the OECD to become more creative and proactive in its proposals for future policy options in this crucial field.

10. The enlarged Assembly believes that among the necessary "paradigm shifts" in economic policies, a key issue is to tackle inequality. Disparities in society existed before the financial crisis, but they have worsened as a result of the recession. These include discrimination, income inequalities and gender imbalances. Wages as a share of global output have fallen to their lowest level in decades, while unemployment has remained persistently high, threatening to prevent a resurgence of consumer demand. Growing inequalities in society are a major obstacle for economic development. Moreover, in a longer perspective there should be no contradiction between measures to ensure economic growth and stability, and measures to protect and care for the most vulnerable. Austerity measures which exacerbate inequalities will only postpone problems and in some fields make it even more costly to resolve them at a later stage. The enlarged Assembly encourages the OECD to develop policy responses which address these societal problems directly and thus help to restore public trust in the governments after the crisis.

11. The enlarged Assembly therefore deems it crucial to put into practice the OECD's various policy tools designed to counter the effects of the crisis in a range of areas, notably the measures to improve tax transparency, the need to align financial sector regulations and incentives, so as to achieve more effective oversight and risk management and better corporate governance. The enlarged Assembly considers that international co-operation is particularly important to build at global level a stronger and more consistent supervisory and regulatory framework for the financial sector so that it serves the real economy, promotes sustainable enterprises and decent work and better protects savings and pensions. The avoidance of future crises requires strengthened legislation for the operations of financial institutions and the regulation of financial markets and capital flows in order to increase their transparency and effectiveness. This should include rating agencies, where serious conflicts of interest have become apparent.

12. The enlarged Assembly notes with concern that, according to new OECD estimates, global imbalances are likely to increase in the near future. It therefore calls on governments to address the problem of economic imbalances and structural limitations highlighted by the crisis, through co-ordinated reform of national policies. Such imbalances, both in trade and finance, risk provoking a protectionist response, and this would be disastrous for economic recovery. This policy challenge – which implies not abolishing global imbalances, but keeping them at a level that is both sustainable and amenable to an efficient allocation of resources across the globe – requires a co-operative response. The enlarged Assembly believes that the OECD could become instrumental in devising policy advice on how to successfully manage, and restrain, global economic imbalances.

13. The enlarged Assembly welcomes the conclusions of the OECD Council meeting of 25 and 26 May 2011, including the new update of the OECD Guidelines for Multinational Enterprises which extended the reach of this leading international corporate responsibility instrument in the areas of human rights and supply chains and considerably reinforced its unique implementation procedures. The OECD's conclusions are relevant for all open market economies and place strong emphasis on implementing structural reforms, fiscal consolidation and the need to strengthen their commitment to the fundamental principles of propriety, integrity and transparency. These policies and strategies are essential to ensure that the recovery takes hold and is transformed into environmentally sustainable and socially balanced growth.

14. The enlarged Assembly welcomes the OECD's innovation policies and the Green Growth Strategy launched at the OECD's Council meeting in May 2011. It is convinced that green growth tools and indicators can help expand economic growth and job creation through sustainable use of natural resources, efficiencies in the use of energy and the appropriate evaluation of ecosystem services. A turn towards green growth is indeed essential to prevent further destruction of natural capital, including increased scarcity of water and other resources, more pollution, climate change, and biodiversity loss, all of which are bound to undermine stable future growth. The enlarged Assembly encourages the OECD to further develop its policy advice for countries to "go social" and also to provide them with the tools to increase economic opportunities for women in education, employment and entrepreneurship. The enlarged Assembly shares the view that innovation, supported by a strong intellectual property rights system, is a key to countries' abilities to achieve economic growth, create green jobs, and protect the environment.

15. The Enlarged Assembly in particular praises the OECD's efforts to promote a Green Growth strategy designed to build on the rapidly growing private sector interest in low-carbon development and renewable energy. The OECD believes that by assessing economic and environmental policies together, a practical and effective platform can be created for achieving a low-carbon economy that is compatible with growth. At the same time, the enlarged Assembly recalls that these kinds of initiatives should contribute to states' fulfilment of, and further commitment to, international environmental obligations.

16. The enlarged Assembly also welcomes the development by the OECD of a new interactive tool ("Better Life Index"), designed to model well-being in OECD countries, which provides a comparative guide to how well countries perform against eleven criteria – such as education, housing, income, safety and health – identified by the OECD as essential to quality of life. The OECD's new "Better Life Index" indeed demonstrates the necessary interplay between these different enabling factors that combine to create more sustainable societies. The enlarged Assembly hopes that the OECD will continue to work on better measuring the well-being of society and that the new tool will help to strike a better balance between social justice and economic competiveness when formulating economic policies, as well as incorporating environmental concerns through the "Tools for Delivering on Green Growth" developed by the OECD.

International development

17. The enlarged Assembly is concerned that in 2011, and for the first time in history, the global population will reach 7 billion. Unbridled demographic growth in many developing countries is likely to outstrip the gains of economic development. The enlarged Assembly therefore calls on donor countries to invest far more seriously in family planning policies, otherwise much of the progress achieved over the last decades in fighting poverty, climate change and preventing conflicts in Sub-Saharan Africa and developing countries may be lost.

18. The enlarged Assembly welcomes the new comprehensive approach to development across the OECDwhich will be reflected in a new OECD Strategy for Development currently under preparation**.** It should be noted that in 2010, development was formally added to the G20 agenda and at the Seoul summit a Development Consensus for Shared Growth was adopted. The enlarged Assembly welcomes the significant input the OECD provided to the making of the Seoul Consensus in six out of the nine action areas, including the encouragement of more robust and effective tax systems, steps to reduce corruption, better labour and regulatory practices and steps to mitigate volatility in the price of basic foodstuffs.

19. The enlarged Assembly fully subscribes to the conclusions of the OECD Council that the OECD should focus its development strategy on the following areas: innovative and sustainable sources of growth; mobilisation of domestic resources for development, including by fostering a favourable investment climate; good governance; and measuring progress for development. Corruption, lack of transparency, and poorly functioning tax systems are major barriers to long-term growth in many developing countries. Hence the importance of the OECD's Tax and Development Programme which will assist countries to develop more effective tax systems and combat offshore tax evasion. The enlarged Assembly also hopes that this new OECD approach can help shape the international development co-operation architecture that should emerge from the Busan High-Level Forum on Aid Effectiveness, in November 2011. Additionally, taking into account

the enlargement process of the OECD as well as its increasingly global focus, the enlarged Assembly underlines the relevance that OECD´s international development approach promotes the experiences of south-south co-operation and triangular co-operation as tools that make a decisive contribution to the achievement of the Millennium Development Goals.

20. In this context, the enlarged Assembly also underlines the need for a successful completion of the Doha Round of trade negotiations, not least in a spirit of solidarity with the least developed countries. It reaffirms the importance of the multilateral trading system and that this strong, fair and rules-based system is an essential source of sustainable economic growth, development and job creation. It shares the deep concern expressed by the OECD regarding the difficulties confronting the Doha Development Agenda negotiations, and calls on all parties to reinforce their commitment to resist economic nationalism and protectionism, and reaffirms the commitment made by all WTO members in 2001 in the sense that the Doha Development Agenda aspires to achieve a more equitable share of opportunities and welfare gains generated by the multilateral trading system among all peoples and countries.

21. The enlarged Assembly also notes the importance of investment as a major driver of trade flows and job creation. In this context, it welcomes the recent update of the OECD Guidelines for Multinational Enterprises, which include a new chapter on addressing human rights, and encourages the organisation to send the Guidelines not only to the OECD countries but also to stakeholders in non-OECD economies.

Social and health policy

22. The enlarged Assembly requests greater commitment by the OECD in the field of social policy, and particularly calls on the OECD to:

22.1. study the positive and negative effects of the taxation of wealth as a means of driving social justice, in order to reduce inequalities and ensure efficiency and economic stability, and make introducing equitable taxation of all profits in order to achieve a fairer distribution of wealth the subject of more particular attention;

22.2. advise member states to adopt ambitious policies to combat poverty, particularly through the building of social housing and through access to essential goods (water, energy, etc);

22.3. provide support to member states, in co-operation with the International Labour Organization, in the effort to find a coherent policy on negotiations on labour issues, taking account of the fact that improved action against unemployment and fairer pay depend at present on negotiating procedures involving employers and trade unions, sometimes at international level;

22.4. promote health policies which respect everyone's right to benefit from appropriate health care of high quality at reasonable prices for all categories of the population;

22.5. encourage all member states to maintain social rights, particularly in times of crisis;

22.6. call on all states to ensure young people’s access to education, training and employment.

Environment and agriculture

23. The enlarged Assembly welcomes the co-operation between its Committee on the Environment, Agriculture and Local and Regional Affairs and the OECD in the preparation of the 6th World Water Forum and looks forward to OECD’s participation in the transversal Conference on climate change and human rights, which will be organised in the Council of Europe in autumn 2012.

24. The enlarged Assembly welcomes the long lasting co-operation between the Council of Europe and the OECD including in research and on addressing the challenges posed by the financial crisis to local and regional governments. It notes with satisfaction that the OECD Secretary General Angel Gurría is invited to take an active part in the 17th session of the Council of Europe Conference of European Ministers for Local and Regional Governments, which will be organised in Kyiv, Ukraine, from 3 to 5 November 2011.

Migration and population

25. The enlarged Assembly expresses its concern over the impact of the lingering economic and job crisis on international migration. It welcomes the OECD’s continuing analysis of how the economic situation affects the origin and destination countries in both the short and medium term as well as in advising governments on specific policy responses to meet this challenge. In this respect, it particularly welcomes the recent publication of the International Migration Outlook 2011.

26. The enlarged Assembly recognises that Europe is an immigration continent – and it is in its interest to be one. Care should be taken to ensure that the tightening of border controls and the denying of opportunities for legal entry or family reunification do not increase irregular migration and public resentment to foreigners. This could lead to xenophobia and sow the seeds of social conflict as well as tension in inter-state relations.

27. The enlarged Assembly is convinced that the present economic crisis could be turned into a great opportunity for laying the basis for a sound management of human mobility in the future. The current potential dangers could be minimised through timely preventive measures. It therefore calls on the member states to adopt flexible immigration policies congruent with current and anticipated labour needs; to avoid populist, inward-looking policies; and to introduce proactive labour-market measures, notably through job creation.

Education and science

28. The enlarged Assembly takes note with interest of the new outcomes of the latest PISA studies, in particular the analysis of the positive reactions of disadvantaged students when encouraged to apply themselves to PISA tests and training and the indications showing that repetition of grades and transfer of under-performing students often has a negative effect on overall educational levels.

29. The enlarged Assembly welcomes the new Skills Strategy decided at the OECD's May 2011 ministerial-level meeting, which emphasises the need to promote life-long learning as a condition for life-long employability. It also shares the general thrust of the OECD's approach to "21st-century learning", emphasising the growing need for creative and critical approaches to problem-solving and decision-making, for new ways of working, including communication and collaboration, and new tools, such as the capacity to exploit the potential of new technologies or to avert their risks. The enlarged Assembly agrees fully with the need to provide more incentives for education across disciplines and to develop the capacity and motivation to identify, understand, interpret, create and communicate knowledge.

30. Considering the concerted and co-ordinated drafting of the OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data and Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data (ETS No. 108), the enlarged Assembly invites both organisations to pursue their close co-operation in order to maintain consistency and convergence of the respective frameworks. The OECD is in particular invited to encourage participation of its non-European member states in the modernisation of Convention No. 108 and to promote accession to this instrument. The enlarged Assembly also encourages the further common development of the "Global Privacy Enforcement Network".

B. Explanatory memorandum by Ms Vėsaitė, rapporteur

1. Background

1. This year the Organisation for Economic Co-operation and Development (OECD) celebrates its 50th anniversary. Like the Council of Europe, which in 2009 marked 60 years of activity, the OECD's origins were in the spirit of post-war reconstruction and recovery: indeed, it was created from the body which oversaw the delivery of the Marshall Plan. So today, both organisations share a core set of ideals and objectives. Just as the Council of Europe's founding treaty declares that "in the interests of economic and social progress, there is a need of a closer unity", and aims for the "further realisation of human rights and fundamental freedoms", so the OECD Convention affirms that "economic strength and prosperity are essential for … the preservation of individual liberty and the increase of general well-being", and calls upon nations "by consultation and co-operation … to improve the economic and social well-being of their peoples."

2. This anniversary comes at a very significant moment for the OECD – and in a strangely turbulent period for the world economy – as the organisation is expanding both its core membership and its broader audience and developing new strategies for building stable long-term growth. All this promises to give even more impetus than usual to the annual debate by the enlarged Parliamentary Assembly of the Council of Europe on the work of the OECD. The present provisional report prepares for this debate, providing key findings from the rapporteur's recent meetings with OECD staff. It will be reviewed by the Committee on Economic Affairs and Development and then revised, in consultation with national delegations, before being submitted for adoption at the formal session of the enlarged Economic Committee and the enlarged Parliamentary Assembly. Four Assembly committees will make contributions to the report at a later stage. These are: the Social, Health and Family Affairs Committee; the Committee on Migration, Refugees and Population; the Committee on Culture, Science and Education, and the Committee on the Environment, Agriculture and Local and Regional Affairs.

3. The rapporteur expresses her thanks to all those at the OECD who have helped in her work. Their advice and expertise have been crucial in gaining an insight into the rapid changes in the world economy, the challenges they present and the equally rapid changes within the OECD itself. The report will begin with an assessment of global economic prospects and priorities, as seen by the OECD's experts, and will then examine a series of key issues in depth, notably the lessons learnt from the financial crisis, questions of governance, sustainable growth and development, and measures needed to address sharp fluctuations in commodity prices. It will close with a look at developments within the OECD, particularly in terms of engagement with the major emerging economies and increased co-operation with national parliaments.

2. Introduction: an overview of key economies and prospects for the world economy

A self-sustained recovery?

4. In its moderately optimistic, "Economic Outlook", published in May 2011, the OECD reported that, while global recovery has been under way for some time, growth in trade and output slowed slightly in late 2010, as the rebound effect from the recession faded. Activity has picked up, however, and trade volumes have now exceeded their pre-recession peak, being expected to grow by more than 8% both this year and next. Global gross domestic product (GDP), which fell by 1% in 2009, rose by 4.9% last year, with growth expected to continue at 4.2% in 2011 and 4.6% next year.

5. However, in its latest Outlook, published in September 2011, the OECD pointed to a number of factors that had darkened the picture since its last report in May. These include the recent gridlock over fiscal policy in the United States, the euro area sovereign debt crisis, continued bank balance sheet problems and slowing trade flows. As a consequence, "the risk of more negative growth going forward has become higher in some major OECD economies, but a downturn of the magnitude of 2008 and 2009 is not foreseen", the report stated. Indeed, the OECD now projects that growth in the Group of 7 economies (excluding Japan) will remain less than 1% at annualised rates on average in the second half of 2011. For the three largest euro zone countries — Germany, France and Italy — the forecast is for 1.4% in the third quarter and negative 0.4% in the subsequent three months. On the other hand, the latest Outlook stressed that uncertainty surrounding the projections was particularly high, the main risks in the second half of 2011 stemming from a possible intensification of Europe's debt crisis, further balance-sheet problems for banks, weak consumption and the risk that unemployment rates in some economies could become entrenched.

6. These figures also reflect an important change. Indeed, a major part of growth comes from non-OECD economies, since the centre of economic gravity is moving from the United States, Europe and Japan to the large emerging economies, particularly Brazil, China and India, a process the OECD calls “Shifting Wealth”. Already, this has brought about important improvements in poverty reduction and inequality in the developing world. But it also implies a period of readjustment for the traditional major economies, as recent growth patterns bear out: in contrast to the global figures, OECD member countries experienced a contraction of 3.4% in 2009 and grew by 2.9% in 2010, with growth anticipated at 2.3% and 2.8% during 2011 and 2012. In fact, while OECD members accounted for 80% of global GDP 50 years ago, their share is today around 60%, and the OECD estimates that by 2030 it will be around 40%.

7. A brief survey of major economies, as seen by OECD economists, shows their contrasting fortunes at this stage; but in addition, it suggests that, across the world, countries are still wrestling with the challenges created, or made more difficult, by the crisis:

– Having faltered at the turn of the year, a gradually strengthening recovery is likely in the United States, with growth of 2.6% in 2011 and 3.1% next year. While the effects of fiscal stimulus are fading, output growth should gain traction, and unemployment should fall to 8.8% this year and 7.9% next year, though performance will be limited by continued household de-leveraging, weak housing markets and initial moves toward fiscal consolidation. The OECD feels that interest rates should be kept low, and further quantitative easing may be justified if growth turns out to be weak. However, a determined commitment to gradual deficit reduction is vital, and the administration needs to follow through on its plan to stabilise the debt to GDP ratio by 2015.

– Despite moderated demand from the United States and ongoing currency strength, Canada has continued its vigorous recovery, recording growth of 3% last year, with 2.8% expected in 2011. Export volumes have been strong, particularly in commodities, though there are signs of this slowing down, and business investment is healthy. Unemployment has fallen back, and, following recent elections, fiscal stimulus should be phased out and deficit reduction plans undertaken.

– The outlook for Japan in early 2011 was already a matter for concern. Deflation had become entrenched, and confidence was weakening, as slow export growth and weak domestic demand were in danger of stalling the recovery. In the aftermath of the devastating earthquake and tsunami, industrial production, exports and confidence have all been badly hit, and a GDP contraction of 0.9% is expected for 2011. A strong recovery is, however, likely to begin in the second half of the year, as reconstruction efforts gather pace, and 2.2% growth is projected for next year. With gross government debt approaching 200% of GDP, it is important that reconstruction be funded by shifting expenditures and increased revenues rather than borrowing. And while plans for aggressive fiscal consolidation are needed, Japan’s monetary stance will need to remain accommodative until inflation is once again firmly positive.

– Despite successive rounds of volatility surrounding sovereign debt in some member countries, financial conditions in the euro area overall have improved, given the extensive government support and growing confidence. In most countries, access to credit has improved and equity prices have risen, and with a strong rise in exports and growing consumption and investment, growth should be around 2% this year and next. A particularly strong German economy is providing support to many of its neighbours, although the countries with the greatest debt problems are still struggling to emerge fully from recession. Headline inflation has risen strongly because of energy price rises and indirect tax increases but should be restrained by considerable economic spare capacity and high unemployment – which was at 9.7% last year, with 9.3% likely in 2011. As the recovery strengthens, there is an urgent need for credible fiscal consolidation plans – and reforms to European Union fiscal institutions would be particularly helpful here.

– Having paused at the end of 2010, a slow and uneven recovery continues in the United Kingdom. What the OECD calls “substantial but necessary” deficit reduction plans, though striking “the right balance”, will combine with tax increases and weak household incomes to keep growth subdued this year, perhaps at 1.4%. In 2012, this is expected to reach 1.8%, as business investment recovers. Although there has been a rebound in exports, the United Kingdom continues to underperform in this area compared to other OECD economies. Unemployment will therefore continue to fall only gradually, while inflation will remain above target until 2012, when the effects of tax rises fade out. Further public-sector reforms are called for, and while monetary policy should remain accommodating, some upward adjustment of interest rates should begin in 2011.

– Tighter monetary conditions have slowed growth in China; while 10.3% was achieved last year, in 2011 a rate of 9% is expected, and 9.2% next year. The trade surplus has fallen back to around 4.5% (having been 10% in 2007), as labour costs and commodity prices have increased, and export growth has slowed. In fact, over the past year, China's share of world trade has ceased to expand. Inflation has pushed up strongly, though the slackening level of domestic demand is expected to reduce inflationary pressures next year. Further price controls should be resisted, but tight monetary policies need to remain in place, while greater exchange-rate flexibility would also help to curb inflation. Reforms to labour migration rules would improve the economy and restrain inflation further, while structural reforms, for instance to reduce entry barriers, should be followed through to improve competitiveness.

– Having expanded by more than 10% in 2010, growth in India has also eased as stimulus is withdrawn, and it is this year expected to be at a more sustainable level of 8.5%. This pace is likely to be maintained by strong business confidence and infrastructure investment. Inflation, though, has remained stubbornly high and, given rapidly rising incomes and capacity constraints, has become generalised throughout the economy. Some monetary tightening is in progress, and this should continue so as to restrain inflation. Early progress on fiscal consolidation is encouraging but is threatened by continuing high levels of public subsidy – these should be remodelled so as to target the neediest more effectively. Market liberalisation, in particular relating to the rules governing foreign direct investment, would help to improve the prospects for long-term sustainable growth.

– With growth of 7.5% in 2010, the economy of Brazil has been running close to capacity, and a more moderate pace of 4.1% is expected this year. High planned spending on infrastructure will support an already strong level of domestic demand in the next few years and will exacerbate inflationary pressures. With significant capital inflows, the currency has been very strong, which has provided protection against inflation, but as this effect dissipates and labour markets remain tight, inflation could become a serious threat. Accordingly, monetary tightening has begun, and the OECD recommends that this should continue. It also suggests that announced spending cuts should be augmented by a fiscal consolidation plan. In addition, the development of domestic financial markets would improve Brazil's ability to absorb capital inflows and would raise growth potential.

– Growth in South Africa is expected to accelerate from 2.8% last year to 3.9% in 2011 and 4.2% next year, driven by strong external factors such as commodity prices and a rise in employment. Recent capital inflows have made the currency stronger, posing some risks to growth though also helping to control inflation, which is projected at 4.8% this year. The government should take this opportunity to pursue fiscal consolidation, which would allow a stable lower level for the currency and interest rates and boost economic potential. This may entail public-sector reforms, particularly wage restraint, and further structural reforms are needed to improve the overall business climate and, most urgently, to address youth unemployment, which is now close to 50%.

– Supported by high commodity prices, growth in Russia has picked up, with 4.9% likely to be achieved this year. Domestic demand is expected to strengthen, and the budget is likely to return to surplus this year. Plans to reduce the non-oil deficit over the next two years are, in the OECD's view, "sensible". The pressure to spend additional oil revenues should be resisted since fiscal improvements will make the economy less exposed to future oil price fluctuations. Meanwhile, privatisation should be pursued as planned, along with a range of structural reforms to improve the business environment and make industry more competitive.

8. Overall, the OECD's economists express cautious optimism that the recovery is becoming self-sustaining, more broadly based and less reliant on stimulus measures and artificially loose monetary policies. But there remains a great deal of uncertainty, and the OECD points out that while the globaleconomy seems to be exiting from the recession, it is by no means returning to business as usual. And so, in the aftermath of an unprecedented crisis, there is now a considerable challenge to be taken up, in order to establish stable and healthy global growth.

A durable recovery for all – four key challenges

9. In the words of the OECD, "the outlook is surrounded by risks". This year has seen a considerable rise in political uncertainty in the Middle East, with the constant risk of a global economic shock. Partly related to this, continued increases in energy prices have depressed spending power in consuming countries and fuelled inflation. Meanwhile, many of the issues associated with the crisis, such as weak financial systems and restricted access to credit, are only partially resolved. At this stage, growth appears unlikely to achieve the levels reached in previous periods of recovery and seems unlikely to create a "feel-good" consumer rebound as it has done before. As the OECD says, "all this suggests that the global crisis may not be over yet".

10. In recent months, inflationary pressures have been particularly damaging to consumer confidence, especially in food and energy prices. Geopolitical factors aside, these pressures are partly linked to dollar depreciation and partly to demand pressures beyond the control of the monetary authorities, who are in turn unwilling to raise interest rates for fear of stalling economic growth. This is particularly so since, besides inflation, there is the challenge posed in the developed world by unemployment, which has risen rapidly in recent years and remains stubbornly high.

11. The OECD says that high unemployment cannot be accepted as the "new normality". Indeed, it regards combating unemployment as one of the four central challenges confronting the world economy today. Across OECD member countries, unemployment in 2010 stood at 8.3%, versus 5.4% in 2007. In tackling this, governments face difficult policy issues, balancing the twin imperatives of spending restraint and job creation. The OECD is developing a Skills Strategy that aims to help governments to identify and encourage essential skills for a 21st-century economy, and to build up the concept of lifelong employability and lifelong learning. But right now, the priority should be active labour market initiatives focused on the most vulnerable – in particular, the young.

12. Since the crisis started, some 3.5 million additional young people have joined the ranks of the unemployed in OECD countries – bringing the youth unemployment total to 18% this year; it is expected to be 17% next year. But this figure misses many of those who have left education and do not feature in the labour force statistics – in fact, at least 17 million young people are neither at work nor in training, and some 10 million of them have simply given up trying to find work. In some countries, up to 40% of youngsters are without employment.

13. In its special report, "Off to a good start? jobs for youth", the OECD describes how young people who struggle to find work early in their career can find their future careers and life chances permanently damaged. But even so, while young people are twice as likely to be unemployed as others, few countries have specific programmes to help them. As the OECD Secretary-General has said, "investing in young people is vital to avoid a scarred generation at risk of long-term exclusion", adding that "we can learn from countries that have made it easier for young people to find jobs".

14. The OECD's report looks at a range of cost-effective policies introduced by various countries and designed to target those young people most at risk. In particular, this means focusing on those who leave school without qualifications, who come from immigrant backgrounds or live in disadvantaged areas. Such specific policies include:

– Placing an emphasis on early-intervention programmes and tailored job-search assistance for different groups of youth, as is being done in Denmark, the Netherlands and Japan.

– Upgrading and increasing access to apprenticeships and vocational training. A thorough approach to such schemes is traditional in countries such as Germany and Switzerland and is becoming a priority in many more. Currently, for instance, such programmes are being expanded in Australia and in France. The OECD emphasises that appropriate resources are needed, and relevant qualifications are essential. To achieve this, a comprehensive partnership with employers needs to be fostered.

– As a possible measure, governments could envisage the introduction of targeted subsidies to employers to encourage the hiring of low-skilled young people and young people who have completed their apprenticeships. There should be a special emphasis on small and medium-sized firms, where the potential for employment, and the benefits of a subsidy, are often greater. In addition, young people should be encouraged to become entrepreneurs through specific educational programmes.

15. For the OECD, the other three fundamental challenges are: to sustain current growth and avoid stagnation, to make real progress on fiscal consolidation and to successfully manage and restrain global economic imbalances. To tackle these, a complex but coherent policy set needs to be developed, the key points of which include:

– Securing the transition from a policy-driven recovery to self-sustaining growth. This implies establishing a credible medium-term financial framework as extraordinary measures are removed and securing the stability of banks. A steady restoration of fiscal policy is needed, with interest rates being gradually allowed to reach normal levels, which will combat the long-term threat of inflation and reduce the distortions in financial markets. As stimulus is withdrawn, financial policy will need to provide what the OECD calls "a credible medium-term framework" to anchor expectations and maintain confidence.

– Specifically, the health of the banking system – at a global and, in many cases, national level – still needs to be secured, with a credible system of regulation devised and established. Open and healthy capital markets are essential for long-term growth, and this needs to be borne in mind when reviewing the short-term measures that have been put in place over recent years. In the new world economy, devising an effective and well-balanced regulatory framework will require an overtly collaborative effort.

– Acting to correct the global imbalances that have remained during the crisis. For years, the OECD has warned of the dangers posed by high deficits in some countries, while others run large surpluses, and of artificially set exchange and interest rates. We can now see that many of the elements of the crisis lay in these problems – for instance in large amounts of liquidity being transferred from the savings of emerging economies into developed countries' housing markets, fuelling an unsustainable boom. Already, there are signs that these imbalances are widening again: in some cases, countries such as China that have managed exchange rates are seen by slower-growing trading partners as operating a form of “soft protection”; in addition, low returns in the developed world are driving capital flows towards emerging economies, causing exchange rate instability; meanwhile, commodity exporters are experiencing hugely increased revenues, which they will want to spend or invest. Such imbalances, both in trade and finance, pose risks of a protectionist response, which would be disastrous for the recovery. This policy challenge – which implies not abolishing global imbalances but keeping them at a sustainable level while avoiding misallocation of capital both within and between countries – requires a co-operative response.

– Achieving fiscal consolidation, both in order that debt levels become sustainable and so as to regain the ability for normal financial mechanisms to apply. In the OECD’s view, such consolidation needs to be under way now. At the same time, the fiscal positions of most OECD countries have deteriorated significantly as a result of the crisis and need to be brought to a more sustainable path. There is, of course, a risk to the recovery if measures are pursued too vigorously, and a careful balance will be needed for some time to come, but the OECD feels that, given the current consolidations planned by its members, “adverse consequences are likely to be limited”.

– Encouraging private investment. If public debt is left to accumulate at its current pace, the cost of borrowing is likely to rise, damaging growth and suppressing private investment. In the aftermath of the crisis, companies have taken strong measures to improve their balance sheets and should now be in a position to ramp up investment, if conditions are right – and this is precisely what is needed, in order for growth to reach sufficient levels to bring down unemployment and consolidate a self-sustaining recovery.

– Ensuring that fiscal consolidation is conducted in a “growth-friendly” manner, by looking closely at the structure of public finances. Measures taken should aim to improve public-sector efficiency while safeguarding areas such as education and innovation. Consolidation measures should concentrate first on cutting government spending, the OECD says; when additional revenue is required, emphasis should be placed on the least distortive taxes, such as those on property, rather than on labour income. In fact, for many countries this could be an opportunity to restructure their tax systems in favour of growth and employment.

– Implementing structural reforms, a process that has slowed in most countries during the crisis. While some progress is being made – thanks to international efforts – in financial market reform, much work is needed to improve domestic markets. This is urgent in terms of labour regulation, where employment will be increased if regulation is reduced and labour mobility improved. Product market reform is another priority, and a reduction in domestic barriers to competition, particularly in service sectors such as retail, and an end to restrictive housing policies would foster growth – and could themselves have a dramatic effect on employment.

16. All in all, the OECD is calling for a rebalanced policy framework for the global economy. Indeed, it calls for a rethinking of what it dubs ”the policy paradigm”. To do this, international collaboration is absolutely essential; this is a theme that will dominate this report. Here, the OECD’s work with the G20 will be crucial. As the Secretary-General (who was an early proponent of a G20 group when serving as Finance Minister of Mexico) has pointed out, the G20 proved to be pretty efficient in dealing with the worst period of the crisis, but “now that we have put out the fire, the recovery challenge is more complex”. The G20, he says, “must show that it can set new global economic governance into motion for the post-crisis world”, given that we are in a “multiple speed recovery in which policy requirements in one region may affect growth prospects in others”.

17. The key to this, he believes, is the G20’s “Framework for Strong, Sustainable and Balanced Growth”. Working together, the global institutions need to get this new framework right – and here, with its wealth of experience, its analytical expertise and ability to share information, the OECD is making a significant

contribution. This report will look at a wide range of areas – in all of which the G20 is now taking a lead – which are important for future economic well-being, and represent critical challenges in the effort to design an effective global governance system. The task is imperative, for, once again in the words of the Secretary-General, "the global financial and economic crisis has cast a light on all the precious things that are at stake in a global economy with deficient global governance.… I can think of no other economic crisis that has been so costly for so many people in so many countries".

3. Lessons learned by the OECD from the financial crisis, and the way forward

18. Amongst the institutions created after the Second World War, several were tasked with surveillance of economic developments, both in terms of specific national policies and in an international context. The International Monetary Fund (IMF) provides perhaps the most comprehensive overview since almost every country is a member, but the OECD also plays an important role, and increasingly so as its membership expands and its involvement with non-members deepens. Specifically, it is charged with maintaining an overview of macroeconomic and structural policies so as to promote prosperity within, between and beyond its member countries.

19. Both organisations produce regular, in-depth global reports. The OECD Economic Outlook, along with the individual Country Surveys, on which this rapporteur, like her predecessors, relies, provides a series of updates. Twice yearly, the OECD also produces "Financial Market Trends". In addition, the OECD policy surveillance includes what could be termed as structural policy surveillance with publications such as "Going for Growth", which analyses the effects of pro-growth reforms on public finances and global imbalances, and the "Employment Outlook", which monitors key labour market trends and assesses the effectiveness of policy responses to deal with labour market challenges such as globalisation and ageing populations, and the risk of high and persistent unemployment. These publications are reviewed at regular meetings of member countries, which are also attended by observers. They are also publicly available, and an increasing quantity of previously confidential research is now also being published in one form or another.

20. In the aftermath of the financial crisis, a great deal of criticism has been levelled at governments, banks and regulatory bodies, which evidently failed to appreciate the risks being taken, or to make adequate contingency plans in case of problems. Questions have been asked, too, about the role of institutional surveillance: were the dangers appreciated, and, if so, were they clearly communicated? And for the future, what lessons can be learnt?

21. It is important to note that the crisis represented something of a "perfect storm", with a number of interacting forces producing a unique event, one that would have been extremely difficult to foresee exactly. Moreover, it will be clear to the readers of reports by this rapporteur's predecessors that the OECD was very much aware of many of the dangers in the world economy. They repeatedly warned of the risks posed by growing global imbalances, with savings surpluses in countries such as Germany, Japan and China expanding as the deficits in countries such as the United States and the United Kingdom widened. It called for action to encourage private savings in deficit countries and for deficit reduction measures across the developed world to be undertaken during the benign period of the economic cycle. It also sounded a note of caution about the overheating of housing markets and the need for a tighter monetary policy, particularly in the United States.

22. In 2005, the OECD wondered whether the United States was undergoing a "housing bubble" and, while it felt the evidence was not conclusive, noted the decline in lending standards and pointed out that "the risk of a sharp slowdown … is significant", adding in 2007 that "a sharp fall in housing prices would prevent households from extracting further housing equity and put borrowers under stress, with possible large macroeconomic and financial consequences".

23. There was also concern regarding financial innovation: in 2003, the Financial Markets Trends report declared that "uncertainties continue to exist regarding the functioning of the relatively new (and rapidly growing) market for credit risk transfer instruments. While these are seen as having enhanced the resilience of the financial system, they could also complicate the task of credit analysts and supervisors to understand the distribution of risks … this could complicate crisis management". They added that the "contractual framework in some of the markets for new instruments can be improved, for instance by providing more transparent and standardized documentation".

24. All in all, the OECD correctly identified most of what would turn out to be the key features of the financial crisis, even if these were isolated risk warnings, issued in the context of generally upbeat assessments. Perhaps the most important lesson to be drawn is twofold: first, that such messages need to be set out clearly, confidently and consistently; second, that there is an immense challenge for surveillance to

keep up with the awesome complexity of a globalising economy – in other words, to put all of the risks together and form a scenario in which we could suffer the sort of "perfect storm" that has actually taken place. For instance, this means taking account of the way in which surplus savings in Asia could feed through, via cheap credit, into a housing bubble in the United States, and from there, producing actionable advice.

25. How might this be done? First, perhaps, all of us – the public as well as surveillance authorities – will want to show greater scepticism towards regulatory and supervisory frameworks and subject them to closer scrutiny. Specifically, surveillance bodies may wish to review how their own departments collaborate in producing analyses, so that information is assessed in its full significance. Similarly, they may wish to consult with each other more closely – as the OECD does, for instance, in inviting IMF staff to OECD committees. Analytical models should perhaps also be renewed, the better to take account of today's complex financial linkages, particularly as affected by regulatory policies. Fundamentally, modern forecasting needs to ensure that it considers constantly changing economic and financial relationships.

26. This shift would reflect developments already in progress at the OECD, where specific policy guidance is being strengthened via the structural surveillance process, which aims for a systematic benchmarking exercise that ensures consistency between countries, but avoids a "one size fits all" approach. A range of tracking studies and reports has also been introduced. A good example of this is "Going for Growth", a regularly updated publication that assesses many countries simultaneously and offers specific guidance to each of them on achieving the types of structural reforms most relevant to them. Such practical, results-oriented projects should help to bolster a "political economy of reform" and help governments to see the wider implications of domestic policy. And it might make sense to conduct regular, specifically timed surveillance of the major national economies, co-ordinated so that the work of different surveillance bodies is complementary and does not overlap. Also, one-off surveillance could be commissioned when underlying problems are evident to analysts, even if those problems are not of great public concern at the time. This would give a sharper, more timely focus to reporting, and scope to provide "early warning" of future threats.

27. There are also issues surrounding the presentation of material. This is perhaps a particular issue for today's OECD, as the number of member countries grows and more and more non-members are in attendance as observers or full participants, making the "peer pressure" aspect of its mission harder to achieve. On the other hand, the growing involvement of new members and non-member observers in OECDcommittees can be seenas a clear opportunity for the organisation.

28. When reports are published, there is also a need for messages and issues of concern to be presented in a clear and eye-catching format. One difficulty with this is that such points are very often supported by confidential data received from members; careful thought would therefore need to be given to exactly what supporting information can be released; once that is done, surveillance authorities may need to be prepared to speak publicly in support of their assertions. It will also perhaps be helpful to draw upon the assessments of private and external analysts, who can help in gaining public and political acceptance of a need for action. The OECD could encourage and even collaborate with them and could certainly assist them, as it is increasingly doing, by ensuring easy access to statistical data and other information. There could be a benefit in fostering a culture of diverse opinions, even if this sometimes results in the presentation of dissenting voices.

29. As discussed elsewhere in this report, the G20 has taken several initiatives to improve surveillance, in particular in tasking the Financial Stability Board with conducting, on a multilateral basis, robust and transparent peer reviews of the financial systems of G20 countries. This is to be welcomed, and the OECD is providing input and support to the process. However, these reviews will take place only every five years, and will focus on very specific sectors of activity. They will not be broadly based reviews of economic and financial developments. And while the G20 is able to involve all the major economic nations, the very scale of its work may make it hard to achieve effective consideration of policy, especially given that the G20 lacks a permanent staff capable of independent analysis.

30. It may be that we have yet to find an ideal format for exercising "peer pressure" amongst the key players in the world economy, both traditional and emerging. Even the best surveillance will not succeed in inspiring appropriate policy changes if there are large differences in countries' ideas and views on economic policy, as is often the case today. In this context, it may also be interesting to analyse how decision-making within the OECD, based on the "consensus rule", influences its surveillance activities. On the other hand, one may ask whether the "consensus minus one" rule, as practised by the parties to the OECD Anti-Bribery Convention or by the Global Forum on Transparency and Exchange of Information for Tax Purposes, could be a more effective format to exercise "peer pressure" among OECD members.

31. One OECD body, the Corporate Governance Committee, is in a unique position since it is responsible for one of the 12 FSB Key Standards for Sound Financial Systems: the OECD Principles of Corporate Governance. The Committee, which now includes Enhanced Engagement countries and other FSB jurisdictions, reviewed the lessons for the financial crisis in a series of publications, concluding that corporate governance weaknesses in the financial sector played a key role in the propagation of the crisis. While the Principles covered the identified weaknesses well, there was clearly a problem in achieving in practice the outcomes advocated by them. The Committee therefore decided to launch thematic peer reviews using the "consensus minus one rule" where necessary, and that would be open to member and non-member countries alike. The first review, covering boards and executive remuneration, was undertaken in November 2010, and two thematic peer reviews are expected to be undertaken each year covering around eight countries in total, with a more discursive treatment of the remaining participants of the Committee in each review.

32. Clear directions for improving analysis and forecasting do exist, as well as for obtaining greater attention and respect for the findings. Speaking before our Assembly last year, the OECD Secretary-General spoke of the need to restore trust and confidence, both in government and business, and the recommendations of his organisation can certainly help to do that. Moreover, he pointed out that international co-operation was "more necessary than ever because of the financial crisis: co-operation, co-ordination and coherence, what I call the three 'C's. This is needed to prevent the fourth 'C' – another crisis". With the world economy becoming ever more complex and unpredictable, it is not an easy task, but to this rapporteur it is a vital one and will be a key element in extending, into the next generation, the unique hallmark of international bodies such as the OECD.

4. Improving the quality of life through better policies and governance

33. Encouraging better policymaking is at the heart of the OECD's work. This section reviews a range of its current and upcoming projects, linked by their focus on the fundamental quality of people's lives, through which the OECD aims to maintain its place as a global "standard setter".

"Better Life Index"

34. The term "gross national happiness", or GNH, was first coined in 1972 by the then King of Bhutan, and the concept continues to gain in importance, not least because economic indicators, such as GDP, were never designed to be comprehensive measures of well-being. But for GNH to become an accepted measure, a series of defining indicators is needed – indicators that are, in their way, as clear as GDP but more inclusive of other dimensions of progress – in particular, measuring environmental and social standards. This will enable a broader assessment of challenges such as climate change, poverty, resource depletion and health, so that they can be tackled more inclusively.

35. Many organisations have been working on this concept in recent years, notably through the European Commission and Parliament's "Beyond GDP" project. The OECD has collaborated with this, within its "Measuring the Progress of Societies" project. The OECD has been keen to take a leading role in the implementation of this new measurement agenda and its linkage to policies, and its efforts have included hosting the follow-up of the Stiglitz-Fitoussi-Sen Commission, convened by President Sarkozy. In May 2011, the OECD unveiled an interactive tool, designed to model well-being in OECD countries. It provides a comparative guide to how well countries perform against 11 criteria – such as housing, income, safety and health – identified by the OECD as essential to quality of life. Users can vary the weighting accorded to each of the criteria, so as to view the model from different perspectives.[3]

36. Additionally, a "Compendium of OECD Well-Being Indicators" has been published, marking one of the first attempts to create a comprehensive basis for comparing the conditions of peoples' lives, both within the OECD area and beyond. It is planned that this will be updated regularly, in the light of experience gained and progress made, and it prepares the way for the "How's Life?" project, to be launched in October 2011, which will aim to provide an in-depth view of people's living conditions, outcomes and inequalities, within and across countries, based both on objective measures and subjective information. "How's Life?" will be structured along the lines set out by the Stiglitz-Fitoussi-Sen Commission and will monitor core elements and indicators relevant to the assessment of the well-being and progress of communities, with a focus on the most important features that shape the day-to-day lives of contemporary people, both in terms of average household conditions and specific population groups.

3. www.oecdbetterlifeindex.org/.

37. 37. The rapporteur is convinced that the Better Life Index will have a “transformative impact” on debate and policy formulation. Indeed, we must begin to find new ways of paying particular attention to the balance between social justice and economic competiveness: “We need to shift the focus of how we understand work from measuring economic production to measuring people’s well-being” – as Danilo Türk, President of Slovenia, rightly put it at the Annual Forum of the OECD in May 2011. The strengths of the OECD’s new index are obvious: it brings together the experience and expertise of the organisation in collecting and processing reliable data; it invites the involvement of citizens, which could potentially stimulate a major debate and lead to better policies; it facilitates comparison between countries and within countries, helping to frame the trade-off between different social policies; and it provides a base for further development and innovation in this field.

Fighting corruption and promoting responsible business conduct

38. As at the Council of Europe, fighting corruption is a priority for the OECD. Curtailing bribery and corruption and improving public governance are crucial for bettering the quality of life – particularly in developing countries –the OECD estimates, for instance, that in some cases up to 15% of GDP, or $US400 billion, is lost due to corruption in public procurement. Since its entry into force in 1999, the OECD Anti-Bribery Convention has done much to improve the quality of national administration, as all Convention countries[4] must criminalise the bribery of foreign public officials in international business transactions. On 25 May 2011, the OECD Ministerial Meeting adopted a new update of the Guidelines for Multinational Enterprises to ensure their continued role as a leading international instrument for the promotion of responsible business conduct in a global context. Many of the major emerging economies, as well as a wide range of stakeholders and experts, have been involved in this update, including parliamentarians from around the world.

39. Without doubt, fighting corruption needs a comprehensive and collaborative approach. So the OECD, under the framework of the 2010 Declaration on Propriety, Integrity and Transparency in the Conduct of International Business and Finance, and through the Clean.Gov.Biz initiative, is also looking at an organisation-wide, policy-oriented framework to tackle corruption at every level. This will bring together many of its existing agreements and instruments in this field and will involve a range of partners. The OECD has also joined forces with G20 countries to implement the key priorities of the G20 anticorruption agenda, especially regarding foreign bribery, whistleblower protection and partnership with the private sector. This inclusive approach implies close collaboration with the Council of Europe's Group of States against Corruption (GRECO).

40. Tax evasion is another priority area, and the OECD’s work has been strongly supported by the G20 – in fact, the OECD believes that more progress has been made in the exchange of tax information in the past two years than in the previous ten. The Convention on Mutual Administrative Assistance in Tax Matters (ETS No. 127), developed jointly by the OECD and the Council of Europe, is now in line with international standards on information exchange and has been opened to countries that are members of neither institution. The OECD’s TRACE project, launched in 2010, is developing more efficient procedures for claiming reduced rates of withholding tax on cross-border portfolio investments, consistent with the European Commission recommendation of 19 October 2009. These procedures are expected to be finalised in 2013 and will enhance countries’ abilities to ensure proper compliance with tax obligations through increased exchange of information. At this year's OECD ministerial meetings, representatives welcomed the establishment of an OECD Tax and Development Programme, which is designed to help countries to develop more effective tax systems and to combat offshore tax evasion.

Environmentally sustainable and socially balanced growth

41. The OECD continues to work on a wide range of initiatives that will enable more environmentally sustainable and socially balanced growth. The G20 has placed emphasis on issues of environmental taxation and subsidy; at its request the OECD has developed an analysis on the phasing out of fossil fuel subsidies and in late 2011 will release a first-ever inventory of the measures that support fossil fuel use and production in OECD countries. The OECD’s continuously updated database of environmentally related taxes has been of great value here, as it has in the project “Taxation, Innovation and the Environment”, now publicly available. Further specific work is under way on the links between carbon taxes and emissions trading schemes (including the tax treatments of such permits), as well as the practical outcomes achieved by road-pricing systems. In addition, the implications of the forthcoming European Union emissions trading scheme for aviation on regional and international tourism is one of many issues explored in the recently completed

4. The 34 OECD member countries, plus Argentina, Brazil, Bulgaria and South Africa, as well as Russia, which has joined the Working Group on Bribery and will also accede to the Anti-Bribery Convention.

OECD/United Nations Environment Programme (UNEP) report “Climate change and tourism in OECD countries”. The report analyses policies and issues related to climate change adaptation and mitigation in the tourism sector and provides policy recommendations in the area of climate change and tourism policy.

42. Amongst a range of reports finalised in the past year, “Harnessing freedom of investment for green growth” is designed to build on the rapidly growing private sector interest in low-carbon development and renewable energy. Specific emphasis has been placed on the policies required to stimulate renewables, particularly in terms of investment in physical capital, and measures that governments can take to support the establishment of renewable energy plants. The OECD is also looking more broadly at how public policy can incentivise private investment, including the role that institutional investors can play, with a report due in late 2011 on “The role of pension funds in financing green growth”. In addition, “How public investment can generate sustained growth” presents an analysis of policy options for central and local governments to prioritise and achieve successful investment and services delivery at a time of tight fiscal constraints.

43. The OECD believes that by assessing economic and environmental policies together, a practical and effective platform can be created for achieving a low-carbon economy that is compatible with growth. Since, in its view, innovation and “green growth” are mutually supporting, the OECD has already published an “Innovation Strategy” – containing concrete proposals on governance, R&D (research and development) spending and human capital development – and has now unveiled an overarching approach to environmental policy that seeks to answer the question: How can the development of human resources and green growth be part of a comprehensive model for socially sustainable growth?

44. Entitled the “Green Growth Strategy”, this project was launched at a public session of the OECD’s Ministerial Council meeting in May 2011. Its synthesis report, “Towards green growth”, provides a practical framework for governments to increase growth whilst cherishing the environment. It does this by setting out two broad streams of policy: the first offers methods to improve growth while conserving natural capital, by correctly balancing fiscal and regulatory rules and applying innovation policies; the second proposes measures that reward the efficient use of natural resources, make pollution and environmental degradation more expensive and encourage economic activity to take place where it is of best advantage to society over the long term. The report underscores the need for better ways of measuring economic progress: measures to be used alongside GDP which more fully account for the role of natural capital in economic growth, health and well-being. Accordingly, some of the key areas of focus include:

– improving resource management and boosting productivity;

– a decisive approach to taxes and regulation;

– industrial restructuring and new technologies;

– creating green jobs and improved social measures;

– addressing the political economy of reform;

– introducing reliable green measurement and indicators;

– a system of peer review and co-operation between OECD member and partner countries;

– recommendations for extending stakeholder involvement.

45. Recent years have shown how difficult it can be to achieve decisive action on the environment. Of course, replacing natural capital with physical capital is expensive in the short term – for instance, the infrastructure needed to generate clean electricity, stop water pollution or prevent soil erosion can be costly – but the economic rewards can be worthwhile and the cost of inaction would be higher still. The OECD report argues that “greening growth” is essential to prevent further destruction of natural capital, such as increased scarcity of water and other resources, more pollution, climate change and biodiversity loss, all of which would undermine stable future growth.

46. Green growth therefore makes economic as well as environmental sense. In natural resource sectors alone, commercial opportunities from investing in environmental sustainability could run into trillions of dollars by 2050. Increasingly, governments should look to the green economy to find new sources of growth and jobs, and to do this they should focus on encouraging the spirit of green entrepreneurship and innovation now evident in many parts of the world. As the OECD’s Secretary-General said at its launch, “this report shows that green and growth can go together. With the right policies in place, we can create jobs, increase prosperity, preserve our environment and improve the quality of life – and all at the same time”.

47. In addition to the Synthesis Report, the OECD has produced several supporting documents. “Tools for delivering on green growth” outlines the specific instruments and options available to policymakers who wish to implement and foster green growth strategies, while “Towards green growth – monitoring progress: OECD indicators” puts forward methods for measuring progress over time. In June 2011, a preliminary Green Growth Strategy for Food and Agriculture was released, and in autumn 2011, a joint OECD/International Energy Agency study on green growth and energy will be published. Green growth is being further mainstreamed in OECD's work programme. This entails integrating green growth in the Organisation's national and multilateral policy surveillance work, including country economic reviews, environmental performance reviews and innovation surveys.

48. A report on green growth and developing countries is already under way, and the OECD is also aiming to produce a scoping paper on green growth for China for November 2011. Issue-specific studies will, for example, cover green innovation, biodiversity, green growth and cities, rural development, and green jobs. The outcomes of these studies and reports will form an integral part of the OECD’s support to stimulate green growth globally in the run-up to the Rio+20 Conference next year, the successor to the original Earth Summit of 1992. At the same time, the OECD is working closely with other international organisations to align and further strengthen global efforts to promote green growth. An important initiative in this context includes the recent Green Growth Knowledge Platform, which has been jointly established by the OECD, the UNEP, the World Bank and the Global Green Growth Institute. The Platform aims to advance knowledge about green growth and supporting policy implementation in both developed and developing countries.

49. The OECD hosted discussions and conducted an expert consultation on the relationship between international investment law, including bilateral investment treaties, and environmental law and policy. This culminated in the adoption by government delegates to an OECD-hosted roundtable of a communication on harnessing freedom of investment for green growth, which addressed a range of issues including investment treaty practices and the environment, green protectionism and the transparency of investor-state arbitration

50. In many countries, a notable feature of recent growth has been that top-level incomes have risen a great deal faster than those at the lower end. The OECD has been working on a study on the causes of growing inequality in OECD countries, and this will be published toward the end of 2011. It includes an analysis of trends in the shares of top income recipients and their implications for tax policy. The 2012 issue of “Going for Growth” is also scheduled to include a study on macroeconomic risk and how this is to be shared efficiently and equitably across individuals and households.

51. The OECD is finalising the follow-up of “Growing Unequal?” for publication later this year. This new work will update the trends on income inequality and analyse the main drivers. Moreover, it will focus on trends among top earners and examine why the redistributive impact of the tax and transfer system has become less important. Significantly, it will highlight a range of policies that can create greater equality of opportunities in the long run.

52. Moreover, the rapporteur is convinced that women’s economic empowerment is critical to stronger and fairer economic growth. Ensuring an adequate supply of skills and maximising the use of those skills in the workforce and in entrepreneurial activity are keys to boosting economic growth and promoting social progress and inclusion. At present, women often represent an “underexploited resource”, and their increased and more productive participation in the labour force and in entrepreneurship would indeed promote growth and poverty reduction.

53. Greater economic empowerment of women and greater gender equality in leadership are essential components of the OECD’s wider agenda to develop policies for stronger, better and fairer growth. The OECD is actively helping governments promote gender equality in education, employment and entrepreneurship (the “three Es”) through its “Gender Initiative”. Building on the expertise and data of the OECD and other international institutions, the OECD’s Gender Initiative will identify, bring together and update a set of indicators on these key dimensions. The project will also examine why barriers to gender equality persist; illustrate the importance of gender equality for a stronger and fairer economy; establish standard indicators to measure progress; and develop a database framework and comparable data on entrepreneurship. A one-stop data portal for indicators on gender equality in the “three Es” will be launched by the end of 2012.

International development

54. Despite a decade of work, progress towards the United Nations' Millennium Development Goals remains uneven and is in some cases very disappointing. In fact, much of the progress made can be attributed to the gains of global economic growth rather than development efforts. Last year, in an attempt to make these efforts more focused and cohesive, international development was added to the G20 agenda, and at the Seoul summit, a Development Consensus for Shared Growth was adopted.

55. The underlying principles of this are a focus on economic growth and on partnership, with an emphasis on systemic issues – particularly relating to infrastructure and trade – so as to tackle the underlying causes of poverty rather than its immediate symptoms. Private-sector involvement is being encouraged and efforts co-ordinated so as to be mutually reinforcing and geared towards achieving demonstrable results. Delivery of the Consensus takes the form of a Multi-Year Action Plan, with nine specific pillars: knowledge sharing, growth with resilience, food security, domestic resource mobilisation, financial inclusion, infrastructure, human resource development, trade and private investment and job creation.

56. The establishment of the G20 Global Partnership for Financial Inclusion (GPFI) in December 2010 elevated the commitment to improve access to finance for the poor and for small and medium-sized enterprises (SMEs) to a permanent priority within the G20. The OECD is contributing to the G20 SME financing agenda, by evaluating the impact of the financial crisis on SMEs, assessing governments' support measures and developing a measurement framework to monitor SMEs' and entrepreneurs' access to finance.

57. Through the mechanism of the Development Assistance Committee, the OECD plays an important role in improving the administration and effectiveness of international development assistance. Accordingly, it provided significant input to the design of the Seoul Consensus and has been specifically tasked in six out of the nine action areas. Its work includes the encouragement of more robust and effective tax systems, including steps to reduce corruption, better labour and regulatory practice and steps to mitigate volatility in the price of basic foodstuffs.

58. As momentum builds towards the High-Level Forum on Aid Effectiveness, to take place in Busan, (South Korea) in November, the OECD has stepped up its co-operation with other international organisations working on the Multi-Year Action Plan and is co-ordinating closely with France, this year's G20 chair. At Busan, delegates will target results-oriented solutions for development, drawing on a range of experience and knowledge from developing countries, the Development Assistance Committee and other key donors, civil society organisations, the private sector and other major participants in global development. This process offers parliamentarians the opportunity, through the OECD, both to gain an insight into the progress made and to make their voices heard so as to help shape future development efforts.

59. The rapporteur considers this process all the more essential as today we are witnessing a new demographic reality. For the first time in history, the global population will reach 7 billion in 2011. Out of the total population, there are 1.2 billion young people who will soon start their own families. Their reproductive choices will play a critical role in determining the future of the planet. Rapid demographic growth in developing countries is bad news for the world, as it will likely outstrip the gains of economic development. It is also a wake-up call. If donor countries do not begin investing far more seriously in family planning, much of our progress in fighting poverty, climate change and preventing conflicts in Sub-Saharan Africa and the rest of the developing countries achieved over the past century may be lost.

60. In parallel with this renewed global effort, the OECD itself is initiating a comprehensive new approach to its international development work. At this year's ministerial meetings, the framework for an OECD Strategy for Development was endorsed, with the goal of achieving higher, more inclusive and sustainable growth. Ministers agreed that the OECD should focus its development strategy on the following areas: innovative and sustainable sources of growth and the mobilisation of domestic resources for development, including by fostering a favourable investment climate and tackling corruption, by promoting good governance and by systematically measuring progress. Greater collaboration and knowledge sharing will be the key to success here, including sharing policy results and engaging in mutual learning, as well as deepening partnerships between the organisation and developing countries that want to engage.

61. It is hoped that this new approach can play a part in helping to shape the international development co-operation architecture that will emerge from the Busan Forum. It is also worth noting that OECD ministers also discussed the upheavals in the Middle East and North Africa, affirming that recent events underline the extent to which good governance and transparency are indispensable for development, as are policies to encourage innovation and entrepreneurship. The ministers therefore asked the OECD to develop proposals for further work on these issues – within the framework of its existing MENA (Middle East and North Africa) programme – with the goal of helping governments in designing and managing measures to combat and prevent corruption and to improve the local investment climate.

5. Ensuring better use of resources and tackling commodity price volatility

62. The volatility of commodity prices, particularly in energy and metals, has been a consistent feature of recent global economic growth. But in the past couple of years, severe instability in the pricing of food commodities – particularly basic foodstuffs – has become an increasingly important issue for the most vulnerable economies. The spectacular price rises of 2007/2008 were quickly followed by equally spectacular falls, but in recent months prices have been surging again, raising renewed fears about affordability in many countries.

63. The OECD closely watches these commodity markets. So its findings can be of particular value in understanding the circumstances underlying developments, in devising recommendations on how to reduce excessive volatility and, when markets are volatile (as is inevitable), how the world's most vulnerable consumers can be helped to cope with the consequences. Looking at recent food price surges, the OECD sees a series of trends and special factors influencing the market:

– Rapid economic growth in developing countries, coupled with rising populations, causing a huge increase in demand.

– Since commodities are priced in US dollars, there is a currency dimension that creates a complex mix of higher prices and higher demand between different countries. Given the loose US monetary policy, the dollar has been in decline for some time, and this causes prices to rise, as producers compensate for its lower value. Those countries with flexible exchange rates see prices going down (or see global price rises offset), which boosts demand and makes their imports cheaper and exports more expensive. Meanwhile, those countries with exchange rates fixed to the US dollar are exposed to the full force of any price rises.

– Exacerbating the currency effect, there is an increasing link between food and energy prices; this is partly due to costs related to transport and fertiliser production and partly to public subsidies and mandates for biofuels, the feedstocks for which compete directly and indirectly with non-fuel foods.

64. Alongside these, there are several one-off or short-term circumstances that may have added to market volatility:

– A succession of poor harvests around the world, associated with droughts and severe climatic events.

– Low levels of foodstuffs held in stock around the world.

– Taxes and restrictions imposed by producing countries, particularly protectionist measures designed to reduce exports. An example of this is Russia's recent wheat export restriction, which turned out not to be necessary but caused massive instability in the market.

– A phasing out of long-standing domestic food subsidies, which can no longer be afforded as demand rises.

65. In addition, there is the difficult question of the extent of speculative activity. As the OECD's Chief Economist puts it: "Fundamentals are surely strong drivers of commodities prices. Speculation is there also, but we cannot say how big its role is". It certainly appears that it was a contributor, especially given the market deregulation that had taken place. Indeed, it is notable that the amounts flowing to commodity index investment, - by non-traditional investors - have risen markedly in recent years.

66. Interestingly, the OECD's research suggests that, rather than being directly responsible for price surges, these non-traditional investors were following price changes already under way. However, views remain quite divided on this issue, and more research is needed to understand fully what impact non-traditional actors may have been having on these markets. Despite these differences there is widespread agreement that, for agricultural commodity derivatives markets to function well in terms of hedging and price discovery, appropriate regulation needs to be in place across all relevant exchanges and markets.

67. Overall, in the OECD's view, the severity of the price spike was a result of several factors, some long term in nature, some more short term, exacerbated by hasty and unco-ordinated reactions by various parties, including some governments. In light of the complexity and multiplicity of the causes, action is needed in several areas if reoccurrences are to be prevented and coping capacity improved. These include improving planning, boosting the flow of information about stocks available, removing trade restrictions, reforming biofuel

subsidies and mandates and putting in place timely and effective assistance programmes. But ultimately the solution lies in improving the longer-term productivity and resilience of the agricultural sector, especially in the developing countries. Specifically, this means:

– Achieving an increased level of food stockpiling around the world. Fortunately, there are signs that this is happening, but ensuring that sufficient stocks remain available will require greater transparency on the part of governments and producers, so that it is known what is held where, thus preventing market panic and manipulation. This implies a global set of management and information standards, and guidelines based on best practice.

– Market distortions and restrictions need to be removed as far as possible. It was notable that in 2007/2008, the steepest price rises took place in those commodities (e.g., rice) that are least traded (thin markets). There should, in addition, be guidelines applying to emergency measures, such as export bans and surcharges, to prevent them being used to the detriment of the poor.

– There needs also to be a greater emphasis on technology, for instance, by producing new strains of drought-resistant crops, to reduce the need for fertilisers and by improving yields generally. Farming accounts for 70% of the world's water consumption, and there is an urgent need for greater efficiency here. As the OECD notes, the erratic nature of yields in rapidly growing areas of global food production, as well as fears of the effects of global warming in those areas, is itself a source of investor anxiety and contributes to driving up prices. There should also be a rethink on government biofuels policy, with the aim of removing a market distortion that increases food costs for little overall environmental benefit.

68. Concerning financial derivatives, regulators need to find the right balance between regulation and the need to ensure that the markets in question are fully able to play their role in providing for hedging and price discovery. The G20's regulatory task force, the Financial Stability Board, and other regulators like the International Organization for Securities Commissions are now looking at the relationship between physical and futures markets in commodities. Meanwhile, regulators are examining measures for improved transparency in off-exchange markets but admit there is some way to go regarding physical markets and how to assess overall data from all types of markets to spot underlying trends in trading.

69. At this point, the United States is re-regulating some aspects of commodity derivative markets, including introducing position limits in some of its own commodities markets. The European Union is also expected to give supervisors powers to intervene when needed. But there is evident caution about overly restrictive interventions, which could remove liquidity and diminish the capacity of these markets to provide the hedging and price discovery mechanisms needed.

70. Each year, the OECD and the United Nations' Food and Agriculture Organization (FAO) produce medium-term projections for commodity production, consumption, trade and prices; their work suggests that, overall, prices will on average be noticeably higher over the coming decade than they were in the decade preceding 2007. Volatility is likely to continue. The OECD and the FAO have also been working closely with the G20 on issues of price volatility and food security, together co-ordinating preparation of a report on the issue, to which several other international organisations have contributed. A comprehensive set of recommendations is being developed for consideration by the G20.

71. Clearly, as the OECD's Secretary-General has pointed out, "commodity markets need to function better and more transparently". He went on to say that "agriculture markets have always been volatile, but if governments act together then extreme price swings can be mitigated and vulnerable consumers and producers better protected". The rapporteur believes that this will become a more urgent priority for collective global action, given that many of the structural pressures on commodity prices are likely to be with us for years to come.

6. The OECD's global relations strategy

72. A dominant theme of this year's report is the rapidly growing complexity and interdependence of the world economy and the increasing number of pivotal national players. While the scope of the OECD's work is vast and unique, it needs to have a global reach so as to maximise its contribution and effectiveness and to remain relevant. Partly, this inclusiveness is being achieved by new memberships: 2010 saw Chile, Slovenia, Israel and Estonia become members of the organisation, making 34 in total. Progress has also been made towards full membership of the Russian Federation; the OECD's invitation to the Russian Federation in May 2011 to join the OECD's Working Group on Bribery and its forthcoming accession to the OECD's Anti-Bribery

Convention marks an important step in this regard. (Like all members of the Working Group on Bribery, Russia will undergo detailed reviews of its anti-bribery laws and practices to confirm that its legislation meets the convention's standards and is effectively implemented.)

73. The rapporteur is of the view that it is important to continue the OECD enlargement process in a transparent and objective manner, expanding to those countries that are ready to implement the body of OECD standards and would further strengthen the organisation and promote its values. Consequently, those European Union member countries that have not yet become members of the OECD but have expressed their determination to seek OECD membership should be considered as strong candidates during the next enlargement process.

74. Crucially, the OECD is also strengthening its engagement and collaboration with emerging/developing economies – and particularly with Brazil, China, India, Indonesia and South Africa. This now goes well beyond the brief analyses that have for some years been found in editions of the "Economic Outlook". Examples of specific studies in the past twelve months include the first Economic Survey of South Africa, as well as economic surveys on Brazil and China and an Investment Review of India. All told, such contacts now involve more than 100 non-members and are co-ordinated by the Centre for Co-operation with Non-Members, which develops and oversees the strategic orientations of the OECD's global relationships. Many non-member economies now attend OECD discussions and workshops, and, as is evident from this report, an increasing amount of the OECD's work addresses their needs and priorities. In this way, the OECD is responding to the interconnected nature of today's global economy.

75. Indeed, the OECD's active participation in the work of the G20 – many of whose nations are not OECD members – underlines the transformation in its role and its increasingly global dimensions. Behind this, there are a myriad of multilateral initiatives in place. Some of these are OECD ventures, such as a series of global forums, established to address trans-boundary issues, where the OECD's work relies on policy dialogue with non-members. Others are joint bodies, such as the SIGMA programme, an OECD-EU initiative that aims to help improve public governance and management in European Union candidate countries, potential candidates and European Neighbourhood Policy partners.

76. Finally, in the context of creating global and inclusive projects, the OECD's pioneering and world-renowned PISA studies, which test educational standards across differing cultures, are worth mentioning. More than 60 countries participated in the latest assessment, enabling them to chart progress and compare educational methods on an unprecedented scale.

77. Each year, an important part of the Organisation's public calendar is the OECD Forum. But in 2011, as the OECD celebrates its 50th anniversary, the Forum was of special significance, unveiling a series of initiatives – many of which are covered in this report – and, in the rapporteur's view, demonstrating an organisation embracing rapid change. Moreover, with attendees from all over the world, it provided an ideal public platform for the OECD to project its rapidly evolving approach to global relations and its priorities for the world economy.

7. Mobilising parliaments towards more active participation in the G20 process and the OECD's work

78. The OECD sees its relationship with parliamentarians as a vital element in its mission to help policymakers implement reform, and it is expanding the breadth and depth of its contacts. It has, of course, long-standing links with the Council of Europe Parliamentary Assembly and also with the NATO Parliamentary Assembly. In recent years, it has also developed a strategic partnership with the European Parliament, and there are discussions under way on how to strengthen this. Ideas include regular appearances by the OECD Secretary-General at the Committee on Economic and Monetary Affairs, an exchange between committees and relevant OECD directorates and an annual exchange of views at the OECD or in Brussels or Strasbourg.

79. Such increased intensity of contact allows for an even more specific exchange of information and viewpoints in order to guide policymaking and to shape the OECD's work, and it complements the OECD's existing high-level parliamentary seminars, which take place twice yearly and are an opportunity for lawmakers to discuss key policy challenges with OECD experts.

80. Furthermore, an OECD Parliamentary Network is now in the course of being established. Contacts have been made with the speakers of national parliaments, and full details of the initiative are to be announced later this year. The rapporteur sees this as an excellent initiative, which could potentially play an important role in improving the effectiveness of research and the quality of policymaking, at national and international levels.

8. Concluding remarks

81. The OECD is celebrating its 50th anniversary this year. This anniversary comes at a significant moment for the OECD – and in an astonishingly turbulent period for the world economy – as the organisation expands both its core membership and its broader audience and develops new strategies for building stable long-term growth. Indeed, the global economic environment has changed dramatically in recent years. The 2008-2009 financial and economic crisis accentuated the increased complexity and interconnectedness of today's world as well as the need for enhanced international co-operation to address common concerns. If the OECD, jointly with other international institutions, fulfils its mission, we have a good chance of not repeating the mistakes that led to the most serious economic crisis in our lifetime.

82. The economic crisis had led to record unemployment in many OECD countries amid fears of a jobless recovery. The rapporteur believes that our main aim should be to learn from the policy mistakes that caused the financial crisis in the first place and to chart a new way forward that will allow a more equitable and sustainable recovery. Although financial market conditions have recovered, the financial crisis has evolved into a serious job crisis, the consequences of which are still very much with us. Estimates suggest that the recession destroyed around 30 million jobs globally and that there is a need to generate 200 million new jobs over the next decade.

83. Recent events in the Middle East and North Africa provided, for many governments, a frightening illustration of the impact that a large number of unemployed young people can have. Almost everywhere unemployment among young people – who make up more than half the population of many developing countries – is higher than for any other group. This is an appalling waste of resources as well as a personal tragedy for millions of people.

84. The rapporteur understands that today's key challenge is to strike the right balance between policies aimed at achieving fiscal consolidation and those supporting recovery and job creation. There is an urgent need to tackle youth unemployment and to prevent high long-term unemployment rates from becoming entrenched. The greatest threat to our economies is a persistent period of modest growth, or prolonged stagnation, with negative long-term structural consequences. The rapporteur believes that appropriate labour market and social policies can do much to promote a job-rich recovery. As many countries face the challenge of fiscal consolidation, it is particularly important to continue to make room in budgets for cost-effective labour market programmes that support workers at greatest risk of becoming long-term unemployed and thus losing contact with the working world. Simultaneously, green growth tools and indicators can help expand economic growth and job creation through sustainable use of natural resources, efficiencies in the use of energy and the appropriate valuation of ecosystem services. A turn towards green growth is indeed essential to prevent further destruction of natural capital, such as increased scarcity of water and other resources, more pollution, climate change and biodiversity loss, all of which are bound to undermine stable future growth.

85. When we speak about the necessary "paradigm shift" in economic policies, a fundamental issue is inequality. Imbalances in society existed before the financial crisis, but they have worsened as a result of the recession. These include discrimination, income inequalities and gender disparities. For instance, wages as a share of global output have fallen to their lowest level in decades, while unemployment has remained persistently high, threatening to prevent a resurgence of consumer demand. In addition, the growing importance of grey, or informal, economies threatens to undermine government efforts to boost the formal economy. Similarly, the significant widening in income differentials in favour of those at the top of the earnings distribution certainly does not stimulate economic growth. As well as social costs, inequality has economic costs because it undermines economic growth. Moreover, in a longer perspective there should be no contradiction between measures to ensure economic growth and stability and those to protect and care for the most vulnerable. Austerity measures that exacerbate inequalities will only postpone problems and in some fields make it even more costly to resolve them at a later stage.

86. The rapporteur remains deeply concerned about the general consequences of the recent crisis since it is not enough to establish a new institutional framework to bring about economic recovery; we also need to restore public trust in the governments after the crisis. Trust is fundamental to the strength of the democratic process, and during the emergency public confidence in the functioning of the economy has been undermined. The credibility of governments is at stake. And their room for manoeuvre has considerably decreased as a result of the financial and economic crisis.Through "better policies for better lives", all of us have to do our best in our countries and communities to rebuild that trust. These policies should support, not undermine, fairness in society and sustainable enterprises and decent and productive work in stable, peaceful communities. We need financial policies that promote productive investment, restrain speculative financial

practices, modify consumer behaviour, ensure transparency and contribute to rebuilding credibility in the system. We need major new thinking about regulation and markets, about accountability and ethics. We need game rules based on a better balance between markets and governments.