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The activities of the Organisation for Economic Co-operation and Development (OECD) in 2014-2015

Report[1]
Committee on Political Affairs and Democracy
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Summary

The Parliamentary Assembly of the Council of Europe, enlarged to include the delegations of national parliaments of the OECD member States which are not members of the Council of Europe, considers the activities of this organisation.

The present report refers again to the OECD's New Approaches to Economic Challenges (NAEC) initiative, which in 2013 was described by the OECD's Secretary-General as "one of the most obvious, most visible, and most productive results of the dialogue between the Council of Europe and the OECD".

It underlines the importance of addressing the rise of inequalities and the value of social dialogue in achieving more inclusive growth and quality jobs. The OECD should provide member States with policy advice: to curb unproductive financial activities and reform the financial sector to serve sustainable and inclusive growth; to increase the labour share of Gross Domestic Product; and to halt rising inequality and promote a more equal distribution of income, wealth and well-being.

The report recognises the political debates and controversies concerning new types of free trade and investment treaties, but also the past gains from the comparative advantages of opening up to international trade. The report calls on the OECD to thoroughly investigate the trade-offs in the field of further global economic integration.

1. Reference to committee: Bureau decision, Reference 4024 of 31 January 2014.

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A. Draft resolution[2]

1. The Parliamentary Assembly of the Council of Europe, enlarged to include the delegations of national parliaments of the Organisation for Economic Co-operation and Development (OECD) member States which are not members of the Council of Europe, as well as a delegation of the European Parliament, is once again considering the activities of the OECD.

2. The debate in last year's enlarged Assembly on the activities of the OECD in 2013-2014 was for the first time held on the basis of a report presented by the Secretary-General of the OECD, Mr Angel Gurría. The exercise was considered a success by all those who took part. The enlarged Assembly congratulates Mr Gurría on his re-appointment as Secretary-General for the next five years.

3. For this year's debate, the enlarged Assembly has reviewed the activities of the OECD in 2014-2015 on the basis of a biannual report prepared by the Committee on Political Affairs and Democracy and on the basis of selected reports by the OECD, in particular the *Final Synthesis Report* of the OECD's New Approaches to Economic Challenges (NAEC) initiative, which in 2013 was described by the OECD's Secretary-General as "one of the most obvious, most visible, and most productive results of the dialogue between the Council of Europe and the OECD". The enlarged Assembly looks forward to continuing such dialogue.

4. The enlarged Assembly takes into account the context of the global economy against which activities have been conducted in 2014-2015. Projections for 2015 were lowered following the outcome of the first quarter of 2015 which was the weakest quarter since 2009. Forecasts for 2016 are slightly better, but rely strongly on a progressive acceleration in the growth of investment after years of sluggishness. This acceleration will nonetheless remain milder than in previous cyclical recoveries, reflecting the weak growth of productivity, lingering uncertainty, remaining excess capacity in many areas, and the drag on investment engendered by lower oil prices.

5. The enlarged Assembly also takes note of some long-term, so-called megatrends, as reflected in the NAEC synthesis report, such as slowing total-factor productivity (TFP) and economic output, rising inequality and unsustainable development, leading to "environmental pressure".

6. The enlarged Assembly notes that the OECD's flagship publications, promoting green and inclusive growth, are addressing these long-term trends and are fully in line with the first objective of the OECD, as stipulated in Article 1 of its Convention: to promote policies to achieve the highest sustainable economic growth and employment and a rising standard of living in member States.

7. Together with the OECD Ministerial Council, the enlarged Assembly recognises the important role of the OECD in the international policy landscape, including its contribution to the work of the Group of 7 (G7) and the Group of 20 (G20). The Assembly welcomes the ongoing efforts of the OECD to enrich its analytical frameworks and methods, including its tools for long-range analysis. It also welcomes the *Final NAEC Synthesis* and recognises the importance of indicators beyond Gross Domestic Product (GDP) and the OECD's work on *How's Life* and *Green Growth* indicators. The enlarged Assembly calls on the OECD to further mainstream multidimensional analysis, including the work on inclusive growth and gender equality, in OECD flagship publications.

8. The enlarged Assembly recommends including one additional dimension to the multidimensional NAEC framework, namely the effect of cross-border externalities and the trade-offs between national policies and international developments.

9. The enlarged Assembly notes that promoting sustainable growth has not had enough impact on the ecological sustainability of economic development, as species are being driven to extinction at a rate not seen since the age of the dinosaurs. Water, soil and many natural resources are structurally overexploited by our economic activities. Our global carbon emissions have the potential to cause catastrophic climate change.

10. Member and non-member States are taking steps towards green growth, but much more determined efforts are needed to integrate environmental priorities into economic agendas to promote sustainable growth and well-being. The OECD Report *Towards Green Growth? Tracking Progress* aims to accelerate countries' implementation of green growth policies by providing more targeted and coherent policy advice. The OECD also continues to mainstream green growth into the work of the Organisation. Its *Aligning Policies for a Low-carbon Economy* identifies the misalignments between climate change objectives and policy and regulatory frameworks across a range of policy domains (investment, taxation, innovation and skills, trade and adaptation) and activities at the heart of climate policy (electricity, urban mobility and rural land use). Relevant

2. Draft resolution adopted unanimously by the committee on 1 September 2015.

green growth insights are now regularly included in its economic surveys, environmental policy reviews, investment policy reviews and green cities reports. However, there is more to be done to achieve an integrated approach.

11. The enlarged Assembly therefore calls on the OECD and its member States to:

11.1. support an ambitious outcome at the United Nations Conference on Climate Change (COP21);

11.2. set CO_2 emission and climate finance targets with the objective of maintaining a global average temperature increase below 2°C;

11.3. set equally ambitious and specific targets to keep the use of water, soil and other natural resources at sustainable levels;

11.4. protect endangered species and halt the process of the loss of biodiversity;

11.5. support a "Just Transition" for workers and economic sectors.

12. The enlarged Assembly recognises the importance of addressing inequalities and of the value of social dialogue in achieving more inclusive growth and quality jobs. The work on job quality, part of the NAEC initiative, already provides a framework for measuring job quality along three key dimensions: earnings quality; employment security; and quality of the work environment. These efforts will identify the key policy levers for improving job quality with a view to the development of a new OECD Jobs Strategy.

13. The enlarged Assembly notes that since 1980, the share of world labour income has dropped dramatically and that it has fallen in most OECD countries. Meanwhile, the share of capital income has increased. The stock of cross-border portfolio investment holdings marked more than 20% annual growth on average in the ten years before the crisis. Investment incomes more than tripled during the same period. Total assets of multinational enterprises (foreign affiliates) rose from 18% of global GDP in 1990 to 130% in 2013.

14. The enlarged Assembly notes that domestic income inequality is at its highest level in OECD countries in half a century. Since the onset of the crisis, inequality in market incomes rose as much between 2007 and 2011 as in the previous twelve years in most advanced economies. It notes that inequality in wealth distribution has also shown a similar increase.

15. The enlarged Assembly takes note of recent studies that associate excessive growth of the financial sector relative to GDP in advanced economies with slowing economic growth and widening economic inequalities, while excess credit extension has increased the vulnerability of the economies to crises.

16. The enlarged Assembly calls upon the OECD to provide member States with tailored policy advice to:

16.1. curb unproductive financial activities and reform the financial sector to serve sustainable and inclusive growth of the real economy;

16.2. to increase the labour share of GDP;

16.3. to halt rising inequality and promote sustainable and inclusive growth and a more equal distribution of income, wealth and well-being.

17. The enlarged Assembly notes that the Inclusive Growth initiative will be the linchpin for the OECD's horizontal analysis and advice on well-being, and the response to the challenge of inequalities. The enlarged Assembly calls on the OECD to mainstream the Inclusive Growth policy framework across the work of the OECD. The enlarged Assembly calls on OECD member States to:

17.1. take action to raise middle and lower household incomes to boost demand and purchasing power;

17.2. strengthen collective bargaining and (minimum) wages, keeping pace with increased productivity;

17.3. halt the increase in precarious, informal or irregular work.

18. The enlarged Assembly calls on the OECD to use the forthcoming (January 2016) Ministerial meeting of the Employment, Labour and Social Affairs Committee to include these points in the revision of the 1994 OECD Jobs Strategy.

19. The enlarged Assembly recognises the opportunities offered by a next production revolution, but also the challenges for inclusiveness, for employment and for economic distribution. As the International Labour Organization (ILO) already warns of a further increase in formal unemployment, more non-standard work in

the formal sector and a growing informal economy, the enlarged Assembly calls on the OECD to co-operate closely with the ILO, where a high-level commission on the future of work will prepare a report for the ILO's centenary conference in 2019.

20. Global private and public investment still remains below pre-crisis levels. The enlarged Assembly acknowledges the essential role of productive investment to promote sustainable and inclusive growth, drive job creation and support the transition to a low-carbon resilient economy. It underlines the need to unlock investment. To enhance confidence, targeted public investments for the creation of green and decent jobs are needed. It recognises that innovation is critical to increasing productivity and creating new jobs and that investment, especially in research and development, contributes to total-factor productivity growth.

21. The enlarged Assembly notes the political debates and controversies concerning new types of free trade and investment treaties. Recognising the past gains from the comparative advantages of opening up to international trade, the Assembly also underlines that an open, rules-based multilateral trading system is a key driver for private sector development, sustainable economic growth and job creation. On the other hand, some studies suggest that further trade liberalisation will reduce the labour share even further and increase inequalities. The enlarged Assembly calls on the OECD to thoroughly investigate the trade-offs in this field of further global economic integration, as well as potential risks, costs and benefits from further elimination of non-tariff barriers, in particular in services and investment.

22. The enlarged Assembly calls on the OECD member States not to rush into trade and investment deals that are not likely to deliver tangible and substantive benefits to our economies as a whole and to first look into the effects of trade-offs between growth, stability, sustainability, inclusiveness and equity. It also calls on the OECD to propose policy packages for trade and investment policies that address these trade-offs and maximise well-being in member countries, as well as in countries that are trade and investment partners.

23. To increase resources for public investments and ensure that policy outcome is inclusive and sustainable, governments, including those of emerging countries, must also tackle tax evasion and tax avoidance. The enlarged Assembly therefore:

23.1. welcomes progress on the OECD/G20 Base Erosion and Profit Shifting (BEPS) project and on Automatic Exchange of Information;

23.2. calls on all States and jurisdictions to join and implement the OECD and Council of Europe multilateral Convention on Mutual Administrative Assistance in Tax Matters (ETS No. 127), in order to improve the availability, quality and accuracy of beneficial ownership information;

23.3. calls on all States to enact the necessary domestic legislation in order to achieve the commitments to implement the Common Reporting Standard by 2017 or 2018.

24. The full package of BEPS measures will be finalised in 2015. To ensure that this landmark initiative has the intended impact, future work must focus on supporting countries in the effective and consistent implementation of the BEPS outcomes, through the development of model legislation and technical guidance and monitoring of the impacts of the BEPS measures in addressing both double non-taxation as well as double taxation.

25. The enlarged Assembly encourages the OECD to continue its work on Responsible Business Conduct in its current multi-stakeholder setting, building from the Multinational Enterprises Guidelines, and calls on the OECD to continue its efforts to further strengthen the performance of Multinational Enterprises National Contact Points foreseen in the Guidelines and improve the Guidelines by revising the Procedural Guidance, approving budget allocations, accelerating the peer review programme and strengthening policy coherence.

26. Bribery of foreign public officials in international business transactions remains a widespread phenomenon, which raises serious moral and political concerns, undermines good governance and economic development, and distorts international competitive conditions. The enlarged Assembly recognises the critical role of the OECD and the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (Anti-Bribery Convention) in combating bribery of foreign officials, including through its rigorous, peer-monitoring mechanism. The enlarged Assembly encourages the full implementation and strong enforcement of the Anti-Bribery Convention by all its Parties. It also calls on the G20 members that are not Parties to the Convention (China, India, Indonesia and Saudi Arabia) to participate in the OECD Working Group on Bribery and explore possible accession, in line with the G20 Anti-Corruption Action Plan.

27. The enlarged Assembly calls for an ambitious post-2015 Development Agenda, the integration of "decent work", responsible business conduct and social dialogue into the OECD Strategy on Development, and action to support domestic resource mobilisation with knowledge sharing and capacity building.

28. Finally, the enlarged Assembly invites the OECD to provide participants in the enlarged debate with information on the follow-up given to the issues referred to in this resolution in a suitable manner either prior to or during the next enlarged debate.

B. Explanatory memorandum, by Mr Elzinga, rapporteur

1. Introduction

1. In June 2011, the Parliamentary Assembly decided on certain reforms to its structures and a new division of tasks. Accordingly, the new terms of reference of the Committee on Political Affairs and Democracy state that "[t]he committee shall prepare reports on the activities of the Organisation for Economic Co-operation and Development (OECD) and the European Bank for Reconstruction and Development (EBRD). For the preparation of the reports and the debates in the Assembly, the committee maintains relations with the OECD and the EBRD, and with parliaments of non-member States participating in these debates".

2. The reform having come into force in January 2012, the committee presented reports on the activities of the OECD in October 2012 (rapporteur: Mr Jean-Marie Bockel, France, EPP/CD) and in October 2013 (rapporteur: Mr Dirk Van der Maelen, Belgium, SOC). The Secretary-General of the OECD, Mr Angel Gurría, took part in both debates. In March 2014, the Committee on Political Affairs and Democracy appointed me rapporteur.

3. The debate on the activities of the OECD takes place on the basis of special rules, in the framework of an "enlarged assembly" composed of the Parliamentary Assembly of the Council of Europe and delegations from the national parliaments of non-European member States of the OECD, namely Australia, Canada, Chile, Israel, Japan, Korea, Mexico, New Zealand and the United States of America, as well as from the European Parliament. According to such rules, the Secretary-General of the OECD "shall present a report on the activities of his Organisation and shall reply to questions".

4. Debates on reports on the activities of the OECD are held at the Assembly's autumn part-session and involve delegations from parliaments of OECD member States which are not members of the Council of Europe, as well as the Secretary-General of the OECD. Such delegations are also invited to the meeting during which the Committee on Political Affairs and Democracy approves the report, at the beginning of September.

5. Given the considerable workload of preparing both reports and debates, it was decided in 2014 that the committee would prepare reports on the activities of the OECD every second year, as it does for the activities of the EBRD. This also brought such reports into line with other Assembly reports, which are prepared over two years.

6. In order to maintain relations with the OECD at the same level, the following was decided:

– enlarged Assembly debates on the activities of the OECD will continue to take place usually every year, with the participation of the delegations from the national parliaments of non-European member States of the OECD and the European Parliament, as well as of the Secretary-General of the OECD;

– every second year, such debates will be based on a report presented by the Committee on Political Affairs and Democracy;

– every other year, the debate will be based on a report by the Secretary-General of the OECD, without a report by the Assembly;

– in principle every year, the Sub-Committee on Relations with the OECD and the EBRD will hold a meeting at the OECD Headquarters to exchange views with the Organisation's management.

7. Therefore, in October 2014, the enlarged assembly debate on the activities of the Organisation for Economic Co-operation and Development (OECD) in 2013-2014 was held on the basis of a report presented by Mr Gurría. The exercise was considered a success by all those who took part.

8. In 2015, the debate will be based on a report prepared by the Assembly. In order to prepare the report, I took part, together with the Sub-Committee on Relations with the OECD and the EBRD, in the 3rd Parliamentary Days of the OECD (Paris, 25-26 February 2015). On that occasion, I also met Mr Christian Kastrop, Director of the Policy Studies Branch at the Economics Department; Ms Mathilde Mesnard, New Approaches to Economic Challenges (NAEC) co-ordinator; and Ms Ana Novik, Head of the Investment Division of the Directorate for Financial and Enterprise Affairs, who shared with me precious information on the OECD's work in their respective areas of competence. In June, I participated in the OECD Forum 2015 and contributed to the IdeaFactory *New Solution Spaces: The Pre-2060 Agenda*.

2. Role and activities of the OECD

9. The OECD was created in 1961 to promote policies designed: a) to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy; b) to contribute to sound economic expansion in member as well as non-member countries in the process of economic development; and c) to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

10. Although the OECD may take decisions which, except where otherwise provided, shall be binding on all members, decisions are taken by the Council by consensus. Hence, the secretariat of the OECD, the Secretary-General and staff, can only try to convince all members by analyses and proposals based on evidence and good practice.

11. On 14 December 2015, it will be 55 years since the Convention on the Organisation for Economic Co-operation and Development was signed in Paris. It entered into force within a year. The 50th anniversary of the OECD was celebrated modestly within a context of slow recovery from the deepest recession in decades caused by the worst global financial crisis since the organisation's birth.

12. In 2009 and again in 2010, the enlarged Assembly called specifically on the OECD, underlined by broad support in separate votes, to investigate the role its past policy advice played regarding the vulnerability of monetary, financial and economic systems in the crises, as this investigation could provide valuable lessons for the OECD in order to improve its future policy advice. This led to the launch of the OECD's New Approaches to Economic Challenges, or the NAEC initiative, which in 2013 was described by the OECD's Secretary-General as "one of the most obvious, most visible, and most productive results of the dialogue between the Council of Europe and the OECD".

13. As the *Final NAEC Synthesis* was presented to the Ministerial Council Meeting this year, I believe that now is a good time to not only look back at the activities of the OECD and economic developments and latest trends and forecasts since the last report of its Secretary-General to our enlarged Assembly, but also to reflect on lessons learned from the latest crisis. In order to see relevant megatrends and flagship publications (such as *In It Together*) in the fields of sustainable and inclusive growth in perspective, the report takes a helicopter view of some of the main historical developments in these fields.

3. The global outlook

14. The OECD's key message in its June 2015 *Economic Outlook* is that global growth is improving, but still moderate. This message is based on slightly more optimistic projections for 2016, as the first quarter of 2015 still showed the weakest performance of the world economy since the immediate impact of the crisis of 2008 and has led to downward adjustments of world growth projections for 2015 and 2016 since the last projections in November 2014. Projections for the Eurozone have improved for both 2015 and 2016. Japan is expected to do better next year, but the United States and Brazil, Russia, India and China (BRIC) are performing less than previously projected. In November 2014, the OECD still forecast 3.9% global growth for 2015, now the OECD projects 3.1% growth for this year.[3]

15. According to the OECD, monetary easing, reduced fiscal drag and low oil prices contribute to some optimism, while the financial sector and (geo)political tensions continue to add to downward risks, and stimulating investments in order to boost demand, potential output and jobs is still a challenge on the path to recovery.

16. The projected recovery rests on a progressive acceleration in the growth of investment (from about 2.5% in 2014 and 2015 to 4% in 2016 on average across the OECD) after years of sluggishness. This acceleration will nonetheless remain milder than in previous cyclical recoveries reflecting the modest acceleration in domestic and global activity, lingering uncertainty, remaining excess capacity in many areas and the drag on investment engendered by lower oil prices in some large economies. As economies continue to recover, as consumption growth accelerates along with the growth in wages and incomes, and confidence in future economic prospects strengthens, firms are expected to increase their investment spending.

3. The World Bank is even more cautious in its latest *Global Economic Prospects* (June 2015) projecting 2.8% global growth.

17. Stronger investment is important not only to sustain the cyclical recovery but also to raise productivity. Further strengthening of business investment will therefore be necessary for global growth to be sustained in the medium term. On average, OECD countries have made progress in streamlining administrative procedures for start-ups, simplifying rules for businesses, setting a level playing field in terms of expectations of responsible business conduct, and improving access to information on regulations. However, according to the OECD, more can be done to stimulate domestic and cross-border investments. A particular priority should be given to encouraging long-term investment financing for the low-carbon transition, whereby the OECD can help to identify credible policies to change the direction of investment and capital allocation. The OECD is helping to instil confidence in developed countries' commitment to mobilise jointly US$100 billion per year by 2020 through its Development Assistance Committee's statistical monitoring of public financial flows, and its leadership of the Research Collaborative[4] that is developing and assessing methods for estimating mobilised private climate finance.

18. Employment is still growing too slowly to fully "heal" the labour market. The share of the working-age population currently employed in the OECD area will remain 1 percentage point below its pre-crisis level by the end of 2016 (down from 1.8 in early 2015), while the number of unemployed will still be 8.3 million greater than it was in the fourth quarter of 2007 (down from 10.6 million in early 2015). Stronger, productive investment can stimulate the creation of new jobs while creating the conditions for real wage growth to resume as labour market slack is absorbed and productivity increases. The composition of investment will be a crucial determinant of how quickly labour productivity and workers' living standards improve. Investments in infrastructure, innovation and skills can play a particularly important role. The impact of such capital spending on jobs could be reinforced by accompanying measures to reduce barriers for people to participate effectively in the labour market.

19. While exceptional measures to support demand and resist deflationary tendencies remain necessary in many advanced economies, and central bank policies remain crucial to a robust recovery, an exclusive reliance on monetary policy to manage demand must be avoided. Abnormally low interest rates raise the possibility of increased risk-taking and leveraging, driven more by liquidity than by economic fundamentals. A more balanced approach to policy is required with fiscal and, especially, structural policies providing synergistic support to monetary policy.

20. Extraordinarily low interest rates for an exceptionally long time – six years of the easiest global monetary policy stance in history – made financial markets "see" little risk with asset prices rising everywhere, while the real world economy shows every sign of excess capacity: low inflation or even deflation in some countries and a total lack of investment appetite on the part of (large) companies. The OECD sees this investment paradox as the greatest puzzle of today in business and finance.[5] The *OECD Business and Finance Outlook2015* provides insights on the way in which companies, banks, institutional investors and shadow banking intermediaries are operating in the low growth and low interest rate environment and the build-up of risks in the financial system.

21. Extraordinary risks to the global economy include very high volatility in bond markets and major exchange rates; financial turmoil in emerging markets; Greek default or "Grexit"; a sharp slowdown in China; and geopolitical tensions. The International Monetary Fund (IMF) adds some extra detail to the analyses in its *Global financial stability report 2015* and sees the locus of financial stability risks shifted from advanced markets to emerging economies, from banks to shadow banks, and from solvency to market liquidity risks.

22. The International Labour Organization's (ILO) *World employment and social outlook 2015* looks deeper into the global labour market perspective and is even more alarming than the OECD's projections, forecasting a further rise of unemployment and increase of non-standard work. According to the ILO, only 40% of the global workforce earns a wage or is salaried. Of this 40%, almost 60% has a temporary contract or no contract at all. The ILO sees this as part of a trend, leading to wages falling in comparison to labour productivity, adding to a shortage of aggregate demand. The report estimates the loss in global demand caused by unemployment, lagging labour incomes and their effect on reduced consumption, investment and government revenues at US$3.7 trillion. The *OECD Employment Outlook* identifies that wage inequality is lower in countries that cope better with rising demand for skills. According to the Outlook, the minimum wages must be closely co-ordinated with the tax-benefit policies in order to be more effective.

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4. www.oecd.org/env/researchcollaborative/.
5. OECD (2015), *OECD Business and Finance Outlook 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264234291-en.

23. The OECD, the International Monetary Fund (IMF), the World Bank, the ILO and the Group of Twenty (G20) all stress the urgent need to invest in sustainable and inclusive growth.[6] The OECD continues to engage with the G20 and developing countries to ensure an inclusive global dialogue on key global policy challenges.

4. Looking back at the bigger picture

24. If you take a helicopter view of economic development, recent history is quite impressive and, unfortunately, also worrying.

25. Over the past millennium, the world population rose 22-fold. Per capita income increased 13-fold, world Gross Domestic Product (GDP) nearly 300-fold. This contrasts sharply with the preceding millennium, when the world population grew by only a sixth, and there was no advance in per capita income.

26. From the year 1000 to 1820, the advance in per capita income was a slow crawl – the world average rose about 50%. Most of the growth went to accommodate a fourfold increase in population.

27. Since 1820, world development has been much more dynamic. Per capita income rose more than eightfold, and the population more than fivefold."[7]

28. Education and health statuses improved strongly in many countries in the world. The report *How was life? Global well-being since 1820*, a joint publication by the OECD Better Life Initiative, the OECD Development Centre and Clio Infra, finds a strong statistical correlation of literacy, educational attainment, life expectancy and height with GDP development. Global literacy improved from 20% in 1820 to 80% in 2000.[8]

29. Economic development saw a major set-back with the Great Depression of 1929 and the Second World War. Determined to avoid the mistakes of their predecessors in the wake of the First World War, European leaders realised that the best way to ensure lasting peace was to encourage co-operation and reconstruction, rather than punish the defeated. The Organisation for European Economic Cooperation (OEEC) was established in 1948 to run the US-financed Marshall Plan for reconstruction of a continent ravaged by war. Encouraged by its success and the prospect of carrying its work forward on a global stage, Canada and the United States joined OEEC members in 1960 forming the OECD.[9]

4.1. Ecological sustainability

30. As the first aim of the OECD, written in Article 1 of its Convention, is to promote policies to achieve the highest sustainable economic growth, we need to start with ecological sustainability. After all, ecosystems sustain societies that create economies. There is thus no sustainable economic development without sustainable societies and no sustainable society without a sustainable ecosystem.

31. Through the recent rapid economic development mankind is no longer just a product of our natural world; we have become the dominant force that shapes ecological and biophysical systems. If we threaten our global ecology, we not only threaten our health, prosperity and well-being, but our very future.

32. The OECD's *How was life? Global well-being since 1820* found a clear negative correlation between GDP development and the quality of the environment: biodiversity declined in all regions and worldwide, land use changed dramatically and per capita emissions of CO_2 increased after industrialisation.[10]

33. Important indicators on the state of our planet and our impact upon it are presented in the World Wildlife Fund's (WWF) *Living Planet Report:* the Living Planet Index (LPI) and the Ecological Footprint.[11]

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6. www.oecd.org/forum/issues/; www.worldbank.org/en/news/press-release/2015/04/18/world-bank-imf-spring-meetings-2015-development-committee-communique; https://g20.org/wp-content/uploads/2014/12/2015-TURKEY-G-20-PRESIDENCY-FINAL.pdf.
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10. www.oecd.org/statistics/How-was-life.pdf.
11. wwf.panda.org/about_our_earth/all_publications/living_planet_report/.

34. The Living Plant Index shows that between 1970 and 2010, we lost 52% of more than 10 000 representative populations of mammals, birds, reptiles, amphibians and fish. Habitat loss and degradation, and exploitation through hunting and fishing, are the primary causes of decline. Climate change is the next most common primary threat indicated in the LPI, and is likely to put more pressure on populations in the future.

35. The ecological footprint adds up all the ecological space we need as biologically productive area (or biocapacity) needed for crops, as grazing land, for built-up areas, fishing grounds and forest products. It also includes the area of forest needed to absorb carbon dioxide emissions that cannot be absorbed by the ocean. Technological advances, agricultural inputs and irrigation have boosted the average yields per hectare of productive area, especially for cropland, raising the planet's total biocapacity from 9.9 to 12 billion global hectares (gha) between 1961 and 2010. However, during the same period, the global human population increased from 3.1 billion to nearly 7 billion, reducing the available bio capacity per capita from 3.2 to 1.7 gha. Meanwhile, ecological footprints increased from 2.5 to 2.7 gha per capita. We would need the regenerative capacity of 1.5 Earths to provide the ecological services we currently use.

36. "Overshoot" is possible because we cut trees faster than they mature, harvest more fish than oceans replenish, or emit more carbon into the atmosphere than forests and oceans can absorb. The consequences are diminished resource stocks and waste accumulating faster than it can be absorbed or recycled, such as with the growing carbon concentrations in the atmosphere. Carbon from burning fossil fuels has been the dominant component of humanity's ecological footprint for more than half a century, and remains on an upward trend. In 1961, carbon was 36% of our total footprint; by 2010, it reached 53%. In a recent lecture *Climate: What's changed, what hasn't and what we can do about it – Six Months to COP21* on 3 July 2015, the Secretary-General of the OECD encouraged countries to conduct a more rigorous evaluation of the true costs of coal and move away from the lock-in of polluting fossil fuel-based systems.[12]

37. Air pollution is now the biggest environmental cause of premature death, overtaking poor sanitation and a lack of clean drinking water. Outdoor air pollution – caused by road traffic, industry and power generation, among other sources – now kills close to 3.4 million people a year globally according to 2010 statistics.[13] This is costing OECD societies, the People's Republic of China and India an estimated US$3.5 trillion a year in terms of the value of lives lost and ill health, and the trend is rising.[14]

38. Greater use of low-carbon energy sources will help reduce air pollution and greenhouse gas emissions. Use of renewables is growing but still accounted for only about 8.5% of energy generation in OECD countries in 2012. The OECD, the International Energy Agency, the Nuclear Energy Agency and the International Transport Forum produced *Aligning Policies for a Low-carbon Economy*, which is the first economy-wide global diagnosis of potential misalignments that stand in the way of a transition to a low-carbon economy.[15]

39. Water use varies widely among OECD countries, but is up almost everywhere since the 1970s. Globally, it is estimated that over the last century, water demand rose at double the rate of population growth; and it will go on rising. It is projected to increase by around 55% by 2050, with manufacturing, electricity and domestic use accounting for much of this extra demand. Effective water management is necessary for inclusive economic growth and environmental sustainability.[16]

40. In the words of Mr Erik Solheim, Chairperson of the OECD Development Assistance Committee, "Today, plants and animals are being driven to extinction at a rate not seen since the age of the dinosaurs. Water, soil and many natural resources, like fish stocks, are overexploited. Our carbon emissions have the potential to cause catastrophic climate change".[17]

41. While it is obvious that humanity and our economic activities (production, transportation, and consumption) affect our ecosystem, vice versa our ecosystem (through pollution and resource depletion) affects the health of human society and the economy.

42. The number one priority in the long-run needs to be getting our economic activities back on an ecologically sustainable path. For the future of our ecological footprint, important developments include the world population growth and the quantity and quality of economic output. The world population is expected to

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12. www.oecd.org/about/secretary-general/climate-what-has-changed-what-has-not-and-what-we-can-do-about-it.htm./
13. www.oecd.org/forum/issues/oecd-forum-2015-the-planet-in-figures.htm.
14. OECD (2014), *The Cost of Air Pollution: Health Impacts of Road Transport*, OECD Publishing, Paris.
15. www.oecd.org/about/secretary-general/climate-what-has-changed-what-has-not-and-what-we-can-do-about-it.htm.
16. Recommendation of the OECD Council on water, to be adopted in 2016, will consolidate, update and integrate the OECD *acquis* on water and incorporate recent policy guidance and recommendations, including on water governance.
17. www.oecd.org/dac/win-for-the-planet-win-for-people.htm.

peak somewhere between 2050 and 2070 at a level of around 9 billion. Whether we will meanwhile be able to bring our use of natural resources and environmental pollution back to sustainable levels depends on how we manage our economic activities and according to what parameters. Here the OECD can and must play a crucial role.

4.2. (Un)employment, living standards, (in)equality

43. *"The world economy grew very much faster from 1950 to 1973 than it had ever done before. It was a golden age of unparalleled prosperity. World per capita GDP rose nearly 3% a year (a rate which implies a doubling every 25 years). World GDP rose by nearly 5% a year and world trade by nearly 8% a year. ...*

44. *There were several reasons for an unusually favourable performance in the golden age. In the first place, the advanced capitalist countries created a new kind of liberal international order with explicit and rational codes of behaviour, and institutions for co-operation (OEEC, OECD, IMF, World Bank and the General Agreement on Tariffs and Trade (GATT)) which had not existed before. … Until the 1970s [the United States] also provided the world with a strong anchor for international monetary stability. …*

45. *The second new element of strength was the character of domestic policies, which were self-consciously devoted to promoting high levels of demand and employment in advanced countries. Growth was not only faster than ever before, but the business cycle virtually disappeared. Investment rose to unprecedented levels and expectations became euphoric. Until the 1970s, there was also a much milder inflationary pressure than could have been expected in conditions of secular boom.*

46. *The third element in this virtuous circle situation was the potential for growth on the supply side. Throughout Europe and Asia there was still substantial scope for "normal" elements of "recovery" from years of depression and war. Additionally and more importantly, was the continued acceleration of technical progress in the lead country. …*

47. *Since the golden age, the world picture has changed a great deal. Per capita growth has been less than half as fast.*[18]"

48. World real GDP growth slowed to 3.8% on average in the 1970s and to 3.1% on average in the 1980s and 1990s. Since the mid-1990s, labour productivity typically declined in the Group of 7 (G7) countries. After the 2008 financial crisis, labour productivity growth fell significantly in almost all OECD countries.[19] Recent OECD analysis shows that this slowdown mostly reflects a breakdown of the diffusion machine: productivity growth of the globally most productive firms remained robust in the 21st century but the gap between those high productivity firms and the rest has been increasing over time. This rising gap raises questions about why seemingly accessible knowledge and technologies do not diffuse to all firms.[20]

49. The slowdown in economic growth has led to rising unemployment. Globally over 200 million people are formally unemployed according to the ILO, with over 60 million jobs lost since the start of the crisis.[21] Despite recent improvements in OECD labour markets, only approximately one half of the increase in the unemployment rate that followed the global economic crisis has been reversed, more than seven years later,[22] and many people without a formal job are not counted in these statistics. Recent estimates suggest that in Latin-America, Africa, the Middle East, South Asia and South-East Asia, employment in the informal economy, excluding agriculture, represents between 30% and 80%.[23]

50. The informal economy has been growing in many parts of the world, from the 1960s until the 1980s, alongside the formal economy. Especially in the last decade, the informal sector has been growing much faster. In Africa, an estimated 80% of new jobs are informal. The growth of the informal sector is often linked to globalisation, economic liberalisation and competition through reducing labour costs and outsourcing. New OECD research on job quality in emerging economies shows that informal employment is far inferior to formal employment in terms of earnings, security and working conditions.[24]

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18. http://theworldeconomy.org/.
19. OECD (2015), OECD *Compendium of Productivity Indicators 2015,* OECD Publishing, Paris: www.oecd.org/std/productivity-stats/oecd-compendium-of-productivity-indicators-22252126.htm.
20. www.oecd.org/economy/growth/the-future-of-productivity.htm.
21. www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_336884/lang--en/index.htm.
22. OECD (2015), *Employment Outlook 2015*, OECD Publishing, Paris.
23. www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_218128.pdf.
24. OECD (2015), *Employment Outlook 2015*, OECD Publishing, Paris.

51. In advanced economies in recent decades, rising employment did not automatically lead to reduced income inequality, as the effect was undercut by the gradual decline of permanent and long-term contracts in favour of non-standard work. More than half of all jobs created since 1995 in OECD countries were non-standard jobs, mostly offering lower security levels and less pay. Most non-standard workers have not been able to use this as a stepping stone to more stable employment.[25] As a result, being employed in part-time and temporary jobs greatly increases the risk of low long-term earnings.[26]

52. From 1980 to 2011, the share of world labour income dropped from over 62% to 54% of world GDP.[27] The median labour share of national income across 26 out of 30 OECD countries fell from 66.1% in 1990 to 61.7% in 2009.[28] In the 1970s, the labour share in most developed economies was still 75% or over (80% in Japan).[29]

53. In many OECD countries, household disposable incomes did not keep up with the growth of per capita GDP from the mid-nineties up to the start of the crisis, while income inequality was growing.[30] In some OECD countries, more than half of GDP growth since 1975 has gone to the top 10% income group; in the United States more than 80% went to that group, with almost 50% going to the top 1%.[31] This share is lower in other OECD countries, but is rising in most.

54. During the Golden Age, inequality decreased within most countries around the globe. Since the late 1970s, this trend has been reversed. Gini coefficients, which measure each country's income inequality, fell to 0.36 in 1980 and rose to 0.45 in 2000, the level of 1820.[32]

55. Income inequality is at its highest level in OECD countries in half a century. Relative income poverty also grew, including within OECD countries. The average income of the richest 10% of the population was about nine times that of the poorest 10% across the OECD in the year 2000, up from seven times 25 years ago. Since the crisis, this ratio has grown even faster and is now almost 10.[33]

56. Since the onset of the crisis, inequality in market incomes rose as much between 2007 and 2011 as in the previous twelve years in most advanced economies, its impact mitigated by automatic stabilisers. After austerity measures were applied from 2011 onwards, however, disposable incomes started dropping. The IMF found that real wages had been hit much harder than inflation-adjusted profits and rents. Many consolidation instruments work in the direction of aggravating income inequality.

57. The latest *World Employment and Social Outlook* of the ILO predicts that income inequality worldwide will continue to increase, with the richest 10% earning 30% to 40% of total income while the poorest 10% will earn between 2% and 7% of gross national income (GNI).[34]

58. Poverty within OECD countries has increased since the crisis. A growing number of workers live below the poverty line, with part-time workers, temporary contract workers and self-employed workers at greater risk of living in poverty.[35]

59. Wealth is more unequally distributed than income. The bottom 40% owns only 3% of total household wealth in 18 OECD countries with comparable data, whereas the top 10% owns half of all wealth. On the basis of data, available for a limited number of countries, it is shown that private wealth has tended to become more unequally distributed in recent decades. Indications are that the trend towards more wealth inequality has deepened since the crisis.[36]

60. Rising inequality has been recognised as a long-term trend likely to deepen further over time. As it concerns not just income and wealth, but also affects health, education, opportunities and well-being in general, it is a problem for society. Inequality is no longer "just" a moral issue: evidence shows that growing inequality also hampers economic growth.

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25. OECD, *In it together; Why less inequality benefits all*, OECD Publishing, Paris. www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm.
26. OECD (2015), *Employment Outlook 2015*, OECD Publishing, Paris.
27. UNCTAD, *Trade and Development Report*, 2013.
28. OECD (2012), *Employment Outlook 2012*, OECD Publishing, Paris.
29. ILO (2013), *Global Wage Report 2012/2013*.
30. OECD (2014), *All on Board; Making inclusive growth happen*, OECD Publishing, Paris.
31. World Top Income Database.
32. www.oecd.org/statistics/How-was-life.pdf.
33. www.oecd.org/social/inequality.htm.
34. www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_336884/lang--en/index.htm.
35. www.oecd.org/forum/issues/oecd-forum-2015-income-inequality-in-figures.htm.
36. www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm.

61. Inclusive growth that produces sufficient quality jobs has become a centrepiece for the OECD. It must deal with the causes of low productivity, growing informality of labour and growing numbers of non-standard jobs, lagging wage levels, declining labour share and rising inequality, as well as with strategies to tackle these trends and their effects on the distribution of well-being.

62. It is likely that a possible "next production revolution" will bring new challenges for (sufficient) job creation and shift the focus of economic policy further from just adding production to managing the distribution of work, income and well-being in general.

4.3. Globalisation, trade, investment and development

63. The last few decades have witnessed a rapid globalisation of economic activity which has significantly changed the outlook of the world economy. It has reshaped the allocation of resources across countries, generating different welfare effects, greater competition, lower prices and increased variety of products.

64. The recent financial and economic crisis underscored both the power of globalisation and the vulnerability of the global economic system. Securitisation, which was intended to distribute risk across a larger number of players, made financial institutions increasingly interconnected as the globalisation of the financial sector had already multiplied their relationships across countries. As a result, the financial crisis spread rapidly around the globe and also reached the real economy, resulting in a deterioration of business and consumer confidence. Falling demand caused international trade and inward investment to contract. The synchronisation of this fall in trade and investment was unprecedented.[37]

65. Investment plays a multi-faceted role in promoting robust, inclusive, sustainable and resilient economic growth. As such, it remains a priority. Through its Policy Framework for Investment (PFI), the OECD aims at mobilising private investment to support steady economic growth, contributing to social well-being. It has been used so far in 30 developing and emerging economies as well as in regional economic communities to address issues of climate change, infrastructure, financing of small and medium-sized enterprises, competition, capital market governance and helping firms upgrade in global value chains. The OECD also contributes to the debate on investment treaties and foreign direct investment (FDI) through its Freedom of Investment (FOI) Roundtable framework. It encourages a broader dialogue on how to improve the global investment climate, while at the same time ensuring that investment contributes to sustainable development.

66. It is widely recognised that global value chains have contributed to global growth, employment and productivity, including in developing countries.[38] However, global value chains are believed to have played an important role in the spread of the crisis. They can give rise to a domino effect as lower exports of final goods immediately leads to smaller imports of intermediate inputs. International trade and foreign direct investment are still two key drivers for economic integration. This is not new, but their scale and complexity has substantially increased. International investments, both direct and portfolio, have grown more strongly than international trade, but are highly volatile at the same time. International mergers and acquisitions have contributed in particular to the strong surge in international investment flows.[39]

67. In 1995 an estimated number of nearly 300 million workers worked in a global supply chain and in 2007 nearly 500 million, according to the ILO. That number was reduced to 453 million in 2013.[40]

68. Multinational Enterprises (MNEs) are the most important drivers of globalisation as they embody simultaneously the international transfer of capital, skilled labour, technology, and intermediate and end products. Their intra-firm trade accounts for an increasing share of international trade.[41]

69. While the labour share dropped, the share of capital income increased. The stock of cross-border portfolio investments holdings marked more than 20% annual growth on average in the ten years before the crisis. Investment incomes more than tripled at the same time. [42]

70. Total assets of MNEs (foreign affiliates) rose from US$3 893 billion in 1990 (18% of global GDP) to US $96 625 billion in 2013 (130% of global GDP). Over half of foreign direct investment during this period consisted of mergers and acquisitions.[43]

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37. OECD (2010), *Measuring Globalisation: OECD Economic Globalisation Indicators 2010*, OECD Publishing, Paris.
38. 2015, "Participation of Developing Countries in Global Value Chains: Implications for Trade and Trade-Related Policies", *OECD Trade Policy Papers,* No. 179, OECD Publishing, Paris.
39. Ibid.
40. www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_370189/lang--en/index.htm.
41. Ibidem.
42. OECD (2010), *Measuring Globalisation: OECD Economic Globalisation Indicators 2010*, OECD Publishing, Paris.

71. Greenfield investments showed a relative decline. Non-financial MNEs turned from net debtors (using loans for investment opportunities) until the 1980s into net creditors, saving around 3% of GDP in the most advanced economies.[44] Lagging aggregate global demand led, already before the crisis, to falling investment in the real economy and to an extra surge in financial assets.

72. The OECD found that since the 1970s the financial sector has expanded massively, providing three times as much credit now relative to GDP, and stock market capitalisation has also tripled relative to GDP over the past forty years.[45]

73. A 2012 study estimated "total financial assets" at US$600 trillion in 2010 and predicted it to grow another 300 trillion by 2020, while "total GDP" would only grow 27 trillion in the same time frame. In 2020, the report predicts, the resulting capital pool will exceed the real economy's asset base by a factor of 3 and world GDP by a factor of ten.[46]

74. Recent studies have found that when the financial sector is well developed, as has been the case in OECD economies for quite some time, further increases in the size of the financial sector slow long-term economic growth. Excess in credit extension makes economies more vulnerable to crises. Increases in households' credits have a stronger negative association with growth than increases in businesses' credit.[47] "Data also show that economic inequalities widen when finance expands".[48]

75. Another study, from 2014, shows that the world is not only awash in money, but also awash in debt. Some degree of post-crisis deleveraging of private debt within financial institutions and households has been compensated with higher public debt in developed economies and private debt accumulation in emerging markets. World total debt (excepting financials) has reached new all-time highs at 215% of world GDP in 2013, coming from 180% of world GDP in 2008, growing even faster than before the financial crisis.[49]

76. The past decades have witnessed a rapid globalisation and financialisation of economic activity which has significantly changed the outlook of the world economy. However, global economic growth slowed rather than improved and the labour share of Global Income shrank. Productivity growth is now also slowing. MNEs have gained much power and wealth, but their (Greenfield) investments have not kept pace and have decreased in relative size. "Companies are favouring share buybacks and cross-border asset divestments."[50]

77. While the labour share declined, consumption financed on credit increased. Since the 1980s, many crises have been (partly) remedied with monetary easing, providing access to cheap loans. Private debt (and risk) has been shifted from corporations to households, dragging growth and increasing inequality. Business will only invest as long as they expect to find creditworthy consumers for their products and services; another reason for the OECD to focus on the distribution of economic output and the distributional effects of economic policies.

78. A low-growth, low-interest rate environment as we currently observe also poses problems for pension funds and life insurers in keeping their financial promises to pensioners.[51] Relying on investment returns to honour their obligations, these financial intermediaries are under pressure to pursue higher-risk investment strategies that could ultimately undermine their solvency. This not only poses financial sector risks, but potentially jeopardises the secure retirement of our citizens and increases inequality.

79. Reducing the risk of corruption in investment and trade fosters good business practices, promotes outward investment and opens new export markets. Exporters and investors benefit from operating in a clean, transparent, predictable business environment where contracts are won on the basis of superior products or services instead of the highest bribe. Governments concerned with preventing bribery of their officials by foreign companies and wanting to ensure the stability of commercial contracts welcome investment by companies from countries that meet international standards in prohibiting foreign bribery.

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43. UNCTAD, *World Investment Report 2014*.
44. IMF, *World Economic Outlook*, 2006.
45. Cournède, B., O. Denk and P. Hoeller (2015), Finance and Inclusive Growth, *OECD Economic Policy Paper*, No. 14, OECD Publishing, Paris.
46. www.bain.com/about/press/press-releases/world-awash-in-one-quadrillion-of-capital-glut-by-end-of-decade.aspx.
47. Cournède, B., O. Denk and P. Hoeller (2015), Finance and Inclusive Growth, op. cit.
48. Ibid.
49. *Deleveraging? What deleveraging?* Geneva reports on the World Economy, No. 16 (ICMB and CEPR): www.cepr.org/sites/default/files/news/Geneva16_0.pdf.
50. OECD Secretary-General Gurría (24 June 2015) at the launch of the *OECD Business and Finance Outlook 2015.*
51. OECD (2015), *OECD Business and Finance Outlook 2015*, OECD Publishing, Paris: http://dx.doi.org/10.1787/9789264234291-en.

80. The Anti-Bribery Convention is the only global instrument focused on transnational bribery and it is open to both OECD and non-OECD members. The strength of the convention lies in two principal factors: 1) its focus on stopping the supply of bribes to foreign public officials in international business transactions; and 2) the rigorous peer-review process for monitoring its implementation by States Parties (conducted through the OECD Working Group on Bribery in International Business Transactions). The convention came into force in 1999 and now has 41 States Parties (all the OECD member States and Argentina, Brazil, Bulgaria, Colombia, Latvia, Russia and South Africa), many of which are also members of the Council of Europe's Group of States against Corruption (GRECO). The anti-bribery work of the OECD and GRECO is highly complementary.

81. The Working Group on Bribery is engaging with Key Partner non-members as a priority (China, India and Indonesia), including in the context of the G20, to encourage momentum towards acceding to the Anti-Bribery Convention. Under the 2015-16 G20 Anti-Corruption Action Plan, leaders have committed to "lead by example in combating bribery, including by active participation with the OECD Working Group on Bribery by exploring possible adherence to the OECD Anti-bribery Convention".

5. OECD's response to crises and megatrends

82. The discussion in the Ministerial Council Meeting of 2015 (MCM 2015) concentrated on how to unlock investment in the real economy to promote stronger, more inclusive and green growth, boost productivity and create more and better jobs.

83. These topics are priorities for the OECD, still dealing with recovery from the crisis and its ongoing effects. However, the topics also dealt with so-called megatrends. Well-known megatrends include the shift of economic clout from the West to the East and the ageing of populations. As the productivity gap between the West and the East closes, the pace of economic growth will very likely also converge towards the lower rates in the West. Slowing population growth will also lead to lower potential economic output. Other megatrends are increasing "environmental pressure" and growing inequality, both of which have negative impacts on growth perspectives. Another megatrend might follow the "next production revolution", caused by the digitalisation of the economy (big-data, robotisation, artificial intelligence). Debate goes on about whether this production revolution will cause productivity growth to pick up again and whether this will be enough to counterbalance the negative economic effects of other megatrends.[52] Outcomes of this debate could very well be decided by how we are able to manage these megatrends; and to do this, you need to have the right analytical framework and measure the right indicators.

84. The MCM 2015 encouraged the ongoing efforts of the OECD to enrich its analytical frameworks and methods, including its tools for long-range analysis. In particular, the MCM welcomed the *Final NAEC Synthesis*[53] and recognised the importance of indicators beyond GDP, including the OECD work on *How's Life* and *Green Growth* indicators. The MCM called on the OECD to further mainstream multidimensional analysis, including the work on inclusive growth and gender equality, in flagship publications and recognised the importance of addressing inequalities and the value of social dialogue in achieving more inclusive growth and quality jobs.

5.1. NAEC and Strategic policy directions

85. The starkness and magnitude of the recent crisis and its lingering legacy calls for a serious reflection to revisit and supplement existing policy approaches and build a new policy agenda for stronger, more resilient, inclusive and sustainable growth. The NAEC initiative is a comprehensive, OECD-wide reflection process which is triggering and accelerating a revision of the OECD's analytical frameworks as well as a renewal and strengthening of its policy instruments and tools.

86. Policy analysis prior to the crisis often prioritised market efficiency. A less systematic focus was placed on aspects of well-being such as quality of life, environmental sustainability and equal access to opportunities. As a result, economic growth was often considered too narrowly as an end in itself, rather than a means to improve societal well-being.

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52. OECD's recent work on "The future of Productivity" shed new insights into this phenomenon, www.oecd.org/economy/the-future-of-productivity.htm.
53. *Final NAEC Synthesis for the MCM 2015*: www.oecd.org/economy/Final-NAEC-Synthesis-Report-CMIN2015-2.pdf.

87. The NAEC is proposing and supporting a change in objectives and perspectives. It:

– calls for a greater focus on well-being and its distribution to ensure that growth delivers progress for all. Policy choices should be informed by an assessment of their impact on different dimensions of well-being as well as their distributional consequences. This will enhance understanding of the unintended consequences of policies and lead to a balanced analysis of the trade-offs and complementarities between different policy options. The OECD has developed an analytical framework that takes these insights into account;

– calls for better integration of the financial sector and related risks in the analysis, shedding light on the numerous and complex interactions between finance and the real economy;

– recognises the increased international economic integration and resulting complexity, and the insights that may be gained by analysing the global economy as a complex adaptive system. This will help to take into account uncertainty, spillovers, systemic risks and network effects. This analysis, amongst others, will help policy makers get a better grip on rising global interconnectedness;

– recommends the adoption of a longer-term perspective that considers how economies are embedded in institutions shaped by history, social norms and political choices. This would lead to more tailored policy solutions adaptable to countries' specific needs, conditions, capacities and institutional settings;

– recommends informing such a change in perspectives by further developing strategic foresight.

88. To make these changes in perspectives happen, the OECD needs to develop, where feasible, new instruments and tools, and deepen, generalise and systematise their use:

– these changes require measurement of stocks (of wealth, natural, and social capital, etc.) as well as adequate consideration of both stock and flow concepts in analyses;

– it also requires further developing the use of microdata to identify the heterogeneity of households and firms, and facilitate analyses to understand and tackle inequality.

89. The Organisation also needs to review and improve its modelling approaches, taking a more integrated approach while diversifying the types of models it uses and noting the limitations of the fundamental assumptions upon which they are built.

90. In May 2015, the OECD members renewed Secretary-General Gurría's mandate until 2021, following which the Secretary-General presented to the MCM his strategic orientations for the OECD. The overarching objective being to make the Organisation the go-to institution for policy advice on promoting growth, development and well-being in its member countries and worldwide. Priorities have therefore been developed with a view to helping member and partner countries face the challenges and seize the opportunities presented to them. The first priority is to deal with the challenges and opportunities, as well as managing risks in order to strengthen their economies.[54]

91. At the global level, additional efforts to restore growth will be necessary. Global investment remains weak; small and medium-sized enterprises (SMEs) in many countries continue to struggle to secure financing. Despite abundant liquidity, channelling capital into long-term investment such as infrastructure has proven difficult. At the national level, many governments face the challenge of promoting growth in an inclusive and sustainable way, as well as addressing low levels of trust among citizens.

92. In this context, the OECD's top strategic objectives for 2015-16 are to:

– promote an inclusive growth agenda that will help tackle unemployment and ensure that the benefits of growth are shared equally by improving the horizontality of its work and mainstreaming the NAEC into the work of the Organisation;

– further develop the OECD productivity and competitiveness agenda, drawing on work on the next production revolution and innovation, to help member and partner countries deliver inclusive growth in the modern global economy;

– strengthen the OECD's contribution to a rules-based international economic system by maximising the impact of the OECD's existing standards and by identifying areas where new ones could be developed;

54. www.oecd.org/mcm/documents/Strategic-Orientations-of-the-Secretary-General-CMIN2015-1.pdf.

– continue to enhance the global character of the Organisation and supporting the global agenda and international collective policy action, through the G20 and specific contributions to relevant issues such as international development, advancement of gender issues (through the 25x25 target) and climate change.

5.2. Mainstreaming green and inclusive growth

93. Countries are taking steps towards green growth; yet much more determined efforts are needed to integrate environmental priorities into economic agendas to promote sustainable growth and well-being. The OECD Report *Towards Green Growth? Tracking Progress* aims to accelerate countries' implementation of green growth policies by providing more targeted and coherent policy advice. In this context, the OECD will continue to mainstream green growth into the work of the Organisation. *Aligning Policies for a Low-carbon Economy* is a key example of OECD efforts to provide an integrated strategy to green growth. The report offers a diagnosis of the contradiction between climate policies and other regulations centred on fossil fuels and points to means of solving them to support a more effective transition of all countries to a low-carbon economy. Relevant green growth insights are now regularly included in its economic surveys, environmental policy reviews, investment policy reviews and green cities reports. The 2015 Green Growth and Sustainable Development Forum will examine how to foster the "next industrial revolution" by harnessing the potential of systems innovation policies to support green growth.

94. The Inclusive Growth (IG) initiative will be the linchpin for the OECD's horizontal analysis and advice on well-being, and respond to the challenge of inequalities. The IG multidimensional framework takes into account the fact that inequalities go beyond income, affecting jobs, health and other non-monetary outcomes and explores new ways of combining strong growth with a better distribution of the benefits. The policy implication of this approach is that it places a great deal of importance on the effects that individual structural policies have on specific social groups, such as the poor or the middle-class. The objective is to identify synergies between pro-growth and inclusiveness policies and ensures consistency and complementarities when trade-offs emerge. The OECD will also launch its new Centre on Opportunity and Equality to address the multidimensional nature of inequalities and identify policies to promote inclusive growth across sectors. The OECD also supports the G20 target to reduce the gender gap in women's participation in the labour market by 25% by 2025.

95. The next step will be refining and strengthening the methodological elements of the IG policy framework. This will include progressively incorporating other non-income dimensions that matter for well-being (e.g. education and environment) into the OECD measure of progress, as well as incorporating new countries into the analysis and testing the robustness of the IG policy framework. This will be followed by taking action to mainstream the IG policy framework across the work of the OECD.

96. The work on job quality, part of the NAEC initiative, already provides a framework for measuring job quality along three key dimensions: earnings quality; employment security; and quality of the work environment. These efforts will identify the key policy levers for improving job quality with a view to the development of a New OECD Jobs Strategy.

97. The OECD work on education and skills is directly relevant to inclusive growth. By helping countries address persistent skills mismatches, the OECD tackles the challenge of low levels of education being perpetuated across generations. To prevent skill mismatches resulting in higher aggregate unemployment, lower economic growth and greater earnings inequality, the *OECD Skills Outlook 2015* offers recommendations for a comprehensive strategy to foster young people's skills and employability.

98. The OECD can also contribute to inclusive growth and well-being, as well as rebuilding trust, through its standard-setting role. The Organisation will continue to strengthen and maximise the impact of existing standards, as well as to identify areas in which to develop new ones.

99. To ensure that growth is inclusive and sustainable, governments must also tackle tax evasion and tax avoidance. The OECD-G20 Base Erosion and Profit Shifting Project (BEPS) will deliver a package of measures to close the loopholes that allow the artificial shifting of profits to low or no tax jurisdictions by restoring coherence to the international tax rules, ensuring that profits are taxed where the economic activities and value creation occur and through increased transparency. The full package of BEPS measures, which are being developed by over 60 countries working together, will be finalised in 2015. To ensure that this landmark initiative has the intended impact following delivery of the BEPS measures in 2015, future work must focus on supporting countries in the effective and consistent implementation of the BEPS outcomes through the development of model legislation, technical guidance and monitoring of the impacts of the BEPS measures in addressing both double non-taxation as well as double taxation.

5.3. Extending the OECD's global reach

100. The OECD is strengthening relations with partner countries around the globe, to help enrich the policy debate at the OECD and develop a common understanding of joint policy challenges and standards for good policy. By extending its global reach, the OECD is more effective in offering a platform for members and partners to share policy experience, conduct peer learning, develop and update standards and promote compliance with these standards.

101. As part of its global relations strategy, the OECD has opened itself up to the accession of new members, established comprehensive regional programmes, launched Country Programmes, and expanded the use of Global Fora. In this vein, the OECD has recently signed a Memorandum of Understanding with China, Brazil and Indonesia. The OECD Strategy on Development also helps to improve policy coherence and knowledge sharing to improve policy making and economic reform in all countries.

5.4. Discussing the OECD's policy advice, trilemmas and trade-offs

102. The OECD has taken up the challenge of seriously reflecting on the crisis and the role it played in the run-up to the crisis. The OECD is committed to revisiting and supplementing existing policy approaches and to building a new policy agenda for stronger, more resilient, inclusive and sustainable growth. The NAEC reflection process is comprehensive and Organisation-wide, cross-disciplinary and future-oriented, developing scenarios and strategic foresight.

103. At the same time, mainstreaming the new insights have just started and the specific policy advice at country level – or what OECD calls "going national" – are still not much different from the pre-crisis policy prescriptions for the member States. While the OECD's main focus is still on structural reforms – "going structural" – a greater emphasis is put in the implied complementarity trade-offs on the different dimensions of well-being as illustrated in the 2015 edition of *Going for growth*. A greater emphasis is also put on accompanying policies and the need for broad comprehensive reform packages. A recent OECD report relying on microdata shows that labour and product market reforms that promote macroeconomic growth generally reduce income inequality. This report also points to some exceptions. Reforms that boost growth by reducing the size or progressivity of taxes and social transfers risk exacerbating household income vulnerability and inequality.

104. For tackling inequality, a key piece of advice remains the need to invest in skills, as higher skilled workers will be able to find better jobs.

105. This has to go hand in hand with policies to revive productivity growth and in particular restart the diffusion engine .The OECD and the ILO find for example that many young workers, including the highly educated and skilled, are stuck in non-standard jobs that do not qualify as better work. Or as the Trade Union Advisory Committee (TUAC) and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) President, Mr Richard Trumka, said at the Economic Outlook panel at the MCM 2015: "This is a wrong approach, there are no automatic effects from skill or productivity gains on wages, supply-side measures are not trickling down to households. We need a strategy to empower workers and bargaining rights to restore economic and social balance and trust in our political leadership." Therefore we need a different approach now: "Reducing inequality can and should go hand in hand with boosting growth. It must be part of a comprehensive strategy. Structural reforms and austerity have gone in the wrong direction up until now."

106. For its global analyses, the OECD uses the latest cross-cutting insights, but for its policy prescriptions the OECD is more careful and prescribes partly what the member State's government can use in national debate to carry out preferred structural reform measures. As the OECD has no hard power or enforcement mechanism, it can only achieve something if member States' governments are willing to co-operate.

107. Reforms the OECD might recommend on the Organisation's account are reforms that have proved to be successful elsewhere. Although the *Final NAEC Synthesis* states that: "Policy analysis prior to the crisis often prioritised market efficiency. Less systematic focus was placed on aspects of well-being such as quality of life, environmental sustainability and equal access to opportunities. As a result, economic growth was often considered too narrowly as an end, rather than a means to improve societal well-being", many policy analyses still look like they consider growth as an end, prioritising market efficiency to get there.

108. Over time, successful seeds of change will also be copied and country report policy advice will likely adapt to more recent insights. However, problems might not be over yet with copying new successful policy, even if it does not just focus on economic growth and market efficiency alone. Some policies that are successful for sustainable and inclusive economic development in one State do not necessarily contribute to

global sustainable and inclusive economic progress. Protectionism is just one known example of beggar-thy-neighbour policies. Game theory shows that individual optimal choices do not always lead to the best common result.

109. Being competitive as a State is good for business and – depending on what competitive advantage you exploit – can also be sustainable and inclusive. If the competitive advantage stems from higher productivity, it increases global productivity, which is good (as long as it contributes to sustainability and inclusiveness as well). On the other hand, if unit labour costs are reduced by lowering wages, it takes away global demand. It does help competitiveness, but on an aggregated global level it hampers growth. Similarly, having low taxes can be competitive, but being short on means for public investment and social spending does not contribute to global progress. Reducing the administrative burden can also improve competitiveness, but could at the same time leave you with not enough regulations to protect workers' or consumers' safety, or to manage an economy in times of crisis. Competition on wages, taxes or regulation is all potentially harmful. Low wage, low tax and low regulation regimes can provide a country with a competitive advantage, but only as long as others do not join that competition. Otherwise it will just lead to lowering standards: a race to the bottom.

110. The problem is that even if this harmful competition has a negative effect on the population of a particular country, this population could be even worse off if the country did not take part in this competition, while everyone else did so. The lack of global economic governance makes it hard to co-ordinate policies for a better outcome for all. This is what Mr Dany Rodrik calls the globalisation paradox, or trilemma of international economy.

111. Economists know different trilemma's, of which the "impossible trinity" or Mundell-Fleming trilemma is probably the best known. It states that out of three goals – a fixed exchange rate, national independence in monetary policy and capital mobility –, you can only have two. In Rodrik's trilemma of international economy you have a trade-off between economic globalisation, democracy and national sovereignty. You can have national freedom for independent social and economic policies with limited economic globalisation, like for example during the Bretton Woods regime. Alternatively you can have deep market integration and national sovereignty, but your democratic policy space will be reduced to being competitive and you will give up economic stability and social policies that do not primarily serve competitiveness. As we have no global anti-trust authority, no global lender of last resort, no global regulator, no global safety nets, no global democratic body to check the markets, these markets suffer from weak governance and are therefore prone to instability, inefficiency and weak popular legitimacy.

112. For the fight against tax evasion, we depend on intergovernmental co-operation within the G20 and the OECD and use for example the Parliamentary Assembly of the Council of Europe. For keeping up labour standards we depend on the ILO. Unfortunately there is little we can do if governments of major economies do not wish to co-operate. Until, for example, the United States federal government decides to ratify ILO core conventions, American employers have a competitive advantage over European employers on the expense of labour, putting downward pressure on the internationally agreed standards through transatlantic competition.

113. Why did the share of labour compensation (wage, salaries and benefits) drop over the past decades? According to the OECD,[55] it is a combination of factors: technological progress, growth of total-factor productivity (TFP) and capital deepening, globalisation causing a rise in international and domestic competition and offshoring, and privatisation. During the Bretton Woods era, technological progress and capital deepening still led to higher labour productivity and a bigger labour share. This suggests that the quality of these factors has changed and that capital deepening now poses new challenges. In addition, economic globalisation has shifted the power balance and changed the dominant ideology and economic models. Together this resulted in liberalisation and deregulation of markets, privatisation of industries and increased competition. Unfortunately it did not result in faster growth of global productivity in general, but rather led to downward pressure on wages, less power for trade unions and therefore led to a decline in unionisation, to a rise in non-standard work, to flexibilisation of labour relations and more informal economy, all resulting in a drop of the global labour share and a rise in domestic inequality.

114. The OECD promotes more economic integration and stimulating international trade and investment. Both international trade and investment have contributed greatly to global prosperity, but not for free. International economic integration, more international competition, has cost us the possibility to (domestically) regulate the market for stability, sustainability, equity or safety. We need regulations to make markets function well, but also to protect the environment, workers and consumers. The regulation of global markets is much harder than the regulation of local or national markets.

55. OECD (2012), *OECD Employment Outlook 2012*, OECD Publishing, Paris, chapter 3.

115. The case for more international economic integration is made on the basis of comparative studies: the globalisers have performed much better than the non-globalisers. Emerging markets that opened up for globalisation (after having built domestic industries under protected circumstances) have benefited. But as their productivity and labour income increased, it was not enough to compensate for a loss of labour income in advanced economies to prevent the global labour share from dropping. Like beggar-thy-neighbour policies, what was good for one country was not necessarily good for all.

116. The NAEC initiative has led to the research of many types of trade-offs, but not yet to the trade-offs between national policies and global implications. Before promoting more trade and investment liberalisation it would be advisable to look into the costs for democratic policy space for regulation, stability, labour and equality.

6. Conclusions

117. In this report, I have looked at recent developments in the OECD and the world economy and recent OECD publications. I looked at the "big picture", as some of the recent OECD research does not just reflect on growth merely in terms of GDP, but considers social and ecological parameters as well and measures well-being, sustainable development and inclusive growth. I have paid special attention to the NAEC process, as it is "one of the most obvious, most visible, and most productive results of the dialogue between the Council of Europe and the OECD[56]".

118. The history of economic development witnessed unprecedented growth of prosperity over the last two centuries. Especially after the Second World War, for hundreds of millions of people in advanced economies, life expectancy, literacy, health and wealth improved a great deal. During the last decades of economic globalisation, again hundreds of millions of people in emerging economies were lifted out of extreme poverty.[57]

119. Unfortunately, the history of economic development, financialisation and globalisation are not just success stories. Development has also led to the exploitation of labour and natural resources. Because of our economic activities, plants and animals are being driven to extinction at a rate not seen since the age of the dinosaurs. Water, soil and many natural resources have been overexploited. Our carbon emissions have the potential to cause catastrophic climate change.

120. While unprecedented economic growth in the "golden age" of the 1950s and 1960s led to record levels of investment and went hand in hand with an increase of the labour share, reducing inequality and creating relative economic stability, the age of economic globalisation is associated with lower investment than during the golden age and less growth of productivity and economic output, a decreasing labour share and increasing inequality.

121. As in 2014, the economic outlook is less positive in the short term than previously expected, but more optimistic for next year's projections. The recent downward adjustment for 2015 growth projections has been caused by the first quarter of 2015, which showed the weakest economic performance since the immediate impact of the financial crisis in 2008. The world economy is still struggling with the legacy of the deepest and longest recession since the birth of the OECD 55 years ago.

122. The OECD has warned of possible new financial risks, and warns against the exclusive reliance on monetary policy, where abnormally low interest rates can lead to risk-taking and leveraging driven more by liquidity than by economic fundamentals. Although it does not really expect the next financial crisis just yet, it calls on countries to continue to improve their resilience to financial shocks

123. The optimism for next year rests on a progressive acceleration in the growth of real investment after years of sluggishness. This acceleration will nonetheless remain milder than in previous cyclical recoveries. The problem is that investment has disappointed year after year since the crisis. It is understandable that the OECD's MCM 2015 focused on boosting investment; however, MNEs appear uninterested in investing even if access to financial resources no longer seems to be the main problem. Many MNEs are net savers and have plenty of resources for take-overs or stock buy-backs. It seems that public investment by public authorities not yet overly indebted will need to kick start new trust into the economy and the needed transition towards a green economy.

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56. Secretary-General of the OECD.

57. Yet, two thirds of the world's poor are still living in middle-income countries and despite large falls in absolute poverty, relative poverty is flat or even increasing in many countries (see, for example, *Perspectives on Global Development 2010*, www.cgdev.org/files/1424922_file_Sumner_brief_MIC_poor_FINAL.pdf.

124. The OECD – historically – also promoted the support of international trade as an engine for growth. But how strong a motor is further trade liberalisation for the advanced economies? And at what cost? As Nobel Prize winner Paul Krugman explained on several occasions: comparative advantage is a good reason for opening up to international trade, but once trade is already fairly open the gains of opening it further are small. Krugman believes that estimates of total gains from the Trans-Pacific Partnership (TPP) for the countries involved of 0.5% of GDP are already too optimistic. Likewise, one of the more optimistic scenarios of several projections done for the European Commission on the gains of the Transatlantic Trade and Investment Partnership (TTIP) project a mere 0.5% extra economic growth over the next 10 years. Other studies are even less positive, negative even, on economic gains. One study that looked into the distribution of gains and losses of TTIP projected a further decline in the labour share, job loss and increasing inequality; quite in line with the story of globalisation so far.

125. Since other elements – like the arbitration mechanism – of these recently negotiated trade and investment deals are even more disputed, it might be wise to take it slowly and ask the OECD for its expertise, building on its Policy Framework for Investment and its work on investment treaties and foreign direct investment, to establish what the real benefits could be, as well as the trade-offs. Will TPP and TTIP indeed lead to job loss and further decrease the share of labour? Will they increase inequality? And if they do, how will that in turn affect economic growth? We know from different studies by the OECD and also by the IMF that rising inequality hampers economic growth.

126. In general, the mainstreaming of the NAEC and of green and inclusive growth deserves full support. The figures on trade-offs between growth, stability, environment/ecology, equity/well-being provide highly useful policy information. I would, however, recommend adding one extra dimension to look for complementarities and check for possible trade-offs and that is the rest of the world. Externalities can affect the environment or the public domain, but can also be exported and affect other countries.

127. Long-term trends and future projections warn of further environmental degradation, pollution, resource depletion and growing inequality, all of which put the brake on economic development. Economic development is already challenged by slowing growth of productivity and ageing populations. After Europe and Japan, other countries and continents will follow. These megatrends need to be challenged; not just by thinking out-of-the-box, but by changing the box. What we need are new models, a new narrative. Old-school orthodox economic policy advice will just worsen these megatrends.

128. Another megatrend could possibly counterbalance part of the expected slowdown and that megatrend has to do with a possible next production revolution, leading to further automation, computerisation and robotisation. Fast growing artificial intelligence and knowledge stemming from big data, caused by further digitalisation of the economy, could lead to increased replacement of the next generation of workers by cheaper capital. No longer just unskilled work, but also most highly skilled work could be automated in the near future. If that would indeed be our future, how do we still manage inclusive growth? We would need to address a whole new challenge of inequality, review economic distribution, and redesign education systems. In this context, the OECD is undertaking a project on the next production revolution that aims to provide a view of possible science and technology-driven developments driving changes in production over the next 10-15 years, and to explore the risks, opportunities and policy settings required for countries to seize the benefits. At this year's MCM, a background paper on the "Next Production Revolution" was submitted. Over 2015-16, a report will be issued that draws on the expertise of several OECD Committees to assess the importance of these technologies, and their potential implications on global value chains and productivity, as well as identifying some of the implications for jobs and skills.

129. As the ILO has already warned of further increasing formal unemployment, more non-standard work in the formal sector and a growing informal economy as economic growth is expected to be too little for proper job creation, and as we might witness a next production revolution that very possibly impacts immensely on the world of work, a high-level commission on the future of work will prepare a report for the ILO's centenary Conference in 2019. I recommend that the OECD actively seeks to take part in this conference and its preparations. The OECD Employment and Labour Ministers Meeting that will be held in Paris on 15 January 2016 will provide a good opportunity for a high-level discussion of these topics and the results of that meeting can be made available to the high-level commission being organised by the ILO.