

Better policies for better lives

The OECD at 50 and beyond



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Better policies for better lives

The OECD at 50 and beyond

The OECD's core values

Objective

Our analyses and recommendations are independent and evidence-based.

Open

We encourage debate and a shared understanding of critical global issues.

Bold

We dare to challenge conventional wisdom starting with our own.

Pioneering

We identify and address emerging and long-term challenges.

Ethical

Our credibility is built on trust, integrity and transparency.



Angel Gurría,
OECD Secretary-General

Foreword

Anniversaries are moments for looking back and looking forward. The OECD's 50th Anniversary is an opportunity to reaffirm what we stand for and what we are about.

Since 1961, the OECD has been a policy advisor and pathfinder on important issues for our member countries. Evidence-based policy guidance such as our Jobs Strategy, our PISA students assessment in more than 70 countries, and our country reviews in several domains have helped policy makers and stakeholders to pursue their reform agenda. Our pioneering work on climate change and the use of economic instruments to reach environmental goals provide useful tools to bring “green” and “growth” together. This experience will be enormously valuable for the delivery of the OECD Green Growth Strategy in 2011.

Over the past five decades the OECD has also set globally recognised standards and established effective processes for ensuring their implementation.

Our Guidelines for Multinational Enterprises, our Global Forum on Transparency and Exchange of Information for Tax Purposes, our Anti-Bribery Convention and our monitoring of aid flows are just a few examples of the ways in which we help to develop high international rules of the game in the interests of a stronger, cleaner and fairer world economy.

The OECD has also proven that it is a relevant arena to discuss global challenges and to find common solutions. Today, as the global economic landscape changes and we build the new institutional architecture of global governance, the OECD will become even more important: through our contributions to the G20 in the fields of strong, sustainable and balanced growth, employment and skills, trade and investment, food security, taxation, innovation, anti-corruption and development. But also through a more open, inclusive OECD, taking “on board” new members and defining a new partnership with emerging economies and working increasingly with and for developing countries.

The OECD will continue to ensure that the well-being of citizens remains at the centre of our concerns.

After 50 years, our objective is and remains to help member and partner country's governments to formulate and implement better policies for better lives.

Angel Gurría

Secretary-General

Organisation for Economic Co-operation and Development (OECD)





OECD Factbook 2010
Economic, Environmental and Social Statistics

- Population and migration
- Production and Income
- Government
- Prices
- Energy
- Labour
- Science and technology
- Environment
- Education
- Public finance
- Quality of life

Special Focus: The crisis and beyond

OECD Studies on SMEs and Entrepreneurship
SMEs, ENTREPRENEURSHIP AND INNOVATION



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The OECD

Working with partners to build a stronger, cleaner, fairer world economy

What is the OECD? The letters stand for Organisation for Economic Co-operation and Development. Those words, broadly speaking, sum up what we do. In today's globalised, interdependent world, multilateral co-operation is more important than ever.

In simple terms, our mission is to promote policies that will improve the economic and social well-being of people around the world. Our origins date back to 1960, when 18 European countries plus the United States and Canada joined forces to create an organisation dedicated to global development. Today, our 34 member countries span the globe, from North and South America to Europe and the Asia-Pacific region. We also work closely with more than 100 countries, including emerging giants like China, India, Brazil, as well as Indonesia and South Africa and developing economies in Africa, Asia, Eurasia, Latin America and the Caribbean. Together, our goal continues to be to build a stronger, cleaner, fairer world.

The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems. We work with governments to examine what drives economic, social and environmental change. We produce high-quality internationally comparable data and indicators and develop key statistics used to understand the economy. We measure productivity and global flows of trade and investment. We analyse and compare data to predict future trends. We track dynamics of growth and development

at the international scale, at countries' and at the regional level. We set international standards on all sorts of things, from the safety of chemicals and nuclear power plants to the quality of cucumbers.

We look, too, at how much people pay in taxes and social security, and how much leisure time they have. We compare how school systems are readying young people for modern life, and how pension systems will look after citizens in old age. And we look at governments themselves, at all levels; how they shape the economic, social and environmental landscape for business and citizens, how open and transparent they are in their practices, how they produce and deliver goods and services, and how responsible they are in managing their budgets and finances.

Drawing on facts and real-life experience, we recommend policies designed to make the lives of ordinary people better. We work with business, through the Business and Industry Advisory Committee to the OECD, and with labour, through the Trade Union Advisory Committee. We consult with other civil society organisations, notably through the annual OECD Forum. The common thread of our work is a shared commitment to sustainable growth, employment and trade, based on international co-operation, and focused on the well-being of all citizens. Along the way, we also set out to make life harder for the terrorists, tax dodgers, and others whose actions undermine a fair and open society.

Now, as the OECD turns 50, we are focusing on helping governments in five main areas:

- First and foremost, governments need to restore confidence in markets and the institutions and companies that make them function. That will require improved regulation and more effective governance at all levels.
- Second, governments must re-establish healthy public finances as a basis for future sustainable economic growth.
- In parallel, we are looking for ways to foster new sources of growth through innovation, environmentally friendly 'green growth' strategies and the development of emerging economies.
- To underpin innovation and growth, we need to ensure that people of all ages can develop the skills to work productively and satisfyingly in the jobs of tomorrow.
- Finally, we need to promote inclusive growth and sustainable development in emerging and developing countries for a future in which no country will depend on aid.

These issues are not confined to OECD countries, and tackling them will require reinforcing global governance and co-operation, notably through the G20. The OECD plays a key role in supporting the G20 with analysis and policy recommendations on challenges that include promoting stronger and more balanced growth and defining better and more effective approaches to development.

1961-2011



The signing of the OECD Convention



Annual Ministerial Council Meeting



OECD Past, Present and Future

Better policies for better lives

The OECD is celebrating its 50th Anniversary, but its roots go back to the rubble of Europe after World War II. Determined to avoid the mistakes of their predecessors in the wake of World War I, 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 Co-operation (OEEC) was established in 1947 to run the US-financed Marshall Plan for reconstruction of a continent ravaged by war. By making individual governments recognise the interdependence of their economies, it paved the way for an era of co-operation that was to change the face of Europe. Encouraged by its success and the prospect of carrying its work forward on a global stage, Canada and the US joined OEEC members in signing the new OECD Convention on 14 December 1960. The OECD was officially born on 30 September 1961, when the Convention entered into force.

Other countries joined, starting with Japan in 1964. Today, 34 OECD member countries worldwide regularly turn to one another to identify problems, discuss and analyse them, and promote policies to solve them. The track record is striking. The US has seen its national

wealth in terms of per capita GDP almost triple in the five decades since the OECD was created. Other OECD countries have seen similar, and in some cases even more spectacular, progress.

So, too, have countries that a few decades ago were still only minor players on the world stage. China, India and Brazil have emerged as new economic giants. Most of the countries that formed part of the former Soviet bloc have either joined the OECD or adopted its standards and principles to achieve our common goals. Russia is negotiating to become a member of the OECD, and we now have close relations with Brazil, China, India, Indonesia and South Africa through our “enhanced engagement” initiative. Together with them, the OECD brings around its table 40 countries that account for 80% of world trade and investment, giving it a pivotal role in addressing the challenges facing the world economy.

OECD member countries

(with year of membership)

Australia (1971)
Austria (1961)
Belgium (1961)
Canada (1961)
Chile (2010)
Czech Republic (1995)
Denmark (1961)
Estonia (2010)
Finland (1969)
France (1961)
Germany (1961)
Greece (1961)
Hungary (1996)
Iceland (1961)
Ireland (1961)
Israel (2010)
Italy (1961)
Japan (1964)
Korea (1996)
Luxembourg (1961)
Mexico (1994)
Netherlands (1961)
New Zealand (1973)
Norway (1961)
Poland (1996)
Portugal (1961)
Slovak Republic (2000)
Slovenia (2010)
Spain (1961)
Sweden (1961)
Switzerland (1961)
Turkey (1961)
United Kingdom (1961)
United States (1961)



International co-operation

Few carrots or sticks



The OECD achieves results mainly by convincing governments of the value of adopting policies that are in their collective self-interest. It does not disburse grant money and it has no disciplinary powers other than moral suasion. When policy proposals require international co-operation to be effective, agreement is reached by consensus. This takes time but it helps to ensure that agreements, once confirmed, are respected.

Over the years, the OECD has been at the forefront of efforts to address global challenges. Its Model Tax Convention forms the basis for over 3600 bilateral tax treaties around the world. Principles and frameworks for many international agreements on the environment were established at the OECD, such as the “polluter pays” principle in the 1970s. The OECD began examining how to address the harmful effects of tax havens in the 1990s, which provided a sound basis for the G20 to launch a crackdown on them in the midst of

the financial crisis in 2009. It initiated a study of the public policy implications of the Internet economy in 1995, three years before Google was incorporated and six years before the company launched its initial public offering of stock.

The boom and bust of the past few years have brought new challenges. Some, we hope, will find solutions quickly. Tough action will be needed to restore health to public finances, but the task is not impossible. A revival of economic growth can help to bring down unemployment.

But the events of the recent past have also prompted searching questions about fundamental economic issues. The crisis has highlighted failings in the way financial institutions and markets operate but it has also made governance failures visible. Restoring trust and confidence in market economies, effective regulation and strengthened business ethics has become crucial for the people, for the economy, and for our future.

Some major OECD achievements

1958

- Model Tax Convention on Income and on Capital
- OECD Standards for Seeds, Fruit and Vegetables

1959

- OECD standard codes for the official testing of agricultural and forestry tractors

1961

- OECD Codes of Liberalisation of Capital Movements and of Current Invisible Operations

1963

- Frascati Manual

1972

- Polluter Pays Principle

1976

- OECD Guidelines for Multinational Enterprises

1978

- Arrangement on Officially Supported Export Credits

1979 & 1995

- OECD Transfer Pricing Guidelines

1980

- OECD Privacy Guidelines

1981

- Mutual Acceptance of Data in chemical testing

1987

- Producer Support Estimate (PSE) for measuring support to agriculture

1994

- OECD Jobs Strategy

1997

- Anti-Bribery Convention

1998

- Recommendation on Effective Action against Hard-core Cartels

1999

- Corporate Governance Principles
- Guidelines for Consumer Protection online

2000

- First OECD list of Tax Havens
- PISA

2001

- Recommendation on Untying Aid to Least Developed Countries

2005

- Going for Growth
- OECD Guidelines on Corporate Governance of State-Owned Enterprises
- Paris Declaration on Aid Effectiveness

2007

- Accession process of Chile, Estonia, Israel, Russian Federation and Slovenia
- Enhanced Engagement Initiative (Brazil, People's Republic of China, India, Indonesia and South Africa)
- Invitation to G8 Summits

2008

- Declaration on Sovereign Wealth Funds

2009

- Global Forum for Transparency and Information Exchange for Tax Purposes
- OECD Guidelines on Human Biobanks and Genetic Research Databases
- OECD Strategic Response to the Crisis
- Invitation to G20 Summits
- Policy Guidance on Integrating Climate Change Adaptation into Development Co-operation

2010

- OECD Declaration on Propriety, Integrity and Transparency
- OECD Guidance for the Responsible Sourcing of Minerals from Conflict-affected and High-Risk Areas
- OECD Innovation Strategy
- Good Practice Guidance on Internal Controls, Ethics and Compliance
- OECD Recommendation on Principles for Transparency and Integrity in Lobbying

2011

- Aircraft Sector Understanding (ASU)
- OECD Green Growth Strategy



“A new architecture for global governance is emerging to reflect changing economic realities. The post-crisis role for the G20 shows how converging powers are becoming increasingly important protagonists in global governance. This is a positive development. Efforts towards making all institutions of global governance more inclusive and representative should be sustained.”

Perspectives on Global Development 2010

Restoring trust and strengthening governance

An urgent challenge

In the wake of the worst economic crisis in decades, one of the most urgent tasks now facing governments is to restore trust in financial markets and in the governance of the market economy. When the financial system crashed, millions of people

saw their savings disappear and their living standards fall. Stronger governance and improved regulation are essential if citizens are to regain their confidence in financial markets.

The OECD has been working in favour of fair and open markets since it was first created. The OECD Code of Liberalisation of Capital Movements, adopted in 1961, established obligations on participating countries to maintain free capital movements while providing flexibility to cope with situations of economic and financial instability. Many other agreements to encourage international investment and promote fair business dealings have followed.

One of the most significant launched in 1976 and regularly updated since, is the OECD Guidelines for Multinational Enterprises, published as part of the OECD Declaration on International Investment and Multinational Enterprises. The Guidelines include a mechanism through which

citizens can submit complaints about business misconduct. Although not legally binding, the Guidelines act as a global benchmark of corporate responsibility. They were drawn up in response to a range of concerns at a time when multinational corporations were under the spotlight for their activities in developing countries, and they continue to provide a touchstone for companies' commitment to ethical management.

Investment, competition, and markets are global, and efforts to keep them fair and open have to be global too. That is the approach underlying another important OECD instrument, the 1997 *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*. This is a legally binding treaty under which 38 governments, including all OECD countries, have pledged to prosecute companies found guilty of paying bribes to government officials in order to win contracts. By criminalising the act of bribing, the OECD Convention carries the fight against bribery to all four corners of the world.

The OECD is at the forefront of the fight against the misuse of bank secrecy jurisdictions by companies and individuals seeking to evade their tax obligations in their home countries. It works with the Financial Action Task Force, grouping both OECD and non-OECD countries, to combat money laundering and the financing of terrorism.

The OECD Principles of Corporate Governance, first published in 1999 and subject to regular review, set out the responsibilities of company boards and their members. The Organisation also provides a platform to encourage co-operation between tax authorities and law enforcement agencies to achieve a more coordinated approach to counteracting illicit activities.

The OECD also recognises that the interface between the public and private spheres presents particular risks of corruption. We are working with governments to define standards and practices of integrity in areas such as public procurement and lobbying, and to prevent the conflicts of interest that can arise when an official also has ties to the private sector, either while still a member of the public service or after leaving such a post.

The aim of all these initiatives is to ensure clean and responsible behaviour in business and government in the interests of a fairer society. The integrity of businesses, markets and governments is central to the vitality and stability of economies. As the financial crisis demonstrated, banks are more than just intermediaries between companies and investors. Banks have an impact on the real economy and they have responsibilities to their clients, including ordinary savers. Similarly, companies have obligations to their shareholders, to employees and to the societies within which they operate. Governments have an obligation to provide fair and open treatment to citizens, companies and financial institutions alike.

Negotiating new rules for international business and finance will be complex and lengthy. It will call for international co-operation and



commitment on the part of government officials and politicians, but also other stakeholders, including business and civil society. Improved consumer protection vis-à-vis banks and financial institutions, for example, will bolster confidence in financial markets. But the ultimate goal is more ambitious. Working with governments and civil society, our objective is to forge a fairer society in which citizens feel safe to pursue projects without fear that the system will let them down.



“It is not simply a question of austerity versus stimulus, but of targeting and timing policies carefully to achieve healthier finances as well as sustainable growth. This is an enormous challenge, and we must get it right.”

Angel Gurría, OECD
Secretary-General

Getting back to balanced growth

The struggle to restore government finances and balance the world economy

The economic crisis exposed major and strongly intertwined imbalances in the global economy. High leveraging amid underpriced risk produced a bubble in financial and real estate markets. When it burst, balance sheets of financial institutions got out of kilter. Meanwhile, external positions of countries diverged widely, with debtor countries generally experiencing inflated asset markets. The ensuing financial turbulence and recession caused gigantic fiscal deficits and burgeoning public debt.

Against a background of rising unemployment and a still fragile financial system, sovereign risk has soared, yet governments must continue to run costly services while creating and stimulating the conditions for long-term growth. At the same time, they must press forward with financial reform in order to strengthen the stability of the financial system.

High, persistent unemployment, in particular among the young, and government indebtedness are key policy concerns in most advanced economies. The persistence of external imbalances and the surge in capital flows from advanced economies - where monetary policy is exceptionally loose - to fast growing, emerging economies may act as a destabilising force globally. Emerging economies also need to quell the inflationary pressures associated with supply

constraints and high commodity and food prices, while at the same time tackling inequalities and promoting an inclusive recovery.

For most advanced economies, laying the foundations for a return to macroeconomic stability requires tough decisions. Fiscal consolidation - the necessary process of bringing public budgets back under control - means making tough political choices about public expenditure and revenues. It means reviewing welfare systems to avoid wastage and strengthen work incentives, as well as cutting public sector payrolls. But it also calls for restoring a healthy financial system so as to reduce the risk of further casualties and to enable the necessary funding of future economic growth. Advanced economies have to reconcile fiscal consolidation with sustained growth.

Structural policies including innovation policies and policies for green growth are essential to this end. Structural reform is also needed in emerging economies to take full advantage of new sources of growth and rebalance the global economy. For example, emerging countries running an external surplus need to develop their systems of social risk-sharing in order to rein in excessive household saving, and develop their domestic financial systems so as to facilitate the funding of business investment at home. Such reforms will also help to increase their resilience to financial shocks and hence

reduce any need for “self-insurance” through the massive build-up of international reserves.

At the OECD, countries learn from each other, identifying best practices and finding solutions to common problems, while at the same time taking account of possible spill-over effects from one country or group of countries to another. Periodic Economic Surveys of each member country (and selected non-member countries) evaluate economic performance and provide policy recommendations through a longstanding and widely accepted peer review process. The Economic Policy Committee, a body of senior officials from finance ministries, economics ministries and central banks provides policy guidance on macroeconomic and structural issues.

In this context, the OECD’s twice-yearly Economic Outlook analyses the economic situation and short-term prospects and the annual Going for Growth publication provides a catalogue of recommendations for structural reforms in individual countries, along with a checklist on how countries have responded to them. The OECD also contributes to the G-20, the single-most important global platform for the coordination of economic and financial policies.

One of the biggest pressures on public budgets in coming years will come from the fact that populations are getting older, thanks in large degree to better healthcare. But what is good news for individuals and families, “it is not simply a question of austerity versus stimulus, but of targeting and timing policies carefully to achieve healthier finances as well as sustainable growth. This is an enormous challenge, and we must get it right,” says Angel Gurría, OECD Secretary-General.

To assist governments in their day-to-day budget management, an OECD Working Party of Senior Budget Officials is developing Principles for budgeting covering key areas such as fiscal rules, economic forecasts, medium-term expenditure frameworks, top-down budgeting and long-term budget projections. Governments adopting these Principles will undertake to share information on their strategies for fiscal consolidation and provide regular updates on their impact on their public finances.

Similarly, the OECD is supporting governments in the strategic design of their domestic and international tax policies as well as how to improve the effectiveness and efficiency of their tax administrations to restore public finances without jeopardising economic growth. This work is helping countries to develop growth-oriented tax reforms that seek not only to minimise distortions by the tax system but also to create as few obstacles as possible to investment, innovation, entrepreneurship and other drivers of economic growth.

If the objectives underlying the OECD’s work in these areas can be achieved, governments will have better public finances, and individuals will enjoy fairer tax systems with safer pensions and more effective public services.

We also support a network on fiscal relations that aims to ensure that good practice in tax policy and budgeting also responds to the critical challenges faced by local and regional governments. Sound budgeting combined with more efficient delivery of public services should mean, in the long term, more stable societies, happier citizens and more productive and fulfilling lives.



“To re-boot the economy, we need new sources of growth, driven by innovation and green patterns of consumption and production. A new growth model for the 21st century requires a strong social dimension. The crisis revealed, in particular, the need for more innovative social policy making.”

Angel Gurría, OECD
Secretary-General

New sources of growth in the 21st century

Fostering innovation and green growth

New ways of organising our lives are changing how we produce and consume. In the years ahead, spectacular inventions due to progress in science and technology that we cannot as yet envisage will produce new opportunities for improved prosperity. By harnessing new technologies in response to social and economic needs, we can boost economic activity and create new jobs.

But we also must be vigilant to avoid repeating the mistakes of the past. To achieve a robust recovery, we need growth without environmental damage and without worsening social inequalities and regional imbalances. That means taking a path radically different from that of the countries that industrialised in the 19th and 20th centuries.

Innovation holds the key to environmentally and socially sustainable “green” growth. One of the main challenges will be to protect and conserve the ecosystems on which we depend for our well-being. In the struggle to counter climate change, biodiversity loss and other forms of environmental degradation, everyone has a role to play.

The OECD’s Innovation Strategy provides a roadmap for policies to encourage innovation in all areas of the economy. Its Green Growth Strategy sets out guidance for ways to foster green growth. Governments in both developed and emerging economies must empower companies and individuals as actors in the quest for green growth. This will mean removing obstacles to the introduction and commercialisation of new technologies and the development of new modes of production. It will mean encouraging people to work and live differently.

Energy and transport will be among the first sectors to target greener growth. But all sectors will be affected, from urban planning to farming. The OECD’s role will be to help governments set the ground rules and create appropriate market frameworks to mobilise the talent and insights of commercial entrepreneurs. Trends in corporate and consumer demand, fostered where appropriate by green taxes and resource pricing, can help to guide innovation efforts towards the areas most likely to produce tangible environmental gains. A recent OECD study shows that leading companies are increasingly shifting to a “low-carbon business model”, starting with measuring their greenhouse gas emissions and then taking action to reduce them.

In the early stages of developing often costly breakthrough technologies such as the massive energy storage systems needed to take advantage of renewable energy sources, government support for research and development will be essential. Once we get closer to market-ready green technologies, however, business will take the lead.

New opportunities can also mean new risks, and the OECD has a role to play in this area as well. A globalised world requires proper risk management at both national and international levels. Governments want to know how to prevent, whenever possible, catastrophic events. They also want to know how they can be better prepared if these events occur. Regulations can help make economies and societies more resilient. But this requires capacity, preparation and proper assessment, as well as appropriate incentives. In most cases, it also requires international co-operation.

Since 2003, the OECD's International Futures Programme has contributed to discussions on the major risks of the 21st century through studies focusing on the consistency, effectiveness and openness of risk management systems in OECD countries. Other OECD programmes regularly evaluate both the upsides and the downsides of commercial



and technological innovation. Currently, the OECD is studying the health and safety aspects of nanomaterials, minute particles that can be used in innovative applications in healthcare, chemistry and other areas. Some years ago, it organised a series of ground-breaking conferences with governments, scientists and civil society bodies to assess the risks and advantages of using genetically modified organisms (GMOs) in foods.

Such activities are part of the OECD's role as pathfinder, helping governments to encourage innovation while protecting public health and the environment. The prizes for success in developing an economy based on green growth will be immense. We will live in cleaner and healthier environments, our economies will be more prosperous and our societies safer and more secure.



“Knowledge is the main driver of today’s global economy. Countries need to harness innovation and entrepreneurship to boost growth and employment. This is the key to a sustainable rise in living standards.”

Angel Gurría, OECD
Secretary-General

Building the future

Boosting jobs and skills

Tackling high unemployment is one of the most pressing challenges facing governments. A jobs crisis

in OECD countries has fanned fears that young people now entering the job market could become a “lost generation”. Most OECD countries have maintained or expanded programmes to help the unemployed find work during the crisis. Now, countries need to invest in training, especially for people with low or obsolete skills.

The OECD has a long track record of advising governments on effective employment policies. The OECD Jobs Study, published in 1994, and the OECD Jobs Strategy, launched two years later, contributed to employment growth with a set of evidence-based policy recommendations for how OECD countries could create more and better jobs. In addition to calling for greater adaptability in wages, working-time and retirement age and for the reform of employment security provisions and unemployment benefits, the OECD urged governments to be more proactive in mobilizing the unemployed back to work, taking measures to improve workers’ skills and competences and to spread the use of new technology. In 2006, when an updated Jobs Strategy took stock of progress,

its authors were able to point to lower average unemployment rates across OECD countries. More women were participants in the labour force and in many countries older people were staying longer in work.

But some challenges remained. Unemployment rates among young people of 24 and under were three times higher than those for men aged between 25 and 54. The unemployment rate among children of immigrants was 1.6 times higher than among other children. Women, too, were at a disadvantage. On average, women in OECD countries still earn 18% less than men, only about one-third of managerial posts are held by a woman, and many more women work in part-time jobs than men.

Now, well targeted measures are needed to help OECD economies reduce high unemployment and under-employment while starting to tackle unprecedented fiscal deficits. Tax breaks and other types of hiring subsidies for firms that recruit people who have been out of work for more than a year are only short-term palliatives. We need to facilitate mobility of workers and make it easier from them to move from declining to expanding sectors, and from one place to another. We need to develop societies in which diversity is an asset, rather than a hindrance, and to improve

childcare facilities so that women don't have to face an either/or choice between employment and having a family. We need a better work/life balance so that all of us can achieve more creative, productive and fulfilling lives.

Technology will help. One of the most marked changes of the past half-century has been in the knowledge-intensity of the economy. Electronics have changed the way people work in all sorts of locations, from supermarket checkouts, where laser scanners linked to computer networks calculate the bill and track inventory, to hospital operating theatres, where real-time imagery and robots enable medical teams to carry out brain surgery that would have been impossible or too risky only a few years ago.

But as many workers in traditional industries know, technology, in addition to creating new jobs, can also destroy existing jobs. Rather than standing in the way of progress, the OECD's response is to encourage societies to gain the maximum from the opportunities that technological advances bring. One of the OECD's next steps, building on its Innovation and Jobs Strategies, will be to develop a Skills Strategy to help policy makers identify and assess essential skills for a future based on "lifelong employability and lifelong learning". New approaches in education, research and training will enable people to develop the skills and concepts needed to open the way for more productive ways of working.



In today's global economy, we are on the threshold of amazing changes. Advances in knowledge and technology can benefit everyone, and an expanding world population brings many opportunities. New, more open education systems, focusing on creativity, are leading to more and better jobs. By drawing on the intellectual abilities of a healthier, more numerous and better-educated global population, we can increase prosperity and create a fairer, more inclusive world.



“Gender inequality holds back not just women but the economic and social development of entire societies. Overcoming discrimination is important in the fight against poverty in developing countries and for the achievement of the Millennium Development Goals.”

OECD Atlas of Gender and Development, 2010

Development co-operation and beyond

Spreading the potential

Development co-operation and dialogue were at the heart of the OECD’s founding mission, inspired in part by Europe’s post-war experience with the Marshall Plan, which showed the effectiveness of aid and economic co-operation.

The OECD’s Development Assistance Committee (DAC), bringing together donor governments and multilateral organisations, was one of the first bodies to meet once the OECD was formally born. The OECD Development Centre was created soon after, inspired by President Kennedy’s call to create a place where developed and developing nations could “meet to study in common the problems of economic development”. Today, it continues to foster debate and discussion and to seek creative policy solutions to emerging global issues and development challenges. Other entities followed, including the Sahel and West Africa Club Secretariat, hosted at the OECD since 1976, and the African Partnership Forum Support Unit in 2006, both illustrating the OECD’s commitment to working with African partners and supporting their development efforts.

On official development assistance (ODA), the OECD acts as a watchdog, monitoring aid figures and urging donor countries to live up to their commitments. The DAC,

supported by the Development Co-operation Directorate, monitors the development assistance performances of its members through peer reviews in which all members are able to comment on each other’s policies.

The DAC has worked to improve the effectiveness of ODA through a number of initiatives, including a successful campaign to persuade DAC members to reduce “tied aid” – restrictions that compel aid recipients to buy goods and services from specified suppliers. More recently, the Paris Declaration on Aid Effectiveness in 2005 was a milestone on a road that has seen developing countries increasingly take the lead role in setting their own development cooperation priorities.

Throughout its history, the OECD has helped promote recognition of the importance of strong social and institutional foundations in building long-term prosperity. In 1996, a DAC report, *Shaping the 21st Century*, spelled out a series of ambitious development objectives, including halving the proportion of people living in extreme poverty by 2015. With additions and adaptations, these were to become the basis for the Millennium Development Goals.

Today, the OECD continues to work with developing countries, particularly fragile states, on supporting and strengthening their institutions, drawing on expertise from right

across the Organisation, not just sections traditionally associated with development. It promotes capacity building in areas such as aid-for-trade, which aims to ensure developing countries make the most of trade opportunities, and identifies ways to strengthen public services and infrastructure. It has also launched an ambitious new Tax and Development Programme working with developing countries to mobilise additional sources of finance for development through strengthening the capacity of tax administrations. On gender issues, initiatives like the Development Centre's SIGI Index have helped highlight the ways that legal and social institutions can hold back women and prevent them from playing a full social and economic role.

As in its other areas of work, the OECD has worked to develop a powerful knowledge base to meet development challenges. The Development Centre's *Perspectives on Global Development* as well as Economic Outlooks on Africa, Latin America, and Southeast Asia are unique sources of analysis of economic, social and political developments in developing and emerging countries.

The world economy has been transformed over the first 50 years of the OECD's existence. Few countries illustrate this better than Korea: once an aid recipient, in 2009 it joined the DAC as an official donor. The last two decades in particular have seen big changes, including the rapid economic emergence of countries like China and India. These developments have contributed to a renewed focus on South-South co-operation and underline the importance of increased inclusiveness as the OECD moves forward.

In 2010, these changes were reflected in the creation of the Seoul Development Consensus, which committed G20 countries "to work in partnership with other developing countries... to help them build the capacity to achieve and maximize their growth potential". The G20 recognised the long experience of the OECD, asking it to help in the creation of that consensus and to take part in its implementation. In that spirit, the OECD is in the process of creating a new, broad development strategy, with aims that include enhancing policy coherence for development and strengthening global partnerships to encourage mutual learning. Building on the OECD's founding mission, development will continue to be a strategic priority for the Organisation, which will define new milestones at the 50th Anniversary Ministerial meeting in May 2011.

The Millennium Development Goals

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development



Hundreds of millions of people remain food insecure. Although the world now produces enough to feed its population, the number of undernourished has increased since the mid 1990s, reaching more than one billion persons in 2009, in part as a result of recent price spikes and the global economic recession. Paradoxically, many of the world's food insecure people are themselves farmers.

Agriculture

From rationing to abundance

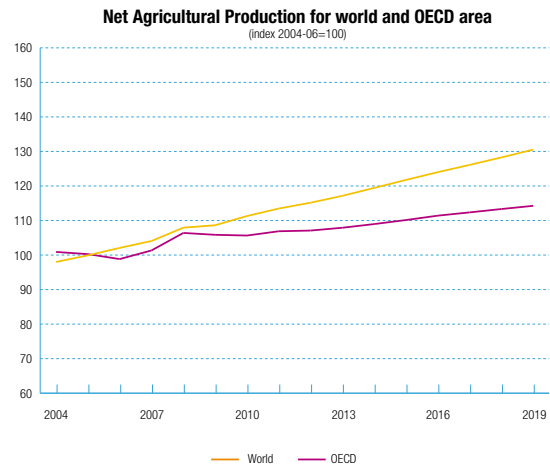
One of the first major topics of discussion in the OECD's early years was agriculture. Food rationing in Europe had ended only a few years previously, and governments' main objective was to encourage agricultural productivity.

Today, worries about food supplies have again resurfaced, this time at a global level.

Almost a billion people go hungry and the cost of food is a major worry for many more. There are concerns that growing wealth could make it harder to achieve global food security as more and more people adopt Western-style diets. Even under conservative assumptions regarding demographic, socio-economic and environmental trends, the demand for food will expand significantly for the foreseeable future. At the same time, the land available to produce food will be placed under greater strain from urbanisation, environmental degradation and factors such as the demand for biofuels.

By collecting data on how much government support really costs, and proposing new approaches to deal with emerging problems, the OECD helped governments to overhaul their agriculture policies while allowing farmers to take advantage of new opportunities.

Today, the OECD Producer Support Estimates show how much public funding goes to farmers, and are the only internationally



recognised indicator of support available in a consistent and timely way.

The OECD, together with the FAO, produces an annual medium term outlook for agricultural production, consumption trade and prices. The global reach of this exercise makes it extremely valuable to governments as they attempt to find the right policy solutions to pressing issues of food security, price volatility, resource scarcity and climate change.

OECD also advises governments on sustainable fisheries resource management and analyses policy and economics for the fish sector, both for capture fisheries and the increasingly important aquaculture sector.

A modest goal of having all OECD countries boost their average PISA scores by 25 points over the next 20 years – which is less than Poland achieved between 2000 and 2006 alone – implies an aggregate gain of OECD GDP of USD 115 trillion over the lifetime of the generation born in 2010.

The High Cost of Low Educational Performance: The Long-run Economic Impact of Improving PISA Outcomes, 2010



Education

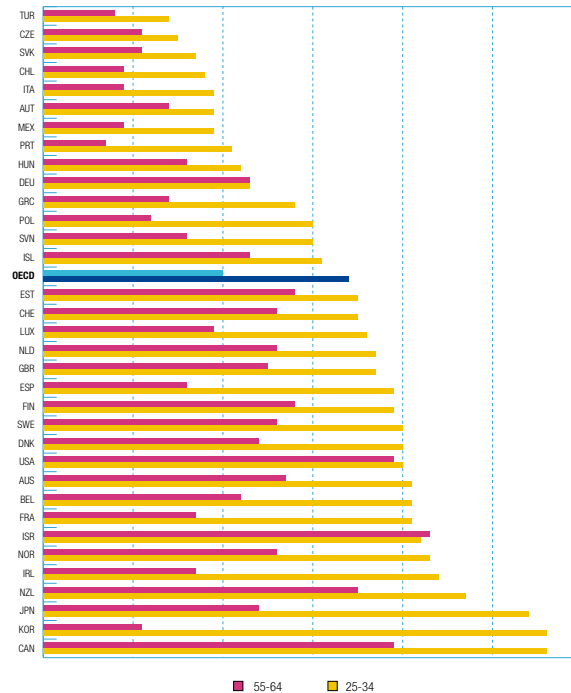
Investing for a smarter future

Education is important for individuals, for the competitiveness of nations and for social progress. OECD studies show that higher scores in literacy tests are accompanied by higher per capita income and higher productivity. They also show that people with higher levels of education enjoy better health and greater civic participation. As the world economy becomes more integrated and competition more globalised, many OECD countries are shifting away from mass production of basic products in favour of goods and services that require high levels of knowledge, creativity and innovation.

Education will continue to be crucial to such endeavours. But there is lively debate on what should be taught, how it should be taught and how education should be paid for. Many education systems were mainly designed to cope with the demands of mass industrialisation – providing basic skills for the majority and advanced competencies for an elite. Today, however, students need to learn how to learn, how to seek and assess information, and how to work and live with others, rather than acquire a fixed set of facts and skills that are not always fully relevant when they start looking for work.

Global competition for talents is increasing and most OECD countries have adapted their migration policies to attract and retain international students. Skills are increasingly important in labour markets whereby “lifelong employability” and “lifelong learning” have replaced the notion of “lifetime employment”. The OECD’s Programme for International Student Assessment, PISA, which compares the performances of schools in 34 OECD countries and 43 partner countries, challenges many assumptions on how to achieve quality

Population that has attained at least tertiary education
Percentage, 2007



education. The influence of class size and per-student expenditure on performance might seem obvious. But PISA results are surprising. Some countries with a large number of pupils per teacher do much better than others where the ratio is far lower, just as some countries that spend less money per student have results that surpass bigger spenders. Policy makers are re-thinking their education approaches in response to the opportunities and challenges of a global economy. The rapid pace of change in our societies accelerates the need for developing human capital to create, promote, diffuse and adopt the intellectual and material innovations that can bring greater prosperity and social inclusion.



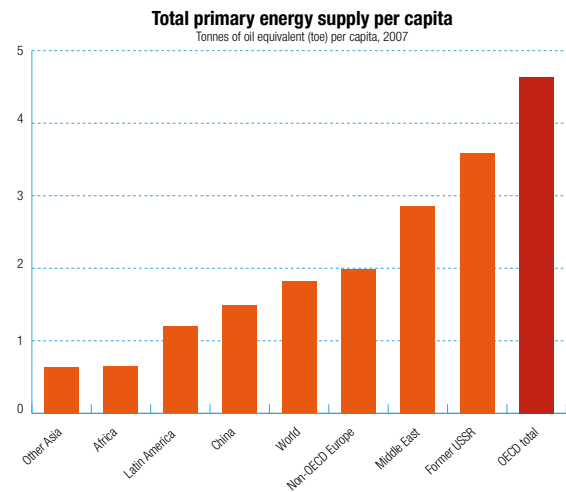
Energy

Finding a better mix

Ensuring safe and clean supplies of energy has long been a priority for OECD countries. In 1958, the Council of the OEEC set up the European Nuclear Energy Agency (ENEA) to encourage the safe development of nuclear power. In 1972, it was renamed simply the Nuclear Energy Agency, to reflect its growing membership beyond Europe. A year later, the 1973 oil shock confronted OECD countries with the realisation of their vulnerability to an interruption of oil supplies, spurring efforts to save energy and find alternatives to traditional fossil fuels. In 1974, the International Energy Agency (IEA) was set up to promote energy security and long-term energy policy co-operation.

Now, with demand for energy set to explode amid expanding prosperity worldwide, the world is still waiting for the new technologies that will bring the “electrical energy too cheap to meter” so confidently forecast in 1954 by Lewis Strauss, then Chairman of the United States Atomic Energy Commission. But the challenge posed by climate change makes the search for new energy solutions more urgent than ever.

Of the more than 6 billion people on our planet, 1.4 billion still don't have access to electricity. Population is expanding steadily, and current trends in energy use could see demand increasing by 40% between now and 2030. Without new technological breakthroughs, fossil fuels still look set



to account for over three-quarters of this forecast extra demand. Pollution would worsen and temperatures could rise by up to 6°C by the end of the century.

According to OECD simulations, such an outcome is avoidable if appropriate policies are put in place. Innovation must be encouraged to enable the development and exploitation of renewable energy sources. The cost of action to limit global warming could be at least partially offset by lower energy bills for transport, buildings and industry.

There is a window of opportunity now to introduce ambitious policy changes to tackle the key environmental problems and promote sustainable development. Investment choices being made today need to be steered towards a better environmental future, particularly choices that will “lock-in” energy modes, transport infrastructure and building stocks for decades to come.



Environment

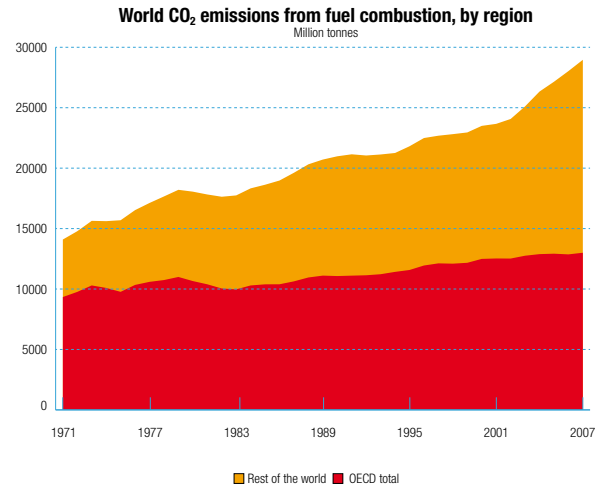
Common sense makes economic sense

When the oil rig Deepwater Horizon exploded and sank in April 2010 in the Gulf of Mexico, setting off the worst oil spill in US history, its operator, UK-based BP plc, was immediately held responsible and expected to pay compensation for the damage caused. The “polluter pays” principle at the origin of this approach seems natural, but it was first formulated in 1972 in the OECD Guiding Principles Concerning the International Economic Aspects of Environmental Policies.

Many other forms of pollution and environmental degradation are less visible and build up more slowly over time. They can be carried by wind and currents to affect other countries.

Policies to tackle ozone depletion, acid rain or trans-border water pollution need international co-operation. In 1992, the OECD launched a programme of peer reviews to evaluate the environmental performances of countries with respect to domestic laws and international obligations. The analyses presented are supported by a broad range of economic and environmental data and targeted recommendations are designed to reinforce national environmental policy initiatives.

In its Environmental Outlook to 2030, published in 2008, the OECD identified a range of policy options to help fight climate change, conserve biodiversity, protect water resources and limit health impacts of pollution. The use of economic instruments – such as “green” taxes and putting a price on carbon emissions, other pollutants and natural resource use – is at the



core of the OECD’s work, although we also cover standards and regulations, innovation incentives, voluntary approaches and information-based instruments. Our analysis, recommendations and monitoring of climate financing are designed to build on the UN Climate Change Conferences, notably COP16 held in Mexico in 2010. Transport pricing, for example, should be made to fully reflect the costs of environmental damage and health impacts, through road pricing, taxes on fuels and the removal of tax exemptions.

Dealing with climate change, the depletion of natural resources, and other environmental challenges requires coordination of policies in different sectors and government ministries. The OECD looks at the whole picture, collecting and analysing data and assessing policy options to help countries achieve better environmental performance.





“We are committed to promoting dialogue and co-operation with governments of emerging and developing countries to address together the common health challenges we face. We offer to share our experiences with these countries as they seek to strengthen their health systems, and we can also learn from the many innovations in their health systems.”

2010 Meeting of OECD Health Ministers, Final Communiqué

Healthy societies

But progress comes at a price

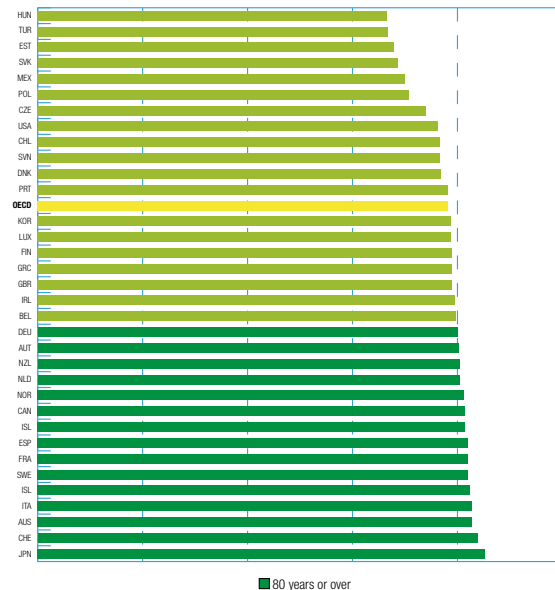
People are living longer in most countries thanks to better education and diet, higher incomes and technological progress. In OECD countries, average life expectancy reached 79.1 years in 2007 – an improvement of more than 10 years since 1960 – and exceeded 80 years in almost half of OECD countries.

Safeguarding and improving healthcare is vital for economic growth. But costs are increasing because patients expect more from healthcare systems and because of changes in the type of conditions that the systems have to treat. Scanners and other expensive techniques and treatments have become commonplace. Many diseases that would once have killed can now be treated, but the treatment may last for years. Moreover, more people are living to an age when costly care is needed on a daily basis.

The main challenge facing healthcare systems is to control costs while ensuring that patients receive the treatment they need. Almost all OECD countries will soon have near-universal health care coverage – a historic achievement. But healthcare costs are projected to rise from around 9% of GDP on average now to between 10% and 13% by 2050, depending on the success of cost-containment measures.

The OECD analyses and compares health outcomes in order to help governments make appropriate choices. One way to improve value for money is through preventive medicine and public health campaigns. At present, OECD governments spend only a small fraction of their

Life expectancy at birth
Number of years



health budgets on public health and prevention (3% of total health spending on average).

Results from the OECD's Health Care Quality Indicators project, launched in 2001, suggest that another good way of improving outcomes is to pay healthcare providers according to their success in meeting quality objectives. At their 2010 ministerial meeting, OECD Health Ministers urged governments to lay more stress on prevention while focusing pay incentives for hospitals, doctors and nurses more on quality and less on volume.

Entrepreneurs are particularly important actors in innovation, as they help to turn ideas into commercial applications... Yet only a small part of the population receives entrepreneurial education. Education and training policies should help foster an entrepreneurial culture by instilling the skills and attitudes needed for creative enterprise.

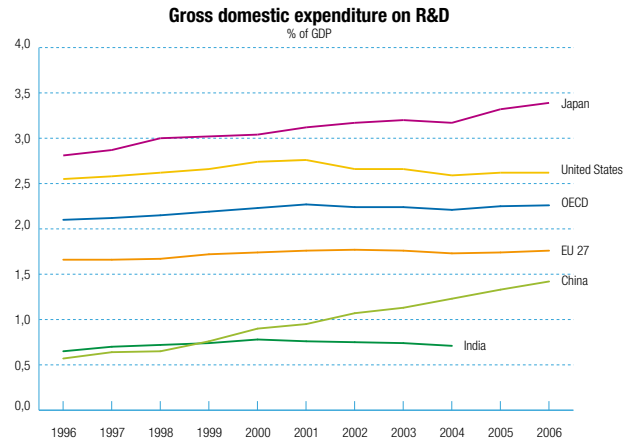


Science and technology

Pathway to the future

In the 1960s, astronautics provided spectacular proof of dramatic advances in science and technology. In 1961, Russian astronaut Yuri Gagarin circled the Earth in Vostok 1. In 1969, the American Neil Armstrong walked on the Moon. Other disciplines were also advancing fast, including computing and genetics. New discoveries brought the potential for improvements in human life, but also ethical, environmental and economic challenges.

The OECD's Committee for Scientific and Technological Policy was created in 1972 to promote the "integration of science, technology and innovation policy with other aspects of government policy". A 1980 OECD report, *Technical Change and Economic Policy*, was one of the first major policy documents to emphasise the role of technological factors in finding solutions to economic challenges. To keep pace with rapid changes in science and technology, the OECD looks not just at specific industries but also at the interactions between science and technology and other factors shaping the world economy, such as the globalisation of markets. *The OECD recognises broadband as a fundamental infrastructure for economic and social development, serving as a communication and transaction platform for the whole economy and improving productivity across all sectors.* It is also concerned with finding ways to protect consumers while promoting the benefits of innovation.



OECD economists pioneered a new approach to innovation as a kind of ecosystem involving interactions among existing knowledge, research, invention, potential markets, and the production process. One significant insight was that innovation can be more powerful than wage competitiveness in stimulating an economy. And contrary to the dominant thinking in policy circles in the 1980s and early 1990s, these economists also saw innovation as an area where governments should play a central role.

In 2010, the OECD launched an Innovation Strategy in which it identified five priorities for government action, from empowering people to innovate and unleashing innovation in firms to creating and applying knowledge, applying innovation to address global and social challenges, and improving the governance of policies for innovation.



For more information

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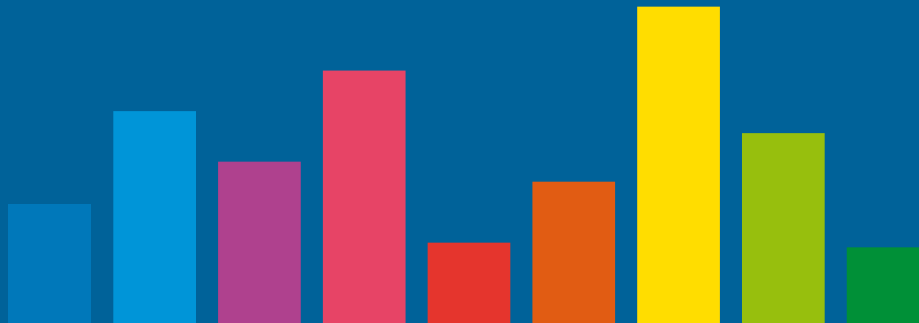
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