OECD: Natural Partner in New Global Economic Governance

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Shifting Center of Economic Gravity

The past half century is a period where the pace of change in the global economy has never been so rapid. Technological innovations, such as the Internet, and communication and transportation technologies have changed our daily lives. Together with economic policy reforms, including lower trade barriers and greater competition in product markets, they have helped boost living standards and brought economies closer together through trade, investment and financial linkages.

Over the same period, economic and political power has been shifting towards developing and emerging-market economies, particularly the Asian giants of China and India, and this trend is set to continue. We anticipate that emerging and developing economies will account for nearly 60% of world GDP by 2030.

A consequence of this shift in the economic center of gravity and closer economic ties among countries is a fast evolving global economic governance architecture. The G-20 has become the premier forum for economic cooperation and the voice of new players in decision-making processes is rising. For international organizations like the OECD, two challenges that arise from these developments concern: i) how to enhance the impact of our policy advice and market instruments, and ii) how do we ensure that we remain relevant to all our shareholders? What is certain is that we cannot afford to continue to operate like "business as usual."

These challenges are coming to a fore at a time when the OECD will be celebrating its 50th anniversary. Such a milestone is an opportunity for the organization to showcase its past achievements and to focus on its future direction. It is also a timely moment for reflection because the financial and economic crisis has cast doubts on the economic paradigm that the OECD has steadfastly championed.

This article first looks back at the OECD response to the crisis, drawing the full lessons from the downturn, and at the challenges that still lie ahead. It then considers the OECD's role as a natural partner in the new global economic governance.

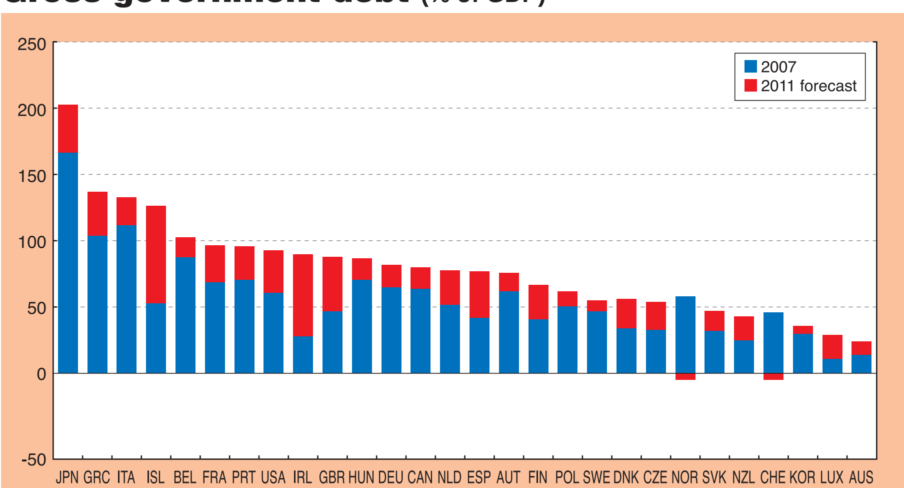
Delicate Context for Economic Cooperation

Reflections on the new global economic governance and the role of the OECD within it take place in a difficult context. Policymakers have to cope with the deep scars left by the worst economic and social crisis since World War II. We estimate that the crisis has permanently lowered the level of OECD area economic output by about 4% due in part to a higher cost of capital; budget deficits have risen sharply, with government debt in OECD member countries likely to outstrip GDP next year *(Chart 1)*; and unemployment remains unacceptably high at close to 9% on average in OECD countries, and is concentrated among vulnerable groups, notably youth and migrant workers *(Chart 2)*.

The worst of the recession has passed, however. Most governments successfully limited the impact of the crisis thanks to prompt actions to restore confidence in financial markets and coordinated efforts to bolster demand. Moreover, world leaders committed to refrain from raising new barriers to investment and trade and avoided misguided labor market policies, thus heeding the lessons from past major economic downturns. The key role that trade is playing in the current upturn is there to remind us of the fundamental benefits of keeping markets open.

CHART 1

Gross government debt (% of GDP)



Source: OECD Economic Outlook 87 database

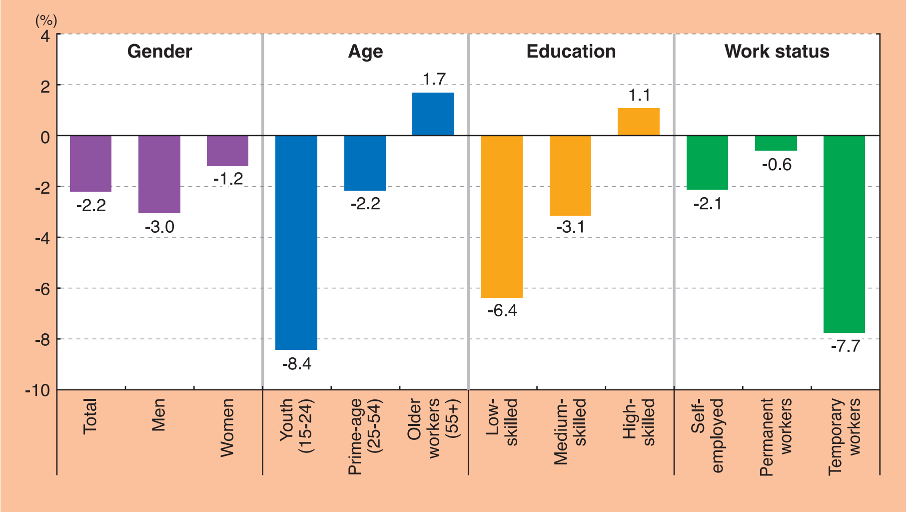
Comprehensive & Coordinated Response to Global Crisis

The crisis required unprecedented measures and the OECD was prompt in actively helping its member and partner countries work together to design appropriate economic policies to bolster the economy. The backbone of this response was the *"OECD Strategic Response to the Financial and Economic Crisis,"* offering a comprehensive approach and providing substantive recommendations, ranging from monetary, financial and fiscal policies to bank regulation, trade, financing of SMEs and employment policies.

Governments are now at different stages. Having managed to pull together in the same direction, stimulating their economies to avoid the worst scenario, they should now turn to a much more complex approach with different policy options that takes into account national preferences and conditions. Depending on this, some will need to continue with the stimulus, while others should improve their fiscal condition. In both cases, countries need to define the new levers to promote higher levels of growth and productivity. Identifying, designing and implementing measures that promote sustainable and more balanced growth must be a central part of the policy response in the near to medium term.

CHART 2

Percentage change in employment by workforce groups,[1] 2008 Q4 to 2009 Q4[2]



Note: 1) Unweighted averages based on the following countries: Australia, Belgium, Britain, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, South Korea, the Netherlands, Portugal, Spain, Sweden and the United States for gender and age groups; Austria, Belgium, Britain, Denmark, Finland, France, Germany, Italy, the Netherlands, Spain, Sweden and the United States for education; and Belgium, Britain, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal and Spain for work status.

2) Data on employment by work status refer to the period 2008 Q2 to 2009 Q2.

Source: OECD estimates based on European Union Labor Force Survey (EULFS)

In this uncertain environment, the OECD is continuing to help its member and partner countries to confront the fallout from the crisis and consolidate the ongoing recovery, while creating long-term conditions for a stronger, cleaner, fairer world economy. For instance, the OECD is advising countries on how to consolidate their fiscal positions in ways that will not risk choking off a nascent recovery. This includes looking at courses of action to realize efficiency gains in public spending so that the same social outcomes can be achieved with fewer resources. The economic issues go beyond the domestic policy agenda, however. Take fiscal consolidation: it involves external spillovers, and for that reason, its size and timing also matter greatly. If all countries were to consolidate at the same time, there would be a great risk to the global economy. The OECD is informing these discussions by shedding light on the size and mechanisms of these spillovers and serving as a forum for policy coordination.

We are also active in the pursuit of new sources of growth that will put our economies not only on a sounder but also on a broader footing. We need to "reboot" our economies with a more intelligent type of growth responding to a demand for efficient renewable energies and green technologies consistent with a low-carbon era. In this regard, the OECD has developed an innovation strategy that takes into account the changing nature of innovation. The very nature of innovation has changed because of globalization; of the emergence of new players like China and India; of the widespread diffusion of information and communication technologies; and of competitive pressure to engage in more "open" innovating methods and strategies. Productivity growth has become much more dependent on "disruptive innovations" that are generated by young and high-potential firms: it depends very much on the vitality of domestic entrepreneurship. Innovation is also determined by the competitiveness of universities; by the efficiency of formal education; but also by the ability of governments to empower people to innovate, i.e. by their capacity to learn and apply new skills throughout their lives. In other words, innovation needs to be reconsidered as a system and not merely through the lens of science and technology. For that reason, the OECD has designed one of the first whole-of-government innovation strategies that encapsulates a wide array of policy areas: governance of policies for innovation; innovation in firms; people's empowerment to innovate, etc. By the same token, the OECD is developing a green growth strategy which will take into account the interplay of different policy domains: fiscal, innovation, trade, labor and social policies.

There are also other challenges that will likely move to center stage as the recovery becomes self-sustaining. Trade and investment, climate change, development and population aging are some examples. At the same time, governments will be faced with the necessity to make (again) a case for globalization and demonstrate its benefits vis-a-vis skeptical public opinion. Governments more generally will need to win back the confidence of the public in their ability to establish a sound and properly regulated market economy.

In each of these areas, the OECD deploys its unique work methods, which are built on the firm belief that cooperation achieves better outcomes. Evidence-based analyses, benchmarking, peer reviews, policy standards and instruments that support better-functioning markets and the forum we provide for policy dialogue all contribute to creating "the home of best practices." I believe that these methods have proven their ongoing relevance and effectiveness in producing robust policy responses to the crisis and to meet new economic and social challenges.

More Inclusive, More Global OECD

In times of crisis and in an evolving global architecture, it is all the more important that the OECD demonstrate its relevance. In particular, we recognize that the OECD must become more global, more inclusive and more effective if we are to retain our status as a home of best practices and to meet the renewed challenges of responsiveness and relevance resulting from a shifting center of economic gravity.

Policy dialogue should become a genuine two-way street, incorporating the valuable lessons which emerging countries have to bring to the table. This requires new ideas and approaches to engage with our partner countries. For instance, without diluting standards, our policy instruments might be adjusted to accommodate the specific policy lessons drawn by non-OECD members. In so doing, the OECD would facilitate agreement on shared principles, predictable rules and internationally accepted standards that would help create a global level-playing field and good governance.

Progress is being made. This year, Chile, Estonia, Israel and Slovenia became members of the OECD and accession talks with Russia are advancing. We are designing innovative arrangements to engage with nonmember states. Some 100 nonmember countries participate regularly as equals in the work of our committees, expert meetings and forums. The OECD is promoting convergence in policy action and finding common responses to global challenges by reinforcing its ties with key emerging economies, in particular Brazil, China, India, Indonesia and South Africa. The latter have engaged in enhanced partnerships with the organization.

We also consult nongovernmental stakeholders, sometimes directly involving them in our formal bodies. Last, but not least, we are stepping up our work on development, incorporating more effectively the development dimension in all aspects of our work so our policy experience and expertise can reach more people. Thanks to these innovations, we are a more open and pluralistic organization, more responsive to the complex challenges of middle-income and developing countries.

Photo: OECD

OECD Secretary General Angel Gurria and US President Barack Obama

OECD Contributing to G-20 Process

The OECD is also strengthening the relevance of its contributions by supporting and working more closely with the emerging institutions of the new global economic governance architecture and with other international organizations.

The OECD already has a long experience and a well-established reputation in cooperating with the G-7 and the G-8 by providing expertise and technical input and by carrying out tasks mandated by government leaders in these groups. Since the very beginning, G-20 leaders have called on the OECD for our contributions on a wide range of issues. These include substantive analytical work and policy advice on fossil fuel subsidies, on employment and social policies, on investment and trade, on bribery and corruption, on development, on taxation and on promoting strong, sustainable and balanced growth, known in the jargon as *The Framework.*

At the London and Toronto summits, we delivered on some of these requests for analytical support and we were asked for additional contributions. Taxation, for example, is one area where, thanks to the combination of G-20 leadership and OECD work, the world has achieved important breakthroughs in combating tax evasion. Such is the case of exchange of information for tax purposes, where since November 2008 we made more progress than in the last 10 years. We have launched the most ambitious peer review process that includes over 90 countries ready to measure compliance based on OECD standards. When in full swing, we expect to deliver up to 40 reviews each year.

Another example is joint work on fossil fuel subsidies. One of the response measures to climate change that we identified was to phase out fossil fuel subsidies. We estimated that this would save budgetary resources, increase economic output and reduce greenhouse gas emissions by as much as 10% in 2050. This, of course, is not on its own sufficient, but is part of a package of measures that could tackle the threat of climate change.

The G-20 is also paving the way to build a stronger, more balanced and sustainable growth process. This is one of the major achievements in Pittsburgh that was discussed at the Toronto Summit and where the Seoul Summit will result in an action plan. *The Framework* can be seen as a compact that engages countries to work together to assess the coherence of national policies and their consistency with the common objectives agreed at the G-20 level. It is potentially one of the most important contributions of the G-20 to the world. In the period ahead of the Seoul Summit and beyond, the OECD will continue to contribute to this important initiative, using our methods of peer learning, benchmarking and monitoring, based on sound measurement and objective analysis.

Last, but not least, the OECD is supportive of G-20 work on development. With only five years to achieve the Millennium Development Goals, reaching these objectives remains highly uncertain, not least because the economic crisis has deteriorated donor countries' fiscal environment. This only reinforces the need for a new impetus to development efforts. The OECD is making available its crosscutting expertise in a number of structural policy areas that are essential for the design of whole-of-government development strategies, covering, inter alia, trade, investment, infrastructure, agriculture, education, governance, innovation and taxation. Through such efforts, the OECD will offer innovative and pragmatic policy options and recommendations for the implementation of country-led development strategies.

Governments are counting on international organizations to support G-20 discussions and decisions with analytical input. They are right: our organizations will collectively deliver. But government leaders want more: they want to make sure that they receive the best possible advice and intend to leverage the comparative advantage of each international organization. The latter must therefore improve consultation and exchange of information to achieve enhanced coherence in policy recommendations and avoid duplication. We do not need a new institution or a new bureaucracy, but I believe international organizations should work closely together in a full-fledged network that would identify synergies and scope for improved coordination in certain key issues.

In a nutshell, the challenges we face to promote sustainable growth in the new global context are immense but not insurmountable. Yet, no single country or group of countries will succeed on their own. This is a task where we all have to join forces. Though governments must lead the way, we also need stronger, more inclusive, better coordinated and more responsive international organizations. The OECD is working with its partners to make it happen. JS

Angel Gurria is secretary general, OECD, since 2006. He is a former foreign and finance minister of Mexico.