



**ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT**

**Address by the Honourable Donald J. Johnston, Secretary-General of the OECD, to
the Enlarged Parliamentary Assembly of the Council of Europe**

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I. INTRODUCTION

President Schieder, Ladies and Gentlemen of the Enlarged Parliamentary Assembly, it is a great pleasure to appear before you again to address the world economic situation in general, and the work of the OECD in particular.

My pleasure is enhanced by the fact you have chosen my long-time friend, Charles Caccia, as the rapporteur for this year's debate. You could not have selected anyone more committed to the principles of sound and sustainable economic development than Charles Caccia. He is a leader on these issues in my native country, and we have both been grappling with these matters for perhaps longer than either of us would care to admit.

This afternoon I would like to share with you a brief overview of the OECD's current assessment of the world economy. Then, I would like to discuss some sustainable development issues.

II. THE WORLD ECONOMY

I would now like to say a few words about each of the world's major economic areas.

In the United States, recovery is by and large unfolding as projected in the OECD Economic Outlook published last April. Most indicators are pointing up and survey readings suggest buoyancy in both manufacturing and services. With consumer confidence improving since the Iraq war, retail sales and durables orders indicate a strengthening of final demand.

Overall, real GDP growth will be around 2 1/2 per cent for 2003 as a whole. Indeed, the global economic recovery continues to be largely driven by the United States, thanks to large injections of monetary and fiscal stimulus. But, the US and some other

large OECD economies are now suffering from large and deteriorating public deficits, and this worrying trend calls for vigorous corrective action as soon as the recovery achieves some momentum.

In the US, core inflation (which excludes food and energy) will continue to drift down, since even with growth picking up rapidly, it will take some time to eliminate the existing slack in the economy. Given the momentum of the recovery, it appears nonetheless that the risk of deflation has now become very remote.

In Japan, economic growth is proving a pleasant surprise, and could well exceed 2 per cent this year. There has been some recent improvement in business confidence, helped by a rebound in corporate profits, progress in corporate restructuring, better US and Asian growth prospects and reduced global uncertainty, while household confidence is also higher. And while Japan's core inflation has been negative for half a decade, but we project it to gradually move towards zero, helped by strengthening activity and more active monetary policy.

The euro area remains a "weak spot" in the global economy, as the expected recovery has not yet materialised. Euro-area growth in 2003 may be only around ½ per cent. Only the first signs of a bottoming out can be discerned. Thus, core inflation has now fallen significantly, below 2 per cent.

III. SUSTAINABLE DEVELOPMENT – UNDERSTANDING THE TRADEOFFS

Given the tentative nature of the global recovery, there are some who might still call sustainable development "a luxury" – something to turn to when government deficits are well under control and economic recovery is strong. But as OECD Ministers have reiterated since 1998, sustainable development is a key priority, an overarching goal for their governments and for the OECD as an organisation.

The term "Sustainable Development" seemed to take life with the Brundtland Commission Report of 1989. Indeed the definition offered in that Report still enjoys wide acceptance: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." In 1998 OECD Ministers agreed to interpret the term 'sustainable development' as including three pillars: economic, social and environmental.

In fact, from its beginnings, the OECD has had a mandate for sustainable development. Article 1 of the OECD Convention, drafted some 43 years ago, states that the aim of the OECD is:

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;

Thus the OECD Convention squarely addresses the economic and social pillars of sustainable development. For over forty years the OECD has examined the trade-offs between economic growth and social well-being. For example, what is the impact of job protection legislation on job creation, employment and growth? Currently, our Members are facing up to the un-sustainability of their pension systems in light of demographic trends and expectations about replacement income.

But what about the third pillar, the environment? It was not mentioned in the OECD Convention in 1960 because the environment was not yet on public agendas. It was only in 1962 that Rachel Carson woke us up with her seminal work “Silent Spring”!

Once again, the OECD jumped ahead of the curve in 1970 when Secretary-General Emil Van Lennep established the Environment Directorate and the very first intergovernmental committee on the environment. In fact, Gro Harlem Brundtland chaired the first OECD Ministerial meeting on the environment in 1974.

So it was in the early 1970s that the OECD began to address all three pillars of sustainable development -- some 19 years prior to the Brundtland Commission Report.

Does this mean that nothing has changed and that for the OECD it is business as usual? Not at all.

When I arrived at the OECD in 1996 I established a Task Force under the joint chairmanship of Jonathan Lash, President of the World Resources Institute (WRI) and Stefan Schmidheiny, President of AVINA Foundation. I asked the Task Force to make recommendations on the OECD’s role, if any, as an international organisation in the field of sustainable development.

They concluded that the OECD has a unique capacity to analyse the role of economic instruments to achieve sustainable development. The broad interdisciplinary reach of the OECD enables it to address, in an informed and thoughtful way, the necessary trade-offs that arise when the policies supporting different pillars inevitably clash.

In 1998 OECD Ministers encouraged the elaboration over three years of a strategy for wide-ranging efforts in the areas of climate change, technological development, sustainability indicators, and the environmental impact of subsidies. Our report on “Policies to Enhance Sustainable Development”, delivered in Spring 2001, outlined a framework for better integrating economic, environmental and social objectives and for decoupling economic growth from many environmental pressures. It covered a very broad spectrum of issues, including trade and investment, natural resource management, climate change, technology and sectors such as energy transportation and agriculture.

In 2001 Ministers also requested further work on sustainable development, a “Phase 2” that will be presented next spring. This will include indicators for the economic, environmental and social dimensions of sustainable development; analysis of policy trade-offs and ways to overcome obstacles to policy reform, in particular

concerning environmentally harmful subsidies and taxes. We will report on social aspects of sustainable development and the social/ environment interface. The report will examine how governments can improve the coherence of their policies and how greater coherence could support development objectives.

Next May, Ministers will decide on how the OECD should take this important dossier forward. My own view is that we should concentrate on improving our understanding of tradeoffs.

In particular, the trade-offs between environmental policies and the other two pillars are not sufficiently clear. I believe we need a framework that would identify and, where possible, measure the trade-offs. This would give senior decision-makers a rational basis for policy choices. Otherwise work on sustainable development risks to remain just words and not real choices and action.

The most convincing approach I have seen uses an accounting framework based on capital in order to make the trade-offs evident. A fellow Canadian, Robert Smith of Statistics Canada recently wrote an interesting paper on this for the OECD. He says:

“Development can only be sustainable when human activities do not broadly and persistently undermine the capacity of certain essential systems to provide welfare-increasing opportunities. Three such systems can be identified: the environment, the economy and society. Each one provides products that are fundamental to human development. Each is fragile and subject to perturbation from human activities and each is inter-related with the others. If welfare is to continually increase, each of these systems must be maintained in and of itself. It is not conducive to sustainability that the consumption of the products of one system diminishes the capacity of other systems.”

The OECD has long experience in analysing the relationships between economic growth and social development, and how the products of one can either contribute to or diminish the other. Now this analysis must be redrawn to reflect the environmental platform or “natural capital” upon which all else depends.

Natural capital can indeed be consumed in some cases without undermining sustainable development, -- but only where other man-made capital is substituted for what is lost. For example, at a certain level waste can be assimilated and recycled through the products of natural capital alone i.e., the ecosystems, water, rivers, oceans and so on. But the impact of a native village on the banks of a river is not the same as that of a city of millions of people dumping waste into the same body of water. So man-made capital -- through technologies of treating garbage, sewage and industrial waste -- must be substituted for natural capital or the latter will be diminished or even destroyed. There are many examples of successful substitution. There are also an overwhelming number of failures to prevent serious erosion of natural capital.

This is where I think that the OECD should focus its attention. I see the establishment of a solid accounting framework for sustainable development as pivotal to the credibility of our work.

The work on the other pillars must continue as it has for many years. But by their nature the perception of economic and social needs are specific to individual societies and economies. Even in the OECD where incomes per capita range between 5,000\$ and 35,000\$ there are wide differences in perceived needs and much of our work must remain country-specific.

The one common goal to which all subscribe is the preservation of natural capital. The depletion of natural capital can become irreversible. Rich and poor countries alike need a healthy biosphere, and both need to work together to achieve this.

But perhaps one important link is still missing. It concerns our common future: it is urgent, for all humanity, that poor countries find and implement development paths that address poverty, while avoiding unnecessary stress on the biosphere.

IV. CONCLUSION

Let me conclude by reiterating that the sustainable development agenda is absolutely fundamental because it should pose questions about the basic directions and values that our societies will pursue. In order to make these choices in an intelligent knowing way, leaders and the public must have a clear understanding of the implications of each choice and the tradeoffs between their goals.

OECD Members have chosen to work together at the OECD on these fundamental questions. And this is part of the reason they consider the work of the OECD to be as indispensable as ever.