

TOWARDS A BETTER GLOBALISATION

HOW GERMANY CAN RESPOND TO THE CRITICS

Better Policies Series

April 2017

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This document is part of the “Better Policies Series”. Under the guidance of Gabriela Ramos and Juan Yermo, Isabell Koske coordinated the publication with the help of Tara Marwah. Main contributors: Sarah Box, Bert Brys, Hans Christiansen, Lucia Cusmano, Andrew Davies, Andrés Fuentes Hutfilter, Caitlyn Guthrie, Julia Nielson, Angelica Salvi Del Pero, Jehan Sauvage, Shunta Yamaguchi. Isabelle Renaud provided production and administrative support.

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FOREWORD

People in many countries, especially advanced countries, are expressing growing discontent about globalisation. They feel that its benefits have accrued mostly to a small and already well-off segment of the population. The numbers confirm this. While the top 10% of wealthiest households own about 50% of total household wealth, the poorest 60% own only 13%. In addition, many citizens are dissatisfied with the way economic integration has been advanced. They complain about too little transparency and too many conflicts of interests between policy makers and firms. High-profile scandals about corruption, tax evasion and tax avoidance have fuelled the perception that the elite plays by different rules.

Much of people's discontent can be traced back to the global economic crisis, but the root causes are more complex. Several of the negative effects feeding the discontent have more to do with technological change than with globalisation per se, but the two are closely intertwined. Moreover, the policies put in place to alleviate negative impacts of economic openness on some groups, industries and regions have not always worked as intended, and global rule-making has not kept up with reality. Given its many benefits, reversing economic integration is not a solution. Rather, we need to find ways to make it work for all. This report sets out what needs to be done to advance a fairer and more inclusive globalisation – at the global level, at the European level and within Germany.

At the global level, we need to promote greater economic co-operation, leveraging the whole range of co-operation tools, from binding agreements to soft-law guidelines. In today's interconnected world, international co-operation is indispensable. It can boost the effectiveness and efficiency of policies and also help avoid outright policy failures. Individually, countries are not able to tackle global problems, such as climate change, pandemics or international tax evasion. International standards have an important role to play, but to do so successfully, they need constant review and updating, to keep them relevant and useful. We need to find ways to better involve the public in this process, and we also need to engage more proactively with the different stakeholders when negotiating international trade and investment agreements, to make sure they adequately respond to their concerns.

For Europe to take a leadership role in driving the inclusive growth agenda at the global level, it is crucial to demonstrate the success of the European model, based on core values such as freedom, democracy, equality, the rule of law and respect for human rights. To this end, Europe needs to continue to adapt social security systems to new forms of employment, to make tax and benefit systems more progressive, and to strengthen activation measures for the unemployed. Faster implementation of Europe's Digital Single Market and the swift completion of the Single Market in network sectors and services are also vital. And Europe also needs to put the financial sector at the service of citizens and firms, taking bolder action to resolve non-performing loans and completing the European Banking Union.

While well-being in Germany is already higher than in many other countries, Germany needs to lead by example in terms of good policies. Germany could, for example, do better in providing everyone with adequate opportunities for skills upgrading, closing the gender pay gap, and helping small firms grasp the opportunities of the digital economy. Stepping up public investment, especially at the municipal level, is also essential to satisfy unmet investment needs in educational facilities, transport and digital infrastructure.

The OECD is already working with the German Government on many of these issues, not least through our support of the country's G20 Presidency. We look forward to further strengthening this collaboration to ensure that the benefits of economic integration are more widely shared and that the rules of the game are more ambitious. Together, let's work towards fairer, more inclusive and more sustainable globalisation, one which achieves the ultimate goal of improving people's lives.



Angel Gurría
Secretary-General, OECD

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THE BACKLASH AGAINST GLOBALISATION



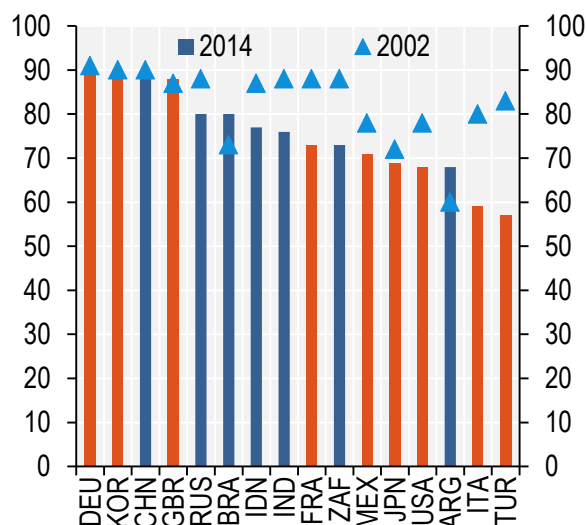
PEOPLE ARE TURNING THEIR BACK ON GLOBALISATION

Citizens in many countries are expressing dissatisfaction with how they believe trade, technology and immigration are affecting their daily lives. While much of this discontent can be traced back to the global economic crisis, its root causes are more complex. The costs of increased trade openness and competition tend to be immediate and concentrated, with the people most affected often those who have little capacity to adjust on their own. The benefits of openness are significant, but they are more diffuse, and a small privileged segment of the population does benefit disproportionately. A number of the negative effects feeding people's discontent are more related to technological change (including digitalisation) and policy shortcomings (such as ineffective regulatory, social protection and education systems) than to globalisation per se. But these factors are closely intertwined and sometimes impossible to disentangle. In many cases, increased migration flows may be compounding fears among some segments of society, who feel that they are not being heard and are being left behind. There is rising pessimism about upward social mobility and the prospects for future generations. The causes of the backlash against globalisation are diverse and vary from country to country. But attitudes have clearly worsened over time in several G20 economies and, on average, attitudes towards globalisation are less positive in advanced countries than in emerging markets (Figure 1.1). However, people's perceptions about globalisation do not always reflect reality. For example, on average, people think that there are about twice as many immigrants in their country than is actually the case.

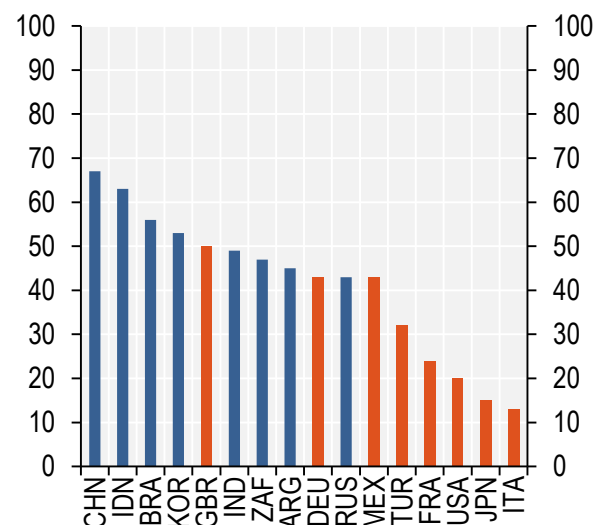
In recent years, there has been growing discontent with globalisation. Many people feel that the benefits have mostly accrued to a small elite of those who are already better off. Policies to alleviate the negative impacts globalisation and technological progress and to help people adjust to them have not always worked.

Figure 1.1. People in advanced countries have less positive attitudes towards globalisation than their peers in emerging markets

A. % of population believing that their country's growing trade and business ties with other countries are a very good or somewhat good thing



B. % of population believing that trade creates jobs, 2014



Note: OECD countries in red, non-OECD countries in blue.

Source: Pew Research Center, Spring 2014 and 2002 Global Attitudes Surveys.



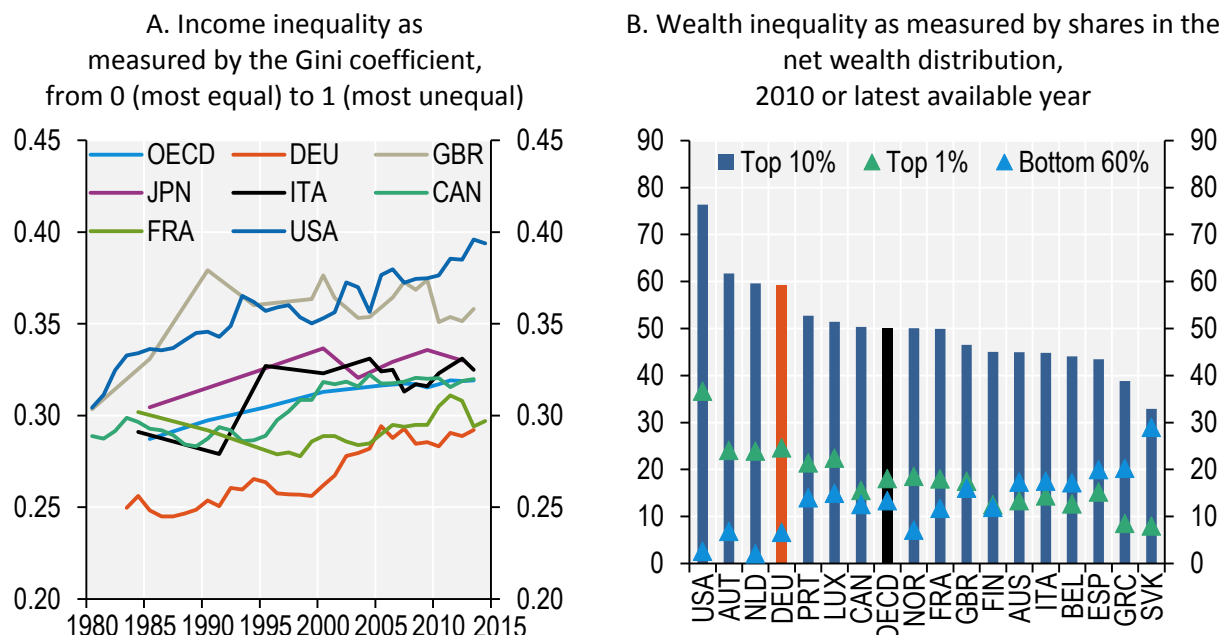
THE BACKLASH AGAINST GLOBALISATION

GLOBALISATION AND TECHNOLOGICAL CHANGE ARE LEAVING MANY PEOPLE BEHIND

People's perceptions of being left behind have a basis in reality. Globalisation has reduced inequality between countries by helping developing and emerging countries catch up, but it has also increased income inequality and wealth inequality within countries.

Globalisation has helped increase the size of the global economic pie and, on average, was beneficial for most countries, irrespective of their state of development. However, not everyone has benefitted equally, and some people have suffered. Globalisation helped lift over a billion people out of poverty, many of them in Asia. But despite reduced inequality at the global level, inequality within countries has generally increased in past decades, especially among advanced economies (Figure 1.2, Panel A). In 2014, the average income of the top 10% of earners in the OECD area increased to almost ten times that of the bottom 10%, up from around seven times in the mid-1980s. In all OECD countries, the wealth distribution is much more concentrated than the income distribution. While the top 10% of individuals account for about 25% of total income, the top 10% of wealthiest households own about 50% of total household wealth (Figure 1.2, Panel B). By contrast, the bottom 60% of the distribution own only 13% of total household wealth. All too often, wealth and income inequality are in a symbiotic relationship with the intangible social trappings of success, such as cultural capital and access to parental networks. Together, they influence the key formative outcomes in children's lives, helping to turn unequal outcomes of one generation into unequal opportunities for the next generation, affecting everything from education and employment to health.

Figure 1.2. Inequality has reached high levels in many countries



Sources: OECD Income Distribution and Poverty Database; OECD Wealth Distribution Database.

THE BACKLASH AGAINST GLOBALISATION



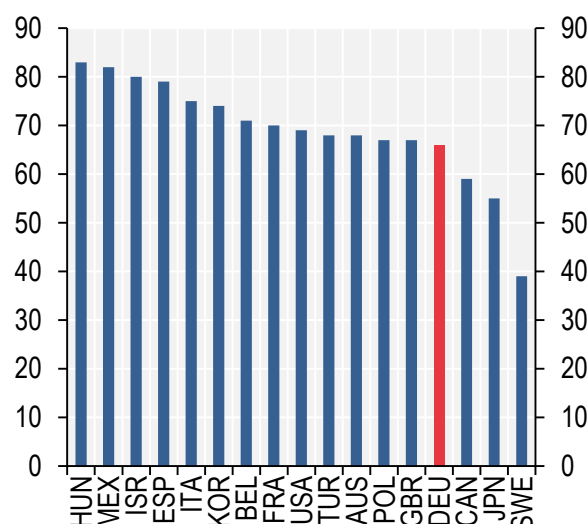
CITIZENS ARE CONCERNED ABOUT HOW GLOBALISATION HAS BEEN ADVANCED

There is a widespread assumption that trade and investment deals are made behind closed doors without sufficient public scrutiny or democratic validation. Discussions about investor-state dispute settlement and international regulatory co-operation mechanisms feed debates about a possible loss of sovereignty. Digitalisation brings immense economic and social benefits, connecting virtually every village in the world, but it also brings new concerns about security and privacy for individuals, businesses and even governments. While these issues do not derive from globalisation per se, they do contribute to heightened concerns among a public interested in regaining control of their lives. There is a strong perception in many OECD economies that the global financial crisis came about in part because large financial institutions helped to create rules of the game under which profits were privatised, but losses were socialised, and that this situation continues today. High-profile scandals about tax evasion and aggressive tax avoidance fuelled a growing perception that the elite played by a different set of rules. A large share of the population feels that the system favours the rich and powerful and that new leadership is required to correct this situation (Figure 1.3). Across OECD countries, in 2016, only 42% of citizens expressed confidence in their national government.

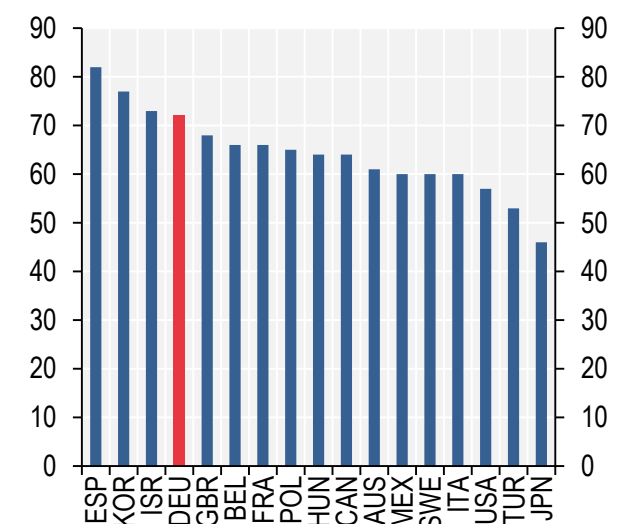
Beyond the outcomes of globalisation, there is a perceived lack of legitimacy in the way in which it has been advanced. Many citizens feel that there is too little transparency, too many conflicts of interests between policy makers and multinational firms, and sometimes even outright malfeasance.

Figure 1.3. Many people feel the system favours the rich and powerful

A. % of people saying their country's economy is rigged to advantage the rich and powerful, 2016



B. % of people not having (much) confidence in big companies, 2016



Note: The results are based on a survey among 16 597 adults aged 16-64 in November, 2016 across all countries shown.

Source: IPSOS Global@dvisor: Power to the People? Part 2, https://www.ipsos.com/sites/default/files/2017-01/Power_to_the_people_survey-01-2017.pdf.



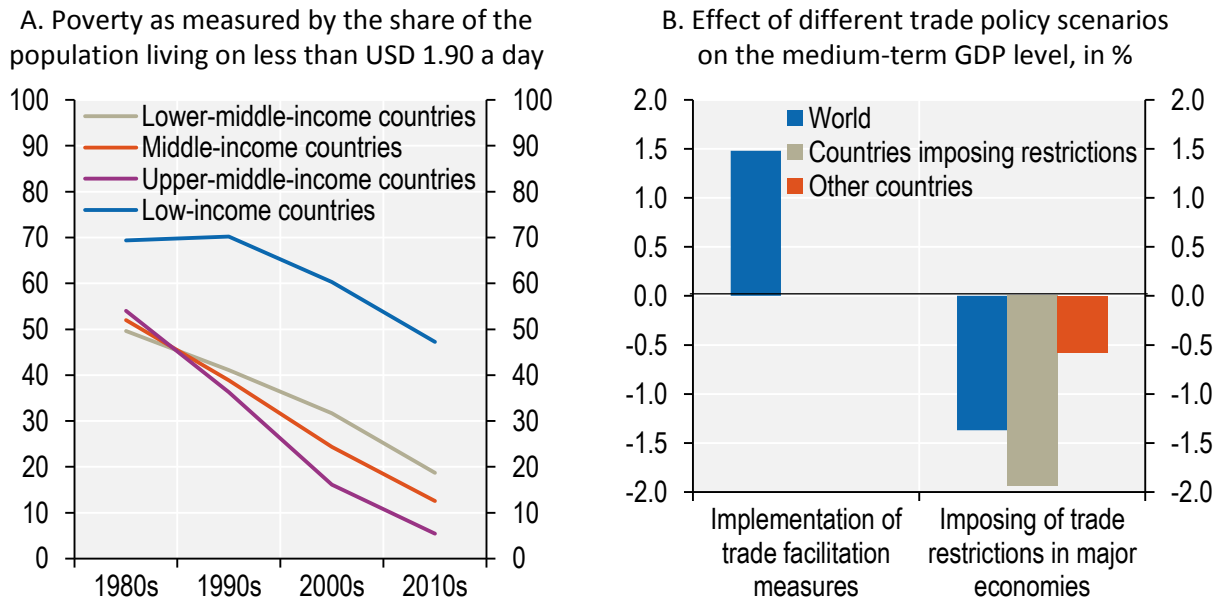
THE BACKLASH AGAINST GLOBALISATION

TO MAKE GLOBALISATION AND GROWTH MORE INCLUSIVE, WE NEED TO ACT NOW

Due to the many benefits of globalisation, reversing it is not the right response to the backlash. Rather, we need to make globalisation more acceptable to people, by ensuring that everyone can participate and benefit from it.

Reversing globalisation is not a solution to the current backlash, as it has brought many benefits (Figure 1.4). Instead, we must make globalisation work for all. Globalisation is not an end in itself, but a means to an end: greater well-being for everyone. More generally, we need to move to a more inclusive growth model. Growth needs to create opportunities for all segments of the population and allow the dividends of increased prosperity to be fairly distributed across society, in both monetary and non-monetary terms. Growth needs to be green, preserving natural resource for future generations, and it needs to prevent economic crises like the one we experienced in 2007-08. This will require empowering people and firms to adapt and thrive in a changing world, exploiting the full range of international economic co-operation tools, and opening up governance systems to public scrutiny, domestically and internationally – to ensure that the well-being of people remains a central focus. This report discusses how the German government can help achieve a greener and more inclusive growth model by promoting appropriate domestic and international policies globally, within Europe and within Germany.

Figure 1.4. The world gains a lot from international economic integration



Note: The poverty threshold of USD 1.90 a day is measured in 2011 purchasing power parities.

Sources: OECD calculations based on the METRO model; World Bank (2016), World Development Indicators Database.

SOLUTIONS AT THE GLOBAL LEVEL



LEADERS NEED TO COMMIT TO POWERFUL DOMESTIC POLICY REFORMS

Global economic growth is still disappointingly low, expected to pick up to 3.3% in 2017 and 3.6% in 2018. Despite this poor growth performance, the pace of structural reform has slowed down in most economies, compared to the immediate post-crisis years (Figure 2.1). This “reform fatigue” is partly the result and partly the source of growing political dissent at the domestic level. A significant acceleration of reform is needed to boost inclusive growth. While policy responses need to be home-grown and adapted to specific country circumstances, global governance structures can help. First, many of the factors behind low productivity growth and rising inequality are global and require co-ordinated policy responses. Second, ongoing multilateral initiatives can enhance the effectiveness of domestic reforms. Third, the G20 and the G7 can effectively support ambitious domestic reform agendas through the exchange of best practices, peer learning, peer-review exercises and the formulation of voluntary commitments (such as the commitment to reduce the gender gap in labour force participation by 25% by 2025). To achieve such outcomes, members of the G20 and the G7 should consent to enhanced accountability and peer-review mechanisms. In addition, countries now have to live up to the commitments they made in 2015 under the 2030 Sustainable Development Agenda and the COP 21 Paris Agreement.

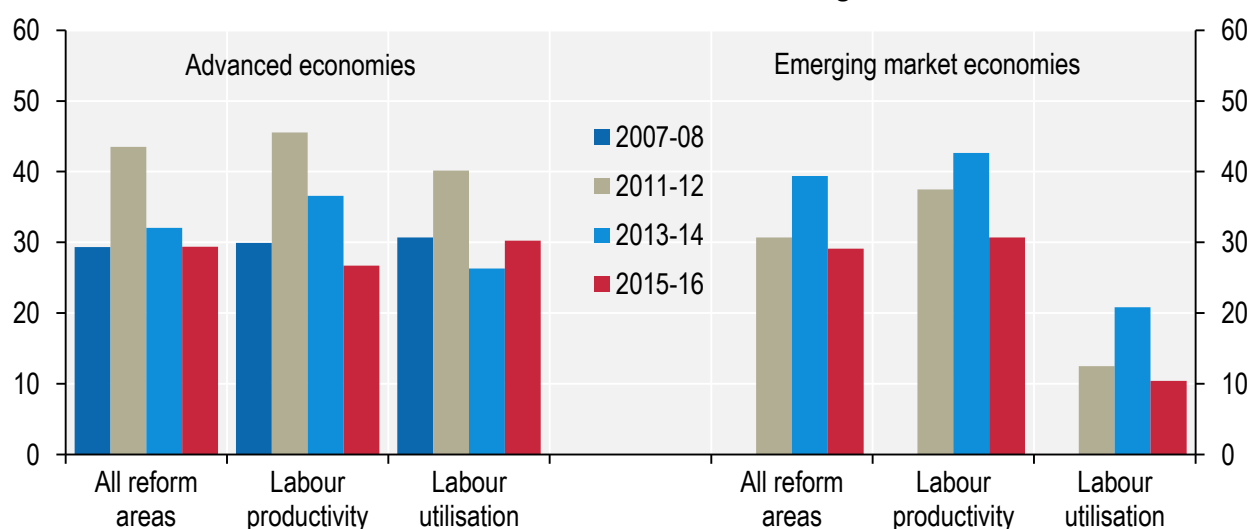
Accelerating the pace of structural reforms is crucial to escape the low-growth trap and make growth more inclusive. Global governance structures, such as the G7 and the G20, can play a major role in encouraging and co-ordinating reform efforts at the domestic level.

OECD recommendations:

- *Develop a comprehensive policy framework for inclusive growth in the G7 and the G20, based on strong policy commitments.*
- *Encourage all G20 countries to prepare for new ambitious and inclusive growth goals.*
- *Champion decisive policy action by countries to implement the 2030 Sustainable Development Agenda and the COP 21 Paris Agreement.*

Figure 2.1. “Reform fatigue” has spread among countries, partly due to growing political dissent

Number of actions countries have taken as a % of the OECD’s Going for Growth recommendations



Source: OECD (2017), *Economic Policy Reforms 2017: Going for Growth*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/growth-2017-en>.



SOLUTIONS AT THE GLOBAL LEVEL

INTERNATIONAL CO-OPERATION CAN BRING MANY BENEFITS

International co-operation can create administrative efficiency gains and lead to greater coherence of rules. It can also boost the effects of reforms and help avoid outright policy failures.

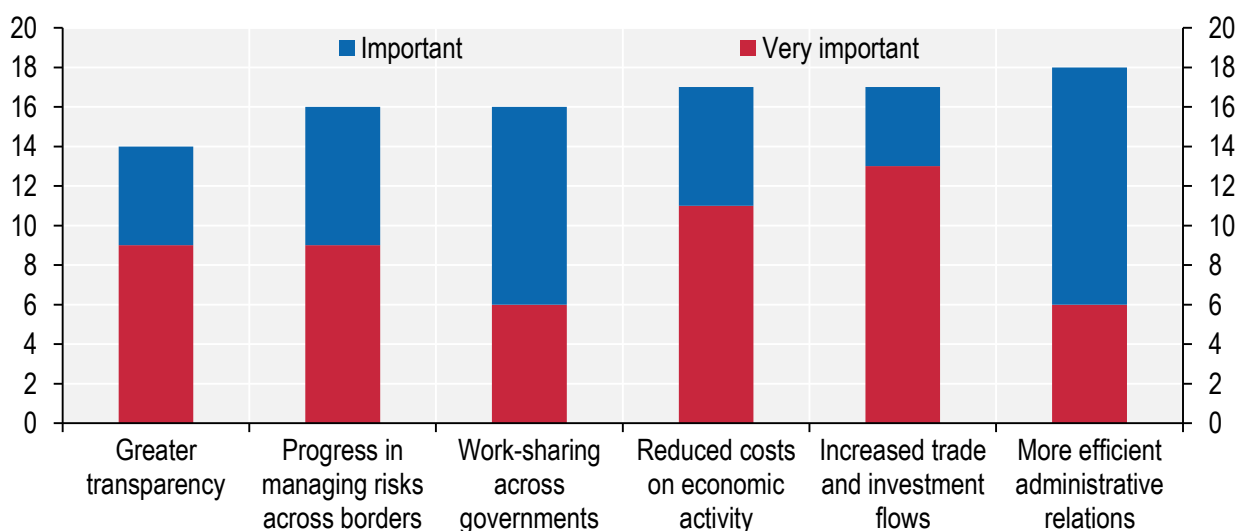
International co-operation on regulation and taxes allows countries to share their experience, expertise and infrastructure for rules development and implementation, and hence to generate administrative efficiency gains (Figure 2.2). In addition it may result in greater coherence of regulations, lowering costs for both firms and citizens, and it also helps ensure that countries retain effective sovereignty, for example on tax matters. Policies can also have a greater impact when implemented in a concerted way. For example, the GDP impact of a two-year 0.5% fiscal stimulus is estimated to be lower by around 20%-25% in the United States, Japan and the euro area if the stimulus is conducted separately by each of these economies rather than jointly. In some cases, a lack of co-operation may lead to outright policy failures. For example, individually, countries are unable to effectively tackle global problems, such as climate change, pandemics, international tax evasion, corruption or illicit trade. Similarly, competition authorities face huge challenges in tackling cross-border issues, as the scope of their powers does not match that of globalised business activity.

OECD recommendations:

- Consider all types of international co-operation tools when responding to concerns about globalisation, from binding agreements to soft-law guidelines and best-practice transparency measures.
- Partner with other countries to put in place legal frameworks to enable cross-border sharing of confidential information among competition agencies.
- At the level of the G20, push for good regulatory practices, as embedded in the 2012 OECD Recommendation on Regulatory Policy and Governance.
- Reinforce international co-operation on tax matters, which in a globalised world goes hand in hand with preserving tax sovereignty, as well as on foreign bribery.

Figure 2.2. International co-operation can bring many benefits

Number of countries considering a particular benefit as (very) important



Source: OECD (2013), *International Regulatory Co-operation: Addressing Global Challenges*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264200463-en>.



INTERNATIONAL STANDARD SETTING NEEDS TO BECOME MORE RESPONSIVE

International standards can help give confidence to people that the global economic system is fair. To fulfil this role, international standard-setting institutions must work with their members to ensure accountability, through greater engagement with a wider variety of stakeholders, including the general public (Figure 2.3). In addition, global standards need to be regularly reviewed and adapted, and potentially repealed and replaced with new standards that reflect today's realities. Only 40% of international organisations review the stock of their standards on a systematic or frequent basis. New useful standards include those on responsible supply chains, anti-corruption for state-owned enterprises (SOEs), intellectual property rights, financing of small and medium-sized enterprises, and illegal trade. To better harness the possibilities created by digitalisation, it could be useful to put in place standards on governance of and access to big data, interoperability of digital systems, cybersecurity and artificial intelligence. Standards on vocational education and training and job quality would also respond to some of today's social challenges. There is also a need to more systematically track the implementation of international instruments and monitor their impact.

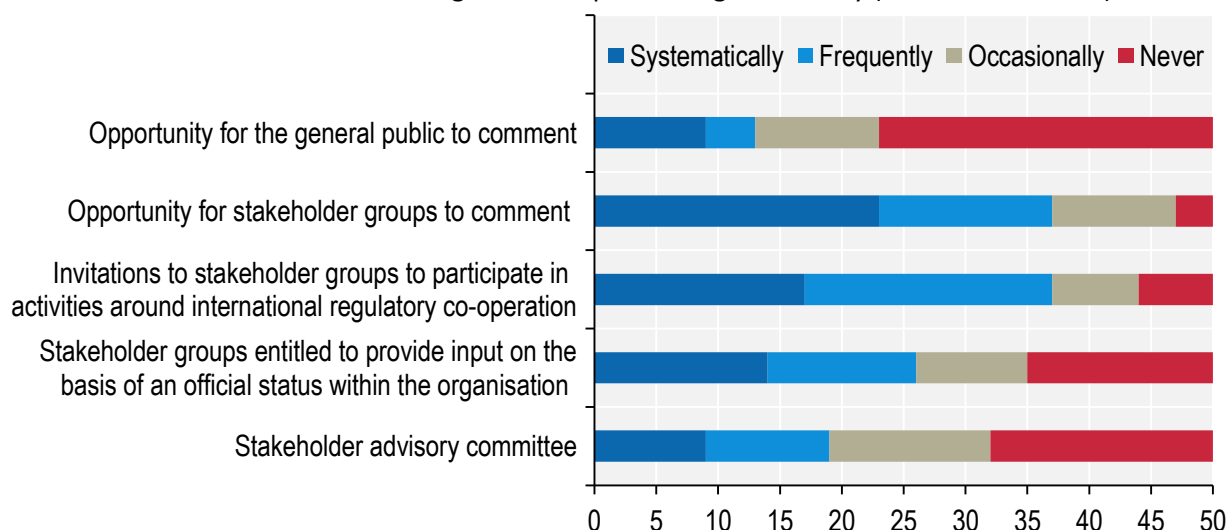
Stakeholders, including the general public, need to be more systematically involved in international standard setting. Moreover, the set of international standards must be regularly reviewed and updated to stay relevant and useful.

OECD recommendations:

- *Improve the systematic engagement of all relevant stakeholders, including the general public when relevant, in the development and revision of international standards.*
- *Encourage effective monitoring and broader adherence to existing standards, such as the OECD Guidelines for Multinational Enterprises and the OECD Guidelines on Corporate Governance of SOEs.*
- *Regularly update the stock of international standards and assess their impact ex-ante and ex-post.*
- *Ensure that implementation is systematically monitored and taken into account from the start.*

Figure 2.3. The voice of the general public is not yet sufficiently heard in international standard setting

Number of international organisations performing the activity (out of a total of 50)



Source: OECD (2016), *International Regulatory Co-operation: The Role of International Organisations in Fostering Better Rules of Globalisation*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264244047-en>.



SOLUTIONS AT THE GLOBAL LEVEL

TRADE AND INVESTMENT AGREEMENTS SHOULD WORK FOR ALL

We need greater engagement with stakeholders and citizens in the policy-making process on trade and investment agreements. Including provisions on human rights and other issues in such agreements can help fill gaps in existing rules or improve adherence to them.

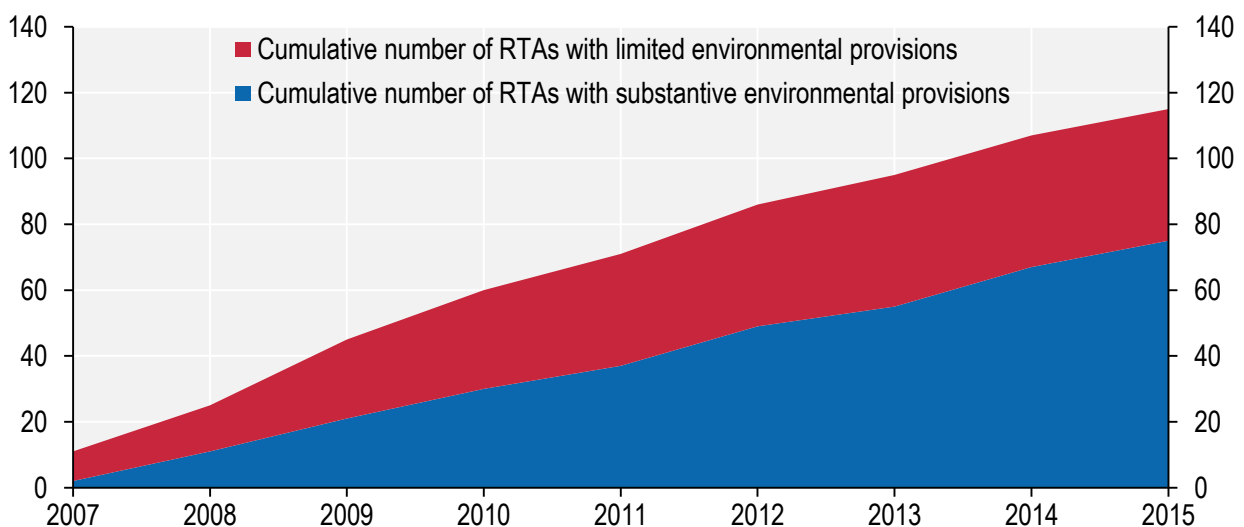
Making trade and investment agreements more responsive to public interests requires at least two actions. While no single agreement is likely to respond adequately to the wide range of people's concerns, countries are increasingly pursuing comprehensive approaches. A growing number of agreements include progressive provisions that go beyond trade and investment, to address issues such as human rights, labour standards, gender, and the environment (Figure 2.4). Including such provisions in international agreements can help improve distributional and environmental outcomes where there are gaps in the international rules and insufficient adherence to them. In addition, the process of developing agreements is important. In particular, more attention needs to be paid to how to ensure informed public debate on the issues and trade-offs in trade and investment agreements, as part of an overall economic strategy. This can involve greater efforts to reach out to communities, to engage in dialogue with people on the issues that matter to them, and to ensure early and on-going engagement with relevant parliamentary bodies.

OECD recommendations:

- *Examine ways in which the full range of international economic co-operation tools could be more widely exploited, including within trade and investment agreements.*
- *Pursue provisions in trade and investment agreements that prevent parties from weakening their domestic environmental laws in order to gain a competitive advantage over their partners, while also preventing the use of such laws for protectionist purposes.*
- *Encourage countries to engage more with citizens, before, during and after international negotiations.*

Figure 2.4. A growing number of regional trade agreements (RTAs) contain environmental provisions

Cumulative number of RTAs with environmental provisions that have entered into force since 2007



Note: Examples of substantive environmental provisions include provisions that uphold existing environmental laws, promote environmental co-operation between parties, and reaffirm parties' obligations under a number of multilateral environmental agreements.

Source: OECD calculations, on the basis of data from the World Trade Organization.

SOLUTIONS AT THE EUROPEAN LEVEL



EUROPE'S LEADERSHIP IS KEY TO DRIVING AN INCLUSIVE GROWTH AGENDA AT THE GLOBAL LEVEL, BUT SOME HOMEWORK MUST BE COMPLETED FIRST

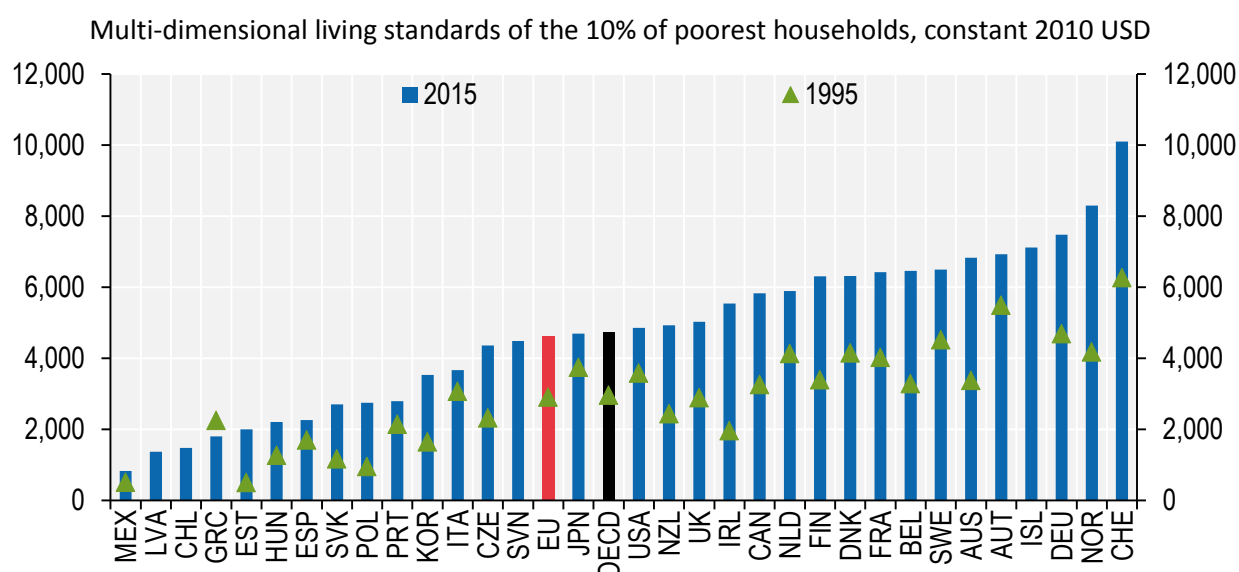
Europe has always led by example on issues such as human dignity, freedom, democracy, equality, the rule of law and respect for human rights – values that are embedded in the EU treaties. But multidimensional living standards vary widely across EU countries, and in many of them, the 10% of worst-off households saw a smaller improvement over the past two decades than their peers in non-EU OECD countries (Figure 3.1). At the same time, productivity growth (a central ingredient in the pursuit of growth and well-being) is lower in the European Union than elsewhere in the OECD. More ambitious policies are needed to boost growth and make it more inclusive. Some policy solutions require efforts at the level of the European Union, but many also lie in domestic policies within individual member countries.

Europe needs to demonstrate the success of the European model in promoting inclusive growth in order to take a global leadership role on this topic. This requires moving forward on important pending reforms.

OECD recommendations:

- Encourage faster implementation of Europe's Digital Single Market and the swift completion of the Single Market in network sectors and services.
- Champion more progressive tax and benefit systems, stronger activation measures (especially for youth and long-term unemployed) and a shift of spending towards investment in education.
- Suggest adapting social security systems to new forms of employment and decoupling them from people's work status and history.
- Advocate labour market institutions that encourage firms to seize the opportunities of technological change and globalisation, while avoiding disproportionate risks borne by workers in the form of low pay, precariousness and poor working conditions.

Figure 3.1. The growth of multidimensional living standards varies widely across European countries



Note: The chart shows a composite measure of economic welfare that combines household disposable income, longevity and unemployment.

Source: OECD calculations based on Inclusive Growth Database.



SOLUTIONS AT THE EUROPEAN LEVEL

BETTER REGULATION CAN HELP BOOST TRUST IN THE EU AND ITS INSTITUTIONS

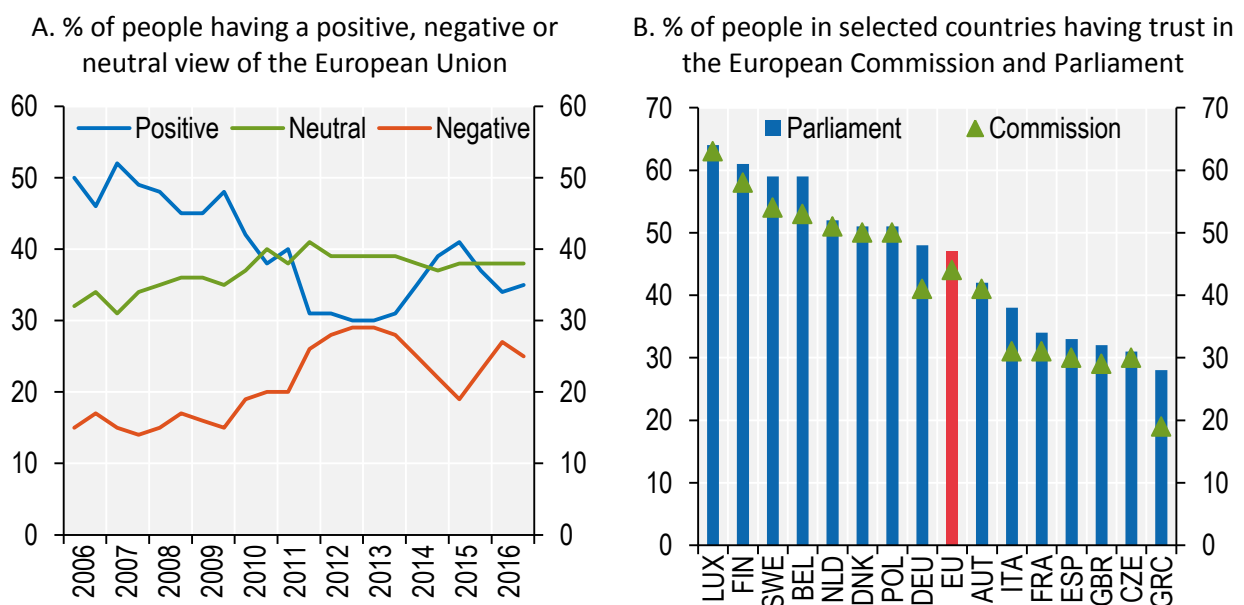
Low trust in the EU is largely driven by frustrations over EU regulation. Building on recent reforms, more can be done to enhance regulatory impact assessment (both *ex-post* and *ex-ante*), to bolster enforcement and implementation of common rules, and to harmonise means of stakeholder engagement.

Trust in the European Union has fallen since the economic crisis, and it now hovers at around 40% (Figure 3.2), similar to the average level of trust in national governments in the European Union. A key element of the trust relationship between the European Union and citizens revolves around the EU role as a regulator. Around 50% of domestic regulations have their roots directly in EU legislation. The European Union has made significant progress in promoting smart regulation. The target of reducing administrative burdens by 25% by 2012 has had a positive impact, and the Regulatory Fitness and Performance Programme rightly broadened the focus of evaluating EU legislation from purely administrative burdens to the overall performance of regulatory frameworks. But further efforts are needed, both at the EU and the member-country level. *Ex post* evaluations must be firmly embedded in the daily work of EU institutions and become more systemic and regular. Evaluations should also build on enhanced collaboration between EU institutions and member countries. Resources, as well as the newly strengthened Regulatory Scrutiny Board, should be targeted in those areas that are perceived by stakeholders as the most burdensome and/or irritating.

OECD recommendations:

- Intensify efforts to strengthen and communicate the benefits of better regulation for domestic economies, and identify misconceptions and fallacies.
- Make full use of regulatory management tools (e.g. Impact Assessment) when negotiating draft EU legislation, to ensure that uneven impacts are identified early.
- Advocate improvements in the governance of independent regulatory agencies.

Figure 3.2. The image of the European Union and its institutions could be improved among Europeans



Note: The EU average in Panel B is an unweighted average across all EU member countries.

Source: Eurobarometer 65 to 86.

SOLUTIONS AT THE EUROPEAN LEVEL



EUROPE NEEDS TO BETTER HELP ITS YOUTH

Young people were the group hit hardest by the 2007-08 crisis, and youth unemployment and inactivity have remained stubbornly high in the European Union during the recovery. In 2015, around 15% of all 15-29-year-olds were still not employed or in education and training (NEET) – nearly 14 million young people (Figure 3.3). It is essential to combat early school leaving, and comprehensive support is needed to ensure that all young people complete upper-secondary schooling. The total economic cost of failing to integrate NEETs has been estimated at more than 1% of GDP, or EUR 150 billion, across the European Union. To address this challenge, in the framework of the 2013 EU Youth Guarantee, EU member countries have committed themselves to offering all under-25-year-olds a high-quality employment or training option within four months of leaving education or becoming unemployed. However, substantial implementation challenges remain. Public employment services in many countries lack the capacity to support the large number of unemployed youth. Two-thirds of all NEETs are not actively looking for work, and they are often not yet registered with the public employment service. Programmes to support unemployed youth need to be cost-effective and scalable. These challenges require joint European solutions.

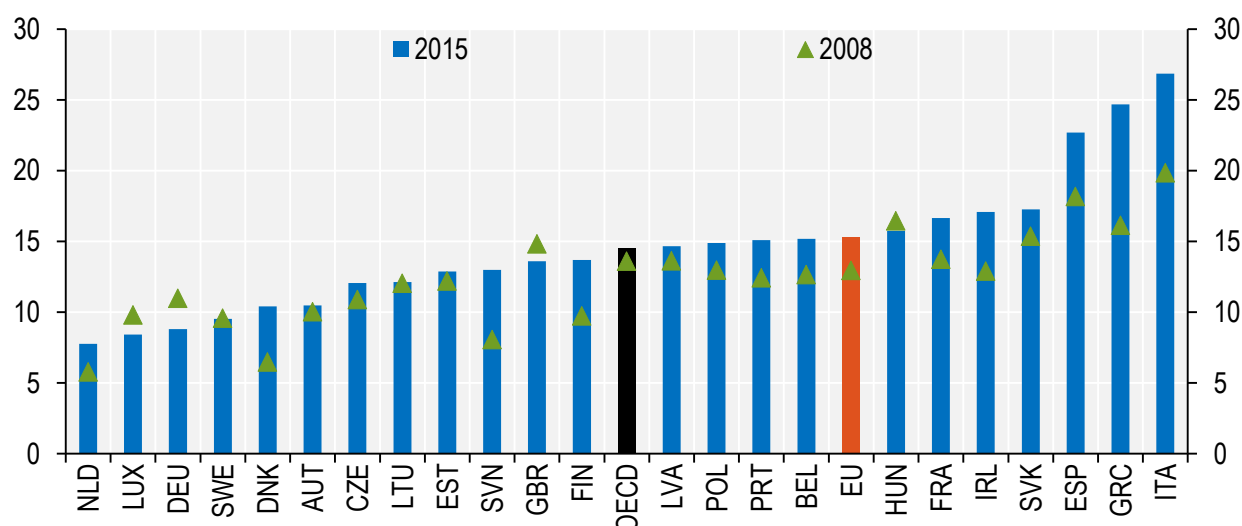
While the EU has launched a number of good initiatives to help youth into jobs (including the Youth Guarantee), implementation should be strengthened.

OECD recommendations:

- Suggest the creation of an EU network of second-chance schools to help high-school dropouts complete upper-secondary qualifications by facilitating exchange of good practices and access to EU funding.
- Propose that a complementary network of European-funded NGOs help reach out to the most at-risk youth and channel them towards a second-chance programme, the European Youth Corps or the Youth Guarantee.

Figure 3.3. The NEET rate remains higher than before the crisis in over two-thirds of EU countries

Percentage of 15-29-year-olds who are not employed or in education and training, 2008 and 2015



Source: OECD calculations based on the European Union Labour Force Survey.



SOLUTIONS AT THE EUROPEAN LEVEL

Asylum seekers face bigger labour market challenges than other migrants. Reinforcing integration efforts is thus of particular relevance in the context of the current refugee crisis, where 1.2 million persons sought asylum in Germany in 2015/16.

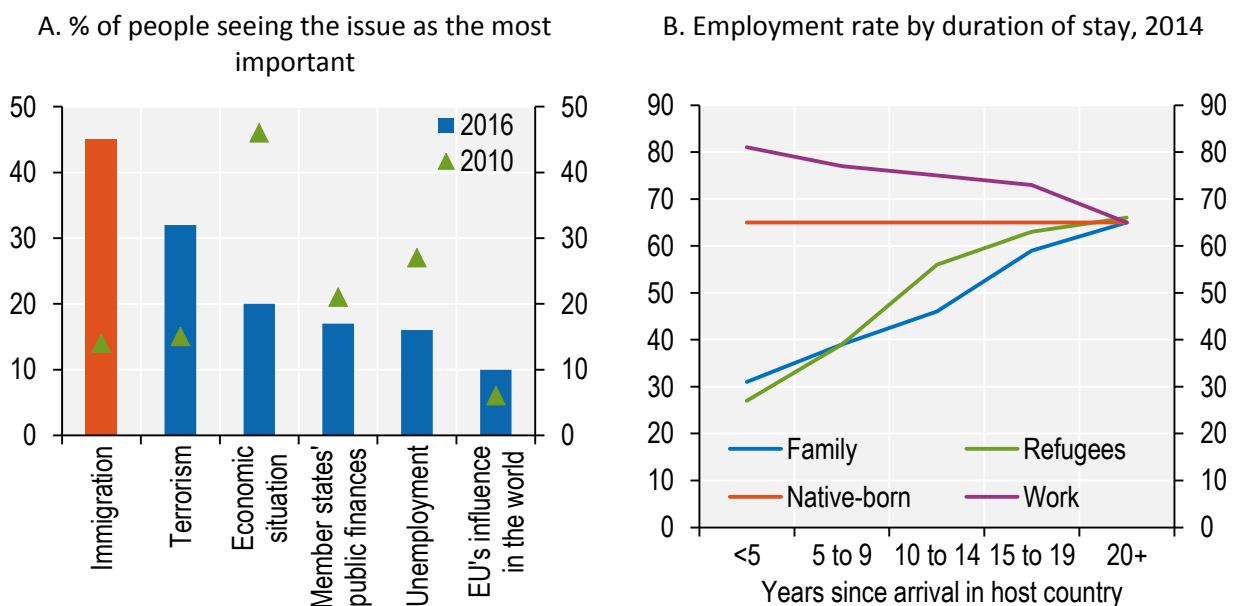
SWIFTLY INTEGRATING MIGRANTS IS KEY TO REGAINING PEOPLE'S TRUST

45% of EU citizens mention immigration as the most important issue facing the European Union at the moment, before both terrorism and the economic situation (Figure 3.4, Panel A). Only in Spain (terrorism) and in Portugal (state of public finances) is immigration not ranked first. More than one in ten people living in the EU were born abroad. In most areas (labour market, education, material living conditions, social inclusion, etc.), immigrants tend to have lower outcomes than the native-born, although not always by much (Figure 3.4, Panel B). The children of immigrants born, raised and educated in the host country also face persistent disadvantages compared to children of native-born parents. This is an important challenge, considering that in 2013, in the 22 EU and OECD countries for which data are available, nearly 20% of 15-34 year-olds were native-born, with at least one immigrant parent, or immigrated as a child. Germany is already leading by example, offering language training, vocational education and training and other help to adult refugees and other migrants to facilitate their integration into the labour market.

OECD recommendations:

- Suggest that the European Union initiate a broad Action Plan against the marginalisation of certain migrant groups (e.g. youth, refugees and women), building on previous more general EU action on the integration of migrants.
- To stress the importance of diversity and to highlight its benefits, propose an EU-wide Action Plan on Diversity, which could be a more ambitious follow-up to previous initiatives by the Commission on integration and diversity (e.g. the Inclusion and Diversity Strategy for Youth).

Figure 3.4. Additional efforts are needed to smoothly integrate migrants



Note: For Panel A, when answering the question, people could pick up to two issues.

Sources: European Union and OECD (2016), "How are refugees faring on the labour market in Europe? A first evaluation based on the 2014 EU Labour Force Survey ad hoc module", Working Paper, No. 1/2016, <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7921&furtherPubs=yes>; Eurobarometer 86 and 74.

SOLUTIONS AT THE EUROPEAN LEVEL



EUROPE NEEDS MORE EXPENDITURE TO ENHANCE GROWTH AND EQUITY

Investment in Europe remains weak (Figure 3.5). But EU energy markets require substantial investment in trans-European infrastructure to improve interconnection. Competitive transport services require physical infrastructure that is often lacking or suffers from technical barriers, such as incompatible standards. Financing from the Connecting Europe Facility and the European Structural and Investment Funds should be harnessed to enhance collective action and better diversify risk across sectors and modes of transport. Given limited public resources, the medium-term success of the Investment Plan for Europe will hinge on its ability to leverage private investment. Crowding in private investment will require the European Investment Bank Group to move towards bolder lending practices. The structure of the EU budget expenditure has become more growth-friendly and equity-friendly over time, but there remains large scope for improvement. EU budget funds for investment and other growth-enhancing expenditure (such as on education and active labour market programmes) are too low.

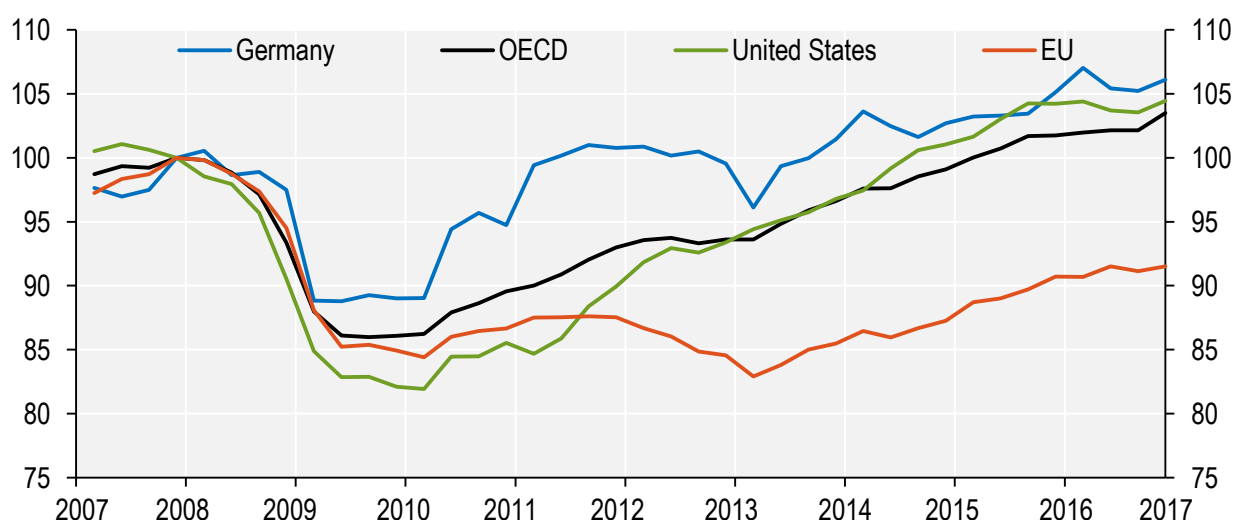
Collective action to increase public investment and leverage private investment is critical to spur growth. Priority areas include trans-European energy and transport infrastructure, as well as human capital.

OECD recommendations:

- *Insist on preserving EU budget resources for investment and inclusive growth in the face of short-term pressures on other fronts.*
- *In the future, suggest further increasing expenditure to boost growth and equity in the EU budget, if possible by granting higher resources to the European Union.*
- *In the context of the Investment Plan for Europe, insist that the European Investment Bank finance higher-risk projects that would not otherwise be carried out.*
- *Prioritise the Trans-European transport and energy network projects to support the completion of the Single Market.*

Figure 3.5. EU investment is still below 2007 levels

Real gross fixed capital formation, index Q4 2007 = 100



Source: OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database).



SOLUTIONS AT THE EUROPEAN LEVEL

ADDRESSING REMAINING PROBLEMS IN THE FINANCIAL SECTOR WILL HELP ENSURE THAT FINANCIAL RESOURCES ARE CHANNELLED TO PRODUCTIVE ENDS

Putting the financial sector at the service of all citizens and firms requires bolder action to resolve non-performing loans and completion of the European Banking Union.

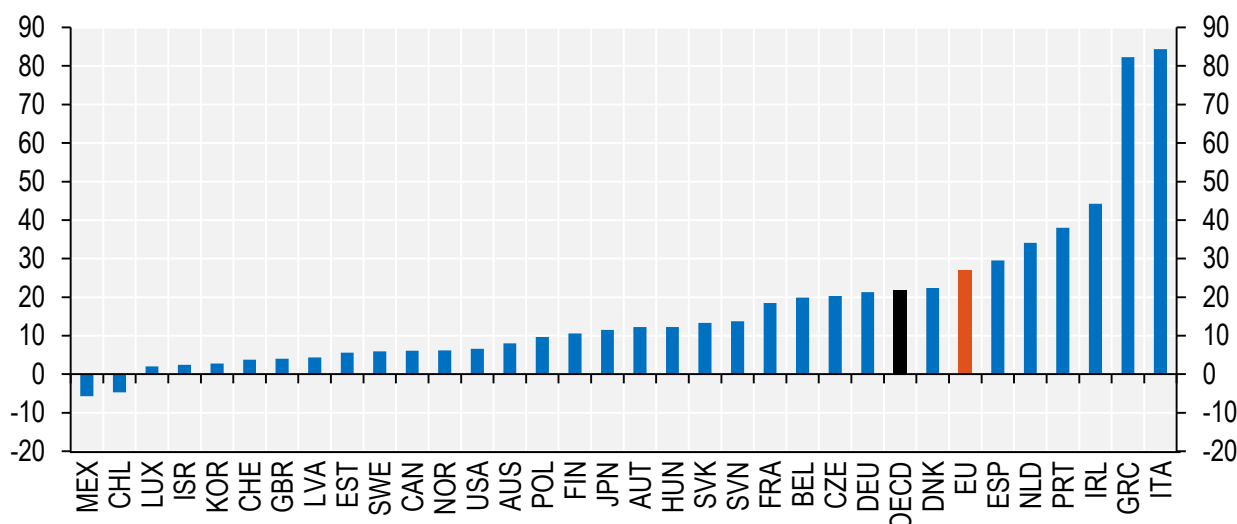
The European financial sector is recovering from the financial crisis. The volume of credit has stopped falling in most countries, and the pace of decline has been reduced in formerly financially stressed countries. However, a more aggressive policy to resolve the high level of non-performing loans (NPLs) in several countries would improve the financial situation of banks and, hence, expansion of credit. High NPLs create a financial stability risk in many countries, as banks would suffer significant capital losses in worst-case scenarios (Figure 3.6). Setting up an asset management company (AMC), notably at the European level, can be a very efficient tool to resolve NPLs. But the new bank recovery and resolution directive could make it difficult if public support is needed, since it could trigger the bail-in of junior, and possibly senior, debtors. To facilitate the creation of AMCs, a waiver of bail-in and resolution procedures should be considered when NPLs are a serious economic disturbance. Beyond the issue of NPLs, banking union is still unfinished business. Further progress at both national and European levels is needed on deposit insurance and harmonisation of banking regulations.

OECD recommendations:

- When NPLs create a serious economic disturbance, speed up and facilitate the resolution of NPLs by not triggering bail-in procedures, and consider establishing asset management companies, possibly at the European level.
- Champion the reinforcement of national deposit insurance schemes and the implementation of a European Deposit Insurance Scheme.
- Encourage further harmonisation of banking regulations in Europe.

Figure 3.6. The amount of non-performing loans is still substantial in some EU member countries

Non-performing loans net of provisions, in % of capital, 2016 Q3



Source: IMF (2016), Financial Soundness Indicators (FSI Database), International Monetary Fund.

SOLUTIONS AT THE EUROPEAN LEVEL



ACHIEVING A SMOOTH BREXIT PROCESS IS CRUCIAL FOR EUROPE'S FUTURE

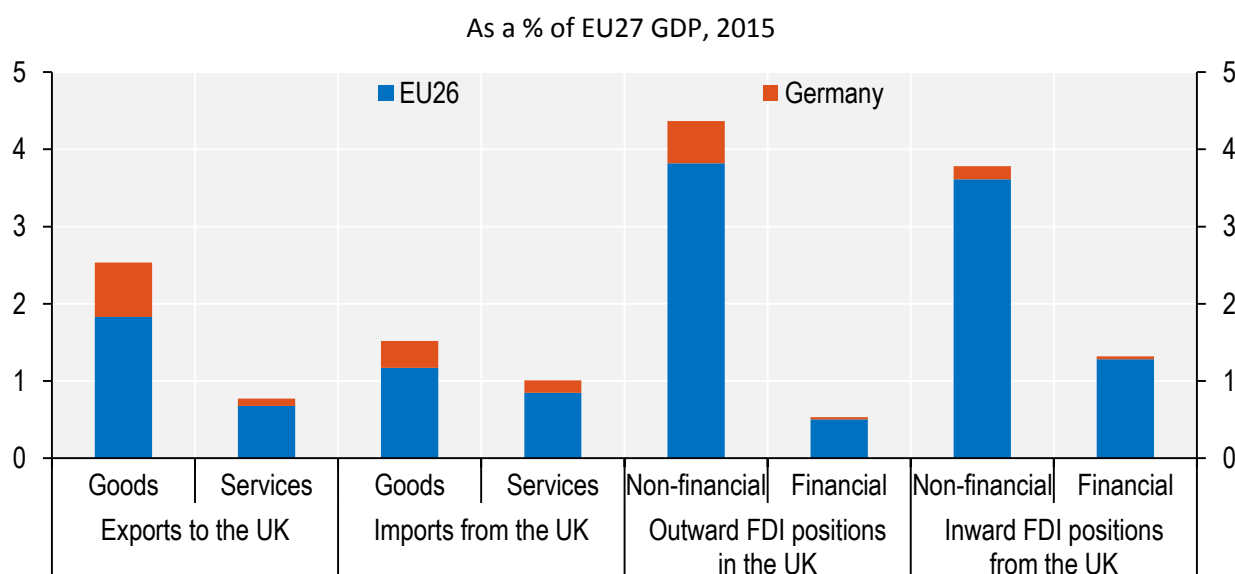
The outcome of the United Kingdom's EU referendum has led to a sizeable depreciation of the pound sterling, and heightened uncertainty related to the negotiation process to leave the European Union could lead to further financial market instability, weakening business and consumer confidence. In the longer term, the economic consequences of Brexit will depend on the exposure to the United Kingdom through the channels of trade, foreign direct investment (FDI) and immigration (Figure 3.7). There are around 3 million EU residents living in the United Kingdom (including 135 000 Germans) and close to 1 million British citizens living in the European Union (100 000 in Germany). Trade in goods is greater than trade in services, and the EU26 and Germany have a trade surplus in goods and a trade deficit in services. EU26 and Germany's non-financial foreign direct investment in the United Kingdom are higher than the UK investment position, and the opposite holds for financial foreign direct investment.

The strong trade, investment and migration linkages between the European Union and the United Kingdom make a smooth Brexit process crucial for economic, social and political stability in Europe.

OECD recommendations:

- *Champion the use of available fiscal space to offset Brexit-induced headwinds to growth by supporting domestic demand.*
- *Advocate the protection of the rights of EU citizens in the United Kingdom by recognising the rights of UK citizens in the European Union.*
- *Sustain bilateral trade and foreign direct investment by aiming for constructive post-Brexit arrangements in the upcoming negotiations.*

Figure 3.7. Trade and FDI between the European Union and the United Kingdom



Note: EU27 refers to the EU excluding the United Kingdom; EU26 refers to the EU excluding the United Kingdom and Germany.

Sources: ONS (2016), "UK Balance of Payments, The Pink Book: 2016", Office for National Statistics, July; and ONS (2016), "Foreign direct investment involving UK companies: 2015", Office for National Statistics, December.



SOLUTIONS AT THE EUROPEAN LEVEL

EU TRADE AND INVESTMENT POLICY NEEDS TO BECOME MORE INCLUSIVE

Public support for free trade and investment agreements between the European Union and other countries is low. Tackling this problem requires continuing and expanding ongoing efforts to improve the transparency of EU foreign trade and investment policy.

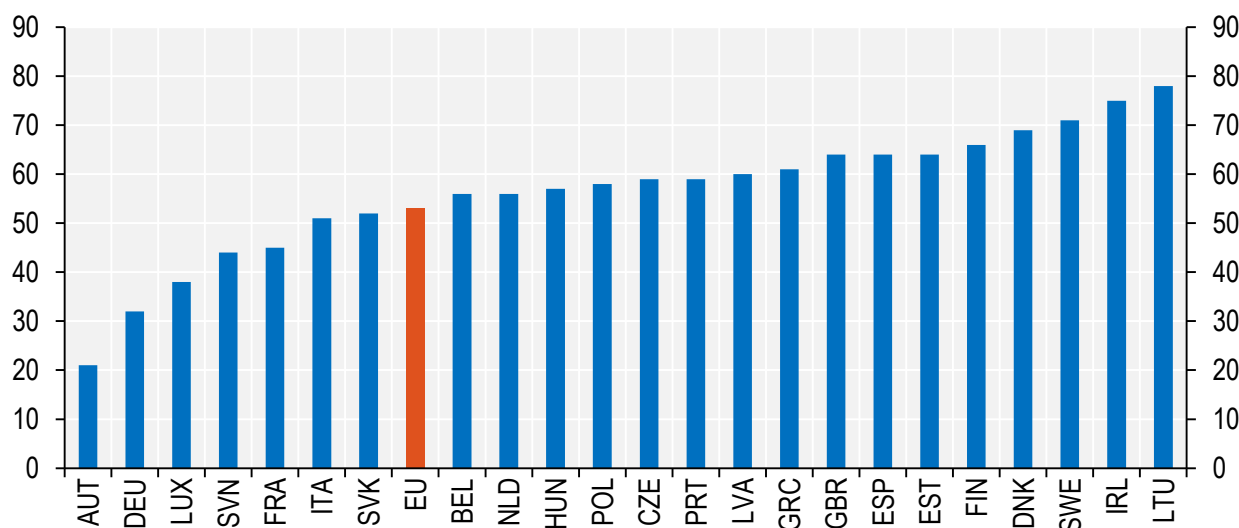
The European Union remains today the most ambitious international economic integration project, enabling the free movement of goods, services, capital, and people across its member countries. The European Commission has extensive experience in negotiating agreements with other partners and has been a leader in seeking provisions that level the playing field and deliver more evenly distributed gains. However, getting citizens behind free trade and investment agreements has proven more difficult in recent years. Only about half of all EU citizens are in favour of a free trade agreement between the European Union and the United States, for example (Figure 3.8). The European Union's new trade and investment strategy, Trade for All, notes that lack of transparency can undermine public trust and the perceived legitimacy of EU trade policy. EU proposals to develop a plurilateral investment court with professional judges are an important effort to strengthen the legitimacy and public support of investor-state dispute settlement (ISDS) by addressing perceived economic incentives of investment arbitrators and increasing the transparency of ISDS. More generally, stronger efforts are underway to make the process of trade-policy development more transparent, even opening up text proposals to public scrutiny. Continued efforts in this direction are essential to rebuild public support and make international trade and investment work for everyone.

OECD recommendations:

- Advocate that all member countries, together with the European Commission, engage more with their citizens, before, during and after the actual trade negotiations themselves.
- Demonstrate leadership in citizen engagement on trade and related issues, while emphasising how more comprehensive and progressive agreements could contribute to more inclusive growth within, as well as across countries.

Figure 3.8. Only half of all EU citizens favour a free trade and investment agreement with the US

% of people who support an EU-US free trade and investment agreement, 2016



Source: Eurobarometer 86 (autumn 2016).



EQUIPPING EVERYONE WITH STRONG AND RELEVANT SKILLS IS KEY

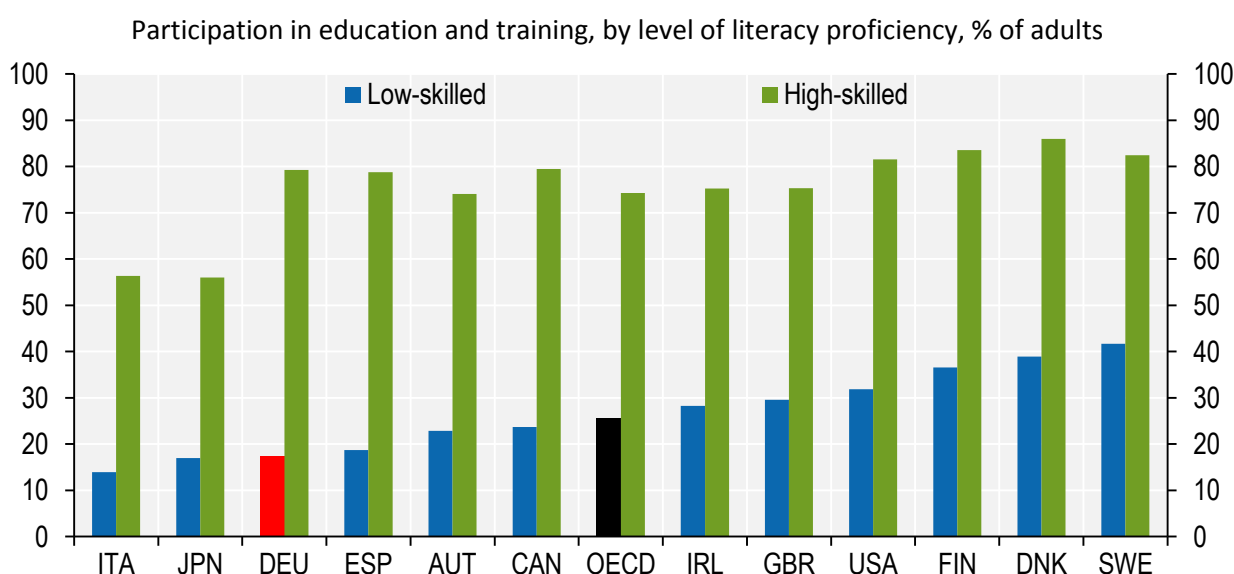
Well-being in Germany is higher than in many other countries, but if Germany wants to assume a leadership role at global and European levels, it needs to lead by example in terms of good policies. One area where further efforts are needed is education. Those who are most likely to lose out from increasing openness and technical progress are those with lower and middle levels of education and skills. The OECD *Survey of Adult Skills* reveals that Germany has a relatively large share of adults with low skills: some 17% (18%) of German adults perform at or below Level 1 in literacy (numeracy), compared to the OECD averages of 15% and 19%. Not only are adults with low skills less likely to have positive economic and social outcomes, but they also participate less often in training after completing compulsory education (Figure 4.1). Ensuring that all adults have adequate opportunities to upgrade their skills, especially those with low skills or a disadvantaged background (such as refugees and migrants), is key to helping them benefit from the opportunities offered by globalisation.

In today's globalised and technologised world, success in life hinges on having good skills. It is therefore crucial to provide everyone with adequate opportunities to upgrade their skills.

OECD recommendations:

- *Raise the skills of adults, especially those with weak literacy, numeracy and digital skills, by providing continuing education offers of general skills, in addition to computer and technical skills.*
- *Continue building the skills of adult immigrants who recently entered Germany by providing language training, adapting vocational education and training programmes and developing other targeted initiatives, such as recognising skills and qualifications.*
- *Ensure that information about adult learning opportunities is readily available to all adults, especially those with a disadvantaged background or low skills.*

Figure 4.1. The least-skilled benefit less from training



Note: The low-skilled (high-skilled) are defined as those with a proficiency level of 0 or 1 (4 or 5) in the OECD's Survey of Adult Skills. OECD is the average across all countries shown.

Source: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264204256-en>.



SOLUTIONS WITHIN GERMANY

STRONG LABOUR MARKET INSTITUTIONS CAN HELP WORKERS INTO HIGH-QUALITY JOBS

While Germany is among the top-performing OECD countries in terms of earnings and labour market security, it has room to further improve non-economic aspects of job quality, such as working-time arrangements.

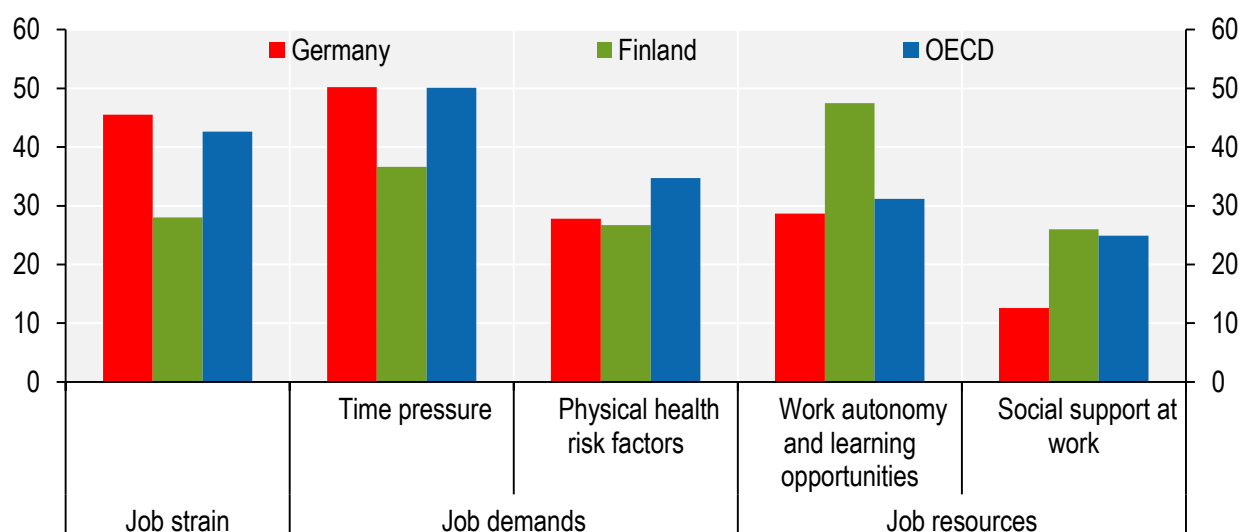
Over the last ten years, in contrast to many other OECD countries, Germany has experienced not only an increase in employment, but also an improvement in job quality. In terms of earnings and labour market security (two of the three dimensions of the OECD's Job Quality Framework), Germany is now among the top OECD countries. But it still lags behind the top-performing countries in terms of the quality of the working environment (i.e. the non-economic aspects of job quality, such as the nature and content of work performed, working-time arrangements and workplace relationships). In Germany, on average, jobs are characterised by a relatively low level of resources given to workers to accomplish their required job duties, such as work autonomy and, in particular, social support at work. When it comes to good management practices, Germany ranks above the OECD average, but there is still room for improvement (Figure 4.2). Germany could look at the experience of countries such as Denmark, Finland and Sweden to promote better work organisation, including teamwork, autonomy, task discretion, mentoring and job rotation, as well as applying new learning.

OECD recommendations:

- *Promote the adoption of good management practices to improve the quality of the working environment and the performance of firms, focusing on small and medium-sized enterprises.*
- *Strengthen the role and incentives for employers, in co-operation with workers' representatives, to hire and retain disabled workers and make the necessary adjustments to accommodate their needs.*

Figure 4.2. Germany could further improve the quality of its working environment

% of workers facing job strain and its decomposition into job demands and job resources, 2015



Source: OECD Job Quality Database (2016).



THE GENDER EARNINGS GAP REMAINS LARGE

The gender earnings gap in Germany is large, because many women work part time (Figure 4.3). The part-time employment rate is particularly high among young women in families with young children. In 2013, two-thirds of women with children worked 30 hours a week or less. Women who work part time are also more limited in their choice of job and careers, reducing their prospects for pay and their contribution to high-productivity activities. Closing the earnings gap would boost economic growth substantially: full convergence by women to men in terms of labour market participation and hours worked could result in a gain of GDP per capita of 20%. Experience across OECD countries shows that a smaller gender pay gap would also markedly reduce poverty risks in households. Indeed, at the household level, job loss and household reconstitutions are key triggers of poverty risk. The government is preparing legislation to promote equal pay conditions for men and women, and it has also made it easier to combine work with family life by making the parental leave regulations more flexible. Nonetheless, insufficient provision of full-day childcare and schooling (see below), as well as disincentives in the tax system, continue to create barriers to full-time employment that mostly affect women.

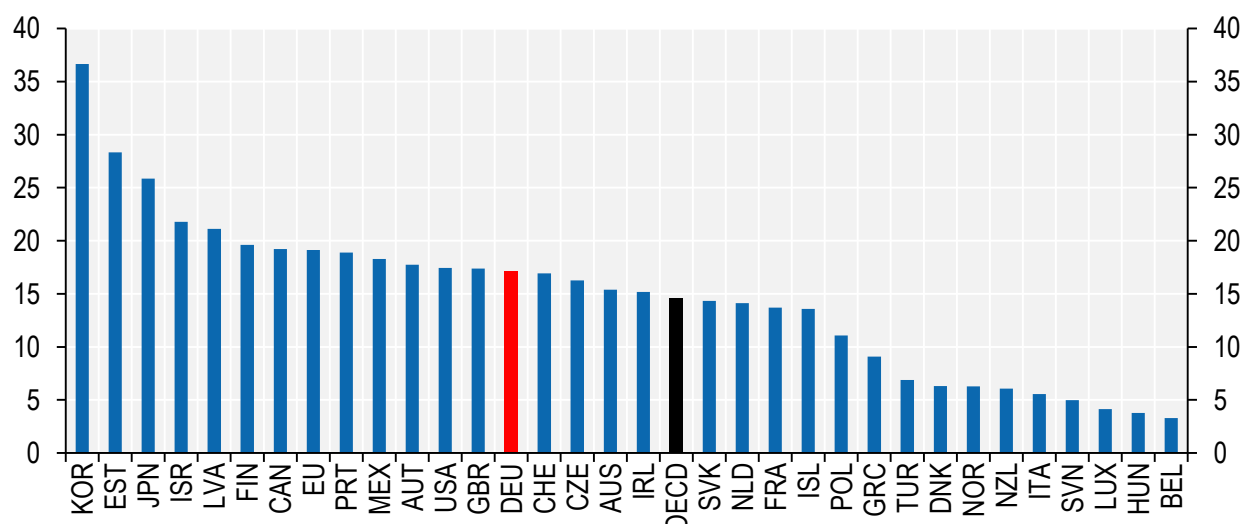
Closing the gender pay gap would boost economic growth substantially, including through better use of women's skills. And it would help households respond better to the hardships that can result from globalisation or technological change.

OECD recommendations:

- *Grant parents with young children who opted for reduced full-time hours the right to increase working hours within specified time frames, and extend co-operation with social partners and other stakeholders to provide flexible working arrangements.*
- *Lower the tax burden on the second earner in personal income taxation, for example by introducing a separate tax-free allowance for second earners.*
- *Relate health insurance premiums to the number of adults in a household.*

Figure 4.3. German women earn much less than men

Difference between men's and women's median earnings, % of men's median earnings, 2014 or latest year available



Source: OECD Gender Wage Gap (indicator).



SOLUTIONS WITHIN GERMANY

THE TAX SYSTEM CAN BE MADE MORE FRIENDLY TO GROWTH AND EQUITY

Ensuring adequate progressivity across the entire tax and transfer system, removing inefficient tax expenditures that disproportionately benefit the rich, reducing tax evasion and avoidance, and broadening the financing of social protection can help make the tax system more inclusive.

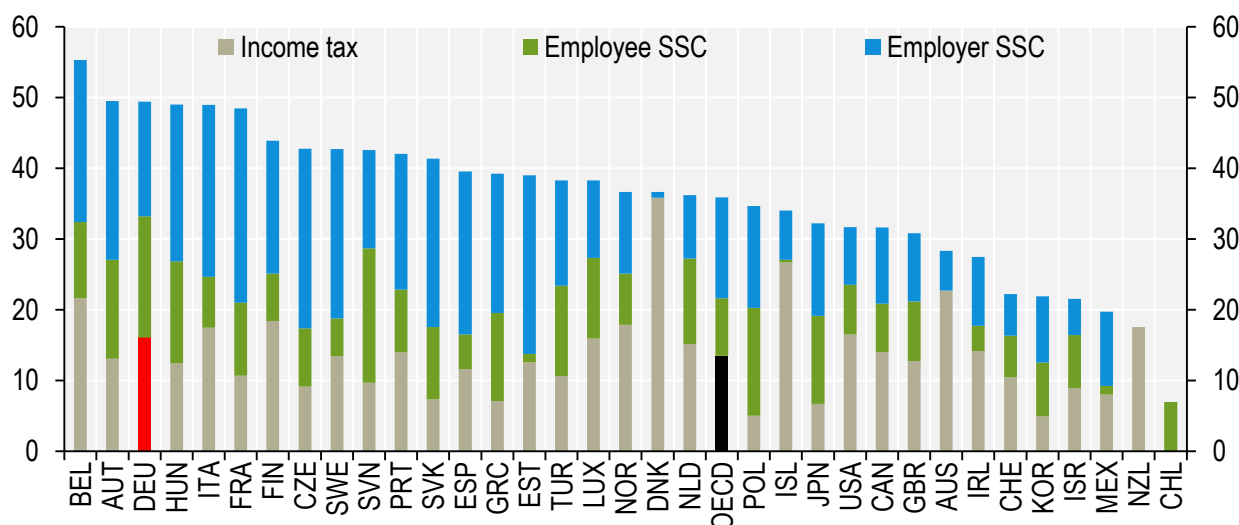
The share of labour taxes in total tax revenues in Germany is among the highest in the OECD, with harmful consequences for long-term growth and employment. The labour tax wedge (Figure 4.4) is projected to rise. Public health and long-term care spending is mostly funded from social security contributions (SSC) on wage income, and this spending will rise due to demographic change and technological progress. The labour income tax burden could partly be shifted towards real estate by aligning the tax base with the market value of the property and household savings. Interest income, dividends and capital gains are currently taxed at the household level at a flat rate, which is, in most cases, lower than the personal income tax rate. In addition to this, there are generous capital gains tax exemptions for immovable property. As such income is concentrated among top-income households, taxing savings at higher and slightly progressive tax rates would strengthen the tax system's progressivity, while having little impact on investment. The OECD's work on the Automatic Exchange of Financial Account Information for Tax Purposes will help facilitate such a reform, as it reduces the opportunities for tax evasion.

OECD recommendations:

- Broaden the contribution base for the funding of health and long-term care beyond wage income to all household income.
- Tax capital income at the household level at higher and slightly progressive rates.
- Levy recurrent taxes on immovable property on the actual market value of the property.

Figure 4.4. Germany puts a very high tax burden on labour

Tax wedge on labour income for single taxpayers at average wage earnings in % of total labour costs, 2015



Note: The labour tax wedge is defined as the ratio between the amount of taxes paid by an average single worker (a single person at 100% of average earnings) without children and the corresponding total labour cost for the employer. The average tax wedge measures the extent to which tax on labour income discourages employment. This indicator is measured in percentage of labour cost.

Source: OECD Taxing Wages Database.



ALL CITIZENS AND FIRMS SHOULD BE ABLE TO THRIVE IN A DIGITAL WORLD

Germany has made important strides to develop a vibrant and innovative digital economy, but further efforts are needed. First, all individuals, businesses and governments need to have reliable access to digital networks and services. Germany lags behind the OECD average on mobile broadband subscriptions (74 subscriptions per 100 inhabitants, compared to the OECD average of 95), and less than 2% of German fixed broadband subscriptions are fibre subscriptions (compared to over 70% in leading countries) (Figure 4.5). Second, to allow everyone to engage in the digital economy, education and training systems need to promote skills that enable effective use of digital technologies. Only 4.5% of German tertiary graduates specialise in computer sciences, and less than 30% of workers use office software every day at work, with a large share of those users considered to have insufficient ICT skills. Third, special efforts are needed to help small firms tap the benefits of digitalisation. These firms often have more limited resources for acquiring complementary knowledge-based assets and have limited awareness of the opportunities offered by digitised business and work. Germany is no exception. For instance, only 15% of small firms used cloud computing in 2016, compared to 38% of large firms.

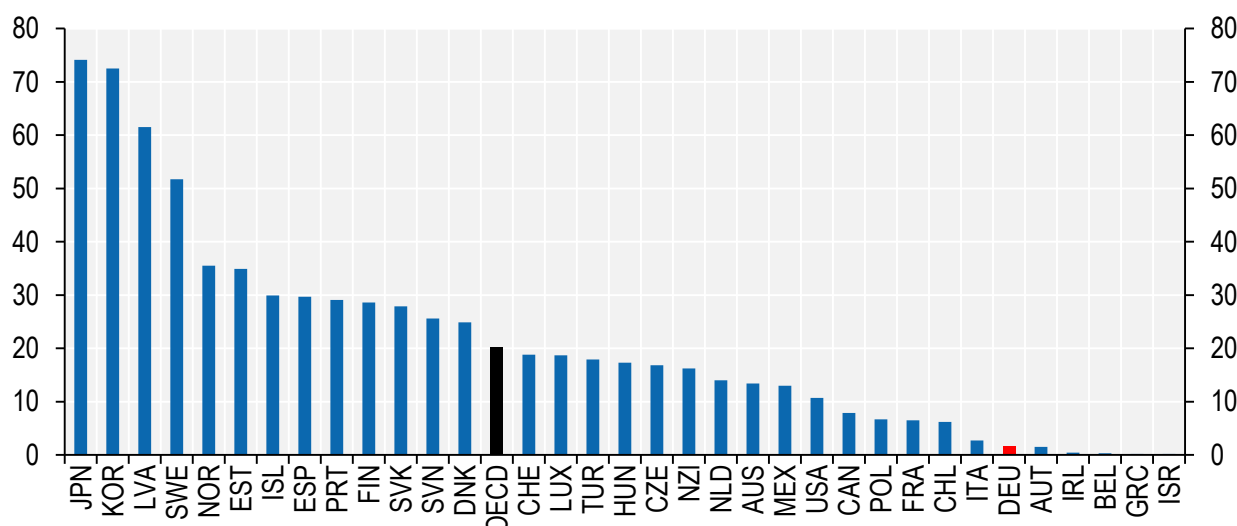
If all German citizens and firms are to truly thrive in the digital world, additional efforts are required on three fronts: broadening network access, enhancing people's digital skills, and providing special support to small firms to help them grasp the opportunities of the digital economy.

OECD recommendations:

- Foster deeper deployment of fibre in fixed networks through competition, such as that generated by municipal networks, in particular in smaller cities and rural areas.
- Enhance people's ICT skills by placing more emphasis on promoting strong levels of foundation skills, digital literacies, higher-order thinking competencies and social and emotional skills.
- Foster the engagement of small and medium-sized enterprises in the digital economy through entrepreneurship education and training, technology diffusion programmes, enhanced access to diverse sources of finance, and greater competition in knowledge-intensive professional services.

Figure 4.5. Germany urgently needs to further expand its fibre network

Share of fibre connections in total broadband subscriptions, June 2016



Source: OECD Broadband Portal, www.oecd.org/sti/broadband/oecdbroadbandportal.htm.



SOLUTIONS WITHIN GERMANY

INVESTMENT IN INFRASTRUCTURE, INCLUDING SOCIAL INFRASTRUCTURE, SHOULD BE INCREASED

Investment at the municipal level has fallen, partly driven by high social-transfer spending obligations. The central government should help municipalities reverse this trend, as higher spending on education, transport and digital infrastructure is urgently needed.

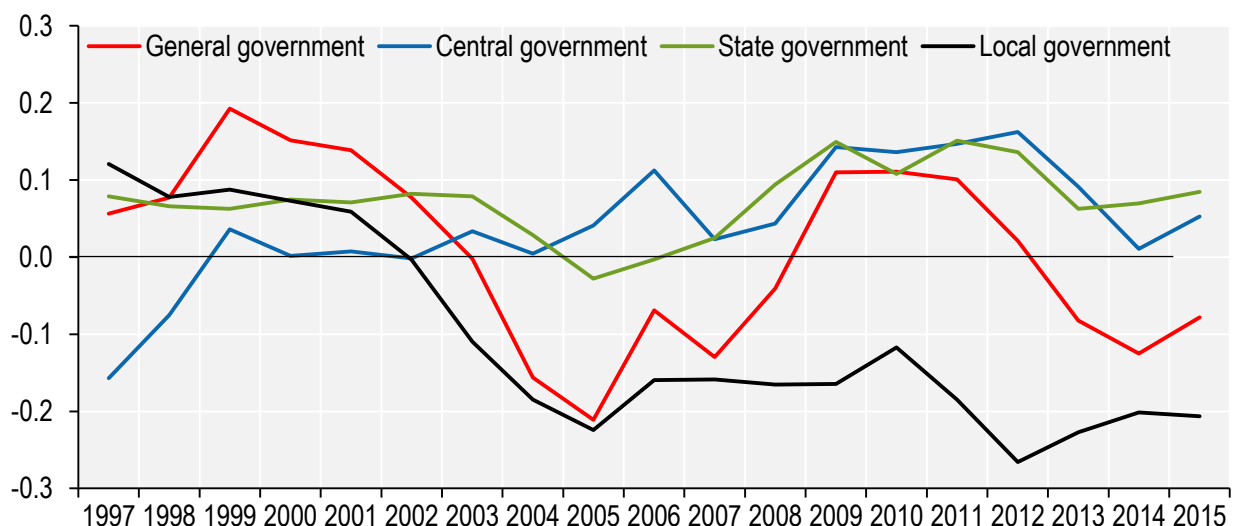
Public investment has been low and has declined markedly at the level of municipalities (Figure 4.6), which have reported large unmet investment needs in schools and other educational facilities. This is problematic in light of the important role that high-quality education plays for inclusive growth (see above). In 2014, only 33% of children under the age of 3 were enrolled in day care, and only 53% of primary schools offered full-day schooling. There is also a need for additional investment in Germany's transport infrastructure and its digital infrastructure (see above). The government can do more to support investment in municipalities, including through capacity building. Usage-dependent charges are powerful instruments to internalise environmental and other costs of public infrastructure use. The planned user charge for passenger cars, for example, is not usage-dependent and should therefore be reconsidered. But financial considerations are not the only impediment to higher investment. Large-scale complex public investment projects in Germany often face strong resistance of the local population at late stages. This calls for involvement of different stakeholders earlier in the planning process.

OECD recommendations:

- *Provide more support for good investment projects by municipalities where federally-mandated spending on cash transfers is high, including technical support.*
- *Involve the public in planning and realising investment projects early on, including through advanced communication tools.*
- *Strengthen investment in childcare, early childhood education and full-day primary education.*
- *Introduce usage-dependent and congestion-dependent road tolls for passenger cars.*

Figure 4.6. Net government investment has fallen, especially by local governments

Investment net of depreciation of the capital stock, % of GDP



Source: OECD National Accounts Database.



THE FINANCIAL INDUSTRY HAS TO BE PUT TO THE SERVICE OF ALL

While finance has been a key ingredient of long-term economic growth in OECD countries, it has also contributed to higher income inequality and wealth inequality. This is the result of very high earnings by financial sector employees, the tendency of banks to concentrate their lending on higher-income households who can thus benefit more from investment opportunities, and rising stock prices, which disproportionately benefit affluent households. In addition, the rise in cross-border exposures between financial institutions has aggravated financial stability risks. While strengthened buffers have made the German banking system more resilient since the crisis, large banks remain highly leveraged (Figure 4.7), and profitability is low and uncertain. The mostly publicly-owned *Landesbanken* have had a poor track record in efficiency and solvency risk. Dealing with a failing systemically important financial institution will likely require a government bail-out and could thus be very expensive for taxpayers. Moreover, implicit government guarantees may exacerbate the inequality effects of finance by encouraging banks to assume more risk, which in turn allows them to extend credit and raise salaries by more. Another issue is the reduced returns in private pension plans as a result of low interest rates, together with high operating costs charged by financial intermediaries for *Riester* contracts.

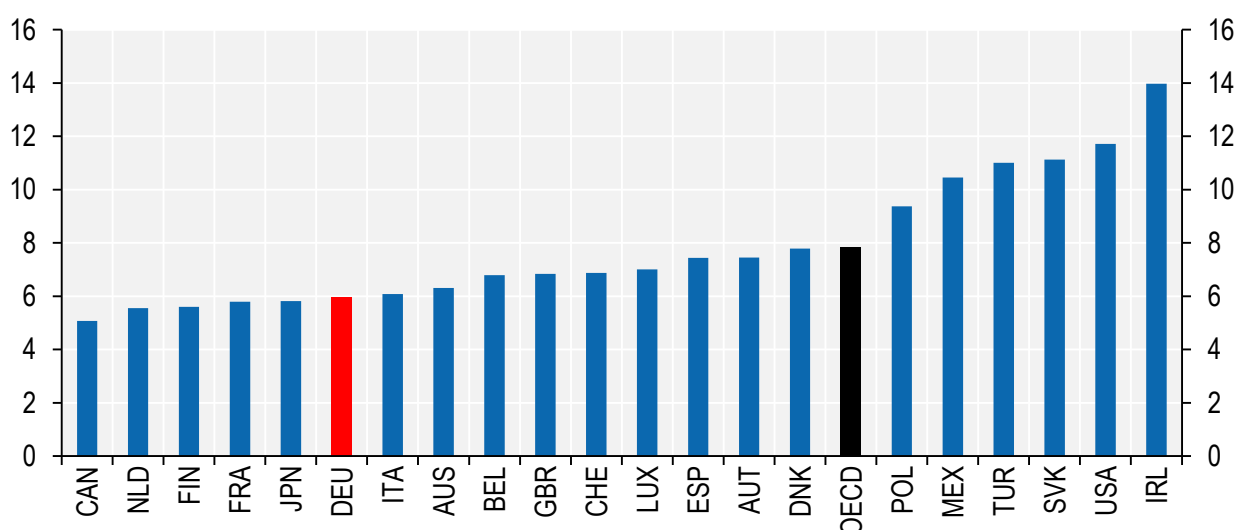
While finance has been a key driver of growth, it has also contributed to higher inequality. Policy makers need to ensure that the financial industry does not disproportionately benefit those who are better off, for instance by encouraging banks to avoid excessive risk-taking.

OECD recommendations:

- *Require banks to separate investment banking from retail banking and to meet stricter leverage ratios.*
- *Restructure the public *Landesbanken*, including through privatisation, and have them focus on core activities.*
- *Reduce operating costs of subsidised, individual pension plans by improving comparability among providers.*

Figure 4.7. The capital-to-asset ratio of German banks is low

Total capital in % of total unweighted assets, 2015



Note: OECD is the average across all countries shown.

Source: IMF (2017), IMF Financial Soundness Indicators Database, GFSR FSI Tables October 2016.



HOW CAN THE OECD HELP

The OECD has developed a broad toolkit to help countries tackle challenges such as increasing inequality, rising linkages between finance and the real economy, resource constraints and environmental degradation, slowing productivity growth and falling trust. Examples include the Inclusive Growth initiative, the Job Quality Framework and our work on the Productivity-Inclusiveness Nexus.

THE OECD CAN HELP COUNTRIES ACHIEVE MORE INCLUSIVE GROWTH

To develop an innovative toolkit that can help countries respond to key challenges, the OECD launched the New Approaches to Economic Challenges initiative (Figure 5.1). This initiative has fostered a culture of experimentation and investigation of new relationships, deepening the analysis of trade-offs and complementarities across policies. It has helped strengthen quantitative integrated analysis and led to the adoption of new policy tools and approaches across the OECD. Work on the Productivity-Inclusiveness Nexus, which explores the potential linkages between slowing productivity growth and rising or high inequalities in advanced economies, is emblematic of this new cross-cutting approach. In the context of the Inclusive Growth initiative, progress has also been made in better understanding the policy linkages between different dimensions of well-being, including through the analytical work related to the Multidimensional Living Standard Indicator. The OECD Job Quality Framework is profoundly changing the narrative on labour market policies, changing the focus from the number of jobs created to their quality. It provides an operational way to measure job quality on a comparable basis across both countries and individuals that is anchored along three dimensions: earnings quality, labour market security and the quality of the work environment. Finance and financial linkages are better integrated in OECD work, and complexity and systems thinking are increasingly addressed, with greater consideration given to resilience. More work is still needed to fully grasp the complexity of financial markets and systemic risks and to incorporate finance in macroeconomic projections.

Figure 5.1 The OECD has developed an innovative toolkit to better help governments address today's most pressing challenges

Policy theme	New perspectives	New policy tools, measures and instruments
Inclusive growth	Well-being	Examining distributions, applying multidimensional living standards, new measures such as job quality
Environment	Long-term perspective, interconnectedness economy / environment	Measurement of stocks of natural capital, integrated modelling, measures of environmental policy stringency, links between environmental policies and inequality
Productivity	Long-term perspective, well-being	Firm-level micro-data, distributions of firms, allocation of skills and distributional impacts of innovation
Finance	Links finance/real economy, complexity, wellbeing	Integrating finance in economic modelling and forecasting, distance from default measures, revised assumptions about risk, finance and inequality
Trust	Institutions and governance, well-being	New measures of trust, taxation and responsible business conduct, new approaches to public policy formulation

HOW CAN THE OECD HELP



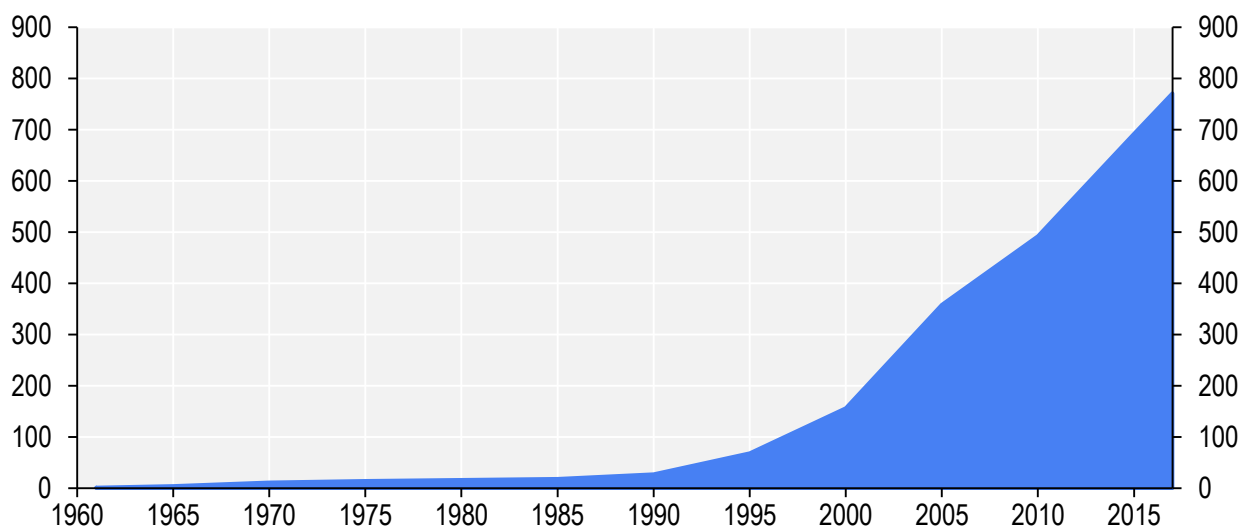
THE OECD IS STRIVING TO REMAIN AT THE FRONTIER OF GLOBAL STANDARDS IN TERMS OF THE RELEVANCE OF TOPICS AND THE QUALITY OF OUTCOMES

At the 2013 Ministerial Council Meeting, ministers reaffirmed the OECD's role as a global standard-setter and called on the organisation to "proactively update and upgrade its existing standards and respond to any gaps in global standard setting where appropriate". The OECD has a long history of standard setting and is uniquely positioned for this purpose. Its extensive mandate means that it is able to take a horizontal and multidisciplinary approach, drawing critical links between different policy areas. Its broad technical expertise and the ability to move quickly also give the OECD significant flexibility to respond to new challenges and adopt innovative approaches. Since its creation in 1961, the OECD has developed 265 instruments, ranging from legally binding decisions and international agreements (including the OECD Anti-Bribery Convention) to non-binding recommendations (such as the Standard for the Automatic Exchange of Information on Tax Purposes and the G20/OECD Principles of Corporate Governance), which are the most common type of legal instrument (191 out of 265). A number of OECD standards have become global standards, such as the OECD/G20 Base Erosion and Profit Shifting package. Over the years, the OECD has been adept at creating innovative norms to address new challenges, such as the OECD Guidelines for Multinational Enterprises, which were the first comprehensive code for corporate social responsibility and are strongly supported by the German G20 Presidency. All OECD legal instruments are open to non-member countries, whose adherence has dramatically increased in recent years (Figure 5.2). As of 1 March 2017, 136 non-members have adhered to one or more OECD legal instruments. Non-members are also increasingly being involved in the development phase of OECD standards. The OECD is currently reviewing its instruments to ensure they continue to respond in a timely manner to the new challenges that governments are facing, thereby strengthening impact and relevance.

The OECD is uniquely placed to develop standards on newly emerging challenges, thanks to its extensive mandate, its broad technical expertise and its ability to move quickly. Increasingly, non-member countries also adhere to OECD instruments. This boosts their relevance by giving them a global reach.

Figure 5.2. More and more non-member countries adhere to OECD instruments

Number of instances of non-member adherence to OECD legal instruments



Source: OECD calculations.



HOW CAN THE OECD HELP

THE OECD IS SUPPORTING THE GERMAN G20 PRESIDENCY

The OECD is supporting the German G20 Presidency in many areas, including promoting a rules-based economy, advancing the digital economy, and accelerating implementation of the COP 21 Paris Agreement.

At this very complex moment in contemporary history, where the achievements of international co-operation risk being jeopardised and derailed by inward-looking policies, isolation and economic fragmentation, it is of paramount importance that G20 Leaders, in Hamburg, send a strong message reiterating the need for economic co-operation and multilateralism and the need to strengthen/uphold a rules-based economy. In this context, the G20 German Presidency agenda is extremely relevant, supported as it is by three guiding principles for collective G20 action: ensuring resilience, improving sustainability and assuming responsibility. The OECD is actively supporting the German G20 narrative (Figure 5.3). Among many other things, the OECD helps the G20 to promote a rules-based economy and a global level-playing field by making OECD analysis, standards and instruments available to the G20 membership, in areas such as international trade, tackling excess steel capacity, taxation, international capital flows, responsible business conduct, anti-corruption and corporate governance. The OECD is also supporting the G20 in harnessing the potential of the digital economy. At the request of the Presidency, the OECD delivered a report on Key Issues for Digital Transformation in the G20, which includes an assessment of the performance of G20 economies with respect to digitalisation and an overview of the most pressing policy challenges in the digital era. The set of key policy recommendations identified in this analysis is helping the G20 design a forward-looking digital roadmap. And the OECD is helping the G20 accelerate implementation of the COP 21 Paris Agreement. For the German Presidency and with its generous support, the OECD is developing a study on growth, investment and the transition towards a low-carbon economy, which will aim to show that a bold implementation of the agreement can be conducive to a new growth model that would be strong, clean and sustainable and would help reach the important well-below-2°C target.

Figure 5.3. The OECD is contributing to almost all areas of the G20's work

Focus areas of this year's co-operation in dark blue, other areas of co-operation in light blue

Building resilience	Improving sustainability	Assuming responsibility
World economy	Climate and energy	Tackling the causes of displacement
Trade and investment	2030 Agenda	Partnership with Africa
Employment	Digitalisation	Fighting terrorism
Financial markets/international financial architecture	Global health	Anti-corruption
International tax co-operation	Empowering women	Agriculture/food security

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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