

## Revisiting Assumptions in OECD Reform Recommendations

The Organization for Economic Cooperation and Development (OECD) was created to help its 30 democratic member countries cooperate and converge economically. OECD founders believed that with peace, cooperation, and trade, less advanced economies would naturally grow faster until they approached the standard of living of the United States. OECD was to be the engine and arbiter of this international growth. However, in the 1980s economic development around the globe seemingly stalled, and during the 1990s, Japan and much of Western

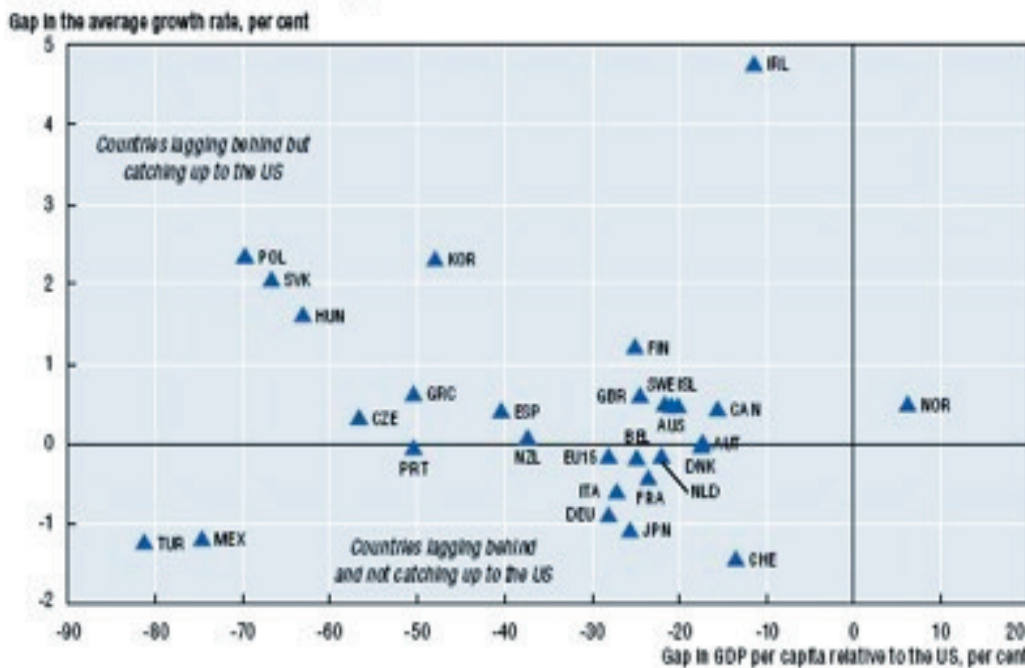
Europe started falling behind relative to America. In retrospect, we may understand that this was during the rise of the economies of the BRIC countries—Brazil, Russia, India and China—which often refute the professed logic of OECD in terms of democracy, transparency, and free trade.

In light of the challenges ahead, Jean-Philippe Cotis, the OECD's chief economist, presented the Organization's new annual report: "Economic Policy Reforms: Going for Growth."<sup>1</sup>

It is the duty of the OECD to iden-

tify, codify and disseminate best practices in promoting stable economic development. Many of these suggestions in the realm of economic reforms are painful, and as Jean Phillippe Cotis has said, "[T]he natural temptation is to minimize the significance of the [GDP] comparison. In the end, aren't we all unique and truly incomparable! And so proud of our own way of life, which is worth so much more than a vulgar GDP per capita statistic."<sup>2</sup> To overcome this problem, the OECD explicitly employs political and even cultural considerations in its latest report, which

Figure 1.1. GDP per capita levels and growth rates:  
Gap vis-à-vis the United States<sup>1</sup>



Note: EU15, excluding Luxembourg.

1. The average growth rate of GDP per capita is calculated over the period 1994-2003 on the basis of volumes data from national accounts sources. The level of GDP per capita is for 2002 on the basis of 2000 PPPs.

Source: OECD, National Accounts of OECD Countries, 2004 and OECD Economic Outlook, No. 76.

Country Code	Country Name
AUS	Australia
AUT	Austria
BEL	Belgium
CAN	Canada
CHE	Switzerland
CZE	Czech Republic
DEU	Germany
DNK	Denmark
ESP	Spain
EU	European Union
FIN	Finland
FRA	France
GBR	United Kingdom
GRC	Greece
HUN	Hungary
IRL	Ireland
ISL	Iceland
ITA	Italy
JPN	Japan
KOR	Republic of Korea
LUX	Luxembourg
MEX	Mexico
NLD	Netherlands
NOR	Norway
NZL	New Zealand
POL	Poland
PRT	Portugal
SVK	Slovak Republic
SWE	Sweden
TUR	Turkey
USA	United States <sup>11</sup>

lists five potential improvements for every country—irregardless of perceived current economic success.

The OECD’s other major tactic in this report is to use “deep benchmarking” to understand the sources of problems, rather than just to identify their symptoms. Deep benchmarking goes beyond simply comparing economic indicators such as country GDP. Deep benchmarking involves “carefully

constructed structural policy indicators with a proven, econometric link to economic performance.”<sup>3</sup> The Organization finds that the gaps in GDP between developed countries are often attributed to “to lower hours worked per capita, lower output levels per hour worked, or both.”<sup>4</sup> Mr. Cotis provided a case study of this trend.

In recent years, France’s labor force has increased by 12 percent, but the number of employed laborers has only increased by six percent. This compares to a 14 percent jump in both categories for America. The noted economist Paul Krugman<sup>5</sup> and others have credited this phenomenon to the French trading income for leisure, compared to “American workaholism,” in which

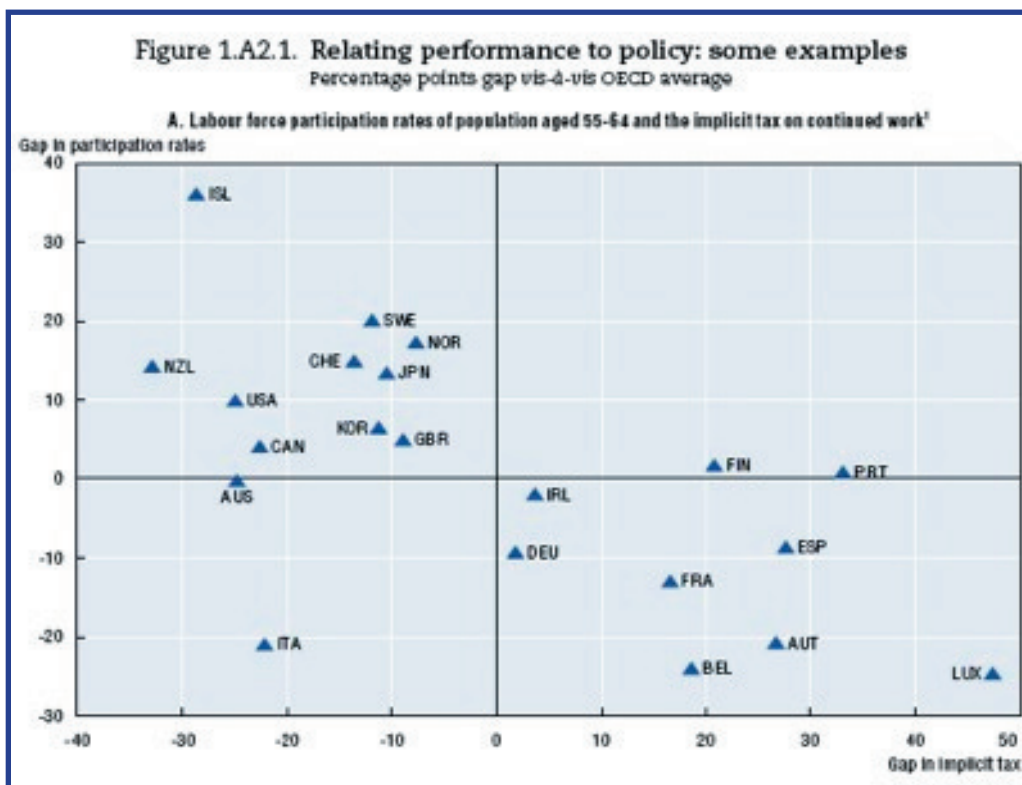
the ultimate objective is personal contribution to one’s job and not to one’s personal, family or leisure time. This suggests that French economic indicators are not indicative of a problem at all. Seeking to address such “false” indicators and to differentiate between “bad policies as opposed to legitimate social choices,”<sup>6</sup> the OECD developed a sophisticated series of indicators relating to economic performance a structural policy.

for continuing to work than older people in other countries. The OECD calculated that if France reformed its pension systems to remove these penalties, French citizens over the age of 55 would be as inclined to work as peers in other OECD countries.<sup>7</sup> The problem is then one of a rational economic actor and not one of a person who values leisure more than another.<sup>8</sup>

Jean-Philippe Cotis suggested that France’s problem points to a

strategy for addressing the larger issue of global warning. He offered an analogy: cholesterol can be unhealthy, but including enough ‘good’ cholesterol in your diet can counter the effects of ‘bad’ cholesterol. Similarly ‘good’ aging can be used to mitigate ‘bad’ aging.

The problem of ‘bad’ aging—the demographic and workforce compression and elderly overhang in much of the developing world—is well known. Many OECD countries have a large population of seniors and a birth rate below replacement levels. As a result, the ratio of workers to pensioners is steadily dropping. ‘Good’ aging would mean keeping people in the workforce longer and taking advantage of their years of experience. To achieve this objective, pensions



In the case of France, OECD’s ‘deep benchmarks’ showed that relative to other nations, French employment rates diverged dramatically for workers over age 55. The question arose, were older French dropping out by choice while Icelanders tended to work until 75, also as a matter of choice? The OECD then calculated how many government benefits French citizens receive for each year of work beyond 55. They found that older French citizens pay a substantially higher penalty

and government programs should reward, not punish, those who keep working into old age.

CSIS's Global Aging Initiative has argued that immigration will play a key role for aging nations that lack young workers to support their pensioners.<sup>9</sup> However, immigrants, their children, and their grandchildren are presently a controversial issue in much of Europe. The French campaign against the E.U. constitution ran ads on the risk of Polish plumbers taking French jobs. More ominously, recent riots across France demonstrated widespread discontent and unemployment in suburban and exurban areas. Rioters were often not first generation immigrants themselves, but were first- or second-generation French citizens.

Jean-Philippe Cotis suggested that immigration is an economic boon for countries—if they are appropriately structured to handle it. He argues that the United States and the United Kingdom have greatly benefited from their immigrant populations; however, the system in France has lent itself to problems. For instance, France's welfare system offers ten times the resources available to most Algerians at home. This can be viewed as a serious disincentive to seek work, which does not pay significantly more than welfare.

More importantly, Cotis argued that even if they do seek employment, Algerians would have a very difficult time finding a job. The legal minimum wage for a French worker is over 50 percent higher than what the average French worker earns. This rate is at least five percent more than the average for the

15 pre-expansion EU members, 10 percent more than Great Britain, and 20 percent more than the U.S. This, combined with regulations on firing workers, means that a new worker is a major investment in France. Thus it isn't surprising that only 10 percent of France's youth age 15-19 are employed compared with the OECD average of 25 percent. Similarly, one should not expect immigrants without substantial skills to be able to find legal work.<sup>10</sup>

Jean-Phillipe Cotis argued that additional crises may be necessary to prompt meaningful economic reforms. Governments, however, are running out of ways to put off the problem. Debt spending cannot be used to procrastinate because it has effectively become a form of taxation. The Chief Economist posited that many European citizens see debts as unsustainable and do not believe that their governments will be able to keep their promises. As a result, these citizens make conservative investments, taking money out of the economy to ensure that their children will have the resources they need. In Germany, France, and several other OECD states that are falling behind, the next generation of leaders has already begun to come to power. These leaders will quickly have to address the hard choices their predecessors dodged.

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<sup>2</sup> Cotis, Jean-Philippe 2005. Press Conference: London, 1st March 2005, 2005 [online]. Paris: Organisation for Economic Co-operation and Development, Economics Department: pg. 1 [cited 20 December 2005]. Available from the World Wide Web: (Available at: <http://www.oecd.org/dataoecd/58/0/34514077.pdf>)

<sup>3</sup> OECD, 2005.

<sup>4</sup> *Ibid.*

<sup>5</sup> Krugmann, Paul. 2005. French Family Values. New York Times (New York) July 29, 2005:A23.

<sup>6</sup> Cotis, Jean-Philippe 2005. Press Conference: London, 1st March 2005, 2005 [online]. Paris: Organisation for Economic Co-operation and Development, Economics Department: pg. 2 [cited 20 December 2005]. Available from the World Wide Web: (Available at: <http://www.oecd.org/dataoecd/58/0/34514077.pdf>)

<sup>7</sup> Cotis, 2005.

<sup>8</sup> OECD, 2005.

<sup>9</sup> CSIS, 2005. Global Aging Initiative, 2005 [online]. Washington: Center for Strategic and International Studies, Global Aging Initiative [cited 20 December 2005]. Available from the World Wide Web: (<http://www.csis.org/gai/>)

<sup>10</sup> OECD, 2005.

<sup>11</sup> *Ibid.*

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(Endnotes)

<sup>1</sup> OECD, 2005. Economic Policy Reforms Going for Growth, 2005 [online]. Paris: Organisation for Economic Co-operation and Development, Economics Department: pg. 14 [cited 20 December 2005]. Available to subscribers from the World Wide Web: ([http://www.oecd.org/document/4/0,2340,en\\_2649\\_33733\\_](http://www.oecd.org/document/4/0,2340,en_2649_33733_)