

## OECD Ministerial Council Meeting 13-14 May 2004 - Chair's Summary

14/05/2004 - Mexico had the honour to chair the OECD Ministerial Council Meeting on the tenth anniversary of its accession to the Organisation. We were delighted to welcome Ministers from Member and non-Member economies. We benefited from consultations with representatives from business and industry (BIAC), trade unions (TUAC) and civil society more broadly at the OECD Forum.

### **Economic Outlook**

1. Ministers welcomed the strong recovery in the world economy. The recovery has been led by the United States and Asia, and Ministers were confident that the euro area would follow. With inflation low and business sector balance sheets in much better shape, the fundamentals are healthy for future growth. But appropriate policies are needed to make the expansion robust and durable.
2. Ministers recognised that interest rates need to rise in countries furthest into recovery. This should not disturb markets given that their rates are currently low. A tighter monetary stance is necessary in order to safeguard the low inflation needed for strong, sustained growth. In other countries, notably Japan and some in the euro area, there is a continued need for relaxed monetary conditions.
3. Most countries recognised the need for fiscal consolidation. Expansionary fiscal policies helped to overcome the recession but deficits now need to be rolled back, especially given the growing ageing-related pressures on public spending. Ministers differed on whether fiscal consolidation should depend on a recovery in activity and whether structural reform would be eased by delaying consolidation.
4. The need for structural reform, particularly in continental Europe and Japan, was recognised by most Ministers.
5. Ministers also identified a number of risks, including those stemming from oil prices, but were confident that, because the weighted index of oil prices has not risen significantly, this could be handled provided that prices do not rise much further.
6. Ministers discussed outsourcing. In itself, outsourcing is part of the continuing trend towards international integration, and should be welcomed because it leads to higher productivity and

real incomes. However, a number of Ministers considered that the OECD could help to dispel fears about this issue. Some workers, companies and communities will be adversely affected, at least in the short term. OECD countries therefore need policies that help the adjustment of people who are dislocated because of outsourcing or other developments. If a smooth adjustment is not achieved, protectionist pressures may rise.

7. In the context of encouraging growth and improving surveillance of structural reform policies, a number of countries supported a request that OECD economic surveys of the euro area review policies on a similarly comprehensive basis as economic surveys for Member countries outside the European Union. They looked forward to a response from the European Commission in the near future.

### **Strengthening Growth in an Era of Demographic Change**

8. While recognising that population ageing is a good thing in that people are living longer, healthier lives, Ministers emphasised that, as a result, policy adjustments are essential to sustain growth and healthy public budgets. There is much to do and, in many countries, not much time to get it done.

9. Ministers recognised that retirement patterns, which are driven to a large extent by counter-productive policies, must change. In a number of societies, reforms are underway, but most countries need to go further in reforming their pensions and other benefit systems. Linking pension levels and retirement ages to life expectancy would make pension systems more robust.

10. There was general agreement that pension and other benefit programmes should not encourage older workers to leave the labour market. But opinions differed on whether tax/benefit policies should go further in promoting later retirement.

11. While some countries predicted few problems in absorbing a large supply of older workers, others noted that to do so would require more dynamic labour markets. On this issue, many noted the vital importance of upgrading skills through lifelong learning. Some Ministers stressed that attitudes among employers and older workers would need to change for these reforms to succeed.

12. Population ageing also requires greater efforts to raise employment rates among other under-represented groups like younger people, women and the disabled. In this regard, a number of Ministers stressed the need for better integration of immigrants. These efforts make economic sense and also help achieve social objectives.

13. Many countries thought that sources of retirement income had to become more diverse. Private pension saving will play a more important role in some countries. But private pension arrangements need appropriate regulation to ensure that their coverage is wide and that the risks are well understood.

14. Ministers recognised that higher productivity would help preserve overall growth in ageing societies. In this regard, several Ministers emphasised the critical importance of "intellectual assets", including human capital, innovation and business networks in enhancing productivity and in sustaining growth in a competitive global market. They proposed a programme of work aimed at improving understanding of the role of intellectual assets and their importance to economic performance. The joint proposal was referred to the OECD Council for further consideration.

## **Health Financing**

15. Health and Finance Ministers noted that demand for health care will continue to grow as a result of people living longer lives. They noted, however, that this growing demand and further technological advances in modern medicine will increase pressure on public sector budgets. Hence the focus should be on maximising value for money.

16. A number of Ministers recognised that there is scope for some increase in public spending on health care. But they also agreed on the need to ensure the cost-effectiveness of any additional spending. While households could pay a larger share of health care costs in many countries, it is important to ensure that low income households and the chronically ill continue to have access to health care. In addition, Ministers noted that individuals need to take greater responsibility for their own health.

17. Health care systems must be financially sustainable over the longer term. In this context, macroeconomic controls, such as budgetary caps, have successfully controlled costs in many countries. Governments need, however, to implement such measures in ways that minimise negative effects on the efficiency and quality of health care.

18. Ministers' views differed on the role of co-payments and private health insurance in containing demand and ensuring financial sustainability. Some argued that private insurance could offer greater consumer choice, help to limit public expenditure and more generally play a more significant role with appropriate regulation. Others doubted that private health insurance can help contain costs and were concerned that increasing its role would threaten the goal of universal coverage.

19. While noting that health systems are different and there are no easy solutions, Ministers agreed that investing in prevention and increasing value for money in health care can help to bridge the gap between the demand for high quality care and its financial costs. In this respect, they discussed alternative fiscal strategies to enhance the effectiveness of preventative care. The OECD can help its Members through information gathering, analysis and evaluation of policies.

20. Ministers noted the close linkages between health systems performance, healthy populations and economic development. Since healthy populations help foster sustained economic growth, public health care spending is not only a budgetary cost but also an investment in the future economic and social development of our societies.

## **Trade**

21. Ministers agreed that there is no substitute for the multilateral trading system, and that positive results on the Doha Development Agenda will help renew and strengthen trust in that system.

22. Ministers were determined to reach basic agreements on frameworks for key issues of the Doha Agenda by July of this year. They shared the view that these agreements need to build on the lessons of the Fifth WTO Ministerial Conference in Cancún and on the work performed and the contributions made since then. They noted that momentum has been building, and that they should take advantage of the window of opportunity that has now opened.

23. Ministers recognised that agricultural reform holds the key to progress. There have been encouraging signs, but much work needs to be done before July on all three pillars (export competition, domestic support and market access) to reach a point where a balanced agreement is possible.

24. Movement on agriculture will help generate progress on the other core issues of the DDA, such as non-agricultural market access, services, rules and development issues.

25. On the Singapore issues, the Chair sensed emerging agreement among the WTO Members that trade facilitation warrants multilateral negotiations under the DDA single undertaking. On the other Singapore issues - transparency in government procurement, investment and competition - the consensus seems to be moving towards maintaining them in the existing study groups.

26. Another focus of discussion was trade and development, where much has been accomplished since the launch of the DDA, but further progress is needed. Ministers agreed that the concerns of the poorest countries have to be taken to heart in July and in the final DDA agreement. This is an area of the highest importance.

27. Finally, Ministers agreed that all participants must now translate political will into concrete and decisive actions that give impetus to the technical work in Geneva until July, and which move forward the Doha Development Agenda, to the benefit of citizens worldwide.

### **Revised OECD Principles of Corporate Governance**

28. In light of the need to rebuild and maintain public trust in companies and financial markets, Ministers warmly welcomed the recent agreement to a revised version of the OECD's Principles of Corporate Governance. Ministers encouraged the wide dissemination and active use of the Principles, and a sustained policy dialogue among governments and other concerned parties.

### **Sustainable Development**

29. Ministers welcomed the results of the three-year project on sustainable development. This shows, inter alia, that governments could achieve the same results in protecting the environment at significantly lower cost through the greater use of more cost-efficient instruments in many countries. Alternatively, more ambitious environmental objectives could have been achieved for little or no additional cost. This potential benefit has not been exploited partly because of the lack of integration of environmental and economic concerns in policy making. Ministers endorsed the recommendations for further work on sustainable development in the OECD.

### **Financial Action Task Force**

30. Ministers paid tribute to the significant achievements of the FATF over the past years in combating money laundering and terrorist financing, especially the successful revision of its Forty Recommendations as well the issuance of the Eight Special Recommendations and the relevant guidance for their implementation. Ministers welcomed the decision of their FATF colleagues to extend the mandate of the Task Force for a further eight years in order to deepen and expand its vital work.

### **OECD Reform**

31. Ministers welcomed the recent agreement to a number of measures concerning the future role and governance of the OECD, including a strategy for enlargement and for strengthening relations with non-OECD economies; the establishment of a new decision-making method for special cases; and the amendment to the scales of contribution by Members to the budget of the Organisation.

32. Ministers invited the Secretary-General to report on the implementation of the agreed next steps at their next meeting. They supported further reallocation of resources to high priority work informed by a strengthened evaluation process. Several Ministers stressed the importance of budget stability for the Organisation. Some countries called on the OECD to develop a more strategic approach to its work with non-member economies, in order to increase its global impact. Finally, a number of Ministers encouraged the OECD, in co-operation with other international organisations, to work with countries in the Middle East and North Africa to promote good governance, investment and economic development.