

International Promotion Of A Social Market Economy

ELEMENTS OF A GLOBAL REGULATION FRAMEWORK

Excellencies, Ladies and Gentlemen:

It is a great pleasure to be here at the Konrad Adenauer Stiftung to discuss an *International Social Market Economy*. As a lawyer, Trade Union Officer, consultant and Minister of Employment and Social Affairs in The Netherlands 2002-2007, I feel as an engaged participant of the Social Market Economy and its continuous evolvement. In my current responsibility I also take part in the International debates on this very topical subject. The crisis has shown that markets need regulation, and there is a global need for connecting economic, social and environmental policies. This has to come together in what I will call tonight a new paradigm for a Development Agenda. On this agenda we put a balanced growth strategy, but also a regulatory framework that should be fit for purpose.

But first, to put my remarks into context, I would like to say a few words about the current economic situation and outlook.

Recovery is on track, but many risks persist

The recovery, though still in progress, has become more hesitant since the early part of the year. Support from fiscal stimulus has faded, and so have the inventory cycle and the bounce from the recovery. However, as financial markets continue to normalise, and households and firms reduce their indebtedness, we expect growth to gradually strengthen, to reach in the OECD area 2 ¾ per cent in 2012. Output growth in major emerging-market economies is

projected to remain significantly more robust.

Growth in the Euro Zone is expected to be weaker than the OECD average, rising by just 1.7% next year and 2% in 2012, linked to the removal of fiscal stimulus and only limited increases in consumption, as households seek to improve their balance sheet positions. In contrast, growth in Germany is projected to be about ½ per cent stronger, because of its better competitive position.

But many risks and uncertainties persist, f.e. ongoing unease about public debt sustainability in some OECD countries, and remaining global imbalances.

The subdued pace of recovery in the OECD area means that it will take many years to get the extra tens of millions of people unemployed since late 2007 back into work. Very roughly speaking we need a year of 3% growth for every 1% improvement in unemployment. In fact we forecast to reach a still unacceptably high level of 7 per cent in the OECD area by the end of 2012.

Although the job losses have affected all social groups, it is the disadvantaged people in the labour market – youth, low-skilled, immigrants, ethnic minorities and those on temporary contracts – who have borne the brunt. Youth unemployment has increased at a much faster pace than adult unemployment. In many OECD countries one in five youth in the labour market is jobless.

In sum, the sting of the crisis is still being felt, and is far from over.

Against this background, the immediate challenge is to guide the transition from a policy-driven recovery to self-sustained growth. Enhanced confidence in the private sector is key, as it will be the main source of new jobs.

But to re-boot the economy, we also need new sources of growth, driven by innovation and green patterns of consumption and production. This will mean continuing with an agenda of structural reforms.

Structural reforms were an important part of the G20 Seoul Summit. The OECD reiterated its call to “go structural” and leaders reaffirmed their will to implement a comprehensive reform agenda. The OECD is supporting this agenda by contributing its expertise on a broad range of issues, such as taxes, balanced growth, investment, trade protectionism, anti-corruption and job creation.

A balanced growth strategy

Restoring and boosting economic growth is only part of the story, however. A new growth model for the 21st century also requires a strong social dimension. The crisis exposed unsurprisingly that citizens are concerned about the distribution of growth.

This concern was borne out in recent OECD work (Growing Unequal) which revealed that the past decades of growth benefitted the rich more than the poor. A particular worry is that children have been among the losers. Child poverty rates have gone up, despite a threefold increase in spending on family policies over the past two decades. Children are now 25% more likely to be poor than the population as a whole.

The good news is that there is nothing inevitable about growing inequality. Governments can make a difference, and they should. Growing inequality is divisive. It polarizes societies, it divides regions

within countries, and it carves up the world between rich and poor.

No market economy can be sustainable if governments do not deal with the issue of economic polarization. The Rheinland Model has always had a strong social compact. While difficult and sometimes painful reforms are needed, these should be designed in ways that also protect and empower the poor.

Better education is a powerful way to achieve future growth, which benefits all. And it is the key to upward social mobility. The OECD has just released its PISA results. Germany was among the countries that saw strong gains in mathematics and reading literacy, reaching closely now to the OECD average. On the science scale, Germany scores well above the OECD average. The deficits for students with a migratory background as such were reduced significantly. We also saw progress for weaker cohorts of students in general, but the gaps for social economic backgrounds should be of ongoing concern, as well as the relatively new gap between girls and boys. Better education is a powerful way to achieve job-rich growth which benefits all, not just the elites.

A second and more immediate policy lever is to make work pay through measures that directly address earnings inequality. In-work benefits, such as the Earned Income Tax Credit in the United States, the Revenu de Solidarité Active in France and the Working Tax Credit in the United Kingdom help reduce poverty by encouraging more people to work while, at the same time, giving working families a boost in their income. The Dutch government introduced some years ago tax credits for child care, housing, and life/work balance saving accounts.

Regulatory framework – fit for purpose?

Let me turn now to regulatory frameworks and the rules of the global economic and financial system, and to rebuild confidence and trust in markets.

Konrad-Adenauer-Stiftung e. V.

BERLIN

AART DE GEUS

13. Dezember 2010

www.kas.de

Trust is the basic element for the well functioning of markets and societies. Trust is what makes it possible for a household to place its savings in a bank. It allows businesses to engage in financial transactions to produce, to employ, to grow. And we have either lost it or at least misplaced it.

The crisis thus gives us the opportunity to build the foundations of a new global regulation framework. Since OECD work in this area is vast, covering labour, product and financial markets, as well as taxation systems, I need to be selective. I will, therefore, focus on how OECD instruments strengthen business ethics and help to make markets - including emerging markets - function better.

Let me give you some examples.

Our **OECD Guidelines for Multinational Enterprises**, which were first established in 1976 and revised in June 2000, are the sole instrument covering all areas of business ethics. They have been developed multilaterally and agreed by over 40 governments, including 11 non-OECD countries. They include general principles, but also detailed recommendations such as promoting compliance with laws; protecting consumer interests; respecting human rights; caring about employment, industrial relations; and protecting the environment.

Around 40% of multinational enterprises have used the Guidelines as a model to develop their own codes of conduct. The Guidelines are also being used by rating agencies and stock exchanges. For example, the Thai Stock Exchange and the Shenzhen Stock Exchange have referred to them while developing their own corporate responsibility recommendations to companies.

We are currently in the process of reviewing the OECD Guidelines for Multinational Enterprises. Together with governments, business and civil society we will turn broad universal principles of ethical conduct into local practices, appropriate management and compliance systems, and interpret the

Guidelines in concrete situations. The role of National Contact Points is crucial in this respect. We have also launched a new round of discussions on the application of these Guidelines to the financial sector.

Another important multilateral instrument is the **OECD Principles of Corporate Governance**. These were developed and introduced in 1999 and updated in 2004. The Principles are part of the Financial Stability Forum's core standards for sound financial markets and the majority of national corporate governance is based on the OECD principles.

The Principles underline the key role of the Board of Directors in establishing the ethical standards of a company. The OECD Principles make it very clear that a viable framework for ethical standards goes beyond mere compliance with the law and that company codes of conduct can be an effective way to make the "tone at the top" known.

Many Stock Exchanges' regulators and market participants have used the OECD Corporate Governance Principles to develop their national codes, but the crisis showed implementation problems, such as risk management and remuneration. We are therefore reviewing these areas of the Principles. We are also strengthening our efforts to implement the OECD Principles on Corporate Governance in the financial sector. The OECD is working closely with the Financial Stability Board to facilitate the implementation of these principles, with special attention to four areas of specific importance to the financial sector: Board practices; Risk management; Remuneration; and Shareholder rights.

The **OECD Convention on Combating Bribery** has also been a strong contributor to improve business ethics globally. The Convention makes it a crime to bribe a foreign public official in exchange for obtaining, or retaining, international business. This peer-driven monitoring mechanism has acquired the status of a "gold standard" according to Transparency International.

Konrad-Adenauer-Stiftung e. V.

BERLIN

AART DE GEUS

13. Dezember 2010

www.kas.de

Over the past decade, the Convention has resulted in more than 150 investigations and over 60 individuals and companies have been sanctioned for committing foreign bribery and related offenses. All this would not have been possible ten years ago, before the Convention entered into force. But there is still a long way to go to achieve a market environment free of corruption.

Last but not least, the **OECD Principles for Enhancing Integrity in Public Procurement** that were introduced in late 2008 contain a set of procurement policies and practices that have proved effective around the world in preventing risks to integrity in the entire public procurement cycle. Next year, OECD countries will report on progress made in implementing the Recommendation.

A collaborative effort

Building the new rules for the post-crisis global economy is a task that demands a collective response. We will only build a solid and reliable financial and economic framework if we work in concert, including all major players, and connect it to a balanced growth strategy, in the context of a new Development Agenda. This is why we are supporting the G20 and why we have strengthened our collaboration with other international organisations.

We believe, however, that much remains to be done to achieve genuine policy coherence. The crisis has exposed the limits of the "one organization per issue area" approach to global governance that prevailed over the last decade: policy issues need to be approached from various angles; IOs need to avoid inconsistency, contradictory recommendations and duplication.

International Organizations should be ready to identify synergies and scope for improved coordination and engender a sort of "cross-pollination" among themselves. In order to do so in a structured way the OECD's Secretary General has proposed the creation of a "Policy Observatory" as a step to improve our understanding and our exchange of information. This could serve

as an effective coordination mechanism to measure progress on crucial issues and global challenges like climate change, Green Growth, inequalities and fighting poverty.

The OECD has supported the German Bundeskanzlerin in her proposal for a Global Charter for sustainable business. As a result of her call on five international organizations we have compiled a Compendium of existing instruments. We stand ready to support further bottom up initiatives.

Ladies and gentlemen:

To conclude and put it in a nutshell, today we face an historic opportunity and an historic responsibility to build a better world economy founded on new values and greater trust. Markets should not only be more stable, but morally acceptable as well. It is time to reunite ethics and economics in a new Development Agenda.

Thank you.