FUTURE ECONOMIC CHALLENGES FOR THE EUROPEAN ECONOMY

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Andrzej K. Koźmiński: Let me warmly welcome our today's guest of honor and lecturer Mr. Donald Johnston, Secretary-General of the Organisation For Economic Co-operation and Development (OECD). The OECD was probably the first major international organization, first major elite club, which Poland joined in 1996. It was a historical event, which led to our further accession to NATO. The accession to the OECD will also certainly contribute to the accession to the European Union in the near future. I think that we have very big privilege to listen to somebody who is in the centre of the global economic policy and politics. I am giving the floor to Grzegorz W. Kolodko, Director of TIGER (Transformation, Integration, and Globalization Economic Research) economic think-tank affiliated with our Academy.

Grzegorz W. Kolodko: Magnificient Rector, Mr. Secretary-General, Ladies and Gentlemen, Dear Friends. It is my privilege to assist in the continuation of the WSPiZ and TIGER Distinguished Lecture Series. This is the 7th distinguished lecture. Today, WSPiZ and TIGER are hosting Mr. Donald Johnston, Secretary-General of the OECD since June 1, 1996. I have a special relationship with Mr. Johnston. I could call it a friendship because these were not only professional links that we were able to develop. Back in 1996, seven weeks after Mr. Johnston has been appointed, I had a privilege to sign on the behalf of Poland the historical agreement of the Polish accession to the OECD. That was on July 11, 1996. That day, in the chateau in Paris, I grabbed a little bell, the historical one, because it was ringing when we were signing the accession agreement. I kept the bell as a souvenir. I once promised that I would give this bell to a person, who would bring Poland to the European Union. Polish accession to the OECD was and still is a means of accelerating structural reform and institutional changes in Poland. Accession was a milestone on the way towards our integration with world economy and the European Union.

Donald Johnston is graduate of McGill University in Montreal, Canada. Johnston is one of the most famous Canadian politicians and economists. By education and profession, he is a lawyer. He taught fiscal law at McGill from 1963-1976. Then, he devoted himself to a political career. He was a member of the Canadian parliament in 1979-1988, holding many important posts in various Canadian governments, including positions of the President of the Treasury Board, Minister of Science and Technology, Minister of Justice, and finally Attorney General of Canada. In 1996, he finally moved to the post of the Secretary-General of the OECD.

Many of us are familiar with country studies commissioned by the OECD. The recent country study on Poland was released in May 2001. It presents an evaluation of the Polish economy and its prospects for growth, increase in competitiveness and implications of the integration process.

We also have some co-operation between our Kozminski Academy and TIGER and the OECD, particularly in the field of the new economy. There is a book on the 'New economy' and its implications for long-term growth in post-socialist countries", which presents results of the research project with culminated in the international conference held in this school in March this year. The second edition of this research project will be organized together with the OECD and the OECD Development Centre in March 2002. Its President, Professor Jorge Braga de Macedo, who also delivered a lecture at our school back in March this year, today represents the Development Centre. I believe that the successful co-operation between Kozminski Academy, TIGER and the OECD will continue.

Today, we have many distinguished guests in the audience. Let me just welcome the former ambassador of Poland to the OECD, Mr. Jan Woroniecki, and the new ambassador Mr. Jan Bielawski. Before I give the floor to Mr. Johnston, let me just add that, as with all previous distinguished lectures, Mr. Johnston's lecture will be published in the WSPiZ and TIGER Distinguished Lectures Series. The today's lecture will concomitantly by published in an electronic form on the Kozminski Academy and TIGER's web site at www.tiger.edu.pl. Now, I have a pleasure to give the floor to Honourable Donald Johnston.

Donald Johnston: Thank you very much Prof. Kolodko and Prof. Kozminski, distinguished ambassadors, students, visitors and guests. It is really a great pleasure to be here with you at the Kozminski Academy. I have some sentimental feeling for Poland since it was the first country I received as a new member after having been appointed the Secretary-General. As for the bell that Prof. Kolodko mentioned, I remember that I used this bell when we were all going through this very serious accession ceremony and I used this bell to bring everybody to attention. Prof. Kolodko said that he wanted to take this bell. We were a little bit surprised by this request, yet he finally received it. In any event, we are very pleased that the bell found its way back here. I understand that it will make sense to give this bell to somebody who will preside over Poland's accession to the EU.

It is in that European context that I wish to speak to you today. I was invited today to speak about the future economic challenges for the European economy. For the first time in history Europe is emerging within a framework of co-operation, which points the way to the future of the entire planet. I personally have been very excited about what I have seen in Europe and I know that many non-Europeans share that excitement. Some years ago I came upon comments written in 1936 by a historian, Professor H.A.L. Fisher of Oxford University. In the introduction to his book on the history of Europe he addressed the deep divisions that had bedeviled European unity for over a millennium. Let me quote from him:

"... Nor is there any question more pertinent to the future welfare of the world than how the nations of Europe, whose differences are so many and so inveterate, may best be combined into some stable organisation for the pursuit of their common interests and the avoidance of strife".

A few years after penning those thoughts, Europe was plunged into the horrors and devastation of the WWII. But from the ashes of that war rose the Europe of today, the reality of the dream of unity that Fisher wrote of. That was something Fisher never saw since he died in 1943.

The European Union is still very much "work in progress" but even now it represents one of the greatest achievements of social, political and economic engineering in history. The efforts being made by Poland to become a European Union member are a useful reminder that Europe is the product of vision combined with strong leadership and inter-governmental co-ordination and co-operation. That is what the implementation of the Marshall Plan required to achieve its objectives. And as many of you may know, the OECD is the only living heritage of the Marshall Plan, having evolved from the Organisation for European Economic Co-operation (OEEC), which administered the Plan.

The rebuilding of Europe in that dreadful post-war period required leaders with broader and longer vision than nation builders. This is because national interests are not the same as those of a community of nations. They have to give way, in many respects, to that greater interest, which is the European Union. This is happening and must continue. The introduction of the Single Market, the creation of the European Central Bank, and the imminent arrival of the euro bear testimony to this irreversible process. And the enlargement negotiations present us with an historical opportunity to finally bring the whole of Europe together.

This is not an easy task. It requires enormous political leadership. I sometimes think of it, coming from a federal country myself, as the three M's: how does one effectively "minimise" frictions, "maximise" synergies, and, at the same time, "maintain" sovereignty. The balancing of these three elements poses a great challenge, which currently the EU is struggling with. I am sure that this struggle will end in great success.

When George Marshall delivered his historical speech announcing the Marshall Plan at Harvard University in 1947, he said:

> *"Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist"*

The challenges of the European world of Marshall are not the ones the European Union faces today. But just like the founders of the European Community had considered raising long-term economic prosperity an important goal, Europe of the 21st century is also faced with the challenge of raising its economic growth, not only in the context of the present global economic slowdown, but also in a longer-term perspective. Indeed when the present crisis will have dissipated several important issues will come back to the forefront. Let me offer you some that I would like to address: how to make the European community more productive – a pre-condition for reducing unemployment and raising living standards? What explains that within Europe some countries are more successful than others in meeting this challenge? And are there lessons that low-performing countries can learn from high-performing ones? Should the accession of 13 new member countries to the European Union be seen as a risk or opportunity? There are some of the issues I would like to address in my speech today.

As reported in the recent OECD study on the sources of growth *The New Economy: Beyond the Hype,* a study which was prepared and delivered to Ministers of the OECD Member countries this year, it is clear that the turn of the century has witnessed a dramatic increase in trend productivity in many countries around the world. These include the United States where the acceleration in productivity growth since the mid-1990s attracted a lot of attention. And with good reason: the United States which already had one of the world's highest levels of GDP per capita was able to push the technological frontier in many fields and increase productivity at a surprising rate. By contrast, trend productivity growth stagnated or even declined in the major European economies. Why is this so? Why has Europe not been able to stand the comparison with the United States? There is no single and easy way to pinpoint an explanation.

Much emphasis has been placed on the role of information and communication technologies (ICT) in explaining differences in growth performance between Europe and the United States. True, ICT is a powerful transformer of economic activity, as were the steam engine, railways and electricity. And investment in ICT has been much stronger on the other side of the Atlantic. But the applications of ICT are really what it is important. ICT has been a great catalyst of change in business, improving work organisation, helping firms to reduce routine transaction costs and rationalise their supply chain. It has also spurred innovation in services and made manufacturing and design more efficient. Inventories and overheads have become more manageable. Moreover, ICT has spawned value-generating networks between producers and consumers.

But ICT is only part of the story. Despite progress made in many important areas of policy, Europe has to go a long way to make further inroads in the elimination of a number of important structural impediments to long-term growth. In particular, European countries have generally been lagging in the efficient use of labour resources, the drive toward innovation and competition or the ability to create an entrepreneurial climate of the kind that exists in the United States.

Low employment growth has been a worrying feature of European economies over most of the past two decades. This has undoubtedly put an important brake on European growth. The OECD Jobs Study has emphasized the need for improving the institutions and regulations that hinder job creation and the mobility of workers in European countries. The issue will require renewed attention from the part of European policy makers. This is because well-functioning *labour markets* are essential in periods of technological change. To minimise the potential hardship that change – such as the one induced by ICT – can create, labour market institutions have to ensure that affected workers are given the support and incentives they need to find new jobs and the possibility to retrain – something that we in the OECD sometimes refer to as lifelong learning.

But the pursuit towards European integration will also require increased labour mobility across national borders. Despite the right of every citizen to work and reside in another Member State, labour mobility in the Union has remained low. Low mobility is a major reason for the persistence of large differences in unemployment and skill gaps across (as well as within) countries. This represents a striking difference with the situation in the United States. Language and cultural factors are just two of a large number of factors inhibiting labour mobility.

But there are additional factors at play next to the factors I have mentioned before, which inhibit labour mobility not only on the international basis, but also within countries and even within regions:

- lack of information on rights and opportunities (there is no Community-wide employment service);
- problems with the recognition of qualifications;
- housing market obstacles;
- differences in tax and benefit systems;
- minimum wages that are not adjusted to reflect regional imbalances.

A few years ago in the Unites States we had a gathering of G-8 labour ministers. We discussed this issue of labour mobility and we focused largely on these impediments, often within the European context, and compared it to the United States. It was very interesting that the French and the British ministers pointed out that the labour mobility issues are not only a cross-border problem, but it can also be a problem within countries, reflecting in particular the functioning of the housing market.

Various EU directives or regulations related to social security provisions for migrant workers, the transferability of pension rights and the mutual recognition of professional standards have been introduced to reduce barriers to labour mobiliy, but much more should be done.

Further integration is also needed in the areas of *product markets.* Despite the Single Market, examples of remaining deficiencies in product markets include the following puzzling situations: the wide dispersion of car prices across national borders; the exorbitant fees for cross-border money transfers; the numerous infringements of the principle of mutual recognition of technical standards; the strong home bias in state procurement and in many service sectors and the wide differences in food regulations in the absence of a pan-European food regulatory body. In addition, the level of state aid in agriculture remains high, leading to a large cost to taxpayers and consumer, while the environment suffers from intensive farming. Reforms are thus needed in those fronts and others if the Single Market is to function effectively.

With the advent of the euro, European *financial markets* have become more integrated, but markets for longer-term finance, including venture capital -- which is key to foster firm creation and entrepreneurship -- remain fragmented, notwithstanding the proliferation of pan-European stock indices. The merging of stock exchanges and prudential supervision is left to national authorities. Merger and acquisition activity in the banking sector has intensified, but largely within rather than across borders. Accounting standards, listing and prospectus requirements, as well as rules governing occupational pension funds continue to differ widely across Member States. In some of these areas initiatives have been launched, but the implementation is painfully slow.

Reducing these impediments to long-term growth in labour, product and financial markets will require actions by governments on a large front. These actions will have to be taken both at the European and national levels. Monetary conditions are now set at the European level, even though member countries can still influence macroeconomic conditions by changing the fiscal stance within the limits of the Stability and Growth Pact. The European Union also holds significant powers in shaping the performance of product and financial markets. In other areas, including important labour market legislation, much of taxation and virtually all government spending functions, such as health, pensions and education, the responsibility still lies with national governments.

While further integration of product, financial and labour markets is much needed to foster EU-wide productivity increase, it would be unfair to treat all European countries as equal which admittedly I have tended to do up to now talking about Europe as a group. Some European countries have moved forward faster than others have: in fact, some countries have recently enjoyed very fast growth and a rapid drop in unemployment. Therefore, Europeans can learn from each other. Large differences in policy settings are bound to have an impact on economic performance. For example, while inflation does not differ widely because of the common monetary policy, growth and labour market performance do show a stark contrast. Ireland grew by more than 11 per cent in 2000 and Finland by nearly 6 per cent, while Germany and Italy posted growth of around 3 per cent. Concerning unemployment, Spain showed the highest rate with 14 per cent at that time, compared with a mere 2.5 per cent in the Netherlands.

I can not discuss all the policy issues in which the EU countries' experiences differ, so let me pick only a few of them. In the area of labour market, countries, such as the United Kingdom, that have liberalised labour market legislation have seen large drops in their unemployment rates. France and some other countries have cut pay-roll taxes for the low-skilled, which also has led to improved jobs prospects, while in some smaller countries such as Ireland, Austria and the Netherlands, incomes policy that has delivered wage moderation has also helped to lower unemployment. In addition, the quality of labour is important for a thriving business sector, and in this respect, the Nordic countries and Ireland excel. No wonder then, that these countries have followed the US lead in the ICT revolution, while the others are lagging.

The Nordic countries and the United Kingdom were also among those that pioneered the liberalisation of network industries, such as telecommunications and electricity. These reforms have paid off in the form of a greater efficiency and lower prices for consumers. Overall, indicators of the stringency of product market regulations differ widely across Europe, despite the existence of EU-wide regulatory frameworks in many areas.

For the future, a critical issue for growth will also be how the pressure stemming from the ageing populations will affect the EU economies. Not just the European economies, though. This is the area that the OECD has been particularly preoccupied by. The challenges are greatest in the countries that have a fully developed and generous earnings-related pensions scheme, provide strong incentives to retire early and where ageing will be rapid (France and Germany for instance). The fiscal challenge will be smaller in the countries with limited and slower ageing and with a mainly flat-rate public pension scheme (like in the United Kingdom, for instance). There have been already important reforms, but our work suggests that greater ambition and comprehensive reforms are still needed in a number of European countries. Otherwise, taxation is bound to rise considerably over the long term, often from an already high level, which could seriously undermine the future prosperity of European countries, putting a burden on a working population to support this greater retirement population.

Let me now turn to the challenges specifically related to the enlargement of the European Union. Europe's partition between the West and the East was an artificial outcome of the World War II. I might add a historical footnote here that actually the Marshall Plan invited the Central European countries to become members of the Marshall Plan in 1948, but Stalin was not in agreement with this proposal. With the accession of Slovakia to the OECD in December of 2000 it brought to conclusion the historical ambition which was there in 1947-48. The accession of these countries into the present European Union will overcome this artificial division of the past.

Enlargement will have positive economic effects as higher trade and investment flows will increase potential growth rates. EU membership will thus speed up the convergence and catch-up of accession countries. Those countries are also likely to benefit from the introduction of the existing body of EU regulatory framework, since it would support the difficult reform process in post-communist economies. That is the kind of work that the OECD had been doing, specifically with Professor Kolodko in his previous career.

In that regard, the basic challenge for new members is to get in a position to be able to benefit from membership, not only in terms of financial transfers from Brussels, but more importantly in terms of new opportunities for private sector development. This means fostering further the entrepreneurial climate to benefit from comparative advantages that exist here in Poland for example as well as increased specialisation and division of labour. The state has to refrain from direct interventions and distortions and allow private actors to decide about resource allocation in the new environment created by the opening of borders with the European Union.

Economic integration is a field allowing for positive-sum games. For the current EU member countries, effects of enlargement will certainly be smaller, yet nevertheless significant, especially among those countries taking up the chances of new investment and trade opportunities with the new members. As with all structural measures, there will also be losers within different countries, including old members. This will be a challenge for politicians in the EU member countries to address these issues and offer positive solutions. They can count on the OECD to assist them in this process. Indeed, being a permanent intergovernmental organisation where Member and increasingly non-Member countries discuss problems of common concern and exchange views on best as well as worst practices, the OECD has a lot to contribute in assessing the economic consequences of enlargement and in helping the EU countries -- both the "new" and "old" ones -- design appropriate policy responses to the adjustments that will need to take place.

As a Canadian politician, when the free trade agreement was introduced with the United States, I saw that there would be "losers". If there are no losers then the adjustment process is not working. You must use the adjustment process to rationalize your industries and take advantage of the single market place. How many locomotive companies can you have in EU? How many textile firms can you have in Canada for example competing with those in the United States? So there are bound to be losers. And that is where the State has a very important role to play in providing the right approaches to adjustment so that losers are protected and thereby become supportive of trade liberalisation. And the issue of lifelong learning that I mentioned earlier plays directly into that. There will be some parts of our working population, which will be negatively affected and will not see it as a win-win game. That is a real challenge for politicians.

That means of course that structural changes will be more pressing. Economic activity has to be allowed to dislocate and re-allocate according to the new comparative advantages within the extended Union. Eastern enlargement will be more demanding than previous enlargements, because this time the accession countries are different to a larger extent, both in terms of resource endowments, institutions and historical experiences. The new members will also join a Union with a more complete internal market and a common currency. Therefore experiences of past enlargements can only have a limited information value. Nevertheless, some success stories can be extracted: Ireland catching-up with record speed, unemployment falling in Spain, Greece making significant progress in macroeconomic stabilisation and Portugal being able to restructure without mass unemployment. Accession by itself should not be seen however as the solution to economic and social progress. It is the combination of accession and appropriate economic policies that explain the successful progress made in these countries, to which I have made reference.

Transition countries have demonstrated that far-reaching institutional reforms are possible and beneficial. Experiences of European market economies have proven that capitalism can have many faces and that it can reconcile social responsibilities, including the concern for sustainability, sustainable development, with the achievement of higher living standards. Accession can be, and I think, will be a success. However this will not happen automatically, but will require strong political leadership. The potential benefits are significant, as this will contribute to an overall significant strengthening of Europe's position in the world as a whole. To repeat Fisher's observation from 1936, European unity is "pertinent to the future of the world" because in the globalising world, national interests, Poland's, Canada's, France's interests will only flourish and develop if the world community at large flourishes and develops. Thank you for your attention.

Grzegorz W. Kolodko: Thank you indeed Don. Now it is time for the discussion. Before we proceed, though, let me again welcome many distinguished guests in the audience: Professor Ewa Hauser, Director of Skalny Center of Polish and European Studies at the University of Rochester, NY, USA, and Grzegorz Wójtowicz of the Monetary Policy Council at the National Bank of Poland, which is going in the right direction by decreasing interest rates, yet still much too slowly for the Polish economy to re- gain momentum. All transition economies are looking for policies and strategies, which would raise the rate of economic growth and then sustain it in the long-term, during the lives of the next generations. In due time, transition economies could then catch-up even with Canada. When I recently lectured at Donald Johnston's *alma mater*, McGill University in Montreal, I thought that it must have been a long way for Donald Johnston to rise from a graduate of the McGill University to the position of the Secretary-General of the OECD. When I teach my students at the Kozminski Academy, I then also hope that sometime one of those students may become the future Secretary-

General of the OECD. There is no reason why it could not happen. By the same token, Poland is bound to catch-up with developed countries. But now, let me open the question and answer session.

Tadeusz Baczko, Polish Academy of Sciences: Income inequality versus economic growth is a hotly debated issue these days. What is the OECD's approach to this issue?

Donald Johnston: I do not necessarily see income inequality and economic growth as travelling companions. We have done studies showing net benefits that have been derived by member countries through the application of the Uruguay Round and so on. These benefits have been very substantial. We have numbers to prove that. Globalisation, increased trade and investment have stimulated economic growth. That is true that the issue of the income inequality is in many people's minds. Within our countries the benefits of globalisation have not been equally distributed. It is a big challenge for domestic policy makers. It is one of the great brakes on globalisation. I think it is also at the root of the anti-globalisation protests. It is not enough to say that nobody is worse off and that more people are better off. That makes a very logical argument. Globalisation and increased economic growth has not made anybody worse off. However, that is not a satisfactory political answer. Those of us who have been in politics know that. When in some country there is one sector that has not benefited from the globalisation, it is not satisfactory to say that this sector is as well off as before, and that despite the fact that other sectors are better off, the first sector should not worry about that. It does not work this way. Governments then face serious challenges. The best way to address these issues is through creating well paying jobs. That is what our OECD Jobs Study is all about. It is not a question of applying taxation and redistributing incomes; it is a question of creating employment opportunities for people. Creating employment is the best way to address the issue of income inequality and growth.

Marcin Piątkowski, TIGER and WSPiZ: As a part of my PhD dissertation I am researching the impact of the 'new economy' on transition economies. I would then appreciate your comment on the strength of the correlation between, on one hand, the quality of institutional infrastructure in transition economies, and, on the other hand, their ability to take advantage of the potential of the 'new economy' for acceleration of long-term economic growth and thus faster catching-up.

Donald Johnston: I believe that the quality of institutions is fundamental on the assumption that it produces a skill-set in the population. This is surely of prime importance for the long-term growth prospects and the new economy. But there is more to it than that. It is the whole regulatory framework in each country that is so important. For example, Alan Greenspan has an argument, which probably makes sense, that the reason why some European countries (I believe he meant France and Germany) have not taken full advantage of the ICT, notwithstanding high skill levels, the availability of technology, is the inflexible job market. The labour market rigidities make it difficult for some countries to re-allocate employment and thus they are put in a position where they are not as capable of taking advantage of the new technologies through employing new skills. So, here you have the institutions, the skills, but also the rigid labour market, which may inhibit the long-term prospects. It makes sense, the assumption being that if you cannot fire the skills you do not need, then you will not hire the skills you do need. The United States has tremendous flexibility in the labour market. Even with all the job displacements, they have achieved nevertheless the lowest level of unemployment in decades through the creation of additional employment, often in new technology sectors. So these are the issues that I believe we all have to look at very seriously.

Just to add to it, this story is not true for all European countries. There is really no such thing as a European model. There are a number of European countries, which have a great deal of labour market flexibility and the results seem to corroborate the fact that labour market flexibility is good for job creation.

Dorota Szkodny-Ciołek, WSPiZ: At the end of June this year, we hosted a European Foundation for Management Development (EFMD) conference on „One Europe, One World”, which was about the pending accession of Central European countries into the European Union. The final conclusion of the conference was that there would be no losers in the accession process, because we have no alternative. You mentioned that there might be losers on both sides, the existing and the new members. It also seems that political leadership has been really skilled in avoiding the issue of the accession losers. How do you think the political leadership should then address the issue of losers?

Donald Johnston: I think that this question is on a desk of every politician today. I do not think that governments have assumed the responsibility as quickly as they should have in many respects to provide for these necessary adjustments. It is just not sensible to say that there will not be any losers. Adjustments create losers in a sense that there will be job losses. But how do you make sure that those losers also become winners and benefit from the increased wealth that has been generated? This is the job of governments. I think that the best approach is through training, equipping the population for a lifelong learning, which gives them increased flexibility. Well-educated populations can make the necessary adjustments. But we also have a transition population that cannot make those adjustments. We have many people in their 40’s and 50’s who do not have the skill levels to make the adjustment. And that is true of all our countries. That is certainly true in Canada where we have serious pockets of people who will be adversely affected. The question then is: how should they be protected? Each country has to make its own decisions. Those might involve early retirement programs, retraining and so on. But for the younger population it is inexcusable. They should essentially be equipped to take advantage of the new economy and hence not be losers but be winners. I also want to add that we hear a lot about the losers but winners are relatively silent. Hence, more attention should also be given to listening to the voice of winners.

Marek Kowalczyk, WSPiZ: My question is about the vision. How do you see the European Union in a couple of decades from now? Are we going towards the United States of Europe or perhaps towards the Europe controlled by the Brussels bureaucracy? What is your vision?

Donald Johnston: It is a difficult question. Coming from a federal state, which has wrestled with a lot of issues such as Quebec separatism, languages and so on, I have always been intrigued by the flexibility of the federal-type arrangements. Everyone likes to say that they do not like the “f” word as they call it here in Europe for federation. But effectively, that is what we in Europe already have in many respects. There is no reason to be afraid of that. There is no reason to be afraid of losing cultural identities through this process. It is all about finding the balance between maximising the synergies that can be created by the single market while trying to minimise the irritance and the frictions and trying to maintain the sovereignty and cultural identity which each country sees as necessary. I think that balance will be found. But it is very much work in progress. There are some things that I find quite extraordinary. The common currency, which is a great unifying force, is one of these extraordinary things. What more unifying force can there be than a common currency and surrendering of the monetary policy to the European Central Bank? Then I read about some European parliamentarians stopping provisions to have some cross-border mergers in certain sectors. To me it is a much lesser issue in terms of sovereignty than surrendering monetary policy. Or the fact that Europe does not have a Federal Food and Drug Administration (FDA). I believe that it would be very important to have a FDA that would be Union-wide. The same with Securities Exchange Commission, which should also be Union-wide. However, none of these policies or institutions impinge on what people feel about individual identity and sovereignty. So I would like to see the unification going much further and deeper because it is very important that the European Union would emerge as a major economic powerhouse next to the United States and Asia. That would be the best for the health of the world.

Grzegorz Wójtowicz, Monetary Policy Council, National Bank of Poland: Let me ask a very simple question for you as the Secretary-General. How do you see the future challenges for the organisation you are in and we are in with you?

Donald Johnston: I have written a paper on the "Challenges and Strategic Objectives for the OECD". The paper strives to wrestle with these issues. When I came to the OECD I was much preoccupied with issues of efficiency. Our budget was cut effectively 20 per cent in terms of internal operations but it was still difficult to eliminate any programs because of the consensus mechanism in the OECD. We have come through that period. Now to describe the OECD I use the metaphor of a ship: it is now in a good shape. We have an efficient crew, we think that the ship is in pretty good condition. The only question is where it is sailing. That is the big question that the members have to address. It is true that we have all these one hundred forty committees and working groups that go on about their business on a daily basis, but in a bigger picture, are we effectively playing into the public policy in capitals the way we should? This paper calls for a thorough assessment of the committee structure, it analyses the question of how to break down the directorates, which are vertical in structure as ministries are in governments. In addition, the paper speculates how we can do more work on a thematic basis, as we are increasingly obliged to do in areas such as sustainable development, for example, which involves a number of directorates within the OECD. Then there is the issue of enlargement and co-operation with non-members. Can the OECD enlarge and maintain its value to the membership without becoming formalistic? While we have a larger number of ministers come to the OECD, could we say to the Secretary of the Treasury of the US that he has 5 minutes for his speech and no time for exchange of views? It is reaching this point. So either we have to find new ways of working in order to able to recapture what made the OECD so popular amongst the ministers in the past, namely informal discussions where you can have good and informed debate. I have been even looking at issues like the generation of papers for committees. I do not know how familiar you are with the OECD, but some officials say that they do not need so large analyses. To make the meeting stimulating I think we have to take a hard look at issues like paper information overload and what the results are and how they play into policy making in capitals. So, I cover all of that in my paper and more. I am looking forward to lively debate with the Member countries on this subject.

Jan Bielawski, Poland's Ambassador to the OECD: My question is about the new members of the OECD. First of all, I am naturally interested in how you see the role of new members, Poland included, as actors in the OECD. Secondly, the OECD is constantly expanding. The OECD members reflect Anglo-Saxon way thinking but also values represented by Asian countries, Mexico, then transition economies. My question is then what do you think about the future cohesion, relevance, and orientation of the OECD?

Donald Johnston: The OECD, I think, has an extremely unique and important role today, perhaps more than ever before. Today the intergovernmental relations in the globalising world are becoming increasingly important. And there are more frictions and hence more codes of behaviour and guidelines required than in the past. This will not be brought about by negotiating conventions. The reality is that we combine the 30 most industrialised countries all of whom are democracies with institutions, which by and large, with a few exceptions, are the most mature democracies. That is why I look at the OECD as a driving force for global change. It is not just the OECD membership. We have relationships with some 70 non-members. Our guidelines are being conformed to by an increasing number of countries. For example, our core principles for corporate governance which were developed within the OECD in consultation with NGO's and a few non-members are now working with the World Bank, rolled out to a global universe. Countries recognise that it is the principles of the corporate governance of the most mature economies of the OECD which are the ones they want if they want to attract foreign direct investment. They do not want the second rate principles. They want the best. And that is what the OECD produces.

The other issue is related to the pending expansion of the European Union. Poland is a member of the OECD. But there are nine countries, which will join the EU but are not members of the OECD. Many of the European countries feel that the OECD should take new members in. They say: "If they are members of the Union, they should also be members of the OECD". The other countries outside of Europe say that the OECD is already Eurocentric. If we take in another nine European countries, those member countries from outside of Europe would say that we should add South American countries, Israel, perhaps other countries from Asia. Now, could the OECD function as effectively with a large number of new members? We do not really think the OECD would function the same way. We might be as effective but we would not function in the same way. We can no longer defer this question because of the accession of the European countries. I am glad of that. We will need to resolve this issue. We cannot act like politicians, who tend to duck issues that they do not have to face immediately.

Jorge Braga de Macedo, President of the OECD Development Centre: I want to give an example of how the European Union and the OECD share the method of peer pressure, which applies not only to larger countries, but also to smaller ones. Let me give you two examples in the EU where again a very heterogeneous group of 15 countries soon to be enlarged has learned without writing anything to behave in the same way. It is a code of conduct issue. The exchange rate mechanism and the Schengen agreement are two examples that were outside of the community method. They were not in the convention. But people started learning that by co-operating, making the exchange rate a matter of common concern, they were behaving in the „European way". The OECD is very much a platform where you start adopting a certain style, a style of peer pressure. This is very important in order to enhance reforms. This is why, I believe, the Secretary-General has mentioned the OECD as a club of reformers rather than of rich countries. Democracy sometimes stunts reforms. The OECD helps to create a code of conduct that leads reforms forward. That is independent of the legal instruments. It is more of a code of conduct. That is what I wanted to add. I am sure that you agree with it, too.

Grzegorz W. Kolodko: I would agree with Jorge's assessment. The OECD is often referred to as a think-tank. But we all know that the OECD does much more than just excellent sectoral and country analyses. The community of researchers, business people, government officials, derive a great deal of knowledge from the objective, up-to-the-point series of the OECD publications. However, I think that the OECD should get a little bit more of momentum in the contemporary global economy and that is what my question will be about. How do you see the new global institutional order? The economic world is becoming more and more global because of integration and liberalisation. And we, the postsocialist countries, are a part of this process of globalisation, democracy building and creation of civic society. Civic society is outside of the economic concern, yet it is still very important for the transition countries. Yet, in spite of increasing globalisation. We still do not have a global economic policy. Everyone seems to agree that the new global environment calls for new policy responses. Therefore the question is of how to co-ordinate the policy on the global scale if we do not have a global government? But we do not want a global government. Yet, if we want new global institutional order and global co-ordination mechanism of different policies starting from protection of natural environment to fighting corruption we need to have certain international organisations like the OECD and the European Union. Now, my point is that it would be better for all of us if countries that are going to join the EU soon would also become members of the OECD. Yet, I may imagine that Slovenia and Estonia or Cyprus would be members of the EU but not of the OECD. It is manageable. But still, I think it would be better if these countries do join. In the Polish case, five years after the accession to the OECD, I am persuaded that we did take advantage of this accession. When I was leading my country to the membership at the OECD, we used the fact of the accession to the OECD as a leverage to push forward certain structural and institutional reforms.

Going back to the global scale, my question is if you see that in the longer run, when we will have the EU with 27 or even 30+ members, and we will also have NAFTA and American Free Trade agreement of 35 countries, the process of integration of these trade groups with one another will continue or we would rather see that the world will stay as it will be just after the accession of new members to the EU. Would we then compete: the enlarged Europe with the enlarged America's free trade zone? The other part of the same question concerns how you see the new global institutional order and especially the role the OECD is supposed to play in it. I believe that the advantage of the OECD over the World Bank is that the OECD does not give money to its members. For that reason, the OECD is in a much better position to sometimes say much more than otherwise because the member countries are not coming to the OECD for financial support. Now, I also believe that the G-7 is not taking enough advantage of the OECD as the means of implementing and executing policies within the group of the OECD members.

Donald Johnston: I will comment very briefly on that. My paper addresses exactly the issues you have raised. I have also written a letter to the Prime Minister of Canada – Jean Chrétien – in which I suggested that somebody has to take the initiative, give the political motivation to the issue of the new global institutional order. The value of the G-7, as I see it, is that it has been able to take the initiative. The G-7 cannot execute, it does not have a secretariat, but when leaders of the group G-7 ask other groups like the OECD to do something then it normally gets done. So I believe that the G-7 should put some political will behind the issue of the global architecture. To meet the challenges of the XXIst century it is time again for a serious reflection on the current international architecture. Proposals for change would most likely be evolutionary rather than revolutionary to receive broader international consensus. No one is at the moment arguing for any authoritative global governance. I am persuaded that the G-7 should take this up. I am not pleading here for the role of the OECD, but there is also a flotilla of groups out there like the G20, the IMF, and the World Bank, regional groupings. And someone has to have a hard look at this. And I feel that the G-7 should probably mandate a wise persons group of senior statesmen drawn from democracies to bring forward a report by the 2003 Summit on how they see the roles of these various groupings and how coherence can be brought to the overall role that they should be all playing together. So, I do not know if the G-7 will take this initiative up, yet I do think it has to be taken up somewhere and somehow. And it cannot be taken up by organisations themselves because it looks like you are asking for something. The G-7 should try to take it out of the hands of any particular organisation, especially in the first stage.

Marcin Petrykowski, student Science Club „Little Tigers": I now would like to turn more to a discussion on the new economy. In your lecture you mentioned the role of the Internet and ICT as being one of the driving factors behind the European development. When looking at global stockmarkets, some time ago we first saw a huge Internet boom, an Internet bubble, which was recently followed by equally deep recession in stock prices and mounting losses in Internet companies. What is then left of the „new economy"?

Donald Johnston: That is an interesting question. First of all, the stockmarket tends to camouflage what is really taking place. A survey that came out in August showed that the Internet usage in the first half of 2000 increased at an exponential rate much faster than in the past. Productivity gains that have been achieved thanks to the 'new economy' seem to be permanent. The fact that Nasdaq has fallen off, dotcoms have crashed, tends to make people think that the fundamental use of Internet and the new economy has also been affected. Yet, apparently, it has not been. That should encourage you. So again, I do not think that you can equate the stockmarket performance or even corporate profits with what is actually happening on the ground in terms of the Internet use and increased productivity. Thank you very much for your attention.