

BIAC STATEMENT TO THE OECD COUNCIL MEETING AT MINISTERIAL LEVEL

BACK TO THE BASICS: REFOCUSING THE OECD ON CREATING PROSPERITY

22 May 2006

EXECUTIVE SUMMARY

The OECD was established forty-five years ago to support economic growth and development among its members by promoting sound economic policies and open markets. The resounding economic success of both its original and newer members testifies to its good work. More recently, however, economic growth has become uneven, and in several countries the expansion of governments' role has gradually decreased the scope for market activity. A primary responsibility of the OECD should be to examine all the subjects in its portfolio to identify ways to expand the policy space for open market activity and wealth creation.

Private sector entrepreneurship and investment are the main engines of economic growth, prosperity and social welfare. In BIAC's view, policies geared toward these goals should be in line with the following basic principles:

- Focus on wealth creation rather than wealth distribution.
- Improve the investment environment through structural reforms.
- Improve government efficiency.
- Promote economic sustainability.

In recent years, expanded government activity, high tax burdens, excessive regulation, and state intervention have placed an increasing burden on economic growth, job creation, and increased welfare. Several empirical economic analyses have suggested that a ten percent reduction in the size of governments in OECD countries could increase economic growth by one-half to over one percentage point per year.

BIAC has recommendations for policy improvements to increase the scope for open market activities in virtually all the issues on which the OECD engages. For the purposes of this Ministerial we would like to highlight some priority areas:

- OECD members should cut back public deficits to ensure macroeconomic stability and free up capital for private investment. They must also take steps to reform benefit systems to ensure they will be sustainable in the face of ageing populations.
- OECD members and the Secretariat should ensure that they have done their part to conclude the Doha WTO Round by the end of this year with ambitious new liberalization in agriculture trade, non-agricultural goods and services trade. This is a one-time, major

opportunity to improve the policy space for open market activity and to increase business opportunities in agricultural trade, and south-south trade, and services.

- OECD members should build on the Organisations' substantial body of work on investment policy to push back against investment protectionism. Investors need to be assured that host countries will provide transparent, predictable, non-discriminatory environments with high-quality investment protections.
- OECD members should implement the package of recommendations found in the revised Jobs Strategy, so as to improve labour market flexibility and remove barriers to labour market participation. These efforts should include developing competitive and entrepreneurial business environments that allow companies to invest and grow, and in turn to create jobs.
- OECD countries need to provide innovation-friendly markets for their companies, the lack of which constitute a major barrier to investment in research and development and stifles innovation. Countries also need to foster a high-quality system for intellectual property rights and support improvement of anti-piracy/counterfeiting programs and intellectual property protections worldwide.
- OECD members should work through the Organisation and the International Energy Agency to give due attention to the fundamental importance of energy to economic growth, investment, and governance.
- OECD members should engage in continued close dialogue with business on the full range of tax issues of importance in today's global economy.
- OECD governments should set an environmental policy framework that is transparent, predictable, and based on scientific knowledge.
- OECD outreach work with non-member economies should promote policies that create open markets, foster sound corporate governance and support the rule of law. An important activity in this regard is the review of China's regulatory policies, which should be fully funded.

BIAC stands ready to work constructively with its OECD partners in these and other policy areas, to improve the policy space for open market activities, and thus stimulate economic growth.

I. INTRODUCTION

When the OECD was originally established forty-five years ago, its purpose was to help its member countries build strong economies, improve the efficiency of markets, expand free trade and contribute to development. In short, its overarching goal has been what should be the central objective for any economic policymaker – namely, creating prosperity.

During the intervening years, most OECD countries have been successful in creating prosperity and a few of them still are today. However, over the past decades, governments have shifted their attention towards other policy objectives. Broader social objectives, greater income equality, and cushioning the impact of structural changes on economies have moved higher on many policy agendas. These objectives are legitimate, provided that they can be addressed in ways that are compatible with achieving sufficient creation of wealth to pay the bills. In most OECD countries, the principle of wealth creation has lost its primacy compared to social policy goals, and prevalent mistrust of market economy principles means that whole sectors of economies are still insulated from market forces. As a consequence, various countries – in particular continental European economies and Japan – have fallen behind the leader OECD economies and have also lost ground relative to emerging economies such as China, Brazil, Chile, and India as far as creating growth is concerned. The clear challenge today for governments in a range of OECD member countries is not just to recover lost ground, but also to achieve the levels of economic growth that can deliver the outputs that their electorates have come to expect.

In order to get back on the growth track, governments need to return to the fundamental truths that the founders of the OECD understood so well more than four decades ago. First, creating prosperity is a pre-requisite for finding solutions to other key challenges countries are facing. Second, a well-functioning market economy, where the allocation of resources is determined only by supply and demand, is more effective in creating prosperity than any other system so far discovered. Third, entrepreneurship and investment are at the heart of any market economy working to create prosperity. Through their investment, private businesses set economic activity in motion by bringing resources together to produce goods and services. Vigorous and sustained growth is facilitated by a virtuous circle whereby entrepreneurship and investment lead to higher productivity, attracting the larger sums required to invest in the future. In the process, new jobs are created, new technologies are promoted, and government revenues needed to help finance core government functions are increased.

Hence, OECD countries must improve their investment environments to help create prosperity and high levels of productive employment, which in turn facilitate solutions for their key non-economic priorities. The OECD's role is to assist governments to refocus their attention on creating prosperity through its rigorous analysis of cutting edge issues, its identification and dissemination of best practices, and its impartial formulation of policy recommendations and by encouraging these policies' effective implementation.

In BIAC's view, policies that are geared towards creating prosperity need to be in line with the following basic principles for fostering environments that are conducive to investment, the production of goods and services, and job creation.

II. BASIC PRINCIPLES

Put the focus on wealth creation rather than wealth distribution

The creation of added value in an economy is the key pre-requisite for solving the major problems OECD economies are facing today. Economies create income through the production and successful marketing of goods and services by the private sector. Governments must redefine as a

priority this process of value added and income creation ahead of income redistribution. Significant reductions in high unemployment levels, sustainable financing of social security, and prevention and reduction of environmental degradation are challenges that can only be met if we first generate the income necessary to finance these public tasks. The cake must first be sufficiently large before we are able to begin distributing pieces of it. The more dynamic the growth of production and income in an economy, the less difficult it becomes to resolve conflicts about income distribution and the financing of core government functions.

Improve the investment environment through structural reforms

Prosperity in many OECD countries, including in some of the world's biggest economies, has suffered from a persistent growth weakness that is structural in nature. The root cause for long-term economic underperformance of many countries – including the larger ones such as Japan, Germany, France and Italy – lies in the fundamental disturbance of economic processes. This prevents the economy from adjusting to structural change. In many countries, the economic, legal and regulatory conditions under which companies must operate are not conducive to generating the investment and production needed to create prosperity. There is now clear evidence not only that overly high tax burdens, costly social security systems, high labour cost, over-regulated product and labour markets contribute to sluggish growth and missed opportunities, but also that it is possible to overcome these problems without damaging social cohesion. The waning capacity of many OECD economies to create prosperity is clearly reflected in the drop of their potential output rate. Over the past two decades, the rate fell on average by about half a percentage point to only 2.4%: too little for enhanced prosperity and new jobs.

Thorough structural reforms are necessary to revive investment, which is key to countries' economic potential. Reforms must be bold, carefully co-ordinated and coherent to actually generate investment and thus have a sustained impact on growth and prosperity. The widespread yearning for simple and fast fixes that boost jobs and growth is only a pipe dream. Governments must be determined to remove all the wrenches they have put in the works of their economies over the past decades. They must implement reforms that strengthen market forces – the mechanism that allows economies to make quick and flexible adjustments to respond to structural changes caused by the advance of the service sector, the information and communication technologies revolution, the all-embracing phenomenon of globalisation and other unknown challenges that await us in the future.

Make governments more efficient and willing to share responsibilities

Since the creation of the OECD, governments have assumed ever-increasing responsibilities. They have raised their share in the overall economy and as a result, limited the scope for action left to private businesses and households. In 2004, total government outlays averaged 41% of GDP in OECD countries, almost 13 percentage points more than in 1961. While the tax burden for companies and private households accounted for 37% of GDP on average in 2004, it reached as high as 45% in the Euro Area and well over 50% in Scandinavian countries – meaning that about every second Euro or Krone goes through the hands of the national government.

A major downside of overambitious governments is that they take on more tasks than they can efficiently handle. The result is that they run their economies deeper into debt or achieve levels of bureaucracy that stifle investment and enterprise. Public finances are in a precarious state in many OECD countries today because governments have taken away more responsibilities from the private sector than they can shoulder themselves and their only way out is to go in debt. As a result, government debt¹ soared from 57% to 77% of GDP within the relatively short period from 1990 to 2005. In a number of countries this debt will place an enormous burden on future generations. After some successful efforts towards budget consolidation in the 1990s, many

¹ General government gross financial liabilities

governments have failed to put a brake on deficit spending, even when times are good. In 2004, OECD country treasurers borrowed an additional 3.6% of GDP from creditors even though their economies grew by a robust 3.3%. Twenty-three OECD countries ran deeper into debt in that year despite economic growth.

These trends are incompatible with the principles of efficient market economies. Overly big government, high tax burdens and excessive regulation and state intervention are a drag on growth, destroy jobs and reduce the potential and incentive to create prosperity in many countries. There are several reasons for the detrimental impact that oversized governments have on their economies. Government expenditures often involve unforeseen costs, distort markets, require further taxes and/or borrowing that burdens the economy, lack key elements of entrepreneurship that contribute to the economic growth, and often involve redistribution of income and/or protectionism.

The business community recognizes the complex and difficult balancing act that governments must play in modern societies. Governments' role should be to establish and enforce laws, ensure public order and safety, protect property rights, defend against external threats for national security, build and maintain some infrastructure, secure fair competition practices in all markets and provide public services and goods. These tasks become more challenging as the world's economy becomes more open. Furthermore, there is no one-size-fits-all approach nor is there one optimal size of a government. Different dimensions and scopes of government activities may work well in different countries. In many developing countries, for instance, the role of governments is too marginal to ensure that they can fulfil their core responsibilities.

However, studies show that the opposite is the case in most OECD countries, where governments need to reduce their excessive size and scope in order to allow their economies to flourish. Rather, they must concentrate on the core responsibilities necessary for the effective functioning of globally-connected 21st century, and increase the responsibility of private businesses and households in all those areas where the private sector can do a better job than the state. This is the case in all but a few areas of the economy. Several empirical economic analyses² have shown that a 10% reduction in the size of governments in OECD countries would increase economic growth by at least half a percentage point per year. Some studies even suggest a growth increase that is more than twice as large.

Promote economic sustainability

Sustainability in the economic context means using scarce resources (natural resources, capital, human resources) in ways that are efficient over the long-term. The concept of sustainability has concrete ramifications for economic policy. We can only provide a solid future for coming generations if we draw upon existing resources efficiently.

Business has a role to play in this, and it takes its role seriously. However, in many areas that are central to the sustainable functioning of the economy, the business sector depends crucially on the credibility of the approaches taken by policymakers. Unfortunately, however, not all governments pursue economic sustainability. The level of budget deficits that various OECD governments are currently running is clearly unsustainable, as are the trade deficits and surpluses of several key economies. At the same time, the way social security is provided and financed is also unsustainable in many if not most OECD countries. Many countries' current social systems are inefficiently organized because they have been insulated from market forces and have not been sufficiently prepared for the well-known demographic challenges to come, that have been underway for decades. Labour markets are also in similar disarray where market forces have been suppressed by state intervention and where governments have been satisfied with using short term

² See: Brett D. Schaefer, "How the Scope of Government Shapes the Wealth of Nations," Heritage Lectures, No 925, December 2005, pp.5-7

“quick fixes” that at best only temporarily cure symptoms, and have, in fact, usually failed. Such a short-sighted approach will not provide for a significant and sustainable reduction of high unemployment, nor will it allow governments to address other public policy goals – for example social or environmental objectives – that also contribute to prosperity.

III. CORE ELEMENTS OF A POLICY FOR PROSPERITY

The fundamental “basics” for generating prosperity described above – giving priority to wealth creation over wealth distribution, improving investment environments through structural reforms, making governments more efficient and inciting them to share their responsibilities with the private sector and citizens, and promoting economic sustainability – are valid for all of the different policy areas that the OECD addresses in its recommendations to governments.

The following section will examine some of the key policy areas that are priorities for OECD countries today and illustrate how the application of the above growth fundamentals would create a virtuous circle that would ultimately lead to increased prosperity for their citizens.

Get the basic framework right – ensure good public governance

Good public governance is the fundamental underlying principle that should be the core of all public policy frameworks and should be a key objective for government leadership at all levels. It represents one of the most positive incentives for a company to invest in a market and is essential to ensure that all citizens will enjoy the full benefits brought by these investments.

Good public governance is also a prerequisite for structural reform. It is the basis for a leader’s ability to garner the necessary support for making tough political decisions that are aimed at enhancing a country’s capacity for economic growth. It is also the basis for more efficient public management, which is critical to reducing wasteful public spending and more effectively working with the private sector in areas where shared responsibility in managing the delivery of benefits such as pensions is necessary.

The efficient management of government functions; predictable, transparent and pro-competitive regulatory regimes; the rule of law; easily understandable and efficient public administrative procedures and services; making maximum use of e-government; effective consultation with social partners and all stakeholders involved in the creation and revision of rules and regulations, including a systematic ex ante and ex post impact assessment procedure; and clear accountable leadership at all levels are some of the specific hallmarks of good governance that potential investors seek.

Investment is not limited to large multinational companies. A favourable policy framework should also support the creation of new businesses and encourage entrepreneurship, as small and medium-sized enterprises (SMEs) are major potential source of growth. An OECD study estimates that 70% of net job creation can come from fast-growing SMEs³. This number should climb in the years to come as SMEs increasingly tap into new global markets, unless miscalculated government policies throw up additional barriers to their internationalisation. Regulatory frameworks that are transparent, understandable, unbureaucratic and pro-competitive are essential to stimulate and sustain business creation and expansion that may otherwise be discouraged by excessive administrative burdens and costs.

In BIAC’s view, the OECD’s emphasis on regulatory quality is essential for achieving an efficient environment for business operations. Good public governance will bring lower costs and fewer administrative burdens – both for producers and consumers of products and services. It is also vital

³ OECD draft report on “Removing Barriers to SME Access to International Markets”

to allowing citizens to reap the benefits generated by the liberalization of trade in services and by technological innovation. OECD initiatives on regulatory reform are an important and unique contribution to these objectives, and BIAC very much supports its current initiative to conduct a regulatory reform review of China.

Stimulate growth through sustainable macroeconomic policies

Macroeconomic policies are an important factor in determining any economy's ability to create prosperity. Governments and central banks need to encourage economic growth in ways that are sustainable. A macroeconomic environment that is conducive to growth must be built upon the foundation of sound government finances so that the public sector does not pre-empt national saving and through this impede investment. Equally important, inflation must be kept under control, so that businesses and consumers are not held back by uncertainty associated with distorted price signals. Sound budget balances and price stability contribute to lower real interest rates and this in turn stimulates investment and economic growth.

More forward-looking monetary policies and the increased international competition due to globalization have improved price stability in most OECD countries over the past two decades. In the area of budget policies, the current approaches in many OECD countries are not economically sustainable compared to a positive but short-lived trend toward budget consolidations in the 1990s. The May 2006 *BIAC Economic Review* shows that business in about half of the OECD countries is concerned over these loose budget policies. In particular, in some of the largest economies, public deficits must be cut back to ensure macroeconomic stability. Furthermore, against the background of future pressures on public finances stemming from ageing populations, OECD countries must take steps to reform benefit systems in areas such as pensions, healthcare and long-term care. The longer countries protract necessary changes, the more difficult it will be in the mid-term to manage public finances in ways that are conducive to investment and growth.

BIAC appreciates the high-quality macroeconomic analysis provided by the OECD and calls on member countries to follow OECD recommendations more closely as far as public finance is concerned.

Promote the benefits of globalization ...

Thousands of larger firms originating from OECD countries are already highly integrated into international labour division through cross-border trade and investment. They have been and will continue to be driving forces of globalisation. In addition, millions of small and medium sized firms will follow suit and go global in the years ahead, which represents an enormous potential for generating additional growth. Even more than today, future business success will depend on the ability to compete and co-operate effectively on a global level. OECD governments must hence facilitate globalization processes by ensuring the frictionless cross-border exchange of goods and services as well as the free transfer of capital. OECD countries' openness is a pre-requisite for creating prosperity by fully reaping the benefits of international labour division.

... through ambitious trade liberalization under the WTO

The WTO negotiations under the Doha Development Agenda (DDA) offer an excellent opportunity to liberalize global trade and spread the benefits of globalization. It must not be missed. The world trading system and the open markets that it promotes are essential to the creation of global prosperity. From the DDA negotiations the business community expects ambitious results in all negotiating areas, including the liberalisation of tariff and non-tariff barriers for industrial goods, market access for services, the substantial reduction of agricultural trade barriers, improved global trade rules, and an agreement on trade facilitation. Both OECD countries and developing countries must commit to a genuine liberalisation of their markets. However, the business community is deeply concerned about the lack of real progress in the round. Time is running out. For practical reasons the negotiations must be finished by the end of this year. By delaying beyond 2006,

negotiators risk failure of the round. This would squander the achievements made to date, dissolve the substantial welfare gains ahead for all countries and undermine the multilateral world trade system, leaving only bilateral and regional trade deals, which are never more than a second-best option. Achieving meaningful trade liberalization in all important areas may be difficult, but it is certainly attainable. Policy leaders must now take the WTO process out of the realm of one-upmanship and give negotiators the green light they need to make a real difference. Pushing aside the remaining stumbling blocks in key negotiating areas may be difficult, but it is certainly achievable with far-sighted vision and determination on the part of policymakers. The additional prosperity that countries have to gain at the end of the day makes this effort seem small in comparison.

The OECD has a key role to play in building confidence in and support for the global trading system. Its analytical work is an important base for the negotiations outlined in the DDA. In addition, the OECD's outreach programmes provide skilled resources for improving the technical capacities of developing countries in the field of trade policy. Encouraging and participating in this process is fundamental for the OECD.

... and improvements in the global investment environments

Foreign direct investment (FDI) is closely linked to trade. Both are complementary activities vital to modern international business operations. FDI is an important supplement to countries' domestic investment as it generates additional capital and increases knowledge and skills in an economy. Thus, attracting FDI is an important fundamental for economic growth and prosperity.

Attracting foreign investment requires creating an attractive investment environment. The OECD has done more to improve the conditions for cross-border investment than any other international body. Its members, who are home to the vast majority of global investors, have all made binding commitments under the OECD Codes of Liberalisation and the Declaration on International Investment to promote cross-border investment. Furthermore, the Guidelines for Multinational Enterprises have positively influenced the responsible behaviour of multinationals and through this further enhanced the benefits of foreign direct investment.

The Organisation must continue to be a leader in promoting good investment environments, which benefit both MNEs and SMEs, in OECD and non-OECD countries. The Policy Framework for Investment (PFI) was a first step to reach a common understanding with non-OECD governments about "good policies" for investment. Priorities include government accountability, law enforcement, credible approaches against bribe solicitation and corruption, transparency and predictability of rules, labour market flexibility, human resource development and infrastructure. Markets need to be open for foreign investors and a level playing field between domestic and foreign investors has to be guaranteed. The acid test for the PFI will be how non-OECD countries put it into practice. In order to make a real difference, the PFI must be effectively promoted and governments need to be encouraged to apply the best practises identified. BIAC calls on the OECD to give high priority to these activities. Furthermore, we recommend regular reviews and updates of the PFI to ensure that it will reflect future developments regarding high quality approaches towards investment in all relevant policy areas.

While reaching out to emerging and developing countries, the OECD must do more to ensure that its own members remain good examples for economies that embrace foreign investment. Recently, OECD policy leaders rather appeared to be focusing their attention on putting certain cross-border investments to an end. Several governments have interfered in takeover deals involving "domestic" and "foreign" companies, no matter how sensible those deals may be. This is worrying. Governments should welcome bidders from foreign countries rather than trying to scare them off. The OECD on its part must become more vocal in warning against the dangers of unnecessary governmental protection, whether in trade or investment. More must be done to defend the merits of globalisation and call protectionist policymakers' bluff. Therefore, BIAC welcomes that the OECD plans to work on impediments to cross-border mergers and acquisitions in the future.

Ensure a predictable supply of energy

A predictable and sustainable supply of energy is an indispensable prerequisite for economic growth, creating prosperity and a sound investment environment. Energy is an absolutely essential element to every economy. Any company will suffer and will refrain from making major investments when energy security is in danger. Ensuring a predictable supply of energy should therefore be high on every government's policy agenda. As is true for most policy areas, efficiency in the energy market depends strongly upon the "basics" of good governance, free and open markets as well as predictable and transparent regulatory frameworks that reduce competitive distortions. Market-based prices, market solutions, and a non-discriminatory and consistent legal enforcement are all attributes of these frameworks. Governments need to reverse the current trend by resource-rich countries of undermining the market's capability to efficiently balance demand and supply.

At the same time, long-term energy security calls for the utilisation of a variety of energy sources. National circumstances will best determine the mix of fuels necessary for energy security and sustainable growth in a given country. The diversification of energy supplies and distribution, both by energy type and by source, is an important measure to help improve energy security.

While energy is crucial to the investment environment, governments need to ensure that the necessary investment in the energy sector itself comes forward. Investors often face considerable risks and challenges, which vary by region and the stage of the energy chain. Close cooperation and dialogue between energy producers and consumers is therefore important. Energy investment requires a long-term view as many options involve considerable time and expense to alter energy and raw material inputs and to develop and introduce technological changes. Business therefore calls upon policy makers to commit to a consistent policy framework that takes into account these long-term investment cycles. In addition to close cooperation with the International Energy Agency, BIAAC encourages the OECD to give due attention to the fundamental importance of energy in its work on economic growth, investment and governance.

Foster innovation to spark growth...

Both specific issues, such as sustainable energy, and the broader policy goals of creating growth and prosperity, require innovative economies. Innovation is the "silver bullet". OECD countries need to provide innovation-friendly markets for their companies, the lack of which constitutes a major barrier to investment in research and development and stifles innovation. Understanding the impact of innovation and the conditions that give rise to the necessary investments are at the centre of focus for both business and the OECD. National governments are making considerable efforts to ensure their comparative advantage in what have become complex, open yet inter-dependent knowledge-based economies. Without a good understanding of the processes by which science and technology reach the marketplace and contribute to an enabling investment environment, far-sighted solutions for the future are unlikely to be found. It is therefore essential to understand those parameters that support the creation of sustainable innovation-friendly environments.

BIAAC believes that the OECD should adopt a cross-cutting approach to the task of understanding the factors that facilitate technological innovation, looking in particular at the following issues: Value creation and economic growth in knowledge economies; managing knowledge creation and knowledge use as global activities; the consequences of open innovation, particularly within public-private partnerships; flows of human capital and technology; fostering a high-quality international system for IPR; and analysing the innovation systems of the major emerging economies, such as China, and their impact on OECD countries. Such topics illustrate the growing internationalisation and changing nature of R&D, the interdependencies between public and private sectors in executing R&D, and highlight the supportive role that governments should play in fostering a policy climate that encourages investment in R&D and the commercialization of new innovative products.

New technologies are both a catalyst of change and tools for greater adaptability. Biotechnology, nanotechnology, digital convergence technologies, and other emerging technologies are key

growth drivers, and will provide opportunities for job creation. These growth sectors also highlight the extreme importance of education, training, retraining and lifelong learning as well as the mobility of highly skilled workers.

... and educate societies to adapt to change

Education is the key to enabling societies to channel innovation into economic growth, and in a larger sense to effectively manage and adapt to change. This is critical in today's globalised world where markets face ever-increasing competitive pressures.

Initial education should not only impart skills and knowledge but also instil the importance of continued education and lifelong learning. Education is indisputably a core responsibility of governments. In order to reach its potential, it is an area that must benefit from strong dialogue with business and other stakeholders. Education and training institutions must maintain a close dialogue with business to ensure that academic programmes are aimed at meeting the needs of the current and future job market. This of course also applies to the links between education, R&D and innovation, which are not only a source of growth on their own, but which also lead to the development of applications, products and services that also contribute to raised standards of living.

Ensuring that educational institutions are able to evolve and adapt to meet the needs of today's students – who make up the global workforce of tomorrow – is a priority for business. It is for this reason that business actively seeks enhanced dialogue and partnerships to foster even better educational systems that contribute so critically to building more prosperous societies. BIAC looks forward to contributing its views to the upcoming OECD Education Ministerial this June.

Let the market work to create jobs

Flexible and educated workers and well-functioning job markets are key ingredients for prosperity. However, in their policymaking, governments too often seem to forget that the engine that creates jobs is private sector investment. As we stated at the beginning of this paper, the first basic principle that the OECD must promote to governments is that wealth creation must be the primary focus of policy making, with wealth distribution following afterwards.

Rigid labour market polices that do not allow firms to adjust to market changes and pressures and which overly protect jobs is not a sustainable practice. The basic truth is that if firms are not allowed to grow, they cannot create jobs. Any job that a government may seek to protect – through an overly rigid policy environment – is ultimately lost because a firm functioning in such an environment may not be able to create more jobs, or, worse, may simply cease to exist. At the same time, big government as a source of jobs is not a sustainable alternative.

Beyond the basic general rule of letting the market work to bring the investment that will create jobs, governments' employment policies must also ensure that above all they seek to activate workers. While some economies have found a balance in creating the right activation packages, for others it is time to shift away from a mentality of social protection toward more innovative adaptable frameworks for employment creation. The way to competitiveness and job creation should be through more efficiency and flexibility in the overall labour market, and the implementation of active labour and social policies.

Governments must be courageous in their efforts to implement policy solutions that activate all groups to work, and strive to garner the support of constituencies when changes will be politically difficult. This can only be done by convincing populations that change will indeed bring greater benefits than the current frameworks. Clearly communicating this message must be a priority for governments seeking to push through difficult reforms.

We note earlier in this paper the critical importance of education. Lifelong learning – continued education and training throughout one's working life – has never been more important, for helping

workers of all ages to successfully adapt to changes in markets. This is the only way to ensure that there will be continued opportunities for growth for all of society.

With respect to social policy, business also emphasizes the need for forward-looking policies. In the face of increased pressures on social benefits systems due to demographic change, and in particular of aging populations, we must bring forward workable solutions for issues such as the management of social securities systems that are at present unsustainable. Here the role of the private sector must be explored.

It is clear that the OECD needs to ensure that the Jobs Strategy and Growth Study continue to provide important analytical and empirical basis for necessary structural reforms that will promote investment as the source of enhanced job creation.

However, most importantly, governments need to find the political means to implement employment policies that will be economically sustainable and provide the base confidence for the private sector to invest in economic growth projects, large and small.

Keep investment flowing by setting tax policies correctly

Tax policy is an integral factor in nearly every aspect of an economy and plays a significant role in labour and employment policy as well as in social policy, where the taxation of benefits is at the centre of debates, such as the viability of pensions schemes. As economic and financial barriers disappear, tax differentials will have an increasingly significant impact on trade and investment flows. Overly high tax burdens, for both business and consumers, has a detrimental impact on economic growth and robs the economy of its growth potential. Strong purchasing capability in the hands of individuals and businesses is an essential economic driver.

Tax policy and effective international cooperation on taxation issues, for example in treaty networks, is an important policy element to stimulating investment and capturing the benefits of international commerce. An attractive investment environment will include a tax regime that reflects the realities of current business models and transactions, and serve to stimulate job creation on both the supply and demand sides.

Before "investing" in a country, business looks to ensure that national tax regimes have the following attributes: a transparent and predictable tax system; a broad tax base with the lowest possible rates; no double taxation; non discrimination; transfer pricing law based on the arm's length principle as articulated in the OECD Transfer Pricing Guidelines; tax policy that does not place undue burdens on labour costs or employee benefits; timely consultation with the business community on tax matters; and effective dispute resolution procedures.

Where tax incentives are applied, in order to be effective they must be non-discriminatory, transparent, proportional, clearly causal or closely linked, non-trade distorting, oriented towards attracting long-term investment, and temporary in relation to offsetting asset or policy gaps. Otherwise, business investment will be discouraged.

Business continues to place great value of OECD tax policy instruments – such as the Model Tax Convention and the 1995 Transfer pricing Guidelines – that enhance the predictability of investment and business transactions. Continued close dialogue on the full range of tax issues of importance in today's global economy is crucial not only for OECD businesses but also for OECD non-Members.

Create a competitive business environment

A pro-competitive business environment is a fundamental pillar to prospering economies. The ability to compete – to enter new markets without facing anti-competitive restraints – allows firms to unleash their potential for job creation and develop new and innovative products and services for consumers and business alike.

Over the last several years there has been a proliferation of competition regimes, as countries have recognised the importance of competition law and policies focused on consumer welfare and economic efficiency as part of broader policy frameworks including deregulation, trade and investment liberalisation, and privatisation.

Effective enforcement, due process, transparency of process and non-discrimination are important elements of sound competition regimes. Competition law and policy is most conducive to investment when it is based on sound economic principles, consistent with international norms.

Maximizing consumer welfare should be the ultimate long-term objective of competition policy, including in consideration of privatization matters. Establishing a “national champion” or guaranteeing exclusivity to a private party in the context of privatization can often reduce overall consumer welfare.

While some public sector restraints undoubtedly are necessary to ensure safety and limit unfair or deceptive practices, there is growing consensus that many countries or jurisdictions have an excessive number of public restraints. This is counterproductive to encouraging functioning markets that are key to prosperity.

Product market competition promotes job creation by enhancing free market entry and exit into the market. The life cycle of young firms depends upon innovative capacity and productivity. Thus facilitating new entry by removing disincentives and barriers to investment through optimal regulatory frameworks provides for more innovative capacity and productivity improvements to the economy as a whole.

From the business perspective, building a competition culture is of the essence, and is achieved through the exchange of experiences and best practice between governments and business and consumers. Business continues to look to OECD as the leading institution for facilitating enhanced international antitrust cooperation, improved procedural aspects for procedures, and informed debates on competition and regulation across sectors.

Set a sound environment policy framework

Economic sustainability is essential, but cannot be considered in a vacuum. Governments must also consider other policy goals, such as achieving and maintaining environmental quality within the general framework of sustainable development. A sound environment is crucial for both societies and economies.

At the same time, environmental regulations are part of the overall investment policy framework. They therefore require an integrated approach taking into account environmental, social and economic considerations with a clear reference to the sustainable development context, practicalities of solutions and cost-benefit analysis of decisions. When designing instruments to address environmental challenges, all policy options should be considered and assessed on a case-by-case basis. Voluntary initiatives can be very positive, as they allow those with the best knowledge of their own business to propose measures that are effective from a cost-benefit standpoint.

Environmental over-regulation, without considering the economic and social implications of such measures and the dynamics of the global marketplace, can lead to major competitiveness impacts. The global dimension of many environmental challenges and resulting effects on companies' competitiveness in international markets are extremely important. To address these challenges, we encourage OECD to explore opportunities for partnerships with non-member countries, taking into account the role that business can play in the area of innovation and the spread of innovative approaches and technologies to non-member countries.

Businesses, as well as the public, are vital players in creating lasting and economically sustainable solutions. An active partnership with the private sector is essential, as an engaged business community is key to achieving real progress. For business to make its contribution most effectively

and to come forward with the necessary investments, we encourage governments to set an environmental policy framework that is transparent, predictable and based on scientific knowledge.

IV. CONCLUSION

Economic growth is crucial to finding solutions to many challenges that OECD societies are facing and to ensure the well-being of citizens. Thus, creating prosperity should be a top priority for all governments.

Governments have a crucial role in setting the right frameworks to generate prosperity. However, these frameworks should work toward strengthening the market economy, which is by far most effective system for raising living standards yet discovered. Strengthening markets means improving the environment for entrepreneurship and private investment.

Creating a better investment environment is by no means an easy task. Policymakers need to take a comprehensive approach that covers all relevant policy areas. It must also adequately reflect the complexity and interdependency of our modern economies. Governments must also take a long-term view in designing and implementing structural reforms and macroeconomic policies which increase countries' potentials in sustainable ways. Furthermore, governments must be determined in their efforts to overcome the opposition of often well-organized minorities who resist policies and reforms that would increase a country's economic growth but may imply welfare losses for a few in the short-term. This implies policies that enable those that may lose out in the short-term to understand the benefits that they will gain from reforms in the mid- and long-term.

BIAC calls on OECD countries to give high priority to the creation of prosperity. We welcome future OECD work that assists governments in refocusing their attention on creating prosperity through its analysis of cutting edge issues, its identification and dissemination of best practices, its formulation of policy recommendations and by encouraging these policies' effective implementation.

Finally, we reiterate that in order to get back on the growth track, governments must return to the fundamental truths that the founders of the OECD knew so well when they created the organisation more than four decades ago: that it is investment, entrepreneurship and well-functioning markets that will deliver prosperity. The business community stands ready to work with the OECD in the pursuit of these objectives.