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The Making of the Peace, 1993

A Review of Canadian Economic Diplomacy at the OECD

Robert Wolfe

Economic and Trade Policy Branch Working Papers

Department of Foreign Affairs and International Trade
October 1993

**The views expressed do not necessarily represent the policy of the
Government of Canada.**

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From time to time, the Economic and Trade Policy Branch will release internal working papers on aspects of Canadian foreign policy as a stimulus to broader discussion. The attached review of Canadian policy at the OECD was commissioned from Robert Wolfe, a member of the Department also associated with the Centre for International Relations at Queen's University, Kingston, Ontario. The views expressed do not necessarily represent the policy of the Government of Canada.

Questions and comments should be addressed to the Director, International Economic Relations Division, Department of Foreign Affairs and International Trade Canada, Ottawa, K1A 0G2.

This document will shortly be available in French.

If, however, we no longer stress so much economic factors as the direct cause of war, that does not lessen their importance in the maintenance of a creative and enduring peace. Men may not now go to war for trade, but lack of trade may help to breed the conditions in which men do go to war. [...]

Just as we cannot in this day have a stable national democracy without progress in living standards and a sense that the community as a whole participates in those standards, without too great extremes of wealth and poverty, likewise we cannot have one world at peace without international social and economic progress in the same direction. We must have rising living standards in which all nations are participating to such a degree that existing inequalities in the international division of wealth are, at least, not increased. For substantial progress on these lines we need the degree of efficiency that comes only with the freest possible movement of commerce through the world, binding people together, providing the basis of international investment and expansion, and thereby, I hope, making for peace.

— Lester B. Pearson, *The Four Faces of Peace*, Nobel Peace Prize Lecture
Delivered at the University Aula, Oslo, Norway, December 11, 1957¹

ABSTRACT

Does the Organisation for Economic Co-operation and Development (OECD) have a continuing place in Canadian economic diplomacy? It would be consistent with Pearsonian internationalism to argue that the OECD is part of the multilateral architecture of peace and that it contributes to the good governance of the global political system. This review attempts to set out the theoretical basis for such claims. Although not a comprehensive history or analysis of the OECD, this study does sketch the background to the creation of the organization in 1961 before outlining the organization's purposes, functions and methods as the basis for an assessment of its work. The substantive heart of the study is a discussion of OECD work under the various heads of cooperation in the Convention. After an analysis of the organization's relations with non-members, and some observations about what Canada gains from the OECD, the study ends with some general conclusions about the role of the OECD in fulfilling the objectives of the Canadian government. In sum, the OECD remains a useful tool of Canadian economic diplomacy for making the post-Cold War peace because it continues to contribute to the conditions for prosperity, which in turn is one of the essential underpinnings of stability.

RÉSUMÉ

L'Organisation de coopération et de développement économiques (OCDE) a-t-elle une place permanente dans la politique économique canadienne? Ce serait aller dans le sens de l'internationalisme pearsonien de soutenir que cette organisation fait partie de l'architecture multilatérale de la paix et qu'elle contribue à la bonne administration du système politique planétaire. Cet examen essaye d'exposer les principes sur lesquels repose cette affirmation. Ni histoire ni analyse complète de l'OCDE, cette étude esquisse les circonstances qui ont conduit à sa création en 1961, puis elle en expose les objectifs, les fonctions et les méthodes qui lui serviront de base pour évaluer ses travaux. Le fond de cette étude est une description des travaux de l'OCDE aux différents chapitres de la coopération contenus dans la Convention. Après avoir analysé les relations de cette organisation avec les non membres et avoir fait des observations sur les avantages que le Canada tire de celle-ci, l'étude se termine sur des conclusions générales concernant le rôle joué par l'OCDE dans la réalisation des objectifs du gouvernement canadien. Somme toute, celle-ci reste un outil utile de la politique économique canadienne pour faire régner la paix après la guerre froide, parce qu'elle contribue toujours à assurer la prospérité, l'une des bases essentielles de la stabilité.

Acknowledgments	v
Abbreviations	vi
1. Introduction	1
2. Prolegomena: Theories of Cooperation and the OECD	5
2.1 Making the Peace.....	5
2.2 The Concept of Economic Diplomacy.....	6
2.2 Why Cooperate at OECD?.....	8
3. Origins: The Organisation for European Economic Co-operation	12
3.1 The Creation of the OEEC.....	12
3.2 The Collapse of the OEEC	14
3.3 The Creation of the OECD	15
4. The Organisation for Economic Co-operation and Development	18
4.1 Purposes.....	18
4.2 Functions.....	19
4.3 Methods.....	20
4.3.1 Surveillance	21
4.3.2 Horizontal work	23
4.3.3 OECD as a negotiating forum	24
4.4 Coordination.....	27
4.4.1 Executive Committee in Special Session (ECSS).....	27
4.4.2 Council at Ministerial Level	28
4.5 Conclusion.....	31
5. Heads of Cooperation	32
5.1 Economic Policy Cooperation.....	32
5.1.1 Economic Cooperation in Practice.....	32
5.1.2 Economic Cooperation in Theory.....	36
5.1.3 The Value of OECD for Canada	38
5.1.4 Conclusion	38
5.2 Trade Policy.....	40
5.2.1 Agriculture.....	43
5.2.2 Environment and Trade.....	45
5.2.3 Services.....	46
5.2.4 Commodities.....	46
5.2.5 Conclusion	47
5.3 Development Cooperation.....	47
5.3.1 Development Assistance Committee	48
5.3.2 Development Centre.....	49
5.3.3 Commodities and the NIEO	50
5.3.4 Policy Coordination.....	50
5.3.5 Public Management Committee	51
5.4 Environment.....	52
5.5 Social Policy	54
5.5.1 Employment.....	55
5.6 Framework Policy.....	56
5.6.1 Competition Policy	56
5.6.2 Tax Policy	57
5.6.3 Financial Services	58
5.6.4 Transport	59

5.6.5 Investment.....	61
5.6.6 Science, Technology and Industry	62
5.6.7 Harmonization, Policy Coordination, and the Role of the OECD	63
5.7 Energy Policy.....	65
5.8 Conclusion.....	66
6. The OECD in a Changing World.....	67
6.1 New Members	69
6.1.1 Mexico and Korea	72
6.1.2 Other membership issues	72
6.1.3 Dynamic non-member economies	73
6.2 Central and Eastern Europe and the Former Soviet Union	73
6.2.1 The Context.....	74
6.2.2 A modest proposal	77
6.3 The European Community and the OECD.....	78
6.4 The OECD and the Summit.....	83
7. Canada's Interests at the OECD	85
7.1 What does Canada get out of the OECD?	85
7.2 OECD Information	87
8. Conclusion: Canada and the OECD in 1993.....	92
Annexes	97
A Communiqué length:.....	97
B Canadians at the OECD.....	98
Canadians in the Secretariat at the A-6 and A-7 level.....	98
Officers of Committees.....	99
Canadian Delegates to OECD and IEA Meetings.....	102
Notes:.....	103

Acknowledgments

This study was commissioned by the International Economic Relations Division of External Affairs and International Trade Canada. As part of the research, in December 1992 and January 1993 I conducted informal but structured interviews with Canadian officials having policy responsibility for OECD matters in a number of government departments. No attempt was made to be comprehensive, but we did try to seek out representatives of the major users of the organization. I am grateful for the time these officials generously made available, often at short notice. This review is much stronger than it would have been without their frank observations, but the weaknesses of the result are not their fault. In addition to the interviews with officials, I read many documents, and I surveyed the academic literature, but there is no pretense here of being systematic or exhaustive. I tell a story that I believe to be important and useful, but it is inevitably idiosyncratic.

Portions of this study were presented to the annual meeting of the Canadian Political Science Association, Carleton University, Ottawa, June 6-8, 1993.

This project was only possible because of Fredericka Gregory, Joseph Caron, Phillip Somerville, and Barry Carin, who thought of it; and of Janine Arpin, Diane Harper and John Flood, who made the arrangements and found material. I am grateful for the helpful comments of Andrew Fenton Cooper, Piotr Dutkiewicz, John Helliwell, Sergey Komlev, Neil MacFarlane, Sylvia Ostry, Louis W. Pauly, Charles Pentland, and Vladimir Popov. None of the people interviewed are in any way responsible for my interpretation of Canadian interests, which is why public servants who contributed to my work are not thanked by name.

The views expressed in this report are in no sense the policy of the Government of Canada.

Robert Wolfe
October 1993

Abbreviations

CCEET	Centre for Co-operation with European Economies in Transition
CEE/NIS	Central and Eastern Europe/New Independent States of the Former Soviet Union
DAC	Development Assistance Committee
DAEs	Dynamic Asian Economies
EAITC	External Affairs and International Trade Canada
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECSS	Executive Committee in Special Session
EDRC	Economic and Development Review Committee. (A subsidiary of the EPC, it is composed of members of Permanent Delegations.)
EEA	European Economic Area
EPC	Economic Policy Committee
G-24	Western countries coordinated by the Commission of the EC for providing assistance to CEE countries
G-7	The term properly refers to the Group of 7 Finance Ministers set up by the Tokyo Economic Summit, but it is often used as a shorthand for the Summit group, which includes the EC.
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
IEA	International Energy Agency
IFIs	International Financial Institutions
IMF	International Monetary Fund (Its highest Ministerial body is the <i>Interim Committee.</i>)

MTO	Multilateral Trade Organization (a part of the draft Final Act of the Uruguay Round.)
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
PITs	Partners in Transition (Hungary, Poland, Czech Republic, Slovakia)
Quad	The Quadrilateral Group of Trade Ministers—Canada, U.S., EC, Japan—was established by the Ottawa Summit of 1981, although something even more informal had existed during the Tokyo Round.
TPRM	Trade Policy Review Mechanism (GATT)
WP1	Working Party on Macroeconomic and Structural Policy Analysis
WP3	Working Party 3 on Policies for the Promotion of Better Payments Equilibrium

1. Introduction

Does the Organisation for Economic Co-operation and Development (OECD) have a continuing place in Canadian economic diplomacy? Does economic diplomacy have anything to do with making the peace in the 1990s? When Lester Pearson and John Holmes told the story, international economic cooperation formed one of the faces of peace. Since the end of the Second World War, the making of the peace has been one of the preeminent objectives of Canadian foreign policy, and economic diplomacy has been made to serve the cause of peace as well as of prosperity. Canada does not seek to dominate other states, nor do Canadians believe that their own security can be achieved at the expense of others. The way Canadians conduct themselves at home says much about how they try to achieve their goals in the world.² What they want for themselves they want for others, and what Canadians want is peace, order and good government. It would be consistent with Pearsonian internationalism to argue that the OECD is part of the multilateral architecture of peace and that it contributes to the good governance of the global political system. The purpose of this paper is to show how such an argument could be constructed and evaluated.

The economic dimension of Pearsonian internationalism has deep liberal roots, but proofs of the liberal faith are not easy. When accepting his Nobel Peace Prize, Pearson acknowledged that although "we no longer stress so much economic factors as the direct cause of war, that does not lessen their importance in the maintenance of a creative and enduring peace. Men may not now go to war for trade, but lack of trade may help to breed the conditions in which men do go to war."³ Pearson stated this belief having in mind the liberal arguments of Richard Cobden from the 1840s and his own experience of the 1930s, an experience shared by the other leaders of his generation who created the Organisation for European Economic Co-operation (OEEC) after the war, and who later created the OECD out of the ashes of the OEEC. Have these liberal beliefs been vindicated?

It is easy enough to correlate the life span of the OEEC and the OECD with an extraordinarily long period of peace among their members, but it would be just as easy to argue that the correlation is spurious.⁴ Similar pitfalls would attend an attempt to correlate the life span of these organizations with the lengthy period of prosperity experienced in the advanced industrial countries. If international order is made by the powerful, then there is no place for the OECD, and no role for Canada. Even if the OEEC/OECD influence on both peace and prosperity were accepted by assumption, it would still be important to ask how the organizations achieved the effects attributed to them. This problem can be divided in two, by looking for evidence of their contributions both to prosperity and to international governance as separate elements of the OEEC/OECD role "in the maintenance of a creative and enduring peace."

Soul-searching about the OECD is not new; it was especially prevalent in the early and mid-1970s after the collapse of Bretton Woods and the enlargement of the EC.⁵ There are four exogenous dimensions to the timing of the present review of the OECD. The first is the possibility that the end of the Cold War has created new problems and opportunities in world politics. There is a suspicion that some institutions never had a purpose outside the context of the bipolar East-West nuclear confrontation. The second dimension is the broad acceptance in the formerly centrally-planned economies and in developing countries of the liberal view of the role of markets, a view closely associated with the OECD. The third dimension is the changing nature of regional cooperation. There is a further evolution in European integration at the same time as North America and Asia pursue new regional initiatives.

The final dimension to the timing of this review is an enduring old chestnut, increasing interdependence. Concomitant on changes in interdependence is growing transnationalization, or *globalization*, a new chestnut. We live in a world where changes in communications make microeconomic effects international; where the regulation of financial services affects the stability of the global economy; and where there are many millions of interconnections between countries because people travel and talk to each other more than ever before. There are perhaps 4000 international governmental organizations now, and many more international non-governmental organizations. If we consider that every firm with offices in more than one country has interpersonal effects comparable to the intergovernmental effects of an international organization, then the increase in transnational contacts has been exponential.

There are also two endogenous reasons for the timing of this review. First, in Paris, member states have been engaged in an intense period of reflection about the future of the OECD. Second, in Ottawa, many Canadian officials have wondered if the organization is still useful. Has it become sclerotic in its practices? Even if it is capable of action, is it too Eurocentric at a time when attention is shifting to Latin America and Asia? Taken together, these factors require a re-examination both of the OECD and of its importance for Canada.

When we conduct our assessment, it is important to distinguish between the properties of the institution itself and the properties of the environment in which it operates.⁶ On the one hand, it is always appropriate to reconsider personnel (i.e. the role of the Secretary-General) and practices (i.e. the Committee structure) of any institution. On the other hand, the world also evolves. Some phenomena are apparent to us because of their effect on the OECD, but may not signify much about the organization itself. If governments do not know what they want, or shift important functions elsewhere, then the OECD will not have changed, and yet will seem bereft.

These kinds of chicken and egg distinctions are important, because we need to know whether something that seems a problem at the OECD is susceptible to reform by the members, or whether it is a residual of decisions taken elsewhere.

Towards the end of his term as Secretary-General in 1984, Emile van Lennep was concerned about the future direction of the organization. John Helliwell, then on leave from the University of British Columbia as his senior adviser, was asked to prepare a paper on the issue.⁷ Helliwell was trying to re-think the organization in the light of the new policy paradigm that took hold in the early 1980s. The OECD had been Keynesian in its approach up to the mid-1970s, but by 1984 there was a growing consensus, in Helliwell's words, that "government policies should encourage diversity and flexibility of the private sector, and that governments' own expenditures and taxes should be designed so as to provide: a stable framework for private decision-makers; a medium-term fiscal plan designed to halt or reverse the growth of government debt relative to GNP; and a flexibly efficient provision of infrastructure and public services."⁸ Such a policy culture is clearly less activist than the one that had been dominant at the OECD in an earlier period, which called into question what the OECD itself should be doing. At root, the OECD is a place for governments to work together, but in the then new policy culture, was there anything that they should be doing together at the OECD?⁹ Nearly a decade later, this paradigm at the heart of the common policy culture of OECD governments appears frayed. Do we blame the OECD, or do we use OECD to build a consensus for a renewed paradigm?

This review is not a comprehensive history or analysis of the OECD, and it barely touches on two major instances of cooperation under the OECD umbrella, the International Energy Agency (IEA) and the Nuclear Energy Agency (NEA).¹⁰ There will be no attempt here to summarize the past work of the OEEC and the OECD, for it would be foolhardy to compete with the annual reports of the Secretary-General, or the compendia of *Acts of the OECD*. There is little attempt to assess endogenous factors in the life of the organization. The OECD has certainly ossified as it has aged, but I believe that these endogenous factors will respond mostly to endogenous change—leadership by the Secretary-General.

In the next chapter, I attempt to set out the theoretical basis for the claims that the OECD has a role in governance and in making the peace. In the third chapter I begin by sketching the background to the creation of the OECD in 1961. I then outline the organization's purposes, functions and methods as the basis for an assessment of its work. The substantive heart of the study is chapter 5, in which I discuss OECD work under the various heads of cooperation in the Convention, and chapter 6, dealing with non-members. After some observations about what Canada gains from the OECD, the study

ends with some general conclusions about the role of the OECD in fulfilling the objectives of the Canadian government, and in making the peace in 1993.

2. Prolegomena: Theories of Cooperation and the OECD

2.1 Making the Peace

With the end of the Cold War, the foreign policy compass of liberal states has lost its magnetic north. True north has not changed, but we find it harder to be sure of our sense of direction. Some things are givens in Canadian foreign policy; the same things are found in the foreign policy of most liberal states. They are derived from the nature of our societies, our economies, and our place in the international system. Whenever officials restate the themes of Canadian foreign policy, certain ideas recur: Peace, Order, and Good Government; support for liberal democracy and Canadian values; multilateralism; strengthening Canadian unity and autonomy. These themes have an inescapable economic dimension. The enduring diplomatic objective of prosperity for Canadians requires that we be concerned with the prosperity of others, and not only so that they are to be able to buy our products—increasing general prosperity is also a Canadian objective in the interests of security, justice, and peace.

The belief that support for democracy is essential for security is thought to have general application, and not simply in the transition countries of the former Soviet sphere. It is widely believed that stable democracies pose no threat to their neighbours.¹¹ It is also widely believed that not only do politics affect trade flows, but trade flows affect politics. It would be surprising, of course, if two conditions, extensive trade and deep enmity, held simultaneously and over lengthy periods among any pair of states or regions.¹² The link between prosperity and peace is not controversial at present.

My term "the making of the peace" is not identical with "peacemaking," the usual term in the literature. In his *Agenda for Peace*, the Secretary-General of the United Nations defines peacemaking in the common way as "action to bring hostile parties to agreement, essentially through such peaceful means as those foreseen in Chapter VI of the Charter of the United Nations."¹³ This understanding of peacemaking is closely tied to measures taken in the aftermath of a specific conflict, even when economic means are contemplated, which is consistent with usage going back at least to the Versailles conference after the First World War.¹⁴ My usage, however, is consistent with the intent of John Maynard Keynes, a junior participant at that famous disaster of a conference, who wrote in his subsequent polemic that the treaty "includes no provisions for the economic rehabilitation of Europe,—nothing to make the defeated Central Empires into good neighbours, nothing to stabilise the new States of Europe, nothing to reclaim Russia; nor does it promote in any way a compact of economic solidarity amongst the Allies themselves; no arrangement was reached at Paris for

restoring the disordered finances of France and Italy, or to adjust the systems of the Old World and the New."¹⁵ The explicit Keynes critique is first a condemnation of the reparations policy, a policy that quickly destabilized international financial relations. The implicit critique is that the Versailles settlement undermined the economic basis of the international system. The makers of the post-Second World War peace, of whom Keynes was one, were determined not to repeat this mistake. The makers of the post-Cold War peace seem to have similar ambitions, even if their ambitions have not yet found expression in the United Nations agenda.

2.2 The Concept of Economic Diplomacy

The term "economic diplomacy" is traditionally associated with the conduct of foreign economic policy, which simply means the external dimension of the now accepted roles for economic policy: macroeconomic stabilization (stable prices and a satisfactory balance of payments); efficient resource allocation (a rate of economic growth that matches the contemporary performance of other advanced economies); and, the distribution of income (full employment). Economic diplomacy, however, is also about the paradoxical problem of finding a form of multilateralism that would be consistent with domestic *and* international stability. Since the Second World War, the resolution of this paradox has involved a compromise between the welfare state and liberalization of world markets.¹⁶

The issues for economic diplomacy are how political action by states can be used for market objectives (since the market is not self-regulating), and whether the market (as a system of social relations with enormous influence on behaviour) can be bent to a variety of political objectives, such as peace.¹⁷ Economic diplomacy has always been aimed as much at security in a dangerous world as at the wealth of nations and the prosperity of their citizens.¹⁸ It is more than the "politics of market access" and more than the "politics of international economic relations."¹⁹

Economic diplomacy may be an old idea, but it is changing as the international system changes.²⁰ Some of the instruments of economic diplomacy are now being used more frequently than in the past; new issues have become subjects for international agreements; technical assistance and Balance of Payments support are being used for a wider group of countries; and, debt rescheduling and economic sanctions are part of the diplomatic toolbox. For the first time there is a possibility of integrating all states into the international economic system. Diplomacy can be understood as the conduct of inter-state relations, but we intend it to mean the pursuit of the objectives of the state, beginning with foreign policy.

The themes of economic diplomacy can also be stated in terms of the risks to Canada. Trade and investment flows, and the financing of our debts

(given the large proportion held by foreigners), are dependent on foreign confidence in the Canadian economy. One of the goals of economic diplomacy is attempting to influence the perception of Canada in world markets. We are also dependent on a growing world economy. American protectionism, competitive European currency devaluations and a lack of transparency in emerging markets are all risks for Canada.

Internationalization of economic activity (so-called "globalization") poses both commercial and regulatory challenges. Given our enormous land mass, we have a special interest in the degradation of the global environment, and we have a special interest in ensuring that international regulation of resource industries does not have an unduly adverse impact on Canadian jobs.

Another risk arises for countries like Canada from ever closer interdependence, because using economic tools for political purposes, or influencing transactions for economic policy purposes, is no simple matter. It is increasingly obvious that there are no more domestic policies. There was a time when we used border measures to regulate our involvement with foreigners in trade and payments, but the effectiveness of these instruments, whether tariffs or exchange controls, whether for controlling the pace of Canadian adjustment, or seeking to influence foreigners, has badly eroded. Calling this erosion a risk implies that the autonomy of domestic policy matters, in two ways. If we believe that states, as opposed to firms, are competitive, attempting to capture or influence the gains from exchange, then we also believe that questions about both security and growth turn on the ability of states to maximize relative to other states. From a different perspective, we might observe that borders are established not to maximize the allocation of the world's resources but to preserve a given distribution of resources that suits a political community. But while borders still exist, they mean less than ever. Small states must work with other states if they are to be able to use control over transactions crossing their borders as a tool of influence.

The final risk for Canada is the fragility of global governance. Most scholars would accept that there is no single structure of power in the world, and, therefore, that there is no world government. Modern governments float in an alphabet soup of international organizations, but not for reasons of taste. The modern state has neither the power to make its own history, nor the ability to make its own circumstances. Security and prosperity, the basic requirements of a modern government, depend not only on forces beyond the borders of the state, but on cooperative action with other states. The Canadian government can do very little on its own except raise taxes and spend money, and even those elemental activities are influenced by international norms. Even the United States of America, a comparative giant among pygmies, can depend neither on self-help alone, nor on a spider's web of bilateral arrangements. Multilateralism seems an inescapable feature of

modern life in the society of states. Decentralized systems can be robust, because they can be tolerant of faults in one part of the system, but they also risk complete breakdown. There is a contrary perception, that global governance is centralized in the Triad of the EC, the United States and Japan. If this perception were accurate, global governance would still be a risk for the Canadian government, because the interests of the Great Powers are not congruent with ours; the situation would also be thought to be unacceptable for the Canadian people have come to take pride in the ability of their government to participate in global management.

2.2 Why Cooperate at OECD?

The literature on international relations is often preoccupied with the attempt to identify the role of international organizations, knowing that "the process of international governance is not coterminous with the activities of international organizations but... these organizations do play some role in that broader process."²¹ What is that role, and how should it be assessed? One of the trickier problems in this literature is the specification of variables. As always in social science, is the object of study a dependent or an independent variable?

In the literature on cooperation, relevant independent variables of the sort that might be said to have affected the OECD include the interests and power of the largest states, international norms and shared values, and consensual knowledge. There would be no OECD, for example, had its creation not suited the United States, and had other members of the Atlantic community not believed that cooperation is "good."²² The evolution of the OECD shows some correlation both with the process of European integration and with the ebbing of American power. These factors have influenced the structure of the OECD; its core anchoring concept, in contrast, has depended on the collective purpose of its members, which varies for different reasons.²³ OECD has been affected by structural change in the world, but the OECD has persisted for more than three decades in the midst of considerable structural change, presumably because the social purposes of its members have shown considerable continuity. If the OECD is to be studied as a dependent variable, therefore, it can be used both to show the effects of specified independent variables and to speculate about the real rate of change in those variables.²⁴

In the literature, cooperation can be tacit, based on convergent expectations; it can be negotiated; or it can be imposed. There are a variety of hypotheses about the circumstances conducive to cooperation. There are theories about the distribution of gains (whether states only want the best deal for themselves, or are motivated by concerns for the gains of their fellows) and about the numbers of actors in a negotiation (small numbers are often said to be better). There have been studies of iteration (the implications of knowing that you will be engaged in the future with a partner) and

international regimes (which some say provide information and help to ensure compliance with rules). A new development is the study of the way ideas or knowledge can be developed and exchanged among a community of experts.²⁵ Evidence can be found in the history of the OECD to provide tests for all of these hypotheses, but the result would be sterile if OECD is only studied as a dependent variable.

If the OECD itself is seen as an independent variable, then the focus of inquiry would be the organization's results. That is, what depends on the OECD? The very name of the organization suggests that "cooperation" is at the heart of the matter, but there are not many attempts in the literature to explain cooperation in the OECD context, perhaps because in recent scholarship, focused analysis of one organization is considered mechanical and old-fashioned. One of the few attempts barely addresses the crucial question: why cooperate at OECD rather than somewhere else?²⁶ Putnam and Bayne faced a comparable problem in their benchmark study of the annual Economic Summits. They make "cooperation in the Summit" a dependent variable, and then use their empirical evidence to test theories of cooperation.²⁷ This method seems an oblique way to ask if an organization is worthwhile.

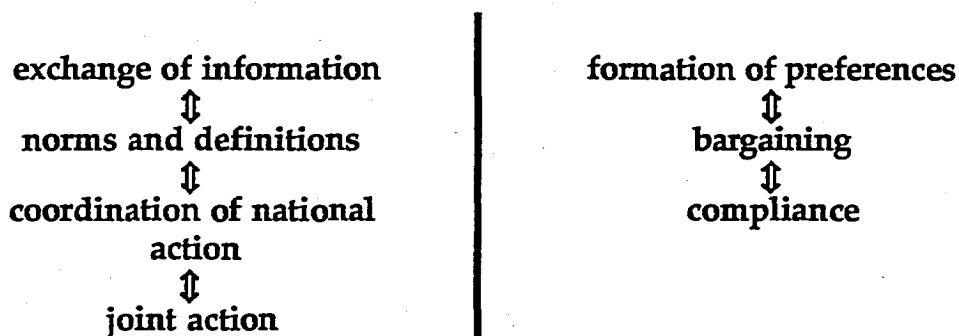
It is often said that the OECD has a central role in international economic cooperation, but it is not always clear what "cooperation" means. Some say that there are three different phases to what is meant: 1) the formation of state preferences for cooperation, 2) the outcome of interstate bargaining, and 3) compliance with the resulting institutional rules.²⁸ In one of the most widely used definitions, cooperation is not harmony; rather it is a response to actual or potential discord. It is an attempt to avoid conflict. In such circumstances, "actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy coordination."²⁹ This conception implies that actors are directed towards a goal and that there is some benefit from cooperation, usually because the actors are "interdependent."

Cooperation as just defined does not apply to all state action. Some issues remain mostly or entirely domestic (although international norms on such things as human rights play an increasing role.) Other issues do not involve governments at all, or involve governments only with their close neighbours. If governments have no occasion to come into contact with each other, there is no occasion for governments to "adjust their behavior to the actual or anticipated preferences of others." The term "interdependence" has become a popular shorthand for this idea. It simply means that the actions of one state are affected by the actions of another. The ancient Chinese and Roman empires were not as interdependent as Canada and the United States. Interdependence is a condition, and it is inescapable. Interdependence is not simply mutual sensitivity, meaning covariance in certain economic

indicators. Rather it signifies relations that would be mutually costly to break, even if the costs are different for each partner.³⁰ Interdependence has no automatic political consequences: it is the response to interdependence, not the condition itself, that is causal.³¹

One political response to interdependence is war. The OECD exists because conflict among the member countries has been deadly, and could be again. The OECD is also active, however, in situations where interdependence creates no requirement to work together. Richard Cooper's typology of cooperative forms describes a hierarchy, from a) an exchange of information on current or prospective national policies through b) agreement on definitions and norms, to the most concrete, and rarest, forms, c) coordination of national actions, and d) joint action.³² Cooper had OECD in mind in creating this typology, and so it fits nicely. He recognizes that OECD countries can cooperate, even when there is no immediate risk of conflict in a policy field, because even when they are not interdependent, they are similar. In practice, cooperation at OECD at the beginning of the hierarchy is seamless, with one activity responding to the needs of both similarity and interdependence. OECD activity is largely oriented to the formation of preferences for cooperation, which can happen as a by-product when information is exchanged for other reasons. As the need to "adjust their behavior to the actual or anticipated preferences of others" increases, states move up the hierarchy, closer to joint action. That action may take place at OECD, or it may take place in other organizations drawing on prior work at OECD.

Figure 1: What does "Cooperate" mean?



What depends on the OECD, it emerges, is multilateral cooperation among governments. Multilateralism as defined by John Ruggie should be understood as a generic institutional form which coordinates relations among three or more states on the basis of "generalized" principles of conduct—that is, principles which specify appropriate conduct for a class of actions, without regard to the particularistic interests of the parties or the strategic exigencies that may exist in any specific occurrence.³³ It follows that there is an agreed indivisibility among the members of a collectivity with respect to the range of behavior in question and that there is an expectation of

"diffuse reciprocity." The concept of multilateralism as used by Ruggie refers to the constitutive rules that order relations in given domains of international life. Within this architectural form there are "regimes," which are more concrete than an order (typically, the term "regime" refers to a functional or sectoral component of an order) and formal international organizations, which are palpable entities with headquarters and letterheads. The OECD is neither a regime, nor the home for a regime.³⁴ If the OECD is an independent variable, one of the things it might affect would be the international economic regimes, understood as a locus for cooperation on the basis of convergent expectations. There are three essential characteristics of international regimes that can only be performed by an international organization.³⁵ The OECD contributes to the transparency of state behaviour and expectations both through the never-ending process of informal consultation in and on the margins of its subsidiary bodies, and through the formal process of its surveillance bodies. The second function is legitimation. To cite only one example, states often find it easier to proceed in new policy directions if they can do so with OECD endorsement. The final characteristic is the most diffuse but perhaps the most important: the OECD is central to the process not simply of generating knowledge about the operation of the world economy and modern industrial societies, but of generating an acceptance of the new ideas. The society of states acts only on consensual knowledge.

In the postwar international system, multilateralism is made compatible with domestic imperatives: states are allowed to do what they must at home, so long as their partners are not expected to bear the cost. This compromise required cooperation if the unwanted effects of borders were to be minimized while the values sought were maximized. It requires cooperation because policies are not unambiguously one thing or another. Without joint study of common problems, states lack the ability to understand each other let alone develop an agreed interpretation of acceptable behaviour. The need for such an organization to maintain postwar multilateralism emerged quite quickly.

3. Origins: The Organisation for European Economic Co-operation

The making of the peace is both a specific event, in response to the aftermath of a particular confrontation, and a continuing process, a response to the ever present fear of renewed conflict among sovereign nations. The story of the OECD is the story of the making of the peace because it is part of the story of the re-construction of a stable and prosperous international order after the Second World War. The re-construction was both a political and an economic task. Part of the background to the war had been the collapse of the nineteenth century international system. That system first collapsed in 1914, of course, but attempts were made to resurrect it after the First World War. The long collapse of the nineteenth century system ended in the cataclysm of the Second World War,³⁶ when attempts to revive it ceased. The makers of the second postwar peace aimed at a new international order.

Canada joined the League of Nations after the First World War, but it took a long time for ministers and officials to see the importance of the economic and social dimension of security. By the time postwar planning was underway, however, many Canadians believed that the causes of the Second World War lay in the trade wars of the thirties, and they were determined that such a failure would not be repeated. The diplomat-scholar John Holmes, echoing Pearson, recalled that "In a diffuse way the idea that the key to peace was a full belly was widely held in Canada."³⁷ Most Canadians would likely have agreed with Louis St. Laurent, then the Secretary of State for External Affairs, who said in his 1947 speech setting out the main lines of Canadian policy that "security for [Canada] lies in the development of a firm structure of international organization. ...we believe that the economic reconstruction of the world must go hand in hand with the political reconstruction. ... It seems to me axiomatic, therefore, that we should give our support to every international organization which contributes to the economic and political stability of the world."³⁸ The Canadian drafters of Article 2 of the North Atlantic Treaty believed that without economic cooperation the Alliance would have been doomed. They also believed that the Bretton Woods institutions and the Marshall Plan had a major role to play in the making of the peace. The Marshall Plan was aimed at immediate reconstruction and at longer term European integration. A new organization was needed to ensure that short term economic assistance would serve the longer term political purpose.

3.1 The Creation of the OEEC

The Marshall Plan began in a speech by George Marshall at the Harvard University commencement on June 5, 1947. The American Secretary of State invited the European countries to tell the United States what needed to be done to assist postwar reconstruction, implying that aid would be contingent on their ability to work together.³⁹ In late June Britain and France tried to

negotiate a joint response with the USSR, and failed, as expected, given the growing perceptions of a rift in Europe. On July 3, the Foreign Ministers of Britain and France issued an invitation to all European countries to take part in a conference in Paris to draw up an economic recovery plan for transmission to Marshall. The conference opened on July 12, 1947; it created the Committee of European Economic Co-operation to manage the initial phases of the European Recovery Program.⁴⁰ The need for a more permanent body was soon evident, and the OEEC was created in April 1948. Canada and the United States were soon "associated" in its work.

The countries who responded to the Anglo-French invitation in the summer of 1947 were a disparate, and poor, grouping. They were united as much by what they hoped to achieve in the future as anything else. Spain, then still run by Franco, was excluded, but otherwise the membership was self-selected. It was a particular disappointment that the principal countries of Central Europe were prevented by the Soviets from participation. Fourteen countries accepted the invitation issued by France and the United Kingdom in July 1947: Austria, Belgium, Denmark, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland and Turkey. The History of the OEEC noted laconically that "The other European countries declined the invitation. The conference was therefore unable to deal with the European problem as a whole, but the countries participating hoped that the other governments of Europe would eventually be able to associate themselves with the work undertaken; and that hope still remains."⁴¹

There is no academic history of the OEEC, and few analyses of its success in the literature.⁴² In his study of the period, Alan Milward presents a harsh view of the gradual "depoliticization" of the OEEC.⁴³ The Americans had wanted the OEEC to be a vehicle in itself for European integration by requiring that the organization allocate Marshall aid. The OEEC could not bear this burden and, in this sense, collapsed within its first three years. The organization carried on for nearly a decade, however. If there is a consensus explanation for this persistence, it is perhaps represented in the recollections of A.F.W. Plumptre, a former senior Canadian official. In his history of monetary cooperation he recognized that the OEEC had been created to manage the Marshall Plan, but he judged that

It also became a central instrument for promoting European economic integration. An elaborate code and procedure for European trade liberalization ... was developed. This was supported by credit facilities provided through the European Payments Union (EPU). Together these arrangements had built up an extensive system under which the European countries made special trade and financial provision for each other and, in doing so, discriminated against outsiders, particularly the United States and Canada. This discrimination was accepted in the United States as a means of developing European strength and cohesion; it was accepted rather less willingly in Canada where commercial interests in Europe were proportionately greater.

During the 1950s, the OEEC code of intra-European commercial conduct was supplemented by the introduction of other codes of regional economic conduct dealing with capital movements, shipping and other forms of transportation, and other international transactions. The implementation of each of these codes was supervised by a committee, and other committees concerned with the problems and possibilities of each of the main European industries were set up. The headquarters of the OEEC ... became a centre for intra-European consultation and collaboration on economic matters.⁴⁴

Another important aspect of OEEC work was the European Productivity Agency (EPA), an autonomous body within the organization. It was mandated to deal with productivity in the broadest sense—getting the best results out of any of the various factors of production. It was a clearing house to provide national productivity bodies with information and it was a centre for study and discussion, especially of the social and economic consequences of technological development. The EPA was involved in management education, dissemination of production management techniques, vocational training, and many other programs.⁴⁵

3.2 The Collapse of the OEEC

The OEEC was finally doomed by structural change in trade and payments. In trade, when the first vision of the OEEC as a tool of integration collapsed in 1950, the Americans still thought that integration might be possible through trade liberalization, but the Treaty of Rome, signed in 1958, was the final and complete rejection of this broader idea of integration. In money, the OEEC's limited role in managing the European payments system ended when European currencies became convertible, also in 1958.

Events came to a head at the end of 1958, only weeks before the establishment by the EEC countries of their own separate customs union.⁴⁶ The British were irritated by their exclusion from the EEC, and irritated at the failure of their dream of constraining the EEC by creating a European free trade area. When the Council of the OEEC met on December 15, 1958, its main business was the question of intra-European trade, and specifically the scheme for a free trade area that was being pressed hard by the British.⁴⁷ An Anglo-French confrontation about discrimination and retaliation led to the meeting breaking up in disarray, with the evident implication that the OEEC had finally proved unable to do anything either to avert or to soften the imminent head-on clash between its leading members. Shonfield's summary of the atmosphere in early 1959 is almost apocalyptic. "The air is heavy with the threat of retaliation and a breakdown of the system of European collaboration on a wide range of economic policy seems to be imminent. And if that happens, as the British warn, political arrangements in Western Europe are unlikely to remain immune from the quarrel."

The Council of the OEEC never met again. In Europe, the Commission of the European Community and many influential French officials felt that

the cohesion of the Six, the political purpose of the Treaty of Rome, would be undermined if trade liberalization were pursued either through an OEEC-wide free trade area or a free trade link between the Six and the Seven. In North America, the U.S. Government opposed efforts to find an OEEC solution to the trade dispute. Camps says that the Americans "encourage[d] the Six to meet the complaints of the Seven by adopting liberal global trade policies rather than by OEEC-wide schemes which would increase the discrimination against the United States."⁴⁸ In Canada, Lester Pearson, then in Opposition, told an American audience that he was worried by the dispute between the Six, who were right to see a larger political purpose in their efforts, and the other members of the OEEC. He was even more worried that Canada and the United States remained observers, not considering the possibility of Atlantic free trade. He argued that "they should be deeply and anxiously interested in this European development, for its success or failure would be almost equally important for them. Failure would weaken and might destroy NATO. Success might split the Atlantic group economically between its European and North American members...."⁴⁹

3.3 The Creation of the OECD

The British fears of the pending EEC common market found expression in the call for European free trade. In November 1958, American worries about the EC led Douglas Dillon, then U.S. Under-Secretary of State for Economic Affairs, to propose what came to be known as the Dillon Round of multilateral trade negotiations in the GATT.⁵⁰ In November and December 1959, Dillon visited Europe to explore the problems in managing international cooperation. Ideas crystallized rapidly, allowing active discussions among Ministers who were in Paris in December for a NATO Council meeting.⁵¹ There was a Western Summit, also in Paris, a few days later.

In their Communiqué, the Heads of State and Government of France, the United States, the Federal Republic of Germany and the United Kingdom recognized the economic progress of western Europe (notably the virtual end of quantitative restrictions on trade and of currency restrictions) and agreed that they should now be "devoting cooperative efforts to furthering the development of the less developed countries," and that they should be "pursuing trade policies directed to the sound use of economic resources and the maintenance of harmonious international relations, thus contributing to growth and stability in the world economy and to a general improvement in the standard of living." In their view, "these co-operative principles should also govern the discussions on commercial problems arising from the existence of European economic regional organizations, which are or will be constituted within the framework of the G.A.T.T., such as the European Economic Community and the European Free Trade Association."⁵² This

Communiqué launched the process of high level meetings and drafting groups which ended in the signing of the OECD Convention a year later.

Only thirteen countries were invited to the January 1960 meetings in Paris. Countries excluded, both in Europe and elsewhere, were displeased. Their representations served as a vivid reminder for Donald Fleming, then Canada's Minister of Finance, of "the dangers and damage that could attend restrictive regionalism, whether in Europe or elsewhere. *Political and commercial interests go hand in hand*. The most constructive, least divisive, solutions for commercial problems are to be sought not by one region of the world seeking insulation from the rest, but in arrangements that can encompass all free nations on a basis of harmony and equality."⁵³ The central task of the January 1960 meetings was, in Fleming's words, to create, pending the creation of the OECD, a forum "in which it would prove possible to discuss the problems of the Six and the Seven in their European and world-wide contexts." A Trade Committee without operational responsibilities was created as such a forum. Fleming argued that "we must recognize that the outcome of current economic issues in Europe will have significant effects throughout the world. Trade policies are not made in isolation, but through inter-action. The commercial policies to be followed in Europe cannot fail to influence United States policies and both are of critical importance to Canada."⁵⁴

Fleming also told the House of Commons in early 1960 that "Politically as well as economically, Canadians must be apprehensive of any division that emerges amongst our partners in NATO. We depend in no small measure for our common defence on the strength and solidarity of Western Europe. ... Canada naturally approached last week's meetings [January 1960] having in mind Article 2 of the North Atlantic Treaty requiring members to 'seek to eliminate conflict in their international economic policies.'" Canada's economic concerns were with the possibility of trade discrimination, as manifest in the presence at the Paris meetings of the Minister of Trade and Commerce.⁵⁵

The January Ministerial meeting established a committee of experts acting in their personal capacities (although Canada was not pleased to be excluded)⁵⁶ who were to prepare recommendations. The Canadian submission to the experts said that "the Canadian Government considers that the general purpose of the discussions in the field of trade and payments is to promote the fulfillment of GATT and IMF objectives and not to diminish in any way the authority of these institutions which will remain the appropriate bodies for operational decisions."⁵⁷ The experts reported in April and Ministers went back to Paris in July to establish a Preparatory Committee to draft the Convention. Ministers were back in Paris again in December 1960 to sign the Convention, exactly two years after the collapse of the OEEC. On December 16, 1960, Fleming reported to the House of Commons. He laid

particular stress on the need for "the harmonization of the economic policies of member countries." This function "might well emerge as the most important.... The economic and financial situation in member countries and policies pursued by member governments will be kept under review. Special attention will be paid to the international effects of national policies."⁵⁸ The first meeting of the Council of the OECD at Ministerial level was held in November 1961, under the chairmanship of Fleming, who also chaired the second Ministerial meeting in November 1962.

The Memorandum to Cabinet seeking instructions for the Canadian representative to the July meeting argued that

Canada has an important interest in the successful establishment of an OECD. There is a need in our view for an organization in which the Western countries could consult about their economic policies with a view to promoting a satisfactory rate of economic growth among them and assisting more effectively the economic development of the less developed parts of the world. Canadian membership in such an organization would serve to strengthen our political and economic relations with the European countries whose role is likely to be of increasing importance in world political and economic affairs. United States membership may provide some safeguard against a return to isolationism in the United States as well as ensure continued United States involvement in European economic affairs.⁵⁹

In sum, Canadian officials clearly believed that the new OECD had a contribution to make both to prosperity and to governance. Canadians believed that commercial conflict led to war; that the GATT and the IMF were the first line of defence; that regional conflict could undermine this broader objective; and, therefore, that the OECD could help, both by promoting the broad objectives of the regimes for trade and payments, and by encouraging the leading industrial countries work together. In the broadest sense, therefore, the OEEC was reconstituted as OECD in the interests of peace in the Atlantic community. The new OECD appeared to be an important tool of Canadian economic diplomacy for the political management of economic relations among the advanced industrial countries.

4. The Organisation for Economic Co-operation and Development

In this section I discuss what the OECD is meant to do in general terms, and some of the techniques it uses to accomplish its goals. The logic is simple: the methods used by the Organization are those implied by its functions, which in turn are derived from its purposes, and its purposes have been peace as much as prosperity. In the following section I discuss activity under the various heads of cooperation implicitly or explicitly defined by the convention.

4.1 Purposes

The substantive purposes of the OECD are set out in the preamble to the Convention.⁶⁰ The members believed that economic strength and prosperity are essential for the attainment of the purposes of the United Nations and the preservation of individual liberty. They recognized that these aims could be furthered most effectively by strengthening the tradition of cooperation that had evolved among them, and they were convinced that broader cooperation would make a contribution to world peace. Their goals were to promote the highest sustainable growth of their economies while improving the economic and social well-being of their peoples. Nevertheless, they acknowledged a responsibility to developing countries.

Where the GATT preamble speaks of a desire to enter into reciprocal arrangements, Article 1 of the OECD Convention says that the organization shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The Convention is manifestly a postwar document. It probably would not have been drafted this way in the immediate aftermath of the Great War, and it could not have been drafted this way in the nineteenth century. In the aftermath of the Great War, sensible people, and orthodox theory, believed, according to Phyllis Deane, that

systematic government intervention in a peacetime market economy was unlikely to produce efficient results. By the 1940s, public opinion was ready to embrace the

notion that well-designed macro-economic policies were capable of steering the economy towards nationally agreed objectives.... Four specific objectives were commonly invoked by ... western governments after the Second World War. They were: stable prices, a satisfactory balance of payments, full employment and a rate of economic growth that matched the contemporary performance of other advanced economies. The last two of these represented additions to the traditional agenda of government.⁶¹

The goals of the OECD, therefore, correspond to the traditional goals of economic policy: macroeconomic stabilization, efficient resource allocation, and the distribution of income. Many borders between OECD countries do not represent any sort of economic optimum for the achievement of any of these goals, yet they exist. This frank acceptance of borders was also an addition to the agenda of government. The nineteenth century ideals of free trade and the gold standard were an attempt to deny the economic significance of political borders. The attempt began to fail with the depression of 1873 and the political response to that event which included high tariffs in many industrial countries, not least in Canada. In the postwar international system, multilateralism is made compatible with domestic imperatives: states are allowed to do what they must at home, so long as their partners are not expected to bear the cost.⁶² This compromise requires cooperation if the unwanted effects of borders are to be minimized while the values sought are maximized.

4.2 Functions

A consideration of the substantive purposes of the OECD is not sufficient for a determination regarding the tasks of the organization. Most such tasks involve the need for coordination or cooperation among OECD members in situations of actual or potential conflict among them. Those tasks can be grouped under three headings:⁶³

- Work among the member countries. These tasks derive from the high degree of similarity and interaction among the economies of the advanced industrial countries, which implies that:
 - * Joint analysis and sharing information improves domestic decision-making; and,
 - * Close co-operation with others assists governments to attain desired domestic objectives.

- Work with third countries. These tasks derive from the desire of OECD countries to order their relationship or to co-ordinate their strategy *vis-à-vis* other groups of countries:
 - * Appropriate tasks help OECD countries to increase their bargaining power or to make more effective some aspect of the inter-group relationship;

- * Inappropriate tasks are generally those that involve the direct provision of technical assistance to third countries.
- Work on the coherence and effectiveness of the international economic system.
 - * This task is analogous to that of the Summits. Putnam and Bayne claim that the Summits are a response to three fundamental needs of the international system. There is an enduring need to reconcile international economics and domestic politics. A newer need is to supplement and perhaps supplant waning American hegemonic power and/or leadership with collective management. A final need in our modern industrial societies is to restore political authority over bureaucratic fragmentation and irresponsibility.⁶⁴

4.3 Methods

In Article 3 of the OECD Convention, the members agreed to:

- keep each other informed and furnish the Organisation with the information necessary for the accomplishment of its tasks;
- consult together on a continuing basis, carry out studies and participate in agreed projects; and,
- co-operate closely and where appropriate take co-ordinated action.

This listing is the basis for Cooper's hierarchy of cooperative forms. The closer an activity is to the beginning of the list, the more common it is at OECD.

The development and sharing of standardized information is the basis of all the rest. OECD adds value to national data by coordinating definitions and measurements. The UN cannot do this job because of its wide membership; similarly the IMF and the GATT develop information for the different purposes of their near universal membership. Eurostat, the EC statistical office, may do similar work, but since it does not include Canada, Ottawa officials cannot participate in the process of developing consensual statistical categories. To illustrate the various uses to which OECD information is put, consider macroeconomic data, which supports consultations in WP3 on Policies for the Promotion of Better Payments Equilibrium, surveillance in the Economic and Development Review Committee, coordination in the Economic Policy Committee, and national decision-making, for example, in the Budget.

4.3.1 Surveillance

One of the essential OECD functions is surveillance, sometimes called peer review.⁶⁵ Keeping each other's actions under review is perhaps the main OECD activity, but it is a formal task of many bodies. Surveillance is not an end in itself, but a means to an end. It can be quite formal, if associated with, say, IMF conditionality, or compliance with legal obligations of some sort, but it can also have varying degrees of informality, as in the OECD EDRC reviews, where the end in view is better policy and better implementation. Depending on the organization and the nature of the commitments, surveillance can concern either the rules and procedures of an international regime, or its norms and principles.⁶⁶

In order to make the case for the new Trade Policy Review Mechanism (TPRM), Richard Blackhurst of the GATT secretariat examined surveillance in the OECD and the IMF as well as existing practices in the GATT.⁶⁷ He concluded that successful surveillance exercises include an element of evaluation as well as data collection. It helps if a country's obligations in a well-defined policy area are precise, or if "There is a reasonably strong consensus as to what constitutes correct policies in the specific policy area under review. This divides into two parts: a broad agreement on 'how the world works,' in other words, on the correct economic model to use; and a broad agreement on the desirable policy mix." Representatives of member countries should be senior officials who "exhibit certain intangible but important characteristics, including a willingness to do their homework, a willingness to be frank and candid with one another, a general sense of responsibility and esprit de corps *vis-à-vis* the particular surveillance activity, and a cohesiveness based on mutual confidence and trust."⁶⁸

The OECD reached similar conclusions from its own review of the contribution of effective surveillance to economic policy making. The more general conclusion to be drawn from their observations might be that surveillance should aim at reasonable targets. The analytic basis for the exercise is important, but it is often not easy to establish due to limitations in knowledge. Surveillance can be especially difficult when countries have differing views on the objectives of policy and on how the economic system works, although one of the purposes of the surveillance might be to ensure that divergent perceptions are articulated with a view to at least clarifying the differences.⁶⁹ This process of peer review can have positive

A decision to launch a surveillance process, according to Blackhurst, implies further decisions on the information to be collected, whether that information is to be evaluated, how much information is to be disseminated and in what form, and the nature of the forum for discussion. It also implies a prior decision on objectives. Is the intention policy coordination (implying agreed changes in national policy) or the development of a common policy

culture? Blackhurst was careful to distinguish between surveillance based on legal norms, or rules, and that based on economic norms, including both whether the policies in question are an effective contribution to a country's policy objectives, and the effects of the policies on other countries.⁷⁰ The distinction matters. In the GATT, it is a distinction between surveillance based on rules and that based on economic common sense. In practice, surveillance of specific obligations generally takes place through the dispute settlement system, while the TPRM is more concerned with the ensemble of a country's "trade-related" policies.⁷¹

Surveillance over macroeconomic policies within the OECD, has always been two-sided: the coherence between domestic policy objectives and the conduct of policy has consistently been examined in the EDRC. The way policies add up and, more specifically, the international coherence of national policies has been the focus of the EPC.⁷² One of the particular strengths of the OECD is that this surveillance is carried out in a number of policy fields drawing on Secretariat expertise in a dozen microeconomic domains. Each reinforces the others. In addition to the traditional surveillance of trade, economic, development, capital, and investment policies, there are now surveillance exercises of education, employment, science and technology, environment, and regional policies. This enhanced surveillance of structural policies was given additional impetus by the 1988 Ministerial. The EPC subsequently produced a report bringing together elements of a de facto surveillance program spread throughout the organization. These elements included identifying the forces for change to which economies must adapt; establishing a strong analytical underpinning; monitoring policies and their effects—which requires agreed criteria or principles; promoting public awareness of the effects of policies on individual economies and on the global economy; and, finally, engaging in peer review among governments.⁷³

The process of peer review and of publicizing the results is based on a perception of the practical and democratic benefits of open government. Economists believe that if the public knew the real costs of protection and subsidies, politicians would be less likely to make bad decisions. Such thinking underlay the Leutwiler Group's recommendations for a public "protection balance sheet" and for regular public surveillance in the GATT of the ensemble of a country's trade-related policies.⁷⁴ Similar thinking underlies the decision to publish policy recommendations in the IMF World Economic Outlook, and no doubt in the OECD Economic Outlook. The OECD EPC has argued that "Publicizing the results of surveillance can broaden and strengthen support for reform, which is essential for sustained progress. ... Closer public scrutiny will strengthen the political weight of broad economic considerations relative to that of special interests."⁷⁵ It is not a new idea. Lon Fuller thought that "when men are compelled to explain and justify their decisions, the effect will generally be to pull those decisions toward goodness, by whatever standards of ultimate goodness there are."⁷⁶ Many of the sources

of apparent non-compliance with agreements, in other words, are best dealt with not by sanctions but by measures to increase transparency which "make it likelier that, over time, national policy decisions are brought increasingly into line with agreed international standards."⁷⁷

4.3.2 *Horizontal work*

The functions of the OECD all derive from a belief not only that the member countries are inter-connected with each other but also that they face an inter-related set of policy challenges.⁷⁸ Many of the most important issues facing governments cannot be understood in isolation from each other, and the advanced industrial countries benefit from facing these challenges together. The broad outlines of the elaborate Committee structure through which much of the organization's work is done derive from founding decisions. The most important way the OECD can be sure that it learns as an organization and that it helps member governments face their inter-related policy challenges is by encouraging new and more ambitious "horizontal" work programs. Horizontal should have both a bureaucratic and an intellectual meaning. It is important to keep breaking down the walls between committees and directorates, and between ministries in capitals, by encouraging joint work. It is also valuable to encourage cross-fertilization among officials and their scholarly advisors by ensuring that horizontal work programs reflect a mix of disciplines.

Perhaps the most important horizontal work at OECD is carried out by the EDRC, which has a mandate to consider questions of structural adjustment and to conduct economy-wide surveillance. Its analyses frequently draw on secretariat work on health, competition, industry, and other policy areas. There are also on-going horizontal activities in rural development, and in the interface between trade, competition and investment policies. Some of the most ambitious horizontal work involves economic instruments for environmental regulation.

Launching horizontal initiatives is not easy precisely because the best ones cut across existing boundaries. The Technology Economy Program (TEP), for example, would not have happened without exogenous leadership, in this case provided by Sylvia Ostry.⁷⁹ A related difficulty with any horizontal program may be getting some unit in the bureaucratic structure to take ownership of the results. The way the secretariat and national administrations are organized encapsulates a view of the nature of "interdependence." Learning cannot take place if we remain frozen in this view; implementation may be stymied if we do not respect the way in which institutions encapsulate past decisions.⁸⁰

Horizontal programs, then, are not easy, but they are vital. The management of the current Employment Study may well be exemplary: it is

directed by the Secretary-General himself supported by a multi-disciplinary steering committee. The work is carried out by a special task force drawn from a number of directorates and supplemented by specialists loaned by member governments, including Canada. Although a preliminary report was presented to the 1993 Ministerial, it is too soon to say if the approach will produce results. As discussed below, an additional management technique designed to ensure the success of this and other horizontal programs might be to place them firmly within the purview of ECSS.

4.3.3 *OECD as a negotiating forum*

What should the OECD do? Joint action might be the most appropriate method to use in fulfilling many OECD tasks, but it is a demanding and correspondingly rare form of international cooperation. The GATT exists to *facilitate reciprocal arrangements*, which requires an elaborate system for dispute settlement, but the OECD exists to *promote policies* and so it has no enforcement process other than that involved in surveillance. The organization also operates under a unanimity rule, a process that limits the ability of any organization to make binding decisions.⁸¹ What rules of thumb can be used to decide whether an action is appropriate for OECD?

The OECD Convention does allow the organization to take binding decisions and make recommendations on decision of the Council, meeting as either Ministers or Permanent Representatives. The secretariat has decided to compile a register of *Acts* of the OECD, which will be useful because nobody knows how many such *Acts* are in force. The fact that such an effort is necessary, and difficult, should suggest, however, that formal decisions have not been all that influential. They might be taken into account in the relevant surveillance process, but there is generally no formal monitoring mechanism. The Treaty Section of EAITC does not keep a list of all *Acts* of the OECD. Indeed it is usually the case that the Department does not need to seek an Order in Council authorizing acceptance of whatever obligations are implied by OECD decisions, although *Acts* of the OECD do apply to Canada, and such authority is sometimes sought.

In certain areas the OECD's long association with the process of regional cooperation in Europe has made it a useful forum for such *Acts*, but today the largest group are in the environment area. This exception tends to prove the rule: the OECD is useful as a decision forum to the extent that other fora in an issue-area remain undeveloped. There are two other exceptions: the Export Credit Arrangement and the well-known OECD codes.

The Export Credit Arrangement was probably negotiated at the OECD for negative reasons: there is no other plausible home for it. In his admirable discussion of the export-credit arrangement, Andrew Moravcsik observes, almost as an aside, that "The OECD became the institutional home of the

regime largely because—unlike GATT, whose institutional design actually threatened to impede cooperation in this area—it offered a neutral forum.”⁸² Debilitating competition among the OECD countries needed to be restrained, and there was no other forum involving only this group of countries, and having a competent secretariat. (The result has been worthwhile: the noticeable chilling effect on the use of credits for commercial competition is desirable on aid and trade grounds.) There are no doubt similar reasons for the OECD work on money laundering.

As for the *Code of Liberalization of Capital Movements* and the *Declaration on International Investment and Multinational Enterprises*, they are an evolution from the OEEC codes of liberalization. They began at a time when it was not clear whether the OEEC/OECD, the GATT, or the EEC would be the best vehicle for European integration. They have persisted because the issue-area has not been ripe for more formal negotiation elsewhere. Work at the OECD has been important as a focus for an emerging normative consensus but not for the regulation of state practice.⁸³ Louis W. Pauly observes that “Although these instruments are not recognized to have the same force as formal treaties and both leave room for discretion, they are notable for defining establishment rights and nondiscrimination as a multilateral goal and thereby influencing the terms of continuing discussions. Moreover the liberalization code in particular has provided an organizational mechanism for the periodic review of exceptions insisted upon by member states.”⁸⁴

Can we generalize on the basis of these observations? In the language of public choice there is a distinction between *allocative efficiency*, when the state comes into existence to satisfy the needs of all members of the community and *redistribution*, when the state helps to gratify the wants of only some. Collective choices, in other words, “can be grouped into two categories: those benefiting all members of the community, and those benefiting some and hurting others. These two categories correspond to the familiar distinction between moves from off the Pareto frontier to points on it and moves along the frontier.”⁸⁵ Society is not blind to the distributional issue of how the gains from trade are distributed: the choice of a point on the Pareto-possibility frontier is consciously made. A collective choice process that is less anarchic than the market is required to obtain Pareto-efficiency in the allocation of public goods.⁸⁶ Some theorists claim that the outcome depends on power (the strong dictate rules) while others analyze the problem as a market failure, but these alternatives need not be mutually exclusive.

Much OECD work is concerned with efficient resource allocation—in trade as in employment, the OECD message is about how to improve the functioning of markets. It is harder to see that the OECD also deals with distributional issues, not so much between groups and regions within countries as between states. This element is obvious in the work on

coordination of development assistance, but it also lies behind the Export Credit Arrangement. Discussions of balance of payments adjustment in WP 3 must include consideration of where the burden of adjustment will fall. The issues facing industrial countries also include the efficient allocation of training and research resources, and their distribution between countries. Technological decisions made in one country can have trade and investment implications affecting many countries. Distributional issues frequently give rise to conflict between states, making them entirely appropriate for discussion at OECD.

At some point, distributional issues move from discussion to joint action, or regulation, and at that point, OECD action becomes less useful. In formal terms, rational theorists might argue that the location of the point depends on whether actors know where the Pareto frontier is located. According to Oran Young:

Negotiators who know the locus of a contract curve or the shape of a welfare frontier to begin with will naturally be motivated primarily by a desire to achieve an outcome on this curve or frontier that is as favorable to their own interests as possible. They will, therefore, immediately turn to calculations regarding various types of strategic behavior or committal tactics that may help them achieve their distributive goals. Negotiators who do not start with a common understanding regarding the contours of the contract curve or the locus of the negotiation set, by contrast, have compelling incentives to engage in exploratory interactions to identify opportunities for devising mutually beneficial deals.⁸⁷

If this distinction is applied to the OECD, it is apparent that "negotiations" do take place, but they tend to be more allocative than distributive. Discussions in the OECD are more likely to centre on the development of "consensual knowledge" about how best to deal with a problem. Once issues are well understood, and the likely positions of all parties are known, then allocation is no longer the issue, and it makes sense to move to a table that is equipped for distributional bargaining. Similarly, when a problem involves collaboration rather than coordination, enforcement becomes important. (I assume "burden sharing" to be a coordination not a collaboration problem.) Getting to and finding a place on the Pareto frontier may be *almost* the same but, in the trade example, the balance between these objectives can make either GATT or OECD the better forum for a particular purpose. I want to stress the implication: despite the potential importance of the proposed Multilateral Trade Organization, there will still be a role for the more informal table at the OECD because it is improbable that we have reduced world trade to known negotiating sets. The trade agenda as it was understood when the Uruguay Round was launched may have moved almost completely to Geneva, but in a rapidly evolving world economy there is no reason to expect that the agenda for the next round is already so well understood. The OECD is not an executive, rule-making body. Nothing in the Convention mandates such a task; little in

three decades of experience suggests that it would have fruitful results. OECD can do useful work on financial services concepts, for example, but financial standards and regulation is the realm of bank supervisors, who go to the BIS, and of securities commissions, who have IOSCA. The OECD contribution lies in influencing policy by identifying norms and principles for negotiations that take place elsewhere.

4.4 Coordination

The purposes and methods of OECD imply the need for an unusual organization. The OECD relies on strong participation of delegates from national governments at meetings of its subsidiary bodies, as does the GATT. It also relies on the highly competent professional analysis of the secretariat, as does the IMF. The committee structure reflects the organization of member governments and the evolution of policy communities in various issue-areas.⁸⁸ The organization of the secretariat should largely be the responsibility of a Secretary-General of sufficient stature to ensure the autonomy and high quality of its professional staff. There remains a need, however, to provide political guidance and ensure coordination. In the first instance, this responsibility falls on the Council at the level of Permanent Representatives, but given the policy-related nature of OECD work, capitals must be engaged.

4.4.1 *Executive Committee in Special Session (ECSS)*

When U.S. President Nixon made his famous statement about a New Economic Policy in August 1971, he called for a new linkage between trade and monetary policies. The need for such linkage, and for a coordinated approach, seemed especially apparent in the early 1970s when there was no successor to the Kennedy Round in sight, and the Bretton Woods system was in the process of collapse. As in the creation of the OECD 12 years earlier, American fears of a new step for the EC (in this case, enlargement) were also part of the political context. The eventual solution to the problem was found in the Tokyo Round in the GATT, the reform of Bretton Woods, including the new Articles of Agreement for the IMF, and the creation of the annual Economic Summits. As these eventual institutional successes were not yet evident in the early 1980s, attention turned to the potential role of the OECD.

When the OECD was created, there was no body that would provide a regular forum for senior officials whose responsibilities touched on the third group of OECD functions, those relating to the management of the international economic system. The Trade Committee and the Economic Policy Committee do not do much work in common, a fact that reflects the division of labour in capitals more than the nature of the issues. In the early 1970s, the Rey committee was studying the prospects for the trading system, but there was concern about where their report would be discussed at the OECD.⁸⁹ The only way for the Americans to use OECD to follow up their

President's linkage of trade and monetary policy was to call for a new restricted body. The idea was endorsed at the 1972 Ministerial. After protracted debates the new body held its first meeting in December 1972 as the Executive Committee "New Style;" it came to be called the Executive Committee in Special Session (ECSS) the next year.

The first meeting of ECSS was hard to organize (the OECD culture was already well established) but it did respond to the American interest in having a new forum where trade and monetary policies could be considered together. It is debatable whether the body ever fulfilled its potential, however. The State Department's interest in using the ECSS for linkage may have been an attempt to get around the Treasury, but in the event things like the hoped for discussion of investment in ECSS foundered on a Treasury desire to see financial matters discussed in "appropriate" fora.⁹⁰ ECSS did not play the expected role on trade or money either because the Tokyo Round did get going later in 1973, and reform of the IMF did eventually happen. When the relation between macroeconomic and trade policies came up again at the 1982 Ministerial, the decision was to have a paper submitted to both the EPC and the Trade Committee, not ECSS.

ECSS practice is still consistent with the agreement at the first meeting that reports to the ECSS come from the Secretariat, not from other committees. One implication of this practice is that neither EPC nor the Trade Committee are subservient to ECSS. Nevertheless, in the past ECSS has frequently played a role in preparing issues for subsequent Ministerial discussion, which allowed it, on occasion, at least, to have an overview of international economic cooperation. Now, ECSS is asked to *review* developments in the trading system, and to *listen* to a brief on the economic outlook. The erosion is troubling. With monetary cooperation in disarray and the Uruguay Round drifting, it is a pity that ECSS seems nearly moribund. ECSS potentially includes senior foreign ministry and treasury officials from all the industrialized countries. It could have the capacity to ensure coherence both within OECD work and between OECD work and work in other major organizations. More than ever, OECD countries should be interested in working together on systemic issues.

4.4.2 Council at Ministerial Level

The annual meeting of the Council at Ministerial level, the "Ministerial," is the highlight of the OECD year, the point where all the purposes and functions of the organization come together. Its annual rhythm structures the rest of OECD work. When work on this study began, the Ministerial was thought to be in peril. Only one G-7 Finance Minister bothered to go to the so-called "lacklustre" Ministerial in 1992, and the Communiqué was said to be awful. Does this apparent failure matter? Will the organization survive if Finance Ministers, who in the past were

sometimes the only participants, abandon the OECD? The answer must be yes, it does matter. If Finance Ministers abandon an economic organization, it must gradually lose its way. Ministers provide political guidance. The knowledge that an unresolved issue must soon go to Ministers can stimulate agreement among officials.

If the Ministerial is in peril, are the reasons exogenous, or is there something that OECD could do? My answer is both substantive and procedural. On substance, the Communiqué issued at the conclusion of the Ministerial must be improved. The Communiqué is like the Speech from the Throne in a parliamentary system: it signals themes to the public, to markets, to other governments or institutions, and to bureaucrats. The Communiqué can be a directive to the Secretary-General, a normative statement of good intentions, and a signal of policy decisions to come, depending on the conjuncture. The Ministerial process itself forces decisions on pending issues. For example, in 1993 the need to find communiqué language pushed the clarification of policy on the thorny issues of which non-members might be invited to join the OECD. On issues that officials find nettlesome, Ministers are more often ready to take responsibility for making a decision. A yearly Ministerial, therefore, is essential to avoid organizational sclerosis.⁹¹

The first prerequisite for a successful Ministerial is a short, sharp Communiqué. There has been a considerable inflation over the years, as the chart in the Annex shows. In 1961, meeting under the chairmanship of Donald Fleming, Ministers set a collective growth target and stressed the need to cooperate in the achievement of payments equilibrium. Their 1966 meeting, after the publication of the famous WP3 report, might have been a high point of activism. In the early 80s, the OECD suffered from memories of its role in putting together the ill-fated 1978 Bonn Summit package which cast a pall over Keynesian activism. Notwithstanding the switch from Carter to Reagan, the Communiqués were the vehicle for articulation of the consensus on non-accommodating policies in the collective response to the second oil shock. In contrast, the 1984 Communiqué recognized macroeconomic factors, but not to the extent of embracing collective action. The document seems to have been a high point of ascribing causal importance to micro action at home. In 1985, meeting under the chairmanship of Joe Clark and Michael Wilson, Ministers needed only 8 pages to record the strengthened consensus on the need for a medium-term framework and to agree on the need for a new round of MTNs. In 1988, Ministers were specific about the policy requirements of a number of countries. The 1991 Communiqué had interesting language on "rules of the game" and the need to place domestic policies in an international perspective as part of the *Trade Issues of the 1990s* exercise. The 1992 Communiqué at 12 pages was nearly half the length of the previous year, but it was bland, and seemed to evade the main issues. It records normative statements of what countries *ought* to do with very few announcements of what they *will* do. In contrast, the 1993 Communiqué, at

11 pages, was relatively concise and action-oriented. Although still written in communiqueese (a linguistic deformation that afflicts drafting groups of officials after midnight) it has less waffle than in some recent texts.

The second prerequisite for a successful Ministerial is the right process. OECD Ministers need a forum for discussion of substantive policy issues among themselves, without the broad membership of universal organizations. They do not need a forum, however, to discuss the OECD work program. It follows that the organization of the meeting should serve its substantive purposes. Ministers may endorse all sorts of documents that they need not discuss. Instead, there should be a focus on issues where all Ministers might welcome a frank exchange of views with their peers, such as a broad discussion of trends in consumption taxes. There is no other forum for Ministers to have a good microeconomic debate. The exchange of ideas among colleagues on what works is the best part of OECD for officials, so why not do it for Ministers? Let them hear other politicians. Such discussions would be structured, of course, but the initiative should be on substance, not process.

Every year there are proposals for improving the functioning of the meeting. Without being hamstrung by the past, we should not forget that Ministers have been complaining about prepared statements for many years. But some Ministers not comfortable in English insist on reading texts. Others will refuse to make the texts of their statements available to the press unless they are allowed to deliver that statement in the room. Ministers from small countries travel to Paris to lecture not listen to the big guys.

The final prerequisite for a successful Ministerial is luck. Ministers and officials were pleased with the improved organization of the 1993 meeting, which contributed to a better discussion. And the Communiqué was better. But the tone for the meeting was set by the conjuncture. For years, the trade focus has been on the Uruguay Round, not the OECD Ministerial. Ritual calls for progress on the negotiations issued in the Communiqué have made OECD seem ineffective. This year, Quad Ministers took advantage of OECD to have a meeting in Paris. Standard Communiqué language on the value of open markets and progress in Geneva was read by journalists in the context of the apparent success of the Quad in moving the Round forward. Press reporting on the OECD, and Ministers' own impressions, had a positive spin in consequence. Having a marquee announcement also helps—this year, not for the first time, it was the figures on agricultural subsidies that attracted press attention. Only *Le Monde* was so ungracious as to note that not much happened on the macroeconomic agenda, i.e. interest rates.

4.5 Conclusion

OECD has to be assessed against its stated purposes and its assigned functions. We need to ask whether its methods remain appropriate. Does its performance fulfill its mandate? Is it responsive to change? Is it a source of fresh ideas? Does it have an impact on policy? In the next chapter, my analysis under each head of cooperation begins from the assumption that what is interesting is not the fact of an international organization but the practice of governments who have agreed to modify their own behaviour. The effects of the organization can be found in national officials preparing data for an OECD study as much as in the work of the Secretary-General and his staff. Similarly, the effects of the OECD must be sought in the practices of its members as much as in anything that goes on in a meeting room at the Chateau de la Muette.

Finally, the benefits of the OECD must always be considered on two levels. Work at the OECD is inevitably technical and specialized, of apparent interest only to officials of the government department concerned. Any one such activity, however, may facilitate the achievement of the goals of another branch of government. More generally, for foreign policy reasons the value of OECD activity may be greater than the sum of its parts. In the abstract, for example, any activity which reduces conflict among governments may serve the interests of foreign ministries.

5. Heads of Cooperation

The OECD convention groups activities under three heads of cooperation. In this chapter I begin with those traditional policy fields before considering some of the newer heads of cooperation under which OECD work is organized.

5.1 Economic Policy Cooperation

Under the first head of cooperation in the OECD convention, members are committed to *promoting policies* designed "to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy." This task has always been taken to be the preeminent purpose of the organization. If the task is no longer important, or if the task is better undertaken elsewhere, then there might no longer be a *raison d'être* for the OECD. The jury is out. One recent endorsement of policy coordination, which saw it being carried out by the G-7 with IMF support, failed to mention the OECD.⁹² Other observers have claimed that it is, or should be, dead. It is extraordinarily difficult, therefore, to decide how to assess OECD performance under this mandate, because the questions are simultaneously highly technical and completely political.⁹³ In this section I first attempt to describe the OECD commitment to economic policy cooperation in practice before essaying a leap into the theoretical debates about coordination.⁹⁴ The OECD has had a consistent role in this issue-area, but the public profile of the organization has fluctuated. Assessment must begin with description.

5.1.1 Economic Cooperation in Practice

In the accounts of the final crisis of the OEEC, trade is always given pride of place, but the fact that fourteen west European countries made their currencies convertible on December 29, 1958 must surely have contributed to the tensions that indicated that the time for the OEEC model had passed. If nothing else, the OEEC was no longer needed as an umbrella for the European Payments Union. The OEEC fell apart and the OECD was constituted at a time of serious intra-European and transatlantic *political* tensions arising from economic change. The OECD was tasked with managing the political conflict in a multilateral and liberal framework, but it was given no responsibility for regulating any transactions or any policies.

The Bretton Woods system of fixed exchange rates succeeded only to the extent that the United States supplied the system with liquidity by running a budget deficit. As long as people believed that the dollar was

literally as good as gold, the illusion could be maintained. After the European currencies became convertible, cracks began to appear. In 1960, Robert Triffin described the flaw in Gold and the Dollar Crisis. He pointed out that a fundamental contradiction existed between the mechanism of liquidity creation and international confidence in the system. The system was relying on American balance-of-payments deficits to provide liquidity, but this chronic deficit over the long run would undermine confidence.⁹⁵ It did so in November 1960, in the first run on the dollar. The era of unilateral American management was over.

The dilemma that Triffin identified preoccupied governments throughout the 1960s. It was only after the dollar crisis of 1960 that American central bankers finally began to participate in the monthly meetings in Basle of the Bank for International Settlements. Some authorities maintain that the Bretton Woods system really only began to operate in pure form when the European currencies became convertible, but in the event the IMF did not prove to be a useful forum. (It is in some respects even less useful today, since discussions are increasingly dominated by the problems of development.⁹⁶) Consultations among the major countries shifted to the new OECD, reflecting both the increase in membership of the IMF and a European desire to meet on more equal terms with the Americans.⁹⁷ It was immediately apparent, however, that the new Economic Policy Committee could not carry the full burden of macroeconomic cooperation, in part because it too was too large a grouping.

In 1961, on the initiative of the Kennedy Administration, the EPC created a working party on Policies for the Promotion of Better Payments Equilibrium. Known as WP 3, the new body was meant to be a limited membership group that would keep financial developments under close and continuous review. Members would be senior representatives from the Treasuries and Central Banks of countries most affected by world trade and short-term capital movements—Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.⁹⁸ Later, the General Arrangements to Borrow was created in the G-10, with WP 3 as its secretariat, as part of the process by which the rest of the OECD financed American predominance while putting pressure on the American authorities to deal with the dollar problem.

The greatest public prominence for OECD probably came with its famous 1966 report on the balance of payments adjustment process.⁹⁹ But if the OECD was *the* forum for international economic cooperation in the 1960s, did this activity amount to anything? Michael Webb represents one conventional view when he argues that "Multilateral surveillance in the [OECD] was supposed to encourage countries to pursue policies that were consistent with international equilibrium, but it had no impact on monetary and fiscal policies."¹⁰⁰ In his study of the making of American foreign

economic policy in the 1960s and 1970s John Odell concluded that "Coordination certainly took place among central bankers and within the Group of Ten, the IMF, and the OECD. This interaction gave rise to attitudes of professional camaraderie. Even occasional coalition-building in this field may have taken place, as in the fall of 1971. But when major new directions were determined, the decisions were made by the President and by senior officials whose attitudes were little affected by these networks. In all three cases [examined by Odell], the U.S. officials who most clearly represented the views of foreign central banks were pushed aside."¹⁰¹ It seems that there was an inverse relation between the degree of politicization of monetary issues and the influence of transnational coalitions or networks of officials.¹⁰²

Barry Eichengreen asks a slightly different question about the same period: was the market power of the United States causally connected to the stability of the international monetary system?

The historical analysis indicates that the relationship between the market power of the leading economy and the stability of the international monetary system is considerably more complex than suggested by simple variants of hegemonic stability theory. While one cannot simply reject the hypothesis that on more than one occasion the stabilizing capacity of a dominant economic power has contributed to the smooth functioning of the international monetary system, neither can one reconcile much of the evidence, notably on the central role of international negotiation and collaboration even in periods of hegemonic dominance, with simple versions of the theory.¹⁰³

Eichengreen concludes that resolution of liquidity problems in the 1950s was largely accomplished through the market power of the United States, but this factor was less important in the 1960s. In the latter decade, coordination was more important, because U.S. political and market power alone was insufficient. Adjustment required strategic action among the largest players. That action was coordinated by communication among them, which often took place in WP 3.

The international monetary system did collapse in 1971, in spite of the existing institutions for cooperation. Reform of the system was discussed at the OECD, of course, but it was also discussed in the revived Group of Twenty at the IMF, which became the Interim Committee, chaired at that time by Canada's Minister of Finance, John Turner. It was also discussed in what came to be known as the G-5 Finance Ministers. Without the intervention of the first Economic Summits, reform may not have been possible. When the IMF was finally reformed in the 1970s, the new Article IV surveillance undermined the role of the OECD.¹⁰⁴ The IMF in turn was undermined when secret surveillance was initiated by the Versailles Summit of 1982.¹⁰⁵

Reform of the IMF and the creation of the Summits seem, therefore, to have marginalized the OECD, or at least to have diminished the importance of the role it appeared to have played during the 1960s. The first observation to be made is functionalist: the OECD has nevertheless continued, which implies that its continued existence serves some purpose for governments. Even as new mechanisms for policy coordination were created, the OECD remained a political forum for consensus building on issues of economic management. This role was evident in the mid-1970s when stagflation troubled OECD governments. The difficulty was compounded by a scholarly and popular perception of a "crisis of governance" in the industrial democracies. The response at the OECD was the creation of a high level study group. The beginnings of the new sound money paradigm that took hold a few years later are already apparent in the 1977 McCracken report on how to achieve both full employment and price stability.¹⁰⁶

The shift from one policy paradigm to another is not a "technical" matter for economists, but rather is highly political.¹⁰⁷ It is certainly political in that the shift only becomes accepted in a number of countries at once through some sort of consensus-building exercise. It is an especially political task at the OECD—although all the members are liberal states, there have always been paradigmatic differences among them over the appropriate role for policy.¹⁰⁸ The subsequent analyses of the 1978 Bonn Summit stimulus package, perhaps the last gasp of the old OECD Keynesianism, were rooted more in political perception than economics.¹⁰⁹ In the late 1970s and early to mid-1980s this debate was personalized by association with Ronald Reagan and Margaret Thatcher whose classic liberalism was in conflict with the managed liberalism of François Mitterand. For a time, multilateralism came to be seen as at most the coordination of national policies as countries concentrated on putting their own houses in order.¹¹⁰ Later, as no policy came to be seen as a poor policy, the leading countries became more interested in active international economic cooperation, understood as joint action among the largest economies.

The OECD has had an ambiguous relation with the annual Economic Summits precisely because of the overlap in their tasks. OECD relations have been especially unsatisfactory with the G-7 Finance Ministers who began work in the mid-1980s, negotiating their Plaza and Louvre accords far from the Chateau de la Muette.¹¹¹ Balance of payments problems were perceived to be severe in the 1980s, especially during the period of concern over the so-called "twin deficits" in the United States, but accounts of the controversy over the significance of the imbalances and how they came to diminish in importance do not even mention OECD WP 3.¹¹² More recently, the organization has had an ambiguous relation to the process of European integration at a time when the EC is busily trying to keep its exchange rate mechanism together while attempting to maintain hope for eventual economic and monetary union

(EMU). In the 1950s, lacking other fora, the European countries discussed such matters at the OEEC. Given the failings of current macroeconomic coordination arrangements at the EC level, and the uncertain prospects for the Maastricht treaty, it is perhaps an illusion to believe that they have an alternative today.

It would be easy to deduce from this brief chronology that the role of the OECD has become increasingly marginal. It certainly seems clear that states have made decreasing use of the OECD for joint action. What is not so clear is whether this change in state behaviour has anything to do with the OECD. Is the OECD a dependent or independent variable with respect to economic cooperation? This question should be approached by means of an excursion into the jungle of the economic literature on the merits of coordination.

5.1.2 *Economic Cooperation in Theory*

Joint action by governments is the strongest form of policy coordination. It is correspondingly rare, and controversial. Some argue that it is unnecessary, but there is now considerable agreement that *in principle* cooperation can be good for global welfare because of the imperfect nature of international markets. The more serious objection is the possibility that cooperation may make countries worse off because of deep ignorance about how economies function. Cooper reports early work by Frankel on how many economic models disagree concluding that "It is difficult to imagine macroeconomic co-operation on a regular basis so long as there are large divergences of views on means-ends relationships."¹¹³ Cooper here and in a later article argues that cooperation in public health, for example, was only possible when there was a consensus on the aetiology of disease.¹¹⁴ Whether or not joint action is judged desirable, there are implications here for an assessment of the OECD.

In a 1988 article Frankel and Rockett showed from their analysis of a variety of macroeconomic models used in simulation exercises that when policymakers do not necessarily know the correct model they are able to agree on policy changes that each believes will leave their country better off, yet the result can leave both worse off relative to a hypothetical "true" model. International coordination, they conclude, can easily reduce welfare.¹¹⁵ Aspects of this conclusion have recently been challenged by Holtham and Hallett.¹¹⁶ They argue that "given the inevitable failure to perceive the true model, some disagreement is better than unanimity in error. Extreme disagreement about the nature of reality, however, makes robust bargains impossible." Holtham and Hallett conclude that the implication of their own experimental results is that "countries approaching international cooperation should seek to use all available information to take account of uncertainty, but they should not seek to suppress or eliminate any remaining differences

in view. Instead they should look for policies that promise general advantages on either, or any, of their views."

The conclusion to be drawn from this theoretical debate among economists appears to be that up to a point, more is better when it comes to policy coordination. The role of the OECD, in other words, must be to provide information about the intentions of significant actors. The role should not be to force a consensus. This conclusion seems to suggest that the benefits from coordination come not necessarily from knowing which measures will increase welfare, but simply from the fact of coordination itself, which at least tends to minimize the risk of extreme disagreement about the nature of reality. The dominant lesson of Holtham and Hallett's work is that diversity among economic models is a strength.¹¹⁷ If countries restrict coordination to policies that appear to be advantageous in the largest number of models, then the outcome of coordination seems positive. (There is a tautological problem, however, if the real world turns out to be unlike any of the models.) Governments should aim to put each other's models under pressure, but having done so, they should respect each other's views. A policy that may look sensible in one model may seem foolish in another good model. Even if the most orthodox liberal view is accepted, that the primary requirement is for good domestic policy, then coordination is still needed. "No policy" is a policy decision, and one that requires coordination if it is to succeed.

Part of this coordination involves the development of what one OECD official has called a "common policy culture," which ensures that approaches to policy in different countries reflect broadly common objectives and a shared understanding of the ways policies should be implemented. It is highly probable that what works, or fails, in one industrial country will have similar effects in another. It is even more probable that exchange rate turmoil follows a perception in currency markets of divergent policy objectives among countries. In the absence of a common policy culture, efforts at explicit coordination would be doomed by disbelief in the markets.¹¹⁸ The most visible forms of joint action, therefore, are only one aspect of macroeconomic cooperation. In the hierarchy of cooperative forms, OECD activity is normally closer to an "exchange of information on current or prospective national policies" than it is to "joint action," yet assessments often assume the reverse. The most stringent test of the OECD might be whether states attempt to implement cooperative policies, rather than whether the policies achieve the substantive objectives. OECD success in *promoting* policies is no guarantee that the policies will be implemented, or that they will meet their objectives.

5.1.3 *The Value of OECD for Canada*

The preceding discussion of economic policy cooperation has taken a rather cosmopolitan view, but participation in OECD work also serves national interests. Canadian officials think that OECD analysis is first rate, and they value the OECD as a forum for the exchange of information. They think that the OECD is important for developing a policy paradigm of what countries should be doing in order to improve performance, and for then evaluating countries against the outcome against performance. The EPC itself generally works well, although the value of the EPC, as with any OECD body, fluctuates with its membership. When the right people come, the committee can offer a window on policy thinking in key capitals, a window simply not available elsewhere.

Canadians have found WP 1 sufficiently useful that until recently it was chaired by a Senior Assistant Deputy Minister of Finance. The Associate Deputy Minister, the G-7 Deputy, generally attends WP 3. WP 3 provides an occasion for G-7 Deputies to meet, and it is useful for the others to hear the G-7 Deputies, and vice-versa—it is a way to multilateralize the G-7. WP 3 is useful or not depending on the people. The IMF has regular meetings of resident for Executive Directors, but there are no committees for senior officials from capitals, although Ministers have the Interim Committee. WP 3, therefore, is the only place that Treasury and Central Bank officials from G-10 countries can get together to talk about questions of enormous mutual interest, like the balance of payments. For this reason, the fact of talking may be more important than any decisions that are made.

Canadian officials frequently mentioned how much they value the country reviews in the Economic and Development Review Committee. EDRC is useful not only for what we learn about other countries but also for its review of Canada. Officials value both the exercise itself and the way it plays back into the domestic debate. Some thought that the secretariat might strengthen their surveillance of framework policies, like competition law, in this context.

5.1.4 *Conclusion*

This section began with a puzzle: economic policy cooperation has always been taken to be the preeminent purpose of the OECD. It would be easy to deduce from the OECD's history that its role has become increasingly marginal. It certainly seems clear that states have made decreasing use of the OECD for joint action. What is not so clear is whether this change in state behaviour has anything to do with the OECD, or carries any implications for its future.

In light of Lloyd Bentsen's interest in revitalizing the G-7, expressed during his confirmation hearing as American Treasury Secretary, the Financial Times asked in January 1993 what the U.S. should try to do in the forum. The answer was that they "must not try to repeat past experiments with exchange rate coordination. The monetary effects of those attempts were probably the most important single cause of Japan's bubble economy and its aftermath, which also explains the Bank of Japan's unwillingness to pursue expansionary monetary policies today. There is little more chance of achieving exchange rate co-ordination with the principal European economies. [Indeed, the] continued inability of the German government to co-ordinate with the German central bank makes talk of international co-ordination seem rather ambitious." Instead, the editors thought, the G-7 should concentrate on the Uruguay Round and the mess in the former Soviet Union.¹¹⁹ This limited view of coordination is no doubt right in what it says, and grossly misleading in what it leaves out. Exchange rate coordination is the high end of the hierarchy of cooperation; it is the rarest and most difficult form of cooperation.

I concluded from the debate in economics that coordination can contribute to prosperity; such coordination is more likely to succeed to the extent that it involves more than just the three largest economies; and it is more likely to work if it is based on open discussion of sound analytics. For a middle-sized country like Canada, participation in this exercise is an important part of economic diplomacy, for we have no hope of influencing the policy discussion in the largest economies on a bilateral basis. When such coordination works, it will contribute to prosperity, reduce conflicts among governments, and strengthen the multilateral basis of the global political system. Any government action in the macroeconomic domain is more effective if officials know what other countries are doing, and if officials have a shared understanding of "how the world works." In the absence of such mutual understanding, currency instability could easily lead to competitive devaluations. Such turmoil could reduce global welfare and contribute to political instability. Without communication among senior officials, French posturing about an "Anglo-Saxon" conspiracy when the franc came under pressure in the summer of 1993 might have been taken seriously.

Implicit in the above analysis is that the work of the OECD should be supportive of the annual economic Summits. This idea will be discussed elsewhere. Here I would conclude simply by observing that for both the OECD and the G-7, there is more than enough work to be done at the two lowest levels of cooperation, the "exchange of information on current or prospective national policies" and "agreement on definitions and norms." We do not know enough about a rapidly changing and increasingly integrated world economy. If product differentiation is necessary, a distinction can be made between short-term macroeconomic stabilization and long-term structural

reform. Both topics are appropriate for consideration in the G-7 Finance Ministers and at the Summit based on preparation at the IMF and the OECD.¹²⁰ On structural issues, the OECD has incomparable comparative advantage based on its long analysis of all OECD economies. What is needed now is the development of more consensual knowledge, given the disarray among governments and among economists.

A subtle distinction must be introduced here, at least for political scientists. The preceding argument makes the case for the regular coordination of economic policies on economic and political grounds. It might be possible to say that this coordination is an important social institution that forms part of the money regime. I cannot make a necessary causal link, however, between the institution and its organizational home. Coordination takes place at the IMF, in the G-7, and in the monthly meetings in Basle of the Bank for International Settlements as well as at the OECD, and coordination can have a similar normative rather than instrumental intent in all of these organizations.¹²¹ Organizations survive because they face no significant competition in their niche in the hierarchy of cooperation. The OECD provides a table that is not available elsewhere for a certain group of senior officials from capitals to have a closed door discussion on the basis of high quality information and analysis without the constraint of having to consider the negotiation and enforcement of binding commitments.

5.2 Trade Policy

If economic policy is the preeminent task of the OECD, trade has been second. It is hard to imagine an OECD "common policy culture" that did not include a trade dimension both as a microeconomic instrument for adjustment and as an element of international economic cooperation. In the days of the OEEC, closer cooperation in trade was seen as a means to political integration in Europe. Trade conflicts arising over different understandings of integration brought down the OEEC, and so in reconstituting the organization states hoped to create the capacity for the political management of trade friction. Recall that where the GATT preamble speaks of a desire to enter into reciprocal arrangements, Article 1 of the OECD Convention says that the organization shall *promote policies* designed to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations. Nevertheless, during the time that the OECD convention was being negotiated, the GATT was struggling inconclusively with the Dillon Round. Some people thought it possible that the OECD would prove to be a better vehicle for trade liberalization than the GATT. This ambiguity is the reason that although the Trade Committee is one of the organization's most important bodies, it is surprisingly difficult to assess its work.¹²² Cooperation on trade ranges from exchanges of information on trade policies through work on how to conceptualize new issues. There are

discussions about the management of the trading system and, occasionally, there have been attempts at joint action to remove obstacles to trade liberalization.

The OEEC had an operational role in trade liberalization, but when the OECD Convention was drafted, the negotiators decided that the OEEC Code of Liberalization should not be carried over to the new organization. The Americans would not be bound by agreements others had negotiated and the Canadians were insistent that nothing be done at OECD that might usurp the role of the GATT. In the Convention, OECD countries commit themselves to promoting policies designed "to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations." There have been some operational agreements at OECD, but such things as the export credit consensus are not the strength of the OECD. It is questionable whether such political actions as the 1974 Trade Pledge have been worthwhile. The notification process has gradually fallen into disuse, given the increasing resort to GATT dispute settlement procedures. The OEEC's "confrontation" procedures were carried over to the OECD, but came to be called by other names, and have never been as important as they had been during the 1950s. The periodic reviews of main developments in the trading system, now only conducted once a year, may be less important as the GATT Trade Policy Review Mechanism comes into use.

In 1961, it was not self-evident that the GATT would have such a bright future. In retrospect, given the Kennedy, Tokyo and Uruguay Rounds, it is clear that the Trade Committee has been valuable precisely because it is *not* operational. It is the place where the principal trading states can assess the state of the trading system, as they have done after each round and will again after the Uruguay Round, without having to hedge their analysis for fear of being tightly bound by their conclusions. The secretariat can be asked to conduct studies of issues not yet ready for formal negotiations. Strategy for UNCTAD negotiations with developing countries can be discussed in private. When politics makes trade too hot to handle, the OECD can assess the significance of East-West trade, as it did in the early 1980s as part of George Schultz's strategy for defusing the Soviet pipeline fiasco.

The committee has had occasional successes with pure trade issues. Winham reports, for example, that

Formal international discussions on government procurement started in 1962, when Belgium and the United Kingdom brought a formal complaint to the OECD against the U.S. Buy American Act. A working party of the OECD Trade Committee was constituted to hear the complaint, but its report was subsequently deflected by U.S. pressure into a general review of government procurement in member countries. The matter was followed up with several actions in the OECD. In 1966, the OECD secretariat published a summary of government procurement practices, and in the following year it produced a brief draft text on guidelines for government

procurement. In 1969, the United States submitted a draft document of its own. From then until the matter was transferred to the Tokyo Round in 1976, the issue of government procurement was under discussion in the OECD. This lengthy discussion essentially uncovered the political problems and resolved some terminological difficulties of the subject, but **the major trading powers were unable to reach agreement on the matter in isolation from other areas of international trade.**¹²³

Winham's observation about procurement might serve as a useful generalization about when the OECD reaches its limit on trade issues.

In the aftermath of the Tokyo Round, states were worried about growing protectionist tendencies and the danger that the move towards greater liberalization might grind to a halt, or at least slow. The response was "Trade Issues in the 1980s," a project involving most directorates, launched after a comprehensive discussion of trade at the 1981 Ministerial. Work involved most OECD bodies in a report to the 1982 Ministerial, which preceded the GATT Ministerial of that year. The proposals in the subsequent horizontal work program concerned, first, problems that could result in immediate action (including safeguards, for example); second, longer-term trade and related questions, and systemic problems arising initially in a number of sectors, including high technology; and third, the links between trade and other policies: structural adjustment, investment and competition. The Trade study was the foundation for the Trade Committee's invaluable role in the preparations for the Uruguay Round, both on services,¹²⁴ and, in cooperation with the Agriculture Committee, on farm trade. In both cases, the problem was how to think about the issues to be negotiated. Work at the OECD on the conceptual problems posed by the new issues was not easy, but it was only possible because governments knew that negotiations over rules would take place in another forum.

The issues confronting the trading system will only get more complex in future, given that the nature and role of Trade Ministers is changing. This kind of preparation of the issues will be all the more essential, but does that imply a need for the OECD? Some people now wonder if there is any advantage in having a discussion among this particular group of countries, given that in trade terms, it is now harder to distinguish between OECD and other countries. If the Uruguay Round succeeds we will see the development of policy and Ministerial capacity in the GATT; we will still have the Quad; and we learned informal techniques in the Uruguay Round that allowed us to exclude most, or many, EC member states. Is there a role for the OECD? When the GATT had infrequent meetings, a highlight of the OECD Trade Committee used to be no-holds-barred discussions in private among senior trade policy people from capitals, but this function may no longer be needed.

Some people will not want a big negotiation ever again, but there is a new understanding of the effects of our domestic regulations on international

competition. So how do we approach a subsequent negotiation? People are beginning to see the menu, but how do we approach it? In effect, we have to move a new set of domestic policies to the border where they could be negotiated. OECD can be a good place for cross-sectoral analysis of trade and domestic issues. A new round might centre on capital-related issues (investment/competition/services), but will they be trade-related negotiations, or something else? If something else, do governments know enough now to be able to launch such negotiations? Although agriculture has always been an important area of OEEC/OECD work in its own right, I discuss it under trade as a sectoral example of the contribution OECD can make on domestic issues.

5.2.1 Agriculture

The importance of recent OECD work on agriculture cannot be over-emphasized: the Uruguay Round negotiations would have been literally inconceivable without the work done at the OECD. The agriculture work also shows the merit of the horizontal approach. The work was directed by a joint working party of the Agriculture and Trade Committees with support from the Economic Policy Committee.¹²⁵

The organization began its important work on domestic agriculture policies in the time of the OEEC, but the work on agricultural trade really only began in the early 1980s with the Ministerial trade mandate (MTM) of 1982. In brief, the MTM is an illustration of how governments can use the OECD to defuse a difficult short-term problem by laying the basis for a long-term solution. The well-established domestic agricultural policies of the industrialized countries caused few troubles for anybody but the taxpayers who supported them until the early 1980s when an unhappy conjuncture of factors led to extreme conflict between the principal exporters. The farm war has been expensive, and it is not over yet. The MTM allowed states to work together on the problem when the farm trade issue was not yet ripe for negotiation and when there was no forum in which it could be negotiated. The study allowed an old economic insight to form the basis for a new political consensus with the acknowledgment at the 1987 OECD Ministerial that the roots of difficulties in agricultural trade are in domestic policies. Reform in those policies could be beneficial for farmers, consumers, and world welfare. The 1987 consensus went farther, implying an acceptance of joint responsibility for reform. The OECD work also made the negotiation of reform possible, by developing the concept of the producer and consumer subsidy equivalents (PSE/CSE).¹²⁶ These statistical measures are and will remain useful for assessing progress in reform.¹²⁷ The Aggregate Measure of Support that was so important in the Dunkel text, the December 1991 Draft Final Act of the Uruguay Round, is a negotiating tool not an analytic device, but it owes a great deal to the PSE concept. This work has also been of use in Canada: Agriculture Canada officials say that OECD work has assisted their

understanding of income insurance schemes and has pointed to alternative methods of direct payments to producers consistent with reform principles.

On the commodity side of the Agriculture Committee (the three groups under the APM), there has been a transformation in the last year in this area. It had been largely an information exchange but the secretariat is now able to provide some quantitative analysis such as a forward-looking analysis of the five-year path of adjustment if we change certain policies. This new orientation is similar to work done for the EPC. The secretariat have made a major investment in their own human capital in response to wishes expressed in 1992 by Agriculture Ministers.

There is some concern that an eventual success in the Uruguay Round might lead to duplication in OECD work. This fear may be overdrawn. If the MTO is established, the GATT will have more analytic expertise than ever before, and its surveillance program is likely to become even stronger over time, but it is limited by the extent of negotiated consensus. The OECD, in contrast, has the ability to explore all policies on the basis of an analytic not a negotiated rationale. Agriculture Canada sensibly wants the OECD to increase its attention to such emerging issues as the environment and agriculture; structural adjustment, including competitiveness; and rural development. The OECD should also stay involved in the full monitoring of agricultural policies and the further elaboration of the PSE/CSE tool, which will remain a much broader indicator of reform than the GATT AMS.

On the other hand, the agriculture process shows the limitations of the OECD. Part 1 of the MTM called for an analysis of approaches and methods to reform agricultural policy, and part 2 called for an examination of existing national policies which have a significant impact on trade. This part of the work began quickly and was well done. The analysis demonstrated analytically a point that was important politically: the study concluded that a multi-country multi-commodity approach to negotiations was best because

... a feature of the structure of assistance is the existence of policies which in many cases have evolved to counteract the effects of other policies, either of domestic origin or not. A partial approach, even a unilateral approach, could bring benefits to domestic consumers, to other economic sectors through better resources use and to other exporters if reductions are made by those countries which heavily subsidize exports. However, the partial approach is likely to generate some further imbalances in some cases, exacerbating international trade tensions, and to yield significantly lower benefits than multilateral reform.¹²⁸

The third part of the mandate called for an analysis of the most appropriate methods for improving the functioning of world agricultural markets. It was very difficult to get this part of the work launched. Its fruits were reform commitments in the 1987 Communiqué which, as demonstrated in the annual monitoring reports, countries have ignored. Drafting in the

1987 Report was some of the most convoluted ever seen at the OECD, with "some countries" seeing merit in short-term reduction measures, while "other countries" argued for a long-term framework, and so on.¹²⁹ Those same countries might now be coming close to an agreement, but in the context of a round of multilateral trade negotiations. The Uruguay Round would have been difficult without the OECD work, but analysis is only useful to a point, and the OECD is not the place for negotiation.

5.2.2 *Environment and Trade*

One of the major issues now facing governments is how to minimize the negative trade effects of domestic environmental policies, and just as important, how to minimize the negative environmental effects of trade policy. The same strengths and limitations that were manifest in OECD work on agricultural trade are now appearing in this new area. Environmental issues were not a concern at Punta, but they may yet derail the Uruguay Round just as they have unsettled NAFTA. Many departments in Ottawa are interested in OECD work on economic instruments for environmental regulation. OECD, I was told, is one of the only places where we can try to develop principles to get us through the minefields ahead. It is also well-suited to consultations with the non-governmental organizations so active in this field. The development of consensual knowledge, as opposed to the elaboration of disciplines, is not a GATT task. The GATT panel report on Tuna may have driven the trade/environment agenda, but dispute resolution is a weak means for advancing policy discussion.

A horizontal work program in this area was mandated by Ministers in 1992. The Joint Session of Environment and Trade Experts (co-chaired by a Canadian) is seen as very important. The like-minded nature of OECD membership allows it to work on interesting concepts and guidelines that might be difficult in a negotiating forum given the utter lack of public or bureaucratic consensus on the problem. One of the potential advantages of work at the OECD is the possibility of domestic convergence among policymakers in different departments, although there is no sign of it happening yet in this area. An example of its importance to Canada can be seen in the metals and minerals sector, still a major Canadian export outside North America. International rules for multinational firms in this sector are of growing significance, making the OECD work on policy guidelines potentially invaluable.

The Trade and Environment Committees made their first joint report to Ministers in June 1993 recommending a set of procedural guidelines for integrating trade and environmental policies. They also recommended an on-going work program aimed at helping governments to understand trade and environmental issues. In addition, there will be more work on the guidelines and on issues that might be suitable for negotiations in other fora.

5.2.3 *Services*

If the Uruguay Round ultimately fails, OECD might be the natural place to house an agreement on financial services. The FTA was the first financial services agreement in the world. Washington and Tokyo might prefer that further agreements be handled at the OECD rather than GATT—at least if Treasury wants to exclude State and USTR. In any event, we cannot wait ten years for another Round on financial services, and we cannot handle the issue bilaterally. (With the US, for example, some big issues will matter more to them than to us, so we will need multilateral help.) We need some insurance, I was told, if GATT does not work to promote further liberalization.

More generally, services issues inevitably involve a number of domestic departments. If OECD uses its strength, its wide range of sectoral committees, then it can make a real contribution. For example, the GATS draft contains an unacceptable tax article; turning it around is proving very difficult because discussions were far advanced before tax officials, who come regularly to OECD, knew what was going on. When they barged in, they were told that people “do not want to open up the Dunkel text.” This sort of problem, whatever its origins, can be minimized by horizontal work at the OECD.

In the further development of horizontal links on services, more consideration should be given to work with the Maritime Transport Committee, which increasingly works on issues related to trade in services. Transport Canada officials see the strengths of this committee in monitoring policy and regulatory developments in member and non-member countries thereby contributing to efforts to reduce the distortions to competition resulting from the provisions of support measures to national flag shipping. Consideration should be given to going beyond the information role, pushing the secretariat in a more activist direction. Links with the Trade Committee might be especially useful in promoting the interests of shippers within a forum that is inclined to place more emphasis on the concerns of shipowners/operators.

5.2.4 *Commodities*

Officials in the Mineral Policy Sector of Energy, Mines and Resources Canada attach considerable importance to the Trade Committee's commodity work, especially work on the NIS. This working party was abolished as part of the 1993 Budget exercise, but officials in EMR think that it is important that the Secretariat retain analytic capacity on commodities. There is an UNCTAD work program, but OECD lets Canada advance our interests as a commodity

exporter with our commodity importing OECD partners. (see also section 5.3.3)

5.2.5 Conclusion

If senior trade policy officials no longer go to OECD, is the organization needed? Again and again I was told that the people who do go to OECD go because there is nowhere else. This fact seems to explain the continued existence of WP 3, even though its role is diminished. So, if the GATT evolves as Canada hopes, senior people may not need OECD as a place to chat. Would this compromise what may well be OECD's big role, which is horizontal work, often with the Trade Committee at the core? Or will a vigorous horizontal work program attract trade officials anyway?

What happens on trade at the OECD is a matter for choice. The organization's work could easily end in a downward spiral if the perception grows that the Trade secretariat is weak, that the growth of the so-called "Triad" and regional developments has left the OECD in the shadows, and that therefore there is no point sending anybody to meetings. Active officials would then stop thinking of the OECD as a strategic tool or testing ground for new ideas. In contrast, if we can see the organization as the place for exploration of new issues, especially cross-sectoral issues that impinge on domestic policy, then there is a great deal yet to be done. Trade issues that will be important include competition, investment, agriculture and the environment.

5.3 Development Cooperation

Aid to Developing Countries is the third main head of OECD cooperation. The OECD was never intended to be a development assistance institution, however. Its role was to facilitate burden-sharing and policy discussion among donors. It is not equipped for operational technical assistance, although it carried over that role from the OEEC with respect to its poorest members. (The regional development funds of the EC now do this job.) In the *Medium-Term Strategic Objectives* paper the Secretary-General recognizes this traditional importance, but goes farther arguing that the problems of development should be incorporated in all of the organization's work. Unfortunately the paper does not make the essential point clearly enough: what the OECD discusses is what its members can do together, not what LDCs themselves should do. Increasingly the thing that needs to be discussed is the coherence of all OECD policies that relate to developing countries, a theme eloquently elaborated in the 1993 Ministerial Communiqué.

By the time it collapsed, the OEEC was no longer needed as the implicit expression of a donor-recipient relationship.¹³⁰ Indeed a major objective in

the reconstitution of the OEEC was to involve the Europeans in aid programs. Plumptre says that "The Americans hoped to encourage greater participation by European countries in programs of economic aid to developing countries; the United States appeared to have been carrying the greater part of the load and the U.S. administration was anxious, not only to obtain some relief for U.S. balance of payments, but also to reassure Congress that this particular 'white man's burden' was being shared with reasonable equity. Thus D for development became one of the initials of the new organization."¹³¹

Canadian officials remain generally satisfied with OECD work on development issues, although the organization as a whole for a time seemed to have lost its way on this issue: the 1992 Ministerial Communiqué devoted considerable space to the question of relations with non-member countries. After an introductory paragraph, two paragraphs are devoted to developing countries. The rhetoric is old and/or insincere. It would have been better to have said nothing than to have said that "Donors who have made undertakings in respect of the ODA target of 0.7 per cent of GNP... should make increased efforts to implement them...." The 1993 Communiqué was both more realistic and more forward looking, stressing a "comprehensive and differentiated approach" including efforts to ensure the integration of developing countries into the international system and to ensure the coherence of all policies aimed at developing countries.

5.3.1 Development Assistance Committee

The Development Assistance Group was set up even before the OECD, becoming the Development Assistance Committee (DAC) when the convention came into force. Its role has been fundamental; it literally structures how we understand development.¹³² DAC principles have defined what aid agencies like CIDA look like. Discussions in the DAC of which countries should be eligible for aid lead to agreement on the DAC list, which then becomes Canada's list for CIDA eligibility. DAC definitions of ODA and "technical assistance" become our definitions. The 8 principles in the "Development Assistance Manual: DAC Principles for Effective Aid" are now incorporated in CIDA's own planning manuals. The book on aid flows by country is so useful that even UNDP takes basic country information from DAC. The idea that some countries have a responsibility for assisting in the "development" of others is relatively recent in world politics; DAC is where we reach a collective understanding about how to realize that abstract responsibility.

The work on development coordination has had an element of resource allocation to it, but it is also concerned with the distribution of resources both between OECD countries and LDCs, and among LDCs. In the Uruguay Round it is interesting that LDCs are becoming stronger participants in distributional discussions. The need to foster a consensus on distribution

among OECD countries was the reason the D was added to OECD; the need for consensus has hardly gone away as Japan ponders its growing role as a donor and as CEE/NIS countries take an increasing share of the available resources. DAC has also made some attempt to coordinate with other donors, holding occasional informal meetings (beginning in 1978) with Arab/OPEC aid agencies.

CIDA officials are active participants in the DAC. The President usually attends the annual High Level Group meeting, and other senior officials go to Paris once or twice a year. The biannual DAC aid reviews where we have to explain ourselves are seen as a major plus. The DAC advances policy development in capitals on environmental guidelines, and participatory development. It has helped in developing a consensus on what "good governance" means, for example. The committee devotes considerable time to concertation among DAC members for policy discussions that take place in other fora. A Canadian chairs the DAC Evaluation Committee. Canadian officials find the DAC Chairman's report invaluable for the information on aid flows—it is the best tool we have for comparing Canada performance. The various specialized working groups are very useful for practitioners. Officials mentioned one particular frustration: the DAC does a marvelous job collecting data which is used in a rigorous and credible way, but they have a lot of data they do not use. Two years ago, for example, amidst criticisms on aid volume, DAC data on the quality and impact of aid could have contributed to an analysis of whether aid policies were on track and having the impact for which donors hoped.

5.3.2 *Development Centre*

Although the DAC is primarily interested in development assistance issues, the OECD is interested in the process of development itself. The first Ministerial in 1961 created the OECD Development Centre as a separate body under Part II of the OECD Budget with the mandate "to bring together the knowledge and experience available in participating countries of both economic development and of the formulation and execution of general economic policies; to adapt such knowledge and experience to the actual needs of countries or regions in the process of economic development and to place the results by appropriate means at the disposal of the countries concerned." It appears that the results of Development Centre work are hard for OECD members to evaluate, and so the general attitude seems often to be one of benign skepticism. Recent work seems to be oriented to bringing the best of the OECD approach to bear on the problems of development. One study evaluated the effects of adjustment programs. A major program has evaluated the consequences of trade liberalization for third world agriculture.¹³³

5.3.3 *Commodities and the NIEO*

Canadian officials have expressed support for the commodities group under the Trade Committee (see section 5.2.4), and so I looked into its origins. It is an interesting story about the OECD and development cooperation. Camps says that the first time an American Secretary of State led the US delegation to the OECD Ministerial was 1975.¹³⁴ The double issue provoking such interest from Henry Kissinger was the continuing problem of the collective response to the collapse of Bretton Woods along with the response to a challenge from non-members. The first oil shock had been a divisive event. The Americans had called a conference in Washington in 1974 out of which came the IEA. The French refused to join the IEA for a number of reasons, including their general resentment of American hegemony, but even the Europeans who joined were nervous about a confrontation with OPEC, on whom they depended more than the Americans for energy. The result was a declaration on relations with developing countries attached to the 1975 Communiqué. The declaration was part of a compromise under which the Americans agreed to the Conference on International Economic Cooperation (CIEC)¹³⁵ which itself was in part a response to problems in negotiations with the Group of 77 elsewhere. The Ministerial also established two new committees, including the High-Level Group (HLG) on Commodities.¹³⁶ The commodities group was a response to LDC interest in commodities in the context of the New International Economic Order (NIEO). At the time, the British were even proposing a negotiating "Round" oriented to commodities.¹³⁷ The commodities group appears to have evolved over the years, now serving quite a different purpose. Although the group was useful to Canada, the persistence of this body well past the point when its original *raison d'être* had disappeared is an example of how things should not work at OECD.

5.3.4 *Policy Coordination*

The other body established in 1975 was the Ad hoc HLG on Economic Relations Between Member Countries and Developing Countries which coordinated member participation in the CIEC from 1975 to 1977. In 1979, this group was succeeded by a new Group on North-South Economic Issues, chaired by John Paynter, a Canadian, to coordinate the participation of OECD countries in the various instances of the "north-south dialogue." This task is more important than ever for the OECD. The number of developing countries has recently increased substantially with the demise of the Second World. At the same time, the Third World is eroding, as many members seem on the verge of unquestioned "graduation," that holy grail so often discussed at the OECD. Finally, most of the developing countries have abandoned the idea that growth depends on the efforts of somebody else. They are moving towards an acceptance of the policies long advocated by the OECD. More than ever, development co-operation can be a "policy

instrument." We use our assistance to encourage people to adopt what we consider to be good economic, social and other policies in pursuit of sustainable development. It may be appropriate for Ministers to discuss whether "aid" should become "cooperation," dealing with all countries to whom we give assistance, including the CCEET countries who would not normally be on the DAC list. Perhaps there should be an attempt to integrate all the work on non-member countries (the DAC, the DAEs, the PITs, etc.) into one coherent forum for discussion of the strategies followed by OECD countries in a variety of other fora where our interest is encouraging the development of, and sharing the burden of assistance to, countries in transition to a market economy fully integrated into the international economic regimes. We also need to consider the coherence of all of our policies with respect to developing countries—from assistance to trade and industrial policies. Development, in other words, should be dealt with throughout OECD, and not just in one committee. There should be more horizontal work in this area, given the lack of cohesion between groups dealing with aid and those dealing with all other policies touching LDCs. The 1991 meeting of Development and Environment Ministers was a step in this direction.

5.3.5 Public Management Committee

When the Secretariat was created in 1961, the "Development Department" had two branches. One, responsible for the DAC, evolved into the present Development Co-operation Directorate. The other, called the Technical Co-operation Branch, served the Technical Assistance Committee—later the Technical Co-operation Committee (TECO)—which was the means for offering assistance to OECD members in the process of development (Turkey, Greece, Portugal and later Spain). During the 1970s, the Committee began to work on public management issues as governments became concerned with the role of the public sector in the face of growing fiscal restraint and changing expectations. Senior officials also wanted a forum to compare experiences in the handling of issues, such as resource management and strategic planning at the centre of government. In 1984, Canada hosted a meeting at Meech Lake at which our envelope system (PEMS) was discussed. The meeting attracted officials from the equivalent of the Privy Council Office in many other countries, including White House staff from the United States and the Cabinet Office in the United Kingdom.

In 1989, TECO became the Public Management Committee (PUMA), reflecting its changing role. Under the active leadership of Canada, the committee has become a forum that is not duplicated anywhere else, allowing for discussions on the political/administrative interface at the centre of government. More recently still, recalling its original mandate of technical assistance on public administration, it has been administering a program on

public service reform as part of OECD assistance to the countries of Central and Eastern Europe.

5.4 Environment

Environment was not an original head of cooperation in the OECD, but if the Convention were to be re-drafted, environment would certainly receive separate attention in the organization's mandate. It is now a major area of work both as a topic in its own right and because of its horizontal links with other policy fields, notably trade. (see section 5.2.2) Coordinated action in this area is of increasing importance both to ensure that its own objectives are met and to ensure that it does not cause reciprocal difficulties for other policy areas. As an example of the dangers of a lack of coordination, American and European efforts to increase so-called carbon taxes, both the United States and Europe retreated in the face of arguments that foreign rivals would benefit if domestic energy costs were raised. The Economist observed, no doubt correctly, that "Had America and the EC joined forces, both energy taxes might have stood more chance of survival."¹³⁸

The OECD has been active on environmental issues for as long as the issue-area has been a concern of governments. The Environment Committee was established in 1971 to help member countries prepare for the Stockholm conference the following year. The work has been innovative and influential—the "polluter pays" principle, for example, was first developed at the OECD. The pillars of the program now are integration of environmental and economic decision-making; improving environmental decision making at home; and international cooperation. These objectives are both urgent and eminently appropriate for cooperative action at the OECD. The Environment Committee, chaired for many years by Blair Seaborn, has recently been restructured as the Environment Policy Committee (EPOC), chaired once again by a Canadian. EPOC had its first meeting in April 1993.

Canadian officials think that the most important task is to get the ideas of sustainable development trickling down throughout the OECD. When the Brundtland report was released, the Secretary-General had a one day meeting on the report and its implications for the OECD. The decision then was not to create one focal point but rather to find a way to drive the ideas throughout the organization. In the aftermath of the Rio UNCED conference, there are signs that this method is starting to work. EPOC itself has a great deal to do, however, on the implications of UNCED and on implementation—what should be happening on climate change, biodiversity, and trade-related impacts? The Committee also must consider the steps needed to promote environment and development convergence: what are the linkages? How do institutions fit? Is ODA environmentally sensitive? In short, how can environmental and economic considerations be implemented in decision-making on sustainable development? Links are now being established to

other committees, including trade, agriculture, transport and energy. The DAC has been harder because the two directorates do not cooperate well. There has been a joint Ministerial in the past; officials had a joint meeting at the bureau level several months ago, and they have been planning a workshop on sustainable development.

Environment Canada is now quite active internationally, dealing with many multilateral agencies, but officials stress that the OECD is the only place where like-minded countries can meet to exchange information, to develop a consensus on emerging policy issues, and to carry out certain kinds of research of most interest to developed countries. One example of the usefulness of the organization is in the paper industry. When Environment Canada was set up in 1971 one of the first tasks facing the department was a need for regulations for pulp mill effluents. Most of our competitors in North America and Europe were doing the same thing: they were setting up Ministries and worrying about the paper industry. Through the Environment Committee, and in cooperation with the Industry Committee, officials worked on the science and on comparing data. The result was that we were able to create a level playing field with our major competitors on regulation in this area.

Another example is the Chemicals Group (chaired by a Canadian) under EPOC. Canadian officials have been developing new legislation on toxics using the OECD to share the load with colleagues. For example, on developing appropriate toxicity levels the questions that need to be answered for each substance include: Can we test for it? Is there a scientific basis for regulation? Working with peers through the OECD allows experience and costs to be shared. This program is still evolving. It is meant to be policy not research oriented. The work is informal and driven by the specific problems associated with a given chemical. There is no consensus yet on whether the "output" of the program should be an *Act* of the OECD, or whether it should be a guideline, or whether information sharing is sufficient, or even of international cooperative action is needed.¹³⁹

The Basle Convention on the Control of Transboundary Movement of Hazardous Wastes and their Disposal offers another example of an OECD contribution. The Convention is aimed at providing protection to developing countries to ensure that they will not be a dumping ground for hazardous wastes generated in industrial countries. Unfortunately, the Convention includes recyclables within the definition of wastes, which causes problems for the international recycling industries. A Decision, drafted through EPOC, has now been adopted by the OECD Council on the transfrontier movement of recyclables destined for recovery operations. (It is considered a regional arrangement under Article 11 of the Basle Convention.) This Decision, which is binding on OECD members, simplifies administrative procedures and

thereby facilitates economic activity by improving the trade in recyclables among OECD countries.

Although the above activities seem complementary to the work of other organizations, there is a risk of overlap, especially with the UN Economic Commission for Europe (ECE), which groups east and west Europe. The Environmental Policy Performance Reviews are just starting for OECD countries, but people are already trying to find a way to extend the process to all ECE countries. (The difficulty is that such a process would cost something, and it is not clear where the money would come from.) The OECD is in some ways a European regional organization. Accordingly it participates in the pan-European process on environmental policy for Europe which is drawing on ECE, the Council of Europe, the G-24, and the EC, as well as the OECD. The G-24, for example, has an environment technical assistance mandate for eastern Europe. The CSCE dabbles in the environment—it has given some direction to ECE to work on transboundary issues.

Officials responsible for energy policy value the cooperation between the IEA and the OECD on environmental matters. The Group on Economics and Environmental Policy Coordination is seen as vital by some officials, because the work is not done nearly as well anywhere else, whereas the older group on energy and the environment is not thought as useful. "Green Ties" is a \$1 million per year OECD/IEA initiative providing technical information on green house gases to LDCs. It is interesting, but there are mixed views. Work is still at the stage of trying to get it off the ground in order to see if it works. It is intended to perform a clearing house function, not technical assistance. Canadian participation is funded from EAITC, and EAITC is on the steering committee. The program is driven by an enthusiastic secretariat, not by members.

5.5 Social Policy

Under this heading of his planning document, the Secretary-General includes the multidisciplinary examination of "the numerous social problems besetting our countries, problems which, if we are not careful, could in the long run jeopardize economic development and even political and social cohesion." Social cohesion is both an appropriate goal in its own right on democratic grounds and an essential precondition for growth, prosperity, and ultimately for peace. It is well known, for example, that there is a correlation between adequate social policies and trade liberalization.¹⁴⁰

Topics to be studied under this rubric include employment and unemployment, education and training, social protection policies, migration,¹⁴¹ the problems of cities, and rural development. As a general observation, these topics are important, reflecting as they do the basic commitment in the convention to promote policies designed "to achieve the

highest sustainable economic growth and employment and a rising standard of living in Member countries...." The Keynesian commitment to employment as a macroeconomic objective is a distinguishing feature of the organization, and it has been undertaking valuable work in this area since the 1950s.¹⁴² Given that all are at a comparable stage of economic and social development, member states benefit from an exchange of information in this area. Deepening the secretariat's understanding of member economies contributes to the overall surveillance process. But I am not sure why these topics should be a *separate* head of cooperation for the OECD. It is not clear that they have direct spillovers for other countries, however important they may be in the long-run for the reasons identified by the Secretary-General. The issue is not semantic, for it colours our expectations of OECD work.

For reasons of time, I was only able to consult with officials interested in the first topic, employment.

5.5.1 *Employment*

There was a time when OECD Communiqués mentioned employment only in the context of "labour market flexibility." In the 1992 Communiqué, in contrast, Ministers requested the Secretary-General to present a progress report to their next meeting on the "disappointing progress in reducing unemployment." The subject is a pressing one for all OECD governments, but it is not clear what the study will accomplish, or when. It is certainly useful for Canada to have an international organization undertake basic research into factors determining current levels of employment and unemployment in OECD countries. Policy recommendations from the study will draw on extensive OECD knowledge of how our economies work as the basis for a cross-country analysis of what works—we learn from each other. This much is not controversial, but one of the reasons for the study seems to be genuine uncertainty about what in fact works. Multiplying the ignorance of 24 governments is no way to find answers. Confirming that "high unemployment is here to stay" is no help to beleaguered ministers. When we all have information, there is value in sharing. When uncoordinated policies lead to conflict, there is benefit from a search for a cooperative solution. The most we can hope for from the employment study, however, is probably international support for unpalatable policy changes.

The above notwithstanding, and despite the arduous and lengthy analytic work yet to be done, the Secretary-General was able to make a preliminary report to Ministers in June 1993. There may be little doubt that one factor behind the persistence of unacceptable levels of unemployment is an apparent transfer of low-skill jobs to non-OECD economies. OECD Ministers in their Communiqué were able to say implicitly that the solution to this problem will not be "protection" of the affected workers. They committed themselves to pursue efforts at structural adjustment and further

liberalization of the trading system. Rather than shift the burden of unemployment to their trading partners, Ministers can point to recommendations in the Communiqué on the importance of coherent and active social and labour market policies, and the need for education, training and retraining. The Communiqué also stresses improving productivity and the diffusion of new technology as contributions to increased employment.

The argument above is that the topics under this head seem to be primarily domestic leading to a weak case for international cooperation. Two caveats are in order. First, domestic officials in many of these policy fields often have no other forum for the exchange of information. Second, some formerly domestic areas are beginning to have cross-border effects. As an example, consider occupational standards where the useful work done by OECD could become even more important to Canada as the federal government stresses education and competitiveness. Occupational standards then move outside the education system. Canadian officials are interested in how standards are set in other countries—often by groups outside government. There is also some interest in having cross-national standards given that some standards are now imposed anyway by MNEs. As the technical qualifications of the workforce increase, cross-national occupational standards could facilitate accepting the qualifications of migrants. Finally, over time there may well be a link between occupational standards and trade in services.

5.6 Framework Policy

Framework policies are microeconomic policies that structure the competitive environment for firms. These policy fields are generally domestic, yet they have potential international spillovers. The rapid pace of “globalization” in the last decade has increased the level of such spillovers, bringing domestic regulatory systems into conflict with each other. The resulting “system friction” has become a major policy challenge for OECD governments. In this section I briefly discuss competition, tax, financial services, investment, transportation, and science, technology and industry policy.¹⁴³ In a final sub-section I consider the implications for harmonization, policy coordination and the role of the OECD in these vital areas.

5.6.1 *Competition Policy*

Competition policy is an important framework policy for a modern economy, but it is especially important in OECD work because of its horizontal linkages with other issues. In the past, Canadian officials have been frustrated by the Competition Law and Policy Committee (CLP—formerly the Restricted Business Practices Committee), and they have been especially frustrated by the secretariat. They asked, How can we make the committee and the secretariat work better? How can the committee develop

the linkages with the work of other committees? Canadian officials have shown considerable leadership in recent years in getting the committee to attempt to exploit the potential linkages. After much effort, they think that movement can be seen. There is now a major work program on the consistency of competition and trade policies, and on convergence among jurisdictions.¹⁴⁴

The word "convergence," which Canada introduced in this context, is open to misinterpretation. It does not mean harmonization over time, because that could lead to rigidity. The process of convergence is neither harmonization nor coordination. To see what it is, consider the case of one big merger that can have agencies in many countries involved. There is then a need for *process* convergence, meaning similar steps, timing, information requests, etc., and *substantive* convergence, which implies resolving differences between the social and economic objectives of regulatory policy. The evolution of Canadian rules has been influenced by discussion at OECD with other countries about changes in their rules. Competition law is organic, it keeps evolving, and so the OECD is useful for Canada not as a negotiating forum but rather as a place where the evolution of competition law can be kept under constant view.

One problem in the committee is that some of the national agencies represented are "arms-length" bodies with enforcement but not policymaking responsibilities. Nevertheless, the contacts are useful. In a recent case Canadian officials were able to share notes with the Finnish authorities who were negotiating a settlement with the same parties at the same time. Without the OECD they would not have had the contacts. There is no alternative forum to the CLP, although Canadian officials get some benefit from the UNCTAD RBP group.

5.6.2 Tax Policy

Tax matters at OECD are discussed in the Committee on Fiscal Affairs (CFA) and its working parties. In general, Canadian officials have seen the OECD as good for technical discussions and information exchange, but there has until recently been no policy function. Attempts to harmonize tax policy have been unsuccessful because countries have a proprietary interest in their tax system: tax is a very political instrument of domestic policy. (Note the lack of progress on tax harmonization in the EC.) To the extent tax questions involve other countries, Canada prefers to deal with them bilaterally, through treaties. There is an OECD model tax treaty, which is useful—it is a benchmark e.g. with Malaysia and other small countries. WP2 on Statistics is useful but ponderous. For example, the exchange of comparable information on value added tax is invaluable—we could not generate revenue statistics ourselves. Unfortunately, although many OECD countries have similar

problems, we have to get detailed information outside the OECD because of the level of generality of OECD work.

The picture in the preceding paragraph has been true for a long time, but it is now beginning to change: the Committee has recently discovered policy coordination. The change is partly due to an energetic secretariat bringing forward such things as multilateral tax issues arising in the proposed GATS, but the more interesting example concerns the taxing of foreign subsidiaries. This is always a popular issue in Washington, and always unpopular with MNEs and their home countries. Last year it became apparent that this was an issue where coordination was needed.

Section 482 of the U.S. Internal Revenue Code concerns transfer pricing. Draft regulations were tabled for comment in January 1992. Many governments were upset by them and it was discussed at the CFA in July. The result was a letter to then Treasury Secretary Brady from the Committee followed by the creation of a task force to discuss how to change the regulations.¹⁴⁵ The task force spent a week in Paris in September working on a draft report, which was put out for comments by countries not on the task force; the text was approved in December. The process was especially useful because the U.S. was at the table. The task force circumvented the committee system, which allowed it to work quickly. As a green field exercise, the task force probably would never have happened. It is important that the committee exists, that it has a good secretariat, and that officials dealing with international tax matters get to know each other.

It may be possible in future to move beyond such the traditional issues as avoiding double taxation to confronting the problems caused in a world of increasingly mobile factors by differences in the relative rates of tax on capital and labour. Such cooperation might reduce the impact on global efficiency of tax havens.¹⁴⁶

5.6.3 *Financial Services*

Canadian officials think that there is much that the OECD can do on issues affecting the domestic responsibilities of regulators. Information sharing will always be useful, but more could be done. On the other hand, it should avoid going beyond analysis. For example, OECD should focus on industrial structure issues (like the role of deposit insurance) but should stay away from risk supervision (financial standards and regulation) where it has no comparative advantage. Canadian officials also consider that some OECD structures are not well suited to current needs. If, for example, there were one Committee for banking, insurance, and securities, the secretariat of such a committee could be asked to do a paper on the state of bank involvement in insurance in member countries. Given the speed of change, it will be important to retain the flexibility to handle "one-off" projects like the work

on money laundering (supervision, enforcement frameworks) which began outside the OECD but in order to make it broader (in number of countries) and deeper (in disciplines) it was moved to the OECD.

5.6.4 Transport

Canadian officials find the Road Transport Research program very useful, and they value the trade-related work of the Maritime Transport Committee, but they would like to see a horizontal work program in this area. It would have two dimensions. First, what policies make sense domestically? Second, how do we balance domestic and international considerations in this issue-area? Answers to these questions would be helpful to regulators, but there are also trade, competitiveness, and investment issues at stake. The full proposal is included here because it is illustrative of the ways in which OECD might be used in future.

The project could be grouped by sector, as follows:

1. Surface Transport and Productivity

The economics of infrastructure investment in road and rail. We lack good economic measures to support a claim about the level of productivity growth that might indicate one type of investment as opposed to another. These kind of investments are going to be made, and decisions on such big items will be made on the basis of politics, not good sense. Decisions are made intuitively, not analytically, but it would be nice to have some economic research on productivity to balance the intuition. In any given case, what makes the most sense, rail, or road? The answer depends on expected traffic, expected trade links, etc.

This work would be very important for developing countries, both in Europe and elsewhere, but it will also be important for Canada. There is a view that our infrastructure is under-capitalized and there is a consensus (unsupported by data) that major investments are needed. As we begin to reduce subsidies, there will be even greater incentive for big infrastructure projects. So

- A. What are the economics of investments in infrastructure? What increase in productivity can be expected?**

2. Operations

Rail and truck firms are more tied than anybody else to cyclical downturns in the economy. Their initial rate of slump can be an indicator of the depth of a downturn. The question is this: what is the bare minimum commercial structure that you have to be able to maintain in order to avoid

bottlenecks in a recovery? The question is especially important in Canada because we do not have many corporate participants. So:

B. Is there an optimal rate of participation in road and rail for any level of goods movement? Is there any justification for governments supporting the participants they have already?

In Canada, rail is losing enormous amounts of money. If CP quits the business, there could be serious implications for the movement of bulk commodities. The rates of tax on this sector are very high relative to their US competitors in what is now a continental industry. Property taxes alone are equal to the losses they make. For coal, 35% of the FOB price is transport. Fiscal policy should distinguish between horizontal industries that cut through the economy and individual sectors. Tax harmonization is a coming issue. So:

C. Is there ever a case for separate treatment for industries in these sectors/ industries because of the way they affect the overall competitiveness of the economy?

3. Airlines

Since 1985 the economics of this industry have changed, especially the economics of scope. It is always hard to make money in this industry, and it is affected in exaggerated way by slowdowns—the product is undifferentiated and perishable. The shakeout in a downturn is greater than in other sectors, a problem that is getting worse because shakeouts involving ever larger firms with large networks spread the pain more widely.

Some say that the next phase will be international deregulation. But whether or not a firm is regulated, the margins are so thin, and the debt so high, that any drop in passengers leads to trouble because firms can only compete on price. The OECD has been involved in the issue sporadically in the past¹⁴⁷ and the Secretary-General had a special symposium last year on airline deregulation, but the focus was too narrow. There is an interest in looking at work already underway (like investment) from an airline perspective. The United States has apparently given the OECD a grant to do some work on economic issues. OECD needs to get into airline economics and concentration. Should it happen that there are only 3 or 4 global carriers, the entry barriers would be enormous. Telecommunications costs alone (for a Central Reservation System) are now 20% of the cost structure. So

D. Have the economics of the airline industry really changed such that a firm can only remain in the business by becoming huge? Are we necessarily moving to a concentrated industry?

- What are the implications for countries whose national carriers are needed for domestic service? Do we let the global market evolve while subsidizing feeder routes like Thunder Bay-Toronto?

5.6.5 *Investment*

When investment was first discussed in the postwar trade regime, in the negotiations for the Charter of the International Trade Organisation (1948), the problem was not regulation but the protection of investors. An early draft of the chapter on economic development mentioned the rights and obligations of capital-exporting and capital-importing countries, but there were no specific standards of treatment for private investment. American business groups complained about this omission. When the U.S. delegation made new proposals developing countries insisted on broad exceptions asserting the right to place restrictions on foreign investment. Richard Gardner judged that "The final provisions at Havana still did more to affirm the right of under-developed countries to interfere with investments than it did to affirm the rights of the investors themselves."¹⁴⁸ Jacob Viner thought at the time that an investment code "should be drafted with the greatest care so as not to weigh the balance too heavily on the side of either creditors or debtors." He advised against any step "which would provide any basis for charges by our numerous foreign critics that our trade negotiations are only one phase of our general pursuit of economic hegemony in the service of American 'capitalistic-imperialism.'"¹⁴⁹ In the end American business groups opposed the Charter on the grounds that it was inconsistent with the very multilateral objectives for which the American government had fought so hard. Among the disappointments, such as continuing tariff preferences, was the fact that although foreign investment was to have been made more secure, it was instead given less protection than it had previously enjoyed.¹⁵⁰ The ITO was still-born, not least because of opposition from American business.

Investment was not raised again in the trade regime until 1955, and did not enter GATT formally until the FIRA panel report was accepted in 1984.¹⁵¹ The Punta del Este declaration launching the Uruguay Round confers a limited negotiating mandate, calling only for an examination of existing GATT articles related to the trade restrictive and distorting effects of investment measures after which negotiations were to consider whether further provisions might be necessary to avoid such adverse effects on trade.¹⁵² After years of difficult negotiations, the December 1991 draft agreement on TRIMs¹⁵³ will contribute marginally to global welfare, but the negotiations have respected the GATT precedent, created by the FIRA panel, that countries have the right to regulate entry and expansion by foreign firms, while recognizing that principles that apply to foreign goods (not services) admitted to a market also apply to foreign firms admitted to the market. The question of right of establishment has yet to be fully engaged.

In the absence of other fora for negotiations, the OECD has played an active role on investment.¹⁵⁴ Canada's attitude to this aspect of OECD work has undergone a considerable transformation. For the first 25 years, Canada was reluctant to accept international disciplines on its ability to regulate foreign investors in the national interest. The 1976 *Declaration on International Investment and Multinational Enterprises* (adopted to forestall UNCTAD efforts to craft a code on multinationals) seems not to have had a great deal of influence on the evolution of Canadian policy. For example, it contains a provision under which nationals of other signatory countries may complain about breaches of the guidelines, but Robert Paterson, whose excellent survey of Canada's engagement in the international regulation of investment and services has a section on the OECD, found no evidence that the system had been used in Canada during the first 14 years. There has been a progressive liberalization of Canadian attitudes to FDI which he sees as unrelated to the non-binding OECD Declaration.¹⁵⁵ Canada has maintained reservations on the *Code of Liberalization of Current Invisible Operations* since its inception in 1961 and only became a member, with reservations, of the 1961 *Code of Liberalization of Capital Movements* in 1985. It is not clear how significant either Code has been for promoting Canada's interests in other countries, but neither seems to have much constrained Canada's ability to regulate as we see fit in domestic matters. Canada was not a member of the Committee on Capital Movements and Invisible Transactions (CMIT) until 1985

Officials think that Canada can make good use of OECD for investment issues. They are supportive of the language in the 1992 Communiqué on the links between trade and investment.¹⁵⁶ In the past Canada has taken a defensive attitude in the OECD, embarrassed by the remnants of regulatory control, but access to Canadian capital markets is now freer than anywhere in the world, or at least in good company with the US and UK.¹⁵⁷ In consequence, we are in the position of being demandeurs over a range of issues in discussions with the EC, U.S., and Japan. Unfortunately, responsibility in Ottawa is diffuse. Negotiations on financial services, the Wider Investment Instrument, the European Energy Charter, and the Uruguay Round might be more integrated.

5.6.6 *Science, Technology and Industry*

This head of cooperation covers an uneasy amalgam of framework and industrial policies. The policy areas can be seen as susceptible to the development of common regulatory agendas and of strongly protectionist initiatives. There is a constant tension in this area between the desire to obtain the benefits of the newest technology available, and the promotion of national champions. There is a sense that the old conceptual and bureaucratic

distinctions do not work anymore, but a new consensus has not yet emerged. Whether OECD will be part of the elaboration of one is not clear.

Canadian officials consider that the Industry Committee, Committee on Science and Technology Policy (CSTP) and Information, Computers and Communications Policy Committee (ICCP) all do similar work in important areas, but they have been concerned about the use of resources and the potential overlap among these areas. The TEP and Globalization initiatives have provided a useful integrative theme. Some wonder whether existing bodies should continue as part of a horizontal work program, or whether they should be integrated into a new body. It is not clear to me whether a certain amount of vertical or sectoral work is needed to ensure that the secretariat is able to develop the expertise to contribute to horizontal projects.

ICCP has done useful work on non-binding policy guidelines in the area of transborder data flows, information privacy and information security. It may well have an important preparatory role for new international negotiations (in the GATT?) on telecommunications. In CSTP, Canadian officials seem to see the greatest advantage in work that derives from the similarity among OECD countries, but the committee and its working parties are not especially helpful with work involving third countries or other international organizations.¹⁵⁸ On the industry side, officials are frustrated by the anodyne discussions and lacklustre documents, but there does not seem to be a consensus on how the structure could be rationalized. Some see the OECD as the only source for such things as the detailed study of the glass industry in member countries; others doubt the need for such sectoral work.

5.6.7 Harmonization, Policy Coordination, and the Role of the OECD

In his latest annual report, the Secretary-General of the OECD observes that there are several policy spheres, traditionally regarded as basically domestic, into which the increasingly global scope of economic activity has introduced an important international dimension. Especially important are policies affecting firms, notably competition policy, industrial subsidies and foreign direct investment—the policies identified in this chapter as “framework” policies. Improved “rules of the game” are thought to be needed in order to mitigate “system friction,” by which is meant the idea that as economic activity becomes more international, friction between domestic regulatory systems can have international implications.¹⁵⁹

The system friction idea was brought to the OECD by Sylvia Ostry, who argues that the arena for international policy coordination is moving beyond the border, to domestic policies.¹⁶⁰ This phenomenon is certainly a consequence of the increasing internationalization of economic activity. Attempts to end friction between divergent domestic regulatory systems will need to accept that the postwar system is based on a recognition that domestic

regulatory systems are different, and that there is no reason why they should not remain different. The principle has renewed force today.¹⁶¹

The Technology Economy Program (TEP)¹⁶² was a major horizontal work program at OECD designed to try to address some of these challenges. The program's impact may have been reduced by an ambiguity in the initial proposal over whether the OECD should *negotiate* disciplines or *promote* policies. A similar problem seems to exist in the continuation of TEP, the Globalization program initiated by the Trade Committee under the chairmanship of Geza Feketekuty.¹⁶³ In brief, is globalization a force that causes problems for policy, or is it something that policy should be facilitating?

The eroding boundaries of domestic authority due to the increasing internationalization of economic activity could well be the most important issue on the OECD agenda, but we should not necessarily expect the result to be "rules" let alone "harmonization." The OECD exists because states fear the international spillovers of uncoordinated domestic policies will impede their ability to preserve the political and protective value of borders. In a *laissez-faire* world, like that of the gold standard, policy harmonization is normal, and there is little distinction between domestic and international instruments to the given end. The internationalization of economic transactions does indeed blur the distinction—any one policy can have effects at both levels. But we do not live in a *laissez-faire* world. Differences in the regulatory environment arise for reasons other than consumer tastes and preferences. So "system friction" is not the real issue. Firms, as Ostry noted elsewhere, can adapt to any rules if they know what they are.¹⁶⁴

The question is more properly, can governments adapt if their purposes are frustrated by each other? So long as markets are subservient to politics, there will not be convergence in market structure. The risk governments face is that firms that operate freely around the world will arbitrage national differences in any number of regulatory arenas. To some extent this phenomenon, if it exists, will simply involve choices for governments in terms of foregone opportunities. The problem will be more severe if firms force governments into a lower regulatory stance than would have been preferred. Here, cooperation is needed to set common standards—in environmental regulation, for example. In other cases, other governments will use lax regulation as a competitive tool. Again, surely there is no need to abandon regulation, or harmonize (one outcome of convergence) just to avoid the costs of one state's preferences being externalized to others.

One alternative to harmonization is mutual recognition by each party to an agreement of the policies of every other party—this approach made the EC 1992 project possible. Sylvia Ostry has suggested using mutual recognition as a means to making progress on standards and technical barriers in the

GATT.¹⁶⁵ The difficulty with using GATT is its wide membership: mutual recognition seems to be working in the EC, but only because the members are broadly similar, have established considerable regulatory transparency among themselves, and have an elaborate legal mechanism for dispute resolution and enforcement. A different approach suggested by John Ruggie is worth quoting at length:

The major institutional changes that have taken place in the domain of trade have pushed domestic economic structures to centre stage. That is true of the decline of formal trade barriers, the growth in global service transactions, and the phenomenon of globalisation itself. But GATT was designed to achieve a balance of *external* rights and obligations, not to achieve *internal* restructuring. Moreover, it is in any case impossible to achieve symmetrical results by symmetrical means from asymmetrical starting points. Now no one can oppose the recommendation that GATT be strengthened. But in the meantime, governments can be forgiven if they do not stand by and watch entire industrial sectors collapse while negotiations go forwards. Moreover, it makes as much if not more sense, in the light of our discussion also to strengthen the policy harmonisation roles of the OECD. Much as in the arms-control field, greater transparency would result on which mutual and balanced confidence measures could be built, leading ultimately to serious negotiations on a multilateral basis concerning the adverse external effects of asymmetries in domestic structures.¹⁶⁶

It seems to me that Ruggie's argument amplifies my argument about the strengths of the OECD in section 4.3.3 above. Until we have developed a consensual understanding of "globalization" and of the pressures for "harmonization," we are better discussing the issues in the OECD than trying to negotiate in the GATT.

5.7 Energy Policy

Energy was not an original head of cooperation for the OECD, but it has become an important area of work. Part of the collective response to the first oil shock was a conference in Washington in February 1974. That conference led to the establishment in November 1974 of the International Energy Agency (IEA). Members (of which France was not one, until recently) decided that the IEA should have autonomy in its operational role but that it should work closely with the OECD on policy.¹⁶⁷ The combined energy staff supports an OECD energy committee, and the Executive Director of the IEA has the status of a Deputy Secretary-General of the OECD. In practice, there is seldom much difference between OECD energy policy and IEA policy, in no small part because the biannual meetings of Governing Board of the IEA at Ministerial level usually precede the OECD Ministerial allowing the results to be reflected in the OECD Communiqué—on occasion the IEA Communiqué has simply been attached to the OECD text.

As the IEA is not formally part of the OECD, I have mostly ignored the agency in this review, but it is not so easy to ignore energy questions,

especially because of the importance of energy to work on the environment where the link between the OECD and the IEA is important both from an energy and an environmental standpoint.

IEA is the only multilateral energy body and so from the start it has been critical for dialogue and information exchange on oil prices. Increasingly the IEA is more than just a place to respond to crises in the Middle East—there are discussions of energy security, environment, and collective approaches to future problems. The agency also has a large network of committees, working parties and shared projects facilitating R&D cooperation. Over the longer term there may be an erosion of the distinction between the OECD and the IEA, but there will be a need for a separate IEA at least as long as oil security is a key issue—IEA in that dimension is much more operational than the OECD.

The European Energy Charter is both a legal contract, and a trade and investment agreement, but it is not a consultative forum. It may well become important, but it is not an alternative to the IEA, or even to an energy dialogue between IEA members and the countries of central and eastern Europe and the former Soviet Union.

The OECD Nuclear Energy Agency remains important to Canada—we chair the NEA Council and our participation is very strong. NEA is important because it handles policy issues that do not come up in the IAEA. Being a pro-nuclear country, the NEA is very useful to Canada.

5.8 Conclusion

This brief review of OECD activity under the various heads of cooperation shows the diversity of methods used by the organization to accomplish its purposes. OECD work at both the technical and policy levels does fulfill the organization's broad mandate of *promoting policies* designed to achieve sustained growth in member and non-member countries, and the expansion of the trading system. Much of the work involves joint analysis and information sharing among member countries, work which appears to be valuable. Canadian officials generally seem to think that their own involvement in this work assists in the achievement of domestic objectives. Work at the OECD also contributes to Canadian cooperation with other industrial countries in our collective relations with other groups of states. In terms of the descriptive hierarchy or typology of cooperative forms (section 2.2 above) we find, not surprisingly, that the more common forms of cooperation are more common at OECD.

6. The OECD in a Changing World

The mandate of the OECD is to contribute to sound economic expansion not only in member countries but also in non-member countries in the process of economic development—an important foreign policy objective for economic diplomacy. The first task of the organization, therefore, has been to ensure peaceful relations among its members, but the second task has been to contribute to a more peaceful world by being interested in global prosperity. Some of what OECD does can be applied to broader issues both by using OECD analytic techniques and by involving non-members in the process of finding a consensus on new issues. OECD countries are increasingly interdependent with many non-member economies, interdependent in the sense of relations that would be mutually costly to break. The management of the world economy requires that a widening group of countries be recruited into the club. It is increasingly hard to understand developments in OECD economies if we do not have a window on our non-OECD partners. We should not be smug about OECD countries: we have a lot to learn from economies that are much more dynamic than our own. It is in the collective economic interest of OECD countries to know more about some non-member economies. It is also the case that some things that we wish to achieve, such as controlling global warming by limiting the emission of green house gasses, require cooperation with non-members.

There is another set of countries where the central issue is political, not economic. Since the creation of the OEEC, the political purpose of stability in Europe has long been a goal of the organization. Cooperation with the transition economies in Europe may be of less economic interest for Canada, because they are less interdependent with OECD economies, but there is considerable political interest in promoting the integration of the formerly centrally-planned economies into international economic system.

The OECD has always been a valuable forum for concerting the policies pursued by member countries in other fora but now, as many countries are becoming more like the OECD countries, or aspire to pursue such a path, the organization faces new pressures to include non-members in its own work.¹⁶⁸ After a lengthy period of review, OECD Ministers concluded in 1992 that, "In the world-wide move towards pluralist democracy, respect for human rights and a competitive market economy, an increasing number of countries which recognize the validity of these basic principles of OECD Member countries wish to establish contacts and develop relations with the Organisation. In an increasingly interdependent world, this represents an evolution which Ministers welcome, and it presents a challenge and an opportunity for the Organisation. The Organisation must respond positively and effectively to this new situation, while at the same time maintaining and reinforcing the

relevance and quality of its work, and its efficiency as a group of like-minded countries, with benefit both for Members and non-members. ... the modalities of co-operation ... may include participation by non-member countries in those OECD activities where a mutual interest is clearly recognized, and membership in the Organisation for countries which fully share OECD values and characteristics and are willing and able to meet the obligations of membership."¹⁶⁹

Despite the months of preparatory effort, this Ministerial statement left much unsaid, postponing real decisions for another time. The main issues are how many countries to admit to membership, and when; how to organize cooperation with the dynamic economies not yet ready for membership; and how to manage assistance to the transition economies in Europe. In current OECD jargon, this conceptualization of the issue is a differentiated approach which places non-members in concentric circles around the OECD, with ordinary LDCs in the outer circle.

The questions are delicate. On the one hand, Canadian officials have observed that OECD cannot divert an excessive share of its human and financial resources from traditional functions to programs and activities tailored to non-members without a loss to Canada and other members. In particular, the size and scope of the programs of technical assistance to central and eastern Europe and the new independent states of the former Soviet Union (CEE/NIS) have expanded at an extraordinarily rapid pace. Canadian officials have seen evidence that the work of the Secretariat or committees in other areas is suffering.

On the other hand, our foreign policy goals might not be achievable if we are unable to use the tools of economic diplomacy to enlarge the zone of stable peace by spreading the knowledge of how the liberal economy works to a larger group of countries. Many OECD economies did not share these values at the outset, and the postwar pattern of cooperation was aimed at building such a community of values.¹⁷⁰ It was for this reason that the United States linked the Marshall Plan to the OEEC. It was a great pity that the countries of Central and Eastern Europe did not join the OEEC in 1947/48. Within the OECD area there is now a significant degree of consensus on the proper goals and methods of government. It is not a coincidence that within this area, otherwise called the Atlantic community, there is an expectation that disputes will be settled peacefully. Nobody thinks that American missiles are aimed at France, or British missiles at Germany, despite the recent political tensions in both relationships. Relations within the community assume the characteristics of a virtuous spiral, as liberal states that are increasingly similar find it increasingly easy to cooperate with each other.¹⁷¹

6.1 *New Members*

The OECD has not admitted a new member since Australia and New Zealand joined in 1973. The major expansion of the OECD area took place in 1964 when Japan's place in the Atlantic community was signified by its membership in the OECD.¹⁷² Change in the world has forced the organization, not without some pain, to face the issue anew. Despite the waffling in the 1992 Communiqué (Ministers merely "noted" the interest of Mexico and Korea), the OECD has made considerable progress on the membership issue, which is really only relevant to the Visegrad¹⁷³ or Partners in Transition (PIT) countries (Hungary, Poland, Czech Republic and Slovakia), to Mexico, and to Korea. These non-members are now active participants in much of the organization's work as "observers" to many committees, mainly those dealing with trade, structural policies, and framework policies. They are not allowed in to the Economic Policy Committee or its working parties, with the exception of the EDRC.¹⁷⁴ As observers, delegates from these countries receive all documentation for the committee and can be recognized by the chair when they wish to intervene. They are certainly contributing to the achievement of the organization's objectives, and they have begun to fulfill some of the obligations of membership, including the requirements to "furnish the Organisation with the information necessary for the accomplishment of its tasks [and] to consult together on a continuing basis, carry out studies and participate in agreed projects." Without full membership, however, there can be little progress on the third obligation, "to co-operate closely and where appropriate take co-ordinated action."

Mexico, Korea and the Visegrad countries have all made it plain that they would like eventually to join the OECD. They derive increasing benefits from their association with OECD, but full membership will be an important political symbol. We would do well to recall that this is an old issue for Canada. Our postwar policy rested on the functional principle, and arguably rests on it still.¹⁷⁵ Membership in the OECD, and in some of its bodies, should be decided on the basis of substantive not numerical criteria. What is important about the OECD culture is not that it is ever "right" but that it is common, and that its evolution is a collective enterprise. To the extent that new countries have a contribution to make to that process, they should participate in the organization's work. In light of the increasing integration of the North American economies, then Trade Minister Michael Wilson told his OECD Ministerial colleagues in June 1993 that Canada expected to see Mexico at the OECD table at the next meeting. The 1993 Communiqué has set in motion a process that should duly lead to Mexican accession soon, while leaving the door open for Korea. It now seems unlikely, however, that there will be any other new members for some years. This outcome probably gets the balance about right. The subsequent discussion in this section discusses the considerations behind such a judgement.

Were the membership of the OECD to be increased, there might be unfortunate consequences for the transparency of the organization's work and the ease of monitoring or verifying compliance with its principal prescriptions.¹⁷⁶ We would certainly need to consider the robustness of the way in which members make collective decisions, which have ossified, and which may or may not adjust gracefully to the presence of new members. There is no point admitting governments that lack the capacity to implement OECD advice, or whose level of development diverges too far from the OECD median. (Sharp asymmetries in the distribution of economic power among participants circumscribe the effectiveness of international institutions.) The effectiveness of international institutions also varies directly with the level of interdependence among the participants. Whatever their level of development, the actions of some non-members are coming to have an impact on OECD welfare, and so we must consider them as possible members.

If what the OECD produces is information, and some of that information is about the economic structures and policies of its members, then one might assume that members believe that this information is available from the OECD with greater speed and comprehensiveness, at lower price, than from other sources.¹⁷⁷ For the current members of the OECD, in other words, the *value* of the information received must be greater than the *costs* of membership. Now consider the possibility of new members. Are there countries about whom the OECD members would like more, and more timely, information than currently available from other international organizations or private sources? Is the value of this additional information sufficient to balance all the known costs of increased size? It is surely the case, therefore, that the crucial test is not some absolute or relative set of indicators about a country's weight in the world economy, but its degree of interdependence with existing OECD members.¹⁷⁸

This test of interdependence is not the mere sensitivity test of Cooper, which implies co-variance in major economic variables,¹⁷⁹ or simple mutual sensitivity, but the vulnerability interdependence of Keohane and Nye,¹⁸⁰ which implies relations which would be costly to break. This kind of "interdependence" is another word for integration,¹⁸¹ but integration in the negative sense that implies a decrease in national autonomy. It is not, in other words, a condition which states seek, but a fact which they must consider. Under this condition, what happens in one state not only affects what happens in another state, but the two states also have the ability to alter that outcome by coordinated action. It is not easy to predict when a group of states will reach the point where multilateral action seems necessary, but Keohane suggests that increases in "issue-density" might be one way of identifying a situation in which the costs of *not* cooperating rise.¹⁸²

The criteria for membership should be prospective. The Secretary-General seems to share this view. His most recent annual report says that "There is no magic method for gauging when a country is ready for membership in the OECD, but homogeneity is only one ingredient. The other key ingredient is the willingness to accept the common disciplines which are the essence of the "OECD method."¹⁸³ This ingredient should be combined with sufficient interdependence with existing members to make that acceptance worthwhile on both sides. Until a certain stage is reached, the burden of things like surveillance and transparency required of OECD members may not be worth the benefits of policy learning. The OECD is a place where those who have policy *capacity* work together, if they are interested in cooperating. Working together need not imply full membership. In some areas, such as environmental regulation in central Europe, cooperation might be desirable but special mechanisms are necessary because the countries concerned lack the technical or scientific capacity.

There is also no magic point at which the size of a group facilitates or impedes cooperation—it depends on the context, and on who needs to be part of the eventual consensus. It depends, in other words, on the purpose of cooperation.¹⁸⁴ If the purpose is the provision of international public goods at acceptable cost, then the benefits of cooperation increase as more states participate, although that cooperation may have to be initiated by a smaller group. The full benefits of openness in the Uruguay Round, for example, will come only if substantially all of the 105 or so participating countries sign the Final Act. On the other hand, the full deal has only been possible because of potential deals reached in smaller groups, like the Quad. Finally, there is no magic in the number 24. For different reasons, the Executive Committee, the IEA and WP 3 have always been smaller groups. The OECD codes did not include Canada for a very long time. The members of the OECD seem to have had little trouble in devising various categories of membership in the past. Some Committees, like WP 3, would retain restricted membership. Other committees might have restricted bureaux.¹⁸⁵ The point is simple: there are no mechanical or numerical limits to increased membership if the purposes of the OECD would be served by including a larger group of states in its work.

The final and most delicate question covers the issues grouped under the broad heading of human rights. Some people have suggested that liberal democracy is a defining characteristic of the OECD. It would perhaps be more appropriate to say that liberal democratic ideals were an aspiration for members rather than a precondition for membership when the Convention was drafted. There have been questions about elections in many OECD countries over the years, for example. Some members may now raise human rights as a factor in deciding on new members, but it is quite likely that this question is only raised by smaller countries who do not wish to say either that they oppose *any* expansion of membership, or that they oppose any admission of more non-European countries. Canada will have to address

their real concerns without allowing human rights issues to be exaggerated. In the case of Mexico, for example, it would be bizarre to agree to cooperate in NAFTA but not the OECD. On the other hand, it would be an equally egregious error to dismiss these issues. Liberal states find it easier to cooperate with other liberal states,¹⁸⁶ and as Kal Holsti has observed in many of the elements of the emerging post-Cold War peace settlement, it is "the domestic arrangements of states that will determine their eligibility to join the community."¹⁸⁷

6.1.1 *Mexico and Korea*

With the exception of Mexico and perhaps Korea, Canadian officials have expressed little interest in expanding the membership of the organization, but the increasing participation of those countries in the work of the OECD has been beneficial for both sides. In competition policy, OECD has already been helpful with respect to the Mexicans—Canada has had bilateral dealings in the past which are expected to increase because of Chapter 15 of NAFTA. Last October in the CLP, where Mexico is an observer, there were consultations organized by the secretariat on a new Competition Law. These consultations were more helpful than doing the same thing bilaterally. Officials have also welcomed the fresh perspective that comes from discussing competition issues with new players. Investment regulation is another area where Mexican membership would be welcome. In the area of financial services liberalization, membership for Mexico and Korea would not hurt, and would bridge a gap. In the case of cooperation in tax matters, however, the exchange of information on tax models is only useful if there is one. Mexico might be worth having in the OECD, therefore, but not Korea, and certainly nobody else. The tax treaty system is based on non-discrimination; with approximately 40 such treaties in force for Canada, most of our trade is covered. There appears to be no interest in expanding the EPC or its working parties. WP3 is already in effect a GDP-weighted body, meaning that even a country as large as Canada is not expected to speak too much.

6.1.2 *Other membership issues*

Consistent with practice since the creation of the Development Assistance Group in 1960, CIDA opposes new members for the DAC until any of the candidates are major donors themselves. Given the presence of observers (Bank, Fund etc.) there are already 30+ people around the table. There are two asterisks to this view. The first is the problem of donor coordination with the Arab countries. Attempts until 1988 never got interesting; we were trying again in 1991, but there has now been a decision not to try to institutionalize the discussions. The other asterisk is Russia. The initial reaction to change in eastern Europe was fear: members tried to build a wall around DAC. Now we accept that some NIS are really LDCs, and the five 'stans' are now on the DAC list. In consequence, should Russia, likely to be a

major source of external assistance for these countries in one form or another, join the DAC?

Canadian officials are interested in further dialogue with Latin American countries in the context of the Maritime Transport Committee. Now that those countries have renounced discriminatory measures, mutual interests on shipping matters in such fora as UNCTAD and GATT might be served by closer consultation at the OECD. Canadian officials also see the need to promote closer commercial cooperation on the harmonization of shipping policies with the CEE/NIS states, perhaps including the negotiation of non-binding instruments.

6.1.3 *Dynamic non-member economies*

In recent years the OECD has abandoned the concept of NICs (Newly Industrializing Economies) in favour first of Dynamic Asian Economies (DAEs—Hong Kong, Korea, Malaysia, Singapore, Taiwan, Thailand) and now dynamic non-members, because Argentina, Brazil, Chile and Mexico are now important participants in the dialogue, and new work is beginning on China. These countries participate a variety of ways in the subsidiary bodies of the organization—in effect, the dialogue process has been keeping some of them at a distance. It is no doubt true that some are farther from the OECD mean than others, and so there may be limits to what they can learn from us. It may also be that they would rather strengthen regional cooperation. But to the extent that the principal *raison d'être* for the OECD is understanding and facilitating the process of growth, then we may have a good deal more to learn from the dynamic non-members than they have to learn from us.¹⁸⁸ The reforming countries of Latin America, and our partners in eastern Europe, may also have more to learn from the DAEs than from us.¹⁸⁹

6.2 Central and Eastern Europe and the Former Soviet Union

The Visegrad countries perceive themselves to be on the verge of OECD membership, and Russia also wishes a special relation with the organization, but their hopes will not be fulfilled soon. The Partners in Transition program will continue, and something similar will be arranged with Russia, but membership is not in the cards.

In the 1992 Communiqué, OECD Ministers endorsed the conventional wisdom on the requirements of adjustment in the CEE/NIS, but then committed themselves only to technical assistance for policy formulation and to coordination of information on all the western efforts to support reform in the region. This work is carried out by the Centre for Co-operation with European Economies in Transition (CCEET). There is one useful reference in the Communiqué to examining "how best the OECD can assist in improving

productivity growth in the CEECs and the NIS." And they called for technical assistance on identifying barriers to trade liberalization in the region (a worthy goal, which is being implemented) while recommending that member countries "support trade liberalization in these countries by policies of import liberalization in OECD countries, in general, as well as in sensitive sectors and areas where CEECs and NIS have significant export capabilities." This hesitant approach and these pious recommendations will not be enough to ensure a rapid and successful transition. The biggest contribution the OECD might make is to share its own experience in the similar transition in western Europe a generation ago. The OECD countries should provide assistance in the creation of a new organization in Europe designed to use economic means for the promotion of political stability.

6.2.1 The Context

There is an institutional vacuum in eastern Europe. The Soviet Union has disappeared, as have the institutional bases for its dominance of the region—the Council for Mutual Economic Cooperation (CMEA) and the Warsaw Pact. The vacuum is characterized by distrust and indifference. Most of the countries of central and eastern Europe and the new independent states of the former Soviet Union (CEE/NIS) would rather cooperate with any western country than with their closest neighbours and natural trading partners. The one attempt to fill the void, the Visegrad Triangle, is intended to be no more than a stepping stone to early membership in the EC for Hungary, Poland and the former Czechoslovakia.

Reconstruction of the CEE/NIS has been a major topic at recent Summits, and it has been a continuing preoccupation of the G-7 Finance Ministers. In the initial period following the collapse of the Soviet coup in August 1991, the issues were immediate—debt management, macroeconomic stabilization, and hunger. There has been an explosion of activity by new (the EBRD) and existing organizations (OECD, BIS, IMF, and the IBRD) in addition to a plethora of bilateral programs. Many of the CEE/NIS are or have been engaged in accession negotiations with some or all of these organizations, as well as with the GATT. The G-7 cannot coordinate all of this diverse activity. Some coordination has been carried out by the EC Commission (at the request of the Summit) through the G-24. Measures are in place to avoid duplication of effort among all the states and organizations eager to help (the OECD CCEET has created a data bank, for example), but now that the focus is shifting to medium-term issues, it is apparent that there is an institutional gap.

There is general agreement that the transition requires institutional and democratic reform in the CEE/NIS as well as more conventional macroeconomic stabilization, for the short term, and microeconomic framework policies, in support of long-term structural adjustment.¹⁹⁰ The "market" when it barely exists cannot be expected to deliver reform by itself.

The challenge of creating a new institutional structure for cooperation among the CEE/NIS is not merely mechanical, for they must (re)learn the culture of economic liberalism and multilateral cooperation among sovereign equals. One of the striking features of the postwar system is the extent to which its form reflects multilateral norms of transparency and nondiscrimination, norms utterly absent from the system endured by these countries for so long. A multilateral society of states depends on shared values, habits of cooperation, and unspoken rules. Just as we need the OECD, so the CEE/NIS need something similar. One of the fruits of the proposed organization would be the process of cooperation itself. There has been a tendency to think of the challenge of the CEE/NIS either as a question about the role of existing international organizations, on the one hand, or as a question about what policies those countries themselves ought to follow, on the other. When it comes to the so-called architectural questions about the future of Europe and the coming international system, there has been no end of fine rhetoric, but a strategy has not emerged.

The structure of Europe is built in pieces. Despite the coherence imposed on the past by hindsight, there was no single plan for reconstruction after the second world war, but there was a political direction. The eventual structure of cooperation in western Europe emerged from a piecemeal process of economic accommodation lacking overt political purpose, but the result is an institutional structure that works, and that is consistent with the original vision of prosperity and stability.¹⁹¹ The institutional poles of a strategic vision are integration into either the EEA or the EC, on the one hand, or full membership in the international economic regimes with no mediating organization, on the other. The process of full accession to the GATT, IMF and the World Bank is well underway, but it is a complicated process.¹⁹² In most cases, these states will be subject to less than complete rights and obligations initially, limiting the benefits to be obtained.¹⁹³

The formerly centrally-planned economies are still only candidate members in the Atlantic community. The EC has made noises in recent weeks about much closer ties to the CEE/NIS, but it is not clear when or if they are to be incorporated in the Community. Certainly they will not be part of the next round of enlargement. Whatever cherry-picking happens over the next few years (say, if Hungary were to be allowed to join the EEA) it seems clear that general expansion to include many of these countries is a generation away. Inclusion even in the community is some way off. The decision that Mexico should be allowed to join the OECD soon, while closing the door on even the Visegrad group for some years seems to be the political/economic equivalent of the political/security decision to create the North Atlantic Cooperation Council (NACC) rather than letting the CEE/NIS join NATO directly.

There is a third institutional pole: the CEE/NIS could be left as a rabble of squabbling international charity cases, constantly going hat in hand to donors, beset by flocks of competing advisors. We in the western countries do not ask of ourselves that we live in such a world. We have the OECD to foster cooperation in areas not ripe for the negotiation of binding rules. We tolerate regional cooperation (in the EC, or NAFTA) when it is broadly supportive of market disciplines and it improves political cooperation. Something is needed for the CEE/NIS. Happily, the CMEA is gone. Although the Economic Commission for Europe (ECE) still exists, it could not play the role envisaged.¹⁹⁴ A new regional body is needed.

As is now well understood, these countries are not all alike. Some are sufficiently advanced, and sufficiently interdependent with the industrial countries, that membership in the OECD is under consideration. Others are in such desperate need of help that they have been formally added to the DAC list of countries eligible for Official Development Assistance. These differences among the CEE/NIS, however, need not inhibit cooperation among them. Whatever uniformity the Americans might have envisaged 45 years ago, the political economies of Germany, France and Japan today differ both from each other and from the American ideal. So it will be with the CEE/NIS with respect to the OECD ideal. We cannot apply our common policy culture to a group of countries with a different historical experience. We do wish to encourage them to develop their own market-oriented common policy culture. And most of all, we hope a group of neighbours will learn to work together, something we can encourage but cannot force. Our political purpose after the Cold War, as in the case of the reconstruction of western Europe after the Second World War, is to encourage habits of cooperation and expectations that disputes will be settled peacefully. These objectives are also the objectives of the CSCE.¹⁹⁵

Despite the importance of the political objective, it might be asked if eastern Europe is a suitable candidate at this time for regional integration. At some level this is simply an empirical question. Is it, or could it be, an optimal currency area? Is there a need for a regional payments union like the EPU that was part of the OEEC in the 1950s? Would it need western capitalization? Should there be regional trade discrimination?¹⁹⁶ Do these countries form a natural trading area?¹⁹⁷ This paper does not attempt to answer the empirical question. It rests instead on the assumption that regional cooperation is possible, at least in trade and payments, and that such cooperation is desirable, at least on political grounds.

It will be said that for fifty years the CEE/NIS were forced to cooperate, that the residue of resentment is just too great to allow a new organization to work. One could reply that twice this century Germany and France had tried to destroy each other. The very point of the OEEC and the EC was to ensure that they would never again try to resolve their differences by force. The

practices or culture of international cooperation in our Atlantic security community are a kind of democracy for the society of states. The CEE/NIS must learn those democratic practices too, not least for their relations with each other, if we are to have any hope of an enduring peace. Encouraging them to cooperate with each other will not be easy, but it is our principal objective, in our own interests.

6.2.2 *A modest proposal*

One way to fill the institutional vacuum in the CEE/NIS might be the creation, with financial support from OECD countries (NOT from the OECD itself) of a new organization, which could be called the European Economic Cooperation Organization (EECO). EECO would achieve its objectives, using the OECD model, by promoting international economic cooperation among the member countries. This cooperation would involve both sharing expertise in domestic stabilization and adjustment policies, and promoting enhanced regional cooperation in trade and payments in accordance with the practices of the international economic regimes.

Topics for discussion among the CEE/NIS themselves in the EECO would include:

- development of legal and institutional frameworks for a market economy
- approaches to economic reform in the former centrally planned economies: what works? what doesn't?
- regional coordination of policies in areas like migration, transport, telecommunications, and the environment
- social policy reforms, including health, employment and housing issues.

EECO members might also wish to discuss the best use of bilateral and multilateral assistance. Many existing programs of technical assistance, for example, might be more helpful if they were combined in a new European Productivity Agency run by EECO. EECO could become a forum for discussion of regional coordination with the IFIs and bilateral donors, without substituting for the right of each country to talk directly with their partners, and without derogating from the decision procedures followed by IFIs and bilateral donors. The EECO regional coordination process (horizontal) would not detract from the country consultative groups (vertical) established by the World Bank. Enhanced cooperation in EECO might well facilitate the work of the IFIs by improving the amount and quality of information available.

Mutual surveillance would be a major tool of the organization. The CEE/NIS are sufficiently interdependent that the policies each follow have consequences for their neighbours. This peer review process would involve both the exchange of information and the ability to question each other about policy. The goals are transparency, including the possibility of mutual

adjustment in the case of policy conflicts, and the development of a common understanding of what works and what does not in the transition to a market economy. One outcome of a peer review process could be multilateral endorsement of the ensemble of a country's economic policies. Such endorsement might contribute to establishing investor confidence.¹⁹⁸

EEOCO would be both a forum for discussion and an international organization with a secretariat of professionals capable of independent analysis. The EEOCO forum would have a political level, allowing for Ministers to exchange experiences and discuss cooperative plans, and a technical level, allowing these countries to have their own venue for exchanges among officials. Both levels might involve provision for annual consultations with their OECD colleagues.

EEOCO would be its own autonomous organization, and only the countries of the region would be members. EEOCO members would have to take full responsibility for the operation of the organization. OECD countries, or DAEs (whose experience might be more relevant), could be associate members, if invited by EEOCO. It follows that EEOCO should be located in the region, although many of the CEE/NIS will be resistant.

The OECD could be an important partner for EEOCO: The OECD secretariat might be requested to take the lead in helping to get the new body established. Given its long experience in assisting its own members, and the growing regional expertise of the OECD Centre for Co-operation with European Economies in Transition (CCEET), EEOCO might initially ask the OECD to provide research and analysis on contract, paid for by EEOCO resources.¹⁹⁹

Recent OECD decisions on the participation of non-members in the work of the organization would not be affected by the creation of EEOCO. EEOCO requests for OECD or CCEET assistance would be directed to the Council of the OECD so that member countries can exercise an oversight role. In time the new organization should draw more on the expertise of OECD countries and less on the OECD secretariat, freeing the secretariat to concentrate on the work of the OECD. Other international organizations could also be associated in the work, and could also be invited to act as contractors. The BIS, for example, might be invited to prepare documentation for a meeting of EEOCO financial services regulators. The EBRD could help with advice on privatization.

6.3 The European Community and the OECD

The OECD has been part of our relations with the process of European integration since 1947. It offers opportunities for important working level contact and for the examination of common problems. The OECD was created

at a time when other fora did not exist, but since then there have been major institutional changes in both trade and money. Do we still need the OECD to manage transatlantic trade frictions?

These questions must be answered for Canada, not the United States—our place in the Summit, the G-7 and the Quad may not be immutable. They should also be answered for the whole of the Canadian government. Some people in External Affairs believe that the OECD does not serve Canadian interests in Europe. Tensions in transatlantic relations are now managed in Brussels—where we are engaged through our bilateral relations—and in the G-7.²⁰⁰ For other departments, however, the OECD may be a more efficient forum.

The evolution of European integration and cooperation has been an independent variable affecting the evolution of the OEEC and the OECD. In 1947, political disarray in Europe was the reason the United States tried to use the OEEC role in the European Recovery Program to foster European integration. In 1958, the creation of the Common Market and the end of the European Payments Union fatally undermined the OEEC. In 1972, the enlargement of the EC was part of the background both to a sense that OECD had lost its way and to the creation of the ECSS. In the late 1980s, as the EC appeared to be revitalized by the Single European Act, people began to mutter again about the OECD seeming to be adrift. Since 1989, the uncertainty about the relation between the EC and the countries to its east has been a challenge for the OECD.

Many people now wonder if the ever-closer integration of the 12, soon to be 15 or more, along with their ever-tighter cooperation with their EEA partners, will render the OECD irrelevant, if it is not first paralyzed. Ironically, the fact that the integration process has stalled makes the question more pressing than if it were to have proceeded to a rapid conclusion. If there is but one European currency, for example, then the membership of WP 3 could be reduced. There would be no more difficulty in giving a single voice to the united states of Europe than there is to giving a single voice to the United States of America. But because the European states are not united, they maintain their individual voices at the OECD, yet the range of things on which they can speak without reference to collective decision-making is diminishing. On substantive as opposed to procedural grounds, there is a question about the purposes of the OECD. As a European regional organization, from the beginning it has taken steps to promote common action among governments. It is not clear that Europe wishes to leave any such inter-governmental functions with the OECD, despite the incomplete nature of Europe.

These are the sorts of problems explored by Christian Schricke, now the OECD's Legal Advisor. The Commission had a special relationship with the

OEEC from the start. It wanted to join the OECD, but its interest was ignored. Instead there was Protocol 1 to the Convention which allows the Commission to "participate in the work" of the OECD, something more than the Observer status granted other international organizations. The Rules of Procedure, and subsequent practices, give the Commission, which has its own Delegation in Paris, practically the same rights as a member country. It is even allowed into WP 3. But there are two exceptions. The Representative of the Commission has no vote and so does not participate in the formal adoption of *Acts* of the OECD; and, the Commission not being a member, it pays no part of the general budget.²⁰¹

Shricke shows, using the example of the environment, how the EC and the OECD can influence each other, especially in an area that is rapidly evolving where there is a search for new ideas.²⁰² The fact that the Commission is not a member of the OECD causes a problem when the outcome of a search for new ideas leads to the drafting of new *Acts* of the OECD, given the respective competences of the Commission and Members of the OECD. The problem arises because although representatives of the Commission "soient en général étroitement associés à l'élaboration des décisions qui sont prises dans le cadre de l'OCDE, la Communauté en tant que telle ne peut juridiquement ni participer à leur adoption, ni s'y opposer. Il en résulte que pour les engagements ayant un caractère obligatoire, ce sont, au regard du droit communautaire, les Communautés elles-mêmes qui doivent participer à l'élaboration, à l'adoption et à l'application de tels engagements."²⁰³ In consequence, members of the OECD, who are also members of the EC, can make engagements at the OECD in areas of the Commission's competence which commit the member states but not the Commission. Non-members of the EC are left knowing that members of the EC may not have the legal ability to keep their commitments. Obviously, one way around this problem is to avoid deciding upon formal *Acts*. A useful alternative is the political "declaration" without juridical implications (such as the trade pledge of 1974) with which the EC Commission can associate itself. A similar principle operates in the case of the Export Credit "understanding"²⁰⁴

The Commission's practices were clarified in June 1988 when COREPER (le Comité des représentants permanents) agreed to Commission proposals on the procedure to be followed by the EC and its member states in adopting *Acts* of the OECD. When the OECD is to decide on an *Act* bearing in whole or in part on "la compétence communautaire," the representatives of the Presidency and the Commission will each make a declaration. The declaration of the Presidency, in the name of all the member states, will bind the members only after acceptance by the Commission. The Representative of the Commission then takes the floor to accept the act in the name of the Communities. Both declarations, in accordance with the Convention, could

signify that the acceptance only takes effect when the internal EC procedures are finished.²⁰⁵

To the extent that the EC enters more and more quasi-international areas, there will be a tension between collective EC decisions and collective OECD decisions, with EC members trying to keep the two from diverging. One way out would be for the EC to become a member of the OECD. A Resolution of the European Parliament on 17 March 1989 went in this direction, but even if the EC could agree to such a step, it would be necessary to modify the OECD Convention. OECD, according to Schricke, should stay a place for cooperation and concertation among the industrial countries, a place where views can be freely expressed in an informal setting. He thinks it especially useful that states can mutually influence each other at the point where their policies are evolving. (The utility of being able to speak directly to EC member states while policies are still in flux must be set against their ability to use the OECD to undermine internal EC debates.) Schricke would not want the OECD to become like the UN, where representatives are always in public, expressing the policy of states, which could happen if the EC Commission were to substitute for the members of the EC.²⁰⁶

Some people have suggested that the EC's own cumbersome consultation procedures are leading to paralysis at the OECD. While there are risks of encouraging a tripolar debate among the EC, the United States and Japan in allowing only the Commission to speak for Europe, perhaps that is the only way that the organization can move forward. Others are not convinced that EC solidarity is a problem. Even when the Commission has undisputed competence, it is to our advantage that we can watch the member states playing out their internal disputes. The participation of the member states also allows for coalitions with some of them. For example, in Export Credit negotiations, the British have been able to cooperate with the North Americans, while Germany has been able to mediate between the Anglo-Saxons and e.g. the Spanish, despite the Commission's formal role. In the Trade Committee there have also been instances of the Commission seeking allies with other countries. At the 1993 Ministerial, it was apparent that EC countries welcomed the opportunity offered by an extended lunch on the margins of the meeting to discuss trade matters, an opportunity they do not otherwise have, and non-EC Ministers appeared to welcome the opportunity to hear other European views.

A final concern with respect to the evolution of the EC has to do with its general foreign relations. The countries of Europe have valued the OECD as a place where they can consult with the United States as equals. This perception has strengthened the role of the OECD in the management of transatlantic relations. Some Europeans now believe that the EC should speak with one voice. For example, one EC official recently wrote, on finishing an assignment with the delegation in Washington, that "I believe that a New

World Order cannot be established unless the European Community becomes a world actor and Euro-American relations are thoroughly re-evaluated in the process." The author advocates a Euro-American Partnership Treaty because of he fears that "without an EAP, the institutional gap which has arisen between European integration and US-EC relations will continue to widen and that Americans and Europeans will suffer from the lack of an institutional strait-jacket forcing them, as it were, to promote sovereignty and share responsibility in global affairs."²⁰⁷ Such a development of transatlantic relations would not be in the Canadian interest. The balance in the OECD, for now, may be about right.

As the EC became the vehicle for regional integration in Europe, there was some doubt that the OEEC or its successor need have any role. The Canadian view was that the priority for the new organization would be resolving intra-European trade conflicts, leaving open the possibility of a plan to manage transatlantic conflicts. Thirty years later, Canadian officials had divergent views on the role of the EC:

- I was told that the Maritime Transport Committee has become too Eurocentric. If it is not to become simply a forum for European shipping policy, we will need to work closely with non-European member countries. We should not abandon our involvement, however, for we do have common interests with the EC members, both for intra-OECD shipping issues and for relations with non-members, especially Latin America and CEE/NIS.
- Some officials find it useful to have a window on internal EC debates—despite a long-term tendency for EC competition policy to become more uniform, for example, there seems continuing merit in having all 12 member states as well as the Commission at the table. In contrast, now that the Common Agricultural Policy has been reformed, listening to the same story over and over again in the Agriculture Committee has become tedious. EC coordination in the Trade Committee is seen as increasingly debilitating: what you hear, I was told, is the Commission view, and, with the EEA, even the Nordics are starting to toe the line.
- The transatlantic dimension of OECD work on competition is seen as vital.

If there is a generalization, it is that whether the EC role has become a problem depends on the evolution of common European policies and the purposes to be achieved in a given committee. And while we worry that the OECD is Eurocentric, Europeans still think it is dominated by the United States.

6.4 The OECD and the Summit

If the OECD had no relation to the Summit, both would have collapsed long ago. The famous Bonn Summit package would not have been possible without OECD preparation. Summit achievements on trade in the mid-1980s often amounted to high-level endorsement of commitments previously negotiated at the OECD. With the Summit seemingly moving towards a new focus on structural issues in a medium-term framework, the need to bring ideas from the OECD and send suggestions back is more important than ever. It does matter, therefore, if G-7 Ministers ignore the OECD Ministerial.

One senior official observed to me that the OECD Ministerial is hemmed in by the G-7 Ministerial, which detracts from the interest of the OECD. At the deputies level, there is product differentiation between EPC and WP1, for the domestic deputy, and G-7 Deputies/WP3 for the international deputy, but there is no comparable differentiation for Ministers. Perhaps, he mused, the OECD should focus on micro and structural questions—the medium-term issues—leaving the Summit to worry about macro and confidence issues. Such differentiation would at least help G-7 Ministers to think about why they should attend both meetings.

There are a number of problems with this idea. The OECD has a macroeconomic vocation for all its members. Even if some of them have other fora, discussion at other tables is well-served by preparation at the OECD. While discussions in both fora may be tedious for G-7 Ministers, maintaining the OECD link to the Summit is important for the effectiveness of the Summit. It is hard to imagine a useful Summit discussion of issues that involve all OECD members that would not involve some relation to further OECD work. This year for example, employment will be discussed at both tables. On the one hand, the Summit cannot replicate the analytic work of the OECD. On the other hand, the OECD cannot provide the high-level attention generated by a Summit. Discussion of the employment issue will be more useful if the two tables are linked.

From the beginning, countries excluded from the Summit tried to initiate means of influencing its deliberations.²⁰⁸ (The series of letters from Soviet leaders, for example, began in 1980.) Most such demands could be deflected but the demands from Western partners for closer consultation needed a more systematic response. The custom was therefore established, from 1976 onwards, of holding the annual Ministerial council of the OECD a few weeks before the Summit itself. Shortly after the Summit, the sherpa of the host country would visit the OECD to give an account of what happened. This gave the non-participating countries outside the Community some sense of being involved in the Summit process. In addition, the Summit declarations often linked the understandings reached by the leaders with the work of other economic organizations, notably the IMF, World Bank and

GATT. These devices helped to render the Summits, with their highly selective format, acceptable, or at least tolerable, to a wider circle of influential nations. The use of the OECD and, less directly, other bodies for *reassuring* non-participants was one aspect of the interaction of the Summit and international organizations. But the Summits also turned to the international organizations to provide *continuity* in the subjects which they addressed only at yearly intervals. The relationship between the OECD and the Summit has been uneasy, perhaps because of the considerable overlap in subjects and methods. In the late seventies there was close but informal collaboration in preparation of the macroeconomic agenda—especially the Bonn Summit package of 1978 (which were first discussed in ECSS, EPC and the Ministerial) and the “non-accommodating” policies of 1979-81. Relations were less close from 1982 onwards. Nevertheless the Ministerial continued to play an important role, especially in building a consensus on agriculture and on the need for a new round of MTNs.

Both the G-7 Finance Ministers and the Summit itself are now not entirely sure of their role. It is worth asking whether the Summit should discuss how to use the OECD? Such a discussion might force a re-examination of what the G-7 does as well as giving direction to the OECD.

7. Canada's Interests at the OECD

7.1 What does Canada get out of the OECD?

The general claim of this paper is the traditional Canadian internationalist argument that multilateralism is in our interests.²⁰⁹ From this perspective, Canada benefits if the OECD broadly fulfills its mandate and if the result is a peaceful and prosperous world. In these straightened times, however, officials rightly ask for more concrete evidence that Canada gains directly from membership in the OECD.

As one of the larger and richer members of the OECD, Canada derives diffuse benefits from everything the organization does. Consider the action plan for the prosperity initiative.²¹⁰ On page 1, the very definition of the problem Canada faces is described in comparative terms. Canada is not attracting *enough* investment; our manufacturers do not use *enough* R&D; we spend *more per capita* on education but *too many* of our young people and adults end up with insufficient skills. Canadians have enjoyed UN comparisons that make this one of the best countries in the world in which to live, but these prosperity comparisons may well be more sensible. Realistic comparisons, ones that raise questions about how well we are actually doing, can only be made by using a realistic comparison group—other OECD countries. The action plan is not footnoted, but it is certain that everyone of the judgments on page 1 could be backed up with one OECD report or another, and most have probably figured in recent OECD *Surveys* of Canada. An implicit but perhaps unintended message of the prosperity initiative is that we have not been doing a very good job of acting on some the information provided by the OECD about the management of an advanced industrial economy. If we had, the self-flagellation in this report might not have been necessary.

If we next turn to some of the recommendations in the strategy for prosperity (page 5ff) we find the kind of microeconomic ideas on which the OECD has done so much work. Reducing the size of government; spending smarter; making better use of technology; improving financial intermediation and the investment climate; transforming labour-management relations; reorienting the education and training programs; and refocusing adjustment and social programs. To take one specific recommendation, Action 4 deals with monitoring tax and fiscal policy to ensure that Canada is able to remain competitive, an idea that depends in part on the assertion (page 14) that our tax burden is higher than that of our major partners. The problems these recommendations are designed to address are ones we share with other industrial countries. We have much to learn from each other's experience, which is part of what the OECD does. It should also be

noted that the very fact that we can analyze ourselves in this way suggests the strength of the common policy culture fostered, at least in part, by the OECD.

Canadian officials make extensive use of OECD. (see Annex) In 1991 and 1992, over 400 officials from Ottawa attended meetings in Paris each year, although this number appears to be in decline. These officials represented 30 departments or agencies, and they attended meetings of 76 OECD and IEA bodies. In recent years Canadians have been chair or vice-chair of 38 OECD and IEA bodies. Canadian officials find the OECD useful for exchanges of ideas with colleagues from industrial countries who have similar economies and who are our key trading partners. Often there is nowhere else for such consultations, or consultations at OECD provide more and faster information about policy intentions than is available elsewhere. Equally valuable is the standardized data provided by OECD. On some things it is the only source: the UN cannot do the job; IMF/GATT have different purposes and membership; and the EC's Eurostat does not include us either in the collection or in the definition of the data. OECD information (e.g. macroeconomic data) supports consultations (WP3), surveillance (EDRC), coordination (EPC), and national decision-making (Budget). Canadian officials find the various surveillance activities essential. The OECD is valued as a place for instruments that cannot or need not be negotiated elsewhere and for concertation on actions to be taken at other tables. International support for unpalatable decisions is welcome as is the chance to use OECD to promote convergence among policymakers in "domestic" departments.

Canadian officials value the EDRC review of Canada both for the exercise itself and the way it plays back into the domestic debate. The value could be seen in the last *Economic Outlook*, which allows Canadian performance to be compared to other G-7 countries, as opposed to some mythical yardstick. The result in a recession may still be unflattering,²¹¹ but, as Samuel Brittan wrote of the British placement in the same comparisons, "any tendency to attribute misfortunes to the peculiar shortcomings of one's own government is quickly remedied when it is seen that very similar misfortunes affect other countries with governments of a very different hue."²¹² Governments can also use the country surveys, or almost any other OECD publication for that matter, to convey the OECD imprimatur for changes in policy direction. This playback effect can have comic consequences. The *Financial Times* used the most recent OECD U.S. survey to advise then President-elect Clinton to concentrate on medium-term productivity growth rather than short-term fiscal stimulus.²¹³

Canadian officials value the potential commercial spin-offs from some OECD and IEA programs. Assistance to non-members, especially through CCEET, is seen as an opportunity for Canada to export its technology. The clearing house function, for example, creates the possibility of matching Canadian suppliers with potential clients. Similar opportunities were seen in

the IEA, which has a number of committees on cooperation among OECD countries on the development and sharing of energy technology. Canada participates on all the umbrella committees plus many lower level committees, spending about \$1 million per year on joint work.

Many departments use OECD data every day, especially in answering questions from Ministers and the public about comparisons between Canada and other industrial countries. Without OECD data, the only point of comparison for Statistics Canada would be historical data about Canada. Some officials use the OECD to find out what is happening in EC countries because it is hard to get information out of the Commission. If we could get the information directly, OECD would diminish in importance. For other countries, OECD would remain useful. On one trip to Europe, domestic officials make contacts in all the industrial countries, something that cannot be done more efficiently on a bilateral basis.

The claim that our policy stance is a common one with other industrial countries is useful if only to reassure the Minister: it is easier to do tough things when you can point to the experience of others. Officials have found it useful to bounce ideas back into Canada from the OECD—coherence of social policies is an example. For many departments the debate in Paris can have the effect of driving an interdepartmental debate in Ottawa.

My survey of opinion in Ottawa was informal and my survey of the resources committed to OECD work was far from systematic, but it seems safe to generalize that Departments get back from OECD what they put in. A senior official with long, and positive, experience of the OECD observed that it takes a lot of work to pay attention to the secretariat, to feed ideas in *before* a paper comes out. But for a small open economy like Canada, if we put in the effort we will get a lot more back. One example of success in such an attempt to influence OECD work was on analysis of structural adjustment in the agri-food sector. Leadership takes effort, and homework. OECD is a place where we can put Canadian ideas forward. And when we are skillful, we can get the OECD to do our research for us. The work on environment and trade was cited as an example of something we as a government cannot do alone. To be a "leader" might mean going to the OECD to search for a consensus. On an issue like investment, it can be as important for us to be able to influence the major players as to try to promote our own vision. On other issues, like competition policy, we can promote our ideas to other countries (e.g. U.S., Mexico). When we succeed, it can be helpful for our business people if they find themselves in congenial legal environments.

7.2 OECD Information

Information is a "good" that is costly to produce and valuable to possess. It is not an homogenous good, however. Fratiani and Pattison

distinguish six different types, depending on the level of value-added in production and dissemination.²¹⁴ International Organizations (IOs) add value to national information by coordinating definitions and measurements. The next stage is interpretation, after which comes the formulation and testing of hypotheses about the data. The fourth level is forecasting. The fifth brings the first four together and adds a commentary—OECD country surveys or the *Employment Outlook* are examples.²¹⁵ The final level is policy coordination. The “market” for information is segmented according to product type and end user. On the former, IOs because of their membership may not always provide information with the coverage needed by consumers. As for customer segmentation, Fratiani and Pattison observe that “there is both an external market for information that includes businesses, universities and other research institutions, governments, and the media. And there is an internal market consisting of IOs themselves using information as an input in their consultative, forum, and policy coordination roles.”

There seems little question that one of the most useful things that Canada obtains from the OECD is information. Officials get information through participation in meetings, from OECD documents, and from publications. This information helps OECD in its main task, facilitating cooperation among governments. Publications are also made available to the public, however. I was asked, therefore, to consider whether that information is given appropriate distribution in Canada. The answer in brief, is yes. In order to arrive at a more complex answer, we have to consider four subsidiary questions.

1) Do Canadians understand the extent to which cooperation with other countries takes place through the OECD?

- This question could be asked of any international organization, and so it is really a question about public affairs policy in general.
- If the OECD is thought to be special, then the very fact that senior Ministers go to OECD once per year should serve to symbolize the importance we attach to the organization. If it were desired to emphasize this point, then the press release announcing Ministerial attendance might be accompanied by a backgrounder on the OECD; and steps might be taken to release the Ministerial Communiqué to the press in Canada, with an interpretation.

2) Do Canadians know enough about the OECD?

- The OECD seems to be reasonably well known in Canada, although without taking an opinion poll, this conclusion must remain impressionistic. Nevertheless, if there were a desire to increase the

organization's profile, subscriptions to the *OECD Observer* and the *OECD Letter* might be advertised in the weekly compilation of EAITC press releases so that it could be ordered by anybody interested. If the Department were to develop a targeted mailing list for economic and trade news, one or the other of these publications could be sent to the people on such list. I do not see this as a high priority, however, because OECD information is reasonably widely available in Canada; and it is not clear what real governmental purpose would be served by greater diffusion of that information.

3) Is the valuable work done by OECD sufficiently available to Canadians?

- This question has two elements: the availability of the information to researchers, and the use made of the information in the press.
- On the first element, OECD information appears to be widely available in Canadian research libraries. The EAITC library undertook a computer search to generate a list of libraries that held copies of the *OECD Economic Outlook*. Over 60 Canadian libraries in 9 provinces appear to subscribe. A third are in universities, another third in federal departments, and the rest in provincial departments (especially in Ontario) or in legislatures. Only one municipal public library subscribes.
- On the second element, the EAITC library conducted a computer search of the Canadian periodical index for references to OECD during calendar 1992. The Canadian press is especially interested in OECD forecasts and assessments, particularly the annual Survey of Canada. Other OECD work or comments reported included tax policy, education, German unemployment, transition in eastern Europe, prospects for Mexico and competitiveness. The largest number of stories appeared in the *Globe and Mail* (15), the *Financial Post* (9), and the *Daily Commercial News* (7), but stories also appeared in the *Toronto Star*, the *Vancouver Sun*, the *Winnipeg Free Press*, the *Montreal Gazette*, the *Halifax Chronicle Herald*, and the *Calgary Herald*. (We did not conduct a search of electronic media, although it is worth noting in passing that comments on Canada in the December 1992 *Economic Outlook* were mentioned on the morning television news.)
- Should we encourage the Canadian media to make greater use of OECD data? Comparable searches of the *Economist* or the *Financial Times* would turn up many more items. The *Economist* relies heavily on OECD statistics and comparisons. The *FT* reports on all major OECD studies, including all the country surveys. Fratiani and Pattison observe that for many of the markets for information that are external

to international organizations, IOs are but one source of supply, but the news market is special, because "IOs create internationally comparable data and information in the most rapid and economical manner for journalists.... Quality and intellectual rigour are not critical elements in this segment of the market because the product has an extremely short "shelf-life." Not surprisingly, IOs—particularly the OECD [but also the EC, BIS and IMF] to a lesser degree—have evolved as de facto interpreters of international economic events to a wide audience. Among the external markets, this is the only area where the IOs have an enduring comparative advantage." The OECD can price to the non-government market at marginal not average cost because governments subsidize real costs.

- The conclusion to be drawn might be that if we think that the Canadian press should provide more international information, then we should disseminate OECD publications more widely, because our sunk costs in producing the information are much greater than the marginal costs of greater distribution.

4) The final question then becomes, is greater distribution of OECD data in our interest?

- Much of Fratiani and Pattison's analysis is concerned with the value of policy coordination. They are skeptical of an instrumental view of cooperation, for reasons which need not detain us, but they conclude that "the maximum amount of cooperation which national governments find desirable, is achieved today through a regular exchange of information in an uncoercive environment where wide disclosure is made of alternatives and policy conflicts. With this information, governments can reveal their preferences for further cooperative steps where they are seen to be in their individual best interests. It is in this light that by not publishing either forecasts or policy commentaries—which may be of little value to the public in any event—IOs would encourage an even greater and more frank exchange of information among governments in their private meetings."
- There is a counter argument based on the practical and democratic benefits of open government. Economists believe that if the public knew the real costs of protection and subsidies, politicians would be less likely to make bad decisions. Such thinking underlay the Leutwiler Group's recommendations for a public "protection balance sheet" and for regular public surveillance in the GATT of the ensemble of a country's trade-related policies.²¹⁶ The OECD EPC has argued that "Publicizing the results of surveillance can broaden and strengthen support for reform, which is essential for sustained progress. ... Closer

public scrutiny will strengthen the political weight of broad economic considerations relative to that of special interests.²¹⁷

In sum, the current dissemination of OECD information in Canada is about right. OECD views on the Canadian economy are "played back" into Canada, which is often helpful, but no effort is made to encourage the OECD to compete with other sources of comparable information. There are no grounds for limiting the dissemination of published information, but we should be conscious that the room to manoeuvre available to governments may be limited unnecessarily by the wide dissemination of documents prepared for purposes of interpretation and policy coordination. We should always be aware of the risk, in other words, that the documentation prepared by an international organization can become negotiated texts rather than tools for facilitating informal cooperation among governments. We should also be conscious that OECD has a certain brand image that should not be weakened or compromised by governments trying to flog OECD publications for their own purposes, which will make OECD pronouncements seem like propaganda.²¹⁸ No Canadian interest would be served by encouraging the OECD to engage in more aggressive competition with other providers of information.

8. Conclusion: Canada and the OECD in 1993

In June 1993, Ministers concluded their Communiqué by putting the OECD into long-term perspective:

This last decade of the century is proving to be one of momentous change. Interaction between economic globalisation, rapid scientific and technological progress, worldwide diffusion of information, shared concerns for the environment, and general progress towards democracy offers new challenges and opportunities for mankind. At the same time these changes lead to continuing and rapid adjustment of minds, consumer attitudes, skills, productive structures and government action. Ministers therefore welcome the OECD's ongoing support in evaluating the long-term problems bound to confront member countries, and in devising appropriate policy responses to achieve a growing general well-being and respect for the individual.

It would be tempting to say no more in a conclusion, but some themes remain to be addressed.

Many Canadians, journalists, politicians and scholars, have interpreted the end of the Cold War as a discontinuity, as a break of some sort in the evolution of the international system. Now that the Cold War is over, there has been a wide-spread assumption that the postwar order has also ended, creating new problems and opportunities in world politics. There are reasons to be skeptical of a claim that the world is in the process of constructing a new order, although circumstances have changed. Unlike the 1940s, the institutions and structures of the international order remain largely intact, even if some feel the need to question the continuing utility of some parts of the edifice. It is certainly true that the physical threats to Canada's security have diminished: Canadians have no immediate fear of nuclear or conventional attack. That does not mean, however, that Canadians have ceased thinking about security, or that Canadian security concerns have become more local. The decision to bring Canada's NATO forces home from a united Germany should not be seen, therefore, as marking an end to Canada's engagement with Europe. Canada's former Secretary of State for External Affairs certainly believed that her country's commitment to European security remains strong. In a speech in November 1992, Barbara McDougall cited the presence of Canadian peacekeeping troops in the former Yugoslavia, the Canadian role in the Conference on Security and Cooperation in Europe, and millions of Canadian dollars in humanitarian assistance as evidence of that commitment, arguing that "These are not the signs of a country disengaging from Europe."²¹⁹ Another traditional instrument of that continuing engagement has been Canada's association with other members of the Atlantic community in the OECD, an association that began in the aftermath of two world wars centred in Europe.²²⁰

The OECD remains a useful tool of Canadian economic diplomacy for making the post-Cold War peace because it continues to contribute to the conditions for prosperity, which in turn is one of the essential underpinnings of stability. Without prosperity, the chances of conflict increase; without institutional means of cooperation, the chances of conflict in the pursuit of prosperity increase even more. Without prosperity and the institutional means of cooperation, the OECD countries cannot enlarge their zone of peace to include the newly dynamic economies of Latin America and Asia, or the formerly centrally-planned economies of Europe. However the Cold War ended, the values promoted by the OECD have come to be the subject of near universal aspiration. In this era of transformation in the global order, enlarging the OECD zone of peace based on the Atlantic community must be seen as the central task of economic diplomacy and of peacemaking.²²¹

When they signed the Convention creating the OECD in 1960, member countries believed that broader cooperation would make a contribution to world peace. Their goals were to promote the highest sustainable growth of their economies while improving the economic and social well-being of their peoples. They also acknowledged a responsibility to developing countries. After more than 30 years, it is safe to say that there has been remarkable growth in OECD countries, they have been faithful, to a point, in their concern for developing countries, and they have kept the peace. It is also safe to say, if harder to prove, that the OECD has played its expected role in these achievements. OECD is part of the architecture of peace, and it contributes to the good governance of the global political system. I conclude, therefore, based on this experience, that the process of international economic cooperation is fostered by the OECD, that the Canadian government derives many tangible and intangible benefits from participation in that process, and that Canada's broad objectives relating to the creation of a peaceful and prosperous world are brought within reach by the activities of the OECD.

The topic of the future of the organization has been indelibly inscribed on the OEEC/OECD agenda since Ministers first met in Paris in July 1947. The peaks in interest came in the 1947-50 period, when European integration was first mooted, and again in the late 1950s, coincident with the move to full convertibility of European currencies, but caused by the new EEC's creation of a common market. The turmoil and uncertainty in the multilateral system of trade and payments provided a dramatic backdrop for the round of soul-searching stimulated in the 1970s by the enlargement of the European Community. It is surely no accident that the latest round of introspection takes place at a time of further European integration and disarray in international economic cooperation. The change in the nature of many countries outside the OECD area, to the south as well as to the east, merely adds spice to the stew. One of the greatest threats to the organization, and to Canada's interests, is the potential for American multilateral fatigue or even of a retreat by the largest member country into isolation or unilateralism.

The OECD must continually reassess its activities in light of a changing world, yet it must judge all proposals for new activity against its central objective, the promotion of cooperation among OECD countries in the interest of making a contribution to world peace. If OECD countries are prosperous, they will be less likely to fight each other than they had been earlier this century. If they are able to transfer what they have learned to a wider group of countries, they will be able to enlarge the zone of peace. This standard is the one against which we judge the achievements of the OECD. It is important to recall that the functions of the OECD fall in three: those relating to the relations among OECD countries, those relating to their cooperation with non-members, and those relating to the management of the international system. In sum, the purpose of the OECD is to ensure that collective leadership, both political and technical, can be applied to the challenge of reconciling international requirements with domestic imperatives.

The OECD remains a useful forum for the discussion of property rights, allocative efficiency, and coordination. The OECD is involved in property rights questions because property rights normally evolve by consensus rather than by negotiation. On coordination what often matters is that OECD countries have a view that is clearly understood. Some things do not need formal negotiations, so long as everybody knows what everybody else will do.²²² (Think of the coordinated response to the 1981-82 recession, which led to the French mistake in their dash for growth, or the smooth international response to the 1987 market crash.) The OECD codes are not binding, but they create expectations about the behavior of others, they provide high quality information, which allows performance to be monitored, and they allow multilateral action, saving the costs of a series of bilateral transactions. Government action is more effective if we know what others are doing and if it is based on a common policy culture, a shared understanding of how the world works. Depending on the purposes of states in a given issue-area, we can expect the OECD to be less relevant for problems of collaboration, regulation, and distribution.

OECD exists to *promote policies* not to make reciprocal arrangements. When we know each other's likely positions, when we need a compliance mechanism, when we need to make formal linkages, then we should negotiate elsewhere. OECD is an appropriate forum, therefore, when the issue is the need for a normative consensus, when there is no other forum, and when the contract curve is unknown. OECD also useful as a table for private discussion among industrial countries of complex issues to be negotiated elsewhere—the leading current example is perhaps the environment. Sylvia Ostry has called this the catalytic role of the OECD, and she thinks that it would be a great mistake to undermine this influential role by giving the OECD rule-making responsibility. The OECD's strength is its flexibility, its

ability to be a networking policy entrepreneur building bridges as necessary among other international institutions, including the Summit, national governments, and non-governmental organizations.²²³

States can use the OECD to build political bridges over intra-European and transatlantic chasms. Both were so wide in 1958 that the OEEC Ministerial and with it the organization collapsed. In 1993 tensions are again rising within the Atlantic community, the community of the advanced industrial states. These tensions are fed by the completion of the EC internal market, the prospects for success and/or failure of Maastricht, disarray in currency markets, the Uruguay Round on the brink, fluid defence and security arrangements, the prospects of EC enlargement, ethnic turmoil, migration, and uncertainty about the three Chinas. Differing rates of growth in Europe, Asia-Pacific, and North America, and the new regional groupings, create dangerous centrifugal forces.

The OECD regulates nothing, but it has enormous influence on the normative framework of the international economy.²²⁴ If we describe world politics in the language of sociology rather than microeconomics, the framework is the conventions of the "society of states."²²⁵ Once we take this turn, we have moved from the idea of framework as an arena to that of framework as constitutive of action.²²⁶ The OECD plays a role in the governance of the society of states. The OECD does not embody an international regime, but it is an important locus for the evolution of the normative framework that is essential to the international regimes for trade and money. It can provide an organizational home for the institution of cooperation, which ensures its continued importance in the conduct of Canadian economic diplomacy.

The ultimate risk for Canada is the fragility of global governance. There is no single structure of power in the world, and, therefore, there is no world government. Modern states float in an alphabet soup of international organizations, but not for reasons of taste. They have neither the power to make their own history, nor the ability to make their own circumstances. Security and prosperity, the basic requirements of a modern government, depend not only on forces beyond the borders of the state, but on cooperative action with other states. The Canadian government can do very little on its own except raise taxes and spend money, and even those elemental activities are influenced by international norms. Even the United States of America, a comparative giant among pygmies, can depend neither on self-help alone, nor on a spider's web of bilateral arrangements. Multilateralism seems an inescapable feature of modern life in the society of states. There is a contrary perception, that global governance is centralized in the Triad of the EC, the United States and Japan. If this perception were accurate, global governance would still be a risk for the Canadian government, because the interests of the Great Powers are not congruent with ours; the situation would also be

thought to be unacceptable to the Canadian people, who have come to take pride in the ability of their government to participate in global management. Officials who have participated in OECD activities recognize the importance of this dimension of Canadian participation; they will also recall their own skepticism about whether it mattered. It is hard to point to concrete evidence that any one committee has made a difference for Canadian or world welfare, and impossible to deny that tensions among the industrial nations would be more severe, perhaps catastrophically severe, if states had no institutionalized means of talking to each other.

B Canadians at the OECD

Canadians in the Secretariat at the A-6 and A-7 level

	name	position
Current		
	Michael P. Fiener	Assistant Director, ECO/PSB
	Jean H. Guilmette	Director, Club de Sahel
	Sean O'Dell	Senior Advisor, Energy Economics
	Robert Skinner	Director, Policy Analysis, IEA
	Allan Stewart	Director, DPSS
	Bernard Wood	Director, Development Co-operation
Past		
	Bill Dymond	Deputy Director, MSA
	Terry Gigantes	Head, Statistics Service
	Fred Gorbet	Director, Coop and Policy Analysis, IEA
	Gilles-André Gosselin	Head, Publications Service
	George Kowalski	Senior Advisor
	Jim MacNeil	Director, Environment
	Sylvia Ostry	Head, ESD

Source: Public Service Commission, 1993.

Officers of Committees

In recent years, Canadians have served on the Bureau of 38 OECD and IEA bodies, as follows.²²⁷

Chair

Council Working Party on Staff Policy

1993 A.-M. Doyle, Permanent Delegation Of Canada to the OECD (POECD)

WP1 of the Economic Policy Committee

1991-92 Kevin Lynch, Finance

Working Party on Market Transparency and Consumer Information

1991-93 D.B. Watters, Consumer and Corporate Affairs Canada

Environment Policy Committee

1993- F. Hurtubise, Environment Canada

Chemicals Group and Special Program on the Control of Chemicals

1991-93 J. Buccini, Environment Canada

Waste Management Policy Group

1991-93 J. Myslicki, Environment Canada

Group on Urban Affairs

1991-93 D. Stewart, CMHC

Tourism Committee

1992-93 G. Bédard, ISTC

ICCP Expert Group on Economic Implications of Information Technologies

1993 A. Dubois, Communications

Steel Committee Working Party

1991-92 B. Black, ISTC

Ad Hoc Working Party on Pulp and Paper

1991-93 B. Gourlay, ISTC

Maritime Transport Committee

1991-92 M. Brennan, Transport Canada

Co-operative Action Program on Local Initiatives for Employment Creation

1991-93 D. MacDonald, CEIC

ELSA WP on the Role of Women in the Economy
1991 K. Stanley, Status of Women

Group on Scientific and University Research
1991-92 G. Julian, NRC

IEA Standing Committee on Oil Markets
1993 M. Cleland, EMR

NEA Uranium Group
1991-92 D. Williams, EMR

NEA Steering Committee for Nuclear Energy
1991-93 R. Morrison, EMR

DAC Expert Group on Aid Evaluation
1991-93 J. Quesnel, CIDA

Group of Experts on Post Regradings
1992-93 B. Watson, PSC
1991 M. Oellon, PSC/TB

Vice-Chair

Working Group on Accounting Standards
D. Moore, Canadian Institute of Chartered Accountants

Committee on Fiscal Affairs
1991 A. Short, Finance

Agriculture Committee
1993 P. Stone, Agriculture

Agriculture Working Party on APM
1993 Bruce Huff, Agriculture

Tourism Committee
1991-92 G. Bédard, ISTC

Committee on Consumer Policy
1991-93 Porteous/D.B. Watters, CCA

Competition Law and Policy Committee
1993 H. Wetston, CCA

Committee on International Investment and Multinational Enterprises

1993 D. Mackenzie, POECD

Trade Committee Working Party

1991 E. Hobson, POECD

1992 D. Mackenzie, POECD

Fisheries Committee

1991-92 A. Sarno, FANDO

1993 P. MacGillivray, FANDO

Environment Policy Committee

1991-92 F. Hurtubise, Environment Canada

Group of Economic Experts [EPOC]

1991-93 P. Gotzaman, Environment Canada

Industry Committee

1991-92 D.J. McCulla, ISTC

Employment, Labour and Social Affairs Committee

1991-92 B. Carin, CEIC

Working Party on Migration

1991-92 L. Chapman, CEIC

Group on Meat and Dairy Products

1991-92 R. Tudor-Price, Agriculture Canada

NEA Committee on Radiation Protection and Public Health

1991-92 M. Duncan

Principal Working Group 3 on Reactor Component Integrity

1991-92 L. Simpson

Canadian Delegates to OECD and IEA Meetings²²⁸

1991	434	-31.8%
1992	439	—
1993 (Jan/April)	112	-58%

<i>Departments Represented (1991-92)</i>	<i>Number of Bodies Attended</i>
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1.	Agriculture	5
2.	Atomic Energy of Canada Ltd	2
3.	Bank of Canada	4
4.	Canada Mortgage and Housing Corporation	1
5.	Canadian International Development Agency	8
6.	Communications	3
7.	Comptroller-General	1
8.	Consumer and Corporate Affairs	5
9.	Council of Ministers of Education (CMEC)	4
10.	Economic Council	1
11.	Employment and Immigration	6
12.	Energy, Mines, and Resources	15
13.	Environment	12
14.	Export Development Corporation	1
15.	External Affairs and International Trade	25
	• number of divisions (DG, ADM counted as a division)	20
	• as lead delegate	7
16.	Finance	13
17.	Fisheries and Oceans	2
18.	Health and Welfare	1
19.	Industry, Science, and Technology	9
20.	Investment Canada	1
21.	Labour	1
22.	Privy Council Office	1
23.	Public Service Commission	1
24.	Secretary of State	3
25.	Statistics Canada	1
26.	Status of Women	1
27.	Supply and Services	1
28.	Tourism Canada	2
29.	Transport	2
30.	Treasury Board	<u>3</u>
		76

Notes:

Note on citation: OECD uses British spelling and so when I refer to the organization itself, the words Organisation and Co-operation will be spelled as they are in OECD documents.

¹ Lester B. Pearson, Diplomacy in the Nuclear Age (Toronto: S.J. Reginald Saunders and Company, 1959), 96, 100-101.

² This theme is brilliantly developed in Denis Stairs, "The Political Culture of Canadian Foreign Policy," Canadian Journal of Political Science 15:4 (December 1982), 667-90.

³ Pearson, Diplomacy in the Nuclear Age, 96. Pearson was explicitly aware of his intellectual debt to Richard Cobden—see page 98.

⁴ The best introduction to the doctrinal debates on this point among liberal and "realist" scholars remains Robert Gilpin, The Political Economy of International Relations (Princeton, N.J.: Princeton University Press, 1987).

⁵ Peter Towe, then Permanent Representative of Canada, suggested in 1972 that "the OECD may be at a crossroad" and he reported that the question of the organization's relevance was being asked both in Paris and in many capitals, notably Washington and Tokyo. In her analysis of the organization at that time, Miriam Camps raised questions that remain pertinent: "Are the advanced countries a 'community' in any meaningful sense of the term? How should the functions of such an organization relate to the work of the European Community, on the one hand, and to the wider process of the institutional management of the global economy on the other? What kinds of role should an 'advanced-nations' organization seek to play *vis-à-vis* other groups of countries?" Miriam Camps, 'First World' Relationships: The Role of the OECD The Atlantic Papers 2/1975 (Paris and New York: The Atlantic Institute for International Affairs and the Council on Foreign Relations, 1975), 10. On page 7, Camps begins her study of the OECD by observing that "The search for the right relationship among the highly industrialized, market-economy countries has been a recurring quest ever since the US economic preponderance began to wane ... in the late 'fifties and early 'sixties. And, inevitably, proposals for institutionalizing or strengthening in other ways this central relationship have always tended to become entwined, on the one hand, with the narrower question of the organization of Europe and, on the other hand, with the wider question of the institutional management of the global economy."

⁶ Oran R. Young says that we must separate endogenous from exogenous factors in "The effectiveness of international institutions: hard cases and critical variables," in James N. Rosenau and Ernst-Otto Czempiel (eds.), Governance Without Government: Order and Change in World Politics (Cambridge: Cambridge University Press, 1992), 160-194.

⁷ In private correspondence in January 1993, Helliwell gave me a copy of "Economic Policy in a Longer-Run Framework: Possible Implications for National Governments and for the OECD" dated May 2, 1984. I do not believe that the paper was ever circulated.

⁸ For the full treatment of these ideas, see the note prepared by the Secretary-General for the *Ministerial Conference on the Longer-Term Performance of OECD Economies: Challenges Facing Governments*, 13-14 February 1984.

⁹ Helliwell's answer turned out to be remarkably similar to the answer Camps had given a decade earlier. He also thought, however, that the organization, in common with its member national administrations, had to become more flexible in its structures and methods. "In the long run," he argued, "the OECD must live by its wits, since it has no powers of its own, no independent sources of finance, and no captive market for its services. Thus the organization will either be sufficiently flexible and effective, or it will be ignored and irrelevant, increasingly subject to budget pressure from disaffected national governments." Helliwell's prediction has been prescient. Helliwell offered six recommendations. I cannot support the first, which called for the aggregation or representation of interests in committees. Talk at OECD may be expensive, but it is what the organization is for. The rest of his recommendations are in the preserve of the Secretary-General. The last is probably the most important: developing greater flexibility in the recruitment and deployment of OECD staff requires strong leadership from the top.

¹⁰ For an early but comprehensive description of the origins and work of the OECD, see Michael Palmer, John Lambert et al., European Unity: A Survey of the European Organisations (London: George Allen & Unwin, 1968), 422-457.

¹¹ For some recent evidence on old ideas about the unlikelihood of war between democracies, see David A. Lake, "Powerful Pacifists: Democratic States and War," American Political Science Review 86:1 (March 1992), 24-37.

¹² There is, of course, a huge literature behind this bland statement. Realists hedge: Gilpin argues that "whether trade aggravates or moderates conflicts is dependent upon the political circumstances." Having identified such factors as the presence or absence of a hegemon, he declines to make generalizations. Gilpin, The Political Economy of International Relations, 57-8. In contrast, liberal ideas about trade and war go back at least as far as Kant; they are brought up to date in Keohane's discussion of "commercial liberalism." Immanuel Kant, "Perpetual Peace: A Philosophical Sketch," in Hans Reiss (ed.), Kant's Political Writings (Cambridge: Cambridge University Press, 1970); Robert O. Keohane, "International liberalism reconsidered," in John Dunn (ed.), The economic limits to modern politics (Cambridge: Cambridge University Press, 1990), 165-94. See also Joseph S. Nye Jr., "Neorealism and Neoliberalism," World Politics 40:2 (January 1988), 235-251. There is a more complete account of liberal ideas about mutual interests (including trade), democracy and war in Mark W. Zacher and Richard A. Mathews, "Liberal International Theory: Common Threads, Divergent Strands", (paper delivered to the American Political Science Association, Chicago, September 3-6, 1992). See also Baldwin, Economic Statecraft, 78-86.

¹³ Boutros Boutros-Ghali, An Agenda for Peace: Preventive Diplomacy, Peacemaking and Peace-keeping (New York: United Nations, 1992), 11.

¹⁴ For one example of many, see Harold Nicolson, Peacemaking, 1919 (New York: Grosset and Dunlap, 1933/1965).

¹⁵ John Maynard Keynes, The Economic Consequences of the Peace (London: Macmillan, 1919), 211.

¹⁶ John Gerard Ruggie, "International regimes, transactions, and change: embedded liberalism in the postwar economic order," in Stephen D. Krasner (ed.), International Regimes (Ithaca: Cornell University Press, 1983), 195-231.

¹⁷ For a discussion of the theoretical basis of such distinctions, see James A. Caporaso and David P. Levine, Theories of Political Economy (Cambridge: Cambridge University Press, 1992). The question is usually taken to be liberal, but it was as important to Karl Polanyi as it was to Karl Deutsch. See Karl Polanyi, The Great Transformation: The Political and Economic Origins of Our Time (Boston: Beacon Hill Press, 1944/1957); and Karl W. Deutsch, Political Community and the North Atlantic Area (Princeton: Princeton University Press, 1957/1968). Liberals share objectives with the original mercantilists, differing only in their means. David A. Baldwin, Economic Statecraft (Princeton: Princeton University Press, 1985), 83-85.

¹⁸ Employment mattered as much to the English mercantilists of the seventeenth and eighteenth centuries as it did to Keynes. William D. Grampp, "The Liberal Elements in English Mercantilism," Quarterly Journal of Economics 66:4 (November 1952), 465-501. By 1944, writes Eichengreen, Keynes' views on the issue of trade had come nearly full circle. They remained remarkably consistent with his position of 1930. Full employment was still the paramount goal of policy, and the balance-of-payments constraint was still the principal hindrance to the adoption of appropriate measures. Protection was one way to reconcile expansionary employment policies with the external constraint, but it was still preferable to reconstruct international financial institutions along lines that would facilitate adjustment. Tariffs were no more than an adjunct to the necessary policies, and a second-best one at that. Barry Eichengreen, "Keynes and Protection," Journal of Economic History 44:2 (June 1984), 372

¹⁹ Susan Strange has often made a similar critique of Joan Spero's The Politics of International Economic Relations. Strange's views have been widely published, most recently in "An Eclectic Approach" in Craig N. Murphy and Roger Tooze (eds.), The New International Political Economy (Boulder: Lynne Rienner Publishers, 1991). Murphy and Tooze in their introduction take Strange to the limit in their attack on what they call IPE orthodoxy. I depart from Strange because my object of study is the OECD, an organization of states with little place for non-governmental actors of any sort.

²⁰ see Gilbert R. Winham, "The Impact of System Change on International Diplomacy", (paper delivered to the Canadian Political Science Association, Carleton University, Ottawa, June 6-8, 1993).

²¹ Friedrich Kratochwil and John Gerard Ruggie, "International Organization: a state of the art on the art of the state," International Organization 40:4 (Autumn 1986), 758-59.

²² The value of cooperation is a belief, not a fact. For a discussion of circumstances when it can be seen as harmful, see Giulio M. Gallarotti, "The limits of international organization: systematic failure in the management of international relations," International Organization 45:2 (Spring 1991), 183-220.

²³ The idea of a "core anchoring concept" is elaborated by Ernst B. Haas, When Knowledge is Power: Three Models of Change in International Organizations (Berkeley: University of California Press, 1990), 162. The distinction between power and legitimate social purpose is discussed in Ruggie, "International regimes, transactions, and change: embedded liberalism in the postwar economic order," especially 198.

²⁴ The organization could also be compared to other organizations in a typology of IOs. See, for an example of the approach, Harold K. Jacobson, Networks of Interdependence: International Organizations and the Global Political System (New York: Alfred A. Knopf, 1979). In contrast, the kinds of distinctions that I make about OECD in terms of membership, functions, and methods could be made of any or many IOs.

²⁵ This listing comes from Helen Milner, "International Theories of Cooperation among Nations: Strengths and Weaknesses," World Politics 44:3 (April 1992), 466-496, a useful review of recent literature.

²⁶ Andrew M. Moravcsik, "Disciplining trade finance: the OECD Export Credit Arrangement," International Organization 43:1 (Winter 1989), 198.

²⁷ They discuss their theoretical approach in Chapter 1, relations between the Summit and IOs in Chapter 7, and their theoretical conclusions in Chapter 11. Robert D. Putnam and Nicholas Bayne, Hanging Together: Cooperation and Discord in the Seven-Power Summits (Cambridge, Mass: Harvard University Press, 1987). Putnam has recycled this work in a more theoretically interesting way, but the later work is no more helpful on the specific point of how to think about the OECD. See Robert D. Putnam, "Diplomacy and domestic politics: the logic of two-level games," International Organization 42:3 (Summer 1988), 427-60; and Robert D. Putnam and C. Randall Henning, "The Bonn Summit of 1978: A Case Study in Coordination," in Richard N. Cooper, Barry Eichengreen, C. Randall Henning, Gerald Holtham and Robert D. Putnam (eds.), Can Nations Agree? Issues in International Economic Cooperation (Washington, D.C.: The Brookings Institution, 1989).

²⁸ Moravcsik, "Disciplining trade finance," 176.

²⁹ Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984), 51-52, 54.

³⁰ David A. Baldwin, "Interdependence and power: a conceptual analysis," International Organization 34:4 (Autumn 1980), 471-506.

³¹ If interdependence itself were causal, then the responses of different states, or the same states at different times, would not be contradictory.

³² Richard N. Cooper, "International Economic Co-operation: Overview and a Glimpse of the Future," in Interdependence and Co-operation in Tomorrow's World: A Symposium Marking the Twenty-Fifth Anniversary of the OECD (Paris: Organisation for Economic Co-operation and Development, 1987), 183.

- ³³ This description is taken from John Gerard Ruggie, "Multilateralism: the anatomy of an institution," International Organization 46:3 (Summer 1992), 561-598.
- ³⁴ "International regimes" are defined as the norms, principles, rules, and decision-making procedures around which actor expectations converge in a given issue-area. Stephen D. Krasner, "Structural causes and regime consequences: regimes as intervening variables," in Krasner, International Regimes, 2.
- ³⁵ Kratochwil and Ruggie, "International Organization: a state of the art on the art of the state," 773.
- ³⁶ Polanyi, The Great Transformation, 4.
- ³⁷ John W. Holmes, The Shaping of Peace: Canada and the search for world order 1943-1957 Volume 1 (Toronto: University of Toronto Press, 1979), 271.
- ³⁸ Rt.Hon. Louis S. St. Laurent, "The Foundation of Canadian Policy in World Affairs—an address Inaugurating the Gray Foundation Lectureship at the University of Toronto, January 13, 1947," in J.L. Granatstein (ed.), Canadian Foreign Policy: Historical Readings (Toronto: Copp Clark Pitman Ltd., 1986) 25-33.
- ³⁹ The Harvard University Address of Secretary of State George C. Marshall, June 5, 1947, is reproduced in From Marshall Plan to Global Interdependence: New Challenges for the Industrialized Nations (Paris: Organisation for Economic Co-operation and Development, 1978), 227-229.
- ⁴⁰ The alacrity with which Ministers repaired to Paris indicates the depth of the crisis facing Europe and supports a conclusion that the so-called "Bretton Woods system" collapsed not in 1971 but in 1947. Alan S. Milward, The Reconstruction of Western Europe 1945-51 (London: Methuen, 1984), 48.
- ⁴¹ Organisation for European Economic Co-operation: History and Structure (Chateau de la Muette, Paris, April 1953), 9.
- ⁴² For a limited early attempt at assessment by a former Marshall Plan administrator, see Lincoln Gordon, "The Organisation for European Economic Co-operation," International Organization 10:1 (1956), 1-11.
- ⁴³ Milward, The Reconstruction of Western Europe 1945-51, Chapter 5.
- ⁴⁴ A.F.W. Plumptre, Three Decades of Decision: Canada and the World Monetary System 1944-75 (Toronto: McClelland and Stewart, 1977), 129-130.
- ⁴⁵ More information is available in a brief summary prepared in 1990 by the OECD secretariat.
- ⁴⁶ This discussion is drawn from Andrew Shonfield, "International Economic Relations of the Western World: an Overall View," in Andrew Shonfield (ed.), International Economic

Relations of the Western World, 1959-1971: Volume 1: Politics and Trade (London: Oxford University Press for the Royal Institute of International Affairs, 1976), 7-13.

⁴⁷ A special working party report to the Council of the OEEC on "the Possibility of Creating a Free Trade Area in Europe," published in 1957, was part of the context of the crisis.

⁴⁸ Camps, 'First World' Relationships: The Role of the OECD, footnote 3 page 53.

⁴⁹ Pearson, Diplomacy in the Nuclear Age, 82-83.

⁵⁰ Gerard Curzon, Multilateral Commercial Diplomacy: The General Agreement on Tariffs and Trade and its Impact on National Commercial Policies and Techniques (London: Michael Joseph, 1965), 98. Dillon was attending a meeting of Trade Ministers who were examining the proposals in the "Haberler Report,"—Trends in International Trade: Report by a Panel of Experts (Geneva: The Contracting Parties to the General Agreement on Tariffs and Trade, 1958). The Dillon Round proved an ineffective response to the new Common Market and so the first steps towards the Kennedy Round were taken in November 1961 before the Dillon Round was even finished. It is surely no coincidence that this period brackets the collapse of the OEEC and the coming into force of the Convention of the OECD in December 1961.

⁵¹ "Text of a Statement by the Honourable Donald M. Fleming, Minister of Finance, to the House of Commons, January 18, 1960."

⁵² Communiqué of 21st December 1959, reproduced in The Organisation for Economic Co-operation and Development (Paris: The Organisation for European Economic Co-operation, December 1960), 91. The history is also told, and the key documents reproduced, in The Organisation for Economic Co-operation and Development (Paris: The Organisation for Economic Co-operation and Development, May 1964).

⁵³ Fleming statement January 18, 1960. emphasis added. Fleming's remarks are a further indication that the distinction between high and low politics was more apparent than real, as suggested in the title of a famous article: Richard N. Cooper, "Trade Policy is Foreign Policy," Foreign Policy 9 (Winter 1972-73), 18-36.

⁵⁴ Fleming statement January 18, 1960.

⁵⁵ Fleming statement January 18, 1960. Recalling the quote from Pearson's Nobel address in the epigraph, and his views on the dispute within the OEEC, it will be seen that there was probably bipartisan support for this Canadian policy stance. It is ironic that this endorsement of Article 2 came from the Minister of Finance, since that department had not welcomed External's initiative in having that clause inserted in the NATO treaty. On Article 2, see my "Article 2 Revisited: Canada, Security and Transatlantic Economic Cooperation," in Michael K. Hawes and Joel Sokolsky (eds.), North American Perspectives on European Security (New York: Mellen, 1990), 305-335.

⁵⁶ Canada did not favour the creation of restricted groups of which we were not members. The caveat is important. The functional principle in Canadian foreign policy, which

arguably underlay the wish to be part of the annual Economic Summits, was that we wished to be part of any group of interest to us.

⁵⁷ "Submission of Canadian Government to Committee of Four on Re-organization of the OEEC," February 29, 1960, paragraph 10. A copy may be found in the Briefing Book prepared for the Ministerial Meeting on the OECD, Paris, July 22-23 1960 pages 130-139. EAITC file MF 3034 13-2-OECD-1-1960/61.

⁵⁸ Plumptre, Three Decades of Decision, 131.

⁵⁹ Copy of the Memorandum to Cabinet included in the Briefing Book prepared for the Ministerial Meeting on the OECD, Paris, July 22-23 1960, page 22. EAITC file MF 3034 13-2-OECD-1-1960/61.

⁶⁰ The convention is reproduced in The Organisation for Economic Co-operation and Development (Paris: The Organisation for European Economic Co-operation, December 1960).

⁶¹ Phyllis Deane, The State and the Economic System: An introduction to the history of political economy (Oxford: Oxford University Press, 1989), 176.

⁶² For the full statement of this argument, see Polanyi, The Great Transformation, and Ruggie, "International regimes, transactions, and change: embedded liberalism in the postwar economic order."

⁶³ Much of my description of these tasks comes from Camps, 'First World' Relationships: The Role of the OECD, 14.

⁶⁴ Robert D. Putnam and Nicholas Bayne, Hanging Together: Cooperation and Discord in the Seven-Power Summits (Cambridge, Mass: Harvard University Press, 1987), 18.

⁶⁵ International policy surveillance is essential because of the infinite oscillation between rules and discretion. See Manuel Guitián, Rules and Discretion in International Economic Policy IMF Occasional Paper no.97 (Washington, DC: International Monetary Fund, 1992), 11.

⁶⁶ "International regimes" are discussed above in chapter 2 on cooperation. The OECD is most involved with the regimes for trade (centred on the GATT), aid, and money (centred on the IMF and the World Bank).

⁶⁷ Blackhurst observed that trade surveillance at OECD was minimal, in contrast to economic policy (EDRC, WP 3, and EPC), development (DAC), energy (in the IEA), and finance/investment (the codes). Richard Blackhurst, "Strengthening Gatt Surveillance of Trade-Related Policies," in Meinhard Hilf and Ernst-Ulrich Petersmann (eds.), The New GATT Round of Multilateral Trade Negotiations: Legal and Economic Aspects (Deventer: Kluwer Law and Taxation Publishers, 1988), 137-142. For a description of how the TPRM works, see Victoria Curzon Price, "GATT's New Trade Policy Review Mechanism," The World Economy 14:2 (June 1991), 121-137.

⁶⁸ Blackhurst, "Strengthening Gatt Surveillance of Trade-Related Policies," 143-44. Such a policy consensus was hard to find through the 1980s. See the characterization of the debate with the schmoos in Paul R. Krugman, Has The Adjustment Process Worked? (Washington: Institute for International Economics, 1991).

⁶⁹ OECD, Why Economic Policies Change Course: Eleven Case Studies (Paris: Organisation for Economic Co-operation and Development, 1988), 22-24.

⁷⁰ Blackhurst, "Strengthening Gatt Surveillance of Trade-Related Policies," 146.

⁷¹ The consensus that "trade-related" policies are a fit subject for international discussion is a recognition of the simple fact that border measures are not the only measures that affect trade. On this question, see Richard Blackhurst, "The Twilight of Domestic Economic Policies," The World Economy 4:4 (December 1981), 357-373.

⁷² Val Koromzay, "Monetary and Fiscal Policies," in John Llewellyn and Stephen J. Potter (eds.), Economic Policies for the 1990s (Oxford, UK and Cambridge, MA: Blackwell, 1991), 164.

⁷³ OECD, Report by the Economic Policy Committee, Surveillance of Structural Policies (Paris: Organisation for Economic Co-operation and Development, 1989), 25-26.

⁷⁴ GATT, Trade Policies for a Better Future (Geneva: General Agreement on Tariffs and Trade, 1985), 35-37, 42.

⁷⁵ OECD, Surveillance of Structural Policies, 26.

⁷⁶ Lon L. Fuller, "Positivism and Fidelity to Law: A Reply to Professor Hart," Harvard Law Review 71:4 (February 1958), 636. Fuller was replying to H.L.A. Hart, "Positivism and the Separation of Law and Morals," Harvard Law Review 71:4 (February 1958), 593-629. On coherence, and purpose, see also Lon L. Fuller, "Freedom—A Suggested Analysis," Harvard Law Review 68:8 (June 1955), 1305-25.

⁷⁷ Abram Chayes and Antonia Handler Chayes, "On compliance," International Organization 47:2 (Spring 1993), 175-205.

⁷⁸ Haas might call this a "nested problem set." Haas, When Knowledge is Power, 84-85.

⁷⁹ See her proposal for an OECD initiative on innovation policy in Sylvia Ostry, Governments and Corporations in a Shrinking World: Trade and Innovation Policies in the United States, Europe and Japan (New York: Council on Foreign Relations Press, 1990), 83ff.

⁸⁰ A stress on horizontal work is consistent with two of Haas' maxims for organizational design: Maxim 3. Minimize hierarchies and regulations in designing better international organizations. Maxim 4. Stress boundary-spanning roles. Haas, When Knowledge is Power, 206-207.

⁸¹ Stephen Zamora, "Voting in International Economic Organizations," American Journal of International Law 74 (1980), 574 note 30. GATT tends to make decisions during Rounds by the exchange of concessions (579) which is a kind of ad hoc weighted voting system.

⁸² Andrew M. Moravcsik, "Disciplining trade finance: the OECD Export Credit Arrangement," International Organization 43:1 (Winter 1989), 198.

⁸³ See also section 4.6.5, below.

⁸⁴ Louis W. Pauly, Opening Financial Markets: Banking Politics on the Pacific Rim (Ithaca: Cornell University Press, 1988), 183-84. On the importance of OECD work on the regulation of banking, especially in fostering an expert consensus, see Ethan B. Kapstein, "Resolving the regulator's dilemma: international coordination of banking regulations," International Organization 43:2 (Spring 1989), 323-347.

⁸⁵ Dennis C. Mueller, Public choice II (Cambridge: Cambridge University Press, 1989), 459.

⁸⁶ Mueller, Public choice II, 38

⁸⁷ Oran R. Young, "The politics of international regime formation: managing natural resources and the environment," International Organization 43:3 (Summer 1989), 361.

⁸⁸ By policy community in the international domain I mean to refer to epistemic communities as opposed to other uses of the term. See, for contrast, Peter M. Haas, "Introduction: epistemic communities and international policy coordination," International Organization 46:1 (Winter 1992), 1-35; and, William D. Coleman and Grace Skogstad (eds.), Policy Communities and Public Policy in Canada: A Structural Approach (Mississauga: Copp Clark Pitman, 1990).

⁸⁹ On the Rey report, see Gilbert R. Winham, International Trade and the Tokyo Round Negotiation (Princeton: Princeton University Press, 1986), 75-76.

⁹⁰ Camps, 'First World' Relationships: The Role of the OECD, 26.

⁹¹ I believe that it was this line of thinking that motivated the negotiators who from the outset wished to use the Uruguay Round group on the Functioning of the GATT System to increase Ministerial involvement in the GATT. See, for example, Sylvia Ostry, Interdependence: Vulnerability and Opportunity (Washington, D.C.: The Per Jacobsson Foundation, 1987).

⁹² Robert Solomon, Partners in Prosperity: The Report of the Twentieth Century Fund Task Force on the International Coordination of National Economic Policies (New York: Priority Press Publications, 1991).

⁹³ As Helmut Schmidt said of the European currency fiasco in September 1992, monetary policy is also foreign policy. Helmut Schmidt, "How to repair the Anglo-German rift," Financial Times (October 9, 1992), 15.

⁹⁴ My discussion of the vast literature is eclectic and probably unorthodox. For a useful survey see, in addition to the other literature cited, the special issue edited by L.A. Waverman and T.A. Wilson on "Macroeconomic Co-ordination and the Summit," Canadian Public Policy XV supplement (February 1989). For the views of an impressive sampling of senior officials and politicians who had been engaged in the policy dilemmas of the turbulent 1960s and 1970s, see Marjorie Deane and Robert Pringle, Economic cooperation from the inside (New York: Group of Thirty, 1984). There are surprisingly few attempts in the literature to evaluate the OECD commitment, a gap not ameliorated by David B. Timmins and William M. Timmins, The International Economic Policy Coordination Instrument: Some Considerations Drawn from the OECD Experience (Lanham, MD: University Press of America, 1985). The book is naive and not illuminating, although it does offer an extensive commentary on the Growth Target of the first communiqué.

⁹⁵ Robert Gilpin, The Political Economy of International Relations (Princeton, N.J.: Princeton University Press, 1987), 135.

⁹⁶ Louis W. Pauly, "From Monetary Manager to Crisis Manager: Systemic Change and the International Monetary Fund," in Roger Morgan, Jochen Lorentzen, Anna Leander and Stefano Guzzini (eds.), New Diplomacy in the Post-Cold War World: Essays for Susan Strange (New York: St. Martin's Press, 1993), 122-130.

⁹⁷ Stanley Fischer, "International Macroeconomic Policy Coordination," in Martin Feldstein (ed.), International Economic Cooperation (Chicago: The University of Chicago Press, 1988), 27.

⁹⁸ There are few assessments of WP 3. Plumptre thought it useful both as a place for senior officials to talk freely and for the analytic work of the secretariat. Three Decades of Decision, 184-85. For another description of the atmosphere in the early years, see the recollections of Paul Volcker, who attended some meetings of WP3 in a staff capacity. Paul Volcker and Toyoo Gyhoten, Changing Fortunes: The World's Money and the Threat to American Leadership (New York: Times Books, 1992), 29-30.

⁹⁹ OECD, The Balance of Payments Adjustment Process (Paris: Organisation for Economic Co-operation and Development, 1966). The report is discussed by a former Head of the OECD Economics and Statistics Department, John Fay, in "The Role of Exchange Rates," in Llewellyn and Potter, Economic Policies for the 1990s, 183-205. There is also a discussion of this report, and the continuing role of WP 3, if any, in Andrew Crockett, "The Role of International Institutions in Surveillance and Policy Coordination," in Ralph C. Bryant, David A. Currie, Jacob A. Frenkel, Paul R. Masson and Richard Portes (eds.), Macroeconomic Policies in an Interdependent World (Washington, D.C.: International Monetary Fund, 1989), 343-364.

¹⁰⁰ Michael C. Webb, "Canada and the International Monetary Regime," in A. Claire Cutler and Mark W. Zacher (eds.), Canadian Foreign Policy and International Economic Regimes (Vancouver: University of British Columbia Press, 1992), 160.

¹⁰¹ John S. Odell, U.S. International Monetary Policy: Markets, Power and Ideas as Sources of Change (Princeton: Princeton University Press, 1982), 349-50.

¹⁰² Robert W. Russell, "Transgovernmental interaction in the international monetary system, 1960-1972," International Organization 27:4 (Autumn 1973), 463. Russell's conclusion about the analytic focus necessarily moving from transnational coalitions to state interests as the political salience of an issue changes are confirmed in Robert O. Keohane, "The international energy agency: state influence and transgovernmental politics," International Organization 32:4 (Autumn 1978), 4.

¹⁰³ Barry Eichengreen, "Hegemonic Stability Theories of the International Monetary System," in Richard N. Cooper, Barry Eichengreen, C. Randall Henning, Gerald Holtham and Robert D. Putnam, Can Nations Agree? Issues in International Economic Cooperation (Washington, D.C.: The Brookings Institution, 1989), 258.

¹⁰⁴ The IMF role in surveillance was not new in the 1970s, of course, but it was enhanced when the system was reformed. Louis W. Pauly, "The political foundations of multilateral economic surveillance," International Journal XLVII:2 (Spring 1992), 293-327.

¹⁰⁵ Michael Artis and Sylvia Ostry, International Economic Policy Coordination (London: Routledge and Kegan Paul Ltd, 1986), 63. It moved to the full G-7 more explicitly in 1986. Commitments on targets were incorporated in the communiqué from the 1988 Toronto Summit.

¹⁰⁶ OECD, Towards Full Employment and Price Stability: A report to the OECD by a group of independent experts (Paris: Organisation for Economic Co-operation and Development, 1977).

¹⁰⁷ The radical critique of the McCracken report is that it was a response to the crisis of neoliberalism. Its "narrow path to growth" was bounded by the need to keep investment high and inflation low, which called for a rejection of positive government intervention in the economy. Robert W. Cox, Production, Power and World Order: Social Forces in the Making of History (New York: Columbia University Press, 1987), 283. See also Michael Henderson, "The OECD as an instrument of national policy," International Journal XXXVI:4 (Autumn 1981), 793-814. The liberal line of attack observes that the report largely drew on the analytic tools of economics, leaving its analysis and recommendations open to criticism on political grounds. The question not addressed in the 1970s, and hardly addressed since is: "Can the conflicts between the conditions for economic growth (as identified by the [McCracken] report) and the practices of modern governments be reconciled without fundamentally altering either democracy or capitalism?" Robert O. Keohane, "Economics, Inflation, and the Role of the State: Political Implications of the McCracken Report," World Politics (1978), 109. The market economy that is not self-regulating, and stabilization is a political task. Caporaso and Levine, Theories of Political Economy, 123.

¹⁰⁸ Sylvia Ostry and Val Koromzay, "The US and Europe: Coping with Change," OECD Observer (May 1982), 9-13.

¹⁰⁹ In the mid-1970s, OECD was renowned as a redoubt of British economists espousing Keynesian principles—see Michele Fratiani and John C. Pattison, "The Economics of the OECD," in Karl Brunner and Allan H. Meltzer (eds.), Institutions, Policies and Economic Performance (Amsterdam, New York: North-Holland, 1976), 75-140. This OECD Keynesianism still carries some of the blame for the supposed disaster of 1978. It is

conventional wisdom that the Bonn Summit package of 1978, which began life at the OECD, was a political disaster because it influenced monetary and fiscal policies to move in the wrong direction. For more on the OECD role, see Putnam and Henning, "The Bonn Summit of 1978: A Case Study in Coordination," in Cooper et al, Can Nations Agree?, 54-55. The agreement is a famous example of a) the benefits b) the disasters of coordination. Ironically, both the agreement, and subsequent assessments of its putative effects, were affected by the July 1978 OECD Economic Outlook forecasts of the German economy, which turned out to be based on errors. Gerald Holtman, "German Macroeconomic Policy and the 1978 Bonn Economic Summit," in Cooper et al, Can Nations Agree?, 160-62, Table 7.

¹¹⁰ John Llewellyn and Stephen J. Potter, "Economic Policies for the 1990s," in John Llewellyn and Stephen J. Potter (eds.), Economic Policies for the 1990s (Oxford, UK and Cambridge, MA: Blackwell, 1991), 8. For his distinction between classic and managed liberalism, see Haas, When Knowledge is Power, 180. When classic liberalism is triumphant, international organizations appear to atrophy, or at least to diminish in importance. For an assessment of the institutional and intellectual changes that have affected the OECD, see the historical survey in the fiftieth anniversary issue of the Outlook, "Economic policy-making since the mid-1960s," OECD Economic Outlook 50 (December 1991), 1-11.

¹¹¹ Yoichi Funabashi, Managing the Dollar: From the Plaza to the Louvre (Washington: The Institute for International Economics, 1988).

¹¹² Paul R. Krugman, Has The Adjustment Process Worked? (Washington: Institute for International Economics, 1991).

¹¹³ Cooper, "International Economic Co-operation: Overview and a Glimpse of the Future," 183-85, 190-91.

¹¹⁴ Richard N. Cooper, "International Cooperation in Public Health as a Prologue to Macroeconomic Cooperation," in Cooper et al, Can Nations Agree?

¹¹⁵ J.A. Frankel and K.E. Rockett, "International Macroeconomic Coordination When Policymakers Do Not Agree on the True Model," American Economic Review, 78 (June 1988), 318-40.

¹¹⁶ Gerald Holtham and Andrew Hughes Hallett, "International Macroeconomic Policy Coordination When Policymakers Do Not Agree on the True Model: Comment," American Economic Review 82:4 (September 1992), 1043-1051. See also Jeffrey Frankel, Scott Erin and Katherine Rockett, "International Macroeconomic Policy Coordination When Policymakers Do Not Agree on the True Model: Reply," American Economic Review 82:4 (September 1992), 1052-1056.

¹¹⁷ John Helliwell, "What's Left for Macroeconomic and Growth Policies?" (mimeo, October 1993), 12.

¹¹⁸ Val Koromzay, "Monetary and Fiscal Policies," in Llewellyn and Potter, Economic Policies for the 1990s, 163-64. Emphasis added.

119 "Clinton's Viewpoint," Financial Times (January 16, 1993), 6.

120 I am not competent to distinguish the differing contributions of the IMF (which stresses research) and the OECD (which stresses policy). OECD publications (both the *Outlook* and *Surveys*) compare well with IMF publications. OECD data—e.g. comparative unemployment figures—are invaluable, including to the IMF, as evidenced in the footnotes of the World Economic Outlook (May 1993 in particular).

121 Louis W. Pauly, "Promoting a Global Economy: The Normative Role of the International Monetary Fund," in Richard Stubbs and Geoffrey Underhill (eds.), Political Economy and the Changing Global Order (Toronto: McClelland and Stewart, forthcoming).

122 This section is indebted to the admirable work of Serge Devos in his "The Trade Committee of the OECD: Thirty Years and a Hundred Meetings," (OECD Trade Committee TD(91)100, November 1991). See also Frank Stone, Canada, The GATT and the International Trade System (Ottawa: The Institute for Research on Public Policy, 1984), 84-97; and David J. Blair, Trade Negotiations in the Organisation for Economic Co-operation and Development (London: Kegan Paul International, 1993). This study is useful for its detailed information on agriculture and export credits, but it suffers from having asked wrong question, and so ends with cooperation at OECD not being placed in the wider context of the trading system.

123 Winham, International Trade and the Tokyo Round Negotiation, 140. [Emphasis added.]

124 See William J. Drake and Kalypso Nicolaidis, "Ideas, interests, and institutionalization: "trade in services" and the Uruguay Round," International Organization 46:1 (Winter 1992), 37-100.

125 The main product was OECD, National Policies and Agricultural Trade (Paris: OECD, 1987) and the associated country studies, but see also OECD, Modeling the Effects of Agricultural Policies OECD Economic Studies No. 13/ Winter 1989-1990 (Paris: Organisation for Economic Co-operation and Development, 1990).

126 Timothy E. Josling, Fred H. Sanderson and T.K. Warley, "The Future of International Agricultural Relations: Issues in the GATT Negotiations," in Fred H. Sanderson (ed.), Agricultural Protectionism in the Industrialized World (Baltimore: Johns Hopkins University Press for Resources for the Future, Washington, DC, 1990), 440ff.

127 see, for example, OECD, Agricultural Policies, Markets and Trade: Monitoring and Outlook 1992 (Paris: Organisation for Economic Co-operation and Development, 1992).

128 OECD, National Policies and Agricultural Trade (Paris: OECD, 1987), 49.

129 OECD, National Policies and Agricultural Trade, 73.

130 Camps, 'First World' Relationships: The Role of the OECD, 11.

¹³¹ Plumptre, Three Decades of Decision, 131. The "Development Assistance Group," which later became the DAC, was created even before the rest of the OECD when eight countries agreed to pool their expertise. The other seven were Belgium, France, Germany, Italy, Portugal, the UK, The US, and the Commission of the EC.

¹³² The most useful book is probably David Halloran Lumsdaine, Moral Vision in International Politics: The Foreign Aid Regime, 1949-1989 (Princeton, NJ: Princeton University Press, 1993). This section draws on Helmut Führer, "The Story of ODA: A History of DAC/DCD in Dates, Names and Figures," his valedictory on the occasion of his retirement as Director of the Development Co-operation Directorate in May 1993. For an early assessment of the DAC, see Goran Ohlin, "The Organisation of Economic Cooperation and Development," International Organization 22:1 (1968), 231-243. For a more contemporary account of the politics of aid, see Robert Everett Wood, From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy (Berkeley: University of California Press, 1986). For discussions of how institutions can be constitutive of state action, see James A. Caporaso, "International relations theory and multilateralism: the search for foundations," International Organization 46:3 (Summer 1992), 599-631; and Alexander Wendt, "Anarchy is what states make of it: the social construction of power politics," International Organization 46:2 (Spring 1992), 391-425.

¹³³ I cannot assess the Development Centre generally, nor did I conduct a systematic survey of opinion on its work, but it does seem to me that recent work on agriculture has been first class. See Ian Goldin, "Agricultural Trade Liberalisation: Threat or Promise?," OECD Observer 163 (April-May 1990), 17-20; Ian Goldin and Odin Knudsen (eds.), Agricultural Trade Liberalization: Implications for Developing Countries (Paris and Washington: Organisation for Economic Co-operation and Development and The World Bank, 1990); Ian Goldin and Dominique van der Mensbrugge, "The Forgotten Story: Agriculture and Latin American Trade and Growth," in Colin I. Bradford Jr. (ed.), Strategic Options for Latin America in the 1990s (Paris: Organisation for Economic Co-operation and Development, 1992); Ian Goldin and Dominique van der Mensbrugge, "Trade Liberalisation: What's At Stake?," (OECD Development Centre: Policy Brief No.5, 1992). The adjustment study (François Bourignon and Christian Morison, Adjustment and equity in developing countries) was described by Frances Williams in the Financial Times of June 22, 1992 and by John Stackhouse in the Globe and Mail on February 12, 1993.

¹³⁴ Camps, 'First World' Relationships: The Role of the OECD, 9.

¹³⁵ Putnam and Henning, "The Bonn Summit of 1978: A Case Study in Coordination," in Can Nations Agree?, 22.

¹³⁶ Camps, 'First World' Relationships: The Role of the OECD, 35.

¹³⁷ Note that the Uruguay Round is organized on a completely different basis, reflecting different assumptions about:

- the LDCs and integration
- the role of commodities in the industrial economies
- the appropriate basis for an MTN

- 138 "Much heat, little light," The Economist (June 12, 1993), 73.
- 139 see the pamphlet The OECD Chemicals Programme (Paris: Organisation for Economic Co-operation and Development, 1993).
- 140 Robert H. Bates, Philip Brock and Jill Tiefenthaler, "Risk and trade regimes: another exploration," International Organization 45:1 (Winter 1991), 1-18.
- 141 Canadian officials believe that the OECD Conference on Migration and International Cooperation was effective in bringing together a range of secretariat analytic strengths contributing to better understanding of a very complicated phenomenon.
- 142 To pick one example of an influential study, see OECD, The Welfare State In Crisis (Paris: Organisation for Economic Co-Operation and Development, 1981).
- 143 For a more complete analysis of these issues, see Geza Feketekuty, The New Trade Agenda (Washington: Group of Thirty, 1992).
- 144 Ministers said in 1992 that:
—trade and competition policies have a common objective: economic efficiency. But these policies have sometimes impinged on each other. OECD governments will seek to: improve consistency between these policies to enhance competition and market access; provide a foundation for convergence of substantive rules and enforcement practices in competition policy; identify better procedures for the surveillance of trade and competition policies; and enhance the interests of consumers.
- 145 The proposed regulations were withdrawn, but the issue will come back, perhaps in the form of new legislation. See "Clinton team gets to grips with tax," Financial Times (November 6, 1992), 6.
- 146 John Helliwell, "What's Left for Macroeconomic and Growth Policies?" (mimeo, October 1993), 33.
- 147 OECD, Deregulation and Airline Competition (Paris: Organisation for Economic Cooperation and Development, 1988).
- 148 Richard N. Gardner, Sterling-Dollar Diplomacy: The Origins and Prospects of Our International Economic Order New, Expanded Edition (New York: McGraw-Hill, 1969), 365-66.
- 149 Jacob Viner, "Conflicts of Principle in Drafting a Trade Charter," Foreign Affairs XXV (July 1947); reprinted in International Economics Studies by Jacob Viner (Glencoe, Illinois: The Free Press, 1951), 364. On the power of "dollar diplomacy," see E.H. Carr, The Twenty Years' Crisis 1919-1939: An Introduction to the Study of International Relations (London: Macmillan, 1939), 159.
- 150 Gardner, Sterling-Dollar Diplomacy, 376.

¹⁵¹ The United States challenged the performance requirements imposed on investors by the Canadian Government through the Foreign Investment review Agency (FIRA). The subsequent GATT panel accepted the local content complaint but rejected the American claims with respect to export requirements. David Leyton-Brown, Weathering the Storm: Canadian-U.S. Relations, 1980-83 (Toronto and Washington: C.D. Howe Institute and the National Planning Association, 1985), 35. See also Jackson, The World Trading System, 191.

¹⁵² Ministerial Declaration on the Uruguay Round (GATT: MTN.DEC 20 September 1986). For a discussion of the relevant GATT articles, see Keith E. Maskus and Denise R. Eby, "Developing New Rules and Disciplines on Trade-Related Investment Measures," in Robert M. Stern (ed.), Symposium on TRIPs and TRIMs in the Uruguay Round (November 8, 1990), 11 ff.

¹⁵³ The agreement on *Trade-Related Aspects of Investment Measures* is on pages N.1 to N.4 of Annex I to the *Draft Final Act*.

¹⁵⁴ See the discussion of the OECD and EC/US investment issues in Stephen Woolcock, Market Access Issues in EC-US Relations: Trading Partners or Trading Blows? Chatham House Papers (London: Pinter Publishers for the Royal Institute of International Affairs, 1991), 63-66.

¹⁵⁵ Robert K. Paterson, "Canada and International Legal Regimes for Foreign Investment and Trade in Services," in Cutler and Zacher, Canadian Foreign Policy and International Economic Regimes, 130-152. It might be interesting to explore whether Ministers and officials felt some international pressure because of Canada's ambiguous relation to the Declaration, or whether the existence of the Declaration was used to buttress arguments in domestic debates about investment policy.

¹⁵⁶ OECD Ministers said in May 1992 that —trade and investment policies are closely related, since both trade and foreign direct investment form part of the international strategies of enterprises. The interaction of these two policy areas should be further analyzed with a view to enhancing the consistency of policies for market access. Ministers urge expeditious study on the feasibility of a wider OECD investment instrument.

¹⁵⁷ It is said that the review of Canada's participation in the codes was initiated by External Affairs in 1981 out of embarrassment at continually having to defend Canadian practice in Paris. Louis W. Pauly, Opening Financial Markets: Banking Politics on the Pacific Rim (Ithaca: Cornell University Press, 1988), 112-13.

¹⁵⁸ This section owes much to the March 1993 first draft of James Mullin, "Canadian Directions for DSTI," (a report to EAITC). The point about the usefulness of CSTP is on page 36.

¹⁵⁹ OECD, The Annual Report of the OECD (Paris: Organisation for Economic Co-operation and Development, 1992), 8-9, 148, 160. OECD, Long-Term Prospects for the World Economy (Paris: Organisation for Economic Co-Operation and Development, 1992), 23-24.

¹⁶⁰ See, for example, Sylvia Ostry, "Beyond the Border: The New International Policy Arena," in Strategic Industries in a Global Economy: Policy Issues for the 1990s (Paris: Organisation for Economic Co-operation and Development, 1991), 81-95.

¹⁶¹ To take a trendy phrase, "subsidiarity" recognizes that systems should be allowed to be different unless there is a good reason that they should not be. The aspiration is no less valid because its articulation in the Maastricht treaty is flawed. Andrew Adonis and Andrew Tyrie, Subsidiarity: No Panacea (London: European Policy Forum, 1993).

¹⁶² OECD, Trade, Investment and Technology in the 1990s (Paris: Organisation for Economic Co-operation and Development, 1991).

¹⁶³ Feketekuty stimulated this work as chair of the Trade Committee. It is described in Feketekuty, The New Trade Agenda.

¹⁶⁴ Sylvia Ostry, Governments and Corporations in a Shrinking World.

¹⁶⁵ Sylvia Ostry, "Policy Approaches to System Friction: Convergences Plus," (paper delivered to the Bellagio Conference on Domestic Institutions, Free Trade, and the Pressures for National Convergences: U.S., Europe, Japan, February 1993), 11.

¹⁶⁶ John Gerard Ruggie, "Unravelling Global Trade: Global Institutional Change and the Pacific Economy," in Richard Higgott, Richard Leaver and John Ravenhill (eds.), Pacific Economic Relations in the 1990s: Cooperation or Conflict? (London: Allen and Unwin, 1993), 37-38.

¹⁶⁷ For an assessment of the IEA, see Rodney T. Smith, "A Public Choice Perspective of the International Energy Program," in Roland Vaubel and Thomas D. Willett (eds.), The Political Economy of International Organizations: A Public Choice Approach (Boulder, CO: Westview Press, 1991), 142-180. See also Robert O. Keohane, "The international energy agency: state influence and transgovernmental politics," International Organization 32:4 (Autumn 1978), 929-951. Scholars tend not be satisfied with the depiction of a energy "regime" including the IEA in Keohane, After Hegemony. The IEA is also situated in the broader context of western efforts to manage energy supplies in Peter F. Cowhey, The Problems of Plenty: Energy Policy and International Politics (Berkeley: University of California Press, 1985).

¹⁶⁸ The Group of the Council on Non-Member Countries was created in May 1988 to oversee the developing dialogue with the Dynamic Asian Economies (DAEs). The mandate was broadened in October 1989.

¹⁶⁹ *Communiqué* of the Council of the OECD at Ministerial level, 19 May 1992. For a description of what the OECD has done up to now, see OECD, The Annual Report of the OECD (Paris: Organisation for Economic Co-operation and Development, various years).

¹⁷⁰ In making a familiar claim in this way I am arguing that the goal sought was more than the integration of Europe within the European Community. I owe this idea to Deutsch, Political Community and the North Atlantic Area. I have developed it in a series of articles on the Canadian interest in European security. See my "Article 2 Revisited: Canada,

Security and Transatlantic Economic Cooperation;" "Atlanticism Without the Wall: Transatlantic Cooperation and the Transformation of Europe," International Journal XLVI:1 (Winter 1990-91), 137-163; and "The World in a Grain of Wheat: Farm Wars and European Security," in David G. Haglund (ed.), From Euphoria to Hysteria: Western European Security After the Cold War (Boulder, CO: Westview Press, 1993).

¹⁷¹ For a full development of the implications of this insight, see Anne-Marie Burley, "Liberal States: A Zone of Law", (paper delivered to the American Political Science Association, Chicago, September 3-6, 1992).

¹⁷² Gyhoten recalls that Japan's self-perception as a member of the club of rich countries was symbolized in the mid-1960s by OECD membership. Paul Volcker and Toyoo Gyhoten, Changing Fortunes: The World's Money and the Threat to American Leadership (New York: Times Books, 1992), 57.

¹⁷³ Poland, Hungary, the Czech Republic and Slovakia. The Visegrad declaration of cooperation, signed in early 1991, envisaged efforts to enhance the cooperation and integration of the three countries with the explicit intention of supporting a common effort to join existing western European institutions. See Jan B. de Weydenthal, "The Visegrad Summit," Report on Eastern Europe (March 1, 1991), 28-30. All three of these states have signed association agreements with the EC. As of March 1, 1993, they were to apply comparable liberalization to their trade with each other. See Karoly Okolicsanyi, "The Visegrad Triangle's Free-Trade Zone," RFE/RL Research Report 2:3 (15 January 1993), 19-22.

¹⁷⁴ For a listing of who participates in what, see *Non-Member Country Participation in the Work of Subsidiary Bodies of the Organisation* C(92)162.

¹⁷⁵ A.J. Miller, "The functional principle in Canada's external relations," International Journal 35:2 (Spring 1980), 309-328.

¹⁷⁶ The categories in this paragraph are derived from Oran R. Young, "The effectiveness of international institutions: hard cases and critical variables," in James N. Rosenau and Ernst-Otto Czempiel (eds.), Governance Without Government: Order and Change in World Politics (Cambridge: Cambridge University Press, 1992), 160-194.

¹⁷⁷ This line of argument is suggested by Michele Fratiani and John Pattison, "International Institutions and the Market for Information," in Roland Vaubel and Thomas D. Willett (eds.), The Political Economy of International Organizations: A Public Choice Approach (Boulder, CO: Westview Press, 1991), 106-7.

¹⁷⁸ Journalists have been mesmerized by the IMF's belated use of Purchasing Power Parities [see International Monetary Fund, World Economic Outlook: a survey by the staff of the International Monetary Fund May 1993 (Washington, D.C.: The Fund, 1993), 116-119] which shows China at 6% of world GDP instead of 2% on exchange rate parities. One normally sensible publication concluded that some developing countries should be invited to join the OECD, even the annual economic Summit, because China, Brazil, India and Mexico all are "bigger" than Canada. "The wealth of nations," The Economist (May 15, 1993), 15. There is no question that the shift in IMF accounting presents a less-misleading picture of the growth of the world's wealth, but it does so at the price of

creating a more misleading picture of the world economy. For better or worse, exchange rate parities are a more accurate representation of the degree of interdependence experienced by a country with the world, and it is only interdependence that creates the need for cooperation.

- 179 Richard N. Cooper, The Economics of Interdependence: Economic Policy in the Atlantic Community (New York: McGraw-Hill for the Council on Foreign Relations, 1968).
- 180 Robert O. Keohane and Joseph S. Nye, Power and Interdependence (2nd edition) (Glenview, Ill.: Scott, Foresman and Company, 1989).
- 181 Richard Blackhurst, Nicolas Marian and Jan Tumlrir, Trade Liberalization, Protectionism and Interdependence (Geneva: General Agreement on Tariffs and Trade, 1977).
- 182 Robert O. Keohane, "Multilateralism: an agenda for research," International Journal XLV:4 (Autumn 1990), 742, 744.
- 183 The Annual Report of the OECD (Paris: Organisation for Economic Co-operation and Development, 1992), 8.
- 184 Miles Kahler, "Multilateralism with small and large numbers," International Organization 46:3 (Summer 1992), 681-708.
- 185 For a description of how the GATT manages with smaller and larger groups in concentric circles of authority, see Gardner Patterson, "The GATT and the Negotiation of International Trade Rules," in Alan K. Hendrikson (ed.), Negotiating World Order: The Artisanry and Architecture of Global Diplomacy (Wilmington, Del.: Scholarly Resources Inc, 1986), 181-197.
- 186 Anne-Marie Burley, "Liberal States: A Zone of Law", (paper delivered to the American Political Science Association, Chicago, September 3-6, 1992).
- 187 K.J. Holsti, "The Ideological Foundations of the Post-Cold War "Settlement"", (paper delivered to the Canadian Political Science Association, Carleton University, Ottawa, June 6-8, 1993).
- 188 A distinguished British journalist came to this conclusion after reading in the December OECD *Outlook* about expectations of average G-7 growth in 1993 of 2% against growth in the "tigers" being expected to slow to 6.5%. Samuel Brittan, "G7 should look to Asia for new year hope," Financial Times (December 17, 1992), 15.
- 189 Richard Rose argues that reforming countries in eastern Europe may well have more to learn about tax policy from DAEs than from western economists who assume legal institutions that do not exist. Richard Rose, "Eastern Europe's Need for a Civil Economy," in Richard O'Brien (ed.), Finance and the International Economy The AMEX Bank Review Prize Essays 6 (Oxford: Oxford University Press, 1992), 4-16. For an assessment of what else they might have to offer, see Joan M. Nelson, "The Politics of Economic

Transformation: Is Third World Experience Relevant in Eastern Europe?," World Politics 45:3 (April 1993), 433-463. See also OECD, Economic Integration: OECD Economies, Dynamic Asian Economies and Central and Eastern European Economies (Paris: Organisation for Economic Co-operation and Development, 1993).

¹⁹⁰ A "Marshall Plan" as conventionally understood is not, therefore, the answer. Wojciech Kostrzewa, Peter Nunnekamp and Holger Schmieling, "A Marshall Plan for Middle and Eastern Europe," The World Economy 13:1 (June 1990), 27-49.

¹⁹¹ Milward, The Reconstruction of Western Europe 1945-51, 476-77.

¹⁹² For example, see Leah A. Haus, Globalizing the GATT: The Soviet Union's Successor States, Eastern Europe, and the International Trading System (Washington, DC: The Brookings Institution, 1992).

¹⁹³ For proposals on how to take better advantage of existing institutions, see Sylvia Ostry, The Threat of Managed Trade to Transforming Economies (Washington: Group of Thirty, 1993).

¹⁹⁴ ECE was harmed by the division of Europe, and never really achieved its potential. The work of ECE, by its own admission, has tended to be more technical than policy oriented. It does not involve a cooperative exchange of information, or mutual surveillance, let alone the development of a common policy culture among its members. For basic background information, see Economic Commission for Europe, Three Decades of the United Nations Economic Commission for Europe (New York: United Nations, 1978).

¹⁹⁵ In technical language, we wish to encourage the creation of a security community in eastern Europe with the eventual aim of these countries joining our security community. A "pluralistic security community" is a group in which the identity of separate governments is maintained but common institutions are sufficiently strong to assure expectations of peaceful change. Deutsch, Political Community and the North Atlantic Area. There can be many security communities in the world, and regional security communities can collectively contribute to peace. Ronald J. Yalem, "Regional Security Communities and World Order," The Yearbook of World Affairs, 1979 (London: Stevens and Sons, 1979), 217-223. For a discussion of the NATO/OECD area as a security community, see my "Atlanticism Without the Wall: Transatlantic Cooperation and the Transformation of Europe." The EBRD was also created for political purposes—democratization, for example, is an explicit purpose of the EBRD, unlike other IFIs, but it has no inter-state interests—its focus is on firms. Mark Easton and Kathryn Rorer, "The European Bank for Reconstruction and Development," Harvard International Law Journal 32:2 (Spring 1991), 527-536.

¹⁹⁶ A payments union is proposed in Jozef M. van Brabant, Integrating Eastern Europe into the Global Economy: Convertibility through a Payments Union (Dordrecht, Boston: Kluwer Academic Publishers, 1991). The idea is discussed, as is trade discrimination, in John Williamson, The Economic Opening of Eastern Europe (Washington: Institute for International Economics, 1991).

¹⁹⁷ The CMEA so distorted regional trade patterns that a certain answer to this question is not easy. One effort to estimate what the patterns determined only by comparative advantage might be concludes that there would a significant shift away from intra-regional

trade towards trade with the EC. Susan M. Collins and Dani Rodrik, Eastern Europe and the Soviet Union in the World Economy (Washington, DC: Institute for International Economics, 1991). Regional agreements are strongest where they cover substantially all of a given market and they are weak in direct proportion to the importance of third markets as sources of imports to the regional market, as a destination for exports from the regional market, or as competitors in third markets.

¹⁹⁸ The ECE has argued that one of the lessons in the experience of western Europe is that a comprehensive plan is needed in which objectives can be related to the obstacles to be overcome. One of the major constraints is skepticism about the reform process both within the transition countries and among international investors. The ECE believes that confidence can be improved if western countries are seen to be committed to the process. This symbolism could be enhanced if reform programs are seen to have been analyzed and discussed before receiving tangible international support. See Economic Commission for Europe, Economic Survey of Europe in 1991-1992 (New York: United Nations, 1992), 9.

¹⁹⁹ The then director of the now disbanded Canadian Institute for International Peace and Security suggested last year, on the basis of a similar analysis, that "twinning" the OECD would be a good idea. The EECO proposal assumes that the new organization would require a degree of autonomy if it is to succeed. See Bernard Wood, A Time of Hope and Fear: A New World Order and A New Canada Peace and Security 1991-1992 (Ottawa: Canadian Institute for International Peace and Security, 1992), 11-15.

²⁰⁰ If the Canadian response to the recent evolution of the European Community has been neither coherent nor sustained, as some observers suggest, then the OECD might even be useful for EAITC. For example, see Evan H. Potter, "Canadian Foreign Policy-Making and the European Community-Canada Transatlantic Declaration: Leadership or Followership," (External Affairs and International Trade Canada: Policy Planning Staff Paper No. 92/6).

²⁰¹ Christian Schricke, "La CEE et l'OCDE à l'heure de l'Acte unique," Revue Générale de Droit International Public 93:4 (1989), 805-7.

²⁰² Schricke, "La CEE et l'OCDE à l'heure de l'Acte unique," 808ff. Around a third of the *Acts* are in the environment area. There seem to be two reasons. On the one hand, given that Environment ministries are often in the second rank in terms of domestic influence, they have sought to use the OECD to increase their leverage with other Ministries. Of greater importance, international environmental law when it is made among very large groups of countries evolves slowly and messily. The industrial countries are able to use the OECD to move quickly, or to tidy up an anomalous treaty.

²⁰³ Schricke, "La CEE et l'OCDE à l'heure de l'Acte unique," 811-12.

²⁰⁴ Schricke, "La CEE et l'OCDE à l'heure de l'Acte unique," 813-17.

²⁰⁵ Schricke, "La CEE et l'OCDE à l'heure de l'Acte unique," 818-19.

²⁰⁶ Schricke, "La CEE et l'OCDE à l'heure de l'Acte unique," 825-28. Schricke's approach is overly instrumental, but fascinating. The author has not updated his analysis in

light of Maastricht, which is too bad because, as in the past, new steps towards European integration can upset the balance at the OECD. Questions that might be addressed include:

1. Is the OECD mentioned directly or by implication in the Maastricht treaty? Would implementation of the treaty require a more formal relationship with the OECD, to the point where the OECD convention might have to be modified to allow the EC to become a member?
2. Can we presume that subsidiarity might strengthen/confirm the ability of individual m/s to speak on their own behalf in many OECD bodies, at the same time as the Commission has a greater role to play in the same subject area? In contrast, if there is progress towards EMU, are there implications for the continued participation by individual m/s in EPC and/or WP 3?
3. Are there any *Acts* of the OECD that pertain mostly to intra-European cooperation and that might thus be superseded by the EEA?
4. Paye drew on his time as a Chef du Cabinet in Brussels as a plus in his candidacy, but perhaps intimate knowledge of the Berlaymont is no longer essential for the Secretary-General?

²⁰⁷ Corrado Pirzio-Biroli, "A Parting Shot on the US-EC Relationship," International Economic Insights 4:1 (January/February 1993), 20-23.

²⁰⁸ This paragraph borrows liberally from Putnam and Bayne, Hanging Together.

²⁰⁹ Internationalism is more common in Canadian rhetoric than practice. See the Introduction to Cutler and Zacher, Canadian Foreign Policy and International Economic Regimes.

²¹⁰ "Inventing Our Future: An Action Plan for Canada's Prosperity," (Steering Group on Prosperity: October 1992).

²¹¹ For a detailed report based on the *Outlook*, see David Crane, "Canada won't match growth of G-7 partners," Toronto Star (December 29, 1992,) C2.

²¹² Samuel Brittan, "G7 should look to Asia for new year hope," Financial Times (December 17, 1992), 15.

²¹³ "Mr Clinton's medium term," Financial Times (November 24, 1992), 20. The joke? As with all EDRC reports, the American government was involved in its preparation. Although the out-going Bush administration could not have vetoed the survey, and would not have welcomed the OECD advice on health care, it nonetheless can be said to have helped to send the new administration a message.

²¹⁴ Fratiani and Pattison, "International Institutions and the Market for Information."

²¹⁵ This fourth level of information is invaluable for governments and researchers. With regard to the *Employment Outlook*, for example, officials in CEIC told me that it, and other OECD publications, are used every day, in part because they are the only source for these kinds of comparisons among OECD countries. As for scholars, a British reviewer of the *Employment Outlook* said that "this is a fascinating collection of employment data which, with its commentaries, has the potential to inform—and challenge—a variety of theoretical

concerns. ... Its wealth of information makes it an intellectually stimulating publication....” Geoff Payne, review of *The 1991 OECD Employment Outlook*, in *Work, Employment and Society* 6:3 (September 1992), 511-12.

²¹⁶ GATT, *Trade Policies for a Better Future* (Geneva: General Agreement on Tariffs and Trade, 1985), 35-37, 42.

²¹⁷ OECD, Report by the Economic Policy Committee, *Surveillance of Structural Policies* (Paris: Organisation for Economic Co-operation and Development, 1989), 26.

²¹⁸ The image can be exploited, however, by associating the OECD brand with certain important ideas. e.g. the benefits of trade liberalization.

²¹⁹ Notes for an Address by the Honourable Barbara McDougall, Secretary of State for External Affairs, to the Canadian Institute of Strategic Studies, Toronto, November 5, 1992 [EAITC Statement 92/56]. It should be evident, to belabour the point, that I think that Canadian relations with Europe are more robust than those who see an end to Atlanticism believe. For one herald of Atlanticism's decline, see Kim Richard Nossal, "A European Nation? The Life and Times of Atlanticism in Canada," in John English and Norman Hillmer (eds.), *Making a Difference: Canada's Foreign Policy in a Changing World Order* (Toronto: Lester Publishing Limited, 1992), 79-102.

²²⁰ OECD is seen as an organ of the Atlantic community both in H.G. Aubrey, *Atlantic Economic Cooperation: The Case of the OECD* (New York: Praeger for the Council on Foreign Relations, 1967), and in a more famous book, Richard N. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (New York: McGraw-Hill for the Council on Foreign Relations, 1968). I agree with Henry Kissinger, who declared Japan to be a member of the Atlantic community in his Year of Europe speech in 1973. See *Department of State Bulletin LXVIII:1768* (May 14, 1973), 593-98.

²²¹ Some might see it as the hegemonic task of global capital, but that is another story. See, for an example of this approach, David Black and Claire Turenne Sjolander, "Canada in the Transition: Prospects for a Re-constituted Multilateralism", (paper delivered to the Canadian Political Science Association, Carleton University, Ottawa, June 6-8, 1993).

²²² Schelling called this a focal point. Thomas C. Schelling, *The Strategy of Conflict* (Cambridge, Mass.: Harvard University Press, 1960/1980).

²²³ Sylvia Ostry, 'Rapporteur's Summing up of the OECD 30th Anniversary Symposium, Paris, 19-20 March, 1992 (mimeo). For a report on the 30th anniversary symposium see OECD, "International Economic Co-operation Past and Future," *OECD Observer* 179 (December 1992/January 1993).

²²⁴ This question of the framework is not straightforward. Waltz argues that "In international affairs ... to expect each country to formulate an economic policy that happens to work to the advantage of all countries is utopian. Each state's failure to do so is to the disadvantage of all states, including itself; yet even were this noted the "right" policies would not be spontaneously and universally adopted. Individual calculations rationally arrived at from the point of view of each of the calculators considered separately do not, in a condition of anarchy, automatically result in social harmony. Whether or not an

approximation to harmony results depends on the framework of action as well as on the action itself." Kenneth N. Waltz, Man, the State and War: a Theoretical Analysis (New York: Columbia University Press, 1959), 196.

²²⁵ Hedley Bull, The Anarchical Society (New York: Columbia University Press, 1977).

²²⁶ This reflective approach is consistent with Caporaso's understanding of institutionalism. James A. Caporaso, "International relations theory and multilateralism: the search for foundations," International Organization 46:3 (Summer 1992), 620ff.

²²⁷ Source: Permanent Delegation Of Canada to the OECD, April 1993

²²⁸ Source: Permanent Delegation Of Canada to the OECD, April 1993. Data include IEA but do not include members of the Permanent Delegation. Calendar years for 1991 and 1992; January-April for 1993. Percentage change is with respect to the year earlier period. Data based on notifications to the Secretariat and hotel reservations.

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