

**THE WAY FORWARD: STREAMLINING POLICY DISCUSSIONS FOR MORE EFFECTIVE  
MULTILATERAL SURVEILLANCE**

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The OECD stands out from other international organisations for the variety of its Committees and subsidiary bodies specialised in structural, as well as macroeconomic, policy areas. These are regularly attended by officials from capitals, bringing members of the OECD Secretariat and national policy makers and experts into close contact. Multidisciplinary activities involving various OECD Directorates and Committees help to bridge differences between government departments in capitals. In this way, the OECD contributes positively to the design and implementation of coherent macroeconomic and structural policies.

Surveillance at the OECD is essentially a peer review process based on analytical reports and policy recommendations prepared by the Secretariat. But the level of national representation in the meetings that discuss these recommendations is variable. As the OECD celebrates its 50<sup>th</sup> anniversary, one of its biggest challenges is to adapt its frameworks to the new reality of the global economy.

For years, compared with the IMF, the OECD had the advantage of smaller size and relative homogeneity of membership. In recent years, it has become larger and more diverse, but its weight in the world economy has declined. In 1975, OECD countries represented 65% of world GDP. By 2015, the OECD share of world GDP is projected to decline to 50%.

The G20, by contrast, represents 85% of world GDP, with the same number of members as the OECD when it was first created. It includes countries in the Asia-Pacific region, the Middle East, Africa and Latin America, but not many of the European

countries that are members of the OECD. Emerging economies have become significant players in the global economy, and the OECD needs to take this into account.

When G20 leaders called at their Seoul Summit in November 2010 for enhanced economic surveillance, they specifically urged the IMF “to focus on systemic risks and vulnerabilities wherever they may lie.” Closer co-operation between the IMF and the OECD would make enhanced surveillance even more effective – providing that the OECD can succeed in strengthening its surveillance process. To achieve that, it will need to ensure a higher level of participation in many of its meetings, based on a streamlined approach to participation.

The OECD’s Working Party No. 3 on Policies for the Promotion of Better International Payments Equilibrium, or WP3 – traditionally the most important peer review group for international macroeconomic co-operation – is a case in point. WP3 was particularly active in influencing international policy-making during the first quarter century of its existence. During this period, there were four chairmen, Emile van Lennep (1961-1969), Otmar Emminger (1969-1977), Michiya Matsukawa (1977-1979) and Kit McMahon (1980-1985), and their strong leadership contributed greatly to the WP3’s activities. Policy issues related to sterling crises under the Bretton Woods system, the demise of the system and the start of generalised floating of major currencies, the first oil crisis and recycling of oil money, the emergence of persistent current account imbalances between the United States as a deficit country and Japan and Germany as surplus countries after the second oil shock, and the Latin American debt crisis that occurred in the early 1980s were subjects of heated debate at the WP3 under their chairmanship.

Interesting descriptions about the period when Emile van Lennep was WP3 chairman (1961-1969) are found in his book “Working for the World Economy”, where he wrote: “(T)he American Treasury also felt that Working Party 3 exerted a much more powerful influence on British policies than the IMF ever could.” He also wrote that at a dinner hosted by Pierre-Paul Schweitzer as the IMF managing director (his term was 1963 to 1973) in honor of Van Lennep on his first working visit to the IMF as OECD Secretary-General, Schweitzer gave a speech in which he said the OECD “had done for

years the work that the IMF should have done, particularly in Working Party 3." Van Lennep added that "... to the majority of (Schweitzer's) staff, this was the bitter truth."

Today, WP3 continues to operate as an exclusive club whose meetings are attended by deputy finance ministers and deputy central governors involved in macroeconomic policy making in capitals. But its membership remains essentially G10-based, with heavy representation of European countries. To allow the WP3 to retain its effectiveness, its structure should be streamlined to keep the total number of participants within single figures. Similar subsidiary bodies in which participation is limited to a small number of key players should be envisaged in other areas. Such an approach would contribute to the efficient functioning of plenary Committee meetings and make the entire process of OECD multilateral surveillance more effective.

In 1998, as deputy secretary-general responsible for OECD relationships with non-member economies, I wrote to China's finance minister and central bank governor inviting them to send their deputies from time to time to WP3 meetings. Since then, China has attended WP3 meetings on several occasions. Now the time has come to open these meetings to other key non-OECD countries.

The OECD has a strong Secretariat equipped with professional staff of high quality versed in the interplay of macroeconomic and structural forces and policies. It could, if G20 leaders so desire, perform a similar function for the G20. But only the strong political will of key players at global leadership levels will succeed in carrying through the radical reform of international institutions that is needed to make them more relevant to new global circumstances.

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