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Chapter 1

The OECD and Economic Governance: Invisibility and Impotence?

Richard Woodward

The Organization for Economic Cooperation and Development's (OECD's) tentacles delve into almost every aspect of domestic policymaking but the 'common feature uniting OECD activities in these disparate fields is their focus on economic impacts' (Salzman 2000: 777). Article one of the OECD Convention is unequivocal about the centrality of economic governance to the organization's remit. It states the aim of the OECD 'shall be to *promote policies* 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' (OECD 1960a, *my emphasis*). Unlike other multilateral economic institutions the OECD is not endowed with extensive legal or financial mechanisms to promote policies and induce compliance. Instead the OECD undertakes these tasks by fomenting conditions for interstate cooperation. To this end, Article three commits governments to:

> (a) keep each other informed and furnish the Organization with the information necessary for the accomplishment of its tasks;
> (b) consult together on a continuing basis, carry out studies and participate in agreed projects; and
> (c) co-operate closely and where appropriate take co-ordinated action (OECD 1960a).

The problem is that whereas the Convention takes international cooperation for granted most theories of international relations emphasize it as a variable and itemize the many material and ideational obstacles to interstate collaboration. The conundrum therefore is whether and to what extent the OECD does 'promote policies' to better the fortunes of the global economy and if so, how.

The ensuing chapters by Kudrle (taxation), Porter (finance), Jacobsson and Noaksson (labour markets), and Jakobi (financial crime) reveal the OECD's dexterity in specific economic arenas. This chapter, by contrast, provides a panoramic view of the organization's quest to govern economic activity and the generic mechanisms applied by the key actors involved, namely the OECD's Economics Department, its major economic committees and subsidiary working groups. These actors are very much the heartbeat of the OECD. First, the Economics Department and its ancillary committees are the biggest consumers of the OECD's resources (OECD 2003) and define the ideological parameters within which the organization's program of work and budget resides. Second, the amount of cross-departmental work involving the Economics Department is such that its ideas leach into the policy sectors coveted by other OECD Directorates. Third, forerunners of the Economics Department were the architects of the OECD's principal policy evaluation mechanism, the much vaunted system of peer reviews.

This chapter commences by sketching the salient protagonists in OECD economic governance and the mechanisms they employ. It finds that although the OECD's work in the economic field has changed a great deal since 1961 the mechanisms of governance used exhibit remarkable continuity. Echoing the other policy fields covered in this volume the OECD promotes policies through 'soft' mechanisms of governance grounded in surveillance and peer review and are the main instruments dwelt upon in this chapter. Next, the chapter turns to inspect the effects of OECD outputs on policy change, co-ordination and convergence. Generally speaking peer reviews and surveillance are most directly related to policy change whereas idea generation and data production are associated more with policy coordination and convergence. Lastly, the chapter suggests that internal dynamics and external players condition the effects of OECD governance. The OECD exerts a 'subtle discipline' (Bayne 2000: 48) over the trajectory of economic governance inducing policy change, convergence and, on rare occasions, coordination. Ultimately, however, external actors and internal dynamics constrain the OECD's impact and the chapter concurs with recent scholarship suggesting the organization's bearing at the national level is restricted (Armingeon and Beyler 2004) and its international pronouncements are increasingly 'drowned out by a cacophony of competing voices' (Woodward 2006: 38).

The Main Protagonists

Interactions amongst the Council, Secretariat and the committee system drive the OECD's economic governance processes (see Figure 2.1). Composed of plenipotentiaries of all member states and the European Commission the Council gives political impulses to the OECD's work. The Council makes decisions about the economic issues to be investigated and authorizes the Secretary-General to orchestrate this work through the OECD Secretariat and committee system. The Secretariat, principally those from Economics Department and the Statistics Directorate, are the foot soldiers of the process organizing meetings, and supplying the raw data, analysis and documentation to underpin committee deliberations. The Economics Department is tasked with examining the interaction of structural and macroeconomic strategies and events and endeavours to promote a blend of policies to maximize long term economic growth. The Statistics Directorate meanwhile concentrates on curating databases of comparable economic statistics and measuring national progress towards norms, rules and standards agreed at the OECD. Opinion is divided about the Secretariat's influence on the process of OECD economic governance. The former head of what was then the Economics and Statistics Department states that the Secretariat's treatise 'are prepared from an independent and transnational point of view, it is the clients – the member governments – that largely determine the choice, and *up to a point* the treatment, of the subject matter' (Henderson 1996 my emphasis). By considering policy problems in innovative ways they condition national officials on OECD committees to new modes of thinking but ultimately the Secretariat's room for manoeuvre is constrained by the political masters in the Council (Marcussen 2004). Lastly, the economic committees, populated by officials from member states, debate the findings and work with the OECD Secretariat to stimulate consensus on economic policies and further their implementation. Sometimes the decisions reached in committees are consecrated by the Council closing the OECD policy loop.

INSERT FIGURE 2.1 HERE

As subsequent chapters attest, committees are the venue where most of the OECD's work is done and the Secretariat's rigorous, dispassionate analyses are exposed to political reality. The Economic and Development Review Committee (EDRC) meets the most frequently and has the largest budget of any OECD subsidiary body (OECD 2003). Its main responsibility is policy evaluation and, in particular, the production of periodic *Economic Surveys* of individual countries (see below). The EDRC is composed of the Economic Counsellors of the permanent delegations of member states and the European Commission in Paris and observers from the Bank for International Settlements (BIS), International Monetary Fund (IMF), World Trade Organization (WTO), World Bank, European Free Trade Area (EFTA), and the Russian Federation. The other principal economic body is the Economic Policy Committee (EPC). Described as the OECD's 'inner sanctum' (Sullivan 1997: 62) the EPC has existed since the organization's foundation. Consisting of senior officials from finance ministries and central banks and observers from the BIS, EFTA, IMF and World Bank its mandate is to 'keep under review the economic and financial situation and policies of Member countries' (OECD 1960b). Three EPC working parties deal with more specific concerns. The most renowned is Working Party No. 3 on Policies for the Promotion of Better International Payments Equilibrium (WP3). Created simultaneously with the EPC to superintend the balance of payments problems blighting the international economy WP3 is unique amongst the OECD's economic committees as membership is restricted to representatives from Canada, France, Germany, Italy, Japan (following her accession in 1964), the Netherlands, Sweden, Switzerland, United Kingdom, United States, the European Commission and observers from the BIS and the IMF. This peculiar arrangement derives from inconveniences encountered while trying to deal with these quandaries elsewhere. The IMF's expanding membership plus European anxieties about the power exercised in the institution by the United States scuppered the IMF's aptitude for this role (Russell 1973; Fischer 1987). Switching dialogue to more compact, European dominated institutions such as the BIS and the EPC did not overcome these problems and so the WP3 was installed as a setting for meetings amongst officials of the economies of systemic importance to the international financial system. The Working Party on Short-Term Economic Prospects created in 1963 exists to facilitate the 'systematic exchange of short-term forecasts of economic developments' (OECD 2007b). This body convenes to exchange information prior to full meetings of the EPC. Finally, in 1980, the OECD formed Working Party No. 1 on Macroeconomic and Structural Policy Analysis to report to the EPC on medium term policy issues and proposals. Reflecting the growing ascendance of neo-liberal policy nostrums the OECD charged this body with contemplating supply side policies surrounding investment, factor mobility and energy as well as the more traditional macroeconomic levers redolent of Keynesian demand management.

Mechanisms of OECD Economic Governance[i]

Of the mechanisms of OECD governance under consideration in this volume the most visible manifestations in the economic field are the organization's policy evaluations in the form of periodic peer reviews of individual countries and ongoing surveillance of global economic situation. Data generation and idea diffusion are however crucial components for, and frequently by-products of, these policy evaluations. Remember that Article 3 (a) obliges members to endow the OECD with the information required to execute its functions. Members regularly send the OECD standardized statistical returns and completed questionnaires collating qualitative data from the experiences and concerns of national policymakers. The Secretariat sieves this material and undertakes mathematical gymnastics to pinpoint trends, correlations and causations, and zero in on matters of consensus and controversy. The OECD is custodian of around 40 databases painstakingly archiving bygone, current and anticipated figures for 26 broad subject areas. The organization has proved especially adept at fashioning 'datasets for previously untouched issues and internationally standardized methodologies to render data more complete, reliable and internationally comparable' (Woodward 2009: 65). A prominent example is the System of National Accounts a skeleton of 'internationally agreed concepts, definitions, classifications and accounting rules' used by states to calculate a gamut of macroeconomic figures from GDP to levels of investment, consumption and government indebtedness (OECD 2008b).

In terms of ideas, the OECD is habitually characterized as 'an international economic conference in permanent session' (OECD 1964: 6) because its processes of economic governance persistently thrust together the same individuals from economic ministries and central banks of member and certain non-member states, international organizations and the OECD Secretariat. A theme reverberating through the literature on OECD governance is that different actors learn from each other through the ongoing and systematic exchange of information, experiences, and outlooks which in turn manufactures 'consensual knowledge' (Tarullo 2000: 495) amongst elites about how the world works. Robert Wolfe (2001: 1180), part of Canada's delegation to the OECD between 1981 and 1985, wrote that possibly 'the most important thing that changes because of the OECD might be the thinking of the people involved'. This collective intelligence maybe in the form of a shared language or way of describing phenomena, new data, cause and effect relationships, for instance that an expanding money supply leads to higher inflation, or convictions about superior policies to deal with certain circumstances. This rapprochement may result in the development of informal policy guidelines, best practice benchmarks and, on rare occasions, to the negotiation of formal legal agreements using the OECD's official decision making apparatus.

The OECD peer review and surveillance processes have the task of checking the extent to which countries are following these guidelines, benchmarks and agreements, whether formalized or not. The OECD's predecessor, the Organization for European Economic Co-operation (OEEC) forged nascent versions of the OECD's contemporary techniques. Annual reviews of member economies by the OEEC commenced in 1952 employing a formula analogous to that used by the EDRC to produce today's *Economic Surveys* (OEEC 1958). The EDRC's *Economic Surveys* aim to advance and disseminate judgments about a country's economic standing and policy challenges, enhance debates about its economic policy at the national and international level, gauge its performance against frameworks of economic best practice developed at the OECD, and identify deficiencies and recommend policies to deliver sustainable long-term economic growth (Nottage 2002: 21; OECD 2005). Surveys originally focused on short run macroeconomic matters but by the end of the 1960s were already pondering structural aspects of countries' economic policies which by the early 1980s were an integral part of the review process. A cursory glance at the *Economic Surveys* of the United Kingdom substantiates this pattern. Surveys undertaken throughout the 1960s related almost exclusively to the UK's balance of payments and how government could manipulate the demand side of the economy to stimulate economic growth. In the 1970s, the overall slant remained pushing aggregate demand but also witnessed growing interest in structural issues like labour markets and competition policy (see for example OECD [EDRC] 1973: 23-48). The space dedicated to structural issues expanded rapidly in the 1980s typically devoting sections to subjects including 'manufacturing industry and structural adjustment' (OECD [EDRC] 1983: 40-50), 'supply-side issues' (corporate taxation, market liberalization, privatization, and labour market rigidities) (OECD [EDRC] 1985: 17-29), the 'institutional factors affecting labour markets' (OECD [EDRC] 1986: 28-34), financial markets (OECD [EDRC] 1987: 28-56) and public sector management (OECD [EDRC] 1989: 63-96). Structural issues remained in vogue in the 1990s to the extent that the majority of the substantive 1996 report was given over to analysis of competition policy and the UK's implementation of the OECD Job Strategy (OECD [EDRC] 1996: 42-106).

Economic Surveys are labour intensive. The growth of OECD membership and the extension of reviews to selected non-members (Brazil, India, Chile, China, and the Russian Federation) and the Euro-area means that while states were once appraised every 12-18 months nowadays up to two years can elapse between surveys (OECD 2005). Otherwise the rudimentary template for producing *Economic Surveys* has barely altered and warrants special consideration because the EDRC ‘pioneered the OECD’s peer review/peer pressure mechanism [which] has since been emulated throughout the organization’ (OECD 2003: 75).

The production of an *Economic Survey* comprises three phases: preparatory, consultative and evaluative (Marcussen 2004; Schäfer 2006b). In the preparatory phase a country desk in the Economics Department collects background information from the national administration. This is achieved primarily through a questionnaire covering contemporary economic developments, projected economic performance, and future policy initiatives. Next, a small (usually two to three people) Economics Department delegation visits the country to elicit additional intelligence from senior bureaucrats in central banks and economic ministries, country experts, and an assortment of social partners. The process then moves into the consultation phase with the Secretariat publishing a draft Survey on OLISnet, the OECD’s online environment for authorized officials from national governments. Germane parties pore over the draft and consider their response in advance of a follow-up expedition by staff from the Economics Department. The second visit allows OECD staff to revise earlier information and to instigate policy oriented discussions on frailties identified by the preliminary Survey. This phase concludes with a symposium of the OECD staff and senior national officials (and sometimes Ministers) before the Economics Department team retires to Paris to write the final draft of the Survey. This draft is circulated to all EDRC members approximately four weeks ahead of the committee meeting.

A one day convocation of the EDRC marks the final evaluative phase of the process. Here 10-14 representatives from the surveyed country present themselves for evaluation by their peers. The main objectives of the meeting are to ensure that all major economic issues have been interrogated, to offer advice on appropriate policy responses, and verify whether recommendations from previous Surveys were implemented. The general procedures for the conduct of the meeting are laid down in the *Agreed Principles and Practices of the Economic and Development Review Committee* (OECD 2005). The main scrutineers are representatives from two other member states designated by the EDRC, abetted by a chairperson and members of the Secretariat. There are no formal rules governing the choice of representatives from member states but a norm has evolved that ten years must pass before a member that has scrutinized a country is itself scrutinized by that country. The topics to be covered and the direction of the discussions are framed by a ‘Questions for Discussion Note’ prepared by the Secretariat in conjunction with the Chair and the two examining countries. The enquiry commences with testimony from the country under review highlighting points of contestation with the draft Survey and justifying its position. Subsequently representatives from the two examining countries pose their questions to emissaries of the country being observed before the floor is opened to comments and questions from the remaining members of the committee. The EDRC requests the Secretariat is proactive in illuminating impending economic weaknesses. In the ensuing debate ‘government has to come up with reasonable arguments for its behaviour and defend its own policies in the light of probing questions. While diplomatic in tone, participants do not shy away from voicing concerns and critique’ (Schäfer 2006a: 74). The Chair concludes with a précis of the discussion and the central findings to be incorporated in the redrafting of the survey. The following day the examined country hammers out with the Secretariat an agreed version of the final document. Squabbles occur as countries try to ensure the verdict presents their economic record and prospects in the best possible light. According to the OECD (2002: 3) modifications to Economic Surveys are more prevalent than in comparable reports by other multilateral economic institutions and incline towards the expurgation of ‘politically sensitive advice’. Nevertheless, the Secretariat does not cravenly accommodate the pronouncements of the reviewed country and drastic revisions are deterred by the fact that the customized survey must be distributed to all EDRC members and will only be published after all members give their seal of approval.

The OECD’s other main policy evaluation tool is the *Economic Outlook*. Published twice yearly in June (July until 1985) and December under the auspices of the Secretary-General the *Economic Outlook* makes projections for the coming two years about major economic trends such as GDP (gross domestic income) growth, unemployment, inflation, and short term interest rates and advocates policies to nurture sustained growth in the OECD zone. As well as a ‘general assessment of the macroeconomic situation’ conveying blanket recommendations for the OECD area the *Economic Outlook* contains specific chapters on developments in individual countries. In the infant years country specific chapters were restricted to analyses of the larger OECD economies: the United States, United Kingdom, France, West Germany, Italy, Canada and Japan. From 1974 the OECD added a generic survey of the remaining member states but it was not until 1981 that these countries were separately considered. Nevertheless, the publication was still heavily skewed towards what had now become the Group of Seven (G7). For example, the June 1981 report allocated 34 pages to the G7 economies and only 10 to the other seventeen OECD member states. By the 1990s the bias was less pronounced and presently the original G7 economies get four pages of coverage compared with two for non-G7 members. From 2005, the burgeoning interdependence of OECD and non-OECD economies was recognized by the inclusion of selected non-member economies (Brazil, India, China and the Russian Federation). Special chapters summarizing the Economics Department's recent empirical work on topics of particular interest to OECD members or that have a particular bearing on present developments has increased over time. Recent examples include trends in corporate saving and investment (December 2007), vulnerabilities from rising household debt (December 2006), the budgetary effects of long-term health care spending (June 2006), oil price fluctuations (December 2004), the US current account deficit (June 2004), the bursting of the telecommunications bubble and restrictions on foreign direct investment in OECD countries (June 2003), the economic price of terrorism (June 2002), and the fiscal implications of aging (June 2001). Finally, there is a lengthy statistical annex.

The oscillating content of the *Economic Outlook* contrasts with the stability of means through which it is amassed. Assembly of the *Economic Outlook* dawns with widespread discussions between OECD country desks and topic experts to ensure that there is a homogeneous foundation for the international commercial outlook and its likely relationship with individual country projections (OECD 1999: 2). Interlink, a regularly updated macro-economic model, is engaged to 'ensure a consistent set of paths for key economic variables' (OECD 2007c), experiment with different scenarios and pinpoint perils in the projections. These projections are analyzed and debated intensely within the Secretariat before harnessing local economic wisdom through discussing the interim conclusions with policy makers and economic boffins from national governments. In contrast to the EDRC process, which gives states considerable latitude to affect the final outcome, the Secretariat does not perfunctorily absorb the views expressed by states in the production of *Economic Outlook*. The chief contours of the *Economic Outlook* are presented to the EPC which dwells upon the key policy implications. Inevitably the EPC considers the position of individual states but unlike the *Economic Surveys* there is no formal review mechanism. Moreover, the number of countries limits the length and intensity of these discussions. The views expressed in the EPC are taken in to account by the Secretariat in finalizing the published report.

The OECD's Impact on Economic Governance

Imparting a comprehensive assessment of the OECD's effect on economic governance is a massive undertaking fraught with complications. Vetting the OECD's impression on economic 'policy change' (see Jakobi and Martens, introduction) at the national level would, for example, necessitate a forensic investigation of that country's policies over many years and disentangling the organization's impact from the many other drivers of economic policymaking. The possibility that the same prescriptions would have been followed irrespective of the OECD's blessing or, as Marcussen (2004) intimates, that the OECD is scouring policy debates in order to jump on the bandwagon also cannot be discounted. Additionally, as commentators wishing to measure the influence of the G7/8 discover (Daniels 1993; Kokotsis 1999), the coded and circumspect language emblematic of international diplomacy engenders imprecise pledges and agreements making correlations between this and national economic policies almost impossible to ascertain. These problems are exacerbated by the breadth of the OECD's work in the economic domain, the expanding membership, and the escalating numbers of non-members subject to OECD mechanisms of governance not to mention the panoply of international organizations and private structures of authority that may be receptors of OECD's counsel. What follows therefore are some general reflections about the effect of the OECD on economic governance and the main factors conditioning its impact.

Policy Change

In their seminal piece on international organization and transgovernmental relations, Keohane and Nye (1974: 45) conjectured 'regularized patterns of policy coordination can therefore create attitudes and relationships that will at least marginally change policy or affect its implementation'. Slaughter's (2004) recent research corroborates these findings noting how national government officials are 'increasingly enmeshed in networks of personal and institutional relations… enforcing "network norms" against cheating or undesirable behaviour' (Slaughter 2004: 7, 25). This points to the possibility that work undertaken at or by the OECD might lead to what Martens and Jakobi (Introduction) refer to as policy change. There is evidence of meetings at the OECD acting as a salve for international problems with officials developing personal amities and returning to national capitals with a more nuanced appreciation of the problems vexing their counterparts abroad. Palmer and Lambert (1968: 109) talk of a 'habit of co-operation' whereby officials instinctively take the welfare of other states into account during the policymaking process. In other words, one source of policy change and policy convergence is cognizance amongst officials that they will shortly be facing their contemporaries across the same committee table in the context further informal dialogue or formal surveillance and peer review. This manufactures strong incentives for officials to advocate agreed positions in national capitals to bolster their reputation and credibility amongst their peers (Pagani 2002; Marcussen 2004) and to avoid their country being ‘named and shamed’ as a laggard in OECD reports. Other international organizations imitate the OECD’s peer review process but the intensity and intimacy of the OECD’s peer reviews are unique. Whereas the EDRC devotes a full day to all country reports (OECD 2002: 2) the IMF Executive Board scrutinized roughly 130 country reports in 2001, allotting just two hours of discussion to each. Similarly, at the OECD national officials are more personally involved at all stages of peer review but at the IMF it is unusual for policymakers to be present at the Executive Board when their country report is being discussed. Nevertheless, it is important not to exaggerate the effect of the OECD. Critical OECD reports may stir up a hornet’s nest in national capitals but the coverage is ephemeral and the consequences appear limited. For example in September 2008 the OECD’s interim economic outlook insinuated that the United Kingdom was the worst placed of any G7 economy to weather the forecast global recession. A burst of hostile publicity followed but the report quickly vanished from the journalistic radar and had a negligible impact on the British government’s economic policy. Similarly, in their analysis of the implementation of the OECD’s Jobs Strategy McBride and Williams (2001: 290-3) found little correlation between disparaging OECD reports and a country’s proclivity for labor market reform.

Familiarity and the building of bonds of trust between economic elites which may lead them to identify more with their international peer group than officials representing other ministries in their domestic milieu. A second source of policy change and convergence is to forge coalitions with likeminded elites at the OECD to outflank resistance from other domestic ministries. In 2006, for example, the Belgian Treasury mobilized the Secretariat’s analysis of ageing societies to compel unpopular reforms to the country’s welfare system (Kanter 2006). Finally, interactions at the OECD may not necessarily may not necessarily lead to the harmonization or even convergence of national economic policies but they will at least result in ‘informed divergence’ (Slaughter 2004: 171-2). OECD meetings are an opportunity not only to erect standards of best practice but for officials to signal why their policies must depart from established norms or how they have to be modified for specific domestic context.

Of the cooperative categories cited in Article three of the Convention the exchange of information and ongoing consultation are commonplace at the OECD. Episodes of the final category, coordinated action, are intermittent by comparison. Often, however, the ‘consensual knowledge’ evolved at the OECD can finesse cooperative ventures. It is tempting to dismiss the Secretariat’s propensity to generate reliable and comparable cross national datasets but without them international collaboration becomes impossible. For example, the absence of a uniform framework for calculating balance of payments statistics and projections stymied the efficaciousness of infant WP3 meetings. Instead of providing a venue for candid debates and intensive inspection of national policies members merely recapitulated their publically positions backed by their own irrefutable economic calculations. To overcome this, the Secretariat amended the IMF's statistical framework for the computation of balance of payments data for use in WP3. The framework was imperfect but the 'common format for presenting the data, and bold, increasingly sophisticated projections of the trends by OECD staff marked the transition to a franker discussion of national balance of payments adjustment policies' (Russell 1973: 456). OECD data still contributes to the governance of global financial affairs (see also Porter, this volume). In September 1998, in the aftermath of the Asian financial crises, the US Federal Reserve sought to inject much needed liquidity into the international financial system by cutting its interest rates. According to Martin Rudner (in Guilmette 2007)

> 'the decision depended on its timeliness and effectiveness on the reliability of the economic and financial information upon which the policymakers based their judgments. … It should be clear that the availability of internationally comparable and consistent data on macroeconomic, financial and trade performance was a tribute to the accomplishments of the OECD'.

The OECD also pursues economic policy change, convergence and coordination by structuring agendas in other international organizations. From the outset OECD members have 'weighed heavily in the three spheres of world production, trade and finance' (Aubrey 1967: 97) and the sporadic expansion of OECD membership ensures their share of global wealth, trade, emissions and aid flows have barely declined (see Woodward 2009). The OECD thus remains a powerful caucusing group in other international economic organizations. At a technocratic level this is facilitated by the participation of the Secretary General and senior OECD staff in meetings of bodies such as the IMF, World Bank and the World Trade Organization (WTO) and vice versa. As of July 2008, 101 international organizations were observers on one or more OECD body. Of the multilateral economic institutions the leading participants were the World Bank (observer to 45 OECD bodies), the IMF (39), and the WTO (18).

At the political level the OECD is an integral part of the merry-go-round of annual economic meetings. After an uneasy start (see Bayne 2000: Chapter 4) the OECD's closest ties are now with the G7/8 family (see also Ougaard, this volume). The G7's high-level political meetings initiated some moderately successful sorties into macroeconomic policy coordination (see Putnam and Bayne 1987). As the previous section intimates, by the late 1980s the economic elite no longer worshipped at the Keynesian alter but were acolytes of the supply side faith. According to the new gospel sustained non-inflationary growth rested less upon the successful *international* coordination of macroeconomic policies and more upon individual countries following the proper domestic policies, that is to say 'getting the fundamentals right'. Unfortunately the annual gatherings of the G7 Heads of State and the intervallic meetings of G7 Ministers were poorly equipped to wrestle with the complexities of these so-called structural policies and they came increasingly to rely on the OECD's statistical and analytical muscle (see Ougaard 2004: 80-6; Woodward 2009: Chapters 1 and 5). This was formally acknowledged by the Communiqué issued at the G7 Heads of State Summit at Houston in 1990 which

> 'welcome(d) the major contributions of the Organization for Economic Cooperation and Development (OECD) in identifying structural policy challenges and options. We encourage the OECD to strengthen its surveillance and review procedures, and to find ways to make its work more operationally effective' (Group of Seven 1990).

In the final decade of the last century the G7/8-OECD relationship burgeoned qualitatively and qualitatively (Woodward 2008). Heads of State and Ministerial Communiqués issued in the third Summit cycle referred to the OECD's work on 37 occasions compared with 26 during the first two Summit cycles combined. Furthermore during this cycle the references were more proactive requesting work from the OECD rather than endorsing existing efforts. In the fourth Summit cycle references spiked to 184 (Woodward 2008: 272-3) leading some commentators to conclude the OCED was a de facto G8 Secretariat. Though that case is overstated the OECD's associations with the G8 and other international organizations such as those active in the sphere of world trade (see Cohn 2002) means its influence can radiate far beyond its core membership.

Policy Conditions

The influence wielded by the OECD is confined and enabled by internal dynamics, external players, and policy constraints (see Martens and Jakobi, introduction). Given the centrality of economic governance to the OECD's *raison d'être* and the weight of the Economics Department and associated committees internal dynamics do not enter into *whether* the organization is involved in economic governance but can affect the *extent* of its impact. The OECD is not immune to the callous realities of global politics. Camaraderie and convergent knowledge amongst technocrats does not necessarily translate into policy effects because power, national interests and national level bureaucratic squabbles intervene. The OECD is 'emphatically not a meeting of equals. The most powerful member states provide most of the funding, set the agenda, make or break agreements, and exert a vice-like grip over the membership and remit of key committees' (Woodward 2009: 4). Given that the economic committees are the bellwethers of the OECD's output, the power of leading OECD states is especially pronounced. For example, apart from the period from 1969 and 1972 when Dutchman Emile van Lennep held the post, the chair of the EPC has never hailed from outside the United States, the United Kingdom, Germany or Japan. Equally powerful countries apply pressure to shunt issues into directorates where their interests will receive the most sympathetic hearing or be viewed through specific lenses. When they want an issue to be interpreted and analyzed via the neo-liberal prism it will be shunted into ECO rather than one of the more socially oriented directorates that take a more eclectic approach. Notably the Jobs Strategy and the ongoing Economics of Health project are both being pursued via ECO when they might have both been gazed upon by the Directorate for Education, Labour and Social Affairs. Moreover, in June 2005 the OECD's *Economic Outlook* argued that the European Central Bank ought to cut interest rates but curiously this recommendation did not appear in the organization's *Economic Survey* of the euro area published one month later. Because the *Economic Outlook* is exclusively owned by the OECD Secretariat but those under review are able to sway the content of the *Economic Survey*, this would substantiate the view that larger bureaucracies, greater numbers of experts and think tanks leave more powerful states better positioned to refute and challenge OECD findings (OECD 2002: 3) and that reviews of smaller states are franker than their larger brethren. Lastly, outright manipulation of the peer review process is not unheard of. In the 1980s, Margaret Thatcher was so incensed by a proposed EDRC report that she requested the removal of the Director of the Economic Division (then a British citizen). The Secretary-General rejected the call but the language of the report was adulterated as a consequence (Guilmette 2007). Given the balance of financial contributions and the overall austerity afflicting the OECD (see below) it seems inconceivable that it would ignore objections from powerful states.

WP3's tussles with balance of payments problems in the 1960s exemplify the problems of bureaucratic infighting and national interests. Despite breeding familiarity amongst the denizens of selected treasuries and central banks and agreement about the operations of the international monetary system most observers argue WP3's impact on national policies and levels of international policy coordination was minor (Odell 1982: 349-50; Russell 1973: 456-9). The efforts of WP3 were frustrated by juxtaposed national interests and the inability of deputies from economic ministries to overcome opposition from more socially oriented departments in national capitals. Likewise, McBride and Williams (2001: 290) note that the OECD felt that the failure of states to implement key precepts of the Jobs Strategy reflected their reluctance to upset 'insider' groups.

The importance of internal dynamics enters into the questions of the ideas prevailing at the OECD. The chairman of the EDRC, Niels Thygesen, argues the Secretariat should be 'open to new academic ideas and not to bend with the prevailing view of governments' (OECD 2002). Indeed the OECD's job is to confront political whims by subjecting them to sober assessment and promulgate new ideas to which governments should aspire. Marcussen (2004), however, insinuates the OECD has ceased to function as an 'ideational artist' in the vanguard of paradigmatic revolutions and acts more as an 'ideational agent' assimilating already existing trends to curry favour with member states and international organizations. The proselytization of the OECD Secretariat from a Keynesian to supply side orientation is an interesting case in point. Scott Sullivan (1997: 41), the OECD's official biographer, sees the OECD consummating and promulgating a new economic philosophy that its members and the wider world faithfully emulated. The OECD did publish some material in the early part of the 1970s reproaching central principles of the Keynesian settlement (see Ougaard 2004: 89-90). Nevertheless, this was tempered by headline policies retaining a piquant Keynesian hue. Between 1976 and 1978 the OECD Secretariat was a stalwart supporter of the Keynesian inspired 'locomotive' strategy for macroeconomic reflation and was later branded 'too Keynesian' to prepare the economic part of the G7 Summit agenda by President Reagan and Prime Minister Thatcher (Bayne 2000: 53). Closer scrutiny of OECD documents reveals that it is only *after* leading states expressed disquiet and started to retract elements of the Keynesian consensus that tackling inflation through structural adaptation and monetary and fiscal discipline became a regular refrain in country reviews (Marcussen 2000: 184-96), Ministerial communiqués and esteemed surveys such as the McCracken Report.

Marcussen (2004: 119-20) argues that a paucity of resources aggravates the OECD's proclivity to follow trends rather than set them with the 'the average civil servant… more likely to write what is expected of him or her, rather than risking provocation'. With one quarter of the organization's budget supplied by the US and 73.23 per cent supplied by G7 members (OECD 2008a) the OECD is reticent to upset its main benefactors. A striking example was the dismembering of the OECD's harmful tax competition proposals following opposition from the US (see Kudrle this volume). For some the downgrading of the proposals was insufficient and in 2004 John Gregg, Chair of the Senate Budget Committee, appended a stipulation to the spending bill postponing the US contribution to the OECD until projects negating US interests were dropped. The threat of withholding funds to the US still looms, however. In February 2006, the Centre for Freedom and Prosperity (the lobby group fronting resistance to the tax competition project) penned a letter to John Bolton, the Director of the Office of Management and Budget, exhorting 'the Administration (to) strongly consider eliminating or at least drastically reducing funding to the OECD' (Centre for Freedom and Prosperity 2006).

Questions must also be raised with regard to 'external actors', particularly the OECD's agenda setting powers in other international organizations. Previously the chapter noted the OECD's exclusion from G7 Summit preparations after the outlook of the Secretariat bifurcated from the G7 states. Conspicuously, discussions of balance of payments imbalances and international efforts to govern them have, since the mid-1980s, crystallized in the G7 Group of Finance Ministers and Central Bank Governors, relegating WP3 to the fringes (Funabashi 1988; Krugman 1991). Tellingly the organization's relationship with the G7/8 only blossomed *after* its agenda converged with that of the G7. The OECD's penchant for investigating structural issues rehabilitated it in the eyes of G7 countries. Nevertheless, there is little doubt about who is in control of this relationship. The G7 enjoys 'an almost hierarchical relationship with… the OECD, which the G7 often rather peremptorily ask to carry out certain activities' (Guttry quoted in Ougaard 2004: 78; see also Bayne 2000). The growing 'gaggle of G's' (Culpeper 2000), an army of think tanks and private groupings such as the World Economic Forum (Julin 2003; Pigman 2007) and the resurgent European Union (EU), mean there is an increasingly crowded marketplace for sources of global economic governance. For some a closer embrace with the G7/8 may be the OECD's salvation but others worry this will hinder the organization's room for manoeuvre (see Woodward 2006). The desire to avoid antagonizing the rump of G7 members might inhibit the willingness of the

OECD to generate innovative policy solutions and in so doing enervate the organization's capacity for global economic governance.

Conclusion

This chapter has outlined the principal actors driving OECD economic governance, the mechanisms they apply, made some tentative observations about their impact, and the constraints to OECD authority imposed by national interests and the wider international processes in which the OECD is embedded. No empirical studies evaluating OECD's impact on national economic policies exist and formidable obstacles await those seeking to conduct such an analysis. Indeed the OECD's greatest contribution to economic governance is not shaping national economic policies but, through constructing communities of influence, the less tangible altering of the *mindset* of those involved in economic management and the *ideas* underpinning it. Overall, the picture is that of the OECD's mechanisms of governance policy evaluation in the form of peer review and surveillance is most likely to lead to policy change whereas idea generation and data production appear more inclined to promote policy convergence and, more rarely, policy convergence.

Further research is also needed to investigate whether the OECD is the independent or dependent variable in the process of economic governance. Increasingly the OECD appears to be the dependent variable buffeted by ideas emanating from national capitals and other international organizations rather than being their initiator. Likewise, asking what the OECD changes maybe misses the point. In the economic domain the distinct impression gleaned from those involved in the OECD is that the organization is not significant for what it changes but for what it does not. The OECD's Economics Department is one of the outriders for neo-liberal economic governance, entrenching present trajectories by providing grist for the neo-liberal mill or, following Jessop (2002), Graefe (2006) and several contributors to a forthcoming volume edited by Mahon and McBride (2008), instigating 'flanking mechanisms' to manage the inherent contradictions and instabilities of neo-liberal modes of governance. This is epitomized by the OECD's ever closer ties with the G7/8 with the latter seeming to use the organization to popularize the ideas of the chosen few and disseminate them amongst the OECD's wider membership and the expanding number of non-members encompassed by the OECD's reach-out programme. The chapters that follow explore how these generic observations play out in specific economic policy fields.

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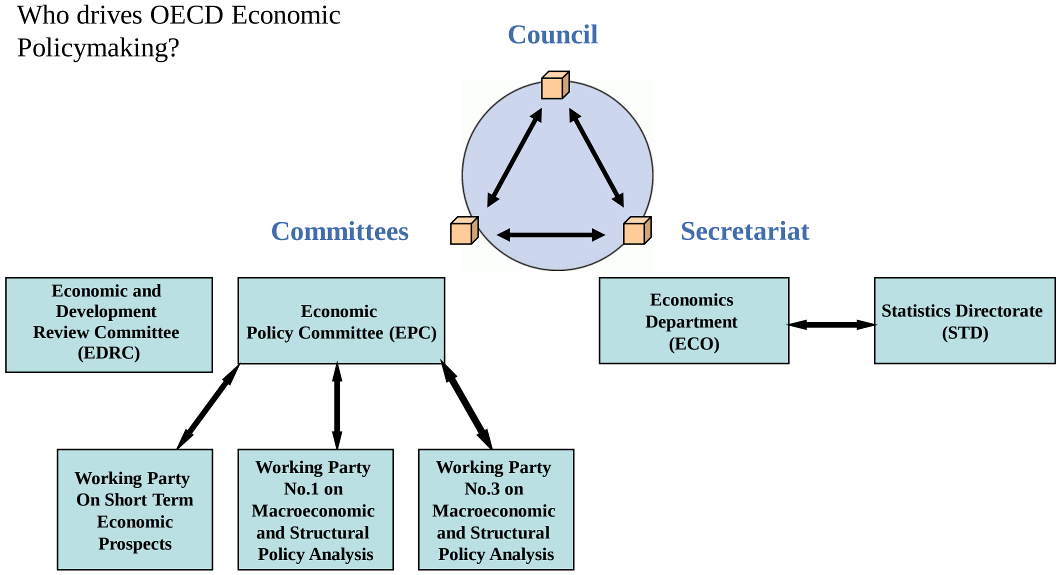
Figure 2.1

Who drives OECD Economic Policymaking?



Source: Derived from OECD (2007a)

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[i] This section draws upon Woodward (2009: 58-60).