World Economy

Commitment

"We agreed that it was important to take advantage of the strong global economic environment to implement further reforms to accelerate growth in our countries."[198]

2004 Sea Island Chair's Summary

Background

The G8 chose to focus its macroeconomic commitments on structural reform now that positive growth has returned to the Group's largest economies. The constituent nations decided not pursue a coordinated plan on macroeconomic reforms, a decision largely reflected in the diversity of plans and reform packages implemented by the eight countries. Many of the sectors or policies targeted were previously identified as areas of concern in Article IV consultations between the International Monetary Fund and the members of the G8.

Assessment

Country	Non-Compliance –1	Work in Progress 0	Full Compliance +1
Canada		0	
France		0	
Germany		0	
Italy			+1
Japan		0	
Russia			+1
United Kingdom		0	
United States		0	
European Union		0	
Overall: 0.22			

Individual Country Compliance Breakdown

1. Canada: 0

Canada has partially complied with its World Economy commitments. The public pension system, unlike those in several other G8 states, remains stable with the IMF projecting it to be actually around for at least 50 years[199]; others consider it sound for at least 75 years.[200] Finance Minister Ralph Goodale said in November 2004 that Canada's aging population raised concerns

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[198] *Chair's Summary*, The White House (Washington) 10 June 2004. Date of access: 15 January 2005. [www.whitehouse.gov/news/releases/2004/06/20040610-47.html]
[199] *2005 Article IV Consultation with Canada: Preliminary Conclusions of the IMF Mission*, International Monetary Fund (Washington) 1 December 2004. Date of access: 12 May 2005. [www.imf.org/external/np/ms/2004/120104.htm]
[200] *21st Actuarial Report of the Canada Pension Plan*, Office of the Superintendent of Financial Institutions Canada (Ottawa) 8 December 2004. Date of access: 12 May 2005. [www.osfibsif.gc.ca/osfi/index_e.aspx?DetailID=499]

about the sustainability of federal social programs, especially health care,[201] and that the government would implement policies to build an economic environment that fosters greater innovation, productivity and international competitiveness to generate the wealth the country will need to face those additional pressures," as well as seek to reduce the federal government's debt load over the next decade.[202]

In the February 2005 proposed federal budget, there was some indication that the government has moved to address these concerns. The budget did contain some innovation related spending: $375 million for federal research grant councils, funding for Genome Canada and further funds for research at hospitals and universities.[203] For the last several years, Canadian governments have often spent unused annual emergency funds on paying down the debt and that may occur this year as well. However, there was no particular debt reduction measure in the budget. The 2005 Budget also announced regulatory changes that were immediately approved, such as eliminating the foreign content limits on registered retirement savings plans, allowing individuals to invest their retirement funds where they see fit.[204]

On February 16, 2005, the Executive Board of the International Monetary Fund concluded its Article IV Consultations with Canada.[205] The Board noted that, despite several negative events, Canada's economy has remained incredibly "robust" among those of the G7 nations.[206] In particular, the economic indicators of GDP growth, fiscal surplus, inflation and unemployment are all quite positive given the current state of the world economy.[207] The directors congratulated Canada's economic elite for their able handling of the economy and economic agents' expectations, but warned that continued health care transfers to the provinces without demands for reform and cost containment could cause problems in the future.[208] Finally, they reiterated their call, echoed by the Bank of Canada governor David Dodge[209], for reform and liberalization of the Canadian financial sector.[210] They noted that such action was necessary to ensure competition among participants in the financial industries and to increase the gains from global integration.[211]

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[201] *Economic and Fiscal Update: Stronger Growth and Balanced Budgets for Canada*, Department of Finance Canada. 16 November 2004. Date of access: 12 May 2005. [www.fin.gc.ca/news04/04–069e.html]
[202] Ibid.
[203] *The Budget in Brief 2005*, Department of Finance (Ottawa) 23 February 2005. Date of access: 13 May 2005. [www.cbc.ca/news/background/budget2005/documents/budget05/brief/briefe.htm]
[204] *CBC News Indepth: Budget 2005*, CBC News (Ottawa) 27 April 2005. Date of access: 13 May 2005. [www.cbc.ca/news/background/budget2005/issue_personalfinance.html]
[205] *IMF Executive Board Concludes 2005 Article IV Consultation with Canada*, International Monetary Fund (Washington) 29 Match 2005. Date of access: 17 May 2005. [www.imf.org/external/np/sec/pn/2005/pn0543.htm]
[206] Ibid.
[207] Ibid.
[208] Ibid.
[209] *Remarks by David Dodge, Governor of the Bank of Canada, to the Empire Club of Canada and the Canadian Club of Toronto*, Bank of Canada (Ottawa) 9 December 2004. Date of access: 15 December 2004. [www.bankofcanada.ca/en/speeches/2004/sp04–14.htm]
[210] *IMF Executive Board Concludes 2005 Article IV Consultation with Canada*, International Monetary Fund (Washington) 29 Match 2005. Date of access: 17 May 2005. [www.imf.org/external/np/sec/pn/2005/pn0543.htm]
[211] Ibid.

Thus, for its able handling of the economy and lackluster progress on real structural reform, Canada has been awarded a score of 0.

2. France: 0

France has only partially fulfilled its structural reform commitments and, in some circumstances, taken steps to block comprehensive reform at the European level. Policies to remove the barriers to faster economic growth in the French economy have largely been held hostage to the impending referendum on the European Constitution (May 29).[212]

In its Article IV Consultations with France, the IMF applauded the French government's reforms of the pension system (2003) and the health care system (2004) and was pleased with the progress of goods market, civil service and labour market reforms.[213] In particular, the French government took the important action of abolishing the 35-hour work week, long seen as a barrier to international competitiveness, in February 2005.[214] The Fund's executive directors also encourage the French government to pursue fiscal consolidation by 2008 and to reduce its use of tax exemptions in future budgets, given their lack of economic benefits and the fiscal burden under which the French state operates.[215] In his address to the International Monetary and Financial Committee on April 16, 2005, the former French Minister of Economy, Finance and Industry, M. Breton, stated that France will shift the focus of its reforms to place greater emphasis on "cutting-edge businesses and R&D".[216] Nevertheless, M. Breton stressed that structural reforms in Europe would have only "marginal" effects on overall economic performance, and that domestic adjustment in the United States, particularly in public and private savings, would be necessary to boost growth on both sides of the Atlantic.[217]

Reform of the French civil service was initiated in 2002 and reaffirmed in on June 15, 2004 by the Minister of the State, who announced that the Ministry of Economy, Finance and Industry (Minéfi) would become "the Ministry of administrative performance".[218] The reforms aim to make Minéfi more responsive to the needs of users and to increase the mobility of labour within the Ministry, so that it may more effectively respond to the needs and flows of the global economy.[219] In January of 2005, the departments within the Minéfi that dealt with small and

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[212] *EU talks end after services deal*, BBC News (London) 23 March 2005. Date of access: 13 May 2005. [news.bbc.co.uk/2/hi/business/4374369.stm]
[213] *IMF Concludes Article IV Consultations with France*, International Monetary Fund (Washington) 3 November 2004. Date of access: 13 May 2005. [www.imf.org/external/np/sec/pn/2004/pn04121.htm]
[214] *French MPs Vote Out 35-hour Week*, BBC News (London) 9 February 2005. Date of access: 13 May 2005. [news.bbc.co.uk/2/hi/europe/4248845.stm]
[215] *IMF Concludes Article IV Consultations with France*, International Monetary Fund (Washington) 3 November 2004. Date of access: 13 May 2005. [www.imf.org/external/np/sec/pn/2004/pn04121.htm]
[216] *Statement by Mr. Breton, French Minister of Economy, Finance and Industry*, International Monetary and Financial Committee (Washington) 16 April 2005. Date of access: 13 May 2005. [www.imf.org/External/spring/2005/imfc/stmt/eng/fra.pdf] p. 2.
[217] Ibid. p. 3.
[218] *Bercy together: the Ministry of performance*, Ministry of Economy, Finance and Industry (Paris) 15 June 2004. Date of access: 13 May 2005. [alize.finances.gouv.fr/bercy_en_mouvement/index.htm]
[219] Xavier Olry, *Philippe Parini explique Bercy ensemble*, Ministry of Economy, Finance and Industry (Paris) September/October 2004. Date of access: 13 May 2005. [alize.finances.gouv.fr/bercy_en_mouvement/index.htm]. pp. 8-9.

medium enterprises and with information and communication technologies were combined under a single administration as part of the reorganization of the Minéfi.[220] A similar decree was issued in order to create a single department for affairs concerning artisan commerce and services and liberal professions.[221] Further government aid to small and medium enterprises was announced on April 13, 2005, although these measures were primarily fiscal, rather than structural.[222]

Work continues on budget reform initiated last year. The reform aims to make budgetary procedures more responsive to the demands of globalization and less expenditure oriented.[223] Budgetary procedure will be partially decentralized to individual departments and the French Parliament will also have greater say in the fiscal process.[224]

Despite domestic momentum for greater structural reform of the French economy, France dealt a serious blow to structural reform within the European, and thus domestic, context in March of this year. At that time, French President Jacques Chirac effectively forced an EU-wide deal on liberalization of service markets to be reworked.[225] French opposition to the deal was grounded in its supposedly adverse effect on employment and fear that opposition to the agreement within France would endanger French approval of the European Constitution.[226]

Thus, for its moderate pace of economic reforms and its opposition to European service market liberalization, France has received a score of 0.

3. Germany: 0

Historically high unemployment rates and lackluster economic performance have largely hindered German attempts at structural reform, diminishing public support for the SPD's economic and fiscal policies. As a result of this deceleration in the pace of reform, Germany has only partially fulfilled its World Economy commitments.

Since the start of 2005, the German economy has been burdened with high unemployment. Germany's unemployment rate has risen to its highest point since World War II, reaching 11.8%.[227] In Germany, the unemployed include those on unemployment benefits and welfare support and those who are long-term unemployed; both are classified as looking for work.[228] As

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[220] *Création de la Direction générale des entreprises (DGE) et de la direction du commerce de l'artisanat, des services et des professions libérales (DCASPL)*, Ministry of Economy, Finance and Industry (Paris) 26 January 2005. Date of access: 13 May 2005. [alize.finances.gouv.fr/bercy_en_mouvement/index.htm]
[221] Ibid.
[222] *Projet de loi pour les PME*, Ministry of Small and Medium Enterprises, Commerce, Artisans, Liberal Professions and Consumption (Paris) 13 April 2005. Date of access : 13 May 2005. [www.pme-commerce-artisanat.gouv.fr/]
[223] *Budget Reform and State Modernisation in France*, Ministry of Economy, Finance and Industry (Paris). Date of access: 13 May 2005. [www.minefi.gouv.fr/lolf/16_1_1.htm]
[224] Ibid.
[225] *EU talks end after services deal*, BBC News (London) 23 March 2005. Date of access: 13 May 2005. [news.bbc.co.uk/2/hi/business/4374369.stm]
[226] Ibid.
[227] *German jobless rate in shock dip*', BBC News (London) 28 April 2005. Date of access: 11 May 2005. [news.bbc.co.uk/1/hi/business/4493119.stm]
[228] *Five million Germans out of work*, BBC News (London) 4 February 2005. Date of access: 11 May 2005. [news.bbc.co.uk/2/hi/business/4228739.stm]

reported in late 2004, the German long-term GDP growth was expected to be 1.8%.[229] In 2005, the economic growth was forecasted to 0.7% by the German government[230] and 0.8% by the IMF[231].

During a meeting with opposition leaders, Chancellor Schroeder outlined reforms designed to stimulate growth and create jobs. New measures outlined included reducing corporate taxes, from 25% to 19%, and investing more money in the country's transport infrastructure.[232] There was a mixed reaction from other parties, with an overall agreement that Germany needed more fundamental reforms in order to get out of the economic decline.[233] The mood is in stark contrast to the largely positive reactions of global financial institutions to the Hartz IV reform package last autumn. At that time, Germany's implementation of the structural reforms laid out in Agenda 2010 was applauded by the IMF's directors, who also emphasizing the need for durable cuts in tax expenditures and subsidies, and the phasing in of a higher retirement age. "Combined with improved wage flexibility, reforms to lower reservation wages and strengthen job intermediation are making the labor market more competitive. Important progress has also been made in the areas of pension and health care reform. Further reforms will be needed to raise potential output growth and prepare for population aging"."[234]

Overall, Germany's economic performance has been overshadowed by high unemployment, prompting the government to respond, which it has not done fully. Although, the IMF[235] and the OECD[236], in late 2004, applauded Germany for its structural reforms, it remains to be seen if they will be as enthusiastic of Germany's new plans.

For the reasons given above, Germany receives a mark of 0.

4. Italy: +1

Despite a slowdown in reform plans and implementation since the start of 2005, Italy has been largely successful in its campaign to reform fundamental sectors of its economy. The deceleration of reform efforts was largely due to regional elections in April of 2005, and a

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[229] *Positive report on national sustainability strategy*, Die Bundesregierung (Government of the Federal Republic of Germany) (Berlin) 28 October 2004. Date of access: 11 May 2005. [www.bundesregierung.de/en/-,10001.736237/artikel/Positive-report-on-national-su.htm]
[230] *German growth outlook 'not good'*, BBC News (London) 26 April 2005. Date of access: 11 May 2005. [news.bbc.co.uk/1/hi/business/4486553.stm]
[231] *IMF 'cuts' German growth estimate*, BBC News (London) 2 March 2005. Date of access: 11 May 2005. [news.bbc.co.uk/1/hi/business/4310453.stm]
[232] *Non-Partisan effort to promote jobs and investments*, Die Bundesregierung (Government of the Federal Republic of Germany) (Berlin) 31 March 2005. Date of access: 11 May 2005. [www.bundesregierung.de/en/dokumente/-,10001.805074/Artikel/dokument.htm]
[233] *Schroeder unveils key tax reforms*, BBC News (London) 17 March 2005. Date of access: 11 May 2005. [news.bbc.co.uk/2/hi/business/4357207.stm]
[234] *Germany: 2004 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion*, International Monetary Fund (Washington) 2 November 2004. Date of access: 11 May 2005. [www.imf.org/external/pubs/ft/scr/2004/cr04341.pdf]
[235] Ibid.
[236] *Economic Survey of Germany, 2004*, Organisation for Economic Cooperation and Development (Paris) 5 August 2004. Date of access: 11 May 2005. [www.oecd.org/dataoecd/52/63/33641312.pdf]

pursuant, short-lived political crisis that caused the collapse of Italy's longest-serving post-war government.[237]

During the first half of 2005, the government of Silvio Berlusconi presented an Action Plan for the Development of Italy, a large scale reform aimed at making Italy a more competitive economy.[238] The package will streamline the bankruptcy code in order to make the Italian system more like the system in operation in the United States.[239] Furthermore, the plan will reduce taxation of private enterprises engaging in research-related activities and businesses in Italy's underdeveloped southern regions.[240] Another key component of the reform program is the streamlining of administrative procedures for the opening of certain business activities, long cited as essential to the Italian economy.[241] The decree was amended on May 6 in order to eliminate a planned reduction of the maximum penalty for fraudulent bankruptcy from 10 years to 6.[242] Opposition critics claimed the amendment as a "victory for savers".[243]

The reform plans of the previous and current Berlusconi governments, in spite of their ambitious goals, appear to have had few concrete macroeconomic results. The poor performance of the Italian economy, in relation to the other G8 economies, has led many in Italy to question the benefits of further fiscal reform and reductions in taxation.[244] Fiscal magistrates warned that the reformed Stability and Growth Pact, which now permits members of the European Monetary Union to run deficits that exceed 3% of GDP, was not a 'panacea' for a government caught between falling revenues and stable or rising expenditures.[245] Analysts at Standard & Poor have also stated that 'structural rigidities, especially in the labour market', must be addressed if growth in Italy is to accelerate.[246] Nevertheless, the reform plan, which was proposed in February, has won broad approval from Confindustria, the country's main industrial interest group.[247]

In late 2004, the Italian government was also successful in tackling the country's pension problems. The old system calculated pay-outs to retirees based on the income earned near the end of their career. The new system is being calculated based on contributions actually paid into the pension fund. Although the average value of the pension will be lower than it was previously,

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[237] *Crisi, Berlusconi 'Mi dimetto'*, La Repubblica (Rome) 20 April 2005. Date of access: 9 May 2005. [www.repubblica.it/2005/d/dirette/sezioni/politica/crisigove/crisimerco/index.html].
[238] *Italy to Get Economic Action Plan,* BBC News (London) 24 February 2005. Date of access: 9 May 2005. [news.bbc.co.uk/2/hi/business/4293609.stm].
[239] *Decretto sviluppo in porto con la fiducia*, La Repubblica (Rome) 4 May 2005. Date of access: 9 May 2005. [www.repubblica.it/2005/d/sezioni/economia/competitivita/portofiducia/portofiducia.html].
[240] Ibid.
[241] Ibid.
[242] *Bancarotta, Castelli annuncia: 'La pena torna a dieci anni'*, La Repubblica (Rome) 6 May 2005. Date of access: 9 May 2005. [www.repubblica.it/2005/d/sezioni/economia/competitivita/nobanca/nobanca.html].
[243] Ibid.
[244] *Economia, la Corte dei conti: 'Motivi di seria preoccupazioni'*, La Repubblica (Rome) 5 May 2005. Date of access: 9 May 2005. [www.repubblica.it/2005/d/sezioni/economia/contipubblicitre/corcondue/corcondue.html].
[245] Ibid.
[246] *Hurdle Cleared for Italian Reform*, BBC News (London) 4 May 2005. Date of access: 9 May 2005. [news.bbc.co.uk/2/hi/business/4513813.stm].
[247] *Italy to Get Economic Action Plan*, BBC News (London) 24 February 2005. Date of access: 9 May 2005. [news.bbc.co.uk/2/hi/business/4293609.stm].

it is hoped that this will prove more sustainable.[248] All people starting work after 1996 will be covered under the new, contribution based system.[249] Government efforts to reform the pension system include an increase in the average age workers retire at (currently 59) and supplementary pension arrangements.[250] Employees will have the choice of having some of their funds put into regional trusts or investing it with their union or bank. In December 2004, a country-wide strike paralyzed Italy for a day. It was a large-scale signal of trade union resistance to the new reforms.[251]

Thus, despite political and macroeconomic setbacks, Italy has earned a score of +1 for its ambitious and wide-reaching reform plans.

5. Japan: 0

Although the Japanese government has continued to express its commitment to continued structural reform as a means of improving global economic growth,[252] it has, in fact, registered mediocre results in its own domestic reform policies. Japan has not pursued structural reform with vigour commensurate to the seriousness and relative importance of its structural problems.

The government has established a reform agenda that will seek to eliminate both excess capacity and nonperforming loans within the corporate sector while transforming Japan into a "Financial Service Nation".[253] The Japanese Minister of Finance claims that the government will pursue further unspecified reform packages to ensure that the elimination of unemployment and the effects of a "bubble economy" are completed.[254] Furthermore, the government and Bank of Japan will seek to use monetary policy, rather than fiscal policy, to extract fully Japan's economy from deflation.[255] Finally, the government has advised that "steady progress in reforms on both the expenditure and revenue fronts, through the establishment of a sustainable social security system, tax system reform, and a thorough review of central and local government expenditure will be pursued with a view to achieving a surplus in the primary balance of the central and local governments in the early 2010s."[256]

In particular, the Japanese government is examining a number of initiatives to reform the budgetary process and its relationship with local governments in order to reduce the fiscal deficit

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[248] Diego Colletto, *Government seeks further structural reform of pension system European Foundation for the improvement of living and working conditions*, European Industrial Relations Observatory Online (Dublin) 10 October 2003. Date of access: 9 May 2005. [www.eiro.eurofound.eu.int/2003/09/feature/it0309203f.html].
[249] Domenico Paparella, *Parliament approves pension law*, European Industrial Relations Observatory Online (Dublin) 29 September 2004. Date of access: 9 May 2005. [www.eiro.eurofound.eu.int/2004/09/feature/it0409101f.html].
[250] Ibid.
[251] *Nationwide strikes cripples Italy*, BBC News (London) 1 December 2004. Date of access: 9 May 2005. [news.bbc.co.uk/2/hi/europe/4053809.stm].
[252] Sadakazu Tanigaki, *Statement by HH.E. Sadakazu Tanigaki Minister of Finance of Japan and Governor of the IMF for Japan*, International Monetary and Financial Committee (Washington) 16 April 2005. Date of access: 10 May 2005. [www.imf.org/External/spring/2005/imfc/stmt/eng/jpn.pdf]. p. 2.
[253] Ibid., p. 3.
[254] Ibid.
[255] Ibid.
[256] Ibid., p. 4.

in the near future.[257] Such measures will include the abolishment of state subsidies to local governments for child care and education.[258] The government is also seeking to address the rising cost of social security through taxation without causing disincentives for an expansion in the labour supply. These measures will include step-up increases in the support ratio, caps on the level of premiums paid by employees and a change in indexation régimes, from inflation and per-capita income indexing to "macroeconomic indexing".[259] Financial reform in Japan was dealt a blow, however, in March of 2005, when the ruling LDP vetoes a plan to make so-called 'poison pill' packages more difficult for Japanese firms facing foreign takeovers.[260]

Japan has identified as the centerpiece of its reform programme the privatization of Japan Post, the world's largest financial institution.[261] The CEFP hopes that this specific reform will lead to greater efficiency in the channeling of personal savings into the private sector and expects the privatization to be completed by 2007.[262] The OECD has, however, expressed concern that the privatization could lead to further distortion in Japan's financial markets should the government proceed with allowing Postal Savings and Postal Life Insurance to offer new products before guaranteeing equal treatment for private institutions.[263] Furthermore, the OECD has called for greater "topdown" initiatives to spur growth through structural reform zones and faster action on competition policy, particularly a strengthening of the Anti-Monopoly Act.[264]

Finally, in April 2005, the Council on Economic and Fiscal Policy published a document entitled "Japan's 21st Century Vision", which outlined key priorities for the Japanese economy over the next decade.[265] Although the report highlights the need to make the labour market more flexible, invest in human capital, open the Japanese economy to the global marketplace and spur innovation, it established no clear reform priorities for achieving these goals.[266] Thus, for its lukewarm reform projects and its reversal on foreign takeovers, Japan has been awarded a score of 0.

6. Russia: +1

The Russian Federation has completely fulfilled its commitments towards improving its economy. Despite the fact that new social monetizing reform has had met some opposition

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[257] Ibid.
[258] Ibid.
[259] Ibid.
[260] *Japan hits back at overseas M&A*, BBC News (London) 11 March 2005. Date of access: 10 May 2005. [news.bbc.co.uk/2/hi/business/4338919.stm]
[261] *Economic Survey of Japan 2005: Removing the Obstacles to Faster Growth,* Organisation for Economic Cooperation and Development (Paris) 20 January 2005. Date of access: 10 May 2005. [www.oecd.org/document/15/0,2340,en_33873108_33873539_34287887_1_1_1_1,00.html].
[262] *Basic Policy on the Privatization of Japan Post* , Council on Economic and Fiscal Policy (Tokyo) 10 September 2004. Date of access: 10 May 2005. [www.keizai-shimon.go.jp/english/publication/pdf/040922japanpost.pdf]
[263] *Economic Survey of Japan 2005: Removing the Obstacles to Faster Growth,* Organisation for Economic Cooperation and Development (Paris) 20 January 2005. Date of access: 10 May 2005. [www.oecd.org/document/15/0,2340,en_33873108_33873539_34287887_1_1_1_1,00.html].
[264] Ibid.
[265] *Japan's 21st Century Vision*, Council on Economic and Fiscal Policy (Tokyo) 5 May 2005. Date of access: 10 May 2005. [www.keizai-shimon.go.jp/english/publication/pdf/050419visionsummary_overview.pdf]. p. 2.
[266] Ibid., p. 3.

among the general population at the initial level, economic parameters seem to have proved the reform successful.

The new social reform was based on the replacement of non-monetary benefits with cash allowances. Pensioners, military servicemen, policemen and students are no longer entitled to free public transport, free medicines and reduced payments for electricity and gas, as well as other benefits they had enjoyed for decades.[267] Even though the monetary compensation is beneficial to population of some regions, it is not equally beneficial to all groups within the population. A more flexible and diverse approach is necessary to achieve the improvement of living conditions of all Russian citizens. Members of Parliament have described the cause of partial realization of the monetization reform as the slowness of local authorities.[268] When the social benefits were abolished most people did not get cash compensation immediately, which created tension among recipients. This fact questions the effectiveness of the "vertical power" administrative reform initiated by President Putin. The new administrative power needs to become more efficient in order for laws to be enforced faster and more effectively. President Putin continues to work on the improvement of social reforms and has recently added new pension laws.[269] In doing so, it is important that the Russian Federation heed the comments of the World Bank. In its report on structural reforms in Russia, it says that the pension age will have to be raised in order to avoid a drastic increase in the gap between the real wage and pensions.[270] In addition, the government must now tackle the serious problem of the inflow of fake medicines and pharmaceutical products that have flooded the Russian market.

President Putin is also determined to make the corrective hypoteka (mortgage) legislation work at its best. He calls it his "national project" which means the development of affordable dwelling market is under his personal control.[271] Recent statistic reports show that the average sum of credit has increased: on 1 April 2005 it was 397 thousand roubles compared to 2 September 2004 when it was 364 thousand roubles. The maximum term of credit has also increased from 10 to 27 years.[272]

The growth in export revenues has greatly enhanced Russia's fiscal capacity. The foreign trade turnover of Russia was $75.3 billion, which was 32.3% higher than in the first quarter of 2004.[273] The growth of the price of Russian exports is positively correlated with the increase of prices for raw materials. The increase in the government budget has allowed the Russian Federation to liquidate its debt with IMF. On May 13, Russia signed an agreement of prescheduled payment of $15 billion to the Paris Club.[274] The Minister of Finance Alexei Kudrin has reported that taxation

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[267] *Reforms spark anger across Russia*, BBC News (London) 11 January 2005. Date of access: 13 May 2005. [news.bbc.co.uk/2/hi/europe/4165655.stm]
[268] *Parliament group "Rodina" decided to starve against monetization*, BBC News (Russian) (London) 21 January 2005. Date of access: 13 May 2005. [news.bbc.co.uk/hi/russian/russia/newsid_4195000/4195465.stm]
[269] *The President has signed the changes in pension laws,* Kommersant (Moscow), _83, 11 May 2005.
[270] *Will Russians be retiring later?* BBC News (Russian) (London), 25 February 2005. Date of access: 13 May 2005. [news.bbc.co.uk/hi/russian/russia/newsid_4297000/4297385.stm]
[271] *Housing question of the President*, Vremya (Moscow) 12 May 2005 _80. Date of access: 13 May 2005. [www.vremya.ru/2005/80/8/124681.html]
[272] *Hypoteka: the run with obstacles*, Finance (Moscow), 2005 _17 (107), 10–15 May.
[273] *Straight ahead into the past*, Finance (Moscow), _17 (107), 10–15 May 2005.
[274] *The report of Minister of Finance Alexei Kudrin to President Putin*, Vesti News. Date of broadcast: 13 May 2005

and debt liquidation will allow Russia to increase the wage and pension payments, which leads to successful realization of social reforms. The prescheduled liquidation of its debt augmented Russia's credit market and has brought it a higher credit rating.

In the field of foreign trade, the Russian government continues its work towards becoming a WTO member in early 2006. Based on the results of the meeting of the new EU commissioner on trade, Peter Mandelson, and the Russian Minister of Trade, Herman Gref, Russia still needs to resolve several issues in the areas of Trans-Siberian flights and the conditions of investment agreements in automobile production.[275]

On the first day of the Russia-EU Summit the participants signed an agreement about creating four general spaces, also called 'road maps', in the fields of: 1) economy; 2) freedom, safety, and law and order (legislature); 3) external safety; 4) research and development, education and culture.[276] In accordance with the agreement, Russia will eliminate trade and investment barriers which will undoubtedly increase its competitiveness. Cooperation in the environmental field will also ease the realization of Kyoto Protocol. However, the signatories have postponed the creation of a visa-free regime.[277] The sincerity of the agreements, however, were put into question when President Putin called on his government to limit foreign investment in certain 'no-go zones' of the economy, such as natural resources and defense.[278]

Finally, on 12 May 2005, the Duma began readings of a bill that would amend the 2003 Law on Bankruptcy.[279] The amendments will seek to address barriers to efficient handling of bankruptcy arising from the balance of power between creditors and equity-holders as enshrined by the first law on bankruptcy passed in 1998.[280] The amendments will give greater powers to arbitrage boards and self-regulating bodies in order to negotiate between insolvent businesses and their providers of finance while still ensuring that bankruptcy procedures do not adversely affect employees and other stakeholders. It is hoped that such reforms will ease the liquidation and restructuring process in much the same way as Chapter 11 in the United States.[281] For these reasons, Russia has been awarded a score of +1.

7. United Kingdom: 0

The United Kingdom has only partially fulfilled its commitments to structural reform made at the 2004 Sea Island Summit. Unlike the other major economies in the European Union, Great Britain has experienced brisk growth over the past few years. Its pension and health care systems have

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[275] Konstantin Smirnov, *Mendelson Marsh*, Kommersant (Moscow), _83, 11 May 2005.
[276] *EU reminds Putin about democracy*, Independent Newspaper (Moscow), 12 May 2005 _90.
[277] Ibid.
[278] *We need no-go zones, says Putin*, BBC News (London) 11 May 2005. Date of access: 13 May 2005. [news.bbc.co.uk/2/hi/business/4537241.stm]
[279] *The Duma Considers Bankruptcy Once Again*, Kommersant (Moscow), _85, 13 May 2005. Date of access: 13 May 2005. [www.kommersant.ru/doc.html?docId=577127]
[280] Ibid.
[281] Ibid.

come under strain, however, and the nation continues to pursue its target of convergence to the Economic and Monetary Union in the hope of one day joining the Eurozone.[282]

In his first speech as the new Secretary of Workers and Pensions, Secretary Blunkett called for a change in the philosophy of the British pension system.[283] Although Mr. Blunkett did not provide specific details of his reform plans, he said that he would look at creating a "something for something" system, rather than a "safety net".[284] In February of this year, the British government set out its priorities for pension reform, which included: tackling poverty; affordability and economic stability; equality; and consensus among constituents.[285] Blunkett's eventual proposal will likely draw inspiration from the interim report of the Pensions Commission, published in October of last year, which called for higher taxes, more savings and a higher average retirement age.[286] Although criteria have been established, no definitive reform projects have been announced.[287]

An earlier pension reform package was given royal assent on 18 November 2004. Known as the *Pension Act 2004*, it concentrates primarily on state intervention in private, rather than public, pension schemes.[288] In particular, the new act seeks to: aid and protect private sector workers from bankruptcy; introduce new retirement options; improve financial planning; simplify the provision of pensions for private sector employers; and strengthen links between state and private sector.[289] Although the reform will enhance the sustainability of pensions for private sector workers, it does not address the more pressing issue of state pensions, which could seriously affect future fiscal accounts and, depending on funding formulae, Britain's international competitiveness.

In March of 2005, the Hampton Review published its final report, entitled *Reducing administrative burdens: effective inspection and enforcement*.[290] Mr. Hampton, who has been charged with reviewing the United Kingdom's reform of its 59 different regulatory bodies, concluded that, while reform in the UK was "well respected", regulatory bodies were still complex and inconsistent in their dealings with businesses.[291] Mr. Hampton has recommended that better coordination between regulators, as well as a simplification of bureaucracy and better

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282 *The UK Government's Policy on Economic and Monetary Union (EMU)*, HM Treasury (London) 9 June 2003. Date of access: 12 May 2005. [www.hm-treasury.gov.uk/documents/the_euro/euro_index_index.cfm]
283 *Pension Reform Options Kept Open*, BBC News (London) 12 May 2005. Date of access: 12 May 2005. [news.bbc.co.uk/2/hi/business/4539843.stm]
284 Ibid.
285 *Principles for Pension Reform*, Department for Work and Pensions (London) 24 February 2005. Date of access: 12 May 2005. [www.dwp.gov.uk/news/archive/english/2005/24_02_05.asp]
286 *Pension Reform Options Kept Open*, BBC News (London) 12 May 2005. Date of access: 12 May 2005. [news.bbc.co.uk/2/hi/business/4539843.stm]
287 *Principles for Pension Reform*, Department for Work and Pensions (London) 24 February 2005. Date of access: 12 May 2005. [www.dwp.gov.uk/news/archive/english/2005/24_02_05.asp]
288 *Pension Reform*, Department for Work and Pensions (London) 18 November 2004. Date of access: 12 May 2005. [www.dwp.gov.uk/lifeevent/penret/penreform/]
289 Ibid.
290 *Hampton Review*, HM Treasury (London) 16 March 2005. Date of access: 12 May 2005. [www.hm-treasury.gov.uk./budget/budget_05/press_notices/bud_bud05_presshampton.cfm]
291 Ibid.

risk assessment, would greatly enhance the UK's entrepreneurial environment.[292] For these reasons, the United Kingdom has been awarded a score of 0.

8. United States: 0

Structural reform in the United States remains in legislative limbo, as a variety of Presidential and Congressional initiatives have stalled due to a lack of public support. In particular, President Bush's proposed reform of the Social Security system has met with stiff resistance both from members of the legislative branch of government and members of the American electorate.[293] Social Security is capable of fully paying all of its commitments for several decades, but there is concern that demographic change will upset the current pay-as-you-go funding system.[294] The current system will start to run into problems midway through the current century and this concern has prompted some, notably President Bush, to plan a radical reform.[295] The proposed amendments to the Social Security system would allow younger workers to divert some of their pension contributions to private retirement accounts.[296] However, beyond placing the issue on the political agenda there has been no legislative action on this item.

Congress has been successful, however, in passing changes to the tort system, one of President Bush's election promises.[297] Under the reform, class action suits will now be heard in federal courts rather than state courts, which are seen as more sympathetic to complainants that federal courts.[298] America's litigious culture is often viewed as an obstacle to entrepreneurship and more rapid economic growth. By reforming the tort system, Congress and the President hope to decrease the risks faced by businesses and thus encourage more economic activity.[299] Critics of the measure, however, claim that it will only serve the interests of big business and harm individual Americans who fall victim to faulty products or discrimination.[300]

Finally, the state of fiscal accounts in the United States has been an issue of great concern not only to American lawmakers but also to the G8's economic elite.[301] In April of this year, US Treasury Secretary John Snow addressed the topic at the meeting of the G7 Finance Ministers

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[292] Ibid.
[293] *Bush starts tour to push reforms*, BBC News (London) 3 February 2005. Date of access: 15 May 2005. [news.bbc.co.uk/2/hi/americas/4233973.stm]
[294] *Global Aging*, Business Week (New York) 31 January 2005. Date of access: 10 May 2005. [www.businessweek.com/magazine/content/05_05/b3918011.htm]
[295] *US media foresee 'social battle'*, BBC News (London) 3 February 2005. Date of access: 17 May 2005. [news.bbc.co.uk/1/hi/world/americas/4231899.stm]
[296] *Bush sets out second term goals*, BBC News (London) 3 February 2005. Date of access: 17 May 2005. [news.bbc.co.uk/2/hi/americas/4228927.stm]
[297] *Congress curbs class-action suits*, BBC News (London) 17 February 2005. Date of access: 15 May 2005. [news.bbc.co.uk/2/hi/americas/4275409.stm]
[298] Ibid.
[299] John Snow, *Prepared Statement Following the Meeting of the G7 Finance Ministers and Central Bank Governors*, US Treasury (Washington) 16 April 2005. Date of access: 17 May 2005. [www.treas.gov/press/releases/js2384.htm]
[300] *Congress curbs class-action suits*, BBC News (London) 17 February 2005. Date of access: 15 May 2005. [news.bbc.co.uk/2/hi/americas/4275409.stm]
[301] John Snow, *Prepared Statement Following the Meeting of the G7 Finance Ministers and Central Bank Governors*, US Treasury (Washington) 16 April 2005. Date of access: 17 May 2005. [www.treas.gov/press/releases/js2384.htm]

and Central Bankers. He noted that, while the federal deficit was lower than the fiscal shortfalls of the 1980s and 1990s, it was still too high.[302] He stated that the Bush Administration hoped that, through the use of tight fiscal controls, the budget deficit would be halved "to well under 2% of GDP by 2009".[303] On the issue of the trade deficit, Secretary Snow pointed out that growth continued to lag in Europe and Japan, and called on China to reconsider its exchange rate regime.[304] Secretary Snow noted, in later reports, that the current account deficit is also a reflection of the gap between US domestic investment and savings.[305] Foreign inflows of capital (which must be matched by an increase in imports) had helped the United States "to achieve levels of capital formation that would have otherwise not been possible".[306]

Thus, for the tentative, but not decisive, steps made on pension reform and fiscal consolidation, as well as the simplification of the American legal code, the US receives a score of 0.

9. European Union: 0

The European Union has only partially fulfilled the World Economy commitments established at the Sea Island Summit in June 2004. Over the past year, legislative and political events in the European Union have been dominated by the creation of the European Constitution and subsequent campaigns in the member states to pass the Constitution, either by referendum or parliamentary vote. As such, the structural reform agenda has stalled and European Union reform attempts have been hollow, weak and even contradictory to the goal of a more flexible, dynamic European economy.

In a study conducted by the European Commission, it was found that the European Union has been too slow with its economic reforms set out by the Lisbon Agenda five years ago. The Commission reports that, "in most EU countries, the pace of economic reform has been too slow, and fulfilling the Lisbon ambitions will be difficult — if not impossible."[307] The European Central Bank (ECB) has been concerned about Germany and France's lobbying for a relaxation of the Lisbon Agenda rules, saying "it must be avoided… that changes in the corrective arm undermine confidence in the fiscal framework of the European Union and the sustainability of public finances in the euro area member states."[308]

On 27 July 2004 the OECD published the *Economic Survey of the Euro Area 2004*. The OECD remarked on the need for the speeding up of price and real wage adjustment as well as labour

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[302] Ibid.
[303] Ibid.
[304] Ibid.
[305] John Snow, *Report to Congress on International Economic and Exchange Rate Policies: May 2005*, US Treasury (Washington) 17 May 2005. Date of access: 17 May 2005. [www.treas.gov/press/releases/reports/js2448_report.pdf]. p. 3.
[306] Ibid.
[307] *EU 'too slow' on economic reforms*, BBC News (London) 27 January 2005. Date of access: 11 May 2005. [news.bbc.co.uk/2/hi/business/4212821.stm]
[308] *ECB 'concerned' about euro deal*, BBC News (London) 21 March 2005. Date of access: 11 May 2005.[news.bbc.co.uk/2/hi/business/4369475.stm]

mobility in order to stabilize the economy.[309] The report also focused on growth potential, which the OECD thought could be found by increasing good, service and market integration, and fiscal policy. Fiscal policy needed to reflect long-run sustainability, while also increasing short-run flexibility. On 11 May 2005, however, Members of the European Parliament (MEPs) voted to phase out the opt-out clause of the Working Time Directive over three years and to restrict the number of hours employees may work per week to 48.[310] This move is anticipated to have negative consequences for the EU's competitiveness.[311]

In another report the OECD also warns of a "north and south" divide in the EU with the northern regions doing much better economically than the southern regions, in areas such as unemployment and GDP per capita.[312] The OECD also points to the fact that although integration in relatively high, labour mobility is still too low. The areas most affected by unemployment have also seen an increase in Euro-skepticism.[313] Even though the euro was designed to increase intra-EU trade, it has actually increased the EU's trade with the rest of the world, which the manufacturers are blaming on slow EU GDP growth.[314]

Both the OECD[315] and the EU Economic and Financial Affairs Department[316] have forecast the increasing oil prices as barriers to EU's GDP growth, assuring a drop in the 2005 GDP as a result. The OECD sees a need to reinvest in structural reforms that will take the aging population into effect while still maintaining growth and stability.[317] The EU Economic and Financial Affairs Department has promised to examine labour market reforms while keeping inflation low.[318]

In accordance with the stagnation of reform efforts within the European Union, and the need for a revision of the Lisbon Agenda, the European Union has been awarded a score of 0.

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[309] *Policy Brief: Economic survey of the Euro area 2004*, OECD (Paris) 27 July 2004. Date of access: 11 May 2005. [www.oecd.org/dataoecd/17/33/33626607.pdf]
[310] *Euro-MPs back tighter work hours*, BBC News (London) 11 May 2005. Date of access: 11 May 2005. [news.bbc.co.uk/2/hi/uk_news/4535815.stm]
[311] Ibid.
[312] *Economic Survey - Euro area 2004: Regions at work*, OECD (Paris) 27 July 2004. Date of access: 11 May 2005. [www.oecd.org/document/60/0,2340,en_2649_201185_32986428_1_1_1_1,00.html]
[313] Jonty Bloom, *Business fears over sluggish EU economy*, BBC News (London) 28 October 2004. Date of access: 11 May 2005. [news.bbc.co.uk/2/hi/business/3961951.stm]
[314] Ibid.
[315] *OECD Economic Outlook No.76*, OECD (Paris) 30 November 2004. Date of access: 11 May 2005. [www.oecd.org/dataoecd/2/29/22545260.pdf]
[316] *Economic Forecasts 2004*, EU Economic and Financial Affairs (Brussels) 26 October 2004. Date of access: 11 May 2005. [europa.eu.int/comm/economy_finance/publications/european_economy/2004/ee504en.pdf]
[317] *OECD Economic Outlook No.76*, OECD (Paris) 30 November 2004. Date of access: 11 May 2005. [www.oecd.org/dataoecd/2/29/22545260.pdf]
[318] *Economic Forecasts 2004*, EU Economic and Financial Affairs (Brussels) 26 October 2004. Date of access: 11 May 2005. [europa.eu.int/comm/economy_finance/publications/european_economy/2004/ee504en.pdf]