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## UPDATE ON THE MAINSTREAMING OF THE NEW APPROACHES TO ECONOMIC CHALLENGES (NAEC) INITIATIVE

**Update on the Mainstreaming of the New  
Approaches to Economic Challenges  
(NAEC) Initiative**

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## Executive Summary

1. At the 2015 Ministerial Council Meeting (MCM), Ministers agreed that the findings and lessons learned from the New Approaches to Economic Challenges (NAEC) Initiative should be mainstreamed in the work of the OECD. The overall objective of this effort is to transform the growth paradigm promoted by the Organisation to one that is more resilient, inclusive and sustainable.

2. This Update on the Mainstreaming of the New Approaches to Economic Challenges (NAEC) initiative indicates the extent to which NAEC findings are informing the current and future work of Committees and the Organisation as a whole. It demonstrates that NAEC is having an impact on OECD analytical work, data collection and publications and provides indications of how it will continue to do so, based on the interest demonstrated by many Members, Committees and the Secretariat, and current discussions regarding the 2017-2018 Programme of Work and Budget (PWB).

3. More generally, NAEC has helped change and should continue to change the culture of the Organisation, to outline research directions and enhance horizontality in the work of the OECD. NAEC has fostered a culture of experimentation and investigation into new relationships, deepening the analysis of trade-offs and complementarities across policies. It has helped strengthen quantitative integrated analysis and led to the adoption of new policy tools and approaches across the OECD. More than a programme, NAEC fulfils a role in encouraging the Organisation as a whole to strive for excellence in policy analysis.

4. While not yet systematically integrated in policy analysis, well-being is increasingly used to assess policy performance, including through the Inclusive Growth Initiative. Economic Surveys are starting to incorporate this, as well as other analytical developments such as the job quality framework that is profoundly changing the narrative on labour market policies. Progress has also been made in better understanding the policy linkages between different dimensions of well-being, including through the analytical work done related to the Multi-Dimensional Living Standard (MDLS) Indicator.

5. Concerns about inequality have gained traction, with new measures enabling the mainstreaming of inequality concerns in different policy areas. The Inclusive Growth agenda has broadened the understanding of the impact of inequalities of income and wealth and expanded the focus to other dimensions of well-being. It has also shed light on how inequalities can accumulate heightening individual and regional disparities. As part of the MCM 2016 agenda, the Inclusive Growth initiative is looking at the connections between inequalities and the productivity slowdown and they can be addressed in a collective manner.

6. The influence of NAEC is also reflected in the resources that have been devoted to the mainstreaming of environmental concerns. Finance and financial linkages are better integrated, and complexity and systems thinking is increasingly addressed, with greater consideration given to resilience. More work is needed however to fully grasp the complexity of financial markets and systemic risks and to incorporate financial considerations in macroeconomic projections. The OECD is preparing for an uncertain future by investigating long-term scenarios in a range of policy areas as part of its upgrade of Strategic Foresight capacities, but more can be done to integrate the foresight perspective across Directorates. Country-specific institutional frameworks are being increasingly investigated, facilitating the better targeting of policy guidance.

7. New indicators, micro-data and data based on global databases are increasingly being used. The measurement and application of stock data is improving. Micro-data, big data and "smart" data are being used more extensively across the Organisation, enabling a better understanding of economic actors' behaviour at a granular level and shedding new light on a number of policy questions. This is informing proposed work on the digital economy which will investigate the way the Next Production Revolution is shaping the transformation of economic and social interactions and the future of work. Microdata are also enabling a better quantification of investment flows in the context of Global Value Chains (GVCs).

8. Modelling and quantification tools are being upgraded but a greater variety of methods are needed, including more integrated approaches to grasp complex interactions.

9. The Report also highlights how NAEC has mainstreamed new ways of working, reinforcing horizontal work based on stronger and deeper dialogue and cross-Committee collaboration. NAEC has also supported the expansion of engagement with other disciplines, promoted inter-disciplinary perspectives, while guarding against group-think.

10. The Report concludes with suggestions on how to continue progress and consolidate the NAEC spirit. NAEC provides a useful space for policy discussions among Members, Committees and the Secretariat. It helps the OECD reach out to external researchers. The OECD should retain a space for fresh thinking and cross-Directorate as well as cross-Committee exchange, shedding light on new questions while taking a hard look at policy instruments, tools and approaches. It could also continue to promote policy coherence and peer learning, while paying greater attention to emerging threats, future risks and policy spill-overs.

11. The OECD should also continue to enrich traditional frameworks for economic analysis, with better analysis of the distributional and environmental impacts of policy choices and a deeper investigation of trade-offs and synergies among policy objectives. In line with the 21x21 Agenda of the Secretary General, the OECD should help further develop an integrated growth narrative focusing on the well-being of people.

## 1. Introduction

12. At the 2015 Ministerial Council Meeting (MCM), Ministers welcomed the NAEC report referred to as Final Synthesis, as it incorporated the findings of the 29 initial projects (hereafter the "Synthesis") [C/MIN(2015)2]. They agreed that the findings and lessons learned from these projects should be mainstreamed, i.e. NAEC should be reflected in current and future OECD work. The overall objective of this effort<sup>1</sup> is to transform the growth paradigm to one that is more inclusive, sustainable and resilient.

13. The Synthesis brought together the findings of 29 projects. It calls for reframing policies in terms of multi-dimensional well-being, placing inequality and distributional issues on centre-stage and advancing an agenda for Inclusive Growth. It highlights the importance of making sure that financial markets connect with the real economy and channel funds to productive activities while underlining the need for better integration of finance in macro-economic analysis. It also recognises the interconnectedness and complexity of the world economy and emphasises the importance of institutions, political economy and long-term perspectives. It argues for broader, inter-disciplinary approaches to policy design by integrating history, sociology, geography and behavioural sciences, inter alia, along with advances in economics.

14. The Synthesis also called for the Organisation to continue improving its work and methods, and to expand internal co-operation and exchanges. The report has been used to stimulate further reflection as well as cross-Committee and cross-Directorate discussion. Policy trade-offs and complementarities between policy drivers and well-being outcomes have been analysed, with a particular focus on the inter-linkages between growth, inequality, environment and economic stability, as well as on long-term global trends and the resulting policy tensions. More generally, NAEC has contributed to change the culture of the Organisation. It has outlined research directions, including through stimulating horizontality. NAEC has also fostered more experimentation and investigation into new relationships based on robust evidence and analysis.

15. This report examines how the findings and recommendations of the Synthesis have been taken forward. More detailed discussion, definition of concepts and explanation of why the themes outlined here were selected can be found in the Synthesis. This mainstreaming report argues that the NAEC Initiative is having an impact on OECD analytical work, data collection and publications and provides indications of how it could continue to do so, based on current discussions regarding the preparation of the 2017-2018 Programme of Work and Budget (PWB).<sup>2</sup>

16. The Initiative coincided with and further reinforced developments in the thinking and analytical work of Directorates. It has strengthened quantitative integrated analysis and led to the adoption of new policy tools and approaches across the OECD. New indicators, microdata and data based on global databases are increasingly being used. The influence of NAEC is also reflected in the resources that have been devoted to looking at inequalities, the mainstreaming of environmental concerns and cross-Directorate work on the linkages between real and financial issues.

17. The NAEC mainstreaming report indicates the extent to which NAEC findings are informing the current and future work of Committees and the Organisation as a whole. It examines the mainstreaming of

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<sup>1</sup> "We are committed to analysing the root causes of the crisis and drawing lessons from it, and to updating the OECD's economic analysis and policy recommendations where needed. We therefore launch today the initiative on "New Approaches to Economic Challenges" [C/MIN(2012)10/FINAL, para.5]. See also New Approaches to Economic Challenges Mandate, Governance and Next Steps [C(2012)109/REV1].

<sup>2</sup> The content of this report does not aim to prejudge the outcome of negotiations on the next PWB, but illustrates how the projects under discussion are relevant examples of NAEC mainstreaming.

well-being and new approaches to resilient, inclusive and sustainable growth (section 2), the mainstreaming of new analytical tools, models and data (section 3) and the mainstreaming of new ways of working including horizontal work (section 4). It provides examples of how mainstreaming is being achieved, without being exhaustive on all the different elements that could illustrate this. Finally the paper concludes with some suggestions on how to promote further improvement (section 5).

## 2. Mainstreaming Well-being and Resilient, Inclusive and Sustainable Growth

### *Well-being is increasingly used to assess policy performance...*

18. Beyond the statistical policy community, NAEC has been a key vehicle for other Directorates to take a closer look at the *Better Life Initiative* multi-dimensional approach. This is gradually informing economic surveys and sectoral work.<sup>3</sup>

19. A central element of this is the **Inclusive Growth Initiative** that has developed a framework to reflect on the distributional impact of policies on different dimensions of well-being and on different income groups, and that has operationalised well-being for policy through the development of an MDLS Indicator, a coherent framework permitting the impact of policies to be assessed across a range of outcomes. More methodological work is needed and further refinement of this indicator will take place while expanding to other well-being dimensions as well as spatial scales (subnational regions) and their determinants. The Inclusive Growth Initiative will also continue to investigate policy outcomes for some specific groups such as the elderly or children. Furthermore, there is ongoing statistical work to improve the information basis for various dimensions of well-being, including trust. Developing more comprehensive and robust metrics could facilitate their application in redefining policy goals.

### *...influencing Economic Surveys...*

20. An important tool for mainstreaming the well-being perspective is **the Economic Surveys. In this regard, they are well placed to provide a whole-of-OECD perspective on where an economy stands and what would be the best policy options to achieve higher levels of well-being.** The Economic Development Review Committee (EDRC) should thus play an important role in advancing and mainstreaming the NAEC narrative, reinforcing its core principles of providing economic policy recommendations based on cutting-edge research and rigorous evidence, and adapted to the specific needs of the country to be examined. Tangible progress is being made as Surveys increasingly cover a broader range of issues pertaining to well-being such as work-life balance (for example a special chapter in the 2014 United States Survey), health care issues, gender issues (including special chapters in the most recent Austria, India and Switzerland Surveys), Inclusive Growth (Ireland, Lithuania) and housing issues (as seen in past Netherlands and Switzerland Surveys). Moreover, nearly all countries covered have included coverage of, and recommendations on environmental issues at some point in the past few years.

21. **Surveys also increasingly consider trade-offs and complementarities** between policy options from different perspectives and analytical points of view. For example, they routinely consider the income distribution implications of policies and contain recommendations to deal with them; the trade-offs

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<sup>3</sup> As discussed in the NAEC Synthesis Report of 2015, GDP is still being used as the main indicator for the size of the economy. Further conceptual and statistical work is needed to improve GDP measurement owing to its many shortcomings. For example, it does not include external effects (e.g. environmental degradation or health outcomes), says nothing about inequalities and does not well capture the benefits of innovation.

involving income support, poverty and fiscal costs; and the relationships between poverty, jobs, macroeconomic policies and labour and product market policies.

22. However, **more could be done**, for example to develop an integrated growth framework that incorporates systematically inequality and environmental outcomes and consider trade-offs and synergies among policies in a more multi-dimensional manner. Surveys could continue to expand the use of well-being and other criteria, for example to **frame the analysis, articulate a narrative and select thematic chapters**. They could also incorporate a **wider range of analysis** to shed light on policy issues from different points of view. The EDRC reflects on how to further improve the Survey process, including by mainstreaming NAEC main messages.

*...profoundly changing the narrative on labour market policies and income distribution...*

23. A critical step in integrating the well-being concept at the core of OECD's policy narrative is **the work on Job Quality**. While traditionally labour market policies were assessed in terms of the number of jobs created, i.e. the quantity of jobs, the objective now is to look also at the quality of jobs. The OECD Job Quality Framework provides an operational way of measuring job quality on a comparable basis both across countries and individuals that is anchored in terms of well-being along three dimensions: earnings quality; labour market security and the quality of the work environment. This framework was adopted by the G20 Leaders in Antalya in 2015 and they asked the OECD (in collaboration with the ILO) to support countries in developing policies to promote not only more but also better jobs.<sup>4</sup> It should become a reference to be used across the Organisation.

24. The mainstreaming of 'Job Quality' into work on employment has continued, with it featuring prominently in the 2014 and 2015 editions of the *OECD Employment Outlook*. The work on inequality and growth suggests promoting access to opportunities to address the vicious circle between growing inequalities and lower economic growth, thus proposing ex-ante policy options and not only relying on ex-post distributional analysis. The Local Economic and Employment Development (LEED) Programme's **Reviews on Local Job Creation** also contributes to this narrative by examining how employment and skills policies can better contribute to good quality job creation, focusing on their implementation on the ground and their connections with employers and economic development strategies.

25. NAEC also supported new analysis on the links between income inequality and long-term economic growth (see the OECD flagship report *In It Together*). Both issues have **profoundly changed the narrative on income distribution and labour market policies**, and have contributed to the development of the Inclusive Growth Framework.

26. **Going forward**, for the 2017-18 PWB the Secretariat has proposed to develop an activity on **Job Quality, Health and Productivity**, which will take a cross-cutting approach to developing policies to improve the working conditions and health of workers in order to promote well-being and more inclusive and sustainable growth. In addition, the OECD work on the integration of immigrants and their children, and notably the flagship publication "**Settling in**" already includes indicators related to job and life quality as well as perceived discrimination will be further extended to cover more well-being indicators.

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<sup>4</sup> See also the OECD Employment and Labour Ministerial Statement in January 2016 on *Building more resilient and inclusive labour markets* (<http://www.oecd.org/employment/ministerial/labour-ministerial-statement-2016.pdf>).

*...while understanding better key policy linkages between different dimensions of well-being...*

27. A number of other important areas illustrate how the well-being and Inclusive Growth perspective is progressively being mainstreamed in OECD work.

- The 2015 update of **the OECD Innovation Strategy** explicitly moved beyond economic growth to also include well-being and sustainability as core objectives of policies for innovation, and made recommendations to achieve more "inclusive" innovation. The links between productivity dispersion and wage inequality are currently being explored (in the framework of the MultiProd project). These linkages between increased inequality and the slowdown of productivity growth are being explored in the "nexus" analysis informing the MCM 2016.
- Understanding the welfare consequences of environmental feedbacks and environmental policies is at the core of the Environment Directorate's (ENV) empirical and modelling analysis. The recent report, "**The Economic Consequences of Climate Change**" deals extensively with how feedbacks from climate change affect welfare, and thus centres on linking the economic and climate dimensions of well-being. This work enhances understanding of key climate-economic linkages and warrants further attention and mainstreaming in national and international reviews, including coverage of non-climate environmental concerns.
- Work on tax is increasingly focusing on the contribution of tax systems to inclusive growth. This involves analysing the **links between the tax system and some of the key drivers of well-being**. The "**tax design for inclusive growth**" project has pointed out that the design of tax systems has important impacts not just on economic growth but on the distribution of income and wealth. It also influences equality of opportunities for individuals with different backgrounds, gender, ethnicity, abilities and wealth. In addition to further work on the distributional impact of direct and indirect taxes and their effects on demand, work on tax and the environment, taxation and human capital/ skills development, and health-related taxes are being proposed for the next biennium to inform the relationship between the tax system and different dimensions of well-being. Further focus could be placed on taxation and inclusive innovation and productivity, inclusive digitalisation, corporate/ household debt/equity financing and capital income and savings. In this context, the design of tax incentives for Small and Medium Sized Enterprises (SMEs) which aim to improve innovation and productivity will be analysed. In summary, inclusiveness, resilience and sustainability will be incorporated in future tax policy analysis and advice.
- Work on trade has also increasingly incorporated other dimensions of well-being. A major project - **The International Collaborative Initiative on Trade and Employment** – in addition to addressing issues around trade impacts on growth and employment levels, also investigated impacts on wages, and aspects of job quality such as safety. Work on trade systematically acknowledges the "churn" effect of market opening and offers recommendations on the types of flanking policies needed to enable transitions and to assist those unable to cope, with the emphasis on protecting people rather than industries or jobs in those industries.
- A new framework to assess whether economy-wide and sector specific policy frameworks are conducive to **sustainable productivity growth in the agriculture and food system** has also been developed for some years, emphasising internal coherence across the entire policy set, and the need to maximise synergies and minimise trade-offs between sustainability and productivity objectives. This framework, which has the need for high performing innovation systems at its core, has been applied to several major agricultural producing countries (Australia, Canada, Brazil and the Netherlands) and studies are underway for the United States, China and Turkey. Country coverage will be expanded over the next biennium and recommendations will be synthesised.

- **Public Governance Reviews** seek to support governments in developing, implementing and monitoring the performance of multi-faceted policy responses with the aim of achieving more inclusive growth. Public governance is indeed a critical enabler of inclusive growth, as was highlighted by the October 2015 Ministerial Meeting on Public Governance for Inclusive Growth.
- Policies to **increase financial well-being through financial education** are also being developed, in particular through policy guidance on the development of National Strategies for Financial Education.<sup>5</sup> An international measurement exercise is underway to measure financial literacy and financial inclusion, which includes several questions to measure aspects of financial well-being.<sup>6</sup>

*...but well-being is not yet systematically integrated in policy analysis*

28. Well-being is thus increasingly used to assess policy performance across Directorate and within some flagship OECD publications. A number of important steps have been taken to operationalise this perspective. However, it is **not yet at the core of OECD policy analysis** and too many publications are still framed narrowly and exclusively in terms of GDP growth.

*Concerns about inequalities have become central...*

29. The OECD has a long-standing track-record of analysing income inequality, the most prominent recent examples include *Growing Unequal?* (2008), *Divided We Stand* (2011) and *In it Together* (2015). More recently, more work has been done on the key role of financial expansion in fuelling income inequality with the project on "Finance and Inclusive Growth".<sup>7</sup>

30. This focus on inequality has recently been reinforced through the All on Board initiative for Inclusive Growth, which maintains a strong spotlight on inequality concerns and promotes horizontal approaches to tackle them. The recently launched Centre for Opportunity and Equality (COPE) will also re-enforce the OECD narrative on inequalities: it will provide a platform for sharing evidence-based policy analysis on different dimensions of inequality from a cross-cutting perspective and promoting policy dialogue involving all relevant stakeholders.<sup>8</sup>

*...with new measures...*

31. There is **an important measurement agenda** to extend analysis of inequalities beyond income to other dimensions, based on credible and solid evidence. Several activities were pursued in the 2015-16 PWB to extend Statistics Directorate (STD) work on inequalities by looking at different cohorts and groups (e.g. income inequalities at sub-national levels in collaboration with the Public Governance and Territorial Development Directorate (GOV)) and dimensions (e.g. inequalities in household wealth, in ages-of-death by educational attainment). These statistical activities will continue in the 2017-18 PWB and possibly be

<sup>5</sup> See <http://www.oecd.org/daf/fin/financial-education/nationalstrategiesforfinancialeducation.htm> including the OECD/INFE Policy Handbook on National Strategies for Financial Education and the OECD/INFE High-level Principles on National Strategies for Financial Education.

<sup>6</sup> See <http://www.oecd.org/daf/fin/financial-education/measuringfinancialliteracy.htm>

<sup>7</sup> Cournède, B., O. Denk and P. Hoeller (2015), "Finance and Inclusive Growth", *OECD Economic Policy Papers*, No. 14, OECD Publishing, Paris.

<sup>8</sup> One example of such an approach has been the LEED Partner's Club, which brings together business groups, local authorities, universities and development agencies to deliver effective local development by helping creating framework conditions for inclusive growth.

extended to additional dimensions of inequality (e.g. in consumption, joint distribution of household income, consumption and wealth). In addition, work has been done to collect well-being indicators (averages and inequalities) for children and was published in the 2015 edition of *How's Life?*. A new set of results on inequality measures in income, consumption and savings benchmarked to national accounts totals is forthcoming. Work at the national level has also been pursued, notably in the context of a study on *Measuring and Assessing Well-being in Israel*. Data on inequalities for people in different regions and cities has also been provided through the Regional Well-being Database and other reports such as *Regions and at Glance*, and *How's Life in Your Region?* and country/region specific well-being reports.

*...enabling the mainstreaming of inequalities...*

32. The Inclusive Growth Initiative and these newly available data have promoted the progressive **mainstreaming of inequalities across the Organisation**, in policy areas where the concern for inequalities has not been prominent to date. This enables deeper analysis of inequalities in different dimensions of well-being and facilitates a better understanding of the drivers and consequences of inequality.

33. For instance, **several new strands of work on inequality, assets and bequests, social mobility and the middle class as well as gender equality and diversity** are proposed. In **health policy**, a new Output Result is proposed to examine inequalities of health outcomes and their causes. The **Future of Work** project will look at which groups are likely to be affected by rapidly changing labour demand as a result of technological change, changes in work organisation, globalisation and demographic changes. The new **OECD Jobs Strategy** will look at what policy can do to create a more inclusive labour market. Work on migration will investigate the role of transmission and acquisition of social and human capital in the **integration of children of immigrants** and how to overcome persisting disadvantage for immigrant youth from low-educated parents. A particular focus will be on the analysis of outcomes of most vulnerable migrant groups.

34. Addressing educational inequalities is a key mechanism in strengthening social mobility and ensuring inclusive growth. A research project *Fostering Good Education for All* has been launched to further enquire into this issue. It aims to connect OECD's knowledge related to equity in education with an analytical framework that captures various risk and resilience factors affecting individual's life chances to succeed, from early childhood till adult life (the full report will be published in November 2016).

*...with a new focus on the economics of inequality...*

35. The Economics Department (ECO) is also giving more prominence to inequality in its policy advice. ECO works with the Employment labour and Social Affairs Directorate (ELS) on the Jobs Strategy and on the future of work, with the Centre for Tax Policy and Administration (CTP) on tax and growth, with ENV on inequality following environmental policy settings, and with GOV on the distributional aspects of public expenditures and revenue. Co-operation with other Directorates also feeds into the joint ECO/STI work in the newly founded Global Forum on Productivity, which has also an inequality angle.

- A crucial illustration of this is the **evolution of the flagship publication *Going for Growth***. The 2015 edition included a chapter titled "The effect of pro-growth structural reforms on income inequality". GDP analysis will be complemented with new pillars in future "Going-for-Growth". The 2016 issue included a new perspective on inequality. From 2017, *Going for Growth* will include an inequality dimension in selecting recommendations. Beyond these evolutions, more could be done to further adapt the current framework and integrate NAEC perspectives.

- The **Policy Studies branch** has recently been organised into **work streams**, and one of these is on **inequality and well-being**. This reorganisation has strengthened the analysis on the trade-offs and complementarities between different structural policies and inequalities. This is evidenced by the already numerous examples of cross country research looking at inequality, including the paper “Income and Wealth Inequality and Monetary Policy” for the Monetary Experts Meeting (Working Party No. 3 on Policies for the Promotion of Better International Payment Equilibrium) and a paper on the effects of structural reforms on inequality (for Working Party No. 1 on Macroeconomic and Structural Policy Analysis).
- In parallel, new analysis is developed of **how the growth dividends trickle down to households** and are shared among them at different income levels. This sheds light on the distributional effects of GDP growth and of growth-enhancing reforms in different countries.
- Inequality or inclusive growth have been analysed in almost all **Economic Surveys** in various contexts (Brazil, Chile, Ireland, Japan, New Zealand and Sweden in 2015, and most recently Greece and Poland in 2016), depending on country circumstances and the policy issues being discussed in each Survey. One key message of the Chilean Survey was that growth needs to become more inclusive, especially for women. The Brazilian Survey highlighted the need for improved public healthcare in reducing inequalities and enhancing wellbeing. The New-Zealand Survey focused inter alia on reducing poverty and improving equity in education outcomes while the Indian and Austrian surveys in 2015 analysed gender inequality. This increased focus on inequalities and inclusive growth could be reinforced based on the work undertaken in the Policy Studies branch and improvements in data availability from STD.

36. Inequality is also addressed systematically in CTP’s analysis, in particular with distributional analysis of VAT, excise duties and environmentally-related taxes based on Household Budget Survey microdata in select countries. Future work could also focus on the distributional impact of direct taxes and, in particular, taxes on household savings.

37. Work to measure and monitor developments in agricultural policies systematically draws attention to distributional aspects, highlighting measures which favour the largest producers and landowners, while taxing consumers. This work argues for targeted and tailored approaches to reach the smallest and poorest producers who are often the intended beneficiaries of the policies.

38. Inclusiveness within and across regions and cities is also integral to the work on regional, urban and rural development. Dozens of thematic reports, such as *The Metropolitan Century*, as well as place-specific reports assess the inequalities across cities and regions and provide policy recommendations on how to address them.

39. The mechanisms that create inequality are also a focus of some analysis from the Directorate of Financial and Enterprise Affairs (DAF) showing that monopoly power by companies may generate and exacerbate wealth inequality, with more competition shown as a way to diminish inequality.

40. Last but not least, through its pillar on inclusive societies, the Development centre (DEV) has also been putting inequality at the centre of its policy research, dialogue and policy guidance to developing countries. Ongoing and foreseen work on social cohesion, with a focus on social protection, youth well-being and gender equality already contributed to the OECD’s inclusive growth agenda.

*...and different inequalities beyond income...*

41. The work on environmental policies is also crucial for the overall OECD policy narrative on inequalities. First, more analysis is needed regarding the **environmental inequalities** per se. The analysis in the Costs of Inaction and Resource Scarcity: Consequences for Long-term Economic Growth (CIRCLE) project highlights the unequal distribution of environmental feedbacks over sectors and regions, and the substantially larger environmental challenges that poor countries face. Second, more analysis is also needed on policy trade-offs and complementarities between environmental policies and policies designed to reduce inequalities in other dimensions of well-being. NAEC work in ENV has already highlighted how more stringent environmental policies could be made socially progressive provided that a policy package is carefully designed. Work on **environmental tax policy reform**, undertaken in CTP and ENV, shows how making more effective use of market instruments to reduce adverse environmental outcomes can be made compatible with a more inclusive and growth-friendly tax system. The work on **Taxing Energy Use and Effective Carbon Rates** results in indicators to track the effects of environmental tax and tradable permits reform. This type of analysis is informative for the ambitious environmental policy agenda in the post-COP 21 context.

*...facilitating a fresh look at the productivity-inclusiveness nexus*

42. The work by the Science, Technology and Innovation (STI) Directorate on **innovation policies for inclusive growth** can contribute to the overall OECD policy narrative regarding inequalities in an economy that is increasingly influenced by digitalisation. It provides evidence on the impacts of innovation and knowledge-based economies on income inequality and develops concrete policy solutions to help reconcile the innovation and inclusive growth agendas, thus investigating trade-off and complementarities across policy areas to support a more innovative but inclusive economy. New tools and evidence could also be used in this area. The newly developed MultiProd database is making use of microdata, and allows for the decomposition of aggregate productivity growth along various dimensions improving our understanding of the role of resource allocation across firms for different outcomes. In particular, on-going work in the framework of the MultiProd project is exploring the relationship between wage inequality and productivity dispersion. This work features prominently in the report on the "Productivity-Inequality Nexus [[C/MIN\(2016\)3](#)]" prepared for the 2016 Ministerial Council Meeting.

***Finance and financial linkages are better integrated in economic analysis...***

43. First, understanding of the ways in which the financial system operates and contributes to investment and macro-stability has been improved. The flagship publication "*Business and Finance Outlook*" has begun to promote new perspectives in this regard. It has shed light in particular on how companies and financial intermediaries of all types, from retail banks to the shadow banking sector and institutional investors, have coped with the post-crisis macroeconomic climate of low interest rates and structural shifts. It suggested policies to promote sustainable investment, new sources of finance for Small and Medium Sized Enterprises (SMEs), and how best to manage retirement income – all key pillars of inclusive growth and important factors in supporting inclusive growth and well-being.

44. To provide an evidence based review of the new G20/OECD Principles of Corporate Governance, extensive use was also made of firm level data with respect to corporate balance sheets, secondary capital markets, and companies' use of market-based financing in the form of corporate bonds and equity. To monitor developments and to better understand the links between financial intermediation and corporate level investments, these datasets will be expanded and refined to provide indicators and micro-level data that can complement related macroeconomic analysis.

...with key Directorates re-enforcing their analytical capabilities...

45. There is still an urgent need, however, to **better understand ongoing developments in financial systems** (including the impacts of financial regulatory reforms and technological change), and their implications for financing conditions and market liquidity and for the economy as a whole. Consideration of financial markets and their interactions with the real economy is part of the Committee for Financial Markets (CMF) new mandate and at the core of its work on Long-Term Investment and SME finance. To better understand the implications of financial markets, the CMF should explore issues related to finance and the economy, while DAF and ECO could consider opportunities to identify further potential joint work. DAF is also working to develop better measures of foreign direct investment and link these measures to data on the activities of multinational enterprises to analyse the relationships between the financial and real operations of these enterprises and to contribute to the understanding of the role of investment in GVCs.

46. Second, **the Economics Department is reinforcing its capacities to understand the financial sector and its link to the real economy**. Financial issues and spill-overs have been given greater weight in the *Economic Outlook* (See Box 1). But there is still ample room to better integrate the financial sector and related volatility issues in macro analysis.<sup>9</sup> In the Economic Surveys, real-financial linkages have been routine since the financial crisis and there are more systematic assessments of the health of the financial sector, credit developments and vulnerabilities, with a number of special chapters on the financial sector included since the financial crisis (for example Iceland, Luxembourg, Russia, Slovenia, Switzerland, the United States and the United Kingdom). Influential research papers have also been published on finance and growth as well as finance and inequality.

47. To further reinforce research and analysis, the Policy Studies branch plans to create a **new work stream devoted to financial and debt issues**, which will be in operation ahead of the next PWB. This work stream will delve more deeply into the international interactions between finance, risk and growth with a focus on the international dimension. This will be done in close co-operation with DAF and will contribute to giving greater prominence to these issues in the *Economic Outlook* and *Going for Growth*. The tax linkages will be explored jointly with CTP using ORBIS microdata.<sup>10</sup>

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<sup>9</sup> This work should take into account existing constraints and other forms of market dysfunction limiting the amount of credit that financial institutions grant to firms and households. In this context, the potential of tax incentives for investors to divert their savings to investment vehicles focused on the real economy could be investigated.

<sup>10</sup> The OECD ORBIS micro database includes more than 200 variables providing financial and ownership information for over 44 million companies across the world.

## **Box 1. NAEC Mainstreaming in Flagship Economics Publications**

### **Economic Outlook**

The OECD Economic Outlook is the flagship analysis of the major economic trends and prospects for the next two years, published each June and November with updated assessments provided in March and September in the Interim Economic Outlook. It is prepared by the OECD Economics Department.

The Outlook puts forward a consistent set of global macroeconomic projections for activity, employment and the supply-side, the public finances, prices and trade based on an assessment of international and country-specific developments.

This analysis informs policy recommendations for monetary, fiscal and structural policy, together with financial regulation to achieve strong, sustainable and inclusive growth.

Coverage is provided for all OECD Members and Key Partners from emerging economies on an equal footing. Each issue includes a general assessment, chapters summarising developments for each individual country, special chapters on topics of current interest such as investment, and an extensive statistical annex.

NAEC has influenced the Economic Outlook in a number of ways. An assessment of forecast errors during the crisis period, published as a Policy Paper, suggested that the role of financial factors had been understated. On an ongoing basis, financial issues, spillovers and risks have been given greater weight in forecasts and the Outlook. Significant research has been undertaken on resilience, which contributes to this approach.

Special chapters increasingly focus on NAEC themes and investigate non-traditional areas. For instance, the December 2015 Outlook looked at how climate change mitigation can support growth. The June 2015 edition combined the use of firm-level and macro-level data to analyse investment issues. The special chapter in the 2016 Outlook examines inclusiveness and productivity drawing on inputs from several Directorates.

The NAEC approach to look more critically at assumptions and to take a more integrated view of developments and policy drivers has helped the Outlook to address the weakness of growth, notably productivity, investment and trade in the most recent years. This has underpinned the call for stronger policy action, drawing on all the main policy levers and including collective action on public investment. The expansion of resources devoted to modelling will help to integrate the short- and medium-term perspectives in the Outlook, including drawing on the NAEC project to develop long-term scenarios. The Outlook increasingly draws on analysis developed in other Directorates, including on labour, productivity, financial and trade issues.

### **Going for Growth (GfG)**

Going for Growth is the OECD's annual report highlighting developments in structural policies in OECD countries and the key emerging economies. It identifies structural reform priorities to boost real income for each OECD country and Brazil, China, India, Indonesia, Russia and South Africa. The analysis also regularly takes stock of reform implementation in all the countries covered. This report provides internationally comparable indicators that enable countries to assess their economic performance and structural policies in a wide range of areas.

Going for Growth has increasingly covered issues beyond GDP. While there has always been some scope in Going for Growth to set priorities to address other objectives than growth, this has been limited. However, recent editions have included special chapters that link issues such as inequality, external balance and fiscal sustainability with structural policies.

The most progress has been made in the area of integrating income inequality in the Going for Growth framework. The 2015 edition included a chapter titled "The effect of pro-growth structural reforms on income inequality". GDP analysis will be complemented with new pillars in future "Going-for-Growth". The 2016 issue included a new perspective on inequality. From 2017, Going for Growth will include inequality alongside growth in selecting policy priorities.

*...collecting new financial data...*

48. **Progress is also being made in terms of data gathering in the work of the Statistics Directorate.** As part of the G20 Data Gaps Initiative, quarterly and annual sector accounts, encompassing non-financial and financial accounts and balance sheets are being developed that will support the analysis of the interactions between the real economy and finance.

49. Information on the distribution of financial assets and liabilities is also integral to the new Wealth Distribution database, which includes inter alia data on the prevalence and intensity of over-indebtedness among households. In addition, *How's Life? 2015* includes a few indicators of financial resilience (household debt, banking leverage and net government wealth) that are analysed to illustrate sustainability of well-being.

50. The planned STD formal collection of national Supply-Use tables, as part of the improvements to the Trade in Value Added (TiVA) database, provides insights into the role of the financial sector as upstream providers of productive services to other sectors. Extensions to the TiVA framework to create links between primary income flows in the Balance of Payments and value-added may also provide insights on the inter-relationships between debt and debt interest payments, GDP and GNI.

*...and new thinking on financing instruments, especially for SMEs...*

51. The Centre for Entrepreneurship, SMEs and Local Employment (CFE) has intensified its work on SMEs following the recent crisis, and the launch in 2012 of the annual report on Financing SMEs and Entrepreneurs: An OECD Scoreboard. Work on **New approaches to SME and entrepreneurship financing: Broadening the range of instruments** was developed by the Working Party on SMEs and Entrepreneurship (WPSMEE) in co-operation with the Committee on Financial Markets (CMF) for the first phase of the NAEC project, and formed the basis for the G20/OECD High-Level Principles on SME Financing, which were welcomed by G20 Leaders in November 2015. This work will be carried forward by an expansion of the Scoreboard and **additional analysis on alternative financing instruments**. Work will also be undertaken to develop effective approaches for the implementation of the G20/OECD Principles. Work on SME finance will also be an important part of the new work on “Benchmarking policies for stronger SME performance”.

*...but challenges remain*

52. There is thus some progress in gathering relevant data, in understanding how the financial sector works, and in focusing the attention on it and its linkage with the real economy. However, these changes have taken a long time and what remains to be seen are how well integrated is this new analysis and how it impacts our core policy advice. This is relevant not only in view of the past crisis, but more importantly, to understand the unintended consequences of the current policy and regulatory environment, and advance sustainable solutions to current challenges. The Organisation might still lack a clear perception of current and potential challenges and is probably still not sufficiently equipped to anticipate and react swiftly to financial market shocks.

***Complexity and systems thinking is increasingly addressed...***

53. Complexity theory and modelling approaches offer a number of promising new avenues for research. Their application to an increasing range of policy questions garners new insights on key policy challenges. But this potential has not been fully realised at the OECD to date. Complex systems theory has only been used sparingly to explain for example, governance challenges in education. However systems-thinking has been widely used highlighting new and complex policy linkages as well as systemic linkages across the economy and across countries. In addition, a complex systems approach has provided more

robust policy insights into how environmental factors affect economic growth and the interactions in the economic system that result from environmental shocks. A complex systems' approach can also be used to understand the challenges to which government itself is subject to. The Ministerial Meeting on Public Governance for Inclusive Growth in October 2015 highlighted the need to address the complexity of the policy landscape through a shared understanding of goals across government departments and with the centre of government playing a vital role in steering the policy process.

*...requiring more consideration of resilience...*

54. Moreover, broad lessons from a complexity approach such as the need for **resilience** are informing policy advice in a growing number of policy areas and geographic scales (e.g., cities).

- Resilience is becoming a major theme in future work. *How's Life? 2015* for the first time includes indicators of economic, financial, social and environmental resilience to inform on the sustainability of well-being.
- Resilience is the major theme for the OECD work on the governance of critical risks, which supported the UN Sendai process in 2015, and aims to inform government policy advice to ensure greater robustness of society and economic systems to major shocks.
- The review of the Jobs Strategy which will take place in 2017-18 will also include resilience as a specific goal of policy.
- Work is ongoing in ECO to better identify structural policies that increase the resilience of economies.
- Resilience was part of the agenda of the Global Forum on Agriculture held in February 2016, and was explicitly included in the theme of the Meeting of Agriculture Ministers that took place in April 2016. Ministers will be asked to reflect on the kinds of policy changes they will need to make to ensure that the agricultural and food system is resilient and capable of delivering needed, sustainable productivity growth in the face of risks and uncertainties arising from climate change and resource scarcity.

55. To stimulate further thinking about the applications of complexity science, the OECD co-organised<sup>11</sup> a workshop on "Complexity of the Economy: Research and Policy Implications" on 26-27 October 2015. The workshop offered a timely opportunity to discuss the policy applications emerging from the study of complexity. It featured ideas and policy tools from the theory of complex systems and outlined how complexity can enhance understanding of economic issues including preventing financial crises, managing systemic risk, whether related to economic or financial crises, or related to other major threats such as disasters or terrorist attacks, and understanding processes of economic growth and innovation as well as sustainability. Follow-up on this workshop is planned for the fall 2016 with the ambition to discuss in more depth policy implications from system thinking.

*...but the complexity agenda needs to be advanced further*

56. The policy narrative of the Organisation is thus only beginning to utilise key concepts derived from complexity analysis, such as the call to focus on systemic vulnerabilities and resilience. A complexity

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<sup>11</sup> Together with the Institute for New Economic Thinking (INET) Oxford, the Global Complexity Network (GloComNet) and the Global Systems Science from the European Commission.

approach could be useful for meeting the Sustainable Development Goals (SDGs). The SDGs, with its multiple goals and targets, requires a more integrated and complex approach to policy-making, where trade-offs, synergies and policy linkages are understood. However, there remains much potential which could be exploited further so that insights from complexity and systems thinking could further enrich the Organisation's core analysis. This will require staff training and engagement of external research communities in academia, think tanks and research institutions.

### ***OECD is facing the future...***

57. There is a broad trend of enhancing a forward-looking perspective in OECD projects, i.e. by strengthening strategic foresight and extending time horizons to 10-15 years or more into the future. This forward-looking analysis is critical to enable the Organisation to provide policy makers with ambitious policy recommendations that could help tackle the main complex challenges our societies are facing and thus impact on the overall path of our economies.

*...and long-term scenarios are being investigated...*

58. A number of projects have taken a long-term perspective. These projects include both initial NAEC projects and ongoing projects.

- The preliminary dataset on the sustainability of well-being outcomes contained in the 2015 edition of *How's Life* will be expanded in the 2017 edition, where increasing attention will also in particular be paid to the long-term effects on living standards of environmental factors (resource use, pollution, climate change). The report on the **Economic Consequences of Climate Change** provided detailed analysis up to 2060, and more stylised investigations till 2100.
- Ongoing research on the **distribution of income and poverty** considers broad trends over several decades in order to identify patterns and trends.
- Analytical work on **ageing** also takes an explicit long-term perspective, projecting pension systems into the future (*Pensions at a Glance*), examining trends of ageing, health and labour market developments in the past and in the future, and the impact of mortality improvements on pension funds and insurance companies providing retirement income solutions.
- As part of the horizontal project **Preventing Ageing Unequally** a policy foresight model is being developed to assess the impact and linkages of health, employment and retirement patterns on inequality among older age groups. The model will be used to identify policy intervention points over the life-cycle to prevent ageing unequally effectively and efficiently.
- The Forum on the **Future of Work** on 14 January 2016 launched a new activity which will examine how the megatrends of digitisation, globalisation and population ageing will shape the nature of work in the future: how many jobs will be available, where and for whom as well as how working conditions and the workplace are likely to evolve and how policy can help workers navigate these changes.
- A long term futures approach underpins the understanding of **countries preparedness to major risks**, drawing on foresight led analysis of threats, and was at the heart of the discussion at the High Level Risk Forum in Washington DC in December 2015, preparing the reporting to the Council in 2017 on the implementation of the Recommendation of the Council on the Governance of Critical Risks [[C/MIN\(2014\)8/FINAL](#)].

- Data and analysis of **health spending** have been projected forward several decades. Policy foresight modelling has been part of the work on public health for some years, and a more generalised foresight model is being developed as part of the *Preventing Ageing Unequally* project of 2015-16, covering labour market, health and social policies. It is intended to continue development of this model in 2017-18.
- Long-term scenarios for **global food and agriculture** until 2050 have been developed. Building on this experience TAD is investing in long term modelling capacity which will provide a more permanent basis for foresight inspired reflections to complement the ongoing medium term perspective work done jointly with the FAO.
- Recent reflections in the Trade Committee and its Global Forum have addressed the question of the **long-term future of trade**, seeking to understand the structural and technological shifts that are underway and their implications for growth and jobs. Related questions about the international architecture governing trade negotiations will be central in the coming period.
- A **new long-term macro and structural model** is being developed in ECO along with scenarios based on different policy assumptions. Such simulations could be carried out to estimate the effects of specific policy packages or to produce baseline scenarios to be used by other Directorates.
- The 2016 Science, Technology and Industry (STI) Outlook will include for the first time a chapter on **forward-looking STI trends**, issues that permeate related work on the Next Production Revolution.

59. These projects also include activities currently being proposed by the Secretariat for the 2017-2018 PWB.

- New work on **migration** will look at OECD practices for anticipating and forecasting future migration flows with a special focus on humanitarian migration and on the analysis of the role of international migration in addressing demographic imbalances by skill levels and occupations across regions/countries.
- The new **Education 2030** project will help countries explore different dimensions of 21<sup>st</sup> century knowledge, competencies and values.
- Future-oriented work and scenario development are also part of several Centre for Educational Research and Innovation (CERI) projects such as its past **Higher Education Futures** work, the **Schooling for Tomorrow** project and the **Innovation Strategy for Education and Training**.
- Future work in DAF will look at **disruptive technologies and the financial sector**, and issues linked to the ‘new financial landscape’, drawing lessons from the past and taking into account developing trends.
- In thinking about the future, more emphasis will be placed on children and young people. Recent evidence indicates that children have high levels of vulnerability and were among those hardest hit by the economic crisis.<sup>12</sup>

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<sup>12</sup> In the context of the Inclusive Growth Initiative, and based on the work carried out by several Committees, an agenda for children well-being is being proposed [See the 2016 MCM background report on Advancing

*...as part of an upgrade of Strategic Foresight*

60. The **Strategic Foresight unit** in the Office of the Secretary-General has contributed to developing the awareness, knowledge and experience in foresight thinking across the Organisation and by Members and has supported some specific projects to increase the value of foresight for policy analysis and design. Additional efforts could be made in terms of **increasing the value of foresight for policy analysis and design** by ensuring a closer link to the substance developed in the Directorates. **Foresight could also play a greater role in guiding the analysis contained in** flagship publications.

61. In 2017-2018, a **major cross-cutting project on the digitalisation of the economy and society** is planned, which is likely to have a strong forward-looking dimension (see also para.144).

62. CTP's current work on the digital economy has also a link with strategic foresight approaches; the digitalisation of the economy will fundamentally change the functioning of our economies. Understanding and foreseeing new digital business models is important to ensure that the tax system will be able to meet the new challenges which the digitalisation of the economy will bring. In addition, work on the taxation of household savings could explore the tax policy design implications of the recent trend towards automatic exchange of financial account information in tax matters between tax administrations.

63. The Organisation is thus developing a longer-term perspective and is scaling up its foresight activities. These new developments however are not in the mainstream and are dependent on the expertise of a limited number of individuals. Here again, investment in specific competencies and more general training of Secretariat staff would be required to consolidate these experiences and to have a lasting impact on the Organisation's policy recommendations.

*Country-specific institutional frameworks are being strengthened...*

64. Peer reviews have always been at the heart of the Organisation's analysis and policy recommendations. This peer review mechanism has been successful at tailoring generic policy lessons to country-specific institutional frameworks, balancing country specific knowledge and expertise with cross-cutting policy lessons derived from aggregate research.

65. To really design country-specific policy recommendations, **understanding country institutions is key**. The analysis and policy recommendations of the Economic Surveys rest on such an understanding, forming a major part of the value-added of desk expertise. The country specialists will continue to deepen their knowledge of national institutions and incorporate that to inform their policy analysis. The strategic decision to involve more closely **ECO Policy Studies Branch economists in country surveillance work** (and, correspondingly, more involvement of Country Studies personnel in cross-country research) is expected to foment cross-fertilisation between the two branches and promote greater awareness, dialogue and research.

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Child Well-Being to Promote Inclusive Growth -[DELSA/ELSA\(2016\)7/REV1](#)]. As part of this, the Education Committee is broadening the empirical data available on Early Childhood Education and Care outcomes. High quality early childhood education and care offers immense opportunities for children to develop the non-cognitive and cognitive skills needed for their development, well-being and success in later life. The Employment, Labour and Social Affairs Committee is working on policies to prevent child poverty, the impact of changing family structures on child well-being, and on public spending profiles over the child life cycle. Conditions for children in developing countries can be addressed by DAF work on due diligence of supply chains.

66. Similarly, the **Multi-Dimensional Country Reviews (MDCRs)**, a cross-cutting initiative led by the Development Centre (DEV), with the participation of STD, ECO and ELS, support developing countries in designing high-impact development strategies.<sup>13</sup> The reviews adopt a multi-dimensional perspective combined with an analysis of countries' specific institutional context to identify key constraints to development, assessing whether obstacles to drivers of growth also impede deeper determinants of economic development or wellbeing of citizens. They combine rigorous benchmarking and measurement metrics with Strategic Foresight and incorporate the OECD's Well-being framework with structural economic analysis.

*...improving the targeting of policy guidance...*

67. Country reviews in different policy areas are based on in-depth analysis of a country's institutional frameworks which is used when preparing detailed policy recommendations for a particular country. This is the case for example for the **Country Reviews of Innovation Policy** and the **Country Reviews of SME and Entrepreneurship Policy**. CTP's **country tax policy advice** also takes country's institutional frameworks and constraints into account; tax policy recommendations are embedded within a country's economic, institutional, administrative and political reality.

68. Following the Secretary-General call to "go national" several Directorates and Committees are extending their capacity to provide country-specific policy advice:

- The Education and Skills (EDU) Directorate has recently significantly strengthened its capacity for country-specific policy recommendations by reorganising its structure and establishing a specific Division on Policy Advice and Implementation (PAI) to concentrate country-focused policy work and build the capacity to move beyond 'one size fits all' policy recommendations.
- ELS is undertaking detailed examinations of national policies in an extensive series of country reviews, covering issues as diverse as integration of migrants, health care quality, youth policies, labour migration, displaced workers and activation policies. In addition to this, ELS has also extended the format of its country reviews to include **more tailored options than can respond to specific country requests** for timely policy advice and evaluations of recent reforms.
- Territorial Reviews of countries and regions, as well as a new series of Multi-level Governance Studies, highlight the importance of country-specific institutional arrangements across levels of government. This is critical as policy recommendations that neglect the **critical role of sub-national governments** are missing a big part of the implementation picture.<sup>14</sup>

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<sup>13</sup> MDCRs require the expression of interest of a country. A regular review cycle per country does not as yet exist. However, the OECD offers to follow-up to an MDCR with a Monitoring and Peer Learning Partnership for up to five years following a review. Given that MDCRs depend on the demand of countries, it is not possible to provide a long-term time table. For the PWB 2015-2016 DEV committed to initiating at least 3 MDCR each year, each taking 18 months. Cote d'Ivoire has completed a full MDCR, all three books will be published by June 2016. Myanmar will be completed by May 2016. Kazakhstan and Peru MDCRs are currently ongoing and will finish by the end of 2016. Morocco began the process in March 2016 and further studies in Senegal, Panama and Paraguay will commence in 2016.

<sup>14</sup> Subnational governments are indeed responsible for 63% of all public sector staff expenditure, 59% of public investment, 50% of public procurement, and 40% of total public expenditure.

- Work on trade policy has increasingly adopted a country specific focus,<sup>15</sup> as well as work on agriculture and food, based on in-depth country reviews which provide the basis for ongoing monitoring, with additional countries added during each biennium. Similarly, the policy framework for sustainable productivity growth is designed to be relevant in the different economic and institutional settings in the countries in which it is applied.
- The **Local Job Creation reviews** examine policy implementation on the ground for the range of policies which have an impact on jobs, identifying gaps and failures and proposing improvements in terms of institutional capacities. The Forum on Partnerships and Local Development and the Trento Centre for Local Development also help institutions, places and people to better adapt policy guidance to their national and local contexts and learn from each other. They do so by focusing on outreach with stakeholders and by investing in building their capacity to interpret and act on policy guidance.
- The inclusive growth framework is being applied to countries (for example China) to provide policy recommendations that take well-being choices and priorities into account.

*...and moving beyond a one-size-fits-all approach to country reviews*

69. The OECD is striving to strengthen its specific institutional country expertise and tangible **progress has been made in a number of policy areas and Directorates**. This needs to continue to avoid a one-size fits all approach and to ensure that all OECD analysis and reviews are adjusted to local institutional frameworks and conditions that take into consideration the implementation capacities of the countries concerned.

### 3. Mainstreaming the Use of New Data, Tools and Analytical Approaches

*The measurement and application of stock data is improving...*

70. Extensive use of stock data is already made in much of OECD's work, although there is undoubtedly scope to take this further, and efforts are being undertaken to expand the measurement agenda.

71. Measurement of **non-financial assets** extends to developing capital and productive stock data at a more granular level (by industry), providing the capacity to develop multifactor productivity estimates by industry as well as extensions to TiVA. Work is advancing on the measurement of non-produced assets, in particular **land and natural resources**.

72. With regard to **financial balance sheets**, progress is being made with the measurement of (net) government debt and pension entitlements. **Data on financial stocks** (household and public debt stocks, bank and corporate balance sheets, international investment positions, foreign exchange reserves, etc.) are used to inform analysis and policy advice in Economic Surveys. This is often critical for assessing vulnerabilities to economic shocks and for informing policy recommendations. Potential output estimates,

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<sup>15</sup> TiVA-GVCs covers 61 countries today, while microdata are drawn upon to extend related analysis to other countries in SEA, LAC and Africa; STRI covers 42 countries across 19 sectors, and early stage discussions are on-going to extend the STRI methodology across at least some APEC members; and TFIs have been developed for 162 countries, with updates planned over the coming period. Related analysis is routinely incorporated in ECO country studies. Further, a number of IOs are increasingly drawing upon these unique datasets for their own analysis, technical assistance, and capacity building programmes.

used for estimating output gaps and making policy recommendations both on demand management and structural reform, are based in part on capital stocks.

73. Recent advances have led to some progress being made in looking at household **wealth data**, which will underpin some new work in 2017-18 on how household wealth is treated in social policies.

74. Through PISA, PIAAC and INES, the Organisation is also extending its capacity to measure **the stock of human capital** in societies, either through the measurement of educational attainment, the assessment of learning outcomes or the assessment of the skills pool in the working population. The outputs of this work provide the backbone for various other work streams in the Organisation. This has to become a common tool for the whole Organisation.

75. Despite recent progress, measuring **the stock of social capital** still provides a major measurement challenge. However, by extending its production and use of stock data, the Organisation is improving its capacity to provide long-term analysis of critical challenges such as environmental degradation, social exclusion and financial stability. It could thus sustain its efforts, particularly regarding the measurement agenda, and make full use of new sources of data to develop more long-term and multi-dimensional analysis of complex challenges.

*...and microdata, big data and “smart” data are being used more extensively...*

76. Part of the rationale of the NAEC initiative was to take OECD’s statistical work into new areas such as measuring trust, incorporating indicators on job quality, and ensuring that our analysis looks at distributional data rather than just country averages. This provides a clearer view on for example, the distribution of education and skills or health data over various social groups. OECD continues to push the boundaries of its statistical approaches by developing metrics on social and emotional skills, culture and community values. The 6<sup>th</sup> OECD World Forum on Statistics, Knowledge and Policy planned for 2017 offers an opportunity to showcase new statistical advances and to connect new data measures and concepts to the broader policy agenda.

77. Expanding the availability of microdata is a critical element of efforts to move beyond ‘average’ measures of performance. Exploiting such data is sometimes the only way to investigate empirically certain questions, especially relating to distribution and heterogeneity, and may provide a better identification of the channels through which policy operates.

78. STI has a large **microdata lab**, which includes data on patents, scientific publications, trademarks and designs, some of which is linked to firm-level data to develop analysis on the IP portfolio of R&D global corporate players and is being used for a range of other analysis and indicator development.<sup>16</sup> STI has also undertaken work on firm-level employment dynamics (DynEmp) and is engaging in further work to examine the micro drivers of productivity growth (MultiProd). A new microdata project on the impact of tax incentives for business R&D (Tax4Inno) could provide insights relevant to ongoing discussions at the junction of innovation and tax policies.

79. Similarly, ELS has established a **repository of microdata from labour force and other household surveys** that allows for a much more detailed examination of the determinants of labour market outcomes and well-being at the individual level.

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<sup>16</sup> Many of these experimental indicators are published in the OECD flagship "Science, Technology and Industry Scoreboard. Innovation for growth and society" (<http://www.oecd.org/sti/scoreboard.htm>).

80. STD and ELS are now collecting annual microdata from official household surveys to populate the **OECD income distribution database**, and STD has launched a new database on the **household wealth and its distribution** based on microdata from 17 OECD countries. The country coverage could be expanded in 2017-18 to include the remaining OECD countries and, to the extent possible, a number of Key Partners.

81. The OECD is also taking advantage of innovative ways of producing data, including “**big data**” – i.e. data arising from the ICT revolution. It is also developing the concept of “**smart data**”, which relates to the ability of both using new data and treating traditional data in new and smarter ways. Smart data offer the potential of producing more timely, more granular and new data, often in a cost-effective way. Efforts are ongoing to bolster digital capabilities in order to mainstream and accelerate the adoption of emerging practices in the area of big data analytics, to assist Directorates to source new data and develop better policy evidence, including:

- Nowcasting & multi-source statistics: Augment existing statistical series with increased granularity, increased frequency, and disaggregation according to socio-economic criteria or more timely indicators;
- Identify policy linkages at micro or low aggregate levels, e.g. impact of policy on different groups of households or firms; linkage between pollution and health, using e.g. geospatial data; linkage between macroeconomic situation and political tensions; inequality dynamics; etc.

*...shedding new light on a number of policy questions...*

82. Microdata have been at the heart of important changes in policy focus and narratives in recent years, including through a number of NAEC projects. **It has changed the Organisation’s narrative, *inter alia*, on productivity, innovation and inequality, as well as on taxes.**

83. STI has also undertaken with ECO work on the “**future of productivity**”, based in part on firm-level financial data (ORBIS). Other examples of ECO’s use of microdata include analysis of individual household data to investigate the distributional effects of moving to the “single benefit” in the UK and the probability of returning to work based on individual characteristics (Ireland). Tax income statements have been used in Ireland to assess changes in income distribution and who pays property taxes (and who would pay them under alternative policies), individual student data to analyse the effectiveness of educational reform in South Africa.

84. CTP is also using **business financial microdata** (e.g. ORBIS) to study Base Erosion and Profit Shifting (BEPS) and the effects of BEPS counter-measures. DAF has also started doing so to better understand current trends in international investment, the drivers of these trends, and their impacts on workers and on home and host economies.

85. In the area of trade, the Trade and Agriculture Directorate (TAD) is increasingly resorting to microdata with extensions to the **TiVA database, the Services Trade Restrictiveness indicators (STRI), and Trade Facilitation Indicators**. Firm level data are exploited in combination with TiVA to better understand the impacts of GVCs on jobs and skills. In agriculture, a pioneering network of statisticians and analysts from member countries has been created to give access to farm-level data, which would otherwise not be possible because of confidentiality conditions or would be too costly and time consuming to exploit. Research questions in relation to productivity, innovation, environmental performance and distributional aspects of policies have been studied in this way, using a commonly defined methodology. Work on food security has been strengthened by the use of household data, enabling the impacts of different policies on

the food security of urban and rural households, and with different income levels to be quantified. This work will be undertaken for several additional countries in South East Asia.

86. The Health Committee will also start reporting on how hospitals within a national health system compare in the **quality of care they provide** – promising a transformation in our understanding of the drivers of excellent care.

*...but challenges with confidentiality, cost and capacity remain...*

87. Challenges remain in accessing micro-data, particularly regarding confidentiality. In many countries national legislation prohibits the transfer of confidential micro-data, including to the OECD. The provision of anonymised aggregations of micro-data, using tailored programmes, can help to mitigate confidentiality barriers but, often, limited resources act as an additional constraint. Encouraging greater access to micro-data collected by national statistics agencies, whether through the use of remote access, remote execution, anonymised files, safe centres, synthetic data, or through greater use of bilateral confidentiality agreements has formed a central part of the OECD's strategy in this area for over a decade but progress remains slow. Lack of access often leads to alternative data sources being used (often at a cost), which will typically be of lower quality, leading to less reliable analyses and policy recommendations. With analyses increasingly requiring higher granularity, improved access to existing micro-data, directly or remote is more important today than ever, across a range of policy domains. Notwithstanding the importance of maintaining confidentiality, renewed efforts to capitalise on and make micro-data more accessible, including micro-data already provided to the OECD are essential. Within the OECD this could include the creation of a safe centre, with confidentiality rules agreed with national authorities that could provide access to accredited researchers.

88. Exploiting microdata sets also requires the development of new skills and tools, and is sometimes very expensive, for example data sourced from the *Gallup World Poll*. Bridging micro and macro data also represents a significant challenge that will require additional attention in the coming years.

89. There are **many risks with smart data and research is still in its infancy**. Smart data projects are often confronted with three main challenges. First, the volume of the data requires storage capacity and computational power. Second, the quality of the data is also an issue - internet and other types of big data can be very noisy and unstable over time, implying that a lot of data cleaning is often necessary to extract some accurate and meaningful information that can inform policy making. Finally, the institutional status of the data and in particular the fact that the data are often owned by the private sector raises issues of data accessibility, privacy and durability of sources.

*...requiring more strategic reflection on smart data*

90. More **strategic reflection is needed on how the OECD can best equip itself to take advantage of these new sources of data**. An ambitious, whole-of-the-Organisation effort is planned to ensure that the OECD continues to provide the data that enables relevant, cutting-edge and evidence-based analysis and policy advice.

***Modelling and quantification tools are being upgraded...***

91. **Modelling and quantification tools are being upgraded** across the Organisation, with an important role taken by ECO in modelling not only the long-term effects of reforms, but also their near-term consequences. This involves understanding how they may depend on cyclical conditions and on whether they are undertaken unilaterally or as part of a collective action taken by a set of countries. Progress has been made on integrating different types of models to better grasp complex interactions of an economy.

92. The **dynamic general equilibrium modelling work on the environment** has been a frontrunner in terms of integrated modelling analysis. For instance, a CIRCLE report is in preparation [[ENV/EPOC\(2015\)25](#)] on the nexus between land, water and energy, and the implications for the global economy. In 2016, further CIRCLE work is foreseen on the policy linkages between climate change and air pollution. This will be further enhanced in the next biennium in the work on resource efficiency and the circular economy.

93. As part of NAEC, the Employment Labour and Social Affairs (ELS) Directorate is also collaborating with the Paris School of Economics to develop **policy simulations using a Dynamic Stochastic General Equilibrium model** to simulate the short-term distributional effects of a set of structural reforms in addition to the more standard long-run effects.

*...but a greater variety of methods are still needed...*

94. Work is being developed in ECO to increase focus on **modelling** to allow the integration and quantitative assessment of short- and medium-term effects of macroeconomic and structural policy levers with a focus on the impact of structural policies, ultimately including a new capacity to model international spill-overs, both through real and financial linkages.

95. Models based on General Equilibrium remain a central part of the OECD's modelling toolkit but have limitations in capturing this complexity. Further efforts to diversify the types of models used are thus needed.

96. The Trade Committee has contributed to NAEC including through the development of a **new trade model (METRO)** that incorporates new OECD data sources, and by applying the model progressively to policies with potentially protectionist impacts. The newly developed databases TiVA, STRI, Trade Facilitation Indicators (TFI) and export restrictions are being integrated into METRO. The model enables an analysis of existing as well as new forms of "murky protectionism" and provides a platform to more fully integrate horizontal policy issues in the analysis of trade policy.<sup>17</sup>

97. In the work of the Health Committee on obesity and alcohol consumption, modelling work is ongoing and will continue in 2017-18 based on a **dynamic micro simulation model** involving random picks from distributions both of the behavioural response to a policy change, but also of the eventual health impact of that behaviour. This approach has proven to be an effective way of distilling evidence of comparative effectiveness of policies in different settings.

*...including more integrated approaches to grasp complex interactions*

98. As part of the Inclusive Growth (IG) initiative, work is currently ongoing in STD, ECO and ELS to **model the determinants of selected well-being dimensions**. This enables the assessment of the combined impact of policy packages on overall well-being. This constitutes a first important step in the development of an integrated policy evaluation tool based on well-being. But more work remains necessary in this area.

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<sup>17</sup> METRO also gives more consideration of, and linkages to, micro-simulation models, e.g. to generate "early estimates" of development in income distribution. Developing multiple baselines in scenario analysis is useful to become better equipped to deal with different future outcomes. METRO makes it possible to track trade flows by their use (i.e. intermediate, household, government and investment) in addition to the standard source and destination markets. This will greatly enhance TAD's ability to model movements of goods and services, especially along GVCs.

99. One important mechanism to ensure that the modelling analysis remains state-of-the-art is to engage external expertise through for instance annual expert workshops. Such workshops organised as part of the CIRCLE project have proved to be most beneficial. Furthermore, modelling toolkits can be kept up-to-date with frequent interactions with other modelling tools, including as part of inter-model comparison projects. While contracts for intellectual services can supplement OECD experience and enable the expansion of specific aspects of the modelling framework. Active horizontal interaction through NAEC and Directorate seminars has also helped in this regard.

100. The Organisation is thus upgrading its modelling tools. It is increasingly integrating different types of models to better grasp the complex interactions which make up the global economy. However, greater variety of modelling approaches is still warranted. Given the resource-intensity of modelling work, **further strategic reflection could be undertaken on where efforts could be best focused. Further work is of course necessary** to ensure that the Organisation uses the most relevant models to underpin its analysis and policy making. This in turn will help reshape and strengthen the analytical basis of flagship publications.

#### 4. Mainstreaming New Ways of Working

##### *Horizontal work is being reinforced...*

101. **Strengthening horizontal work is a clear priority for the Organisation.** Enhanced capacity to undertake horizontal projects would leverage the key comparative advantage of the OECD to provide integrated perspectives with expertise drawn from multiple policy areas. This is essential in order to keep pace with an increasingly complex and interconnected world economy.

102. **The OECD leadership and the Office of the Secretary-General (OSG) in particular have played a critical role in reinforcing horizontal work at the OECD.** It has achieved this through an increasing number of horizontal projects that have shaped the policy advice of the Organisation, including the Green Growth Strategy, the Gender Initiative, the Development Strategy, the Skills Strategy, Inclusive Growth, NAEC, Aligning Policies for the transition to a Low-Carbon Economy, Generation Next, etc. Deputy Secretaries-General and the Chief of Staff have actively nurtured and overseen more collaboration across Directorates. The NAEC and Inclusive Growth units in OSG have stimulated cross-Directorate discussions and exchanges of views, enriching outcomes at the Directorate level. Oversight of the work on climate change at OSG strengthened the OECD contribution to COP21, while the development of an Action Plan on the SDGs, co-ordinated by a Deputy Secretary-General, is helping to prepare a horizontal response to the SDGs. Sound public policies grounded in evidence – and implemented effectively – will be crucial for the achievement of the 2030 Agenda. In many of the areas covered by the SDGs, the OECD is already working with Member and Partner countries to generate evidence, identify good practices, develop standards, and help design and implement policies. Moreover, the work on the G20 and with non-Members has also provided an impulse to work more collectively across policy silos.

103. **The Organisation has been experimenting with different mechanisms to enhance horizontality,** from mostly informal interaction to formal projects with specific multi-policy governance structures. While mechanisms differ, there is clear evidence that horizontal interactions with varying degrees of intensity and formality have increased. The NAEC Group meetings and the Seminar Series has contributed to enhanced horizontal discussion across Directorates.

*...enhancing the multi-dimensional character of OECD work...*

104. Committees are committed to taking **horizontal, integrated approaches**. NAEC has led, for example, EPC's WP1 to collaborate actively with a number of other Committees on subjects of common interest.

105. One particularly important case for horizontal interaction is the **Economic Survey process**. Efforts are ongoing to enhance the horizontal character of the Surveys. The expertise of other Directorates is increasingly drawn upon in a number of ways, for instance through a Strategy Meeting to kick off the review (which brings Directorates together early in the preparation process to brainstorm on issues, approaches, etc.). Systematic working level interaction between desks and experts, sometimes including the active participation of staff from other Directorates are being scaled up and draft Surveys are widely circulated for comments. These efforts should be pursued to ensure that Economic Surveys fully represent the breadth of horizontality available at the OECD.

106. The new organisation of ECO Policy Studies into work streams is also intended to strengthen co-ordination within the Economics Department as well as to foster cross-Directorate work. In addition, each work stream is tasked with following the activity of one or more non-ECO Committees.

*...based on deeper dialogue...*

107. Other Directorates are also strengthening their horizontal work through a stronger dialogue with each other. The Statistics Directorate has already consolidated partnerships with a range of other OECD Directorates (with ELS on job quality, income distribution, health inequalities and on COPE more generally; with DEV on Multi-Dimensional Country Reviews (MDCRs); with GOV on trust; with OSG, ECO and ELS on inclusive growth; with STI, TAD and DAF on TiVA/FDI /GVC; with CFE and DAF on SMEs; with ENV on the integration of economic and environmental accounts) which will continue over the next biennium.

108. ELS, STD, GOV and STI are working together to **address the accumulation of disadvantages over the lifecycle** and the threat of worsening inequality in older individuals. The project addresses trends in income levels and in income inequality, the effect of bad health on labour market outcomes, the effect of work on life expectancy and differences in affordability of long-term care across income levels. A policy foresight model will forecast health and economic characteristics of ageing populations and calculate impacts on pension benefits and spending.

109. ELS is co-ordinating with all other relevant Directorates (e.g. DCD, DEV, ECO, EDU, LEED, GOV, STD) to build a whole of the Organisation response to the many challenges that are emerging due to the **unfolding humanitarian migration crisis** and to support Members in designing and implementing appropriate policy responses.

110. **GOV** has ongoing partnerships with a number of Directorates which will continue in the next biennium with proposed projects with DCD in the area of public procurement, with STI and ELS in the area of public sector innovation and digitalisation, with DAF in the area of anti-corruption, with TAD and DAF in the area of illicit trade and clean trade, with ELS in the area of migration, and with ENV on the governance of water, green growth adaptation to climate change and disaster risk reduction and the measurement of pollution in cities. Other proposed projects, for instance on the Governance of Infrastructure would also benefit from collaboration with Directorates such as STD, and STI.

111. **CFE** has undertaken a pilot project on "benchmarking policies for stronger SME performance" with STD and GRS, in collaboration with other directorates, to bring together the wealth of work on SMEs

across the OECD and link it in a comprehensive conceptual framework. The aim is to support governments in improving their policies towards SMEs and increase the overall performance of these firms.

112. **CTP** is in the process of further strengthening its horizontal interactions with other Directorates, including ECO with possible joint projects including the “Tax and Inclusive Growth” project for the PWB 2017-18, ENV on environmentally related taxes, STI on inclusive innovation, DAF on the taxation of private pensions, ELS on health-related taxes, EDU on taxation and skills and DCD and DEV on taxation and development.

*...and cross-Committee collaboration...*

113. **STI** has also made significant efforts to increase the horizontality of its work. For example, in the 2015-16 PWB, three STI Committees are participating in the cross-cutting project on the next production revolution, together with OSG and ENV. Going forward, all four Committees could contribute together with other Directorates to a proposed cross-cutting project on the benefits and challenges linked to the digitalisation of the economy and society. STI has also joined forces with ECO in the establishment of the Global Forum on Productivity, overseen by the CIIE, EPC and EDRC.

114. Implementing the financing for development agenda (including enhancing Official Development Assistance (ODA) synergies and mobilising resources beyond official aid -- primarily taxes, private investment, philanthropy and remittances) requires coherent and mutually reinforcing policies. A thorough understanding of the structure and workings of the global system and knowledge about potential policy trade-offs will be essential. The Development Assistance Committee (DAC) can leverage its core work with other OECD intellectual assets and capacity to engage with this agenda across all its dimensions.

115. In addition to long established collaboration with the Environment Policy Committee, both the Trade and Agriculture Committees have been intensifying work with other Committees and Directorates. A regular joint session between Trade and the Regulatory Policy Committee has been instigated. Work on TiVA/GVCs is undertaken in close collaboration with STI and STD. The DAC meets regularly with the Working Party of the Trade Committee and Aid for Trade and Trade Facilitation are an important part of the Trade Committee’s efforts to mainstream development in its work. TAD contributes to OECD-wide initiatives such as Green Growth, the horizontal Programme on Water, and Aligning Policies for the Transition to a Low-Carbon Economy. The work on Fossil Fuel Subsidies is a tripartite effort involving TAD, ENV and CTP. The Trade Committee will contribute to the OECD Integrity Forum in April 2016, which will focus on the impact of corruption on trade.

116. The Committee for Agriculture has worked closely with the Investment Committee in developing the OECD-FAO Guidelines for Responsible Agricultural Supply Chains. Ongoing exploration of the Trans-Pacific Partnership, in collaboration between TAD, and ECO, STI and DAF is a recent example of directorates getting together informally to pool expertise across a wide number of policy areas.

117. Going forward, the Inclusive Growth Initiative and its work on the inclusiveness-productivity nexus will continue to deepen inter-directorates as well as cross-Committee collaboration.

*...with several lessons on how to undertake successful horizontal projects emerging*

118. The Secretary General's Guidelines for Managing Horizontal Projects and the document on horizontal projects [C(2015)187/REV3] capitalise on experience and clarify lessons learned to ensure appropriate management, implementation, governance and monitoring of horizontal projects.

119. One key lesson for horizontal projects is that shared resources and dedicated staff have been particularly useful in delivering specific horizontal projects. Ongoing initiatives (including the Digital

Strategy) are supporting the development of electronic platforms to encourage Directorates to work together, as well as tools to ensure better information sharing both internally and with Committees.

120. More broadly, more thought should be given to identify internal barriers (in structures, processes and cultural practices) to more horizontal and collaborative problem-solving in order to better leverage the cross-thematic nature of OECD expertise. This would represent a crucial step in enhancing collaboration, dialogue and innovation across the OECD. The ultimate outcome is also to contribute to reducing silo problems in the governments and administration of our Members and beyond.

***Engagement with other disciplines is expanding...***

121. The Secretariat and Committees are increasingly looking to enrich their work with the insights from other disciplines.

122. The NAEC unit has fostered close collaboration with other institutions and stakeholders that are relying on different disciplines to better inform policies, and has developed a strong programme of outside speakers and thinkers to learn about and discuss the insights these disciplines bring to enrich policy options and better face current policy challenges. Collaboration with the European Commission Joint Research Centre on behavioural insights, systemic thinking and complexity as well as strategic foresight is being explored to **investigate how scientific findings can be better incorporated into policymaking.**

123. In the work on statistics, the ‘new’ issues that have been brought to the attention of the Committee are built on research often undertaken outside official statistics, e.g. psychology and behavioural science in the case of subjective well-being; political science and sociology in the case of trust; occupational health specialists, sociologists and psychologist in the case of job quality; epidemiologists and medical sciences in the case of health inequalities. In the case of the report “How Was Life”?, fruitful co-operation was also pursued with historians.

124. Engagement with other disciplines is expanding in other areas, for example, in work on mental health or more generally on health where perspectives from the public health and the epidemiological discipline are often explicitly sought or are provided by countries. It is also the case in looking at child well-being or on the nature of technological changes and their impact on work practices. In the work on social policies, a particular objective for 2017-18 is to include more sociological perspectives. Work in TAD on animal health issues has brought policy-makers, veterinarians and epidemiologists together, and is carried out in collaboration with the World Health Organisation (WHO) and the International Organisation for Epizootics (OIE). Work on climate change increasingly brings climatologists, economists, agronomists and soil scientists together. GOV is regularly using insights from behavioural economics, physics, anthropology and other disciplines in its analysis.

*...improving our understanding of behaviour...*

125. **Insights from psychology (behavioural economics) have also informed Economic Surveys** such as the recommendations to use “nudge” techniques to raise private pension savings in South Africa (2010 Survey) and Israel (forthcoming Survey). CTP is also investigating the behavioural economics literature in relation to the improved design of tax policy. The Recommendation of the Council on Consumer Protection in E-commerce [C(2016)13] explicitly embraces behavioural insights. Behavioural sciences are reflected in work on pensions, consumer policy, financial education and financial consumer protection, as well as in other work streams as far as they are relevant and it is feasible. Work using behavioural insights has been debated in the Regulatory Policy Committee leading to additional avenues for research and policy analysis.

126. Beyond making our policy frameworks more multi-dimensional, a key to the success of policies (including environmental policies) is the extent to which they anticipate and account for preferences and any inherent biases in human behaviour. This is where further work on behavioural economics comes in in a wide range of domains, and the environment is one of them. NAEC has fostered an emerging dialogue on applying behavioural economics approaches in several Directorates, and this can be further deepened in the next biennium through a well-co-ordinated initiative.

127. In April 2014, NAEC held its first workshop on behavioural insights following the launch of the OECD publication “Regulatory Policy and Behavioural Economics” which mapped the use of behavioural economics across the world. The same is the case for the current Lessons Learned in Public Governance 2.0 paper which aims to incorporate insights from behavioural economics into GOV’s Public Governance Reviews (PGRs) and related studies. In January 2015, NAEC and GOV held the first ever meeting of behavioural science practitioners, attended by over 150 officials from public institutions, academia and the OECD, and chaired by David Halpern with speakers such as Cass Sunstein and Richard Thaler, the authors of “Nudge”. This triggered a call for the OECD to take up a prominent role in the guidance and adoption of behavioural science internationally for improving policy making. The OECD has continued to provide leadership on this topic through a number of conferences, seminars and workshops, and will continue to play a role in providing a platform for sharing countries’ experiences and develop better behaviourally informed policies. This work could include, inter alia, applying behavioural insights to specific sectors such as energy consumption or financial regulation, involving cross-country analysis through a horizontal and multi-dimensional piece of work led by GOV in partnership with ENV, DAF and STI.

*...working with others to promote inter-disciplinary perspectives...*

128. Collaboration with other institutions is essential in tapping into the benefits of other disciplines. GOV is exploring co-operation with the United Kingdom’s ‘What Works in Public Policy’ centres to develop this as part of an international project to strengthen evidence for policy making at the centre of government.

129. The Organisation is more and more open to other disciplines and is taking advantage of inter-disciplinary perspectives in a growing number of policy areas.

*...guarding against group think...*

130. **Group-think and conventional views are a serious threat** to an Organisation such as the OECD whose credibility depends upon the strength and relevance of its analysis.

131. NAEC has been helping to guard against group-think and intellectual capture by **promoting a culture of debate**. There is more use of internal and external peer review of results by experts of different persuasions. For instance, ELS systematically submits its background papers and most of its substantial reports to peer review by other Directorates to seek a diversity of opinions and ensure that a multidimensional policy approach is used.<sup>18</sup> Directorates are drawing on a wider range of thought and analysis, including outside stakeholders than they used to do. Some are overcoming opposition to new

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<sup>18</sup> ELS seeks advice from external experts, not just on finished products when they are shared externally for comments, but also in the conception phase of projects. The OECD Secretariat often invites experts to meetings to help define the research question to be addressed in upcoming work. Most recently this has happened for Child Well Being; Policies to promote access to affordable housing; and the recent Policy Forum on the Future of Work. ELS has also set up a high-level reflection group to consider the future of health statistics, bringing together stakeholders from other international organisations, the private sector, and research bodies as well as country representatives.

analysis and new thinking by delivering credible, relevant products, paying attention to establishing the validity and quality of the evidence used. In recruiting new staff, expectations and skills demands have also increased with regard to scientific, analytical and methodological competences.

132. For example, the new Centre for Opportunity and Equality (COPE), as part of the Inclusive Growth Initiative, offers a platform to further engage with academic networks and experts in different fields. This enables issues of inequality and immobility to be viewed from a variety of perspectives. Regular Roundtables with the private sector, held in the CMF and Insurance and Private Pensions Committee, also provide a critical source for new ideas and identification of issues. These Roundtables help ensure that the OECD remains at the cutting edge. Market monitoring discussions in the CMF also seek to tap into emerging issues (e.g., cyber risk, Uberisation).<sup>19</sup> A Roundtable with CEOs of key players of the digital economy in June 2016 will similarly provide ideas and identify the most relevant issues for reflecting on the challenges and impact of the digital economy.

133. Strategic foresight has helped open up a safe space for **strategic conversation** for experts to constructively debate and disagree as a learning asset. Megatrends and scenarios have been used to open up discussions at the Ministerial Council Meeting and Global Strategy Group. This push towards a **culture of conversation** contributes to faster and deeper (i.e. systemic) learning enhancing shared understanding and generating new ideas.

*...while opening doors to new partnerships and outreach*

134. New analytical approaches have also helped open doors to new partnerships. NAEC has helped to broaden and deepen policy dialogue with Key Partners. The dialogues on NAEC also present the Organisation in a new light, one which is open to external points of view and perspectives about global challenges.

## **5. Promoting Continuous Improvements**

135. This section provides suggestions on how to promote continued improvements in the analytical work of the OECD, based on the conviction that NAEC has established a space for fresh thinking and cross-Directorate as well as cross-Committee exchange, shedding light on new questions while taking a hard look at policy instruments, tools and approaches. All the suggestions mentioned here are already being discussed in relevant Committees, and are subject to approval through the OECD PWB process.

***We are not out of the woods...***

136. Recent global economic performance -- characterised by sluggish growth, widening inequality, widening supply-demand gap, environmental precariousness, financial market volatility and increasing global imbalances -- is a sobering reminder of the myriad challenges facing policymakers. Growth remains elusive several years after the crisis and a slow-down in emerging economies is underway putting further pressure on global growth. Existing approaches and policies have proved inadequate to reignite growth while also tackling social and environmental challenges.

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<sup>19</sup> DAF also uses a multi-stakeholder approach in much of its work on Responsible Business Conduct. For example, in developing guidance for responsible actions in mining, extractives, textiles, and agriculture, DAF brings together representatives from governments, industry, and civil society to find solutions to the complex issues that need to be addressed, such as integrating the informal mining sector into the formal sector, as well as to build consensus on how best to address these challenges.

*...and we need to continue upgrading our understanding of how economies...*

137. This report has provided details of the ongoing efforts to improve evidence-based policy analysis and upgrade policy instruments and tools to address the challenges the global economy and society are confronted with. Many of these tools and instruments require further investments, and continuous exchanges between the Secretariat and Members to deliver on the OECD mission - better policies for better lives. The ultimate mandate of the NAEC Group, to build an agenda for an inclusive, resilient and sustainable growth, has not yet been achieved. Furthermore, the NAEC “state of mind” - asking hard questions and challenging assumptions about our understanding of the economy, transforming our analytical approaches and changing the way we work - has acted as a catalyst for further refinements of analytical work, fostering more collaborative approaches across the Organisation.

138. Therefore, a continued reflection is required on how economies work, how they are changing, how to advance growth and well-being in this challenging context and how can different capital stocks, especially social and natural capital be sustained as a precondition for real growth and well-being, while solving the puzzles confronting policymakers which conventional analyses struggle to explain. Overcoming the silo effect and understanding and quantifying the interrelationships between and among policies remains essential in helping design policy packages to improve performance.

*...and financial markets work...*

139. While progress has been made on some aspects of finance, understanding of financial market dynamics remains insufficient. Further exploration of the economic role of financial markets by ECO and DAF could be thus warranted, building on enhanced efforts to collect but not duplicate data and leverage private sector databases. The extent to which the financial system is networked may also require a closer look.

*...while paying greater attention to emerging threats, future risks and policy spill-overs...*

140. The OECD should continue to identify emerging policy challenges and help reinforce its capacity to understand and address them. Synergies should be exploited building on the strengths of NAEC and the Strategic Foresight Unit in applying innovative approaches to address and anticipate current and future challenges and mega-trends. This would involve working with all relevant Directorates, including the development cluster, to analyse global economic performance, the possible growth slowdown and its implications and other megatrends which could pose challenges in the social, political, technological and environmental spheres. This should also mobilise the existing capacities in OECD countries for example in terms of national risk assessment, which connect with Foresight, anticipation of future threats, which are co-ordinated through GOV in the High-Level Risk Forum.

*...raising new questions...*

141. NAEC has shed light on rising inequality, environmental degradation and resource constraints, slowing productivity growth and declining levels of trust - key policy challenges which face Members and Key Partners. NAEC has helped the Organisation broaden its analytical frameworks to assess better the nexus between growth and inequality on the one hand (most notably the Inclusive Growth Framework), and between environment and growth on the other (CIRCLE, and the work on Environmental Policies and Economic Outcomes). But this needs to be translated into actionable policy packages that Members can build on to achieve better outcomes. The work on the productivity-inclusiveness nexus is also work in progress, as well as the development of useful tools such as the MDLS and the implementation of the Quality Jobs Framework.

142. Less progress has been made at the environment-inequality nexus. An area for future collaboration between the Inclusive Growth unit, ELS, ENV and STD and their respective Committees is part of the work to further examine the distributional, employment and skills implications of transition to green growth.

143. What has also emerged is that some of the current key policy challenges may have common underlying and interconnected causes. The nature of economies has fundamentally shifted with digitalisation rendering traditional measures, models and approaches obsolete. Concepts such as GDP and productivity have limitations in measuring economic activity increasingly characterised by services and information and communication technology. Policy-makers are struggling to cope with the complexity of the world economy and there are fears for the future of productivity, work and well-being.

*...on the digitalisation of the economy...*

144. The Secretariat is developing a proposal for consideration by the Council and relevant Committees on **a new forward-looking, fundamental horizontal project on the economic, social and environmental consequences of digitalisation**. Such a project would facilitate the mainstreaming of NAEC and the advancement of the NAEC State of Mind. This would not only examine broad-based technological induced structural change and the next production revolution, but consider how shifting technologies and digitalisation will affect well-being and GDP measurement, integration of the financial system and links to the real economy, digital skills, the future of work, the future of productivity, e-commerce and new business models and what they imply for selling, distributing and marketing products and services and the impact on value chains and trade, investment and development.

145. The changing nature of the economy may also have a significant impact on distribution and inequality, as well as governance and trust. A multidisciplinary project on Seizing the Benefits of Digitalisation for Growth and Well-being could bring together the wide-ranging policy and analytical expertise of the OECD and facilitate a new understanding of the impact of digitalisation.

*...better addressing environmental pressures*

146. While NAEC has touched upon a number of long-term trends and how they intersect, there is still some distance between the discussions on digitalisation and the next production revolution and the kind of economy needed to move towards addressing environmental pressures (that NAEC has already examined), as well as the ambitious commitments recently made by the international community at COP21. Clearly, such an economy will need to be fundamentally different from the one we have now in terms of its claim on resources. Radical efficiency gains to reduce emissions and other waste streams will require what is called the circular economy. Future work could examine how to analyse the resource implications of the next production revolution and the extent to which this impinges on natural assets and resources. This could help ensure that an economic transformation could be a much more resource efficient, low carbon and circular one.

*The OECD should retain a space for fresh thinking...*

147. With this report on mainstreaming, NAEC has evolved into a space for fresh thinking, beyond the traditional definition of a horizontal project in the OECD. However, its function as a promoter of improvements in the analytical work across the Organisation and as a platform for cross-fertilisation and identification of cross-cutting and emerging challenges is as relevant as ever. In this format, it is shedding light on new questions while taking a hard look at policy instruments, tools and approaches currently being used. It is also facilitating the investigation of potential new approaches such as strategic foresight, behavioural economics, the use of smart data for policy making, and complexity and systems thinking. It

gathers and seeks to reinforce the Organisation's knowledge and capacities in these areas and promote their use by Directorates and Committees.

148. This function or role of NAEC is also well illustrated by the NAEC seminar series, which should continue to be organised. These seminars have become a useful space to challenge existing or entrenched OECD thinking. They offer regular interaction between Delegations and the Secretariat to discuss new ideas and thinking from academia, Members and Key Partners, civil society and other stakeholders.

***...and cross-Directorate as well as cross-Committee exchange...***

149. The NAEC Group has established itself as a forum for cross-Committee, inter-disciplinary and horizontal policy discussion. It has provided a space where issues of substance are discussed by Committees chairs, Directorates and Ambassadors. To be sustained, it must be scheduled with regard to convenience of Committee Chairs to benefit fully from Committee expertise. Thanks to the multi-disciplinary character of the Group, it could provide a forum to discuss horizontal projects and it has already enriched discussions on numerous subjects such as Inclusive Growth and Preventing Ageing Unequally. For example, while the guidance and oversight of the future work on digitalisation would remain with the lead STI Committees, the NAEC Group could provide an additional and supporting platform for cross-Committee exchange.

***...promoting policy coherence...***

150. New analysis at the OECD, undertaken with new data, new methods, and new mind-sets reveals the importance of policy coherence. Policy coherence should continue to be promoted. The essence of which is to ask, how well do policies – directed toward demand management, structure of markets, environmental sustainability, and frontier innovation - work together to enhance the overall wellbeing of the citizens of a country and even broader through spill-overs to the world and to future generations? To what extent could a piece-meal approach, rather than an integrated policy assessment, lead us astray? How can a policy coherence lens shed light on critical economic, social and environmental interactions, synergies and trade-offs in the context of implementing the SDGs? NAEC thinking is relevant for making the SDGs an integrated and transformational agenda. Some of the important lessons of NAEC for the SDGs are captured in the OECD Insights book “New Approaches to Sustainable Development”.

***...and peer learning...***

151. NAEC has facilitated peer learning on new policy tools, data and approaches with workshops on national experiences. This peer learning can be useful, and could continue to bring new ideas to the table and share them amongst Members. Efforts to extend the platform for sharing experiences of new approaches to Key Partners could be bolstered to promote the dissemination of new findings.

***...combined in specific reports to the Ministerial Council Meeting***

152. Building on NAEC, the OECD needs to continue to improve its policy analysis and advice and support Members in identifying and addressing new and emerging policy challenges. Specific reports could be prepared for future MCMs, including a review of how well the OECD is responding to these challenges and suggestions on how to improve analytical approaches and ways of working at the OECD and in the public administrations of Members.

This document is issued under the responsibility of the Secretary-General.

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