

# NEW APPROACHES TO ECONOMIC CHALLENGES



## MAIN MESSAGES

# NEW APPROACHES TO ECONOMIC CHALLENGES MAIN MESSAGES

The New Approaches to Economic Challenges (NAEC) initiative was launched at the OECD in 2012 as an organisation-wide reflection process on the roots and lessons from the economic crisis, as well as long-term, global trends. NAEC was also launched as part of a broader effort to build an inclusive and sustainable agenda for growth and well-being. Over the past three years, NAEC has catalysed an effort to improve the OECD's analytical frameworks and policy advice. The process has stimulated multi-dimensional approaches, generated new policy-relevant indicators, led to more horizontal programmes and to a review of long-standing analytical approaches across several policy areas.

NAEC is an ambitious policy programme that requires political leadership as well as careful crafting and implementation. NAEC does not claim to have all the answers but points to progress in a number of areas. Challenges remain in enhancing the OECD's analytical approaches; accessing and assembling new data; developing modelling capacities; and embracing new ideas and new ways of working across the Organisation. These analytical improvements will need to be supported by appropriate changes in the structure of the Organisation to avoid one-size-fits-all and move beyond a silo-approach to policy, to enhance inter-disciplinarity and to safe-guard against groupthink. This report draws attention to green shoots of change in many parts of the OECD. NAEC projects have delivered useful analysis, data and policy tools. Emerging results shed light on critical challenges as well as on the strong, resilient, sustainable and inclusive growth agenda needed to address them.

## 1 NEW PERSPECTIVES

### NAEC is proposing and supporting a change in objectives and perspectives.

- NAEC calls for a greater focus on well-being and its distribution to ensure that growth delivers progress for all. This is timely as the gap between rich and poor is at its highest level in 30 years in OECD countries. Policy choices should be informed by an assessment of their impact on different dimensions of well-being as well as their distributional consequences. This will enhance understanding of the unintended consequences of policies and lead to a balanced analysis of the trade-offs and complementarities between different policy options. The OECD has developed an analytical framework that takes these insights into account.
- NAEC also calls for better integration of the financial sector and related risks in the analysis, shedding light on the numerous and complex interactions between finance and the real economy.
- NAEC recognises the increased international economic integration and resulting complexity, and the insights that may be gained by analysing the global economy as a **complex adaptive system**. This will help to take into account uncertainty, spillovers, systemic risks and network effects. This analysis, amongst others, will help policymakers get a better grip on rising global interconnectedness.
- NAEC recommends the adoption of a **longer-term perspective that considers how economies are embedded in institutions shaped by history, social norms and political choices**. This would lead to more tailored policy solutions adaptable to countries' specific needs, conditions, capacities and institutional settings.
- NAEC recommends informing such a change in perspectives by further developing **strategic foresight**.

## 2

## NEW INSTRUMENTS AND TOOLS

To make these changes in perspectives happen, the OECD needs to develop, where feasible, new instruments and tools, and deepen, generalise and systematise their use.



- These changes require **measurement of stocks** (of wealth, natural, and social capital, etc.) as well as adequate consideration of both stock and flow concepts in analyses.
- It also requires further developing the use of **micro-data** to identify the heterogeneity of households and firms, and facilitate analyses to understand and tackle inequality.
- The Organisation also needs to **review and improve its modelling approaches**, taking a **more integrated approach while diversifying the types of models** it uses and noting the limitations of the fundamental assumptions upon which they are built.

All these changes in instruments and tools should enrich OECD analysis. They also need to be supplemented further with **insights from other disciplines which are relevant to policy**, such as **sociology, psychology, geography and history**.

The aforementioned new approaches promote experimentation and strengthening of OECD analyses to improve its policy advice. They are leading to a series of **policy recommendations** that would support a stronger, resilient, more inclusive and sustainable growth agenda.



## A comprehensive Approach to Inclusive Growth



To fully understand trade-offs, synergies and unintended consequences of policies, it is essential to recognise the importance of the multidimensionality and distributional effects of policies.

This requires a comprehensive approach to inclusive growth that takes into account the different dimensions of inequality. There is increasing evidence that large income inequality undermines growth and well-being, by reducing investment in skills by low-income households.

To address these issues:

- Structural policies need to be carefully designed to consider their distributional consequences, looking in particular at the impacts on groups such as the young and the elderly, and to mitigate trade-offs between material and other dimensions of well-being, such as education and health outcomes.
- To ensure equality of opportunity, it is necessary to promote access to high-quality education from early childhood and to a broader range of skills, cognitive

as well as social and emotional. In doing so, governments should once again focus on disadvantaged and at-risk groups.

- Taxation systems need to be reformed to ensure that they are progressive enough.
- Labour market policies are another area in which policy makers need to broaden their objectives by pursuing job quality together with job quantity, targeting jointly labour market security, the quality of the working environment, and the level of remuneration.
- Governments should promote gender equity in education, employment and entrepreneurship, as this is a key factor in economic development, growth and well-being.
- Promoting inclusive governance, in particular at the metropolitan level, is also critical for improving well-being and economic growth, as well as for fighting social exclusion. Mainstreaming spatial policies will help in general to ensure more effective design and implementation of policies.

## Restoring Trust

Last but not least, to make these reforms politically feasible and socially acceptable, it is crucial to restore trust in governments and market institutions.

To do this, an overhaul of the process of policy-making is needed as a lot remains to be done to ensure transparency, open government and stakeholder engagement in some countries.

- The political system must work for all the people and not just special interests. Lobbying and political finance thus need to be properly regulated to address conflicts of interest.
- In addition, business and finance must be appropriately regulated and companies must pay their fair share of taxes, while responsible business conduct must also be encouraged.
- Foreign bribery and illicit financial flows should also be more decisively tackled.

## A Comprehensive Approach to Environmental Sustainability



NAEC is highlighting the impacts of economic activity on environmental systems and the consequent imbalances which are putting economic growth, well-being and development at risk. It calls for improving understanding of inter-linkages between economic and environmental goals to more clearly articulate how economic and environmental objectives could be achieved simultaneously. Greater clarity on these connections is all the more important considering that a binding agreement on greenhouse gas emissions reduction needs to be reached by the 21st session of the Conference of Parties to the UNFCCC (COP21) later this year.

- NAEC calls for ensuring strong market and policy signals both to make pollution and climate change more costly and clean and green approaches more attractive, and for increasing the ambition and stringency of environmental policies while ensuring they remain competition-friendly by using flexible, market-based instruments.
- It is also critical to pay attention to the distributional consequences of these policies and to develop policy packages that enhance their progressivity.

## Increasing Resilience

NAEC emphasises the need to increase macroeconomic stability and the resilience of the economy by implementing an effective regulatory framework, promoting fiscal soundness and fostering the counter-cyclicality of macroeconomic policies. In order to enhance the resilience of economies, it is crucial to develop a framework to monitor economic vulnerabilities to shocks. NAEC also calls for improving the stability, inclusiveness and sustainability of the financial sector, while ensuring that the financial sector plays its key role of financing the real economy.



- To this end, young and innovative firms (including start-ups) should be enabled to emerge and grow through policies that reduce the costs of entry, experimentation and exit.
- It is also necessary to boost

of debt and equity, as this could positively affect resource allocation and financial stability.

- It calls for more monitoring of system-level risks by financial supervisors, with due attention given to risks rising in the shadow banking sector.
- It is necessary to strengthen equity market infrastructure and to ensure it plays its role as a key channel for financing companies.
- Meanwhile, it is also necessary to broaden the range of financing instruments, particularly for young innovative firms, and to enable non-bank actors to provide long-term finance, while removing regulatory, legal and governance impediments to long-term investment.



**WHAT NEXT:** A lot remains to be done if the OECD is to deliver on new approaches to economic challenges. Key NAEC findings need to be mainstreamed in the OECD's core work and flagship publications. Horizontal co-operation among Committees and Directorates should be strengthened through the NAEC seminars and possibly the NAEC Group and internal processes that hinder horizontal work should be reviewed. At the same time, efforts should be made to foster continuous improvement in policy analysis, as well as to anticipate and better respond to emerging priorities. These challenges are to a great extent shared by Member and Key Partner governments heightening the need to deepen the dialogue and outreach on NAEC. Therefore, sharing experiences on new approaches at the country level would help in reframing and designing better policies for better lives.

# 4 A COMPREHENSIVE AGENDA

PAGE 6

## 1st Pillar

### Lessons from economic history and previous crises

- A1 - The crisis: Drawing lessons from history and past policy experiences
- A2 - Forecasting in time of crisis: post-mortem of OECD projections

### Role of the financial sector in the crisis and future reforms

- A3 - The role of the financial system in the crisis and reforms required to promote sustainable growth
- A4 - Fostering long-term investment and responding to the challenges of ageing and longevity
- A5 - New approaches to SME and entrepreneurship financing: broadening the range of instruments

### REFLECTION & HORIZON SCANNING

#### Revisiting policy instruments for achieving growth- and equity-friendly fiscal consolidation

- A6 - How much scope to achieve growth- and equity-friendly fiscal consolidation?

#### Horizon scanning for new economic tools and approaches

- A7 - Applying new tools and approaches for better policy making

**By design, NAEC is horizontal in nature, with various projects conducted under the auspices of different OECD Directorates.**

Please visit our website for more information on the outcomes of each project:

<http://www.oecd.org/naec>

## 2nd Pillar

### Linking policy drivers to well-being outcomes

- B1 - New approaches to analysing multi-dimensional well-being: trade-offs and synergies

- B2 - Measuring and assessing job quality

- B3 - Assessing the effects of distribution of skills and key related institutional variables on multi-dimensional well-being outcomes

### Inequality and economic growth

- B4 - Do policies that increase GDP per capita also increase median income?

- B5 - Assessing the transitional costs and distributional consequences of structural reforms

- B6 - Closing the loop: how inequality affects economic growth and social cohesion?

- B7 - Analysing growth and equality trade-offs in taxation

- B8 - Trade-offs and synergies between globalisation, innovation and inequality

### POLICY TRADE-OFFS AND COMPLEMENTARITIES

#### Interactions between environment and economic growth/inequality

- B9 - Cost of Inaction and Resource Scarcity: Consequences for Long-term Economic Growth / Benefits of Action

- B10 - Environmental policies and economic performance

- B11 - Trade-offs and synergies between environment and inequality

#### Economic growth and stability

- B12 - Increasing the resilience of economies to exogenous shocks

#### Long-term trends and policy trade-offs

- B13 - OECD@100: global trends and policy challenges

- B14 - Long-term scenarios for food and agriculture

- B15 - Ensuring productivity growth and innovation in the long run

## 3rd Pillar

### INSTITUTIONS & GOVERNANCE

#### Trust in government

- C1 - Revisiting the social contract: rebuilding trust for sustained economic recovery

#### Vulnerability of social institutions

- C2 - Assessing the vulnerabilities of social institutions, and policy responses to enhance resilience

- C3 - Can health become an even bigger part of the economy without undermining fiscal sustainability?

- C4 - Assessing immigrant characteristics and links to labour market performance

#### New challenges for governance

- C5 - Promoting inclusive growth through better regulation

- C6 - Implications of globalisation for competition

- C7 - Securing tax revenues in a globalised economy

# 5 AN INCLUSIVE DIALOGUE

PAGE 7

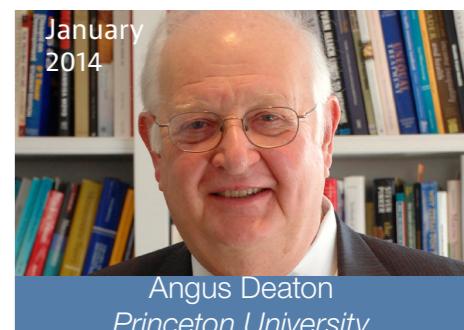
Since 2012, prominent economists have shared their views in the context of the NAEC Seminar Series.



János Kornai  
Harvard University



Ha-Joon Chang  
University of Cambridge



Angus Deaton  
Princeton University



Eric Beinhocker  
INET @ Oxford



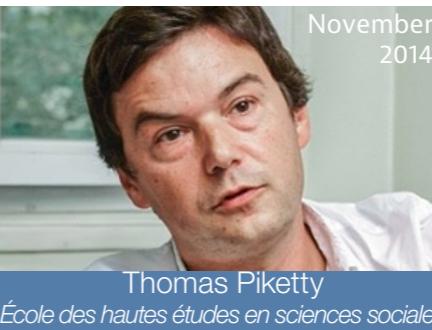
Sheri Markose  
University of Essex



Daniel Kahneman  
Nobel prize Winner (2002)



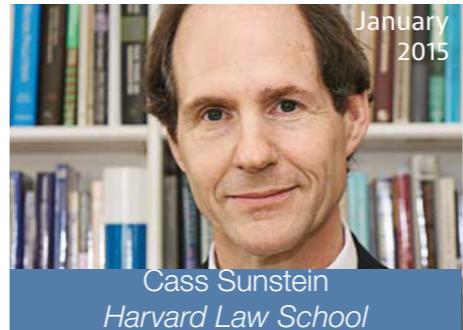
Craig Calhoun  
London School of Economics



Thomas Piketty  
École des hautes études en sciences sociales



Yann Algan  
Sciences Po Paris



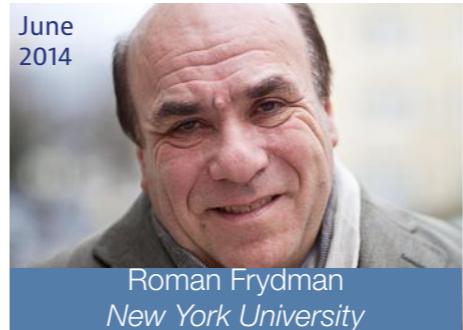
Cass Sunstein  
Harvard Law School



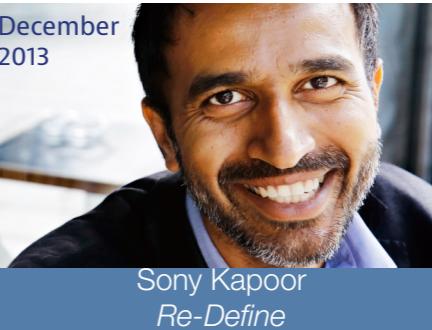
Irene van Staveren  
Erasmus University Rotterdam



Avner Offer  
University of Oxford



Roman Frydman  
New York University

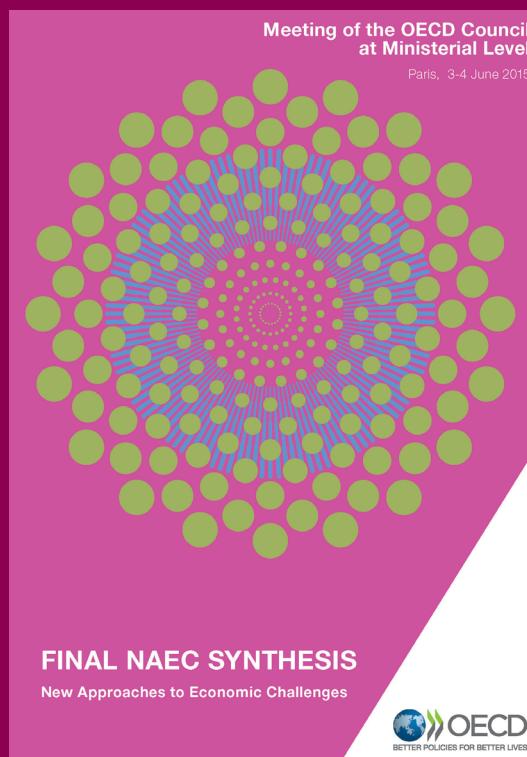


Sony Kapoor  
Re-Define



Ian Goldin  
University of Oxford

**Download the full NAEC Synthesis at  
[www.oecd.org/naec](http://www.oecd.org/naec)**



## About this Report

---

The NAEC report is the product of a collaborative effort between OECD Member Countries, relevant Committees, the General Secretariat and Directorates. It has been overseen by the OECD Chief of Staff, G20 Sherpa and Special Counsellor to the OECD Secretary-General Gabriela RAMOS and co-ordinated by Mathilde MESNARD, Senior Advisor to the OECD Secretary-General, with the support of William HYNES, Senior Economist in the NAEC unit. Kiril KOSSEV and Pauline ARBEL, respectively Junior Economist and Research Assistant in the NAEC unit contributed to the Annexes and preparation of the final publication.

---

**PUBLISHED**

May 2015

**CONTACT**

[naec@oecd.org](mailto:naec@oecd.org)

<http://www.oecd.org/naec>

**PHOTO CREDITS**

© Istockphoto/Vetta

**LAYOUT DESIGN**

Pauline Arbel, OECD

