NEW APPROACHES TO ECONOMIC CHALLENGES

NAEC in Historical Perspective

William HYNES

19 February 2015
The OECD has been influenced by shifts in economic thinking and has undertaken in the past some major exercises reflecting on the objectives of policies, methods and work processes. The New Approaches to Economic Challenges (NAEC) initiative builds on these previous endeavours while offering a comprehensive agenda to review and update the Organisation’s analytical approaches. This note offers a stylised, non-exhaustive overview of some of the major publications, projects and events which have sharpened the OECD over the last fifty years.
NEW APPROACHES TO ECONOMIC CHALLENGES in Historical Perspective
AN EVOLVING GROWTH PARADIGM

The OECD has always evolved in response to changing circumstances...

The OECD was set up under a Convention signed in 1960, which provides that the OECD shall promote policies designed “to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries while maintaining financial stability. And thus to contribute to the development of the world economy”. For much of its history, the OECD was considered to be a “temple of growth” or the “growth conscience” of its members (Schmelzer, 2012).

A first questioning of growth emerged in the late 1960s, despite the high levels of GDP growth experienced by OECD members during that decade. It was motivated by the mistaken belief that growth in the 1970s would continue at the same pace as the 1960s. The subsequent report Problems of Modern Society outlined a number of long-term problems, as well as more immediate challenges such as the ecological and distributional consequences of growth (OECD, 1969). The report also made the claim that “the steadily increasing wealth [did] not necessarily mean that human welfare improves correspondingly” (OECD, 1969:18).

...adapting analytical work...

This questioning of the nature of growth paused in the 1970s. At that time, members were preoccupied with recession, unemployment, energy shortages and stagflation – leading to major changes in OECD policy advice during the 1970s and 80s. The McCracken Report was pivotal in spurring a move away from traditional Keynesian policy approaches of demand management to the adoption of new economic models such as the monetarist and neo-classical ones. It was followed by a major shift of attention towards structural adjustment policies (OECD, 1987). This shift challenged the routine macroeconomic and political prescriptions espoused by the OECD (Schmelzer, 2014). The report provided an improved analytical basis to underpin more detailed reviews of OECD members’ economic policies, especially as regards structural issues such as labour and employment policies, industrial and raw material bottlenecks, and agricultural and commodity prices (Carroll and Kellow, 2011). The shift in OECD thinking also contributed to give legitimacy to the critiques of the welfare state in the 1980s (Leimgruber, 2014). Subsequent OECD work in the 1990s and 2000s qualified many of the tenets of the neo-classical synthesis, for instance recognising the limits of the representative agent and rational expectations simplifying assumptions from the point of view of public policy.
...promoting better policies

One clearly recognized strength of the OECD is its cross-sector analytical capability and multi-policy committee machinery which allows it to set out forward-looking policy options (Gass, 2002). However, that potential has not always been realized, leading to compartmentalised approaches. This is not unique to the OECD but common in national administrations and other multilateral institutions. More recently, the International Monetary Fund (IMF) stated that a major post-crisis goal was to overcome the silo mentality and insular culture (IEO, 2011; IEO, 2014). Former OECD Secretary-General Van Lennep (1969 to 1984) set out the need for a horizontal focus rather than sectoral one, attempting to draw out the cross-sectoral impacts of policy developments, so as to make the OECD’s work “reflect more closely the actual conditions faced by governments in making choices, which themselves need to reconcile differing points of view and objectives” (van Lennep, 1998, pp. 180–182 in Carroll and Kellow, 2011).

The OECD has since then conducted important horizontal projects, including the 1987 report on “Structural Adjustment and Economic Performance” (OECD, 1987) which laid the ground for structural policy reform. The Source of Growth project of the early 2000s provided the analytical basis for the framework adopted in much of the OECD’s work on structural policies – inter alia in the Going for Growth monitoring process. In response to the jobs crisis in the early 1990s, a major horizontal project led to the OECD Jobs Study, published in 1994, and the OECD Jobs Strategy, launched two years later. These reports contributed a set of evidence-based policy recommendations for how OECD countries could create more and better jobs (OECD, 2011). The OECD Report on Regulatory Reform (OECD, 1997b) also contributed to a major review of regulatory practices in OECD countries, aimed at sustaining growth and improving well-being. In recent years there has been a conscientious effort to tap into the richness of horizontality, and since 2007, the OECD has launched a number of important initiatives, including the Innovation Strategy, the Strategic Response to the Crisis, as well as the Green Growth, Skills, Gender, Development and Inclusive Growth initiatives. NAEC is part of these efforts to stimulate strong, sustainable and inclusive growth. Yet mainstreaming horizontal work remains a long-running institutional challenge.
MANAGING THE UNPREDICTABLE

...mastering the probable...

OECD has at various points attempted to consider long-term trends and scenarios. A project called Interfutures was launched in the late 1970s to establish a wide-ranging framework of growing interdependence to promote long-term growth and better management of the world economic system.

The report attempted to grasp the possible consequences of shifting patterns of growth, refuting the Club of Rome’s argument on the Limits to Growth, with the aim of “mastering the probable and managing the unpredictable” (OECD, 1979).

...managing expectations about the future...

In the late 1990s OECD produced a report looking at “The World in 2020” in which it asserted that the challenge in creating a New Global Age was to “to design and implement balanced policies which foster economic growth, protect the environment and ensure social justice” (OECD, 1997a). This led to rigorous analysis of policy impacts, combining the knowledge of many disciplines.

The Shaping the Twenty First Century Report also established long-term, multi-dimensional goals to guide the development effort in what became the basis for the Millennium Development Goals (OECD, 1996). Since 2003, the OECD’s International Futures Programme has contributed to discussions on the major risks of the 21st century through studies focusing on the consistency, effectiveness and openness of risk management systems in OECD countries. This also led to a new understanding of the implications of risks, and of the need for a forward looking approach to managing risks (OECD, 2003). However, these studies were mostly one-off efforts that registered valid concerns, but did not always lead to comprehensive and sustained efforts to deal with the challenges they described.

...and adapting OECD’s analytical approaches

There has thus been a tradition of questioning the OECD’s policy approaches at critical times. However, mainstreaming the results of these reflections was a challenge and was not always fully achieved. NAEC is very much in this tradition but is a more comprehensive, organization-wide effort. Indeed elements of NAEC such as the emphasis on well-being and inclusion, financial stability, and the environment have been discussed at various points before at the OECD. But they have been mainstreamed in our policy advice only to a limited extent. The magnitude of the recent economic crisis calls for a serious reflection, to revisit the old and supplement existing policy approaches, where needed, with new ones, and mainstream these new approaches across the Organisation. In addition, new approaches can often involve reconsidering older approaches whose lessons have been lost.

OECD 50th anniversary Forum, 24 May 2011, Presentation of the OECD Better Life Initiative
BIBLIOGRAPHY


OECD (1979) Facing the Future, Mastering the Probable and Managing the Unpredictable, OECD, Paris

OECD (1969) The Problems of the Modern Society, OECD Archives, Box 36486


ORGANISATION FOR ECONOMIC CO-OPERATION
AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

THE OECD INITIATIVE ON
NEW APPROACHES TO ECONOMIC CHALLENGES

The OECD initiative on “New Approaches to Economic Challenges” (NAEC) is an organisation-wide reflection process on the causes of the crisis and the lessons for policy. It was launched at the 2012 OECD Ministerial Council Meeting (MCM) with the objective to catalyse a process of continuous improvement of the organisation's analytical frameworks and advice.

www.oecd.org/naec