

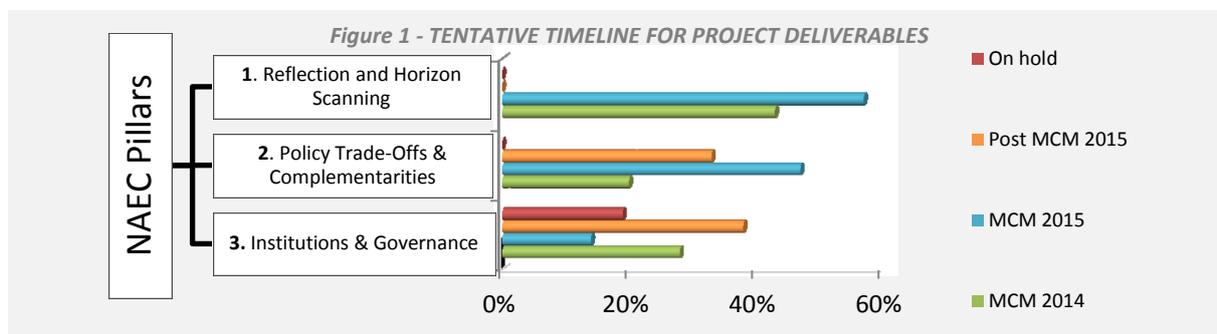
## Introduction

The New Approaches to Economic Challenges (NAEC) initiative has reached its critical momentum in 2013-2014 as it has begun to deliver results, in terms both of specific outputs and of effective changes in OECD analytical framework and “regular” products.

The 2014 MCM NAEC Synthesis called for “*a final NAEC Synthesis to be presented at the MCM 2015, focusing on projects that will have been delivered by then*”. It also called for the main messages emerging from NAEC to be mainstreamed in the work of OECD Committees. This short paper shows how this is currently happening and sets the working map till the 2015 MCM.

## I. Update on the advancement of NAEC projects (refer to Annex)

About **one third of NAEC projects** had delivered results prior to the 2014 MCM. **An additional one third will do so until the 2015 MCM**. The NAEC initiative is thus **advancing as planned**, but is still **in the middle of the bridge**. This will be underlined by the reporting to the Budget Committee on 16 October 2014.



- ❖ Most projects in Pillar One, two thirds of projects in Pillar Two, and half of projects in Pillar Three will have delivered by the next MCM.
- ❖ Remaining projects will **deliver later**, due to their **long-term nature** (e.g. remaining projects in Pillar Two), or are **on hold due to a lack of budget** (e.g. remaining projects in Pillar Three).

## II. Highlights on what has been the impact of NAEC so far on OECD work and policy advice.

### A. NAEC: a space for fresh thinking and a push towards adopting a longer-term view.

The NAEC initiative has created de facto **a space to think more creatively** and is already having **impact on the OECD analytical frameworks and tools**. Some **key developments** have been brought out very clearly by NAEC. It has first recognized the **multi-dimensionality of societal objectives** and that they need to be considered and pursued jointly. It has also put the inequality issue back at the centre of discussion and **increased focus on the inclusive dimension**. The work on *Inclusive Growth* has started to quantify trade-offs and synergies between a few of these dimensions and their distribution. More needs to be done to extend the work to other dimensions and deal with the link to policies. Another critical insight so far has been the central recognition that **institutions matter**.

NAEC has also highlighted the need for a **better recognition of the complexity and interconnectedness of our economies**, as well as its measurement. NAEC has also pushed towards adopting a longer-term view and developing policy advice that would help governments facing massive long-term trends, such as ageing and increasing scarcity of natural resources. This implies the recognition of radical **uncertainty** and its consequences for our capacity to make long-term projections, thus the importance of tackling with different futures and developing **strategic foresight**.

### B. NAEC: a push for using new data and analytical tools.

The NAEC initiative is already having impact by promoting a **more extensive use of new data and analytical tools** that enrich our analysis and policy advice. This is evidenced in the **increased use of micro-data** across Directorates, the promotion of **behavioural insight**, the development of **new measurements** of some critical concepts, such as **Job Quality and non-cognitive skills**, and the development of data related to **stocks versus flows**.

The NAEC initiative has also led to **the use of a greater variety of models** and to the **update and review of some of our fundamental assumptions** (rational agents, homogeneity, the existence of the average citizen), as well as to specific **changes in our forecasting practices**.

NAEC also helps in **reinforcing of the analysis of the linkage between the financial sector and the real economy**, although a lot remains to be done in this regard.

### C. NAEC: further impetus towards horizontality.

The NAEC initiative is having a **critical impetus on strengthening horizontality** and has proved to be a powerful challenge to silo-ized and institutionally fragmented thinking. It has increased the appetite for an appreciation of horizontal approaches and cross-fertilization between different policy domains. NAEC has indeed been a **catalyst for OECD Directorates and Committees to exchange views** and better inform themselves on the work done by other Committees (e.g. in the work on inclusive growth, CIRCLE). The governance of the NAEC initiative, with the creation of the **NAEC Group**, has also created a **strategic space for horizontal discussion across Committees**.

### III. NAEC is being mainstreamed and is having a clear impact on the 2015-2016 PWB

The work undertaken within the NAEC initiative is **already being mainstreamed** throughout the Organisation, as in the following cases:

- The work of the Economics Department on *post mortem* projections (Project A2<sup>1</sup>) is already impacting on **the current economic projections and outlooks**, including by looking at **different scenarios**. The increased focus on interconnectedness and spill-overs will also improve the **Economic Surveys and Going for Growth**. The work on **inequality, inclusive growth, environment and well-being, as well as on the Services Trade Restrictiveness Index (STRI)** is being mainstreamed in **Economic Surveys**.
- Work is proceeding in the Statistics Directorate in the area of **measuring stocks** with regard to land, government pension liabilities, stocks of R&D and natural assets. The **"How's Life" statistical agenda** is also being pursued in new dimensions such as Volunteering, Housing or Time use (Project B1<sup>2</sup>).
- The **Job Quality framework** (Project B2<sup>3</sup>) was launched in the 2014 Employment Outlook.
- The theme of **trust** (Project C1<sup>4</sup>) has been mainstreamed *via* NAEC into a cross-OECD initiative that will involve several Directorates beyond the Public Governance and Territorial Development Directorate, including the Centre for Tax Policy and Administration, the Directorate for Financial and Enterprise Affairs, the Directorate for Education and Skills and the Statistics Directorate.
- **International regulatory cooperation** (Project C6<sup>5</sup>) for growth in trade and investment is being mainstreamed partly thanks to NAEC, with joint work of the Public Governance and Territorial Development Directorate and the Trade and Agriculture Directorate (which is also working on beyond boarder measures).
- Work on **non-cognitive skills** (Project B3<sup>6</sup>) is developed by the Directorate for Education and Skills and the Centre for Educational Research and Innovation (CERI) to show how central these skills are to shape new economic growth and inclusive societies.
- In the area of **food and agriculture** (Project B14<sup>7</sup>), an **innovative pilot country review on agriculture productivity growth** is being launched.

Going forward, NAEC is **influencing strongly the Programme of Work and Budget (PWB) 2015-2016**.

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<sup>1</sup> *Forecasting in time of crisis : post-mortem of OECD projections*

<sup>2</sup> *New approaches to analysing multi-dimensional wellbeing: trade-offs and synergies*

<sup>3</sup> *Measuring and assessing job quality*

<sup>4</sup> *Revisiting the social contract: rebuilding trust for sustained economic recovery*

<sup>5</sup> *Implications of globalisation for competition*

<sup>6</sup> *Assessing the effects of distribution of skills and key related institutional variables on multi-dimensional wellbeing outcomes*

<sup>7</sup> *Long-term scenarios for food and agriculture*

For example:

- **The Working Party 1 of the Economic Policy Committee** will work on resilience, long-term productivity, base erosion and profit shifting (BEPS) issues as well as on the benefits and costs of flexibility in the labour market, looking at micro-data.
- **The Directorate for Employment, Labour and Social Affairs** will work on **what is happening to the middle class**, in terms of wages, security and mobility (departing from GDP *per capita*), as well as on **ageing unequally** and on **securing housing for low income**.
- A project on **Inclusive Innovation** will link the OECD work on innovation to the inclusive growth agenda. The work based on micro-data on job dynamics (Project A7<sup>8</sup>) will be continued, with an emphasis on the **source of productivity growth at the micro level**.
- **CERI** will work on **skills, productivity, innovation and inclusive growth**. This will draw on the Programme for the International Assessment of Adult Competencies (PIAAC), the comparative analysis on innovation economies by the Directorate for Science, Technology and Innovation, productivity work done by Economics Department and Directorate for Employment, Labour and Social Affairs, and economic growth by the Economics Department. The **Education database** will be integrated in the data sources for the **multidimensional inclusive growth model**.
- The theme of **international cooperation in competition** will be a key strategic theme in the PWB 2015-2016 of the **Competition Committee**.
- The work on Global Value Chains (GVCs) will focus on the **impact of GVCs on jobs and skills**. It will also look towards to the **next production generation**, using **strategic foresight**.
- The Statistics Directorate will continue work on inclusive growth, on job quality and trust. It will also work on the measurement of wealth and stocks.

#### IV. Year Planner till 2015 MCM

The Final Synthesis will be based on the outcomes of the NAEC projects and the discussion within Committees, at the NAEC Group and Council. It will also benefit from a dialogue with Key Partners and main stakeholders, as well as from the NAEC Seminar series. To ensure timely delivery, we propose the following main steps:

- A **NAEC Group** meeting end of November 2014 (**28 November 2014**) to discuss the main messages for the final synthesis (with a draft outline based on the outputs of first set of NAEC Projects).
- A **NAEC Group** meeting beginning of March 2015 (**5-6 March 2015**) to discuss an advanced draft of such Synthesis.
- The final draft will be presented at the **April 2015 Council meeting**.

It is now timely and necessary to **engage more proactively with Key Partners and non-members** on the NAEC initiative. This is also strategic for our engagement with non-members, and will help to incorporate these relevant players in our analysis). To do so, we will organize a one-day **bilateral dialogue on NAEC with key partners** in the Fall 2014 and Spring 2015. We also plan to organise a **one-day dialogue with Key Partners and developing countries back-to-back with the NAEC Group in March 2015**.

We are working actively with the Public Affairs and Communications Directorate to **deepen our dialogue with stakeholders on NAEC**. For example, we will engage **with parliamentarians** at the Parliamentary Days beginning of February 2015; and **with Non-governmental organisations (NGOs)** through active participation at the Global Perspectives Conference, which will be hosted at the OECD on 29-31 October 2014.

The Institute for New Economic Thinking (**INET**) **Conference** will be co-hosted by the OECD on 8-10 April 2015. It will be an excellent opportunity to discuss more broadly the NAEC narrative, based on a close to final draft.

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<sup>8</sup> *Applying new tools and approaches for better policy making*

**ANNEX - Tentative Timeline for Project Deliverables<sup>9</sup>**

*based on the list of projects in Annex 1 of the NAEC Interim Report [C/MIN(2013)2]*

	<b>A. REFLECTION &amp; HORIZON SCANNING</b>	<b>B. POLICY TRADE-OFFS &amp; COMPLEMENTARITIES</b>	<b>C. INSTITUTIONS &amp; GOVERNANCE</b>
DELIVERABLES FINALISED	A2 - Forecasting in time of crisis: post-mortem of OECD projections  A6 - How much scope to achieve growth- and equity-friendly fiscal consolidation?  A1 - The crisis: Drawing lessons from history and past policy experiences	B4 - Do policies that increase GDP per capita also increase median income?  B10 - Environmental policies and economic performance  B13 - OECD@100: global trends and policy challenges	C2 - Assessing the vulnerabilities of social institutions, and policy responses to enhance resilience  C6 - Implications of globalisation for competition
DELIVERED BEFORE END 2014	A5 - New approaches to SME and entrepreneurship financing: broadening the range of instruments	B3 - Assessing the effects of distribution of skills and key related institutional variables on multi-dimensional well-being outcomes  B6 - Closing the loop: how inequality affects economic growth and social cohesion?  B12 - Increasing the resilience of economies to exogenous shocks	
DELIVERABLES PLANNED TO BE FINALISED BEFORE 2015 MCM	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  A7 - Applying new tools and approaches for better policy making (scaled back)	B1 - New approaches to analysing multi-dimensional well-being: trade-offs and synergies  B5 - Assessing the transitional costs and distributional consequences of structural reforms  B8 - Trade-offs and synergies between globalisation, innovation and inequality  B11 - Trade-offs and synergies between environment and inequality	C1 - Revisiting the social contract: rebuilding trust for sustained economic recovery
DELIVERABLES PLANNED TO BE FINALISED AFTER 2015 MCM		B2 - Measuring and assessing job quality ( <i>end 2015</i> )  B7 - Analysing growth and equality trade-offs in taxation  B9 – Cost of Inaction and Resource Scarcity: Consequences for Long-term Economic Growth/Benefits of Action  B14 - Long-term scenarios for food and agriculture  B15 - Ensuring productivity growth and innovation in the long run	C5 - Promoting inclusive growth through better regulation

9. Projects **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 and **C7** - Securing tax revenues in a globalised economy are **on hold**.