Beyond growth: towards a new economic approach

Report of the Secretary-General’s Advisory Group on a New Growth Narrative

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OECD New Approaches to Economic Challenges Group Conference
Paris, 17 September 2019
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Why we need a new economic approach (1)

- The world faces profound economic challenges
  - Accelerating environmental crisis
  - Rapid technological change
  - New patterns of globalisation
  - Demographic change
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- Most OECD economies have performed less well in recent years than in the past
  - 2008 financial crisis exposed flaws in credit-based growth model and financial regulation
  - Growth remains fragile, dependent on emergency macroeconomic policy
  - Productivity growth has stalled, especially diffusion from technological frontier to rest of economy
  - Inequalities have grown, especially between top 1% and rest, and particularly in wealth
  - Unemployment remains high in many countries, and insecure work has grown in most
  - Living standards in some countries have stagnated
  - In some countries the gap between richer regions and the periphery has widened
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- These trends have contributed to a decline in cohesion, empowerment and trust in established politics
Why we need a new economic approach (2)

- Many conventional economic policies look insufficient to address these challenges and problems
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- This has led to a widespread questioning of the dominant economic model of the past 40 years
  - Increasing global trade integration
  - Deregulating financial and labour markets to make them more efficient
  - Central Bank independence and inflation-targeting; constraints on public borrowing
  - Corporation tax reductions
  - Economic growth as the primary goal of economic policy
  - Equity and environmental considerations dealt with ‘after the event’, not integral
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- This model (the ‘Washington Consensus’) was strongly influenced by neoclassical economic theory
  - Over the last decade some aspects of this model have been modified
  - But in the face of current challenges and problems, these changes have not gone far enough
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- We can now draw on deeper forms of economic rethinking which have flowered over the last decade
  - These critiques and explorations can now be brought together into a ‘new economic narrative’
The three elements of the new approach

- A new conception of economic progress
  A deeper understanding of the relationship between growth, human wellbeing, a reduction in inequalities and environmental sustainability, which can inform economic policymaking and politics
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- **New approaches to economic policy**
  A wider set of policy and institutional reforms, based on the new frameworks and analysis, to achieve the new social and economic goals
Beyond growth (1)

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- It is the form of growth that matters – growth that contributes to wider goals
  - Going ‘beyond growth’ means neither abandoning growth as an objective nor relying upon it to achieve other goals.
  - It means changing the structure of economic activity to achieve the multiple goals of a more rounded vision of economic and social progress
  - ‘Inclusive growth’, ‘green growth’ and ‘sustainable development’ are ways of expressing the same idea – though they have not always led to sufficiently profound policy change
Four objectives of policy today

- **Environmental sustainability**
  A path of rapidly declining greenhouse gas emissions and environmental degradation, consistent with avoiding catastrophic damage and achieving a stable and healthy level of ecosystem services
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- **Falling inequality**
  - A reduction in the gap between the incomes and wealth of the richest and poorest groups in society.
  - A reduction in rates of poverty.
  - A relative improvement in the wellbeing, incomes and opportunities of those experiencing systematic disadvantage, including women, members of ethnic minorities, disabled people, and those in disadvantaged geographic communities.
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- **System resilience**
  System resilience – understood as the economy’s ability to withstand financial, environmental or other shocks without catastrophic and system-wide effects
New indicators of economic and social progress

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- And new indicators have to be attached to policies which can affect them
  - Understanding the causal factors which determine them
  - Designing policies which can change them
Economics is changing

- Up to 2008 the dominant policy approach was underpinned by orthodox neoclassical economic theory
  - ‘Rational’ economic behaviour; individual utility maximisation; competitive markets give efficiency
  - Market failures justified policy intervention; but governments also failed
  - Macroeconomic theory and models rested on neoclassical microfoundations
    - ‘Representative agents’
    - Tendency to equilibrium; exogenous shocks
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- **Since the financial crisis both theory and policy prescriptions have been modified**
  - Markets acknowledged as having imperfections; policy is ‘second best’
  - Macroeconomic models now include financial sector, and various ‘frictions’
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- Over recent decades economics has been changing in more profound ways
  - New (and sometimes old) economic theories better explain how modern economies work
  - Some of these insights have begun to be accepted into the mainstream
New frameworks of economic analysis (1)

- Economic behaviour
  - Behavioural economics: bounded rationality, biases and heuristics
  - Ethics, caring and the ‘social human being’; social determinants of tastes and preferences
  - Insights from social psychology, sociology and anthropology
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- **Markets, institutions and power**
  - Institutional economics: markets are brought into being through social and public institutions
  - Comparative political economy: markets are coordinated through different mechanisms in different countries – there are ‘varieties of capitalism’
  - Inescapable role of power in the economy – as tool of analysis and focus of policy
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- **Evolution and complexity**
  - Evolutionary economics: economic development as historical process, with central role of innovation
  - Complexity economics: economic systems as non-equilibrating, complex, adaptive systems
  - Insights from other system sciences including biology and engineering; agent-based modelling
New frameworks of economic analysis (2)

- Finance and macroeconomics
  - Post-Keynesian economics: the role of the financial sector in generating financial instability
  - The critical role of aggregate demand and uncertainty in the business cycle
  - New kinds of economic models, with heterogeneous agents, stocks as well as flows, information asymmetries, uncertainty, endogenous shocks
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- **The natural environment**
  - Ecological economics: the economic system as a sub-system of the earth’s biophysical systems governed by laws of thermodynamics and subject to tipping points into catastrophically changed states
  - Bringing economic activity within ‘planetary boundaries’ where environmental systems can regenerate
  - Structural not marginal changes in production and consumption, using range of instruments
New frameworks of economic analysis (3)

- Inequality
  - Decline of ‘labour share’ of national income and increase in returns to land and wealth (faster than GDP)
  - Relative power of wealthy to take unearned ‘rents’, and of management over workers
  - Impact of inequality on social cohesion, individual wellbeing and a range of social indicators
  - Impact of international trade on generates geographic and class inequalities
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- **Gender**
  - Feminist economics: gender stratification as central to economic system, importance of gender impacts of economic policy
  - Role of colonial history and post-colonial racism in explaining economic position of ethnic minorities
  - Expansion of boundaries of economics (and measurement of economic activity) to include caring work and ‘social reproduction’
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- **Ethics and the role of the state**
  - Inescapable role of ethics and consideration of economic justice
  - Need to reappraise the role of the state
These developments in economics have generated important new understandings:

- Many recent Nobel Memorial Prizes in Economics have been awarded in these fields.
- Some are beginning to be incorporated into mainstream economics.
- Others require a more fundamental abandonment or revision.
- Economic policymaking can now draw upon a much richer and more empirically-based menu of academic economics and political economy.
New frameworks of economic analysis (4)

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- There is as yet no synthetic theory bringing these new schools of economic thought together
  - But they are not fundamentally competing – they deal with different aspects of the economy
  - They can and are being combined to explain economic phenomena and design policy
  - Complexity economics seeks to use such wider insights; political economy explicitly draws on other social sciences
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The challenges and problems our economies face can best be addressed through these new frameworks

- Taking further the shifts in economic theory and policy over the last decade
- To explain what is happening in modern economies and help design better policies
New approaches to economic policy (1)

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(1) Deep challenges require profound reform – incremental changes to existing policies are not enough
  - Conventional policy approach has been based on supply side reforms and ameliorative social and environmental policy
  - The engine of the economy – the core patterns of investment and output – has been left to the private sector to decide
  - Now policy needs to improve the engine
  - This means building the economic goals into the structure of the economy, not added after the event
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  (2) Policy must be made in an integrated way, not in traditional policy silos

- Economic policy has international impacts and trans-boundary issues require international coordination
  - We need new mechanisms of multilateral cooperation in eg environment, taxation, labour standards
New approaches to economic policy (2)

- Sustainability and decarbonisation policy
  - Giving sustainability and climate targets legal force
  - Sectoral decarbonisation plans
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- **Innovation and industrial strategy**
  - Using industrial policy to steer innovation and investment into meeting major social and environmental challenges (eg decarbonisation, ageing, healthcare)
  - Using state investment banks to provide patient finance
  - Regional policy
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- **Macroeconomic policy**
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- **Financial regulation**
  - Stronger macroprudential regulation – especially of shadow banking system
  - Penalising high carbon and speculative trading and investment
New approaches to economic policy (3)

- Corporate governance reform
  - Ending shareholders primacy - giving workers and other stakeholders governance rights
  - Incentivising long-term investment over dividend payments and share buybacks
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- Competition, corporate tax and trade agreements
  - Treating digital platforms as utilities and placing conditions on licences to operate
  - International trade agreements to regulate labour and environmental standards of multinationals
  - Coordinating corporation tax rates and systems on an international basis
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- **Wealth ownership and taxation**
  - Worker share ownership funds
  - Citizens’ wealth funds
  - Land and housing reform
  - Wealth taxes
New approaches to economic policy (4)

- Labour market policy to reduce inequality
  - Higher minimum wages
  - Giving trade unions access to workers and increasing collective bargaining
  - Regulating insecure work and giving insecure workers more rights and security
  - Profit sharing schemes
  - Measures to tackle discrimination against women, ethnic minorities and disabled people
  - Job guarantees
  - Reductions in working time
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- **Welfare and public spending policy and working time**
  - Increasing investment in and access to childcare and improving social care provision
  - Lifelong education and training policies
  - ‘Flexicurity’ policies
  - Universal basic income
  - Universal basic services
Conclusion: a paradigm shift

- The common thread
  - Economic analysis and policy need to recognise the sociality of human life: people have multi-dimensional preferences and ethics and social and political institutions determine outcomes
  - A new role for an empowering and entrepreneurial state and a new social contract with citizens
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  - In the 1940s, after the 1929 Wall Street Crash and the Great Depression:
    - Keynesian economics was widely accepted
    - Policy changed to focus on full employment and welfare provision
    - This was broadly accepted across the political spectrum - the ‘postwar consensus’
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  - In the 1980s, after the Bretton Woods, oil shock and stagflation crises of the 1970s:
    - Free market economics was widely accepted
    - Policy changed to focus on controlling inflation and deregulating financial and labour markets
    - This was broadly accepted across the political spectrum – the ‘Washington consensus’
Conclusion: the OECD’s role

The OECD has led many of the modifications of orthodox economic analysis and policy in the last decade. Examples include:

- Inclusive growth
- Better Life indicators
- Productivity-inclusion nexus
- Digital economy
- ‘Squeezed middle’ income analysis
- Education, training and active labour market strategies
- Green growth and environmental policy
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- OECD has a vital role to play in helping the world tackle the deep challenges and problems we face today.
Secretary-General’s Advisory Group on a New Growth Narrative
New Approaches to Economic Challenges initiative
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