

## Session 1: How are the economy and society changing? Outlining a vision for a New Growth Narrative

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Distinguished guests, Dear colleagues, Ladies and Gentlemen,

It is a pleasure to address this session which will discuss how the economy and society have been affected by the greatest crisis of our lifetimes and hopefully trace the guiding lines of a new growth narrative.

The crisis and its colossal effects on the fate of many millions of people around the world, but also our incapacity to see this meteorite coming, have called into question the profession of economics and many of the theories and beliefs that this profession had inserted in public policy. One thing is clear: more of the same is no longer an option. It is time for deep, widespread, multilateral, coordinated, change.

At the OECD we accepted our share of responsibility, along with other international organisations, we accepted that we got it wrong. And we asserted that next time we would get it right. We created NAEC to examine the failures of the analytical frameworks that prevented us from identifying and preventing the 2008 financial and economic crisis.

And we spread the message: it is time for new approaches to economic challenges because the old thinking blinded us to what should have been obvious. We didn't see that the financial system should have been central to our analysis and not reduced to the determination of a yield curve and stock prices. We treated the environment as an externality, and not as the basic system on which all the others depend. We thought that planetary boundaries were flexible.

We even failed to understand one of the defining features of globalisation, - interconnectedness - and how this can amplify and propagate a local disturbance until it becomes a major shock, turning mortgage defaults in one country into a threat to the global economy.

### **We need to move away from traditional economic models**

Our general equilibrium models assume, on the contrary, that the shock comes from outside, upsetting a system that is normally in balance. They also assume that you can understand the economy by studying a representative agent whose expectations and decisions are rational, and that there are homogeneous outcomes. This view is essentially linear, and the policy advice it generates is tailored to a linear system where an action produces a fairly predictable reaction. But real people are not like that: their lives are shaped by a number of influences such as history, culture,

tradition, family, language and community. As such, we need to listen to people, and incorporate their views in our reflection about more effective policies.

Economic models that rely only on inputs such as GDP, income per capita, trade flows, resource allocation, and productivity can tell us part of the story. But they fail to capture the unintended consequences of the policies we implement, both on social or environmental grounds, and they do not address the fact that the growth process has not benefited everybody. In addition, traditional indicators assume that, by growing the pie, inequalities will automatically decrease, or that you can always clean up after you grow. There is, however, no empirical evidence to support these conclusions. On the contrary, during the great moderation before the financial crisis, dynamic economic expansion was also accompanied by increased inequalities of income and opportunities.

So we need to improve our metrics; not beyond GDP, but “GDP and beyond,” to measure what matters for well-being, in addition to production.

### **Towards a new growth narrative that better captures today’s reality**

We therefore need to move towards a new growth narrative, that focuses on the well-being of people, and that tries to incorporate its multiple dimensions. Multiple dimensions of what people value, and we have made progress on this, with our Better Life Index. We have advanced in our analytical frameworks to understand better the interaction of different systems (ecological, societal, economic), and tried to improve our policy analysis. That is why we created NAEC at the OECD, to help governments understand this need and develop better economic policies, better financial regulation, better tools to promote inclusive growth and reduce inequalities. Let me briefly explain how:

**First**, we need to place people at the centre. We should focus on how people’s lives can be made more fulfilling; how they can benefit from their nation’s prosperity; how they can have more control over their destiny and live with dignity and respect. This should translate into a new social

contract that reflects the needs and responsibilities of all stakeholders in the context of a digital economy, so that economic and technological progress benefit the many and not the few.

**Second**, we need to focus on three divides that shape advantage and opportunity in today's economy: The divide between advanced and backward groups, firms and places, where the nexus between inclusiveness and productivity becomes most manifest; the divide between capital and labour; and the divide between finance and the real economy.

We need to ensure that economic progress brings with it social prosperity; and that the promise of the technological revolution is shared more equally.

This does not imply that we should not focus on producing higher rates of growth, or that we should not consider the role of markets in allocating resources efficiently, but these are a means to the end, of increasing the standard of living of all people.

**Third**, we need more granularity, to assess how our policies will impact different income groups, communities, regions and firms. This means generating more-detailed data and analysis, better metrics, and more comprehensive approaches that capture the complexity of the world economy and our societies, breaking out of our policy silos thanks to horizontal projects such as Going Digital.



## **The OECD is equipped to develop this new growth narrative**

In my 21 for 21 agenda, I call for “a new growth narrative; one that is more sustainable, more inclusive and focused on people’s well-being”. During the last six years, NAEC has contributed to this debate, encouraging cross-disciplinary and horizontal cooperation, while all across the OECD different committees, Ambassadors and OECD staff have promoted this open discussion of new ideas.

Our Inclusive Growth Initiative has also laid the groundwork for the elaboration of this new growth narrative.

We have also developed a number of tools on which we can build this new narrative, such as the Better Life Index, The Future of Productivity, and our new Jobs Strategy.

Yet when we talk about breaking out of silos, we forget that the OECD itself can become a silo. This is why I have also invited many thought leaders from outside the Organisation to join our Advisory Group and to help us advance this new growth narrative. I am happy to welcome members of the Advisory Group to our meetings today and tomorrow.

Dear friends, Ladies and Gentlemen,

In the current context of low levels of trust in governments, of increasing recourse to populism, protectionism and exclusive nationalism, the need to elaborate a new growth narrative that benefits the many is now urgent. The draft document you have today summarises some of the ideas coming out of our consultations and debates. It presents contributions from outside the OECD to help stimulate debate within.

I look forward to hearing your comments and I am sure they will help us to produce a narrative that helps to convince our fellow citizens that the better policies we are proposing will lead to better lives for them and for their families.