
NAEC Group Opening

Remarks by Angel Gurría,
Secretary-General,
OECD

13 September 2018
OECD, France
(As prepared for delivery)

Ambassadors, Chairs of Committees, Ladies and Gentlemen,

I am pleased to welcome you all to this meeting of the NAEC Group. Over the next two days we will be focusing on what lessons we have learnt from the crisis and how we can better tackle the challenges that it has created.

We launched the New Approaches to Economic Challenges (NAEC) Initiative in 2012 to precisely understand the shortcomings of the analytical frameworks we have relied on for so long and to establish the basis for a better way to produce policy advice. The obvious place to start was with the economic models, but the problem was deeper than poor parameters and incomplete data. The problem was that the models did not reflect the reality of the economy or of people's lives in that economy; and they did not anticipate how the pain of the recession would lead to social and political crises.

Why did we not see the crisis coming?

We asked ourselves, why did so many highly-competent people, using highly sophisticated techniques, not see what was coming? Why were we so comfortable with the results of our models, and the underlying assumptions?

To put it simply, our analysis and understanding of financial markets and their impact on the real economy were not helpful at presenting the real level of risks we were confronting. In fact, the role of the financial system in traditional macroeconomic approaches rarely went beyond determining yield curves and stock prices.

Jean-Claude Trichet, President of the European Central Bank when the crisis hit, told a discussion with NAEC: "As a policymaker during the crisis, I found the available models of limited help. In fact, I would go further: in the face of the crisis, we felt abandoned by conventional tools".

'Fixing' economics

Today's economic models make too many assumptions that are at odds with the facts. Their very name – general equilibrium – shows that they assume that the economy is basically in balance until an outside shock upsets it. They also assume that you can understand the economy by studying a representative agent whose expectations and decisions are rational.

Perhaps the most problematic assumption for policymaking concerned the supremacy of the economics profession, while some other disciplines such as sociology or psychology that could have provided insights were mostly ignored. This was reinforced by a “silo approach” that did not connect the dots of inequality with growth, or growth and sustainability. It did not focus on the well-being of people, or on its multidimensional character.

Economics has to be, first and foremost, about people and well-being, growth models must be people-centred. Proxies such as GDP provide important information about production and consumption, but fall short in capturing the multidimensional aspects of this. It is probably impossible to design a single GDP-like figure that would reflect the many different aspects that need to be considered in a meaningful way. A suite of indicators is more appropriate. That's why the OECD's Inclusive Growth Initiative designed a Policy Framework with a dashboard of 24 indicators to better capture the situation of people, and the policies that will particularly affect the bottom of the income distribution. This assumes that there is no one size fits all, but that every indicator is linked to different national contexts and realities.

We also need to revalue the role of the state. This, not only when we need them to bail out failing financial institutions, but to find better outcomes for people. It is important to get away from extreme views that in the past misinformed policies. From those that defended an interventionist state (creating significant problems like the Latin American Crisis), to those that claimed that it should only intervene when there are market failures, a view that ultimately brought the great recession. We cannot deny societal preferences, but if history teaches us anything, it is that the two extremes proved wrong. We need strong, capable states that can produce the best regulatory framework for the economy to flourish, and that can make the necessary investments in invest in people, places and firms that are left behind, and direct growth, not just promote it.

The NAEC approach

NAEC has been helping us to tackle these issues. It is part of that same OECD tradition that is ready to incorporate change, integrating patient concerns into analysis of health outcomes, or assessing 21st century competencies like socio-emotional skills in PISA for example. NAEC was inspired by, and continues to promote, the best practices of this house: it is open to the outside world, objective in its assessments, and bold in its conclusions.

So when setting-up NAEC we determined that if it was to succeed, it should not be a “safe space” where people interested in improving policy making could discuss how to adjust their techniques and practices so they would do better next time. We had to be prepared to shake up the mainstream and listen to the critics. We have been taking a hard look at these issues and have been working across numerous areas of work. Let me briefly explain them:

First, over the past year, NAEC has consolidated its framework based on systems thinking, anticipation and resilience to structure the debate on a new narrative of growth. The NAEC seminar programme and other inputs have reinforced the argument that the economy is changing, ways of thinking about the economy are changing and so policymaking has to change too.

Second, I have convened the Advisory Group on a New Growth Narrative, which will be discussing the elements of a narrative that focuses on well-being, and that incorporates economic, social and environmental considerations in a coherent approach. The Group agrees that this requires not just theoretical debate, but institutional change, new tools and new methodologies. This will benefit from the very good work that several committees have already produced. Just last year, more than 11 committees produced an excellent report that informed the G20 work on climate and growth. Our MCM just approved the Framework for Policy Action for Inclusive Growth that also supported the G7 meeting in Charlevoix.

Within NAEC, we have produced the two draft texts which have been distributed to you today to summarise this phase of the work, drawing on the individual expertise of Advisory Group members and the collective vision the Group, as well as the network of leading thinkers now associated with NAEC. It is now open for comments from all of you to inform and debate.

The first text is an overview of trends in the economy and economics, and proposes elements for a new narrative based on this. The second text responds to the centrality of the financial system in our discussions. It presents the arguments of around 20 leading authorities on finance in an accessible format to inform and stimulate public debate. Feel free to debate them and improve them, particularly the committees that are in charge of these topics. But all of your views are welcome.

Third, in December 2017, we established the OECD-IIASA (International Institute for Applied Systems Analysis) Strategic Partnership on Systems Approaches to strengthen the links between science and policy. The research results and evidence of this initiative will help us address the intensifying challenges and risks of systemic global issues within and across policy fields. The Ambassadors Friends of the NAEC Narrative have already been informed of its objectives.

Along with IIASA, we also created a task force (which includes representatives of 8 OECD Directorates) to draw up a Draft Programme of Work as a basis for consultations with Member Governments and Committees of OECD and potential partners. The Draft Programme focuses on improving analytical methods and modelling for policy formulation, including the management of risk under conditions of uncertainty.

Fourth, we are making good progress in laying solid foundations for the NAEC Innovation LAB, a joint OSG-NAEC/ECO effort to foster cross-Directorate research and experimentation. Several cross-Directorate projects are under discussion and we have built a community of researchers around innovative methods that include agent-based modelling and machine learning. The LAB is already attracting interest and high-level support outside the Organisation, and its formal launch will take place on October 23rd with the Chief Economist of the Bank of England Andy Haldane.

Fifth, we are also currently coordinating resilience activities internally and externally with a project on Inter-governmental resilience with the United States Army Corps of Engineers, National Institute of Standards and Technology and Joint Research Centre.

And last but not least, NAEC has contributed to the new report by the so-called “Stiglitz Commission” which focuses on well-being beyond GDP; the report will be launched in November.

Ladies and Gentlemen:

I hope you will agree from this brief overview that we are achieving a lot through NAEC, but at the same time, we have so much work ahead of us. We have an incredible opportunity here over the next two days, gathering the most brilliant minds to tap into! So I urge you all to take the floor, we need new thinking, novel and daring ideas, bold proposals to take our work to the next level. I look forward to continuing this journey together.

Thank you.