

## New Approaches to Economic Challenges (NAEC)

Update – September - December 2020

OECD Members established the New Approaches to Economic Challenges ([NAEC](#)) initiative in 2012 to better understand the interconnectedness, complexity and fragility of the global economy. Since 2012 it has promoted tools needed to analyse the many, often irrational-seeming, behaviours that are generated by the uncountable interactions of billions of people, firms and institutions locally or globally, in small groups or as nations, at timescales ranging from nanoseconds to millennia. The objective was to understand the shortcomings of the analytical frameworks the Organisation had relied on before the Financial Crisis, and to establish the basis of a better way of producing policy advice based on new frameworks.

Since then, NAEC has catalysed a debate across the OECD and beyond on how to revise, update and improve policy thinking and action. It develops a systemic perspective on interconnected challenges with strategic partners, identifies the analytical and policy tools needed to understand them, and crafts the narratives best able to convey them to policymakers and citizens.

This note provides an update on NAEC's work in the second half of 2020, a period overshadowed by the Covid-19 crisis, but which has highlighted the importance and usefulness of NAEC's work. Analytical work on systems thinking, anticipation and resilience emphasises an evidence-based approach to translate theories, concepts and ideas into actionable strategies using the best science, data, knowledge and techniques available. NAEC is working with OECD Committees and Directorates and outside partners to define and develop a framework to understand systemic threats and build the resilience to contain them.

### Confronting Planetary Emergencies



The Covid-19 epidemic has shown how a health emergency can provoke severe economic consequences across the planet. The deep interconnectedness and interdependence of global systems means that any local crisis can rapidly scale up to contribute to planetary environmental, social, economic, and political emergencies. Addressing this may need new systemic approaches, new economic thinking and a greater focus on resilience, safeguards and buffers. Building on the 2018 and 2019 conferences on [10 Years After the Crisis](#) and [Averting Systemic Collapse](#), the 2020 meeting of the NAEC Group [Confronting Planetary Emergencies – Solving Human Problems](#), on 9 October, discussed the urgent changes in analysis and action needed to tackle planetary emergencies and global-scale systemic challenges.

The meeting was joined by two Heads of State (Michael D. Higgins of Ireland and Kersti Kaljulaid of Estonia), two Ministers (David Parker from New Zealand and State Secretary Manuel Muñiz from Spain) and the Acting Chairman of the White House Council of Economic Advisors, Tyler Goodspeed. In addition, some of the world's leading economists Thomas Piketty, Esther Duflo, Kenneth Rogoff, John Cochrane and Andy Haldane, Committee Chairs (EPC, ELSAC, COMP, RPC, DAC, CIIE, CGC) and OECD Ambassadors (including the two Friends of NAEC Co-chairs Slovenia and Turkey) all contributed to a provocative debate on lessons emerging from Covid-19 that could help deal with future global shocks.



President Higgins offered an [inspiring vision of change](#) stating: *"It is not an overstatement to say that this conference has the potential to offer real, transformative and even emancipatory solutions to so many of the economic and indeed social problems we face today"*. President Kaljulaid made



the case for how technology could be deployed to solve a range of problems. While Higgins, Piketty, Duflo and Lynn suggested a radically new approach to economics and the economy, Tyler Goodspeed and John Cochrane emphasised an alternative set of ideas highlighting the importance of independent, technocratic, a-political institutions, including IOs like the OECD and keeping faith with the economic models and ideas that "have served us so well". The later part of the debate illustrated the problem of defining what it means to be independent and a-political.




There were sharply differing views on what the Covid crisis and the response tells us about related and overlapping debates on states versus markets, efficiency versus resilience, neoliberalism versus a new paradigm, and incremental versus deep structural change. Rogoff suggested Covid is a Rorschach





test for what people already thought about the world and there is a sense of *"now more than ever, we need X"*. Gillian Tett from the *Financial Times* struck a hopeful tone suggesting that we need to learn extraordinary lessons. The Covid crisis is a wake-up call but it has also demonstrated that people's behaviour can change in fundamental ways. Spanish State Secretary Muñiz argued that Covid accelerates things that were already happening e.g. digitalisation, growing concentrations, exacerbation of inequalities etc. Thomas Piketty asked if we are just



talking about these issues or if we intend to do something about it. He suggested taxes on capital and wealth and that monetary intervention alone would not be enough to deal with mounting debt. Above all Rogoff suggested, “*We need time to think about this*”.

 Tyler Goodspeed argued NAEC was “*denigrating efficiency*” and offered a spirited defence that “*efficiency is beautiful*”. However, Barry Lynn from the Open Markets Institute (OMI) argued forcefully that prioritisation of efficiency over other objectives had led to concentration of market power making international production systems fragile. Competition Policy Committee chair Frederic Jenny did not challenge this view. Rogoff listed a whole range of future threats that society has to deal with but suggested that addressing them was beyond the scope of economic reasoning alone without considering social, political and ethical concerns. John Cochrane concluded, “*Lifeboats lower the efficiency of a ship. And they are still a good idea*”.

 Esther Duflo said there was no evidence that the market alone would or could handle something like Covid and this showed the importance of state intervention. Tyler Goodspeed and John Cochrane on the other hand emphasised the importance of markets and the failures of government and international organisations. Esther stressed the fact that economists had undermined the confidence of voters in state action, despite a lack of trust in economists (only 25% of respondents trusted them) and politicians (only 5%). However, Minister Parker from New Zealand and several Committee Chairs suggested that the most effective governments combined all three legs of the institutional stool (state, market, civil society) in their response.

 Covid-19 has accelerated the diffusion and adoption of new analytical approaches – ABM, crisis simulation, and nowcasting/real time analysis. A session with Andy Haldane and epidemiologist Joshua Epstein (NYU School of Global Public Health) explored how to protect economies and markets from the kinds of risks it’s hard to foresee – whether a Lehman-style banking crisis or a global outbreak of disease. Agent-based models and an understanding of fear and other human emotions will likely play a big part.

Breaking free of the either/or debates and understanding how to convert what seem to be competing objectives, how to reconcile new and old ideas and how to better understand how the three-way ecosystem of state, market and civil society can work best is at the centre of the NAEC agenda. Rather than seeing the three components of the system as competing, they are part of a co-operative effort to improve well-being. Ambassador Biessen summed up the positive reaction from Members stating that this was “*NAEC at its best*”. The conference was a start in [Rejuvenating the Debate](#) and NAEC lived up to its reputation in facilitating “*the most important conversation-building in the world right now*” (according to Rana Foroohar from *The Financial Times*).

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## Systems Thinking, Anticipation and Resilience



On 17 December, NAEC presented its work on systemic resilience to the group Actuaries for Transformational Change. On 7 December, NAEC presented the OECD-IIASA publication “[Systemic Thinking for Policy Making](#)” to a meeting of the working group on urban travel transitions and new mobility of the Transport Research Committee (TRC) members of the International Transport Forum.

On 24 November, NAEC convened a cross-directorate discussion (with Igor Linkov of the US Army Engineer Research and Development Center) of new policies, strategies and governance approaches needed to manage the effects of Covid-19 and to build buffers, safeguards and resilience to confront future systemic threats. Directorates have developed or have forthcoming work on resilience and the meeting provided an exchange on approaches, concepts and policy tools to form a common OECD systemic narrative.

On 9 November, NAEC presented its work on systemic resilience to a conference of the [MigResHub](#), an initiative of the European University Institute in collaboration with the University of Bristol which brings together thought leaders and key institutions to facilitate global conversations on migrant labour in the context of the vulnerability and resilience of essential economic sectors and public services.

On 5 November, NAEC presented how systemic approaches can help address the challenges of the pandemic at a high-level webinar on “*The governance challenge of the pandemic and leadership for a resilient recovery: EU and International Perspectives*”, organised by the Greek Finance Ministry, to examine rethinking leadership and reforms for a resilient recovery and how the EU, national and local governance can effectively deliver critical services and support a sustainable and fair growth model.

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## NAEC Publications



### [The Financial System](#)

Launched on 29 September with contributors [Atif Mian](#), Princeton University; [Anat Admati](#), Stanford Graduate School of Business; [Matheus Grasselli](#), McMaster University and the Fields Institute, Toronto; and former EDRC Chair [William White](#), with a discussion on [The Financial System and Covid-19](#) which examined how well the financial system withstood the Covid-19 crisis and the extent to which lessons from the Global Financial Crisis helped the disconnect between the stock market and the Covid economy and the outlook for financial stability and new risks. [Rana Foroohar](#), Associate Editor of *The Financial Times*, moderated the discussion and weaved together the different perspectives. Many speakers suggested that we have not come through the storm, in fact this may be the calm before the storm. Also that the financial market is less a market and mostly based on interventions from Central Banks right now. Rana Foroohar concluded commending NAEC for facilitating “*the most important conversation-building in the world right now*”.

The NAEC Initiative was established to distil lessons from the Global Financial Crisis and now the systemic crises sparked by the Covid-19 pandemic. [The Financial System](#) publishes short summaries of a diverse range of thinking and proposals from a prestigious series of experts, including Nobel Prize winners Bob Shiller and Angus Deaton, celebrated economists like Olivier Blanchard, Jean-Claude Trichet, Andy Haldane and market participants Rick Bookstaber and Jean-Philippe Bouchaud. NAEC invited them to share their expertise with those who wish to learn more about the financial system from those at its heart. They debate the theory and models of the financial system as well as the role of its different component parts, such as currency, insurance or asset management and how they interact. And they offer advice on how financial policy can contribute to making the financial system more resilient.



### [Beyond Growth: Towards a New Economic Approach](#)

Launched at the NAEC Group Conference [Confronting Planetary Emergencies](#) on 9 October, and endorsed by the President of Ireland, Michael D. Higgins, in his [opening speech](#).



We are facing a series of converging planetary emergencies linked to the environment, the economy, and our social and political systems, but we will not meet these challenges using the tools of the last century. We need to rethink the role of the economy in improving the well-being of people and the planet. As the world's leading intergovernmental forum on economic policy, the OECD has a central role to play in creating a new economic narrative. OECD Secretary-General Angel Gurría therefore invited a high-level group of experts to contribute their proposals on what needs to change in economic policy and policymaking. This report summarises their conclusions. The Advisory Group (Andy Haldane, Michael Jacobs, Alan Kirman, Nora Lustig, Mariana Mazzucato, Robert Skidelsky, Dennis Snower and Roberto Unger) argues that we need to go beyond growth, to stop seeing growth as an end in itself, but rather as a means to achieving societal goals including environmental sustainability, reduced inequality, greater wellbeing and improved resilience. This requires updating the philosophy, tools and methods underpinning the analysis that influences economic decision-making. Drawing on developments across the modern field of economics and political economy, the report argues for a new approach which recognises the rootedness of economic systems and behaviour in the relationship between people, social institutions and the environment.

A draft of the report, [Beyond Growth: Towards a New Economic Approach](#), was discussed in September 2019 by OECD Policy Committees and Members at the NAEC Group Conference [Averting Systemic Collapse](#).

## [Exit Strategies and Learning from the COVID-19 Pandemic](#)

A virtual seminar series provided an opportunity for a range of speakers to discuss with NAEC the latest thinking on the likely trajectory of the crisis, paths to safely opening up economies, and longer-term implications.



On 27 November, [Charles Goodhart](#), Emeritus Professor at LSE, and [Manoj Pradhan](#), founder of Talking Heads Macroeconomics, proposed in a discussion of “[The Great Demographic Reversal](#)” that the underlying forces of demography and globalisation will shortly reverse three multi-decade global trends – it will raise inflation and interest rates, but lead to a pullback in inequality.



Political economist [Mark Blyth](#), and hedge fund manager and economist, [Eric Longeran](#), presented “[Angrynomics](#)” on 19 November, asking why stress and anxiety are on the rise when economists and politicians tell us we have never had it so good and while statistics tell us that the vast majority of people are getting steadily richer, the world most of us experience feels increasingly uncertain, unfair, and ever more expensive. They propose radical new approaches for an increasingly polarized and confusing world.



Historian [Niall Ferguson](#) from the Hoover Institute and Harvard University gave a [compelling presentation](#) on 3 October of his forthcoming book “*Doom: The Politics of Catastrophe*”, which set the stage for the NAEC Group Conference on [Confronting Planetary Emergencies](#). Drawing from multiple disciplines, including history, economics, public health and network science, Niall Ferguson described the pathologies that have done us so much damage: from imperial hubris to bureaucratic sclerosis and online schism. Covid-19 was a test failed by countries who must learn some serious lessons from history if they are to avoid the doom of irreversible decline. The book cover he was considering cleverly evokes a strong sense of denial.



## NAEC and the G20



The Italian G20 Presidency explored new policy thinking and acting through the NAEC initiative and hosted a number of dialogues at the OECD to consider and prepare key priorities. Notable commentators and analysts from Italy were drawn into the discussion in which substantive experts from OECD made comments and proposals. The [series](#) continued with discussions on [Investment at a Time of High Public Debt](#) by [Andrea Montanino](#), Chairman of Fondo Italiano d'Investimento SGR and Chief Economist at Cassa Depositi e Prestiti Group; [Ageing and the Impact of Covid-19 on Demographics](#), by [Gian Carlo Blangiardo](#), President of the Italian National Institute of Statistics (Istat); and concluded with a discussion on [How Much State in the Post Covid Economy?](#) by former Italian Prime Minister, Giuliano Amato.

## NAEC Work with Partners



NAEC contributed to the Rebuilding Macroeconomics Annual Conference on [Understanding Social Macroeconomics](#), at the National Institute of Economic and Social Research (NIESR) in London on 21-23 October. William Hynes chaired the second day of discussions which explored the methods and analysis of the macroeconomic system. Adaptation and reinvention mean we face fundamental uncertainty which calls for a different approach to decision making. Our economic structures may be more fragile than a stable equilibrium system might suggest. Is there a coherent alternative to our exclusively equilibrium framework of analysis?



NAEC joined with Zoe Institute for a series of web conferences and policy web labs on 14-18 September on the theme of **Leapfrogging towards a Resilient Europe**: Long-term Challenges from COVID-19 and its Implications for the EU's Economic Governance and the Green Deal.

## NAEC and Brain Capital Grand Strategy

NAEC is working with various actors on the concept of “Brain Capital” which considers brain skills and brain health as an indispensable part of the knowledge economy, and contributed to [A Brain Capital Grand Strategy: toward economic reimagination](#), which was recently published in *Molecular Psychiatry*. NAEC promotes this concept as an approach for thinking about the economy and how it works in new ways and is laying some of the groundwork, looking at relevant metrics and building up a network of interested actors in the medical field, neuroscience, philanthropy and business. It will connect to work in the Employment Labour and Social Affairs Directorate. The Strategy will be discussed with some of the co-authors at a seminar on 27 January 2021.

[Focusing on employee brain health could relaunch the economy](#), *ScienceBlog*, University of Texas (27 October 2020)

[Team proposes a holistic economic reimagination that focuses on brain health to improve employees' resilience](#), Center for Brain Health, *Medical Xpress* (27 October 2020)

[A Brain Capital Grand Strategy: toward economic reimagination](#), *Molecular Psychiatry* (26 October 2020)

[The BrainHealth project could create a resilient economy](#), Center for Brain Health, *EurekaAlert* (26 October 2020)

[Brain Capital: A new economic and investment approach](#), Prodeo Institute, *EINPresswire.com* (26 October 2020)

## NAEC Innovation LAB



The [NAEC Innovation LAB](#) is developing innovative projects drawing on talents from across Directorates and mixing different skills, including as part of the OECD Smartdata Framework. As a platform for collaboration with wider communities, the LAB is helping develop links and make use of expertise and data outside the organisation, including in national governments, academic institutions, think-tanks and the private sector. The LAB, which now has a dedicated space on the 6<sup>th</sup> floor of the Boulogne Building, hosts regular workshops with internal and external experts. See the [full list of NAEC Innovation LAB seminars and workshops in 2020](#).

## NAEC Papers

NAEC has contributed to a number of articles in leading journals, these include: [Resilience at OECD: Current State and Future Directions](#), [Resilience Strategies and Approaches to Contain Systemic Threats](#), how [Resilient Financial Systems Can Soften the Next Global Financial Crisis](#). It has recently focused on [Bouncing Forward: a Resilience Approach to Dealing with COVID-19 and Future Systemic Shocks](#) and the theme of psychological resilience, a key to absorbing and adapting to social and economic shocks (see [A Brain Capital Grand Strategy: Towards Economic Re-imagination](#)). And representing the arguments made by several Ambassadors in recent months, published a correspondence in *Nature* on the need to [Combine Resilience with Efficiency in Post-Covid Societies](#).

## NAEC in the media

[The Pandemic is Revealing a New Form of National Power](#), Uri Friedman, *The Atlantic* (15 November 2020)

[Piketty: "La política monetaria puede ser parte de la solución, pero no toda"](#) (Piketty: "Monetary policy can be part of the solution, but not all of it", Ignacio Fariza, *El País* (10 October 2020)

[Michael D Higgins: Pandemic has highlighted economic injustice in Ireland](#), *Independent.ie* (10 October 2020)

[Michael D Higgins says world must 'reflect on systemic weaknesses' in society exposed by COVID-19](#), *The Irish Post* (10 October 2020)

[Virus response shows State's ability to deliver universal services, says Irish President Michael D. Higgins](#), *RTE* (9 October 2020)

[Covid lessons should be used to tackle inequality, climate change says Irish President Michael D. Higgins](#), *The Irish Times* (9 October 2020)

[Covid recovery will stem from digital business](#), Rana Foroohar, *The Financial Times* (4 October 2020)

[OECD's NAEC publishes a tour de force in \*The Financial System\*](#), Institute and Faculty of Actuaries (30 September 2020)

[Thinking Beyond Growth](#), Andrew Sheng, *The Statesman* (28 September 2020)

[Covid-19 drives leaders to make unprecedented interventions but what next?](#), Larry Elliott, *The Guardian* (13 September 2020)

[NYU's Epstein on fear and complacency in the age of Covid](#), Rob Mannix, *Risk.net* (7 September 2020)



The NAEC initiative benefits from Ambassadors' guidance through the Friends of NAEC. We would like to thank the co-chairs, in particular, Erdem Başçı and Irena Sodin for their support in preparing the 22 September NAEC Council item on [Rejuvenating the Debate](#). They have been instrumental in launching a new phase of NAEC from analysis to policy alternatives. We would also like to thank all the Ambassadors who have provided suggestions and ideas on themes, balance of speakers and policy implications.

To find out more please visit the [NAEC website: \[www.oecd.org/naec/\]\(http://www.oecd.org/naec/\)](#) or please contact:

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