

## New Decade New Approaches – An Update on the NAEC Initiative



The [New Approaches to Economic Challenges \(NAEC\) Initiative](#) reached new heights in 2019. The outlook for 2020 and the decade ahead is encouraging with a number of NAEC initiatives on systems thinking, resilience to systemic threats, econophysics, neuroeconomics, integrative economics and new economic thinking and acting to respond to some of our most pressing problems. NAEC will continue in its pathfinding role by providing a space to debate, discuss and propose innovative options for upgrading our methodologies, approaches and narratives.


NAEC argued for an ambitious agenda of more radical systematic approaches to policy at the NAEC Group Conference [Averting Systemic Collapse](#) in September. The Group highlighted that our societies are subject to highly-interconnected risks with complex causal structures and non-linear cause-effect relationships.

The Group called for a stronger scientific basis for policy; a systems approach to better link the different dimensions of policy problems; better understanding of dynamics, feedback loops, tipping points, system collapse; a better connection between the “science” and “engineering” of economics (economics and economic policy); and the development of new analytical tools and techniques such as network models and agent-based modelling. The next NAEC Group on October 9<sup>th</sup> will take up this agenda under the working title *Confronting Planetary Emergencies*.

The OECD through its Directorates and Committees is working on these major systemic issues and upgrading its analytical capabilities to do so. Some examples below on how NAEC is helping to achieve this:

- The Secretary-General’s Advisory Group on a New Growth Narrative produced its report [Beyond Growth: Towards a New Economic Approach](#). The report proposes a new set of goals and measures of economic and social progress; new frameworks of economic analysis; and new kinds of policies. It discusses the nature of the profound issues policymakers now face and whether the progress in analysis and policy advice since the onset of the Global Financial Crisis has gone far enough or is still too anchored in the basic historical premises of economic theory. The President of Ireland, Michael D. Higgins, in a [major speech](#) said it was “*encouraging to see [the Beyond Growth report] published by the OECD, and one can only hope that it will be given due consideration, internalised... and that it will be allowed to form an important contribution to the transformation of the OECD’s growth narrative and wider economic policy advice*”. The Advisory Group will make its final recommendations in early 2020.
- To advance the theme of systems approaches, NAEC oversaw the production of [Systemic Thinking for Policy Making - The Potential of Systems Analysis for Addressing Global Policy Challenges in the 21<sup>st</sup> Century](#). This is the first fruit of the collaboration of nine OECD directorates and the International Institute for Applied Systems Analysis (IIASA) in the [IIASA-OECD Task Force](#). This is the first of a new NAEC publication series which will see the publication of three titles this year. The report will be launched on February 27<sup>th</sup> 2020 at the 3<sup>rd</sup> Task Force meeting. It’s Chairman, Martin Lees, has done a superb job in building a coalition of countries in support of the Partnership. This work was also recently presented to Council and Members supported the idea that systemic approaches offer important insights into dealing with the climate crisis.

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- NAEC and researchers from the United States Army Corps of Engineers (USACE) worked together to produce [Resilience Strategies and Approaches to Contain Systemic Threats](#). The report builds on [Resilience at OECD: Current State and Future Directions](#) and defines concepts related to systemic threats and reviews the analytical and governance approaches and strategies to manage these threats and build resilience to contain them. Collaboration with Directorates is being scaled up and expanded to include environmental resilience and resilience to emerging technologies. This effort has received the support of the US Department of Homeland Security and a voluntary contribution from the Slovak Republic.
  - The [NAEC Innovation LAB](#) (co-ordinated jointly with the Chief Economist's Office) has been firmly established and will welcome a new research scientist and external research associates in 2020. LAB research is providing fresh insights and deploying novel methodologies to key policy questions.
  - NAEC has also built an eco-system of partnerships advocating new economic thinking and acting, including think tanks (Santa-Fe Institute, the Fields Institute, Rebuilding Macroeconomics), universities (New York University, Oxford, Ecole Polytechnique), inter-governmental organisations (European Commission Joint Research Centre, IIASA), foundations (Partners for a New Economy and the European Climate Foundation) and the private sector (Baillie Gifford and France's largest hedge fund Capital Fund Management).
  - The [NAEC-Ecole Polytechnique workshop on Econophysics](#) (webcast [here](#)) on 15 January highlighted the contribution that theories and methods from physics can make to understand and solve problems in economics and may help us to anticipate and manage future crises – this is the very reason why we established NAEC at the OECD. Several areas were identified by OECD discussants for further collaboration including housing, firm dynamics and market fluctuations and flash crashes.
  - NAEC collaborated with Rebuilding Macroeconomics on What can Complexity add to Macroeconomic Policymaking?, at the National Institute of Economic and Social Research (NIESR) in London (agenda [here](#)). The Conference highlighted that the macroeconomy can be interpreted as a complex system where individuals interact to create aggregate outcomes which, in turn, change their actions or strategies in response. Applications included Macroprudential Policy, Industrial and Regional Strategy and Monetary and Fiscal Policy.
  - NAEC joined with several partner institutions to host a major conference on April 15-16 on [New Analytical Tools and Techniques for Economic Policymaking](#). The conference looked at how methodological innovations and inter-disciplinary approaches such as agent-based modelling, nowcasting, machine learning, and network analysis could contribute to better understanding of the complexity and interaction of our economic, financial, social and environmental systems. A webcast of the session on New Approaches to Macroeconomics received over 800,000 views on Twitter.
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- It will be followed up with the Conference [Integrative Economics](#) on 5-6 March. This will look at the integration of new ways of understanding individual agents (with Joshua Epstein), models and techniques for integrating the economic system with the financial (Rick Bookstaber), social (Doyne Farmer) and environmental system (Matheus Grasselli) and integrating economic science with economic engineering to promote better policymaking (Andy Haldane).
  - NAEC is bringing its main messages to national-level discussion and debate. This included a Conference with the Fields Institute in Toronto, Canada on the theme “[10 Years After the Crisis - modelling meets policy making](#)” (See the [Full Summary of conclusions](#)). NAEC contributed to a Conference Understanding How the Economy Works and How to Make it Work Better for Everyone in Madrid and also contributed to the launch of the [Forum for a New Economy](#) in Germany, with whom a Memorandum of Understanding has been signed.
  - The NAEC Seminar Series remained extremely popular and welcomed Nobel Prize winner Bob Shiller who said “*I’m glad to be connected to NAEC; I’ve been doing something like that all my life but it’s good to make the connection*”. Other leading economists included Tyler Cowen (George Mason), Mariana Mazzucato (UCL), Rachel Griffith (President of the Royal Economic Society), Paul Collier (Oxford), Branko Milanovic (City University of New York), Richard Baldwin (Geneva), Roberto Rigobon (MIT) as well as Journalists Martin Wolf (*Financial Times*) and Catherine Rampell (*Washington Post/CNN*). The programme for 2020 includes Michael Spence (Nobel Prize winner) and Thomas Piketty (Author of *Capital*).
  - NAEC’s reach and influence on policy analysis and alternatives continues to expand and the Italian G20 Presidency will explore new policy thinking and acting through the NAEC Initiative and host a number of dialogues at the OECD to consider and prepare key priorities. Notable commentators and analysts from Italy will be drawn into the discussion in which substantive experts from OECD will make comments and proposals.

NAEC remains important for the future of the OECD and its Member States. As Martin Wolf said, “*my view is that the institutions of global co-operation and co-ordination, such as the OECD, are going to be under great pressure for a long time. That will be so, more or less regardless of what you do, since you represent something that the populists and nationalists deeply distrust. Given this, you might as well do something challenging, useful and important. So, keep at it, as the late and great Paul Volcker said. For this reason, we were very pleased to have been involved in this initiative [NAEC]*”.

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